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INCOME TAX

(Volume – 2)

Including
EXAMINATION QUESTIONS

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50th Edition

CA (INTER)
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Author

This Book is the result of combined efforts of Chartered Accountants/ company executives / other professionals / feedback of our thousands of students

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ETI AGARWAL

ALL INDIA TOPPER OF CA-IPC (NOV-13)

ROLL NO. - 366539

MARKS IN TAXATION:89%

(HIGHEST MARKS IN TAXATION ALL OVER INDIA)

(AGGREGATE MARKS 79.71%)

(FEEDBACK)

A man for whom teaching is neither a business nor a profession, rather a passion for doing good, great and unique in the field of teaching is none other than MK Gupta Sir.

Sir"s unmatchable style of teaching coupled with his patience and calmness in dealing with students is simply excellent.

The structure of learning pattern, regular mock tests, motivational cash prizes and student friendly study material covering practical illustrations, past year questions and bare act.. all contributed to making this journey easy and building up the confidence needed for IPCC.

Moreover, the vast knowledge and experience of the faculty assisted in making the concepts crystal clear and handling each n every doubt of students.

The administration and management stands second to none.

MK GUPTA classes is a place which can change the word impossible 2 I M POSSIBLE. It made me a better person both personally n professionally.

I think 4 success 4 elements are necessary-desire, dedication, direction and discipline...and all the 4 i got from Sir..

THANK YOU so much Sir..

In the end i would just like to say MK GUPTA SIR NOT ONLY MAKES CA. HE MAKES HUMANS!!

ETI AGARWAL

AKSHAY JAIN

ALL INDIA TOPPER OF CA-IPC (NOV-13)

ROLL NO.- 368162

MARKS IN TAXATION : 87%
(SECOND HIGHEST MARKS IN TAXATION ALL OVER INDIA)
(AGGREGATE MARKS 79.71%)

(FEEDBACK)

Experience of those four months with M.K. GUPTA SIR was out of the world.

As a teacher, M.K. GUPTA SIR is just like a sea of knowledge & you get each and everything from very beginning to end from him.

Sir is really a nice person. He is very motivational and his words of motivation can influence anybody to work hard & make their parents proud.

M.K. GUPTA CA EDUCATION is the only place where the provisions of tax laws are combined with the practical knowledge. Study material provided is excellent and it contains numerous problems covering all aspects and such type of problems are not available anywhere. Sir is not giving any home work rather home work is done in the class itself and students are invited to solve the problem before the entire class.

Be honest towards your studies & Sir will show you the way of success. The way, Sir is making students ready for the professional world is praiseworthy. Exposure given by sir to face interview of Big four CA Firms is excellent.

The test Series conducted by the Sir in all the subjects of IPC is very nice Scheme to score such good marks and exam are conducted in the similar manner as it is conducted by ICAI.

I would like to express my gratitude to Sir because it was only his efforts that helped me reach this position.

Sir its your Success.

A Message to all : -

“COME & HAVE A TIME THAT YOU WILL CHERISH THROUGHOUT YOUR LIFE”.

AKSHAY JAIN

VIJENDER AGGARWAL

ALL INDIA TOPPER OF CA-IPCC (NOV-10)

ROLL NO. - 174639

MARKS IN TAXATION:92%

(HIGHEST MARKS IN TAXATION ALL OVER INDIA)

(AGGREGATE MARKS 83.71%)

(FEEDBACK)

A person who possesses such vast knowledge in the field of taxation, that we people can only dream of, is none other than M. K. Gupta Sir.

He possesses the rare ability to teach this procedural subject with utmost ease, enabling his students to grasp all the provisions without any confusion.

The quality of study material provided is such that a good study of it helped me score 92 marks. The variety and complexity of practical problems covered in the books are not available anywhere else.

One can find many places where taxation is being taught but it is hardly possible to find a better place where tax laws are combined with their practical applicability to ensure that all concepts are crystal clear.

Sir is extremely generous. Money-making doesn't appear to be his priority and it is clearly reflected in his classes, where the infrastructure and administration stands second to none and students are awarded handsome cash-prizes not only in classes but also in tests, which are regularly conducted.

Thanking Sir for all what he has done would be an insult since it was only his efforts that helped me reach this position. Sir, its your success. The relationship between us started in CPT only and continued in IPCC and I hope it will continue forever.

VIJENDER AGGARWAL

PRACHI JAIN

ALL INDIA TOPPER OF CA-PCC (MAY-10)

ROLL NO. - 66312

MARKS IN TAXATION:88%

(HIGHEST MARKS IN TAXATION ALL OVER INDIA)

(AGGREGATE MARKS 77.67%)

(FEEDBACK)

M. K. Gupta Sir is an outstanding teacher. He is not only a good teacher but a good person by heart. His way of teaching is excellent. There are many provisions in tax but Sir repeats every provision atleast two times. This helps in understanding those provisions easily.

His books are very good. Everything from theory to PRACTICAL ILLUSTRATION, EXAMINATION QUESTIONS and BARE ACT is covered in his books.

Sir's staff and management is also very good. Everything is handled in a systematic manner and on time. Overall it was a good experience.

Thanks Sir !! :-

PRACHI JAIN

FEEDBACK

(CA-Intermediate)

NO OTHER TEACHER OF TAXATION IN INDIA HAS BETTER RESULT THAN OURS

OPINION OF OUR STUDENTS

1. AKSHAY (Roll No. 685445) (Total Marks- 607) AIR-6 (Taxation-80)
Firstly, I want to thanks M.K. Gupta Sir for teaching me the tax in the easiest manner many student can think. Tax is very hard subject but the way Sir teach the Tax is excellent. I also want to say one more thing that the staff of MKG is very supporting. They listen to the students problem very patiently and help them to solve their problem. At last, I want to say that no one in this CA field can teach so nicely that MK Gupta Sir teaches. Thank You

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2. DEEPANSHU GOYAL (Roll No. 625914) (Total Marks- 570) AIR-17 (Taxation-75)
MK Gupta sir is powerhouse of knowledge. I can't thank him enough for providing me with vast exposure about taxation. His mock tests are so good that I was eager to attempt them. He is proactive in solving doubts. This subject became so light & interesting that I started gaining knowledge in it. It was my best experience with MKG with rank in both foundation & intermediate. Recorded classes was very helpful for me, I used to reach at 6:30 am and continued till 11 am and studied taxation. It was a beautiful journey altogether, and with 10 views, you can view the lectures many times. It helped me revise many concepts. It became my interest rather than burden. I was so excited to give mock test so that I can build my confidence.

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3. SHIVAM MISHRA (Roll No. 624937) (Total Marks- 560) AIR-20 (Taxation-83)
MK Gupta sir has very unique style of teaching. He teaches every concept very clearly and correlates every provision with practical life. Taxation is very vast subject you cannot learn every provision rather you can understand them. Talking about study material, it covers all types of Question. You do not need to refer study material as it is incorporated in sir's books. I would recommend every one to join MK Gupta CA Education.

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4. PRASHANT YADAV (Roll No.354233) 92 Marks
M.K. Gupta Sir is an outstanding teacher. He possesses very vast knowledge of taxation. Sir repeats every concept atleast three times which makes all concepts crystal clear. Study material provided is very good, it covers everything from illustration to examination problem and from theory to Bare Act. Staff and infrastructure facilities of MKG Classes is incomparable. Thank you Sir for your love and support.

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5. MOHIT SHARMA (Roll No.353392) 89 Marks
A brilliant personality in my life who has motivated the student to a good path. He is very different from others. Sir concentrates not only on the Marks but also on the overall development of the student.
I am truly glad that I studied from Sir. He taught me how to compete in life. Every student get very good marks with a little effort, if he is a student of M.K. Gupta CA Education.

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6. MANISHA BHAMBRI (Roll No.456626) 89 Marks
M.K. Gupta Sir is the best teacher I have ever met. His study material being the best helped me a lot in my exams. He is the most sincere teacher who never waste a single moment and gives his best towards his profession. He teaches not only the theoretical portion but the practical approach too. He teaches us how to be a good human being and how to live life happily. Thank you Sir for your support every time I needed.

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7. ANISH SHRESTHA (Roll No.344028) 88 Marks
M.K. Gupta Sir is a very excellent teacher. The way he is dedicated towards teaching make us to be dedicated towards our study. Every concept and every doubt of taxation whichever do I had, he has make clear. The best

thing about Sir is, he use to revise the concept more than 3 times which makes student very easy for preparing their exam.
You will have all the sufficient material for study and lots of questions with answers for practice a systematically designed materials.
Thank a lot to Sir for being so much helpful and lot of love.

8. KAPIL KHANNA (Roll No.341539) 85 Marks
Sir 'M.K. Gupta' is the best teacher for Taxation. I feel fortunate to be his student, the amount of knowledge he imparts is fantastic and uncomparable. He is a person who burns himself up like a candle to light the path of his dearest students to the road of success. I wish Sir teaches all the subjects of IPCC, since he is simply the best. Thank you for everything Sir. It you and only you who can guide students like us to reach the zenith.

9. JITENDRA (Roll No.337780) 85 Marks
Before joining CA, I was so much scary about the "Taxation" but after joining M.K. Gupta CA Education for taking taxation class my scary converted into my strength now. This is just because of Sir's knowledge & teaching style with practicality. Study material provided by Sir is also awesome for study.

10. PUNEET WASAN (Roll No.368537) 84 Marks
M.K. Gupta Sir has a vast knowledge in the subject. The topics taken in the class are very well planned.
I found the book really very good. Infact, I practiced all the previous attempts questions of each chapter and every small question was covered in the chapter. I recommend the students to be thorough with book and one will score undoubtedly high marks in tax. All the best!! Thank you so much Sir.

11. ISHA MALIK (Roll No.339842) 84 Marks
I do not have words to express my greatfulness for M.K. Gupta Sir. He really possesses vast knowledge and rich experience in taxation. Study material provided by Sir is also very good which covers everything for getting through the exam. There is no doubt that due to excellent coaching given by Sir, I have been able to secure good marks. I pray to God for his long, happy and prospective life. I wish him to continue give coaching to the prospective students for a longer period. I appeal to all the students who qualify CPT to take coaching from Gupta Sir for getting sure success. Thank you Sir.

12. RUPAL GARG(Roll No.393844) 84 Marks
M.K. Gupta Sir is, as I believe, the best teacher for Taxation. He is so knowledgeable that I was totally awe inspired by him. Every day in the class was exciting as he explains everything with real examples and full depth. The books are superb with lots of practical questions. Thank you Sir.

13. AKANSHA GOEL (Roll No.336693) 84 Marks
It was a great experience studying from M.K. Gupta Sir. He has a vast pool of the knowledge of the subject. The book is a comprehensive one too.

14. PRASIT SHARMA (Roll No.344702) 84 Marks
Taking about the coaching, the teaching style of M.K. Gupta Sir is too much excellent. He has good dealing with student in every situation. If anyone asked about the taxes coaching, I prefer M.K. Gupta Sir because he is the one & only best teacher in Taxation.

15. MANSI BAJAJ (Roll No.354329) 83 Marks
Sir teaches so well and clarifies all our queries. He makes us understand the whole concept very clearly. He is an amazing teacher and the best teacher in the field of Taxation.

16. RASHI GUPTA (Roll No.337864) 83 Marks
M.K. Gupta Sir is a very friendly and helping teacher. He always answered my queries well. His coaching classes are very knowledgeable and books are also very good.

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17. HARSH AGARWAL (Roll No.491097) 83 Marks
M.K. Gupta Sir is a good teacher. He teaches all aspects of Taxation whether it is practical knowledge or theoretical knowledge. He teaches every point for 2-3 times and it gets learn in class only. His practical knowledge about the subject is very good.

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18. RAHUL ARORA (Roll No.337403) 83 Marks
M.K. Gupta Sir is a great mentor. Sir has excellent knowledge about the subject. He makes every concept crystal clear. Every concept is explained atleast twice in the class. He connect every topic with practical life.
Study material is excellent. Bare Act is covered in the study material. Three months experience with M.K. Gupta Sir is memorable moments of my life. Thank you Sir, for your guidance and encouragement.

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19. SEJAL MEHTA (Roll No.353096) 83 Marks
Coaching for Taxation was an enriching experience in terms of the conceptual clarity which I gained on each and every topic. Learning tax became so easy with the simplified notes provided.
Also, the kind of knowledge that Sir shares with the students is very commendable and useful in understanding the practical aspects of Taxation. Attending the coaching is worth the time spent.

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20. ANU SETHI (Roll No.353491) 83 Marks
I have never seen teacher like M.K. Gupta Sir. His way to teaching, knowledge and experience is awesome i.e. brilliant. Overall regards for such marks is only M.K. Gupta Sir.

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21. ASHISH GUPTA (Roll No.353575) 82 Marks
M.K. Gupta Sir is a very good teacher and he has a very vast knowledge of taxation. He gives his best to every student in a class. The atmosphere of the class when he was teaching in a class is very awesome. I am giving all my credit to M.K. Gupta Sir for securing marks in Taxation.

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22. RAGHAV GUPTA (Roll No.491122) 82 Marks
M.K. Gupta Sir is an outstanding teacher. He possesses a very vast knowledge about the subject. His way of teaching is fabulous. Every concept is explained with help of an example. Study material is all exhaustive that he provides. Also, queries are taken up promptly. Thank you Sir for your guidance.

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23. SHREYA MALIK (Roll No.340228) 82 Marks
M.K. Gupta Sir is the best teacher I have ever come across. His level of knowledge is tremendous. The way he teaches, with so much patience and willingness, keeps every student motivated. The marks I have scored in tax is all because of him. Thank you so much Sir. I am a student of video class and I have never met Sir in person. I would be grateful if I would be given a chance to meet him in person.

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24. PRABHAW KUMAR AGARWALLA (Roll No.369428) 82 Marks
Teaching was excellent and queries handled were excellent. Teaching methodology was really excellent and helped a lot to me.

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25. PRABHAT RANJAN (Roll No.347926) 81 Marks
M.K. Gupta Sir has a very deep knowledge about the subject and his practical approach towards the subject. Sir repeats every provision atleast twice. This helps in understanding those provision easily.
The books notes and all the management is done very properly and in a smooth manner. All in all the best way to study tax.

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26. ANKIT KHEMKA (Roll No.338055) 81 Marks

M.K. Gupta Sir is excellent teacher of Tax. He repeats the provision two to three times and doubts are also taken by the faculty. His books are also very good. Bare Act is covered in his books for more understanding about the Act. Sir also provide regular test and prize also given by him motivates the student to work hard. Environment provided by M.K. Gupta Classes is also very good to study.

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27. ARTI SRIVASTAVA (Roll No.347859) 80 Marks

Sir's unmatchable style of teaching. Regular mock test, also help in to achieve good marks in Taxation. Sir's books contain illustration. Past year question also help to achiever to good marks. Sir's build confidence in every student to achieve success in life. Thank you, so much Sir.

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28. SHIVANGI GUPTA (Roll No.337956) 80 Marks

M.K. Gupta Sir is an amazing teacher. The tax subject is all about provisions so many sections but Sir makes it simpler for us out of all the subjects, I found Taxation to be the most interesting one.

Sir's study material and notes are sufficient. Study material covers all the past year exam questions, practice questions with solutions. His practical experiences help our understanding level to reach new heights. Thank you Sir for everything.

SET OFF AND CARRY FORWARD OF LOSSES

SECTION 70 TO 80

PARTICULARS	SECTIONS
Set off of loss from one source against income from another source under the same head of income	**70**
Set off of loss from one head against income from another head	**71**
Carry forward and set off of loss from house property	**71B**
Carry forward and set off of business losses	**72**
Losses in speculation business	**73**
Losses under the head "Capital gains"	**74**
Losses from certain specified sources under the head "Income from other sources"	**74A**

Question 1: Write a note on set off and carry forward of losses under the head house property.
Answer: Set off and carry forward of losses under the head house property Section 70/71/71B
Inter Source adjustment Section 70
As per section 70, if any person has loss from any house property, such loss can be set off from income of any other house property and it is called inter-source adjustment or intra-head adjustment. E.g. Mr. X has two houses: there is loss of ₹5,00,000 from one house and income of ₹8,00,000 from the other house, in this case, loss of one source (house) can be set off from income of the other source (house).
Inter Head adjustment Section 71
As per section 71, unadjusted loss can not be set off from incomes of other heads. E.g. Mr. X has loss from house property ₹1,50,000 and income from business/profession ₹5,00,000, in this case, loss is not allowed to be set off.
Carry Forward and Set Off Section 71B
As per section 71B, unadjusted loss is allowed to be carried forward to the subsequent years but for a maximum period of 8 years starting from the year subsequent to the year in which the loss was incurred and in the subsequent years, loss can be set off only from income under the head house property. E.g. Mr. X has incurred loss under the head house property in the previous year 2023-24/assessment year 2024-25 and it could not be set off in the same year, it can be carried forward upto Previous Year 2031-32/Assessment Year 2032-33 (as shown below)

Year 1	Previous year 2024-25	Assessment Year 2025-26
Year 2	Previous year 2025-26	Assessment Year 2026-27
Year 3	Previous year 2026-27	Assessment Year 2027-28
Year 4	Previous year 2027-28	Assessment Year 2028-29
Year 5	Previous year 2028-29	Assessment Year 2029-30
Year 6	Previous year 2029-30	Assessment Year 2030-31
Year 7	Previous year 2030-31	Assessment Year 2031-32
Year 8	Previous year 2031-32	Assessment Year 2032-33

E.g. Mr. X has loss under the head house property of the previous year 2015-16/assessment year 2016-17 ₹5,00,000 and income under the head house property ₹5,00,000 in previous year 2023-24/assessment year 2024-25, in this case, loss shall be allowed to be set off because it will be allowed to be carried forward upto a period of 8 years starting from Previous Year 2016-17/Assessment Year 2017-18 and is as shown below:

Year 1	Previous year 2016-17	Assessment Year 2017-18
Year 2	Previous year 2017-18	Assessment Year 2018-19
Year 3	Previous year 2018-19	Assessment Year 2019-20

Year 4	Previous year 2019-20	Assessment Year 2020-21
Year 5	Previous year 2020-21	Assessment Year 2021-22
Year 6	Previous year 2021-22	Assessment Year 2022-23
Year 7	Previous year 2022-23	Assessment Year 2023-24
Year 8	Previous year 2023-24	Assessment Year 2024-25

Question 2 [Imp.]: Write a note on Set Off and Carry Forward of Losses under the head Business/ Profession.

Answer: As per section 70, if any person has loss from any business/profession, such loss can be set off from income of any other business/profession and it is called inter-source adjustment or intra-head adjustment. E.g. Mr. X has two business: there is loss of ₹5,00,000 from one business and income of ₹10,00,000 from the other business, in this case, loss of one source (business) can be set off from income of the other source (business).

As per section 71, unadjusted loss can be set off from incomes of other heads except salary but as per section 58(4), such loss can not be set off from casual income and it is called inter-head adjustment. E.g. Mr. X has loss from business/profession ₹3,00,000 and income from house property ₹5,00,000, in this case, loss is allowed to be set off but if he has any casual income, loss can not be set off from casual income. Similarly it can not be set off from income under the head salary.

As per section 72, unadjusted loss is allowed to be carried forward to the subsequent years but for a maximum period of 8 years starting from the year subsequent to the year in which the loss was incurred and in the subsequent years, loss can be set off only from income under the head business/profession. E.g. Mr. X has incurred loss under the head business/profession in the previous year 2023-24/assessment year 2024-25 and it could not be set off in the same year, it can be carried forward upto previous year 2031-32/assessment year 2032-33 (as shown below)

Year 1	Previous year 2024-25	Assessment Year 2025-26
Year 2	Previous year 2025-26	Assessment Year 2026-27
Year 3	Previous year 2026-27	Assessment Year 2027-28
Year 4	Previous year 2027-28	Assessment Year 2028-29
Year 5	Previous year 2028-29	Assessment Year 2029-30
Year 6	Previous year 2029-30	Assessment Year 2030-31
Year 7	Previous year 2030-31	Assessment Year 2031-32
Year 8	Previous year 2031-32	Assessment Year 2032-33

Illustration 1:

(i) Mr. X has loss under the head Business/Profession ₹10,00,000 and income under the head Salary ₹10,00,000 and long term capital gains ₹10,00,000, in this case his tax liability shall be computed in the manner given below:

Solution:

Computation of Total Income and Tax Liability

Income under the head Salary	10,00,000
Income under the Capital Gains (LTCG)	10,00,000
Less: Loss under the head Business Profession	(10,00,000)
Income under the head capital gains	Nil
Gross Total Income	10,00,000
Less: Deduction under chapter VIA	Nil
Total Income	10,00,000

Computation of Tax Liability

Tax on 10,00,000 at slab rate	60,000
Add: HEC @ 4%	2,400
Tax Liability	62,400

Note: Business/Profession loss is not allowed to setoff from salary income.

(ii) Mr. X has loss under the head Business/Profession ₹10,00,0000 and income under the head House Property ₹10,00,000 and long term capital gains ₹10,00,000, in this case his tax liability shall be computed in the manner given below:

Solution:

Option 1: Loss setoff from LTCG

Computation of Total Income and Tax Liability

Income under the head House Property	10,00,000
Income under the Capital Gains (LTCG)	10,00,000
Less: Loss under the head Business Profession	(10,00,000)
Income under the head capital gains	Nil
Gross Total Income	10,00,000
Less: Deduction under chapter VIA	Nil
Total Income	10,00,000

Computation of Tax Liability

Tax on 10,00,000 at slab rate	60,000
Add: HEC @ 4%	2,400
Tax Liability	62,400

Option 2: Loss setoff from House Property

Computation of Total Income and Tax Liability

Income under the head House Property	10,00,000
Less: Loss under the head Business Profession	(10,00,000)
Income under the head House Property	Nil
Income under the Capital Gains (LTCG)	10,00,000
Gross Total Income	10,00,000
Less: Deduction under chapter VIA	Nil
Total Income	10,00,000

Computation of Tax Liability

Tax on 7,00,000 (10,00,000 – 3,00,000) @ 20%	1,40,000
Add: HEC @ 4%	5,600
Tax Liability	1,45,600

Option 1 is better

(iii) Mr. X has loss under the head Business/Profession ₹10,00,0000 and income under the head Salary ₹10,00,000 and short term capital gains ₹10,00,000, in this case his tax liability shall be computed in the manner given below:

Solution:

Computation of Total Income and Tax Liability

Income under the head Salary	10,00,000
Income under the Capital Gains (STCG)	10,00,000
Less: Loss under the head Business Profession	(10,00,000)
Income under the head capital gains	Nil
Gross Total Income	10,00,000
Less: Deduction under chapter VIA	Nil
Total Income	10,00,000

Computation of Tax Liability

Tax on 10,00,000 at slab rate	60,000
Add: HEC @ 4%	2,400
Tax Liability	62,400

Note: Business/Profession loss is not allowed to setoff from salary income.

(iv) Mr. X has loss under the head Business/Profession ₹10,00,0000 and income under the head Salary ₹10,00,000 and Short term capital gains u/s 111A ₹10,00,000, in this case his tax liability shall be computed in the manner given below:

Solution:

Computation of Total Income and Tax Liability

Income under the head Salary	10,00,000
Income under the Capital Gains (STCG 111A)	10,00,000
Less: Loss under the head Business Profession	(10,00,000)
Income under the head capital gains	Nil
Gross Total Income	10,00,000
Less: Deduction under chapter VIA	Nil
Total Income	10,00,000

Computation of Tax Liability

Tax on 10,00,000 at slab rate	60,000
Add: HEC @ 4%	2,400
Tax Liability	62,400

Note: Business/Profession loss is not allowed to setoff from salary income.

(v) Mr. X has loss under the head Business/Profession ₹10,00,0000 and income under the head Salary ₹2,00,000 and long term capital gains u/s 112A ₹10,00,000, in this case his tax liability shall be computed in the manner given below:

Solution:

Computation of Total Income and Tax Liability

Income under the head Salary	2,00,000
Income under the Capital Gains (LTCG 112A)	10,00,000
Less: Loss under the head Business Profession	(10,00,000)
Income under the head capital gains	Nil
Gross Total Income	2,00,000
Less: Deduction under chapter VIA	Nil
Total Income	2,00,000

Computation of Tax Liability

Tax on 2,00,000 at slab rate	Nil
Tax Liability	Nil

Note: Business/Profession loss is not allowed to setoff from salary income.

Question 3 [V. Imp.]: Write a note on Unabsorbed Depreciation.

Answer: Unabsorbed Depreciation Section 32(2)

An assessee having business or profession shall debit all expenditures of business/profession before debiting depreciation i.e. depreciation shall be debited at the end. If there is a loss by debiting other expenditure, it will be called loss under the head business/profession. Depreciation shall be debited only if income is available under the head business/profession and the depreciation which can not be debited shall be called unabsorbed depreciation and it will be allowed to be adjusted from any income under any head except casual income and salary.

If it can not be adjusted in the same year, its carry forward is allowed for unlimited period and in the subsequent years, it can be set off from any income under any head except salary income and casual income.

If any assessee has brought forward business loss as well as depreciation, business loss shall be adjusted first

and depreciation afterwards.
E.g. Mr. X has income under the head business/profession ₹10,00,000 after debiting all expenditures except depreciation of ₹13,00,000, in this case, depreciation of only ₹10,00,000 can be debited to the profit and loss account and balance ₹3,00,000 shall be called unabsorbed depreciation and it can be set off from any income under any head except salary income and casual income and even in the subsequent years, it can be set off from any income under any head except salary income and casual income and such carry forward is allowed for unlimited periods.

The sequence of claiming losses and depreciation under the head business / profession shall be as given below:
1. Current year expenses
2. Current year depreciation
3. Brought forward business losses
4. Brought forward unabsorbed depreciation

Question 4 [V. Imp.]: Write a note on Set Off and Carry Forward of loss from Speculative Business.
Answer: As per section 28, income from speculative business shall be taxable under the head business/profession and such income shall be computed in the normal manner and shall be taxable at the normal rate i.e. it will not be considered to be causal income.
Meaning of speculative business Section 43(5)
"speculative transaction" means a transaction in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips:

e.g. Mr. X entered into a contact for purchase of one plot from Mr. A and same plot was sold by him to Mr. Y at a higher rate and he has directed Mr. Y to pay the amount directly to Mr. A and surplus amount to Mr. X and he directed Mr. A to transfer the plot directly in the name of Mr. Y, it will be called speculative transaction but if Mr. X has transferred the plot in his name and after that plot was transferred in the name of Mr. Y, it will be called normal business.

The following shall not be deemed to be a speculative transaction:

A contract in respect of raw materials or merchandise entered into by a person in the course of his manufacturing or merchanting business to guard against loss through future price fluctuations in respect of his contracts for actual delivery of goods manufactured by him or merchandise sold by him; or

Set Off and Carry forward of loss from Speculative Business Section 73
If any assessee has loss from speculative business, such loss can not be set off from any income under any head however, if the assessee has two or more similar business, loss of one such business can be set off from the income of other such business.
Unadjusted loss is allowed to be carried forward but for a maximum period of 4 years starting from the year subsequent to the year in which the loss was incurred. Even in the subsequent years, loss can be set off only from income of speculative business.
Loss from normal business, unabsorbed depreciation, loss under the head other sources can be set off from the income of speculative business.
e.g. Mr. X has loss from speculative business ₹5,00,000 and income from normal business ₹5,00,000, in this case, loss is not allowed to be set off however its carry forward is allowed but for a maximum period of 4 years and in the subsequent years its can be set off only from income of speculation business.
e.g. Mr. X has loss of speculative business ₹5,00,000 and income from some other speculative business ₹5,00,000, in this case, loss can be set off from income of such speculative business.

Question 5 [V. Imp.]: Write a note on Set Off and Carry Forward of losses under the head Capital Gains.
Answer: Set off and Carry forward of Loss under the head Capital Gain Section 70, 71 and 74

<u>Set off of loss from one source against income from another source under the same head of income Section 70</u>

If any person has short term loss, it can be set off either from short term or from long term gain but if any person has long term loss, it can be set off only from long term gains i.e. set off from short term is not allowed.

Example

Mr. X has long term loss of ₹50,00,000 and short term gain of ₹50,00,000, in this case, long term loss can not be set off from short term gains but if he has long term gain of ₹50,00,000 and short term loss of ₹50,00,000, in this case, set off is allowed.

e.g. If Mr. X has short term loss under section 111A and has long term gain, such loss can be set off from long term gain and also it can be set off from short term gain under section 111A or from normal short term gain.

<u>Set off of loss from one head against income from another</u> <u>Section 71</u>

Where in respect of any assessment year, the net result of the computation under the head "Capital gains" is a loss and the assessee has income assessable under any other head of income, the assessee shall not be entitled to have such loss set off against income under the other head.

Example

Mr. X has short term loss ₹50,00,000 and business income of ₹50,00,000, in this case set off is not allowed.

<u>Carry forward of losses under the head "Capital Gains"</u> <u>Section 74</u>

If any assessee has short term loss or long term loss which could not be set off, such losses shall be allowed to be carried forward but for a maximum period of 8 years starting from the year next to the year in which the loss was incurred.

Brought forward short term loss can be set off either from short term or from long term gain but brought forward long term loss can be set off only from long term gain and not from short term gain.

<u>ADDITIONAL POINTS FOR SET-OFF AND CARRY FORWARD</u>

1. Set off and carry forward is mandatory not voluntary.

2. Any loss has to be set off first within the same head and after that under some other heads and after that carry forward is allowed.

3. Loss of current year shall be set off first and only after that brought forward losses can be adjusted, e.g. Mr. X has income from one house ₹ 10,00,000 and loss from other house ₹ 10,00,000 in P.Y. 2023-24 and also unadjusted loss of ₹ 10,00,000 under the head house property of P.Y. 2015-16, in this case loss of current year is to be adjusted first.

4. In general losses incurred by any person are allowed to be set off and carry forward by such person but as per section 78, if any person has inherited any business or profession, losses of such business or profession can be carried forward by him.

5. Share of loss from a partnership firm cannot be set-off by the partner from his income rather it will be set-off only from income of partnership firm.

<u>Question 6: Explain setoff and carry forward of loss from agriculture</u>

<u>Answer: Loss from Agriculture</u>

Loss from Agriculture cannot be set off from incomes of other heads. Similarly loss of other heads cannot be set off from Agriculture Income.

Loss from agriculture can be set off only from agricultural income and carry forward is allowed for 8 years and in subsequent years also it can be set off from agriculture income.

<u>Optional regime</u>

In case of loss under the head house property, under optional regime this loss was allowed to be set off from the incomes of other heads except casual income but loss could be set off maximum upto ₹2,00,000 but under default scheme, loss cannot be set off from the income of other heads.

Question 7: Write a note on set off and carry forward of losses under the head house property under optional regime.

Answer: <u>Set off and carry forward of losses under the head house property</u> <u>Section 70/71/71B</u>

Inter Source adjustment Section 70

As per section 70, if any person has loss from any house property, such loss can be set off from income of any other house property and it is called inter-source adjustment or intra-head adjustment. E.g. Mr. X has two houses: there is loss of ₹5,00,000 from one house and income of ₹8,00,000 from the other house, in this case, loss of one source (house) can be set off from income of the other source (house).

Inter Head adjustment Section 71

As per section 71, unadjusted loss can be set off from incomes of other heads but as per section 58(4), such loss can not be set off from casual income and it is called inter-head adjustment. E.g. Mr. X has loss from house property ₹1,50,000 and income from business/profession ₹5,00,000, in this case, loss is allowed to be set off but if he has any casual income, loss can not be set off from casual income. Loss of House Property shall be allowed to be set off from other heads maximum upto ₹2,00,000.

Carry Forward and Set Off Section 71B

As per section 71B, unadjusted loss is allowed to be carried forward to the subsequent years but for a maximum period of 8 years starting from the year subsequent to the year in which the loss was incurred and in the subsequent years, loss can be set off only from income under the head house property. E.g. Mr. X has incurred loss under the head house property in the previous year 2023-24/assessment year 2024-25 and it could not be set off in the same year, it can be carried forward upto Previous Year 2031-32/Assessment Year 2032-33 (as shown below)

Year 1	Previous year 2024-25	Assessment Year 2025-26
Year 2	Previous year 2025-26	Assessment Year 2026-27
Year 3	Previous year 2026-27	Assessment Year 2027-28
Year 4	Previous year 2027-28	Assessment Year 2028-29
Year 5	Previous year 2028-29	Assessment Year 2029-30
Year 6	Previous year 2029-30	Assessment Year 2030-31
Year 7	Previous year 2030-31	Assessment Year 2031-32
Year 8	Previous year 2031-32	Assessment Year 2032-33

E.g. Mr. X has loss under the head house property of the previous year 2015-16/assessment year 2016-17 ₹5,00,000 and income under the head house property ₹5,00,000 in previous year 2023-24/assessment year 2024-25, in this case, loss shall be allowed to be set off because it will be allowed to be carried forward upto a period of 8 years starting from Previous Year 2016-17/Assessment Year 2017-18 and is as shown below:

Year 1	Previous year 2016-17	Assessment Year 2017-18
Year 2	Previous year 2017-18	Assessment Year 2018-19
Year 3	Previous year 2018-19	Assessment Year 2019-20
Year 4	Previous year 2019-20	Assessment Year 2020-21
Year 5	Previous year 2020-21	Assessment Year 2021-22
Year 6	Previous year 2021-22	Assessment Year 2022-23
Year 7	Previous year 2022-23	Assessment Year 2023-24
Year 8	Previous year 2023-24	Assessment Year 2024-25

Additional Points

1. If the loss can be set off, it has to be set off compulsorily i.e. it is not voluntary. E.g. Mr. X has loss under the head house property ₹1,50,000 in previous year 2023-24/assessment year 2024-25 and income under the head business/profession ₹1,50,000 in the same year, in this case loss has to be set off.

2. Any loss has to be set off first within the same head and after that under some other heads and after that carry forward is allowed.

3. Loss of current year shall be set off first and only after that brought forward losses can be adjusted, e.g. Mr. X has income from one house ₹ 10,00,000 and loss from other house ₹ 10,00,000 in P.Y. 2023-24 and also unadjusted loss of ₹ 10,00,000 under the head house property of P.Y. 2015-16, in this case loss of current year is to be adjusted first.

Illustration 2: Mr. X has Loss under the head House Property ₹13,00,000 and income under the head Salary ₹8,00,000 and income under the head Business/Profession ₹6,00,000 and LTCG ₹20,00,000 and Casual income ₹5,00,000. Compute his tax liability for A.Y. 2024-25, under optional regime.

Solution:

In this case, Mr. X has the option to set off the loss under the head House Property either from normal income or from LTCG and tax liability in two options shall be:

Option-1: Set off from normal income:

Computation of Total Income	**₹**
Income under the head Salary	8,00,000
Less: Loss under the head House Property	(2,00,000)
Income under the head Salary	6,00,000
Income under the head Business/Profession	6,00,000
Long term capital gain	20,00,000
Casual income	5,00,000
Gross Total Income	37,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	37,00,000
Computation of Tax Liability	
Tax on Casual income ₹5,00,000 @ 30% u/s 115BB	1,50,000
Tax on LTCG ₹20,00,000 @ 20% u/s 112	4,00,000
Tax on normal income ₹12,00,000 at slab rate	1,72,500
Tax before HEC	7,22,500
Add: HEC @ 4%	28,900
Tax Liability	7,51,400

Loss under the head house property of ₹11,00,000 shall be carried forward.

Note: As per section 71, Maximum loss of ₹2,00,000 is allowed to be set off from other heads.

Option-2: Set off from LTCG:

Computation of Total Income	**₹**
Income under the head Salary	8,00,000
Income under the head Business/Profession	6,00,000
Long term capital gain	20,00,000
Less: Loss under the head House Property	(2,00,000)
Long term capital gain	18,00,000
Casual income	5,00,000
Gross Total Income	37,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	37,00,000
Computation of Tax Liability	
Tax on Casual income ₹5,00,000 @ 30% u/s 115BB	1,50,000
Tax on LTCG ₹18,00,000 @ 20% u/s 112	3,60,000
Tax on normal income ₹14,00,000 at slab rate	2,32,500
Tax before HEC	7,42,500
Add: HEC @ 4%	29,700
Tax Liability	7,72,200

Loss under the head house property of ₹11,00,000 shall be carried forward.

Note: As per section 71, Maximum loss of ₹2,00,000 is allowed to be set off from other heads.

Option-1 is better since Total Tax Liability is lower in this option.

Illustration 3: Mr. X has Loss under the head House Property ₹ 20,00,000 and income under the head Salary ₹ 10,00,000 and income under the head Business/Profession ₹ 11,00,000 and LTCG ₹ 10,00,000 and deduction u/s 80C to 80U is ₹ 2,00,000. Compute his tax liability for A.Y. 2024-25, under optional regime.

Solution:
In this case, Mr. X has the option to set off the loss under the head House Property either from normal income or from LTCG and tax liability in two options shall be:

Option-1: Set off from normal income:

Computation of Total Income	**₹**
Income under the head Salary	10,00,000
Less: Loss under the head House Property	(2,00,000)
Income under the head Salary	8,00,000
Income under the head Business/Profession	11,00,000
Long term capital gain	10,00,000
Gross Total Income	29,00,000
Less: Deduction u/s 80C to 80U	(2,00,000)
Total Income	27,00,000
Computation of Tax Liability	
Tax on LTCG ₹10,00,000 @ 20% u/s 112	2,00,000
Tax on normal income 17,00,000 at slab rate	3,22,500
Tax before HEC	5,22,500
Add: HEC @ 4%	20,900
Tax Liability	5,43,400

Loss under the head house property of ₹18,00,000 shall be carried forward.
Note: As per section 71, Maximum loss of ₹2,00,000 is allowed to be set off from other heads.

Option-2: Set off from LTCG:

Computation of Total Income	**₹**
Income under the head Salary	10,00,000
Income under the head Business/Profession	11,00,000
Long term capital gain	10,00,000
Less: Loss under the head House Property	(2,00,000)
Long term capital gain	8,00,000
Gross Total Income	29,00,000
Less: Deduction u/s 80C to 80U	(2,00,000)
Total Income	27,00,000
Computation of Tax Liability	
Tax on LTCG ₹8,00,000 @ 20% u/s 112	1,60,000
Tax on normal income ₹19,00,000 at slab rate	3,82,500
Tax before HEC	5,42,500
Add: HEC @ 4%	21,700
Tax Liability	5,64,200

Loss under the head house property of ₹18,00,000 shall be carried forward.

Note: As per section 71, Maximum loss of ₹2,00,000 is allowed to be set off from other heads.
Option-1 is better since Total Tax Liability is lower in this option.

Illustration 4: Mr. X has let out one house ₹20,000 p.m. and municipal due is ₹40,000 which are paid by the tenant. Interest on loan for construction of house is ₹4,00,000. He has LTCG ₹7,00,000 and income under the head Business/Profession ₹11,00,000. Compute his tax liability for A.Y. 2024-25, under optional regime.

Solution:

Computation of income under the head House Property	**₹**
Gross Annual Value (20,000 x 12)	2,40,000.00
Less: Municipal Tax	Nil
Net Annual Value	2,40,000.00
Less: 30% of NAV u/s 24(a)	(72,000.00)
Less: Interest on capital borrowed u/s 24(b)	(4,00,000.00)

Loss under the head house property	2,32,000.00

In this case, Mr. X has the option to set off the loss under the head House Property either from normal income or from LTCG and tax liability in two options shall be:

Option-1: Set off from normal income:

Computation of Total Income	**₹**
Income under the head Business/Profession	11,00,000
Less: Loss under the head House Property	(2,00,000)
Income under the head Business/Profession	9,00,000
Long term capital gain	7,00,000
Gross Total Income	16,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	16,00,000
Computation of Tax Liability	
Tax on LTCG ₹7,00,000 @ 20% u/s 112	1,40,000
Tax on normal income ₹9,00,000 at slab rate	92,500
Tax before HEC	2,32,500
Add: HEC @ 4%	9,300
Tax Liability	2,41,800

Loss under the head house property of ₹32,000 shall be carried forward.

Note: As per section 71, Maximum loss of ₹2,00,000 is allowed to be set off from other heads.

Option-2: Set off from LTCG:

Computation of Total Income	**₹**
Income under the head Business/Profession	11,00,000
Long term capital gain	7,00,000
Less: Loss under the head House Property	(2,00,000)
Long term capital gain	5,00,000
Gross Total Income	16,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	16,00,000
Computation of Tax Liability	
Tax on LTCG ₹5,00,000 @ 20% u/s 112	1,00,000
Tax on normal income ₹11,00,000 at slab rate	1,42,500
Tax before HEC	2,42,500
Add: HEC @ 4%	9,700
Tax Liability	2,52,200

Loss under the head house property of ₹32,000 shall be carried forward.

Note: As per section 71, Maximum loss of ₹2,00,000 is allowed to be set off from other heads.

Option-1 is better since Total Tax Liability is lower in this option.

MULTIPLE CHOICE QUESTIONS

1. Mr. X incurred long-term capital loss from sale of listed shares in recognized stock exchange and STT is paid at the time of acquisition and sale of such shares. Such loss –
(a) can be set-off only against long-term capital gains
(b) can be set-off against both short-term capital gains and long-term capital gains
(c) can be set-off against any head of income.
(d) is not allowed to be set-off

2. The maximum period for which speculation loss can be carried forward is -
(a) 4 years (b) 8 years
(c) indefinitely (d) not allowed to be carry forward

3. Mr. A incurred short-term capital loss of ₹10,000 on sale of shares through the National Stock Exchange. Such loss -
(a) can be set-off only against short-term capital gains
(b) can be set-off against both short-term capital gains and long-term capital gains
(c) can be set-off against any head of income.
(d) not allowed to be set-off

4. Loss from house property of ₹ 3,10,000 of A.Y. 2022-23 is allowed to be set-off against income from house property of A.Y. 2024-25 of ₹ 5,00,000 to the extent of –
(a) ₹ 2,00,000 (b) fully allowed i.e., ₹3,10,000
(c) ₹ 2,50,000 (d) ₹ 1,00,000

5. Business loss of the current year cannot be set-off against –
(a) Any income other than business income (b) Long-term capital gain
(c) Either long-term capital gain or short-term capital gain (d) Salary income

6. Brought forward loss from house property can be set-off –
(a) Against any head of income to the extent of ₹2,00,000
(b) Against income from house property to the extent of ₹2,00,000
(c) Against income from house property without any limit
(d) Against any head of income without any limit

7. Mr. Ravi incurred loss of ₹4 lakh in the P.Y.2023-24 in retail trade business. Against which of the following incomes earned during the same year, can he set-off such loss?
(a) profit of ₹1 lakh from wholesale cloth business
(b) long-term capital gains of ₹1.50 lakhs on sale of land
(c) speculative business income of ₹40,000
(d) All of the above

8. Virat, runs a business of manufacturing of shoes in P.Y. 2021-22. During the P.Y. 2021-22 and P.Y. 2022-23, Virat had incurred business losses. For P.Y. 2023-24, he earned business profit (computed) of Rs.3 lakhs. Considering he may/may not has sufficient business income to set off his earlier losses, which of the following order of set off shall be considered:
(He does not have income from any other source)
(a) First adjustment for loss of P.Y. 2021-22, then loss for P.Y. 2022-23 and then unabsorbed depreciation, if any, income is available for adjustment.
(b) First adjustment for loss of P.Y. 2022-23, then loss for P.Y. 2021-22 and then unabsorbed depreciation, if any, income is available for adjustment.
(c) First adjustment for unabsorbed depreciation, then loss of P.Y. 2022-23 and then loss for P.Y. 2021-22, if any, income is available for adjustment
(d) First adjustment for unabsorbed depreciation, then loss of P.Y. 2021-22 and then loss for P.Y. 2022-23, if any, income is available for adjustment

9. Loss under the head business/profession cannot be set off from
(a) income of owning and maintaining race horses (b) casual income
(c) income from house property (d) income from salary
(e) (b) & (c) (f) (b) & (d)

(g) none of these

10. Short term loss can be set off

(a) from short term gain
(b) long term gain
(c) neither from short term nor from long term
(d) either short term or long term
(e) income under the head business/profession
(f) none of these

11. Mr. X has unadjusted loss from house property ₹10,00,000 of the previous year 2014-15 and income from house property of previous year 2023-24 ₹10,00,000, in this case

(a) loss cannot be set off and it will lapse
(b) loss will be set off from income from house property
(c) loss shall be carried forward to subsequent years
(d) none of these

12. Loss from speculative business

(a) can be set off from income of owning and maintaining of race horses
(b) can be set off from income of house property
(c) can be set off from income under the head business/profession
(d) none of these

Answer

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

EXAMINATION QUESTIONS

NOV – 2023

Question 4(a) **(7 Marks)**

Mr. Jai a resident individual furnishes the following particulars of his income and other details for the previous year 2023-24:

	₹
Income from the activity of owning and maintaining race horses	40,000
Income from crossword puzzle solving	30,000
Income from Agricultural land in Haryana	25,000
Dividend Income from domestic company (gross)	15,000
(Expenditure incurred in collecting the aforesaid dividend)	2,500
Income from cycling business	1,50,000
Loss from warehousing facility for storage of edible oils	1,00,000
Share of loss from PR associates, a firm (having 4 equal partners) in which he is a partner	23,000
The following items have been brought forward from the assessment year 2022-23:	
Brought forward loss from house property	1,00,000
Loss from the activity of owning and maintaining race horses	37,000
Loss from gambling	10,000
Unabsorbed depreciation	15,000
Speculation Loss	20,000

Mrs. Jai (wife of Mr. Jai) got a salary of ₹ 1,20,000 from PR associates during the year 2023-24. She is not qualified for the job.

Compute the gross total income of Mr. Jai for the assessment year 2024-25 ignoring the provisions of Section 115BAC.

Solution:

Computation of gross total income of Mr. Jai for the A.Y.2024-25

	₹
Income under the head "Salaries"	
Salary of Mrs. Jai from PR associates	1,20,000
Less: Standard deduction under section 16	(50,000)
Income under the head Salary	70,000
[Salary of Mrs. Jai would be includible in the income of Mr. Jai, since Mr. Jai has a substantial interest in PR associates by having 25% share of profit in it and Mrs. Jai is not qualified for the job]	
Profits and gains from business and profession	
Income from cycling busines	1,50,000
Less: Set off of loss from warehousing facility for storage of edible oils	(1,00,000)
	50,000
Less: Set off of unabsorbed depreciation of A.Y. 2021-22	(15,000)
Income under the head Business/Profession	35,000
Income from Other Sources	
Income from crossword puzzle solving	30,000
Income from agricultural land in Haryana [Exempt under section 10(1)]	-
Dividend from domestic company (gross)	15,000
[No deduction is allowed from dividend income other than interest expenses]	
Income from the activity of owning and maintaining race horses	40,000
Less: Set off of brought loss from the activity of owning and maintaining race horses of A.Y. 2021-22, since four years has not lapsed	(37,000)

Income from the activity of owning and maintaining race horses	3,000
Income under the head Other sources	48,000
Gross Total Income	**1,53,000**

Notes:

(i) Brought forward loss from house property can be set off only against income of house property. Hence, such loss has to be carried forward to A.Y. 2029-30.

(ii) Loss from gambling can neither be set-off nor be carried forward.

(iii) Brought forward loss from speculative business can be set off against income of any other speculative business. Hence, such loss has to be carried forward to A.Y. 2025- 26.

NOV – 2022 (NEW COURSE)

Question 3(b) **(4 Marks)**

Compute the gross total income of Mr. Prakhar for AY 2024-2025 and the losses to be carried forward, from the information given below :

(i) Income from House Property (computed)	₹ 3,60,000
(ii) Short term capital loss on shares of a company	₹(-) 18,700
(iii) Long term capital gain on sale of agricultural land	₹ 6,000
(iv) Income from rubber business (plants grown by Mr. Prakhar)	₹ 80,000
(v) Loss from garment business b/f - discontinued in FY 2021-2022	₹(-) 70,000
(vi) Loss from betting	₹(-) 5,500
(vii) Income from lotteries (Net)	₹ 21,000

Solution:

Computation of gross total income of Mr. Prakhar for the A.Y.2024 -25

Particulars	**₹**
Income from house property (computed)	3,60,000
Profits and gains from business and profession	
Income from rubber business	
[35% of income from manufacture of rubber is business income [80,000 x 35%]	28,000
Less: Brought forward loss of ₹ 70,000 from garment business set-off to the extent of ₹ 28,000	(28,000)
Capital Gains	
Long-term capital gain on sale of agricultural land, assuming that the same is urban agricultural land.	6,000
Less: Set-off of Short-term capital loss of ₹ 18,700 against long-term capital gains to the extent of ₹ 6,000	(6,000)
Income from Other Sources	
Income from lotteries (₹ 21,000 x 100/70)	30,000
Gross Total Income	**3,90,000**
Losses to be carried forward to A.Y. 2025-26	**₹**
Loss from garment business pertaining to P.Y. 2021-22 (₹ 70,000 – ₹ 28,000)	42,000
Short term capital loss on shares of a company of A.Y. 2024-25 (₹ 18,700 – ₹ 6,000)	12,700
Loss of ₹ 5,500 from betting can neither be set-off nor be carried forward.	–

MAY – 2022 (NEW COURSE)

Question.2(b) **(4 Marks)**

Mr. Harsh furnishes the following details for the year ended on 31-03-2024:

PARTICULARS	**AMOUNT ₹**
Salary received from partnership firm	

(the same was allowed to the firm)	8,50,000
Loss on sale of shares listed in stock exchange held for 18 months and the STT paid on the sale and acquisition	6,00,000
Long term capital gain on sale of land	5,00,000
Brought forward business loss of assessment year 2016-17	6,00,000
Loss from house property	2,50,000
Income from betting (gross)	50,000
Loss from card games	35,000

Compute the total income and show the item eligible for carry forward of Mr. Harsh for the assessment year 2024-25.

Answer:

Computation of total income of Mr. Harsh for the A.Y.2024-25

Particulars	₹	₹
Profits and gains from business and profession		
Salary received from partnership firm (would be fully taxable in the hands of Mr. Harsh as business income, since the same was allowed to the firm as deduction)	8,50,000	
Less: Set-off of brought forward business loss of A.Y. 2016-17 (since the eight year time period for set-off has not expired)	6,00,000	2,50,000
Capital Gains		
Long-term capital gain on sale of land	5,00,000	
Less: Set-off of long-term capital losses (since held for 18 months i.e., more than 12 months) on sale of STT paid listed shares [Such set-off is permissible since it is a loss from a source of income taxable u/s 112A]	5,00,000	-
Income from Other Sources		
Income from betting (gross)		50,000
[No Loss can be set off against income from betting]		
Loss of ₹ 35,000 from card games can neither be set-off nor be carried forward		-
Total Income		**3,00,000**
Losses to be carried forward to A.Y. 2025-26		**₹**
Loss from house property		2,50,000
Long-term capital loss on sale of listed shares (STT paid)		1,00,000

JULY – 2021 (NEW COURSE)

Question.4(b) **(5 Marks)**

Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2024:

	Particulars	Amount (₹)
(i)	Income from Salary (Computed)	2,22,000

(ii)	Income from House Property	
	- House in Delhi	22,000
	- House in Chennai	(–) 2,60,000
	- House in Mumbai	(–) 20,000
(iii)	Profit and gains from business of profession	
	- Textile business	18,000
	- Cosmetics business	(–) 22,000
	- Speculative business – 1	(–) 74,000
	- Speculative business – 2	46,000
(iv)	Capital gains	
	Short term capital loss from sale of property	(–) 16,000
	Long term capital gains from sale of property	15,400
(v)	Income from other sources (Computed)	
	- Income from betting	34,000
	- Income from Card games	46,000
	- Loss on maintenance of race horses	(–) 14,600

Determine the gross total income of Mr. X for the assessment year 2024-25 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC

Solution:

Computation of Gross Total Income of Mr. X for A.Y. 2024-25

Particulars	Amount	Amount
Salaries		
Income from salary (computed)		2,22,000
Income from house property		
- House in Delhi	22,000	
- House in Chennai	(2,60,000)	
- House in Mumbai	(20,000)	
	(2,58,000)	
Loss of ₹ 2,58,000 from house property has to be carried forward to A.Y.2025-26.		
Profits and gains from business or profession		
Profits from Speculative business – 2	46,000	
Less: Loss of ₹ 74,000 from speculation business - 1 set off to the extent of profits of ₹ 46,000 as per section 73 from another speculation business. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business.	(46,000)	
		-

Hence, the balance loss of ₹ 28,000 from speculative business has to be carried forward to A.Y.2025-26.		
Profits from textile business	18,000	
Less: Loss from cosmetic business of ₹ 22,000 set off against profits from textile business to the extent of ₹ 18,000 as per section 70.	(18,000)	-
Balance loss of ₹ 4,000 from cosmetic business has to be carried forward to A.Y.2024-25, since the same cannot be set-off against salary income.		
Capital Gains		
Long term capital gain from sale of property	15,400	
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹ 16,000 set off against long- term capital gains to the extent of ₹ 15,400 as per section 74(1).	(15,400)	-
Balance short term capital loss of ₹ 600 has to be carry forward to A.Y.2025-26		
Income from Other Sources		
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	
Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss of ₹ 14,600 has to be carried forward to A.Y.2025-26]	Nil	80,000
Gross Total Income		**3,02,000**

NOV – 2019 (NEW COURSE)

Question.4. (b) **(5 Marks)**

Following are the details of incomes/ losses of Mr. Rishi for the F.Y. 2023-24:

(Figures in brackets represents losses)	**₹**
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable Income from other sources:	

- from card games	16,000
- from owning & maintenance of race horses	(7,000)
- interest on securities	5,000

You are required to determine the Gross total income of Mr. Rishi for assessment year 2024-25.

Solution:

Computation of Gross Total Income for the A.Y. 2024-25

Income under the head Salary	
Taxable salary income (computed)	3,60,000
Income under the head salary	3,60,000
Income under the head House property	
Income from Property X	1,20,000
Less: Loss from property Y	(1,20,000)
Income under the head house property	Nil
Income under the head business profession	
Income from Business P	2,30,000
Less: Loss from Business Q	(12,000)
Income from normal business	2,18,000
Income from Business R (speculative)	15,000
Less: Loss from Business Q (speculative)	(15,000)
Income from speculative business	Nil
Income under the head business profession	2,18,000
Income under the head other sources	
Interest income	5,000
Income from card games	16,000
Income under the head other sources	21,000
Gross total income	
Income under the head salary	3,60,000
Income under the head business profession	2,18,000
Income under the head other sources	21,000
Gross total income	5,99,000
Losses to be carried forward	
House property	2,20,000
Speculative business loss	10,000
Loss from owning and maintain of race horses	7,000

Notes:

1. Speculative loss can be adjusted only from speculative income and balance can be carried forward. (section 73)
2. Loss from owning and maintain race horses can be adjusted only from such income and not allowed from other income. (section 74A)

PROVISIONS FOR FILING OF RETURN OF INCOME

PARTICULARS	SECTIONS
Submission of return of income	**139(1)**
Return of loss	**139(3)**
Belated return	**139(4)**
Revised return	**139(5)**
Updated Return	**139 (8A)**
Defective return	**139(9)**
Permanent account number	**139A**
Quoting of Aadhaar Number	**139AA**
Scheme for submission of returns through Tax Return Preparers	**139B**
Return by whom to be signed	**140**
Self-Assessment	**140A**
Tax on Updated Return	**140B**
Fee for default in furnishing return of income	**234F**
Fee for default to intimation of Aadhaar number	**234H**

Question 1 [V. Imp.]: Write a note on filing of return of income. Section 139(1)
Answer:
Filing of return of income/ filing of voluntary return of income
Under section **139(1)**, a return of income is to be filed by the following persons:

(i) Every **company assessee** or **partnership firm** irrespective of their income or loss shall be required to file return of income e.g. ABC Ltd. has total income of ₹10,000,in this case, company shall be required to file the return.

(ii) Any other person like Individual, HUF etc. shall be required to file return of income if Gross total income**, before claiming the exemption under section 54, 54B, 54D, 54EC, 54F, 54G, 54GA, and 54GB**, is exceeding exemption limit e.g. If for previous year 2023-24 gross total income of Mrs. X is ₹3,55,000 and deductions allowed under Chapter VI-A are NIL and total income is ₹3,55,000 and tax liability shall be nil but still Mrs. X has to file her return of income.

(iii) Every person who is **assessable on behalf of any other person** and the person on whose behalf he is assessable has gross total income, **before claiming the exemption under section 54, 54B, 54D, 54EC, 54F, 54G, 54GA, and 54GB,** more than the income exempt from tax, in such cases also, the person is required to file a return of income on behalf of such person. E.g. Minor son of Mr. X has gross total income from film acting ₹5 lakhs. In this case, Mr. X has to file a return of income on behalf of his minor son.

(iv) If any individual/HUF is **resident and ordinarily resident** in India, such person shall be required to file return of income if at any time during the P.Y., such person holds any asset (including any financial interest in any entity)located outside India or has signing authority in any account located outside India; or

(v) The persons other than company and partnership firm are also required to furnish the return of income if they have

(i) **deposited** an amount or aggregate of the amounts exceeding **one crore rupees** in one or more **current accounts** maintained with a banking company or a co-operative bank; or

(ii) incurred **expenditure** of an amount or aggregate of the amounts exceeding **two lakh rupees** for himself or any other person for **travel to a foreign country**; or

(iii) incurred **expenditure** of an amount or aggregate of the amounts exceeding **one lakh rupees** towards consumption of **electricity**; or

(vi) The following persons shall also be required to file the return of income as per Rule 12AB

(a) If the turnover of business exceeds ₹60 lakh or gross receipt from profession exceeds ₹10 lakh

(b) If the person has deposited ₹50 lakh or more in one or more of his saving accounts

(c) If the amount of TDS / TCS collected in his case is ₹25,000 or more but in case of a senior citizen it is ₹50,000 or more

Due date for filing the return of income

Return is to be filed in general upto 31st July of the assessment year, however, in the following cases, the last date shall be ***31st October*** of the assessment year.

1. Every company assessee

Example

For the previous year 2023-24, ABC Ltd. has to file its return of income upto 31.10.2024.

2. Any other person who is required to get his accounts audited either under Income Tax Act or under any other Act.

Example

Mr. X has his own business and his turnover for previous year 2023-24 is ₹102 lakhs. In this case, the last date of filing the return of income shall be 31.10.2024, but if turnover is ₹97 lakhs, the last date shall be 31.07.2024. Similarly if a partnership firm XY has turnover of its business ₹ 65 lakhs for previous year 2023-24, in this case, the last date of filing of return of income shall be 31.07.2024.

3. Partner of a partnership firm whose accounts are required to be audited.

Question 2 [V. Imp.]: Write a note on Return of Loss Section 139(3).

Answer: Return of Loss Section 139(3)

If any person has sustained any loss under the head Business/Profession or under the head capital gains or the loss is from owning and maintaining of race horses and such person claims that the loss is to be carried forward, such person has to file a return of loss and such return shall be examined by the Assessing Officer and the loss computed by the assessee shall be confirmed by the Assessing Officer by sending an intimation under section 157 and only after that carry forward of loss shall be allowed to the assessee.

Return under section 139(3) has to be submitted within the time allowed under section 139(1).

Under section 80, if return of loss has been filed after the last date of filing of return of income, In that case carry forward of losses is not allowed. E.g. For previous year 2023-24 ABC Ltd. has incurred business loss of ₹90 lakhs. In this case, the company must file return of loss under section 139(3) maximum upto 31.10.2024, otherwise carry forward of the loss is not allowed.

The above provisions are not applicable with regard to loss under the head house property and also it is not applicable with regard to unabsorbed depreciation.

If any return is filed under section 139(3), it will be considered to be a return under section 139(1).

Question 3 [V. Imp.]: Write a note on Belated Return of Income Section 139(4).

Answer: Belated Return of Income Section 139(4)

Every person is required to file a return of income within the time allowed under section 139(1) however return of income can be filed even after the due date but upto ***the three months prior to*** **the end of relevant assessment year or before completion of assessment, whichever is earlier.** E.g. For previous year 2023-24 ABC Ltd. has to file its return of income upto 31.10.2024. However, belated return is allowed under section 139(4) but maximum upto 31.12.2024.

Question 4: Write a note on fee for default in furnishing return of income

Answer: Fee for default in furnishing return of income. Section 234F

where a person required to furnish a return of income under section 139, fails to do so within the time prescribed u/s 139(1), he shall pay, by way of fee, ***a sum of ₹ 5,000***

Provided that if the total income of the person does not exceed ₹5,00,000 the fee payable under this section

shall not exceed ₹ 1,000.
Example: For the P.Y.23-24, Mr. X has Total Income ₹7,00,000 and he files his return on 10th August 2024, in this case Penalty of ₹5000 is payable but if his total income is upto ₹5,00,000, Penalty shall be ₹1000.

Question 5 [V. Imp.]: Write a note on Revised Return of Income Section 139(5).
Answer: <u>Revised Return of Income</u> <u>Section 139(5)</u>
If any person has furnished a return under section **<u>139(1)</u>** or **under section 139(4),** discovers any omission or any wrong statement, he may furnish a revised return at any time before ***three months prior to*** the end of the relevant assessment year e.g. If ABC Ltd. has filed its return of income on 31.10.2024 for previous year 2023-24 and subsequently the company has detected any bonafide error, in this case, the company is allowed to revise its return of income under section 139(5) but maximum upto 31.12.2024.
If the assessment on the return has already been completed, revision is not allowed after completion of assessment e.g. For the previous year 2023-24 ABC Ltd. has filed its return of income on 31.10.2024. This return was checked by the Assessing Officer on 01.12.2024 and the company wish to file a revised return on 15.12.2024. In this case, revised return shall not be accepted.
An assessee is allowed to revise the return of income any number of times, however, if the earlier return has already being assessed, revised return shall not be allowed.
Revision is allowed only with regard to a return, which was filed under section 139(1) or 139(4), i.e. if the return has been filed under any other section, its revision is not allowed.
However, the return filed under section 139(3) is considered to be return under section 139(1), its revision is allowed.

Question 6: Write a note updated Return as per section 139(8A).
<u>Answer:</u>
1. An updated return can be filed by any person who has filed a return under section 139(1) or 139(4) or 139(5) or has not filed any return but such updated return can be filed within 24 months from the end of relevant assessment year.
2. Updated return can not be filed if it is return of loss or it has the effect of decreasing the tax liability already reported under section 139(1), 139(4) or 139(5) or it results in refund or increasing of refund.
3. No updated return can be filed if an updated return has already been filed for the same assessment year.
4. Updated return can be filed if the original return is a return of loss and updated return is a return of income.
5. In case of updated return, additional income tax shall be payable as per section 140B

<u>Additional Income Tax on Updated Return Section 140B</u>
1. If any person has filed updated return under section 139(8A) and such person has not filed any return, such person shall pay tax plus interest and fee for late filing of return on the basis of updated return after adjusting advance tax and TDS etc.
2. If a return has already been filed under section 139(1), 139(4) or 139(5), in that case tax and interest payable shall be computed after adjusting the tax and interest already paid.
3. Additional income tax shall be payable @ 25% of tax plus interest if such return is filed after expiry of the time allowed under section 139(1) or 139(4) or 139(5) but before completion of period of 12 months from the end of the relevant assessment year.
4. Additional income tax shall be payable @ 50% of tax plus interest if such return is filed after expiry of the period of 12 months but before expiry of the period of 24 months from the end of the relevant assessment year.
E.g. Mr. X has filed his return of income for the previous year 2022-23 on 31st July 2023 and paid income tax and interest ₹2 lakh. Mr. X detected that some incomes have not been disclosed by him, in this case he can file updated return upto 31st March 2026. He filed the return on 01st March 2025 and his tax and interest has increased by ₹1,20,000, in this case he has to pay such tax and interest and also additional income 1,20,000 x 25% = 30,000 but if updated return is filed after 31st March 2025, additional income shall be 1,20,000 x 50% = 60,000.

Question 7 [V. Imp.]: Write a note on Defective Return of Income Section 139(9).
Answer: Defective Return Section 139(9)
(1) Under this section, the Assessing Officer has the power to call upon the assessee to rectify a defective return.
(2) Where the Assessing Officer considers that the return of income furnished by the assessee is defective, he may intimate the defect to the assessee and give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation. The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee.
(3) If the defect is not rectified within the period of 15 days or such further extended period, then the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
(4) Where, however, the assessee rectifies the defect after the expiry of the period of 15 days or the further extended period, but before assessment is made, the Assessing Officer can condone the delay and treat the return as a valid return.
(5) A return of income shall be regarded as defective in the following cases:
(a) If annexures, statements and columns in the return of income relating to computation of income have not been filled in properly and also the required documents have not been enclosed.
(b) The columns are filled wrongly or filled incompletely
(c) Where regular books of account are not maintained by the assessee, the return should be accompanied by –
(i) a statement indicating the amount of turnover or gross receipts, gross profit, expenses; and net profit of the business or profession;
(ii) the basis on which such amounts mentioned in (i) above have been computed,
(iii) the amounts of total sundry debtors, sundry creditors, stock-in-trade and cash balance as at the end of the previous year.
(d) the return is not accompanied by the proof of payment of tax as required under section 140B, if the return of income is a return furnished under section 139(8A).

Note – As per Rule 12, in general the documents are not to be enclosed with the return of income

Question 8 [V. Imp.]: Write a note on Permanent Account Number Section 139A.
Answer: Permanent Account Number Section 139A
The following persons have to apply for allotment of permanent account number
As per Section 139A. (1) Every person,—
(i) if his total income or the total income of any other person in respect of which he is assessable under this Act during any previous year exceeded the maximum amount which is not chargeable to income-tax. (As per rule 114, application should be given maximum upto 31st May of A.Y.) or
(ii) carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed five lakh rupees in any previous year; (As per rule 114, application should be given maximum upto the end of relevant F.Y.) or
(iii) being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to two lakh fifty thousand rupees or more in a financial year. It will also include the managing director, director, partner, trustee, author, founder, *karta*, chief executive officer, principal officer or office bearer of such person or any person competent to act on behalf of such person. (As per rule 114, application should be given maximum upto 31st May of A.Y.) or
(iv) who intends to enter into such transaction as may be prescribed by the Board in the interest of revenue (As per Rule 114BA, any person depositing cash of ₹20 lakh or more in one or more account in a financial year or is withdrawing cash ₹ 20 lakh or more in a financial year with a banking company / co-operative bank / post office or is opening a current account or cash credit account with a banking company / co-operative bank / post office should apply for allotment of a PAN within 7 days before such transaction.)
(v) Any person notified by Central Government or directed by the Assessing Officer.
(vi) Any person, may apply to the Assessing Officer for the allotment of a permanent account number.

Question 9: Write a note on quoting of Aadhaar Number in place of PAN Number Section 139A(5E).
Answer:
Notwithstanding anything contained in this Act, every person who is required to furnish or intimate or quote his permanent account number under this Act, and who,—

(a) has not been allotted a permanent account number but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar number in lieu of the permanent account number, and such person shall be allotted a permanent account number i.e. such person need not apply separately for issue of PAN under rule 114.

(b) has been allotted a permanent account number, and who has linked his Aadhaar number to his PAN number, may furnish or intimate or quote his Aadhaar number in lieu of the permanent account number i.e. inter-changeability of PAN and Aadhar number shall be allowed.

Question 10: Write a note on quoting and authentication Aadhaar/ PAN.
Answer:
<u>As per Section 139(6A) / (6B) / Rule 114BB,</u> any person depositing cash of ₹20 lakh or more in one or more account in a financial year or is withdrawing cash ₹ 20 lakh or more in a financial year with a banking company / co-operative bank / post office or is opening a current account or cash credit account with a banking company / co-operative bank / post office shall mention his Aadhaar Number or PAN in such transaction and shall get it authenticated.

Question 11: Explain Application for allotment of a permanent account number. Rule 114
Answer: <u>Application for allotment of a permanent account number. Rule 114</u>
An application for allotment of a permanent account number shall be made in Form No. 49A or 49AA, as the case may be alongwith proof of identity, Proof of address, Proof of date of birth etc.

Question 12: Explain Transactions where PAN is to be mentioned Rule 114B.
Answer: <u>Transactions where PAN is to be mentioned Rule 114B</u>
Every person shall quote his permanent account number in all documents pertaining to the transactions specified below:—

1. Sale or purchase of a motor vehicle other than two wheeled vehicles.
2. Opening an account other than a time-deposit referred to at Sl. No.12 and a Basic Savings Bank Deposit Account with a banking company or a co-operative bank.
3. Making an application to any banking company or a co-operative bank for issue of a credit or debit card.
4. Opening of a demat account.
5. Payment to a hotel or restaurant against a bill or bills at any one time, if payment in cash exceeding ₹50,000.
6. Payment in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time if cash exceeding ₹50,000.
7. Payment to a Mutual Fund for purchase of its units, if amount exceeding ₹50,000.
8. Payment to a company or an institution for acquiring debentures or bonds issued by it, if amount exceeding ₹50,000.
9. Payment to the Reserve Bank of India, for acquiring bonds issued by it, if amount exceeding fifty thousand rupees.
10. Cash Deposit with banking company or a co-operative bank or post office, if exceeding ₹50,000 during any one day
11. Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank, if payment in cash for an amount exceeding ₹50,000 during any one day.
12. A time deposit with, a banking company or a co-operative bank or post office or Nidhi (section 406 of the Companies Act, 2013) or non-banking financial company, if amount is exceeding ₹50,000 or aggregating to more than ₹5,00,000 during a financial year.

13. Payment for one or more pre-paid payment instruments, if payment in cash or by way of a bank draft or pay order or banker's cheque of an amount aggregating to more than ₹50,000 in a financial year.
14. Payment as life insurance premium, if amount is aggregating to more than ₹50,000 in a financial year.
15. A contract for sale or purchase of securities (other than shares) as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956, if amount is exceeding ₹1,00,000 per transaction.
16. Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange, if amount is exceeding ₹1,00,000 per transaction.
17. Sale or purchase of any immovable property, if amount is exceeding ten lakh rupees.
18. Sale or purchase, by any person, of goods or services of any nature other than those specified at Sl. Nos. 1 to 17, if any, if amount exceeding two lakh rupees per transaction:

Transaction by Minor

where a person, entering into any transaction, is a minor and who does not have any income chargeable to income-tax, he shall quote the permanent account number of his father or mother or guardian, as the case may be.

Form 60

any person who does not have a permanent account number and who enters into any transaction specified in this rule, he shall make a declaration in Form No.60 giving therein the particulars of such transaction.

Question 13 [V. Imp.]: Write a note on Quoting of Aadhaar number.
Answer: Quoting of Aadhaar number. Section 139AA / Rule 114AAA

Quoting of Aadhaar number.

139AA. (1) Every person who is eligible to obtain Aadhaar number shall, on or after the 1st day of July, 2017, quote Aadhaar number—

(*i*) in the application form for allotment of permanent account number;

(*ii*) in the return of income (it is now compulsory w.e.f 01.04.2019 onwards)

Where the person does not possess the Aadhaar Number, the Enrolment ID of Aadhaar application form shall be quoted in the application for permanent account number or, in the return of income furnished by him.

(2) Every person who has been allotted permanent account number as on the 1st day of July, 2017, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number on or before 30.06.2023 otherwise his PAN shall become inoperative.

(3) The provisions of this section shall not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

(ii) a non-resident as per Income-tax Act, 1961;

(iii) of the age of 80 years or more at any time during the previous year;

(iv) not a citizen of India

Where the person has intimated his Aadhaar number after 30.06.2023, his permanent account number shall become operative from the date of intimation of Aadhaar number.

Question 14: Write a note on fee for default relating to intimation of Aadhaar number.
Answer: Fee for default relating to intimation of Aadhaar number Section 234H

Where a person is required to intimate his Aadhaar number under section 139AA and such person fails to do so on or before 01.04.2022, he shall be liable to pay fee of ₹500 if intimation is given from 01.04.2022 upto 30.06.2022 and thereafter fee payable shall be ₹1,000. (Notification No.17/2022 dated 29.03.2022)

Question 15: [V. Imp.]: Write a note on submission of returns through Tax Return Preparers.
Answer: Scheme for submission of returns through Tax Return Preparers Section 139B
In order to help the persons having low income or tax liability, department has started scheme of Tax Return Preparer who will file return for such persons. For this purpose department shall select and appoint TRPs. The tax return preparer shall hold a graduation degree from a recognised Indian university or other specified qualifications but such persons should not be a Chartered Accountant or other specified persons.
A person may approach a TRP for filing the return of income but any person who is required to get his accounts audited shall not be allowed to file the return through the Tax Return Preparer.
Similarly any non-resident shall not be allowed to file return through Tax Return Preparer.
The department shall pay a commission of **3%** of the tax paid on the income declared in the return or **₹1,000 whichever is less**. A TRP shall be entitled for a minimum payment of **₹250** and if commission paid is less than ₹250, he can receive the difference amount from the assessee whose return is being filed.
e.g. A TRP has deposited tax of ₹60,000 on the basis of return filed by it, in this case commission payable shall be 60,000 x 3% = 1,800 but maximum ₹1,000. If tax paid is ₹20,000, commission payable shall be 20,000 x 3% = 600. If tax paid is ₹5,000, commission payable shall be ₹5,000 x 3% = 150 and TRP shall allowed to charge ₹100 from the assessee.

Question 16: Write a note on verifying of Return of Income.
Answer: Verifying of return of income
Return by whom to be verified Section 140
1. In the case of an individual, the return should be verified by the individual himself but if for any reason return cannot be verified by the individual, return can be verified by his agent and the agent should enclose copy of power of attorney with the return.
If any individual is mentally incapacitated from attending to his affairs, return should be verified by his guardian or any other person competent to act on his behalf.
2. In the case of a Hindu Undivided Family, by the karta, and, where the karta is absent from India or is mentally incapacitated from attending to his affairs, by any other adult member (male or female) of such family.
3. In the case of a company, by the managing director and if managing director is not available, return can be signed by any director.
In case of non-resident company, return can be signed by its agent.
If company is in liquidation, return can be signed by the official liquidator/ Resolution professional. (Insolvency and Bankruptcy Code, 2016)
4. In the case of a firm, return can be signed by managing partner and if managing partner is not available, return can be signed by any partner.
5. In the case of a limited liability partnership, return can be signed by the designated partner and if designated partner is not available, return can be signed by any partner / Resolution professional. (Insolvency and Bankruptcy Code, 2016)
6. In the case of a local authority, return can be signed by the principal officer.
7. In the case of a political party, return can be signed by Chief Executive Officer.
8. In the case of any other association, return can be signed by the Principal Officer and if Principal Officer is not available, by any member.
9. In the case of any other person, by that person or by some person competent to act on his behalf.

Question 17: Write a note on Self-Assessment.
Answer: Self-Assessment Section 140A
(1) Payment of tax, interest and fee before furnishing return of income
Where any tax is payable on the basis of any return required to be furnished under section 139, after taking into account -
(i) the amount of tax, already paid, under any provision of the Income tax Act, 1961
(ii) the tax deducted or collected at source
the assessee shall be liable to pay such tax together with interest and fee payable before furnishing the return. The return shall be accompanied by the proof of payment of such tax, interest and fee.

Consequence of failure to pay tax, interest or fee

If any assessee fails to pay the whole or any part of such of tax or interest or fee, he shall be deemed to be an assessee in default in respect of such tax or interest or fee remaining unpaid and all the provisions of this Act shall apply accordingly.

(2) Order of adjustment of amount paid by the assessee

Where the amount paid by the assessee under section 140A falls short of the aggregate of the tax, interest and fee as aforesaid, the amount so paid shall first be adjusted towards the fee payable and thereafter towards interest and the balance, if any, shall be adjusted towards the tax payable.

(3) Interest under section 234A

For the above purpose, interest payable under section 234A shall be computed on the amount of tax on the total income as declared in the return, as reduced by the amount of-

(i) advance tax paid, if any;

(ii) any tax deducted or collected at source;

(4) Interest under section 234B

Interest payable under section 234B shall be computed on the assessed tax or on the amount by which the advance tax paid falls short of the assessed tax.

For this purpose “assessed tax” means the tax on total income declared in the return as reduced by the amount of tax deducted or collected at source on any income which forms part of the total income.

PRACTICE PROBLEMS

Question 1. During the previous year 2023-24, Mr. X has income under the head house property ₹7,00,000. In this case, his last date of filing of return shall be ____________________.

Question 2. A partnership firm XY has turnover of his business ₹75,00,000 and income under the head Business/Profession ₹8,00,000 for previous year 2023-24. In this case, the last date of filing of return of income shall be ____________.

Question 3. ABC Ltd. has loss under the head Business/Profession ₹3,00,000 for previous year 2023-24. In this case, the company has to file the return latest by ____________________.

Question 4. A partnership firm XY has turnover of the business ₹205,00,000 and income from business ₹14,00,000 for the previous year 2023-24, the last date for filing of return of income shall be ______________.

Question 5. ABC Ltd. do not have any income for the previous year 2023-24. In this case, company is not required to file any return of income. Discuss.

Question 6. ABC Ltd. has loss under the head Business/Profession ₹7,00,000 for the previous year 2023-24 and the company has filed the return of loss on 01.11.2024 under section 139(3). Discuss whether set off or carried forward and set off of the loss is allowed or not.

Question 7. For the previous year 2023-24, Mr. X an assessee shall be allowed to file belated return of income latest upto ____________________.

Question 8. For the previous year 2023-24, Mr. X has filed original return of income on 01.07.2024, he can file revised return of income latest upto_________________.

Question 9. For the previous year 2023-24, Mr. X has filed original return of income on 01.11.2024, he can file revised return of income latest upto ____________________.

Question 10. Mr. X has filed original return for previous year 2023-24 on 01.07.2024 and revised return on 01.11.2024 and he further wants to revise the return on 01.12.2024. Discuss whether he is allowed to do so or not.

Ans 1. 31.07.2024
Ans 2. 31.07.2024
Ans 3. 31.10.2024
Ans 4. 31.10.2024
Ans 5. As per section 139(1), every company has to file return of income in every case.
Ans 6. The company is allowed to set off the loss during the previous year 2023-24 but its carried forward is not allowed because return of loss has to be filed within the time allowed under section 139(1) i.e. 31.10.2024 in the above case.
Ans 7. 31.12.2024
Ans 8. 31.12.2024
Ans 9. 31.12.2024
Ans 10. A revised return can also be revised further any number of times, however, if the earlier return has already been assessed, revised return is not allowed subsequently. In the given case, revised return can be filed on 01.12.2024.

MULTIPLE CHOICE QUESTIONS

1. Mr. X has income under the head Business/Profession ₹4,00,000 and deduction under Chapter VI-A ₹1,00,000, in this case
(a) he need not file any return of income
(b) he has to file return of income upto 31st July of assessment year
(c) he has to file return of income upto 30th Sept of assessment year
(d) none of these
2. The due date for filing of a return of income for a company for Assessment Year 2024-25 is -
(a) 31st July, 2024
(b) 30th September, 2024
(c) 31st October, 2024
(d) 31st August, 2024
3. If a minor child has income of ₹ 5,00,000 from his talent, in this case
(a) it is exempt from income tax
(b) It is taxable and income shall be clubbed in the income of father
(c) It is taxable and income shall be clubbed in the income of mother
(d) It is taxable and return shall be filed by his father as his guardian
(e) none of these
4. The return of a company has to be verified by -
(a) the Managing Director or Director ***or any other person, as may be prescribed for this purpose***
(b) the General Manager
(c) the Secretary
(d) the Manager
5. An assessee can file a revised return of income at any time before the completion of assessment or before expiry of the following period, whichever is earlier -
(a) one year from the end of the relevant assessment year
(b) two years from the end of the relevant assessment year
(c) six months from the end of the relevant assessment year
(d) ***three months prior to the*** end of the relevant assessment year
6. As per section 139(1), filing of returns is compulsory irrespective of whether profit is earned or loss is incurred, in case of -
(a) companies only
(b) firms only
(c) both companies and firms
(d) All assessees
7. Mr. X has a total income of ₹ 7 lakhs for A.Y. 2024-25. He files his return of income for A.Y. 2024-25 on 13th December, 2024. He is liable to pay fee of–
(a) ₹ 1,000 under section 234F
(b) ₹ 5,000 under section 234F
(c) ₹ 10,000 under section 234F
(d) Not liable to pay any fee
8. Mr. Y has a total income of ₹ 4,50,000 for A.Y. 2024-25. He furnishes his return of income for A.Y. 2024-25 on 2nd December, 2024. He is liable to pay fee of–
(a) ₹ 1,000 under section 234F
(b) ₹ 5,000 under section 234F
(c) ₹ 10,000 under section 234F
(d) Not liable to pay any fee
9. Mr. Z, a salaried individual, has a total income of ₹ 8 lakhs for A.Y. 2024-25. He furnishes his return of income for A.Y. 2024-25 on 28th August, 2024. He is liable to pay fee of–
(a) ₹ 1,000 under section 234F
(b) ₹ 5,000 under section 234F
(c) ₹ 10,000 under section 234F

(d) Not liable to pay any fee

10. The due date of filing of return for a company with a business loss of ₹ 1,30,000 for A.Y. 2024-25 is–

(a) 31st July, 2024

(b) 30th September, 2024

(c) 31st October, 2024

(d) 31st August, 2024

11. Mr. Karan filed his return of income for A.Y.2024-25 showing total income of ₹7 lakhs on 1.12.2024. The fee payable by him under section 234F is –

(a) Nil

(b) ₹1,000

(c) ₹5,000

(d) ₹10,000

12. Who can verify the return of income of a non-resident company?

(a) Managing Director of the company

(b) Any director of the company

(c) A person who holds a valid power of attorney from such company to do so

(d) Any of the above

13. Which of the following returns can be revised under section 139(5)?

(a) Only a return of income filed u/s 139(1)

(b) A return of income filed u/s 139(1) or a belated return filed u/s 139(4)

(c) A return of income filed u/s 139(1) or a return of loss filed u/s 139(3)

(d) A return filed u/s 139(1) or u/s 139(3) or u/s 139(4)

14. An assessee is allowed to file late return of income maximum

(a) Upto 31st Dec of assessment year

(b) upto ***three months prior to the*** end of assessment year

(c) Within 3 months from the last date of filing return of income

(d) None of these

15. In case of defective return of income, assesse shall be allowed

(a) time period of 15 days from the date of intimation

(b) 20 days from the date of receiving the intimation

(c) within one month from the end of assessment year

(d) none of these

Answer

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

EXAMINATION QUESTIONS

NOV – 2023

Question.4.(c) **(1 + 1 + 2 = 4 Marks)**

In the context of Tax Return Preparer Scheme, 2006, explain the following:

(i) Eligible Person
(ii) Educational Qualifications of Tax Return Preparer
(iii) Persons not entitled to act as return preparer

Solution: Refer answer given in the book

MAY – 2023

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

What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished.

OR

A person other than a company or a firm who is otherwise not required to furnish the return of income, needs to furnish return of income provided they fulfil certain conditions prescribed. Enumerate.

Solution:
First Alternative: Refer answer given in the book
Second Alternative: Refer answer given in the book

NOV – 2022

Question 3(c) **(4 Marks)**

Mr. A employed with B Pvt. Ltd. residing in Chennai, filed his return of Income on 30th July. He has no other income other than salary. He however has failed to link his Aadhaar with PAN as on return filing date.

(i) What is the last date for linking Aadhaar with PAN?
(ii) What is the consequence for him if he has linked the Aadhaar with PAN on 31st August 2022?
(iii) Are there any exceptions provided under section 139AA from quoting of Aadhaar number?

Solution:

Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, has to intimate his Aadhar Number to prescribed authority on or before **31st March, 2022.**

Since, Mr. A fails to link his Aadhar number with PAN on or before 31.3.2022, consequently, at the time of linking his Aadhaar number with PAN on 31.8.2022, he would be liable to **pay fee of ₹ 1,000** as per section 234H.

Yes, the following are the exceptions -

An individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in Assam, Jammu & Kashmir and Meghalaya;
(ii) a non-resident as per Income-tax Act, 1961;
(iii) of the age of 80 years or more at any time during the previous year;
(iv) not a citizen of India

MAY – 2022

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

Explain with brief reasons, whether the return of income can be revised under Section 139(5) of the Income-tax Act, 1961 in the following cases:

(i) Belated return filed under Section 139(4)
(ii) Return already revised twice under Section 13-9(5)
(iii) Return of loss filed under Section 139(3)

OR

Due to some inconsistent information provided in the return of income furnished under Section 139(1), the assessing officer considers it defective under Section 139(9) of the Income Tax Act,1961.

(i) How, assessing officer would deal with the issue?
(ii) What are the consequences if defect is not rectified within the allowed?
(iii) Specify the remedies available if not rectified within time allowed by the assessing officer ?

Answer:
First Alternative
Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time
- before three months prior to the end of the relevant assessment year or
- before the completion of assessment,

whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,
(i) A belated return filed under section 139(4) can be revised.
(ii) A return revised earlier can be revised again as the first revised return replaces the original return; and the second revised return replaces the earlier return filed.
(iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

Second Alternative
(i) Where the Assessing Officer considers that the return of income furnished by the assessee is defective,
- he may intimate the defect to the assessee and
- give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation.

The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee.
(ii) If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
(iii) The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

DEC – 2021

Question 4(c) **(4 Marks)**
Mr. Kailash, a resident and ordinarily resident in India, could not file his return of Income for the assessment year 2024-25 before due date prescribed under section 139(1). Advise Mr. Kailash as a tax consultant:
What are the consequences for non-filing of return of Income within the due date under section 139(1)?

Answer
Consequences for non-filing return of income within the due date under section 139(1)

<u>Interest under section 234A</u>

Interest under section 234A @1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

However, no interest u/s 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.

<u>Fee under section 234F</u>
Where a person required to furnish a return of income under section 139, fails to do so within the time prescribed u/s 139(1), he shall pay, by way of fee, a sum of ₹ 5,000.

Provided that if the total income of the person does not exceed ₹5,00,000 the fee payable under this section shall not exceed ₹ 1,000.

Carry forward and set-off of certain losses not permissible

Following losses would not be allowed to be carried forward, where a return of income is not furnished within the time allowed under section 139(1):

- business loss, speculation business loss, loss from specified business,
- loss under the head "Capital Gains"; and
- loss from the activity of owning and maintaining race horses.

OR

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

Mr. Sitaram is engaged in the business of trading of cement having turnover of ₹10 crores (including 50% cash sale) during the financial year 2023-24. As a tax consultant advise him what are the particulars to be furnished under section 139(6A) along with Return of Income? **(4 Marks)**

Solution: Refer answer given in the book

JULY – 2021

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

Enumerate the cases where a return of loss has to be filed on or before the due date specifies u/s 139(1) for carry forward of the losses. Also enumerate the case where losses can be carried forward even through the return of loss has not been filed on or before the due date.

Solution: Refer answer given in the book

Question 4(c)

In the following cases relating to P.Y. 2023-24, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income Tax Act does not exceed the basis exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for A.Y 2024-25 in each of the following independent situations:

(i) Manish & Sons (HUF) sold a residential house on which there arose a long-term capital gain of ₹ 12 lakh which was invested in Capital Gain Bonds u/s 54EC so that no long-term capital gain was taxable. **(1½ Marks)**

(ii) Mrs. Archana was born in Germany and married in India. Her residential status under section 6(6) of the Income Tax Act, 1961 is 'resident and ordinarily resident'. She owns a car in Germany which she uses for her personal purposes during her visit to her parents' place in that country. **(1½ Marks)**

(iii) Sudhakar has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels. **(1 Marks)**

Solution:

[Second Alternative]

(i) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of ₹ 2,50,000, is required to file a return of its income on or before the due date under section 139(1). In this case, since the total income without giving effect to exemption under section 54EC is ₹ 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2024-25 on or before the due date under section 139(1).

(ii) Every person, being a resident other than not ordinarily resident in India would be required to file a return of income or loss for the previous year on or before the due date, even if his or her total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India.

In this case, though Mrs. Archana owns a car in Germany, the same does not fall within the ambit of "capital asset" as it is a personal effect. Hence, Mrs. Archana is not required to file her return of income for A.Y. 2024-25 on account of owning a car for personal purposes in Germany.

Note – "Asset" for the purpose of the fourth proviso to section 139(1) has not been specifically defined in the said section or elsewhere in the Act. Schedule FA of the income-tax return forms, however, requires details of foreign assets for the purpose of filing of return of income under this provision. The foreign assets listed in the said Schedule does not include car. It, however, includes "any other capital assets outside India". Car used for personal purposes is not a capital asset as it is a "personal effect". Hence, it is not included in the meaning of "asset" for the purpose of the fourth proviso to section 139(1). The above answer is based on the view taken regarding the ambit of the term "asset", based on the list of assets detailed in the relevant schedule of the income-tax return forms.

Alternative view - On the plain reading of the fourth proviso to section 139(1) and the general meaning attributable to the word "asset", it is possible to take a view that Mrs. Archana is required to file her return of income as she owns an asset, i.e., a car in Germany. Accordingly, due credit may also be given to the candidates who have answered on this basis.

(iii) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Sudhakar has incurred expenditure of ₹ 1,20,000 in the P.Y.2023-24 towards consumption of electricity, he has to file his return of income for A.Y. 2024-25 on or before the due date under section 139(1).

NOV – 2019

Question.4. (c) **(4 Marks)**

Elaborate the conditions, non-fulfilment of which would render a return of income filed by an assessee not maintaining regular books of accounts, defective.

Answer: Refer answer given in the book

NOV – 2019

Question.5. (b) **(3 Marks)**

Explain with brief reasons, whether the return of income can be revised under selection 139(5) of the Income-tax Act, 1961 in the following cases:

(i) Defective or incomplete return field under section – 139(9)

(ii) Return already revises once under section-139(5)

(iii) Return of loss field under section-139(3)

Answer: Refer answer given in the book

MAY – 2019

Question 4 (b) **(4 Marks)**

Discuss the provisions of Section 139A (1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the assessing officer.

Answer: Refer answer given in the book

OR

(i) What is the fee for default in furnishing return of income u/s 234F?

Answer: Refer answer given in the book

(ii) To whom the provision of section 139AA relating to quoting of Aadhar Number do not apply?

Answer: Refer answer given in the book

INCOME UNDER THE HEAD CAPITAL GAINS

SECTION 45 TO 55A

PARTICULARS	SECTIONS
Meaning of capital asset	2(14)
Transfer of capital assets	45(1)
Capital gains in case of insurance claims	45(1A)
Transfer of capital assets into stock-in-trade	45(2)
Transfer of a capital asset by way of compulsory acquisition.	45(5)
Capital gains on distribution of assets by companies in liquidation	46
Capital Gains in case of buy back of shares.	46A
Transactions not regarded as transfer	47
Mode of computation	48
Cost with reference to certain modes of acquisition	49
Special provision for computation of capital gains in case of depreciable assets	50
Special provision for computation of capital gains in case of Market Linked Debenture	50AA
Special provision for computation of capital gains in case of slump sale	50B
Special provision for full value of consideration in certain cases	50C
Full value of consideration for transfer of unlisted shares	50CA
Fair market value deemed to be full value of consideration in certain cases	50D
Exemption from capital gains on transfer of property used for residence	54
Exemption from capital gain on transfer of land used for agricultural purposes	54B
Exemption from capital gains on compulsory acquisition of lands and buildings of industrial undertaking.	54D
Exemption from capital gain on transfer of any capital asset	54EC
Capital gain not to be charged on investment in units of a specified fund.	54EE
Exemption from capital gain on transfer of long term capital assets except residential house	54F
Determination of time period in case of compulsory acquisition of capital asset	54H
Meaning of "cost of improvement"	55(1)
Meaning of "cost of acquisition"	55(2)
Reference to valuation officer	55A
Computation of tax on long term capital gains	112
Computation of tax on short term capital gains in certain cases	111A
Computation of tax on long term capital gains in certain cases	112A
What is transfer	2(47)
Short-term capital asset	2(42A)
Capital gains on compulsory acquisition of agricultural land	10(37)

Question 1: Explain Chargeability of Capital Gains
Answer: Chargeability of capital Gains Section 45(1)
Any profits or gains arising from the transfer of a capital asset effected in the previous year shall be deemed to be the income of the previous year in which the transfer took place e.g. Mr. X transferred Gold on 25.03.2024 for ₹7,00,000 but payment was received on 10.04.2024, in this case capital gains shall be taxable in the previous year 2023-24 i.e. capital gains are taxable on due basis. No books of accounts are required.

Question 2: Differentiate Short Term Capital Asset and Long Term Capital Asset.
Answer: If any person has transferred short term capital asset, capital gain shall be short term and if capital asset transferred is long term, capital gain shall also be long term. As per **Section 2(42A), "Short-term capital asset"** means a capital asset held by an assessee for not more than thirty-six months, however in the following cases the period shall be twelve months instead of thirty-six months.

(i) **Shares Listed in Recognised Stock Exchange** shall be considered to be long term after one year but non-listed shares shall be long term after ***two years***. E.g. Mr. X purchased unlisted equity shares on 01.07.2022 and sold the shares on 01.08.2023, in this case shares are short term but if shares are listed, shares shall be long term.
(ii) A **unit of the Unit Trust of India**
(iii) A **unit of an equity oriented mutual fund**.
(iv) A **zero coupon bond**. **As per Section 2(48),** "Zero coupon bond" means a bond issued by notified company and in respect of which no benefit is received before maturity or redemption and which is notified by the Central Government such bonds are issued for a minimum period of ten years and maximum period of 20 years.
(v) **Any other security listed in a recognized stock exchange in India** i.e. securities which are listed in recognised stock exchange shall be long term after one year but if securities are not listed, it will be long term after three years. e.g. Mr. X purchased non-listed debentures of ABC Ltd. on 01.10.2021 and sold the debentures on 01.10.2023, in this case debentures shall be considered to be short term but if the debentures are listed in stock exchange, they will be considered to be long term.

Amendment previous year 2017-18: Land or Building shall be long term after 2 years.

Question 3: Write a note on computation of Short term Capital Gains.
Answer: Computation of Short term Capital Gains Section 48
Short term capital gain shall be computed in the manner given below:

Full Value of Consideration	xxx
Less:	
- Cost of Acquisition	xxx
- Cost of Improvement	xxx
- Selling Expenses	xxx
Short Term Capital Gain	xxx

Example: Mr. X purchased one house 01-07-2021 ₹10,00,000 and constructed its first floor 01-07-2022 by incurring ₹6,00,000 and sold the house on 01-05-2023 ₹70,00,000 and invested ₹2,00,000 in NSC. Compute Income and Tax Liability.
Answer: House is sold within 2 years from the date of purchase hence asset is a Short term capital asset and capital gain shall be computed in the manner given below:

	₹
Full Value of Consideration	70,00,000.00
Less:	
- Cost of Acquisition	(10,00,000.00)
- Cost of Improvement	(6,00,000.00)
- Selling Expenses	Nil
Short Term Capital Gain	54,00,000.00
Gross Total Income	54,00,000.00
Less: Deduction Chapter VI-A	Nil
Total Income	54,00,000.00

Computation of Tax Liability

Tax on STCG ₹54,00,000 at slab rate	13,20,000.00
Add: Surcharge @ 10%	1,32,000.00
Tax before health & education cess	14,52,000.00
Add: HEC @ 4%	58,080.00
Tax liability	15,10,080.00

Question 4: Write a note on computation of Long term Capital Gains.

Answer: <u>Computation of Long term Capital Gains</u> <u>Section 48</u>

Long term capital Gain shall also be computed in the similar manner but instead of cost of acquisition and cost of improvement, indexed cost of acquisition and indexed cost of improvement shall be taken into consideration.

Long term capital Gain shall be computed in the manner given below:

Full Value of Consideration	xxx
Less:	
- Indexed Cost of Acquisition	xxx
- Indexed Cost of Improvement	xxx
- Selling Expenses	xxx
Long Term Capital Gain	xxx

❖ **<u>"Indexed cost of acquisition"</u>** means the cost adjusted as per cost inflation index i.e.

<u>Indexed Cost of acquisition</u> =

$$\textbf{Cost of acquisition} \times \frac{\textbf{Index of the year in which the asset was transferred}}{\textbf{Index of the year in which the asset was purchased}}$$

❖ **<u>"Indexed cost of any improvement"</u>** means the cost adjusted as per cost inflation index i.e.

<u>Indexed Cost of improvement</u> =

$$\textbf{Cost of improvement} \times \frac{\textbf{Index of the year in which the asset was transferred}}{\textbf{Index of the year in which cost was incurred}}$$

Provided *that the cost of acquisition of the asset or the cost of improvement thereto shall not include the deductions claimed on the amount of interest under clause (b) of section 24 or under the provisions of Chapter VIA.*

Example: Mr. X purchased one house 01-07-2017 ₹10,00,000 and constructed its first floor 01-07-2018 by incurring ₹6,00,000 and sold the house on 01-05-2023 ₹80,00,000 and invested ₹2,00,000 in NSC. Compute Income and Tax Liability.

Answer: House is sold after 2 years from the date of purchase hence asset is a Long term capital asset and capital gain shall be computed in the manner given below:

	₹
Full Value of Consideration	80,00,000.00
Less: Indexed cost of acquisition	
= 10,00,000 / Index of 17-18 x Index of 23-24	
= 10,00,000 / 272 x 348	(12,79,411.76)
Less: Indexed cost of improvement	
Cost of constructing first floor	
= 6,00,000 / Index of 18-19 x Index of 23-24	
= 6,00,000 / 280 x 348	(7,45,714.29)
Long Term Capital Gain	59,74,873.95
Gross Total Income	59,74,873.95
Less: Deduction under Chapter VI-A	Nil
Total Income	59,74,873.95
Rounded off u/s 288A	59,74,870.00

Computation of Tax Liability

Tax on LTCG ₹56,74,870 (₹59,74,870 – ₹3,00,000) @ 20%	11,34,974.00
Add: Surcharge @ 10%	1,13,497.40
Tax before health & education cess	12,48,471.40
Add: HEC @ 4%	49,938.86
Tax liability	12,98,410.26
Rounded off u/s 288B	12,98,410.00

Illustration 1: Mr. X purchased one house on 01.07.2004 for ₹3,50,000. He constructed its first floor on 01.10.2013 by incurring ₹4,00,000 and constructed its second floor on 01.10.2014 by incurring ₹6,00,000 and third floor on 01.10.2016 by incurring ₹7,00,000. Finally, sold the building on 01.01.2024 for ₹120,00,000 and selling expenses were 2% of the sale price. He has deposited ₹1,00,000 in NSC.
Compute tax liability of the assessee for the assessment year 2024-25.

Solution:

Computation of Capital Gains

	₹
Full value of consideration	120,00,000.00
Less: Indexed cost of acquisition	
= 3,50,000 / Index of 04-05 x Index of 23-24	
= 3,50,000 / 113 x 348	(10,77,876.11)
Less: Indexed cost of improvement	
Cost of constructing first floor	
= 4,00,000 / Index of 13-14 x Index of 23-24	
= 4,00,000 / 220 x 348	(6,32,727.27)
Less: Indexed cost of improvement	
Cost of constructing second floor	
= 6,00,000 / Index of 14-15 x Index of 23-24	
= 6,00,000 / 240 x 348	(8,70,000.00)
Less: Indexed cost of improvement	
Cost of constructing third floor	
= 7,00,000 / Index of 16-17 x Index of 23-24	
= 7,00,000 / 264 x 348	(9,22,727.27)
Less: Selling Expenses	
= 2% of ₹120,00,000 = ₹2,40,000	(2,40,000.00)
Long Term Capital Gain	82,56,669.35
Income under the head Capital Gain (LTCG)	82,56,669.35
Gross Total Income	82,56,669.35
Less: Deduction under Chapter VI-A	Nil
Total Income (Rounded off u/s 288A)	82,56,670.00

Computation of Tax Liability

Tax on LTCG ₹79,56,670 (₹82,56,670 – ₹3,00,000) @ 20%	15,91,334.00
Add: Surcharge @ 10%	1,59,133.40
Tax before health & education cess	17,50,467.40
Add: HEC @ 4%	70,018.70
Tax liability	18,20,486.10
Tax liability (Rounded off u/s 288B)	18,20,490.00

Question 5: Explain Computation of Capital Gains in case of Assets purchased before 01-04-2001

Answer: Asset purchased before 01.04.2001

If any capital asset has been purchased or constructed before 01.04.2001, in that case cost shall be considered to be the cost incurred or fair market value of the asset as on 01.04.2001 whichever is higher and further index of 2001-02 shall be used instead of the index of the earlier year. Any cost of improvement prior to 01-04-2001 shall not be taken into consideration.

