

# M.K.G

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### SOLUTIONS INCOME TAX

(Volume – 2)

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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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# SET OFF AND CARRY FORWARD OF LOSSES

## SECTION 70 TO 80

### SOLUTIONS OF MCQS

#### 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); 13. (c); 14. (c); 15. (b)

Hint Q. No. 13:

#### Income under the head Capital Gains

LTCG	5,00,000
Less: Loss from House Property	(2,00,000)
Income under the head Capital Gains	3,00,000
<b>Total Income</b>	<b>3,00,000</b>
Tax on LTCG (3,00,000-2,50,000)*20%	10,000
Less: Rebate u/s 87A	(10,000)
Tax Liability	NIL

Hint Q. No. 14:

#### Income under the head Capital Gains

LTCG	5,00,000
Less: Loss from House Property	(2,00,000)
Income under the head Capital Gains	3,00,000
<b>Total Income</b>	<b>3,00,000</b>
Tax on LTCG (3,00,000-3,00,000)*20%	NIL
Tax Liability	NIL

Hint Q. No. 15:

#### Income under the head PGBP

Income from Business	12,00,000
Less: Loss from House Property	(2,00,000)
Income under the head PGBP	10,00,000
<b>Total Income</b>	<b>10,00,000</b>
Tax on 10,00,000 at slab rate	1,10,000
Add: HEC @ 4%	4,400
Tax Liability	1,14,400

# SOLUTIONS OF EXAMINATIONS QUESTIONS

## JULY – 2021 (NEW COURSE)

### Solution 4(b):

#### Computation of Gross Total Income of Mr. X for A.Y. 2022-23

Particulars	Amount	Amount
<b>Salaries</b>		
Income from salary (computed)	2,22,000	
<b>Less:</b> Set-off of loss from house property of ₹ 2,58,000 to the extent of ₹ 2 lakhs by virtue of section 71(3A)	2,00,000	22,000
<b>Income from house property</b>		
- House in Delhi	22,000	
- House in Chennai	(2,60,000)	
- House in Mumbai (self-occupied)	(20,000)	
	(2,58,000)	
Loss upto ₹ 2 lakhs can be set off against income from salary.		
Balance loss of ₹ 58,000 from house property has to be carried forward to A.Y.2022-23.		
<b>Profits and gains from business or profession</b>		
Profits from Speculative business – 2	46,000	
<b>Less:</b> Loss of ₹ 74,000 from speculation business - 1 set off to the extent of profits of ₹ 46,000 as per section 73(1) 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.2023-24.		-
Profits from textile business	18,000	
<b>Less:</b> Loss from cosmetic business of ₹ 22,000 set off against profits from textile business to the extent of ₹ 18,000 as per section 70(1).	(18,000)	-
Balance loss of ₹ 4,000 from cosmetic business has to be carried forward to A.Y.2023-24, since the same cannot be set-off against salary income.		
<b>Capital Gains</b>		
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.2023-24		
<b>Income from Other Sources</b>		
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.2023-24]	<u>Nil</u>	
		<u>80,000</u>
<b>Gross Total Income</b>		<b><u>1,02,000</u></b>

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### NOV – 2015

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**Solution 4(a):****Computation of taxable income of Mr. X for the A.Y. 2022-23**

	₹
<b>Income under the head Salary</b>	6,00,000.00
Less: Loss under the head house property (Loss of minor son)	(90,000.00)
Income under the head Salary	5,10,000.00
<b>Income under the head capital Gains</b>	
Long Term Capital Gain	75,000.00
Less: Loss from Business of his wife	(75,000.00)
Income under the head capital Gains	Nil
<b>Income under the head other sources</b>	
Interest Income from Fixed Deposit	80,000.00
Less: Loss from Business of his wife	(80,000.00)
Income under the head other sources	Nil
(Balance amount of ₹45,000 to be carried forward)	
Gross Total Income	5,10,000.00
Less: Deduction from 80C to 80U	Nil
Total Income	5,10,000.00

Note: 1. Mr. X shall be the deemed owner of the house property transferred to minor son hence it will be considered to be loss of Mr. X.

2. Loss from business of Mrs. X shall also be clubbed

3. Brought Forward Long term capital loss of AY 2020-21 to be carried forward ₹96,000.

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### MAY – 2014

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**Solution 6(A):****Computation of Gross Total Income of Mr. X for the A.Y. 2022-23****Particulars**

₹

<b>Income under the head Salary</b>	15,000
<b>Profits and gains of business or profession</b>	66,000
Less : Unabsorbed depreciation brought forward from A.Y.2021-22	(11,000)
	55,000
<b>Capital gains</b>	
Long term capital gain on sale of land	10,800
Less : Brought forward short term capital loss	(9,800)
	1,000
<b>Gross Total Income</b>	<b>71,000</b>

**Amount of loss to be carried forward to A.Y.2023-24**

<b>Particulars</b>	<b>₹</b>
(1) Loss from speculative business shall be carried forward as per section 73	22,000
(2) Loss on maintenance of race horses shall be carried forward as per section 74A	15,000
(3) Loss from gambling can neither be set-off nor be carried forward	

**Working Note:**

Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74

**NOV – 2012**

<b><u>Solution 5(a):</u></b>	<b>₹</b>
<b><u>Income under the head Capital Gains</u></b>	
Long term capital Gain	2,05,000
Less: Short term capital loss on sale of property	(55,000)
Less: Loss from profession	(1,05,000)
Less: Loss from House Property	(45,000)
Income under the head Capital Gains	Nil
<b><u>Income under the head Other Sources</u></b>	
Winning from lottery	1,00,000
Income from card game	55,000
Income under the head Other Sources	1,55,000
Gross Total Income	1,55,000
Less: Deduction u/s 80D (Deductions are not allowed from casual incomes)	Nil
Total Income	1,55,000

**Working Notes:**

- Share of loss from firm is not allowed to be set off by the partner.
- Loss from races can neither be set off nor be carried forward.

**NOV – 2011****Answer 1:**

<b>Calculation of Gross Total Income of Mr. X for the assessment year 2022-23</b>	<b>₹</b>
<b><u>Income under the head Salary</u></b>	
Salary	1,00,000
Less: Loss from house property	(40,000)
Income under the head Salary after set off	60,000
<b><u>Income under the head Business/Profession</u></b>	
Income from Business of textile	50,000
Less: Loss Carried forward from textile business (A.Y. 2014-15)	(50,000)
Balance loss of ₹10,000 shall lapse	
<b><u>Income under the head Capital Gains</u></b>	
Short Term Capital Gains	1,40,000
Long Term Capital Gains	30,000
Less: Long term loss	(30,000)

(Balance of loss of 70,000 shall be carried forward)

**Income under the head Other Sources**

Income from owning and maintaining race horses	15,000	
Less: Loss carried forward to be adjusted (A.Y. 2019-20)	(15,000)	
(Balance brought forward loss of ₹10,000 to be carried forward to next year)		
Gross Total Income		2,00,000
Loss from speculative business of A.Y. 2022-23 ₹60,000 to be carried forward for 4 years starting from assessment year 2023-24.		

**MAY – 2011**

**Answer 4.**

**Computation of total income of Mr. X for the A.Y. 2022-23**

Particulars	₹	₹
<b>Salaries</b>		
Income under the head salary	2,20,000	
Less: Loss from house property	(1,90,000)	30,000
<b>Profits and gains of business or profession</b>		
Income from speculation business	30,000	
Less: Loss from cloth business set off	(30,000)	Nil
<b>Capital gains</b>		
Long-term capital gains from sale of urban land	2,50,000	
Less: Loss on sale of listed shares	(90,000)	
Less: Loss from cloth business set off	(1,60,000)	Nil
<b>Income from other sources</b>		
Income from betting		45,000
<b>Gross total income</b>		<b>75,000</b>
Less: Deduction under section 80C (life insurance premium paid)		(30,000)
<b>Total income</b>		<b>45,000</b>
<b>Losses to be carried forward</b>		
(1) Loss from cloth business (2,40,000-30,000-1,60,000)		50,000

**Notes**

- Business loss cannot be set off against salary income.
- Loss from card games can neither be set off against any other income, nor can it be carried forward.
- Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

**Solution 4: Computation of total income of Mr. X for the year ended 31.03.2022**

**Option 1: Loss of House property is set off from Normal Income**

Particulars	₹	₹
Income under the head salary	60,000	
Less: Loss from house property	(15,000)	
Net Salary (after set off of loss from house property)		45,000
<b>Profits and gains of business or profession</b>		
Speculation business income	1,00,000	
Less: Business loss set-off	(1,35,000)	
Net business loss to be set-off against long-term capital gain	(35,000)	
<b>Capital Gains</b>		
Long term capital gain	70,000	
Less: Business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000

**Income from other sources**

Lottery winnings (Gross)	3,00,000
Total Income	3,80,000

**Computation of tax liability**

Particulars	₹
On Normal Income Nil (₹45,000 - ₹45,000) at slab rate	Nil
On LTCG Nil (₹35,000 - ₹35,000) u/s 112 @ 20%	Nil
On lottery winnings of ₹3,00,000 @ 30%	90,000
Less: Rebate u/s 87A	(12,500)
Tax Liability after rebate	77,500
Add: HEC @ 4%	3,100
<b>Total tax liability</b>	<b>80,600</b>

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since no tax is payable, advance tax liability is not attracted.

**Option 2: Loss of House property is set off from LTCG**

Particulars	₹	₹
Income under the head salary		60,000
<b>Profits and gains of business or profession</b>		
Speculation business income	1,00,000	
Less: Business loss set-off	<u>(1,35,000)</u>	
Net business loss to be set-off against long-term capital gain	(35,000)	
<b>Capital Gains</b>		
Long term capital gain	70,000	
Less: Business loss set-off	(35,000)	
Less: Loss from House Property	(15,000)	
Long term capital gain after set off of loss		20,000
<b>Income from other sources</b>		
Lottery winnings (Gross)		3,00,000
Total Income		3,80,000

**Computation of tax liability**

Particulars	₹
On Normal Income Nil (₹60,000 - ₹60,000) at slab rate	Nil
On LTCG Nil (₹20,000 - ₹20,000) u/s 112 @ 20%	Nil
On lottery winnings of ₹3,00,000 @ 30%	90,000
Less: Rebate u/s 87A	(12,500)
Tax Liability after rebate	77,500
Add: HEC @ 4%	3,100
<b>Total tax liability</b>	<b>80,600</b>

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since no tax is payable, advance tax liability is not attracted.

**Since Tax Liability in both the options is same hence assessee can take any option.**

**NOV – 2010****Answer 1.****Computation of gross total income of Mr. X for the A.Y. 2022-23**

Particulars	₹	₹
<b>Salaries</b>		
Income under the head salary	3,00,000	
Less: Loss from house property set-off against salary income	<u>(40,000)</u>	2,60,000

as per section 71

**Profits and gains of business or profession**

Income from sugar business	50,000	
<u>Less:</u> Brought forward loss from iron-ore business set-off as per section 72	<u>(50,000)</u>	Nil

Balance business loss of ₹70,000 of P.Y.2015-16 carried forward to A.Y.2023-24

**Capital gains**

Long term capital gain	40,000	
<u>Less:</u> Short term capital loss set-off	<u>(40,000)</u>	Nil
Long term capital gain 112A	10,000	
<u>Less:</u> Short term capital loss set-off	<u>(10,000)</u>	Nil

Balance short-term capital loss of ₹10,000 to be carried forward

Short-term capital loss of ₹10,000 under section 111A to be carried forward

**Income from other sources**

Dividend	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank interest on fixed deposit	<u>5,000</u>	<u>66,000</u>

**Gross Total Income**

**3,26,000**

**Losses to be carried forward to A.Y. 2023-24**

Loss of iron-ore business	70,000
Short term capital loss	10,000
Short term capital loss u/s 111A	10,000

**Notes:**

1. The following income are exempt under section 10 –

(i) Agricultural income [Exempt under section 10(1)]

2. It is presumed that loss from iron-ore business relates to P.Y.2015-16, the year in which the business was discontinued.

**Answer 1.**

**Computation of total income of Mr. X for A.Y. 2022-23**

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

The unabsorbed business loss of ₹40,000 (₹1,50,000 – ₹1,10,000) of A.Y. 2016-17 relating to discontinued business will be carried forward for set-off against income from any business in the next year i.e. A.Y. 2023-24.

**MAY – 2010**

**Answer 4. Computation of total income of Mr. X for the Assessment year 2022-23**

	₹	₹
<b>Income (loss) House property</b>		
House –I	36,000	



House-2 –Self occupied	(20,000)	
House-3	<u>60,000</u>	
Income from House Property		76,000
<b>Profits and gains of business and profession</b>		
Textile business	2,00,000	
Automobile business	(3,00,000)	
Speculation business	<u>2,00,000</u>	
Income from business or profession representing speculation business profit (after set off of loss of automobile business)		1,00,000
<b>Capital Gains</b>		
Long term capital gain from sale of shares (STT paid) u/s 112A	1,50,000	
Long term capital gain from sale of vacant site	2,00,000	
Short term capital loss from sale of building	<u>(1,00,000)</u>	
Long term capital gain-after set off of short term loss against long term capital gain	1,00,000	2,50,000
<b>Income from Other sources</b>		
Gift from a friend (non relative) on 05.06.2021	60,000	
Gift from maternal uncle (on 25.02.2022) ₹1,00,000, not taxable since maternal uncle is covered by the definition of the term 'relative' given in explanation to section 56(2)	Nil	
Gift from grand father's younger brother on 10.02.2022. This amount is taxable as grandfather's younger brother is not covered by the definition of 'relative'.	<u>1,00,000</u>	<u>1,60,000</u>
Gross Total Income		5,86,000
Less: Deduction u/s 80C to 80U		Nil
<b>Total income</b>		<b>5,86,000</b>

### JUNE – 2009

#### Answer 4. Computation of Gross Total Income of Mrs. X for the Assessment Year 2022-23

Particulars	₹
<b>Profits and gains of business and profession</b>	
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"	7,50,000
Less: brought forward business loss of assessment year 2021-22 to be set-off against business income	(7,50,000)
	Nil
<b>Capital Gains</b>	
Long term capital gain on sale of land –	5,00,000
Less: Long term loss on sale of shares	(1,00,000)
Income under the head Capital gains	4,00,000
<b>Income from other sources</b>	
Cash gift received from friends - since the value of cash gift exceeds ₹50,000, the entire sum is taxable	51,000
Dividend received from a domestic company	<u>55,000</u>
<b>Gross Total Income</b>	<b>5,06,000</b>

**Note:** Balance brought forward business loss of assessment year 2021-22 of ₹5,00,000 has to be carried forward to the next year.