In case of land or building such market value cannot exceed stamp duty value as on 01.04.2001.

e.g. Mr. X purchased one house on 01.07.1998 for ₹2,00,000 and incurred ₹3,00,000 on its improvement on 01.10.2000 and its fair market value as on 01.04.2001 is ₹7,00,000 and stamp duty value is 9,00,000, in this case if the asset is sold, its cost of acquisition shall be taken to be ₹7,00,000 and index of 2001-02 shall be applied. But if stamp duty value is 5,00,000, cost of acquisition shall be taken to be 5,00,000 but if stamp duty value is 1,00,000, cost of acquisition shall be 2,00,000.

Example:

(a) Actual cost of acquisition		2,00,000
FMV as on 01-04-2001		4,00,000
SDV as on 01-04-2001		3,00,000
Cost of Acquisition is higher of		
(a) Actual Cost	2,00,000	
(b) Lower of FMV or SDV as on 1-04-2001	3,00,000	
Higher		3,00,000
(b) Actual cost of acquisition		2,00,000
FMV as on 01-04-2001		3,00,000
SDV as on 01-04-2001		4,00,000
Cost of Acquisition is higher of		
(a) Actual Cost	2,00,000	
(b) Lower of FMV or SDV as on 1-04-2001	3,00,000	
Higher		3,00,000
(c) Actual cost of acquisition		4,00,000
FMV as on 01-04-2001		3,00,000
SDV as on 01-04-2001		2,00,000
Cost of Acquisition is higher of		
(a) Actual Cost	4,00,000	
(b) Lower of FMV or SDV as on 1-04-2001	2,00,000	
Higher		4,00,000

Cost Inflation Index

Financial year	*Cost Inflation Index*
2001-2002	**100**
2002-2003	**105**
2003-2004	**109**
2004-2005	**113**
2005-2006	**117**
2006-2007	**122**
2007-2008	**129**
2008-2009	**137**
2009-2010	**148**
2010-2011	**167**
2011-2012	**184**
2012-2013	**200**
2013-2014	**220**
2014-2015	**240**
2015-2016	**254**
2016-2017	**264**

2017-2018	**272**
2018-2019	**280**
2019-2020	**289**
2020-2021	**301**
2021-2022	**317**
2022-2023	**331**
2023-2024	**348**

(Students need not learn the above index rather it will be given in the question paper)

Illustration 2: Compute capital gains and tax liability of Mr. X in the following Individual situations for the assessment year 2024-25:

Asset	Gold	Land	Residential House
Date of purchase	01.07.1990	01.04.1992	01.07.1994
Cost price	4,00,000	6,00,000	8,00,000
Cost of improvement	1,00,000	2,00,000	4,00,000
Year of improvement	1999-2000	2000-01	2005-06
Fair market value on 01.04.2001	30,00,000	60,00,000	5,00,000
Date of Sale	01.01.2024	01.01.2024	01.01.2024
Full value of consideration	200,00,000	300,00,000	400,00,000

Solution: ₹

Gold

Full value of consideration	200,00,000.00
Less: Indexed cost of acquisition	
= 30,00,000 / Index of 01-02 x Index of 23-24	
= 30,00,000 / 100 x 348	(104,40,000.00)
Long term capital gain	95,60,000.00
Computation of Tax Liability	
Tax on LTCG ₹92,60,000 (₹95,60,000 – ₹3,00,000) @ 20%	18,52,000.00
Add: Surcharge @ 15%	1,85,200.00
Tax before marginal relief	20,37,200.00
Add: HEC @ 4%	81,488.00
Tax liability	21,18,688.00
Rounded off u/s 288B	21,18,690.00

Land

Full value of consideration	300,00,000.00
Less: Indexed cost of acquisition	
= 60,00,000 / Index of 01-02 x Index of 23-24	
= 60,00,000 / 100 x 348	(208,80,000.00)
Long term capital gain	91,20,000.00
Computation of Tax Liability	
Tax on LTCG ₹88,20,000 (₹91,20,000 – ₹3,00,000) @ 20%	17,64,000.00
Add: Surcharge @ 10%	1,76,400.00
Tax before health & education cess	19,40,400.00
Add: HEC @ 4%	77,616.00
Tax liability	20,18,016.00
Rounded off u/s 288B	20,18,020.00

Residential House

Full value of consideration	400,00,000.00
Less: Indexed cost of acquisition	

= 8,00,000 / Index of 01-02 x Index of 23-24	
= 8,00,000 / 100 x 348	(27,84,000.00)
Less: Indexed cost of improvement	
= 4,00,000 / Index of 05-06 x Index of 23-24	
= 4,00,000 / 117 x 348	(11,89,743.59)
Long term capital gains	360,26,256.41
Gross Total Income	360,26,256.41
Less: Deduction under Chapter VI-A	Nil
Total Income	360,26,256.41
Rounded off u/s 288A	360,26,260.00

Computation of Tax Liability

Tax on LTCG ₹357,26,260 (₹360,26,260 – ₹3,00,000) @ 20%	71,45,252.00
Add: Surcharge @ 25%	17,86,313.00
Tax before health & education cess	89,31,565.00
Add: HEC @ 4%	3,57,262.60
Tax liability	92,88,827.60
Rounded off u/s 288B	92,88,830.00

Illustration 3: Mr. X purchased one house property on 01.07.1992 for ₹3,00,000 and incurred ₹1,00,000 on its improvement in 1995-96 and its market value as on 01.04.2001 was ₹32,00,000 and he incurred ₹5,00,000 on its improvement in 2014-15 and sold the house on 01.11.2023 for ₹200,00,000.
He purchased one commercial building on 01.04.2022 for ₹50,00,000 and it was let out @ ₹2,00,000 p.m. to XYZ Ltd. and XYZ Ltd. has deducted tax at source.
Mr. X has paid Municipal Tax of ₹20,000 p.m.
Compute Income Tax Liability/Payable for Assessment Year 2024-25 and also amount of tax deducted at source by XYZ Ltd. and also tax deducted at source by the person who has purchased the house property.

Solution:

	₹
Computation of income from Capital Gain	
Full value of consideration	200,00,000.00
Less: Indexed Cost of acquisition	
= 32,00,000/Index of 01-02 x Index of 23-24	
= 32,00,000/100 x 348	(111,36,000.00)
Less: Indexed cost of Improvement	
= 5,00,000/Index of 14-15 x Index of 23-24	
= 5,00,000/240 x 348	(7,25,000.00)
Long Term Capital Gain	81,39,000.00
Computation of income under head House Property	
Gross Annual Value (2,00,000 x 12)	24,00,000.00
Less: Municipal Tax (20,000 x 12)	(2,40,000.00)
Net Annual Value	21,60,000.00
Less: 30% of NAV u/s 24(a)	(6,48,000.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	15,12,000.00

Computation of Gross Total Income

Income under the head House Property	15,12,000.00
Income from Long Term Capital Gain	81,39,000.00
Gross Total Income	96,51,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	96,51,000.00
Normal Income	15,12,000.00

LTCG	81,39,000.00
Computation of Tax Liability	
Tax on LTCG ₹81,39,000 @ 20%	16,27,800.00
Tax on normal income ₹15,12,000 at slab rate	1,53,600.00
Tax before Surcharge	17,81,400.00
Add: Surcharge @ 10%	1,78,140.00
Tax before health & education cess	19,59,540.00
Add: HEC @ 4%	78,361.60
Tax liability	20,37,921.60
Less: TDS (10% of 24,00,000) under section 194-I	(2,40,000.00)
Less: TDS (1% of 200,00,000) under section 194-IA	(2,00,000.00)
Tax Payable	15,97,921.60
Rounded off u/s 288B	15,97,920.00

Question 6: Write a note on computation of capital gains in case of transfer of shares, where no STT is paid.

Answer: <u>Capital gains in case of transfer of shares</u>

In case of original shares, cost of acquisition shall be the amount for which the asset was purchased but if it was purchased before 01.04.2001, 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.

Long term capital gain shall be taxable @ 20% but short term capital gain shall be taxable at normal rate.

> In case of short term equity shares or the units where STT has been paid, capital gains shall be computed in the similar manner but as per section 111A, such capital gains shall be taxed @ 15%.

<u>Illustration 4:</u> 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 01.10.2013.

The company has offered 100 right shares on 01.04.2023 @ ₹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 01.01.2024

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. (No STT was paid)

<u>Solution:</u>	**₹**
***Computation of Capital Gains of* Mr. X**	
<u>Original Shares</u>	
Full value of consideration (100 x 300)	30,000.00
Less: Indexed Cost of Acquisition (100 x 10)/100 x 348	(3,480.00)
Long Term Capital Gain	26,520.00
<u>1st Bonus Shares</u>	
Full value of consideration (100 x 300)	30,000.00
Less: Indexed Cost of Acquisition (100 x 7)/100 x 348	(2,436.00)

Long Term Capital Gain	27,564.00
2nd Bonus Shares	
Full value of consideration (100 x 300)	30,000.00
Less: Indexed Cost of Acquisition	Nil
Long Term Capital Gain	30,000.00
Right Shares	
Full value of consideration (50 x 300)	15,000.00
Less: Cost of Acquisition (50 x 140)	(7,000.00)
Short Term Capital Gain	8,000.00
Renouncing of right to purchase shares	
Full value of consideration	1,000.00
Less: Cost of acquisition	Nil
Short Term Capital Gain	1,000.00
Computation of Total Income	
Income under the head House Property	2,20,000.00
Income under the head Capital Gains	
Long Term Capital Gain	84,084.00
Short Term Capital Gain	9,000.00
Income under the head Other Sources	50,000.00
Gross Total Income	3,63,084.00
Less: Deduction under Chapter VI-A	Nil
Total Income	3,63,084.00
Rounded off u/s 288A	3,63,080.00
Computation of Tax Liability	
Tax on casual income ₹50,000 @ 30%	15,000.00
Tax on (84,080 – 71,000) @ 20% u/s 112	2,616.00
Tax on ₹2,29,000 at slab rate	Nil
Less: Rebate u/s 87A	(17,616.00)
Tax Liability	Nil

Mr. Y

Full value of consideration	15,000.00
Less: Cost of acquisition (50 x 160)	(8,000.00)
Short Term Capital Gain	7,000.00
Computation of Total Income	
Income under the head House Property	3,50,000.00
Income under the head Capital Gains	7,000.00
Gross Total Income	3,57,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	3,57,000.00
Computation of Tax Liability	
Tax on ₹3,57,000 at slab rate	2,850.00
Less: Rebate u/s 87A	(2,850.00)
Tax Liability	Nil

Illustration 5: Mr. X holds 500 shares of ABC Ltd. which were allotted to him on 22.04.2001 @ ₹30 per share. On 22.07.2023 ABC Ltd. made right issue to the existing shareholders at the rate of one share for every five shares held @ ₹20 per share. Mr. X instead of exercising his rights to obtain right shares, has exercised his right of renouncement by renouncing the said right entitlement in favour of Mr. Y @ ₹13 per right share

entitlement on 04.08.2023.
(a) Determine the nature and amount of capital gain, if any, taxable in the hands of Mr. X.
(b) What will be the cost of acquisition of shares purchased by Mr. Y?

Solution:

Computation of Capital Gains in the hands of Mr. X

	₹
Full value of consideration (100 x 13)	1,300
Less: Cost of acquisition	Nil
Short Term Capital Gain	1,300

Cost of acquisition of shares purchased by Mr. Y = ₹33 x 100 = ₹3,300

Illustration 6: Mr. X is a shareholder of ABC Ltd. holding 1,000 shares of the face value of ₹10 each. The company made a right issue in the ratio of 1:1 on 01.01.2024 at a premium of ₹50 per share. He renounced it in favour of Mr. Y at a price of ₹10 per share.
What is the capital gain chargeable in the hands of Mr. X? What will be the cost of the shares in the hands of Mr. Y?

Solution:

Computation of Capital Gains in the hands of Mr. X

	₹
Full value of consideration (1,000 x 10)	10,000
Less: Cost of acquisition	Nil
Short Term Capital Gain	10,000

Cost of the shares in the hands of Mr. Y is ₹70 per share.

Question 7: Explain computation of capital gains on transfer of equity shares or units of equity oriented where STT has been paid u/s 112A

Answer: 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. STT paid is not considered to be selling expense, hence not allowed to be deducted while computing capital gains.

Capital gains shall be computed in the normal manner however indexation shall not be applicable even if it is long term and also cost of acquisition shall be computed in the manner given below:

Section 55(2) (ac),

In case of equity shares or units of equity oriented mutual funds or units of business trust which have been sold w.e.f. 01.04.2018 onwards, cost of acquisition shall be higher of

1. Cost of acquisition
2. Lower of

(a) Fair market value of such asset on 31.01.2018

(b) Actual sale value

If there are more than one value as on 31.01.2018, the highest of such value shall be taken in to consideration.
In case of mutual fund which is not listed, NAV i.e. Net asset value shall be taken into consideration.

Example

Mr. X purchased equity shares on 01.10.2015 for ₹ 1,00,000 and market value on 31.01.2018 is ₹ 5,00,000 and shares have been sold for ₹ 9,00,000 on 10.04.2023, in this case capital gains shall be computed in the manner given below:

Full value of consideration		9,00,000
Cost of acquisition		(5,00,000)
Higher of		
1. Cost of acquisition	1,00,000	

2. Lower of		
(a) Fair market value of such asset on 31.01.2018	5,00,000	
(b) Actual sale value	9,00,000	
LTCG u/s 112A		4,00,000
Tax Liability		Nil

The purpose is not to tax capital gains accrued upto 31.01.2018

Presume in the above question the shares have been sold for ₹ 3,00,000, in this case tax treatment shall be

Full value of consideration		3,00,000
Cost of acquisition		(3,00,000)
Higher of		
1. Cost of acquisition	1,00,000	
2. Lower of		
(a) Fair market value of such asset on 31.01.2018	5,00,000	
(b) Actual sale value	3,00,000	
LTCG u/s 112A		Nil
Tax Liability shall be		Nil

The purpose is not to compute any loss if there is decrease in value after 31.01.2018

Presume in the above case shares have been sold for ₹ 40,000, tax treatment shall be

Full value of consideration		40,000
Cost of acquisition		(1,00,000)
Higher of		
1. Cost of acquisition	1,00,000	
2. Lower of		
(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.

Illustration 7: 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 01.10.2013.

The company has offered 100 right shares on 01.04.2023 @ ₹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 01.01.2024 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.

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

Long Term Capital Gain u/s 112A	10,000.00
1st Bonus Shares	
Full value of consideration	30,000.00
(100 x 300)	
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
2nd Bonus Shares	
Full value of consideration	30,000.00
(100 x 300)	
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
Right Shares	
Full value of consideration	15,000.00
(50 x 300)	
Less: Cost of Acquisition	(7,000.00)
(50 x 140)	
Short Term Capital Gain u/s 111A	8,000.00
Renouncing of right to purchase shares	
Full value of consideration	1,000.00
Less: Cost of acquisition	Nil
Short Term Capital Gain	1,000.00
Computation of Total Income	
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 under Chapter VI-A	Nil
Total Income	3,09,000.00

Computation of Tax Liability

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 ₹2,21,000 at slab rate	Nil
Less: Rebate u/s 87A	(15,000)
Tax Liability	Nil

Mr. Y

Full value of consideration	15,000.00
Less: Cost of acquisition (50 x 160)	(8,000.00)
Short Term Capital Gain u/s 111A	7,000.00

Computation of Total Income

Income under the head House Property	3,50,000.00
Income under the head Capital Gains	7,000.00
Gross Total Income	3,57,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	3,57,000.00

Computation of Tax Liability

Tax on ₹7,000 @ 15% u/s 111A	1,050.00
Tax on ₹3,50,000 at slab rate	2,500.00
Less: Rebate u/s 87A	(3,550.00)
Tax Liability	Nil

Illustration 8: Mrs. X purchases 1,000 equity shares in X Ltd. at a cost of ₹ 15 per share (brokerage 1%) in January 1998. She gets 100 bonus shares in August 2000. She again gets 1100 bonus shares by virtue of her holding on February 2005. Fair market value of the shares of X Ltd. On April 1, 2001 is ₹ 25. In January 2024, she transfers all her shares @ ₹ 120 per share (brokerage 2%). (market value on 31-01-2018 is ₹70 per share) Compute the capital gains taxable in the hands of Mrs. X for the A.Y. 2024-25 assuming:
(a) X Ltd. is an unlisted company and securities transaction tax was not applicable at the time of sale.
(b) X Ltd. is a listed company and the shares are sold in a recognised stock exchange and securities transaction tax was paid at the time of sale.

Solution:

(a) Computation of capital gains for the A.Y. 2024-25

Particulars	**₹**
1000 Original shares	
Sale proceeds (1000 × ₹ 120)	1,20,000
Less : Indexed cost of acquisition [₹ 25 × 1000 × 348/100]	(87,000)
Less : Brokerage paid (2% of ₹ 1,20,000)	(2,400)
Long term capital gain	30,600
100 Bonus shares	
Sale proceeds (100 × ₹ 120)	12,000
Less : Indexed cost of acquisition [₹ 25 × 100 × 348/100] [note]	(8,700)
Less : Brokerage paid (2% of ₹ 12,000)	(240)
Long term capital gain	3,060
1100 Bonus shares	
Sale proceeds (1100 × ₹ 120)	1,32,000
Less: Cost of acquisition	NIL
Less: Brokerage paid (2% of ₹ 1,32,000)	(2,640)
Long term capital gain	1,29,360
Long term capital gain	1,63,020

Note: Cost of acquisition of bonus shares acquired before 01.04.2001 is the FMV as on 01.04.2001 (being the higher of the cost or the FMV as on 01.04.2001).

(b) The long-term capital gains on transfer of equity shares through a recognized stock exchange on which securities transaction tax is paid is taxable in excess of ₹1,00,000 u/s 112A @ 10% and Indexation shall not be applicable.

Particulars	**₹**
1000 Original shares	
Sale proceeds (1000 × ₹ 120)	1,20,000
*Less : C*ost of acquisition Cost of Acquisition Higher of (i) COA = 1000 x ₹25 = ₹25,000 (ii) lower of (a) FMV as on 31-01-2018 = 1000 x ₹70 = ₹70,000 (b) sale value = 1000 x ₹120 = ₹1,20,000 COA = ₹70,000	(70,000)
Less : Brokerage paid (2% of ₹ 1,20,000)	(2,400)
Long term capital gain u/s 112A	47,600
100 Bonus shares	
Sale proceeds (100 × ₹ 120)	12,000
Less : cost of acquisition Cost of Acquisition Higher of (i) COA = 100 x ₹25 = 2,500 (ii) lower of (a) FMV as on 31-01-2018 = 100 x ₹70 = ₹7,000 (b) sale value = 100 x ₹120 = ₹12,000 COA = ₹7,000	(7,000)
Less : Brokerage paid (2% of ₹ 12,000)	(240)
Long term capital gain u/s 112A	4,760
1100 Bonus shares	
Sale proceeds (1100 × ₹ 120)	1,32,000
Less: Cost of acquisition Cost of Acquisition Higher of (i) COA = Nil (ii) lower of (a) FMV as on 31-01-2018 = 1100 x ₹70 = ₹77,000 (b) sale value = 1100 x ₹120 = ₹1,32,000 COA = ₹77,000	(77,000)
Less: Brokerage paid (2% of ₹ 1,32,000)	(2,640)
Long term capital gain u/s 112A	52,360
Long term capital gain u/s 112A	1,04,720

Question 8: write a note on capital gains in case of Depreciable Assets.
Answer: <u>Capital gains in case of Depreciable Assets</u> <u>Section 50</u>
If any person has transferred depreciable asset, gain or loss shall always be short term and indexation shall not be applicable and capital gains shall be computed in the manner given below:

Full value of consideration
Less:
(i) Written down value of the asset in the beginning of the year
(ii) Selling expenses
Short Term Capital Gains

Example
ABC Ltd. has one plant and machinery on 01.04.2023 with w.d.v ₹6,00,000 and it was acquired by the company on 01.04.2009 and the plant was sold on 01.01.2024 for ₹11,00,000 and selling expenses are ₹30,000, in this case, capital gains shall be computed in the manner given below:

	₹
Full value of consideration	11,00,000
Less:	
(i) Written down value of the asset in the beginning of the year	(6,00,000)
(ii) Selling expenses	(30,000)
Short Term Capital Gains	4,70,000

Question 9.[V. Imp.]: Explain the meaning of Capital Asset under Income Tax Act?
Answer: <u>Meaning of Capital Asset</u>
<u>Capital assets</u> <u>Section 2(14)</u>
capital asset" includes all assets but the following shall not be considered to be capital asset
<u>1. any stock-in-trade,</u> consumable stores or raw materials held by an assessee for the purposes of his business or profession shall not be considered to be capital asset.
Example
If Mr. X is engaged in the business of sale purchase of Jewellery, Income from such business shall be taxable under the head business / profession.

<u>2. Personal movable effects</u> i.e. movable items of personal use like **<u>household furniture, utensils, TV, fridge, sofa, personal motor car etc. shall not be considered to be Capital Assets,</u>** and no gain or loss shall be computed on their sale.
Example
(i) Mr. X purchased one motor car for his personal use and subsequently it was sold by him, in this case it will not be considered to be capital asset.
(ii) Mr. X purchased one fridge for his personal use but subsequently it was sold by him, it will not be considered to be capital asset.
<u>The following shall be capital asset—</u>
(a) Jewellery;
(b) archaeological collections;
(c) drawings;
(d) paintings;
(e) sculptures; or
(f) any work of art.

<u>"Jewellery"</u> includes—
(a) ornaments made of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals
(b) precious or semi-precious stones held in any manner.

Whether capital gain arise on the sale of silver utensils.
<u>In Benarshilal v CIT</u>, during the previous year 1976-77, the assessee sold 49.521 kgs. of silver utensils which were in the form of thalis, katoris, tumblers, etc. The assessee contended that the silver utensils were for personal use and they were not capital assets within the meaning of section 2(14) of the Income Tax Act, 1961 and thus the profit on sale of these utensils was not liable to capital gains tax. The ITO rejected the assessee's

claim that the silver utensils were 'personal effects'. The high court held that silver utensils constitute personal affects and no capital gains will arise on the sale of silver utensils.

Whether capital gain arise on the sale of gold/silver coins.

<u>Maharaja Rana Hemant Singh v CIT</u>

In this case the assessee sold 4825 gold sovereigns, 7,90,440 old silver rupee coins and silver bars weighing 2,54,174 tolas and claimed that no capital gains arose as the aforesaid items fell outside the definition of capital assets. The assessee claimed that these articles formed personal effects as they were used by the assessee and his family for personal use as it was evident that they were used for the purpose of Mahalaxmi Puja and other religious festivals in the family. The Supreme Court decided the case against the assessee as according to it, these articles did not constitute 'personal effects'.

If any person has movable items in his business or profession, these items shall be considered to be capital assets.

Example

Mr. X has one motor car in the use of his business and subsequently this motor car was sold by him, it will be considered to be capital asset and capital gains shall be computed.

If personal effects are immovable, they will be considered to be capital assets. e.g. A house meant for assessee's own residence shall be considered to be capital asset.

<u>3. Agricultural land</u>

Agricultural land in India in rural area shall not be considered to be capital asset. If the land is in the urban area, it will be considered to be capital asset.

Example

Mr. X has agricultural land in the rural area which was purchased by him for ₹5,00,000 and it was sold by him for ₹11,00,000, in this case capital gain shall not be computed, but if the land is in Delhi, in this case capital gains shall be computed.

Land in rural area shall be considered to be urban land in the following cases:

1. If rural area is within the distance of 2 kms from the limits of urban area having population more than 10000 but not exceeding 100000
2. If rural area is within the distance of 6 kms from the limits of urban area having population more than 100000 but not exceeding 1000000
3. If rural area is within the distance of 8 kms from the limits of urban area having population more than 1000000.

❖ If the agricultural land is in rural area outside India, it will be considered to be capital asset i.e. in other words agricultural land situated outside India is capital asset in all cases.

Example

(i) Mr. X has agricultural land in the rural area in India which was sold by him, in this case there are no capital gains.
(ii) Mr. X has one agricultural land in urban area in India which was sold by him, in this case capital gains shall be computed.
(iii) Mr. X who is resident and ordinarily resident has sold one agricultural land in rural area in Nepal, in this case it will be considered to be capital asset because the land is not situated in India.

<u>4. Gold Deposit Bonds</u>

Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme 2015 notified by the Central Government.

Gold deposit bond means bond issued by various banks for deposit of gold with them. The assessee can sell the bond in the market and no capital gains shall be computed. Assessee shall earn interest also and it will be exempt from income tax. The Scheme seeks to provide depositors the opportunity to earn interest on their idle gold holdings along with the benefits of safety and security of holding gold without any cost. Individual banks will be free to fix the interest rates.

<u>GOLD MONETIZATION SCHEME, 2015</u>

This scheme will replace the existing Gold Deposit Scheme, 1999. However, the deposits outstanding under the Gold Deposit Scheme will be allowed to run till maturity unless these are withdrawn by the depositors prematurely as per existing instructions.

All designated banks will be eligible to implement the scheme. Resident Indians can make deposits under the scheme. The opening of gold deposit accounts will be subject to the same rules with regard to customer identification as are applicable to any other deposit account. The designated banks will accept gold deposits under the Short Term (1-3 years) Bank Deposit as well as Medium (5-7 years) and Long (12-15 years) Term Government Deposit Schemes.

The designated banks may sell or lend the gold accepted under the short-term bank deposit to MMTC for minting India Gold Coins and to jewellers, or sell it to other designated banks participating in the scheme. Earnings are exempt from income tax. There will be no capital gains tax on the appreciation in the value of gold deposited.

Question 10: Write a note on computation of capital gains in case of Insurance Claims.
Answer: <u>Capital Gains in case of Insurance Claims</u> <u>Section 45(1A)</u>
If any capital asset is destroyed because of fire or natural calamity etc. like flood/ earthquake etc. and assessee has received any insurance claim for such asset, in such cases capital gains shall be computed in the normal manner and such capital gains shall be taxable in the year in which insurance claim has been received. Amount of insurance claim received shall be considered to be full value of consideration.
Example
ABC Ltd. has one plant and machinery on 01.04.2023 with written down value ₹20,00,000 the asset is destroyed due to natural calamity and the company has received insurance claim of ₹21,00,000, in this case there will be short term capital gain of ₹1,00,000.

Question 11 [Imp.]: Write a note on computation of capital gains in case of conversion of capital assets into Stock-In-Trade.
Answer: <u>Capital Gains in case of conversion of capital assets into Stock-In-Trade</u> <u>Section 45(2)</u>
If any person has converted any capital asset into stock-in-trade, it will be considered to be 'transfer' and capital gains shall be computed in the year of conversion and, market value shall be considered to be full value of consideration. Capital gains so computed shall be taxable in the year in which stock-in-trade has been sold. (Proportionately)

<u>Illustration 9:</u> Mr. X purchased Gold on 01.10.1991 for ₹2,00,000 and its fair market value on 01.04.2001 is ₹3,00,000 and he converted it into stock-in-trade on 01.10.2008 and market value of the gold on the date of conversion was ₹11,00,000 and subsequently half of the stock-in-trade was sold on 01.10.2023 for ₹6,50,000 and balance half was sold on 01.10.2024 for ₹7,50,000.
Compute his total income for various years.

<u>Solution:</u>	**₹**
Previous year 2008-09	
Computation of Capital Gains under section 45(2)	
Full value of consideration	11,00,000
Less: Indexed cost of acquisition	
= 3,00,000 / Index of 01-02 x Index of 08-09	
= 3,00,000 / 100 x 137	(4,11,000)
Long Term Capital Gain	6,89,000
Previous year 2023-24	
Long Term Capital Gain (1/2 of ₹6,89,000)	3,44,500
Business Income	
(₹6,50,000-₹5,50,000)	1,00,000
Total Income	4,44,500
Previous year 2024-25	
Long Term Capital Gain (1/2 of ₹6,89,000)	3,44,500

Business Income	
(₹7,50,000-₹5,50,000)	2,00,000
Total Income	5,44,500

<u>Illustration 10:</u> X converts his capital asset (acquired on June 10, 2008 for ₹ 60,000) into stock-in-trade on March 10, 2014. The fair market value on the date of the above conversion was ₹ 3,00,000. He subsequently sells the stock-in-trade so converted for ₹ 4,00,000 on June 10, 2023. Discuss the tax implication.

<u>Solution:</u> In this case capital gains shall be computed in the previous year 2013-14 as given below:

FVC	3,00,000.00
Less: Indexed cost of acquisition	
= 60,000 / Index of 2008-09 x Index of 2013-14	
= 60,000 / 137 x 220	(96,350.36)
Long term capital gain	2,03,649.64

<u>Computation of income for previous year 2023-24</u>

Income under the head Business/Profession for previous year 2023-24 shall be ₹4,00,000 – ₹3,00,000 = ₹1,00,000

LTCG	2,03,649.64

Question 12: Write a note on computation of capital gains in case of transfer of capital asset by a Depository.

Answer: <u>Capital gains in case of transfer of capital asset by a depository</u> <u>Section 45(2A)</u>

If any person has a demat account with the depository, profits or gains from transfer of shares or securities shall be considered to be that of beneficiary i.e. the account holder and not that of depository. The cost of acquisition and the period of holding of any securities shall be determined on the basis of the **<u>first-in-first-out method</u>**.

Question 13 [V. Imp.]: Write a note on computation of capital gains on compulsory acquisition of a Capital Asset.

Answer:

<u>Computation of capital gains on compulsory acquisition of a capital asset</u> <u>Section 45(5)</u>

If any capital asset has been acquired compulsorily by the Government or other similar agency, capital gains shall be computed in the year in which the asset was acquired but capital gains so computed shall be taxable in the year in which the compensation or the part of compensation is first received.

<u>Enhanced Compensation</u>

If the compensation is enhanced by the Court, Tribunal etc., such enhanced compensation shall be the capital gains of the year in which the enhanced compensation is received. The cost of acquisition and the cost of improvement shall be taken to be nil.

<u>Death of the transferor</u>- It is possible that the transferor may die before he receives the enhanced compensation. In that case, the enhanced compensation will be chargeable to tax in the hands of the person who receives the same.

<u>Illustration 11:</u> Mr. X (Date of birth 01.10.1946) has purchased one house on 01.04.1995 for ₹4,00,000 and incurred ₹2,00,000 on its improvement on 01.10.1998. Its market value on 01.04.2001 was ₹3,00,000. This house was acquired by the Government on 01.10.2020 and the compensation fixed was ₹50,00,000 and the Government has paid half of the compensation on 01.10.2023 and balance half on 01.10.2024.

The assessee has filed an appeal for increasing the compensation and the court has given decision on 31.03.2025 directing the Government to pay additional compensation of ₹5,00,000.

The Government has paid half of the amount on 01.04.2025 and balance half on 01.04.2026.

He has invested ₹72,000 in NSC in previous year 2023-24.

Compute assessee's tax liability for the assessment year 2024-25 and also capital gains for various years.

Solution:

Computation of Capital Gains under section 45(5)

Capital gain shall be computed in the year in which the asset was acquired by the Government i.e. in the previous year 2020-21 and shall be taxed in the year in which the first payment has been received by the assessee i.e. in the previous year 2023-24

	₹
Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
= 4,00,000 / Index of 01-02 x Index of 20-21	
= 4,00,000 / 100 x 301	(12,04,000.00)
Long Term Capital Gain	37,96,000.00
Income under the head Capital Gain (LTCG)	37,96,000.00
Gross Total Income	37,96,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	37,96,000.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gains and balance income shall be taxed at flat rate of 20%}

Tax on ₹34,96,000 (₹37,96,000 – ₹3,00,000) @ 20%	6,99,200.00
Add: HEC @ 4%	27,968.00
Tax Liability	7,27,168.00

Computation of Capital Gain for the previous year 2025-26

Long Term Capital Gain	2,50,000.00

Computation of Capital Gain for the previous year 2026-27

Long Term Capital Gain	2,50,000.00

Illustration 12: Mrs. X purchased one house on 01.07.1997 for ₹2,00,000 and incurred ₹1,00,000 on its improvement in 1998-99 and its market value as on 01.04.2001 is ₹2,50,000. She incurred ₹2,00,000 on its improvement in 2011-12 and the house was acquired by the Government on 01.07.2014 and compensation fixed is ₹60,00,000 and half of the amount was paid by the Government on 01.01.2024 and balance half on 01.01.2025. She has also received interest of ₹ 2,00,000 in previous year 2023-24 from the Government for delay in payment of compensation.

Income under the head Business/Profession ₹20,03,990.

Compute tax liability of Mrs. X for the Assessment Year 2024-25.

Solution:

Computation of income under the head Capital Gains

Capital gain shall be computed in the year in which the asset was acquired by the Government i.e. in the previous year 2014-15 and shall be taxed in the year in which the first payment has been received by the assessee i.e. in the previous year 2023-24

	₹
Full value of consideration	60,00,000.00
Less: Indexed cost of acquisition	
= 2,50,000/Index of 01-02 x Index of 14-15	
= 2,50,000/100 x 240	(6,00,000.00)
Less: Indexed cost of improvement	
= 2,00,000/ Index of 11-12 x Index of 14-15	
= 2,00,000/184 x 240	(2,60,869.57)
Long Term Capital Gain	51,39,130.43

Computation of income under the head Other Sources

Interest income	2,00,000.00
Less: Deduction u/s 57 @ 50%	(1,00,000.00)
Income under the head Other Sources	1,00,000.00

Computation of income under the head Business/Profession

Income under the head Business Profession	20,03,990.00

Computation of Gross Total Income

Income under the head Business Profession	20,03,990.00
Income from long term capital gains	51,39,130.43
Income under the head Other Sources	1,00,000.00
Gross Total Income	72,43,120.43
Less: Deduction under Chapter VI-A	Nil
Total Income	72,43,120.43
LTCG	51,39,130.43
Rounded off u/s 288A	51,39,130.00
Normal income	21,03,990.00

Computation of Tax Liability

Tax on LTCG ₹51,39,130 @ 20% u/s 112	10,27,826.00
Tax on ₹21,03,990 at slab rate	3,31,197.00
Tax before surcharge	13,59,023.00
Add: Surcharge @ 10%	1,35,902.30
Tax before health & education cess	14,94,925.30
Add: HEC @ 4%	59,797.01
Tax Liability	15,54,722.31
Rounded off u/s 288B	15,54,720.00

Question 14: Write a note on capital gains on distribution of assets by a company on Liquidation.
Answer: **<u>Capital Gains on distribution of assets by companies in Liquidation</u>** **<u>Section 46</u>**

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))

<u>Illustration 13:</u> ABC Ltd. has issued one-lakh shares of ₹10 each and the company goes into liquidation on 01.10.2023 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.

<u>Solution:</u>	**₹**
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). Taxable in the hands of Mr. X	350
Computation of capital gains as per section 46	
Full value of consideration	450
Less: Indexed cost of acquisition	
= (12 x 100) / Index of 01-02 x Index of 23-24	
= 1,200/100 x 348	(4,176)
Long-term capital loss	(3,726)

Question 15: Explain capital gains in case of buy back of shares.
Answer:
Capital Gains on Buyback of shares or Specified Securities [Section 46A]
In case of buy back of securities and also buy back of shares of a company other than domestic company, capital gains shall be computed in the hands of its holder. Mr. X purchased 100 shares of ABC Ltd. on 01/10/2012 for ₹ 10,000 and these shares were bought back by the company on 01/10/2023 for ₹ 3,00,000, in this case capital gains shall be computed in the manner given below

FVC	3,00,000
Less: Indexed cost of acquisition 10,000/200 X 348	(17,400)
Long term capital gain	2,82,600

In case of buyback of shares (whether listed or unlisted) by domestic companies, no capital gain shall be computed in the hands of shareholder and shareholder shall be exempt u/s 10(34A) rather the company has to pay additional income tax @ 20% (plus surcharge @12% and cess@4%) is leviable in the hands of the company.

Taxation provisions in respect of buyback

(1)	**(2)**	**(3)**	**(4)**
Taxability in the hands of	**Buyback of shares by domestic companies**	**Buyback of shares by a company, other than a domestic company**	**Buyback of specified securities by any company**
Company	Subject to additional income-tax @ 23.296%.	Not subject to tax in the hands of the company.	Not subject to tax in the hands of the company.
Shareholder / holder of specified securities	Income arising to shareholders exempt under section 10(34A)	Income arising to shareholder taxable as capital gains u/s 46A.	Income arising to holder of specified securities taxable as capital gains u/s 46A.

Question 16 [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.

Illustration 14: Mr. X purchased one house on 01.10.1998 for ₹2,00,000 and incurred ₹1,00,000 on its improvement on 01.10.1999. Its fair market value on 01.04.2001 is ₹4,50,000.
Mr. X expired on 01.05.2006 and the house was inherited by his son Mr. Y and value for the purpose of charging stamp duty was ₹10,00,000.
Mr. Y has sold the house on 01.11.2023 for ₹72,00,000.
Compute tax liability of Mr. Y for the assessment year 2024-25.
Solution: ₹

Computation of Capital Gains

Full value of consideration	72,00,000.00
Less: Indexed cost of acquisition	
= 4,50,000 / 100 x 348	(15,66,000.00)
Long Term Capital Gain	56,34,000.00
Income under the head Capital Gain	56,34,000.00
Gross Total Income	56,34,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	56,34,000.00

Computation of Tax Liability
{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹53,34,000 (₹56,34,000 – ₹3,00,000) @ 20%	10,66,800.00
Add: Surcharge @ 10%	1,06,680.00
Tax before health & education cess	11,73,480.00
Add: HEC @ 4%	46,939.20
Tax Liability	12,20,419.20
Rounded off u/s 288B	12,20,420.00

(2) Any distribution of capital assets on the **<u>partition of a Hindu Undivided Family</u>**.

<u>Illustration 15:</u> Mr. X & sons, HUF, purchased a land for ₹ 40,000 in 2001-02. In 2005-06, a partition takes place when Mr. A, a coparcener, is allotted this plot valued at ₹ 2,00,000. In 2006-07, he had incurred expenses of ₹ 1,85,000 towards fencing of the plot. Mr. A sells this plot of land for ₹ 15,00,000 in 2023-24 after incurring expenses of ₹ 20,000. You are required to compute the capital gain for the A.Y. 2024-25.

<u>Solution:</u>

Computation of taxable capital gains for the A.Y. 2024-25

Particulars	₹
Sale consideration	15,00,000.00
Less: Indexed cost of acquisition = 40,000 / Index of 01-02 x Index of 23-24 = ₹ 40,000 /100 x 348	(1,39,200.00)
Less: Indexed cost of improvement = 1,85,000 / Index of 06-07 x Index of 23-24 = ₹ 1,85,000 /122 × 348	(5,27,704.92)
Less: Expenses incurred for transfer	(20,000.00)
Long term capital gains	**8,13,095.08**

(3) Transfer of capital asset by **<u>holding company to subsidiary company or by subsidiary company to holding company</u>** provided company receiving capital asset is an Indian company and also 100% share capital of subsidiary company is held by holding company or its nominees.

(4) Transfer of any capital asset by the **<u>amalgamating company to the amalgamated company</u>** if the **<u>amalgamated company is an Indian company</u>**.

(5) Transfer of a capital asset by the **<u>demerged company to the resulting company</u>**, if the **<u>resulting company is an Indian company</u>**.

(6) **<u>Receiving of shares from an amalgamated company</u>** in lieu of shares held in amalgamating company provided the amalgamated company is an Indian company. E.g. Mr. X purchased 2000 shares in ABC Ltd. on 01.07.2023 @ ₹10 per share and ABC Ltd. was amalgamated with XYZ Ltd. on 01.12.2023 and Mr. X received 1000 shares in XYZ Ltd. and market value is ₹50 per share, in this case no capital gains shall be computed but if Mr. X has sold the shares, capital gains shall be computed and cost will be ₹20,000.

(7) Transfer or issue of shares by a resulting company in case of demerger.

(8) In case of **<u>Conversion of bonds or debentures etc. into shares or conversion of preference shares</u>** into equity shares, no capital gains shall be computed.

(9) Redemption by an individual of **<u>Sovereign Gold Bonds issued by RBI under the Sovereign Gold Bond</u>** Scheme, 2015.

> **Sovereign Gold Bond Scheme**
>
> SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bond is issued by Reserve Bank on behalf of Government of India.
>
> The quantity of gold for which the investor pays is protected, since he receives the ongoing market price at the time of redemption/ premature redemption. The SGB offers a superior alternative to holding gold in physical form. The risks and costs of storage are eliminated. Investors are assured of the market value of gold at the time of maturity and periodical interest.

(10) Any transfer of a capital asset in a **<u>transaction of reverse mortgage.</u>**

(11) Any transfer of any of the following capital asset to the Government or to the University or the National

Museum, National Art Gallery, National Archives or any other public museum or institution notified by the Central Government to be of national importance or to be of renown throughout any State:
(i) work of art
(ii) archaeological, scientific or art collection
(iii) book
(iv) manuscript
(v) drawing
(vi) painting
(vii) photograph or
(viii) print.
(12) Any other transaction listed under section 47.

Illustration 16: In which of the following situations capital gains tax liability does not arise?
(i) Mr. A purchased gold in 2004 for ₹ 25,000. In the P.Y. 2023-24, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.
(ii) A house property is purchased by a Hindu undivided family in 1985 for ₹ 20,000. It is given to one of the family members in the P.Y. 2023-24 at the time of partition of the family. FMV on the day of partition was ₹ 12,00,000.
(iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 2005 which are converted into 500 shares worth ₹ 85,000 in November 2023 by the company.

Answer:
The liability of capital gains tax in the situations given above is discussed as follows:
(i) As per the provisions of section 47, transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
(ii) As per the provisions of section 47, transfer of a capital asset on partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
(iii) As per the provisions of section 47, transfer by way of conversion of bonds into shares is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

Question 17. Write a note on cost with reference to certain modes of Acquisition.
Answer: Cost with reference to certain modes of acquisition Section 49(1)
If any person has received an asset through the transaction section 47 and subsequently asset was sold by him, in such cases cost of acquisition and cost of improvement of previous owner shall be considered to be cost of acquisition/improvement of the assessee and also cost of improvement by assessee shall be taken into consideration.
As per section 2(42A), time period of previous owner shall also be taken into consideration.
E.g. Mr. X purchased house 01.04.2001 ₹2,00,000 and incurred ₹3,00,000 on improvement on 01.07.2002 and it was received by his son Mr. Y on 01.07.2011 and Mr. Y incurred ₹4,00,000 on improvement 01.07.2013 and house was sold by him on 01.07.2023 ₹100,00,000, in this case tax liability of Mr. Y shall be

Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / 100 x 348	(6,96,000.00)
Less: Indexed Cost of improvement	
= 3,00,000 / 105 x 348	(9,94,285.71)
Less: Indexed Cost of improvement	
= 4,00,000 / 220 x 348	(6,32,727.27)
Long term capital gains	76,76,987.02
Gross Total Income	76,76,987.02
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	76,76,990.00

Computation of Tax Liability

Tax on LTCG ₹73,76,990 (76,76,990 – 3,00,000) @ 20%	14,75,398.00
Add: Surcharge @ 10%	1,47,539.80
Tax before health & education cess	16,22,937.80
Add: HEC @ 4%	64,917.51
Tax Liability	16,87,853.31
Rounded off u/s 288B	16,87,850.00

Cost of acquisition in case of assets received as gift Section 49(4) (applicable w.e.f 01.10.2009)

If any individual or HUF has received gift in kind and it was taxable under section 56, in such cases, at the time of sale, cost of acquisition of such asset shall be the value which has been taken into consideration for the purpose of computing taxable amount of gift.

Example

Mr. X purchased one house property on 01.07.2002 for ₹ 2,00,000 and it was gifted to Mr. Y on 01.11.2023 and value for the purpose of charging stamp duty was ₹5,00,000 and subsequently the house property was sold by Mr. Y on 01.01.2024 for ₹25,00,000, in this case tax liability of Mr. Y shall be computed in the manner given below:

	₹
Income under the head Other Sources	5,00,000.00
(Being the amount of gift under section 56)	

Income under the head capital gain

Full value of consideration	25,00,000.00
Less: Cost of acquisition	(5,00,000.00)
Short term capital gain	20,00,000.00
Gross Total Income	25,00,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	25,00,000.00

Computation of Tax Liability

Tax on ₹25,00,000 at slab rate	4,50,000.00
Add: HEC @ 4%	18,000.00
Tax Liability	4,68,000.00

Illustration 17: Mr. X purchased one house on 01.10.2002 for ₹2,00,000 and incurred ₹ 5,00,000 on its improvement in F.Y. 2009-2010 and Mr. X gifted the house on 01.10.2012 to his friend Mr. Y when its value for the purpose of charging stamp duty was ₹10,00,000.
Mr. Y sold the house on 01.01.2024 for ₹42,00,000.
Compute his tax liability.

Solution: ₹

Computation of Capital Gains

Full value of consideration	42,00,000.00
Less: Indexed cost of acquisition	
= 10,00,000 / 200 x 348	(17,40,000.00)
Long Term Capital Gain	24,60,000.00
Income under the head Capital Gain	24,60,000.00
Gross Total Income	24,60,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	24,60,000.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹21,60,000 (₹24,60,000 – ₹ 3,00,000) @ 20% u/s 112	4,32,000.00

Add: HEC @ 4%	17,280.00
Tax Liability	4,49,280.00

(b) Presume Mr. Y is son of Mr. X.

Solution: ₹

Computation of Capital Gains

Full value of consideration	42,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / 105 x 348	(6,62,857.14)
Less: Indexed cost of improvement	
= 5,00,000 / 148 x 348	(11,75,675.68)
Long Term Capital Gain	23,61,467.18
Income under the head Capital Gain	23,61,467.18
Gross Total Income	23,61,467.18
Less: Deduction under Chapter VI-A	Nil
Total Income (Rounded off u/s 288A)	23,61,470.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹20,61,470 (₹23,61,470 – ₹3,00,000) @ 20%	4,12,294.00
Add: HEC @ 4%	16,491.76
Tax Liability	4,28,785.76
Rounded off u/s 288B	4,28,790.00

Question 18: Explain Reverse Mortgage.

Answer: As per section 47, reverse mortgage shall not be considered to be transfer for the purpose of capital gain.

Under reverse mortgage, an individual can mortgage his house property to the bank and the bank shall grant a loan against the security of house property and such loan shall be given in monthly/quarterly installments and the amount so received shall not be considered to be income of the mortgagor under section 10(43).

After the death of the mortgagor the bank shall have right to sell off the property and shall adjust loan and interest and shall compute capital gains for the deceased person and shall pay tax to the government.

The purpose of the scheme is to make available regular amount to the persons who do not have regular income but are the owners of the house property.

In general, the mortgagor repay the loan in installments but in this case mortgagee i.e. bank is paying installment to the mortgagor and hence it is called reverse mortgage.

Question 19: Write a note on computation of capital gains in case of market linked debentures [Section 50AA].

Answer:

Market Linked Debenture means such debentures where returns are linked to market returns on the other similar securities.

Specified Mutual Fund means a mutual fund where not more than 35% of the amount is invested in equity shares of domestic companies.

Capital gains on transfer of such securities shall always be short term. Also amount received on redemption or maturity shall be short term capital gains.

Question 20: Write a note on computation of capital gain in case of slump sale covered under section 50B.

Answer: **Special provision for computation of capital gains in case of Slump Sale Section 50B**

If any person has ***transferred by any means***, any unit/division for a lump sum consideration, it is called slump sale and capital gain shall be computed for the entire unit instead of individual asset and capital gains shall be computed in the manner given below:

- Net worth of the unit on the date of sale shall be deducted from full value of consideration to compute Capital Gains. Also expenses in connection with transfer shall be deducted
- Indexation is not applicable.

If unit is sold within 3 years, a capital gain is Short term otherwise Capital Gain is Long Term.

"Net worth" shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in its books of account:

For computing the net worth, the aggregate value of total assets shall be,—
(*a*) in the case of depreciable assets, the written down value of the block of assets;
(b) in the case of capital asset being goodwill of a business or profession, which has not been acquired by the assessee by purchase from a previous owner, nil;
(c) in the case of capital assets in respect of which the whole of the expenditure has been allowed or is allowable as a deduction under section 35AD, *nil;* and
(d) in the case of other assets, the book value of such assets.
(e) While computing net worth, revaluation of asset shall be ignored.
FVC shall be considered to be the value for which the unit has been sold or Fair market value of the capital assets as on the date of transfer, calculated in the prescribed manner, whichever is higher
Example
ABC Ltd. has sold one of its division on 01.10.2023 for ₹35,00,000 and its net worth on 01.10.2023 was ₹20,00,000 and it was setup in 2003, in this case there is long term capital gain of ₹15,00,000.

Illustration 18: Mr. A is a proprietor of ABC Enterprises having 2 units started on 01.04.2013. He transferred on 01.04.2023 his unit 1 by way of slump sale for a total consideration of ₹45 Lacs. The expenses is incurred for this transfer were ₹65,000/-. His Balance Sheet as on 31.03.2023 is as under:

Liabilities	Total ₹	Assets	Unit 1 ₹	Unit 2 ₹	Total ₹
Own Capital	21,00,000	Building	15,00,000	4,00,000	19,00,000
Revaluation Reserve (for building of unit 1)	6,00,000	Machinery	5,00,000	2,00,000	7,00,000
Bank Loan (70% for unit 1)	4,00,000	Debtors	3,00,000	70,000	3,70,000
Trade creditors (25% for unit 1)	3,10,000	Other assets	3,50,000	90,000	4,40,000
Total	**34,10,000**	**Total**	**26,50,000**	**7,60,000**	**34,10,000**

Other information:
(i) Revaluation reserve is created by revising upward the value of the building of unit 1.
(ii) No individual value of any asset is considered in the transfer deed.
Compute the capital gain for the assessment year 2024-25.

Solution: Computation of capital gains on slump sale of Unit 1

Particulars	₹
Sale value	45,00,000
Less: Expenses on sale	(65,000)
Less: Net worth (See Note (i) below)	(16,92,500)
Long term capital gain	27,42,500

Note (i) : Computation of net worth of Unit 1 of ABC Enterprises

Particulars	₹
Building (excluding ₹6 lakhs on account of revaluation)	9,00,000
Machinery	5,00,000
Debtors	3,00,000
Other assets	3,50,000

Total assets	20,50,000
<u>Less</u>:	
Bank Loan	(2,80,000)
Creditors	(77,500)
Net worth	**16,92,500**

Question 21 [Imp.]: Write a note on full value of consideration in certain cases.

Answer: <u>Special provision for full value of consideration in certain cases</u> <u>Section 50C</u>

If any person has transferred land or building and stamp duty value is upto ***110%*** of the FVC claimed by the assessee, in such cases FVC shall be the consideration claimed by the assessee but if stamp duty value is more than ***110%*** of the consideration claimed by the assessee, in that case FVC shall be the Stamp duty value.

If the assessee has disputed such amount, assessing officer may refer the matter to the Valuation Officer and value determined by Valuation Officer shall be taken into consideration but if the value determined by Valuation Officer is more than the stamp duty value, in that case stamp duty value shall be considered to be FVC and capital gains shall be computed accordingly. Valuation Officer means an expert employed by Income Tax Department to determine the value.

If the date of agreement and date of registration are different, in that case value on the date of agreement shall be taken into consideration provided some advance was given by account payee cheque, an account payee bank draft or by use of electronic clearing system through a bank account or through such other electronic modes as may be prescribed. (Other electronic mode means Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay) on or before the date of agreement.

Example

Mr. X sold one house property for ₹ 60,00,000 but stamp duty value is ₹ 70,00,000, in this case FVC shall be taken to be ₹ 70,00,000. In case of dispute matter shall be referred to the Valuation Officer. If value determined by Valuation Officer is ₹ 65,00,000, FVC shall be ₹ 65,00,000 but if value determined is ₹75,00,000, FVC shall be ₹ 70,00,000.

<u>Illustration 19:</u> Mr. X who transferred his land and building on 10.02.2024, furnishes the following information:

(i) Net consideration received ₹35,00,000.

(ii) Value adopted by stamp valuation authority, which was contested by Mr. X ₹50,00,000.

(iii) value ascertained by Valuation Officer on reference by the Assessing Officer ₹52,00,000.

(iv) This land was distributed to Mr. X on the partial partition of his HUF on 01.04.2001. Fair market value of the land as on 01.04.2001 was ₹1,60,000.

(v) A residential building was constructed on the above land by Mr. X at a cost of ₹3,50,000 (construction completed on 01.12.2012) during the financial year 2012-13.

(vi) Brought forward short-term capital loss (incurred on sale of shares during the financial year 2016-17) ₹80,000.

What should be the maximum amount to be invested by Mr. X in 54EC bonds so as to be exempt from clutches of capital gain tax?

<u>Solution:</u>

Computation of Capital Gains of Mr. X for the Assessment Year 2024-25	**₹**
Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
Indexed cost of land (1,60,000 / 100 x 348)	(5,56,800.00)
Indexed cost of building (3,50,000 / 200 x 348)	(6,09,000.00)
Long term capital gain	38,34,200.00
Less: Brought forward short term capital loss set off	(80,000.00)
Long term capital gain	37,54,200.00
Amount to be invested in 54EC bonds (37,54,200 – 3,00,000)	34,54,200.00

Since income upto ₹3,00,000 is exempt from income tax hence amount can be invested upto ₹34,54,200 instead of ₹37,54,200.

<u>Illustration 20:</u> Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 01.08.2023. He has purchased the house property and the land in the year 2023 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 01.08.2023, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Determine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

Solution:

(i)	**Tax implications in the hands of Mr. X**
	As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh), would be taxable as short-term capital gains. Since rural agricultural land is not a capital asset, capital gains shall not be computed.
(ii)	**Tax implications in the hands of Mr. Y**
	In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable as gift and amount of gift shall be 85 lakh – 60 lakh = 25 lakh. Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration. The definition of "property" under section 56(2)(x) does not include agricultural land.
(iii)	**TDS implications in the hands of Mr. Y**
	Since the sale consideration of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 85,000, being 1% of ₹ 85 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

Question 22: Write a note on full value of consideration for transfer of unlisted shares

<u>Answer: full value of consideration for transfer of unlisted shares. Section 50CA</u>

In order to ensure the full consideration is not understated in case of transfer of unlisted shares, a new section 50CA has been inserted to provide that where the consideration received or accruing as a result of transfer of a capital asset, being share of a company other than a quoted share, is less than the fair market value of such share determined in such manner as may be prescribed (given under rule 11UA which is not covered in syllabus), such fair market value shall be deemed to be the full value of consideration received or accruing as a result of such transfer.

The provisions of this section shall not apply to any consideration received or accruing as a result of transfer by such class of persons and subject to such conditions as may be prescribed.

Question 23: Write a note on fair market value deemed to be full value of consideration in certain cases covered under section 50D

Answer: <u>Fair market value deemed to be full value of consideration in certain cases</u> <u>Section 50D</u>

Where the consideration received or accruing as a result of the transfer of a capital asset by an assessee is not ascertainable or cannot be determined, then, for the purpose of computing income chargeable to tax as capital gains, the fair market value of the said asset on the date of transfer shall be deemed to be the full value of the consideration received or accruing as a result of such transfer.

Question 24 [V. Imp.]: Write a note on exemption under section 54.

Answer: <u>Profit on sale of property used for residence</u> <u>Section 54</u>

1. <u>Assessee:</u> The assessee should be **<u>individual</u>** or a **<u>Hindu Undivided Family</u>**. (i.e. exemption is not allowed to firm, company, association of person or body of individual etc.)

2. <u>Asset:</u> Capital asset transferred should be **<u>buildings or lands appurtenant thereto</u>**, being a **<u>residential house</u>**, the income of which is chargeable under the head "Income from house property".

3. <u>Type of capital gain:</u> Capital gain should be **<u>long term</u>**.

4. <u>Investment:</u> The assessee has within a period of **<u>one year before or two years after the</u>** date on which the transfer took place **<u>purchased</u>**, or has within **<u>a period of three years after</u>** that date constructed, one residential house in India (no exemption for house outside India).

Exemption of two houses are allowed provided capital gains is upto ₹2 crores. further such option is allowed only once in the life time of the assessee i.e. afterwards benefit of only one house shall be allowed.

Where the cost of new asset exceeds ten crore rupees, the amount exceeding ten crore rupees shall not be taken into account.

5. <u>Amount of exemption:</u> Exemption shall be allowed to be the extent of investment.

6. <u>Withdrawal of exemption:</u> The house so purchased/constructed **<u>must not be transferred within a period of three years</u>** otherwise exemption given shall be withdrawn and for this purpose while computing capital gains, its cost of acquisition shall be reduced by the amount of the exemption earlier allowed.

7. <u>Capital gains account Scheme 1988:</u> The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income. Subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be long term capital gain of the year in which the prescribed period has expired.

8. <u>Extension of time for acquiring new asset or depositing or investing amount of capital gain section 54H:</u> If the asset has been acquired compulsorily by the Government, period of investment shall be determined from the date of payment instead of the date of compulsory acquisition.

9. If any person has purchased a house and has deposited some amount in capital gain account scheme for construction on the same house, In that case exemption shall be allowed even for the amount so deposited as decided in **<u>B.B. Sarkar vs Commissioner Of Income-Tax (CALCUTTA HC)</u>**

<u>Illustration 21:</u> Mr. X purchased one residential house on 01-07-2001 for ₹2,00,000 and it was sold by him on 01-07-2023 for ₹100 lakhs and he purchased one house in 01-07-2024 for ₹20,00,000. He sold this house on 01-07-2025 for ₹22,00,000. Compute his Tax Liability for A.Y. 2024-25 and also capital gains for various years.

<u>Solution:</u>

	₹
Full value of consideration	1,00,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / 100 x 348	(6,96,000.00)
Long Term Capital Gains	93,04,000.00
Less: Exemption u/s 54	(20,00,000.00)
Long Term Capital Gains	73,04,000.00
Income under the head Capital Gain (LTCG)	73,04,000.00
Gross Total Income	73,04,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	73,04,000.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹70,04,000 (₹73,04,000 – ₹3,00,000) @ 20%	14,00,800.00
Add: Surcharge @ 10%	1,40,080.00
Tax before health & education cess	15,40,880.00
Add: HEC @ 4%	61,635.20
Tax Liability	16,02,515.20
Rounded off u/s 288B	16,02,520.00

Computation of Capital Gain for the assessment year 2026-27

Capital gain on sale of House

Full value of consideration	22,00,000.00
Less: Cost of acquisition (₹20,00,000 – ₹20,00,000)	(Nil)
Short Term Capital Gain	22,00,000.00

Illustration 22: Mr. X purchased one residential house on 01.04.2002 for ₹5,00,000. This house was acquired compulsorily by the Government on 01.10.2013 and compensation of ₹50,00,000 was fixed by the government but the amount was paid by the Government on 01.03.2024. The assessee has purchased one residential house on 01.01.2024 for ₹2,00,000 and the house was sold by him on 01.01.2025 for ₹4,00,000.
Compute his tax liability for the assessment year 2024-25 and also capital gains for the various years.

Solution: ₹

Computation of capital gains under section 45(5)

Capital gain shall be computed in the year in which the asset was acquired i.e. in the previous year 2013-14 and shall be taxed in the year in which the first payment has been received i.e. in the previous year 2023-24

Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / 105 x 220 = ₹10,47,619.05	(10,47,619.05)
Long Term Capital Gains	39,52,380.95
Less: Exemption u/s 54	(2,00,000.00)
Long Term Capital Gains	37,52,380.95
Income under the head Capital Gain (LTCG)	37,52,380.95
Gross Total Income	37,52,380.95
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	37,52,380.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹34,52,380 (₹37,52,380 – ₹3,00,000) @ 20%	6,90,476.00
Add: HEC @ 4%	27,619.04
Tax Liability	7,18,095.04
Rounded off u/s 288B	7,18,100.00

Computation of Capital Gain for the assessment year 2025-26

Capital gain on sale of House

Full value of consideration	4,00,000.00
Less: Cost of acquisition (₹2,00,000 – ₹2,00,000)	Nil
Short Term Capital Gain	4,00,000.00
Hence Short Term Capital Gain for assessment year 2025-26	4,00,000.00

(b) Presume the house was purchased on 01.09.2024 instead of 01.01.2024.

Solution: ₹

Computation of capital gains under section 45(5)

Capital gain shall be computed in the year in which the asset was acquired i.e. in the previous year 2013-14 and shall be taxed in the year in which the first payment has been received i.e. in the previous year 2023-24

Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / 105 x 220	(10,47,619.05)
Long Term Capital Gains	39,52,380.95
Income under the head Capital Gain (LTCG)	39,52,380.95
Gross Total Income	39,52,380.95
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	39,52,380.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹36,52,380 (₹39,52,380 – ₹3,00,000) @ 20%	7,30,476.00
Add: HEC @ 4%	29,619.04
Tax Liability	7,59,695.04
Rounded off u/s 288B	7,59,700.00

Note: Exemption under section 54 is not allowed as the house was purchased after the last date of filing of return of income (i.e. 31st July 2024)

Computation of Capital Gain for the assessment year 2025-26

Capital gain on sale of House

Full value of consideration	4,00,000.00
Less: Cost of acquisition	(2,00,000.00)
Short Term Capital Gain	2,00,000.00
Hence Short Term Capital Gain for assessment year 2025-26	2,00,000.00

Illustration 23: Mr. X purchased one house on 01.04.2001 for ₹2,00,000 and sold the house on 01.07.2023 for ₹70,00,000 and purchased one house on 01.09.2023 for ₹12,00,000 and it was sold by him on 01.01.2024 for ₹15,00,000.

He is aged 82 years.

Compute his income and tax liability for assessment year 2024-25.

Solution: ₹

Computation of income under the head Capital Gains

Full value of consideration	70,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / Index of 01-02 x Index of 23-24	
= 2,00,000 / 100 x 348	(6,96,000.00)
Long Term Capital Gains	63,04,000.00

The assessee has the option either not to avail exemption under section 54 or to avail exemption under section 54 and also it will be withdrawn

Option I Exemption is not availed:

Long Term Capital Gain	63,04,000.00
Sale of house purchased on 01.09.2023	
Full value of consideration	15,00,000.00
Less: Cost of acquisition	(12,00,000.00)
Short term capital gain	3,00,000.00
Income under the head Capital Gains	66,04,000.00
Gross Total Income	66,04,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	66,04,000.00

Computation of Tax Liability

Tax on LTCG ₹63,04,000 @ 20%	12,60,800.00
Tax on ₹3,00,000 at slab rate	Nil
Add: Surcharge @10%	1,26,080.00
Tax before health & education cess	13,86,880.00
Add: HEC @ 4%	55,475.20
Tax Liability	14,42,355.20
Rounded off u/s 288B	14,42,360.00

Option II Exemption is availed

Long Term Capital Gain	63,04,000.00
Less: Exemption u/s 54	(12,00,000.00)
Long Term Capital Gain	51,04,000.00
Sale of house purchased on 01.09.2023	
Full value of consideration	15,00,000.00
Less: Cost of acquisition (12,00,000 – 12,00,000)	Nil
Short term capital gain	15,00,000.00
Income under the head Capital Gains	66,04,000.00
Gross Total Income	66,04,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	66,04,000.00

Computation of Tax Liability

Tax on LTCG ₹51,04,000 @ 20%	10,20,800.00
Tax on ₹15,00,000 at slab rate	1,50,000.00
Tax before surcharge	11,70,800.00
Add: Surcharge @10%	1,17,080.00
Tax before health & education cess	12,87,880.00
Add: HEC @ 4%	51,515.20
Tax Liability	13,39,395.20
Rounded off u/s 288B	13,39,400.00

Hence assessee should opt Option-II.

Illustration 24: Mr. X Purchased one residential house on 01.04.2001 for ₹ 2,00,000 and it was sold by him on 01.07.2023 for ₹ 50,00,000 and he purchased a new house on 01.09.2023 for ₹ 55,00,000 and this house was sold by him on 01.07.2026 for ₹ 56,00,000. Compute his tax liability for A.Y. 2024-25 and also capital gains for all the years.

Solution:

Computation of Capital Gains

Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / 100 x 348	(6,96,000.00)
Long Term Capital Gain	43,04,000.00
Less: Exemption u/s 54	(43,04,000.00)
Long Term Capital Gain	Nil
Income under the head Capital Gain (LTCG)	Nil
Gross Total Income	Nil
Less: Deduction under Chapter VI-A	Nil
Total Income	Nil
Tax Liability	Nil

Previous year 2026-27

Full value of consideration		56,00,000.00
Less: Cost of acquisition	55,00,000	
Less: Exemption allowed	(43,04,000)	
Balance	11,96,000	

ICOA = 11,96,000 x index of 2026-27/index of 2023-24

Since index of 2026-27 is not available hence computation is not possible.

Illustration 25: Mr. X purchased a residential house on July, 2021 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2021. He sold the house property in April 2023 for ₹20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2023.

What is the amount of capital gains taxable in the hands of Mr. X for the A.Y.2024-25?

Solution:

The house is sold before 24 months from the date of purchase. Hence, the house is a short term capital asset and no benefit of indexation would be available.

Particulars	**₹**
Sale consideration	20,00,000
Less: Cost of acquisition	(10,00,000)
Less: Cost of improvement	(2,00,000)
Short-term capital gains	**8,00,000**

Note: The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. X cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is ₹ 8,00,000.

Question 25 [V. Imp.]: Write a note on exemption under section 54B.

Answer: **Capital gain on transfer of land used for agricultural purposes not to be charged in certain cases Section 54B**

1. Assessee: The assessee should be **individual** or a **Hindu Undivided Family**. (i.e. exemption is not allowed to firm, company, association of person or body of individual etc.)

2. Asset: The asset transferred should be **land** which, in **the two years immediately** preceding the date on which the transfer took place, was being used by the **assessee or a parent** of his for **agricultural purposes**.

3. Type of capital gain: It may be **short term or long term.**

4. Investment: The assessee has, within a period of two years after that date, purchased any other land for being used for agricultural purposes.

5. Amount of exemption: Exemption allowed shall be equal to the amount invested.

6. Withdrawal of exemption: The land so **purchased must not be transferred within a period of three years** otherwise exemption given shall be withdrawn and for this purpose while computing capital gains on the transfer of new asset, its cost of acquisition shall be reduced by the amount of the exemption earlier allowed.

7. Capital gains account Scheme 1988: The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income and subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be capital gain of the year in which the prescribed period has expired.

Capital gains in case of compulsory acquisition of agricultural land Section 10(37)

If any individual or Hindu Undivided Family has agricultural land and this land was being used by him for agricultural purposes for a period of at least 2 years when it was acquired by the government, in this case capital gains shall be exempt from income tax.

Illustration 26: Mr. X purchased agricultural land in urban area on 01.10.2002 for ₹3,00,000 and it was being used for agricultural purposes by him. It was sold on 01.01.2024 for ₹50,00,000. The assessee has purchased one agricultural land in the rural area on 10.01.2024 for ₹10,00,000 and this land was sold by him on 11.02.2024 for ₹11,00,000 and has invested ₹30,000 in National Saving Certificate.

He is aged about 86 years.

Compute his tax liability for assessment year 2024-25.

(b) Presume the land was purchased in the urban area instead of rural area.

Solution (a):

	₹
Computation of Capital Gains	
Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
= 3,00,000 / 105 x 348	(9,94,285.71)
Long Term Capital Gain	40,05,714.29
Less: Exemption u/s 54B	(10,00,000.00)
Long Term Capital Gain	30,05,714.29
Income under the head Capital Gain (LTCG)	30,05,714.29
Gross Total Income	30,05,714.29
Less: Deduction under Chapter VI-A	Nil
Total Income (Rounded off u/s 288A)	30,05,710.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹27,05,710 (₹30,05,710 – ₹3,00,000) @ 20%	5,41,142.00
Add: HEC @ 4%	21,645.68
Tax Liability	5,62,787.68
Tax Liability (Rounded off u/s 288B)	5,62,790.00

Note: If land is purchased in rural area, exemption is allowed under section 54B but on its sale exemption is not withdrawn.

Solution (b):	**₹**
Computation of Capital Gains	
Full value of consideration	50,00,000.00
Less: Indexed cost of acquisition	
= 3,00,000 / 105 x 348	(9,94,285.71)
Long Term Capital Gain	40,05,714.29

The assessee has the option either not to avail exemption under section 54B or to avail exemption under section 54B.

Option I Exemption is not availed:

Long Term Capital Gain	40,05,714.29
Urban agricultural land	
Full value of consideration	11,00,000.00
Less: Cost of acquisition	(10,00,000.00)
Short Term Capital Gain	1,00,000.00
Income under the head Capital Gains	41,05,714.29
Gross Total Income	41,05,714.29
Less: Deduction under Chapter VI-A	Nil
Total Income	41,05,714.29
Total Income (Rounded Off u/s 288A)	41,05,710.00
Computation of tax liability	
Tax on long term capital gain ₹38,05,710 (40,05,710 – 2,00,000) @ 20%	7,61,142.00
Tax on ₹1,00,000 at slab rate	Nil
Add: HEC @ 4%	30,445.68
Tax Liability	7,91,587.68
Tax Liability (Rounded Off u/s 288B)	7,91,590.00

Option II Exemption is availed:

Long Term Capital Gain	40,05,714.29
Less: Exemption u/s 54B	(10,00,000.00)
Long Term Capital Gain	30,05,714.29
Urban agricultural land	
Full value of consideration	11,00,000.00
Less: Cost of acquisition (10,00,000 – 10,00,000)	Nil
Short Term Capital Gain	11,00,000.00
Income under the head Capital Gains	41,05,714.29
Gross Total Income	41,05,714.29
Less: Deduction under Chapter VI-A	Nil
Total Income	41,05,714.29
Total Income (Rounded Off u/s 288A)	41,05,710.00
Computation of tax liability	
Tax on long term capital gain ₹30,05,710 @ 20%	6,01,142.00
Tax on ₹11,00,000 at slab rate	75,000.00
Tax before health & education cess	6,76,142.00
Add: HEC @ 4%	27,045.68
Tax Liability	7,03,187.68
Tax Liability (Rounded off u/s 288B)	7,03,190.00

Hence the assessee should opt for option–II and his tax liability shall be 7,03,190.

Illustration 27: Mr. X has an agricultural land (costing ₹ 6 lakh) in Lucknow and has been using it for agricultural purposes since 01.04.2003 till 01.08.2013 when the Government took over compulsory acquisition of this land. A compensation of ₹ 10 lakh was settled. The compensation was received by Mr. X on 01.07.2023. Compute the amount of capital gains taxable in the hands of Mr. X.

Solution: In the given problem, compulsory acquisition of an urban agricultural land has taken place. This land had also been used for at least 2 years by the assessee himself for agricultural purposes. Thus, as per section 10(37), entire capital gains arising on such compulsory acquisition will be fully exempt and nothing is taxable in the hands of Mr. X in the year of receipt of compensation i.e. A.Y.2024-25.

Illustration 28: Will your answer be any different if Mr. X had by his own will sold this land to his friend Mr. Y? Explain.
Solution: As per section 10(37), exemption is available if compulsory acquisition of urban agricultural land takes place. Since the sale is out of own will and desire, the provisions of this section are not attracted and the capital gains arising on such sale will be taxable in the hands of Mr. X.

Illustration 29: Will your answer be different if Mr. X had not used this land for agricultural activities? Explain.
Solution: As per section 10(37), exemption is available only when such land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such HUF. Since the assessee has not used it for agricultural activities, the provisions of this section are not attracted and the capital gains arising on such compulsory acquisition will be taxable in the hands of Mr. X.

Illustration 30: Will your answer be different if the land belonged to ABC Ltd. and not Mr. X and compensation on compulsory acquisition was received by the company? Explain.
Solution: Section 10(37) exempts capital gains arising to an individual or a HUF from transfer of agricultural land by way of compulsory acquisition. Since the land belongs to ABC Ltd., a company, the provisions of this section are not attracted and the capital gains arising on such compulsory acquisition will be taxable in the hands of ABC Ltd.

Question 26: Write a note on exemption under section 54D.
Answer: Capital gain on compulsory acquisition of lands and buildings not to be charged in certain cases Section 54D
1. **Assessee:** Exemption is allowed to **all the assessee.**
2. **Asset:** The asset should be **land or building** forming part of **an industrial undertaking** belonging to the assessee which, in the **two years immediately** preceding the date on which the transfer took place, was being used by the assessee for the purposes of the **business** of the said **undertaking** and further there should **be compulsory acquisition.**
3. **Type of capital gain:** It can be **short term or long term.**
4. **Investment:** The assessee can invest the amount in **land or building** for the purpose of industrial undertaking within a period of **three years after** the date of payment by the Govt.
5. **Amount of exemption:** Exemption allowed is equal to investment.
6. **Withdrawal of exemption:** The land or building so purchased/constructed **must not be transferred within a period of three years** otherwise exemption given shall be withdrawn and for this purpose while computing capital gains on the transfer of new asset, its cost of acquisition shall be reduced by the amount of the exemption earlier allowed.
7. **Capital gains account Scheme 1988:** The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income. Subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be capital gain of the year in which the prescribed period has expired.

Illustration 31: Mr. X has one industrial undertaking in Wazirpur industrial area and the building which is being used for industrial purposes was purchased on 01.10.2007. Since then it was being used for industrial purpose and was purchased for ₹23,00,000 and its w.d.v. as on 01.04.2014 is ₹10,38,000. This building was acquired by the Government on 01.01.2015 and compensation fixed was ₹25,00,000. Entire payment was released by the Government on 01.07.2023. The assessee has purchased one building for the purpose of industrial undertaking in Bawana Industrial Area on 01.01.2024 for ₹6,00,000.

Compute his tax liability for assessment year 2024-25.

Solution: ₹

Computation of Capital Gains under section 45(5)

Capital gains shall be computed in the year of compulsory acquisition i.e. in the previous year 2014-15

Full value of consideration	25,00,000.00
Less: W.d.v of the building	(10,38,000.00)
Short Term Capital Gain	14,62,000.00

Computation of capital gains and tax liability for the assessment year 2024-25

Capital gain shall be taxed in the year in which payment has been given by the Government i.e. in the previous year 2023-24

Short Term Capital Gain	14,62,000.00
Less: Exemption u/s 54D	(6,00,000.00)
Short Term Capital Gain	8,62,000.00
Income under the head Capital Gain (STCG)	8,62,000.00
Gross Total Income	8,62,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,62,000.00

Computation of Tax Liability

Tax on ₹8,62,000 at slab rate	41,200.00
Add: HEC @ 4%	1,648.00
Tax Liability	42,848.00
Rounded off u/s 288B	42,850.00

Question 27 [V. Imp.]: Write a note on exemption under section 54EC.

Answer: Capital gain not to be charged on investment in certain bonds Section 54EC

1. Assessee: Exemption is allowed to **all the assessee.**

2. Asset: The assessee can transfer **any land or building.**

3. Type of capital gain: It should be only **long term capital gain.**

4. Investment: The assessee has, at any time within a period of **six months after** the date of such transfer, invested the **whole or any part** of capital gains in the **long-term specified asset**.

"Long-term specified asset" means any **bond redeemable after five years**, issued by,—

(i) Rural Electrification Corporation Limited

(ii) Power Finance Corporation Limited.

(iii) Indian Railway Finance Corporation Limited.

5. Amount of exemption: Maximum exemption allowed in a particular previous year shall be ₹50 lakh.

6. Withdrawal of exemption: If the long term specified asset is transferred or converted into cash within a period of 5 years, exemption earlier allowed shall be considered to be long term capital gains of the year in which such asset was transferred or converted into cash.

Converting into cash means taking a loan on the security of the specified asset.

7. Capital gains account scheme 1988: Capital gain account scheme shall not apply.

8. Extension of time for acquiring new asset or depositing or investing amount of capital gain section 54H: If the asset has been acquired compulsorily by the Government, period of investment shall be determined from the date of payment instead of the date of compulsory acquisition.

Illustration 32: Mr. X purchased agricultural land in the urban area on 01.04.2001 for ₹2,00,000. It was being used for agricultural purposes since then and was sold by the assessee on 01.07.2023 for ₹123,00,000.

He made following investments:

(i) Bonds of National Bank for Agriculture and Rural Development on 01.06.2023 for ₹1,50,000 which are redeemable after 5 years.

(ii) He purchased agricultural land on 01.09.2023 for ₹2,00,000.

(iii) He has invested ₹75,000 on 01.10.2023 in the bonds of RECL redeemable after five years.

He sold the bonds of RECL on 15.04.2024 for ₹3,00,000.

Compute his capital gains for various years and also tax liability for assessment year 2024-25.

Solution: ₹

Previous year 2023-24

Computation of Capital gains

Full value of consideration	123,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / 100 x 348	(6,96,000.00)
Long Term Capital Gain	116,04,000.00
Less: Exemption u/s 54B	(2,00,000.00)
Less: Exemption u/s 54EC	(75,000.00)
Long Term Capital Gain	113,29,000.00
Income under the head Capital Gain (LTCG)	113,29,000.00
Gross Total Income	113,29,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	113,29,000.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹110,29,000 (₹113,29,000 – ₹3,00,000) @ 20%	22,05,800.00
Tax before Surcharge	22,05,800.00
Add: Surcharge @ 15%	3,30,870.00
Tax before health & education cess	25,36,670.00
Add: HEC @ 4%	1,01,466.80
Tax Liability	26,38,136.80
Rounded off u/s 288B	26,38,140.00

Previous year 2024-25

Full value of consideration	3,00,000.00
Less: Cost of acquisition	(75,000.00)
Short Term Capital Gain	2,25,000.00
Long Term Capital Gain (withdrawal of exemption)	75,000.00

Illustration 33: ABC Ltd. purchased one commercial building on 01.07.1995 ₹2,00,000 and paid brokerage ₹20,000 and its market value as on 01.04.2001 ₹2,10,000. The company sold the building on 01.07.2023 for ₹500,00,000 and invested ₹60,00,000 in bond of RECL redeemable after five years.
Compute tax liability of the company for Assessment Year 2024-25.
(b) Presume building was sold for ₹11,72,00,000.

Solution: ₹

Computation of Capital gains

Full value of consideration	500,00,000.00
Less: Indexed cost of acquisition	
= 2,20,000 / 100 x 348	(7,65,600.00)
Long Term Capital Gain	492,34,400.00
Less: Exemption u/s 54EC	(50,00,000.00)
(exemption under section 54EC cannot exceed ₹50,00,000)	
Long Term Capital Gain	442,34,400.00
Income under the head Capital Gain (LTCG)	442,34,400.00
Gross Total Income	442,34,400.00
Less: Deduction under Chapter VI-A	Nil
Total Income	442,34,400.00

Computation of Tax Liability

Tax on ₹442,34,400 @ 20%	88,46,880.00
Add: Surcharge @ 7%	6,19,281.60
Tax before health & education cess	94,66,161.60

Add: HEC @ 4%	3,78,646.46
Tax Liability	98,44,808.06
Rounded off u/s 288B	98,44,810.00

(b)

Solution: ₹

Computation of Capital gains	
Full value of consideration	11,72,00,000.00
Less: Indexed cost of acquisition	
= 2,20,000 / 100 x 348	(7,65,600.00)
Long Term Capital Gain	11,64,34,400.00
Less: Exemption u/s 54EC	(50,00,000.00)
(exemption under section 54EC cannot exceed ₹50,00,000)	
Long Term Capital Gain	11,14,34,400.00
Income under the head Capital Gain (LTCG)	11,14,34,400.00
Gross Total Income	11,14,34,400.00
Less: Deduction under Chapter VI-A	Nil
Total Income	11,14,34,400.00
Computation of Tax Liability	
Tax on ₹11,14,34,400 @ 20%	222,86,880.00
Add: Surcharge @ 12%	26,74,425.60
Tax before health & education cess	249,61,305.60
Add: HEC @ 4%	9,98,452.22
Tax Liability	259,59,757.82
Rounded off u/s 288B	259,59,760.00

Question 28: Write a note on exemption under section 54EE.

Answer: Exemption in case of investment in units of mutual fund Section 54EE

1. Assessee: Exemption is allowed to **all the assessee.**

2. Asset: The assessee can transfer **any capital asset.**

3. Type of capital gain: It should be only **long term capital gain.**

4. Investment: Assessee can make investment within a period of **six months** after the date of transfer of original asset and investment should be in **Long-term specified asset**.

"Long-term specified asset" means units of such fund as may be notified by the Central Government.

5. Amount of exemption: Maximum exemption allowed in a particular previous year shall be ₹50 lakh.

6. Withdrawal of exemption: If the long term specified asset is transferred or converted into cash within a period of 3 years, exemption earlier allowed shall be considered to be long term capital gains of the year in which such asset was transferred or converted into cash.

Converting into cash means taking a loan on the security of the specified asset.

7. Capital gains account scheme 1988: Capital gain account scheme shall not apply.

Question 29 [V. Imp.]: Write a note on exemption under Section 54F.

Answer: Exemption from capital gains on transfer of any capital assets other than a Residential House Section 54F

1. Assessee: The assessee should be **individual** or **Hindu Undivided Family.**

2. Asset: Capital asset transferred can be any asset but it should **not be a residential house.**

3. Type of capital gain: Capital gain should be **long term.**

4. Investment: The assessee has within a period **of one year before or two years after** the date on which the transfer took place **purchased**, or has within a period of **three years after** that date **constructed**, **one residential house** and further the assessee should either **purchase** or **construct only one house** and also assessee should **not have more than one house in his name at the time of transfer of the asset** besides the house which is being purchased or constructed for availing exemption.

Provided further *that where the cost of new asset exceeds ten crore rupees, the amount exceeding ten crore rupees shall not be taken into account for the purposes of this sub-section*

5. **<u>Amount of exemption:</u>** Exemption allowed shall be that percentage of the capital gain as the amount invested bears to net consideration. i.e. **<u>exemption = capital gain x investment / net consideration</u>**.
<u>Net consideration</u> is equal to full value of consideration less selling expenses. i.e. **<u>full value of consideration – selling expenses.</u>**
6. <u>Withdrawal of exemption:</u> The house so **<u>purchased</u>** or **<u>constructed</u>** must not be transferred for a minimum period of **<u>three years</u>** otherwise exemption earlier allowed shall be considered to be the **<u>long term capital gain</u>** of the year in which the asset has been transferred (i.e. exemption shall be withdrawn in the similar manner as given under section 54EC).
Similarly if the assessee has purchased any other house within one year before or two years after or the assessee has constructed any other house within three years after the date of transfer of original asset, exemption given shall be withdrawn in that case also.
7. <u>Capital gains account Scheme 1988:</u> The assessee should invest the amount till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income and subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise exemption earlier allowed will be considered to be long term capital gain of the year in which the prescribed period has expired.
8. <u>Extension of time for acquiring new asset or depositing or investing amount of capital gain section 54H:</u> If the asset has been acquired compulsorily by the Government, period of investment shall be determined from the date of payment instead of the date of compulsory acquisition.

<u>Illustration 34:</u> Mr. X purchased gold on 01.04.1991 for ₹3,00,000 and its market value on 01.04.2001 is ₹2,00,000. This gold was sold by him on 01.01.2024 for ₹35,00,000 and selling expenses are ₹37,000. He has purchased one house on 01.05.2024 for ₹4,00,000 because he did not have any house in his name and he deposited ₹3,00,000 in capital gain account scheme on 30.09.2024.
Mr. X is also engaged in a business and he has turnover of his business ₹105,00,000 and cost of goods sold ₹100,00,000 and other expenses ₹5,10,000.
He has withdrawn ₹2,00,000 from capital gain account scheme on 01.01.2025 and constructed 1st floor of the house which was purchased by him on 01.05.2024.
Remaining amount in the capital gain account scheme was unutilized.
Compute assessee's tax liability for assessment year 2024-25 and capital gains for various years.

<u>Solution:</u>	**₹**
Previous year 2023-24	
Computation of capital gain	
Full value of consideration	35,00,000.00
Less: Indexed cost of acquisition	
= 3,00,000 / 100 x 348	(10,44,000.00)
Less: Selling expenses	(37,000.00)
Long Term Capital Gain	24,19,000.00
Less: Exemption u/s 54F	
= 24,19,000 / 34,63,000 x 7,00,000	(4,88,969.10)
Long Term Capital Gain	19,30,030.90
Income under the head Capital Gain (LTCG)	19,30,030.90
Loss under the head Business/Profession	(10,000.00)
Gross Total Income	19,20,030.90
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	19,20,030.00
Computation of tax liability	
{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}	
Tax on ₹16,20,030 (19,20,030 – 3,00,000) @ 20%	3,42,006.00
Add: HEC @ 4%	12,960.24
Tax Liability	3,36,966.24
Tax Liability (rounded off u/s 288B)	3,36,970.00

Previous year 2026-27

Amount deposited in capital gain a/c scheme	3,00,000.00
Less: Amount withdrawn	(2,00,000.00)
Balance amount	1,00,000.00
Long Term Capital Gain	
$= \frac{24,19,000 \times 1,00,000}{34,63,000}$ = ₹69,852.73	69,852.73

(Proportionate exemption with regard to the unutilized amount lying in the capital gain account scheme is chargeable to tax after expiry of period of three years.)

<u>Illustration 35:</u> Mr. X sold gold for ₹5,50,000 on 01.10.2023 which had been acquired by him in October, 2004 for ₹55,000. He wants to utilize the said amount of sale consideration for purchase or construction of a new residential house. He already owns one residential house at the time of sale of the gold on 01.10.2023. He has deposited ₹4,00,000 under the capital gains deposit scheme with a specified bank on 30.04.2024.
Ascertain the capital gains taxable in Mr. X's hands for assessment year 2024-25 and advise him as to what further action he has to take to avail the exemption.

<u>Solution:</u> ₹

Computation of Capital Gains

Full value of consideration	5,50,000.00
Less: Indexed cost of acquisition	
= 55,000 / 113 x 348	(1,69,380.53)
Long Term Capital Gain	3,80,619.47
Less: Exemption u/s 54F	
= 3,80,619.47/5,50,000 x 4,00,000	(2,76,814.16)
Long Term Capital Gain	1,03,805.27

X has to fulfill the following conditions so as to avail exemption of section 54F

- He should acquire a residential house property by withdrawing from the deposit account. The new house can be purchased at any time upto 30.09.2025 or it can be constructed upto 30.09.2026. If the amount utilised is lower than ₹4,00,000 then the following amount will become chargeable to tax as long term capital gain for the assessment year 2026-27
  = [₹4,00,000 – Amount utilised]/ 5,50,000 x 3,80,619.47
- He should not transfer the new house within 3 years
- He should not purchase another residential house upto 30.09.2025 and he should not complete construction of another residential house property upto 30.09.2026.

Question 30: Write a note on computation of capital gains on conversion of debentures etc. into shares.
Answer: <u>Capital gains on conversion of debentures etc. into shares</u>
As per section 47, no capital gain shall be computed in case of conversion of debenture etc. into shares, however if subsequently these shares have been sold, capital gains shall be computed in the manner given below:
1. As per section 49(2A), the cost of acquisition of the shares shall be the cost of acquisition of the debentures etc.
2. Period of holding shall start from the date of purchasing the debentures etc.
<u>Illustration 36:</u> Mr. X has purchased 100 debentures in ABC Ltd. on 01.10.2002 @ ₹300 per debentures and subsequently these debentures were converted into shares on 01.10.2017 and 3 shares were issued for each debenture.
The assessee has sold all the shares on 01.04.2023 @ ₹750 per share and market value as on 31-01-2018 ₹500 per share . Compute capital gains for the assessment year 2024-25 in the following situations:

(a) STT not paid
(b) STT Paid

<u>Solution:</u> ₹

(a) ***Computation of Capital Gains***

Full value of consideration (300 x 750)	2,25,000.00
Less: Indexed Cost of acquisition	
= (100 x 300) / Index of 02-03 x Index of 23-24	
= 30,000 / 105 x 348	(99,428.57)
Long Term Capital Gain	1,25,571.43

(b) *Computation of Capital Gains*

Full value of consideration (300 x 750)	2,25,000.00
Less: Cost of acquisition	(1,50,000.00)
Higher of (i) COA = 100 debentures x 300 = 30,000 (ii) lower of (a) FMV as on 31-01-2018 = 300 shares x 500 = 1,50,000 (b) sale value = 300 shares x 750 = 2,25,000 COA = 1,50,000	
Long Term Capital Gain u/s 112A	75,000.00

<u>Illustration 37:</u> Mr. X purchased 100 Debentures of ABC Ltd on 01.07.2005 @ ₹ 1000 per debenture and company has converted debentures into shares on 01.10.2017 and issued 4 shares for each debenture and market value of shares ₹ 500 per share. The assessee has sold half of the shares on 01.05.2023 @ ₹700 per share and remaining half on 01.12.2023 @ ₹800 per share. Market value as on 31-01-2018 @ ₹500 per share Compute Capital Gains and Income tax liability in two situations.

(i) (a) Securities Transaction Tax (STT) is not paid

(b) Securities Transaction Tax (STT) is paid

(ii) Presume in the above question, there is no Conversion rather all the Debentures were sold on 01.07.2023 @ ₹ 6,000 per Debenture

<u>Solution (i):</u>

No Capital Gain shall be computed at the time of conversion as per Section 47. However Capital Gain shall be computed at the time of sale of shares.

(a) Securities Transaction Tax (STT) is not paid

Computation of Capital gains of Mr. X

Full value of consideration (200 x 700)	1,40,000.00
Less: Indexed Cost of acquisition	
= (50 x 1,000) / Index of 05-06 x Index of 23-24	
= 50,000 / 117 x 348	(1,48,717.95)
Long Term Capital Loss	(8,717.95)
Full value of consideration (200 x 800)	1,60,000.00
Less: Indexed Cost of acquisition	
= (50 x 1,000) / Index of 05-06 x Index of 23-24	
= 50,000 / 117 x 348	(1,48,717.95)
Long Term Capital Gain	11,282.05
Gross Total Income	2,564.10
Less: Deduction under Chapter VI-A	Nil
Total Income	2,564.10
Rounded off u/s 288A	2,560.00
Computation of Tax Liability	
Tax on Nil (₹2,560 - ₹2,560) @ 20%	Nil
Tax Liability	Nil

(b) Securities Transaction Tax (STT) paid

Computation of Capital gains of Mr. X

Full value of consideration (200 x 700)	1,40,000.00
Less: Cost of acquisition	(1,00,000.00)

Higher of (i) COA = 50 debentures x 1000 = 50,000 (ii) lower of (a) FMV as on 31-01-2018 = 200 shares x 500 = 1,00,000 (b) sale value = 200 shares x 700 = 1,40,000 COA = 1,00,000

Long Term Capital Gain u/s 112A	40,000.00
Full value of consideration (200 x 800)	1,60,000.00
Less: Cost of acquisition	(1,00,000.00)

Higher of (i) COA = 50 debentures x 1000 = 50,000 (ii) lower of (a) FMV as on 31-01-2018 = 200 shares x 500 = 1,00,000 (b) sale value = 200 shares x 800 = 1,60,000 COA = 1,00,000

Long Term Capital Gain u/s 112A	60,000.00
Gross Total Income	1,00,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	1,00,000.00
Tax Liability	Nil

Solution (ii):

Full Value of consideration (100 debentures x ₹6,000)	6,00,000.00
Less: Cost of acquisition (100 x ₹1,000)	(1,00,000.00)
Long Term Capital Gain	5,00,000.00
Gross Total Income	5,00,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	5,00,000.00
Computation of Tax Liability	
Tax on LTCG ₹2,00,000 (₹5,00,000 – ₹3,00,000) @ 10%	20,000.00
Less: Rebate u/s 87A	(20,000.00)
Tax Liability	Nil

Question 31: Explain computation of capital gains on transfer of debentures or bonds.
Answer: While computing capital gains on transfer of debenture or bond, indexation shall not be applicable even if it is long term capital asset and LTCG shall be taxable at the rate of 10% instead of 20% e.g. Mr. X purchased listed debentures of ABC Ltd. on 01.07.2002 for ₹5,00,000 and sold it on 01.07.2023 for ₹15,00,000, in this case tax treatment shall be

Full Value of consideration	15,00,000.00
Less: Cost of acquisition	(5,00,000.00)
Long Term Capital Gain	10,00,000.00
Total Income	10,00,000.00
Tax Liability (10,00,000 – 3,00,000) x 10%	70,000.00
Add: HEC @ 4%	2,800.00
Tax Liability	72,800.00

Question 32 [Imp.]: Write a note on reference to Valuation Officer.
Answer: Reference to Valuation Officer Section 55A Rule 111AA
If the Assessing Officer is of the view that the fair market value of a capital asset computed by the assessee is not correct, Assessing Officer may refer the valuation to the Valuation Officer in the following circumstances:
(i) If the value in the opinion of the Assessing Officer is exceeding by more than 15% of the value computed by the assessee or it is exceeding by more than ₹25,000 of the value computed by the assessee.

Example

Mr. X has converted one capital asset into stock in trade and its market value computed by the assessee is ₹1,00,000 but in the opinion of the Assessing Officer, value should be ₹1,10,000, in this case valuation can not be referred to the Valuation Officer. But if the value in the opinion of the Assessing Officer is ₹1,20,000, in this case matter can be referred to the Valuation Officer.

Similarly, if the value computed by the assessee is ₹2,00,000 but in the opinion of the Assessing Officer value should be ₹2,27,000, matter can be referred to the Valuation Officer.

(ii) in a case where the value of the asset has been estimated by a registered valuer, if the Assessing Officer is of opinion that the value so claimed is at variance with its fair market value.

"Valuation Officer" means an expert employed by Income Tax Department to determine the value of various assets.

Question 33: Write a note on Cost of Improvement.

Answer: <u>Cost of Improvement</u> <u>Section 55(1)</u>

<u>Cost of improvement means expenditure of capital nature incurred in connection with capital asset</u> i.e. if any expenditure is of revenue nature and has been claimed as an expenditure while computing income under any head, it will not to be considered to be cost of improvement.

Example

If an additional floor has been constructed in an existing house, it will be considered to be cost of improvement but if it is a case of minor repairs or white washing, painting etc., it will not be considered to be cost of improvement.

Cost of improvement in different cases is determined in the manner given below:

1. If expenditure is incurred before 01.04.2001, it will not be taken into consideration.

2. If expenditure is incurred from 01.04.2001, actual expenditure incurred shall be taken into consideration.

3. In case of intangible assets like goodwill, right to manufacture, produce or process any article or thing (patent right), right to carry on any business ***or profession*** or any other right (Franchisee) etc., cost of improvement shall be nil.

Question 34: Write a note on Cost of Acquisition.

Answer: <u>Cost of Acquisition</u> <u>Section 55(2)</u>

<u>Cost of acquisition means the actual expenditure incurred for acquiring an asset and it will be determined in the manner given below:</u>

1. If the asset is acquired before 01.04.2001, cost of acquisition shall be the expenditure incurred by the assessee for acquiring the asset or its fair market value as on 01.04.2001, whichever is higher.

However, In case of land or building or both, the fair market value of such asset on the 1st day of April, 2001, shall not exceed the stamp duty value, wherever available, of such asset as on the 1st day of April, 2001.

2. If the asset has been acquired with effect from 01.04.2001 onwards, the cost of acquisition shall be the expenditure incurred by the assessee for acquiring the asset.

3. <u>Intangible Assets</u>

"Cost of acquisition" in relation to a capital asset, being goodwill of a business or profession, or a trade mark or brand name associated with a business or profession, or a right to manufacture, produce or process any article or thing, or right to carry on any business or profession, or tenancy rights, or stage carriage permits, or loom hours or any other intangible assets or any other right,-

(i) in the case of acquisition of such asset by the assessee by purchase, means the amount of the purchase price whether asset was purchased before 01.04.2001 or after 01.04.2001

(ii) in the case asset has been acquired through the transaction section 47, cost of previous owner shall be considered to be cost of assessee

(iii) in any other case, shall be taken to be nil:

In case of goodwill, depreciation was allowed upto previous year 2019-20 and after that no depreciation shall be allowed. Depreciation claimed upto previous year 2019-20 shall be deducted from the purchase price and balance shall be the cost of acquisition and period of holding shall start from 01.04.2020 e.g. Mr. X purchased goodwill on 01.04.2017 for ₹20 lakh and depreciation shall be allowed upto previous year 2019-20 was ₹5 lakh, in this case cost shall be considered to be ₹15 lakh and period of holding shall start from 01.04.2020

Question 35: What types of transactions are included in the term 'transfer' in relation to a capital asset?
Answer: <u>Meaning of 'transfer' in relation to a capital asset</u>
<u>Transfer</u> <u>Section 2(47</u>)
Capital gains shall be computed in case of transfer of capital asset and term transfer shall include
1. Sale of the asset
2. Compulsory acquisition of land or building
3. Conversion of capital asset into stock-in trade
4. The relinquishment of the asset e.g. Mr. X has received the right to purchase the right shares but he has relinquished his right to purchase the share in favour of some other person by charging ₹1,00,000, in this case, he has capital gain of ₹1,00,000.
5. The extinguishment of any rights/asset e.g. Mr. X was holding shares in ABC Ltd. The company has gone into liquidation and Mr. X has received ₹2,00,000 being the full value of consideration and the cost of acquisition was ₹1,50,000, in this case there is a capital gain of ₹50,000.
6. The maturity or redemption of a zero coupon bond.
7. If any person has given possession of immovable property and has taken full payment but ownership in documents has not yet been transferred. It will also be considered to be transfer and capital gains shall be computed e.g. Mr. X enters into an agreement for the sale of his house. The purchaser gives the entire sale consideration to Mr. X. Mr. X hands over complete rights of possession to the purchaser since he has realised the entire sales consideration. The above transaction is considered as transfer.

<u>Illustration 39:</u> Mr. X owns a plot of land acquired on 01.06.2002 for a consideration of ₹ 2 lakhs. He enters into an agreement to sell the property on 15.03.2024 for a consideration of ₹ 20 lakhs. In part performance of the contract, he handed over the possession of land on 21.03.2024 on which date he received the full consideration. As on 31st March 2024 the sale was not registered.
Discuss the liability to capital gain for the assessment year 2024-25.

<u>Solution:</u>	**₹**
Computation of Capital Gains	
Full value of consideration	20,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / Index of 02-03 x Index of 23-24	
= 2,00,000 / 105 x 348	(6,62,857.14)
Long Term Capital Gain	13,37,141.96

<u>Illustration 40:</u> Mr. X purchased 2,000 equity shares of ABC Ltd. (a listed company) on 01.04.2014 at ₹20 per share. He sold all the shares on 01.06.2023 at ₹50 per share. He also had to pay securities transaction tax (STT) on the same. Explain the taxability in the hands of Mr. X in the year of transfer i.e. A.Y. 2024-25.
<u>Solution:</u> In the given problem, since the listed equity shares of ABC Ltd. are being sold after 12 months and also STT has been paid, it is exempt upto ₹1,00,000 u/s 112A and excess over ₹1,00,000 is taxable @ 10%.