**NOV – 2008**

<b>Answer 4. Computation of Gross Total Income of Mr. X for the A.Y. 2022-23</b>		₹	₹
(i) Income under the head salary			18,000
(ii) Income from House Property			
Net annual value	70,000		
Less: Deduction under section 24(a) (30% of ₹70,000)	(21,000)		49,000
(iii) Income from business and profession			
(a) Profit from business	80,000		
Less: Current year depreciation	(8,000)		
	72,000		
Less: Unabsorbed depreciation	(9,000)		63,000
(b) Income from speculative business	12,000		
Less: Brought forward loss from speculative business	(12,000)		Nil
(Balance loss of ₹4,000 (i.e. ₹16,000 – ₹12,000) can be carried forward to the next year)			
(iv) Income from capital gain			
Long term capital gain on sale of land	15,800		
Less: Brought forward short term capital loss	(7,800)		8,000
<b>Gross total income</b>			<b>1,38,000</b>

**Amount of loss to be carried forward to the next year**

<b>Particulars</b>	₹
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to be carried forward as per section 74A)	9,000

**Notes:**

- (i) Loss on gambling can neither be set-off nor be carried forward.
- (ii) It has been assumed that the brought forward losses relate to P.Y. 2018-19 or thereafter. Only then speculative business loss can set off against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2023-24. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73.

**MAY – 2007**

<b>Answer 4. Computation of total income of Mr. X for the A.Y. 2022-23</b>		₹	₹
<b>Particulars</b>			
Profit of business of consumer and house-hold products	50,000		
Less: Loss of business of readymade garments for the year adjusted under section 70	(10,000)		
	40,000		
Less: Brought forward loss of catering business closed in A.Y. 2021-22 set off against business income for the year as per section 72	(15,000)		25,000
Profit of speculative transaction			12,500
<b>Total Income</b>			<b>37,500</b>

**Notes:** (i) Loss of speculative transaction of A.Y. 2017-18 is not allowed to be set off against the profit of speculative transaction of the A.Y. 2022-23, since, as per the provisions of section 73, such loss can be carried forward for set-off for a maximum period of 4 years only i.e. up to A.Y. 2021-22.

(ii) Short term capital loss of ₹15,000 on sale of securities and shares has to be carried forward as per section 74 since there is no income under the head Capital Gains for the A.Y. 2022-23. The loss is to be carried forward for set off in future years against income chargeable under the head Capital Gains. Such loss can be carried forward for a maximum period of 8 assessment years.

# PROVISIONS FOR FILING OF RETURN OF INCOME

## SOLUTIONS TO PRACTICE PROBLEMS

**Ans 1.** 31.07.2022

**Ans 2.** 31.07.2022

**Ans 3.** 31.10.2022

**Ans 4.** 31.10.2022

**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 2021-22 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. 31.10.2022 in the above case.

**Ans 7.** 31.12.2022

**Ans 8.** 31.12.2022

**Ans 9.** 31.12.2022

**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 01.12.2022.

# SOLUTIONS OF MCQS

**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)

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## EXAMINATION QUESTIONS

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JULY – 2021 (NEW COURSE)

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**Answer 4(c):**

**[First Alternative]**

As per section 139(3), an assessee is required to file a return of loss within the due date specified u/s 139(1) for filing return of income.

As per section 80, certain losses which have not been determined in pursuance of a return filed under section 139(3) on or before the due date specified under section 139(1) cannot be carried forward and set-off. Thus, the assessee has to file a return of loss under section 139(3) within the time allowed u/s 139(1) in order to carry forward and set off of following losses:

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

However, following can be carried forward for set-off even if the return of loss has not been filed before the due date:

- Loss under the head “Income from house property” and
- Unabsorbed depreciation.

**[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. 2022-23 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. 2022-23 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.2021-22 towards consumption of electricity, he has to file his return of income for A.Y. 2022-23 on or before the due date under section 139(1).

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**JAN – 2021 (NEW COURSE)**

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**Answer 3(b)**

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000.

**Computation of total income of Mr. Hari for A.Y. 2022-23**

Particulars	₹
<b>Income from other sources</b>	
Interest earned from Non-resident (External) Account ₹ 3,55,000 [Exempt u/s 10(4)(ii), since he is maintaining the said account as per RBI stipulations]	NIL
Interest on savings bank account	8,000
Interest on fixed deposit with Punjab National Bank	40,000
<b>Gross Total Income</b>	<b>48,000</b>
Less: Deduction u/s 80TTA (Interest on saving bank account)	(8,000)
<b>Total Income</b>	<b>40,000</b>

Since the total income of Mr. Hari for A.Y.2022-23, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit of ₹ 2,50,000, he is not required to file return of income for A.Y.2022-23.

However, if he has incurred expenditure exceeding ₹ 2 lakhs for himself or any other person for travel to a foreign country, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since he has incurred expenditure of ₹ 4 lakhs on foreign travel of his newly married son and daughter in law in the F.Y. 2021-22, he has to mandatorily file his return of income for A.Y. 2022-23 on or before the due date under section 139(1).

# **INCOME UNDER THE HEAD CAPITAL GAINS**

## **SECTION 45 TO 55A**

### **SOLUTIONS OF MCQS**

**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)

# 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 21-22	
= 2,00,000 / 100 x 317 = ₹6,34,000	(6,34,000.00)
Less: Indexed cost of improvement	
Cost of constructing first floor	
= 3,00,000 / Index of 07-08 x Index of 21-22	
= 3,00,000 / 129 x 317 = ₹7,37,209.30	(7,37,209.30)
Less: Indexed cost of improvement	
Cost of constructing second floor	
= 4,00,000 / Index of 11-12 x Index of 21-22	
= 4,00,000 / 184 x 317 = ₹6,89,130.43	(6,89,130.43)
Less: Indexed cost of improvement	
Cost of constructing third floor	
= 5,00,000 / Index of 12-13 x Index of 21-22	
= 5,00,000 / 200 x 317 = ₹7,92,500	(7,92,500.00)
Less: Brokerage @ 1%	
= 1% of ₹100,00,000 = ₹1,00,000	(1,00,000.00)
Long Term Capital Gain	70,47,160.27
Income under the head Capital Gain (LTCG)	70,47,160.27
Gross Total Income	70,47,160.27
Less: Deduction u/s 80C to 80U	Nil
Total Income	70,47,160.27
Rounded off u/s 288A	70,47,160.00
<b>Computation of Tax Liability</b>	
Tax on ₹ 67,97,160 (₹70,47,160 – ₹2,50,000) @ 20%	13,59,432.00
Add: Surcharge @10%	1,35,943.20
Tax before health & education cess	14,95,375.20
Add: HEC @ 4%	59,815.00
Tax Liability	15,55,190.20
Rounded off u/s 288B	15,55,190.00