<u>Illustration 41:</u> Will your answer be different if these shares were preference shares and not equity shares? Explain.
<u>Solution:</u> Since section 112A is not applicable to preference shares, capital gains shall be taxable.

<u>Illustration 42:</u> Will you answer be different if these shares were not listed in a recognised stock exchange? Explain.
<u>Solution:</u> Since the shares are not listed, section 112A is not applicable, capital gains shall be taxable.

MULTIPLE CHOICE QUESTIONS

1. Which of the following would be regarded as transfer -
(a) transfer of a capital asset in a scheme of reverse mortgage
(b) transfer of a capital asset under a gift or will or an irrevocable trust
(c) transfer by way of conversion of equity shares from preference shares
(d) Redemption of Zero coupon bond
2. Short-term capital gains arising on transfer of listed shares on which STT is paid at the time of transfer, would be chargeable to tax –
(a) at the rate of 10% (b) at the rate of 20% (c) at the rate of 15% (d) at the rate of 5%
3. Distribution of assets at the time of liquidation of a company-
(a) is not a transfer in the hands of the company or the shareholders
(b) is not a transfer in the hands of the company but capital gains is chargeable to tax on such distribution in the hands of the shareholders
(c) is not a transfer in the hands of the shareholders but capital gains is chargeable to tax on such distribution in the hands of the company
(d) is a transfer both in the hands of shareholders and company
4. Land or building would be long term capital asset only if it is
(a) held for more than 12 months immediately preceding the date of transfer
(b) held for more than 24 months immediately preceding the date of transfer
(c) held for more than 30 months immediately preceding the date of transfer
(d) held for more than 36 months immediately preceding the date of transfer
5. Capital gain on transfer of depreciable asset would be-
(a) long term capital gain, if held for more than 36 months
(b) long term capital gain, if held for more than 24 months
(c) long term capital gain, if held for more than 12 months
(d) short term capital gain, irrespective of the period of holding
6. For an assessee, who is a salaried employee who invests in equity shares, what is the benefit available in respect of securities transaction tax paid by him on sale and acquisition of 100 listed shares of X Ltd. which has been held by him for 14 months before sale?
(a) Rebate under section 88E is allowable in respect of securities transaction tax paid
(b) Securities transaction tax paid is treated as expenses of transfer and deducted from sale consideration.
(c) Capital gains is taxable at a concessional rate of 10% on such capital gains exceeding ₹1 lakh
(d) Capital gains is taxable at concessional rate of 15%.
7. Under section 50C, the guideline value (Stamp duty value) for stamp duty is taken as the full value of consideration only if -
(a) the asset transferred is building and the actual consideration is less than the guideline value
(b) the asset transferred is either land or building or both and guideline value exceeds the actual consideration
(c) the asset transferred is either land or building or both and the guideline value exceeds 110% of the actual consideration.
(d) the asset transferred is land and the actual consideration is less than the guideline value
8. Where there is a transfer of a capital asset by a partner to the firm by way of capital contribution or otherwise, the consideration would be taken as -
(a) The market value of the capital asset on the date of transfer
(b) The cost less notional depreciation of the capital asset
(c) The value of the asset recorded in the books of the firm.
(d) Any of the above, at the option of the assessee
9. Under section 54F, capital gains are exempted if
(a) long-term capital gain arising on transfer of residential house is invested in acquisition of one residential house situated in or outside India
(b) long-term capital gain arising on transfer of a capital asset other than a residential house is invested in acquisition of one residential house situated in or outside India

(c) net sale consideration on transfer of a capital asset other than a residential house is invested in acquisition of one residential house situated in India
(d) short term or long-term capital gain arising on transfer of a capital asset other than a residential house is invested in acquisition of one residential house situated in India

10. Under section 54EC, capital gains on transfer of land or building or both are exempted if invested in the bonds issued by RECL or other notified bond-
(a) within a period of 6 months from the date of transfer of the asset
(b) within a period of 6 months from the end of the relevant previous year
(c) within a period of 6 months from the end of the previous year or the due date for filing the return of income under section 139(1), whichever is earlier
(d) At any time before the end of the relevant previous year.

11. Non listed equity shares shall be long term after
(a) One year (b) Two year (c) Three year (d) None of these

12. Which of the following is not correct for long term capital gains under section 112A
(a) rebate u/s 87A is not allowed
(b) deductions under Chapter VI-A not allowed
(c) it is taxable in excess of ₹ 2,00,000
(d) while computing capital gains indexation is not applicable
(e) none of these

13. Mr. X purchased one motor car for ₹3,00,000 and it was sold for ₹5,00,000 after one year, in this case
(a) there is short term capital gains of ₹ 2,00,000 (b) there is long term capital gains of ₹ 2,00,000
(c) income under the head other sources ₹ 2,00,000 (d) none of these

14. Mr. X purchased agricultural land in Delhi and it was sold after 2 years and there is a profit of ₹10,00,000, in this case
(a) it will be considered to be short term capital gains
(b) it will be considered to be long term capital gains
(c) it will be exempt from income tax
(d) it will be considered to be income under the head other sources
(e) none of these

15. In case of conversion of capital asset into stock in trade, capital gains shall be computed
(a) in the year of conversion (b) in the year of sale of stock in trade
(c) subsequent to be year of conversion (d) none of these

16. In case of compulsory acquisition of land or building by the Govt.,
(a) capital gains shall be taxable in the year of acquisition
(b) capital gains shall be taxable in the year in which Govt. has made full payment
(c) capital gains shall be taxable in the year in which Govt. has made the first payment
(d) none of these

17. If any person has received any capital asset as gift and it was not taxable as gift, in that case
(a) cost of acquisition for such person shall be nil
(b) cost of acquisition for such person shall be the market value on the date on which such gift has been received
(c) cost of acquisition of the previous owner shall be considered to be the cost of acquisition of the assessee
(d) none of these

18. Mr. X sold one house property for ₹ 70,00,000 and its stamp duty value is ₹ 73,00,000, in this case FVC shall be taken to be
(a) ₹ 70,00,000 (b) ₹ 73,00,000 (c) ₹ 73,50,000 (d) none of these

19. Mr. X sold one house property for ₹ 70,00,000 and its stamp duty value is ₹ 84,00,000, in this case FVC shall be taken to be
(a) ₹ 70,00,000 (b) ₹ 84,00,000 (c) ₹ 73,50,000 (d) none of these

20. Exemption under section 54
(a) is allowed to an individual for short term capital gains on transfer of residential house
(b) is allowed to an individual for long term capital gains on transfer of any house property

(c) is allowed to a company for long term capital gains on transfer of residential house
(d) none of these

21. Exemption under section 54B is allowed
(a) to an individual if he has invested within 3 years in agricultural land in rural area
(b) to an individual if he has invested within 1 year in agricultural land in rural area
(c) to an individual if he has invested within 2 year in agricultural land in rural area or urban area
(d) none of these

22. Exemption under section 54D is allowed
(a) only to a company in case of compulsory acquisition of land or building of an industrial undertaking
(b) to any assessee in case of compulsory acquisition of land or building of an industrial undertaking
(c) to any assessee in case of sale of land or building of an industrial undertaking
(d) none of these

23. Exemption under section 54EC is allowed to
(a) any assessee on the transfer of any land or building which is long term
(b) any assessee on the transfer of any asset which is long term
(c) any assessee on the transfer of any asset which is long term or short term
(d) none of these

24. Under section 54EE
(a) exemption allowed to all the assessee but maximum ₹ 50,00,000 in a particular previous year
(b) exemption allowed to an individual only but maximum ₹ 60,00,000 in a particular previous year
(c) exemption allowed to an individual or HUF only but maximum ₹ 70,00,000 in a particular previous year
(d) none of these

25. Under section 54F
(a) investment should be made within 2 years after the date of transfer of original asset
(b) investment should be made within 1 years before and 4 years after the date of transfer of original asset for construction of house
(c) investment should be made within 1 years before and 2 years after the date of transfer of original asset for purchase of house
(d) none of these

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

PRACTICE PROBLEMS
TOTAL PROBLEMS 18

Problem 1.

Mr. X acquired a residential house in January, 1999 for ₹2,00,000 and its market value on 01.04.2001 is ₹1,80,000 and he constructed its 1st floor in September' 2007 by incurring ₹3,00,000 and constructed second floor in October' 2011 by incurring ₹4,00,000 and constructed its third floor in February' 2013 by incurring ₹5,00,000 and sold the house on 01.01.2024 for ₹100,00,000 and paid brokerage @ 1% and he invested ₹20,000 in equity shares of infrastructure development company notified under section 80C.

Compute his tax liability for assessment year 2024-25.

Answer = Tax Liability: ₹14,79,920

Problem 2.

Compute capital gains and tax liability of Mr. X in the following Independent situations for the assessment year 2024-25:

Asset	Gold	Land	Residential house
Date of purchase	01.07.1998	01.04.1996	01.07.1993
Cost price	3,00,000	5,00,000	7,00,000
Cost of improvement	20,000	1,00,000	3,00,000
Year of improvement	1999-00	2000-01	2016-17
Fair market value on 01.04.2001	35,00,000	45,00,000	55,00,000
Date of Sale	01.01.2024	01.01.2024	01.01.2024
Full value of consideration	150,00,000	320,00,000	400,00,000

Answer = Tax Liability: Gold: ₹5,24,160; Land: ₹38,36,770; Residential House: ₹48,23,360

Problem 3.

Mr. X purchased 100 equity shares in ABC Ltd. (listed) on 01.10.1996 @ ₹10 per share. The company had issued 100 bonus shares on 01.10.2000 and market value of the share as on 01.04.2001 is ₹8 per share. Company has again issued 100 bonus shares on 01.10.2006.

The company has further offered 100 right shares on 01.05.2023 @ ₹150 per share and Mr. X has purchased half of the shares and balance half was renounced in favour of Mr. Y by charging ₹5 per share.

Mr. X and Mr. Y both have transferred all the shares on 01.01.2024 @ ₹200 per share and securities transaction tax has been paid. Market value as on 31-01-2018 ₹100 per share

Mr. X has income under the head business/profession ₹20,00,000 and he has invested ₹70,000 in public provident fund.

Mr. Y has income under the head business/profession ₹10,00,000 and he has invested ₹50,000 in public provident fund.

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

Answer = Mr. X: Tax Liability: ₹3,12,470; Mr. Y: Tax Liability: ₹62,750

Problem 4.

Mr. X purchased one house on 01.10.2002 for ₹5,00,000 and this house was acquired compulsorily by the Government on 01.07.2014. Compensation fixed by the Government was ₹55,00,000. Government has paid half of the amount on 01.10.2023 and balance half on 01.10.2024.

The assessee was not satisfied with the compensation and he has filed an appeal in the High Court. The High Court has given decision on 31.03.2026 directing the Government to pay additional compensation of ₹5,00,000 and the Government has paid ₹3,00,000 on 10.04.2026 and balance ₹2,00,000 on 10.04.2027.

Compute capital gains for the various years and tax liability for assessment year 2024-25.

Answer = Assessment Year 2024-25: Long term capital gains: ₹43,57,140; Tax Liability: ₹8,43,890;
Assessment Year 2027-28: Long term capital gains: ₹3,00,000;
Assessment Year 2028-29: Long term capital gains: ₹2,00,000

Problem 5.

Discuss whether the following are capital assets or not:

- (i) Household furniture
- (ii) Personal Motor car
- (iii) Residential house
- (iv) Urban land
- (v) Agricultural land in rural area in India
- (vi) Agricultural land in rural area in Nepal
- (vii) Stock in trade
- (viii) Gold ornaments
- (ix) Music system for personal use
- (x) Music system in business use
- (xi) Motor car in business use
- (xii) Plant and machinery in business use
- (xiii) Silver utensils for personal use
- (xiv) Precious stones in personal use

Answer = (i) Not a capital asset; (ii) Not a capital asset; (iii) Capital asset; (iv) Capital asset; (v) Not a capital asset; (vi) Capital asset; (vii) Not a capital asset; (viii) Capital asset; (ix) Not a capital asset; (x) Capital asset; (xi) Capital asset; (xii) Capital asset; (xiii) Not a capital asset; (xiv) Capital asset

Problem 6.

Mr. X (aged 55 years) sold the following assets during the previous year 2023-24:

1. He purchased one house in rural area on 01.10.1991 for ₹2,00,000 and incurred ₹50,000 on its improvement on 01.07.2000. Its market value on 01.04.2001 is ₹2,30,000. It was sold on 01.04.2023 for ₹5,00,000.
2. He purchased agricultural land in the rural area for ₹2,00,000 on 01.07.2020 and sold it on 01.07.2023 for ₹3,00,000.
3. He purchased one T.V. for his personal use on 01.01.2020 for ₹25,000 and sold it on 30.12.2023 for ₹20,000.
4. He purchased gold on 01.07.2022 for ₹3,00,000 and sold it on 01.04.2023 for ₹4,50,000.
5. He has one motor car in his business with written down value as on 01.04.2023 ₹2,00,000 and it was sold by him on 01.07.2023 for ₹2,50,000.
6. He purchased one house on 01.10.2002 for ₹7,00,000 and incurred ₹4,50,000 on 01.10.2012 to construct its first floor and subsequently the house was sold on 01.01.2024 for ₹90,00,000 and selling expenses were 2% of the sale price.

Compute tax liability of Mr. X for the assessment year 2024-25.

Answer = Tax Liability: ₹12,16,440

Problem 7.

Mr. X purchased one residential house on 01.10.2002 for ₹5,00,000 and sold the house on 01.07.2023 for ₹100,00,000 and purchased one house on 01.01.2024 for ₹20,00,000 and this house was sold by him on 01.01.2025 for ₹25,00,000.

Compute his income tax liability for assessment year 2024-25 and also capital gains for all the years.

Answer = Income Tax Liability : ₹13,82,610
Assessment Year 2025-26: Short term capital gains: ₹25,00,000

(b) Presume the house purchased on 01.01.2024 was sold on 31.01.2024

Answer = Income Tax Liability : ₹19,20,290

(c) Presume the house purchased on 01.01.2024 was purchased on 01.10.2024 and was not sold upto 01.09.2027.

Answer = Income Tax Liability : ₹18,40,210

(d) Presume no house was purchased but the amount was deposited in capital gains account scheme on 31.07.2024 and the amount remained unutilized.

Answer = Income Tax Liability : ₹13,82,610
Assessment Year 2027-28: Long term capital gains: ₹20,00,000

Problem 8.

Mr. X purchased agricultural land in urban area for ₹3,00,000 on 01.10.2005 and this land was transferred by him on 01.07.2023 for ₹32,00,000 (this agricultural land is used for agricultural purpose since its purchase). Mr. X purchased one agricultural land on 30.09.2024 in the urban area for ₹6,00,000. The agricultural land were sold on 01.01.2025 for ₹10,00,000.

He has one business also with turnover ₹105,00,000 and has income from business ₹1,10,000.

Compute capital gains for various years and also tax liability for assessment year 2024-25.

Answer = Assessment Year 2024-25: Long Term Capital Gains: ₹17,07,692.31; Tax Liability: 3,15,680
Assessment Year 2025-26: Short Term Capital Gains: ₹10,00,000

Problem 9.

Mr. X sells a commercial house property on 15th December 2023 for ₹22,00,000 (cost of acquisition on 23rd April 2001 ₹1,50,000). On 14th March 2024 he purchases a residential house for ₹3,00,000 for availing exemption under section 54F and bonds of RECL which are redeemable after 5 years for ₹3,80,000 for claiming exemptions under section 54EC. He does not own any other house. He also incurred a short term capital loss amounting to ₹50,000 during the previous year 2023-24.

During the previous year his only other income was from business amounting to ₹50,00,000.

He deposited ₹20,000 in public provident fund.

Compute the total income and tax liability of Mr. X for the assessment year 2024-25.

Answer = Total Income: ₹60,19,180; Tax Liability: ₹16,05,990

Problem 10.

Mr. X purchased agricultural land on 01.05.1991 for ₹3,00,000 in urban area and its market value on 01.04.2001 is ₹2,00,000. This land was gifted by him to his son Mr. Y on 01.01.2013 when its market value was ₹15 lakhs. Mr. Y has transferred this land on 01.01.2024 for ₹40 lakhs (this agricultural land is used for agricultural purposes since its purchase) and he purchased one more agricultural land in rural area on 10th January 2024 for ₹2,50,000 and purchased one residential house on 31.01.2024 because he didn't have any house in his name, for ₹7,00,000.

He invested ₹1,00,000 in bonds of National Highways Authority of India redeemable after 5 years. The amount was invested on 30.06.2024.

Compute his tax liability for the assessment year 2024-25.

Answer = Tax Liability: ₹ 3,72,050

Problem 11.

On 25.04.2023 Mr. X sold an urban agricultural land for ₹60,00,000 which he had been using for agricultural purposes for several years. He acquired that land in 2000 for ₹2,50,000. The market value of such land as on 01.04.2001 was ₹5,00,000. He purchased rural agricultural land for ₹8,00,000 on 25.06.2023 which was sold for ₹12,50,000 on 18.01.2024. A sum of ₹12,50,000 was also invested by him in purchase of residential property on 25.07.2023. He did not own any house property before this date. The new house property was sold on 28.03.2024 for ₹15,00,000.

Compute tax liability for assessment year 2024-25.

Answer = Long term capital gain: ₹34,60,000; Short term capital gain: ₹2,50,000; Tax Liability: ₹7,09,280.

Problem 12.

Mr. X is the owner of the following assets:

1. He purchased gold in 1997-98 for ₹90,000 and its market value as on 01.04.2001 is ₹1,01,000.
2. He purchased equity shares in A Ltd (listed) in 1993-94 for ₹1,92,000 and its market value on 01.04.2001 is ₹2,00,000 and market value as on 31-01-2018 ₹2,83,000

Mr. X died on 16.08.2008 and as per his will these assets were transferred to his son Y. Mr. Y now sells these assets on 10.06.2023 for ₹20,00,000 and ₹3,00,000 respectively and securities transaction tax has been paid on sale of equity shares.

Find out the amount of capital gains chargeable to tax and also tax liability for the assessment year 2024-25.

Answer = Income under the head Capital Gains: ₹16,65,520; Tax Liability: ₹2,80,490.

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 15.03.2024 (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 2024-25.

Answer = Long Term Capital Gain: ₹9,29,514.16

Problem 14.

Mr. X a senior citizen (aged 65 years) sold residential building at Alwar for ₹40,00,000 on October 1st, 2023. 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, 2024 for ₹8,00,000 and deposited ₹3,00,000 on April 20th, 2024 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 2024-25.

Answer = Total Income: ₹26,88,000; Tax Liability: ₹4,96,700.

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 and subsequently assessee has sold all these shares on 01.04.2023 @ ₹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: ₹56,110.62 (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 01.07.2023 @ ₹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 28.06.2024 because the assessee did not have any house and ₹1,00,000 was deposited in capital gain account scheme on 30.06.2024 for availing exemption under section 54F and ₹ 50,000 was withdrawn on 02.07.2024 to construct first floor of the house purchased on 28.06.2024.

Compute total income and tax liability for assessment year 2024-25 and capital gains for various years.

Answer = Total Income: ₹5,44,570; Tax Liability: 24,870;
Assessment Year 2027-28: Long Term Capital Gain: ₹24,101.18

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 01.01.2024 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 31.03.2024 for ₹1,00,000.
3. He purchased one motor car for personal use on 28.02.2020 for ₹2,00,000 and sold it on 01.04.2023 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 ₹2,00,000 and it was sold by him on 01.07.2023 for ₹8,00,000.
5. He purchased silver utensils on 01.07.2018 for ₹30,000 and these utensils were sold by him on 01.01.2024 for ₹23,000.
6. He has invested ₹35,000 in the units of UTI.

Compute his income tax liability for assessment year 2024-25.

Answer = Tax Liability: ₹31,30,460

Problem 18.

Mr. X owns several assets but does not own any residential house. He sells the following assets and requests you to compute his tax liability for the assessment year 2024-25.

1. Shares (non-listed) purchased in April 2007 for ₹1,30,000 sold on 19.07.2023 for ₹12,00,000.
2. On 01.04.2001, he had agreed to sell the jewellery to Mr. Y for ₹3,50,000 which was purchased in 1996 for ₹1,80,000. However, the sale could not be effected as Mr. Y backed out. He now sold the jewellery on 15.08.2023 for ₹18,00,000 and incurred ₹30,000 incidental selling expenses on account of brokerage and commission.
   In December 2023, he also purchased a small residential house for ₹2,00,000.
   He has deposited ₹1,60,000 on 20.01.2024 in deposit account with a public sector bank under capital gains deposit scheme for construction on the house which he has purchased in December 2023.
   On 15.01.2024, he invested ₹2,50,000 in the bonds issued by RECL which are redeemable after 5 years.
3. Debentures (unlisted) purchased in April 2021 for ₹80,000 sold on 31.12.2023 for ₹1,40,000.
4. Sold his motor car purchased in August 2007 for ₹1,50,000 on 15.03.2024 for ₹18,000.
5. He purchased equity shares of ABC Limited on 01.11.2022 for ₹2,00,000 and sold all the shares on 01.06.2023 for ₹10,00,000 and has paid STT @ 0.25% of sale price.

Compute his income tax liability.

Answer = Tax Liability: ₹3,13,350.

SOLUTIONS
TO
PRACTICE PROBLEMS

Solution 1:

Computation of income under the head Capital Gain

	₹
Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / Index of 01-02 x Index of 23-24	
= 2,00,000 / 100 x 348	(6,96,000.00)
Less: Indexed cost of improvement	
Cost of constructing first floor	
= 3,00,000 / Index of 07-08 x Index of 23-24	
= 3,00,000 / 129 x 348	(8,09,302.33)
Less: Indexed cost of improvement	
Cost of constructing second floor	
= 4,00,000 / Index of 11-12 x Index of 23-24	
= 4,00,000 / 184 x 348	(7,56,521.74)
Less: Indexed cost of improvement	
Cost of constructing third floor	
= 5,00,000 / Index of 12-13 x Index of 23-24	
= 5,00,000 / 200 x 348	(8,70,000.00)
Less: Brokerage @ 1%	
= 1% of ₹100,00,000 = ₹1,00,000	(1,00,000.00)
Long Term Capital Gain	67,68,175.94
Income under the head Capital Gain (LTCG)	67,68,175.94
Gross Total Income	67,68,175.94
Less: Deduction under Chapter VI-A	Nil
Total Income	67,68,175.94
Rounded off u/s 288A	67,68,180.00
Computation of Tax Liability	
Tax on ₹ 64,68,180 (₹67,68,180 – ₹3,00,000) @ 20%	12,93,636.00
Add: Surcharge @10%	1,29,363.60
Tax before health & education cess	14,22,999.60
Add: HEC @ 4%	56,919.98
Tax Liability	14,79,919.98
Rounded off u/s 288B	14,79,920.00

Solution 2:

Gold

	₹
Full value of consideration	150,00,000
Less: Indexed cost of acquisition	
= 35,00,000 / Index of 01-02 x Index of 23-24	
= 35,00,000 / 100 x 348	(121,80,000)
Long term capital gain	28,20,000
Gross Total Income	28,20,000

Less: Deduction under Chapter VI-A	Nil
Total Income	28,20,000
Computation of Tax Liability	
Tax on ₹25,20,000 (₹28,20,000 – 3,00,000) @ 20% u/s 112	5,04,000.00
Add: HEC @ 4%	20,160.00
Tax Liability	5,24,160.00

<u>Land</u>

Full value of consideration	320,00,000.00
Less: Indexed cost of acquisition	
= 45,00,000 / Index of 01-02 x Index of 23-24	
= 45,00,000 / 100 x 348	(156,60,000.00)
Long term capital gain	163,40,000.00
Gross Total Income	163,40,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	163,40,000.00
Computation of Tax Liability	
Tax on ₹160,40,000 (₹163,40,000 – 3,00,000) @ 20% u/s 112	32,08,000.00
Add: Surcharge @ 15%	4,81,200.00
Tax before health & education cess	36,89,200.00
Add: HEC @ 4%	1,47,568.00
Tax Liability	38,36,768.00
Rounded off u/s 288B	38,36,770.00

<u>Residential House</u>

Full value of consideration	400,00,000
Less: Indexed cost of acquisition	
= 55,00,000 / Index of 01-02 x Index of 23-24	
= 55,00,000 / 100 x 348	(191,40,000)
Less: Indexed cost of improvement	
= 3,00,000 / Index of 16-17 x Index of 23-24	
= 3,00,000 / 264 x 348	(3,95,454.55)
Long term capital gain	204,64,545.45
Gross Total Income	204,64,545.45
Less: Deduction under Chapter VI-A	Nil
Total Income	204,64,545.45
Rounded off u/s 288A	204,64,550.00
Computation of Tax Liability	
Tax on ₹201,64,550 (₹204,64,550 – 3,00,000) @ 20% u/s 112	40,32,910.00
Add: Surcharge @ 15%	6,04,936.50
Tax before health & education cess	46,37,846.50
Add: HEC @ 4%	1,85,513.86
Tax Liability	48,23,360.36
Rounded off u/s 288B	48,23,360.00

<u>Solution 3:</u>

Computation of Capital Gains in the hands of Mr. X

<u>Original shares</u>

Full value of consideration (100 x 200)	20,000
Less: Cost of acquisition	(10,000)

Higher of (i) COA = 100 x 10 = 1,000 (ii) lower of (a) FMV as on 31-01-2018 = 100 shares x 100 = 10,000 (b) sale value = 100 shares x 200 = 20,000 COA = 10,000	
Long term capital gain u/s 112A	10,000

1st bonus shares

Full value of consideration	20,000
(100 x 200)	
Less: Cost of acquisition	(10,000)
Higher of (i) COA = 100 x 8 = 800 (ii) lower of (a) FMV as on 31-01-2018 = 100 shares x 100 = 10,000 (b) sale value = 100 shares x 200 = 20,000 COA = 10,000	
Long term capital gain u/s 112A	10,000

2nd bonus shares

Full value of consideration	20,000
(100 x 200)	
Less: Cost of acquisition	(10,000)
Higher of (i) COA = Nil (ii) lower of (a) FMV as on 31-01-2018 = 100 shares x 100 = 10,000 (b) sale value = 100 shares x 200 = 20,000 COA = 10,000	
Long term capital gain u/s 112A	10,000

Computation of capital gains in case of right shares	**₹**
Full value of consideration	10,000
(50 x 200)	
Less: Cost of acquisition	(7,500)
(50 x 150)	
Short term capital gain u/s 111A	2,500
Computation of capital gains in case of shares renounced	
Full value of consideration	250
(50 x 5)	
Less: Cost of acquisition	Nil
Short term capital gain	250
Short term capital gain of Mr. X	2,750

Working Note:

Period of holding in case of renouncing of right to purchase a right shares section 2(42A)

In the case of a capital asset, being the right to subscribe to any financial asset, which is renounced in favour of any person, the period shall be reckoned from the date of the offer of such right by the company or institution, as the case may be, making such offer.

Computation of Total Income

Income under the head Business/Profession	20,00,000.00

Income under the head Capital Gains	
Long term capital gains 112A	30,000.00
Short term capital gains	2,750.00
Gross Total Income	20,32,750.00
Less: Deduction under Chapter VI-A	Nil
Total Income	20,32,750.00
Computation of Tax Liability	
Tax on ₹2,500 @ 15% u/s 111A	375.00
Tax on ₹20,00,250 at slab rate	3,00,075.00
Tax on LTCG 112A (30,000-30,000)	Nil
Tax before health & education cess	3,00,450.00
Add: HEC @ 4%	12,018.00
Tax Liability	3,12,468.00
Rounded off u/s 288B	3,12,470.00
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 under Chapter VI-A	Nil
Total Income	10,02,250.00
Computation of Tax Liability	
Tax on ₹2,250 @ 15% u/s 111A	337.50
Tax on ₹10,00,000 at slab rate	60,000.00
Tax before health & education cess	60,337.50
Add: HEC @ 4%	2,413.50
Tax Liability	62,751.00
Rounded off u/s 288B	62,750.00

Solution 4: **Computation of Tax Liability for the previous year 2023-24 under section 45(5)**

Since the Government has made the first payment in the previous year 2023-24, Long term capital gain shall be taxed in the previous year 2023-24. 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	
= 5,00,000/105 x 240 = ₹11,42,857.14	(11,42,857.14)
Long Term Capital Gain	43,57,142.86
Income under the head Capital Gains (LTCG)	43,57,142.86
Gross Total Income	43,57,142.86
Less: Deductions under Chapter VI-A	Nil
Total Income {Rounded off u/s 288A}	43,57,140.00

Computation of Tax Liability

{Since there is no income under any other head so as per section 112 deficiency of ₹3,00,000 shall be allowed from LTCG and the balance income shall be taxed at flat rate of 20%}

Tax on ₹40,57,140 (₹43,57,140 – 3,00,000) @ 20%	8,11,428.00
Add: HEC @ 4%	32,457.12
Tax liability of Mr. X	8,43,885.12
Rounded off u/s 288B	8,43,890.00

Computation of Capital Gains

Capital gains for the previous year 2026-27 i.e. the year in which additional compensation has been received.

Long term capital gain for 2026-27 3,00,000.00

Capital gain for the previous year 2027-28 in which balance amount of additional compensation has been received.

Long term capital gain for the year 2027-28 2,00,000.00

Solution 5:

(i) Household furniture is not a capital asset.
(ii) Personal motor car is not a capital asset.
(iii) Residential house is a capital asset.
(iv) Urban land is a capital asset.
(v) Agricultural land in rural area in India is not a capital asset.
(vi) Agricultural land in rural area in Nepal is a capital asset.
(vii) Stock in trade is not a capital asset.
(viii) Gold ornaments are a capital asset.
(ix) Music system for personal use is not a capital asset.
(x) Music system for business use is a capital asset.
(xi) Motor car in business use is a capital asset.
(xii) Plant and machinery in business use is a capital asset.
(xiii) Silver utensils for personal use is not a capital asset.
(xiv) Precious stones in personal use is a capital asset.

Solution 6: ₹

Computation of Capital Gains

1. House

Full value of consideration	5,00,000.00
Less: Indexed cost of acquisition (2,30,000 / 100 x 348)	(8,00,400.00)
Long term capital loss	(3,00,400.00)

2. Agricultural Land in rural area not an asset as per section 2(14).

3. T.V. is not an asset as per section 2(14).

4. Gold

Full value of consideration	4,50,000.00
Less: Cost of acquisition	(3,00,000.00)
Short term capital gain	1,50,000.00

5. Motor car

Full value of consideration	2,50,000.00

Less: written down value	(2,00,000.00)
Short term capital gain as per section 50	50,000.00

<u>6. House</u>

Full value of consideration	90,00,000.00
Less: Indexed cost of acquisition (7,00,000 / 105 x 348)	(23,20,000.00)
Less: Indexed cost of improvement (4,50,000 / 200 x 348)	(7,83,000.00)
Less: Selling expenses @ 2%	(1,80,000.00)
Long term capital gains	57,17,000.00
Less: Long term capital loss on sale of first house	(3,00,400.00)
Long term capital gain	54,16,600.00
Short Term Capital Gain	2,00,000.00
Income under the head Capital Gains	56,16,600.00
Gross Total Income	56,16,600.00
Less: Deduction under Chapter VI-A	Nil
Total Income	56,16,600.00
Computation of Tax Liability	
Tax on ₹2,00,000 at slab rate	Nil
Tax on LTCG ₹53,16,600 (₹54,16,600 – ₹1,00,000) @ 20%	10,63,320.00
Tax before Surcharge	10,63,320.00
Add: Surcharge @ 10%	1,06,332.00
Tax before health & education cess	11,69,652.00
Add: HEC @ 4%	46,786.08
Tax Liability	12,16,438.08
Rounded off u/s 288B	12,16,440.00

<u>Solution 7:</u>

Computation of Capital Gains	**₹**
Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 02-03 x Index of 23-24	
= 5,00,000 / 105 x 348	(16,57,142.86)
Long Term Capital Gains	83,42,857.86
Less: Exemption u/s 54	(20,00,000.00)
Long Term Capital Gains	63,42,857.86
Income under the head Capital Gains	63,42,857.86
Gross Total Income	63,42,857.86
Less: Deduction under Chapter VI-A	Nil
Total Income	63,42,857.86
Rounded off u/s 288A	63,42,860.00
Computation of Tax Liability	
Tax on LTCG ₹60,42,860 (₹63,42,860 – ₹3,00,000) @ 20%	12,08,572.00
Add: Surcharge @ 10%	1,20,857.20
Tax before health & education cess	13,29,429.20
Add: HEC @ 4%	53,177.17
Tax Liability	13,82,606.37
Rounded off u/s 288B	13,82,610.00

Computation of Capital Gain for the assessment year 2025-26

Full value of consideration	25,00,000.00
Less: Cost of acquisition (20,00,000- 20,00,000)	Nil
Short Term Capital Gain	25,00,000.00

<u>Solution 7(b):</u>

Computation of Capital Gains

Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 02-03 x Index of 23-24	
= 5,00,000 / 105 x 348	(16,57,142.86)
Long Term Capital Gains	83,42,857.14

The assessee has the option either not to avail exemption under section 54 or to avail exemption under section 54 and also it will be withdrawn

<u>Option I Exemption is not availed:</u>

Long Term Capital Gain	83,42,857.14
<u>Sale of house purchased on 01.01.2024</u>	
Full value of consideration	25,00,000.00
Less: Cost of acquisition	(20,00,000.00)
Short Term Capital Gain	5,00,000.00
Income under the head Capital Gains	88,42,857.14
Gross Total Income	88,42,857.14
Less: Deduction under Chapter VI-A	Nil
Total Income	88,42,857.14
Rounded off u/s 288A	88,42,860.00
Computation of Tax Liability	
Tax on ₹5,00,000 at slab rate	10,000.00
Tax on LTCG ₹83,42,860 @ 20%	16,68,572.00
Tax before Surcharge	16,78,572.00
Add: Surcharge @ 10%	1,67,857.20
Tax before health & education cess	18,46,429.20
Add: HEC @ 4%	73,857.17
Tax Liability	19,20,286.37
Rounded off u/s 288B	19,20,290.00

<u>Option II Exemption is availed</u>

Long Term Capital Gain	83,42,857.14
Less: Exemption u/s 54	(20,00,000.00)
Long Term Capital Gains	63,42,857.14
<u>Sale of house purchased on 01.01.2024</u>	
Full value of consideration	25,00,000.00
Less: Cost of acquisition (20,00,000 – 20,00,000)	Nil
Short Term Capital Gain	25,00,000.00
Income under the head Capital Gains	88,42,857.14
Gross Total Income	88,42,857.14
Less: Deduction under Chapter VI-A	Nil
Total Income	88,42,857.14
Rounded off u/s 288A	88,42,860.00
Computation of Tax Liability	
Tax on ₹25,00,000 at slab rate	4,50,000.00
Tax on LTCG ₹64,23,810 @ 20%	12,68,572.00
Tax before Surcharge	17,18,572.00
Add: Surcharge @ 10%	1,71,857.20
Tax before health & education cess	18,90,429.20
Add: HEC @ 4%	75,617.17
Tax Liability	19,66,046.37
Rounded off u/s 288B	19,66,050.00

Hence the assessee should opt for option I and his tax liability shall be ₹19,20,290.

Solution 7(c):

Computation of Capital Gains

Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 02-03 x Index of 23-24	
= 5,00,000 / 105 x 348	(16,57,142.86)
Long Term Capital Gains	83,42,857.14
(Exemption is not allowed because house was purchased after the last date of filing of return of income)	
Income under the head Capital Gains	83,42,857.14
Gross Total Income	83,42,857.14
Less: Deduction under Chapter VI-A	Nil
Total Income	83,42,857.14
Rounded off u/s 288A	83,42,860.00
Computation of Tax Liability	
Tax on LTCG ₹80,42,860 (₹83,42,860 – ₹3,00,000) @ 20%	16,08,572.00
Add: Surcharge @ 10%	1,60,857.20
Tax before health & education cess	17,69,429.20
Add: HEC @ 4%	70,777.17
Tax Liability	18,40,206.37
Rounded off u/s 288B	18,40,210.00

Solution 7(d):

Computation of Capital Gains

Full value of consideration	100,00,000.00
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 02-03 x Index of 23-24	
= 5,00,000 / 105 x 348	(16,57,142.86)
Long Term Capital Gains	83,42,857.14
Less: Exemption u/s 54	(20,00,000.00)
Long Term Capital Gains	63,42,857.14
Income under the head Capital Gains	63,42,857.14
Gross Total Income	63,42,857.14
Less: Deduction under Chapter VI-A	Nil
Total Income	63,42,857.14
Rounded off u/s 288A	63,42,860.00
Computation of Tax Liability	
Tax on LTCG ₹60,42,860 (₹63,42,860 – ₹3,00,000) @ 20%	12,08,572.00
Add: Surcharge @ 10%	1,20,857.20
Tax before health & education cess	13,29,429.20
Add: HEC @ 4%	53,177.17
Tax Liability	13,82,606.37
Rounded off u/s 288B	13,82,610.00

Computation of Capital Gain for the assessment year 2027-28

Unutilized amount in capital gain account scheme after expiry of three years	
Long Term Capital Gain	20,00,000.00

Solution 8:

Computation of Capital Gains

Previous year 2023-24

	₹
Full value of consideration	32,00,000.00
Less: Indexed cost of acquisition	
= ₹3,00,000 / Index of 05-06 x Index of 23-24	

= ₹3,00,000 / 117 x 348	(8,92,307.69)
Long term capital gain	23,07,692.31
Less: Exemption u/s 54B	(6,00,000.00)
Long term capital gain	17,07,692.31
Income under the head Business/Profession	1,10,000.00
Gross Total Income	18,17,692.31
Less: Deduction under Chapter VI-A	Nil
Total Income	18,17,692.31
Rounded off u/s 288A	18,17,690.00
Computation of Tax Liability	
Tax on LTCG ₹15,17,690 (₹17,07,690 – ₹1,90,000) @ 20%	3,03,538.00
Tax on ₹1,10,000 at slab rate	Nil
Add: HEC @ 4%	12,141.52
Tax Liability	3,15,679.52
Rounded off u/s 288B	3,15,680.00

Previous year 2024-25

<u>Sale of land</u>

Full value of consideration	10,00,000.00
Less: Cost of acquisition = ₹6,00,000	
Less: Exemption earlier allowed = ₹6,00,000	
So, Cost of acquisition = Nil	Nil
Short term capital gain	10,00,000.00

<u>Solution 9:</u> **₹**

Computation of Capital Gains

Full value of consideration	22,00,000.00
Less: Indexed cost of acquisition	
= 1,50,000 / Index of 01-02 x Index of 23-24	
= 1,50,000 / 100 x 348	(5,22,000.00)
Long term capital gain	16,78,000.00
Less: Exemption u/s 54EC	(3,80,000.00)
Less: Exemption u/s 54F	
= 16,78,000/22,00,000 x 3,00,000	(2,28,818.20)
Long term capital gain	10,69,181.80
Less: Short Term Capital Loss	(50,000.00)
Income under the head Capital Gains (LTCG)	10,19,181.80
Income under the head Business/Profession	50,00,000.00
Gross Total Income	60,19,181.80
Less: Deductions under Chapter VI-A	Nil
Total Income	60,19,181.80
Rounded off u/s 288A	60,19,180.00
Computation of Tax Liability	
Tax on ₹50,00,000 at slab rate	12,00,000.00
Tax on ₹10,19,180 @ 20% u/s 112	2,03,836.00
Tax before Surcharge	14,03,836.00
Add: Surcharge @ 10%	1,40,383.60
Tax before health & education cess	15,44,219.60
Add: HEC @ 4%	61,768.78
Tax Liability	16,05,988.38
Rounded off u/s 288B	16,05,990.00

Solution 10:

Computation of Capital Gains

	₹
Full value of consideration	40,00,000.00
Less: Indexed cost of acquisition	
= 3,00,000 / Index of 01-02 x Index of 23-24	
= 3,00,000 / 100 x 348	(10,44,000.00)
Long term capital gain	29,56,000.00
Less: Exemption u/s 54B	
Purchased on 10.01.2024	(2,50,000.00)
Less: Exemption u/s 54F	
= Capital Gains / Net Consideration x Amount of investment	
= ₹29,56,000/ 40,00,000 x 7,00,000	(5,17,300.00)
Less: Exemption u/s 54EC	(1,00,000.00)
Long term capital gain after various deductions	20,88,700.00
Income under the head Capital Gains (LTCG)	20,88,700.00
Gross Total Income	20,88,700.00
Less: Deductions under Chapter VI-A	Nil
Total Income	20,88,700.00

Computation of Tax Liability

Tax ₹17,88,700 (₹20,88,700– ₹3,00,000) @ 20% u/s 112	3,57,740.00
Add: HEC @ 4%	14,309.60
Tax Liability	3,72,049.60
Rounded off u/s 288B	3,72,050.00

Solution 11:

Computation of Capital Gains

	₹
1. Sale of Land	
Full value of consideration	60,00,000
Less: Indexed cost of acquisition	
= 5,00,000 / Index of 01-02 x Index of 23-24	
= 5,00,000 / 100 x 348	(17,40,000)
Long term capital gain	42,60,000
Less: Exemption u/s 54B	(8,00,000)
Long term capital gain	34,60,000
2. House	
Full value of consideration	15,00,000
Less: Cost of acquisition	(12,50,000)
Short term capital gain	2,50,000
Income under the head capital Gain	37,10,000
Gross Total Income	37,10,000
Less: Deduction under Chapter VI-A	Nil
Total Income	37,10,000
Computation of Tax Liability	
Tax on ₹2,50,000 at slab rate	Nil
Tax on LTCG ₹34,10,000 (34,60,000 – 50,000) @ 20% u/s 112	6,82,000
Add: HEC @ 4%	27,280
Tax Liability	7,09,280

Note: Assessee will be allowed exemption under section 54F but exemption shall be withdrawn because the house has been sold hence exemption allowed and exemption withdrawn will be the same amount and it will give the same tax liability.

Solution 12:	₹
Computation of Capital Gains	
Gold	
Full value of consideration	20,00,000.00
Less: Indexed cost of acquisition	
= 1,01,000 / Index of 01-02 x Index of 23-24	
= 1,01,000 / 100 x 348	(3,51,480.00)
Long term capital gain	16,48,520.00
Shares in A Ltd	
Full value of consideration	3,00,000.00
Less: cost of acquisition	(2,83,000.00)
Higher of (i) COA = 2,00,000 (ii) lower of (a) FMV as on 31-01-2018 = 2,83,000 (b) sale value = 3,00,000 COA = 2,83,000	
Long term capital gain u/s 112A	17,000.00
Income under the head Capital Gains	16,65,520.00
Gross Total Income	16,65,520.00
Less: Deduction under Chapter VI-A	Nil
Total Income	16,65,520.00
Computation of Tax Liability	
Tax on LTCG ₹13,48,520 (₹16,48,520– ₹3,00,000) @ 20%	2,69,704.00
Tax on LTCG Nil (17,000-17,000) u/s 112A	Nil
Add: HEC @ 4%	10,788.16
Tax Liability	2,80,492.16
Rounded off u/s 288B	2,80,490.00

Solution 13:	₹
Computation of Capital Gains	
Full value of consideration	14,50,000.00
Less: Indexed cost of acquisition	
= 1,10,000 / Index of 01-02 x Index of 23-24	
= 1,10,000 / 100 x 348	(3,82,800.00)
Less: Indexed cost of improvement	
= 40,000 / Index of 04-05 x Index of 23-24	
= 40,000 / 113 x 348	(1,23,185.84)
Less: Brokerage	(14,500.00)
Long term capital Gain	9,29,514.16

Solution 14:	₹
Computation of income under the head Capital Gains	
Full value of consideration	40,00,000.00
Less: Indexed cost of acquisition	
= 1,50,000 / Index of 01-02 x Index of 23-24	
= 1,50,000 / 100 x 348	(5,22,000.00)
Less: Brokerage	(40,000.00)
1% of ₹40,00,000 = ₹40,000	
Less: Exemption u/s 54	(8,00,000.00)
Long term capital gain	26,38,000.00

Income under the head Capital Gains (LTCG)	26,38,000.00
Income under the head Other Sources	50,000.00
Gross Total Income	26,88,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	26,88,000.00
Computation of Tax Liability	
Tax on LTCG on ₹23,88,000 (₹26,38,000 – ₹2,50,000) @ 20% u/s 112	4,77,600.00
Tax on ₹50,000 at slab rate	Nil
Add: HEC @ 4%	19,104.00
Tax Liability	4,96,704.00
Rounded off u/s 288B	4,96,700.00

Solution 15: ₹

(a) STT not paid

Computation of Capital Gains

Full value of consideration (300 x 500)	1,50,000.00
Less: Indexed Cost of acquisition	
= (100 x 300) / Index of 04-05 x Index of 23-24	
= 30,000 / 113 x 348	(92,389.38)
Less: Brokerage @ 1% on 1,50,000	(1,500.00)
Long Term Capital Gain	56,110.62

(b) STT Paid

Computation of Capital Gains

Full value of consideration (300 x 500)	1,50,000.00
Less: Cost of acquisition	(90,000.00)
Higher of (i) COA = 100 debentures x 300 = 30,000 (ii) lower of (a) FMV as on 31-01-2018 = 300 shares x 300 = 90,000 (b) sale value = 300 shares x 500 = 1,50,000 COA = 90,000	
Less: Brokerage @ 1% on 1,50,000	(1,500.00)
Long Term Capital Gain u/s 112A	58,500.00

Solution 16: ₹

Computation of Capital Gains

Previous Year 2023-24 Assessment Year 2024-25

Full value of consideration (1,500 x 900)	13,50,000.00
Less: Indexed cost of acquisition	
= (500 x 395.85) / Index of 01-02 x Index of 23-24	
= 1,97,925 / 100 x 348	(6,88,779.00)
Less: Brokerage @ 1.5%	
= 1.5 % of ₹13,50,000 = ₹20,250	(20,250.00)
Long Term Capital Gains	6,40,971.00
Less: Exemption u/s 54F	
$= \frac{6,40,971 \times 2,00,000}{13,29,750}$	(96,404.74)
Long Term Capital Gain	5,44,566.26
Gross Total Income	5,44,566.26
Less: Deduction under Chapter VI-A	Nil
Total Income	5,44,566.26

Rounded off u/s 288A	5,44,570.00
Computation of Tax Liability	
Tax on ₹2,44,570 (₹5,44,570 – ₹3,00,000) @ 20%	48,914.00
Less: Rebate u/s 87A	(25,000.00)
Tax before Education Cess	23,914.00
Add: HEC @ 4%	956.56
Tax Liability	24,870.56
Rounded off u/s 288B	24,870.00

Assessment Year 2027-28

Proportionate capital gains for unutilized amount shall be as given below:

$= \frac{6,40,971 \times 50,000}{13,29,750} =$ ₹24,101.18 Long Term Capital Gain 24,101.18

(Proportionate exemption with regard to the unutilised amount lying in the capital gain account scheme is Chargeable to tax after expiry of period of three years.)

Solution 17: ₹

Computation of income under the head Capital Gain

1. House	
Full value of consideration	160,00,000.00
Less: Indexed cost of acquisition (5,25,000/ 100 x 348)	(18,27,000.00)
Less: Indexed cost of improvement of First floor (4,00,000/ 220 x 348)	(6,32,727.73)
Less: Selling Expenses	(85,000.00)
Long term capital gain	1,34,55,272.73
2. Shares	
Full value of Consideration	1,00,000.00
Less: Indexed cost of acquisition (1,50,000 / 220 x 348)	(2,37,272.73)
Long term capital loss	(1,37,272.73)
3. Motor car for personal use is not an asset as per section 2(14).	
4. Gold	
Full value of consideration	8,00,000.00
Less: Indexed cost of acquisition (2,10,000 / 100 x 348)	(7,30,800.00)
Long term capital gains	69,200.00
5. Silver Utensils not an asset as per section 2(14)	
Long term capital gain	1,34,55,272.73
Long term capital gains on sale of Gold	69,200.00
Less: Long term capital loss on sale of shares	(1,37,272.73)
Long term capital gain after adjusting long term loss	1,33,87,200.00
Gross Total Income	1,33,87,200.00
Less: Deduction under Chapter VI-A	Nil
Total Income	1,33,87,200.00
Computation of Tax Liability	
Tax on ₹1,30,87,200 (₹1,33,87,200 – ₹3,00,000) @ 20%	26,17,440.00
Add: Surcharge @ 15%	3,92,616.00
Tax before health & education cess	30,10,056.00
Add: HEC @ 4%	1,20,402.24
Tax Liability	31,30,458.24
Rounded off u/s 288B	31,30,460.00

Solution 18: ₹

Computation of capital gains

Option 1:Section 54F Exemption taken from Shares

1. Shares	
Full value of consideration	12,00,000.00
Less: Indexed cost of acquisition	
= 1,30,000 / Index of 07-08 x Index of 23-24	
= 1,30,000 / 129 x 348	(3,50,697.67)
Long term capital gain	8,49,302.33
Less: Exemption u/s 54F	
= 8,49,302.33 / 12,00,000 x 3,60,000	(2,54,790.70)
Long term capital gain	5,94,511.63
2. Jewellery	
Full value of consideration	18,00,000.00
Less: Indexed cost of acquisition	
= 3,50,000 / Index of 01-02 x Index of 23-24	
= 3,50,000 / 100 x 348	(12,18,000.00)
Less: Selling Expenses	(30,000.00)
Long term capital gain	5,52,000.00
3. Debentures	
Full value of consideration	1,40,000.00
Less: Cost of acquisition	(80,000.00)
Short term capital gain	60,000.00

4. Motor car: is covered under the personal movable effects, hence, no capital gains shall be computed

5. Equity Shares	
Full value of consideration	10,00,000.00
Less: Cost of acquisition	(2,00,000.00)
Short term capital gain u/s section 111A	8,00,000.00
Income under the head Capital gain	
Long Term Capital Gains	11,46,511.63
Short Term Capital Gains	8,60,000.00
Gross Total Income	**20,06,511.63**
Less: Deduction under Chapter VI-A	Nil
Total Income	**20,06,511.63**
Rounded off u/s 288A	**20,06,510.00**
Computation of Tax Liability	
Tax on ₹9,06,510 (₹11,46,510 – ₹ 2,40,000) @ 20% u/s 112	1,81,302.00
Tax on ₹8,00,000 @ 15% u/s 111A	1,20,000.00
Tax on ₹60,000 at slab rate	Nil
Tax before health & education cess	3,01,302.00
Add: HEC @ 4%	12,052.08
Tax Liability	3,13,354.10
Rounded off u/s 288B	3,13,350.00

Option 2:Section 54F Exemption taken from Jewellery

1. Shares	
Full value of consideration	12,00,000.00
Less: Indexed cost of acquisition	
= 1,30,000 / Index of 07-08 x Index of 23-24	
= 1,30,000 / 129 x 348	(3,50,697.67)
Long term capital gain	8,49,302.33
2. Jewellery	
Full value of consideration	18,00,000.00
Less: Indexed cost of acquisition	
= 3,50,000 / Index of 01-02 x Index of 23-24	
= 3,50,000 / 100 x 348	(12,18,000.00)

Less: Selling Expenses	(30,000.00)
Long term capital gain	5,52,000.00
Less: Exemption u/s 54F	
= 5,52,000.00 / 17,70,000 x 3,60,000	(1,12,271.20)
Long term capital gain	4,39,728.80

3. Debentures

Full value of consideration	1,40,000.00
Less: Cost of acquisition	(80,000.00)
Short term capital gain	60,000.00

4. Motor car: is covered under the personal movable effects, hence, no capital gains shall be computed

5. Equity Shares

Full value of consideration	10,00,000.00
Less: Cost of acquisition	(2,00,000.00)
Short term capital gain u/s section 111A	8,00,000.00
Income under the head Capital gain	
Long Term Capital Gains	12,89,031.13
Short Term Capital Gains	8,60,000.00
Gross Total Income	21,49,031.13
Less: Deduction under Chapter VI-A	Nil
Total Income	21,49,031.13
Rounded off u/s 288A	21,49,030.00

Computation of Tax Liability

Tax on ₹10,49,030 (₹12,89,030 – ₹ 2,40,000) @ 20% u/s 112	2,09,806.00
Tax on ₹8,00,000 @ 15% u/s 111A	1,20,000.00
Tax on ₹60,000 at slab rate	Nil
Tax before health & education cess	3,29,806.00
Add: HEC @ 4%	13,192.24
Tax Liability	3,42,998.24
Rounded off u/s 288B	3,43,000.00

Option 1 is better.

EXAMINATION QUESTIONS

NOV – 2023

Question 3(a) **(4 Marks)**

Mr. Aryan A Resident Individual aged 58 years, sells (unlisted) shares in a private sector company on May 17, 2023 for ₹ 10,00,000. The shares were bought on 01.08.2012 for a consideration of ₹ 2,00,000. Mr. Aryan paid ₹ 2,000 as brokerage on sale of shares.

Mr. Aryan deposited ₹ 5,00,000/- in Capital Gain Account scheme on 15.06.2024 (Before filing the return of Income for the Assessment Year 2024-25)

On April 30, 2025 he withdraws ₹ 4,50,000 and purchases a residential house property at Delhi on May 1, 2025 for ₹ 4,50,000.

Ascertain –

(i) The amount of Capital Gain chargeable to tax for the A.Y. 2024-25.

(ii) Tax treatment (with mention of relevant assessment year) of the unutilized amount.

Solution:

P.Y. 2023-24

Full value of consideration	10,00,000
Indexed Cost of acquisition 2,00,000 / 200 x 348	(3,48,000)
Less: Selling expenses	(2,000)
Long Term Capital Gains	6,50,000
Less: Exemption u/s 54F 6,50,000 / 9,98,000 x 5,00,000	(3,25,651.30)
Long Term Capital Gains	3,24,348.70
Gross Total Income / Total Income	3,24,348.70
Rounded u/s 288A	3,24,350.00

P.Y. 2026-27

LTCG 6,50,000 / 9,98,000 x 50,000	32,565.13

NOV – 2022

Question 4(a) **(6 Marks)**

Examine whether the following are chargeable to tax and the amount liable to tax :

(i) Interest on enhanced compensation ₹3,00,000 received on 31.03.2024 from government of Tamil Nadu towards urban land acquired by it. 40% of enhanced compensation interest pertains to previous year 2022-23.

(ii) Narayanan transferred 1000 shares of BS Ltd to AB Pvt. Ltd on 01-06-2023 for a consideration of ₹2,00,000 when the fair market value of the same as on transaction date was ₹3,00,000. The indexed cost of acquisition of shares for Narayanan was ₹2,75,000. The transfer was effected off market on which securities transaction tax was not paid. BS Ltd is a closely held unlisted company.

(iii) Mr. A received ₹5,00,000 on 1st March 2024 from Sree Pushpaka Charitable Trust for meeting his medical expenses. The trust is registered under Section 12AB of Income Tax Act.

Solution:

(i) As per section 145B, interest income shall be taxable in the year in which it has been received	₹3,00,000
Less: Deduction u/s 57 (50% of ₹3,00,000)	(1,50,000)
Balance Taxable under the head Other Sources	1,50,000
(ii) FVC (being the fair market value of unquoted shares of BS Ltd.) as per section 50CA	3,00,000
Less: Indexed cost of acquisition	(2,75,000)
LTCG	25,000
Gift in the hands of AB Pvt. Ltd. (3,00,000 – 2,00,000)	1,00,000
(iii) Gift from Charitable Trust registered under section 12AB shall be exempt from income tax	Nil

MAY – 2022

Question 3(a) **(8 Marks)**

Mr. Lalit, a dealer in shares and securities, has entered into following transactions during the previous year 2023-24:

(i) Received a motor car of 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.

(ii) Cash gift of 21,000 each from his four friends.

(iii) Land at Jaipur on 01st July, 2023 as a gift from his friend Kabra, the stamp duty value of the land is 6 lakhs as on the date. The land was acquired by Mr. Kabra in the previous year 2001-2002 for 2 lakhs.

Mr. Lalit purchased from his friend Mr. Abhishek, who is also a dealer in shares, 1000 shares of ABC Ltd. @ 400 each on 19th June, 2023 the fair market value of which was 600 each on that date. Mr. Lalit sold these shares in the course of his business on 23rd June, 2023.

Further, on 1st November, 2023, Mr. Lalit took possession of his residential house booked by him two years back at 20 lakh. The stamp duty value of the property as on 1st November, 2023 was 32 lakh and on the date of booking was 24 lakh. He had paid 1 lakh by account payee cheque as down payment on the date of booking.

He received a shop (building) of the fair market value 1,50,000 and cash 50,000 in distribution from the ABC (P) Ltd at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is 1,25,000.

On 1st March, 2024, he sold the plot of land at Jaipur for 8 lakh.

Compute the income of Mr. Lalit chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2024-25.

Answer:

Computation of "Income from Other Sources" of Mr. Lalit for the A.Y. 2024-25

	Particulars	₹
(i)	Motor car is <u>not included in the definition of "property"</u> for the purpose of section 56(2)(x), hence, value of the same is not taxable.	-
(ii)	Cash gift is taxable under section 56(2)(x)	84,000
(iii)	Stamp value of plot of land at Jaipur, received without consideration, is taxable under section 56(2)(x), since the same exceeds ₹ 50,000	6,00,000
(iv)	Difference of ₹ 2 lakh [1000 shares x ₹ 200] in the value of shares of ABC Ltd. purchased from Mr. Abhishek, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. Lalit (since he is a dealer in shares) and not capital asset	-
(v)	Difference between the stamp duty value of ₹ 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	4,00,000
(vi)	Distribution of assets by ABC (P) Ltd. on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend under section 2(22)(c).	1,25,000
Income taxable under the head "Income from other sources"		**12,09,000**

Computation of "Capital Gains" of Mr. Lalit for the A.Y.2024-25

Particulars	₹
<u>Capital gains on sale of land at Jaipur</u>	
Sale Consideration	8,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x)]	<u>6,00,000</u>

Short-term capital gains (since held for a period of not more than 24 months. Period of holding of previous owner, Mr. Kabra, not to be considered)	**2,00,000**
Capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
Full value of consideration for capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
FMV of assets distributed	1,50,000
Cash	50,000
	2,00,000
Less: Deemed dividend under section 2(22)(c)	1,25,000
Full value of consideration for computing capital gains	**75,000**

Note -

(i) As cost of acquisition of shares in ABC(P) Ltd. is **not** given in the question, capital gains on distribution of assets on liquidation of ABC(P) Ltd. in the hands of Mr. Lalit has not been computed.

(ii) As per section 56(1)(i), dividend income is chargeable under the head "Income from Other Sources". Hence, deemed dividend u/s 2(22)(c) would be taxable under the head "Income from Other Sources" in the hands of Mr. Lalit, who is a dealer in shares.

JULY – 2021

Question 3(b) **(2 x 2 = 4 Marks)**

Examine the taxability of Capital gains in the following scenarios for the Assessment Year 2024-25, determine the taxable amount and rate of tax applicable:

(i) On 29th February, 2024 10,000 shares of XY Ltd., a listed company are sold by Mr. B @ 550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th April, 2017 @ 395 per share by paying STT at the time of purchase. On 31st January, 2018, the share of XY Ltd. were traded on a recognized stock exchange at the Fair Market Value of ₹ 390 per Share.

(ii) Mr. A is the owner of residential house which was purchased on 1st September, 2016 for ₹9,00,000. He sold the said house on 4th September, 2023 for ₹ 19,00,000. Valuation as per stamp valuation authorities was ₹ 45,00,000. He invested ₹ 19,00,000 in RECL Bonds on 21st March 2024.

The Cost Inflation index for-

F.Y. 2016-2017 - 264

F.Y. 2023-2024 - 348

Solution:

	Particulars		Amount ₹
(i)	**Long-term capital gain on transfer of 10,000 shares of XY Ltd. [taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]**		
	Full value of consideration [10,000 x ₹ 550]		55,00,000
	Less: Cost of acquisition		
	Higher of		
	Cost of acquisition [10,000 x ₹ 395]	39,50,000	
	Lower of fair market value per share as on 31.1.2018 i.e., ₹390 per share and sale consideration i.e., ₹ 550 per share [10,000 x ₹ 390]	39,00,000	(39,50,000)
	Long term capital gain taxable u/s 112A		15,50,000
	Long-term capital gain exceeding ₹ 1 lakh i.e., ₹ 14,50,000 would be taxable @10%		
(ii)	**Sale of residential house [long-term capital asset, since held for more than 24 months]**		

	Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration]	45,00,000
	Less: Indexed cost of acquisition [₹ 9,00,000 x 348/264]	(11,86,363.64)
		33,13,636.36
	Less: Deduction under section 54EC	Nil
	No deduction under section 54EC would be allowed on investment of ₹ 19,00,000 in RECL bonds, since such investment is made on 21st March 2024 i.e., after six months from the date of transfer i.e., 4th September, 2023	
	Long-term capital gain taxable u/s 112 @ 20%	**33,13,636.36**

NOV – 2020

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 31.01.2020 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 07.07.2023 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 2024-25

Solution:

Computation of total income of Mr. Govind for the A.Y.2024-25

Computation of Capital gains on sale of 800 shares

FVC (2,400 x 800)		19,20,000
Less: Cost of acquisition 2,000 x 800		16,00,000
Higher of		
(i) Cost of acquisition ₹900 x 800		
(ii) Lower of		
(a) FMV on 31.01.2018	₹2,000	
(b) Sale consideration on 07.07.2023	₹2,400	
Long Term Capital Gain		3,20,000

Capital gains on conversion in the previous year 2019-20

FVC (1000 shares x 2,100)	21,00,000
Less: 900 x 1,000 / 100 x 289	(26,01,000)
Long Term Loss	(5,01,000)

(Since no STT is paid, capital gains shall be computed under section 112 and further there are 2 market values i.e. 2,200 and 2,100. Any of these values can be considered)

It will be considered to be loss of previous year 2023-24 i.e. the year in which stock in trade has been sold.

Computation of Income under the head Business/Profession

1,000 x 2,400 =	24,00,000
Less: Cost (1,000 x 2,100)	(21,00,000)
Income under the head Business/Profession	3,00,000
Total Income	3,00,000

Note:

Loss of ₹5,01,000 shall be adjusted from LTCG to the extent of ₹3,20,000 and balance shall be carried forward.

NOV – 2019

Question.3. (b) **(6 Marks)**

Mr. Rajan provides you the following details with regard to sale of certain securities by him during F.Y. 2023-24:

(i) Sold 10000 shares of A Ltd. on 05-04-2023 @ ₹ 650 per share

A Ltd. is a listed company. These shares were acquired by Mr. Rajan on 05-04-2016 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31-01-2018, the shares of A Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹ 300 per share

Average price - ₹ 290 per share

Lowest price - ₹ 280 per share

(ii) Sold 1000 units of B Mutual Fund on 20-04-2023 @ ₹ 50 unit

B Mutual Fund is an equity oriented fund. These units were acquired by Mr. Rajan on 15-04-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of B Mutual Fund was ₹ 55 per unit.

(iii) Sold 100 shares of C Ltd. on 25-04-2023 @ ₹ 200 per share

C Ltd. is an un-listed company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Value of these shares as on 01-04-2001 was ₹ 50 per share.

Cost Inflation Index for various financial year are as under:

2001-02 - 100

2016-17 - 264

2017-18 - 272

2023-24 - 348

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2024-25 assuming that the other incomes of Mr. Rajan exceeds the maximum amount not chargeable to tax. (Ignore surcharges and cess).

Solution: Computation of amount chargeable to tax under the head capital gains

(i) Sold 10000 shares of A Ltd. on 05-04-2023 @ ₹ 650 per share

Full value of consideration (10,000 x 650)		65,00,000
Cost of acquisition		(30,00,000)
Higher of		
1. Cost of acquisition (10,000 x 100)	10,00,000	
2. Lower of		
(a) Fair market value of such asset on 31.01.2018 (10,000 x 300)	30,00,000	
(b) Actual sale value	65,00,000	
LTCG u/s 112A		35,00,000

(ii) Sold 1000 units of B Mutual Fund on 20-04-2023 @ ₹ 50 unit (Assumed units are not listed as on 31.01.2018)

Full value of consideration (1,000 x 50)		50,000
Cost of acquisition		(50,000)
Higher of		
1. Cost of acquisition (1,000 x 10)	10,000	
2. Lower of		
(a) Fair market value of such asset on 31.01.2018 (1,000 x 55)	55,000	
(b) Actual sale value (1,000 x 50)	50,000	
LTCG u/s 112A		Nil

(iii) Sold 100 shares of C Ltd. on 25-04-2023 @ ₹ 200 per share

Full value of consideration (100 x 200)	20,000
Less: Indexed Cost of Acquisition (100 x 50 (being FMV on 01.04.2001))/100 x 348	(17,400)

Long Term Capital Gain	2,600
Income under the head capital gains	35,02,600

<u>Computation of Tax before health and education cess</u>

Tax on (35,00,000 – 1,00,000) @ 10% u/s 112A	3,40,000
Tax on ₹2,600 @ 20% u/s 112	520
Tax before health & education cess	3,40,520

MAY – 2019

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-registrar 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 31-03-2024 for ₹ 17,00,000 for self-occupation. On 01-03-2025, he sold such new residential house for ₹ 30,00,000. Compute his capital gain for the A.Y. 2024-25 and 2025-26. (Cost of indexation : 2001-02; 2005-06 and 2023-24 are, 100; 117 and 348)

Solution:

Computation of Capital Gains for the A.Y. 2024-2025 & 2025-26

As per section 50C, in case the actual sale consideration (i.e., ₹23 lakhs, in this case) is less than the stamp duty value (i.e., ₹28 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration if it exceeds 110% of the sale consideration However, if assessee has preferred an appeal to the Valuation Officer (i.e., revenue divisional officer, in this case) and the Valuation Officer has fixed the value of the house (i.e., ₹25 lakh, in this case) less than stamp duty value (i.e., ₹28 lakh, in this case), such value determined by the Valuation Officer shall be deemed as the full value of consideration.

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

<u>A.Y. 2024-2025</u>

Computation of Capital Gains

Full value of consideration (section 50C)	25,00,000.00
Less: Indexed cost of acquisition	
= 2,00,000 / 117 x 348	(5,94,871.79)
Long Term Capital Gain	19,05,128.21
Less: Exemption u/s 54	(17,00,000.00)
Purchase of new residential house property on 31.3.2024	
(i.e., within two years from the date of transfer of residential house	
Long Term Capital Gain	2,05,128.21

<u>A.Y. 2025-2026</u>

Since new house is sold within 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

[Since the residential house is held for a period less than 24 months]

Note: As per section 54, if the new residential house purchased (i.e., on 31.3.2024, in this case) is transferred within 3 years of its purchase (i.e., on 1.3.2025, in this case), and the cost of acquisition of the new house (i.e., ₹ 17 lakhs, in this case) is lower than the long-term capital gain (i.e., ₹ 19,05,128.21, in this case), the cost of acquisition of such new residential house shall be taken as Nil, while computing capital gains on sale of the new residential house

MAY – 2019

Question 3 (b) **(6 Marks)**

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 07.01.2019.

Mr. Roy utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹2,05,00,000 on 20.07.2019. The said house property was sold on 01.06.2023 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2024. The property at Panchkula was sold for ₹3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2019-20 and 2024-25. All workings should form part of your answer.

Cost inflation index for various financial years are as under:

2009-10	–	148
2018-19	–	280
2019-20	–	289
2023-24	–	348

Solution:

Computation of Capital Gains for the A.Y. 2019-2020 & 2024-25

A.Y 2019-2020

Computation of Capital Gains

Full value of consideration	1,57,00,000.00
Less: Indexed cost of acquisition	
= 30,00,000 / 148 x 280	(56,75,675.68)
Long Term Capital Gain	1,00,24,324.32
Less: Exemption u/s 54	(1,00,24,324.32)
Long Term Capital Gain	Nil

Note: Purchase of new residential house property at Panchkula for 2,05,00,000 on 20.7.2019 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain

A.Y 2024-2025

Computation of Capital Gains

Full value of consideration	3,25,00,000.00
Less: Indexed cost of acquisition	
= (205,00,000-1,00,24,324.32) / 289 x 348	(126,14,308.43)
Long Term Capital Gain [Since the residential house is held for more than 24 months]	1,98,85,691.57
Less: Exemption u/s 54	(1,98,85,691.57)
Long Term Capital Gain	Nil

Note:

1. As per section 54, if the new residential house purchased (i.e., on 20.7.2019, in this case) is transferred within 3 years of its purchase (i.e., on 01.06.2023, in this case), and the cost of acquisition of the new house (i.e.,2,05,00,000) is higher than the long-term capital gain (i.e., 1,00,24,324.32,) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier, while computing capital gains on sale of the new residential house] [126,14,308.43 (2,05,00,000-1,00,24,324.32) / 289 x 348]
2. Purchase of new residential house property in Delhi for 2,57,00,000 on 2.3.2024 i.e., within two years from 01.06.2023, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains.

PROFITS AND GAINS
OF
BUSINESS OR PROFESSION
"PGBP"

SECTION 28 TO 44DB

PARTICULARS	SECTIONS
Profits and gains of business or profession chargeability/ scope of income under this head	28
Income from profits and gains of business or profession, how computed?	29
Rent, rates, taxes, repairs and insurance for buildings	30
Repairs and insurance of machinery, plant and furniture	31
Depreciation	32
Treatment of unabsorbed depreciation	32(2)
Expenditure on scientific research	35
Amortisation of certain preliminary expenses	35D
Amortisation of expenditure incurred under voluntary retirement scheme	35DDA
Other deductions	36
Interest on borrowed capital	36(1)(iii)
Employer's contribution to a recognised provident fund or approved superannuation fund	36(1)(iv)
Employer's contribution to an approved gratuity fund	36(1)(v)
Sums received from employees towards certain welfare schemes if credited to their accounts before the due date	36(1)(va)
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Expenditure on promoting family planning amongst the employees	36(1)(ix)
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General deductions	37(1)
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Payments to relatives/related persons	40A(2)
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Disallowance in respect of contribution to non-statutory funds	40A(9)
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Actual cost	43(1)
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Certain deductions to be only on actual payment	43B
Special provisions for full value of consideration for transfer of assets other than capital assets in certain cases	43CA
Maintenance of accounts by certain persons carrying on business or profession	44AA/Rule 6F

Compulsory audit of accounts	**44AB/Rule 6G**
Special provisions for computing profits and gains of business of civil construction	**44AD**
Special provision for computing profits and gains of profession on presumptive basis	**44ADA**
Special provisions for computing profits and gains of business of plying, hiring or leasing goods carriage	**44AE**
Method of accounting	**145**
Block of Assets	**2(11)**

Question 1 [Imp.]: What are the incomes chargeable to tax under the head Business/Profession?
Answer: <u>Incomes chargeable to tax under the head Business/ Profession</u> <u>Section 28</u>
As per section 28, income from any business/profession shall be taxable under the head Business/Profession and income shall be computed in the similar manner as in case of general practice of accountancy but incomes and expenditures shall be such as are given under Income Tax Act. The following incomes shall also be taxable under the head Business/Profession.
<u>(i) Income from Speculation Business</u> shall be taxable under the head business/profession.
<u>(ii) Gift in connection with business/profession</u>
Any gift or perquisite or benefit received in connection with business/profession. If any gift has been received from any client, it will be considered to be income under the head Business/Profession e.g. If a Chartered Accountant has received gift of ₹30,000 from one of his client, it will be considered to be his income under the head business/profession.
the value of any benefit or perquisite arising from business or the exercise of a profession, whether—
(a) convertible into money or not; or
(b) in cash or in kind or partly in cash and partly in kind;
Example
ABC Ltd. has engaged one Advocate with regard to its legal proceedings. The company has provided him facilities of free travelling, boarding/lodging and has incurred ₹25,000, it will be considered to be professional receipt of the Advocate.
<u>(iii) Payments for not pursuing any business activity or profession/non-compete fee</u>
If any person has received any payment from any other person for not pursuing any business activity ***or profession*** i.e. payment has been received for closing down the business ***or profession***, it will also be considered to be income under the head business/profession. Similarly if payment has been received for not using any patent right or technical know-how or other similar right, it will also be considered to be income under the head business/profession.
It is also called non-compete fee. The person making payment should deduct tax at source @ 10% as per section 194J.
Example
ABC Ltd. has received ₹30,00,000 for not carrying out a particular business activity, in this case, the amount so received shall be considered to be income of the assessee.
Example
ABC Ltd. has received ₹ 10,00,000 for not sharing a particular patent, in this case, it will be considered to be income under the head business/profession.
<u>(iv) Payment under Keyman Insurance Policy</u>
Sometimes employer may take a life policy in the name of any of his employees who are considered to be very important for business or profession and such policy is called keyman insurance policy and premium is paid by employer and employer is allowed to debit it to profit and loss account and amount received on maturity shall be considered to be income of employer as per section 28.
If any payment has been received by the employee, it will be considered to be income under the head salary.
Similarly a policy may be taken in the name of any other person who is considered to be very important for the business of the employer, such policy is also called keyman insurance policy. If payment has been received by such other person, it will be considered to be his income under the head other sources as per section 56.

(v) Export Incentives

If any manufacturer is exporting the goods manufactured by him, in such cases he may be given certain incentives by the Govt. and such incentives are called export incentives and shall be considered to be income of the assessee under the head business/ profession and in general there are two types of incentives:

(i) GST paid by the assessee on inputs or other goods shall be refunded to assessee as an incentive and it will be called duty drawback i.e. drawing back the duty paid by the assessee.

(ii) The exporters are issued special licenses for importing goods without payment of custom duty and such licenses are called import entitlement licenses and an exporter is allowed to sell it in the market and profit on sale of import entitlement license shall be considered to be income under the head business/profession.

Example

ABC Ltd. has computed its income to be ₹20,00,000 and some of the entries noted from profit and loss account are as given below:

1. Company has debited the amount of opening stock ₹33,00,000 which is overvalued by 10%.
2. Company has received duty drawbacks of ₹7,00,000 but the amount has not been credited to the profit and loss account.
3. The company has received import entitlement license from the Government and it was sold it at a profit of ₹3,00,000. The amount has not been credited to the profit and loss account.

Solution:

In this case company's tax liability shall be:	**₹**
Net profit as per profit and loss account	20,00,000
Add:	
• Opening stock overvalued (33,00,000 /110 x 10)	3,00,000
• Duty drawback received	7,00,000
• Sale of import entitlement license	3,00,000
Income under the head business/profession	33,00,000
Total Income	33,00,000
Computation of Tax Liability	
Tax on ₹33,00,000 @ 30%	9,90,000
Add: HEC @ 4%	39,600
Tax Liability	10,29,600

(vi) If any person has received any amount in connection with termination or modification of terms and conditions of any contracts relating to his business, amount so received shall be considered to be income under the head business/profession.

(vii) If any person has converted any inventory or stock in trade in to a capital asset, in such cases business income shall be computed and for this purpose fair market value of the inventory on the date of conversion shall be taken into consideration, e.g. ABC limited is engaged in business of sale /purchase of generators but company has used one generator in its business premises which was purchased for ₹ 10,00,000 but market value is ₹ 11,00,000, in this case there will be business income of ₹1,00,000 and for the purpose of charging depreciation, value shall be taken to be ₹ 11,00,000.

Income from profits and gains of business or profession, how computed Section 29

The income referred to in section 28 shall be computed in accordance with the provisions contained in sections 30 to 43D.

Question 2: Write a note on deductibility of expenditures relating to Buildings.

Answer: Rent, Rates, Taxes, Repairs and Insurance for Buildings Section 30

If any assessee has any building in the use of business/profession, all expenses relating to the building shall be allowed to be debited to the profit and loss account and such expenses may be:

(i) Repairs expenses
(ii) Municipal tax or local tax or land revenue (but on payment basis as per section 43B)
(iii) Premium for insurance of house
(iv) Any other expenditure like depreciation etc.

If the building is owned by the assessee, he is not allowed to debit rent on notional basis

(No income shall be computed with regard to this house property under the head house property).

Question 3: Write a note on deductibility of expenditures relating to Plant and Machinery and Furniture and Fixtures.

Answer: As per section 31 if any assessee has any plant and machinery or furniture/fixture in his business/profession, assessee is allowed to debit all the expenses to the profit and loss account and such expenses may be like repairs or insurance or rent etc. If plant & machinery etc. are owned by the assessee, its notional rent is not allowed to be debited.

Question 4: Write a note on rates of Depreciation.

Answer: **<u>Depreciation</u>** **<u>Section 32</u>**

Depreciation under Income Tax Act is allowed on the basis of written down value method but in case of power generating unit, the assessee has the option to compute depreciation either on the basis of written down value method or on the basis of Straight Line Method. Rate of depreciation shall be as given below:

PART A TANGIBLE ASSETS

Buildings

Block 1.	Buildings which are used mainly for residential purposes except hotels and boarding houses	5%
Block 2.	Buildings which are not used mainly for residential purposes and not covered by Block (1) above and (3) below	10%
Block 3.	Purely temporary erections such as wooden structures	40%

Furniture and Fittings

Block 1.	Furniture and fittings including electrical fittings ["Electrical fittings" include electrical wiring, switches, sockets, other fittings and fans, etc.]	10%

Plant & Machinery

Block 1.	Motor cars	15%
Block 2.	Motors buses, motor lorries, motor taxis used in the business of running them on hire	30%
Block 3.	Computers including computer software	40%
Block 4.	Books	40%
Block 5.	Plant & machinery (General rate)	15%

INTANGIBLE ASSETS

Know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature (no depreciation on goodwill w.e.f P.Y.2020-21)	25%

Question 5 [V. Imp.]: Write a note on computation of Depreciation.

Answer: **<u>Computation of Depreciation</u>**

If any particular asset is purchased during the year and it has been put to use for less than 180 days during the year, in that case, depreciation is allowed at half the normal rate. If it is purchased during the year and is not at all put to use, depreciation shall not be allowed. But in the subsequent year whenever the asset is put to use, full depreciation shall be allowed irrespective of period of use.

"Put to use" do not mean putting the asset to actual use rather it means making an asset ready for use.

Example

ABC Ltd. has purchased one plant and machinery on 01.07.2023 for ₹30,00,000, it was installed on 01.10.2023, but it was brought into actual use w.e.f. 01.03.2024, in this case, depreciation allowed shall be ₹4,50,000, because the asset was put to use for 180 days or more, but if the asset was installed on 10.10.2023, depreciation allowed shall be ₹2,25,000. If the asset was not at all installed in the year 2023-24, depreciation allowed in 2023-24 shall be nil. If the asset was installed on 31.03.2025, depreciation allowed in 2023-24 shall be nil, but the depreciation allowed in the year 2024-25, shall be ₹4,50,000.

If any asset has been sold at any time during the year, in that case, depreciation is not allowed for that year.

Example

ABC Ltd. purchased one plant and machinery on 01.10.2017, its written down value on 01.04.2023 is ₹20,00,000 but it was sold on 31.03.2024, in this case, no depreciation is allowed in the previous year 2023-24.

Question 6: Write a note on Computation of depreciation on the basis of block of assets.
Answer:
Under section 32, depreciation under income tax is allowed on the basis of written down value method. It is not computed on the basis of individual assets rather on the basis of a group of assets called Block of Assets which means a group of similar type of assets having same rate of depreciation and shall be computed in the manner given below:

1. Take opening written down value of the particular block of asset as on 1st day of April of the relevant year.
2. Add purchases during the year.
3. Deduct sale value in case of sale and amount of insurance claim in case of fire or theft etc. or scrap value in case of discarded assets.
4. Apply depreciation on the balance amount as on the last day of the year.
5. If any asset was put to use for less than 180 days, depreciation shall be allowed at half the normal rate and for this purpose its actual cost shall be separated from the total written down value of the block and if total written down value is less than the actual cost, depreciation shall be applied on the written down value of the block at half the normal rate.
6. If there is a negative balance at the end of the year, it will be considered to be short term capital gain as per section 50 and no depreciation is allowed.
7. If there is no asset at the end of the year but still there is some balance, it will be considered to be short term loss as per section 50 and no depreciation is allowed.

Block of Assets: A "block of assets" is defined in section 2(11), as a group of assets falling within a class of assets comprising—
(a) tangible assets, being buildings, machinery, plant or furniture;
(b) intangible assets, being know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature, ***not being goodwill of a business profession,***
in respect of which the same percentage of depreciation is prescribed.

Computation of depreciation can be illustrated in the manner given below:

Situation 1:

	₹
Written down value of plants A, B, C on 01.04.2023	70,00,000
Add: purchased plant D on 05.05.2023 and put to use on 05.05.2023	20,00,000
Less: sale of plant A	(18,00,000)
	72,00,000
Less: depreciation for the year @ 15%	(10,80,000)
Written down value of plant B, C, D as on 01.04.2024	61,20,000

Situation 2:

	₹
Written down value of plants A, B, C on 01.04.2023	70,00,000
Add: purchased plant D on 05.05.2023 and put to use on 01.12.2023	20,00,000
Less: sale of plant A	(18,00,000)
	72,00,000
Less: depreciation [7.5% on 20 Lakhs & 15% on 52 Lakhs]	(9,30,000)
Written down value of plants B, C, D as on 01.04.2024	62,70,000

Situation 3:

	₹
Written down value of plants A, B, C on 01.04.2023	70,00,000
Add: purchased plant D on 05.05.2023 and put to use on 01.12.2023	20,00,000
Less: sale of plant A	(75,00,000)
	15,00,000
Less: depreciation [7.5% on 15 Lakhs]	(1,12,500)
Written down value of plants B, C, D as on 01.04.2024	13,87,500

Situation 4:

	₹
Written down value of plants A, B, C on 01.04.2023	70,00,000
Less: Sale of plant A	(75,00,000)

Short term capital gain under section 50	5,00,000
Depreciation for the year	Nil
Written down value of plants B, C as on 01.04.2024	Nil

Situation 5:

	₹
Written down value of plants A, B, C on 01.04.2023	70,00,000
Less: Sale of plant A, B, C	(20,00,000)
Short term capital loss under section 50	50,00,000
Depreciation for the year	Nil

Illustration 1: Mr. X started his business on 01.04.2020 and purchased various plants and machinery as given below:

He has purchased plant P1 on 01.04.2020 which was put to use on 01.06.2020 for ₹20,00,000.
He has purchased plant P2 on 01.05.2020 which was put to use on 01.07.2020 for ₹25,00,000.
He has purchased plant P3 on 01.06.2020 which was put to use on 01.09.2020 for ₹25,00,000.
He has purchased plant P4 on 01.07.2020 which was put to use on 01.09.2020 for ₹35,00,000.
He sold plant P1 on 01.01.2021 for ₹ 11,00,000.
He purchased plant P5 on 01.05.2021 and was put to use on 01.11.2021 for ₹26,00,000.
He purchased plant P6 on 01.12.2021 and was put to use on 31.03.2022 for ₹20,00,000.
He purchased plant P7 on 01.06.2022 and put to use on 10.12.2022 for ₹10,00,000.
He sold plant P2 on 31.03.2023 for ₹ 9,00,000.
He purchased plant P8 on 01.07.2023 and was put to use on 01.01.2024 for ₹27,00,000.

Determine depreciation for various years. (Ignore additional depreciation)

Solution: ₹

Plant and Machinery, Depreciation @ 15%

Previous Year 2020-21	
Purchased P1 on 01.04.2020, put to use on 01.06.2020	20,00,000.00
Purchased P2 on 01.05.2020, put to use on 01.07.2020	25,00,000.00
Purchased P3 on 01.06.2020, put to use on 01.09.2020	25,00,000.00
Purchased P4 on 01.07.2020, put to use on 01.09.2020	35,00,000.00
Sale P1 on 01.01.2021	(11,00,000.00)
Written down value P2, P3 and P4 on 31.03.2021	94,00,000.00
Depreciation @ 15%	14,10,000.00
Previous Year 2021-22	
Written down value P2, P3 and P4 on 01.04.2021	79,90,000.00
Purchased P5 on 01.05.2021, put to use on 01.11.2021	26,00,000.00
Purchased P6 on 01.12.2021, put to use on 31.03.2022	20,00,000.00
Written down value P2, P3, P4, P5 and P6 on 31.03.2022	1,25,90,000.00
Depreciation @ 7.5% on ₹46,00,000	3,45,000.00
Depreciation @ 15% on ₹79,90,000	11,98,500.00
Previous Year 2022-23	
Written down value P2, P3, P4, P5 and P6 on 01.04.2022	1,10,46,500.00
Purchased P7 on 01.06.2022, put to use on 10.12.2022	10,00,000.00
Sale P2 on 31.03.2023	(9,00,000.00)
Written down value P3, P4, P5, P6 and P7 on 31.03.2023	1,11,46,500.00
Depreciation @ 7.5% on ₹10,00,000	75,000.00
Depreciation @ 15% on ₹1,01,46,500	15,21,975.00
Previous Year 2023-24	
Written down value P3, P4, P5, P6 and P7 on 01.04.2023	95,49,525.00
Purchased P8 on 01.07.2023, put to use on 01.01.2024	27,00,000.00
Written down value P3, P4, P5, P6, P7 and P8 on 31.03.2024	1,22,49,525.00
Depreciation @ 7.5% on ₹27,00,000	2,02,500.00
Depreciation @ 15% on ₹95,49,525	14,32,428.75

Illustration 2: ABC Ltd. an industrial undertaking has started manufacturing on 01.05.2023 and the company has purchased the following asset:

1. Plant and machinery for use in the factory ₹30 lakhs, purchased on 01.07.2023 and put to use on 15.07.2023.
2. Air-conditioner and generator for ₹2,00,000, purchased on 01.08.2023 and put to use on 10.08.2023 for use in office premises.
3. One motor car for ₹10 lakhs for use of business, purchased on 01.09.2023 and put to use on 10.09.2023.
4. One T.V. and one fridge for ₹50,000, purchased and put to use on 01.05.2023.
5. Furniture and fixture for use in factory ₹5,00,000, purchased and put to use on 01.06.2023.

Depreciation shall be allowed in the manner given below:

Solution:

Computation of Depreciation

	₹
Block –I	
Plant and machinery, depreciation @ 15%	
Plant and Machinery purchased on 01.07.2023, put to use on 15.07.2023	30,00,000
Air-conditioner and generator purchased on 01.08.2023, put to use on 10.08.2023	2,00,000
One T.V. and one fridge purchased and put to use on 01.05.2023	50,000
	32,50,000
Depreciation @ 15%	4,87,500
Block –II	
Motor Car, depreciation @ 15%	
Motor Car purchased on 01.09.2023 and put to use on 10.09.2023	10,00,000
Depreciation @ 15%	1,50,000
Block –III	
Furniture and Fixtures, depreciation @ 10%	
Furniture and fixture for use in factory, purchased and put to use on 01.06.2023	5,00,000
Depreciation @ 10%	50,000

Illustration 3: ABC Ltd. is engaged in manufacturing and company has purchased new plant and machinery during the previous year 2023-24

1. ₹ 20.00 crore (purchased and put to use on 01.07.2023)
2. ₹30.00 crore (purchased and put to use on 01.11.2023)

Compute depreciation and also w.d.v as on 01.04.2024.

Solution:

Computation of depreciation / additional depreciation	**Crore (₹)**
Plant and machinery purchased and put to use on 01.07.2023	20.00
Plant and machinery purchased and put to use on 01.11.2023	30.00
Less: depreciation @ 15% on ₹20.00	(3.00)
Less: depreciation @ 7.5% on ₹30.00	(2.25)
w.d.v as on 01.04.2024	44.75

Illustration 4: ABC Ltd. is engaged in manufacturing and company has purchased plant and machinery during the previous year 2023-24 for ₹26 crores (purchased and put to use on 10.11.2023) and it includes second hand plant and machinery for ₹5 crores.

Compute depreciation and also w.d.v as on 01.04.2024.

Solution:

Computation of depreciation / additional depreciation	
Plant and machinery purchased and put to use on 10.11.2023	26 crore
Less: depreciation @ 7.5% on ₹26 crore	(1.95 crore)
w.d.v as on 01.04.2024	24.05 crore

MAY-2007 (4 Marks)

A newly qualified Chartered Accountant Mr. X, commenced practice and has acquired the following assets in his office during F.Y. 2023-24 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y. 2024-25:

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer	27 Sept., 2023	2 Oct., 2023	35,000
2.	Computer software	1 Oct., 2023	1 Oct., 2023	8,500
3.	Computer printer	1 Oct., 2023	3 Oct., 2023	12,500
4.	Books	1 Apr., 2023	1 Apr., 2023	13,000
5.	Office furniture (Acquired from practising C.A.)	1 Apr., 2023	1 Apr., 2023	3,00,000
6.	Laptop	26 Sept.,2023	1 Oct., 2023	43,000
7.	Fire extinguisher	1 Apr., 2023	1 Apr., 2023 (No instance arose to use during F.Y. 2023-24)	2,500
8.	Purchased practising CA's office in April' 2023 who had run it for 4 years, for ₹5 lacs which includes ₹2 lacs for goodwill and ₹3 lacs for cost of furniture (included in 5 above)			

Note: Depreciation is to be provided at the applicable rates.

Answer. **Computation of depreciation allowable for A.Y. 2024-25**

Computation of depreciation

Block of Assets		**₹**
Block 1: Furniture – rate 10%		
₹3,00,000 @ 10%		30,000
Block 2: Computer – rate 40%		
Computer	35,000	
Computer software	8,500	
Laptop	43,000	
Total	86,500 @ 40%	34,600
Block 3: Books – rate 40%		
Books		
13,000 @ 40%		5,200
Block 4: Plant – Rate 15%		
Computer printer	12,500	
Fire extinguisher	2,500	
Total	15,000 @ 15%	2,250

(Whether computer printer is computer or plant and machinery is controversial)

MAY – 2019

Question 3(b) **(4 Marks)**

M/s. Keshav Enterprises, a sole proprietorship own four machines, put in use for business in March, 2022. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2023 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2023 for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 2023. You are required to:

(i) Determine the claim of depreciation for Assessment Year 2024-25.

(ii) Compute the capital gains liable to tax for Assessment Year 2024-25.

(iii) If Keshav Enterprises has sold the two machines in July, 2023 for ₹ 15,00,000, explain, will there be any difference in your above workings?

Solution:

(i) Computation of Depreciation for the A.Y. 2024-25

WDV of Machines as on 01st April 2023	7,70,000
Add: Addition during the year (on 30th December 2023)	6,10,000
Less: Sold during the year (on 15th July 2023)	(10,00,000)
WDV as on 31st March 2024	3,80,000
Depreciation during the year (3,80,000 x 7.5%)	28,500

(ii) Computation of Capital Gains for the A.Y. 2024-25

Since block of asset exists at the end of the year and WDV is also there at the end of the year hence no capital gains shall be computed.

(iii) If asset sold for 15,00,000

WDV of Machines as on 01st April 2023	7,70,000
Add: Addition during the year (on 30th December 2023)	6,10,000
Less: Sold during the year (on 15th July 2023)	(15,00,000)
WDV as on 31st March 2024	Nil
Depreciation during the year	Nil

If there is a negative balance at the end of the year, it will be considered to be short term capital gains as per section 50.

Short term Capital Gains	
Sale Consideration	15,00,000
Less: Cost of Asset	(13,80,000)
Short term capital gains	1,20,000

Question 7: Write a note on depreciation in case of Amalgamation, Demerger, Conversion of Proprietary Concern or Partnership Firm into a Company or Conversion of Private Limited Company or Unlisted Public Company into Limited Liability Partnership Firm.

Answer: As per section 32, depreciation shall be computed considering that no such amalgamation etc. has taken place and the depreciation so computed shall be apportioned between the predecessor and successor in the ratio of number of days the asset was used by each one of them

Example

M/s XY & Co., a sole proprietary concern is converted into a company, XY Co. Ltd. with effect from December 29, 2023. The written down value of assets as on April 1st, 2023 is as follows:

Items	**Rate of Dep.**	**WDV as on 1st April, 2023**
Building	10%	₹3,50,000
Furniture	10%	₹ 50,000
Plant and Machinery	15%	₹2,00,000

Further, on October 15, 2023, M/s XY & Co. purchased a plant for ₹1,00,000 (rate of depreciation 15%) and it was put to use on the same date. After conversion, the company added another plant worth ₹50,000 (rate of depreciation 15%) on 01.01.2024 and put to use on the same date.

Compute the depreciation available to (i) M/s XY & Co. and (ii) XY Co. Ltd. for Assessment Year 2024-25.

Solution:

As per section 32, while determining depreciation, if there is change of ownership of assets because of conversion of sole proprietary concern into company, depreciation will be calculated in the manner given below:

	₹
Building	
Depreciated value on April 1st, 2023	3,50,000
Depreciation @ 10%	35,000
Furniture	
Depreciated value on April 1st, 2023	50,000
Depreciation @ 10%	5,000
Plant and Machinery	
Depreciated value on April 1st, 2023	2,00,000
Add: Cost of new plant and machinery	1,00,000

Written down value	3,00,000
Depreciation @ 7.5% on ₹1,00,000	7,500
Depreciation @ 15% on ₹2,00,000	30,000
Number of days when assets are used by	
Sole Proprietors	272 days
Company	94 days
Depreciation available to the sole proprietary Concern	
70,000 / 366 x 272	52,021.86
7,500 / 169 x 75	3,328.40
Depreciation available to the company	
70,000 / 366 x 94	17,978.14
7,500 / 169 x 94	4,171.60
Depreciation to the company on plant purchased for ₹50,000	
50,000 x 7.5%	3,750.00
Total depreciation allowed to the company	25,899.74

Question 8: Write a note on depreciation in case of Power Generating Units.
Answer: <u>Depreciation in case of Power Generating Units</u>
A power generating unit shall have the option to claim depreciation either on the basis of SLM or WDV and any option taken cannot be changed subsequently.
If the assessee has claimed depreciation on the basis of WDV, depreciation shall be allowed on the basis of block of the assets and if depreciation is claimed on SLM, depreciation shall be computed on the basis of individual asset however concept of 180 days shall be applicable. Rate of depreciation for SLM shall be as prescribed under Income Tax Act.
In case of sale of asset, tax treatment shall be as given below:

<u>Sale of asset</u>
<u>Terminal depreciation</u>
If the asset is sold, any loss on their sale shall be considered to be terminal depreciation and shall be allowed to be debited to the profit and loss account.
<u>Balancing Charge</u>   <u>Section 41(2)</u>
If any asset has been sold or destroyed etc. and depreciation was claimed on SLM basis, any profit on sale shall be considered to be income under the head business/profession and shall be called balancing charge but only to the extent depreciation was debited to the profit and loss account.
If the amount is received after closing down of the business, still it will be considered to be income under the head business/profession i.e. it will be a case of having income under the head business/profession but without any business/ profession.
The excess over it shall be taxable as capital gains under section 50A.
Example
ABC Ltd. is a power generating unit and the company has purchased one plant and machinery on 01.07.2020 for ₹20 lakhs and it was put to use on 01.11.2020 and rate of depreciation is 7.8%, in this case depreciation allowed shall be

2020-21 20,00,000 x 7.8% x ½ = ₹ 78,000
2021-22 20,00,000 x 7.8% = ₹1,56,000
2022-23 20,00,000 x 7.8% = ₹1,56,000.

If this plant is sold on 01.10.2023

1. For ₹ 7,00,000
2. For ₹19,00,000
3. For ₹23,00,000

The tax treatment shall be as given below:

1. Written down value of the asset as on 01.04.2023 is ₹16,10,000 but it was sold for ₹7,00,000, in this case terminal depreciation is 7,00,000 – 16,10,000 = ₹9,10,000 and it will be allowed to be debited to profit and loss account.

2. If the asset is sold for ₹19,00,000, there will be profit of 19,00,000 – 16,10,000 = ₹2,90,000 and it will be called 'balancing charge' under section 41(2) and shall be considered to be deemed income under the head business/profession.
3. There will be gain of 23,00,000 – 16,10,000 = ₹6,90,000. There will be balancing charge to the extent depreciation has been debited i.e. 3,90,000 and balance amount i.e. ₹3,00,000 shall be short term capital gain as per section 50A.

Illustration 5: Lights and Power Ltd. engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 2023-24. Compute the depreciation allowable under section 32 for A.Y.2024-25. The company has opted for the depreciation allowance on the basis of written down value.

	Particulars	**₹**
1.	Opening Written down value of Plant and Machinery (15% block) as on 01.04.2023	5,78,000
2.	Purchase of second hand machinery (15% block) on 29.12.2023 for business purpose and put to use on the same date	2,00,000
3.	Machinery Y (15% block) purchased and installed on 12.07.2023 for the purpose of power generation	8,00,000
4.	Acquired and installed for use a new air pollution control equipment (40% block) on 31.07.2023	2,50,000
5.	New air conditioner purchased and installed in office premises on 08.09.2023	3,00,000
6.	New machinery Z (15% block) acquired and installed on 23.11.2023 for the purpose of generation of power	3,25,000
7.	Sale value of an old machinery X, sold during the year	3,10,000

Solution: Computation of depreciation allowance under section 32 for the A.Y. 2024-25

Particulars	**Plant and Machinery (15%)**	**Plant and Machinery (40%)**
Opening WDV as on 01.04.2023	5,78,000	
Add: Plant and Machinery acquired during the year		
- Second hand machinery	2,00,000	
- Machinery Y	8,00,000	
- Air conditioner for office	3,00,000	
- Machinery Z	3,25,000	
- Air pollution control equipment	-	2,50,000
Less: Asset sold during the year	(3,10,000)	Nil
Written down value before charging depreciation	18,93,000	2,50,000
Normal depreciation		
40% on air pollution control equipment	-	1,00,000
Depreciation on plant and machinery put to use for less than 180 days@ 7.5% (2,00,000 + 3,25,000)	39,375	
15% on ₹ 13,68,000	2,05,200	

Question 9: Is it Mandatory to Claim Depreciation?

Answer: As per section 32, depreciation has to be claimed compulsorily i.e. it is not voluntary e.g. Mr. X has income u/h house property ₹ 2.5 lakh and his depreciation in business profession is ₹ 2.5 lakh and Mr. X refuses to claim depreciation, in this case he can not do so and he has to claim depreciation and also it has to be set off from income of house property.

Question 10 [V. Imp.]: Write a note on expenditure on Scientific Research.

Answer: **<u>Expenditure on Scientific Research</u>** **<u>Section 35 (1)(i)/(iv)</u>**

If any person has incurred expenditure whether revenue or capital in connection with scientific research relating to business, such expenditure is allowed to be debited without any restriction however expenditure incurred on land is not allowed. If the assessee has incurred expenditure on purchase/construction of building, expenditure is allowed excluding the value of land.

Example

ABC Ltd. engaged in manufacturing of cement has incurred ₹3 lakhs on scientific research, in this case, expenditure is allowed, but if the research is not related to the business of the assessee, expenditure is not allowed.

Example

ABC Ltd. has purchased one plant and machinery on 01.07.2023 for the purpose of scientific research for ₹30 lakhs, in this case, entire amount is allowed to be debited to the profit and loss account in the year 2023-24. But if the company has purchased land for the purpose of scientific research, expenditure is not allowed.
Similarly if a building has been purchased for ₹40,00,000 and cost of land is ₹25,00,000, expenditure allowed shall be ₹15,00,000.

Expenditure before commencement of business

If expenditure is incurred before commencement of business but within 3 years prior to commencement, capital expenditure is allowed without any limit in the year of commencement of business but revenue expenditure is allowed only to the extent permitted by prescribed authority. Similarly payment of salary except perquisite (facilities) are allowed only to the extent permitted by the prescribed authority.

Example

ABC Ltd. has commenced its business on 01.07.2023, but before commencement, the company has incurred revenue expenditure of ₹2 lakhs on scientific research from 01.07.2020 onwards and the prescribed authority has certified expenditure of ₹1.5 lakhs, in this case ₹ 1.5 lakhs shall be allowed in the previous year 2023-24, but if any expenditure has been incurred prior to 01.07.2020, expenditure is not allowed.

Sale of assets used for scientific research Section 41(3)

If any assessee has acquired any capital asset for scientific research and amount was debited to profit and loss account and subsequently the asset was sold, amount received shall be considered to be income under the head business/profession but only to the extent amount was debited to profit and loss account. If the assessee has closed down his business/profession at that time, still it is income under the head business/profession.

Example

ABC Ltd. purchased one plant and machinery for ₹ 20 lakhs on 01.10.2022 for scientific research and entire amount was debited to the Profit and loss account, subsequently the asset was sold for ₹ 23 lakhs in the year 2023-24, in this case deemed income under section 41(3), shall be ₹20 lakhs i.e. the amount recovered on sale maximum to the extent of the amount debited and excess over it shall be capital gain.

Transfer of asset to the normal business

If any asset was used for scientific research and subsequently it was transferred to the normal business, in such cases, it will be entered in the respective block of assets and its w.d.v shall be taken to be nil.

Carry forward of unadjusted capital expenditure of scientific research

Un-adjusted capital expenditure of scientific research shall be allowed to be carried forward just like unabsorbed depreciation i.e. carry forward shall be allowed for unlimited period and brought forward expenditure can be adjusted from any income under any head except salary and casual income.

Illustration 6: X Ltd. was incorporated on 01.01.2023 for manufacture of tyres and tubes for motor vehicles. The manufacturing unit was set up on 01.05.2023. The company commenced its manufacturing operations on 01.06.2023. The total cost of the plant and machinery installed in the unit is ₹55 crore. The said plant and machinery included second hand plant and machinery bought for ₹20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.
Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2024-25.

Solution: Computation of depreciation allowable for the A.Y. 2024-25 in the hands of X Ltd.

Particulars	**₹ in crore**
Total cost of plant and machinery	55.00
Less: Used for Scientific Research	(15.00)
	40.00
Normal Depreciation at 15% on ₹ 40 crore	6.00

Illustration 7: On 01.04.2023 ABC Ltd. owns plants A, B, C and D (rate of depreciation 15%) depreciated value of the block as on 01.04.2023 is ₹5,40,000. On 14.06.2023 plant E which was initially purchased for ₹96,000 for conducting scientific research is transferred from laboratory to the factory. No other asset is purchased or sold. Find out depreciation allowed for the previous year 2023-24.

Solution:

Computation of written down value as on 31st March 2024

	₹
Written down value as on April 1st, 2023	5,40,000
Add: Cost of plant E transferred from laboratory to factory on June 14th, 2023 [i.e. ₹ 96,000–Deduction of ₹ 96,000 claimed under section 35]	Nil
Written down value as on 31.03.2024 before charging depreciation	5,40,000
Depreciation @ 15%	81,000

Example

(i) ABC Ltd. has incurred ₹2,00,000 on purchase of plant and machinery for the purpose of scientific research relating to his business, in this case entire expenditure can be debited to the profit and loss account instead of permitting depreciation but if the research is not related to the business of the assessee, expenditure is not allowed.

(ii) ABC Ltd. has purchased one building for ₹50,00,000 out of which value of land is ₹40,00,000. The building shall be used for the purpose of setting up a laboratory for the purpose of scientific research relating to the business of the assessee, in this case company can debit ₹10,00,000 to the profit and loss account being the cost of building. (Cost of land is not allowed)

(iii) ABC Ltd. has commenced its business on 01.06.2023 and the company has incurred expenses before commencement of business as given below:

(a) ₹5,00,000 during May 2020, being capital expenditure in connection with scientific research.

(b) ₹3,00,000 during May 2022, being capital expenditure in connection with scientific research.

(c) ₹1,00,000 during April 2020 on raw materials for scientific research.

(d) ₹1,00,000 during June 2020 on raw materials for scientific research. (amount permitted by the prescribed authority ₹75,000)

(e) ₹40,000 in connection with perquisites given to the staff engaged in the scientific research.

In this case, amount allowed to be debited shall be ₹3,75,000 (₹3,00,000 + ₹75,000) Expenditure incurred before the period of 3 years is not allowed.

(iv) ABC Ltd. has donated ₹1,00,000 to an approved scientific research association which is conducting research not connecting to the business of the company, in this case, amount allowed to be debited shall be Nil.

(v) ABC Ltd. has income under the head Business/Profession ₹3,00,000 before debiting capital expenditure of ₹5,00,000 relating to scientific research, in this case, amount allowed to be debited shall be ₹3,00,000 and unadjusted capital expenditure on scientific research shall be allowed to be set off and carried forward just like unabsorbed depreciation.

(vi) ABC Ltd. is engaged in manufacturing chemicals and its research programme has been approved by the prescribed authority and the company has incurred the following expenses in connection with scientific research.

(a) Expenditure on purchasing a land ₹10,00,000.

(b) Expenditure on construction of building on land ₹5,00,000.

(c) Plant and machinery ₹10,00,000.

(d) Raw materials ₹2,00,000.

In this case, company shall be allowed weighted deduction of 100% of 17,00,000 i.e. ₹17,00,000.

Illustration 8: A Ltd. which is engaged in manufacturing, furnishes the following particulars for the P.Y.2023-24. Compute the deduction allowable under section 35 for A.Y.2024-25, while computing its income under the head "Profits and gains of business or profession".

	Particulars	**₹**
1.	Amount paid to Indian Institute of Science, Bangalore, a notified research organisation for scientific research	1,00,000

2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house research and development facility as approved by the prescribed authority	
(a)	Revenue expenditure on scientific research	3,00,000
(b)	Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

Solution: Computation of deduction under section 35 for the A.Y.2024-25

Particulars	**₹**	**Section**	**% of deduction**	**Amount of deduction (₹)**
Payment for scientific research				
Indian Institute of Science	1,00,000	-	-	Nil
IIT, Delhi	2,50,000	-	-	Nil
X Ltd.	4,00,000	-	-	Nil
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(2AB)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(2AB)	100%	2,50,000
Deduction allowable under section 35				**5,50,000**

Question 11 [Imp.]: Explain briefly the provisions of amortisation of Preliminary Expenses.
Answer: Amortisation of certain Preliminary Expenses Section 35D
Expenditure incurred before commencement of business shall be called preliminary expenses and shall be allowed to be debited in 5 annual equal installments after commencement of business and such expenses are allowed to an Indian company and also to resident assessee i.e. it is not allowed to non-residents and to foreign company.
Only the notified expenditure incurred before commencement of business shall be allowed and such expenses may be
1. Expenditure in connection with—
   (i) preparation of feasibility report.
   (ii) preparation of project report.
   (iii) conducting market survey or any other survey necessary for the business of the assessee.
   (iv) engineering services relating to the business of the assessee.

Provided *that the assessee shall furnish a statement containing the particulars of expenditure specified in this clause within such period, to such income-tax authority, in such form and manner, as may be prescribed;*
2. Legal charges for drafting any agreement between the assessee and any other person for purpose of the business of the assessee.
3. Where the assessee is a company, also expenditure—
   (i) by way of legal charges for drafting the Memorandum and Articles of Association of the company.
   (ii) on printing of the Memorandum and Articles of Association.
   (iii) by way of fees for registering the company under the provisions of the Companies Act.
   (iv) in connection with the issue of shares or debentures of the company, being underwriting commission, brokerage and charges for drafting, typing, printing and advertisement of the prospectus.

Maximum expenditure allowed shall be upto **5% of the project cost** but an Indian company has the option to take **5% of the capital employed.**
Example
ABC Ltd. has incurred expenditure of ₹30,00,000 and its project cost is ₹100,00,000 and capital employed is ₹120,00,000, instalment allowed to the company shall be

₹30,00,000 but subject to a maximum of (120,00,000 x 5%) i.e. ₹6,00,000
Instalment allowed shall be = 6,00,000 / 5 = ₹1,20,000
"Cost of the project" means
in a case of **new business**, the actual cost of the fixed assets, being land, buildings, plant, machinery, furniture, fittings etc. as on the last day of the year in which the assessee has commenced the business.
"Capital employed" means
in a case of **new business**, the aggregate of the issued share capital, debentures and long-term borrowings as on the last day of the previous year in which the business of the company commences.
In case of an existing business if there is extension of such business, expenses incurred in connection with such extension shall also be allowed in the similar manner as in case of new business and project cost and capital employed shall be taken into consideration relating to extension of business.

Illustration 9: ABC Ltd. an Indian company has incurred expenditure before the commencement of business asunder:

1. Expenditure on advertisements ₹3 lakhs.
2. Expenditure on preparation of project report and the report was prepared by a concern which is approved by the Board ₹85,000.
3. Expenditure in connection with travelling and stay in hotels ₹45,000.
4. Expenditure on drafting and printing of memorandum and articles of associations ₹4 lakhs.

All the above expenditures have been debited to the profit and loss account and the company has computed income to be ₹ 7 lakh.
The company has commenced its business on 01.06.2023.
Company's project cost is ₹50 lakhs and capital employed is 57 lakhs.
Compute company's Tax Liability for Assessment Year 2024-25.

Solution:

	₹
Net profit as per profit and loss account	7,00,000
Add:	
• Expenditure on advertisement	3,00,000
• Expenditure in connection with travelling and stay in hotels	45,000
• Excessive expenditure under section 35D	4,28,000

Working Note:

	₹
Eligible expenditure under section 35D	
1. Expenditure on preparation of project report	85,000
2. Expenditure on drafting and printing of memorandum and articles of associations	4,00,000
Total =	4,85,000

Expenditure allowed under section 35D can not exceed 5% of the capital employed
57,00,000 x 5% = 2,85,000
Instalment allowed 2,85,000/5 = 57,000
Expenditure disallowed = 4,85,000 – 57,000 = 4,28,000

Income under the head Business/Profession	14,73,000
Gross Total Income	14,73,000
Less: Deduction under Chapter VI-A	Nil
Total Income	14,73,000
Computation of Tax Liability	
Tax on ₹14,73,000 @ 30%	4,41,900
Add: HEC @ 4%	17,636
Tax Liability	4,59,576
Rounded off u/s 288B	4,59,580

Question 12: Write a note on amortization of expenditure under Voluntary Retirement Scheme.
Answer: Amortisation of expenditure incurred under Voluntary Retirement Scheme Section 35DDA
If any employer has given voluntary retirement to the employees and has paid any amount in connection with such voluntary retirement, it will be allowed to be debited in 5 annual equal installments e.g. ABC Ltd. has given voluntary retirement to 500 employees and has paid ₹4,00,000 to each of the employee and total payment made is ₹2000 lakhs, in this case expenditure is allowed in 5 annual equal installments.

Question 13: Explain deductibility of Insurance Premium.
Answer: Deductibility of insurance premium
Payment of premium for the insurance of stocks Section 36(1)(i)
If any assessee has paid premium for insurance of raw material or finished goods etc., such premium is allowed to be debited to profit and loss account.
Payment of premium in connection with medi claim policy Section 36(1)(ib)
If any assessee has paid premium for medi claim policy taken in the name of employees, such premium is allowed to be debited to profit and loss account provided premium was paid otherwise than in cash.

Question 14 [Imp.]: Write a note on payment of interest.
Answer: Payment of Interest Section 36(1)(iii)
If any assessee has taken a loan for the purpose of business/profession, interest on such loan is allowed.
No interest is allowed to the proprietor on his capital (similarly no salary or any other payment is allowed to the proprietor).

Question 15: Explain deductibility of employer's contribution towards Recognised Provident Fund etc.
Answer: Employer's contribution to Recognised Provident Fund or Approved Superannuation Fund Section 36(1)(iv)
Employer contribution to **Recognised Provident Fund** and **Approved Superannuation Fund** shall be allowed to be debited only to the extent it has been permitted in the relevant Act / Rule. E.g. Employer contribution to recognized provident fund is allowed maximum @ 12% of employees salary.
Employer's contribution towards a Pension Scheme Section 36(1)(iva)
Employer contribution to notified pension scheme as per section 80CCD shall be allowed maximum to the extent prescribed for this purpose.

Employer's contribution towards approved Gratuity Fund Section 36(1)(v)
Employer contribution to approved gratuity fund shall be allowed to be debited to the extent allowed in the relevant Act / Rule.

Question 16: Explain deductibility of employee's contribution received by the employer.
Answer: As per section 36(1)(va), employees contribution shall be allowed to be debited only if employer has deposited the amount in the relevant account upto the time allowed in the relevant Act.
As per paragraph 38 of The Employees' Provident Funds Scheme, 1952, the employer should pay within 15 days of the subsequent month.
As per section 31 of Employees' State Insurance (General) Regulations, 1950, ESI contribution should be deposited maximum upto 15th of subsequent month.

Question 17 [Imp.]: Write note on deduction of Bad Debts of a Business.
Answer: Deduction for Bad Debts of a Business Section 36(1)(vii)
If any assessee has written off bad debts as irrecoverable in the books of accounts, he will be allowed to debit such bad debts to the profit and loss account. However provision for bad debts is not allowed (in general provision or reserve for any purpose is not allowed.)
Recovery of bad debts Section 41(4)
If any amount was debited as bad debts and subsequently it was recovered by the assessee, it will be considered to the income of the assessee under the head business /profession of the year in which it has been recovered and if the assessee do not have business or profession in that particular year, even then it will be considered

to be income under the head business/profession. If debt was incurred by a person but it was recovered by his successor, in that case it will not be considered to be income of successor.

Example

Mr. X debited bad debts ₹ 4,00,000 in previous year 18-19 but recovered ₹ 1,00,000 in previous year 23-24, in this case as per section 41(4) it will be considered to be income under the head business profession of previous year 23-24. If amount was debited by his father and after his death, his son has inherited the business and has recovered ₹ 1,00,000, it will not be considered to be income of son i.e. successor.

If any amount of bad debt has been disallowed by the assessing officer and subsequently there is a recovery so such bad debts, it will not be considered to be income of the assessee e.g. Mr. X claim bad debts of ₹5,00,000 but assessing officer allowed bad debts of ₹3,00,000 and subsequently there is recovery of ₹2,00,000, it will not be considered to be income under the head Business/Profession but if there is recovery of ₹3,00,000, income shall be ₹1,00,000.

Question 18 [Imp.]: Write a brief note on deductibility of Family Planning Expenditure under section 36(1)(ix) of the Income Tax Act, 1961.

Answer: If any company has incurred expenditure in connection with promotion of family planning norms among the employees, the assessee shall be allowed to debit the expenditure to profit and loss account. Revenue expenditure can be debited in the same year and capital expenditure shall be allowed in 5 annual equal installment. Any other assessee is not allowed to debit any expenditure in connection with promotion of family planning.

Expenditure are allowed to debited only to the extent income is available under the head business/profession and unadjusted expenditure shall be allowed to be set off and carried forward just like unabsorbed depreciation.

Question 19: Write a note on Securities Transaction Tax.

Answer: <u>Securities Transaction Tax</u> <u>Section 36(1)(xv)</u>

If the assessee has paid securities transaction tax in connection with taxable securities transaction which are part of his business, STT shall be allowed to be debited to the profit and loss account. If it is a case of capital gain, it will not be allowed to be deducted e.g. Mr. X purchased shares of ₹ 4 lakh and sold for ₹ 10 lakh after 6 months and paid STT ₹ 1000 in this case capital gains u/s 111A shall be ₹ 6 lakh and shall be taxable @ 15% and if shares were sold after 1 year it will be long term capital gain u/s 112A and shall be taxable @ 10% and amount of capital gains shall be ₹ 6 lakh. If he has business of sale purchase of shares, STT shall be deducted and capital gain shall be ₹ 5,99,000 and shall be taxable at the normal rate.

Question 20: Write a note on Commodities Transaction Tax.

Answer: <u>Commodities Transaction Tax Section 36(1)(xvi)</u>

If the assessee has paid commodities transaction tax in connection with taxable commodities transaction which are part of his business, CTT shall be allowed to be debited to the profit and loss account. Such business is considered to be speculative business.

Question 21 [V. Imp.]: State the conditions to be satisfied for claiming deduction under section 37(1) of the Act.

Answer: <u>As per section 37(1),</u> if any expenditure is neither allowed nor disallowed specifically under any particular section, such expenditure is allowed to be debited if it is related to business or profession and is revenue in nature. If it is capital expenditure, depreciation is allowed. Personal expenditure is never allowed. Illegal expense is not allowed. Any fine or penalty for an offence is not allowed.

Various expenditure which may be allowed under section 37(1) are as given below:

1. Expenditure in connection with advertisement e.g. ABC Ltd. has incurred ₹20,000 on printing of diaries and calendars, the expenditure is allowed. Similarly if expenditure has been incurred on advertisement in newspaper/magazine/ radio / TV / Internet etc., it will be allowed. If the expenditure incurred is capital nature, depreciation is allowed.

2. Expenditure on travelling including the expenses of boarding and lodging in connection with business/profession.

3. Salary paid to the employees.
4. Expenditure in connection with entertainment/amusement of the employees or the customers.
5. Expenditure in connection with opening ceremony (Mahurat) of the business/profession. E.g. ABC Ltd. has incurred ₹50,000 in connection with 'shamiana' and refreshments on occasion of opening ceremony.
6. Expenditure on the occasion of various festivals like Diwali etc. for employees or customers.
7. Incentives given to the articled assistant by a Chartered Accountant.
8. Interest on late payment of GST.
9. Expenditure in connection with legal proceedings.
10. Professional tax paid by a person carrying on business or profession.
11. Expenditure on the filing of return of income, filing of appeal or audit fee etc. is allowed.
12. Any other expenditure which is revenue in nature and it is related to business or profession.

Any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession.

"Expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law" , shall include the expenditure incurred by an assessee,—
(i) to provide any benefit or perquisite, in whatever form, to a person, whether or not carrying on a business or exercising a profession, and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guideline, as the case may be, for the time being in force, governing the conduct of such person; or
(ii) to compound an offence under any law, in India or outside India.

Question 22 [Imp.]: Explain deductibility of expenditure in connection with assets which are partly in business use and partly in personal use section 38.

Answer: <u>Expenditure in connection with assets which are partly in business use and partly in personal use</u> <u>Section 38</u>

If any person has any asset in business or profession as well as in personal use, expenditure is allowed only to the extent the asset is in the use of the business or profession.

Example

If Mr. X has one motor car which is used to the extent of 60% in business and 40% for personal use, all expenditures shall be allowed to be debited to the extent of 60%.

Question 23 [V. Imp.]: Write a note on deductibility of expenditure on which tax has not been deducted at source.

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

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)

<u>Example:</u> ABC Ltd. has paid ₹20 lakhs as interest outside India on 03.01.2024 and tax was deducted at source on 10.03.2024 and it was paid to the Government on 31.10.2024, expenditure is allowed in previous year 2023-24 but if tax was deducted at source on 01.04.2023, expenditure is not allowed in previous year 2023-24 but it is allowed in previous year 2024-25. If tax was deducted at source on 10.03.2024 but it was paid to the Government on 01.11.2024, expenditure is not allowed in previous year 2023-24 however it is allowed in previous year 2024-25.

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

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.

<u>Example:</u> ABC Ltd. has paid rent of ₹10 lakhs to XYZ Ltd. in India on 31.12.2023 and tax was deducted at

source on 31.03.2024 and was paid to the Government on 31.10.2024, expenditure is allowed in previous year 2023-24 but if tax is deducted at source after 31.03.2024 or payment is made to the Government after 31.10.2024, expenditure allowed in previous year 2023-24 shall be 10,00,000 x 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 31.12.2023 and company has not deducted tax at source but XYZ Ltd. has deposited the tax and filed return on 31.10.2024, in this case it will be presumed that tax has been deducted on 31.10.2024 and paid to the Government on 31.10.2024 and 70% expenditure shall be allowed to ABC Ltd. in previous year 2023-24 and balance 30% in previous year 2024-25.
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 ₹2,40,000.

MAY – 2011 (4 Marks)

During the financial year 2023-24, the following payments/expenditure were made/incurred by Mr. X, a resident individual (whose turnover during the year ended 31.03.2023 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 02.07.2023. 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.

Answer.

(i) Since Turnover of Mr. X is less than 100 lakhs in the preceding year hence expenditure is allowed even if tax has not been deducted at source.
(ii) In the case of interest paid to a non-resident, there is obligation to deduct tax at source under section 195, hence non-deduction of tax at source will attract disallowance.
(iii) Disallowance under section 40(a) is attracted for failure to deduct tax at source under section 192 from salaries. 70% of salary i.e. ₹3,00,000 x 70% = ₹2,10,000 shall be allowed in previous year 2023-24 and balance i.e. ₹90,000 is disallowed.
(iv) Since Turnover of Mr. X is less than 100 lakhs in the preceding year hence expenditure is allowed even if tax has not been deducted at source.

NOV – 2010 (5 Marks)

M/s ABC Ltd., submits the following details of expenditures pertaining to the financial year 2023-24:

(i) Payment of professional fees to Mr. M ₹50,000. Tax not deducted at source.
(ii) Interior works done by Mr. H for ₹2,00,000 on a contract basis. Payment made in the month of March 2024. Tax deducted in March 2024, was paid on 30.06.2024.
(iii) Factory Rent paid to Mrs. R ₹15,00,000. Tax deducted at source but paid on 01.11.2024.
(iv) Interest paid on Fixed Deposits ₹2,00,000. Tax deducted on 31.12.2023 and paid on 28.09.2024.
(v) Payment made to M/s G & Co. towards import of Raw Materials ₹25,00,000. No tax was deducted at source. The supplier G & Co. is located in London.

Examine the above with reference to allowability of the same in the Assessment Year 2024-25 under the Income Tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant tax deduction at source provisions.

Solution:

Allowability of expenses of M/s. ABC Ltd for the A.Y. 2024-25

(i) Payment of professional fees is subject to TDS under section 194J. Since no tax is deducted at source, the expenditure of ₹15,000 (i.e. 30% of ₹50,000) is disallowed under section 40(a) and balance 70% is allowed.
(ii) Since the tax was deducted in March, 2024 and paid on or before the due date of filing the return (i.e., on or before October 31st, 2024), the expenditure on interior works will be allowed as deduction.
(iii) The maximum time allowable for deposit of tax deducted at source is upto the due date of filing of return i.e., October 31st, 2024. In this case, since tax deducted under section 194-I was paid after the due date of filing the return, the expenditure of ₹4,50,000 (30% of ₹15,00,000) is disallowed in previous year 2023-24 and balance 70% is allowed in previous year 2023-24.
(iv) Since the tax was deducted in December, 2023 and paid on or before the due date of filing the return (i.e., on or before October 31st, 2024), the interest paid on fixed deposits will be allowed as deduction.
(v) Since payment towards import of raw materials does not attract the provisions of deduction of tax at source, the expenditure will be allowed as deduction.

Question 24 [V. Imp.]: Explain deductibility of Income Tax or Securities Transaction Tax.

Answer: <u>Deductibility of Income Tax or Securities Transaction Tax</u>

<u>Under section 40(a)(ii) and (iia),</u> payment of income tax (including surcharge and HEC) is not allowed because it is not considered to be liability of business/profession, however as per section 43B, composition tax under GST, Municipal tax, professional tax, licence fee, etc. is allowed.
If interest has been paid for late payment of income tax or additional income tax, such interest is not allowed but if interest has been paid for late payment of GST etc., interest is allowed.
If any interest has been paid for the loan taken for payment of income tax, interest is not allowed.
If interest has been paid for the loan taken for the payment of GST etc., interest is allowed under section 36(1)(iii).
If there is any income tax refund, it will not to be considered income but if there is refund of GST etc., it will be considered to be income.
If any interest has been received in connection with income tax refund or GST refund etc., it will be considered to be income. Interest on Income Tax Refund shall be taxable under the head other sources but interest on refund of GST etc. shall be taxable under the head business/profession.
If any person has paid any fine or penalty in connection with income tax, GST etc., it will not be allowed.

<u>Under section 36(1)(xv), securities transaction tax shall be allowed to be debited.</u>

If any person has sold equity shares or units of equity oriented mutual fund and has paid STT and the asset is long term, capital gain shall be taxable in excess of ₹1,00,000 u/s 112A and if it is short term, capital gains shall be taxable @ 15% under section 111A and assessee shall not be allowed to deduct STT paid by him as selling expense. If any person has business of sale purchase of shares or units and has paid STT, while computing income under the head Business/Profession, assessee shall be allowed to debit STT while computing income and such income shall be taxable at the normal rate.

<u>Under section 36(1)(xvi), commodities transaction tax shall be allowed to be debited.</u>

If any assessee has income from commodities transaction, assessee shall be allowed to debit CTT to Profit and loss account and income shall be taxable at the normal rate.
If employer has paid income tax on behalf of the employee, employer is allowed to debit such amount to profit and loss account and it will also be considered to be income of the employee.
e.g. Mr. X is employed in ABC Ltd. and is getting salary of ₹15,00,000 p.a. and employer has paid income tax of ₹1,00,000 on behalf of the employee besides salary of ₹15,00,000, in this case employer is allowed to debit ₹16,00,000 to profit and loss account and tax liability of the employee shall be computed in the manner given below:

Income from salary	16,00,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	15,50,000
Tax at slab rate on ₹15,50,000	1,65,000
Add: HEC @ 4%	6,600

Tax Liability	1,71,600
Less: Tax paid by employer	(1,00,000)
Tax Payable	71,600

If income tax has been paid by the employer on behalf of the employee in connection with non-monetary perquisites, employer shall not be allowed to debit such amount to profit and loss account and also it will not be considered to be income of employee under the head salary under section 10(10CC).

Question 25: Write a note on payment of salary or interest to the partners.
Answer:
As per section 40(b), interest to the partner is allowed but maximum @ 12% p.a. simple interest.
Payment of salary, bonus, commission or any other remuneration is allowed but only to the working partner.
Maximum amount of salary, bonus, commission etc. allowed to a partner shall be computed in the manner given below:

Maximum amount of remuneration allowed shall be as given below:

* First ₹3,00,000 of the book profits	**90%** of the book profit or **₹1,50,000** whichever is more
* On **balance** amount of book profit	**60%** of book profit

Example
A partnership firm has book profits of ₹ 5 lakhs, in this case maximum amount of salary etc. allowed to all the partners shall be

Upto ₹3,00,000	90% of 3,00,000 or ₹1,50,000 whichever is more	2,70,000
Next ₹2,00,000	60% of 2,00,000	1,20,000
		3,90,000

Example
There is a partnership firm engaged in business and its book profits are ₹1,35,000, in this case maximum amount of remuneration allowed to all the partners shall be ₹1,50,000.

Meaning of Book Profits
Book profit means profit and gains of business profession but before charging any salary, bonus, commission etc. to the partners and further if the assessee has any brought forward depreciation, it will be adjusted while computing the book profits but if there are brought forward business loss, such business loss shall not be adjusted.

Share received by a partner from income of Partnership Firm Section 10(2A)
If any partner has received share out of the profits of the partnership firm, such share shall be exempt from income tax.
As per section 28, interest or salary received by a partner shall be taxable under the head business/profession.

Example
XY Partnership firm has computed net profit of ₹ 5,00,000 and some of the amount debited & credited given below :
Debited ₹1,00,000 being salary paid to one of the employees by crossed cheque
Debited ₹ 4,00,000 being the cost of motor car purchased and put to use 31.03.2024
Debited ₹3,00,000 being interest paid to Mr. X @ 15 % p.a.
Debited ₹ 4,50,000 being interest paid to Mr. Y @ 15 % p.a.
Debited salary of ₹10,00,000 Paid to Mr. X
Debited salary of ₹ 500,000 Paid to Mr. Y
Debited ₹80,000 being advance income tax
Credited ₹ 6,00,000 being long term capital gain (LTCG)
The firm has b/f business loss of ₹30,000
The firm has donated ₹ 40,000 by cheque to charitable institution notified u/s 80G
Compute tax liability of partners & partnership firm A.Y. 2024-25.

Solution:	**₹**
Net profit as per profit and loss account	5,00,000
Add : Salary paid by crossed cheque to employee	1,00,000
Add: Capital exp. Debited to P/L a/c	4,00,000

Less: Depreciation on motor car 400,000 x 7.5%	(30,000)
Add: Interest in excess to Mr. X 3,00,000 x 3%/15%	60,000
Add: Interest to Mr. Y 4,50,000 x 3% /15%	90,000
Add: Salary to Mr. X	10,00,000
Add: Salary to Mr. Y	500,000
Add: Advance income tax	80,000
Less: LTCG credited to P/L a/c	(6,00,000)
Books Profits	21,00,000
Salary allowed	
First 3,00,000 x 90 % = 2,70,000	
Bal. 18,00,000 x 60 % = 10,80,000	
Total Salary allowed = 13,50,000	
Salary to X (13,50,000 / 3 x 2)	(9,00,000)
Salary to Y (13,50,000 / 3 x 1)	(4,50,000)
Income under the head Business/Profession	7,50,000
Less: B/F business Loss	(30,000)
LTCG	6,00,000
Gross Total Income	13,20,000
Less: Deduction u/s 80G	(20,000)
Adjusted GTI = GTI -LTCG –STCG 111A- ALL deduction u/s 80C to 80U (except 80G)	
= 13,20,000- 6,00,000 = 7,20,000	
10% of ₹7,20,000 or 40,000 whichever is less	
Qualifying amount 50% of ₹40,000	
Total Income	13,00,000
Computation of Tax Liability	
Tax on normal income ₹7,00,000 @ 30%	2,10,000
Tax on LTCG ₹6,00,000 @ 20%	1,20,000
Tax before health & education cess	3,30,000
Add: HEC @ 4%	13,200
Tax Liability	3,43,200

Mr. X	
Business/Profession – Interest	2,40,000
Business/Profession – Salary	9,00,000
Gross Total Income/ Total Income	11,40,000
Computation of Tax Liability	
Tax on normal income ₹11,40,000 @ slab rate	81,000
Add: HEC @ 4%	3,240
Tax Liability	84,240

Mr. Y	
Business/Profession – Interest	3,60,000
Business/Profession – Salary	4,50,000
Gross Total Income/Total Income	8,10,000

Computation of Tax Liability	
Tax on normal income ₹8,10,000 @ slab rate	36,000
Add: HEC @ 4%	1,440
Tax Liability	37,440

<u>Illustration 10:</u> XYZ are the partners in a firm with profit sharing ratio 5:3:2 and profit and loss account of the partnership firm is as given below:

Particulars	Amount ₹	Particulars	Amount ₹
Purchases	90,00,000	Sales	102,00,000
Salary and bonus to partners X Y Z	 3,00,000 2,50,000 1,50,000	Discount	10,000
Municipal tax payable	30,000	Interest from Indian company	60,000
General expenses	1,00,000	Interest on drawings	10,000
Expenditure on technical know-how (purchased and put to use on 01.01.2024)	40,000	Income tax refund	5,000
Advance Income Tax	70,000		
Expenses on GST proceedings	10,000		
Expenses on income tax proceedings	8,000		
Advertisements	50,000		
Interest on capital to partners @ 13% p.a. X Y Z	 65,000 39,000 26,000		
Rent of building owned by partnership firm	1,20,000		
Net Profit	27,000		
	102,85,000		**102,85,000**

Additional information:

1. Capital contributed by Mr. X is ₹5,00,000 and by Mr. Y ₹3,00,000 and by Mr. Z ₹2,00,000.
2. Salary paid to Mr. X is ₹3,00,000 and to Mr. Y ₹2,50,000 and to Mr. Z ₹1,50,000.
3. The partnership firm has brought forward business loss for assessment year 2021-22 amounting to ₹1,00,000.
4. Municipal tax was paid on 01.11.2024.

Personal incomes of partners:

(i) Mr. X has income from house property ₹5,00,000 and amount invested in National Saving Certificate ₹80,000.

(ii) Mr. Y has income from house property ₹2,00,000 and amount invested in National Saving Certificate ₹1,00,000.

(iii) Mr. Z has loss from house property ₹2,00,000.

Compute Tax Liability of the partnership firm and also that of its partners for the Assessment Year 2024-25.

Solution:

		₹
Net Profit as per profit and loss account		27,000.00
Add:		
• Salary and bonus to partners		
X	₹3,00,000	
Y	₹2,50,000	
Z	₹1,50,000	7,00,000.00
• Municipal tax payable (Sec 43B)		30,000.00
• Technical Know-how		40,000.00
• Income Tax (Sec 40(a))		70,000.00
• Interest on capital		
X (65,000 x 1/13)		5,000.00
Y (39,000 x 1/13)		3,000.00
Z (26,000 x 1/13)		2,000.00
• Rent of own building (Sec 30)		1,20,000.00

Less:	
• Depreciation on technical know-how (40,000 x 25% x ½)	(5,000.00)
• Interest from Indian company	(60,000.00)
• Income tax refund	(5,000.00)
Book Profit	9,27,000.00
• Salary and bonus allowed to partners	
X (6,46,200 x 3/7)	(2,76,942.86)
Y (6,46,200 x 2.5/7)	(2,30,785.71)
Z (6,46,200 x 1.5/7)	(1,38,471.43)

Working note:

Computation of remuneration allowed to partners

3,00,000 x 90% = ₹2,70,000
6,27,000 x 60% = ₹3,76,200
Total remuneration = ₹6,46,200
Salary allowed to partners maximum to ₹6,46,200

Income under the head Business/Profession	2,80,800.00
Less: Brought forward business loss	(1,00,000.00)
Income under the head Business/Profession	1,80,800.00
Income under the head Other Sources	
Interest from Indian company	60,000.00
Income under the head Other Sources	60,000.00
Gross Total Income	2,40,800.00
Less: Deductions under Chapter VI-A	Nil
Total Income	2,40,800.00
Computation of Tax Payable	
Tax on ₹2,40,800 @ 30%	72,240.00
Add: HEC @ 4%	2,889.60
Tax Liability	75,129.60
Less: Income tax paid	(70,000.00)
Tax Payable	5,129.60
Rounded off u/s 288B	5,130.00
Computation of Total Income and Tax Liability of Mr. X	
Salary from partnership firm	2,76,942.86
Interest from partnership firm	60,000.00
Income under the head Business/Profession	3,36,942.86
Income from house property	5,00,000.00
Gross Total Income	8,36,942.86
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	8,36,940.00
Tax on ₹8,36,940 at slab rate	38,694.00
Add: HEC @ 4%	1,547.76
Tax Liability	40,241.76
Rounded off u/s 288B	40,240.00
Computation of Total Income and Tax Liability of Mr. Y	
Salary from partnership firm	2,30,785.71
Interest from partnership firm	36,000.00
Income under the head business/profession	2,66,785.71
Income from house property	2,00,000.00
Gross Total Income	4,66,785.71
Less: Deduction under Chapter VI-A	Nil
Total Income (Rounded off u/s 288A)	4,66,790.00
Tax on ₹4,66,790 at slab rate	8,339.50

Less: Rebate u/s 87A	(8,339.50)
Tax Liability	Nil

Computation of Total Income and Tax Liability of Mr. Z

Salary from partnership firm	1,38,471.43
Interest from partnership firm	24,000.00
Income under the head Business/Profession	1,62,471.43
Loss from house property	(2,00,000.00)
Carry forward house property loss	(37,528.57)

Illustration 11: If a firm has paid ₹7,50,000 as remuneration to its partners for the P.Y.2023-24, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakh, then, the allowable remuneration calculated as per the limits specified in section 40(b) would be –

Particulars	₹
On first ₹ 3 lakh of book profit [₹ 3,00,000 × 90%]	2,70,000
On balance ₹ 7 lakh of book profit [₹ 7,00,000 × 60%]	4,20,000
	6,90,000

The excess amount of ₹ 60,000 (i.e., ₹ 7,50,000 – ₹ 6,90,000) would be disallowed as per section 40(b)(v).

Question 26 [V. Imp.]: Write a note on payment to Relative/Related person.
Answer: Payment to Relative/Related Person Section 40A(2)
If the assessee incurs any expenditure and payment has been given to any person mentioned below and such expenditure is **excessive** or **unreasonable** having regard to the fair market value of the goods, services or facilities, so much of the expenditure as is so considered to be excessive or unreasonable shall not be allowed as a deduction. E.g. Mr. X has purchased raw material for his business from his brother and has paid ₹5,00,000 but market value is ₹3,00,000, in this case expenditure disallowed shall be ₹2,00,000.
The persons covered in this category are –
1. If any individual has made any payment to his relative. As per section 2(41) Relative, in relation to an individual, means the husband, wife, brother or sister or any lineal ascendant or descendant of that individual.
2. If the assessee is a company, firm, association of persons or Hindu Undivided Family etc. and it has made payment to any director of the company, partner of the firm, or member of the association or family, or any relative of such director, partner or member etc.
3. If any person made payment to any other person who has substantial interest in the business of the assessee e.g. ABC Ltd. has paid ₹5,00,000 to XYZ Ltd. and XYZ Ltd. is holding 20% shares of ABC Ltd., in this case excessive payment is disallowed.
4. Any other person covered under section 40A(2).

Question 27 [V. Imp.]. Discuss provisions relating to payments in excess of ₹10,000.
Answer: Payment in excess of ₹10,000 Section 40A(3) Rule 6DD
If an assessee has incurred any expenditure and the payment or the aggregate of the payments made to a person with regard to such expenditure on any single day **exceeds ₹10,000** and payment was made otherwise than **through account payee cheque or account payee bank draft or use of electronic clearing system through a bank account *or Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay***, in such cases entire expenditure is disallowed.
In case of payment made for plying, hiring or leasing goods carriages, the ceiling of ten thousand rupees shall be enhanced to thirty-five thousand rupees.
Example
Mr. X has incurred an expenditure of ₹29,000. Mr. X makes separate payments of ₹9,000, ₹8,000 and ₹12,000 all by cash, to the person concerned in a single day. The aggregate amount of payment made to a person in a day, in this case, is ₹29,000. Since, the aggregate payment by cash exceeds ₹10,000, ₹29,000 will not be allowed as a deduction in computing the total income of Mr. X.

Example
(i) If ABC Ltd. has paid ₹65,000 in cash, expenditure disallowed shall be ₹65,000.
(ii) If Mr. X has paid ₹11,000 by a bearer cheque, amount disallowed shall be ₹11,000.
(iii) If ABC Ltd. has paid ₹10,050 by a crossed cheque, amount disallowed shall be ₹10,050.
(iv) ABC Ltd. has paid ₹35,000 by an account payee cheque, entire amount is allowed.
(v) Mr. X pays a salary to his employee ₹15,000 by crossed cheque, in this case entire expenditure is disallowed.
(vi) ABC Ltd. has paid ₹32,000 in cash to a goods transport agency for transportation of goods, expenditure is allowed.
(vii) Mr. X purchases goods worth ₹75,000 on 01.01.2024 and payment was made ₹60,000 on 03.01.2024 by account payee cheque and ₹8,000 in cash on 03.01.2024 and ₹7,000 in cash on 05.01.2024, in this case expenditure is allowed.
(viii) Mr. X purchases goods worth ₹8,000 and ₹5,000 against two bills from Mr. Y and makes the payment ₹13,000 in cash in a single day, in that case entire expenditure is allowed.
(ix) Mr. X purchases goods worth ₹15,000 from Mr. Y against one bill but makes payment of ₹7,500 and ₹7,500 at different times on the same date, in that case entire expenditure is disallowed.

Exceptions under rule 6DD
As per rule 6DD the above provisions are not applicable with regard to following payments:
1. Payment made to Reserve Bank of India, State Bank of India or other banking institutions, LIC, UTI / Central/State Government etc.
2. If the payment is made in a **village** or **town** and there is no bank at such place on the date of making the payment and payment is being given to any person who ordinarily resides at that place or has his business or profession at that place.
3. Where the payment is made for the purchase of
   (i) **agricultural or forest produce** ; or
   (ii) the produce of **animal husbandry** or **dairy** or **poultry farming** ; or
   (iii) **fish or fish products** ; or
   (iv) the products of **horticulture or apiculture (Honey making)**,
   to the **cultivator**, **grower or producer** of such articles, produce or products.
4. Where the payment is made for the purchase of the **products manufactured in a cottage industry**, to the producer of such products.
5. If payment is being made to an employee **after retirement** or to his family member **after the death** of the employee and payment is in connection with gratuity etc. and payment is **not exceeding ₹50,000**.
6. Any other situation given under Rule 6DD.

Question 28: Write a note on deductibility in respect of provision for Gratuity Fund.
Answer: Deductibility in respect of provision for Gratuity Fund Section 40A(7)
In general no provision is allowed under Income Tax Act however as a special case, provision for gratuity is allowed. The assessee can make provision for contribution towards approved gratuity fund but such provision should be actuarial provision i.e. it should not be hypothetical.

Question 29: Write a note on employer's contribution to various funds.
Answer: Employer's contribution to various funds Section 40A(9)
Employer's contribution to various funds is allowed only if such funds are notified under any Act. If the employer has contributed to the recognised provident fund, approved superannuation fund, approved gratuity fund or any other similar fund required under any other Act, such contribution is allowed, but payment has to be made upto the last date of filing of return of income as per section 43B.
If the employer has contributed to any other fund like unrecognised provident fund, unapproved gratuity fund, unapproved superannuation fund etc., expenditure shall not be allowed.

Question 30: Explain incomes under section 41.
Answer: In general a person cannot have income under the head business/profession without business/

profession but as per section 41(1), 41(2), 41(3) and 41(4), such incomes shall be taxable under the head business/profession even if the assessee do not have any business/profession and are as under below:
As per section 41(1), if any assessee has debited any amount to the profit and loss account and subsequently it was recovered by him, it will be considered to be his income under the head business/profession of the year in which it has been recovered even if the assessee do not have any business or profession in that year. e.g. Mr. X has debited ₹20,000 to profit and loss account being the municipal tax paid but in the subsequent year there was refund of ₹3,000, in this case it will be considered to be income under the head business/profession in the year of recovery. If amount has been recovered by the successor of business, in that case, it will be considered to be income of such successor
"Successor in business" means, the amalgamated company / the resulting company / where a firm is succeeded by another firm, the other firm etc.
(Section 41(2), 41(3) and 41(4) have been discussed in the relevant questions.)

Question 31 [Imp.]: Write a note on actual cost. Sec 43(1)
Answer: Actual Cost Section 43(1)
In case of depreciable assets, depreciation is allowed on actual cost and as per section 43(1), actual cost means total expenses incurred upto the date of putting the asset to use.
If ABC Ltd. has taken a loan of ₹ 40 lakhs @ 10% p.a. on 01.04.2023 for purchasing a particular plant and machinery and the company has made additional payment asunder:

1. Transportation charges ₹2 lakh.
2. Loading and unloading expenses ₹25,000
3. Payments for the expert staff to install the plant and machinery ₹3 lakh.
4. Company has incurred ₹ 4 lakh for construction of a platform for installing the plant and machinery.

The asset was put to use on 01.01.2024, in this case actual cost of the asset shall be ₹52,25,000 (40,00,000 + interest 3,00,000 (40,00,000 x 10% x 9/12) + 2,00,000 + 25,000 + 3,00,000 + 4,00,000)
If the assessee has received any subsidy from the Government or other similar agency, the subsidy so received shall be deducted and only the balance amount shall be considered to be the actual cost.

Example
If in the above case, the assessee has received a subsidy of ₹ 2 lakh in connection with plant and machinery because it was a non-polluting plant, in this case, actual cost of asset shall be ₹50,25,000.
Treatment of interest subsequent to putting the asset to use
Any interest in connection with the acquisition of an asset relating to any period after such asset is first put to use shall not be included, in the actual cost of such asset, rather it is revenue expenditure and is allowed to be debited to profit and loss account but interest prior to putting the asset to use shall be added in the actual cost.
Buildings in personal use subsequently used in business/profession
Where a building previously the property of the assessee is brought into use for the purpose of the business or profession, the actual cost to the assessee shall be the actual cost of the building to the assessee, as reduced by an amount equal to the depreciation that would have been allowable had the building been used for the business/profession since the date of its acquisition.

Where the assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account ***or Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay***, exceeds ten thousand rupees, such expenditure shall be ignored for the purposes of determination of actual cost.
Where a stock in trade is converted into capital assets then fair market value of the stock shall be treated as actual cost of the asset.

Illustration 12: Dr. Sagar purchased a residential building on 01.12.2021 for ₹12,00,000 and it was put to use on the same date. Till 01.12.2023 the same was self-occupied as residence. On this date, the building was brought into use for the purpose of his medical profession (it was used as residential building). What would be the depreciation allowable for the Assessment Year 2024-25?

Solution: ₹

Computation of depreciation for the Assessment Year 2024-25

In this case notional depreciation shall be allowed as per section 43(1) and depreciation allowable for the Assessment Year 2024-25 shall be computed in the manner given below:

Cost of building as on December 1st, 2021	12,00,000
Less: depreciation for the previous year 2021-22 (2.5% of ₹ 12,00,000) (As building purchased during the year 2021-22 is put to use for less than 180 days during the year)	(30,000)
Written down value as on 01.04.2022	11,70,000
Less: depreciation for previous year 2022-23 @ 5%	(58,500)
Written down value as on 01.04.2023	11,11,500
Depreciation for the previous year 2023-24 @ 5%	55,575

Question 32: Write a note on the Method of Accounting as per Section 145.

Answer: Method of Accounting Section 145

Income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" shall, be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee however any system of accounting once adopted has to be followed consistently but it can be changed with the permission of assessing officer.

Question 33 [V. Imp.]: Write a note on Section 43B.

Answer: Certain deductions to be only on actual payment Section 43B

If any assessee has maintained books of accounts on the basis of mercantile system of accounting, all the expenditures are allowed on due basis. But the expenditures listed under section 43B are allowed only on actual payment basis.

These expenditures are: -

(a) any sum payable by the assessee by way of **tax**, **duty**, **cess** or **fee**, by whatever name called, under any law like **Municipal Tax**, **Professional Tax** , **Composition Tax** etc.

(b) **Employer's contribution to any provident fund** or **superannuation fund** or **gratuity fund**, **Employees State Insurance (ESI)** or **any other fund** for the welfare of employees.

(c) **Bonus** or **commission** or **leave salary** to the employee.

(d) **Interest on any loan or borrowing from any Public Financial Institution or a State Financial Corporation or a State Industrial Investment Corporation or scheduled bank, Deposit taking non-banking financial company or systemically important non-deposit taking non-banking financial company.**

(e) Any sum payable by the assessee to the Indian Railways for the use of railway assets,

(f) Any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006 e.g. Mr. A has purchased goods of ₹ 10,000 from A & Co., a micro enterprise on 1.3.2024. As per the written agreement between them, the payment has to be made by 5.4.2024. Mr. A follows mercantile method of accounting.

(i) If Mr. A paid the sum on 2.4.2024

Since Mr. A paid the sum on or before 5.4.2024, the deduction would be allowed in P.Y. 2023-24.

(ii) If Mr. A paid the sum on 20.4.2024

Since Mr. A paid the sum beyond the time limit, the deduction would be allowed in the year of actual payment i.e., P.Y. 2024-25.

Section 15 of the of the Micro, Small and Medium Enterprises Development Act, 2006 mandates payment of goods or services to supplier, being a micro or small enterprises by the buyer on or before the date agreed upon between them in writing i.e., as per the written agreement, which cannot be more than 45 days from the

day of acceptance or the day of deemed acceptance of any goods or services by a buyer from a supplier. If there is no such written agreement, the payment shall be made before the appointed day i.e., within 15 days.
If the sum payable by the assessee to a micro or small enterprise is paid as per written agreement (maximum within 45 days) or within 15 days in case of no agreement, the deduction can be claimed on accrual basis if mercantile method of accounting is followed by the assessee.
However, if the sum payable by the assessee to a micro or small enterprise is not paid as per written agreement or within 15 days in case of no agreement, the deduction would be allowed in the previous year in which it is actually paid.
Meaning of Micro and Small enterprise
(1) **In case of enterprises engaged in the manufacture or production of goods pertaining to specified industries**
Micro enterprise
Where the investment in plant and machinery ≤ ₹ 25 lakhs
Small enterprise
Where the investment in plant and machinery > ₹ 25 lakhs ≤ ₹ 5 crores
(2) **In case of enterprises engaged in providing or rendering services**
Micro enterprise
Where the investment in equipment ≤ ₹ 10 lakhs
Small enterprise
Where the investment in equipment > ₹ 10 lakhs ≤ ₹ 2 crores

The assessee is allowed to make the payment till the last date of filing of return of income relating to the previous year in which the expenditure was incurred.

If the payment is made after the last date of filing of return of income, expenditure is allowed in the year in which the assessee has made the payment. *This clause is not applicable for payment to MSME.*
Example
ABC Ltd has debited bonus of ₹3,00,000 to the Profit/Loss A/c for the previous year 2023-24 and the company paid the bonus on 07.12.2024, in this case expenditure is not allowed in the previous year 2023-24. Rather expenditure is allowed in the previous year 2024-25. Similarly if the payment is made by the company on 07.05.2025, expenditure shall be allowed in the previous year 2025-26.

<u>Illustration 13:</u> Mr. X (age 82 years) has one house which is 50% in business/profession and 50% is let out @ 10,000 p.m. and municipal taxes for the entire house are ₹7,000 which were paid on 10.04.2024 and business income of Mr. X before debiting any expense of house property is ₹7,80,000. Compute tax liability for the Assessment Year 2024-25.

<u>Solution:</u>

	₹
Income under the head business/profession shall be	
Less: Municipal taxes	₹7,80,000
Net Profit as per P/L accounts	(₹3,500)
	7,76,500.00
(Municipal tax allowed because payment has been made upto the last date of filing of return of income)	
Income under the head House Property	
Gross annual value	1,20,000.00
Less: Municipal taxes (allowed only on actual payment basis)	Nil
Net annual value	1,20,000.00
Less: 30% of NAV u/s 24(a)	(36,000.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	84,000.00
Gross Total Income	8,60,500.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,60,500.00

Computation of Tax Liability

Tax on ₹8,60,500 at slab rate	41,050.00
Add: HEC @ 4%	1,642.00
Tax Liability	42,692.00
Rounded off u/s 288B	42,690.00

(Municipal tax not allowed because payment has not been made upto the end of previous year)

Illustration 14: Mr. X has computed his income ₹3,50,000 and some of the amounts debited to the profit and loss account are as given below:

1. Household expense ₹5,000
2. Rent for own building ₹1,20,000 (half of the building is self occupied and balance half in business use).
3. Municipal tax of the building ₹3,000 (amount was paid on 01.04.2024)
4. Expenditure on repairs of the building ₹4,000.
5. Premium paid for insurance of the building ₹2,000.
6. Mr. X has purchased one motor car for ₹3,00,000 on 01.01.2024 and it was put to use on the same date. The car was used for personal purpose as well as official use (50% official and 50% personal). Assessee has also debited petrol expenses of ₹5,000.
7. He has debited ₹20,000 being the amount invested in public provident fund.

His tax liability for the Assessment Year 2024-25 shall be computed in the manner given below:

Solution:

	₹
Net income as per profit and loss account	3,50,000.00
Add:	
1. Household expenses	5,000.00
2. Rent of the own building	1,20,000.00
3. Municipal tax	1,500.00
4. Repairs	2,000.00
5. Insurance	1,000.00
6. Capital expenditure on motor car	3,00,000.00
7. Petrol	2,500.00
8. Public Provident Fund	20,000.00
Less:	
Depreciation of motor car	
3,00,000 x 15% x ½ x ½	(11,250.00)
Income under the head Business/Profession	7,90,750.00
Income under the head house property	
GAV of self occupied house	Nil
Municipal tax	Nil
NAV	Nil
24(a)	Nil
Income under the head house property	Nil
Gross Total Income	7,90,750.00
Less: Deduction under Chapter VI-A	Nil
Total Income	7,90,750.00

Computation of Tax Liability

Tax on ₹7,90,750 at slab rate	34,075.00
Add: HEC @ 4%	1,363.00
Tax Liability	35,438.00
Rounded off u/s 288B	35,440.00

Question 34: Write a note on full value of consideration for transfer of assets other capital asset in certain cases.

Answer: <u>Special provision for full value of consideration for transfer of assets other than capital assets in certain cases</u> <u>Section 43CA</u>

If any person has sold land or building which was held as stock-in-trade and it was sold at a value less than the stamp duty value, in such cases sale value shall be considered to be stamp duty value but if the seller has entered into a agreement to sell the property at an earlier date and some advance was taken through account payee cheque or account payee draft or through electronic clearing system through a bank account, Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay, in such cases stamp duty value on the date of agreement shall be taken into consideration.
If the stamp duty value is upto 110% of the actual consideration, the consideration so received shall be considered to be full value of consideration for the purpose of computing income under the head Business/ Profession.

Question 35 [V. Imp.]: Discuss the provisions of the Income Tax Act 1961, regarding compulsory maintenance of accounts.
Answer: Compulsory maintenance of accounts Section 44AA Rule 6F
Provisions regarding maintaining of books of accounts shall be as given below:

1. Persons having specified profession
The person having specified profession have to maintain any books of accounts as may enable the Assessing Officer to compute his total income, however they have to maintain prescribed books of accounts if gross receipt exceeds ₹1,50,000 in all the three years immediately preceding the previous year.
Example
Mr. X is engaged in medical profession and his gross receipt during the various years is asunder:
1. 2022-23 1,40,000
2. 2021-22 1,70,000
3. 2020-21 1,25,000
In this case, during the previous year 2023-24, Mr. X is not required to maintain prescribed books of accounts because gross receipt has not exceeded ₹1,50,000 during all the three years immediately preceding the relevant previous year. But if receipt during 2022-23 is ₹1,75,000 and during 2020-21 it is ₹1,55,000, he has to maintain prescribed books of accounts during 2023-24.
If profession has been newly setup in the previous year and gross receipt are likely to exceed ₹1,50,000, he should maintain prescribed books of accounts.

Specified Profession shall include
1. Legal profession 2. Medical profession 3. Engineering profession 4. Architectural profession 5. Profession of accountancy 6. Technical consultancy 7. Interior decoration 8. Authorised representatives 9. Film artists 10. Company Secretary 11. Information Technology.

Preservation of the books of accounts
The books of accounts are to be kept and maintained for the period of atleast **6 years** from the end of the relevant assessment year.
2. Persons carrying on business or any profession, not specified above
Such persons are not required to maintain accounts in general, however if their **income from business or profession exceeds one lakh twenty thousand rupees or their total sales turnover or gross receipts as the case may be, in business or profession exceeds ₹ 10 lakhs in any one of the three years immediately preceding the previous year, they will be required to maintain any books of accounts.**
In case of business or profession newly set up in any previous year, obligation to maintain accounts will arise if the income is likely to exceed ₹1,20,000 or total sales turnover or gross receipts as the case may be in business or profession are likely to exceed ₹10 lakhs during such previous year.

For Individual and HUF Limit of ₹2,50,000 instead of ₹1,20,000 and Limit of ₹25,00,000 instead of ₹10,00,000 shall be applicable.

3. Persons whose business income is to be computed on presumptive basis under section 44AD/44ADA/44AE

If income of any person is to be computed under section 44AD or 44ADA or 44AE on presumptive basis but such person has rejected presumptive income and his income is exceeding the maximum amount which is exempt from income tax, in such cases such person shall be required to maintain any books of accounts (also audit is required as per section 44AB), e.g. Mr. X has turnover of his business ₹20,00,000 but he has rejected presumptive income, books/ audit not required but if turnover is ₹50,00,000 and person has rejected presumptive income, books as well as audit is required.

Question 36 [V. Imp.]: Write short note on Compulsory Tax Audit.

Answer: Compulsory Tax Audit

Audit of accounts of certain persons carrying on business or profession Section 44AB

The following persons have to get their accounts audited.

1. Every person carrying on business, if his total sales turnover or gross receipts, in business exceeds **₹100 lakh** during the previous year.

2. Every person carrying on profession if his gross receipts in profession exceed ***₹50 lakh*** during the previous year.

3. If income of any person is to be computed under section 44AD or 44ADA or 44AE on presumptive basis but such person has rejected presumptive income, in such cases such person shall be required to get the accounts audited.

4. Every person carrying on business, if his total sales turnover or gross receipts, in business exceeds ₹1000 lakh during the previous year provided that in the case of a person whose—

(a) aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent. of the said amount. and

(b) aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent. of the said payment.

Provided further that for the purposes of this clause, the payment or receipt, as the case may be, by a cheque drawn on a bank or by a bank draft, which is not account payee, shall be deemed to be the payment or receipt, as the case may be, in cash.

The accounts should be audited by a Chartered Accountant and audit report should be submitted latest by one month prior to the last date of filing of return of income

Provided *that this section shall not apply to a person, who declares profits and gains for the previous year in accordance with the provisions of sub-section (1) of section 44AD or sub-section (1) of section 44ADA:*

Penalty for violating provisions of Section 44AB Section 271B

If any person fails to get his accounts audited or fails to submit audit report in time, penalties may be imposed under section 271B equal to ½% of total turnover or gross receipt subject to a maximum of ₹1,50,000.

Example

Mr. X has turnover of his business ₹105 lakhs but he has failed to get his accounts audited, in this case penalties may be imposed amounting to ₹52,500 but if his turnover was ₹400 lakhs, penalties imposable shall be ₹2,00,000 but maximum ₹1,50,000.

Question 37 [V. Imp.]. Briefly describe provisions of income tax act for computing profit and gains of business on Presumptive Basis.

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

1. 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.

2. Such option is allowed only to an **Individual/ HUF / Firm** who are resident but not to LLP or Company.

3. 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.
4. 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 default.
5. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.

6. The assessee shall be exempt from maintaining books of accounts or audit.

7. If an assessee has opted for presumptive income under section 44AD and in the subsequent 5 years he has rejected presumptive income, in that case he will not be allowed to opt for presumptive income for next 5 years. If assessee has rejected the presumptive income, he will be required to maintain any books of accounts and also audit is required. e.g. Mr. X has opted for presumptive income under section 44AD in the previous year 2023-24, in this case he cannot reject 44AD during the subsequent 5 previous years i.e. previous year 2024-25, 2025-26, 2026-27, 2027-28, 2028-29. If he has rejected 44AD in any of these 5 years, he will not be allowed to opt for 44AD in next 5 years. If he has rejected 44AD in previous year 2025-26, he cannot opt for 44AD during the previous year 2026-27, 2027-28,2028-29,2029-30, 2030-31.

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 or Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay during the previous year or before the due date specified in subsection (1) of section 139 in respect of that previous year.
Provided *that where the amount or aggregate of the amounts received during the previous year, in cash, does not exceed five per cent of the total turnover or gross receipts of such previous year, this sub-clause shall have effect as if for the words "two crore rupees", the words "three crore rupees" had been substituted:*
Provided further *that for the purposes of the first proviso, the receipt of amount or aggregate of amounts by a cheque drawn on a bank or by a bank draft, which is not account payee, shall be deemed to be the receipt in cash.*

Illustration 15: Mr. X is engaged in a business with turnover ₹170,00,000 (all payments received by account payee cheque, bank draft or through electronic clearing) and expenses incurred in connection with earning of income are ₹160,00,000. He has LTCG ₹5,00,000. He has donated ₹4,00,000 to Rajiv Gandhi Foundation by cheque. He has brought forward loss of business ₹1,00,000 of previous year 2019-20. Compute his Income and Tax Liability for previous year 2023-24, in two situations -

(i) He has opted for section 44AD.

(ii) He has not opted for section 44AD.

Solution:

(i) As per section 44AD, Presumptive Income shall be	**₹**
170,00,000 x 6% =	10,20,000
Less: Brought forward loss of P.Y. 2019-20	(1,00,000)
Income under the head Business or Profession	9,20,000
Income under the head Capital Gains	
Long Term Capital Gains	5,00,000
Gross Total Income	14,20,000
Less: Deduction under Chapter VI-A	Nil
Total Income	14,20,000
Computation of Tax Liability	
Tax on ₹9,20,000 at slab rate	48,000.00
Tax on LTCG ₹5,00,000 @ 20% u/s 112	1,00,000.00
Add: HEC @ 4%	5,920.00
Tax Liability	1,53,920.00

Note:

1. The Assessee shall be exempt from maintaining books of accounts and also from Audit.

(ii)

Income under the head Business or Profession	
Gross Receipts	170,00,000
Less: Expenses Incurred	(160,00,000)
Less: Brought forward loss of P.Y. 2019-20	(1,00,000)
Income under the head Business or Profession	9,00,000
Income under the head Capital Gains	
Long Term Capital Gains	5,00,000
Gross Total Income	14,00,000
Less: Deduction under Chapter VI-A	Nil
Total Income	14,00,000
Computation of Tax Liability	
Tax on ₹9,00,000 at slab rate	45,000.00
Tax on LTCG ₹5,00,000 @ 20% u/s 112	1,00,000.00
Add: HEC @ 4%	5,800.00
Tax Liability	1,50,600.00

Note: The Assessee shall be liable to maintain books of accounts and also liable to Audit.

Question 38. Explain Special provision for computing profits and gains of profession on presumptive basis. Section 44ADA

Answer: <u>Special provision for computing profits and gains of profession on presumptive basis Section 44ADA</u>

(1) An Assessee, ***being an individual or a partnership firm other than a limited liability partnership who is a resident in India***, having specified profession shall be allowed to have option to compute income on presumptive basis provided gross receipt is not exceeding ₹ 50 lakh during that year and income under the head Business/Profession shall be presumed to be 50% of gross receipt and no further deduction shall be allowed under the head Business/Profession.

(2) The assessee shall be exempt from maintaining books of accounts.

(3) Such Assessee has the option to reject presumptive income but in that case the assessee shall be required to maintain any books of accounts and also audit is required.

(4) Assessee can change the option on year to year basis.

(5) Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.

(6) Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15^{th} March of the relevant previous year otherwise interest shall be charged @ 1% for one month on the amount of deposit default.

Provided *that in case of an assessee where the amount or aggregate of the amounts received during the previous year, in cash, does not exceed five per cent of the total gross receipts of such previous year, this sub-section shall have effect as if for the words "fifty lakh rupees", the words "seventy-five lakh rupees" had been substituted:*

Provided further *that for the purposes of the first proviso, the receipt of amount or aggregate of amounts by a cheque drawn on a bank or by a bank draft, which is not account payee, shall be deemed to be the receipt in cash.*

<u>Illustration 16:</u> Mr. X is engaged in specified profession and has gross receipt ₹42,00,000. He has Long term Capital Gain ₹7,00,000 and brought forward business loss ₹30,000 of A.Y. 2020-21. He donated ₹ 20,000 to Prime Minister National Relief Fund (PMNRF) by cheque. Compute his Tax Liability for the Assessment Year 2024-25. He has opted for Section 44ADA.

Solution:	**₹**
Gross Receipt	42,00,000
Presumptive Income u/s 44ADA (50% of 42,00,000)	21,00,000
Income under the head Business Profession	21,00,000
Less: B/F business loss	(30,000)
Income under the head Business Profession	20,70,000
Income under the head Capital Gains	7,00,000
Gross Total Income	27,70,000
Less: Deduction under Chapter VI-A	Nil
Total Income	27,70,000
Computation of Tax Liability	
Tax on ₹20,70,000 at slab rate	3,21,000
Tax on LTCG ₹7,00,000 @ 20%	1,40,000
Tax before health & education cess	4,61,000
Add: HEC @ 4%	18,440
Tax Liability	4,79,440

Question 39 [V. Imp.]. Describe the provisions for computing profit and gains of business of Plying, Hiring or Leasing Goods Carriages.

Answer: Special provision for computing profits and gains of business of plying, hiring or leasing goods carriages Section 44AE

1. If any person is engaged in the business of plying, hiring or leasing goods carriages, he will have the option to compute income under the head business/profession on presumptive basis and it will be **₹7,500 per month or part of the month per goods carriage** provided it is not a heavy goods vehicle. Heavy goods vehicle means goods vehicle having gross weight more than 12 ton (12000 kg.) If it is a heavy goods vehicle income shall be presume to be ₹1000 per ton of gross weight, e.g. if weight of vehicle is 14 ton (14000 kg), income shall be ₹ 14,000 per month.

If actual income is more than the presumptive income, actual income shall be taken into consideration.

Assessee **should not have more than 10 goods carriages** at any time during the year otherwise such option is not allowed.

2. No further deduction is allowed under section 30 to 38 **but in case of a firm interest and salary to partners is allowed as per section 40(b).**

3. The assessee shall be exempt from maintaining books of accounts or audit.

4. The assessee has the option to reject presumptive income but in that case assessee should maintain any books of accounts and also audit is required.

5. An assessee, who is in possession of a goods carriage, whether taken on hire purchase or on instalments, shall be deemed to be the owner of such goods carriage.

6. Assessee can change the option on year to year basis.

7. Brought forward depreciation shall not be allowed to be adjusted but brought forward business loss shall be allowed to be adjusted.

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Question.3. (a) **(4 Marks)**

Mr. Prakash is in the business of operating goods vehicles. As on 1st April, 2023, he had the following vehicles:

Vehicle	Gross Vehicle Weighted (in Kgs.)	Date of Purchase	Put to use during F.Y. 2022-23
A	8500	02-04-2022	Yes
B	13000	15-05-2022	Yes

C	12000	04-08-2022	No (as under repairs)

During P.Y. 2023-24, he purchased the following vehicles:

Vehicle	**Gross Vehicle Weight (in Kgs.)**	**Date of Purchase**	**Date on which put to use**
D	11000	30-4-2023	10-5-2023
E	15000	15-5-2023	18-5-2023

Compute his income under Section 44AE of the Income Tax Act, 1961 for A.Y. 2024-25.

Solution:

Since Mr. Prakash does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. As per section 44AE, ₹1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Computation of Presumptive Income as per section 44AE

Type of carriage	**No. of Months the vehicle is owned by Mr. Prakash**	**Rate per ton per month**	**Ton**	**Amount**
(1)	**(2)**	**(3)**	**(4)**	**(5) [(2) x (3) x (4)]**
<u>Heavy goods vehicle</u>				
Vehicle B (13,000 kgs) held throughout the year	12	1,000	13 (13,000/1,000)	1,56,000
Vehicle E (15,000 kgs) purchased on 15.5.2023	11	1,000	15 (15,000/1,000)	1,65,000
<u>Goods vehicles other than heavy goods vehicle</u>				
Vehicle A held throughout the year	12	7,500	-	90,000
Vehicle C held throughout the year	12	7,500	-	90,000
Vehicle D purchased on 30.4.2023	12	7,500	-	90,000
			Total	**5,91,000**

The "put to use" date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Prakash.

<u>Illustration 17:</u> Mr. X retired from Govt. service in March 2023. He got ₹20,00,000 on account of retirement benefits. Out of the aforesaid sum, he purchased on 23rd April 2023 a few motor vehicles and got their delivery on that date.

The particulars of the vehicles are given below–

Vehicle	***Number***	***Cost of the vehicle***
Heavy goods vehicle (15 ton)	2	₹9,00,000
Medium goods vehicle (8 ton)	4	₹4,50,000

Light commercial Vehicle (4 ton) 3 ₹3,20,000

He started plying the vehicles from 04.06.2023. On an average every vehicle remains off the road for about a week for repairs and maintenance. He maintains a rough record of the receipts and outgoings which is given below –

Receipts	₹3,70,000
Less: Expenses (Excluding depreciation and salaries to Mr. Y)	(₹ 60,000)
	₹3,10,000

You are required to compute the Total Income of Mr. X from the business of goods carriage for the previous year 2023-24.

Solution:

Computation of Business Income

	₹
As per section 44AE	
Goods vehicle	
(₹7,500 x 7 x 12)	6,30,000
Heavy goods vehicle	
(₹1,000 x 15 x 12 x 2)	3,60,000
Business Income	9,90,000
Gross Total Income	9,90,000
Less: Deduction under Chapter VI-A	Nil
Total Income	9,90,000

Illustration 18: An assessee owns a heavy commercial vehicle having gross vehicle weight of 15 ton each for 9 months 15 days, a medium goods vehicle having gross vehicle weight of 8 ton for 9 months and a light goods vehicle having gross vehicle weight of 5 ton for 12 months during the previous year. Compute his income applying the provisions of section 44AE.

Solution:

His profits and gains from the 3 trucks shall be deemed to be (15 x 1,000 x 10) + (₹7,500 × 9) + (₹7,500 × 12) = ₹3,07,500

ORDER OF SET-OFF OF LOSSES / DEPRECIATION

Order of set of losses and depreciation shall be as given below

(a) Current year expenses

(b) Current year depreciation / Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.

(c) Brought forward loss from business/profession [Section 72(1)]

(d) Unabsorbed depreciation [Section 32(2)] / Unabsorbed capital expenditure on scientific research [Section 35(4)]/ Unabsorbed expenditure on family planning [Section 36(1)(ix)]

Illustration 19: Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident. The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-4-2023 was ₹10,80,000. During the process of safeguarding machinery and in the firefighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹1,20,000. The market value of these two items as on the date of fire accident was ₹1,80,000.

Mr. A received the following amounts from the insurance company:

(i) Towards loss of stock ₹4,80,000

(ii) Towards damage of machinery ₹6,00,000

(iii) Towards gold chain and diamond ring ₹1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

Answer:

(i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

(ii) Compensation towards damage to machinery: The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹4,80,000 being the excess of written down value (i.e ₹10,80,000) over the insurance compensation (i.e. ₹6,00,000) will be assessable as a short-term capital loss.

Note – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not "personal effects", which alone are to be excluded. As per section 45(1A), if any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹1,80,000.

OPTIONAL TAX REGIME

Question 1: Write a note on Additional Depreciation.

Answer: <u>Additional Depreciation</u> <u>Section 32</u>

Additional depreciation shall be allowed @ 20% to all the assessee in connection with plant and machinery for the purpose of manufacturing and also to the assessee engaged in generation, **transmission** or distribution of electricity. Additional depreciation shall be allowed only in the year in which asset has been put to use. It is allowed only once i.e. it is not allowed every year.

<u>Additional depreciation is not allowed</u> in the following cases:

(i) Second hand plant and machinery i.e. plant and machinery should be brand new

(ii) Any **<u>machinery or plant installed in any office premises or any residential accommodation</u>**, including accommodation in the nature of a guest-house or

(iii) Any **<u>office appliances</u>** or **<u>road transport vehicles</u>** or **<u>ships and aircraft</u>**

(iv) Any **<u>machinery</u>** or **<u>plant</u>**, the **<u>actual cost</u>** of which has been debited to profit and loss account.

If the asset is purchased and put to use for less than 180 days, additional depreciation shall be allowed at 10% and remaining additional depreciation shall be allowed in the subsequent year.

<u>Illustration:</u> ABC Ltd. is engaged in manufacturing and has submitted information as given below:

1. Factory Building – Written down value on 01.04.2023 was ₹12,00,000.
2. Plant and Machinery (Rate 15%) – Written down value on 01.04.2023 is ₹8,70,000.
3. Purchase of new plant (eligible for additional depreciation) on 30.06.2023 (Put to use on 01.07.2023) ₹1,20,000.
4. Purchase of new plant (eligible for additional depreciation) on 31.12.2023 (Put to use on 01.01.2024) ₹1,10,000.
5. Sale of old Plant on 01.12.2023 ₹6,40,000.
6. Motor Car (Rate 15%) – Written down value on 01.04.2023 was ₹1,20,000.
7. Sale of Car on 30.09.2023 ₹1,50,000.

Compute depreciation allowed.

<u>Solution:</u>		**₹**
<u>Factory Building, Depreciation @ 10%</u>		
Written down value on 01.04.2023		12,00,000
Depreciation @ 10%		1,20,000
<u>Plant and Machinery, Depreciation @ 15%</u>		
Written down value on 01.04.2023		8,70,000
Purchase on 30.06.2023, put to use on 01.07.2023		1,20,000
Purchase on 31.12.2023, put to use on 01.01.2024		1,10,000
Sale of old plant on 01.12.2023		(6,40,000)
Written down value on 31.03.2024		4,60,000
Depreciation @ 15% on ₹3,50,000		52,500
Depreciation @ 7.5% on ₹1,10,000	8,250	
<u>Additional depreciation</u>		
1,20,000 x 20%		24,000
1,10,000 x 10%		11,000
<u>Motor Car, Depreciation @ 15%</u>		
Written down value on 01.04.2023		1,20,000
Sale on 30.09.2023		(1,50,000)
Short term capital gain		30,000

<u>2. Donation/contribution to research association Section 35</u>

If any assessee has given donation to the notified research association, assessee shall be allowed to debit the amount to the profit and loss account in the manner given below:

(i) <u>As per section 35(1)(ii)</u>, an amount equal to the amount of donation given to an **<u>approved scientific</u>**

research association or approved **university**, **college etc.** shall be allowed to be debited to profit and loss account. E.g. ABC Ltd. has donated ₹10,00,000 to an approved research association for scientific research, company is allowed to debit ₹10,00,000 to profit and loss account.
(ii) As per section 35(1)(iia), if donation is given to an **Indian company** approved by prescribed authority for the purpose of scientific research, deduction allowed **shall be equal** to the donation.
(iii) As per section 35(1)(iii), deduction allowed **shall be equal** to the donation if donation is given to any approved institution for the purpose of research in social science or statistical research.
(iv) As per section 35(2AA), an amount equal to the amount of donation given to **National Laboratory**, **University** or **Indian Institute of Technology with a specific direction that the said sum shall be used for scientific research undertaken.** shall be allowed to be debited to profit and loss account.
Further there is no condition that the research should be related to the business or profession of the assessee.
(If any assessee do not have business/profession, such assessee can claim deduction under section 80GGA.)

The Institution covered under section 35(1)(ii)/(iia)/(iii) shall give an intimation in prescribed manner to prescribed Income Tax Authority within 3 months from the date when FA,2020 comes into force otherwise their approval shall stand cancelled. Also any approval granted shall be valid for 5 years.

Question 3 : Write a note on specified business.
Answer: Deduction in respect of expenditure on Specified Business Section 35AD
In case of certain business, the assessee shall, **if he opts,** be allowed to debit even the capital expenditure to the profit and loss account and such business shall be called **specified business** and further amount allowed to be debited shall be **equal to the capital expenditure** incurred and such business are as given below:

01. **Cold chain facility** for storing agricultural produce, meat and meat products, poultry and dairy products etc.
02. **Warehousing facility** for storage of agricultural produce.
03. **Hospitals with at least one hundred beds for patients**.
04. **Housing project under a scheme for affordable housing.**
05. **Production of fertilizer** including increase in installed capacity of an existing plant.
06. **Pipeline network** for distribution of natural gas or petroleum products.
07. **Pipeline network for the transportation of iron ore.**
08. **Hotel of two star or above category**.
09. **Housing project for slum development**.
10. **Inland container depot or a container freight station.**
11. **Bee-keeping and production of honey.**
12. **Warehousing facility for storage of sugar**.
13. **Semi-conductor wafer fabrication manufacturing unit.**
14. **Developing or maintaining or operating a new infrastructure facility.**

The capital expenditure incurred before commencement of business shall also be allowed to be debited in the year in which the business has commenced.
The following capital expenditure shall not be allowed

- **Acquisition of any land; or**
- **Goodwill; or**
- **Financial instrument**

If any capital asset which was debited to profit and loss account, has been sold, amount received on sale shall be considered to be income under the head business/profession as per section 28.
If any capital asset was acquired for the said business and amount was debited to profit and loss account, it must be used for the said business for a period of atleast 8 years otherwise the amount debited shall be considered to be income of the assessee of the year in which the asset has been used for other purpose, however normal depreciation shall be deducted and only balance amount shall be considered to be income.
As per section 73A, loss of specified business can be set off only from profits and gains of any other specified business and carried forward is allowed for unlimited periods and in the subsequent years also, the loss can be set off only from income of specified business.

Loss from normal business and unadjusted depreciation can be adjusted from income of specified business. Similarly loss under the head house property or loss under the head other sources can be setoff from income of specified business.
Capital Expenditure shall not include any expenditure in respect of which the payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay, exceeds ₹10,000.
No deduction shall be allowed to the assessee under any other section in any previous year or under this section if the deduction has been claimed or opted by the assessee and allowed to him under this section.

4. ALTERNATE MINIMUM TAX Section 115JC to 115JF

Alternate Minimum Tax provisions shall be applicable in case of all the assesses except a company (in case of company minimum alternate tax is applicable).
Further such provisions shall not be applicable for individual, HUF, AOP, BOI and Artificial Juridical persons if adjusted total income does not exceed 20 lakhs.
"Alternate minimum tax" means the amount of tax computed on adjusted total income at a rate of eighteen and one-half per cent;
"Regular income-tax" means the income-tax payable for a previous year by a person on his total income computed in the normal manner.
Adjusted total income shall be the total income as increased by—
(i) deductions claimed, if any, under Chapter VI-A under the heading "C.—Deductions in respect of certain incomes" i.e. 80JJAA,80QQB, 80RRB etc.
(ii) deduction claimed, if any, under section 10AA and
(iii) deduction claimed, if any, under section 35AD as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed.

If AMT is payable, tax credit is allowed which is AMT minus regular tax and it can be adjusted in the subsequent years whenever regular tax is more than AMT but to the extent excess of regular tax over AMT and carry forward is allowed for maximum 15 years starting from the year subsequent to the year to which tax credit relates.
Example: XY partnership firm has total income of ₹48,00,000 after claiming deduction u/s 10AA ₹32,00,000, in this case tax treatment shall be as given below:

Regular income tax (₹48,00,000 x 30%)	14,40,000
Add: HEC @ 4%	57,600
Tax Payable	14,97,600
Alternate minimum tax	14,80,000
(₹48,00,000+₹32,00,000) x 18.5%	
Add: HEC @ 4%	59,200
Tax payable	15,39,200

In the given case regular income tax payable is lower than alternate minimum tax payable hence tax shall be payable based on alternate minimum tax.
Tax credit allowed 15,39,200-14,97,600 = 41,600
If in previous year 2023-24, normal tax liability is 10,00,000 and AMT is 9,00,000, tax payable shall be 10,00,000-41,600 = 9,58,400
But if AMT is 11,00,000, tax payable shall be 11,00,000 and tax credit allowed shall be 1,00,000 + 41,600 = 1,41,600

Example: Compute tax payable and tax credit in the following cases

Previous year	Regular Income Tax	AMT	Tax Payable	Tax Credit
2023-2024	10,00,000	9,00,000	10,00,000	-
2024-2025	7,00,000	8,50,000	8,50,000	1,50,000
2025-2026	9,20,000	8,40,000	8,40,000 (9,20,000-80,000)	70,000 (1,50,000-80,000)
2026-2027	15,00,000	14,00,000	14,30,000 (15,00,000-70,000)	- (70,000-70,000)
2027-2028	12,00,000	14,00,000	14,00,000	2,00,000

If assessee has opted for section 115BAC, provisions of AMT shall not apply.
AMT provisions are not applicable if the person has not claimed any deduction under Chapter VI-A, section 10AA and section 35AD. Also the provisions are not applicable to an individual, HUF, AOP, BOI and artificial Juridical Person provided adjusted total income of such person does not exceed ₹20,00,000. However even in such cases, tax credit shall be allowed to be adjusted.

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-
(a) both capital and revenue expenditure on repairs
(b) current repairs
(c) current repairs plus 1/5th of capital expenditure on repairs.
(d) both (a) & (b)
2. An electricity company charging depreciation on straight line method on each asset separately, sells one of its machinery in April, 2023 at ₹1,20,000. The WDV of the machinery at the beginning of the year i.e. on 1st April, 2023 is ₹1,35,000. No new machinery was purchased during the year. The shortfall of ₹15,000 is treated as -
(a) Terminal depreciation
(b) Short-term capital loss
(c) Normal depreciation.
(d) Any of the above, at the option of the assessee
3. A Ltd. has unabsorbed depreciation of ₹4,50,000 for the P.Y.2023-24. This can be carried forward-
(a) for a maximum period of 8 years and set-off against business income.
(b) Indefinitely and set-off against business income.
(c) Indefinitely and set-off against any head of income
(d) Indefinitely and set-off against any head of income except casual income.
4. Mr. X, a retailer acquired furniture on 10th May 2023 for ₹10,000 in cash and on 15th May 2023, for ₹15,000 and ₹20,000 by a bearer cheque and account payee cheque, respectively. Depreciation allowable for A.Y. 2024-25 would be –
(a) ₹2,000
(b) ₹3,000
(c) ₹3,500
(d) ₹4,500
5. XYZ Ltd. incurred capital expenditure of ₹1,50,000 on 1.4.2023 for acquisition of patents and copyrights. Such expenditure is -
(a) Eligible for deduction in 14 years from A.Y.2024-25
(b) Eligible for deduction in 5 years from A.Y. 2024-25
(c) Subject to depreciation @ 25% under section 32
(d) Subject to depreciation @ 15% under section 32
6. 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.2024-25 and the maximum number specified under the section are -
(a) ₹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
(b) ₹7,500 for each goods carriage in the case of an assessee owning less than 10 goods carriages at any time during the year
(c) ₹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
(d) ₹1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for per month or part of a month for a heavy goods carriage and ₹7,500 per month or part of a month for other goods carriages in the case of an assessee owning not more than 10 goods carriages at any time during the previous year
7. Where the total turnover of an assessee, eligible for presumptive taxation u/s 44AD, is received entirely by account payee cheque during the previous year 2023-24, the specified rate of presumptive business income is -
(a) 5% of total turnover
(b) 6% of total turnover
(c) 7% of total turnover

(d) 8% of total turnover

8. The W.D.V. of a block (Plant and Machinery, rate of depreciation 15%) as on 1.4.2023 is ₹3,20,000. A second hand 'machinery costing ₹50,000 was acquired on 1.9.2023 but put to use on 1.11.2023. During Jan 2024, part of this block was sold for ₹2,00,000. The depreciation for A.Y.2024-25 would be -

(a) ₹21,750
(b) ₹25,500
(c) ₹21,125
(d) ₹12,750

9. Employer's contribution to provident fund/superannuation fund/gratuity fund is allowed as deduction in computing income under the head "Profits and gains of business or profession", provided it has been paid -

(a) before the end of the previous year
(b) on or before the due date by which the employer is required to credit an employee's contribution to the employee's account in the relevant fund.
(c) on or before the due date for filing the return of income under section 139(1).
(d) before the end of the relevant assessment year

10. The benefit of payment of advance tax in one installment on or before 15th March is available to assesses computing profits on presumptive basis –

(a) under section 44AD
(b) under section 44AD and 44ADA
(c) under section 44AD and 44AE
(d) under section 44AD, 44ADA and 44AE

11. M/S Thakural & Sons, paid ₹11,00,000 as remuneration to its partner. The same was in accordance with partnership deed. Partners are also entitled to interest on capital @ 11% as per partnership deed. Total interest paid during the year is ₹1,30,000. The book profit before interest on capital and remuneration is ₹37,00,000. The salary allowable as deduction to M/S Thakural & Sons is:

(a) ₹22,62,000
(b) ₹11,00,000
(c) ₹23,10,000
(d) ₹22,32,000

12. An interior decorator has opted for presumptive taxation scheme under section 44ADA for A.Y. 2024-25. He is liable to pay advance tax -

(a) In one instalment
(b) In two instalments
(c) In three instalments
(d) In four instalments

13. According to section 80, no loss which has not been determined in pursuance of a return filed in accordance with the provisions of section 139(3), shall be carried forward. The exceptions to this are -

(a) Loss from specified business under section 73A
(b) Loss under the head "Capital Gains" and unabsorbed depreciation carried forward under section 32(2)
(c) Loss from house property and unabsorbed depreciation carried forward under section 32(2)
(d) Loss from speculation business under section 73

14. Section 70 enables set off of losses under one source of income against income from any other source under the same head. The exceptions to this section are -

(a) Loss under the head "Capital Gains", Loss from speculative business, Loss from house property and loss from the activity of owning and maintaining race horses
(b) Long-term capital loss, Loss from speculative business, Loss from specified business and loss from the activity of owning and maintaining race horses
(c) Short-term capital loss and loss from speculative business
(d) Loss from specified business and short-term capital loss

15. Which of the following is not taxable under the head business profession-

(i) Income from Speculation Business
(ii) Payments for not pursuing any business activity or profession/non-compete fee

(iii) Gift in connection with business/profession
(iv) Gift received by member of HUF from HUF
(a) all the above
(b) only (iii) & (iv)
(c) only (iii)
(d) None of the above
(e) only (ii), (iii) & (iv)
(f) only (iv)

16. Which of the following is correct

(a) As per section 32, set off of depreciation or loss is compulsory and not voluntary.
(b) As per section 32, set off of depreciation or loss is not compulsory but voluntary.
(c) As per section 32, set off of depreciation or loss is compulsory and voluntary.
(d) As per section 32, set off of depreciation or loss is not compulsory.
(e) None of the above is correct

17. Which Statement from the following is correct-

(a) As per section 40(b), interest to the partner is allowed but maximum @ 12% p.a. simple interest.
(b) As per section 40(b), interest to the partner is allowed but maximum @ 18% p.a. simple interest.
(c) As per section 40(b), interest to the partner is allowed but maximum @ 12% per month simple interest.
(d) As per section 40(b), interest to the partner is allowed but maximum @ 15% p.a. simple interest.

18. A partnership firm has book profits of ₹5 lakhs, in this case maximum amount of salary etc. allowed to all the partners shall be

(a) 5,00,000
(b) 3,00,000
(c) 3,90,000
(d) 4,50,000

19. Which Statement from the following is correct-

(a) If any partner has received share out of the profits of the partnership firm, such share shall be exempt from income tax.
(b) If any partner has received share out of the profits of the partnership firm, such share shall not be exempt from income tax.
(c) interest or salary received by a partner shall be taxable under the head salary
(d) There is a partnership firm engaged in business and its book profits are ₹1,35,000, in this case maximum amount of remuneration allowed to all the partners shall be ₹1,35,000.

20. Mr. X purchases goods worth ₹75,000 on 01.01.2024 and payment was made ₹60,000 on 03.01.2024 by account payee cheque and ₹8,000 in cash on 03.01.2024 and ₹7,000 in cash on 05.01.2024, in this case expenditure allowed shall be.

(a) ₹75,000
(b) ₹60,000
(c) ₹68,000
(d) Nil

21. Which Statement from the following is correct-

(a) Where a stock in trade is converted into capital assets then fair market value of the stock shall be treated as actual cost of the asset.
(b) Where a stock in trade is converted into capital assets then actual purchase cost of the stock shall be treated as actual cost of the asset.
(c) Where a stock in trade is converted into capital assets then written down value of the stock shall be treated as actual cost of the asset on the date of conversion.
(d) None of the above.

22. A car purchased by Dr. Ramesh on 10.08.2021 for ₹5,25,000 for the personal use is brought into professional use on 01.07.2023 by him, when its market value was ₹2,50,000. Depreciation for the assessment year 2024-25 shall be

(a) ₹37,500
(b) ₹78,750

(c) Nil
(d) 52,500

23. Mr. X is engaged in a business with turnover ₹150,00,000 (all payments received by account payee cheque, bank draft or through electronic clearing) and expenses incurred shall be ₹1,40,00,000, presumptive income shall be
(a) ₹10,00,000
(b) ₹9,00,000
(c) ₹12,00,000
(d) ₹11,00,000

Answer

1. (b); 2. (a); 3. (d); 4. (b); 5. (c); 6. (d); 7. (b); 8. (a); 9. (c); 10. (b); 11. (b); 12. (a); 13. (c); 14. (b); 15. (f); 16. (a); 17. (a); 18. (c); 19. (a); 20. (a); 21. (a); 22. (b); 23. (b)

PRACTICE PROBLEMS
TOTAL PROBLEMS 40

Problem 1.
G Ltd. furnishes you the following information:
Block I: Plant and machinery (consisting of 3 plants), rate of depreciation 15%.
w.d.v. on April 1st, 2023: ₹2,70,000.
Block II: Buildings (two buildings), rate of depreciation 10%
w.d.v. on April 1st, 2023 ₹6,50,000.
Acquired on June 2nd, 2023, 2 plants for ₹ 2,10,000 and put to use on the same date.
Sold on November 30th, 2023 all the five plants for ₹ 5,00,000.
Acquired on December 15th, 2023 two plants for ₹ 1,60,000 and put to use on the same date.
Admissible rate of depreciation in relation to all acquired plants is 15%.
Compute the amount of depreciation admissible to G Ltd. for the Assessment Year 2024-25.
Answer = ₹75,500

Problem 2.
X Ltd. is a manufacturing company. On April 1st, 2023, it owns plant A and plant B (depreciation rate: 15 per cent; depreciated value of block being ₹2,40,000). Plant C (depreciation rate: 15 per cent) is purchased by the company on June 10th, 2023 for ₹60,000 and it was used in the office premises. It is put to use on the same day.
Find out the tax consequences in the following different situations:
1. Plant B is destroyed by fire on January 25th, 2024. ₹ 10,000, being the compensation, is paid by the insurance company on February 10th, 2024;
2. If the insurance compensation in situation (1) is ₹ 3,70,000;
3. Plant A, B And C is destroyed by fire on January 25th, 2024. Compensation paid by insurance company on February 10th, 2024 is ₹ 20,000;
4. If the insurance compensation in situation (3) is ₹ 4 lakhs.

Answer =
Situation 1: Depreciation: ₹43,500 and Short term capital gain/loss: Nil;
Situation 2: Depreciation: Nil and Short term capital gain: ₹70,000;
Situation 3: Depreciation: Nil and Short term capital Loss: ₹2,80,000;
Situation 4: Depreciation: Nil and Short term capital gain: ₹1,00,000

Problem 3.
The following is the receipts and payments account of a medical practitioner for the year ending 31.03.2024.

Receipts	Amount ₹	Payments	Amount ₹
Balance b/d	1,30,000	Clinic expenses	1,24,000
Visiting fees	45,75,000	Medical books purchased and put to use on 01.07.2023	15,000
Consultation fees	9,15,000	Surgical equipment	90,000
Sale of medicines	28,000	Motor car expenses	36,000
Payment received for using Operation Theatre	18,000	Indian Medical Association membership fees	7,000
Dividend from domestic company	22,000	Payment to C.A. firm for filing return of income	4,000
Bank loan for purchasing a flat	2,00,000	Entertainment expenses	24,000
Life insurance policy (maturity proceeds)	1,00,000	Medical purchases	33,000
Rental income from flat	60,500	Purchase of flats	2,80,000
		Bank interest on loan	30,000

		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 01.04.2023 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 01.04.2023 is ₹60,000. He sold some of the equipment for ₹30,000 during the year. New equipment was purchased on 01.11.2023 for ₹90,000 and was put to use on the same date.

Compute his Total Income and Tax Liability for the Assessment Year 2024-25.

Answer = Total Income: ₹54,03,950; Tax Liability: ₹15,11,440

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 2023-24 is given below:

Receipts	Amount ₹	Payments	Amount ₹
Balance b/d	49,200	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 01.05.2023	3,00,000
Sale proceeds of residential house (it was purchased on 01.07.2022 for ₹3,00,000)	5,00,000	Computer purchased and put to use on 01.04.2023	50,000
Salary from law faculty for working as part time lecturer	45,000	Legal books purchased	30,000
		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 31.03.2024 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 01.05.2023 and put to use on the same date and for ₹18,000 on 01.11.2023 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 2024-25.

Answer = Total Income: ₹55,27,200; Tax payable: ₹15,31,740;

Problem 5.

Mr. X is a Chartered Accountant and has prepared the following income and expenditure account as on 31.03.2024.

Income and Expenditure Account

Expenditure	Amount ₹	Income	Amount ₹
Office expenses	12,000	Professional fee	65,00,000
Employee's salary	20,000	Consultancy Fee	55,000
Magazines and newspapers	800	Dividend from Indian co.	8,500
Entertainment Expenses (Personal)	17,500	Profit on sale of debentures (STCG)	8,450
Donation for a charity show	600	Gift from father in-law	6,050
Interest on loan for professional purpose	800		
Income Tax (advance tax)	5,000		
Car Expenses	2,500		
Purchase of books	2,000		
Stationery	21,000		
Diwali gift to employees	1,000		
Rent of own building	60,000		
Municipal tax	1,000		
White washing and Painting of building	2,000		
Expenses incurred on the Opening ceremony (refreshments)	3,000		
Net profit	64,28,800		
	65,78,000		**65,78,000**

You are required to compute his Total Income and Tax Liability for the Assessment Year 2024-25 considering the following points –

1. The car is used equally for official and personal purposes.
2. ₹ 1,500 for domestic servant's salary is included in employee's salary.
3. Books were purchased on 01.09.2023 and were put to use on the same date.
4. Payment of stationery ₹20,500 was made by a bearer cheque and ₹ 500 was paid in cash.
5. Mr. X is owner of a building. Its written down value is ₹ 90,000 on 01.04.2023. The building is used for official purposes. No depreciation is claimed.
6. Furniture having written down value of ₹ 30,000 as on 01.04.2023 is also used for profession. Office chairs and tables were purchased and put to use on 30.03.2024 for the purpose of a new office which has been inaugurated on 31.03.2024. No depreciation has been debited to the profit and loss account. Actual cost ₹20,000
7. Employee's salary includes bonus of ₹5,000 which was paid to one of the employees on 01.07.2024.

Answer = Total Income: ₹65,17,800; Tax Liability: ₹18,93,710

Problem 6.

The following is the profit and loss account of Mr. X for the Assessment Year 2024-25.

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
Opening stock	25,000	Sales	104,96,000
Purchases	100,60,000	Closing Stock	30,000
Wages	12,000	Gift from brother	10,000
Rent	7,000	Income tax refund	3,000
Repairs of car	500		

Income tax paid	4,000		
Medical expenses	1,500		
Depreciation of car	3,000		
Net Profit	4,26,000		
	105,39,000		**105,39,000**

Following further information is given:

1. Mr. X bought one air conditioner for ₹ 25,000 on 01.05.2023 and it was put to use on the same date and no depreciation was claimed by him.
2. Medical expenses were incurred for treatment of Mrs. X and also it includes premium of ₹ 300 of medi claim policy taken in the name of one of employees and the payment was made by a cheque.
3. Wages include ₹2,500 on account of Mr. X's salary.
4. Opening and closing stock are overvalued by 5%.
5. Sales include a sale of ₹50,000 being goods withdrawn by Mr. X (Cost price ₹45,000, market price ₹47,000).

Mr. X was employed in a private firm upto 30.06.2023 and was getting a salary of ₹6,000 p.m. and his employer has not yet paid salary for the month of June 2023.

He has paid tuition fees of ₹200 p.m. per child for his two children to a public school.

Mr. X has not opted for presumptive taxation of Income u/s 44AD. Compute his Total Income and also his Tax Liability for Assessment Year 2024-25.

Answer = Total Income: ₹4,11,710; Tax Liability: Nil

Problem 7.

Mr. X (age 79 years) is running a shop at Chandni Chowk and has submitted the following profit and loss account for the Assessment Year 2024-25.

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
Opening stock	10,00,000	Sales	110,00,000
Purchases	95,70,000	Closing stock	4,00,000
Salaries	1,50,000		
Market rent (building is owned by the assessee himself)	1,00,000		
Municipal taxes of the building (due)	5,000		
Loss by theft	19,000		
Donation for Ram Lila celebration	1,500		
Provision for bad debts	11,000		
Gifts to relatives	400		
Presents to clients for advertisements	300		
Public provident fund	12,000		
Interest on loan for business	13,000		
Interest on capital	4,000		
Addition to business premises	2,00,000		
Repairs of business premises	600		
Income tax	2,000		
Fine for violation of traffic rules	100		
Net Profit	3,11,100		
	114,00,000		**114,00,000**

Additional information:

1. Purchases includes purchase of ₹1,00,000 from a relative and it is excessive by ₹20,000 and payment was made in cash.
2. Salary includes ₹14,000 paid outside India without deducting tax at source and ₹7,000 were paid to one

of the relatives which is more than the market rate by ₹1,000.

3. Business is being run in a commercial building which is owned by the assessee and its written down value on 01.04.2023 is ₹10 lakhs and addition was made to the building on 01.01.2024 and brought into immediate use and no depreciation has been debited to profit and loss account.

Mr. X has not opted for presumptive taxation of Income u/s 44AD. Compute his Total Income and Tax Liability for the Assessment Year 2024-25.

Answer = Total Income: ₹6,52,100; Tax Liability: Nil

Problem 8.

Mrs. X submitted the following profit & loss account for the Assessment Year 2024-25.

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
Salary (including proprietor's salary of ₹15,000)	46,000	Gross Profit	1,22,000
General Expenses	6,000	Bad debts recovered (not allowed earlier due to lack of evidence)	2,000
Advertisements	39,000	Interest on company deposit	5,000
Interest on proprietor's capital	2,000	Long term capital gains	5,00,000
Provision for bad debts	2,000		
Depreciation	4,000		
Reserve for GST	10,000		
Advance income tax	9,500		
Motor car expenses	1,000		
Stationery	2,900		
Net Profit	5,06,600		
	6,29,000		**6,29,000**

Other information:

1. General expenses include ₹ 300 given to a poor student to enable him to pursue his studies.
2. Motor car expenses include ₹300 for personal purposes.
3. Scientific institution is an approved institution.

Compute her Tax Liability and Tax Payable for the Assessment Year 2024-25.

Answer = Tax Liability: ₹24,689.60; Tax Payable: ₹15,190

Problem 9.

Mr. X a Chartered Accountant submits his receipt and payment account for assessment year 2024-25.

Receipts	Amount ₹	Payments	Amount ₹
Balance b/d	1,00,000	Stipend to articled clerks	12,000
Audit Fees	4,40,000	Office Expenses	24,000
Payment received for appearing before Income Tax Appellate Tribunal	25,000	Office Rent	18,000
Misc. receipts	20,000	Salaries and Wages	20,500
Rent received for house property	24,000	Printing and Stationery	4,000
Present from clients	10,000	Subscription to ICAI	1,500
		Purchased books for professional purposes on 01.07.2023 and put to use on the same date	15,000
		Travelling Expenses	5,000
		Interest on loan for payment of income tax	12,000

		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 2024-25.
Answer = Tax Liability: Nil

Problem 10.
ABC Ltd. submits the profit & loss account for the year ending 31st March 2024.

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 01.11.2024)	24,000	Sundry receipts	7,000
Gratuity paid to staff	24,000	Short term Capital gains on sale of land	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 2024-25.
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, 2024, compute his Total Income and Tax Liability for the Assessment Year 2024-25.

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**

Additional information:

(i) Purchases include ₹1,10,000 paid in cash to a cultivator for purchase of an agricultural produce.

(ii) Purchases also include ₹ 15,000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finance.

(iii) Opening stock was overvalued by 25% and closing stock was undervalued by 25%.

(iv) Salary includes ₹ 25,000 paid as customary bonus on the occasion of Diwali over and above the bonus payable under the Payment of Bonus Act 1965.

(v) Rent, rates and taxes include
(a) ₹3,000 on account of municipal taxes for property let out and payment was made on 31.03.2024.
(b) Penalty imposed by GST department ₹25,000.

(vi) Provision for Gratuity is on actuarial basis.

(vii) Mrs. X is a law graduate and actively working in the assessee firm and salary paid is reasonable.

(viii) He has invested ₹1,00,000 in equity shares of infrastructure development companies notified u/s 80C.

(ix) He has loss from owning and maintaining of race horses ₹20,000.

Mr. X has not opted for presumptive taxation of Income u/s 44AD.