**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 21-22	
= 35,00,000 / 100 x 317 = 110,95,000	(110,95,000)
Long term capital gain	39,05,000
Gross Total Income	39,05,000



Less: Deduction u/s 80C	Nil
Total Income	39,05,000
<b>Computation of Tax Liability</b>	
Tax on ₹36,55,000 (₹39,05,000 – 2,50,000) @ 20% u/s 112	7,31,000.00
Add: HEC @ 4%	29,240.00
Tax Liability	7,60,240.00

**Land**

Full value of consideration	320,00,000.00
Less: Indexed cost of acquisition = 45,00,000 / Index of 01-02 x Index of 21-22 = 45,00,000 / 100 x 317 = 142,65,000	(142,65,000.00)
Long term capital gain	177,35,000.00
Gross Total Income	177,35,000.00
Less: Deduction u/s 80C	Nil
Total Income	177,35,000.00
<b>Computation of Tax Liability</b>	
Tax on ₹174,85,000 (₹177,35,000 – 2,50,000) @ 20% u/s 112	34,97,000.00
Add: Surcharge @ 15%	5,24,550.00
Tax before health & education cess	40,21,550.00
Add: HEC @ 4%	1,60,862.00
Tax Liability	41,82,412.00
Rounded off u/s 288B	41,82,410.00

**Residential House**

Full value of consideration	400,00,000
Less: Indexed cost of acquisition = 55,00,000 / Index of 01-02 x Index of 21-22 = 55,00,000 / 100 x 317 = 174,35,000	(174,35,000)
Less: Indexed cost of improvement = 3,00,000 / Index of 16-17 x Index of 21-22 = 3,00,000 / 264 x 317 = 3,60,227.27	(3,60,227.27)
Long term capital gain	222,04,772.73
Gross Total Income	222,04,772.73
Less: Deduction u/s 80C	Nil
Total Income	222,04,772.73
Rounded off u/s 288A	222,04,770.00
<b>Computation of Tax Liability</b>	
Tax on ₹219,54,770 (₹222,04,770 – 2,50,000) @ 20% u/s 112	43,90,954.00
Add: Surcharge @ 25%	10,97,738.50
Tax before health & education cess	54,88,692.50
Add: HEC @ 4%	2,19,547.70
Tax Liability	57,08,240.20
Rounded off u/s 288B	57,08,240.00

**Solution 3:****Computation of Capital Gains in the hands of Mr. X****Original shares**

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	10,000
Long term capital gain u/s 112A	10,000
<b><u>1st bonus shares</u></b>	
Full value of consideration (100 x 200)	20,000
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
<b><u>2nd bonus shares</u></b>	
Full value of consideration (100 x 200)	20,000
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
<b>Computation of capital gains in case of right shares</b>	
Full value of consideration (50 x 200)	₹ 10,000
Less: Cost of acquisition (50 x 150)	(7,500)
Short term capital gain u/s 111A	2,500
<b>Computation of capital gains in case of shares renounced</b>	
Full value of consideration (50 x 5)	250
Less: Cost of acquisition	Nil
Short term capital gain	250
Short term capital gain of Mr. X	2,750
<b>Working Note:</b>	
<b><u>Period of holding in case of renouncing of right to purchase a right shares section 2(42A)</u></b>	
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.	
<b>Computation of Total Income</b>	
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 u/s 80C	(70,000.00)
Total Income	19,62,750.00
<b>Computation of Tax Liability</b>	
Tax on ₹2,500 @ 15% u/s 111A	375.00
Tax on ₹19,30,250 at slab rate	3,91,575.00
Tax on LTCG 112A (30,000-30,000)	Nil
Tax before health & education cess	3,91,950.00
Add: HEC @ 4%	15,678.00
Tax Liability	4,07,628.00
Rounded off u/s 288B	4,07,630.00

**Computation of capital gains in case of Mr. Y**

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

**Working Note:****Cost of acquisition of right renouncee section 55**

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

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

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

**Computation of Total Income**

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

**Computation of Tax Liability**

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

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

**Solution 4: Computation of Tax Liability for the previous year 2021-22 under section 45(5)**

Since the Government has made the first payment in the previous year 2021-22, Long term capital gain shall be taxed in the previous year 2021-22. 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 u/s 80C to 80U	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 ₹2,50,000 shall be allowed from LTCG and the balance income shall be taxed at flat rate of 20%}

Tax on ₹41,07,140 (₹43,57,140 – 2,50,000) @ 20%	8,21,428.00
Add: HEC @ 4%	32,857.12
Tax liability of Mr. X	8,54,285.12
Rounded off u/s 288B	8,54,290.00

**Computation of Capital Gains**

Capital gains for the previous year 2024-25 i.e. the year in which additional compensation has been received.

Long term capital gain for 2024-25 3,00,000.00

Capital gain for the previous year 2025-26 in which balance amount of additional compensation has been received.

Long term capital gain for the year 2025-26 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 317)	(7,29,100.00)
Long term capital loss	(2,29,100.00)

**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
<b>6. House</b>	
Full value of consideration	90,00,000.00
Less: Indexed cost of acquisition (7,00,000 / 105 x 317)	(21,13,333.33)
Less: Indexed cost of improvement (4,50,000 / 200 x 317)	(7,13,250.00)
Less: Selling expenses @ 2%	(1,80,000.00)
Long term capital gains	59,93,416.67
Less: Long term capital loss on sale of first house	(2,29,100.00)
Long term capital gain	57,64,316.67
Short Term Capital Gain	2,00,000.00
Income under the head Capital Gains	59,64,316.67
Gross Total Income	59,64,316.67
Less: Deduction u/s 80C to 80U	Nil
Total Income	59,64,316.67
Rounded off u/s 288A	59,64,320.00
<b>Computation of Tax Liability</b>	
Tax on ₹2,00,000 at slab rate	Nil
Tax on LTCG ₹57,14,320 (₹57,64,320 – ₹50,000) @ 20%	11,42,864.00
Tax before Surcharge	11,42,864.00
Add: Surcharge @ 10%	1,14,286.40
Tax before health & education cess	12,57,150.40
Add: HEC @ 4%	50,286.02
Tax Liability	13,07,436.42
Rounded off u/s 288B	13,07,440.00