Answer = Total Income: ₹5,34,770; Tax Liability: Nil

<u>Problem 12.</u>

Net profit as per the profit and loss account of Mr. X is ₹ 7,70,000 for the year ending 31st March, 2024.
The following information is noted from the accounts:

(a) Advertisement expenditure debited to profit and loss account includes the following:
   (i) Expenditure incurred outside India: ₹ 56,000 (Tax has been deducted at source and paid during the year)
   (ii) Articles presented by way of advertisement (60 articles cost of each being ₹700, and 36 articles cost of each being ₹1,500);
   (iii)₹20,000 being the cost of advertisement which appeared in a newspaper owned by a political party;
   (iv)₹14,400 being capital expenditure on advertisement; (eligible for dep. @ 25%)
   (v) ₹9,000 paid in cash
   (vi) ₹9,000 paid to a concern in which X has substantial interest (amount is excessive to the extent of ₹1,800)

(b) Out of salary to the employees debited to the profit and loss account:
   (i) ₹60,000 is employee's contribution to the recognized provident fund, ₹47,500 of which is credited in the employee's account in the relevant fund before the due date for provident fund;
   (ii) ₹58,000 is bonus which is paid on 13th November, 2024;
   (iii)₹44,000 is commission which is paid on 1st December, 2024;
   (iv)₹25,000 is incentive to workers, which is paid on 10th December, 2024.
   (v) ₹46,000 is paid outside India in respect of which tax is not deducted at source;
   (vi)₹6,000 being capital expenditure for promoting family planning amongst employees; and
   (vii) ₹55,000 being entertainment allowance given to employees.

(c) Entertainment expenses debited to profit and loss account is ₹ 12,000.

Determine the Total Income and Tax Liability of Mr. X for the Assessment Year 2024-25.

Answer = Total Income: ₹9,69,100; Tax Liability ₹57,580

<u>Problem 13.</u>

The profit and loss account of Mr. X for the year ending 31st March, 2024 discloses net profit of ₹3,90,000.
Travelling expenses debited to the profit and loss account include the following:

(i) ₹1,80,000 being expenditure incurred on a foreign tour, out of which ₹15,000 is incurred in Indian currency and ₹1,65,000 in foreign currency for a visit of 8 days to Germany; out of 8 days, 2 days are utilized by Mr. X for attending personal work.

(ii) ₹45,000 being expenditure on air–fare in India by a sales manager.

(iii) ₹6,500 incurred for purchasing a machine for factory. (Put to use for more than 180 days)

(iv) ₹66,000 being hotel expenses as follows:

(a) 4 days visit to Madras	:	₹ 18,000
(b) 3 days visit to Bombay	:	₹ 8,000

(c) 17 days visit to Bangalore : ₹ 40,000

Salary to employees include the following:

(1) Own salary of Mr. X : ₹ 26,000

(2) Commission on purchases to employees (which is actually paid on 1st November, 2024): ₹42,000

Find out the Total Income and Tax Liability of Mr. X for the Assessment Year 2024-25.

Answer = Total Income: ₹5,08,530; Tax Liability: Nil

Problem 14.

From the following profit and loss account of Mr. X for the year ended 31st March, 2024, compute his Total Income and Tax Liability for the Assessment Year 2024-25:

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
Opening Stock	9,50,000	Sales	101,06,000
Purchases	80,50,000	Closing Stock	3,60,000
Salaries	7,00,000	Long term capital gain on sale of house property	36,000
Rent, rates and taxes	1,25,000	Dividends from foreign company	12,000
Deposit in National Saving Certificate	42,000	Winnings of a lottery (gross)	5,00,000
Miscellaneous Expenses	21,000		
Provision for Income Tax	31,000		
Provision for gratuity	24,000		
Provision for GST	45,000		
Salary to Mrs. X	48,000		
Purchased one computer on 01.11.2023 and put to use on the same date	40,000		
Net Profit	9,38,000		
	110,14,000		**110,14,000**

Additional information:

(i) Purchases include

(a) Purchase of ₹ 1,00,000 from a relative (market price ₹80,000) and payment was made in cash.

(b) Purchase of ₹25,000 being the products manufactured without aid of power in a cottage industry and the payment was made to its producer and payment was made in cash.

(c) Purchases of ₹35,000 from a person who is residing in a village having no bank and payment was made in cash.

(ii) Opening and closing stock were overvalued by 10%.

(iii) Salary includes ₹ 25,000 being bonus paid to the staff on 01.11.2024 on the occasion of Diwali.

(iv) Rent, rates and taxes include Municipal tax paid on 01.11.2024 ₹30,000

(v) Provision for Gratuity is on actuarial basis.

(vi) Mrs. X is a housewife and payment is excessive by ₹48,000.

Mr. X has not opted for presumptive taxation of Income u/s 44AD.

Answer = Total Income: ₹13,44,640; Tax Liability ₹2,00,790

Problem 15.

The profit and loss account of ABC Ltd. for the year ended 31st March, 2024 showed a net profit of ₹8,00,000 and some of the debits and credits are as given below:

(A) Debit side of profit and loss account included the following:

(i) The depreciation provided in the books ₹60,000, however the amount computed under the Income Tax Act ₹1,20,000.

(ii) ₹30,000 was paid to the company's lawyer for arguing appeals of the company before the Income Tax

Appellate Tribunal against levy of penalty for some earlier cases where appeals have been dismissed by the tribunal.

(iii) ₹2,000 being fine imposed by the municipality for violating their regulations.

(iv) Provision for Income Tax ₹35,000.

(B) The credit side of the profit and loss account included the following:

(i) Income from units of UTI ₹35,000

(ii) Dividend from Indian company ₹20,000

(C) It is also observed that both the opening stock of ₹90,000 and closing stock of ₹1,08,000 are undervalued by 10% on cost.

Compute the Total Income and Tax Liability of the company for the Assessment Year 2024-25.

Answer = Total Income: ₹7,79,000; Tax Liability: ₹2,43,050

Problem 16.

Mr. X is a leading lawyer of Mumbai. He deposits in the bank all the receipts and always pays all the expenses by cheque. The analysis of his bank account for the year ended 31st March, 2024 is asunder:

Receipts	**Amount ₹**	**Payments**	**Amount ₹**
Balance b/f	15,000	Salaries	5,00,000
Professional Fees	16,75,000	Rent of chamber	2,55,000
Dividend from Indian Co.	8,000	Telephone Expenses	26,000
Rent from house property which is let out	60,000	Magazine Subscription	3,000
Dividend from UTI	10,000	Motor car expenses	10,000
Interest from a company (gross)	8,000	Motor car (purchased and put to use on 01.12.2023)	3,00,000
Gift from his son from outside India	6,000	Misc. office expenses	5,500
Honorarium for delivering lectures in C.A. institute	5,000	Advance payment of income-tax	38,000
Honorarium for writing articles in Hindustan Times	1,000	Personal expenses	48,500
		House property expenses: Municipal taxes 6,000 Repairs 1,000 Insurance 2,000 Collection Charges 1,000	10,000
		Subscription to Bar Association	1,500
		Balance c/f	5,90,500
	17,88,000		**17,88,000**

Mr. X has not opted for presumptive taxation of Income u/s 44ADA. Compute his Total Income, Tax Liability and Tax Payable after taking into account the following information:

(i) 10% of the motor car expenses relate to personal use.

(ii) Salaries include employer's contribution to Recognised Provident Fund of ₹18,000 which was credited on 01.07.2024.

(iii) Mr. X stays in his house, the gross annual value of which is ₹ 16,800.

Following are the expenses which have been included in the above account in respect of this house:

(a) Municipal taxes: ₹ 2,000.

(b) Repairs: ₹500

(c) Insurance premium: ₹500

(iv) He has loss under the head house property ₹31,200 and the loss can be set off as per section 71B.

Answer = Total Income: ₹8,94,750; Tax Liability: ₹46,254; Tax Payable: ₹8,250

Problem 17.

ABC Ltd., a manufacturing company, which maintains accounts under mercantile system has disclosed a net profit of ₹12.50 lakhs for the year ending 31st March, 2024. You are required to compute the total Income and Tax Liability of the company for the Assessment Year 2024-25, after considering the following information, duly explaining the reasons for each item of adjustment:

(i) Advertisement expenditure includes the sum of ₹60,000 paid in cash to the sister concern of a director, the market value of which is ₹52,000.

(ii) Repairs of plant and machinery includes ₹1.80 lakhs towards replacement of worn out parts of machineries.

(iii) A sum of ₹6,000 on account of liability foregone by a creditor has been taken to general reserve. The same was charged to the revenue account in the Assessment Year 2021-22.

(iv) Sale proceeds of import entitlements amounting to ₹ 1 lakh has been credited to profit and loss account, which the company claims as capital receipt not chargeable to income tax.

(v) The company has donated ₹2,00,000 to National Urban Poverty Eradication Fund. The amount has been debited to the profit and loss account.

(vi) Being also engaged in the biotechnology business, the company incurred the following expenditure on in-house research and development as approved by the prescribed authority:

(a) Research equipment purchased ₹1,50,000.

(b) Remuneration paid to scientists ₹ 50,000.

The total amount of ₹2,00,000 is debited to the profit and loss account.

Answer = Total Income: ₹13,16,000; Tax Liability: ₹4,10,590

Problem 18.

(i) Gross total income of Mrs. X, aged 60, a resident of Delhi for the financial year 2023-24 is ₹4,00,000. It includes an income of ₹20,000 from the business of dealing in shares on which she has paid securities transaction tax of ₹1,800 and it has not been debited to the profit and loss account. She has also deposited ₹10,000 in her public provident fund account with the State Bank of India.

Compute her Tax Liability for the Assessment Year 2024-25.

Answer = Tax Liability: Nil

(ii) ABC Ltd. is engaged in the business of sale/purchase of shares and the company has computed its income ₹11,00,000 after debiting securities transaction tax of ₹1,85,000.

Compute Tax Payable by the company for the Assessment Year 2024-25.

Answer = ₹3,43,200

(iii) Mr. X is engaged in the business of sale/purchase of shares and he has computed its income ₹18,00,000 after debiting securities transaction tax of ₹2,10,000.

Compute Tax Payable by Mr. X.

Answer = ₹2,49,600

Problem 19.

Determine the previous year in which the expenditure is allowable in the following cases (TDS is supposed to be deducted with regard to all the payments and all the payments are in India):

(i) ABC Ltd. has made payment of interest on 10th, June 2023 and has deducted tax at source on the same date and has deposited the amount on 08.07.2023.

(ii) The company has paid commission on 10.03.2024 and has deducted tax on the same date but it was paid on 05.04.2024.

(iii) The company has paid fees for professional services on 31.03.2024 and deducted tax at source on the same date but the tax was paid on 07.04.2024.

(iv) The company has paid to a contractor on 31.03.2024 and tax was deducted on the same date but it was paid on 01.06.2024.

(v) The company has paid technical fees on 01.01.2024 and no tax has been deducted at source.

(vi) The company has paid brokerage on 01.04.2024 and has deducted the tax on the same date and has paid it on 07.04.2024.

Problem 20.

Following is the profit & Loss account of Mr. A, a dealer in shares and securities for the year ended on 31st March, 2024:

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
To Trading Expenses	103,60,000	By Sales	113,54,000
To Administrative Expenses	1,15,000	By Interest on fixed deposit with bank	18,500
To Financial Expenses	50,265	By Dividend from Indian company	66,360
To Demat and Delivery charges	5,350	By Interest on GST refund (Assessment Year 2022-23)	330
To Securities Transaction Tax	6,500		
To Net profit before depreciation	9,02,075		
	114,39,190		**114,39,190**

Compute Total Income and Tax Liability of Mr. A for Assessment Year 2024-25.

Answer = Total Income: ₹9,02,080; Tax Liability: ₹47,120

Problem 21.

Mr. X is engaged in the business of plying goods carriages. On 1st April, 2023, he owns 10 trucks (out of which 6 are heavy goods vehicles having capacity of 18 ton and balance 4 trucks having capacity of 8 ton). On 2nd May, 2023, he sold two of the heavy goods vehicle and purchased two light goods vehicles having capacity of 8 ton on 6th May, 2023. Those new vehicles could however be put to use only on 15th June, 2023. Compute the Total Income and Tax Liability of Mr. X for the Assessment Year 2024-25, taking note of the following data in two situations i.e. presumptive basis and normal basis.

	₹	₹
Freight charges collected		9,90,000
Less: operational expenses	5,25,000	
Depreciation as per sec 32	1,85,000	
Other office expenses	15,000	(7,25,000)
Net Profit		2,65,000
Other business and non-business income		1,00,000

Answer = Presumptive Basis: Total Income: ₹15,61,000; Tax Liability: ₹1,75,030

Non-presumptive Basis: Total Income: ₹3,65,000; Tax Liability: Nil

Problem 22.

Profit and loss account of Mr. A for the previous year 2023-24 is asunder:

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
Salaries & Wages	6,00,000	Gross Profit	14,50,000
Advertisement	1,00,000	Long term capital gains	4,00,000
Travelling Expenses	2,00,000	Recovery of bad debts (earlier it was allowed)	50,000
Depreciation on business assets	50,000		
Donation to an approved institution for rural development	70,000		
Interest paid	2,30,000		
General Expenses	3,50,000		
Net Profit	3,00,000		
	19,00,000		**19,00,000**

Additional informations:

(i) Salaries and wages include the sum of ₹1,60,000 paid to Mr. A

(ii) Payment of interest includes:
(a) Interest to his major son 'X' amounting to ₹30,000 @ 15% on a deposit of ₹2,00,000
(b) Interest to Mr. A amounting to ₹30,000 @ 12% p.a.
(c) Interest of ₹20,000 paid on loan taken for the payment of income tax liability.
(iii) The amount of depreciation allowable is ₹40,000.
(iv) Mr. A has purchased National Saving Certificate VIII issue on 31.03.2024 for ₹40,000 and has deposited ₹60,000 in public provident fund account during the year 2023-24.
Compute Tax Liability of Mr. A for the Assessment Year 2024-25.
Answer = Tax Liability: ₹19,760

Problem 23.
Profit and loss account of Mr. A for the Previous Year 2023-24 is as given below:

Profit and Loss Account

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
To Purchases	95,00,000	By Sales	102,71,000
To Salaries and bonus	2,70,000	By Discount	10,000
To GST payable	30,000	By Interest (gross) from Indian companies	70,000
To General expenses	1,00,000		
To Expenditure on technical know-how	36,000		
To Expenses on GST proceedings	15,000		
To Advertisements	50,000		
To Interest on capital	20,000		
To Rent of buildings owned by Mr. A	30,000		
To Net profit	3,00,000		
	103,51,000		**103,51,000**

Additional information is given below:
1. Purchases include a cash purchase of ₹20,000 from a farmer who lives in a village which is not served by any bank.
2. Advertisements include presentation of 50 VIP bags in Jan 2024 costing ₹350 each.
3. Salaries and bonus includes the following payments.
   Salary paid to Mr. A ₹52,000
   Bonus paid to Mr. A ₹30,000
   Commission paid to Mr. A ₹23,000
4. The proprietor has carried forward business loss from the assessment year 2022-23 amounting to ₹1,00,000.
5. The written down value of buildings on 01.04.2023 was ₹2,50,000.
6. Technical know-how was purchased and put to use on 01.07.2023.

Compute the Total Income and Tax Liability of Mr. A for the Assessment Year 2024-25.
Answer = Total Income: ₹3,87,000; Tax Liability: Nil

Problem 24.
The Profit & Loss account of Mr. X for the previous year ending 31.03.2024 is as given below:

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
To Purchases	90,00,000	By Sales	102,00,000
To Business expenses	6,00,000	By Stock	1,50,000
To Depreciation	50,000	By Dividend from foreign company (gross)	30,000

To Salary to Mr. X	3,60,000	By Sundry receipts	20,000
To Interest on capital	1,89,000	By Long term capital gain	1,00,000
To Sundry expenses	1,01,000		
To Net profit	2,00,000		
	105,00,000		**105,00,000**

You are further informed that –

1. Purchases include cash purchases of ₹1,00,000 (payment made on a particular date to a particular person)
2. Bonus of ₹1,07,000 for the previous year 2022-23 was paid on 31.12.2023 but not included in the profit and loss account.
3. Recovery of bad debts during the year from a discontinued business of ₹1,00,000 but not included in the profit and loss account. Deduction was allowed in respect of bad debts.
4. Written down value of machinery as on 01.04.2023 was ₹5,00,000. Rate of depreciation being 15%.
   a. Machinery sold during the year for ₹1,00,000
   b. Machinery acquired and put to use in December 2023 for ₹4,00,000
5. Loss and allowances carried forward
   - Business loss – Assessment Year 2020-21 = ₹3,00,000
   - Depreciation – Assessment Year 2021-22 = ₹2,00,000

Mr. X has not opted for presumptive taxation of Income u/s 44AD. Compute Total Income and Tax Liability for the Assessment Year 2024-25.

Answer = Total Income: ₹3,02,000; Tax Liability: Nil

Problem 25.

Mr. X is exporting computer software outside India. The profit & loss account for the previous year ending 31.03.2024.

Particulars (Debits)	**Amount ₹**	**Particulars (Credits)**	**Amount ₹**
To Purchases	80,00,000	By Total sales	101,60,000
To Salaries	4,10,000	By Profit on sale of land held for the last 1 ½ years	6,00,000
To Interest to Mr. X	1,50,000		
To Salary to Mr. X	6,00,000		
To Depreciation on plant and machinery	2,00,000		
To Purchase of trade marks	2,00,000		
To Net profit	12,00,000		
	107,60,000		**107,60,000**

You are further informed that –

1. Trade marks purchased and put to use on 01.07.2023.
2. Written down value of plant and machinery as on 01.04.2023 is ₹12,00,000. Rate of depreciation being 15%.
3. Employer contribution to recognized provident fund of ₹4,00,000 for the previous year 2022-23 was paid on 31.12.2023 but not included in the above profit and loss account.
4. The proprietor has brought forward depreciation and long term capital loss amounting ₹2,36,000 and ₹2,00,000 from the Assessment Year 2021-22 respectively.

Mr. X has not opted for presumptive taxation of Income u/s 44AD. You are required to compute the Total Income and Tax Liability for the Assessment Year 2024-25.

Answer = Total Income: ₹14,84,000; Tax Liability: ₹1,52,670

Problem 26.

Mr. X is engaged in the business of civil construction including repairs of dams and supply of labour for civil construction. The Profit and Loss account of Mr. X for the year ending 31.03.2024 is as follows:

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
Opening stock of raw material	21,700	Receipt from business of civil construction	63,70,700
Depreciation	2,39,430	Rental income from Godown	48,000
Salary to employees	1,30,000	Interest on company deposits (gross)	2,60,000
Purchase of raw material	44,10,210	Closing Stock of raw material	1,31,600
Interest on loan taken to make deposit in companies	13,800		
Interest on loan taken for business purposes	74,400		
Travelling, entertainment and advertisement expenses	57,800		
Other expenses	7,42,000		
Municipal tax (6,000) and insurance (1,200) of Godown	7,200		
Salary to Mr. X	1,80,000		
Interest to Mr. X	69,000		
Net profit	8,64,760		
	68,10,300		**68,10,300**

Other information:

(i) Out of other expenses debited to profit and loss account ₹ 20,000 is not deductible under section 37(1).

(ii) Out of travelling, advertisement and entertainment expenses ₹ 25,000 is not deductible under section 37(1).

(iii) On 01.04.2023, Mr. X owns the following depreciable assets:

Plants A, B and C, depreciated value: ₹ 3,70,000, rate of depreciation 15%.

Plants D and E, depreciated value: ₹ 1,98,000, rate of depreciation 40%.

On 01.01.2024 Mr. X sells plant D for ₹9,10,000 and purchases plant F and put to use on the same date (rate of depreciation 15%) for ₹ 4,86,000.

(iv) Mr. X wants to set-off the following losses brought forward from earlier years:

	Assessment Year 2022-23 ₹	Assessment Year 2023-24 ₹
Business loss	20,000	xxxxx
Capital loss (short-term)	2,000	1,000

Find out Total Income and Tax Liability of Mr. X for the Assessment Year 2024-25.

Answer = Total Income: ₹19,83,840; Tax Liability: ₹3,06,960

Problem 27.

Mr. X furnishes the following information relevant for the Assessment Year 2024-25.

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
General expenses	23,400	Gross profit	8,21,300
Bad debts	8,000	Commission	9,500
Provision for GST	10,000	Brokerage	1,200
Advance tax	11,000	Sundry receipts	2,500
Legal expenses (paid to a Chartered Accountant for preparation of income tax return)	4,000	Dividend from Indian companies	12,500

Insurance of stocks	1,600	Income from Unit Trust of India	6,500
Salary to staff	25,000		
Leave encashment to staff (paid during the year)	5,000		
Salary to Mr. X	24,000		
Interest on overdraft	6,000		
Interest on loan to Mrs. X	32,000		
Interest on capital to Mr. X	22,000		
Expenditure on account of Deepawali (being gift given to customers)	8,000		
Depreciation	45,000		
Advertisement expenses	7,000		
Contribution to employees recognised provident fund (credited within due date)	12,000		
Net profit	6,09,500		
	8,53,500		**8,53,500**

1. The amount of depreciation allowable is ₹52,500 as per the Income Tax Act, 1961.
2. Income of ₹25,000 received on January 20th, 2024 on units of mutual fund specified under section 10(23D) is not recorded in profit and loss account.
3. Loan from Mrs. X was taken for payment of arrears of income tax.
4. Salary to staff includes payment of ₹9,000 to a relative, which is unreasonable to the extent of ₹4,000.
5. General expenses include ₹5,000 incurred for payment of school fees of Mr. X's son.
6. Mr. X has paid insurance premium of ₹70,000 on the life policy (sum assured ₹3,40,000) of his major son on March 25th, 2024 and he invested ₹20,000 in Industrial Development Bank of India (IDBI) Infrastructure Bonds notified under section 80C on March 30th, 2024.

Determine the Total Income and Tax Liability of Mr. X for the Assessment Year 2024-25.
Answer = Total Income: ₹ 7,35,000; Tax Liability: 29,640

Problem 28.
Mrs. X is a company secretary in practice. She was born on 01.02.1961 in India. Her income and expenditure account for the year ended 31.03.2024 is as follows:

Expenditure	Amount ₹	Income	Amount ₹
Salaries paid to staff	17,10,000	Fees earned: Secretarial audit 6,30,800 Taxation services 6,20,000 Consultancy Services 17,50,000	30,00,800
Stipends to apprenticeship trainees	22,500	Dividend on shares of Indian companies	10,500
Incentives to apprenticeship trainees	10,000	Income from Unit Trust of India	6,500
Rent for the building in the use of profession	20,000	Profit on sale of equity shares on which STT has been paid (short term)	20,800
Printing and stationery	9,600	Honorarium received from various institutions for evaluation work	6,600
Contribution to recognised provident fund	35,000	Rent received from residential flat let out	62,000
Meeting, seminar and conference expenses	40,000		
Interest on loan	60,000		
Journals, magazines, newspaper, income tax report	15,000		

Courier, telephone and fax	2,90,400		
Repairs, maintenance and petrol for car	16,500		
Depreciation: Car 8,500 Computer 14,000 Typewriter 5,000 Furniture 3,000	30,500		
Travelling Expenses	57,000		
Municipal tax paid in respect of house property	2,000		
Net Profit	7,88,700		
	31,07,200		**31,07,200**

Other information:

(i) A sum of ₹15,000 incurred for entertaining various clients in hotels and clubs is already included in the meeting, seminar and conference expenses.

(ii) Incentives to apprentices represent amount paid to two apprentices for passing the company secretaries intermediate examination at first attempt.

(iii) One fifth of use of car is attributable to personal purposes.

(iv) 50% of loan was used for the purpose of construction of house property and 50% of loan was used for other business purpose.

(v) Mrs. X follows accrual basis of accounting

(a) cost of stationery items for ₹3,000 purchased in accounting year 2022-23 which was not provided for in that year due to oversight, has been included in printing and stationery for the year 2023-24; and

(b) amount of ₹5,000 for the month of March, 2024 of provident fund contribution could not be paid upto 05.11.2024.

(vi) The written down value of various assets as on 01.04.2023 as follows:

(a) Car (Acquired on 01.04.2019) ₹85,840

(b) Typewriter (Acquired on 01.04.2019) ₹15,000

(c) Furniture (Acquired on 01.04.2019) ₹25,000

(d) Computer (Acquired on 15.12.2023 at cost of ₹1,50,000 and put to use on the same date)

(vii) Salaries include ₹30,000 paid to a computer specialist in cash for assisting Mrs. X in one professional assignment.

(viii) Mrs. X has deposited ₹60,000 in her public provident account and invested ₹20,000 in infrastructure bonds of the ICICI Ltd. notified under section 80C.

Mrs. X not opted for presumptive taxation of Income u/s 44ADA. Compute Total Income and Tax Liability of Mrs. X for the Assessment Year 2024-25.

Answer = Total income: ₹ 7,97,450; Tax Liability: ₹37,220

<u>Problem 29.</u>

Mr. X has computed his income under the head business/profession ₹10,00,000 and he has debited the following amount.

(1) Cost of goods sold ₹ 7,00,000, out of which ₹ 4,00,000 paid to a relative for purchasing stock and its market value is ₹ 3,00,000 and Mr. X has paid ₹ 2,00,000 by account payee cheque and ₹ 2,00,000 in cash.

(2) He has debited ₹45,000 in connection with purchase of a computer which was purchased on 27.10.2023 and was put to use on the same date and payment was made in cash.

(3) He has purchased one generator from his relative for ₹ 45,000 and payment was made in cash and market value was ₹ 40,000 and it was purchased on 01.10.2023 and was put to use on 07.10.2023.

(4) He has paid advance tax being income tax ₹ 45,000 on 01.10.2023.

(5) He has paid ₹ 21,000 to a Chartered Accountant for filing a return of income, out of which ₹9,500 was paid in cash and balance by an account payee cheque.

(6) He has purchased household furniture for ₹12,000 for personal use.

(7) He has paid ₹ 20,000 in cash in connection with his medical treatment.
(8) Salary paid to the proprietor is ₹ 36,000.
(9) Interest on capital ₹ 9,000.
(10) He has invested ₹ 25,000 in National Saving Certificate.
(11) He has invested ₹ 10,000 in public provident fund in the name of his minor child.
(12) He has debited rent of ₹ 35,000 in connection with his own building which is being used in his business/profession.
(13) Opening stock debited is ₹ 4,50,000 which is overvalued by 10%.
(14) He has incurred ₹ 7,000 on printing and distribution of diaries and calendars.

Compute his Tax Liability for the Assessment Year 2024-25.

Answer = Tax Liability: ₹1,63,150

Problem 30.

Mr. X furnishes the following trading, profit and loss account for the previous year ending on 31.03.2024.

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
To Stocks	14,000	By Sales	100,84,500
To Purchases	94,80,000	By Maturity proceeds of National Saving Certificate	19,500
To Freight and duty	5,000	By Maturity proceeds of Bank Fixed Deposit	24,000
To Manufacturing wages	25,000	By Maturity proceeds of Public provident fund	13,000
To Factory, rent, rates and taxes	30,000	By Rent of staff quarters built in 2015	19,000
To Office salaries	27,000	By Refund of income tax penalty	1,100
To Establishment expenses	6,100	By Sale of an old machinery	25,000
To Cost of computer	24,000	By Recovery of bad debts (Not allowed earlier)	6,000
To Interest on capital	3,300	By Income tax refund (it includes interest- ₹400)	2,400
To Donation to an orphan	1,000	By Gift from friends and relatives	3,600
To Fire insurance	200	By Sundry receipts	5,000
To Bad debts	6,000	By Maturity proceeds of LIC policy	24,000
To Income Tax	6,000	By Refund of deposit from a supplier who could not supply the machine in time	1,00,000
To National Urban Poverty Eradication Fund	2,000	By Closing stocks	26,400
To Employer's contribution to Recognised provident fund	8,000		
To Service charge for air-conditioner	11,000		
To Expenses on GST proceedings	12,000		
To Expenses on income tax proceedings	3,000		
To Diwali expenses	4,000		
To Legal Expenses	4,000		
To Medical expenses of proprietor	3,000		
To Staff welfare fund	2,000		
To Repairs of staff quarters	4,000		

To Bonus payable to employees	5,000		
To Provision for GST	25,000		
To Municipal taxes for staff quarters	4,000		
To General reserve	5,000		
To Entertainment expenses	6,000		
To Net Profit	6,27,900		
	103,53,500		**103,53,500**

Mr. X has not opted for presumptive taxation of Income u/s 44AD. You are required to compute Tax Liability after taking the following into consideration:

1. Purchases include a purchase of ₹ 20,100. Its payment was made by a bearer cheque and also includes a purchase from a relative of ₹23,000 and the payment was made in cash and market price of the purchases is ₹22,000.
2. Factory rent, rates and taxes includes municipal tax of the factory building, which was paid on 31.07.2024.
3. Assessee has always valued the stocks at cost price but since 2023-24 he has valued it at market price, which was in excess of the cost price by 10%.
4. Office salaries paid include ₹12,400 to the proprietor of the business.
5. Diwali expenses include gifts of ₹1,000 made to the relatives.
6. The written down value of the block consisting of machinery as on 01.04.2023 is ₹ 59,000
7. The written down value of the block consisting of factory building as on 01.04.2023 is ₹ 85,000. An addition was made to building on 01.08.2023 at a cost of ₹12,000.
8. Service charge for air-conditioner were paid in two instalment of ₹10,000 and ₹1,000 on 10.01.2023 and 11.01.2024 in cash.
9. Employer's contribution was made through an account payee cheque on 10.04.2024 and the cheque realised on 20.04.2023 and the due date for the purpose of provident fund was 15.04.2024.
10. Computer was purchased on 31.03.2024 and it was put to use on 31.03.2024.

Answer = Tax Liability: Nil

Problem 31: Mr. X, aged 75 years, has submitted his profit and loss account for the year ending 31.03.2024 as given below:

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	13,50,000	Sales	105,00,000
Purchases	75,00,000	Gift from friend	1,200
Franchises	1,00,000	Bad debts recovered	2,900
Advertisement	9,000	Rental income from House Property	1,40,000
Income Tax of previous year 2021-22	7,000	Income tax refund	700
Income tax (advance)	1,200	Dividends from a foreign company	3,000
Addition to the office building	45,000	Closing stock	1,80,000
Investment in public provident fund	70,000		
Net Profit	17,45,600		
	108,27,800		**108,27,800**

Additional information:

1. Opening and closing stocks are undervalued by 10%.
2. Franchises were purchased on 01.07.2023 and were put to use on 03.10.2023.
3. Advertisement expenditure relates to a neon sign board which was purchased and put to use on 01.08.2023.
4. Office building has written down value of ₹56,00,000 as on 01.04.2023 and addition was made to the building by constructing additional room on the roof. Construction was completed on 01.11.2023 and it was put to use on the same date. The expenditure of ₹45,000 includes cost of wiring and switches of ₹4,500. No depreciation has been debited with regard to the building.

5. Sale includes sale of ₹1,20,000 to the proprietor and the cost of these goods was ₹1,00,000 and market price ₹1,25,000.
6. Bad debts recovered were allowed earlier.

Mr. X has not opted for presumptive taxation of Income u/s 44AD. Compute his Tax Liability for the Assessment Year 2024-25.

Answer = Tax Liability: ₹92,940

Problem 32: Mr. X is an Advocate in the Supreme Court and he keeps his books of accounts on cash basis and his receipts and payments a/c for the year 2023-24 is as given below:

Receipts	Amount ₹	Payments	Amount ₹
Balance b/f	4,50,000	Rent of building in the use of profession	2,20,000
Legal consultancy fee	9,20,000	Office expenses	30,000
Interest on units of UTI	12,000	New computer purchased by account payee cheque on 01.11.2023 and put to use on the same date	35,000
Remuneration from Delhi University for setting one paper for LLB exams	4,000	Computer purchased by account payee cheque on 10.11.2023 and put to use on the same date	25,000
Honorarium for delivering lectures as guest speaker	3,000	Motor car purchased by account payee cheque on 01.12.2023 and put to use on the same date	4,00,000
Sales proceeds of an old computer with w.d.v as on 01.04.2023 ₹2,300	7,000	Legal books purchased on 01.01.2024 and put to use on the same date	9,000
Sale proceeds of one house which was purchased on 01.04.2022 for ₹6,70,000	9,80,000	Income tax paid being advance tax under section 207 to 219	12,000
		Subscription to Bar Association	3,000
		Deposit in public provident fund in the name of major son	12,000
		Balance carried forward	16,30,000
	23,76,000		**23,76,000**

Mr. X has not opted for presumptive taxation of Income u/s 44ADA. Compute Tax Liability/Tax Payable for the Assessment Year 2024-25.

Answer = Tax Liability: ₹55,089.84; Tax Payable: ₹43,090

Problem 33: Mr. X submits the profit and loss account for the year ending 31.03.2024 asunder–

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 01.10.2023 and were put to use on the same date.
Compute Tax Liability of Mr. X for Assessment Year 2024-25.
Answer = Tax Liability: Nil

Problem 34: Mr. X submits his profit & loss account for year ending 31st March 2024.

	₹
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 01.07.2023 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 01.10.2022 and put to use on 07.10.2023.
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 2024-25.

Answer = Tax Liability: Nil

Problem 35: The profit and loss account of Mr. X for the previous year ending 31st March, 2024 is as follows:

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Cost of Goods Sold	105,45,000	Sales	109,70,000
Remuneration to Prop.	3,00,000	Dividend from Indian Company	30,000
Remuneration to Employees	1,70,000	Long term capital gain	1,90,000
Interest to proprietary	40,000		
Other Expenses	1,00,000		
Income Tax Paid	10,000		
Net Profit	25,000		
	111,90,000		**111,90,000**

Additional information is given below:
(1) Other expenses include the following:
(i) Entertainment expenses incurred for business purpose ₹20,000
(ii) V.I.P bags, Costing ₹1,500 each, given to ten dealers who exceeded the sales target under the sales promotion scheme.

(iii) Employer's contribution to recognized provident fund amounting to ₹10,000 was paid on 20.04.2023.
(iv) ₹30,000 paid in cash to a supplier who refused to accept payment by a cheque.
(2) Other income of Mr. X is under the head house property of ₹90,000.
Mr. X has not opted for presumptive taxation of Income u/s 44AD. You are required to compute Tax Liability for the Assessment Year 2024-25.

Answer = Tax Liability: ₹13,780

Problem 36: ABC Ltd. has net profits of ₹7,00,000 after debiting municipal taxes of ₹12,000 relating to the previous year 2023-24, which were paid on 20.09.2024. Municipal taxes are related to a building which is owned by the company, the ground floor and first floor (which is 2/3rd of the complete building) was being used by company. The company has debited market rent of ₹ 20,000 p.m. to the profit & loss account for using the building and credited rent of ₹10,000 p.m. to the profit & loss account for the second floor of the building which has been let out to some person during the previous year 2023-24.
Compute Tax Liability of the company for the Assessment Year 2024-25.

Answer = Tax Liability: ₹ 2,83,300

Problem 37: Dr. Sagar furnishes you the following information:
Income and Expenditure account for the year ended 31st March, 2024.

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%)
01.04.2023 opening written down value ₹5,50,000
07.12.2023 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, 2023 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 31.03.2024 and also his Tax Liability.

Answer = Taxable Income: 2,61,100; Tax Liability: Nil

Problem 38: ABC Ltd. presents the following information to you pertaining to the year ending March 31st, 2024:

1. Having regard to the vast purchase of a particular chemical by the company, the supplier of the chemical presents a car worth ₹ 2,50,000, which is used for business purposes by the company.
2. Expenditure towards acquisition of technical know-how paid to a foreign company in a lump sum ₹6 lakhs by account payee cheque.
3. The company has paid income–tax of ₹ 60,000 being the tax in respect to non–monetary perquisites of an employee.

4. The company wanted to start a new plant for manufacturing of a new product. Y Ltd., paid to the company ₹ 10 lakh in order not to start the same and not to compete with it.
5. The company has paid ₹ 20 lakh to four employees at the time of their voluntary retirement, in accordance with the approved scheme of voluntary retirement.
6. The company has borrowed ₹ 15 lakh for acquiring a machinery. Interest paid is ₹90,000. The machinery is not put to use during the year.
7. Payment of ₹ 40,000 is made to a Don for ensuring that the employees will not indulge in strike.
8. The company has incurred expenditure of ₹ 34,000 in respect of exempt income. This forms part of administrative expenses.

You are requested to briefly state with reasons as to how the above are to be dealt with in computing the total income of the company for the assessment year 2024-25. The total income need not be computed.

Problem 39: State with reasons, the deductibility or otherwise of the following expenses/payments under the Income-tax Act, 1961, while computing income under the head "Profits and gains of business or profession" for the Assessment Year 2024-25:
(i) Mr. M paid ₹ 75,000 as commodity transaction tax in respect of sale of commodity during the previous year 2023-24.

Problem 40: Compute tax liability for A.Y. 2024-25 in the following cases:

(i) Mr. A has LTCG 112A ₹300,00,000
(ii) Mr. B has STCG 111A ₹300,00,000
(iii) Mr. C has Dividend Income ₹300,00,000
(iv) Mr. D has LTCG ₹300,00,000
(v) Mr. E has casual income ₹300,00,000
(vi) Mr. F has business income ₹300,00,000

Answer = (i) Tax Liability: ₹35,40,160; (ii) Tax Liability: ₹53,28,180; (iii) Tax Liability: ₹104,05,200; (iv) Tax Liability: ₹71,04,240; (v) Tax Liability: 117,00,000; (vi) Tax Liability: ₹113,10,000

SOLUTIONS
TO
PRACTICE PROBLEMS

Solution 1:	₹
Block I	
Plant and machinery, depreciation @ 15%	
Written down value as on 1st, April 2023	2,70,000
Add: Purchases of 2 Plants on June 2nd, 2023 and put to use on the same date	2,10,000
Less: Sale of Plants on 30.11.2023	(5,00,000)
Add: Purchase of 2 Plants on Dec 15th, 2023	1,60,000
Written down value as on 31.03.2024	1,40,000
Dep. @ 7.5% on ₹1,40,000	10,500
Block II	
Building, depreciation @ 10%	
Written down value as on 1st, April 2023	6,50,000
Dep. @ 10% on ₹6,50,000	65,000
Total depreciation for Assessment Year 2024-25	75,500

Solution 2:	₹
Situation 1	
Written down value of Plant A and Plant B as on 01.04.2023	2,40,000
Add: Plant C purchased on 10.06.2023 and put to use on the same date	60,000
Less: Insurance claim of plant B	(10,000)
Written down value as on 31.03.2024	2,90,000
Depreciation @ 15% on ₹2,90,000	43,500
Situation 2	
Written down value of Plant A and Plant B as on 01.04.2023	2,40,000
Add: Plant C purchased on 10.06.2023 and put to use on the same date	60,000
Less: Insurance claim of Plant B	(3,70,000)
Short term capital gain as per section 50	70,000
No depreciation is allowed	
Situation 3	
Written down value of plant A and Plant B as on 01.04.2023	2,40,000
Add: Plant C purchased on 10.06.2023 and put to use on the same date	60,000
Less: Insurance claim of Plant A, B and C	(20,000)
Short term loss as per section 50	(2,80,000)
No depreciation is allowed	
Situation 4	
Written down value of plant A and Plant B as on 01.04.2023	2,40,000
Add: Plant C purchased on 10.06.2023 and put to use on the same date	60,000
Less: Insurance claim of plant A, B and C	(4,00,000)
Short term capital gain as per section 50	1,00,000
No depreciation is allowed	

Solution 3:

Computation of Total Income

	₹
• Visiting fees	45,75,000.00
• Consultation fees	9,15,000.00
• Sale of medicines	28,000.00
• Operation theatre rent	18,000.00
• Cash payment not recorded in books	75,000.00
Less:	
• Clinic expenses	(1,24,000.00)
• Depreciation on medical books @ 40%	(6,000.00)
• Depreciation on surgical equipment	(11,250.00)

Working Note:	**₹**
w.d.v as on 01.04.2023	60,000
Sale of surgical instruments	(30,000)
Purchase on 01.11.2023	90,000
Balance	1,20,000
Depreciation @ 7.5% on 90,000	6,750
Depreciation @ 15% on 30,000	4,500

• Motor car expenses (2/3rd of ₹36,000)	(24,000.00)
• Depreciation on car	(12,000.00)
• Indian Medical Association membership fees	(7,000.00)
• Payment to C.A. for filing return of income	(4,000.00)
• Entertainment expenses	(24,000.00)
• Medical purchases	(33,000.00)
Income under the head Business/Profession	53,65,750.00
Income under the head House Property	
Gross Annual Value	66,000.00

Working Note:	**₹**
(a) Municipal valuation	66,000
(b) Expected Rent	66,000
(c) Rent received/receivable = 5,500 x 11 =	60,500
GAV = Higher of (b) or (c)	66,000

Less: municipal tax	Nil
Net Annual Value	66,000.00
Less: 30% of NAV u/s 24(a)	(19,800.00)
Less: Interest on capital borrowed u/s 24(b)	(30,000.00)
Income under the head House Property	16,200.00
Income under the head Business/Profession	53,65,750.00
Income under the head Other Sources (Dividend)	22,000.00
Gross Total Income	54,03,950.00
Less: Deduction under Chapter VI A	Nil
Total Income	54,03,950.00
Computation of Tax Liability	
Tax on ₹54,03,950 at slab rate	13,21,185.00
Add: Surcharge @ 10%	1,32,118.50
Tax Before health & education cess	14,53,303.50
Add: HEC @ 4%	58,132.14
Tax Liability	15,11,435.64
Rounded off u/s 288B	15,11,440.00

Note: 1. Maturity proceeds of life policy is exempt from tax under section 10(10D).
2. Membership fees given to the professional bodies is allowed u/s 37(1).

Solution 4:

Computation of income under the head Business/Profession	₹
Consultancy fee	55,35,500
Less:	
Rent (50%)	(72,000)
Office expenses	(46,000)
Depreciation on car	(31,500)
{3,00,000 x 15% x 70% = 31,500}	
Depreciation on computer @ 40% (50,000 x 40%)	(20,000)
Depreciation on legal books	(8,400)
{(12,000 x 40%) + (18,000 x 20%)}	
Car expenses {70% x 42,000}	(29,400)
Electricity and water charges (50%)	(8,000)
Income under the head Business/Profession	53,20,200
Computation of income under the head Other Sources	
Payment from university as an evaluator	7,000
Income under the head other sources	7,000
Computation of income under the head salary	
Gross Salary	45,000
Less: Standard deduction u/s 16(ia)	(45,000)
Income under the head salary	Nil
Computation of Total Income	
Income under the head Salary	Nil
Income under the head Business/Profession	53,20,200
Income under the head Capital Gains (STCG)	2,00,000
Income under the head Other Sources	7,000
Gross Total Income	55,27,200
Less: Deduction under Chapter VI-A	NIL
Total Income	55,27,200
Computation of Tax Payable	
Tax on ₹55,27,200 at slab rate	13,58,160.00
Add: Surcharge @ 10%	1,35,816.00
Tax before health & education cess	14,93,976.00
Add: HEC @ 4%	59,759.04
Tax Liability	15,53,735.04
Less: Tax Paid in Advance	(22,000.00)
Tax Payable	15,31,735.04
Rounded off u/s 288B	15,31,740.00

Solution 5:

Computation of professional income as per income & expenditure account	₹
Net profit as per profit and loss account	64,28,800.00
Add: inadmissible expenses	
Domestic servant salary	1,500.00
Entertainment expenses	17,500.00
Donation for charity show	600.00
Income tax	5,000.00
Car expenses	1,250.00
Books purchased	2,000.00
Stationery	21,000.00
Rent of own building	60,000.00
Less:	

Dividend	(8,500.00)
Profit on sale of debentures	(8,450.00)
Gift from father in law	(6,050.00)
Depreciation on building (₹90,000 @ 10%)	(9,000.00)
Depreciation on books (2,000 @ 40%)	(800.00)
Depreciation on furniture	
(₹30,000 @ 10%)	(3,000.00)
(₹20,000 @ 5%)	(1,000.00)
Income under the head Business/profession	65,00,850.00
Income under the head Capital Gains (STCG)	8,450.00
Income under the head Other sources (Dividend)	8,500.00
Gross Total Income	65,17,800.00
Less: Deduction under Chapter VI-A	Nil
Total Income	65,17,800.00
Computation of Tax Liability	
Tax on ₹65,17,800 at slab rate	16,55,340.00
Add: Surcharge @ 10%	1,65,534.00
Tax before health & education cess	18,20,874.00
Add: HEC @ 4%	72,834.96
Tax Liability	18,93,708.96
Rounded off u/s 288B	18,93,710.00

Note:

Expenses on opening ceremony are allowed under section 37(1).

Solution 6:

Computation of income under the head business/profession

Net Profit as per profit & loss account	4,26,000.00
Add: inadmissible expenses	
Income tax paid	4,000.00
Medical expenses	1,200.00
(Payment of medi claim insurance is allowed u/s 36(1)(ib))	
Opening stock adjustment (25,000 x 5/105)	1,190.48
Mr. X's salary	2,500.00
Total	4,34,890.48
Less:	
Gift from brother	(10,000.00)
Income tax refund	(3,000.00)
Depreciation on Air conditioner @ 15%	(3,750.00)
Adjustment for sales (50,000 – 45,000)	(5,000.00)
Closing stock adjustment (30,000 x 5/105)	(1,428.57)
Business income	4,11,711.91
Computation of income under the head Salary	
Basic Salary	18,000.00
(6,000 x 3)	
Gross Salary	18,000.00
Less: Standard deduction u/s 16(ia)	(18,000.00)
Income under the head Salary	Nil
Gross Total Income	4,11,711.91
Less: Deduction under Chapter VI-A	NIL
Total Income (Rounded off u/s 288A)	4,11,710.00
Computation of Tax Liability	
Tax on ₹4,11,710 at slab rate	5,585.50
Less: Rebate u/s 87A	(5,585.50)

Tax Liability	Nil

Solution 7:

	₹
Computation of Total Income	
Income from business	
Net Profit as per profit and loss account	3,11,100.00
Add: inadmissible expenses	
Excessive payment to relatives {Sec. 40A(2)}	20,000.00
Payment disallowed {Sec. 40A(3)}	80,000.00
Salary paid outside India without TDS {Sec. 40(a)}	14,000.00
Salary paid to relatives {Sec. 40A(2)}	1,000.00
Market rent (rent for own building is not allowed) Sec. 30	1,00,000.00
Municipal taxes of building (due)	5,000.00
Donation for Ram Lila	1,500.00
Provision for bad debts	11,000.00
Gift to relatives	400.00
Public provident fund	12,000.00
Interest on capital	4,000.00
Addition to business premises	2,00,000.00
Income tax	2,000.00
Fine for violation of traffic rules	100.00
Less:	
Depreciation for building @ 10%	(1,10,000.00)
10,00,000 x 10% = 1,00,000	
2,00,000 x 5% = 10,000	
Income from business	6,52,100.00
Gross Total Income	6,52,100.00
Less: Deduction under Chapter VI-A	NIL
Total Income	6,52,100.00
Computation of Tax Liability	
Tax on ₹6,52,100 at slab rate	20,210.00
Less: Rebate u/s 87A	(20,210.00)
Tax Liability	Nil

Solution 8:

	₹
Computation of Total Income	
Income under the head Business/Profession	
Profit as per profit and loss account	5,06,600.00
Add: Inadmissible expenses	
Proprietor’s salary	15,000.00
Charity to poor student	300.00
Interest on proprietor capital	2,000.00
Provision for bad debts	2,000.00
Reserve for GST	10,000.00
Advance income-tax	9,500.00
Out of motor car expenses	300.00
Total	5,45,700.00
Less:	
Bad debts recovered	(2,000.00)
Interest on company’s deposit	(5,000.00)
Long term capital gains	(5,00,000.00)
Income from business	38,700.00
Income under the head Other Sources	5,000.00

Income under the head Capital Gains (LTCG)	5,00,000.00
Gross Total Income	5,43,700.00
Less: Deduction under Chapter VI-A	Nil
Total Income	5,43,700.00
Computation of Tax Payable	
Tax on LTCG ₹2,43,700 (₹5,00,000 – 2,56,300) @ 20% u/s 112	48,740.00
Tax on ₹ 43,700 at slab rate	Nil
Less: Rebate u/s 87A	(25,000.00)
Tax before health and education cess	23,740.00
Add: HEC @ 4%	949.60
Tax Liability	24,689.60
Less: Income tax paid	(9,500.00)
Tax Payable	51,189.60
Rounded off u/s 288B	51,190.00

Solution 9:

	₹
Computation of income from profession	
Gross receipts:	
Audit fee	4,40,000.00
Appellate tribunal appearance	25,000.00
Misc. Receipt	20,000.00
Presents from client	10,000.00
Total	4,95,000.00
Payments:	
Stipend	(12,000.00)
Office expenses	(24,000.00)
Office rent	(18,000.00)
Salary and wages	(20,500.00)
Printing and stationery	(4,000.00)
Subscription to C.A. institute	(1,500.00)
Depreciation on books @ 40%	(6,000.00)
Travelling expenses	(5,000.00)
Income from profession	4,04,000.00
Computation of income from house property	
Gross Annual Value	24,000.00
Less: Municipal Tax	Nil
Net Annual Value	24,000.00
Less: 30% of NAV u/s 24(a)	(7,200.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	16,800.00
Computation of Total Income	
Income from profession	4,04,000.00
Income from house property	16,800.00
Gross total income	4,20,800.00
Less: Deduction under Chapter VI-A	Nil
Total Income	4,20,800.00
Computation of Tax Liability	
Tax on ₹4,20,800 at slab rate	6,040.00
Less: Rebate u/s 87A	(6,040.00)
Tax Liability	Nil

Solution 10:

Computation of Total Income

	₹
Income under the head Business/Profession	
Net profit as per profit and loss account	63,000.00
Add: inadmissible expenses	
Out of capital expenditure on promotion of family planning amounting to ₹14,000 one fifth is allowed	11,200.00
GST	24,000.00
Reserve for future losses	30,000.00
Reserve for bad debts	14,000.00
Payment of advance Income tax	17,000.00
	1,59,200.00
Less:	
Capital gain	(60,000.00)
Income under the head Business/Profession	99,200.00
Income under the head Capital Gains (STCG)	60,000.00
Gross Total Income	1,59,200.00
Less: Deduction under Chapter VI-A	Nil
Total Income	1,59,200.00
Computation of Tax Liability	
Tax on ₹1,59,200 @ 30%	47,760.00
Add: HEC @ 4%	1,910.40
Tax Liability	49,670.40
Rounded off u/s 288B	49,670.00

Solution 11:

Computation of Total Income

	₹
Income from Business	
Net profit as per profit & loss account	2,23,000.00
Add: Inadmissible expenses	
Provision for income tax	53,000.00
Under valuation of closing stock [25/75 of ₹ 4,97,000]	1,65,666.67
Overvaluation of opening stock [25/125 of ₹ 4,62,000]	92,400.00
Municipal tax	3,000.00
Penalty	25,000.00
Total	5,62,066.67
Less:	
Rental income from house property	(84,000.00)
Dividends received from companies	(12,000.00)
Income from Business	4,66,066.67
Income from house property	
Gross Annual Value	84,000.00
Less: municipal taxes	(3,000.00)
Net Annual Value	81,000.00
Less: 30% of NAV u/s 24(a)	(24,300.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	56,700.00
Income under the head other sources (Dividend)	12,000.00
Gross Total Income	5,34,766.67
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	5,34,770.00

Computation of Tax Liability

Tax on ₹5,34,770 at slab rate	11,738.50
Less: Rebate u/s 87A	(11,738.50)
Tax Liability	Nil

Solution 12: ₹

Computation of Total Income

Net profit as per profit and loss account	7,70,000.00
Add: inadmissible items	
Advertisement in a newspaper owned by a political party (Sec 37(2B))	20,000.00
Capital expenditure on advertisement	14,400.00
Excess amount paid to a concern in which 'X' has substantial interest	1,800.00
Employee contribution to recognised provident fund (to the extent not deposited before the due date)	12,500.00
Bonus being paid to employee after the due date of filing the return	58,000.00
Commission to employee after the due date of filing the return	44,000.00
Salary paid outside India in respect of which tax is not deducted at source	46,000.00
Capital expenditure for promoting family planning amongst employees (allowed only to a company assessee)	6,000.00
Total	9,72,700.00
Less:	
Depreciation on capital expenditure on advertisement @ 25% of ₹14,400 (assuming put to use for 180 days or more)	(3,600.00)
Income under the head Business/Profession	9,69,100.00
Gross Total Income	9,69,100.00
Less: Deduction under Chapter VI-A	Nil
Total Income	9,69,100.00

Computation of Tax Liability

Tax on ₹9,69,100 at slab rate	55,365.00
Add: HEC @ 4%	2,214.60
Tax Liability	57,579.60
Rounded off u/s 288B	57,580.00

Solution 13: ₹

Computation of Total Income

Net profit as per profit & loss account	3,90,000.00
Add: inadmissible items	
Travelling expenses incurred on foreign tour to the extent not admissible [1,80,000 – (6/8 of ₹ 1,80,000)]	45,000.00
Travelling expenses incurred for purchasing a machine for factory	6,500.00
Own salary of Mr. X	26,000.00
Commission to employee's paid after the due date of furnishing return of income under section 139(1) of the Act; hence not allowed u/s 43B	42,000.00
Less:	
Depreciation on machinery @ 15%	(975.00)
Income under the head Business/Profession	5,08,525.00
Gross Total Income	5,08,525.00
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	5,08,530.00

Computation of Tax Liability

Tax on ₹5,08,530 at slab rate	10,426.50
Less: Rebate u/s 87A	(10,426.50)
Tax Liability	Nil

Note: It is assumed that machinery is not used for manufacturing purpose, so additional depreciation is not allowed.

Solution 14:

	₹
Net profit as per profit & loss account	9,38,000.00
Add: expenses debited to profit & loss account but not allowable	
Deposit in NSC (not an expenditure)	42,000.00
Provision for income tax	31,000.00
Provision for GST	45,000.00
Salary to Mrs. X (Sec 40A(2))	48,000.00
Purchase of computer (capital expenditure)	40,000.00
Purchase from relative (Sec 40A(2))	20,000.00
Payment in cash (Sec 40A(3))	80,000.00
Adjustment for opening stock (9,50,000 x 10 / 110)	86,363.64
Bonus paid after due date (Sec 43B)	25,000.00
Municipal tax paid after due date (Sec 43B)	30,000.00
Total	13,85,363.64
Less:	
Depreciation on computer (40,000 x 40% x ½)	(8,000.00)
Closing stock overvalued (3,60,000 x 10/110)	(32,727.27)
Long term capital gain	(36,000.00)
Dividend from foreign company	(12,000.00)
Winnings of lottery	(5,00,000.00)
Business income	7,96,636.37
Income from Other Sources	
Dividend from foreign company	12,000.00
Winnings from lottery	5,00,000.00
Income from Other Sources	5,12,000.00
Income under the head Capital Gains (LTCG)	36,000.00
Gross Total Income	13,44,636.37
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	13,44,640.00
Computation of Tax Liability	
Tax on Long term capital gain ₹36,000 @ 20% u/s 112	7,200.00
Tax on ₹5,00,000 @ 30% u/s 115BB	1,50,000.00
Tax on ₹8,08,640 at slab rate	35,864.00
Tax before health & education cess	1,93,064.00
Add: HEC @ 4%	7,722.56
Tax Liability	2,00,786.56
Rounded off u/s 288B	2,00,790.00

Solution 15:

Computation of Total Income of ABC Ltd. for the Assessment Year 2024-25

Income under the head Business/Profession	₹
Net profit as per profit and loss account	8,00,000
Add: inadmissible expenses	
• Fine imposed by the municipality for violation of regulation	2,000
• Provision for Income Tax	35,000
• Under valuation of closing stock (1,08,000 x 1/9)	12,000
Total	8,49,000
Less:	
• Income from units of UTI	(35,000)
• Dividend from Indian company	(20,000)
• Under valuation of opening stock	(10,000)

• Depreciation (1,20,000 – 60,000)	(60,000)
Business income	7,24,000
Income under the head Other Sources	
Dividend from Indian company	20,000
Income from UTI	35,000
Income under the head Other Sources	55,000
Gross Total Income	7,79,000
Less: Deduction under Chapter VI-A	Nil
Total Income	7,79,000
Computation of Tax Liability	
Tax on ₹7,79,000 @ 30%	2,33,700
Add: HEC @ 4%	9,348
Tax Liability	2,43,048
Rounded off u/s 288B	2,43,050

Note: Amount paid to the lawyer of ₹30,000 for arguing appeals before the Tribunal is an allowable expense.

Solution 16:

Computation of income from profession of Mr. X for the Assessment Year 2024-25	**₹**
Professional incomes	
Professional fees	16,75,000.00
Less:	
Salaries	(5,00,000.00)
Rent of chamber	(2,55,000.00)
Telephone expenses	(26,000.00)
Magazines subscription	(3,000.00)
9/10 of motor car expenses	(9,000.00)
Dep. on motor car (3,00,000 x 7.5% x 90%)	(20,250.00)
Misc. office expenses	(5,500.00)
Subscription to Bar Association	(1,500.00)
Income from profession	8,54,750.00

Computation of income from house property

Let out house	
Gross Annual Value	60,000.00
Less: municipal taxes (6,000 – 2,000)	(4,000.00)
Net annual value	56,000.00
Less: 30% of NAV u/s 24(a)	(16,800.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	39,200.00
Self occupied house	
Annual value	Nil
Income from house property	39,200.00
Loss under the head House Property	(31,200.00)
Income under the head House Property	8,000.00

Computation of income under the head Other Sources

Honorarium for delivering lectures in C.A. Institute	5,000.00
Honorarium for writing articles in Hindustan Times	1,000.00
Dividend from Indian company	8,000.00
Dividend from UTI	10,000.00
Interest from a company	8,000.00
Income under the head Other Sources	32,000.00

Computation of Total Income of Mr. X

Income under the head House Property	8,000.00
Income under the head Business/Profession	8,54,750.00
Income under the head Other Sources	32,000.00
Gross Total Income	8,94,750.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,94,750.00
Computation of Tax Payable	
Tax on ₹8,94,750 at slab rate	44,475.00
Add: HEC @ 4%	1,779.00
Tax Liability	46,254.00
Less: Advance Income Tax Paid	(38,000.00)
Tax Payable	8,254.00
Rounded off u/s 288B	8,250.00

Solution 17: ₹

Computation of Total Income of ABC Ltd.

Net profit as per profit and loss account	12,50,000
Add:	
(i) Payment of advertisement expenditure of ₹ 60,000 (a) ₹8,000, being the excess payment to a related disallowed under section 40A(2) (b) As the payment is made in cash and since the remaining amount of ₹52,000 exceeds ₹10,000, shall be disallowed under section 40A(3)	60,000
(ii) Under Section 31, expenditure relatable to repairs of plant, machinery or furniture is allowed.	--------
(iii) Liability foregone by creditor [Taxable under section 41(1)]	6,000
(iv) Sale proceeds of import entitlement licence. The sale of the rights gives rise to profits or gains taxable under section 28. As the amount has already been credited to profit and loss a/c, no further adjustment is necessary.	-------
(v) Donation to National Urban Poverty Eradication Fund is allowed u/s 35CCA	-------
Income under the head business/profession	13,16,000
Gross Total Income	13,16,000
Less: Deduction under Chapter VI-A	Nil
Total Income	13,16,000
Computation of Tax Liability	
Tax on ₹13,16,000 @ 30%	3,94,800
Add: HEC @ 4%	15,792
Tax Liability	4,10,592
Rounded off u/s 288B	4,10,590

Solution 18:

(i)	**₹**
Income under the head Business/Profession	4,00,000.00
Less: Securities transaction tax	(1,800.00)
Income under the head Business/Profession	3,98,200.00
Gross Total Income	3,98,200.00
Less: Deduction under Chapter VI-A	Nil
Total Income	3,98,200.00
Tax on ₹3,98,200 at slab rate	4,910.00
Less: Rebate u/s 87A	(4,910.00)
Tax Liability	Nil

(ii)

Income under the head Business/Profession	11,00,000
Gross Total Income	11,00,000

Less: Deduction under Chapter VI-A	Nil
Total Income	11,00,000
Tax on ₹11,00,000 @ 30%	3,30,000
Add: HEC @ 4%	13,200
Tax Liability	3,43,200

(iii)

Income under the head Business/Profession	18,00,000
Total Income	18,00,000
Tax on ₹18,00,000 at slab rate	2,40,000
Add: HEC @ 4%	9,600
Tax Liability	2,49,600

<u>Solution 19:</u>

(i) Previous year 2023-24;
(ii) Previous year 2023-24;
(iii) Previous year 2023-24;
(iv) Previous year 2023-24;
(v) 30% of the amount disallowed in P.Y. 2023-24
(vi) Previous year 2024-25

<u>Solution 20:</u>	**₹**
Income under the head business/profession	
Net Profit as per profit and loss account	9,02,075.00
Less:	
• Interest on Fixed deposit with bank	(18,500.00)
• Dividend from Indian company	(66,360.00)
Income under the head business/profession	8,17,215.00
Income under the head other sources	
Interest on Fixed deposit	18,500.00
Dividend from Indian company	66,360.00
Income under the head Other Sources	84,860.00
Gross Total Income	9,02,075.00
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	9,02,080.00
Computation of Tax Liability	
Tax on ₹9,02,080 at slab rate	45,312.00
Add: HEC @ 4%	1,812.48
Tax Liability	47,124.48
Rounded off u/s 288B	47,120.00

<u>Solution 21:</u>	**₹**
Computation of Total Income	
As per section 44AE	
Heavy goods vehicle	9,36,000.00
[(₹18,000 x 4 x 12) + (₹18,000 x 2 x 2)]	
Light goods vehicle	5,25,000.00
[(₹7,500 x 4 x 12) + (₹7,500 x 2 x 11)]	
Other business and non business income	1,00,000.00
Income under the head Business/Profession	15,61,000.00
Gross Total Income	15,61,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	15,61,000.00

Computation of Tax Liability

Tax on ₹15,61,000 at slab rate	1,68,300.00
Add: HEC @ 4%	6,732.00
Tax Liability	1,75,032.00
Rounded off u/s 288B	1,75,030.00

The assessee has the option to reject the presumptive taxation and can compute the income in the normal manner but the assessee has to maintain books of accounts and also he should get his accounts audited as per section 44AB. In such case tax liability of the assessee shall be as given below:

Gross Receipt	9,90,000
Less: Operational expenses	(5,25,000)
Less: Depreciation as per section 32	(1,85,000)
Less: Other office expenses	(15,000)
	2,65,000
Add: Other business and non- business income	1,00,000
Total Income	3,65,000

Computation of Tax Liability

Tax on ₹3,65,000 at slab rate	3,250.00
Less: Rebate u/s 87A	(3,250.00)
Tax Liability	Nil

Solution 22:

Computation of Income under the head Business/profession	**₹**	**₹**
Net Profit as per profit and loss account		3,00,000
Add:		
• Salary to the proprietor		1,60,000
• Interest to Mr. A		30,000
• Interest for income tax liability		20,000
• Depreciation		10,000
Less:		
• Long term capital gains		(4,00,000)
Income under the head Business/Profession		1,20,000
Income under the head Capital Gains (LTCG)		4,00,000
Gross Total Income		5,20,000
Less: Deduction under Chapter VI-A		Nil
Total Income		5,20,000

Computation of Tax Liability

Tax on ₹2,20,000 (₹4,00,000 – ₹1,80,000) @ 20% u/s 112	44,000
Tax on ₹1,20,000 at slab rate	Nil
Less: Rebate u/s 87A	(25,000)
Tax before HEC	19,000
Add: HEC @ 4%	760
Tax Liability	19,760

Solution 23:

Computation of Income under the head Business/profession	**₹**
Net Profit as per profit and loss account	3,00,000
Add:	
• Salaries and bonus	1,05,000
• GST payable	30,000
• Expenditure on technical know-how	36,000
• Interest on capital	20,000

• Rent of own building	30,000
Less:	
• Depreciation on technical know-how {u/s 32} (36,000 x 25%)	(9,000)
• Depreciation on building (2,50,000 x 10%)	(25,000)
• Interest from Indian companies	(70,000)
Income under the head Business/Profession	4,17,000
Less: Brought forward business loss of assessment year 2022-23	(1,00,000)
Income under the head Business/Profession	3,17,000
Income under the head Other Sources {Interest from Indian companies}	70,000
Gross Total Income	3,87,000
Less: Deductions under Chapter VI-A	Nil
Total Income	3,87,000
Computation of Tax Liability	
Tax on ₹3,87,000 at slab rate	4,350.00
Less: Rebate u/s 87A	(4,350.00)
Tax Liability	Nil

Solution 24:

Computation of Income under the head Business/profession	**₹**
Net Profit as per profit and loss account	2,00,000
Add:	
Cash purchases {u/s 40A(3)}	1,00,000
Recovery of bad debts {as per sec 41(4)}	1,00,000
Salary of Mr. X	3,60,000
Interest on capital	1,89,000
Less:	
Bonus paid	(1,07,000)
Depreciation on machinery	(40,000)

Working Note:	**₹**
Written down value	5,00,000
Less: Sale	(1,00,000)
Add: Purchase	4,00,000
	8,00,000
Depreciation	
7.5% on ₹4,00,000 =	30,000
15% on ₹4,00,000 =	60,000
Total	90,000
Already provided in profit & loss A/c	50,000
Balance	40,000

Dividend from foreign company	(30,000)
Long term capital gains	(1,00,000)
Income under the head Business/Profession	6,72,000
Less: b/f Business Loss	(3,00,000)
Less: Unabsorbed depreciation	(2,00,000)
Income under the head Business/Profession	1,72,000
Income under the head Capital Gains (LTCG)	1,00,000
Income under the head Other Sources {Dividend from foreign company}	30,000
Gross Total Income	3,02,000

Less: Deduction under Chapter VI-A	Nil
Total Income	3,02,000
Computation of Tax Liability	
Tax on LTCG ₹2,000 (₹1,00,000 – ₹98,000) @ 20% u/s 112	400
Tax on ₹2,02,000 at slab rate	Nil
Less: Rebate u/s 87A	(400)
Tax Liability	Nil

<u>Solution 25:</u>

Computation of Income under the head Business/profession	**₹**
Net Profit as per profit and loss account	12,00,000.00
Add:	
Interest to Proprietor	1,50,000.00
Salary to Proprietor	6,00,000.00
Purchase of trademark	2,00,000.00
Depreciation on plant and machinery	20,000.00
Less:	
Short term capital gains	(6,00,000.00)
Depreciation on trade mark	(50,000.00)
Employer contribution to recognized provident fund	(4,00,000.00)
Income under the head Business/Profession	11,20,000.00
Less: Brought forward depreciation	(2,36,000.00)
Income under the head Business/Profession	8,84,000.00
Income under the head Capital Gains (STCG)	6,00,000.00
Gross Total Income	14,84,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	14,84,000.00
Computation of Tax Liability	
Tax on ₹14,84,000 at slab rate	1,46,800.00
Add: HEC @ 4%	5,872.00
Tax Liability	1,52,672.00
Rounded off u/s 288B	1,52,670.00

<u>Solution 26:</u>

	₹
Net profit as per profit and loss account	8,64,760.00
Add:	
Other expenses	20,000.00
Travelling, advertisement and entertainment expenses	25,000.00
Depreciation	1,47,480.00

Working Note:	**₹**
Written down value as on 01.04.2023	3,70,000
Add: Purchased of plant F on 01.01.2024	4,86,000
	8,56,000
Depreciation @ 15% on ₹3,70,000	55,500
Depreciation @ 7.5% on ₹4,86,000	36,450
Total	91,950
Excessive depreciation (2,39,430 – 91,950)	

Interest on loan taken to make deposit in companies	13,800.00
Municipal tax and insurance of godown	7,200.00
Salary to Proprietor	1,80,000.00
Interest to Proprietor	69,000.00
Less:	
Rental income from Godown	(48,000.00)

Interest on company deposits	(2,60,000.00)
Income under the head Business/Profession	10,19,240.00
Less: Brought forward business loss	(20,000.00)
Income under the head Business/Profession	9,99,240.00
Computation of income under the head house property	
Gross Annual Value	48,000.00
Less: Municipal Taxes	(6,000.00)
Net Annual Value	42,000.00
Less: 30% of NAV u/s 24(a)	(12,600.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	29,400.00
Income under the head Other Sources (2,60,000 – 13,800)	2,46,200.00
Computation of income under the head Capital Gains	
Income under the head Capital Gains (STCG) (9,10,000 – 1,98,000)	7,12,000.00
Less: Brought forward short term capital loss for the assessment year 2022-23	(2,000.00)
Less: Brought forward short term capital loss for the assessment year 2023-24	(1,000.00)
Income under the head Capital Gains (STCG)	7,09,000.00
Computation of Total Income	
Gross Total Income	19,83,840.00
Less: Deduction under Chapter VI-A	Nil
Total Income	19,83,840.00
Computation of Tax Liability	
Tax on ₹19,83,840 at slab rate	2,95,152.00
Add: HEC @ 4%	11,806.08
Tax Liability	3,06,958.08
Rounded off u/s 288B	3,06,960.00

<u>Solution 27:</u>

Computation of Total Income of Mr. X	₹
Net profit as per profit and loss account	6,09,500
Add: inadmissible expenses	
Provision for GST	10,000
Advance tax	11,000
Salary to Mr. X	24,000
Interest to Mr. X	22,000
Interest to Mrs. X	32,000
Salary to relative {Sec 40A(2)}	4,000
School fees for Mr. X's son	5,000
Total	7,17,500
Less:	
Dividend from Indian companies	(12,500)
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	12,500
Income from mutual fund	6,500
Income from units of mutual fund	25,000
Income under the head Other Sources	44,000
Gross Total Income	7,35,000
Less: Deduction under Chapter VI-A	Nil
Total Income	7,35,000

Computation of Tax Liability

Tax on ₹7,35,000 at slab rate	28,500
Add: HEC @ 4%	1,140
Tax Liability	29,640

<u>Solution 28:</u>

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 2022-23		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
Income under the head Other Sources		
Honorarium received from various institutions		6,600.00
Dividend from Indian company		10,500.00
Income from UTI		6,500.00
Income under the head Other Sources		23,600.00
Gross Total Income		7,97,449.20
Less: Deduction under Chapter VI-A		Nil
Total Income (rounded off u/s 288A)		7,97,450.00
Computation of Tax Liability		
Tax on STCG ₹20,800 @ 15% u/s 111A		3,120.00
Tax on ₹7,76,650 at slab rate		32,665.00
Tax before health & education cess		35,785.00
Add: HEC @ 4%		1,431.40

Tax Liability	37,216.40
Rounded off u/s 288B	37,220.00

Solution 29:

Computation of Total Income	**₹**
Net profit as per profit & loss account	10,00,000.00
Add: inadmissible expenses	
Excess payment to relative u/s 40A(1) & (2)	1,00,000.00
Excess payment in cash u/s 40A(3)	1,00,000.00
Capital expenditure debited in the profit and loss account (computer)	45,000.00
Capital expenditure debited in the profit and loss account (generator)	45,000.00
Income tax u/s 40(a)	45,000.00
Household furniture	12,000.00
Medical treatment	20,000.00
Salary paid to proprietor	36,000.00
Interest on capital	9,000.00
Amount invested in National Saving Certificate	25,000.00
Amount invested in public provident fund	10,000.00
Rent paid	35,000.00
Opening balance (4,50,000 x 10/110)	40,909.09
Business Income	15,22,909.09
Gross Total Income	15,22,909.09
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	15,22,910.00
Computation of Tax Liability	
Tax on ₹15,22,910 at slab rate	1,56,873.00
Add: HEC @ 4%	6,274.92
Tax Liability	1,63,147.92
Rounded off u/s 288B	1,63,150.00

Solution 30:

Computation of income under the head Business/Profession	**₹**
Net profit as per profit & loss account	6,27,900.00
Add: inadmissible expenses	
Payment of purchases in excess of ₹10,000 {Sec 40A(3)}	20,100.00
Payment of purchases in excess of ₹10,000 {Sec 40A(3)}	22,000.00
Payment of purchases {Sec 40A(2)}	1,000.00
Salary to proprietor	12,400.00
Cost of computer	24,000.00
Interest on capital	3,300.00
Donation to orphan	1,000.00
Income tax	6,000.00
Gift to relative	1,000.00
Medical expenses of proprietor	3,000.00
Staff welfare fund	2,000.00
Bonus payable {Sec 43B}	5,000.00
Provision for GST	25,000.00
General reserve	5,000.00
Less:	
Maturity proceeds of National Saving Certificate	(19,500.00)
Maturity proceeds of bank Fixed Deposit	(24,000.00)
Maturity proceeds of public provident fund	(13,000.00)
Income tax penalty refund	(1,100.00)

Sale of machinery	(25,000.00)
Recovery of bad debts	(6,000.00)
Income tax refund	(2,400.00)
Gift from relatives	(3,600.00)
Maturity proceeds of LIC	(24,000.00)
Closing Stock{₹26,400 x 10 / 110}	(2,400.00)
Refund of deposit from supplier	(1,00,000.00)
Depreciation:	
Computer = 40% on ₹24,000	(9,600.00)
Machinery - w.d.v = ₹59,000	
Less: sale = (₹25,000)	
Written down value ₹34,000	
Dep. @ 15%	(5,100.00)
Factory building – w.d.v = ₹85,000	
Add: purchase = ₹12,000	
Dep. @ 10% on ₹97,000	(9,700.00)
Income under the head business/profession	5,13,300.00
Computation of income under the head Other Sources	
Interest on income tax refund	400.00
Income under the head other sources	400.00
Income under the head business/profession	5,13,300.00
Gross Total Income	5,13,700.00
Deductions under Chapter VI-A	Nil
Total Income	5,13,700.00
Computation of Tax Liability	
Tax on ₹5,13,700 at slab rates	10,685.00
Less: Rebate u/s 87A	(10,685.00)
Tax liability	Nil

Solution 31:	₹
Net Profit as per profit & loss account	17,45,600.00
Add: inadmissible expenses	
1. Franchises, being capital expenditure	1,00,000.00
2. Advertisement, being capital expenditure	9,000.00
3. Income tax (income tax is not allowed as per sec 40(a))	8,200.00
4 Addition to office building, being capital expenditure	45,000.00
5. Investment in public provident fund (not a revenue expenditure)	70,000.00
Add: incomes not credited to profit & loss account	
Closing stock undervalued by 10% (1,80,000 x 10/90)	20,000.00
Deduct expenditures not debited to profit & loss account	
Opening stock undervalued by 10% (13,50,000 x 10/90)	(1,50,000.00)
Depreciation	(5,88,150.00)

Working Note:	₹
1. Franchises 1,00,000 x 25%	25,000
2. Furniture/fixture @ 10%	
- Neon sign board 9,000 x 10%	900
- Wirings etc. in the building 4,500 x 5%	225
3. Office building 56,00,000 x 10%	5,60,000
Addition 40,500 x 5%	2,025
Total Depreciation	5,88,150

Deduct amounts credited to profit & loss, but not considered to be incomes

1. Gift from friend (any gift is not considered to be income except gift received from client or

gift received from any person in excess of ₹50,000)	(1,200.00)
2. Rental income from House Property	(1,40,000.00)
3. Income tax refund	(700.00)
4. Dividends from a foreign company (to be taxed under the head other sources)	(3,000.00)
5. Sale to the proprietor should be at cost price	(20,000.00)
Income under the head business/profession	10,94,750.00
Income under the head other sources	3,000.00

Income under the head house property

Gross Annual Value	1,40,000.00
Less: Municipal taxes	Nil
Net Annual Value	1,40,000.00
Less: 30% of NAV u/s 24(a)	(42,000.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	98,000.00
Gross Total Income	11,95,750.00
Less: Deduction under Chapter VI-A	Nil
Total Income	11,95,750.00

Computation of Tax liability

Tax on ₹11,95,750 at slab rate	89,362.50
Add: HEC @ 4%	3,574.50
Tax Liability	92,937.00
Rounded off u/s 288B	92,940.00

<u>Solution 32:</u> ₹

Computation of income under the head Business/Profession

Legal consultancy fees	9,20,000.00
Less:	
• Rent of building	(2,20,000.00)
• Office expenses	(30,000.00)
• Depreciation on computer	(11,060.00)

Working Note:	**₹**
Computer – w.d.v	2,300
Less: Sale of computer	(7,000)
Add: New computer purchased and put to use on 01.11.2023	35,000
Add: Computer purchased and put to use on 10.11.2023	25,000
Balance	55,300
Depreciation @ 20%	11,060

• Depreciation on car	(30,000.00)

Working Note:	**₹**
Motor car – Purchase and put to use on 01.12.2023	4,00,000
Depreciation @ 7.5% on ₹4,00,000	30,000

• Depreciation on books	(1,800.00)

Working Note:	**₹**
Books purchased and put to use on 01.01.2024	9,000
Depreciation @ 20% on ₹9,000	1,800

• Subscription to bar association (allowed u/s 37(1))	(3,000.00)
Income under the head Business/Profession	6,24,140.00

Computation of income under the head Capital Gains on sale of house

Full Value of Consideration	9,80,000.00
Less: Cost of acquisition	(6,70,000.00)

Income under the head Capital Gains (STCG)	3,10,000.00
Computation of income under the head Other Sources	
Remuneration from Delhi University	4,000.00
Honorarium for delivering lectures	3,000.00
Interest from UTI	12,000.00
Income under the head Other Sources	19,000.00
Computation of Total Income	
Income under the head Business/Profession	6,24,140.00
Income under the head Capital Gains (STCG)	3,10,000.00
Income under the head Other Sources	19,000.00
Gross Total Income	9,53,140.00
Less: Deduction under Chapter VI-A	Nil
Total Income	9,53,140.00
Computation of Tax Liability	
Tax on ₹9,53,140 at slab rate	52,971.00
Add: HEC @ 4%	2,118.84
Tax Liability	55,089.84
Less: Advance Tax Paid	(12,000.00)
Tax Payable	43,089.84
Rounded off u/s 288B	43,090.00

Solution 33:

	₹
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 @ 15% on car (2,45,000 x 15%)	(36,750)
• 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	4,53,700

Computation of income under the head Other Sources	
Interest on income tax refund	300
Dividends from foreign company	3,000
Income under the head Other Sources	3,300
Income under the head Business/Profession	4,53,700
Gross Total Income	4,57,000

Less: Deductions under Chapter VI-A	Nil
Total Income	4,57,000
Computation of Tax Liability	
Tax on ₹4,57,000 at slab rate	7,850
Less: Rebate u/s 87A	(7,850)
Tax Liability	Nil

Solution 34:

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 (15,000 – 3,000)	12,000.00

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)
• Depreciation on neon sign @ 10% on ₹5,000	(500.00)
• Depreciation on patents @ 12.5% on ₹70,000	(8,750.00)
Income under the head Business/Profession	3,26,750.00
Income under the head Other Sources {Interest on company deposit}	50,000.00
Gross Total Income	3,76,750.00
Less: Deduction under Chapter VI-A	Nil
Total Income	3,76,750.00

Computation of Tax Liability	
Tax on ₹ 3,76,750 at slab rate	3,837.50
Less: Rebate u/s87A	(3,837.50)
Tax Liability	Nil

Solution 35:

Computation of total income of Mr. X	₹
Net profits as per profit and loss account	25,000
Add: Inadmissible Expenses	
• Remuneration given to proprietor, not allowed	3,00,000
• Interest given to proprietor, not allowed	40,000
• Cash payment to a supplier	30,000
• Income Tax Paid	10,000
Total	4,05,000
Less:	

• Dividend from Indian company	(30,000)
• Long Term Capital Gains	(1,90,000)
Income under the head Business/Profession	1,85,000
Income under the head House Property	90,000
Income from Capital Gains (Long Term Capital Gains)	1,90,000
Income from Other Sources	
Dividend from Indian company	30,000
Gross Total Income	4,95,000
Less: Deduction under Chapter VI-A	Nil
Total Income	4,95,000
Computation of Tax Liability	
Tax on Long term capital gain ₹1,90,000 @ 20%	38,000.00
Tax on normal income ₹3,05,000 at slab rate	250.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	13,250.00
Add: HEC @ 4%	530.00
Tax Liability	13,780.00

Solution 36:

	₹
Computation of Business Income	
Net Profit	7,00,000.00
Add: Inadmissible Expenses	
• Municipal Taxes (12,000 x 1/3)	4,000.00
• Market Rent	2,40,000.00
Total	9,44,000.00
Less:	
• Rent Received	(1,20,000.00)
Business Income	8,24,000.00
Computation of Income under the head House Property	
Gross Annual Value (10,000 x 12)	1,20,000.00
Less: Municipal Taxes (Not paid during the year)	Nil
Net Annual Value	1,20,000.00
Less: 30% of NAV u/s 24(a)	(36,000.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	84,000.00

Computation of Total Income	
Income under the head Business	8,24,000.00
Income under the head House Property	84,000.00
Gross Total Income	9,08,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	9,08,000.00

Computation of Tax Liability	
Tax on ₹9,08,000 @ 30%	2,72,400.00
Add: HEC @ 4%	10,896.00
Tax Liability	2,83,296.00
Rounded off u/s 288B	2,83,300.00

Solution 37:

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	15,000.00
Gross Total Income	2,61,100.00
Less: Deduction under Chapter VI-A	Nil
Total Income	2,61,100.00
Computation of Tax Liability	
Tax Liability	Nil

Solution 38:

1. As per section 28, Any gift received in connection with business/profession shall be considered to be income under the head business/ profession hence ₹ 2,50,000 being value of the motor car shall be considered to be income under the head business/profession. Since car is being used for the purpose of business, depreciation shall be allowed as per section 32.
2. As per section 32, depreciation shall be allowed even for intangible assets, hence ₹ 6 lakh qualifies for depreciation @ 25%.
3. As per section 40(a), while calculating income of the employer, the tax paid by the employer on non-monetary perquisites to employees is not deductible.
4. As per section 28, any sum received for not carrying out any activity in relation to any business is chargeable to tax as business income. Thus, ₹ 10 lakh is taxable as business income being non-compete fee.
5. Section 35DDA provides that where an assessee incurs any expenditure in any previous year by way of payment of any sum to an employee at the time of his voluntary retirement under any scheme of voluntary retirement, one fifth of the amount so paid shall be deducted in computing the profits and gains

of the business for that previous year, and the balance shall be deducted in equal instalments for each of the four immediately succeeding previous years. In view of the aforesaid provisions, ₹ 4 lakh shall be allowable as deduction in the assessment year 2024-25.

6. As per section 43(1), all expenses upto the date of putting the asset to use shall be capitalized i.e. it will be added to the actual cost but in the given case asset has not been put to use till the end of the year hence neither the amount can be debited to profit and loss account nor depreciation is allowed.
7. As per section 37(1), in order to claim deduction the expenditure should not have been incurred for any purpose, which is an offence or is prohibited by any law. Since the payment of ₹40,000 to Don is unlawful, it is not allowable as deduction.
8. As per section 14A, no deduction shall be made in respect of expenditure incurred by the assessee in relation to income which does not form part of the total income. ₹34,000 is, therefore, not allowable as deduction.

Solution 39:

(i) An amount equal to commodity transaction tax paid by the assessee shall be allowable as deduction, under section 36(1)(xvi), if the income arising from taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession". In the given case, Mr. M, is entitled to claim deduction in respect of commodity transaction tax of ₹ 75000 paid by him.

Solution 40:

(i)

Computation of Tax Liability

Total Income (LTCG 112A)	300,00,000.00
Tax on ₹296,00,000 (300,00,000-1,00,000-3,00,000) @ 10% u/s 112A	29,60,000.00
Add: Surcharge @ 15%	4,44,000.00
Tax before HEC	34,04,000.00
Add: HEC @ 4%	1,36,160.00
Tax Liability	35,40,160.00

(ii)

Computation of Tax Liability

Total Income (STCG 111A)	300,00,000.00
Tax on ₹297,00,000 (300,00,000-3,00,000) @ 15% u/s 111A	44,55,000.00
Add: Surcharge @ 15%	6,68,250.00
Tax before HEC	51,23,250.00
Add: HEC @ 4%	2,04,930.00
Tax Liability	53,28,180.00

(iii)

Computation of Tax Liability

Total Income (Dividend Income)	300,00,000.00
Tax on ₹300,00,000 at slab rate	87,00,000.00
Add: Surcharge @ 15%	13,05,000.00
Tax before HEC	100,05,000.00
Add: HEC @ 4%	4,00,200.00
Tax Liability	104,05,200.00

(iv)

Computation of Tax Liability

Total Income (LTCG)	300,00,000.00
Tax on ₹297,00,000 (300,00,000-3,00,000) @ 20% u/s 112	59,40,000.00
Add: Surcharge @ 15%	8,91,000.00
Tax before HEC	68,31,000.00

Add: HEC @ 4%	2,73,240.00
Tax Liability	71,04,240.00

(v)

Computation of Tax Liability

Total Income (casual income)	300,00,000.00
Tax on ₹300,00,000 @ 30% u/s 115BB	90,00,000.00
Add: Surcharge @ 25%	22,50,000.00
Tax before HEC	112,50,000.00
Add: HEC @ 4%	4,50,000.00
Tax Liability	117,00,000.00

(vi)

Computation of Tax Liability

Total Income (Business Income)	300,00,000.00
Tax on ₹300,00,000 at slab rate	87,00,000.00
Add: Surcharge @ 25%	21,75,000.00
Tax before HEC	108,75,000.00
Add: HEC @ 4%	4,35,000.00
Tax Liability	113,10,000.00

EXAMINATION QUESTIONS

NOV – 2023

Question 1 **(14 Marks)**

Mr. Pramod, a resident aged 55 years, is a retail trader; he furnishes the following information for A.Y. 2024-25:

Trading and Profit and Loss Account for the year ended on 31.03.2024:

	₹		₹
To Opening Stock	1,15,000	By Sales	70,80,000
Purchases	55,40,000	Closing Stock	2,10,000
Transport charges	1,20,000		
Gross Profit c/f	15,15,000		
	72,90,000		**72,90,000**
To Salaries	3,40,000	By Gross Profit b/f	15,15,000
Rates and Taxes	24,000	Rent from H. Property	1,80,000
Administrative Expenses	3,25,000	Rent from furniture	1,20,000
Deprecation	80,000		
Net Profit	10,46,000		
	18,15,000		**18,15,000**

(1) All the sales are by account payee cheques or through bank transfers.

(2) The opening and closing stocks have been over valued by ₹ 15,000 and ₹ 20,000 respectively.

(3) Rates and taxes include GST liability of ₹ 5,000 paid on 01.05.2024 and municipal taxes for let out property ₹ 7,000 were paid on 31.03.2024.

(4) Administrative expenses include ₹ 25,000 paid as donation to National Children's Fund, and a payment for laptop purchased on 15.05.2023 for ₹ 60,000 through bank transfer.

(5) Transport charges include ₹ 30,000 paid in cash on 01.09.2023.

(6) He incurred a loss of ₹ 8,000 on sale of equity shares on 10.02.2024, which were purchased on 10.06.2023.

(7) Depreciation includes ₹ 1,200 as depreciation on Trade Marks wrongly charged at 15%.

(8) He deposited ₹ 50,000 in PPF a/c has paid life insurance premium ₹ 60,000.

(9) He paid Interest of ₹ 70,000 on loan availed in F.Y. 2018–19 for higher education of his wife.

Compute the total income and the income tax payable by Mr. Pramod for A.Y. 2024-25, if,

(i) He opts for Section 115BAC.

(ii) He does not opt for Section 115BAC.

(iii) He opts to compute business profit under presumptive taxation under Section 44AD and opts for Section 115BAC.

Which option is advantageous to Mr. Pramod?

Solution:

(i) Computation of income and tax as per section 115BAC

Net Profit as per Profit and Loss A/c	10,46,000
Add: Opening Stock over valued	15,000
Add: Municipal Tax for let out House Property	7,000
Add: Donation to National Children's Fund	25,000

Add: Purchase of Laptop	60,000
Less: Closing stock over valued	(20,000)
Less: Depreciation on Laptop (60,000 x 40%)	(24,000)
Less: Depreciation (1,200 / 15% x 10%)	(800)
Less: Rent from House Property	(1,80,000)
Less: Rent from Furniture	(1,20,000)
Income under the head Business/Profession	8,08,200
Income under the head House Property	
GAV	1,80,000
Less: Municipal Tax	(7,000)
NAV	1,73,000
Less: 24(a) @ 30%	(51,900)
Income under the head House Property	1,21,100
Income under the head Other Sources	
Rent from furniture	1,20,000
Gross Total Income	10,49,300
Less: Deduction under Chapter VI-A	Nil
Total Income	10,49,300
Computation of Tax Liability	
Tax on ₹10,49,300 at slab rate	67,395.00
Add: HEC @ 4%	2,695.80
Tax Liability	70,090.80
Rounded off u/s 288B	70,090.00

(ii) He does not opt for Section 115BAC

Net Profit as per Profit and Loss A/c	10,46,000
Add: Opening Stock over valued	15,000
Add: Municipal Tax for let out House Property	7,000
Add: Donation to National Children's Fund	25,000
Add: Purchase of Laptop	60,000
Less: Closing stock over valued	(20,000)
Less: Depreciation on Laptop (60,000 x 40%)	(24,000)
Less: Depreciation (1,200 / 15% x 10%)	(800)
Less: Rent from House Property	(1,80,000)
Less: Rent from Furniture	(1,20,000)
Income under the head Business/Profession	8,08,200
Income under the head House Property	
GAV	1,80,000
Less: Municipal Tax	(7,000)
NAV	1,73,000
Less: 24(a) @ 30%	(51,900)
Income under the head House Property	1,21,100
Income under the head Other Sources	
Rent from furniture	1,20,000
Gross Total Income	10,49,300
Less: Deduction National Children's Fund u/s 80G	(25,000)
Less: Deposit in PPF u/s 80C	(50,000)
Less: LIC Premium u/s 80C	(60,000)
Less: Payment of Interest u/s 80E	(70,000)

Total Income	8,44,300
Computation of Tax Liability	
Tax on ₹8,44,300 at slab rate	81,360.00
Add: HEC @ 4%	3,254.40
Tax Liability	84,614.40
Rounded off u/s 288B	84,610.00

(iii) He opts to compute business profit under presumptive taxation under Section 44AD and opts for Section 115BAC

Income under the head Business/Profession	
As per section 44AD (70,80,000 x 6%)	4,24,800
Income under the head House Property	
GAV	1,80,000
Less: Municipal Tax	(7,000)
NAV	1,73,000
Less: 24(a) @ 30%	(51,900)
Income under the head House Property	1,21,100
Income under the head Other Sources	
Rent from furniture	1,20,000
Gross Total Income	6,65,900
Less: Deduction Chapter VI-A	Nil
Total Income	6,65,900
Computation of Tax Liability	
Tax on ₹6,55,900 at slab rate	20,590.00
Less: Rebate u/s 87A	(20,590.00)
Tax Liability	Nil

Since tax liability is minimum in option (iii), it will be better.

MAY – 2023

Question 1 **(14 Marks)**

Mr. Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2024 is as under:

	Expenditure	Amount (₹)		Income	Amount (₹)
To	Employees' Remuneration	15,00,000	By	Gross Receipts from Profession (last year ₹ 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000
To	Office & Administrative Expenses	5,00,000	By	Interest on Savings Bank Account	25,000
To	Rates and Taxes	15,000	By	Winnings from Lottery (Net of cost of lottery tickets of ₹ 500)	99,500
To	Interest Expenses	80,000	By	Rent Received	2,40,000
To	Office Rent	2,40,000			
To	Insurance Premium	72,000			
To	Professional Fees	2,00,000			

To	Depreciation on Computers	1,20,000		
To	Excess of Income over Expenditure	36,97,500		
		64,24,500		64,24,500

The following details relates to F.Y. 2023-24:

(i) Employees' Remuneration includes a sum of ₹ 3,00,000 paid to his wife, Mrs. Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.

(ii) Mr. Bhasin owns a big house with 2 independent units. Unit - 1 (with 50% floor area) has been let our for residential purposes at a monthly rent of ₹ 20,000 for the entire year. Unit - 2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residence-cum-office. Other particulars of the house are:
Municipal Valuation - ₹ 3,60,000 p.a.
Fair Rent - ₹ 4,20,000 p.a.
Standard Rent under Rent Control Act -₹ 4,00,000 p.a.

(iii) Rates and taxes include a sum of ₹ 10,000 paid as municipal taxes of the house.

(iv) Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The interest was paid after the due date of filing the return of income.

(v) Based on the actual rent received for Unit-1, Mr. Bhasin has debited ₹ 2,40,000 as notional rent for Unit-2 which is used for his profession.

(vi) The expense on insurance premium of ₹ 72,000 represents lump-sum health insurance premium paid by Mr. Bhasin for 3 years effective from 1st July, 2023 to 30th June, 2026 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.

(vii) The expenses on professional fees paid includes a sum of ₹ 1,00,000 paid to Mr. Raunak, an Indian resident on which no tax was deducted at source.

(viii) There was only one block containing computers which came into existence only on 2nd April, 2023 when new laptops (for ₹ 1,60,000), printers and scanners (for ₹ 40,000) were purchased. He charged depreciation @ 60% in the entire cost of ₹ 2,00,000 and debited the amount to Income & Expenditure A/c.

(ix) Mr. Bhasin has also taken a loan of ₹ 5,00,000 from a nationalised bank for higher education of his son. During F.Y.2023-24, he repaid principal of ₹ 75,000 along with interest of ₹ 40,000. This amount is not reflected in Income and Expenditure Account.

You are required to compute the total income under proper heads of income of Mr. Bhasin for A.Y. 2024-25, assuming that he has opted to pay tax under section 115BAC. Also calculate the total tax payable by him.

Answer

Computation of total income and tax payable by Mr. Bhasin for A.Y. 2023-24

Income from Salaries

Salary of Mrs. Beena	3,00,000
[Remuneration paid by Mr. Bhasin to his wife Mrs. Beena who is employed as a manager in his office would be included in his hands, since Mrs. Beena does not have any technical or professional qualification or experience required for the job]	
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head Salary	2,50,000

Income from house property

Let out portion (Unit 1 – 50% area)

Gross Annual Value		2,40,000
Fair Rent	2,10,000	
Municipal Valuation	1,80,000	
Standard Rent	2,00,000	

Rent Received/Receivable	2,40,000	
Less: Municipal taxes paid for let out portion (₹ 10,000 x 50%)		(5,000)
Net Annual Value (NAV)		2,35,000
Less: Deduction under section 24(a)		(70,500)
24(b) Interest on capital borrowed (80,000 x 50%)		(40,000)
Income from let out portion		1,24,500

Self-occupied (Unit 2 – 25%)
[Since Unit 2 representing 50% of the floor area is used for residence as well as business purpose, it is assumed that it is equally used for residence and business purpose]

Gross Annual Value	**Nil**
Less: Municipal taxes [not allowed for self- occupied property]	Nil

Profits and gains from business and profession

Excess of income over expenditure	36,97,500
Add:	
Municipal taxes attributable to let out and self- occupied portions not allowable [₹ 10,000 x 75%]	7,500
Interest on capital borrowed for construction of house attributable to let out and self- occupied portion not allowable [₹ 80,000 x 75%]	60,000
Interest on capital borrowed from bank for construction of house attributable to business portion i.e., 25% of ₹ 80,000 [not allowable, since it is not paid on or before due date of filing return of income by virtue of section 43B]	20,000
Notional rent for Unit 2 used for business or profession [not allowable under section 30, since Mr. Bhasin himself is the owner of the property]	2,40,000
Insurance premium [Personal expenditure not allowable]	72,000
Professional fees to Mr. Raunak without deducting TDS [₹ 1,00,000 x 30%] [Mr. Bhasin is required to deduct TDS on professional fees payment to Mr. Raunak since his gross receipts from profession exceeds ₹ 50 lakhs during the P.Y. 2022-23. 30% of the sum paid to Mr. Raunak, resident without deducting tax to be disallowed in P.Y. 2023-24]	30,000
Depreciation as per books	1,20,000
Less: Income credited to Income & Expenditure A/c but not taxable as business income	
Interest on savings bank account [taxable under the head "Income from other sources"]	(25,000)
Winnings from lottery [taxable under the head "Income from other sources"]	(99,500)
Rent received [taxable under the head "Income from house property"]	(2,40,000)
Less: Depreciation [(₹ 1,60,000, being new laptops + ₹ 40,000, being printers) x 40%	(80,000)
Income under the head Business/Profession	38,02,500

Income from Other Sources

Interest on savings bank account	25,000
Winnings from Lottery	1,00,000
Income under the head Other Sources	1,25,000
Gross Total Income	43,02,000
Less: Deduction under Chapter VI-A	Nil
Total Income	43,02,000
Computation of Tax Liability	
On lottery income [30% of ₹ 1,00,000]	30,000

On other income of ₹ 42,02,000	9,60,600
Add: HEC @ 4%	39,624
Tax liability	10,30,224
Rounded off u/s 288B	10,30,220

MAY – 2023

Question 3(a) **(7 Marks)**

Mr. Bhagat, an individual aged 50 years, set up a unit in Special Economic Zone (SEZ) in F.Y.2018-19 for the production of computers. The unit fulfils all the conditions of section 10AA of the Income-tax Act, 1961. During F.Y. 2022-23, he set up a hospital in a district of Maharashtra with 110 beds for patients. It fulfils all the conditions of section 35AD. Capital expenditure in respect of the said hospital amounted to ₹ 65 lakhs (comprising of cost of land ₹ 15 lakhs and the balance was the cost of construction of building). The hospital became operational with effect from 1st April, 2023 and the expenditure of ₹ 65 lakhs was capitalized in the books of accounts on that date

Relevant details for F.Y. 2023-24 are as follows:

Particulars	**Amount (₹ in lakhs)**
Profit of unit located in SEZ	36
Export sales of SEZ unit	75
Domestic sales of SEZ unit	25
Profit form operation of hospital facility (before considering deduction under Section 35AD)	90

Compute the income-tax (including AMT under section 115JC and AMT credit, if any, under section 115JEE) payable by Mr. Bhagat for A.Y. 2024-25 under optional provisions of the Income-tax Act.

(b) Also compute tax liability under default provisions.

Solution:

Profits and gains of business or profession

Profit from unit in SEZ	36,00,000
Profit from operation of hospital	90,00,000
Less: Deduction u/s 35AD	(50,00,000)
(In this case, since the capital expenditure of ₹ 50 lakhs (i.e., ₹ 65 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2022-23 and capitalized in the books of account on 1.4.2023, being the date when the hospital became operational, the said amount would be eligible for deduction under section 35AD.)	
Business income from hospital chargeable to tax	**40,00,000**
Gross Total Income	**76,00,000**
Less: Deduction u/s 10AA	(13,50,000)
= ₹ 36,00,000 x ₹75,00,000 / ₹100,00,000 x 50%	
Total Income	**62,50,000**
Computation of tax payable (under the regular provisions of the Act)	
Tax on ₹ 62,50,000 at slab rate	16,87,500
Add: Surcharge @10%	1,68,750
	18,56,250
Add: Health and Education cess @ 4%	74,250
Total tax payable	**19,30,500**

Computation of adjusted total income of Mr. Bhagat for levy of Alternate Minimum Tax

Total Income (computed above as per regular provisions of income tax)	62,50,000

Add: Deduction under section 10AA		13,50,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 50 lakhs	(5,00,000)	45,00,000
Adjusted Total Income		1,21,00,000
Alternate Minimum Tax @ 18.5%		22,38,500
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore but does not exceed ₹ 2 crores)		3,35,775
		25,74,275
Add: Health and education cess @ 4%		1,02,971
		26,77,246
Tax liability u/s 115JC (rounded off)		26,77,250

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @ 18.5% thereof plus surcharge @ 15% and cess @ 4%. Therefore, tax payable as per section 115JC is ₹ 26,77,250.

AMT Credit to be carried forward under section 115JEE

Tax liability under section 115JC	26,77,250
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,30,500
	7,46,750

(b) Tax Liability under default regime

Profits of unit from SEZ	36,00,000
Profit from operation of hospital	90,00,000
Less: Depreciation on ₹50,00,000	(5,00,000)
Income under the head Business/Profession	121,00,000
Tax ₹121,00,000 at slab rate	33,30,000
Add: HEC @ 4%	1,33,200
Tax Liability	34,63,200

NOV – 2022

Question 1 **(14 Marks)**

Dr. Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2024.

Receipts	₹	Payments	₹
Op. Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (Net)	5,85,000	Taxes & Insurance	26,000
Fees for March, 2023 received in April, 2023		Entertainment Expenses	1,10,000
IPD 40,000 OPD 45,000	85,000	Purchase of Television	48,000
Dividend from shares (Net)	18,900	Gift to daughter-in- law	60,000
Fees received during the year	10,25,000	Interest on Loan for repairs to property	65,000
Gifts received from relatives of patients	45,000	Personal medical expenses	70,000
Honorarium for painting services in Jai Hind Art School (Net)	22,500	Deposits in PPF A/c	55,000
Income Tax Refund (Including interest ₹1,500)	12,100	Nursing Home expenses	3,75,000

		Professional fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
Total	**19,18,500**	**Total**	**19,18,500**

Other Information:

(a) He keeps his books of accounts on cash basis and has not opted for the provisions of section 44ADA.

(b) Salary includes ₹60,000 paid to his sister who is a qualified nurse paid in cash.

(c) Entertainment expenses include ₹25,000 for dinner to doctors in a five star hotel.

(d) Interest on loan for repairs to property includes ₹40,000 for his residential property.

(e) His daughter-in-law earned income ₹10,000 from the amount received as gift.

(f) Fixed Assets values as on 01.04.2023 are as under:-
Nursing Home Equipment's ₹2,20,000, Medical Books (including annual publications ₹10,000) ₹35,000, Laptop ₹40,000.

(g) Television purchased for nursing home purpose on 21.09.2023 is put to use on 03.10.2023.

(h) He has donated ₹10,000 towards PM CARES Fund on 15.08.2023.

You are required to:

(i) Compute the total income and tax payable by him for AY 2024-2025 as per the default provisions of the Income-tax Act, 1961.

(ii) What will be his total income and tax payable, if he opts for the provisions of section 44ADA? Will it be more beneficial for him to adopt 44ADA?

Solution:

(i) Computation of total income and tax payable by Dr. Rohan for A.Y. 2024-25 as per the regular provisions of the Act

Particulars	
I **<u>Income from house property</u>**	
Annual value [Assuming residential property self-occupied]	Nil
II **<u>Profits and gains from business and profession</u>**	
Gross Receipts	
Fees from visits to other hospitals [5,85,000/90%]	6,50,000
Fees for March 2023 received in April 2023	85,000
Fees received during the year	10,25,000
Gifts received from relatives of patients [taxable as business income]	45,000
Less: Permissible deductions	
Salary to staff paid in cash disallowed u/s 40A(3) (3,50,000 – 60,000)	(2,90,000)
Taxes and insurance	(26,000)
Entertainment expenses, including dinner to doctors	(1,10,000)
Interest on loan for repair to property to the extent relating to business (₹ 65,000 – ₹ 40,000, relating to residential property)	(25,000)
Nursing home expenses	(3,75,000)
Professional fees paid for consulting services	(1,20,000)
Less: Depreciation under section 32	
Nursing home equipment's [2,20,000 x 15%]	(33,000)
Medical books [35,000 x 40%]	(14,000)
Laptop [40,000 x 40%]	(16,000)
Television [48,000 x 15%]	(7,200)

(Since the television is put to use for 180 days during the P.Y. 2023-24)

(Note – Television would be eligible for depreciation @15%. However, television connected to laptop or other medical equipment and used by Doctor may be classified as plant and machinery eligible for depreciation @ 40%. If 40% rate is applied, depreciation for TV would be ₹ 19,200. Also, it is possible to take a view that Television is furniture and fixtures qualifying for depreciation@10%. If 10% rate is applied, depreciation for TV would be ₹ 4,800.)

Income under the head Business/Profession	7,88,800
III **Income from Other Sources**	
Dividend from shares [18,900/90%]	21,000
Honorarium for painting services in Jai Hind Art School [22,500/90%]	25,000

(Honorarium (Alternative without TDS) – ₹ 22,500. In the question, it is mentioned that Dr. Rohan has received Honorarium for painting services in Jai Hind Art School (Net) of ₹22,500. Since the threshold limit for deducting tax at source under section 194J is ₹ 30,000, there is no requirement to deduct tax at source on such income. Accordingly, question can be answered without grossing up the amount of honorarium of ₹ 22,500.)

Interest on income-tax refund	1,500
Income earned from gift to daughter in law	10,000
[Income earned by daughter in law from asset gifted without consideration to her by Dr. Rohan is includible in the hands of Dr. Rohan]	
Income under the head Other Sources	57,500
Gross Total Income	8,46,300
Less: Deduction under Chapter VI-A	Nil
Total Income	8,46,300
Tax Payable	
Tax on ₹8,46,300 at slab rate	39,630.00
Add: HEC @ 4%	1,585.20
Tax liability	**41,215.20**
Less: TDS on fees from visits to other hospitals	(65,000.00)
TDS on dividend from shares	(2,100.00)
TDS on honorarium for painting services in Jai Hind art School	(2,500.00)
Tax Refundable	28,384.80
Rounded off u/s 288B	28,380.00

(ii) Computation of total income and tax payable by Dr. Rohan for A.Y. 2024-25 if he opts for section 44ADA

I	**Income from house property**	Nil
II	**Income from business or profession**	
	Income from profession [18,05,000 x 50%]	9,02,500
	[No other expenditure or depreciation is allowed]	
III	**Income from Other Sources**	57,500
	Gross Total Income	**9,60,000**
	Less: Deduction under Chapter VI-A	Nil
	Total Income	**9,60,000**
	Tax Payable	
	Tax on ₹9,60,000 at slab rate	54,000
	Add: HEC @ 4%	2,160
	Tax liability	**56,160**
	Less: TDS	(69,600)
	Tax Refundable	**13,440**

Since tax refundable in case Dr. Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to **opt for section 44ADA** and get his books of account audited and declare income under the regular provisions.

MAY – 2022

Question 1 **(14 Marks)**

Mrs. Nisha, a resident individual aged 54 years, is carrying on business of manufacturing of textile fabrics, as a proprietor. The turnover in the previous year 2022-23 was ₹ 250 lakhs and in the current previous year 2023-24, it is ₹ 600 lakhs. The net profit as per the profit and loss account as on 31-03-2024 is ₹ 5,61,000. She provides the following additional information those were not considered while making the profit and loss account for the previous year 2023-24.

(i) Depreciation has not been debited to profit and loss account. The details of the plant & machinery employed in the business are given as under:

Date	PARTICULARS	AMOUNT
01-04-2023	Opening written down value of machinery used for manufacturing purpose.	4,75,000
03-07-2023	New machinery purchased during the year, payment made by an account payee cheque.	7,25,000
10-03-2024	Sold one of the old machine	75,000

She does not have any other fixed assets employed in the business.

(ii) Received subsidy of 20% on new machine purchased on 03-07-2023 during the previous year under technology upgradation fund Scheme from the central Government.

(iii) She paid a job charges for the value addition on the fabrics ₹90,000 without deduction of tax to job worker by an account payee cheque.

(iv) Commission paid to one agent allowed as deduction in earlier assessment year amounting ₹50,000, has now been received back during previous year 2023-2024, from the agent due to settlement with commission agent.

(v) ₹25,000 paid to creditor for goods in cash.

(vi) Incurred loss of ₹1,17,500 from an eligible transaction carried out in respect of trading in derivatives in a recognised stock exchange.

(vii) Interest received amounting ₹2,00,000, duly authorised by partnership deed of M/s Ramji textiles, @ 15% p.a. on the capital employed. She is sleeping partner in the Ramji textiles.

(viii) She Received ₹60,000 by pre-mature withdrawals from deposit including interest ₹5,000, in post office time deposit, eligible for deduction under Section 80C.

(ix) She sold her gold bracelet (jewellery), used by her for personal purposes, on 01-05-2023 for ₹5,00,000, which was acquired for ₹40,000 on 01-03-2005. A diamond was embedded onto bracelet on 01-05-2007 of ₹50,000. (cost inflation index 2004-05:113, 2007-08:129 and 2023-24:348)

(x) She received a gold coin (bullion) worth ₹55,000 (FMV) from her cousin (daughter of uncle) during the previous year 2023-24.

(xi) She incurred long term loss from sale of share of the Indian company. (The STT is paid on the sale and purchase of the shares) ₹ 75,000.

(xii) She deposited a sum of ₹50,000 with life insurance Corporation of India every year for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.

(xiii) She purchased the new residential house during the previous year and paid stamp duty and registration fee ₹1,55,000 to get transfer the property in her name.

You are required to compute the total income and tax payable by Mrs. Nisha for the assessment year 2024-25. Give brief note wherever necessary.

Answer:

I. **Income from business or profession**		
Net Profit as per profit and loss account		5,61,000
Add: Items not credited but taxable while computing business income		
- Commission from agent on settlement under section 41(1)		50,000
- Interest on capital from partnership firm [₹ 2,00,000/15% x 12%]		1,60,000
Less: Items not debited but allowable while computing business income		
- Job charges without deduction of tax [₹ 90,000 – 30% of ₹ 90,000]		(63,000)
[Mrs. Nisha's turnover for the P.Y. 2022-23 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s 194C on Job charges of ₹ 90,000. Since Mrs. Nisha has not deducted tax at source on ₹90,000, 30% would be disallowed under section 40(a)(ia). Remaining job charges paid would be allowable as deduction while computing business income]		
- Payment to creditor in cash		Nil
[Payment to creditor in cash is not allowable as business expenditure, since such amount exceeds ₹ 10,000 and paid in cash by virtue of section 40A(3)]		
Less: Depreciation as per Income-tax Rules		
Opening WDV of machinery	4,75,000	
Add: Purchase of machinery for ₹ 7,25,000 – 1,45,000	5,80,000	
Less: Sale proceeds	(75,000)	
WDV as on 31.3.2024	9,80,000	
Depreciation @15% on ₹ 9,80,000		(1,47,000)
Income under the head Business/Profession		5,61,000
Less: Loss from eligible transaction carried out in respect of trading in derivatives		(1,17,500)
Income under the head Business/Profession		4,43,500
II **Capital Gains**		
Long term capital gain on sale of gold bracelet since it is held for more than 36 months		
Sales consideration		5,00,000.00
Less: Cost of acquisition (40,000 x 348/113)		(1,23,185.84)
Less: Cost of improvement (50,000 x 348/129)		(1,34,883.72)
Long- term capital gain on sale of gold bracelet		2,41,930.44
Less: Exemption u/s 54F (2,41,930.44 x 1,55,000 / 5,00,000)		(74,998.44)
[The cost of new residential house is not provided in the question but only stamp duty and registration fee is given which would also be the part of cost of house.]		
Income under the head Capital Gains		1,66,932.00
Less: Long term capital loss from sale of STT paid shares		(75,000.00)
Income under the head Capital Gains		91,932.00
Income from Other Sources		
Fair market value of gold coin received from cousin		55,000.00
[Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]		

Pre-mature withdrawal from post office time deposit	60,000.00
[Amount including interest received on pre-mature withdrawal from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Nisha]	
Income under the head Other Sources	1,15,000
Gross Total Income	6,50,432.00
Less: Deduction under Chapter VI-A	Nil
Total Income	6,50,432.00
Rounded off u/s 288A	6,50,430.00

Computation of tax liability of Mrs. Nisha for A.Y.2024-25

Tax on long-term capital gains @ 20% on ₹ 91,932	18,386.40
Tax on other income of ₹ 5,58,500 at slab rate	12,925.00
Tax before rebate u/s 87A	31,311.40
Less: Rebate u/s 87A	(25,000.00)
Tax after rebate u/s 87A	6,311.40
Add: Health and education cess @ 4%	252.45
Tax liability	6,563.85
Tax liability (rounded off u/s 288B)	6,560.00

MAY – 2022

Question 4(a) **(6 Marks)**

From the following particulars furnished by Mr. Suresh, aged 53 years, a resident Indian for the previous year ended March 31, 2024, you are requested to compute his total income and tax Payable for the Assessment Year 2024-25.

(i) He sold his vacant land on 09.12.2023 for ₹15 lakhs. The Stamp Duty Value (SDV) of land at the time of transfer was ₹ 19 lakhs. The fair market value of the land as on 1st April, 2001 was ₹ 6 lakhs (SDV is ₹ 5,00,000). This land was acquired by him on 05.08.1996 for ₹3.40 1akhs. He had incurred registration expenses of ₹15,000 at that time. The cost of inflation index for the year 2023-24 and 2001-02 are 348 and 100 respectively.

(ii) He owns an industrial undertaking established in a Special Economic Zone (SEZ) and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was ₹300 lakhs, which includes ₹120 lakhs from export turnover. This industrial undertaking fulfils all the conditions of Section 10AA of the Income-tax Act, 1961. Profit from this industrial undertaking is ₹30 lakhs.

(iii) He has income of ₹10,000 from crossword puzzles and ₹15,000 gross interest from bank fixed deposit.

(iv) Tuition fees of ₹36,000 for his three children to a school. The fees being ₹12,000 p.a. per child.

Answer:

Computation of Total Income and Tax Payable by Mr. Suresh for A.Y. 2024-25

Particulars	Amount (₹)
Profits and gains from business or profession	
Profit from SEZ undertaking	30,00,000
Capital Gains	
Long term capital gain on sale of vacant land [since land held for a period of more than 24 months, it is long-term capital asset]	
As per section 50C, Full value of consideration would be stamp duty value since it exceeds 110% of actual sale consideration	19,00,000
Less: Indexed cost of acquisition [₹ 5,00,000 x 348/100]	(17,40,000)

Cost of acquisition, being higher of		
- Actual cost (₹ 3,40,000 + ₹ 15,000)	₹ 3,55,000	
- lower of FMV of ₹ 6,00,000 and stamp duty value of ₹ 5,00,000 as on 1.4.2001	₹ 5,00,000	
Income under the head Capital Gains		1,60,000
Income from other sources		
Income from crossword puzzles		10,000
Interest on fixed deposit		15,000
Income under the head Other Sources		25,000
Gross Total Income		**31,85,000**
Less: Deductions under Chapter VI-A		Nil
Total Income		**31,85,000**
Computation of Tax payable on total income under the regular provisions of the Income-tax Act, 1961		
Tax on LTCG @ 20% of ₹ 1,60,000		32,000
Tax on income from crossword puzzles @ 30% of ₹ 10,000		3,000
Tax on remaining amount of ₹ 30,15,000		6,04,500
		6,39,500
Add: Health and education cess @4%		25,580
Tax Payable under the regular provisions of the Act		**6,65,080**

If we are opting 115BAC than AMT provisions are not applicable.

MAY – 2022

Question 4(b) **(4 Marks)**

Mr. Kabra is engaged in the business of growing and curing (further processing) coffee in the state of Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31-03-2024 are given hereunder:

PARTICULARS	AMOUNT ₹
Opening balance of the car as on 01-04-2023	3,00,000
Opening balance of machinery as on 01-04-2023	15,00,000
Expenses incurred in growing coffee	3,10,000
Expenses of curing coffee	3,00,000
Sale value of cured coffee	22,00,000

The car is used for the agricultural operations and the machine was used for coffee curing business operations. Compute the income arising from the above activities for the assessment year 2024-25 and the written down value as on 01-04-2024. (WDV as on 31-03-2024- depreciation for the PY 2023-24)

Answer:

Computation of Income from growing and curing coffee of Mr. Kabra for A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Income from growing and curing coffee		
Sale value of cured coffee		22,00,000
Less: Expenses incurred in growing coffee	3,10,000	
Depreciation on Car (15% of ₹ 3,00,000)	45,000	
		3,55,000

		18,45,000
Less: Expenses of curing coffee	3,00,000	
Depreciation on machinery (15% of ₹ 15,00,000)	2,25,000	
		5,25,000
		13,20,000
Business Income [25% of ₹ 13,20,000]		**3,30,000**
Agricultural Income [75% of ₹ 13,20,000]		**9,90,000**
Computation of Written Down Value as on 1.4.2024		
Opening balance of Car as on 1.4.2023	3,00,000	
Less: Depreciation@15% on ₹ 3 lakh	45,000	
WDV of car as on 1.4.2024	**2,55,000**	
Opening balance of machinery as on 1.4.2023	15,00,000	
Less: Depreciation @15% on ₹ 15 lakh	2,25,000	
WDV of machinery as on 1.4.2024	**12,75,000**	

JULY – 2021

Question 1 **(14 Marks)**

Mr. Ashish, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the ended 31st March, 2024 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on Public Provident Fund (PPF) Account	60,000
To General Expenses	75,000	By Interest on Savings Bank	20,000
To Electricity Expenses	65,000	By Interest on National Saving Certificates VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		**59,81,000**

The following other information related to financial year 2023-24

(i) The expenses on Employees' Remuneration & Benefits includes:

(a) Family Planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.

(b) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.

(ii) Amount received by Mr. Ashish as Employees' Contribution to EPF for the month of February, 2024 - ₹10,000 was also deposited after the due date under the relevant Act relating to EPF.

(iii) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr. Ashish. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque

(iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 25,000 paid to Ms. Anjaleen on 5th January 2024 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.

(v) Written down value of the depreciable assets as on 1st April, 2023 were as follows:

Professional Books ₹ 90,000

Computers ₹ 35,000

(vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2023 and was put to use on the same day.

The payment was made as under:

- ₹ 18,000 paid in cash at the time of purchase of new furniture on 31.08.2023.
- ₹ 19,000 paid by account payee cheque on 05.09.2023 as balance cost of new furniture and
- ₹ 11,000 paid in cash on 31.08.2023 to the transporter as freight charges for the new furniture.

(vii) Mr. Ashish purchased a car on 02.04.2022 for ₹ 3,35,000 for personal use. However, on 30.04.2023 he brought the said car for use in his profession. The fair market value of the car as on 30.04.2023 was ₹ 2,50,000.

(viii) Mr. Ashish made a contribution of ₹ 1,00,000 in his PPF A/c on 31.01.2024

(ix) The Gross Professional Receipts of Mr. Ashish for P.Y. 2022-23 was ₹ 52,00,000.

Compute the total income and tax liability of Mr. Ashish for A.Y. 2024-25.

Ignore provisions relating to AMT and under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income.

Solution:

Computation of total income of Mr. Ashish for A.Y. 2024-25

	Particulars	**₹**
I	**Income from business or profession**	
	Excess of income over expenditure	39,43,000
	***Add*:**	
	Family planning expenditure incurred for employees [expenditure on family planning for employees is allowed only to a company assesse]	20,000
	Salary payment to sister-in-law in excess of market rate [sister-in-law is not included in the definition of "relative" for the purpose of section 40A(2).]	Nil
	Employees' Contribution to EPF [Since, the employees contribution to EPF is deposited after the due date under the relevant Act, deduction would not be available]	10,000

	Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure]	80,000
	Commission to Ms. Anjaleen without deduction of tax at source [30% of ₹ 25,000, being commission paid without deducting tax at source, would be disallowed under section 40(a)(ia)]	7,500
	Depreciation as per books of account	90,000
	Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000
	Less: **Depreciation as per Income-tax Rules**	
	On Professional Books [₹ 90,000 x 40%]	(36,000)
	On Computers [₹ 35,000 x 40%]	(14,000)
	On Furniture [₹19,000 x 10%] [₹ 18,000 and ₹ 11,000 paid on 31.8.2023 in cash would not be included in the actual cost of furniture]	(1,900)
	On Car [₹ 3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Ashish, i.e., ₹3,35,000]	(50,250)
	Less: Items of income credited but not taxable or taxable under any other head of income	
	Interest on Public Provident Fund [Exempt]	(60,000)
	Interest on savings bank account [Taxable under the head "Income from other sources"]	(20,000)
	Interest on National Savings Certificates VIII Issue (3rd Year) [Taxable under the head "Income from other sources"]	(21,000)
	Income under the head Business/Profession	39,95,350
II	**Income from other sources**	
	Interest on savings bank account	20,000
	Interest on National Savings Certificates VIII Issue (3rd Year)	21,000
	Income under the head Other Sources	41,000
	Gross Total Income	40,36,350
	Less: **Deduction under Chapter VI-A**	Nil
	Total income	40,36,350

Computation of tax liability of Mr. Ashish for A.Y.2024-25

Particulars	₹
Tax on total income of ₹ 40,36,350 at slab rate	9,10,905.00
Add: Health and education cess@4%	36,436.20
Tax liability	9,47,341.20
Tax liability (rounded off u/s 288B)	**9,47,340.00**

Question 3(c) **(4 Marks)**

Mr. Patel is a proprietor of Star Stores since 20-05-2021. He has transferred his shop by way of slump sale for a total consideration of ₹40 Lakh. The professional fees & brokerage paid for this sale are ₹80,000. His Balance Sheet as on 31.03.2024 is as under

Liabilities	₹	Assets	₹
Own Capital	10,50,000	Building	5,00,000
Bank Loan	5,00,000	Furniture	5,00,000

Trade Creditors	2,50,000	Debtors	2,00,000
Unsecured Loan	2,00,000	Other Assets	8,00,000
Total	**20,00,000**	**Total**	**20,00,000**

Other Information:

1. No individual value of any asset is considered in the transfer deed.
2. Other assets include trademarks valuing ₹ 2,00,000 as on 01.04.2023 on which no depreciation has been provided.
3. Furniture of ₹ 1,50,000 purchased on 05.11.2023 on which no depreciation has been provided.
4. Unsecured loan includes ₹ 50,000 as advance received from his wife, which she has agreed to waive off.

Compute the capital gain for AY 2024-25.

Solution:

Computation of capital gains on slump sale of shop

Particulars		**₹**
Sale value		40,00,000
Less: Expenses on sale [professional fees & brokerage]		(80,000)
Net sale consideration		39,20,000
Less: Net worth **(See Working Note below)**		(10,42,500)
Short-term capital gain [Since shop is held for not more than 36 months immediately preceding the date of transfer]		28,77,500
Working Note:		
Computation of net worth of shop		
Building		5,00,000
Furniture	5,00,000	
Less: Deprecation on ₹1,50,000 @ 5%, being 50% of 10% since furniture is put to use for less than 180 days during the previous year	(7,500)	4,92,500
Debtors		2,00,000
Other assets	8,00,000	
Less: Deprecation on ₹ 2,00,000, being intangible asset @ 25%	(50,000)	7,50,000
Total assets		**19,42,500**
Less: Bank loan	5,00,000	
Trade creditors	2,50,000	
Unsecured loan ₹ 2,00,000 less ₹ 50,000, being the amount waived off by his wife	1,50,000	(9,00,000)
Net worth		**10,42,500**

JAN – 2021

Question 1 **(14 Marks)**

Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of ₹ 5,64,44,700 for the previous year 2023-24 after debiting/crediting the following items:

Debits:

1. ₹ 20,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
2. ₹ 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
3. Interest paid ₹ 1,67,000 on loan taken for purchase of E-vehicle on 15-05-2023 from a bank. The E-vehicle was purchased for the personal use of his wife.
4. His firm has purchased timber under a forest lease of ₹ 20,00,000 for the purpose of business.

Credits:

1. Income of ₹ 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
2. He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2019-20.

Amount due from the debtor (which was written off as bad) was ₹ 5,00,000, out of which tax officer had only allowed ₹ 3,00,000 as deduction in computing the total income for assessment year 2020-21.

3. He sold some furniture to his brother for ₹ 7,00,000. The fair market value of such furniture was ₹9,00,000.

Other information :

1. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
2. Mr. Krishna purchased a new car of ₹ 12,00,000 on 1st September, 2023 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
3. Mr. Krishna had sold a house on 30th March, 2020 and deposited the long term capital gains of ₹25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st March, 2024, he sold another house property in which he resided for ₹ 1 crore. He earned a long term capital gain of ₹ 50,00,000 on sale of this property. On 25th March, 2024, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
4. Mr. Krishna also made the following payments during the previous year 2023-24

- Lump-sum premium of ₹ 30,000 paid on 30th March, 2024 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2024 to 29th March, 2029.
- ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Krishna for the assessment year 2024-25.

<u>Solution:</u>

Computation of total income of Mr. Krishna for A.Y. 2024-25

	Particulars	**₹**
I	**Income from business or profession**	
	Net profit as per profit and loss account	5,64,44,700
	Add: **Items of expenditure debited but not allowable while computing business income**	
	1. Donation to Gurudwara in cash [not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	20,000
	2. Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e- vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,67,000
	3. Sale of furniture to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of ₹ 2 lakh]	-
	4. Contribution to a university u/s 35(1)(ii)	48,000
		5,66,79,700
	Less: **Items of income credited but not taxable or taxable under any other head of income**	

	5. Royalty on patent [Not taxable as business income since Mr. Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	(4,00,000)
	6. Bad debt recovered [Actual bad debt is₹ 2 lakhs i.e., ₹ 5 lakhs less ₹ 3 lakh, being the amount of bad debt recovered. Bad debt written off is ₹ 3 lakhs. Bad debt recovered to the extent of ₹ 1 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire ₹ 3 lakhs is credited to the profit and loss account, ₹ 2 lakhs has to be reduced]	(2,00,000)
	Less: **Allowable expenditure**	
	7. Depreciation on car [₹ 12 lakh x 15%, since car is put to use for more than 180 days in the P.Y.2023-24]	(1,80,000)
	Income under the head Business/Profession	5,58,99,700
II	**Capital Gain**	
	Long term capital gain on sale of house property	50,00,000
	Less: Exemption under section 54 [Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit.]	(50,00,000)
	[Capital gain of ₹ 25 lakhs in capital gain account scheme is not taxable in P.Y. 2023-24, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹75 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of ₹50 lakhs being long-term capital gain on sale of house property during the P.Y.2023-24]	
	Income under the head Capital Gains	Nil
III	**Income from Other Sources**	
	Royalty on patent [Taxable as "income from other sources", since he is engaged in business of manufacturing furniture]	4,00,000
	Income under the head Other Sources	4,00,000
	Gross Total Income	**5,62,99,700**
	Less: **Deduction under Chapter VI-A**	Nil
	Total income	**5,62,99,700**

Computation of tax liability of Mr. Krishna for A.Y.2024-25

Particulars	₹
Tax on total income of ₹ 5,62,99,700 at slab rate	1,65,89,910
Add: Surcharge @ 25%	41,47,477.50
	2,07,37,387.50
Add: Health and education cess @ 4%	8,29,495.50
Total tax liability	**2,15,66,883.00**
Less: TCS u/s 206C(1) @ 2.5% on ₹ 20 lakh i.e., timber	(50,000)
TCS u/s 206C(1F)@1% of ₹ 12 lakh i.e., sale of motor car where consideration exceeds ₹10 lakh	(12,000)
TDS u/s 194-IA@1% of ₹ 1 crore i.e., sale of immovable property where consideration is ₹ 50 lakh or more	(1,00,000)
Tax payable	**2,14,04,883.00**
Tax payable (rounded off)	**2,14,04,880**

Question.4(a). (8 Marks)

During the previous year 2023-24, following transactions took place in respect of Mr. Raghav who is 56 years old.

(i) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under–

	House 1 Self-occupied	**House 2 Let-out**
Rent received per month	Not applicable	₹ 60,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 3,50,000	₹ 5,00,000
Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000

(ii) Mr. Raghav had a house in Delhi. During financial year 2013-14, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the previous year 2023-24 from such house property is ₹ 5,50,000.

(iii) Mr. Raghav receives following income from M/s M Pvt. Ltd. during P.Y. 2023-24:

- Interest on Debentures of ₹ 7,50,000; and
- Salary of ₹ 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s M Pvt. Ltd. as on 31.3.2024 is as under -

	Equity shares	Preference shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kishan (brother of Mrs. Raghav)	98%	75%

(iv) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of ₹ 1 crore to such firm. Firm had no income or expense other than the interest of ₹ 9,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.

(v) Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Ms. Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Ms. Geetanshi during the previous year 2023-24 is ₹ 13,00,000.

(vi) Other income of Mr. Raghav includes

- Interest from saving bank account of ₹ 2,00,000
- Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the Assessment Year 2024-25.

Solution:

Computation of Total Income of Mr. Raghav for A.Y. 2024-25

Particulars	**Amount (₹)**
Salary [Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s M Pvt. Ltd., they have a substantial interest in the company. Since Mr. Raghav is working in the same company without any professional qualifications commensurate with his salary, the salary of ₹ 3,75,000 received by him would be included in the hands of Mrs. Raghav.	Nil
Income from house property **House 1 [Self-occupied]**	

Net annual value	-
Less: Interest on loan [upto ₹2,00,000]	(2,00,000)
Income from House 1	(2,00,000)
House 2 [Let out]	
Gross annual value [₹60,000 x 12]	7,20,000
Less: Municipal taxes	-
Net annual value	7,20,000
Less: Deductions from Net Annual Value	
(a) 30% of Net Annual Value	(2,16,000)
(b) Interest on loan	(5,00,000)
Income from House 2	4,000
House in Delhi [Since Mr. Raghav receives direct or indirect benefit from income arising to his sister's daughter, Ms. Vamika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamika's]	
Gross Annual Value	5,50,000
Less: Municipal taxes	-
Net Annual Value	5,50,000
Less: Deductions from Net Annual Value	
(a) 30% of Net Annual Value	(1,65,000)
(b) Interest on loan	-
Income from House in Delhi	3,85,000
Income under the head House Property	1,89,000
Profits and gains from business or profession	
Share of profit from firm [Exempt u/s 10(2A)]	-
Exempt income cannot be clubbed	
Income under the head Business/Profession	Nil
Income from other sources	
Dividend on preference shares [Taxable in the hands of Mr. Raghav as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	13,00,000
Interest on debentures	7,50,000
Interest from saving bank account	2,00,000
Cash gift [Taxable, since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative as per section 56(2)]	75,000
Income under the head Other Sources	23,25,000
Gross Total Income	25,14,000
Less: **Deduction under Chapter VI-A**	Nil
Total Income	**25,14,000**

Note:

1. Rent receivable has been taken as the gross annual value in the absence of other information

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Question 1 **(14 Marks)**

From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for the previous year ended 31.03.2024, you are requested to compute his total income and tax liability under default regime for the Assessment Year 2024-25.

(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 2021-22. 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, 2024 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 10.11.2023 for ₹10 lakhs. The stamp duty value of land at the time of transfer was ₹ 14 lakhs. The FMV of the land as on 1st April, 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 2023-24 and 2001-02 are 348 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	(13,92,000)

(4,00,000/100 X 348) (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)	8,000

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	29,34,600
Less: Deduction u/s Chapter VI-A	Nil
Total Income	29,34,600

Computation of Tax Liability

Tax on 8,000 @ 20% u/s 112	1,600.00
Tax on balance 29,26,600 at slab rate	5,77,980.00
Tax before Health and education cess	5,79,580.00
Add: HEC @4%	23,183.20
Tax Liability	6,02,763.20
Rounded off u/s 288B	6,02,760.00

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

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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, 2024:

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	Income from textile business before adjusting the following items: (a) Current year depreciation (b) Unabsorbed depreciation of earlier year (c) Brought forward loss of textile business of the A.Y. 2022-23	3,00,000 60,000 2,25,000 90,000
5	Long term capital gains on sale of debentures	75,000
6	Long term capital loss on sale of equity shares (STT not paid)	1,00,000
7	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
8	Dividend from units of UTI	5,000

During the previous year 2023-24, 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. (Optional Regime)

Solution:

Computation of Gross Total Income of Ms. Pooja

Income under the head salary	
Income from salary (computed)	2,20,000
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)
Loss cannot be set off from other heads however carry forward shall be allowed	
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
Income under the head other sources	
Dividend from units of UTI	5,000
Gross Total Income	2,75,000
Carried forward of losses	
Loss of house property	2,11,000

INCOME UNDER THE HEAD SALARY

SECTION 15 TO 17

PARTICULARS	SECTIONS
Meaning of salary	17(1)
Basis of charge/chargeability of salaries	15
House rent allowance	10(13A) Rule 2A
Special allowances	10(14) Rule 2BB
Foreign allowances	10(7)
Standard Deduction	16(ia)
Deduction on account of tax on employment/ professional tax	16(iii)
‘Salary’, ‘Perquisite’ and ‘Profits in lieu of salary’	17
Rent free accommodation	17(2)(i) Rule 3(1)
Accommodation at concessional rent	17(2)(ii) Rule 3(1)
Motor Car Facility	17(2)(iii) Rule 3(2)
Gardener/Watchmen/Sweeper or any other servant	17(2)(iii) Rule 3(3)
Gas/Electricity/Water	17(2)(iii) Rule 3(4)
Education facility	17(2)(iii) Rule 3(5)
Transport facility	17(2)(iii) Rule 3(6)
Obligation of the employee met by employer	17(2)(iv)
Payment of insurance premium on behalf of the employee	17(2)(v)
Specified securities or Sweat equity allotted/transferred to employees by an employer	17(2)(vi)
Any contribution to an approved superannuation fund / recognized provident fund / national pension scheme by the employer in respect of an employee and annual accretion	17(2)(vii)/17(2)(viia)
Any other fringe benefit –	
Loan to the employee either at concessional rate or free of interest	17(2)(viii)Rule 3(7)(i)
Expenditure in connection with travelling, touring or accommodation to the employee	17(2)(viii)Rule 3(7)(ii)
Free refreshment or foods to the employees	17(2)(viii)Rule 3(7)(iii)
Any gift, voucher or token	17(2)(viii)Rule 3(7)(iv)
Expenses on credit cards	17(2)(viii)Rule 3(7)(v)
Club Membership and expenses incurred in a club	17(2)(viii)Rule 3(7)(vi)
Use of moveable assets	17(2)(viii)Rule 3(7)(vii)
Transfer of any moveable assets	17(2)(viii)Rule 3(7)(viii)
Any other benefit	17(2)(viii)Rule 3(7)(ix)
Leave travel concession	10(5) Rule 2B
Death–cum–retirement gratuity	10(10)
Treatment of commuted pension	10(10A)
Deduction in respect of contribution to New Pension System	80CCD
Treatment of leave salary	10(10AA)
Provident Fund	10(11), 10(12), 10(13)
Retrenchment compensation	10(10B)
Compensation received on voluntary retirement	10(10C) Rule 2BA
Profits in lieu of salary	17(3)

COMPONENTS OF SALARY

Part – A

(i) Basic pay
(ii) Dearness allowance
(iii) Bonus
(iv) Commission/Fees etc.

Part – B Allowances

Allowance means a fixed sum paid to an employee for a specific purpose without confirming the end utilization and allowance can be divided into four categories.

1. **House Rent Allowance Sec. 10(13A) Rule 2A**
2. **Special Allowance Sec. 10(14) Rule 2BB**

Special allowances can be divided into two categories

(i) Personal Allowance

(a) Children Education Allowance
(b) Hostel Allowance
(c) Transport Allowance
(d) Outstation Allowance
(e) Tribal Area Allowance
(f) Underground Allowance
(g) Composite Hill and fuel Allowance/High Altitude Allowance/Uncongenial climate Allowance/Snow Bound Area Allowance
(h) Border Area Allowance/Remote Area Allowance/Difficult Area Allowance/Disturbed Area Allowance.
(i) Other allowance like Compensatory Field Area Allowance, Compensatory Highly Active Field Area Allowance etc.

(ii) Allowance for official Duty

(a) Any allowance granted to meet the cost of travel on tour or on transfer.
(b) Daily allowance
(c) Conveyance allowance
(d) Helper allowance
(e) Academic allowance/research allowance
(f) Uniform allowance

3. Foreign Allowance Sec. 10(7)

4. Any other Allowance

- City Compensatory Allowance.
- Cash Allowance.
- Split Duty Allowance.
- Overtime Allowance.
- Medical Allowance.
- Servant Allowance.
- Tiffin Allowance.
- Entertainment Allowance (Subject to deduction u/s 16(ii)).
- Similarly there may be any number of other personal allowances.

Part – C Perquisites (Facilities)

- Rent Free Accommodation Sec. 17(2)(i) Rule 3(1)
- Accommodation at concessional rent Sec. 17(2)(ii) Rule 3(1)
- Motor Car Facility Sec. 17(2)(iii) Rule 3(2)
- Gardener/Watchmen/Sweeper or any other servant Sec.17(2)(iii) Rule 3(3)
- Gas/Electricity/Water Sec. 17(2)(iii) Rule 3(4)
- Education Facility Sec. 17(2)(iii) Rule 3(5)
- Free transport Sec. 17(2)(iii) Rule 3(6)
- Payment by the employer on behalf of the employee Sec. 17(2)(iv)
- Payment of insurance premium on behalf of the employee Sec. 17(2)(v)
- Specified securities or Sweat equity allotted/transferred to employees by an employer Sec. 17(2)(vi)

- Any contribution to an approved superannuation fund ***/ recognized provident fund / national pension scheme*** by the employer in respect of an employee Sec. 17(2)(vii)
- Any other fringe benefit Sec. 17(2)(viii)
  - Loan to the employee either at concessional rate or free of interest Rule 3(7)(i)
  - Expenditure in connection with travelling, touring or accommodation to the employee Rule 3(7)(ii)
  - Free refreshment or foods to the employees Rule 3(7)(iii)
  - Any gift, voucher or token Rule 3(7)(iv)
  - Expenses on credit cards Rule 3(7)(v)
  - Club Membership and expenses incurred in a club Rule 3(7)(vi)
  - Use of moveable assets Rule 3(7)(vii)
  - Transfer of any moveable asset Rule 3(7)(viii)
  - Any other benefit Rule 3(7)(ix)
- Leave travel Concession Sec. 10(5) Rule 2B

Part – D Superannuation Benefits

(a) Gratuity Sec. 10(10)
(b) Pension Sec. 10(10A)
(c) Leave Salary Sec. 10(10AA)
(d) Provident Fund Sec. 10(11), 10(12), 10(13),
Part A of Fourth Schedule to Income Tax Act
(e) Retrenchment Compensation Sec. 10(10B)
(f) Voluntary Retirement Sec. 10(10C) Rule 2BA

Part – E Any Other Payment

Profits in lieu of salary Sec. 17(3)

Question 1: Explain Basic Pay/Dearness Allowance/ Bonus/Commission/Fees.

Answer: Basic Pay/Dearness Allowance/Bonus/Commission/Fees

Basic Pay: Basic Pay is the essential component of salary. It is given by employer to employee for his basic qualities like qualification, experience and expertise in particular field and it is generally given in the form of a pay scale 2,000 – 100 – 2,500 – 200 – 3,500 – 300 – 5,000 – 400 – 7,000. The pay scale has in general 20 increments. Basic pay is always fully taxable.

Dearness Allowance: Dearness Allowance is given to an employee to compensate him for increase in prices and it is generally allowed as certain percentage of basic pay and it is linked to consumer price index and it is revised on quarterly basis. Dearness allowance of an employee is always fully chargeable to tax.

As per Section 16 (ia), Standard Deduction of ₹50,000 or salary whichever is lower shall be allowed from the salary.

Illustration 1: Mr. X is employed in ABC Ltd. since 01.07.2011 in the pay scale of 11,000 – 500 – 14,500 – 1200 – 20,500 – 1,500 – 28,000. The employer has paid dearness allowance @ 20% of his basic pay from 01.04.2023 to 30.09.2023 and thereafter dearness allowance was allowed @ 25% of basic pay.
Compute employee's Tax Liability for Assessment Year 2024-25.

Solution:	₹
Basic Pay [(19,300 x 3) + (20,500 x 9)]	2,42,400.00

Working Note:	₹
01.07.2011 – 30.06.2012 =	11,000 p.m.
01.07.2012 – 30.06.2013 =	11,500 p.m.
01.07.2013 – 30.06.2014 =	12,000 p.m.
01.07.2014 – 30.06.2015 =	12,500 p.m.
01.07.2015 – 30.06.2016 =	13,000 p.m.
01.07.2016 – 30.06.2017 =	13,500 p.m.
01.07.2017 – 30.06.2018 =	14,000 p.m.
01.07.2018 – 30.06.2019 =	14,500 p.m.
01.07.2019 – 30.06.2020 =	15,700 p.m.

01.07.2020 – 30.06.2021 =	16,900 p.m.
01.07.2021 – 30.06.2022=	18,100 p.m.
01.07.2022 – 30.06.2023 =	19,300 p.m.
01.07.2023 – 30.06.2024 =	20,500 p.m.

Dearness Allowance 54,630.00

Working Note:	**₹**
From April to September	
(19,300 x 3) x 20% =	11,580
(20,500 x 3) x 20% =	12,300
From October to March	
(20,500 x 6) x 25% =	30,750

Gross Salary	2,97,030.00
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	2,47,030.00
Gross Total Income	2,47,030.00
Less: Deduction under Chapter VI-A	Nil
Total Income	2,47,030.00
Computation of Tax Liability	
Tax on ₹2,47,030 at slab rate	Nil
Tax Liability	Nil

Illustration 2: Mr. X joins ABC Ltd. on 1st July' 2014 in the pay scale of 20,000 – 500 – 25,000 – 700 – 30,600 – 1,000 – 37,600. The company has allowed him dearness allowance @ 5% of the basic pay from 01.04.2023 upto 30.06.2023and thereafter dearness allowance was allowed @ 11% of the basic pay but upto 31.12.2023 and after that dearness allowance was allowed @ 18% of the basic pay.

Compute employee's Tax Liability for the Assessment Year 2024-25.

Solution: ₹

Basic Pay [(24,000 x 3) + (24,500 x 9)] 2,92,500.00

Working Note:	**₹**
01.07.2014 – 30.06.2015 =	20,000 p.m.
01.07.2015 – 30.06.2016 =	20,500 p.m.
01.07.2016 – 30.06.2017 =	21,000 p.m.
01.07.2017 – 30.06.2018 =	21,500 p.m.
01.07.2018 – 30.06.2019 =	22,000 p.m.
01.07.2019 – 30.06.2020 =	22,500 p.m.
01.07.2020 – 30.06.2021 =	23,000 p.m.
01.07.2021 – 30.06.2022 =	23,500 p.m.
01.07.2022 – 30.06.2023 =	24,000 p.m.
01.07.2023 – 30.06.2024 =	24,500 p.m.

Dearness Allowance 33,000.00

Working Note:	**₹**
From April to June	
(24,000 x 3) x 5% =	3,600
From July to December	
(24,500 x 6) x 11% =	16,170
From January to March	
(24,500 x 3) x 18% =	13,230

Gross Salary	3,25,500.00
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	2,75,500.00
Gross Total Income	2,75,500.00
Less: Deduction under Chapter VI-A	Nil

Total Income	2,75,500.00
Computation of Tax Liability	
Tax Liability	Nil

Bonus: It is the part of the profits of the employer, which is given to an employee and it is fully taxable.
Fees/Commission: Extra payment for extra work is called commission or fees and it is always fully taxable.

Question 2 [V. Imp.]: Discuss the provisions relating to taxability of recognised Provident Funds?
Answer: <u>Recognised provident fund</u> <u>Part A of fourth schedule/ Section 10(12)</u>
Employer's contribution **<u>upto 12% of the employee's retirement benefit salary</u>** shall be exempt from income tax.
Interest credited to the provident fund account **<u>upto 9.5% p.a. shall be exempt from income tax</u>**, but if employee contribution is exceeding ₹2,50,000, entire interest on the amount in excess of ₹2,50,000 shall be taxable and as per rule 9D, provident fund department shall maintain separate accounts.

<u>Meaning of Retirement Benefit Salary</u>
Retirement Benefit Salary shall include:
(i) Basic pay
(ii) Dearness allowance if the terms of employment so provided
(iii) Commission if it is paid as a fixed percentage of the turnover as decided in **<u>Gestetner Duplicators Pvt. Ltd v CIT, (1979)(SC).</u>**

<u>Illustration 3:</u> Mr. X is employed in ABC Ltd. getting basic pay ₹60,000 p.m. and dearness allowance ₹10,000 p.m. (forming part of salary). Employer has paid bonus ₹20,000 during the year. Commission was allowed @ 2% of sales turnover of ₹50,00,000. The employer and employee both are contributing ₹11,000 p.m. (each) to the recognised provident fund. During the year interest of ₹1,00,000 was credited to the RPF @ 10% p.a. Compute tax liability of Mr. X for A.Y. 2024-25.

<u>Solution:</u>	**₹**
Basic Pay (60,000 x 12)	7,20,000
Dearness allowance (10,000 x 12)	1,20,000
Bonus	20,000
Commission (50,00,000 x 2%)	1,00,000
Employer's contribution to recognised provident fund in excess of 12% of retirement benefit salary	19,200
Working Note:	
RBS = 7,20,000 + 1,20,000 + 1,00,000	
= 9,40,000	
12% of RBS = 1,12,800	
Employer's contribution = 11,000 x 12 = 1,32,000	
1,32,000 – 1,12,800 = 19,200	
Interest credited in excess of 9.5% p.a.	2,500
(1,00,000 / 10% x 0.5%)/2	
Gross Salary	9,81,700
Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	**9,31,700**
Income under the head other sources	
Interest credited in excess of 9.5% p.a.	2,500
(1,00,000 / 10% x 0.5%)/2	
Gross Total Income	9,34,200
Less: Deduction under Chapter VI-A	Nil
Total Income	9,34,200
Computation of Tax Liability	
Tax on ₹9,34,200 at slab rate	50,130.00
Add: HEC @ 4%	2,005.20
Tax Liability	52,135.20

Rounded off u/s 288B	52,140.00

Note: Interest from employees contribution has been taxed under the head other sources but ICAI has taxed it under the head salary. Students may tax it under the head salary.

Payments From Recognised Provident Funds

Payments received from recognised provident fund shall be exempt from income tax if the employee has complied with any of the conditions given below:

(i) If the employee has rendered continuous service for a period of **5 years** or more, or

(ii) If he has not rendered such continuous service, the service has been terminated by reason of the employee's ill-health, or by the contraction or discontinuance of the employer's business or other cause beyond the control of the employee, or

(iii) If the employee obtains employment with any other employer and the provident fund has been transferred to such employer and the total service with the former employer and the current employer is of 5 years or more.

If the employee has not complied with even a single condition, in that case amount received shall be taxable but only that part which was exempt earlier. Employer contribution and interest shall be taxable under the head Salary.

Example

Mr. X retired from ABC Ltd. and received RPF balance as given below-

Employer Contribution	5,00,000	- 15%
Employee contribution	5,00,000	- 15%
Interest	2,00,000	- 10% p.a.

The employee has not complied with even a single condition prescribed for this purpose, taxable amount shall be.

Employer contribution = 5,00,000 / 15% x 12% = 4,00,000 (Taxable under the head Salary)

Interest on employer contribution = (1,00,000 /10% x 9.5%) = 95,000 (Taxable under the head Salary)

Interest on employee contribution = (1,00,000 /10% x 9.5%)= 95,000 (Taxable under the head other sources)

Employee contribution 5,00,000 Exempt.

Question 3: Explain provisions relating to Unrecognised Provident Fund.

Answer: Employer contribution and interest on employee and employer contribution shall be exempt from income tax so long as the employee is in employment but at the time of leaving the job, employer contribution and interest on employer and employee contribution shall be taxable, however amount of employee contribution shall not be taxed at the time of receipt because it has already been taxed when the employee was in employment.

The employer's contribution and interest thereon is taxable under the head salary but interest on employee contribution shall be taxable under the head Other Sources.

Illustration 4: Mr. X is employed in ABC limited basic pay ₹70,000 per month, D.A. ₹30,000 per month , Bonus ₹50,000 and commission @ 1% on sales turnover of ₹100 Lakh. Employer has contributed ₹18,000 per month to Unrecognized provident fund and employee has also contributed an equal amount. During the year Interest of ₹2,00,000 was credited on employee plus employer contribution @ 10% per annum. Compute his Income and Tax Liability.

Solution:	**₹**
Basic Pay (70,000 x 12)	8,40,000
Dearness allowance (30,000 x 12)	3,60,000
Bonus	50,000
Commission (100,00,000 x 1%)	1,00,000
Employer's contribution to unrecognised provident fund	Nil
Interest credited in unrecognised provident fund	Nil
Gross Salary	13,50,000
Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	13,00,000
Gross Total Income	13,00,000

Less: Deduction under Chapter VI-A	Nil
Total Income	13,00,000
Computation of Tax Liability	
Tax on ₹13,00,000 at slab rate	1,10,000
Add: HEC @ 4%	4,400
Tax Liability	1,14,400

Illustration 5: Mr. X retires from service on December 31, 2023, after 25 years of service. Following are the particulars of his income/investments for the previous year 2023-24:

Particulars	**₹**
Basic pay @ ₹ 16,000 per month for 9 months	1,44,000
Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months	72,000
Lumpsum payment received from the Unrecognised Provident Fund	6,00,000
Deposits in the PPF account	40,000

Out of the amount received from the provident fund, the employer's share was ₹ 2,20,000 and the interest thereon ₹50,000. The employee's share was ₹2,70,000 and the interest thereon ₹60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2024-25

Solution:

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2024-25 is computed hereunder:

	₹
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
Total	2,70,000
Amount taxable under the head "Income from Other Sources" :	
Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	3,30,000

Illustration 6: Will your answer be any different if the fund mentioned above was a recognised provident fund?

Solution: Since the fund is a recognised one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

Question 4: Explain taxability of Statutory provident fund. Section 10(11) (Provident Fund Act 1925)

Answer: Statutory provident fund (also called Government Provident Fund) is applicable in case of Government employees and is regulated through Provident Fund Act, 1925. The Employer donot contribute to this fund hence there is no tax treatment for employer contribution and interest on employer contribution. Interest on employee contribution is exempt from Income Tax but if employee contribution is exceeding ₹5,00,000, entire interest on the amount in excess of ₹5,00,000 shall be taxable and as per rule 9D, provident fund department shall maintain separate accounts.

Further, the lump sum payment from such provident fund at the time of retirement or termination of service is also exempt from tax.

Question 5 [V. Imp.]: Write a note on Taxability of Gratuity.

Answer: Taxability of Gratuity

Gratuity means a **gratuitous payment** made by the employer to the employee at the time of his leaving the job in recognition of the meritorious services and the association of the employee with the institution. With the enactment of **Payment of Gratuity Act 1972**, gratuity has become a statutory obligation on the part of the employer.

Gratuity is fully chargeable to tax if it is given during continuity of the job.

Death cum retirement gratuity   Section 10(10)

Tax treatment of gratuity is asunder:

A –Employees of State Government/Central Government/Local Authority

B –Employees covered under payment of Gratuity Act 1972
C –Any other employee.

A – Employees of State Government/Central Government/Local Authority:

Any death cum retirement gratuity received by Central or State Government employees including employees of a local authority is fully exempt from tax.

B – Employees covered under payment of Gratuity Act 1972:

Any gratuity received by the employees covered under payment of Gratuity Act 1972, shall be exempt to the extent of the least of the following:
(i) Gratuity received
(ii) ₹ 20,00,000
(iii) 15 days salary for each completed year of service or part thereof in excess of six month.
In case of employees of a **seasonal establishment**, in place of 15 days, only **7 days** salary will be taken.
15 days or 7 days wages shall be calculated by considering number of days in a month to be 26.

Salary here means last drawn salary and includes only Basic Pay and Dearness Allowance

However, in case of piece rated employees, salary shall be computed on the basis of average of the total wages received by them for a period of three months immediately preceding the termination of their employment.

Example

Mr. X is the piece rated employee who is retired on 10.03.2024 and wages received by him from 11.12.2023 to 10.03.2024 are ₹33,000. In this case, one month salary shall be ₹33,000/3 = ₹11,000 and 15 days salary shall be = 11,000/26 x 15 = ₹6,346.15

C – Any other employee:

The least of the following will be exempt
(i) Gratuity received
(ii) ₹ 20,00,000
(iii) Half month's salary for each completed year of service.
Salary here means **average salary for ten months immediately preceding the month of retirement** and will consist of Basis pay + Dearness allowance (if provided) + Commission on sales turnover achieved by the employee and paid at fixed rate.
If an employee was retired earlier and has received gratuity and some exemption was allowed and same employee has taken up some other employment and is retired from the other employer also, in this case exemption shall be allowed again but maximum exemption allowed from all the employers cannot exceed ₹20 lakh.
If any employee is expired and gratuity has been received by the family members, exemption shall be allowed in the normal manner and balance amount shall be taxable as income of such member under the head other sources.
No exemption from gratuity is allowed if the relationship of employer and employee does not exist. e.g. Gratuity paid by LIC to its insurance agents is chargeable to tax.

Illustration 7: Mr. X was employed in ABC Ltd. getting basic pay ₹18,000 p.m. but it was increased to ₹24,000 p.m. w.e.f. 01-07-2023, dearness allowance ₹6,000 p.m. but it was increased to ₹9,000 p.m. w.e.f. 01-07-2023 (50% of DA forms part of salary). The employee was retired on 10.01.2024 after serving the employer for 20 years and 10 months. The employer has paid him gratuity of ₹9,10,000 and the employee was covered under Payment of Gratuity Act, 1972.
Compute taxable portion of gratuity and also Tax Liability.

Solution:	**₹**
Basic Pay [(18,000 x 3) + (24,000 x 6)+ (24,000 x 10/30)]	2,06,000.00
Dearness Allowance [(6,000 x 3) + (9,000 x 6) + (9,000 x 10/30)]	75,000.00
Gratuity {Sec 10(10)}	5,10,192.31

Working Note:
Least of the following is exempt:
1. ₹9,10,000
2. ₹20,00,000

3. 15/26 x 33,000 x 21 = ₹3,99,807.69 Received = ₹9,10,000.00 Exempt = (₹3,99,807.69) Taxable = ₹5,10,192.31

Gross Salary	7,91,192.31
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	7,41,192.31
Gross Total Income	7,41,192.31
Less: Deduction under Chapter VI-A	Nil
Total Income	7,41,192.31
Rounded off u/s 288A	7,41,190.00
Computation of Tax Liability	
Tax on ₹7,41,190 at slab rate	29,119.00
Add: HEC @ 4%	1,164.76
Tax Liability	30,283.76
Rounded off u/s 288B	30,280.00

(b) Presume Mr. X is not covered in Payment of Gratuity Act 1972.

Solution:	**₹**
Basic Pay [(18,000 x 3) + (24,000 x 6)+ (24,000 x 10/30)]	2,06,000.00
Dearness Allowance [(6,000 x 3) + (9,000 x 6) + (9,000 x 10/30)]	75,000.00
Gratuity {Sec 10(10)}	6,55,000.00

Working Note: **Least of the following is exempt:** 1. ₹9,10,000 2. ₹20,00,000 3. 1/2 x (21,000 x 4 + 28,500 x 6)/10 x 20 = ₹2,55,000 Received = ₹9,10,000 Exempt = (₹2,55,000) Taxable = ₹6,55,000

Gross Salary	9,36,000.00
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	8,86,000.00
Gross Total Income	8,86,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,86,000.00
Computation of Tax Liability	
Tax on ₹8,86,000 at slab rate	43,600.00
Add: HEC @ 4%	1,744.00
Tax Liability	45,344.00
Rounded off u/s 288B	45,340.00

Illustration 8: Mr. X is retired from ABC Ltd. w.e.f. 11.11.2023 after serving the employer for 20 years and 11 months. The employer has paid him gratuity of ₹5,75,000. At the time of retirement, employee's basic pay was ₹18,000 p.m. However upto 31.07.2023 it was ₹11,000 p.m. and the employee was getting dearness allowance ₹5,000 p.m. but it was ₹3000 p.m. upto 31.07.2023. 30% of dearness allowance forms part of salary. Compute taxable part of gratuity and employee's Tax Liability.

Solution:	**₹**
Basic Pay [(11,000 x 4) + (18,000 x 3) + (18,000 x 10/30)]	1,04,000.00
Dearness Allowance [(3,000 x 4) + (5,000 x 3) + (5,000 x 10/30)]	28,666.67
Gratuity {Sec 10(10)}	4,33,200.00

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

1. ₹5,75,000
2. ₹20,00,000
3. ½ x 14,180 x 20 = ₹1,41,800

Received = ₹5,75,000
Exempt = (₹1,41,800)
Taxable = ₹4,33,200

Calculation of Average Salary

Basic Pay
From January to July ₹11,000 x 7 = ₹ 77,000
From August to October ₹18,000 x 3 = ₹ 54,000

Dearness Allowance
From January to July ₹ 900 x 7 = ₹ 6,300
From August to October ₹1,500 x 3 = ₹ 4,500
Total = 1,41,800
Average Salary = 1,41,800 ÷ 10 = ₹14,180

Gross Salary	5,65,866.67
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	5,15,866.67
Gross Total Income	5,15,866.67
Less: Deduction under Chapter VI-A	Nil
Total Income	5,15,866.67
Rounded off u/s 288A	5,15,870.00

Computation of Tax Liability

Tax on ₹5,15,870 at slab rate	10,793.50
Less: Rebate u/s 87A	(10,793.50)
Tax Liability	Nil

(b) Presume employee is covered under Payment of Gratuity Act 1972.

Solution:	**₹**
Basic Pay [(11,000 x 4) + (18,000 x 3) + (18,000 x 10/30)]	1,04,000.00
Dearness Allowance [(3,000 x 4) + (5,000 x 3) + (5,000 x 10/30)]	28,666.67
Gratuity {Sec 10(10)}	2,96,346.15

Working Note:
Least of the following is exempt:
1. ₹5,75,000
2. ₹20,00,000
3. 15/26 x 23,000 x 21 = ₹2,78,653.85

Received = ₹5,75,000.00
Exempt = (₹2,78,653.85)
Taxable = ₹2,96,346.15

Gross Salary	4,29,012.82
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	3,79,012.82
Gross Total Income	3,79,012.82
Less: Deduction under Chapter VI-A	Nil
Total Income	3,79,012.82
Rounded off u/s 288A	3,79,010.00

Computation of Tax Liability

Tax on ₹3,79,010 at slab rate	3,950.50
Less: Rebate u/s 87A	(3,950.50)
Tax Liability	Nil

Illustration 9: Mr. X retired on 15.06.2023 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

Basic Salary	: ₹ 5,000 p.m.
Dearness Allowance	: ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	: 1% of turnover (turnover in the last 12 months was ₹ 12,00,000)
Bonus	: ₹ 12,000 p.a.

Compute his taxable gratuity assuming:
(a) He is non-government employee and covered by the Payment of Gratuity Act 1972.
(b) He is non-government employee and not covered by Payment of Gratuity Act 1972.
(c) He is a Government employee.

Solution:

(a) He is covered by the Payment of Gratuity Act 1972.

Least of the following shall be exempt:

i. Gratuity received: ₹ 6,00,000
ii. Statutory limit : ₹ 20,00,000
iii. 15 days salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months
15/26 x last drawn salary x years of service
15/26 x (₹5,000 + ₹3,000) × 27 = ₹ 1,24,615

Taxable Gratuity (6,00,000 – 1,24,615) ₹ 4,75,385

(b) He is not covered by the Payment of Gratuity Act 1972.

Least of the following is exempt:

i. Gratuity received: ₹ 6,00,000
ii. Statutory limit : ₹ 20,00,000
iii. $= \frac{1}{2} \frac{\left[(5{,}000\times 10)+(3{,}000\times 60\%\times 10)+\left(1\%\times 12{,}00{,}000\times \frac{10}{12}\right)\right]}{10} \times 26$
$=$ ₹ 1,01,400

Taxable Gratuity (6,00,000 – 1,01,400) ₹ 4,98,600

(c) He is a government employee
Entire amount of gratuity is exempt

Question 6 [V. Imp.]: Write a note on taxability of pension.

Answer: Taxability of Pension

Uncommuted pension

Pension is a periodical payment received by an employee after his retirement and is taxable as salary in case of all categories of employees.

Family pension Section 56

If any employee is expired and pension is being received by his family members, such pension shall be called family pension and **as per section 56, it is taxable under the head other sources** and the assessee **shall be allowed deduction under section 57 equal to 1/3 of gross pension or ₹15,000, whichever is less.**

Example

Mrs. X is getting family pension of ₹4,000 p.m. after the death of Mr. X. In this case, her taxable income shall be ₹33,000.

Commuted pension Section 10(10A)

1. Commuted Pension received by employees of Central Government, State Government, Local Authority or Statutory Corporation.

It is wholly exempt from tax under section 10(10A).

2. Commuted pension received by any other employee

(a) In case where any other employee receives gratuity, the commuted value of **1/3rd of the pension is exempt from tax.**

(b) If the employee has **not received gratuity**, the **commuted value of ½ of such pension is exempt from**

tax.

Illustration 10: Mr. X is employed in ABC Ltd. getting basic pay ₹22,000 p.m., dearness allowance ₹5,000 p.m. He was retired on 21.12.2023. The employer has allowed him pension of ₹9,000 p.m. and the employee has requested for commutation of 52% of his pension. The employer has allowed him such commutation on 01.02.2024 and has paid ₹5,61,600. The employer has paid him gratuity of ₹6,95,000 and employee has completed service of 20 years and 11 months.
Compute Tax Liability for the Assessment Year 2024-25.

Solution:	₹
Basic Pay [(22,000 x 8) + (22,000 x 21/30)]	1,91,400.00
Dearness Allowance [(5,000 x 8) + (5,000 x 21/30)]	43,500.00
Gratuity {Sec 10(10)}	4,75,000.00

Working Note:
Least of the following is exempt:
1. Gratuity received ₹6,95,000
2. ₹20,00,000
3. ½ x 22,000 x 20 = ₹2,20,000

Received = ₹6,95,000
Exempt = (₹2,20,000)
Taxable = ₹4,75,000

Uncommuted Pension {Sec 17(1)(ii)}	20,340.00

Working Note:	₹
For December' 2023	
9,000 x 9/30 =	2,700
For January' 2024	
9,000 x 1 =	9,000
From February to March' 2024	
9,000 x 48% x 2 =	8,640
Total = ₹2,700 + ₹9,000 + ₹8,640 =	20,340

Commuted Pension {Sec 10(10A)}	2,01,600.00

Working Note:	₹
Received =	5,61,600.00
Exempt = 5,61,600 / 52% x 1/3	(3,60,000.00)
Taxable =	2,01,600.00

Gross Salary	9,31,840.00
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	8,81,840.00
Gross Total Income	8,81,840.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,81,840.00
Computation of Tax Liability	
Tax on ₹8,81,840 at slab rate	43,184.00
Add: HEC @ 4%	1,727.36
Tax Liability	44,911.36
Rounded off u/s 288B	44,910.00

Illustration 11: Mr. X retired w.e.f 01.10.2023 receiving ₹5,000 p.m. as pension. On 01.02.2024, he commuted 60% of his pension and received ₹3,00,000 as commuted pension. You are required to compute his taxable pension assuming:
a. He is a government employee.
b. He is a non-government employee, receiving gratuity of ₹ 5,00,000 at the time of retirement.
c. 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) [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		₹ 24,000
Commuted pension received	₹ 3,00,000	
Less : Exempt u/s 10(10A)	₹(3,00,000)	NIL
Taxable pension		₹ 24,000

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

Uncommuted pension received (October – March) [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		₹24,000.00
Commuted pension received	₹ 3,00,000.00	
Less: Exempt u/s 10(10A) $\left(\frac{1}{3} \times \frac{₹3,00,000}{60\%} \times 100\%\right)$	₹(1,66,666.67)	₹1,33,333.33
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) [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		₹ 24,000
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 para-military forces of the union shall be exempt from income tax provided death of such member has occurred in the course of operational duties.

Illustration 12: Mr. X is employed in Central Government getting salary ₹2,00,000 p.m. The employer and employee both have contributed @ 14% of the salary, in this case tax liability shall be computed in manner given below:

Solution:

Default Regime

Income under the head Salary	
2,00,000 x 12	24,00,000
Employer's contribution (24,00,000 x 14%)	3,36,000
Gross Salary	27,36,000
Less: Standard Deduction u/s 16(i)	50,000
Income under the head Salary	26,86,000
Gross Total Income	26,86,000
Less: Deduction u/s 80CCD(2)	3,36,000
Total Income	23,50,000

Computation of Tax Liability

Tax on ₹23,50,000 at slab rate	4,05,000
Add: HEC @ 4%	16,200

Tax Liability	4,21,200

Question 7 [V. Imp.]: Write a note on taxability of Leave Salary/Encashment of Leave.
Answer: <u>Taxability of Leave Salary/ Encashment of Leave</u>
Sometimes an employee may surrender his leave and may get equivalent payment in cash, it is called leave salary.

<u>Exemption in respect of encashment of leave salary</u> <u>Section 10(10AA)</u>
(1) Any leave salary received by an employee while he is in service is fully taxable under section 17(1).
(2) If he gets encashment at the time of leaving the service (including resignation) he can avail the exemption under section 10(10AA).
<u>The provisions of the exemption are as follows: -</u>
(i) **<u>In the case of Government employees:</u>** Any amount received as leave salary at the time of retirement whether on superannuation or otherwise, is exempt from tax, in case of employees of State Government/Central Government. E.g. Mr. X is retired from Central Govt. and has received leave salary of ₹2,00,000, in this case it will be exempt from income tax.
(ii) **<u>In case of other employees</u>** including the employees of local authority and public sector undertakings:
Leave salary is exempt from tax to the extent of the least of the following:
(a) Leave salary received
(b) ₹ 25,00,000
(c) 10 months x average salary
(d) average salary x Leave at the credit
Leave at the credit = Leave entitlement
Less: (i) Leave availed during entire service
Less: (ii) Leave encashed during entire service
While computing leave entitlement, **<u>maximum leave allowed shall be 30 days for each completed year of service (part of the year shall not be taken into consideration)</u>**
<u>'Salary'</u> includes basic salary plus dearness allowance to the extent the terms of employment so provide plus fixed percentage of commission on the turnover achieved by the assessee.
<u>Average salary</u> is to be calculated on the basis of the average salary drawn by the employee during the period of 10 months immediately preceding his retirement.
If any employee has received leave salary from two or more employers, exemption for each of the employers shall be computed separately, however, total exemption allowed can not exceed ₹3,00,000.
Salary paid to legal heirs of the deceased employee in respect of privilege leave standing to the credit of such employee at the time of his/her death is not taxable.

<u>Illustration 13:</u> Mr. X is retired from ABC Ltd. on 10.11.2023 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of ₹5,00,000. The employee was entitled for 2 month leave per year of service. During entire service, he has availed 6 month leave and has encashed 7 month leave. The employee was getting basic pay ₹27,000 p.m. but it was increased to ₹ 33,000 p.m. w.e.f. 01-07-2023. He was getting DA ₹ 9,000 per month but it was increased to 12,000 per month w.e.f. 01-07-2023. 50% of DA forms part of salary.
Compute his Tax Liability for the Assessment Year 2024-25.

<u>Solution:</u>	**₹**
Basic Pay [(27,000 x 3)+(33,000 x 4)+(33,000 /30 x 10)]	2,24,000.00
DA [(9,000 x 3)+(12,000 x 4)+(12,000 /30 x 10)]	79,000.00
Leave Salary {Sec 10(10AA)}	2,56,750.00

Working Note:
Least of the following is exempt:
1. ₹5,00,000
2. 10 x 34,750 = ₹3,47,500
3. ₹25,00,000
4. 7 x 34,750 = ₹2,43,250

Received = ₹5,00,000
Exempt = (₹2,43,250)
Taxable = ₹2,56,750

Computation of leave at the credit

Leave Entitlement = 1 month x 20		= 20 month
Less: Leave availed	=	(6) month
Less: Leave Encashed	=	(7) month
Leave at the credit	=	7 month

Calculation of average salary 11-01-2023 to 10-11-2023

Basic Pay

[(27000/30 x 20) + (27,000 x 5) + (33,000 x 4)+ (33,000/30x10)] =	2,96,000
Dearness Allowance	
[(4,500/30 x 20) + (4,500 x 5) + (6,000 x 4)+ (6,000/30x10)] =	51,500
Total	3,47,500
Average Salary = 3,47,500/10 =	34,750

Gross Salary	5,59,750.00
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	5,09,750.00
Gross Total Income	5,09,750.00
Less: Deduction under Chapter VI-A	Nil
Total Income	5,09,750.00
Computation of Tax Liability	
Tax on ₹5,09,750 at slab rate	10,487.50
Less: Rebate u/s 87A	(10,487.50)
Tax Liability	Nil

Illustration 14: Mr. X is retired from ABC Ltd. w.e.f. 01.12.2023 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of ₹3,75,000. The employee was entitled for 20 days leave per year of service. During entire service, he has availed 35 days of leave and has encashed 10 days of leave. The employee was getting basic pay ₹27,000 p.m. but it was increased to ₹ 30,000 p.m. w.e.f. 01-07-2023. The employer has allowed him pension of ₹6,000 p.m. and employee was allowed commutation of 1/3rd of his pension on 01.03.2024 amounting to ₹2,40,000.

Compute his Tax Liability for the Assessment Year 2024-25.

Solution:	**₹**
Basic Pay [(27,000 x 3)+(30,000 x 5)]	2,31,000.00
Uncommuted Pension {Sec 17(1)(ii)}	22,000.00

Working Note:	**₹**
From December to February	
6,000 x 3 =	18,000
For March	
6,000 x 2/3 =	4,000
Total = 18,000 + 4,000 =	22,000

Commuted Pension {Sec 10(10A)}	Nil
Leave Salary {Sec 10(10AA)}	90,000.00

Working Note:

Least of the following is exempt:

1. ₹3,75,000
2. 10 x 28,500 = ₹2,85,000
3. ₹25,00,000
4. 355/30 x 28,500 = ₹3,37,250

Received = ₹3,75,000
Exempt = (₹2,85,000)

Taxable = ₹90,000

Computation of leave at the credit

Leave Entitlement = 20 x 20 = 400 days

Less: Leave availed = (35 days)

Less: Leave Encashed = (10 days)

Leave at the credit = 355 days

Calculation of average salary 01-02-2023 to 30-11-2023

Basic Pay

[(27,000 x 5) + (30,000 x 5) = 2,85,000

Average Salary = 2,85,000/10 = 28,500

Gross Salary	3,43,000.00
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	2,93,000.00
Gross Total Income	2,93,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	2,93,000.00
Computation of Tax Liability	
Tax on ₹2,93,000 at slab rate	Nil
Tax Liability	Nil

Illustration 15: Mr. X retired w.e.f 01.12.2023 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary	: ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 01.04.2023)
Dearness Allowance	: ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	: ₹ 500 p.m.
Bonus	: ₹ 1,000 p.m.
Leave availed during service	: 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee.

(b) He is a non government employee.

Solution:

(a) He is a government employee.

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exemption under section 10(10AA)	₹(5,00,000)
Taxable Leave salary	Nil

(b) He is a non-government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exempt under section 10(10AA) [note 1]	₹ (26,400)
Taxable Leave Salary	₹ 4,73,600

Note 1 : Exemption under section 10(10AA) is least of the following:

(i) Leave salary received ₹ 5,00,000

(ii) Statutory limit ₹ 25,00,000

(iii) 10 months salary based on average salary of last 10 months

i.e. $\left[10 \times \frac{\text{Salary of last 10 months i.e. Feb - Nov}}{\text{10 months}}\right]$

$= \left[10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{\text{10 months}}\right]$ ₹ 66,000

(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months (max. 30 days per year of service)

Leave Due = Leave allowed – Leave taken

= (30 days per year × 20 years) – 480 days
= 120 days

i.e. $\left[\frac{\text{Leave due (in days)}}{\text{30 days}} \times \text{Average salary p.m.}\right]$

$\left[\frac{\text{120 days}}{\text{30 days}} \times \frac{66{,}000}{10}\right]$ ₹ 26,400

Question 8: Are receipts in the nature of retrenchment compensation received by a person at the time of retrenchment of his service taxable? Discuss.

Answer: <u>Retrenchment Compensation</u> <u>Section 10(10B)</u>

Retrenchment in general means termination of employees because the employer is closing down his business or profession or there is substantial decline in business of employer and in such cases the employer has to pay compensation to the employees and it is called retrenchment compensation and it will be exempt to the extent of the least of the following:

(a) Retrenchment compensation received
(b) An amount calculated in accordance with the provisions of section 25F(b) of the Industrial Disputes Act, 1947 or
(c) The amount as specified by the Government (i.e. ₹5,00,000).

Section 25F(b) of the Industrial Disputes Act provides for payment of retrenchment compensation equivalent to 15 days' average pay for every year of continuous service or any part thereof in excess of six months. Average shall be taken for 3 months and salary shall include only basic pay and dearness allowance

Question 9: Write a note on voluntary retirement scheme.

Answer: <u>Voluntary Retirement Scheme</u> <u>Section 10(10C) Rule 2BA</u>

Sometimes the employer may offer some amount to the employee so that the employee himself submits his resignation and it is called voluntary retirement and in such cases amount paid by employer shall be exempt from income tax to the extent of the least of the following

(i) The amount receivable on voluntary retirement
(ii) ₹5,00,000
(iii) **<u>three months' retirement benefit salary for each completed year of service</u>**. (part of the year shall be ignored)
(iv) retirement benefit salary at the time of retirement x the **<u>balance months of service left before the date of his retirement on superannuation.</u>**

(As per section 35DDA, employer shall be allowed to debit the amount to the profit and loss account in five annual equal installments)

e.g. Mr. X has taken voluntary retirement after completion of 18 years of service and at that time remaining service was 7 years and employer paid ₹6,00,000 on voluntary retirement and his retirement benefit salary at the time of voluntary retirement was ₹5,000 p.m., in this case taxable amount shall be

(i) ₹6,00,000
(ii) ₹5,00,000
(iii) 5,000 x 3 x 18 = 2,70,000
(iv) 5,000 x 12 x 7 = 4,20,000

Received = ₹6,00,000
Exempt = (₹2,70,000)
Taxable = ₹3,30,000

If in the above case employee has taken voluntary retirement after completion of 22 years of service, taxable amount shall be

(i) ₹6,00,000
(ii) ₹5,00,000
(iii) 5,000 x 3 x 22 = 3,30,000
(iv) 5,000 x 12 x 3 = 1,80,000

Received = ₹6,00,000
Exempt = (₹1,80,000)
Taxable = ₹4,20,000

Illustration 16: Mr. X received voluntary retirement compensation of ₹ 7,00,000 after 20 years of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 3,000 p.m.; Dearness allowance (which forms part of pay) ₹ 2,000 p.m. Compute his taxable voluntary retirement compensation.

Solution:

Exemption is to the extent of least of the following:

(i) Compensation actually received = ₹ 7,00,000
(ii) Statutory limit = ₹ 5,00,000
(iii) Last drawn salary × 3 × completed years of service
= (3,000 + 2,000) × 3 × 20 years = ₹ 3,00,000
(iv) Last drawn salary × remaining months of service
= (3,000 + 2,000) × 6 × 12 months = ₹ 3,60,000
Received ₹7,00,000
Exempt ₹3,00,000
Taxable ₹4,00,000

TAXABILITY OF ALLOWANCES

(i) House Rent Allowance Section 10(13A) Rule 2A

Payment in cash by the employer to the employee for a specific purpose is called allowance e.g. If Mr. X is employed in ABC Ltd. and the employer has paid him ₹5,000 p.m. for taking a house on rent, it will be called house rent allowance. It will be fully taxable.

(ii) Special Allowance Section 10(14) Rule 2BB

Special allowances are divided into 2 parts:

(A) Personal allowance Section 10(14)
(B) Official allowance Section 10(14)

Personal allowance Section 10(14) Rule 2BB

Personal allowances are as given below:

(1) Children Education Allowance shall be fully taxable.

(2) Hostel Allowance shall be fully taxable

(3) Transport Allowance

Allowance given to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty is called transport allowance, but Transport allowance granted to an employee, who is blind or orthopaedically handicapped with disability of lower extremities, to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty is exempt upto **₹3,200 p.m**.

(4) Outstation Allowance

Any allowance granted to an employee working in any transport system to meet expenses of boarding and lodging 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 will be fully taxable.

(5) Underground Allowance

Sometimes the employer may pay some allowance to the employees who are working in the mines and such allowance is called underground allowance. It shall be fully taxable.

(6) Tribal Area Allowance

Sometimes an employee may be posted in the tribal area and employer may pay him some allowance, it is called tribal area allowance. It shall be fully taxable.

Official allowance Section 10(14) Rule 2BB

The allowances given by the employer for official purpose are called official allowance and taxability is as

given below:
(1) **<u>Travelling Allowance</u>** means allowance given by the employer to meet the cost of traveling when the employee is on official tour and it is fully exempt but saving is taxable.
(2) **<u>Daily Allowance</u>** means allowance given by the employer to meet the cost of boarding and lodging when the employee is on official tour. Since it is given on per day basis, it is called daily allowance and it is fully exempt but saving is taxable.
(3) **<u>Conveyance Allowance:</u>** Any allowance granted to meet the expenditure incurred on **<u>conveyance</u>** is called conveyance allowance and it is fully exempt but saving is taxable.
(4) **<u>Helper Allowance:</u>** Any allowance granted to meet the expenditure incurred on a **<u>helper</u>** where such a helper is engaged for the performance of duties of office or employment and it is fully taxable.
(5) **<u>Academic Allowance:</u>** Any allowance granted for **<u>encouraging academic research</u>** and **<u>training pursuits</u>** in educational and research institutions and it is fully taxable.
(6) **<u>Uniform Allowance:</u>** Any allowance granted to meet the expenditure incurred on the purchase **<u>or maintenance of uniforms</u>** for wear during the performance of the duties of an office or employment and it is fully taxable.

If travelling allowance or daily allowance or conveyance allowance are given for personal purpose, it will be taxable e.g. If travelling allowance or conveyance allowance is given for personal purpose, it will be taxable.

Question 10: What is tax incidence on allowance and perquisites provided by the Govt. to its employees posted abroad? (Foreign allowance)
Answer: <u>Allowances and perquisites provided by the government to its employees posted abroad Section 10(7)</u>
Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India are exempt from income tax.
Example
Mr. X is an I.F.S. and is a Citizen of India and is getting Medical Allowance, Servant Allowance, Education Allowance and some other allowance outside India, and is posted in U.S.A in Indian Embassy. All these allowances are fully exempt from income tax under section 10(7).
Similarly, any perquisite allowed to such employees shall be fully exempt from tax.

Question 11: Explain other allowances.
Answer: <u>Other Allowances</u> <u>Section 17(1)</u>
Any other allowance is fully chargeable to tax and such allowances may be:
- City Compensatory Allowance.
- Cash Allowance
- Overtime Allowance.
- Medical Allowance.
- Servant Allowance.
- Tiffin Allowance.
- Entertainment Allowance
- Similarly there may be any number of other personal allowances.

<u>Illustration 17:</u> Mr. X is employed in ABC Ltd. getting basic pay ₹30,000 p.m. and employer has paid him following allowances.
1. Servant allowance ₹500 p.m. but the employee has saved ₹100 p.m.
2. Lunch allowance ₹300 p.m.
3. Cash allowance ₹500 p.m.
4. Overtime allowance ₹400 p.m.
5. Outstation allowance ₹700 p.m.
6. Special allowance ₹1,700 p.m.
7. Conveyance allowance (personal use) ₹200 p.m.

Compute employee's Gross Salary and Tax Liability for the Assessment Year 2024-25.

Solution:	₹
Basic Salary (30,000 x 12)	3,60,000
Servant Allowance (500 x 12)	6,000
Lunch Allowance (300 x 12)	3,600
Cash Allowance (500 x 12)	6,000
Overtime Allowance (400 x 12)	4,800
Outstation Allowance (700 x 12)	8,400
Special Allowance [1,700 x 12]	20,400
Conveyance Allowance (200 x 12)	2,400
Gross Salary	4,11,600
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head salary	3,61,600
Gross Total Income	3,61,600
Less: Deduction under Chapter VI-A	Nil
Total Income	3,61,600

Computation of Tax Liability

Tax on ₹3,61,600 at slab rate	3,080.00
Less: Rebate u/s 87A	(3,080.00)
Tax Liability	Nil

Question 12: Write a note on Standard Deduction.
Answer: As per Section 16 (*ia*) a deduction of ***fifty thousand rupees*** or the amount of the salary, whichever is less.

Illustration 18: Mr. X receives the following emoluments during the previous year ending 31.03.2024.

Basic pay	₹ 40,000
Dearness Allowance	₹ 15,000
Commission	₹ 10,000
Entertainment allowance	₹ 4,000
Medical allowance	₹ 10,000
Professional tax paid	₹ 3,000 (₹ 2,000 was paid by his employer)

He has no other income. Determine the income from salary for A.Y. 2024-25, if Mr. X is a State Government employee.

Solution:

Computation of Salary of Mr. X for the A.Y. 2024-25

Particulars	**₹**
Basic Salary	40,000
Dearness Allowance	15,000
Commission	10,000
Entertainment Allowance received	4,000
Medical allowance	10,000
Professional tax paid by the employer	2,000
Gross Salary	**81,000**
- Standard Deduction u/s 16(ia)	(50,000)
Income from Salary	**31,000**

Question 13 [V. Imp.]: Write a note on chargeability of Salary.
Answer: Chargeability of Salary Section 15
Salary is taxable on due basis or receipt basis whichever is earlier i.e. if salary is due but not received, it is taxable in the year in which it is due. Similarly if salary has been received in advance, it is taxable in the 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 2023-24

and the employer has made the payment in time upto February 2024 but salary for the month of March 2024 was paid in April 2024, in this case his salary taxable in previous year 2023-24 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 2023-24 and he has taken salary in advance for the month of April and May 2024 in the month of March 2024, in this case his salary taxable in previous year 2023-24 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 01.07.2023 but the increase is w.e.f 01.01.2023, in this case arrears of salary amounting to ₹30,000 shall be taxable in the year 2023-24 and accordingly his gross salary shall be considered to be ₹7,50,000.

Question 14: 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 31.03.2024:

	₹
i. Salary for the year	17,00,000
ii. Arrears of Salary for Previous Year 2022-23 received during the year	5,00,000
iii. Salary for the Previous Year 2022-23	12,00,000

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 2023-24.

The rates of Income-tax for the Previous Year 2022-23 are:

	Tax Rate (%)
On first ₹ 2,50,000	Nil
Next ₹2,50,000	5%
Next ₹2,50,000	10%
Next ₹2,50,000	15%
Next ₹2,50,000	20%
Next ₹2,50,000	25%
Balance	30%

Rebate was allowed if total income was upto ₹5,00,000 and maximum rebate allowed was ₹12,500

Health & Education cess @ 4%
Standard deduction u/s 16(ia) was not allowed.

Answer. Computation of Relief under section 89 for the Previous Year 2023-24 ₹

Step 1. Previous Year 2023-24	
Salary for the year excluding the arrears	17,00,000
Add: Arrears relating to Previous Year 2022-23	5,00,000
Gross Salary	22,00,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	21,50,000
Tax before health & education cess	3,45,000
Add: HEC @ 4%	13,800
Tax Liability	3,58,800
Step 2. Previous Year 2023–24	
Salary excluding arrears	17,00,000
Gross Salary	17,00,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head Salary	16,50,000
Tax before health & education cess	1,95,000
Add: HEC @ 4%	7,800
Tax Liability	2,02,800
Step 3. Difference between Step 1 and Step 2 (3,58,800 – 2,02,800)	1,56,000
Step 4. Previous Year 2022–23	
Salary	12,00,000
Add: Arrears	5,00,000
Gross Salary	17,00,000
Income under the head Salary	17,00,000
Tax before HEC	2,47,500
Add: HEC @ 4%	9,900
Tax Liability	2,57,400
Step 5. Previous Year 2022–23	
Salary excluding arrears	12,00,000
Gross Salary	12,00,000
Income under the head Salary	12,00,000
Tax before HEC	1,15,000
Add: HEC @ 4%	4,600
Tax Liability	1,19,600
Step 6. Difference between Step 4 and Step 5 (2,57,400 – 1,19,600)	1,37,800
Step 7. Relief under section 89 Step 3 – Step 6 (1,56,000 – 1,37,800)	18,200
Tax after adjusting relief u/s 89 [3,58,800 – 18,200]	3,40,600

MAY-2012 (4 Marks)

Mr. X, an employee of a PSU, furnishes the following particulars for the previous year ending 31.03.2024

	₹
(i) Salary for the year	18,00,000
(ii) Arrear of Salary for previous year 2022-23 received during the year	6,00,000
(iii) Salary for the previous year 2022-23	14,00,000

You are requested by the assessee to compute relief under section 89 of the Income-tax Act, 1961 in terms of tax payable for assessment year 2024-25:

The rates of income tax for the previous year 2022-23 are

	Tax Rate (%)
On first ₹ 2,50,000	Nil
Next ₹2,50,000	5%

Next ₹2,50,000	10%
Next ₹2,50,000	15%
Next ₹2,50,000	20%
Next ₹2,50,000	25%
Balance	30%

Rebate was allowed if total income was upto ₹5,00,000 and maximum rebate allowed was ₹12,500
Health & Education cess @ 4%
Standard deduction u/s 16(ia) was not allowed.

Answer. Computation of Relief under section 89 for the Previous Year 2023-24 **₹**

Step 1. **Previous Year 2023-24**	
Salary for the year excluding the arrears	18,00,000
Add: Arrears relating to Previous Year 2022-23	6,00,000
Gross Salary	24,00,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	23,50,000
Tax before health & education cess	4,05,000
Add: HEC @ 4%	16,200
Tax Liability	4,21,200
Step 2. **Previous Year 2023–24**	
Salary for the year excluding the arrears	18,00,000
Gross Salary	18,00,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	17,50,000
Tax before health & education cess	2,25,000
Add: HEC @ 4%	9,000
Tax Liability	2,34,000
Step 3. Difference between Step 1 and Step 2 (4,21,200 – 2,34,000)	1,87,200
Step 4. **Previous Year 2022–23**	
Salary	14,00,000
Add: Arrears	6,00,000
Gross Salary	20,00,000
Income under the head Salary	20,00,000
Tax before health & education cess	3,37,500
Add: HEC @ 4%	13,500
Tax Liability	3,51,000
Step 5. **Previous Year 2022–23**	
Salary	14,00,000
Gross Salary	14,00,000
Income under the head Salary	14,00,000
Tax before health & education cess	1,62,500
Add: HEC @ 4%	6,500
Tax Liability	1,69,000
Step 6. Difference between Step 4 and Step 5 (3,51,000 – 1,69,000)	1,82,000
Step 7. Relief under section 89 Step 3 – Step 6 (1,87,200 – 1,82,000)	5,200
Tax after adjusting relief u/s 89 [4,21,200– 5,200]	4,16,000

Question 15: Explain when the salary becomes due.

Answer: When is salary due :

Last day of the month/first of the next month

Salary is due on the last day of the month or on the first day of the next month depending upon the agreement between the employee and the employer.

If salary is due on the last day of the month, salary from April to March shall be due during the particular year but if salary is due on the first of next month, salary from March to February shall be due during the relevant previous year.

e.g. Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. but it was increased to ₹70,000 p.m. w.e.f. 1st July 2023. Compute his total income and tax liability in two situations
(i) Salary is due on last day of the month
(ii) Salary is due on first of next month

Solution:

(i) Salary is due on last day of the month
In this case salary shall be taxable from April to March and shall be as given below:

April to June 2023 (50,000 x 3)	1,50,000
July to March 2024 (70,000 x 9)	6,30,000
Gross Salary	7,80,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head salary	7,30,000
Gross Total Income/Total Income	7,30,000
Computation of Tax Liability	
Tax on ₹7,30,000 at slab rate	28,000
Add: HEC @ 4%	1,120
Tax Liability	29,120

(ii) Salary is due on first of next month
In this case salary shall be taxable from March to February and shall be as given below:

March to June 2023 (50,000 x 4)	2,00,000
July to February 2024 (70,000 x 8)	5,60,000
Gross Salary	7,60,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head salary	7,10,000
Gross Total Income/Total Income	7,10,000
Computation of Tax Liability	
Tax on ₹7,10,000 at slab rate	26,000
Less: Marginal Relief	(16,000)

Working Note:	
Tax on income of ₹7,10,000	26,000
Tax on income of ₹7,00,000	Nil
Increase in tax	26,000
Increase in income	10,000
Marginal Relief (26,000 – 10,000)	16,000

Tax after marginal relief	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

Illustration 19: Mr. X joined ABC Ltd. on 01.07.2016 in the pay scale of 21,000 – 1,200 – 28,200 – 1,400 – 39,400 – 1,600 – 49,000. The employer has allowed him 3 increments in advance at the time of joining. The employee's salary is due on the 1st of next month.
Employee was allowed dearness allowance @ ₹7,000 p.m., during the previous year 2022-23 and @ ₹9,000 p.m. in 2023-24.
Compute Tax Liability for the Assessment Year 2024-25.

Solution: ₹

Computation of income under the head Salary

Basic Pay [(32,400 x 4) + (33,800 x 8)]	4,00,000

Working Note:	**₹**
01.07.2016 – 30.06.2017 =	24,600 p.m.
01.07.2017 – 30.06.2018 =	25,800 p.m.
01.07.2018 – 30.06.2019 =	27,000 p.m.
01.07.2019 – 30.06.2020 =	28,200 p.m.

01.07.2020 – 30.06.2021 =	29,600 p.m.
01.07.2021 – 30.06.2022 =	31,000 p.m.
01.07.2022 – 30.06.2023 =	32,400 p.m.
01.07.2023 – 30.06.2024 =	33,800 p.m.

Dearness allowance [(7,000 x 1) + (9,000 x 11)]	1,06,000
Gross Salary	5,06,000
Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	4,56,000
Gross Total Income	4,56,000
Less: Deduction under Chapter VI-A	Nil
Total Income	4,56,000
Computation of Tax Liability	
Tax on ₹4,56,000 at slab rate	7,800
Less: Rebate u/s 87A	(7,800)
Tax Liability	Nil

Taxability of Perquisites

Meaning of Perquisite

Perquisite means facilities or perks given by employer and are as given below:

Question 16 [V. Imp.]: Discuss the taxability of rent free accommodation given to an employee by his employer?

Answer: Taxability of rent free accommodation given to an employee by his employer Section 17(2)(i) Rule 3(1)

If the employer has taken the accommodation on rent and given it to the employee free of rent, taxable amount shall be 10% of salary or rent paid or payable by the employer whichever is less e.g. If salary is ₹5,00,000 and rent paid by employer is ₹40,000, taxable amount shall be ₹40,000 but if rent paid by employer is ₹1,00,000, taxable amount shall be ₹50,000 i.e. 10% of ₹5,00,000

If furniture is also provided alongwith house

If employer has also provided furniture (including T.V., refrigerators, other household appliances, air conditioning plant or equipment), Perquisite value shall be **10% p.a. of original cost of furniture** and not WDV. If the employer has taken furniture on rent, rent paid by employer shall be considered to be perquisite value e.g. Mr. X is employed in ABC Ltd. and the employer has provided him facility of air-conditioner for 3 months and rent paid by employer is ₹3,000, in this case taxable amount shall be ₹3,000.

If the accommodation is owned by the employer, taxable amount shall be as given below:

(i) If the population is upto 15 lakhs	5% of rent free accommodation salary
(ii) If the population is more than 15 lakhs but upto 40 lakhs	7.5% of rent free accommodation salary
(iii) If the population is more than 40 lakhs	10% of rent free accommodation salary

Example

Compute perquisite value in the following situations:

(i) Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 2,00,000.

(ii) Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 15,00,000.

(iii) Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 22,00,000.

(iv) Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 50,00,000 (accommodation was provided only for three months).

Solution:

(i) Computation of Perquisite value

5% of rent free accommodation salary

Rent free accommodation salary = 50,000 x 12 = 6,00,000

5% of ₹6,00,000 = 30,000
Perquisite value of rent free accommodation = ₹30,000

(ii) Computation of Perquisite value

5% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 12 = 6,00,000
5% of ₹6,00,000 = 30,000
Perquisite value of rent free accommodation = ₹30,000

(iii) Computation of Perquisite value

7.5% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 12 = 6,00,000
7.5% of ₹6,00,000 = 45,000
Perquisite value of rent free accommodation = ₹45,000

(iv) Computation of Perquisite value

10% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 3 = 1,50,000
10% of ₹1,50,000 = 15,000
Perquisite value of rent free accommodation = ₹15,000

Meaning of Salary

Rent free accommodation salary shall include:

(i) Basic pay
(ii) Dearness Allowance/Dearness Pay. If it forms part of salary for retirement benefits as per service agreement.
(iii) Taxable portion of all allowances.
(iv) Bonus /Commission /Fees etc.
(v) Leave salary (when the employee is in employment)

It will not include

(i) Taxable portion of perquisites whether monetary or non-monetary
(ii) Taxable portion of provident fund
(iii) Any payment after retirement like gratuity/ commuted pension or provident fund etc.
(iv) Arrear of salary or advance salary

Salary only for the period for which rent free accommodation is provided shall be taken into consideration.

Example

If rent free accommodation is provided from 01.05.2023 to 31.12.2023, Salary only for this period shall taken into consideration.

Meaning of Monetary and Non- Monetary Perquisites

If any facility has been arranged by the employer for the employee and payments are also made by the employer, it will be called Non - monetary perquisite, eg. If employer has made arrangements of one servant for the employee and also payment is being made by the employer, it will be called non-monetary perquisite. If facility has been taken by the employee himself and employer has made the payments or employer has given reimbursement to the employee, it will be called monetary perquisite u/s 17(2)(iv). Similarly if employer has paid any amount on behalf of the employee, it will be called monetary perquisite, eg. Employer paid professional tax on behalf of the employee, it will be called monetary perquisite and is covered u/s 17 (2) (iv).

Illustration 20: Mr. X employed in ABC Ltd. and getting basic pay ₹20,000 p.m., dearness allowance ₹10,000 p.m. and 50% of DA forms part of salary. Employer has paid bonus ₹1,000 p.m. commission ₹2,000 p.m. children education allowance ₹150 p.m. per child for 3 children and hostel allowance ₹500 p.m. for one child and entertainment allowance ₹500 p.m., transport allowance ₹1,800 p.m. Employer has paid professional tax ₹200 p.m. on behalf of the employee.

Employer has provided him club facility and has paid membership fee ₹1,000 p.m.

Employer has provided him rent free accommodation for which rent paid by employer is ₹11,000 p.m. Compute his income and tax liability A.Y. 2024-25.

Solution:

	₹
Basic Salary (20,000 x 12)	2,40,000.00
Dearness Allowance (10,000 x 12)	1,20,000.00
Bonus (1,000 x 12)	12,000.00
Commission (2,000 x 12)	24,000.00
Children Education Allowance	5,400.00
Hostel Allowance	6,000.00
Entertainment Allowance (500 x 12)	6,000.00
Transport Allowance	21,600.00
Professional Tax (200 x 12)	2,400.00
Club Facility {Sec 17(2)(viii) Rule 3(7)(vi)} (1,000 x 12)	12,000.00
Rent free Accommodation {Sec 17(2)(i), Rule 3(1)}	37,500.00

Working Note:
10% of rent free accommodation salary or rent paid whichever is less
<u>Rent free accommodation Salary</u>
= Basic Pay + Dearness Allowance (forming part of salary) + Bonus + Commission + Children Education allowance + Hostel Allowance + Entertainment Allowance + Transport Allowance
= 2,40,000 + 60,000 + 12,000 + 24,000 + 5,400 + 6,000 + 6,000 + 21,600
= ₹3,75,000
10% of rent free accommodation Salary = ₹37,500
Rent Paid = ₹11,000 x 12 = ₹1,32,000
Perquisite value of unfurnished house = ₹37,500

Gross Salary	4,86,900.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	4,36,900.00
Gross Total Income	4,36,900.00
Less: Deduction under Chapter VI-A	Nil
Total Income	4,36,900.00
Computation of Tax Liability	
Tax on ₹4,36,900 at slab rate	6,845.00
Less: Rebate u/s 87A	(6,845.00)
Tax Liability	Nil

<u>Government Employees:</u> In case Central or State Government provides the accommodation to their employees, perquisite value shall be the licence fee determined as per Government rules.

<u>If furniture is also provided alongwith house</u>
If employer has also provided furniture (including T.V., refrigerators, other household appliances, air conditioning plant or equipment), Perquisite value shall be **<u>10% p.a. of original cost of furniture</u>** and not WDV. If the employer has taken furniture on rent, rent paid by employer shall be considered to be perquisite value e.g. Mr. X is employed in Central Govt. and the employer has provided him facility of air-conditioner for 3 months and rent paid by employer is ₹3,000, in this case taxable amount shall be ₹3,000. (taxability of furniture in case of other employee is also the same).

<u>Illustration 21:</u> Mr. X is employed in Central Government getting basic pay ₹73,000 p.m. Employer has provided him rent free accommodation and the rent determined as per Government rules is ₹6,000 p.m. The employer has provided him furniture with actual cost ₹1,00,000 and written down value ₹65,000. The employer has provided one air-conditioner also during April and May' 2023. Rent paid by the employer for the air-conditioner is ₹1,000 p.m.
Compute employee's Tax Liability for the Assessment Year 2024-25.

Solution:	₹
Basic Pay (73,000 x 12)	8,76,000
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	84,000

Working Note:	₹
Perquisite value of unfurnished house (6,000 x 12)	72,000
Add: 10% of cost of furniture (1,00,000 x 10%)	10,000
Add: Rent of air-conditioner (1,000 x 2)	2,000
Perquisite value of furnished house	84,000

Gross Salary	9,60,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	9,10,000
Gross Total Income	9,10,000
Less: Deduction under Chapter VI-A	Nil
Total Income	9,10,000
Computation of Tax Liability	
Tax on ₹9,10,000 at slab rate	46,500
Add: HEC @ 4%	1,860
Tax Liability	48,360

If accommodation has been given to the employees from a particular date but it is occupied by the employee from some other date, in such cases perquisite value shall be computed from the date when accommodation was occupied by the employee.

Accommodation provided at two places

If any employee has been transferred and employer has provided him accommodation at the new place also, in such cases only one of the accommodation shall be taxable having lower perquisite value but only for a period of 90 days (three months) and thereafter both of the accommodations shall be taxable.

Example

Mr. X is employed in ABC Ltd. and is getting a basic pay of ₹30,000 p.m., dearness allowance ₹10,000 p.m. Employer has provided him a rent free accommodation at a place with population of 4,00,000 which is owned by the employer himself. The employee was transferred to some other place having population 13,00,000 w.e.f. 01.11.2023 and the employer has provided him accommodation at the new place also and for which rent paid by the employer is ₹2,000 p.m. Compute his Tax Liability for Assessment Year 2024-25.