**Solution 7:**

₹

**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 21-22 = 5,00,000 / 105 x 317 = 15,09,523.81	(15,09,523.81)
Long Term Capital Gains	84,90,476.19
Less: Exemption u/s 54	(20,00,000.00)
Long Term Capital Gains	64,90,476.19
Income under the head Capital Gains	64,90,476.19
Gross Total Income	64,90,476.19
Less: Deduction u/s 80C to 80U	Nil
Total Income	64,90,476.19
Rounded off u/s 288A	64,90,480.00
<b>Computation of Tax Liability</b>	
Tax on LTCG ₹62,40,480 (₹64,90,480 – ₹2,50,000) @ 20%	12,48,096.00
Add: Surcharge @ 10%	1,24,809.60
Tax before health & education cess	13,72,905.60
Add: HEC @ 4%	54,916.22
Tax Liability	14,27,821.82
Rounded off u/s 288B	14,27,820.00

**Computation of Capital Gain for the assessment year 2023-24**

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

**Solution 7(b):****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 21-22	
= 5,00,000 / 105 x 317 = 15,09,523.81	(15,09,523.81)
Long Term Capital Gains	84,90,476.19

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	84,90,476.19
------------------------	--------------

**Sale of house purchased on 01.01.2022**

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	89,90,476.19
Gross Total Income	89,90,476.19
Less: Deduction u/s 80C to 80U	Nil
Total Income	89,90,476.19
Rounded off u/s 288A	89,90,480.00

**Computation of Tax Liability**

Tax on ₹5,00,000 at slab rate	12,500.00
Tax on LTCG ₹84,90,480 @ 20%	16,98,096.00
Tax before Surcharge	17,10,596.00
Add: Surcharge @ 10%	1,71,059.60
Tax before health & education cess	18,81,655.60
Add: HEC @ 4%	75,266.22
Tax Liability	19,56,921.82
Rounded off u/s 288B	19,56,920.00

**Option II Exemption is availed**

Long Term Capital Gain	84,90,476.19
Less: Exemption u/s 54	(20,00,000.00)
Long Term Capital Gains	64,90,476.19

**Sale of house purchased on 01.01.2022**

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	89,90,476.19
Gross Total Income	89,90,476.19
Less: Deduction u/s 80C to 80U	Nil
Total Income	89,90,476.19
Rounded off u/s 288A	89,90,480.00

**Computation of Tax Liability**

Tax on ₹25,00,000 at slab rate	5,62,500.00
Tax on LTCG ₹64,90,480 @ 20%	12,98,096.00
Tax before Surcharge	18,60,596.00
Add: Surcharge @ 10%	1,86,059.60
Tax before health & education cess	20,46,655.60
Add: HEC @ 4%	81,866.22
Tax Liability	21,28,521.82
Rounded off u/s 288B	21,28,520.00

Hence the assessee should opt for option I and his tax liability shall be ₹19,56,920.

**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 21-22	
= 5,00,000 / 105 x 317 = 15,09,523.81	(15,09,523.81)
Long Term Capital Gains	84,90,476.19
(Exemption is not allowed because house was purchased after the last date of filing of return of income)	
Income under the head Capital Gains	84,90,476.19
Gross Total Income	84,90,476.19
Less: Deduction u/s 80C to 80U	Nil
Total Income	84,90,476.19
Rounded off u/s 288A	84,90,480.00

**Computation of Tax Liability**

Tax on LTCG ₹82,40,480 (₹84,90,480 – ₹2,50,000) @ 20%	16,48,096.00
Add: Surcharge @ 10%	1,64,809.60
Tax before health & education cess	18,12,905.60
Add: HEC @ 4%	72,516.22
Tax Liability	18,85,421.82
Rounded off u/s 288B	18,85,420.00

**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 21-22	
= 5,00,000 / 105 x 317 = 15,09,523.81	(15,09,523.81)
Long Term Capital Gains	84,90,476.19
Less: Exemption u/s 54	(20,00,000.00)
Long Term Capital Gains	64,90,476.19
Income under the head Capital Gains	64,90,476.19
Gross Total Income	64,90,476.19
Less: Deduction u/s 80C to 80U	Nil
Total Income	64,90,476.19
Rounded off u/s 288A	64,90,480.00

**Computation of Tax Liability**

Tax on LTCG ₹62,40,480 (₹64,90,480 – ₹2,50,000) @ 20%	12,48,096.00
Add: Surcharge @ 10%	1,24,809.60
Tax before health & education cess	13,72,905.60
Add: HEC @ 4%	54,916.22
Tax Liability	14,27,821.82
Rounded off u/s 288B	14,27,820.00

**Computation of Capital Gain for the assessment year 2025-26**

Unutilized amount in capital gain account scheme after expiry of three years	
Long Term Capital Gain	20,00,000.00

**Solution 8:**

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**Computation of Capital Gains****Previous year 2021-22**

Full value of consideration	32,00,000.00
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Less: Indexed cost of acquisition	
= ₹3,00,000 / Index of 05-06 x Index of 21-22	
= ₹3,00,000 / 117 x 317 = ₹8,12,820.51	(8,12,820.51)
Long term capital gain	23,87,179.49
Less: Exemption u/s 54B	(6,00,000.00)
Long term capital gain	17,87,179.49
Income under the head Business/Profession	1,10,000.00
Gross Total Income	18,97,179.49
Less: Deduction u/s 80C to 80U	Nil
Total Income	18,97,179.49
Rounded off u/s 288A	18,97,180.00
<b>Computation of Tax Liability</b>	
Tax on LTCG ₹16,47,180 (₹17,87,180 – ₹1,40,000) @ 20%	3,29,436.00
Tax on ₹1,10,000 at slab rate	Nil
Add: HEC @ 4%	13,177.44
Tax Liability	3,42,613.44
Rounded off u/s 288B	3,42,610.00

**Previous year 2022-23****Sale of land**

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

**Solution 9:**

₹

**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 21-22	
= 1,50,000 / 100 x 317 = ₹4,75,500	(4,75,500.00)
Long term capital gain	17,24,500.00
Less: Exemption u/s 54EC	(3,80,000.00)
Less: Exemption u/s 54F	
= 17,24,500/22,00,000 x 3,00,000	(2,35,159.09)
Long term capital gain	11,09,340.91
Less: Short Term Capital Loss	(50,000.00)
Income under the head Capital Gains (LTCG)	10,59,340.91
Income under the head Business/Profession	50,00,000.00
Gross Total Income	60,59,340.91
Less: Deductions u/s 80C	(20,000.00)
Total Income	60,39,340.91
Rounded off u/s 288A	60,39,340.00
<b>Computation of Tax Liability</b>	
Tax on ₹49,80,000 at slab rate	13,06,500.00
Tax on ₹10,59,340 @ 20% u/s 112	2,11,868.00
Tax before Surcharge	15,18,368.00
Add: Surcharge @ 10%	1,51,836.80
Tax before health & education cess	16,70,204.80
Add: HEC @ 4%	66,808.19
Tax Liability	17,37,012.99
Rounded off u/s 288B	17,37,010.00



**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 21-22 = 3,00,000 / 100 x 317 = ₹9,51,000	(9,51,000.00)
Long term capital gain	30,49,000.00
Less: Exemption u/s 54B Purchased on 10.01.2022	(2,50,000.00)
Less: Exemption u/s 54F = Capital Gains / Net Consideration x Amount of investment = ₹30,49,000/ 40,00,000 x 7,00,000	(5,33,575.00)
Less: Exemption u/s 54EC	(1,00,000.00)
Long term capital gain after various deductions	21,65,425.00
Income under the head Capital Gains (LTCG)	21,65,425.00
Gross Total Income	21,65,425.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	21,65,425.00
Rounded off u/s 288A	21,65,430.00

**Computation of Tax Liability**

Tax ₹19,15,430 (₹21,65,430– ₹2,50,000) @ 20% u/s 112	3,83,086.00
Add: HEC @ 4%	15,323.44
Tax Liability	3,98,409.44
Rounded off u/s 288B	3,98,410.00

**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 21-22 = 5,00,000 / 100 x 317 = ₹15,85,000	(15,85,000)
Long term capital gain	44,15,000
Less: Exemption u/s 54B	(8,00,000)
Long term capital gain	36,15,000

**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	38,65,000
Gross Total Income	38,65,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	38,65,000

**Computation of Tax Liability**

Tax on ₹2,50,000 at slab rate	Nil
Tax on LTCG ₹36,15,000 @ 20% u/s 112	7,23,000
Add: HEC @ 4%	28,920
Tax Liability	7,51,920

**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 21-22	
= 1,01,000 / 100 x 317 = ₹3,20,170	(3,20,170.00)
Long term capital gain	16,79,830.00

**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
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Income under the head Capital Gains	16,96,830.00
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Gross Total Income	16,96,830.00
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Less: Deduction u/s 80C to 80U	Nil
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Total Income	16,96,830.00
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**Computation of Tax Liability**

Tax on LTCG ₹14,29,830 (₹16,79,830 – ₹2,50,000) @ 20%	2,85,966.00
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Tax on LTCG Nil (17,000-17,000) u/s 112A	Nil
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Add: HEC @ 4%	11,438.64
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Tax Liability	2,97,404.64
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Rounded off u/s 288B	2,97,400.00
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**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 21-22	
= 1,10,000 / 100 x 317 = ₹3,48,700	(3,48,700.00)
Less: Indexed cost of improvement	
= 40,000 / Index of 04-05 x Index of 21-22	
= 40,000 / 113 x 317 = ₹1,12,212.39	(1,12,212.39)
Less: Brokerage	(14,500.00)
Long term capital Gain	9,74,587.61

**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 21-22	
= 1,50,000 / 100 x 317 = ₹4,75,500	(4,75,500.00)
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	26,84,500.00
Income under the head Capital Gains (LTCG)	26,84,500.00
Income under the head Other Sources	50,000.00
Gross Total Income	27,34,500.00
Less: Deduction u/s 80C	(10,000.00)
Total Income	27,24,500.00
<b>Computation of Tax Liability</b>	
Tax on LTCG on ₹24,24,500 (₹26,84,500 – ₹2,60,000) @ 20% u/s 112	4,84,900.00
Tax on ₹40,000 at slab rate	Nil
Add: HEC @ 4%	19,396.00
Tax Liability	5,04,296.00
Rounded off u/s 288B	5,04,300.00

**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 21-22 = 30,000 / 113 x 317 = ₹84,159.29	(84,159.29)
Less: Brokerage @ 1% on 1,50,000	(1,500.00)
Long Term Capital Gain	64,340.71

**(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 2021-22 Assessment Year 2022-23**

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 21-22 = 1,97,925 / 100 x 317 = ₹6,27,422.25	(6,27,422.25)
Less: Brokerage @ 1.5% = 1.5 % of ₹13,50,000 = ₹20,250	(20,250.00)
Long Term Capital Gains	7,02,327.75
Less: Exemption u/s 54F = $\frac{7,02,327.75 \times 2,00,000}{2,00,000} = ₹1,05,633.05$	(1,05,633.05)
13,29,750	
Long Term Capital Gain	5,96,694.70
Gross Total Income	5,96,694.70
Less: Deduction u/s 80C to 80U	Nil

Total Income	5,96,694.70
Rounded off u/s 288A	5,96,690.00
<b>Computation of Tax Liability</b>	
Tax on ₹3,46,690 (₹5,96,690 – ₹2,50,000) @ 20%	69,338.00
Add: HEC @ 4%	2,773.52
Tax Liability	72,111.52
Rounded off u/s 288B	72,110.00

**Assessment Year 2025-26**

Proportionate capital gains for unutilized amount shall be as given below:

= $\frac{7,02,327.75 \times 50,000}{13,29,750}$ = ₹26,408.26	Long Term Capital Gain	26,408.26
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(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 317)	(16,64,250.00)
Less: Indexed cost of improvement of First floor (4,00,000/ 220 x 317)	(5,76,363.63)
Less: Selling Expenses	(85,000.00)
Long term capital gain	1,36,74,386.37

**2. Shares**

Full value of Consideration	1,00,000.00
Less: Indexed cost of acquisition (1,50,000 / 220 x 317)	(2,16,136.36)
Long term capital loss	(1,16,136.36)

**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 317)	(6,65,700.00)
Long term capital gains	1,34,300.00

**5. Silver Utensils** not an asset as per section 2(14)

Long term capital gain	1,36,74,386.37
Long term capital gains on sale of Gold	1,34,300.00
Less: Long term capital loss on sale of shares	(1,16,136.36)

Long term capital gain after adjusting long term loss	1,36,92,550.01
Gross Total Income	1,36,92,550.01
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,36,92,550.00

**Computation of Tax Liability**

Tax on ₹1,34,42,550 (₹1,36,92,550 – ₹2,50,000) @ 20%	26,88,510.00
Add: Surcharge @ 15%	4,03,276.50
Tax before health & education cess	30,91,786.50
Add: HEC @ 4%	1,23,671.46
Tax Liability	32,15,457.96
Rounded off u/s 288B	32,15,460.00

**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 21-22	
= 1,30,000 / 129 x 317 = ₹3,19,457.36	(3,19,457.36)
Long term capital gain	8,80,542.64
Less: Exemption u/s 54F	
= 8,80,542.64 / 12,00,000 x 3,60,000 = 2,64,162.79	(2,64,162.79)
Long term capital gain	6,16,379.85
<b>2. Jewellery</b>	
Full value of consideration	18,00,000.00
Less: Indexed cost of acquisition	
= 3,50,000 / Index of 01-02 x Index of 21-22	
= 3,50,000 / 100 x 317 = ₹11,09,500	(11,09,500.00)
Less: Selling Expenses	(30,000.00)
Long term capital gain	6,60,500.00
<b>3. Debentures</b>	
Full value of consideration	1,40,000.00
Less: Cost of acquisition	(80,000.00)
Short term capital gain	60,000.00
<b>4. Motor car:</b> is covered under the personal movable effects, hence, no capital gains shall be computed	
<b>5. Equity Shares</b>	
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
<b>Income under the head Capital gain</b>	
Long Term Capital Gains	12,76,879.85
Short Term Capital Gains	8,60,000.00
<b>Gross Total Income</b>	<b>21,36,879.85</b>
Less: Deduction u/s 80C to 80U	Nil
Total Income	21,36,879.85
Rounded off u/s 288A	21,36,880.00
<b>Computation of Tax Liability</b>	
Tax on ₹10,86,880 (₹12,76,880 – ₹ 1,90,000) @ 20% u/s 112	2,17,376.00
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	3,37,376.00
Add: HEC @ 4%	13,495.04
Tax Liability	3,50,871.04
Rounded off u/s 288B	3,50,870.00