Solution:	₹
Basic Pay (30,000 x 12)	3,60,000.00
Dearness Allowance (10,000 x 12)	1,20,000.00
Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}	22,000.00

Working Note:	₹
From 01.04.2023 to 31.10.2023	
5% of rent free accommodation salary	
Rent free accommodation salary	2,10,000
5% of rent free accommodation salary	10,500
Perquisite value of rent free accommodation	10,500
Computation of perquisite value for rent free accommodation in old place	
From 01.11.2023 to 31.01.2024	
5% of rent free accommodation salary	
Rent free accommodation salary	90,000
5% of rent free accommodation salary	4,500
(a) Perquisite value of rent free accommodation	4,500
Computation of perquisite value for rent free accommodation in new place	
From 01.11.2023 to 31.01.2024	
10% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation salary	90,000
10% of rent free accommodation salary	9,000
Rent paid (2,000 x 3)	6,000

(b) Perquisite value of rent free accommodation	6,000
Perquisite value of rent free accommodation from 01.11.2023 to 31.01.2024	
= Least of (a) or (b)	4,500
Computation of perquisite value for rent free accommodation in old place	
From 01.02.2024 to 31.03.2024	
5% of rent free accommodation salary	
Rent free accommodation salary	60,000
5% of rent free accommodation salary	3,000
Computation of perquisite value for rent free accommodation in new place	
From 01.02.2024 to 31.03.2024	
10% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation salary	60,000
10% of rent free accommodation salary	6,000
Rent paid (2,000 x 2)	4,000
Perquisite value of rent free accommodation	4,000
Total taxable amount = 10,500 + 4,500 + 3,000 + 4,000 = 22,000	

Gross Salary	5,02,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	4,52,000.00
Gross Total Income	4,52,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	4,52,000.00
Computation of Tax Liability	
Tax on ₹4,52,000 at slab rate	7,600.00
Less: Rebate u/s 87A	(7,600.00)
Tax Liability	Nil

Accommodation provided in a hotel

Where accommodation is provided by the employer in a hotel except where the employee is provided such accommodation for a period not exceeding in aggregate **15 days on the transfer** from one place to another, in such a case perquisite value shall be **24% of salary or actual expenditure incurred whichever is less.**

Example

Mr. X is employed in ABC Ltd. and is getting basic pay of ₹50,000 p.m. and the employer has provided him accommodation in a hotel and expenditure incurred during the year is ₹1,60,000, in this case taxable amount shall be ₹1,44,000.

Illustration 22: Mr. X is employed in ABC Ltd. getting basic pay ₹37,000 p.m., dearness allowance ₹32,000 p.m. The employer has provided him rent free accommodation at a place with population of 13 lakhs and the rent paid by the employer is ₹10,000 p.m. The employer has provided him furniture with original cost ₹1,50,000. However, the employer has discontinued the facility of rent free accommodation and furniture both w.e.f. 1st March, 2024. He has paid him house rent allowance ₹7,000 p.m. The employee has shifted in his own house w.e.f. 01.03.2024.

Compute Tax Liability for the Assessment Year 2024-25.

(b) Presume in the above illustration the accommodation is owned by the employer.

Solution:	**₹**
Basic Pay (37,000 x 12)	4,44,000.00
Dearness allowance (32,000 x 12)	3,84,000.00
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	54,450.00

Working Note:	**₹**
10% of rent free accommodation salary or rent paid whichever is less.	
Rent free accommodation Salary (37,000 x 11)	4,07,000
10% of rent free accommodation salary	40,700
Rent Paid = 10,000 x 11	1,10,000

Value of unfurnished house	40,700
Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)	13,750
Perquisite value of furnished house	54,450

House rent allowance	7,000.00
Gross Salary	8,89,450.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	8,39,450.00
Gross Total Income	8,39,450.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,39,450.00

Computation of Tax Liability

Tax on ₹8,39,450 at slab rate	38,945.00
Add: HEC @ 4%	1,557.80
Tax Liability	40,502.80
Rounded off u/s 288B	40,500.00

Solution (b):

	₹
Basic Pay (37,000 x 12)	4,44,000.00
Dearness allowance (32,000 x 12)	3,84,000.00
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	34,100.00

Working Note:	₹
5% of rent free accommodation salary	
Rent free accommodation Salary (37,000 x 11)	4,07,000
5% of rent free accommodation salary	20,350
Value of unfurnished house	20,350
Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)	13,750
Perquisite value of furnished house	34,100

House rent allowance	7,000.00
Gross Salary	8,69,100.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	8,19,100.00
Gross Total Income	8,19,100.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,19,100.00

Computation of Tax Liability

Tax on ₹8,19,100 at slab rate	36,910.00
Add: HEC @ 4%	1,476.40
Tax Liability	38,386.40
Rounded off u/s 288B	38,390.00

Question 17: Explain taxability of accommodation at concessional rent.

Answer: Accommodation at concessional rent Section 17(2)(ii) Rule 3(1)

If the employer has provided accommodation to the employee and has recovered some amount from the employee for the accommodation, in such cases perquisite value shall be computed in the similar manner as in case of rent free accommodation however amount recovered from the employee shall be deducted and only balance amount shall be taxable.

Illustration 23: Compute tax liability in the following situations:

Name of the Employee	Mr. A	Mr. B	Mr. C	Mr. D
Basic Pay	25,000 p.m.	25,000 p.m.	25,000 p.m.	25,000 p.m.
Accommodation provided by the employer	Owned by the employer	Owned by the employer	Owned by the employer	Hired by the employer

Rent paid by the employer	Nil	Nil	Nil	4,000 p.m.
Population of the place	10 lakhs	25 lakhs	45 lakhs	10 lakhs
Rent recovered from the employee	500 p.m.	500 p.m.	500 p.m.	500 p.m.

Solution:

Computation of Tax Liability

Situation 1 (Mr. A):	**₹**
Basic Salary (25,000 x 12)	3,00,000.00
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	9,000.00

Working Note:	**₹**
Rent free accommodation Salary	3,00,000
5% of rent free accommodation salary	15,000
Value of unfurnished house	15,000
Less: Amount recovered from the employee (500 x 12)	(6,000)
Perquisite value of accommodation at concessional rent	9,000

Gross Salary	3,09,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	2,59,000.00
Tax on ₹2,59,000 at slab rate	Nil
Tax Liability	Nil

Situation 2 (Mr. B):	**₹**
Basic Salary (25,000 x 12)	3,00,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	16,500

Working Note:	**₹**
Rent free accommodation Salary	3,00,000
7.5% of rent free accommodation salary	22,500
Value of unfurnished house	22,500
Less: Amount recovered from the employee (500 x 12)	(6,000)
Perquisite value of accommodation at concessional rent	16,500

Gross Salary	3,16,500
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	2,66,500
Tax on ₹2,66,500 at slab rate	Nil
Tax Liability	Nil

Situation 3 (Mr. C):	**₹**
Basic Salary (25,000 x 12)	3,00,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	24,000

Working Note:	**₹**
Rent free accommodation Salary	3,00,000
10% of rent free accommodation salary	30,000
Value of unfurnished house	30,000
Less: Amount recovered from the employee (500 x 12)	(6,000)
Perquisite value of accommodation at concessional rent	24,000

Gross Salary	3,24,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	2,74,000
Tax on ₹2,74,000 at slab rate	Nil
Tax Liability	Nil

Situation 4 (Mr. D):	**₹**
Basic Salary (25,000 x 12)	3,00,000

Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	24,000

Working Note:	**₹**
Rent paid or 10% of rent free accommodation salary whichever is less	
Rent free accommodation Salary	3,00,000
10% of rent free accommodation salary	30,000
Rent paid (4,000 x 12)	48,000
Value of unfurnished house	30,000
Less: Amount recovered from the employee (500 x 12)	(6,000)
Perquisite value of accommodation at concessional rent	24,000

Gross Salary	3,24,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	2,74,000
Tax on ₹2,74,000 at slab rate	Nil
Tax Liability	Nil

Illustration 24: Mr. X is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation in Mumbai which is owned by the company. He gives you the following particulars:

Basic salary	₹ 6,000 p.m.
Advance salary for April 2024	₹ 5,000
Dearness Allowance	₹ 2,000 p.m.
(30% is for retirement benefits)	
Bonus	₹ 1,500 p.m.

Even though the company allotted the house to him on 01.04.2023, he occupied the same only from 01.11.2023. Calculate the taxable value of the perquisite for A.Y. 2024-25.

Solution:

Value of the rent free unfurnished accommodation

= 10% of salary for the relevant period i.e. 01.11.2023 to 31.03.2024

= 10% of [(₹ 6,000 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)]

= 10% of ₹ 40,500 = ₹ 4,050.

Illustration 25: Presume in the above question the employer has recovered ₹500 p.m. from the employee in connection with the accommodation provided.

Solution:

In this case, it will be called accommodation at concessional rent under section 17(2)(ii) Rule 3(1) and amount recovered from the employee shall be deducted and balance amount shall be taxable.

Value of the rent free unfurnished accommodation	= ₹ 4,050
Less: Rent paid by the employee (₹ 500 × 5)	= ₹ (2,500)
Perquisite value of unfurnished accommodation given at concessional rent	= ₹ 1,550

Question 18: Write a short note on perquisites in case of Specified Employee.

Answer: Perquisite in case of Specified Employee Section 17(2)(iii)

The perquisites covered under section 17(2)(iii) shall be taxable only in case of specified employees and such perquisites are

1. Motor car facility 17(2)(iii) Rule 3(2)
2. Gardener, Watchmen, Sweeper or Any other personal attendant [Sec. 17(2)(iii) Rule 3(3)].
3. Gas, Electricity or Water facility [Sec. 17(2)(iii) Rule3(4)].
4. Educational facility [Sec. 17(2)(iii) Rule 3(5)].
5. Transport facility [Sec. 17(2)(iii) Rule 3(6)].

Specified employee means any employee who has complied with atleast one the conditions given below:

(i) Any employee who is a director in a company whether full time or part time

(ii) Any employee who has a substantial interest in the company i.e. he is holding 20% or more of the voting 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 perquisites 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),*** 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 (4,500 x 12)	54,000
Dearness Allowance (500 x 12)	6,000
Children Education Allowance	3,600
Entertainment Allowance (35 x 12)	420
Professional Tax (100 x 12)	1,200
Arrears of Salary {Sec 15}	4,000
Advance Salary {Sec 15}	3,000
Gross Salary	72,220
Less: Standard Deduction u/s 16(ia)	(50,000)
Monetary Income	22,220

So, he is non-specified employee.

Question 19: Discuss the taxability of motor car facility given to an employee by his employer?
Answer:
As per <u>Section 17(2)(iii), Rule 3(2),</u> 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 from the employee, it will be deducted and only balance amount shall be taxable. e.g. Mr. X is employed in ABC Ltd. and getting basic pay ₹50,000 p.m., dearness allowance ₹10,000 p.m. and employer has provided him one motor car for personal use with original cost ₹6,00,000 and expenditure on petrol ₹20,000, repairs ₹11,000, driver salary ₹10,000 p.m.
Employer has provided him rent free accommodation for which rent paid by employer is ₹15,000 p.m., in this case his income and tax liability shall be:

Basic Pay (50,000 x 12)	6,00,000

Dearness Allowance (10,000 x 12)	1,20,000
RFA (Sec 17(2)(i) Rule 3(1))	
RFA Salary = ₹6,00,000	
6,00,000 x 10% or 15,000 x 12 whichever is less	60,000
Motor car (Sec 17(2)(iii) Rule 3(2))	2,11,000
(6,00,000 x 10%) + 20,000 + 11,000 + 1,20,000	
Gross Salary	9,91,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head salary	9,41,000
Total Income	9,41,000
Tax on ₹9,41,000 at slab rate	51,150
Add: HEC @ 4%	2,046
Tax Liability	53,196
Rounded off u/s 288B	53,200

If in the above case employer has recovered ₹2,000 p.m. from the employee for use of motor car, taxable amount shall be 2,11,000 – 24,000 = 1,87,000

Car used partly for official and partly for personal purposes

If the employer has provided motor car facility for official as well as personal use, perquisite value shall be 600 p.m. if engine capacity of motor car is upto 1.6 litres otherwise it is ₹900 p.m.

If employer is incurring other expenses also except driver, taxable amount shall be 1,800 p.m. and 2,400 p.m. respectively. If employer has provided chauffeur (driver) also, there will be additional perquisite value of ₹900 p.m. Part of the month shall be ignored while computing perquisite value. E.g. Mr. X is employed in ABC Ltd. and employer has provided him one motor car for official/personal purpose with engine capacity 1.6 litres and all expenses are met by employer and driver is also provided, in this case taxable amount shall be (1,800 + 900) x 12 = 32,400 but if driver is not provided, taxable amount shall be 1,800 x 12 = 21,600.

Illustration 26: Mr. X is employed in ABC Ltd. getting basic pay ₹24,000 p.m. and the employee has paid professional tax ₹200 p.m. and the employer has provided him motor car for official as well as personal use and its engine capacity is 1.2 litres and it is a chauffeur driven car and all expenses are met by the employer himself.

Compute Tax Liability for the Assessment Year 2024-25.

Solution:	**₹**
Basic Pay (24,000 x 12)	2,88,000
Motor Car {Sec 17(2)(iii) Rule 3(2)} [(1,800 + 900) x 12]	32,400
Gross Salary	3,20,400
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	2,70,400
Computation of Tax Liability	
Tax on ₹2,70,400 at slab rate	Nil
Tax Liability	Nil

More than one motor car is provided to the employee for official/personal use

If the employer has provided more than one motor car for official/personal use, in that case only one of the motor cars shall be considered to be for official/personal use and all other motor cars shall be considered to be for personal use and perquisite value shall be computed accordingly.

Motor car for going to office and coming back to residence is exempt from income tax.

Illustration 27: Mr. X is employed in ABC Ltd. getting basic pay ₹22,000 p.m. Employer has paid professional tax of ₹75 p.m. on behalf of the employee and employee himself has paid professional tax of ₹25 p.m. The employer has provided him rent free accommodation which is owned by the employer himself and it is provided at a place with population of 5,00,000.

The employer has provided him three motor cars for official as well as personal use with particulars as given below:

	I	II	III
Actual cost	4,00,000	3,00,000	2,50,000
Engine capacity	1.8 litres	1.6 litres	1.4 litres
Petrol expenses	3,000	10,000	15,000
Repairs	5,000	4,000	3,000
Driver	4,000 p.m.	3,000 p.m.	no driver

All the expenses met by the employer. Employee has income from gambling activities ₹11,000 and also he has long-term capital gains ₹5,000. Compute his Tax Liability for the Assessment Year 2024-25.

Solution:	**₹**
Basic Pay (22,000 x 12)	2,64,000.00
Professional Tax paid by employer (75 x 12)	900.00
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	13,200.00

Working Note:	**₹**
5% of rent free accommodation salary	
Rent free accommodation salary	2,64,000
5% of rent free accommodation salary	13,200
Perquisite value of rent free accommodation	13,200

Motor Car {Sec 17(2)(iii) Rule 3(2)}	1,62,600.00

Working Note:

<u>Option I</u>

{Presuming Car I is for official and personal purposes and Car II and Car III for personal purposes, perquisite value shall be:

Car I = (₹2,400 + ₹900) x 12 = ₹39,600

Car II = ₹30,000 + ₹10,000 + ₹4,000 + ₹36,000 = ₹80,000

Car III = ₹25,000 + ₹15,000 + ₹3,000 = ₹43,000

Perquisite value = ₹1,62,600

<u>Option II</u>

Presuming Car II is for official and personal purpose and Car I and Car III is for personal use, perquisite value shall be:

Car I = ₹40,000 + ₹3,000 + ₹5,000 + ₹48,000 = ₹96,000

Car II = (₹1,800 + ₹900) x 12 = ₹32,400

Car III = ₹43,000

Perquisite Value = ₹1,71,400

<u>Option III</u>

Presuming Car III is for official and personal purpose and Car I and Car II is for personal use, perquisite value shall be:

Car I = ₹96,000

Car II = ₹80,000

Car III = ₹1,800 x 12 = ₹21,600

Perquisite Value = ₹1,97,600

So, 1st Option is better.

Perquisite value of motor car = ₹1,62,600

Gross Salary	4,40,700.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	3,90,700.00
Income under the head Capital Gains (LTCG)	5,000.00
Income under the head Other Sources (Gambling activities)	11,000.00
Gross Total Income	4,06,700.00
Less: Deduction under Chapter VI-A	Nil
Total Income	4,06,700.00
Computation of Tax Liability	
Tax on LTCG ₹5,000 @ 20%	1,000.00
Tax on Gambling activities income of ₹11,000 @ 30%	3,300.00

Tax on normal income ₹3,90,700 at slab rate	4,535.00
Tax before rebate	8,835.00
Less: Rebate u/s 87A	(8,835.00)
Tax Liability	Nil

Motor car owned by the employee and expenses are met or reimbursed by the employer Section 17(2)(iii) Rule 3(2)

Car used partly for official and partly for personal purposes – Value shall be amount paid by employer less **₹1,800 p.m.** where cubic capacity of engine does not exceed 1.6 litres or **₹2,400 p.m.** where cubic capacity of the engine exceeds 1.6 litres. It will be further reduced by **₹900 p.m.** if the employee has provided driver also. E.g. Mr. X is employed in ABC Ltd. and is getting basic pay ₹20,000 p.m. and he has one motor car with engine capacity 1.8 litres and it is being used for official purpose also and employee is getting ₹6,000 p.m. from the employer, in this case taxable amount shall be 6,000 – 2,400 = 3,600 p.m.

If the assessee has maintained records, deduction shall be allowed on the basis of such records.

If employee has any other automotive conveyance (two wheeler), amount to be deducted shall be ₹900 p.m.

If the assessee has maintained records, deduction shall be allowed on the basis of such records.

Personal purpose includes the benefit of **employee's household**, which means **spouse(s)**, **children** and **their spouses**, **parents**, **servants** and **dependants**.

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

If motor car is owned by employee and it is used for his personal purpose and payment or reimbursement is given by employer, it is covered u/s 17(2)(iv) and entire amount paid or reimbursed is taxable in case of specified as well as non specified employees.

Question 20: Discuss the taxability of Gardener/ Watchman/Sweeper or Any Other Servant.

Answer: Taxability of gardener/watchman/ sweeper or any other servant Section 17(2)(iii) Rule 3(3)

If the employer has provided facilities of gardener/watchman / sweeper or any other servant, entire amount shall be taxable but only in case of specified employees. Any amount recovered from the employee shall be deducted and only balance amount shall be taxable.

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

If the facility has been availed by the employee himself 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).

Question 21: Write a note on taxability of Gas/ Electricity or Water Facility.

Answer: Taxability of Gas/Electricity or Water Facility Section 17(2)(iii) Rule 3(4)

If the employer has provided facilities of gas, electricity or water, it will be taxable but only in case of specified employee and if the employer has his own business, perquisite value shall be the manufacturing cost to the employer. E.g. Mr. X is employed in Bisleri and the company has provided him free water facility for which manufacturing cost of the company is ₹1,000 and its market value is ₹1,100, in this case, perquisite value shall be ₹1,000.

If any amount has been recovered from the employee, it will be deducted and only balance amount shall be taxable.

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

If the facility has been availed by the employee himself 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).

Question 22: [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**.

Note: It is controversial that amount in excess of 1,000 p.m. shall be taxable or if amount exceeds 1,000 p.m. then entire amount is taxable.

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:

(i) The employer has deputed him on one day seminar on Industrial Finance and Corporate Taxation and has paid participation fees of ₹3,000.

(ii) 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.

(iii) 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:

(i) There is no perquisite value.
(ii) Perquisite value shall be ₹7,200.
(iii) Perquisite value shall be ₹54,000.

Example

Compute perquisite value in the following situations:

1. 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 __________.
2. 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 ___________.
3. 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 __________.
4. 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:

1. Nil
2. Nil
3. ₹6,000
4. Nil

Question 23: 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 balance amount shall be taxable.

The facility is exempt in case of employees of Airlines and Railways.

Since the facility is covered u/s 17(2)(iii), it is taxable only in case of specified employees.

Question 24: Write a note on obligation of the employee met by employer.

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

Any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee shall be taxable in the hands of the employee and shall be called monetary perquisite. If the employer has paid any amount on behalf of the employee or has given any reimbursement to the employee i.e. obligation of the employee has been met by the employer, it will also be called monetary perquisites as per section 17(2)(iv) and entire amount paid or reimbursed by the employer shall be chargeable to tax.

Example

Mr. X is employed in ABC Ltd. and he has taken one electricity connection in his name and the electricity bill amounting to ₹ 5,000 has been paid by the employer on behalf of the employee, it will be called monetary perquisite and the amount so paid shall be added to the gross salary of the employee.

Similarly, if the employee has paid the bill but subsequently the employer has reimbursed the amount to him, it will also be called monetary perquisite.

Question 25: Explain taxability of payments of insurance premium by the employer on behalf of the employee.

Answer: Taxability of payments of insurance premium by the employer on behalf of the employee Section 17(2)(v)

If any employee has taken any policy in his name but premium has been paid by employer, the premium so paid shall be taxable however premium paid for personal accident policy, staff group insurance scheme shall be exempt.

Question 26: Explain taxability of issue of shares or securities by employer to employee.

Answer: As per section 17(2)(vi), if the employer has issued shares or securities to the employees, perquisite value shall be market value of such shares or securities and if employer has recovered some amount from the employee, it will be deducted and only difference amount shall be taxed. E.g. Mr. X is employed in ABC Ltd. and employer has issued 100 equity shares to the employee free of cost on 01.07.2023 and market value is ₹150 per share, in this case, taxable amount shall be 100 x 150 = ₹15,000 and if the shares have been sold by the employee, as per section 49(2AA), cost of acquisition shall be the market value which was taken into consideration under the head salary i.e. ₹15,000.

If the employee sold the above shares on 01.11.2023 for ₹270 per share, capital gains shall be computed in the manner given below:

Full value of consideration (100 x 270)	27,000
Less: Cost of acquisition	(15,000)
Short term capital gain	12,000

If shares were issued by the employer @ ₹40 per share, perquisite value under the head salary shall be (150 - 40 = 110) x 100 = 11,000 and capital gains shall be

Full value of consideration (100 x 270)	27,000
Less: Cost of acquisition	(15,000)
Short term capital gain	12,000

As per section 192(1C), A person, being an eligible start-up referred to in section 80-IAC, responsible for paying any income to the assessee being perquisite covered under section 17(2)(vi), shall deduct tax on such income within fourteen days—

(*i*) after the expiry of forty-eight months from the end of the assessment year in which shares were allotted; or

(*ii*) from the date of the sale of such specified security or sweat equity share by the assessee; or

(*iii*) from the date of the assessee ceasing to be the employee of the person,

whichever is the earliest, on the basis of rates in force for the financial year in which the said specified security or sweat equity share is allotted.

Question 27: Explain contribution to Recognised Provident fund or approved superannuation fund or notified pension fund by the employer in respect of an employee.

Any contribution to an approved superannuation fund by the employer in respect of an employee Section 17(2)(vii)

Employers contribution to recognized provident fund to the extent of 12% of salary shall be exempt. Employers contribution to NPS shall be eligible for deduction u/s 80CCD to the extent of 10% / 14% of salary. As per the new provision maximum exemption allowed for aggregate contribution to recognized provident fund and NPS and approved superannuation fund shall be ₹ 7,50,000 and excess over it shall be taxable. E.g. Mr. X employed ABC ltd. getting salary ₹ 100 lakhs and employer contributed 12% i.e. ₹ 12 lakh in this case ₹ 7.5 lakh shall be exempt and balance ₹ 4.5 lakh shall be taxable.

As per section 17(2)(viia), If any amount is taxable u/s 17(2)(vii), interest dividend etc. on such amount shall also be taxable. In the above case entire interest on ₹ 4.5 lakh shall be taxable. Taxable amount shall be computed as per rule 3B.

Example: Suppose X Pvt. Ltd. contributed ₹8,50,000 during the previous year 2023-24 towards recognized provident fund to the account of Mr. A. Mr. A had also made an equivalent contribution. Balance in his RPF A/c as on 1.4.2023 is ₹32,00,000. Interest accrued in his RPF during the previous year 2023-24 is ₹3,44,250. The taxable perquisite under section 17(2)(vii) for P.Y.2023-24 would be computed in the following manner:
Take the opening balance + closing balance and take the average

Opening balance	32,00,000
Closing balance = 32,00,000 + 17,00,000 + 3,44,250 =	52,44,250
Average balance = 32,00,000 + 52,44,250 = 84,44,250 / 2 =	42,22,125
Interest on average balance	3,44,250
Interest on Employer contribution 3,44,250 / 2	1,72,125
Interest on ₹1,00,000 = 1,72,125 / 42,22,125 x 1,00,000 =	4,076.73
Rounded off	4,077

Question 28 [V. Imp.]: Write a note on fringe benefits under Section 17(2)(viii) Rule 3(7).

Answer: Fringe Benefits under Section 17(2)(viii)

Fringe Benefits covered under section 17(2)(viii) are asunder:

(1) Interest free or concessional loans: Section 17(2)(viii) Rule 3(7)(i)

If the employer has given any loan to the employee or to the members of his household, it will be taxable and perquisite value shall be computed on the basis of interest rate charged by State Bank and interest rate taken by employer e.g. If employer has given a loan of ₹10 lakh to an employee on 01.04.2023 @ 4% p.a. and interest rate charged by State Bank is 10% p.a., perquisite value shall be 10,00,000 x (10% – 4%) = 60,000. Further while computing perquisite value, balance outstanding at the end of each month shall be taken into consideration i.e. there is no calculation for part of the month.

Example

Mr. X is employed in ABC Ltd. and he has taken a loan of ₹10 lakh from employer on 20.04.2023 at a rate of 4% p.a. but SBI rate is 10% p.a. and loan was repaid in monthly installment of ₹2 lakh each starting from 10.07.2023, in this case, taxable amount shall be:

April' 2023	10,00,000 x 6% x 1/12	=	5,000
May' 2023	10,00,000 x 6% x 1/12	=	5,000
June' 2023	10,00,000 x 6% x 1/12	=	5,000
July' 2023	8,00,000 x 6% x 1/12	=	4,000
August' 2023	6,00,000 x 6% x 1/12	=	3,000
September' 2023	4,00,000 x 6% x 1/12	=	2,000
October' 2023	2,00,000 x 6% x 1/12	=	1,000
Taxable amount			25,000

If employer has given a petty loan, there is no perquisite value. Petty loan means one or more loan given by the employer where aggregate amount of all such loan during a particular year is upto ₹20,000.

Example

Mr. 'X' is employed in ABC Ltd. and employer has given following interest free loan as given below: (SBI rate 10% p.a.)

01.04.2023	₹10,000 x 10% x 12/12 =	1,000.00

01.12.2023	₹8,000 x 10% x 4/12 =	266.67
01.03.2024	₹3,000 x 10% x 1/12 =	25.00
		1291.67

Since original amount of all the 3 loans is exceeding ₹20,000 hence it is taxable but if employer has not given loan of 01.03.2024, it would have been exempt from income tax.
If employer has given loan for treatment of specified disease given under rule 3A, there is no perquisite value.

Example

Mr. X is employed in ABC Ltd. and he has taken a loan of ₹5 Lakh on 01.07.2023 interest free from employer SBI rate 10% p.a. for treatment of specified disease. in this case, perquisite value shall be nil
If any employee has taken advance salary, it will not be considered to be loan or advance and no perquisite value shall be computed with regard to such advance salary.

Example

(i) Mr. X is employed in ABC Ltd. and he has taken interest free loan of ₹3,00,000 on 10.07.2023 for personal purpose for a period of 3 years and the loan is to be repaid in monthly instalments of ₹10,000 and repayment shall start with effect from 21.09.2023, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate 12%):

Months	Outstanding balance at the end (in ₹)	Amount of interest (in ₹)
July	3,00,000	3,00,000 x 12% x 1/12 = 3,000
August	3,00,000	3,00,000 x 12% x 1/12 = 3,000
September	2,90,000	2,90,000 x 12% x 1/12 = 2,900
October	2,80,000	2,80,000 x 12% x 1/12 = 2,800
November	2,70,000	2,70,000 x 12% x 1/12 = 2,700
December	2,60,000	2,60,000 x 12% x 1/12 = 2,600
January	2,50,000	2,50,000 x 12% x 1/12 = 2,500
February	2,40,000	2,40,000 x 12% x 1/12 = 2,400
March	2,30,000	2,30,000 x 12% x 1/12 = 2,300
Total		24,200

So, perquisite value of interest free loan = ₹24,200
(ii) Mr. X is employed in ABC Ltd. and he has taken interest free loan of ₹3,00,000 on 10.07.2023 for purchasing a new motor car in Delhi and the loan is to be repaid in monthly instalments of ₹10,000 and repayment shall start with effect from 21.09.2023, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate 10%):

Months	Outstanding balance at the end (in ₹)	Amount of interest (in ₹)
July	3,00,000	3,00,000 x 10% x 1/12 = 2,500.00
August	3,00,000	3,00,000 x 10% x 1/12 = 2,500.00
September	2,90,000	2,90,000 x 10% x 1/12 = 2,416.67
October	2,80,000	2,80,000 x 10% x 1/12 = 2,333.33
November	2,70,000	2,70,000 x 10% x 1/12 = 2,250.00
December	2,60,000	2,60,000 x 10% x 1/12 = 2,166.67
January	2,50,000	2,50,000 x 10% x 1/12 = 2,083.33
February	2,40,000	2,40,000 x 10% x 1/12 = 2,000.00
March	2,30,000	2,30,000 x 10% x 1/12 = 1,916.67
Total		20,166.67

So, perquisite value of interest free loan = ₹20,166.67
(iii) Mr. X is employed in ABC Ltd. and he has taken interest free loan of ₹13,000 on 10.07.2023 for personal purpose and the loan is to be repaid in monthly instalments of ₹1,300 and repayment shall start with effect from 21.09.2023, in this case perquisite value for the loan shall be computed in the manner given below:
Perquisite value of interest free loan = Nil (because it is a petty loan)

(2) Facility of travelling, touring, accommodation (holiday home) etc. Section 17(2)(viii) Rule 3(7)(ii)

If the employer has provided facilities of travelling, touring or accommodation, it is taxable but it will not include leave travel concession under section 10(5)Rule 2B.

Perquisite value shall be actual expenditure incurred by the employer less amount recovered from the employee.

If the facility is maintained by the employer, perquisite value shall be the market value of the such facility.

If the employee is on official tour and any member of his household has accompanied him and the employer has incurred expenditure for such member, the amount so incurred shall be taxable.

If the employee is on official tour and the tour was extended for personal purpose, expenditure for the extended part of the tour shall be taxable.

(3) Free food or refreshment Section 17(2)(viii) Rule 3(7)(iii)

If the employer has provided free refreshments to the employees at the place of work during office hours, it will be exempt.

If the employer has provided free meals to the employees at the place of work during office hours, it will be exempt if the value per meal is upto ₹50. Excess over ₹50 shall be taxable e.g. Mr. X is employed in the office of Chartered Accountant and during the year he was given free lunch on many occasions and value per lunch is ₹125, in this case ₹75 per lunch is taxable.

(4) Gifts to the employees Section 17(2)(viii) Rule 3(7)(iv)

Gift given by the employer in kind upto ₹5,000 in aggregate during a particular year is exempt and excess over it is taxable. If the employer has given any voucher or token in lieu of which such gift may be received, it will also be exempt in the similar manner.

Gifts in cash or gifts convertible into cash i.e. gift cheques etc. shall be fully chargeable to tax.

E.g. Mr. X is employed in ABC Ltd. and employer has gifted him one mobile phone of value ₹26,000, in this case, taxable amount shall be ₹21,000 but if employer has given gift of ₹26,000 in cash, entire amount shall be taxable under the head salary.

Alternate View: The value of any gift or voucher received by the employee or by member of his household upto ₹5,000 in aggregate during the previous year would be exempt and if aggregate amount is exceeding ₹5,000 then entire amount is taxable.

(5) Credit card facility Section 17(2)(viii) Rule 3(7)(v)

The amount of expenses including membership fees and annual fees incurred by the employee or any member of his household, which is charged to a credit card (including any add-on-card) provided by the employer, or paid or reimbursed by such employer shall be taxable as reduced by the amount recovered from the employee. However, expenses incurred wholly and exclusively for official purposes would not be treated as a perquisite if the following conditions are fulfilled.

(1) complete details in respect of such expenditure are maintained by the employer which may, inter alia, include the date of expenditure and the nature of expenditure;

(2) the employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

(6) Club facilities Section 17(2)(viii) Rule 3(7)(vi)

The value of benefit to the employee resulting from the payment or reimbursement by the employer of any expenditure incurred (including the amount of annual or periodical fee) in a club by him or by a member of his household shall be taxable. The amount so determined shall be reduced by the amount recovered from the employee. However, where the employer has obtained corporate membership of the club and the facility is enjoyed by the employee or any member of his household, the value of perquisite shall not include the initial fee paid for acquiring such corporate membership.

Further, if such expenditure is incurred wholly and exclusively for business purposes, it would not be taxable provided the following conditions are fulfilled:-

(1) complete details in respect of such expenditure are maintained by the employer which may, inter alia, include the date of expenditure, the nature of expenditure and its business expediency;

(2) the employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.

There would be no perquisite for use of health club, sports and similar facilities provided uniformly to all employees by the employer

Facilities of health club, sports and similar facilities shall be exempt.

Example

ABC Ltd. has allowed membership of health club and sports club to their employees, in this case expenditure incurred by the company shall not be taxable in the hands of employees.

(7) Use of employer's assets by the employees Section 17(2)(viii) Rule 3(7)(vii)

If the employer has given any movable asset to the employee or to the members of his household for personal use, in such cases it will be taxable and perquisite value shall be 10% p.a. of actual cost of such asset less any amount recovered from the employee e.g. Mr. X is employed in ABC Ltd. and employer has given him one video camera with original cost ₹2,00,000 for 25 days, in this case taxable amount shall be 2,00,000 x 10% x 25/365 = 1,369.86. If employer has recovered ₹1,000 for such use, taxable amount shall be 1,369.86 – 1,000 = 369.86

If the employer has given any laptop or computer to the employee for personal use, it will not be taxable.

If the employer has provided a two wheeler to the employee, it will be taxable in the similar manner.

(8) Sale of assets by employer to the employee Section 17(2)(viii) Rule 3(7)(viii)

If employer has sold any movable asset to the employee, taxable amount shall be actual cost of such asset less 10% of actual cost per completed year of use of asset by the employer less amount paid by employee. In case of motor car, amount to be deducted shall be 20% of w.d.v. instead of 10% of actual cost and in case of computers, laptops, data storage devices, digital diaries and printers, it will be 50% of w.d.v.

Example

Asset	Furniture	Microwave oven	Motor car	Washing machine	Computer
Original cost	75,000	25,000	2,40,000	20,000	55,000
Date of purchase by the employer	07.03.2019	01.06.2021	10.07.2020	01.10.2013	01.01.2021
Date of putting to use	31.03.2019	01.06.2021	11.07.2020	01.11.2013	10.01.2021
Date of sale of asset to the employee	01.07.2023	01.04.2023	01.07.2023	31.12.2023	09.01.2024
Payment made by the employee	25,000	Gift to the employee	95,000	1,000	30,000

Solution: ₹

Computation of perquisite value of Furniture

Cost of the furniture	75,000
Less: Depreciation on straight line method @ 10% from 31.03.2019 to 30.03.2020	(7,500)
Less: Depreciation on straight line method @ 10% from 31.03.2020 to 30.03.2021	(7,500)
Less: Depreciation on straight line method @ 10% from 31.03.2021 to 30.03.2022	(7,500)
Less: Depreciation on straight line method @ 10% from 31.03.2022 to 30.03.2023	(7,500)
Written down value	45,000
Less: Amount paid by the assessee	(25,000)
Perquisite value of Furniture	20,000

Computation of perquisite value of Microwave oven

Cost of Microwave oven	25,000
Less: Depreciation on straight line method @ 10% from 01.06.2021 to 31.05.2022	(2,500)
Written down value	22,500
Less: Gift to the employee	(5,000)
Perquisite value of microwave oven	17,500

Computation of perquisite value of Motor car

Cost of the motor	2,40,000
Less: Depreciation on reducing balance method @ 20% from 11.07.2020 to 10.07.2021	(48,000)
Written down value	1,92,000
Less: Depreciation on reducing balance method @ 20% from 11.07.2021 to 10.07.2022	(38,400)

Written down value	1,53,600
Less: Amount paid by the assessee	(95,000)
Perquisite value of motor car	58,600

Computation of perquisite value of Washing Machine

Cost of the washing machine	20,000
Less: Depreciation on straight line method @ 10% from 01.11.2013 to 31.10.2014	(2,000)
Written down value	18,000
Less: Depreciation on straight line method @ 10% from 01.11.2014 to 31.10.2015	(2,000)
Written down value	16,000
Less: Depreciation on straight line method @ 10% from 01.11.2015 to 31.10.2016	(2,000)
Written down value	14,000
Less: Depreciation on straight line method @ 10% from 01.11.2016 to 31.10.2017	(2,000)
Written down value	12,000
Less: Depreciation on straight line method @ 10% from 01.11.2017 to 31.10.2018	(2,000)
Written down value	10,000
Less: Depreciation on straight line method @ 10% from 01.11.2018 to 31.10.2019	(2,000)
Written down value	8,000
Less: Depreciation on straight line method @ 10% from 01.11.2019 to 31.10.2020	(2,000)
Written down value	6,000
Less: Depreciation on straight line method @ 10% from 01.11.2020 to 31.10.2021	(2,000)
Written down value	4,000
Less: Depreciation on straight line method @ 10% from 01.11.2021 to 31.10.2022	(2,000)
Written down value	2,000
Less: Depreciation on straight line method @ 10% from 01.11.2022 to 31.10.2023	(2,000)
Written down value	Nil
Less: Amount paid by the assessee	(1,000)
Perquisite value of washing machine	Nil

Computation of perquisite value of Computer

Cost of the Computer	55,000
Less: Depreciation on reducing balance method @ 50% from 10.01.2021 to 09.01.2022	(27,500)
Written down value	27,500
Less: Depreciation on reducing balance method @ 50% from 10.01.2022 to 09.01.2023	(13,750)
Written down value	13,750
Less: Depreciation on reducing balance method @ 50% from 10.01.2023 to 09.01.2024	(6,875)
Written down value	6,875
Less: Amount paid by the assessee	(30,000)
Perquisite value of computer	Nil

(9) <u>Any other benefit</u> <u>Section 17(2)(viii)</u> <u>Rule 3(7)(ix)</u>

The value of any other benefit provided by the employer to the employee is chargeable to tax and its value shall be determined on the basis of cost to the employer.

If the employer has provided telephone facility including the mobile phone, it will be exempt. If the facility has been taken by the employee himself and the employer has made payment or reimbursement, still it is exempt from tax.

If the employer has given telephone allowance, it will be chargeable to tax.

<u>Illustration 28:</u> X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y.2023-24 –

(1) Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.

(2) Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.

(3) A Santro Car (engine capacity 1.6 litres) which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.

(4) A gift voucher of ₹ 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the A.Y.2024-25, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Solution:

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2024-25

	Particulars	**Amount in ₹**		
(1)	**Value of concessional accommodation**			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 10% of ₹ 10,00,000	1,00,000		
	Lower of the above		1,00,000	
	Less: Rent paid by Mr. Y (₹ 5,000 × 12)		(60,000)	
			40,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y		36,000	76,000
(2)	Perquisite value of Santro car owned by X Ltd. And provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]			32,400
(3)	Value of gift voucher (10,000 – 5,000)			5,000
	Value of perquisites chargeable to tax			**1,13,400**

Illustration 29: Mr. X is employed with ABC Ltd. on a monthly salary of ₹ 25,000 per month and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:

1. A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 01.08.2023.
2. A personal loan of ₹ 5,00,000 on 01.07.2023 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest to be 12.75% p.a.)
3. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 01.05.2020. The motor cycle was finally sold to him on 01.08.2023 for ₹30,000.
4. Professional tax paid by Mr. X is ₹ 2,000.

Compute Total income and tax liability of Mr. X for the A.Y.2024-25.

Solution: **Computation of Income from Salary of Mr. X for the A.Y.2024-25**

Particulars	**₹**	**₹**
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation Sec 17(2)(i) Rule 3(1)		
Working Note:		
= 10% of salary for the relevant period		
= 11% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 32,400	32,400	
Add : Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	48,400
Interest on personal loan Sec 17(2)(viii) Rule 3(7)(i)		
Working Note:		
= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500		22,500
Use of motor cycle Sec 17(2)(viii) Rule 3(7)(vii)		
[₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle Sec 17(2)(viii) Rule 3(7)(viii)		
Working Note:		
Depreciated value of the motor cycle		
= Original cost – Depreciation @ 10% p.a. for 3 completed years		
= ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.		
Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.		12,000

Gross Salary	**4,08,900**
Less: Standard Deduction u/s 16(ia)	(50,000)
Income from Salary	**3,58,900**
Tax on ₹3,58,900 at slab rate	2,945.00
Less: Rebate u/s 87A	(2,945.00)
Tax Liability	Nil

Question 29. Write a note on Medical Facility.
Answer: Medical Facility Proviso to Section 17(2)
If the employer has provided medical facility to the employee or to his family members it will be exempt provided facility is given in any hospital owned by the Government / local authority / employer himself or it is any other private hospital approved by the Income Tax Department. E.g. Mr. X is employed in ABC Ltd. and employer has incurred ₹3,00,000 on his treatment in a private hospital approved by Income Tax Department, in this case it will be exempt from income tax. If treatment was taken by the employee himself in any such hospital (only above four hospitals) and employer has given reimbursement, in that case also it will be exempt from income tax.

If employer has incurred expenditure for treatment at any other place like private clinic or hospital etc., it will be taxable.

If the employer has paid premium for medi-claim policy taken in the name of employee or his family, it will be exempt from income tax.

If employer has paid medical allowance, it is always taxable.

"Family", shall include
(i) The spouse and children of the individual and
(ii) The parents, brothers and sisters of the individual provided they are dependent on the individual.

- ❖ If expenditure has been incurred by the employer on the treatment of any other person like mother in law, father in law, independent father etc., facility is taxable.

Medical facilities outside India
(i) If the employer has incurred expenditure on the treatment of the employee or any member of his family outside India, it is exempt to the extent permitted by Reserve Bank of India.
(ii) If the employer has incurred expenditure on the stay abroad of the patient including one attendant, it is exempt to the extent permitted by Reserve Bank of India.
(iii) If the employer has incurred expenditure on the travelling of the patient including one attendant, it is exempt provided gross total income of the employee do not exceed ₹2,00,000 before taking into consideration the expenditure incurred on travelling.

Payment for expenditure for treatment of COVID-19
If the employer has incurred any amount on the treatment of COVID-19 for employee or his family member, it will be exempt from income tax but the employee should retain the test report and the details of the treatment upto 6 months from the date of testing positive.

Illustration 30: Mr. X is employed in ABC Ltd. getting basic pay ₹12,000 p.m. dearness allowance ₹2,000 p.m. medical allowance ₹200 p.m. entertainment allowance ₹300 p.m. Employer has paid professional tax of ₹100 p.m. on behalf of the employee. Employer incurred ₹3,00,000 on his treatment outside India but RBI permitted ₹2,80,000. Amount incurred on stay is ₹1,00,000 but permitted by RBI is ₹90,000. Expenditure incurred on travelling is ₹1,10,000. He has income under the head house property ₹50,000 and deduction allowed under Chapter VI-A is ₹10,000. In this case his total income shall be computed in the manner given below:
Solution:

Basic Pay (12,000 x 12)	1,44,000
Dearness Allowance (2,000 x 12)	24,000
Medical Allowance (200 x 12)	2,400
Entertainment Allowance (300 x 12)	3,600
Professional Tax (100 x 12)	1,200
Treatment outside India (3,00,000 – 2,80,000)	20,000
Stay aboard (1,00,000 – 90,000)	10,000
Gross Salary	2,05,200
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	1,55,200
Income under the head house property	50,000
Gross Total Income	2,05,200

Since gross total income is exceeding ₹2,00,000 hence expenditure on travelling shall be taxable and shall be as given below:

Basic Pay (12,000 x 12)	1,44,000
Dearness Allowance (2,000 x 12)	24,000
Medical Allowance (200 x 12)	2,400
Entertainment Allowance (300 x 12)	3,600
Professional Tax (100 x 12)	1,200
Treatment outside India (3,00,000 – 2,80,000)	20,000
Stay aboard (1,00,000 – 90,000)	10,000
Travelling	1,10,000
Gross Salary	3,15,200
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	2,65,200
Income under the head house property	50,000
Gross Total Income	3,15,200
Less: Deduction under Chapter VI-A	Nil
Total Income	3,15,200
Computation of Tax Liability	
Tax on ₹3,15,200 at slab rate	760.00
Less: Rebate u/s 87A	(760.00)
Tax Liability	Nil

Illustration 31: Mrs. X, an employee of XYZ Ltd., submits the following information for the assessment year 2024-25:

Salary: ₹2,56,000; City compensatory allowance: ₹8,000; Bonus: ₹10,200; Education allowance: ₹4,000 (for her grand children); Income tax penalty paid by the employer: ₹2,000; Leave travel concession: ₹1,000 (expenditure incurred by the employee nil); Free residential telephone: ₹4,000; Free refreshment during office hours ₹4,000; reimbursement of electricity bill by the employer: ₹ 1,060; reimbursement of gas bills: ₹1,000; Professional tax paid by the employer: ₹300 on behalf of Mrs. X; Professional tax paid by Mrs. X: ₹150.

Determine the Total Income and Tax Liability of Mrs. X for the Assessment Year 2024-25.

Solution:

Computation of Income under the head Salary

	₹
Salary	2,56,000.00
City Compensatory Allowance	8,000.00
Bonus	10,200.00
Education Allowance	4,000.00
Income tax penalty paid by employer {Sec 17(2)(iv)}	2,000.00
Leave Travel Concession	1,000.00
Free Refreshment	Nil
Free Residential Telephone	Nil
Payment of electricity bills by employer {Sec 17(2)(iv)}	1,060.00
Reimbursement of gas bills {Sec 17(2)(iv)}	1,000.00

Professional tax paid by employer {Sec 17(2)(iv)}	300.00
Gross Salary	2,83,560.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Gross Total Income	2,33,560.00
Less: Deductions under Chapter VI-A	Nil
Total Income	2,33,560.00
Computation of Tax Liability	
Tax on ₹2,33,560 at slab rate	Nil
Tax Liability	Nil

Question 30: Define 'Members of Employee's Household' and 'Family'.

Answer: <u>'Members of employee's Household' and 'Family'</u>

<u>"Member of household"</u> shall include—

(a) spouse(s)
(b) children and their spouses
(c) parents
(d) any person dependant on the employee
(e) servants

<u>"Family",</u> in relation to an individual, means—

(i) the spouse and children of the individual and
(ii) the parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.

Question 31: Explain the taxability of income tax paid by the employer on behalf of the employee in connection with non-monetary perquisites.

Answer:

<u>Payment of income tax in connection with non-monetary perquisites</u> <u>Section 10(10CC)</u>

If employer has paid income tax on behalf of the employee in connection with non- monetary perquisites, employer shall not be allowed to debit the amount so paid to the profit and loss account and also it will not be considered to be income of the employee as per section 10(10CC).

If income tax so paid is not in connection with non-monetary perquisites, employer shall be allowed to debit the amount to the profit and loss account and as per section 17(2)(iv), it will be considered to be income of the employee under the head salary.

<u>Illustration 32:</u> During the previous year 2023-24, ABC Ltd. pays ₹60,000 p.m. as salary to Mr. X and provides a rent free unfurnished house (lease rent being ₹15,000 p.m.). ABC Ltd. has also paid income tax of ₹2,500 on behalf of Mr. X in connection with rent free accommodation provided to Mr. X.

Compute Tax Liability of Mr. X for the Assessment Year 2024-25. Also discuss whether income tax paid by the company shall be considered to be income of Mr. X.

<u>Solution:</u>	**₹**
Salary (60,000 x 12)	7,20,000
Rent free accommodation {Sec 17 (2)(i) Rule 3(1)}	72,000

Working Note:
10% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 7,20,000
10% of rent free accommodation salary = 72,000
Rent paid = 15,000 x 12 = 1,80,000
Perquisite value of rent free accommodation = 72,000

Gross salary	7,92,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head salary	7,42,000
Gross Total Income	7,42,000
Less: Deduction under Chapter VI-A	Nil

Total Income	7,42,000
Computation of Tax Liability	
Tax on ₹7,42,000 at slab rate	29,200
Add: HEC @ 4%	1,168
Tax Liability	30,368
Less: Tax Paid by the company	(2,500)
Tax Payable	27,868
Rounded off u/s 288B	27,870

Since tax has been paid by the company in connection with non-monetary perquisite, it will not be considered to be income of Mr. X. If the company has paid income tax upto ₹2,947 it will not be considered to be income of Mr. X but any excess over it shall be considered to be income of Mr. X. The tax liability with regard to rent free accommodation shall be ₹2,947, as shown below:

30,368 / 7,42,000 x 72,000 = 2,946.76 = 2,947

(b) Presume in the above question ABC Ltd. has paid income tax of ₹10,000 instead of ₹2,500. Tax Liability and Tax Payable shall be computed in the manner given below:

Solution:	**₹**
Salary (60,000 x 12)	7,20,000.00
Rent free accommodation {Sec 17 (2)(i) Rule 3(1)}	72,000.00

Working Note:
10% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 7,20,000
10% of rent free accommodation salary = 72,000
Rent paid = 15,000 x 12 = 1,80,000
Perquisite value of rent free accommodation = 72,000

Payment of income tax on behalf of employee {Sec 17(2)(iv)} (10,000 – 2,947)	7,053.00
Gross salary	7,99,053.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	7,49,053.00
Gross Total Income	7,49,053.00
Less: Deduction under Chapter VI-A	Nil
Total Income	7,49,053.00
Rounded off u/s 288A	7,49,050.00
Computation of Tax Liability	
Tax on ₹7,49,050 at slab rate	29,905.00
Add: HEC @ 4%	1,196.20
Tax Liability	31,101.20
Less: Tax Paid by the company	(10,000.00)
Tax Payable	21,101.20
Rounded off u/s 288B	21,100.00

Illustration 33: Mr. X, finance manager of KLM Ltd. Mumbai, furnishes the following particulars for the financial year 2023-24:

(i) Salary ₹46,000 per month
(ii) Rent free accommodation owned by the company
(iii) Housing loan of ₹6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) (Presume SBI Rate 10.5% p.a.)
(iv) Gifts made by the company in kind on the occasion of wedding anniversary of Mr. X ₹4,750
(v) A wooden table and 4 chairs were provided to Mr. X at his residence. These were purchased on 01.05.2020 for ₹ 60,000 and put to use on 01.06.2020 and sold to Mr. X on 01.08.2023 for ₹30,000
(vi) Personal purchases through credit card provided by the company amounting to ₹10,000 was paid by the company. No part of the amount was recovered from Mr. X.
(vii) An ambassador car which was purchased by the company on 16.07.2020 for ₹2,50,000 and put to use on

the same date. It was sold to the assessee on 14.07.2023 for ₹80,000.
Compute the Total Income of Mr. X and the tax thereon for the Assessment Year 2024-25.

Solution:

Computation of Taxable Income of Mr. X for the Assessment Year 2024-25

	₹
Salary (46,000 x 12)	5,52,000.00
Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}	57,200.00

Working Note:

	₹
10% of rent free accommodation salary	
Rent Free Accommodation salary = ₹5,52,000	
Value of unfurnished house	55,200
Add: 10% of cost of furniture (60,000 x 10% x 4/12)	2,000
Perquisite value of furnished house	57,200

Perquisite of interest on loan {Sec 17(2)(viii) Rule 3(7)(i)}	33,000.00

Working Note:
10.5% is taxable which is to be reduced by actual rate of interest charged i.e.[10.5%-5% = 5.5%]
(6,00,000 x 5.5%) = ₹33,000

Gift given on the occasion of wedding anniversary	Nil
Sale of Table and Chairs {Sec 17(2)(viii) Rule 3(7)(viii)}	12,000.00

Working Note:

	₹
Perquisite on sale of table and chairs	
Cost	60,000
Less: Dep. on straight line method @ 10% for 3 years	(18,000)
Written down value	42,000
Less: Amount paid by the assessee	(30,000)
Perquisite value of Table and chairs	12,000

Credit Card Facility	10,000.00
Sale of Ambassador Car {Sec 17(2)(viii) Rule 3(7)(viii)}	80,000.00

Working Note:

	₹
Original cost of Car	2,50,000
Less: Dep. from 16.07.2020 to 15.07.2021	(50,000)
Less: Dep. from 16.07.2021 to 15.07.2022	(40,000)
Written down value	1,60,000
Less: amount received from the assessee	(80,000)
Perquisite value of Ambassador car	80,000

Gross Salary	7,44,200.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	6,94,200.00
Gross Total Income	6,94,200.00
Less: Deduction under Chapter VI-A	Nil
Total Income	6,94,200.00
Computation of tax liability	
Tax on ₹6,94,200 at slab rate	24,420.00
Less: Rebate u/s 87A	(24,420.00)
Tax Liability	Nil

Note: It is assumed that furniture (wooden table and 4 chairs) were provided to Mr. X at his residence on April 1st, 2023 or earlier.

Illustration 34: Mr. X, a resident individual, retires from C Ltd. Delhi w.e.f. 1st February, 2024 after 25 years of service. He joined T Ltd. on the same day i.e. 1st February, 2024.
The following information is provided by him about his incomes/outgoing during the Previous Year 2023-24:
(a) Salary/allowances/perquisites/other payment from 01.04.2023 to 31.01.2024 from C Ltd. ₹

(i)	Basic salary	12,000 p.m.
(ii)	Dearness allowance (One-half includible for superannuation benefits)	3,000 p.m.
(iii)	Commission, 5% on turnover achieved by him	6,000
(iv)	House accommodation, rent paid by company	5,000 p.m.
(v)	Best suggestion award for total quality management scheme (in kind)	12,000
(vi)	Lunch Facility (cost per meal is upto ₹50)	500 p.m.
(vii)	Gratuity under Gratuity Act, 1972	3,35,000
(viii)	Pension	3,000 p.m.
(ix)	Commuted value of one-half pension w.e.f. 01.02.2024	2,25,000
(x)	Refund of employer contribution from unrecognised provident fund (Including interest of ₹1,00,000)	2,50,000
(xi)	Refund of employee contribution from unrecognised provident fund (Including interest of ₹1,00,000)	2,50,000

(b) Salary/allowances/perquisites etc. from 01.02.2024 to 31.03.2024 from T Ltd.

(i)	Salary	8,000 p.m.
(ii)	House rent allowance	1,500 p.m.
(iii)	Free use of motorcar (exceeding 1.6 litres engine capacity) (expenses met by employer)	
(iv)	Rent paid by assessee	2,000 p.m.

You are required to compute his income under the head Salary and Tax Liability for the Assessment Year 2024-25.

<u>Solution:</u> ₹

Computation of income under the head Salary in C Ltd.

Basic Pay (12,000 x 10)	1,20,000.00
Dearness Allowance (3,000 x 10)	30,000.00
Commission	6,000.00
Rent free accommodation {Sec 17(2)(i), Rule 3(1)}	14,100.00

Working Note: ₹

10% of rent free accommodation salary or rent paid whichever is less

<u>Rent free accommodation salary</u>

= Basic Pay + Dearness Allowance + Commission

= 1,20,000 + 15,000 + 6,000 = 1,41,000

10% of rent free accommodation salary	14,100
Rent paid = 5,000 x 10	50,000
Perquisite value of rent free accommodation	14,100

Best suggestion award (Gift) (12,000 – 5,000)	7,000.00
Lunch Facility	Nil
Gratuity {Sec 10(10)}	1,18,653.85

Working Note:

Least of the following is exempt:

1. ₹3,35,000
2. ₹20,00,000
3. 15/26 x 25 x 15,000 = ₹2,16,346.15

Received = ₹3,35,000.00

Exempt = (₹2,16,346.15)

Taxable = ₹1,18,653.85

Uncommuted Pension {Sec 17(1)(ii)} {3,000 x 50% x 2}	3,000.00
Commuted Pension {Sec 10(10A)}	75,000.00

Working Note: ₹

Received =	2,25,000
Exempt = 1/3 x 4,50,000 =	(1,50,000)
Taxable =	75,000

Refund of employer's contribution (including interest)	2,50,000.00

In T Ltd.	
Basic Pay (8,000 x 2)	16,000.00
House Rent Allowance	3,000.00
Motor Car (2,400 x 2)	4,800.00
Gross Salary	6,47,553.85
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	5,97,553.85
Income under the head Other Sources	1,00,000.00
{interest on employee's contribution to unrecognised provident fund}	
Gross Total Income	6,97,553.85
Less: Deduction under Chapter VI-A	Nil
Total Income {Rounded off u/s 288A}	6,97,550.00
Computation of Tax Liability	
Tax on ₹6,97,550 at slab rate	24,755.00
Less: Rebate u/s 87A	(24,755.00)
Tax Liability	Nil

Illustration 35: Mr. X has taken voluntary retirement from ABC Ltd. on 31.10.2023 after serving the employer for 23 years and 2 months. The employer has paid him ₹2,10,000 in connection with voluntary retirement, a gratuity of ₹1,80,000 and leave salary of ₹1,50,000.

The employee was getting the basic pay ₹15,000 p.m. at the time of retirement. The employer has unrecognised provident fund.

After retirement the employer has paid him provident fund balance of ₹5,00,000, out of which employee's contribution is ₹2,00,000. The employer's contribution is also ₹2,00,000 and balance is the interest on employee's and employer's contribution.

The employee has taken voluntary retirement after completion of the age 50 years though he was to be retired at the age of 58.

The employer has allowed him one month leave per year of service. The employee has availed seven months leave throughout his service and has encashed six months leave.

Compute employee's Tax Liability for the Assessment Year 2024-25.

Solution:	**₹**
Basic Pay (15,000 x 7)	1,05,000.00
Employer's contribution to unrecognised provident fund	2,00,000.00
Interest on employer's contribution to unrecognised provident fund	50,000.00
Gratuity {Sec 10(10)}	7,500.00

Working Note:
Least of the following is exempt:
1. ₹1,80,000
2. ₹20,00,000
3. ½ x 15,000 x 23 = ₹1,72,500

Received = ₹1,80,000
Exempt = (₹1,72,500)
Taxable = ₹ 7,500

Leave Salary {Sec 10(10AA)}	Nil

Working Note:
Least of the following is exempt:
1. ₹1,50,000
2. ₹3,00,000
3. 10 x 15,000 = ₹1,50,000
4. 10 x 15,000 = ₹1,50,000

Received = ₹1,50,000
Exempt = (₹1,50,000)

Taxable = Nil **Computation of leave at the credit** Leave Entitlement = 23 months Less: Leave availed = (7 months) Less: Leave Encashed = (6 months) Leave at the credit = 10 months

Voluntary Retirement {Sec 10(10C) Rule 2BA}	Nil

Working Note: **Least of the following is exempt:** 1. 15,000 x 3 x 23 = ₹10,35,000 2. 15,000 x 12 x 8 = ₹14,40,000 3. ₹2,10,000 Received = ₹2,10,000 Exempt = (₹2,10,000) Taxable = Nil

Gross Salary	3,62,500.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	3,12,500.00
Income under the head Other Sources	50,000.00
{Interest on employee's contribution to unrecognised provident fund }	
Gross Total Income	3,62,500.00
Less: Deduction under Chapter VI-A	Nil
Total Income	3,62,500.00
Computation of Tax Liability	
Tax on ₹3,62,500 at slab rate	3,125.00
Less: Rebate u/s 87A	(3,125.00)
Tax Liability	Nil

Illustration 36: Mr. X is employed in ABC Ltd. and is getting Basic Pay (BP) ₹80,000 p.m. Employer Contribution ₹10,000 p.m. to Unrecognised Provident Fund (URPF) and employee also contributed equal amount and interest of ₹ 80,000 was credited to URPF in P.Y. 2023-24 at a rate of 10% p.a. He has taken a medi claim insurance in his name and paid ₹ 25,000 by cheque. He has taken a loan of ₹ 20 lakh from SBI on 01.07.2023 at a rate of 15% p.a. for purchase of one house and at the time of taking the loan, the assessee do not have any house in his name. Value of house is ₹30 lakh.

He has submitted a certificate confirming the amount of interest and house is self-occupied. He has repaid ₹1,50,000 on 01.03.2024.

Compute his tax liability for A.Y. 2024-2025.

Solution:	**₹**
Income under the head Salary	
Basic Pay (80,000 x 12)	9,60,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	9,10,000.00
Income under the head House property	
Gross Annual Value	Nil
Less: Municipal Tax	Nil
Net Annual Value	Nil
Less: Deduction of 30% u/s 24 (a)	Nil
Less: Interest on capital borrowed u/s 24(b)	(2,00,000.00)

Working Note: Current period interest **From 01.07.2023 to 29.02.2024** = 20,00,000 x 15% x 8/12 = ₹2,00,000

From 01.03.2024 to 31.03.2024	
18,50,000 x 15% x 1/12 =	₹23,125
Total interest = ₹2,23,125 but limited to ₹2,00,000	

Income from house property (not allowed to set off from other head)	(2,00,000.00)
Gross Total Income	9,10,000.00
Less: Deductions under Chapter VI-A	Nil
Total Income	9,10,000.00
Rounded off u/s 288A	9,10,000.00
Computation of Tax Liability	
Tax on ₹9,10,000 at slab rate	46,500.00
Add: HEC @ 4%	1,860.00
Tax Liability	48,360.00

Illustration 37: Mr. X is employed in ABC Ltd. getting basic pay ₹12,000 p.m. and dearness allowance ₹5,000 p.m. forming part of salary. He has contributed ₹3,000 p.m. to the recognised provident fund and employer has also contributed an equal amount. During the year interest of ₹25,000 was credited @ 8.5% p.a. Employer has provided rent free accommodation to the employee for which rent paid by the employer is ₹5,000 p.m.

The employee has encashed one month leave and was allowed leave salary of ₹17,000.

Compute his income under the head salary for the previous year 2023-24.

Solution:	**₹**
Basic Pay (12,000 x 12)	1,44,000
Dearness Allowance (5,000 x 12)	60,000
Leave Salary	17,000
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	22,100

Working Note:	**₹**
10% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation salary	
= Basic Pay + Dearness Allowance + Leave Salary	
= 1,44,000 + 60,000 + 17,000 = 2,21,000	
10% of rent free accommodation salary	22,100
Rent paid = 5,000 x 12	60,000
Perquisite value of rent free accommodation	22,100

Employer's contribution to recognised provident fund in excess of 12% of retirement benefit salary {Rule 6 of Part A of schedule IV} (36,000 – 24,480)	11,520
Gross Salary	2,54,620
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	2,04,620

Illustration 38: Mr. X is working in XYZ Ltd. and has given the details of his income for the P.Y. 2023-24. You are required to compute his tax liability from the details given below:

Basic Salary	₹ 30,000 p.m.
D.A. (50% is for retirement benefits)	₹ 8,000 p.m.
Commission as a percentage of turnover	1%
Turnover during the year	₹ 5,00,000
Bonus	₹ 40,000
Gratuity	₹ 25,000
His own contribution in the RPF	₹ 20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 9.5% p.a. (on employer's contribution)	₹ 13,000

Solution: **Computation of Tax Liability of Mr. X for the A.Y.2024-25**

Particulars	**₹**	**₹**

Basic Salary [₹ 30,000 × 12]		3,60,000
Dearness Allowance [₹ 8,000 × 12]		96,000
Commission on turnover [1% × ₹ 5,00,000]		5,000
Bonus		40,000
Gratuity		25,000
Employers contribution to RPF [20% of ₹ 3,60,000]	72,000	
Less : Exempt	(49,560)	22,440
Gross Salary		5,48,440
Less: Standard Deduction u/s 16(ia)		(50,000)
Gross Total Income		4,98,440
Less: Deduction under Chapter VI-A		Nil
Total Income		4,98,440
Tax		9,922.00
Less: Rebate u/s 87A		(9,922.00)
Tax Liability		Nil

Note:
Gratuity received during service is fully taxable.
Employers contribution in the RPF is exempt up to 12% of the salary.
i.e. 12% of [B.S + D.A. for retirement benefits + Commission based on turnover]
= 12% of [₹ 3,60,000 + (50% × ₹ 96,000) + ₹ 5,000] = 12% of ₹ 4,13,000 = ₹ 49,560

Question 32: What is profit in lieu of salary and under what head it is chargeable to tax?
Answer:
Profit in lieu of Salary
As per section 17(3), certain payments given by the employer to the employee are called profit in lieu of salary because it is not appropriate to call such payments as salary and are as given below:
1. Taxable portion of Retrenchment Compensation or Voluntary Retirement.
2. Taxable portion of Gratuity, Commuted Pension and Provident Fund.
3. Amount received by the employee under Keymen Insurance Policy.
4. Amount received before taking up the employment or after termination of the employment.
5. Any other payment notified for this purpose.

Question 33: Define salary under section 17(1).
Answer: Meaning of Salary Section 17(1)
"Salary" includes— (i) wages; (ii) Bonus; (iii) Commission; (iv) Perquisites; (v) gratuity; (vi) pension; (vii) Profits in lieu of salary; (viii) leave salary; (ix) employer contribution to recognised provident fund in excess of 12% of salary of the employee; (x) amount contributed by employer to new pension system covered under section 80CCD; (xi) the contribution made by the Central Government in the previous year, to the Agniveer *Corpus Fund account of an individual enrolled in the* Agnipath *Scheme referred to in section 80CCH* .

Question 34: Distinguish between Foregoing of Salary and Surrender of Salary?
Answer: Foregoing of Salary / Surrender of Salary
Foregoing of Salary
If any salary has accrued to an employee, it is chargeable to tax even if he foregoes his salary. Waiver by an employee of his salary is foregoing of salary. Once salary accrues, subsequent waiver does not absolve him from liability to income tax.

Surrender of Salary
If any employee surrenders his salary to the **Central Government under the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961**, the surrendered salary would not be included in computing his taxable income, whether he is a private sector/public sector or Government employee.

Question 35: The question whether a particular income is "Income from Salary". or is "Income from Business" depends upon whether the contracts is a 'Contract of Service' or is a 'Contract for Service'. Discuss.

Answer: Contract of Service / Contract for Service

Contract of service

Income is taxable under the head salary, if there is a 'contract of service' i.e. the relationship is that of employer–employee. In other words, the employee does the work for his master. Control and supervision vests in the master.

Contract for service

A 'contract for service', on the other hand, is one, in which a person offers his services to any person who is willing to pay the prescribed charges. He has discretion to do the work in his own way. He is entitled to the fruits of his labour and liable for its losses. Such receipts constitute income from business in his hands.

Question 36: What are the incomes taxable under the head Salary?

Answer: Incomes chargeable under the head Salary

Payments must be out of employer/employee relationship

The amount received by an individual shall be treated as salary only if the relationship between payer and payee is that of an employer and employee or master and servant. The employee may be a full time employee or part-time employee.

The important point is that payment received by an individual from a person other than his employer cannot be termed as salary. e.g. Commission received by a director from a company is salary if the director is an employee of the company and if the director is not an employee of the company, commission will be taxable under the head "Profits and gains of business or profession" or "Income from other sources."

Payments received by a college lecturer from a university

Emoluments received by a college lecturer from his college are salary, irrespective of the fact whether it is received for academic work or otherwise. If lecturer is paid for setting question paper by university, the remuneration is not salary, as it is not received from the employer and is taxable under the head "Income from other sources". The deciding factor is that what is not received from employer cannot be treated as salary.

A Member of Parliament or State Legislature is not treated as an employee of the Government, hence salary and allowances received by him are, not chargeable to tax under the head "Salaries" but are chargeable to tax under head "Income from other sources".

OPTIONAL REGIME

Question 1: Write a note on deduction in case of contribution to New Pension Scheme of Central Government. (NPS).

Answer: Deduction in respect of New Pension System/ New Pension Scheme / Notified Pension Scheme (NPS) Section 80CCD

80CCD(1) If any employee has contributed to the NPS, deduction shall be allowed but maximum upto 10% of salary. If contribution has been made by an individual other than employee, deduction shall be allowed for the amount contributed but maximum upto 20% of gross total income.

80CCD(1B) An individual shall be allowed deduction upto ₹50,000 for his contribution in excess of the amount allowed under section 80CCD(1) e.g. If salary of the employee for a particular year is ₹10,00,000 and he has contributed @ 20% of the salary i.e. ₹2,00,000, in this case deduction of ₹1,00,000 shall be allowed under section 80CCD(1) and deduction of ₹50,000 u/s 80CCD(1B). Similarly if salary is ₹25,00,000 and he has contributed 10% i.e. ₹2,50,000, deduction allowed u/s 80CCD(1) shall be ₹1,50,000 and deduction allowed u/s 80CCD(1B) shall be ₹50,000.

80CCD(2) If employer is Central Government / State Government, deduction shall be allowed equal to the amount contributed but it cannot exceed 14% of salary and in case of other employers 10% of salary.

80CCD(3) If the employee has opted out of the scheme i.e. he has closed his account under this scheme, entire amount received shall be taxable but if amount has been received by the nominee after the death of the individual, it will be exempt from income tax.

Any pension received under this scheme shall be taxable.

If payment has been received after retirement, it will be exempt if amount received is upto 60% of the total amount.

ATAL PENSION YOJANA

Atal Pension Yojana (APY) is the Government Of India's social benefit pension program. Earlier when it was launched, there were no tax benefits. However, now APY is treated like NPS for tax benefits and eligible for deduction u/s 80CCD. Features of the scheme is as follows:

1. Any citizen of India whose age is between 18 years to 40 years can join this scheme.
2. You will start to receive the pension when you turn 60 years of age.
3. If the subscriber dies before the age of 60 years, his/her spouse would be given an option to continue contributing as usual, for the remaining period, till the original subscriber would have attained the age of 60 years.
4. If the spouse of the deceased not interested to continue the APY account, then he or she can close the account there itself and can claim the amount.
5. In case of death of subscriber, the same pension would be available to the spouse and on the death of both of them (subscriber and spouse), the pension wealth accumulated till age 60 of the subscriber would be returned to the nominee
6. Exit before age 60 would be permitted only in exceptional circumstances, i.e., in the event of the death of the beneficiary or terminal disease.

Illustration 1: Mr. X is employed in Central Government getting salary ₹2,00,000 p.m. The employer and employee both have contributed @ 14% of the salary, in this case tax liability shall be computed in manner given below:

Solution:

Optional Regime

Income under the head Salary	
2,00,000 x 12	24,00,000
Employer's contribution (24,00,000 x 14%)	3,36,000
Gross Salary	27,36,000
Less: Standard Deduction u/s 16(i)	50,000
Income under the head Salary	26,86,000
Gross Total Income	26,86,000
Less: Deduction u/s 80CCD(1) (24,00,000 x 10% = 2,40,000 but maximum)	1,50,000
Less: Deduction u/s 80CCD(1B)	50,000
Less: Deduction u/s 80CCD(2)	3,36,000
Total Income	21,50,000

Computation of Tax Liability

Tax on ₹21,50,000 at slab rate	4,57,500
Add: HEC @ 4%	18,300
Tax Liability	4,75,800

Illustration 2: Mrs. X is employed in Central Government since 01.01.2023 and is getting basic pay of ₹1,00,000 p.m. She has contributed ₹15,000 p.m. to the notified pension scheme of Central Government and employer has also contributed an equal amount. She has paid premium of Jeevan Suraksha Policy ₹3,000 and invested ₹1,00,000 in NSC.

Compute her tax liability for the assessment year 2024-25 under optional tax regime.

Solution:	**₹**
Basic Pay	12,00,000.00

(1,00,000 x 12)		
Contribution to the pension fund by Central Government		1,80,000.00
(15,000 x 12)		
Gross Salary		13,80,000.00
Less: Standard Deduction u/s 16 (ia)		(50,000.00)
Income under the head Salary		13,30,000.00
Gross Total Income		13,30,000.00
Less: Deduction u/s 80C	1,00,000.00	
Less: Deduction u/s 80CCC	3,000.00	
Less: Deduction u/s 80CCD (1)	47,000.00	
Additional Deduction u/s 80CCD (1B)	50,000.00	
Employee contribution 1,80,000 but maximum ₹1,20,000		
Employer contribution (14% of 12,00,000)	1,68,000.00	
		(3,68,000.00)
Total Income		9,62,000.00
Computation of Tax Liability		
Tax on ₹9,62,000 at slab rate		1,04,900.00
Add: HEC @ 4%		4,196.00
Tax Liability		1,09,096.00
Rounded off u/s 288B		1,09,100.00

Illustration 3: Mr. X has income under the head Business/Profession ₹20,00,000 and income under the head house property ₹2,00,000 and he has deposited ₹2,20,000 in notified pension scheme, in this case his income and tax liability shall be

Income under the head Business/Profession	20,00,000
Income under the head House Property	2,00,000
Gross Total Income	22,00,000
Less: Deduction u/s 80CCD	(2,00,000)
Total Income	20,00,000
Computation of Tax Liability	
Tax on ₹20,00,000 at slab rate	4,12,500
Add: HEC @ 4%	16,500
Tax Liability	4,29,000

Illustration 4: The basic salary of Mr. X is ₹ 80,000 p.m. Both Mr. A and his employer contribute 10% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. X.

Solution:

Basic Pay	9,60,000
(80,000 x 12)	
Employer's contribution to NPS	96,000
Gross Salary	10,56,000
Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	10,06,000
Gross Total Income	10,06,000
Less: Deduction u/s 80CCD	
Employer's contribution (9,60,000 x 10%)	(96,000)
Employee contribution (9,60,000 x 10%)	(96,000)
Total Income	8,14,000
Computation of Tax Liability	
Tax on ₹8,14,000 at slab rate	75,300
Add: HEC @ 4%	3,012
Tax Liability	78,312

Rounded off u/s 288B 78,310

Question 2 [V. Imp.]: Discuss the taxability of house rent allowance given by the employer to his employee?

Answer: House Rent Allowance Section 10(13A) Rule 2A

Payment in cash by the employer to the employee for a specific purpose is called allowance e.g. If Mr. X is employed in ABC Ltd. and the employer has paid him ₹5,000 p.m. for taking a house on rent, it will be called house rent allowance.

House rent allowance is exempt to the extent of the least of the following:

(i) Rent paid over **10%** of retirement benefits salary due to the assessee for the relevant period.

(ii) **50%** of retirement benefit salary in case of **Bombay**, **Calcutta**, **Madras** or **Delhi**.
40% of retirement benefit salary in case of any other place.

(iii) House rent allowance received.

If there is any change in house rent allowance, rent paid, retirement benefits salary or the place of posting during the year, there will be separate calculation for each of such change.

Illustration 5: Mr. X is employed in ABC Ltd. getting basic pay ₹20,000 p.m., dearness allowance ₹7,000 p.m. and half of the dearness allowance forms the part of salary for the purpose of retirement benefits.

The employer has paid bonus @ ₹500 p.m., commission @ 1% on the sales turnover of ₹20 lakhs. The employer paid him house rent allowance ₹6,000 p.m. Employee has paid rent ₹7,000 p.m. and was posted at Agra. Compute his Tax Liability for the Assessment Year 2024-25 under optional tax regime

Solution: ₹

Computation of Gross Salary

Basic Pay (20,000 x 12)	2,40,000.00
Dearness Allowance (7,000 x 12)	84,000.00
Bonus (500 x 12)	6,000.00
Commission (1% of ₹20,00,000)	20,000.00
House rent allowance {Sec 10(13A) Rule 2A}	18,200.00

Working Note:

Least of the following is exempt:

1. ₹84,000 – ₹30,200 = 53,800
2. 40% of retirement benefit salary = ₹1,20,800
(Retirement benefit salary = 2,40,000 + 42,000 + 20,000 = 3,02,000)
3. ₹72,000

Received = ₹72,000
Exempt = (₹53,800)
Taxable = ₹18,200

Gross Salary	3,68,200.00
Less: Standard Deduction u/s 16 (ia)	(50,000.00)
Income under the head Salary	3,18,200.00
Gross Total Income	3,18,200.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,18,200.00

Computation of Tax Liability

Tax on ₹3,18,200 at slab rate	3,410.00
Less: Rebate u/s 87A	(3,410.00)
Tax Liability	Nil

Illustration 6: Compute taxable amount of house rent allowance in the following cases:

Name of the employee	Mr. A	Mr. B	Mr. C	Mr. D
Basic Pay	20,000 p.m.	20,000 p.m.	20,000 p.m.	20,000 p.m.
House rent allowance	5,000 p.m.	5,000 p.m.	5,000 p.m.	5,000 p.m.
Rent paid	1,500 p.m.	12,000 p.m.	14,000 p.m.	Nil

Place of residence	Delhi	Delhi	Delhi	Delhi

Solution:

Situation 1: (Mr. A)

Computation of taxable amount of House rent allowance	**₹**
1. Rent paid over 10% of retirement benefit salary (₹18,000 – ₹24,000)	Nil
2. 50% of retirement benefit salary	1,20,000
(Retirement benefit salary = 2,40,000)	
3. House Rent allowance received (5,000 x 12)	60,000
Received	60,000
Exempt	Nil
Taxable	60,000

Situation 2: (Mr. B)

1. Rent paid over 10% of retirement benefit salary (₹1,44,000 – ₹24,000)	1,20,000
2. 50% of retirement benefit salary	1,20,000
(Retirement benefit salary = 2,40,000)	
3. House Rent allowance received (5,000 x 12)	60,000
Received	60,000
Exempt	(60,000)
Taxable	Nil

Situation 3: (Mr. C)

1. Rent paid over 10% of retirement benefit salary (₹1,68,000 – ₹24,000)	1,44,000
2. 50% of retirement benefit salary	1,20,000
(Retirement benefit salary = 2,40,000)	
3. House Rent allowance received (5,000 x 12)	60,000
Received	60,000
Exempt	(60,000)
Taxable	Nil

Situation 4: (Mr. D)

1. Rent paid over 10% of retirement benefit salary	Nil
2. 50% of retirement benefit salary	1,20,000
(Retirement benefit salary = 2,40,000)	
3. House Rent allowance received (5,000 x 12)	60,000
Received	60,000
Exempt	Nil
Taxable	60,000

<u>Illustration 7:</u> Mr. X is employed in ABC Ltd. getting basic pay ₹20,000 p.m. but it was increased to ₹30,000 p.m. w.e.f. 01.09.2023. The employer was paying him house rent allowance ₹6,000 p.m. but it was decreased to ₹3,000 p.m. w.e.f. 01.11.2023. The employee was paying rent ₹4,000 p.m. but it was increased to ₹7,000 p.m. w.e.f. 01.12.2023. The employee was posted at Amritsar but was transferred to Calcutta w.e.f. 01.02.2024. The employee has resigned w.e.f. 01.03.2024.

Compute his Tax Liability for the Assessment Year 2024-25 under optional tax regime.

<u>Solution:</u>	**₹**
Basic Pay [(20,000 x 5) + (30,000 x 6)]	2,80,000
House rent allowance {Sec 10(13A) Rule 2A}	32,000

Working Note:

<u>From April to August</u>

Least of the following is exempt:

1. ₹20,000 – ₹10,000 = ₹10,000
2. 40% of retirement benefit salary = ₹40,000

(Retirement benefit salary = ₹1,00,000)

3. ₹30,000

Received = ₹30,000

Exempt = (₹10,000)
Taxable = ₹20,000

From September to October

Least of the following is exempt:

1. ₹8,000 – ₹6,000 = ₹2,000
2. 40% of retirement benefit salary = ₹24,000
(Retirement benefit salary = ₹60,000)
3. ₹12,000

Received = ₹12,000
Exempt = ₹ (2,000)
Taxable = ₹ 10,000

For November

Least of the following is exempt:

1. ₹4,000 – ₹3,000 = ₹1,000
2. 40% of retirement benefit salary = ₹12,000
(Retirement benefit salary = ₹30,000)
3. ₹3,000

Received = ₹3,000
Exempt = (₹1,000)
Taxable = ₹2,000

From December to January

Least of the following is exempt:

1. ₹14,000 – ₹6,000 = ₹8,000
2. 40% of retirement benefit salary = ₹24,000
(Retirement benefit salary = ₹60,000)
3. ₹6,000

Received = ₹6,000
Exempt = (₹6,000)
Taxable = Nil

For February

Least of the following is exempt:

1. ₹7,000 – ₹3,000 = ₹4,000
2. 50% of retirement benefit salary = ₹15,000
(Retirement benefit salary = ₹30,000)
3. ₹3,000

Received = ₹3,000
Exempt = (₹3,000)
Taxable = Nil

Total = 20,000 + 10,000 + 2,000 + Nil + Nil = ₹32,000

Gross Salary	3,12,000
Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	2,62,000
Gross Total Income	2,62,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,62,000
Computation of Tax Liability	
Tax on ₹2,62,000 at slab rate	600.00
Less: Rebate u/s 87A	(600.00)
Tax Liability	Nil

Question 3 [V. Imp.]: Write a note on special allowances Section 10(14) Rule 2BB.

Answer: <u>Special Allowance</u> <u>Section 10(14) Rule 2BB</u>

Special allowances are divided into 2 parts:

(A) Personal allowance Section 10(14)

(B) Official allowance Section 10(14)

Personal allowance Section 10(14) Rule 2BB

Personal allowances are as given below:

(1) Children Education Allowance

Children education allowance is **exempt upto ₹100 p.m. per child upto two child.**

Example

Mr. X is employed in ABC Ltd. and the employer has paid him children education allowance of ₹175 p.m. per child for three children. In this case, taxable amount shall be

I	II	III
175	175	175
100	100	
75	75	175 = 325 x 12 = 3,900

Similarly, if the employer has paid children education allowance of ₹45 p.m. per child for three children, taxable amount shall be

I	II	III
45	45	45
45	45	
Nil	Nil	45 = 45 x 12 = 540

- **Exemption is allowed irrespective of the expenditure incurred.**

Example

Mr. X is employed in ABC Ltd. and is getting children education allowance of ₹400 p.m. per child for three children and Mr. X has incurred ₹500 p.m. on the education of each of the child, in this case taxable amount shall be

I	II	III
400	400	400
100	100	Nil
300	300	400 = 1000 x 12 = 12,000

(2) Hostel Allowance

Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto **₹300 p.m. per child upto two children**. Remaining provisions are similar to children education allowance.

(3) Transport Allowance

Allowance given to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty is called transport allowance, but Transport allowance granted to an employee, who is blind or orthopaedically handicapped with disability of lower extremities, to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty is exempt upto **₹3,200 p.m**.

(4) Outstation Allowance

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.**

Example

Mr. X is employed in Indian Airlines and is getting outstation allowance of ₹10,000 p.m. In this case, exemption allowed shall be (10,000 x 12 x 70%) or (10,000 x 12) whichever is less i.e. ₹84,000 and taxable amount shall be ₹36,000

If the transport system has provided daily allowance as well as outstation allowance, in such cases, daily allowance is fully exempt and outstation allowance is fully taxable.

Transport system shall include Railways, Roadways, Shipping company etc. It will also include any other private transporter.

(5) Underground Allowance

Sometimes the employer may pay some allowance to the employees who are working in the mines and such allowance is called underground allowance and it is exempt upto ₹800 p.m.

(6) Tribal Area Allowance

Sometimes an employee may be posted in the tribal area and employer may pay him some allowance, it is called tribal area allowance and it is exempt upto ₹200 p.m.

Official allowance Section 10(14) Rule 2BB

The allowances given by the employer for official purpose are called official allowance and are exempt from income tax however saving is taxable and are as given below:

(1) Travelling Allowance means allowance given by the employer to meet the cost of traveling when the employee is on official tour.

(2) Daily Allowance means allowance given by the employer to meet the cost of boarding and lodging when the employee is on official tour. Since it is given on per day basis, it is called daily allowance.

(3) Conveyance Allowance: Any allowance granted to meet the expenditure incurred on **conveyance** is called conveyance allowance.

(4) Helper Allowance: Any allowance granted to meet the expenditure incurred on a **helper** where such a helper is engaged for the performance of duties of office or employment.

(5) Academic Allowance: Any allowance granted for **encouraging academic research** and **training pursuits** in educational and research institutions.

(6) Uniform Allowance: Any allowance granted to meet the expenditure incurred on the purchase **or maintenance of uniforms** for wear during the performance of the duties of an office or employment.

If the above allowances are given for personal purpose, it will be taxable e.g. If travelling allowance or conveyance allowance is given for personal purpose, it will be taxable.

Illustration 8: Mr. X is employed in Central Government getting basic pay ₹18,000 p.m., dearness allowance ₹6,000 p.m. Employer has paid children education allowance ₹700 p.m. per child w.e.f. 01.09.2023 and hostel allowance of ₹1,000 p.m. for one child w.e.f. 01.10.2023.

Employer has paid transport allowance ₹1,700 p.m. w.e.f. 01.11.2023. Employer has paid house rent allowance ₹5,000 p.m. w.e.f 01.01.2024.

The employee has resigned from 01.02.2024 and has taken up a new job w.e.f. 01.03.2024. He is getting basic pay ₹27,000 p.m. and house rent allowance ₹4,000 p.m.

Compute his Tax Liability for the Assessment Year 2024-25.

Solution:	**₹**
Basic Pay [(18,000 x 10) + (27,000 x 1)]	2,07,000.00
Dearness Allowance (6,000 x 10)	60,000.00
House rent allowance {Sec 10(13A) Rule 2A}	9,000.00

Working Note:

For January

Least of the following is exempt:

1. Nil
2. 40% of retirement benefit salary = ₹7,200

(Retirement benefit salary = ₹18,000)

3. ₹5,000

Received = ₹5,000

Exempt = Nil

Taxable = ₹5,000

For March

Least of the following is exempt:

1. Nil

2. 40% of retirement benefit salary = ₹10,800
(Retirement benefit salary = ₹27,000)
3. ₹4,000
Received = ₹4,000
Exempt = Nil
Taxable = ₹4,000
Total = ₹5,000 + ₹4,000 = ₹9,000

Children Education Allowance {Sec 10(14) Rule 2BB}		3,000.00
Working Note:	**₹**	
Received = ₹700 x 5 x 1 =	3,500	
Exempt = ₹100 x 5 x 1 =	(500)	
Taxable =	3,000	
Hostel Allowance {Sec 10(14) Rule 2BB}		2,800.00
Working Note:	**₹**	
Received = ₹1,000 x 4 x 1 =	4,000	
Exempt = ₹ 300 x 4 x 1 =	(1,200)	
Taxable =	2,800	
Transport Allowance		5,100.00
Gross Salary		2,86,900.00
Less: Standard Deduction u/s 16(ia)		(50,000.00)
Income under the head salary		2,36,900.00
Gross Total Income		2,36,900.00
Less: Deduction u/s 80C to 80U		Nil
Total Income		2,36,900.00
Computation of Tax Liability		
Tax on ₹2,36,900 at slab rate		Nil
Tax Liability		Nil

Illustration 9: Mr. X has two sons. He is in receipt of children education allowance of ₹ 150 p.m. for his elder son and ₹ 70 p.m. for his younger son. He also receives the following allowances:
Tribal area allowance: ₹ 500 p.m.
Compute his taxable allowances.

Solution:
Taxable allowance in the hands of Mr. X is computed as under -

Children Education Allowance:		
Elder son [(₹ 150 – ₹ 100) p.m. × 12 months]	= ₹ 600	
Younger son [(₹ 70 – ₹ 70) p.m. × 12 months]	= Nil	₹ 600
Tribal area allowance [(₹ 500 – ₹ 200)p.m. × 12 months]		₹ 3,600
Taxable allowances		**₹ 4,200**

Question 4: Write a note on entertainment allowance.
Answer: Entertainment allowance Section 16(ii) – Sometimes the employer may pay some amount to the employee to entertain the customers of the employer and it is called entertainment allowance and entire amount shall be added to the gross salary of the employee however deduction shall be allowed in case of government employees under section 16(ii) to the extent of the least of the following:
(i) 20% of basic salary
(ii) ₹ 5,000
(iii)The actual allowance received by the employee
Deduction is allowed only if the employee is State Government or Central Government employee i.e. in case of employees of Local Authority, Statutory Corporation, Public Sector Undertaking etc, deduction is not allowed.
If the employee has saved any amount, it will not be taken into consideration.

Illustration 10: Mr. X is employed in central Government getting basic pay ₹30,000 p.m., dearness allowance

₹7,000 p.m., servant allowance ₹2,000 p.m., entertainment allowance ₹1,000 p.m., city compensatory allowance ₹600 p.m. In this case tax liability of Mr. X shall be

Basic Salary (30,000 x 12)	3,60,000
Dearness Allowance (7,000 x 12)	84,000
Servant Allowance (2,000 x 12)	24,000
Entertainment Allowance (1,000 x 12)	12,000
City Compensatory Allowance (600 x 12)	7,200
Gross Salary	4,87,200
Less: Standard Deduction u/s 16(ia)	(50,000)
Less: Entertainment Allowance u/s 16(ii)	(5,000)
Working Note:	
Least of the following:	
(i) 20% of basic salary (3,60,000 x 20% = 72,000)	
(ii) ₹ 5,000	
(iii) The actual allowance received by the employee ₹12,000	
Income under the head salary	4,32,200
Gross Total Income	4,32,200
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,32,200
Computation of Tax Liability	
Tax on ₹4,32,200 at slab rate	9,110.00
Less: Rebate u/s 87A	(9,110.00)
Tax Liability	Nil

Question 5: Write a note on Professional Tax/Employment Tax.

Answer: <u>Professional Tax/Employment Tax</u> <u>Section 16(iii)</u>

As per article 276 of Indian constitution, state government is empowered to levy a tax on profession, business or employment and such tax shall be called professional tax or employment tax. If the person has business or profession, such tax can be debited to profit and loss account on actual payment basis and if the assessee is the employee he will be allowed to claim deduction from gross salary under section 16(iii) to compute income under the head salary. If the amount has been paid by the employer on behalf of the employee, it will be first included in gross salary under section 17(2)(iv) and subsequently deduction is allowed under section 16(iii). If the amount is due but not paid, deduction is not allowed.

<u>Illustration 11:</u> Mr. X is employed in Central Government getting basic pay ₹14,000 p.m., dearness allowance ₹5,000 p.m., House rent allowance ₹4,000 p.m. w.e.f. 01.07.2022. However, employee is residing in the house of his parents. Employer has paid cash allowance ₹300 p.m., medical allowance ₹250 p.m. and entertainment allowance ₹400 p.m. Employer has paid professional tax ₹75 p.m. on behalf of the employee.

Employee has saved ₹35 p.m. out of entertainment allowance.

Compute employee's income under the head Salary and Tax Liability for the Assessment Year 2024-25.

<u>Solution:</u>	**₹**
Basic Pay (14,000 x 12)	1,68,000.00
Dearness allowance (5,000 x 12)	60,000.00
House rent allowance {Sec 10(13A) Rule 2A}	36,000.00
Working Note:	
Least of the following is exempt:	
1. Nil	
2. 40% of retirement benefit salary = ₹50,400	
(Retirement benefit salary = ₹1,26,000)	
3. ₹36,000	
Received = ₹36,000	
Exempt = Nil	
Taxable = ₹36,000	
Cash Allowance (300 x 12)	3,600.00

Medical Allowance (250 x 12)	3,000.00
Entertainment Allowance (400 x 12)	4,800.00
Professional tax paid by employer (75 x 12)	900.00
Gross Salary	2,76,300.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Less: 16(ii) Entertainment Allowance	(4,800.00)
Working Note:	
Least of the following is deductible:	
1. Entertainment allowance received ₹4,800	
2. ₹5,000	
3. 20% of ₹1,68,000 = ₹33,600	
Less: 16(iii) Professional Tax	(900.00)
Income under the head salary	2,20,600.00
Gross Total Income	2,20,600.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,20,600.00
Computation of Tax Liability	
Tax on ₹2,20,600 at slab rate	Nil
Tax Liability	Nil

Question 6 [V. Imp.]: Write a note on Leave Travel Concession.
Answer:
<u>Leave Travel Concession</u> **<u>Section 10(5) Rule 2B</u>**

Sometimes the employer may permit the employee or his family member to go to any place in India and travelling expenditure are incurred by the employer, such facility is called leave travel concession or leave fare concession.

Example

Mr. X is employed in ABC Ltd. and is posted in Delhi and the employer has allowed him to travel from Delhi to Goa and travelling expenditure has been incurred by the employer, in this case it will be called leave travel concession.

Taxability shall be as given below:

1. If the employee has travelled **<u>by air</u>**, exemption shall be allowed upto **<u>air economy fare</u>** of the national carrier. E.g. Mr. X travelled from place A to place B by air business class and employer paid ₹12,000 per ticket but economy class air fare is ₹7,000 per ticket, in this case taxable amount shall be ₹5,000.

2. If employee has not travelled by air, exemption shall be allowed upto first class AC fare of railways e.g. Mr. X travelled from place A to place B by railway first class AC and employer paid ₹6,000 per ticket, in this case entire amount is exempt but if employee has travelled by private tourist bus and employer paid ₹7,000 per ticket, taxable amount shall be ₹1,000 per ticket.

3. If the places are not connected by rail but there is some recognised transport system, exemption shall be allowed upto first class or deluxe class of such recognised transport system. Recognised transport system means govt. transport or private transport recognised by Govt.

4. If there is no rail connection and also there is **<u>no recognised transport system</u>**, exemption shall be allowed upto first class AC fare of railways (fare shall be determined on the basis of distance between the place travelled) E.g. Mr. X has travelled from place A to place B by a private bus (distance 50 kms) and employer has paid ₹ 600. There is no rail connection and also no recognised transport. First class AC fare of railway is ₹500, taxable amount shall be ₹100.

<u>Ceiling on number of journeys</u>

The exemption shall be available to an individual two times **<u>in each block of four calendar years</u>**.

<u>Carry forward of leave travel concession</u>

If the employee has not availed any leave travel concession or has availed only one leave travel concession during a particular block, carry forward shall be allowed but only for one leave travel concession and such LTC must be availed during very first year of the next block otherwise the LTC shall lapse.

Example: An employee does not avail any LTC for the block 2019-22. He avails one LTC during 2023. In this case, he will be eligible for exemption and two more journeys can be further availed.

"Family", shall include—

(i) the **spouse** and **children** of the individual however exemption shall be allowed maximum 2 children but in case of multiple birth after the birth of one child, exemption is allowed for all the children e.g. Mr. X has one son aged 10 years and twin daughters aged 5 years, in this case exemption is allowed for all the 3 children.

(ii) the **parents**, **brothers** and **sisters** of the individual or any of them, wholly or mainly **dependent** on the individual.

- ❖ If the employer has paid leave travel allowance and employee has not travelled to any place, entire amount paid by the employer is taxable.
- ❖ The exemption is allowed only in respect of fare i.e. expenses incurred on conveyance from residence to the railway station/airport/ bus stand etc. and back shall be taxable.

Example

(i) Mr. X is employed in ABC Ltd. and the employer has allowed him to travel from Delhi to Bombay by air (business class) and has reimbursed ₹12,000 per ticket but economy class air fare is ₹7,000 per ticket, in this case taxable amount per ticket shall be ₹5,000.

If in the above case the employee has travelled alongwith Mrs. X, two children and one independent brother and the employer has reimbursed five tickets, taxable amount shall be ₹32,000.

(ii) Mr. Y is employed in ABC Ltd. and he has travelled from place 'A' to place 'B' by a private bus because there is no rail link and also there is no recognised transport and the employer has reimbursed him ₹3,000 per ticket but first class A/C fare of the railways is ₹2,800 per ticket, in this case taxable amount shall be ₹200 per ticket.

(iii) Mr. X has travelled from Delhi to Bombay by second class railways and the employer has paid him ₹5,000 per ticket being first class A/C fare. The employee has incurred ₹1,000 per ticket, in this case taxable amount shall be ₹4,000 per ticket.

Illustration 12: Mr. D went on a holiday on 25.12.2023 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 2 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt.

Solution: Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.

Illustration 13: In the above illustration, will be there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

Solution: Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children.

Taxable LTC =15,000 × 1/3 = ₹ 5,000.

LTC exempt is only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

MULTIPLE CHOICE QUESTIONS

1. The maximum ceiling limit for exemption under section 10(10) in respect of gratuity for employees covered by the Payment of Gratuity Act, 1972 is -
(a) ₹10,00,000
(b) ₹5,00,000
(c) ₹3,50,000
(d) ₹20,00,000
2. The maximum ceiling limit for exemption under section 10(10C) with respect to compensation received on voluntary retirement is -
(a) ₹2,50,000
(b) ₹3,00,000
(c) ₹3,50,000
(d) ₹5,00,000
3. The HRA paid to an employee residing in Patna is exempt under optional scheme up to the lower of actual HRA, excess of rent paid over 10% of salary and -
(a) 30% of salary
(b) 40% of salary
(c) 50% of salary
(d) 60% of salary
4. Anirudh stays in New Delhi. His basic salary is ₹10,000 p.m., D.A. (60% of which forms part of pay) is ₹6,000 p.m., HRA is ₹5,000 p.m. and he is entitled to a commission of 1% on the turnover achieved by him. Anirudh pays a rent of ₹5,500 p.m. The turnover achieved by him during the current year is ₹12 lakhs. The amount of HRA exempt under optional scheme under section 10(13A) is –
(a) ₹48,480
(b) ₹45,600
(c) ₹49,680
(d) ₹46,800
5. Where there is a decision to increase the D.A. in March, 2024 with retrospective effect from 1.4.2022, and the increased D.A. is received in April, 2024, the increase is taxable -
(a) in the previous year 2022-23
(b) in the previous year 2023-24
(c) in the previous year 2024-25
(d) in the respective years to which they relate
6. Rajesh is provided with a rent free unfurnished accommodation, which is owned by his employer, XY Pvt. Ltd., in New Delhi. The value of perquisite in the hands of Rajesh is -
(a) 20% of salary
(b) 15% of salary
(c) 10% of salary
(d) 7.5% of salary
7. Anand is provided with furniture to the value of ₹70,000 along with house from February, 2023. The actual hire charges paid by his employer for hire of furniture is ₹5,000 p.a.. The value of furniture to be included along with value of unfurnished house for A.Y.2024-25 is-
(a) ₹5,000
(b) ₹7,000
(c) ₹10,500
(d) ₹14,000
8. For the purpose of determining the perquisite value of loan at concessional rate given to the employee, the lending rate of State Bank of India as on __________ is required;
(a) 1st day of the relevant previous year
(b) Last day of the relevant previous year
(c) the day the loan is given
(d) 1st day of the relevant assessment year

9. Mr. Kashyap received basic salary of ₹20,000 p.m. from his employer. He also received children education allowance of ₹3,000 for three children and transport allowance of ₹1,800 p.m. The amount of salary chargeable under optional tax regime to tax for P.Y. 2023-24 is -
(a) ₹2,62,600
(b) ₹2,12,600
(c) ₹2,22,200
(d) ₹2,07,800
10. The entertainment allowance received by a Government employee is exempt up to the lower of the actual entertainment allowance received, 1/5th of basic salary and-
(a) ₹4,000
(b) ₹6,000
(c) ₹5,000
(d) ₹10,000.
11. For the purposes of computing exemption under section 10(10), in case of Mr. Anand, an employee of ABC Ltd., who is covered by the Payment of Gratuity Act, 1972, "salary" includes –
(a) only basic pay
(b) basic pay and dearness allowance, if provided in the terms of employment
(c) basic pay and dearness allowance
(d) basic pay, dearness allowance and commission as a fixed percentage of turnover
12. Provision of rent free accommodation and motor car owned by Beta Ltd. to its employee Mr. Anand, where motor car is allowed to be used by Mr. Anand both for official and personal purposes, is a –
(a) perquisite taxable in case of all employees
(b) perquisite taxable only in case of specified employees
(c) perquisite of rent free accommodation is taxable in case of all employees whereas perquisite of motor car is taxable only in case of specified employees
(d) perquisite of rent free accommodation is taxable only in case of specified employees whereas perquisite of motor car is taxable in case of all employees
13. Retirement Benefit Salary shall include:
(a) Basic pay plus commission
(b) Basic pay plus Dearness allowance
(c) Basic pay plus Dearness allowance (forming part of salary) plus commission (fixed on turnover)
(d) Basic pay plus Dearness allowance plus any commission
(e) taxable salary
14. Payments received from recognised provident fund shall be exempt from income tax if the
(a) If the employee has rendered continuous service for a period of **10 years** or more
(b) If the employee has rendered service for a period of **5 years** or more
(c) If the employee has rendered continuous service for a period of **5 years** or more
(d) If the employee has rendered service for a period of **10 years** or more
15. Any gratuity received by the employees covered under payment of Gratuity Act 1972, shall be exempt
(a) Lower of Gratuity received or ₹ 20,00,000 or 15 days salary for each completed year of service or part thereof in excess of six month.
(b) Lower of Gratuity received or ₹ 10,00,000 or 15 days salary for each completed year of service or part thereof in excess of six month.
(c) Lower of Gratuity received or ₹ 5,00,000 or 30 days salary for each completed year of service or part thereof in excess of six month.
(d) Lower of Gratuity received or ₹ 20,00,000 or 30 days salary for each completed year of service or part thereof in excess of six month.
16. Salary for the purpose of Gratuity (employees not covered under gratuity act) means
(a) Basic pay plus commission
(b) Basic pay plus Dearness allowance
(c) Basic pay plus Dearness allowance (forming part of salary) plus commission (fixed on turnover)
(d) Basic pay plus any Dearness allowance plus any commission
(e) taxable salary

17. Mr. X retired on 15.06.2023 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

Basic Salary	**: ₹ 5,000 p.m.**
Dearness Allowance	**: ₹ 3,000 p.m. (60% of which is for retirement benefits)**
Commission	**: 1% of turnover (turnover in the last 12 months was ₹ 12,00,000)**
Bonus	**: ₹ 12,000 p.a.**

Taxable Gratuity shall be if he is non-government employee and covered by the Payment of Gratuity Act 1972.

(a) 6,00,000
(b) 3,75,385
(c) 4,75,385
(d) 4,55,385

18. Mr. X retired on 15.06.2023 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

Basic Salary	**: ₹ 5,000 p.m.**
Dearness Allowance	**: ₹ 3,000 p.m. (60% of which is for retirement benefits)**
Commission	**: 1% of turnover (turnover in the last 12 months was ₹ 12,00,000)**
Bonus	**: ₹ 12,000 p.a.**

Taxable Gratuity shall be if he is non-government employee and not covered by the Payment of Gratuity Act 1972.

(a) 6,00,000
(b) 4,98,600
(c) 4,75,600
(d) 4,55,600

19. Which of the statements is correct

(a) If the employee has not received gratuity, the commuted value of 1/2 of such pension is exempt from tax.
(b) If the employee has not received gratuity, the commuted value of 1/3 of such pension is exempt from tax.
(c) If the employee has not received gratuity, the commuted value of 2/3 of such pension is exempt from tax.
(d) If the employee has not received gratuity, the commuted value of 1/4 of such pension is exempt from tax.

20. Which of the statements is correct

(a) If the employee has received gratuity, the commuted value of 1/2 of such pension is exempt from tax.
(b) If the employee has received gratuity, the commuted value of 1/3 of such pension is exempt from tax.
(c) If the employee has received gratuity, the commuted value of 2/3 of such pension is exempt from tax.
(d) If the employee has received gratuity, the commuted value of 1/4 of such pension is exempt from tax.

21. Which of the statements is correct

(a) If the employee has received pension from Local Authority, the commuted value of 100% of such pension is exempt from tax.
(b) If the employee has received pension from Local Authority, the commuted value of 50% of such pension is exempt from tax.
(a) If the employee has received pension from Local Authority, the commuted value of 33.33% of such pension is exempt from tax.
(a) If the employee has received pension from Local Authority, the commuted value of 60% of such pension is exempt from tax.

22. Which of the statements is correct

(a) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of retirement benefit salary
(b) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of taxable salary
(c) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of retirement benefit salary
(d) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of salary.

23. Which of the statements is correct

(a) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of contribution

(b) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of gross total income

(c) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of contribution

(d) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of gross total income.

24. Mr. X (Non- Govt. Employee) retired w.e.f 01.12.2023 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary	**: ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 01.04.2023)**
Dearness Allowance	**: ₹ 3,000 p.m. (60% of which is for retirement benefits)**
Commission	**: ₹ 500 p.m.**
Bonus	**: ₹ 1,000 p.m.**
Leave availed during service	**: 480 days**

He was entitled to 30 days leave every year. Taxable leave salary shall be

(a) 5,00,000

(b) Nil

(c) 4,73,600

(d) 4,55,600

25. Mr. X received retrenchment compensation of ₹10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of ₹20,000 p.m.; dearness allowance of ₹ 5,000 p.m., taxable retrenchment compensation shall be

(a) 5,67,308

(b) Nil

(c) 6,25,000

(d) 7,00,000

(e) 10,00,000

26. Standard deduction u/s section 16(ia) from gross salary shall be allowed maximum

(a) 50,000

(b) 50% of gross salary

(c) 40,000

(d) 1,00,000

(e) no deduction shall be allowed

27. which of the statement is correct from the following

(a) Children education allowance is exempt upto ₹100 p.m. per child upto two child.

(b) Children education allowance is exempt upto ₹100 p.m. per child upto three child.

(c) Children education allowance is exempt upto ₹100 per child upto two child.

(d) Children education allowance is exempt upto ₹100 per child for many child.

28. which of the statement is correct from the following

(a) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto ₹300 p.m. per child upto two children.

(b) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto ₹300 per child upto two children.

(c) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto ₹100 p.m. per child upto two children.

(d) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto ₹400 p.m. per child upto two children.

29. Mr. X is employed in central Government getting basic pay ₹30,000 p.m., dearness allowance ₹7,000 p.m., servant allowance ₹2,000 p.m., entertainment allowance ₹1,000 p.m., In this case entertainment allowance exempt u/s 16(ii) under optional tax regime for the F.Y. 2023-24 shall be

(a) Nil

(b) 5,000

(c) 12,000
(d) 7,000

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

(a) If the population is upto 15 lakhs, taxable amount shall be 5% of rent free accommodation salary
(b) If the population is more than 15 lakhs but upto 40 lakhs, taxable amount shall be 7.5% of rent free accommodation salary
(c) If the population is more than 40 lakhs, taxable amount shall be 10% of rent free accommodation salary
(d) If the population is more than 40 lakhs, taxable amount shall be 15% of rent free accommodation salary

Answer

1. (d); 2. (d); 3. (b); 4. (a); 5. (b); 6. (c); 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)

PRACTICE PROBLEMS
TOTAL PROBLEMS 27

Problem 1.
Mr. X has joined ABC Ltd. on 01.07.2013 in the pay scale of 40,000 – 500 – 50,000 – 1,000 – 60,000 – 2,000 – 80,000. The employer has allowed him dearness allowance @ 7% of his basic pay from 01.04.2023 to 30.06.2023 and thereafter dearness allowance was allowed @ 10% of the basic pay.
Compute employee's Salary, Total Income and Tax Liability for the Assessment Year 2024-25.
Answer = Salary: ₹5,38,345; Total Income: ₹5,38,350; Tax Liability: Nil

Problem 2.
Mr. X has joined ABC Ltd. on 01.10.2010 in the pay scale of 25,000 – 900 – 30,400 – 1,100 – 38,100 – 1,500 – 50,100. The employer has allowed him dearness allowance @ 4.35% of the basic pay from 01.04.2023 to 30.09.2023, @ 7.5% upto 31.12.2023. Thereafter it was allowed @ 10.5% of the basic pay.
Compute employee's Gross Salary, Total Income and Tax Liability for the Assessment Year 2024-25.
Answer = Gross Salary: ₹4,30,831; Total Income: ₹4,30,830; Tax Liability: Nil

Problem 3.
Mr. X is employed in ABC Ltd. getting basic pay ₹40,000 p.m. and dearness allowance ₹ 10,000 p.m. (40% of DA forming part of salary for retirement benefit). Employer has paid Bonus ₹1,000 p.m., Commission @ 2% on sales turnover of ₹60,00,000. Employer and employee each has contributed ₹8,000 p.m. to recognized provident fund. During the year interest of ₹ 1,00,000 was credited to recognized provident fund @ 10% p.a. on employer plus employee contribution. Compute his Income and Tax Liability for the Assessment Year 2024-25.
Answer = Total Income: ₹7,05,240; Tax Liability: ₹5,450

Problem 4.
Mr. X is employed in ABC Ltd. getting basic pay ₹80,000 p.m. and dearness allowance ₹ 20,000 p.m. Employer has paid Bonus ₹2,000 p.m., Commission @ 2% on sales turnover of ₹80,00,000. Employer and employee each has contributed ₹14,000 p.m. to recognized provident fund. During the year interest of ₹2,00,000 was credited to recognized provident fund @ 9% p.a. on employer plus employee contribution.
Income under the head House Property ₹ 3,00,000
Compute his Income and Tax Liability for the Assessment Year 2024-25.
Answer = Total Income: ₹16,67,600; Tax Liability: ₹2,08,290

Problem 5.
Mr. X is retired from ABC Ltd. on 11.09.2023 after serving the employer for 11 years 10 months and 20 days. At the time of retirement his basic pay was ₹37,000 p.m. but it was ₹33,000 p.m. upto 31.05.2023. The employee was getting dearness allowance ₹ 4,000 p.m. but upto 31.05.2023 it was ₹3,000 p.m. The employer has paid him gratuity of ₹5,10,000. Half of the dearness allowance forms part of the salary for retirement benefits.
Compute his tax liability in two situations –
(a) He is covered under Payment of Gratuity Act 1972;
(b) He is not covered under Payment of Gratuity Act 1972.
Answer = Tax Liability: (a) Nil; (b) Nil

Problem 6.
Mr. X is retired from ABC Ltd. with effect from 18.09.2023 after serving the employer for 20 years and 6 months. At the time of his retirement his basic pay was ₹39,000 p.m. and dearness allowance ₹3,000 p.m.
The employee was covered under Payment of Gratuity Act 1972. The employer has paid him gratuity of ₹5,70,000 and has allowed him pension of ₹5,000 p.m. The employer has also allowed him commutation of pension on 01.01.2024 for 48% of the pension and has paid ₹2,88,000.
Compute employee's Tax Liability for the Assessment Year 2024-25.
Answer = Tax Liability: Nil

Problem 7.

Mr. X is retired from ABC Ltd. on 27.11.2023 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 01.02.2024 and employer has allowed him commutation @ 52% of his pension and has paid ₹3,86,880.

Compute his Tax Liability for the Assessment Year 2024-25.

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 01.07.2005 and he resigned on 15.09.2023. 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 16.09.2023. He was allowed commutation of 75% of his pension on 01.01.2024 and received a sum of ₹6,00,000 as commuted pension.

Compute his Tax Liability for Assessment Year 2024-25.

Answer = Tax Liability: Nil

Problem 9.

Mr. X is retired from ABC Ltd. on 31.03.2024 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 31.07.2023. Further, the employee was getting dearness allowance ₹6,000 but it was ₹4,000 p.m. upto 31.07.2023 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 2024-25.

Answer = Tax Liability: Nil

Problem 10.

Mr. X is retired from ABC Ltd. on 29.02.2024 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 30.09.2023 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 2024-25.

Answer = Tax Liability: Nil

Problem 11.

Mr. X is retired from ABC Ltd. with effect from 01.12.2023 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 2024-25.

Answer = Tax Liability: Nil

Problem 12.

Mr. X is employed in ABC Ltd. getting basic pay ₹45,000 p.m., dearness allowance ₹7,000 p.m. The employer has provided him rent free accommodation for which rent paid by the employer is ₹3,000 p.m. The employer has contributed ₹6,000 p.m. to recognised provident fund and the employee has also contributed equal amount.

The interest of ₹16,000 @ 8.5% was credited to the provident fund account on 30.06.2023 for the period 01.07.2022 upto 30.06.2023.
Compute employee's Total Income and tax liability for the Assessment Year 2024-25.
Answer = Total Income: ₹6,17,200; Tax Liability: Nil

Problem 13.
Mr. X is employed in ABC Ltd. getting basic pay ₹20,000 p.m., dearness allowance ₹7,000 p.m. The employer has contributed ₹3,500 to the unrecognised provident fund and the employee has also contributed equal amount. The employee was retired on 31.10.2023 after serving the employer for 20 years and 6 months and employer has credited interest ₹21,000 to the provident fund account on 31.10.2023 and interest rate is 12% p.a.
The employer has paid provident fund balance ₹10,00,000 to the employee on 01.11.2023 out of which employee's contribution is ₹4,00,000 and employer's contribution is also ₹4,00,000 and balance is interest. Employer has paid gratuity ₹2,60,000 and allowed him pension ₹5,000 p.m. The employee was allowed commutation of pension on 01.01.2024 for 40% of the pension and has paid ₹2,40,000.
Compute employee's Tax Liability for the Assessment Year 2024-25.
Answer = Tax Liability: ₹42,430

Problem 14.
Mr. X is employed in ABC Ltd., Calcutta and is getting basic pay ₹40,000 p.m., dearness allowance ₹16,000 p.m. (50% of dearness allowance forms part of salary for the purpose of retirement benefits).
The employee was allowed bonus ₹1,000 p.m. and commission @ 2.5% on the sales turnover of ₹60,00,000. The employer has paid him house rent allowance ₹6,000 p.m. The employee has paid rent ₹6,500 p.m.
Compute his Gross Salary and Tax Liability for the Assessment Year 2024-25.
Answer = Gross Salary: ₹8,56,000; Tax Liability: ₹42,220

Problem 15.
Mr. X is employed in ABC Ltd. getting basic pay ₹45,000 p.m., dearness allowance ₹19,000 p.m. (half of it is taken into consideration for retirement benefit).
Employer has allowed him house rent allowance with effect from 01.10.2023 @ 10,000 p.m. and the employee has paid rent ₹12,000 p.m. throughout the year. Employer has paid him children education allowance ₹75 per month per child for four children and has also paid him hostel allowance ₹500 per month for one child, the actual expenses incurred by the employee is ₹1,000 per month per child.
Employer has paid him transport allowance ₹1,700 per month with effect from 01.07.2023 and the employee has incurred ₹1,500 p.m.
Compute his Gross Salary and Tax Liability for the Assessment Year 2024-25.
Answer = Gross Salary: ₹8,02,900; Tax Liability: ₹36,700

Problem 16.
Mr. X is employed in Indian Airlines as pilot and is getting basic pay of ₹55,000 p.m. and dearness allowance @ 10% of basic pay.
Employer has paid him children education allowance of ₹750 per month for one of his adopted child. The employer has also paid transport allowance of ₹1,800 per month. The employee has incurred ₹2,000 per month. The employer has paid him flight allowance in lieu of daily allowance ₹10,000 p.m.
Compute his Gross Salary and Tax Liability for the Assessment Year 2024-25.
Answer = Gross Salary: ₹8,76,600; Tax Liability: ₹39,170

Problem 17.
Mr. X is employed in Central Government getting basic pay ₹39,000 p.m. and dearness allowance @ 60% of basic pay. Employer has paid children education allowance ₹600 per month per child for 3 children and has paid hostel allowance ₹1,000 per month per child for one child. Employer has paid professional tax of ₹175 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 2024-25.
Answer = Income under the head Salary: ₹7,40,500; Tax Liability: ₹30,210

Problem 18.
Mr. X is employed in ABC Ltd. since 01.07.2007 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 2023-24, 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 02.04.2023 though it was due on 31.03.2023. 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 2024-25.
Answer = Income under the head salary: ₹5,91,840; Tax Liability: Nil

Problem 19.
Mr. X joined ABC Ltd. on 01.07.2016 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 2022-23 and @ ₹12,000 p.m. in 2023-24. The employee has resigned w.e.f. 01.03.2024. 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 2024-25.
Answer = Tax Liability: Nil

Problem 20.
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 30.06.2023 @ 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. 2024-25.
Answer = Total Income : ₹5,54,200; Tax Liability: Nil

Problem 21.
Mr. X is employed in ABC Ltd. getting basic pay ₹41,000 p.m., dearness allowance ₹7,000 p.m. (10% of the dearness allowance forms part of salary for retirement benefits).
The employer has paid commission of ₹3,000 p.m. and has allowed him medical allowance ₹400 p.m. The employee was paid house rent allowance ₹6,000 p.m. The employee has paid rent of ₹5,000 p.m.
The employer has discontinued payment of house rent allowance with effect from 01.09.2023 and has provided him rent free accommodation with effect from 01.11.2023. The accommodation was owned by the employer and the population of the place is 4,00,000. The employee was allowed arrears of salary ₹10,000 and advance salary ₹20,000. The employee was also provided furniture with effect from 01.01.2024. Its original cost is ₹1,00,000 and written down value is ₹35,000.
Compute employee's Tax Liability for the Assessment Year 2024-25.
Answer = Tax Liability: Nil

Problem 22.
Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and dearness allowance 5,000 p.m. Commission ₹3,500 p.m. Employer has paid overtime allowance with effect from 01.05.2023 @ ₹1,000 p.m. and has allowed him house rent allowance ₹2,000 p.m. The employee has paid rent ₹500 p.m.

The employer has discontinued payment of house rent allowance with effect from 01.06.2023 and has allowed him rent free accommodation with effect from 01.09.2023. The accommodation was owned by the employer itself at Calcutta. Employer has also provided him furniture from the same date with original cost ₹1,50,000 and has also paid professional tax ₹200 p.m. on behalf of the employee.
The employee has received arrears of salary ₹35,000.
Compute his Tax Liability for the Assessment Year 2024-25.
Answer = Tax Liability: ₹31,340

Problem 23.
Mr. X is employed in ABC Ltd. getting basic pay ₹45,000 p.m., dearness allowance ₹5,000 p.m. and 30% of it forms part of salary.
The employee is also getting dearness pay ₹1,000 p.m. and 10% of it forms part of salary. He is getting bonus ₹1,200 p.m. The employer has provided him one accommodation in Delhi for which rent paid by the employer is ₹1,200 p.m.
The employee was transferred to Bombay with effect from 01.01.2024 and the employer has provided him rent free accommodation at Bombay also which is owned by the employer himself.
The employee has received arrears of salary ₹32,000 and advance salary of ₹11,000.
Compute employee's Tax Liability for the Assessment Year 2024-25.
Answer = Tax Liability: Nil

Problem 24.
Mr. X is employed in ABC Ltd getting basic pay ₹40,000 p.m. Salary for the month of March 2023 was paid to the employee on 03.04.2023.
The employer has paid house rent allowance ₹5,000 p.m. with effect from 01.11.2023 and the employee has paid rent ₹6,000 p.m.
Prior to 01.11.2023 the employer has provided him an accommodation and rent paid by the employer was ₹7,000 p.m.
Employee has also received advance salary ₹20,000.
Compute his Tax Liability for the Assessment Year 2024-25.
Answer = Tax Liability: Nil

Problem 25.
Mr. X has taken four loans from his employer –

(i) ₹7,00,000 (term loan) on 23.09.2023 @ 3% p.a. for the purpose of purchasing a new motor car (in Delhi). The loan was repaid in monthly instalments of ₹ 25,000 each starting from 10.12.2023. (Presume SBI Rate 10%)
(ii) ₹10,00,000 on 11.05.2023 @ 5% p.a. for purchasing a house. The loan was repaid in annual instalments of ₹ 55,000 each starting from 31.03.2024. (Presume SBI Rate 10.5%)
(iii) The employee has taken a loan of ₹3,00,000 for the treatment of specified disease on 28.11.2023 (Presume SBI Rate 12%)
(iv) He has taken a personal loan of ₹18,000 on 30.03.2024 for a period of 2 years. (Presume SBI Rate 12%)

Compute perquisite value of the loan given to the employee.
Answer = Total Perquisite Value: ₹77,469.57

Problem 26.
Find out the perquisite value in the following cases:

Asset	Furniture	Air-conditioner	Video camera	Motor car	Computer
Original cost	1,00,000	45,000	50,000	3,40,000	55,000
Date of purchase by the employer	07.03.2020	01.07.2022	10.07.2021	01.10.2019	01.01.2021
Date of putting to use by employer	31.03.2020	01.07.2022	11.07.2021	01.10.2019	10.01.2021

Date of sale of asset to the employee	01.09.2023	01.08.2023	01.08.2023	01.01.2024	09.01.2024
Payment made by the employee	40,000	15,000	20,000	1,50,000	25,000

Answer: Furniture: ₹30,000; Air-Conditioner: ₹25,500; Video Camera: ₹20,000; Motor Car : Nil; Computer: Nil

Problem 27.

Mr. X is employed in ABC Ltd. getting basic pay of ₹8,000 p.m.

Employer has paid medical allowance of ₹10,000 during the year and has incurred ₹7,000 on the treatment of father in law of Mr. X in India. The treatment was provided in a Government hospital and father in law of Mr. X is dependent on him.

The employee has been provided with a motor car of 1.8 litre engine capacity for official as well as personal use and all expenses are met by the employee himself but driver has been provided by the employer.

Mr. X has income under the head house property ₹1,00,000 and income under the head business profession ₹1,50,000 and deductions allowed under Chapter VI-A are ₹3,500.

Compute his Tax Liability for the Assessment Year 2024-25.

Answer = Tax Liability: Nil

SOLUTIONS
TO
PRACTICE PROBLEMS

Solution 1:

	₹
Computation of Gross Salary	
Basic Pay [(44,500 x 3) + (45,000 x 9)]	5,38,500.00

Working Note:	₹
01.07.2013 – 30.06.2014 =	40,000 p.m.
01.07.2014 – 30.06.2015 =	40,500 p.m.
01.07.2015 – 30.06.2016 =	41,000 p.m.
01.07.2016 – 30.06.2017 =	41,500 p.m.
01.07.2017 – 30 06.2018 =	42,000 p.m.
01.07.2018 – 30.06.2019 =	42,500 p.m.
01.07.2019 – 30.06.2020 =	43,000 p.m.
01.07.2020 – 30.06.2021 =	43,500 p.m.
01.07.2021 – 30.06.2022 =	44,000 p.m.
01.07.2022 – 30.06.2023 =	44,500 p.m.
01.07.2023 – 30.06.2024 =	45,000 p.m.

Dearness Allowance	49,845.00

Working Note:	₹
From April to June	
7% of (44,500 x 3) =	9,345
From July to March	
10% of (45,000 x 9) =	40,500
Total = ₹ (9,345 + 40,500) =	49,845

Gross Salary	5,88,345.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	5,38,345.00
Gross Total Income	5,38,345.00
Less: Deduction under Chapter VI-A	Nil
Total Income (Rounded off u/s 288A)	5,38,350.00
Computation of Tax Liability	
Tax on ₹5,38,350 at slab rate	11,917.50
Less: Rebate u/s 87A	(11,917.50)
Tax Liability	Nil

Solution 2:

	₹
Computation of Gross Salary	
Basic Pay [(37,000 x 6) + (38,100 x 6)]	4,50,600.00

Working Note:	₹
01.10.2010 – 30.09.2011 =	25,000 p.m.
01.10.2011 – 30.09.2012 =	25,900 p.m.
01.10.2012– 30.09.2013 =	26,800 p.m.

01.10.2013 – 30.09.2014 =	27,700 p.m.
01.10.2014 – 30.09.2015 =	28,600 p.m.
01.10.2015 – 30.09.2016 =	29,500 p.m.
01.10.2016 – 30.09.2017 =	30,400 p.m.
01.10.2017 – 30.09.2018 =	31,500 p.m.
01.10.2018 – 30.09.2019 =	32,600 p.m.
01.10.2019 – 30.09.2020 =	33,700 p.m.
01.10.2020 – 30.09.2021 =	34,800 p.m.
01.10.2021 – 30.09.2022 =	35,900 p.m.
01.10.2022 – 30.09.2023 =	37,000 p.m.
01.10.2023 – 30.09.2024 =	38,100 p.m.

Dearness Allowance 30,231.00

Working Note:	**₹**
From April to September	
4.35% of (37,000 x 6) =	9,657.00
From October to December	
7.5% of (38,100 x 3) =	8,572.50
From January to March	
10.5% of (38,100 x 3) =	12,001.50
Total	30,231.00

Gross Salary	4,80,831.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	4,30,831.00
Gross Total Income	4,30,831.00
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off u/s 288A)	4,30,830.00
Computation of Tax Liability	
Tax on ₹4,30,830 at slab rate	6,541.50
Less: Rebate u/s 87A	(6,541.50)
Tax Liability	Nil

<u>Solution 3:</u>	**₹**
Basic Pay (40,000 x 12)	4,80,000.00
Dearness allowance (10,000 x 12)	1,20,000.00
Bonus	12,000.00
Commission (60,00,000 x 2%)	1,20,000.00
Employer's contribution to recognised provident fund in excess of 12% of retirement benefit salary	18,240.00

Working Note:
RBS = 4,80,000 + 48,000 + 1,20,000
= 6,48,000
12% of RBS = 77,760
Employer's contribution = 8,000 x 12 = 96,000
96,000 – 77,760 = 18,240

Interest credited in excess of 9.5% p.a. (1,00,000 / 10% x 0.5%)/2	2,500.00
Gross Salary	7,52,740.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	**7,02,740.00**

<u>Income under the head other sources</u>

Interest credited in excess of 9.5% p.a. (1,00,000 / 10% x 0.5%)/2	2,500.00

Gross Total Income	7,05,240.00
Less: Deduction under Chapter VI-A	Nil
Total Income	7,05,240.00
Computation of Tax Liability	
Tax on ₹7,05,240 at slab rate	25,524.00
Less: Marginal Relief	(20,284.00)

Working Note:	
Tax on income of ₹7,05,240	25,524
Tax on income of ₹7,00,000	Nil
Increase in tax	25,524
Increase in income	5,240
Marginal Relief (25,524 – 5,240)	20,284

Tax after marginal relief	5,240.00
Add: HEC @ 4%	209.60
Tax Liability	5,449.60
Rounded off u/s 288B	5,450.00

Solution 4:

	₹
Basic Pay (80,000 x 12)	9,60,000.00
Dearness allowance (20,000 x 12)	2,40,000.00
Bonus	24,000.00
Commission (80,00,000 x 2%)	1,60,000.00
Employer's contribution to recognised provident fund in excess of 12% of retirement benefit salary	33,600.00

Working Note:

RBS = 9,60,000 + 1,60,000
= 11,20,000

12% of RBS = 1,34,400

Employer's contribution = 14,000 x 12 = 1,68,000

1,68,000 – 1,34,400 = 33,600

Gross Salary	14,17,600.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	13,67,600.00
Income under the head House Property	3,00,000.00
Gross Total Income	16,67,600.00
Less: Deduction under Chapter VI-A	Nil
Total Income	16,67,600.00
Computation of Tax Liability	
Tax on ₹16,67,600 at slab rate	2,00,280.00
Add: HEC @ 4%	8,011.20
Tax Liability	2,08,291.20
Rounded off u/s 288B	2,08,290.00

Solution 5: ₹

(a) He is covered under Payment of Gratuity Act, 1972

Basic Salary	1,90,566.67

Working Note:	₹
From April to May	
33,000 x 2 =	66,000
From June to August	
37,000 x 3 =	1,11,000
For September	
11/30 x 37,000 =	13,566.67

Total = ₹66,000 + 1,11,000 + 13,566.67 =	1,90,566.67

Dearness Allowance 19,466.67

Working Note:	₹
From April to May	
3,000 x 2 =	6,000.00
From June to August	
4,000 x 3 =	12,000.00
For September	
11/30 x 4,000 =	1,466.67
Total = ₹6,000 +12,000 + 1,466.67 =	19,466.67

Gratuity {Sec 10(10)} 2,26,153.85

Working Note:
Least of the following is exempt:
1. ₹5,10,000
2. ₹20,00,000
3. 15/26 x (37,000 + 4,000) x 12 = ₹2,83,846.15

Received = ₹5,10,000.00
Exempt = (₹2,83,846.15)
Taxable = ₹2,26,153.85

Gross Salary	4,36,187.19
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	3,86,187.19
Gross Total Income / Total Income (Rounded off u/s 288A)	3,86,190.00
Computation of Tax Liability	
Tax on ₹3,86,190 at slab rate	4,309.50
Less: Rebate u/s 87A	(4,309.50)
Tax Liability	Nil

(b) He is not covered under Payment of Gratuity Act, 1972

Basic Salary 1,90,566.67

Working Note:	₹
From April to May	
33,000 x 2 =	66,000
From June to August	
37,000 x 3 =	1,11,000
For September	
11/30 x 37,000 =	13,566.67
Total = ₹66,000 + 1,11,000 + 13,566.67 =	1,90,566.67

Dearness Allowance 19,466.67

Working Note:	₹
From April to May	
3,000 x 2 =	6,000.00
From June to August	
4,000 x 3 =	12,000.00
For September	
11/30 x 4,000 =	1,466.67
Total = ₹6,000 +12,000 + 1,466.67 =	19,466.67

Gratuity {Sec 10(10)} 3,12,825.00

Working Note:	₹
Least of the following is exempt	

1. ₹5,10,000	
2. ₹20,00,000	
3. ½ x 35,850 x 11 = ₹1,97,175	
Received = ₹5,10,000	
Exempt = (₹1,97,175)	
Taxable = ₹3,12,825	
Calculation of Average Salary	
Basic Pay	
From November to May ₹33,000 x 7 =	2,31,000
From June to August ₹37,000 x 3 =	1,11,000
Total =	3,42,000
D.A.	
From November to May ₹1,500 x 7 =	10,500
From June to August ₹2,000 x 3 =	6,000
Total =	16,500
Average Salary = (3,42,000 + 16,500)/10 =	35,850

Gross Salary	5,22,858.34
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	4,72,858.34
Gross Total Income / Total Income (Rounded off u/s 288A)	4,72,860.00
Computation of Tax Liability	
Tax on ₹4,72,860 at slab rate	8,643.00
Less: Rebate u/s 87A	(8,643.00)
Tax Liability	Nil

Solution 6: **₹**

Computation of income under the head Salary

Basic Pay [(39,000 x 5) + (39,000 x 17 /30)]	2,17,100.00
Dearness Allowance [(3,000 x 5) + (3,000 x 17/30)]	16,700.00
Gratuity {Sec 10(10)}	85,384.62

Working Note:
1. ₹5,70,000
2. ₹20,00,000
3.15/26 x 42,000 x 20 = ₹4,84,615.38
Received = ₹5,70,000.00
Exempt = (₹4,84,615.38)
Taxable = ₹85,384.62

Uncommuted Pension {Sec 17(1)(ii)} 24,966.67

Working Note:	**₹**
From September	
5,000 x 13/30 =	2,166.67
From October to December	
5,000 x 3 =	15,000.00
From January to March	
5,000 x 52% x 3 =	7,800.00
Total = ₹2,166.67 + ₹15,000 + ₹ 7,800 =	24,966.67

Commuted Pension {Sec 10(10A)} 88,000.00

Working Note:	**₹**
Received =	2,88,000

Exempt = 2,88,000 / 48% x 100% x 1/3 =	(2,00,000)
Taxable =	88,000

Gross Salary	4,32,151.29
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	3,82,151.29
Gross Total Income	3,82,151.29
Less: Deductions under Chapter VI-A	Nil
Total Income	3,82,151.29
Rounded Off u/s 288A	3,82,150.00
Computation of Tax Liability	
Tax on ₹3,82,150 at slab rate	4,107.50
Less: Rebate u/s 87A	(4,107.50)
Tax Liability	Nil

<u>Solution 7:</u> ₹

Computation of income under the head Salary

Basic Pay [(12,500 x 7) + (12,500 x 27/30)]	98,750.00
Gratuity {Sec 10(10)}	1,81,250.00

Working Note:
Least of the following is exempt:
1. ₹2,50,000
2. ₹20,00,000
3. ½ x 1,25,000/10 x 11 = ₹68,750

Received = ₹2,50,000
Exempt = (₹ 68,750)
Taxable = ₹1,81,250

Uncommuted Pension {Sec 17(1)(ii)}	18,972.00

Working Note:	₹
From November	
6,200 x 3/30 =	620
<u>From December and January</u>	
6,200 x 2 =	12,400
<u>From February to March</u>	
6,200 x 2 x 48% =	5,952
Total = ₹620 +12,400 + 5,952 =	18,972

Commuted Pension {Sec 10(10A)}	1,38,880.00

Working Note:	₹
Received =	3,86,880.00
Exempt = 3,86,880 / 52% x 1/3 =	(2,48,000.00)
Taxable =	1,38,880.00

Gross Salary	4,37,852.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	3,87,852.00
Gross Total Income	3,87,852.00
Less: Deductions under Chapter VI-A	Nil
Total Income	3,87,852.00
Rounded off u/s 288A	3,87,850.00
Computation of Tax Liability	
Tax on ₹3,87,850 at slab rate	4,392.50
Less: Rebate u/s 87A	(4,392.50)
Tax Liability	Nil

Solution 8: ₹

Computation of income under the head Salary

Basic Pay [(17,900 x 3) + (18,400 x 2) + (18,400 x 15/30)]	99,700.00

Working Note:

	₹
01.07.2005 – 30.06.2006 =	10,800 p.m.
01.07.2006 – 30.06.2007 =	11,200 p.m.
01.07.2007 – 30.06.2008 =	11,600 p.m.
01.07.2008 – 30.06.2009 =	12,000 p.m.
01.07.2009 – 30.06.2010 =	12,400 p.m.
01.07.2010 – 30.06.2011 =	12,800 p.m.
01.07.2011 – 30.06.2012 =	13,200 p.m.
01.07.2012 – 30.06.2013 =	13,600 p.m.
01.07.2013 – 30.06.2014 =	14,000 p.m.
01.07.2014 – 30.06.2015 =	14,400 p.m.
01.07.2015 – 30.06.2016 =	14,800 p.m.
01.07.2016 – 30.06.2017 =	15,200 p.m.
01.07.2017 – 30.06.2018 =	15,600 p.m.
01.07.2018 – 30.06.2019 =	16,000 p.m.
01.07.2019 – 30.06.2020 =	16,400 p.m.
01.07.2020 – 30.06.2021 =	16,900 p.m.
01.07.2021 – 30.06.2022 =	17,400 p.m.
01.07.2022 – 30.06.2023 =	17,900 p.m.
01.07.2023 – 30.06.2024 =	18,400 p.m.

Dearness Allowance	49,850.00
Gratuity {Sec 10(10)}	17,000.00

Working Note:

Least of the following is exempt:

1. ₹2,60,000
2. ₹20,00,000
3. ½ x 27,000 x 18 = ₹2,43,000

Calculation of average salary

Basic Pay

[(17,900 x 8) + (18,400 x 2)] = 1,80,000

Dearness Allowance

50% of ₹1,80,000 = 90,000

Average Salary = 2,70,000/10

= 27,000

Received = ₹2,60,000

Exempt = (₹2,43,000)

Taxable = ₹ 17,000

Uncommuted Pension {Sec 17(1)(ii)}	25,500.00

Working Note:

	₹
From September	
6,000 x 15/30 =	3,000
From October to December	
6,000 x 3 =	18,000
From January to March	
6,000 x 3 x 25% =	4,500
Total = ₹3,000 +18,000 + 4,500 =	25,500

Commuted Pension {Sec 10(10A)}	3,33,333.33

Working Note: ₹

Received =	6,00,000.00
Exempt = (6,00,000 x 4/3 x 1/3) =	(2,66,666.67)
Taxable =	3,33,333.33

Gross Salary	5,25,383.33
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	4,75,383.33
Gross Total Income	4,75,383.33
Less: Deductions under Chapter VI-A	Nil
Total Income	4,75,383.33
Rounded off u/s 288A	4,75,380.00
Computation of Tax Liability	
Tax on ₹4,75,380 at slab rate	8,769.00
Less: Rebate u/s 87A	(8,769.00)
Tax Liability	Nil

<u>Solution 9:</u>	**₹**
Basic Salary	2,88,000.00
[(22,000 x 4) + (25,000 x 8)]	
Dearness Allowance	64,000.00
[(4,000 x 4) + (6,000 x 8)]	
Leave Salary {Sec 10(10AA)}	2,28,000.00

Working Note:
1. ₹ 5,00,000
2. ₹ 25,00,000
3. ₹ 10 x 2,72,000/10 = ₹ 2,72,000
4. 2,72,000 /10 x 19 = ₹ 5,16,800

Received = ₹5,00,000
Exempt = (₹2,72,000)
Taxable = ₹2,28,000

<u>Calculation of average salary</u>

Basic Pay
[(22,000 x 2) + (25,000 x 8)] = 2,44,000
Dearness Allowance
[(2,000 x 2) + (3,000 x 8)] = 28,000
Average Salary = 2,72,000/10
= 27,200

Computation of leave at credit

Leave Entitlement	=	30
Less: Leave Availed	=	(7)
Less: Leave Encashed	=	(4)
Leave at Credit	=	19

Gross Salary	5,80,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	5,30,000.00
Gross Total Income	5,30,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	5,30,000.00
Computation of Tax Liability	
Tax on ₹5,30,000 at slab rate	11,500.00
Less: Rebate u/s 87A	(11,500.00)
Tax Liability	Nil

Solution 10:

Computation of income under the head Salary

	₹
Basic Pay	1,22,000.00
Working Note: [(9,500 x 6) + (13,000 x 5)]	
Dearness Allowance (10% of basic pay)	12,200.00
Gratuity {Sec 10(10)}	1,35,550.00
Working Note: **Least of the following is exempt:** 1. ₹2,50,000 2. ₹20,00,000 3. ½ x 1,09,000/10 x 21 = ₹1,14,450 Received = ₹2,50,000 Exempt = (₹1,14,450) Taxable = ₹1,35,550 **Calculation of Average Salary** **Computation of Basic Pay** [(9,500 x 6) + (13,000 x 4)] = 1,09,000 Average Salary = 1,09,000/10 = 10,900	
Commuted Pension {Sec 10(10A)}	48,000.00
Working Note: ₹ Received = 2,88,000 Exempt = 2,88,000 / 40% x 100% x 1/3 = (2,40,000) Taxable = 48,000	
Uncommuted Pension {Sec 17(1)(ii)}	3,600.00
Working Note: (6,000 x 60%) x 1 = ₹3,600	
Leave Salary {Sec 10(10AA)}	1,97,500.00
Working Note: **Least of the following is exempt:** 1. ₹3,10,000 2. ₹25,00,000 3.10 x 1,12,500/10 = ₹1,12,500 4. ₹1,12,500/10 x 520/30 = ₹1,95,000 Received = ₹3,10,000 Exempt = (₹1,12,500) Taxable = ₹1,97,500 **Computation of leave at credit** Leave Entitlement = 30 x 21 = 630 days Less: Leave Encashed = (45 days) Less: Leave Availed = (65 days) Leave at Credit = 520 days **Calculation of Average Salary** **Computation of Basic Pay** [(9,500 x 5) + (13,000 x 5)] = 1,12,500 Average Salary = 1,12,500/10 = 11,250	
Gross Salary	5,18,850.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	4,68,850.00
Gross Total Income	4,68,850.00
Less: Deductions under Chapter VI-A	Nil

Total Income	4,68,850.00
Computation of Tax Liability	
Tax on ₹4,68,850 at slab rate	8,442.50
Less: Rebate u/s 87A	(8,442.50)
Tax Liability	Nil

Solution 11: ₹

Computation of income under the head Salary

Basic Pay (43,000 x 8)	3,44,000.00
Leave Salary {Sec 10(10AA)}	1,96,666.67

Working Note:

Computation of leave availed and encashed by the employee

Leave entitlement at the rate of 30 days (30 x 16)	= 480 days
Leave availed and encashed by the employee	= 260 days
Leave at the credit	= 220 days
Leave allowed by employer (65 x 16)	= 1040 days
Less: Leave encashed by the employee at the time of retirement	= (780 days)
Hence leave availed/encashed while in service	= 260 days
Average salary of 10 months ending November 30, 2022	= 43,000

Least of the following is exempt: –

(1) Cash equivalent of leave at the credit of the employee at the time of retirement (i.e. 43,000 x 220/30) = 3,15,333.33
(2) 10 Months Average Salary = 43,000 x 10 = 4,30,000
(3) ₹ 25,00,000
(4) ₹ 5,12,000
Received = ₹ 5,12,000
Exempt = (₹ 3,15,333.33)
Taxable = ₹ 1,96,666.67

Gross Salary	5,40,666.67
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	4,90,666.67
Gross Total Income	4,90,666.67
Less: Deductions under Chapter VI-A	Nil
Total Income (Rounded off u/s 288A)	4,90,670.00
Computation of Tax Liability	
Tax on ₹4,90,670 at slab rate	9,533.50
Less: Rebate u/s 87A	(9,533.50)
Tax Liability	Nil

Solution 12: ₹

Computation of Taxable Income

Basic Pay (45,000 x 12)	5,40,000
Dearness Allowance (7,000 x 12)	84,000
Employer's contribution in excess of 12% of salary {Rule 6 of Part A of schedule IV} (72,000-64,800)	7,200
Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}	36,000

Working Note:

10% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = Basic Pay = ₹5,40,000
10% of rent free accommodation salary = ₹54,000

Rent Paid = ₹36,000 Perquisite value = ₹36,000	
Gross Salary	6,67,200
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	6,17,200
Gross Total Income	6,17,200
Less: Deduction under Chapter VI-A	Nil
{Employee's contribution in recognised provident fund}	
Total Income	6,17,200
Computation of Tax Liability	
Tax on ₹6,17,200 at slab rate	16,720.00
Less: Rebate u/s 87A	(16,720.00)
Tax Liability	Nil

<u>Solution 13:</u>

	₹
Computation of income under the head Salary	
Basic Pay	1,40,000
(20,000 x 7)	
Dearness Allowance	49,000
(7,000 x 7)	
Refund of employer's contribution in unrecognised provident fund	4,00,000
Refund of Interest on employer's contribution in unrecognised provident fund	1,00,000
Gratuity {Sec 10(10A)}	60,000
Working Note: **Least of the following is exempt:** 1. ₹2,60,000 2. ₹20,00,000 3. ½ x 20,000 x 20 = ₹ 2,00,000 Received = ₹2,60,000 Exempt = (₹2,00,000) Taxable = ₹ 60,000	
Uncommuted Pension {Sec 17(1)(ii)}	19,000
Working Note: ₹ **<u>For November to December</u>** 5,000 x 2 = 10,000 <u>For January to March</u> 5,000 x 60% x 3 = 9,000 Total = ₹10,000 + ₹9,000 = 19,000	
Commuted Pension {Sec 10(10A)}	40,000
Working Note: ₹ Received = 2,40,000 Exempt = 2,40,000 / 40% x 100% x 1/3 = (2,00,000) Taxable = 40,000	
Gross Salary	8,08,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	7,58,000
Income under the head Other Sources	1,00,000
(Interest on employee's contribution)	
Gross Total Income	8,58,000
Less: Deduction under Chapter VI-A	Nil
Total Income	8,58,000
Computation of Tax Liability	

Tax on ₹8,58,000 at slab rate	40,800
Add: HEC @ 4%	1,632
Tax Liability	42,432
Rounded off u/s 288B	42,430

Solution 14:

	₹
Computation of Gross Salary	
Basic Pay (40,000 x 12)	4,80,000.00
Dearness Allowance (16,000 x 12)	1,92,000.00
Bonus (1,000 x 12)	12,000.00
Commission (2.5% of 60,00,000)	1,50,000.00
House Rent Allowance	72,000.00
Gross Salary	9,06,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	8,56,000.00
Gross Total Income	8,56,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,56,000.00
Computation of Tax Liability	
Tax on ₹8,56,000 at slab rate	40,600.00
Add: HEC @ 4%	1,624.00
Tax Liability	42,224.00
Rounded off u/s 288B	42,220.00

Solution 15:

	₹
Computation of Gross Salary	
Basic Pay (45,000 x 12)	5,40,000.00
Dearness Allowance (19,000 x 12)	2,28,000.00
House Rent Allowance	60,000.00
Children Education Allowance	3,600.00
Hostel Allowance	6,000.00
Transport Allowance	15,300.00
Gross Salary	8,52,900.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	8,02,900.00
Gross Total Income	8,02,900.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,02,900.00
Computation of Tax Liability	
Tax on ₹8,02,900 at slab rate	35,290.00
Add: HEC @ 4%	1,411.60
Tax Liability	36,701.60
Rounded off u/s 288B	36,700.00

Solution 16:

	₹
Computation of Gross Salary	
Basic Pay (55,000 x 12)	6,60,000.00

Dearness Allowance (10% of Basic pay)	66,000.00
Children Education Allowance	9,000.00
Transport Allowance	21,600.00
Flight Allowance	1,20,000.00
Gross Salary	8,76,600.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	8,26,600.00
Gross Total Income	8,26,600.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,26,600.00
Computation of Tax Liability	
Tax on ₹8,26,600 at slab rate	37,660.00
Add: HEC @ 4%	1,506.40
Tax Liability	39,166.40
Rounded off u/s 288B	39,170.00

Solution 17:

Computation of income under the head Salary	₹
Basic Pay (39,000 x 12)	4,68,000.00
Dearness Allowance (60% of 4,68,000)	2,80,800.00
Children Education Allowance	21,600.00
Hostel Allowance	12,000.00
Entertainment Allowance (200 x 12)	2,400.00
Professional Tax (175 x 12)	2,100.00
Medical Allowance (300 x 12)	3,600.00
Gross Salary	7,90,500.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	7,40,500.00
Gross Total Income	7,40,500.00
Less: Deduction under Chapter VI-A	Nil
Total Income	7,40,500.00
Computation of Tax Liability	
Tax on ₹7,40,500 at slab rate	29,050.00
Add: HEC @ 4%	1,162.00
Tax Liability	30,212.00
Rounded off u/s 288B	30,210.00

Solution 18:

Computation of income under the head Salary	₹
Basic Pay [(43,750 x 3) + (44,500 x 9)]	5,31,750.00

Working Note:	₹
01.07.2007 – 30.06.2008 =	35,600 p.m.
01.07.2008 – 30.06.2009 =	35,900 p.m.
01.07.2009 – 30.06.2010 =	36,200 p.m.
01.07.2010 – 30.06.2011 =	36,500 p.m.
01.07.2011 – 30.06.2012 =	37,000 p.m.

01.07.2012 – 30.06.2013 =	37,500 p.m.
01.07.2013 – 30.06.2014 =	38,000 p.m.
01.07.2014 – 30.06.2015 =	38,500 p.m.
01.07.2015 – 30.06.2016 =	39,000 p.m.
01.07.2016 – 30.06.2017 =	39,500 p.m.
01.07.2017 – 30.06.2018 =	40,000 p.m.
01.07.2018 – 30.06.2019 =	40,750 p.m.
01.07.2019 – 30.06.2020 =	41,500 p.m.
01.07.2020 – 30.06.2021 =	42,250 p.m.
01.07.2021 – 30.06.2022 =	43,000 p.m.
01.07.2022 – 30.06.2023 =	43,750 p.m.
01.07.2023 – 30.06.2024 =	44,500 p.m.

Dearness Allowance {11% of Basic Pay}	58,492.50
House Rent Allowance	36,000.00
Entertainment Allowance (600 x 12)	7,200.00
Professional Tax	2,400.00
Conveyance Allowance (6,000 – 1,200)	4,800.00
Gross Salary	6,40,642.50
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	5,90,642.50
Gross Total Income	5,90,642.50
Less: Deduction under Chapter VI-A	Nil
Total Income	5,90,642.50
Rounded off u/s 288A	5,90,640.00
Computation of Tax Liability	
Tax on ₹5,90,640 at slab rate	14,532.00
Less: Rebate u/s 87A	(14,532.00)
Tax Liability	Nil

<u>Solution 19:</u> **₹**

Computation of income under the head Salary

Basic Pay [(39,000 x 4) + (40,800 x 8)]	4,82,400.00

Working Note:	**₹**
01.07.2016 – 30.06.2017 =	29,500 p.m.
01.07.2017 – 30.06.2018 =	31,000 p.m.
01.07.2018 – 30.06.2019 =	32,600 p.m.
01.07.2019 – 30.06.2020 =	34,200 p.m.
01.07.2020 – 30.06.2021 =	35,800 p.m.
01.07.2021 – 30.06.2022 =	37,400 p.m.
01.07.2022 – 30.06.2023 =	39,000 p.m.
01.07.2023 – 30.06.2024 =	40,800 p.m.

Dearness allowance [(10,000 x 1) + (12,000 x 11)]	1,42,000.00
Pension	10,000.00
Gross Salary	6,34,400.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	5,84,400.00
Gross Total Income	5,84,400.00
Less: Deduction under Chapter VI-A	Nil
Total Income	5,84,400.00
Computation of Tax Liability	
Tax on ₹5,84,400 at slab rate	14,220.00
Less: Rebate u/s 87A	(14,220.00)

Tax Liability	Nil

<u>Solution 20:</u> ₹

Computation of income under the head Salary

Basic Pay (40,000 x 12)	4,80,000.00
Dearness Allowance (5,000 x 12)	60,000.00
Commission (1.5% of 20,00,000)	30,000.00
Employer's contribution to provident fund {Rule 6 of Part A of schedule IV}	7,200.00

Working Note:
Retirement benefit salary = ₹4,80,000 + 30,000 + 30,000 = ₹5,40,000
12% of retirement benefit salary = ₹64,800
Employer contribution = ₹72,000
Allowed = 12% of retirement benefit salary = ₹64,800
Taxable = ₹7,200

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	27,000.00

Working Note:
5% of rent free accommodation salary = ₹27,000
Rent free accommodation Salary = ₹5,40,000

Gross Salary	6,04,200.00
Less: Standard deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	5,54,200.00
Gross Total Income	5,54,200.00
Less: Deduction under Chapter VI-A	Nil
Total Income	5,54,200.00
Computation of Tax Liability	
Tax on ₹5,54,200 at slab rate	12,710.00
Less: Rebate u/s 87A	(12,710.00)
Tax Liability	Nil

<u>Solution 21:</u> ₹

Computation of income under the head Salary

Basic Pay (41,000 x 12)	4,92,000.00
Dearness Allowance (7,000 x 12)	84,000.00
Commission (3,000 x 12)	36,000.00
Medical Allowance (400 x 12)	4,800.00
House Rent Allowance	30,000.00
Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	13,775.00

Working Note:
From November to March
Perquisite value = 5% of rent free accommodation salary = ₹11,275
<u>Rent free accommodation Salary</u>
= Basic Pay + Dearness Allowance + Commission + Medical Allowance
= ₹2,05,000 + ₹3,500 + ₹15,000 + ₹2,000 = ₹2,25,500
Perquisite value of furniture = 10% of (1,00,000 x 3/12) = ₹2,500
Taxable Amount = ₹11,275 + ₹2,500 = ₹13,775

Arrears of Salary	10,000.00
Advance Salary	20,000.00

Gross Salary	6,90,575.00
Less: Standard deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	6,40,575.00
Gross Total Income	6,40,575.00
Less: Deductions under Chapter VI-A	Nil
Total Income	6,40,575.00
Rounded off u/s 288A	6,40,580.00
Computation of Tax Liability	
Tax on ₹6,40,580 at slab rate	19,058.00
Less: Rebate u/s 87A	(19,058.00)
Tax Liability	Nil

Solution 22:

Computation of income under the head Salary

	₹
Basic Pay (50,000 x 12)	6,00,000.00
Dearness Allowance (5,000 x 12)	60,000.00
Commission (3,500 x 12)	42,000.00
Overtime Allowance (1,000 x 11)	11,000.00
House Rent Allowance	4,000.00
Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	46,900.00

Working Note:
From September to March
10% of rent free accommodation salary = ₹38,150
Rent free accommodation Salary
= Basic Pay + Commission + Overtime Allowance
= ₹3,50,000 + 24,500 + 7,000 =₹3,81,500
Add: cost of furniture = ₹1,50,000 x 7/12 x 10% = ₹8,750
Perquisite value of furnished house = ₹38,150 + ₹8,750 = ₹46,900

Professional Tax (200 x 12)	2,400.00
Arrears of Salary {Sec 15}	35,000.00
Gross Salary	8,01,300.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	7,51,300.00
Gross Total Income	7,51,300.00
Less: Deductions under Chapter VI-A	Nil
Total Income	7,51,300.00
Computation of Tax Liability	
Tax on ₹7,51,300 at slab rate	30,130.00
Add: HEC @ 4%	1,205.20
Tax Liability	31,335.20
Rounded off u/s 288B	31,340.00

Solution 23:

Computation of income under the head Salary

	₹
Basic Pay (45,000 x 12)	5,40,000.00
Dearness Allowance (5,000 x 12)	60,000.00

Dearness Pay (1,000 x 12)	12,000.00
Bonus (1,200 x 12)	14,400.00
Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	14,400.00

Working Note:

<u>From April To December</u>

10% of Rent free accommodation Salary or rent paid whichever is less

<u>Rent free accommodation Salary</u>

= Basic Pay + Dearness Allowance + Dearness Pay + Bonus

= 4,05,000 + 13,500 + 900 + 10,800 = ₹4,30,200

10% of rent free accommodation Salary = ₹43,020

Rent Paid = ₹1,200 x 9 = ₹10,800

(A) Perquisite value of unfurnished house = ₹10,800

<u>From January To March</u>

<u>Rent free accommodation Salary of Delhi</u>

= Basic Pay + Dearness Allowance + Dearness Pay + Bonus

= 1,35,000 + 4,500 + 300 + 3,600 = ₹1,43,400

10% of Rent free accommodation Salary = ₹14,340

Rent paid = ₹3,600

Perquisite value of Rent free accommodation of Delhi = ₹3,600

<u>Rent free accommodation of Bombay</u>

<u>Rent free accommodation Salary</u>

= Basic Pay + Dearness Allowance + Dearness Pay + Bonus

= 1,35,000 + 4,500 + 300 + 3,600 = ₹1,43,400

10% of Rent free accommodation Salary = ₹14,340

Perquisite value of rent free accommodation of Bombay = ₹14,340

(B) Perquisite value of unfurnished house {least is in Delhi} = ₹3,600

Total Amount = A + B = ₹10,800 + 3,600 = ₹14,400

Arrears of Salary {Sec 15}	32,000.00
Advance of Salary {Sec 15}	11,000.00
Gross Salary	6,83,800.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	6,33,800.00
Gross Total Income	6,33,800.00
Less: Deductions under Chapter VI-A	Nil
Total Income	6,33,800.00
Computation of Tax Liability	
Tax on ₹6,33,800 at slab rate	18,380.00
Less: Rebate u/s 87A	(18,380.00)
Tax Liability	Nil

<u>Solution 24:</u>

Computation of income under the head Salary	**₹**
Basic Pay (40,000 x 12)	4,80,000
House rent allowance	25,000
Advance Salary {Sec 15}	20,000
Rent Free Accommodation {Sec 17(2) (ii), Rule 3(1)}	28,000

Working Note:

10% of Rent free accommodation salary or Rent paid whichever is less

Rent free accommodation salary = Basic Pay = ₹2,80,000

10% of Rent free accommodation Salary = ₹28,000

Rent paid = ₹7,000 x 7 = ₹49,000	
Perquisite value of unfurnished house = ₹28,000	

Gross Salary	5,53,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	5,03,000
Gross Total Income	5,03,000
Less: Deductions under Chapter VI-A	Nil
Total Income	5,03,000
Computation of Tax Liability	
Tax on ₹5,03,000 at slab rate	10,150
Less: Rebate u/s 87A	(10,150)
Tax liability	Nil

Solution 25:

(i) Computation of perquisite value of the loan

Months	Outstanding balance at the end (in ₹)	Amount of interest (in ₹) Rate = 10% - 3% = 7%
September	7,00,000	7,00,000 x 7% x 1/12 = 4,083.33
October	7,00,000	7,00,000 x 7% x 1/12 = 4,083.33
November	7,00,000	7,00,000 x 7% x 1/12 = 4,083.33
December	6,75,000	6,75,000 x 7% x 1/12 = 3,937.50
January	6,50,000	6,50,000 x 7% x 1/12 = 3,791.67
February	6,25,000	6,25,000 x 7% x 1/12 = 3,645.83
March	6,00,000	6,00,000 x 7% x 1/12 = 3,500.00
Total		27,124.99

So, perquisite value of interest free loan = ₹27,124.99

(ii) Computation of perquisite value of the loan	**₹**
₹10,00,000 x 5.5% x 10/12	45,833.33
₹ 9,45,000 x 5.5% x 1/12	4,331.25
Perquisite value of interest free loan	50,164.58
(iii) Computation of perquisite value of the loan	
Perquisite value shall be Nil in case of loan for specified disease	
(iv) Computation of perquisite value of the loan	
₹18,000 x 12% x 1/12	180.00
Total perquisite value	77,469.57

Solution 26:	**₹**
Computation of perquisite value of Furniture	
Cost of the furniture	1,00,000
Less: Depreciation on straight line method @ 10% from 31.03.2020 to 30.03.2021	(10,000)
Less: Depreciation on straight line method @ 10% from 31.03.2021 to 30.03.2022	(10,000)
Less: Depreciation on straight line method @ 10% from 31.03.2022 to 30.03.2023	(10,000)
Written down value	70,000
Less: Amount paid by the assessee	(40,000)
Perquisite value of Furniture	30,000
Computation of perquisite value of Air-conditioner	
Cost of the Air-conditioner	45,000
Less: Depreciation on straight line method @ 10% from 01.07.2022 to 30.06.2023	(4,500)
Written down value	40,500
Less: Amount paid by the assessee	(15,000)
Perquisite value of Air-conditioner	25,500

Computation of perquisite value of Video Camera

Cost of the Video Camera	50,000
Less: Depreciation on straight line method @ 10% from 11.07.2021 to 10.07.2022	(5,000)
Written down value	45,000
Less: Depreciation on straight line method @ 10% from 11.07.2022 to 10.07.2023	(5,000)
Written down value	40,000
Less: Amount paid by the assessee	(20,000)
Perquisite value of Video Camera	20,000

Computation of perquisite value of Motor car

Cost of the motor	3,40,000
Less: Depreciation on reducing balance method @ 20% from 01.10.2019 to 30.09.2020	(68,000)
Written down value	2,72,000
Less: Depreciation on reducing balance method @ 20% from 01.10.2020 to 30.09.2021	(54,400)
Written down value	2,17,600
Less: Depreciation on reducing balance method @ 20% from 01.10.2021 to 30.09.2022	(43,520)
Written down value	1,74,080
Less: Depreciation on reducing balance method @ 20% from 01.10.2022 to 30.09.2023	(34,816)
Written down value	1,39,264
Less: Amount paid by the assessee	(1,50,000)
Perquisite value of motor car	Nil

Computation of perquisite value of Computer

Cost of the Computer	55,000
Less: Depreciation on reducing balance method @ 50% from 10.01.2021 to 09.01.2022	(27,500)
Written down value	27,500
Less: Depreciation on reducing balance method @ 50% from 10.01.2022 to 09.01.2023	(13,750)
Written down value	13,750
Less: Depreciation on reducing balance method @ 50% from 10.01.2023 to 09.01.2024	(6,875)
Written down value	6,875
Less: Amount paid by the assessee	(25,000)
Perquisite value of computer	Nil

<u>Solution 27:</u> ₹

Computation of income under the head Salary

Basic Pay (8,000 x 12)	96,000.00
Medical Allowance	10,000.00
Medical Facility	7,000.00
Motor Car {Sec 17(2) (iii), Rule 3(2)}	21,600.00

Working Note:
Since basic pay is ₹96,000 so monetary income is more than ₹50,000 hence, he is a specified employee
(1,800 x 12)

Gross Salary	1,34,600.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	84,600.00
Income under the head House Property	1,00,000.00
Income under the head Business/Profession	1,50,000.00
Gross Total Income	3,34,600.00
Less: Deductions under Chapter VI-A	Nil
Total Income	3,34,600.00

Computation of Tax Liability

Tax on ₹3,34,600 at slab rate	1,730.00
Less: Rebate u/s 87A	(1,730.00)
Tax Liability	Nil

EXAMINATION QUESTIONS

NOV – 2023

Question 3(b) **(6 Marks)**

Ms. Neelima, a resident of Delhi, was employed by LMN Ltd. upto 15 March, 1992. At the time of leaving LMN Ltd., she was paid ₹ 3,50,000 as leave salary out of which ₹ 59,000 was exempted from tax under section 10(10AA).

Thereafter, she joined CD (P) Ltd. and received ₹ 4,14,000 as leave salary at the time of retirement on December 31, 2023. In addition she received a gratuity of ₹ 12,00,000 from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available:

Average salary received during 11 months ending on December 31, 2023

From February 1 to July 31 (p.m.)	₹ 22,600
From August 1 to December 31 (p.m.)	₹ 22,900
Duration of service	14 years 7 months
Leave entitlement for every year of service	45 days
Leave availed while in service	90 days
Leave at her credit at the time of retirement	18 months

She received ₹ 5,20,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution ₹ 200,000; employer's contribution ₹ 2,10,000; interest on employee's contribution ₹ 60,000; interest on employer's contribution ₹ 50,000).

You are required to compute her total income for the assessment year 2024-25, clearly showing all working, under default provisions.

Solution:

Salary from 01.04.2023 to 31.12.2023 (22,600 x 4 + 22,900 x 5)	2,04,900
Leave Salary	1,86,500
(i) Amount received ₹4,14,000	
(ii) ₹25,00,000 – ₹ 59,000 = ₹24,41,000	
(iii) 10 x average salary (22,600 x 5 + 22,900 x 5)/10 = 2,27,500	
(iv) 11 x 22,750 = 2,50,250	
Leave salary exempt ₹2,27,500	
Leave salary taxable 4,14,000 – 2,27,500 = 1,86,500	
Leave entitlement = 30 x 14 = 420 days	
Less: Leave availed = 90 days	
Leave at credit = 330 days / 30 = 11 months	
Taxability of provident fund	
Employer's contribution	2,10,000
Interest on employer's contribution	50,000
Gratuity	10,40,960
(i) Amount received ₹12,00,000	
(ii) Limit ₹20,00,000	
(iii) 1/2 x (22,600 x 6 + 22,900 x 4)/10 x 14 = 1,59,040	
Gratuity exempt 1,59,040	
Gratuity Taxable 12,00,000 – 1,59,040 = 10,40,960	
Gross Salary	16,92,360
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	16,42,360
Income under the head Other Sources	
Interest on employee's contribution	60,000
Gross Total Income	17,02,360
Less: Deduction under Chapter VI-A	Nil
Total Income	17,02,360

Computation of Tax Liability

Tax on ₹17,02,360 at slab rate	2,10,708
Add: HEC @ 4%	8,428.32
Tax Liability	2,19,136.32
Rounded off u/s 288B	2,19,140.00

MAY – 2023

Question 3(b) **(7 Marks)**

Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2024 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

(i) Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act, 1972.

(ii) Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.

(iii) Crockery set worth ₹ 4,500 from his employer at the farewell party which was organised by the HR department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month alongwith 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2023 to 31st March, 2024.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2022 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr. Rohan for A.Y.2024-25 under default regime assuming that he does not claims any relief under section 89.

Answer:

Computation of taxable salary of Mr. Rohan for A.Y. 2023-24

Basic Salary ₹ 25,000 x 12		3,00,000
Dearness Allowance (50% of basic salary)		1,50,000
Gratuity [₹ 7,50,000 – ₹ 6,05,769]		1,44,231
Less: Exempt under section 10(10) - Least of the following:	**₹**	
(i) Notified limit	20,00,000	
(ii) Actual gratuity received	7,50,000	
(iii) 15/26 x last drawn salary x no. of completed years of services or part in excess of 6 months [15/26 x 37,500 x 28]	6,05,769	
Leave encashment [₹ 3,25,000 – ₹ 1,75,000]		1,50,000
Less: Exempt under section 10(10AA) - Least of the following:		
(iv) Notified limit	25,00,000	
(v) Actual leave salary received	3,25,000	
(vi) 10 months x ₹ 25,000	2,50,000	
(vii) Cash equivalent of leave to his credit [₹ 25,000 x 210/30]	1,75,000	
Crockery set [not a perquisite, since value of gift does not exceed ₹ 5,000]		Nil
Perquisite value of car		2,00,000
[Driver's salary met by employer ₹ 1,20,000 (i.e., ₹ 10,000 x 12) + ₹ 80,000 (10% of ₹ 8,00,000), being normal wear and tear on car]		
Gross Salary		**9,44,231**
Less: Standard deduction u/s 16(ia)		(50,000)
Taxable Salary		**8,94,231**

Note: Since gratuity is received under the Payment of Gratuity Act, both basic salary and dearness allowance has to be considered for computation of this limit, even though dearness allowance does not form part of retirement benefits.

NOV – 2022

Question 2(b) **(8 Marks)**

Mr. B is a sales manager in PQR Ltd. During FY 2023-2024 he has received the following towards his salary and allowances / perquisites;

(i) Basic pay ₹85,000 per month upto December 2023 and thereafter an increase of ₹2,000 per month.

(ii) Dearness allowance 40% of basic pay forming part of retirement benefits.

(iii) Bonus 1 month basic pay based on the salary drawn during January month every year.

(iv) He contributes 14% of his basic pay & Dearness Allowance towards his recognized provident fund and his employer company contributes the same amount.

(v) Travelling allowance of ₹5,000 per month towards on duty tours.

(vi) Research and training allowance ₹3,000 per month.

(vii) Children education allowance of ₹600 per month, per child for his 2 sons and 1 daughter.

(viii) Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹2,00,000 was provided from 1st October, 2023.

(ix) Reimbursement of medical expenses on his treatment in private hospital – ₹15,000, medical allowance ₹1,500 per month. Company has paid premium on medical policy purchased on his health ₹12,500.

You are required to:

I. Compute the income chargeable to tax under the head "Income from Salary", assuming that he does not opt for the provisions under section 115BAC.

II. What will be the income under 'Salary', if he opts for the provisions under section 115BAC?

Solution:

I. Computation of income chargeable to tax under the head "Salaries" for A.Y.2024-25, if Mr. B does not opt for the provisions of section 115BAC

Particulars	₹	₹
Basic Pay [₹ 85,000 x 9 + ₹ 87,000 x 3]		10,26,000
Dearness Allowance [₹ 10,26,000 x 40%]		4,10,400
Bonus		87,000
Travelling allowance [Exempt, since provided towards duty tours[1]]		-
Research and training allowance [₹ 3,000 x 12]		36,000
Medical allowance [₹ 1500 x 12]		18,000
Children Education allowance [₹ 600 x 12 x 3]	21,600	
Less: Exempt [₹100 x 12 x 2]	2,400	19,200
Salary (for the purpose of valuation of Rent-free accommodation)		**15,96,600**
Value of Rent-free accommodation [10% of ₹15,96,600]	1,59,660	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]	10,000	1,69,660
Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital]		15,000
Health insurance premium paid by PQR Ltd. [Exempt]		-
Employers' contribution to RPF in excess of 12% of		28,728
salary = 2% of ₹ 14,36,400 (₹ 10,26,000 + ₹ 4,10,400)		
Gross Salary		**18,09,988**
Less: Deductions under section 16		
Standard deduction		50,000

Income chargeable under the head "Salaries"		**17,59,988**

1 It is assumed that he has fully expended the amount

II. Computation of income chargeable to tax under the head "Salaries" for A.Y.2024-25, if Mr. B opts for the provisions of section 115BAC

Income chargeable under the head "Salaries"		17,59,988
Add: Exemption in respect of children education allowance [Not allowable as per section 115BAC]		2,400
		17,62,388
Less: Value of rent-free accommodation (As per regular provisions)		1,69,660
		15,92,728
Add: Value of Rent-free accommodation [10% of ₹ 15,99,000 (₹ 15,96,600 (as calculated above) + ₹ 2,400)]	1,59,900	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]	10,000	1,69,900
Income chargeable under the head "Salaries"		**17,62,628**

DEC – 2021

Question 1 **(14 Marks)**

Mr. Shivansh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing of motor parts. He is subject to tax audit under section 44AB of Income Tax Act, 1961. He has provided following information:

Profit & Loss account for the year ended 31st March, 2024

Particulars	(₹)	Particulars	(₹)
To Administrative expenses	4,30,000	By Gross Profit	58,30,000
To Salaries & wages	20,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	7,50,000	By Winning from lottery (Net of TDS @ 30%)	31,500
To Depreciation	6,17,000		
To Professional fees	2,70,000		
To Rent, rates & taxes	2,80,000		
To Travelling & conveyance	1,40,000		
To Net Profit	15,74,500		
Total	**60,61,500**	**Total**	**60,61,500**

Explanatory information:

(i) Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹4,50,000 and closing stock of ₹5,58,000 was shown.

(ii) Salaries & wages include following items:

(a) Contributed 20% of basic salary in National Pension Scheme referred to section 80CCD regarding salary paid to an employee Mr. Ganesh who has withdrawn basic salary of ₹3,00,000, and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.

(b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of ₹2,40,000 was paid to them on 1st January, 2024.

(iii) Interest on loan includes interest paid @ 15% per annum on loan of ₹12,00,000 which was taken from State Bank of India on 01.05.2023 for purchased of new electric car of ₹15,00,000. The car is used for personal purpose.

(iv) Depreciation allowable as per Income Tax Rules, 1962 is ₹4,50,000 but during the calculation of such depreciation following addition was not considered:
Motor car purchased for ₹3,00,000 for supply of finished goods to dealers on 25.08.2023.

(v) An asset was purchased for ₹6,00,000 on 17.11.22 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05.09.2023 for a consideration of ₹8,00,000.

Other information:

A plot of Industrial land which was used by Mr. Shivansh for business purpose for last 10 years was compulsorily acquired by Central Government on 07.05.2023. The compensation of ₹ 12,00,000 was received on 27.02.2024. Such property was purchased by him on 08.08.2005 for ₹2,00,000. He has purchased another plot of industrial land on 21.04.2024 for ₹6,00,000. Government has also paid ₹54,000 as interest on such compensation on 28.03.2024.

Cost Inflation Indices: FY 2023-24: 348, FY 2005-06: 117

Compute the total income and tax liability of Mr. Shivansh for the assessment year 2024-25

Answer

Computation of total income of Mr. Shivansh for A.Y. 2024-25

Income from business or profession

Net Profit as per Profit and Loss Account		15,74,500
Add: Employer's contribution to NPS 3,00,000 x 20% = Less: 10% of (3,00,000 + 60,000) =	 60,000 36,000	24,000
Add: VRS expenditure 2,40,000 x 4/5		1,92,000
Add: Interest on loan for purchase of motor car (12,00,000 x 15% x 11/12)		1,65,000
Add: Sale proceeds of asset for scientific research (Section 41(3)		6,00,000
Add: Under valuation of closing stock (5,58,000 / 90% x 10%)		62,000
Add: Depreciation as per books		6,17,000
Less: Depreciation as per Income Tax Rules		(4,50,000)
Less: Depreciation on Motor Car (3,00,000 x 15%)		(45,000)
Less: Under valuation of Opening stock (4,50,000 /90% x 10%)		(50,000)
Less: Profit on sale of asset of scientific research		(2,00,000)
Less: Winning from lottery		(31,500)
Income under the head Business/Profession		**24,58,000**

Income under the head Capital Gains

Asset for scientific research	
Sale Consideration	8,00,000.00
Less: Cost of acquisition	(6,00,000.00)
Short Term Capital Gains	**2,00,000.00**
Compulsory acquisition of Industrial Plot	
Sale Consideration	12,00,000.00
Less: Index cost of acquisition (2,00,000 x 348 / 117)	(5,94,871.79)
Long Term Capital Gains	6,05,128.21
Less: Exemption u/s 54D	(6,00,000.00)
LTCG	5,128.21

Income under the head Other Sources

Winning from lottery (31,500 x 100 / 70)	45,000
Interest on enhanced compensation (54,000 – 27,000)	27,000

	72,000
Gross Total Income	27,35,128.21
Less: Deduction under Chapter VI-A	Nil
Total Income	27,35,128.21
Rounded off u/s 288A	27,35,130.00

Computation of tax liability of Mr. Shivansh for A.Y.2024-25

Particulars	₹
Tax on long-term capital gains 5,130 x 20%	1,026.00
Tax on winning from lottery 45,000 x 30%	13,500.00
Tax on normal income of ₹ 26,85,000	5,05,500.00
	5,20,026.00
Add: Health and education cess@4%	20,801.04
Tax liability	5,40,827.04
Less: TDS	(13,500)
Tax Liability	5,27,327.04
Rounded off u/s 288B	**5,27,330.00**

Question 4(b) **(6 Marks)**

Mr. X, an employee of the Central Government is posted at New Delhi. He joined the service on 1st February, 2018. Details of his income for the previous year 2023-24, are as follows :

(i) Basic salary: ₹3,80,000

(ii) Dearness allowance : ₹1,20,000 (40% forms part of pay for retirement benefits)

(iii) Both Mr. X and Government contribute 20% of basic salary to the pension scheme referred to in Section 80CCD.

(iv) Gift received by X's minor son on his birthday from friend : ₹70,000. (No other gift is received by him during the previous year 2023-24)

(v) During the year 2014-15, Mr. X gifted a sum of ₹6,00,000 to Mrs. X. She started a business by introducing such amount as her capital. On 1st April, 2023, her total investments in business was ₹10,00,000. During the previous year 2023-24, she has loss from such business ₹1,30,000.

(vi) Mr. X deposited ₹70,000 in Sukanya Samridhi account on 23.01.2024. He also contributed ₹40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.

(vii) He has taken an educational loan for his major son who is pursuing MBA course from Gujarat University. He has paid ₹15,000 as interest on such loan which includes ₹5,000 for the financial year 2023-24.

Determine the total income of Mr. X for the assessment year 2024-25.

Answer

Computation of Total Income of Mr. X for A.Y. 2024-25

Particulars	Amount ₹	Amount ₹
Salaries		
Basic Salary	3,80,000	
Dearness Allowance	1,20,000	
Employer contribution to NPS = 20% of ₹ 3,80,000	76,000	
	5,76,000	
Less: Standard deduction [₹ 50,000 or ₹ 5,76,000, whichever is lower]	50,000	
		5,26,000
Profits and gains of business or profession		

Where the amount gifted by Mr. X (₹ 6 lakh, in this case) is invested by Mrs. X in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment as on 1.4.2023 to the total investment in the business (₹ 10 lakh) would be included in the income of Mr. X [loss of ₹ 1,30,000 x 6/10]	(78,000)	
Income from other sources		
All income of the minor son would be included in the income of the parent Mr. X, since his income is higher than the income of Mrs. X (loss of ₹ 52,000, based on the information given in the question). Accordingly, ₹ 70,000, being amount of gift received by minor son during the P.Y.2023-24, would be included in the income of Mr. X as the amount of gift exceeds ₹ 50,000.	70,000	
Less: Business loss of ₹ 78,000 set-off to the extent of	70,000	
(Balance **business loss of ₹ 8,000 to be carried forward** to the next year, since the same cannot be set-off against salary income)		Nil
Gross Total Income		5,26,000
Less: Deductions under Chapter VI-A		
Under section 80CCD(2) – Employer contribution to NPS restricted to 14% of basic salary + DA forming part of pay, since employer is Central Government = 14% x (₹ 3,80,000 + ₹ 48,000)		59,920
Total Income		**4,66,080**

Notes - The following assumptions have been made while solving the question –

(i) The question mentions that gift of ₹ 6 lakhs is given by Mr. X to Mrs. X during the P.Y.2014-15. However, the date of investment in business is not given. It has been assumed that it was invested between 2.4.2022 to 1.4.2023 for solving the problem, in the absence of other information in the question.

JULY – 2021

Question 2(a) **(6 Marks)**

Mrs. Rohini, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1996 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31.03.2024:

S. No.	Particulars	Amount (in ₹)
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (computed)	3,00,000
3.	Short-term capital gain on sale of share of Indian listed companies in respect of which STT was paid both at the time acquisition as well as at the time of sale (computed)	60,000
4.	Premium paid to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Rohini and compute her total income and tax liability in India for Assessment year 2024-25.

Solution:

An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed ₹ 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year.

Since Mrs. Rohini is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y.2023-24 and her income other than from foreign sources does not exceed ₹ 15,00,000, she is non-resident for the A.Y. 2024-25.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Rohini for A.Y. 2024-25

Particulars		Amt (₹)
Salaries		
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor is it received in India]		Nil
Income from House Property		
Annual Value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues or arises from a property situated in India]	90,000	
Less: Deduction u/s 24(a) @ 30%	(27,000)	63,000
Capital Gains		
Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]		3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]		60,000
Gross Total Income		**4,23,000**
Less: **Deduction under Chapter VI-A**		Nil
Total Income		**4,23,000**
Computation of Tax Liability		
Long-term capital gains taxable @ 20% u/s 112 [3,00,000 x 20%]		60,000
Short-term capital gains taxable @ 15% u/s 111A [60,000 x 15%]		9,000
		69,000
Add: Health and Education Cess @ 4%		2,760
Tax Liability		71,760

Note –

(i) Even if her total income exceeds ₹ 15 lakh, still, she would be non-resident since the minimum period of stay required in the current year for being a resident is 120 days.

(ii) The benefit of adjustment of unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A is not available in case of non-resident. Further, rebate u/s 87A is not allowable to a non-resident.

JAN – 2021

Question 3(a) **(7 Marks)**

(a) Rajesh was employed in Axis Ltd., Mumbai. He received a salary of ₹ 45,000 p.m. from 1.04.2023 to 20.09.2023. He resigned and left for Dubai for the first time on 28.09.2023 and got monthly salary of rupee equivalent of ₹ 90,000 from 1.10.2023 to 31.03.2024.

His salary for October to December was credited in his Mumbai bank account directly and the salary for January to March 2024 was credited in his Dubai bank account.

The cost of his air tickets to Dubai costing ₹ 1,50,000 was funded by her sister staying in London. The cost of his initial stay at Dubai costing ₹ 40,000 was funded by one of his friends staying in Delhi.

He further received interest of ₹ 10,500 on his fixed deposits and ₹ 7,500 on his savings a/c with his Mumbai bank. He also paid LIC Premiums of ₹ 15,000 for self, ₹ 10,000 for spouse and ₹ 25,000 for dependent mother aged 71 years.

Compute taxable income of Mr. Rajesh for the Assessment Year 2024-25.

Solution:

(a) In case of an Indian citizens leaving India for employment during the relevant previous year, the period of their stay during that previous year for being treated as a resident of India must be 182 days or more.

During the previous year 2023-24, Mr. Rajesh, an Indian citizen, was in India for 181 days only (i.e., 30+31+30+31+31+28 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2024-25.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to him in India. Hence, salary for January to March 2024, which was credited in his Dubai bank account for services rendered in Dubai, would not be taxable in the hands of Mr. Rajesh.

Computation of taxable income of Mr. Rajesh for A.Y. 2024-25

Particulars		**Amount (₹)**
Salary		
Salary from 1.4.2023 to 20.9.2023 [45,000 x 5 + 45,000 x 20/30]	2,55,000	
Salary from 1.10.2023 to 31.12.2023 [90,000 x 3]	2,70,000	
Gross Salary		5,25,000
Less: Standard deduction u/s 16(ia)		(50,000)
Net Salary		4,75,000
Income from Other Sources		
Interest on fixed deposits	10,500	
Interest on Savings account	7,500	18,000
Gross Total Income		4,93,000
Less: **Deduction under Chapter VI-A**		Nil
Total Income		**4,93,000**

Working Notes –

1. Cost of his air tickets to Dubai costing ₹ 1,50,000 funded by his sister is not taxable under section 56(2)(x) in the hands of Mr. Rajesh, since "sister" is a relative.
2. Cost of initial stay at Dubai costing ₹ 40,000 funded by his friend is also not taxable under section 56(2)(x), since the amount does not exceed ₹50,000.

NOV – 2019

Question.1 **(14 Marks)**

Mrs. Mitul, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitul for the year ending March 31st 2024 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	1,20,000	By Consultation Fees	12,00,000
To Administrative Exp.	2,90,000	By Salary received from True Care Hospitals (P) Ltd.	1,80,000
To Conveyance Expenses	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
To Interest on Housing Loan	1,00,000		
To Interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & Notified under Section 35	25,000		
To net profit	8,59,000		
Total	**14,68,000**	**Total**	**14,68,000**

Explanatory Information:

(i) She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:

Basic Pay	₹13,000 p.m.
Transport Allowance	₹ 2,000 p.m.
Total	₹15,000 p.m.

Further, during P.Y. 2023-24, her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of ₹ 60,000 for a similar treatment to un-related patients.

(ii) She owns a residential house. Ground floor of the house is self-occupied by her while first floor has been rented out since 01/10/2023. The reconstruction of the house was started on 01-04-2023 and was completed on 30-09-2023. The monthly rent is ₹ 10,000. The tenant also pays ₹ 3,000 p.m. as power back-up charges. She took a housing loan of ₹ 12 lakhs on 01-04-2023. Interest on housing loan for the period 01-04-2023 to 30-09-2023 was 60,000 and for the period 01-10-2023 to 31-03-2024 was ₹40,000. During the year, she also paid municipal taxes for the F.Y. 2022-23 ₹5,000 and for F.Y. 2023-24 ₹5,000.

(iii) **Other informations:**

(a) Conveyance expenses include a sum of ₹12,000 incurred for conveyance from house to True Care Hospital (P) Ltd. and vice-versa in relation to her employment.

(b) Power & fuel expenses include a sum of ₹6,000 incurred for generator fuel for providing power back-up to the tenant.

(c) Administrative expenses include a sum of ₹10,000 paid as Municipal Taxes for her house.

(d) Clinic equipment' details are:

Opening W.D.V. of clinic equipments as on 01-04-2023 was ₹1,00,000 and fresh purchase made on 28-08-2023 is ₹25,000 which was paid in cash.

(e) She also paid tuition fee of ₹40,000 for her grand-daughter, which has been debited to her Capital A/c.

(f) She availed a loan of ₹8,00,000 from bank for higher education of her son. She repaid principal of ₹50,000 and interest of ₹ 26,000 during P.Y. 2023-24.

You are required to compute her net taxable income and net tax liability for the Assessment Year 2024-25 under default regime.

Solution:

Computation of taxable income and tax liability of Mrs. Mitul for the Assessment year 2024-25

Income under the head salary	
Basic (13,000 x 12)	1,56,000
Transportation allowance (2,000 x 12)	24,000
Cost of treatment for son in True Care Hospitals (P) Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite (clause (i) of proviso to section 17(2))]	Nil
Gross salary	1,80,000
Less: standard deduction u/s 16(ia) [Actual salary or 50,000, whichever is less]	(50,000)
Taxable salary	1,30,000
Less: Loss under the head house property	(11,500)
Income under the head salary	1,18,500
Income under the head house property	
First floor (let out)	
Gross Annual Value [Rent received is taken as GAV = 10,000 p.m. x 6 months]	60,000
Less: Municipal taxes paid by her in the P.Y.2023- 24 pertaining to let out portion [(₹5,000 + ₹5,000)/2], allowable since it is paid during the year, even if it relates to earlier years	(5,000)
Net Annual Value (NAV)	55,000
Less: 30% of 55,000 standard deduction u/s 24(a)	(16,500)
Less: Interest u/s 24(b) (60,000 + 40,000/2)	(50,000)
Loss from first floor	(11,500)
Ground floor (Self occupied)	
Net Annual Value	Nil
Less: 30% standard deduction u/s 24(a)	Nil
Less: Interest on housing loan for reconstruction u/s 24(b) -	Nil
Loss from first Floor	(11,500)
Loss under the head house property	(11,500)
Income under the business profession	
Net Profit	8,59,000
Less: Items of income to be treated separately under the respective head of income	
Salary received taxable under other head	(1,80,000)
Rent from house property	(78,000)
Dividend from foreign company	(10,000)
Less: Allowable expenditure	
Depreciation on clinical equipments (1,00,000 x 15%)	(15,000)

On additions during the year 25,000, no depreciation is allowable, since payment was made in cash and hence, it will not form part of actual cost	Nil
Add: Items of expenditure not allowable while computing business income	
Interest on housing loan for reconstruction of residential house	1,00,000
Interest on education loan for son	26,000
Conveyance expense in relation to her employment	12,000
Power & Fuel expenses incurred for power back up to tenant not deductible	6,000
Municipal taxes paid relating to residential house	10,000
Scientific research association u/s 35	25,000
Income under the head business profession	**7,55,000**
Income under the head other sources	
Income from power back up facility	
Power backup charges from tenant (3,000 x 6)	18,000
Less: Actual expenditure incurred for providing power back up	(6,000)
	12,000
Dividend from foreign companies	10,000
Income under the head other sources	22,000
Calculation of Total Income	
Income under the head salary	1,18,500
Income under the head business profession	7,55,000
Income under the head other sources	22,000
Gross total income	8,95,500
Less: Deduction under Chapter VI-A	Nil
Total Income	8,95,500
Computation of tax payable	
Tax on 8,95,500 at slab rate	44,550
Add: HEC @ 4%	1,782
Tax liability	46,332
Rounded off u/s 288B	46,330

Alternative solution: Student can solve business income by taking 44ADA because Mrs. Mitul is a medical practitioner and gross receipts is below 50 lakhs. In such case business income shall be 50% of gross receipts i.e. 50% of 12,00,000 = 6,00,000.

Computation of taxable income and tax liability of Mrs. Mitul for the Assessment year 2024-25

Income under the head salary	
Basic (13,000 x 12)	1,56,000
Transportation allowance (2,000 x 12)	24,000
Cost of treatment for son in True Care Hospitals (P) Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite (clause (i) of proviso to section 17(2))]	Nil
Gross salary	1,80,000
Less: standard deduction u/s 16(ia) [Actual salary or 50,000, whichever is less]	(50,000)

Taxable salary	1,30,000
Less: Loss under the head house property	(11,500)
Income under the head salary	1,18,500
Income under the head house property	
First floor (let out)	
Gross Annual Value [Rent received is taken as GAV = 10,000 p.m. x 6 months]	60,000
Less: Municipal taxes paid by her in the P.Y.2023- 24 pertaining to let out portion [(₹5,000 + ₹5,000)/2], allowable since it is paid during the year, even if it relates to earlier years	(5,000)
Net Annual Value (NAV)	55,000
Less: 30% of 55,000 standard deduction u/s 24(a)	(16,500)
Less: Interest u/s 24(b) (60,000 + 40,000/2)	(50,000)
Loss from first floor	(11,500)
Ground floor (Self occupied)	
Net Annual Value	Nil
Less: 30% standard deduction u/s 24(a)	Nil
Less: Interest on housing loan for reconstruction u/s 24(b) -	Nil
Loss from first Floor	(11,500)
Loss under the head house property	(11,500)
Income under the business profession	
Consultation fees	12,00,000
Income under the head business profession (50% of 12,00,000 u/s 44ADA)	6,00,000
Income under the head other sources	
Income from power back up facility	
Power backup charges from tenant (3,000 x 6)	18,000
Less: Actual expenditure incurred for providing power back up	(6,000)
	12,000
Dividend from foreign companies	10,000
Income under the head other sources	22,000
Calculation of Total Income	
Income under the head salary	1,18,500
Income under the head business profession	6,00,000
Income under the head other sources	22,000
Gross total income	7,40,500
Less: Deductions under Chapter VI-A	Nil
Total income	7,40,500
Computation of tax payable	
Tax on 7,40,500 at slab rate	29,050
Add: HEC @ 4%	1,162
Tax liability	30,212
Rounded off u/s 288B	30,210

MAY – 2019

Question 1 **(14 Marks)**

From the following particulars of Shri Jagdish (Aged 59 Years) for the Assessment Year 2024-25, you are required to find out his taxable income and net tax liability:

(i) Basic Salary @ ₹ 51,000 per month, Dearness allowance @ ₹ 10,000 per month (Part of salary for retirement benefits), House rent allowance ₹ 4,000 per month and rent paid for house in Mumbai is ₹7,000 per month.

(ii) He owns a commercial building at New Delhi, which is let out on 1/7/2023 at a monthly rent of ₹46,000. He paid for municipal taxes of ₹ 27,000 and ₹ 25,000 for the financial year 2022-23 and 2023-24 on 31-3-2024 and 20-4-2024 respectively.

(iii) He deals in shares. During financial year 2023-24 he earned ₹ 1,70,000 from his share business and paid ₹ 30,000 as security transaction tax.

(iv) He purchased 4000 unlisted shares of Shyam Limited on 16-1-2010 for ₹ 80,000. Company declared bonus in the ratio of 1:1 on 1st February, 2010. Shri Jagdish sold 3000 Bonus Shares on 28/12/2023 for ₹ 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange.(Cost Inflation Index: 2009-10: 148, **2023-24 : 348**)

(v) He received dividend of ₹ 13,00,000 as dividend income from listed domestic company, Interest from saving bank account deposits with IDBI Bank ₹ 15,000 and lottery winnings (Net of TDS @ 30%) is ₹ 21,000.

He paid the following amount out of his taxable income :

(a) Deposits in Public Provident Fund ₹ 2,00,000.

(b) Medical insurance premium paid for health of his wife ₹ 19,000 and for health of dependent son ₹12,000 through cheque.

Solution:

Computation of Total Income and Net Tax Liability of Mr. Jagdish of A.Y. 24-25

Computation of Income under the head Salary

Basic Pay (51,000 x 12)	6,12,000
Dearness Allowance (10,000 x 12)	1,20,000
House Rent Allowance	48,000
Gross Salary	7,80,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	7,30,000

Income from house property

Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (46,000 × 9)	4,14,000
Less: Municipal taxes paid	(27,000)
Net Annual Value (NAV)	3,87,000
Less: Deductions u/s 24 (a) 30% of NAV	(1,16,100)
Less: Deductions u/s 24 (b) Interest	Nil
Income from House Property	2,70,900

Income under the head business/profession

Earned from his share business	1,70,000
Less: Securities Transaction tax paid (section 36(1)(xv))	(30,000)
Income under the head business/profession	1,40,000

Income under the head capital Gains

Full value of Consideration on Sale of Bonus shares	2,00,000
Less: Indexed cost of Acquisition	Nil

Long Term capital gains	2,00,000

Income under the head other sources

Dividend Income	13,00,000
Interest from saving bank account	15,000
Lottery Winning (21,000/70%)	30,000
Income under the head other sources	13,45,000

Gross Total Income

Income under the head Salary	7,30,200
Income from House Property	2,70,900
Income under the head business/profession	1,40,000
Income under the head capital Gains	2,00,000
Income under the head other sources	13,45,000
Gross Total Income	26,85,900
Less: Deduction under Chapter VI-A	Nil
Total Income	26,85,900

Computation of Tax Liability

Tax on ₹30,000 @ 30% u/s 115BB	9,000.00
Tax on ₹2,00,000 @ 20% u/s 112	40,000.00
Tax on normal income ₹24,55,900	4,36,770.00
Tax before health & education cess	4,85,770.00
Add: HEC @ 4%	19,430.80
Tax Liability	5,05,200.80
Less: TDS	(9,000.00)
Tax Payable	4,96,200.80
Rounded off u/s 288B	4,96,200.00

Question 3 (a) **(8 Marks)**

Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of ₹ 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in-turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the Financial Year 2023-24.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to Star Private Limited	Let-out to Ms. puja

₹ 17,000 were paid as Interest on loan taken by mortgaging House 1 for construction of House 2.

During the Previous year 2023-24, Mr. Madhvan purchased a rural agricultural land for ₹ 2,50,000. Stamp valuation of such property is ₹ 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2024-25. All workings should from part of your answer.

Solution:

Computation of Taxable Income of Mr. Madhvan for the A.Y. 2024-25 ₹

Computation of income under the head Salary

Basic salary (30,000 x 12)	3,60,000
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	36,000

Working Note:	
10% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation salary = 3,60,000	
10% of ₹3,60,000 = ₹36,000	
Rent Paid = ₹65,000	
Value of unfurnished house	36,000

Gross Salary	3,96,000
Less: Standard Deduction u/s 16(ia) [Actual salary or 50,000, whichever is less]	(50,000)
Income under the head Salary	3,46,000

Computation of income under the head House Property

House 1

Gross Annual Value	75,000

Working Note:	₹
(a) Fair Rent	75,000
(b) Municipal Value	74,000
(c) Expected Rent (higher of (a) or (b)	75,000
(d) Rent Received/Receivable	65,000
GAV = Higher of (c) or (d)	75,000

Less : Municipal Tax	(18,000)
Net Annual Value	57,000
Less: 30% of NAV u/s 24(a)	(17,100)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	39,900

House 2

Gross Annual Value	2,85,000

Working Note:	₹
(a) Fair Rent	1,95,000
(b) Municipal Value	1,90,000
(c) Expected Rent (higher of (a) or (b)	1,95,000
(d) Rent Received/Receivable	2,85,000
GAV = Higher of (c) or (d)	2,85,000

Less: Municipal Tax	(70,000)
Net Annual Value	2,15,000
Less: 30% of NAV u/s 24(a)	(64,500)
Less: Interest on capital borrowed u/s 24(b)	(17,000)
Income under the head House Property	1,33,500
Income under the house property (1,33,500+39,900)	1,73,400
Gross Total Income	5,19,400
Less: Deduction under Chapter VI-A	Nil
Total Income	5,19,400

Note:

1. Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable under section 56(2)(x), since rural agricultural land is not a capital asset.

2. Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head house property.

Question 4 (a) **(10 Marks)**

Ms. Geeta, a resident individual, provides following details of her income/losses for the year ended 31.03.2024:

	Particulars	**Amount (₹)**
(i)	Income from salary (computed)	41,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for house property in Mumbai which is self-occupied. Loan was taken from PNB on 01.01.1999 for purchase of this property	1,57,000
(vi)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 01.04.21 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vii)	Long term capital gains on sale of equity shares computed in accordance with Section 112A	8,95,000
(viii)	Interest on fixed deposit	73,000
(ix)	Loss from textile business	7,50,000
(x)	Speculation profit	2,30,000
(xi)	Lottery income	75,000
(xii)	Loss incurred by the firm in which she is a partner	1,60,000
(xiii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiv)	Brought forward short-term capital loss on sale of gold.	2,75,000
(xv)	Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
(xvi)	Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income of Ms. Geeta for the assessment year 2024-25 and the amount of loss that can be carried forward.

For the above solution, you may assume principal repayment of loan as under:

(1) Loan taken for purchase of house property in Delhi – ₹ 2,50,000

(2) Loan taken for purchase of house property in Mumbai – ₹ 50,000

(3) Loan taken for repair of house properties in Delhi and Mumbai – ₹ 75,000

Workings notes should form part of your answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note.

Solution:

Computation of Total Income of Ms. Geeta for the A.Y. 2024-25

Income under the head salary	
Income from salary (computed)	41,20,000
Less: Loss from House Property maximum allowed 2,00,000	(2,00,000)
Income from salary	39,20,000
Income under the head House Property	
House 1 (House in Delhi)	
GAV	5,00,000
(Actual receipt of rent shall be treated as GAV in the absence of other information)	
Less: Municipal Tax	Nil
Net Annual Value	5,00,000
Less: 30% of NAV u/s 24(a)	(1,50,000)
Less: Interest on capital borrowed u/s 24(b) (7,50,000+75,000)	(8,25,000)
Loss from House 1	(4,75,000)
House 2 (House in Jaipur)	
GAV	3,20,000
(Actual receipt of rent shall be treated as GAV in the absence of other information)	
Less: Municipal Tax	Nil
Net Annual Value	3,20,000
Less: 30% of NAV u/s 24(a)	(96,000)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from House 2	2,24,000
House 3 (House in Mumbai Self occupied)	
GAV	Nil
Less: Municipal Tax	Nil
Net Annual Value	Nil
Less: 30% of NAV u/s 24(a)	Nil
Less: Interest on capital borrowed u/s 24(b)	(30,000)
Interest on loan for purchase and repairs (to be restricted to 30,000, since loan for purchase was taken prior to 1.4.1999)	
Loss from House 3	(30,000)
Loss under the head house property (2,24,000-4,75,000-30,000)	(2,81,000)
As per section 71(3A), loss from house property to be set-off against salary income to the extent of 2,00,000	
Income under the head capital Gains	
Long-term capital gains on sale of equity shares computed in accordance with section 112A	8,95,000
Less: Current year loss under the head business profession	(4,70,000)
Less: Set-off of brought forward short-term capital loss as per section 74 on sale of gold	(2,75,000)
Less: Brought forward loss Short term loss u/s 111A	(25,000)
LTCG 112A	1,25,000
Income under the head business/profession	
Speculation profit (assumed as business income)	2,30,000
Salary received as partner of firm is taxable in her hands since the entire salary was allowed as deduction in the hands of the firm	50,000
Less: Loss from textile business	(2,80,000)
Income under the head business/profession	Nil

Income under the head other sources

Interest on Fixed Deposit	73,000
Lottery Income	75,000
Income under the head other sources	1,48,000

Computation of Total Income

Income under the head salary	39,20,000
Income under the head capital gains	1,25,000
Income under the head house property	Nil
Income under the head business/profession	Nil
Income under the head other sources	1,48,000
Gross Total Income	**41,93,000**
Less: Deductions under Chapter VI-A	**Nil**
Total Income	**41,93,000**

Loss to be carried forward

Loss from House Property	81,000

Note –

1. Share of loss of 1,60,000 incurred by the firm in which she is partner cannot be set-off against salary received as partner of firm or any other income, since loss from an exempt source cannot be set-off against profit from a taxable source.

2. As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. Such loss can be carried forward for a maximum of eight assessment years.

3. 2,50,000, for house property in Delhi, not allowable since loan is taken from a friend.

4. 75,000, for house properties in Mumbai and Delhi, not allowable since loan is taken for repairs of properties.

Alternate solution: Student can setoff business loss from other source income and balance from capital gains, in such case also total income will remain same.

MAY – 2019

Question 1 **(14 Marks)**

Mr. X working in a private company from last 10 years. His salary details for the financial year 2023-24 are:

		₹	
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, 2023. 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 contribution was ₹ 16.20 lakhs and interest thereon was ₹ 3.60 lakhs.

He had taken the possession of house on 28th February, 2024 after making payment of final installment of housing loan to bank. Loan was taken on 01-04-2022. The accumulated interest as on 31st march, 2023 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, 2023 and 3 heavy vehicles having gross weight of 15 MTs each on 1st December, 2023. 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, 2023 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, 2015. Company bought back 30% of its share on 30th April, 2023 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 2023-24. 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 2024-25. There was no change in salary of Mr. X from last two years. Cost inflation Index is:

Financial Year	**Cost Inflation Index**
2015-16	254
2023-24	348

Solution:

Computation of Total Income and Net Tax Liability of Mr. X of A.Y. 24-25

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
3. ₹ 1/2 x (1,50,000 x 10)/10 x 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) [Actual salary or 50,000, whichever is less]	(50,000)
Income under the head Salary	**43,10,000**
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 (Not allowed to set off from other head)	(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	43,10,000
Income under the head business/profession	2,92,500
Income under the head other sources	9,60,000
Gross Total Income	**55,62,500**
Less: Deduction under Chapter VI-A	Nil
Total Income	55,62,500

Computation of Tax Liability

Tax on normal income ₹ 55,62,500	13,68,750.00
Add: Surcharge @ 10%	1,36,875.00
Tax before health & education cess	15,05,625.00
Add: HEC @ 4%	60,225.00
Tax Liability	15,65,850.00
Round off u/s 288B	13,95,970.00

Note:

1. As per section 10 (34A), any income arising to an assessee being a shareholder on account of buy back of shares by the company shall be exempt from income tax.
2. Dearness allowance is not forming part of salary hence not taken in salary computation.