**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 21-22	
= 1,30,000 / 129 x 317 = ₹3,19,457.36	(3,19,457.36)
Long term capital gain	8,80,542.64

**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 21-22	
= 3,50,000 / 100 x 317 = ₹11,09,500	(11,09,500.00)
Less: Selling Expenses	(30,000.00)

Long term capital gain	6,60,500.00
Less: Exemption u/s 54F	
= $6,60,500.00 / 17,70,000 \times 3,60,000 = 1,34,338.98$	(1,34,338.98)
Long term capital gain	5,26,161.02
<b>3. <u>Debentures</u></b>	
Full value of consideration	1,40,000.00
Less: Cost of acquisition	(80,000.00)
Short term capital gain	60,000.00
<b>4. <u>Motor car:</u></b> is covered under the personal movable effects, hence, no capital gains shall be computed	
<b>5. <u>Equity Shares</u></b>	
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
<b>Income under the head Capital gain</b>	
Long Term Capital Gains	14,06,703.66
Short Term Capital Gains	8,60,000.00
Gross Total Income	22,66,703.66
Less: Deduction u/s 80C to 80U	Nil
Total Income	22,66,703.66
Rounded off u/s 288A	22,66,700.00
<b>Computation of Tax Liability</b>	
Tax on ₹12,16,700 (₹14,06,700 – ₹ 1,90,000) @ 20% u/s 112	2,43,340.00
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	3,63,340.00
Add: HEC @ 4%	14,533.60
Tax Liability	3,77,873.60
Rounded off u/s 288B	3,77,870.00

Option 1 is better.

## EXAMINATION QUESTIONS

JULY – 2021 (NEW COURSE)

**Answer 3(b):**

	Particulars	Amount ₹
(i)	<p><b>Long-term capital gain on transfer of 10,000 shares of XY Ltd. [taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]</b></p> <p>Full value of consideration [10,000 x ₹ 550] <span style="float: right;">55,00,000</span></p> <p>Less: Cost of acquisition</p> <p>Higher of</p> <p>Cost of acquisition [10,000 x ₹ 395] <span style="float: right;">39,50,000</span></p> <p>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] <span style="float: right;">39,00,000</span></p> <p style="text-align: right;"><u>(39,50,000)</u></p> <p>Long term capital gain taxable u/s 112A <span style="float: right;">15,50,000</span></p> <p>Long-term capital gain exceeding ₹ 1 lakh i.e., ₹ 14,50,000 would be taxable @10%</p>	
(ii)	<p><b><u>Sale of residential house [long-term capital asset, since held for more than 24 months]</u></b></p> <p>Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration] <span style="float: right;">45,00,000</span></p> <p>Less: Indexed cost of acquisition [₹ 9,00,000 x 317/264] <span style="float: right;">(10,80,682)</span></p> <p style="text-align: right;">34,19,318</p> <p>Less: Deduction under section 54EC <span style="float: right;">Nil</span></p> <p>No deduction under section 54EC would be allowed on investment of ₹ 19,00,000 in NHAI bonds, since such investment is made on 21<sup>st</sup> March 2022 i.e., after six months from the date of transfer i.e., 4<sup>th</sup> September, 2022</p> <p>Long-term capital gain taxable u/s 112 @ 20% <span style="float: right;"><b><u>34,19,318</u></b></span></p>	

**Answer 3(c):**

### 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
<b>Short-term capital gain</b> [Since shop is held for not more than 36 months immediately preceding the date of transfer]	28,77,500
<b>Working Note:</b>	
<b>Computation of net worth of shop</b>	
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	<u>7,500</u>	4,92,500
Debtors		2,00,000
Other assets	8,00,000	
Less: Deprecation on ₹ 2,00,000, being intangible asset @ 25%	<u>50,000</u>	<u>7,50,000</u>
<b>Total assets</b>		<b>19,42,500</b>
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	<u>1,50,000</u>	<u>9,00,000</u>
Net worth		<b><u>10,42,500</u></b>

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**NOV – 2020 (NEW COURSE)**


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**Solution 4(b)****Computation of total income of Mr. Govind for the A.Y.2022-23**

Particulars		₹	₹
I	<b>Profits and gains of business and profession</b>		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	<b>Less: FMV on the date of conversion (₹ 2,100 x 1000 shares] [See Note below]</b>	<u>(21,00,000)</u>	3,00,000
II	<b>Capital Gains</b>		
	<b>In respect of 800 shares held as capital asset up- to the date of sale</b>		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] <b>(See Working Note below)</b>	<u>(16,00,000)</u>	3,20,000
	<b>In respect of 1,000 shares converted into stock in trade on 31.1.2020 (Capital gains is taxable in the P.Y.2021-22, when the stock in trade is sold)</b>		
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 2,000] <b>(See Working Note below)</b>	<u>(20,00,000)</u>	<u>1,00,000</u>
	<b>Total Income</b>		7,20,000
	<b>Working Note - Cost of acquisition (per share)</b>		
	Higher of (i) and (ii), below	2,000	
(i)	₹ 900 per share, being In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		



	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹ 2,000 per share, being the lower of FMV as on 31.1.2018 - ₹ 2,000 per share Sale consideration – ₹ 2,400 per share		

**Note** – Explanation to section 55(2)(ac) defines “fair market value” as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2020, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of “fair market value” as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date. In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2020.

Alternatively, highest price can also be considered as the FMV as on 31.1.2020. In such case, the total income of Mr. Govind would be computed in the following manner:

#### Alternate Answer

#### Computation of total income of Mr. Govind for the A.Y.2022-23

Particulars		₹	₹
<b>I</b>	<b>Profits and gains of business and profession</b>		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares) [See Note above]	<u>(22,00,000)</u>	2,00,000
<b>II</b>	<b>Capital Gains</b>		
	<b>In respect of 800 shares held as capital asset upto the date of sale</b>		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	<u>(16,00,000)</u>	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2020 (Capital gains is taxable in the P.Y.2021-22, when the stock in trade is sold)		
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion] [See Note above]	22,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 2,000] (See Working Note below)	<u>(20,00,000)</u>	<u>2,00,000</u>
<b>Total Income</b>			<b><u>7,20,000</u></b>
<b>Working Note - Cost of acquisition (per share)</b>			
Higher of (i) and (ii), below		2,000	
(i)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹2,000 per share, being the lower of		
	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration – ₹ 2,400 per share		

**Note** - It is possible to take a view that since no STT was paid on the date of conversion of capital asset, being listed shares into stock in trade, capital gains has to be computed u/s 112 and not 112A. If this view is taken, the total income of Mr. Govind would, accordingly, be computed in the following manner:

**Computation of total income of Mr. Govind for the A.Y.2022-23**

Particulars		₹	₹
<b>I</b>	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares) [See Note below]	(21,00,000)	3,00,000
<b>II</b>	<b>Capital Gains</b>		
	<b>In respect of 800 shares held as capital asset up- to the date of sale</b>		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 317/100] (See Working Notes 1 and 2 below)	(22,82,400) (3,62,400)	
	<b>In respect of 1,000 shares converted into stock in trade on 31.1.2020</b> (Capital gains is taxable in the P.Y.2021-22, when the stock in trade is sold)		
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 289/100] (See Working Notes 1 and 2 below)]	(26,01,000) (5,01,000)	
	<b>Long-term capital loss to be carried forward = (3,62,400) + (5,01,000) =</b>	<b>(8,63,400)</b>	
<b>Total Income</b>			<u>3,00,000</u>
<b>Working Note –</b>			
<b>1. Cost of acquisition (per share)</b>			
Higher of (i) and (ii), below i.e., ₹ 900 per share			
(i)	₹ 900 per share, being the FMV as on 1.4.2001		
(ii)	In case of shares purchased - Original cost of acquisition (₹ 130) In case of bonus shares – Nil		
2.	In case of 800 shares sold during the year, the CII of F.Y.2021-22 i.e., 317 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2020, the CII of the year of conversion, i.e., F.Y.2019-20 i.e., 289 has to be considered to compute the indexed cost of acquisition.		

**Note** – Explanation to section 55(2)(ac) defines “fair market value” as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2020, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of “fair market value” as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date. In the question, two prices are given on the relevant date i.e., the date of

conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2020.

Alternatively, highest price can also be considered as the FMV as on 31.1.2020. In such case, the total income of Mr. Govind would be computed in the following manner:

**Alternate Answer**

Particulars		₹	₹
<b>I</b>	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares) [See Note above]	(22,00,000)	2,00,000
<b>II</b>	<b>Capital Gains</b>		
	<b>In respect of 800 shares held as capital asset up- to the date of sale</b>		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 317/100] (See Working Notes 1 and 2 below)	(22,82,400)	
		(3,62,400)	
	<b>In respect of 1,000 shares converted into stock in trade on 31.1.2020</b> (Capital gains is taxable in the P.Y.2021-22, when the stock in trade is sold)		
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion]	22,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 289/100] (See Working Notes 1 and 2 below)	26,01,000	
		(4,01,000)	
	<b>Long-term capital loss to be carried forward = (3,62,400) + (4,01,000) =</b>	(7,63,400)	
<b>Total Income</b>		2,00,000	
<b>Working Note –</b>			
<b>1. Cost of acquisition (per share)</b>			
Higher of (i) and (ii), below i.e., ₹ 900 per share			
(i)	₹ 900 per share, being the FMV as on 1.4.2001		
(ii)	In case of shares purchased - Original cost of acquisition (₹130) In case of bonus shares – Nil		
<b>2.</b>	In case of 800 shares sold during the year, the CII of F.Y.2021-22 i.e., 317 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2020, the CII of the year of conversion, i.e., F.Y.2019-20 i.e., 289 has to be considered to compute the indexed cost of acquisition.		

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**NOV – 2017**

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**Solution 4(b):**

**As per section 50C**, If Full Value of consideration claimed by an Assessee is less than the Stamp Duty Value, in such cases FVC shall be taken to be Stamp duty value.

If the date of agreement and date of registration are different in that case value on the agreement shall be taken into consideration provided some advance was given otherwise than in cash on or before the agreement.

In the given case 20% amount was paid on the date of agreement through account payee bank draft hence value as on the date of agreement shall be considered.

Since Full Value of consideration is less than the Stamp duty Value on the date of agreement hence Stamp Duty Value shall be considered as full value of consideration i.e. ₹90,00,000.

**Computation of Capital Gains u/s 48**

Full value of consideration	90,00,000.00
Less: Indexed cost of acquisition (10,00,000 / 100 x 317)	(31,70,000.00)
Long term capital gain	58,30,000.00
Less: Investment in house property section 54	(35,00,000.00)
Long Term Capital Gains	23,30,000.00
<b>Gross Total Income</b>	<b>23,30,000.00</b>
Less: Deduction u/s 80C-80U	Nil
<b>Total Income</b>	<b>23,30,000.00</b>

**Computation of Tax Liability**

Tax on LTCG ₹20,80,000 (23,30,000- 2,50,000) @ 20%	4,16,000.00
Add: HEC @ 4%	16,640.00
Tax Liability	4,32,640.00

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**MAY– 2017**

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**Solution 5(a):**

**Computation of Capital Gains of Mr. Y for the Assessment Year 2022-23**

	₹
Full value of consideration	780,00,000.00
Less: Indexed cost of acquisition	
Indexed cost of land (88,00,000 / 113 x 317)	(246,86,725.66)
Indexed cost of building (100,00,000 / 122 x 317)	(259,83,606.56)
Less: Brokerage	(7,00,000.00)
Long term capital gain	266,29,667.78
Less: Investment in house property section 54	(110,00,000.00)
Less: Investment in NHAI section 54EC (assumed redeemable after 5 years)	(50,00,000.00)
Long Term Capital Gains	106,29,667.78

Note:

1. Registration and other expenses paid at the time of purchase shall be part of the cost.
2. Stamp duty value on the date of actual sale shall be taken in to consideration as per section 50C because advance was paid in cash.
3. Maximum Deduction allowed u/s 54EC during a particular previous year shall be ₹50,00,000.
4. Residential house purchased in India is eligible for exemption u/s 54. (Residential house purchased outside India is not eligible for exemption u/s 54.)

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**NOV– 2016**

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**Solution 2(a):**

**Computation of total income and tax liability of Mr. X for A.Y. 2022-23**

₹

**Capital Gains on sale of residential house property**

Value declared by Mr. X	₹85,00,000	
Value adopted by Stamp Valuation Authority	₹112,00,000	
Valuation as per Valuation Officer	₹115,00,000	
Full value of consideration		112,00,000.00
Less: Brokerage @ 1% of sale consideration		(85,000.00)
Less: Indexed cost of acquisition (₹50,00,000 /167× 317)		(94,91,017.96)
Indexed cost of improvement (₹8,00,000 /184× 317)		(13,78,260.87)
<b>Long-term capital gain</b>		<b>2,45,721.17</b>
<b>Total Income</b>		<b>2,45,721.17</b>
<b>Rounded off u/s 288A</b>		<b>2,45,720.00</b>
<b>Computation of Tax Liability</b>		
Tax on LTCG ₹ Nil (2,45,720- 2,45,720) @ 20%		NIL

**NOV – 2015****Solution 3(a):****Computation of Capital Gains of Mr. X for the Assessment Year 2022-23**

	₹
Full value of consideration	83,00,000.00
Less: Indexed cost of acquisition	
Indexed cost of building (20,00,000 / 122 x 317)	(51,96,721.31)
Less: Brokerage	(1,00,000.00)
Long term capital gain	30,03,278.69
Less: Investment in house property section 54	(11,00,000.00)
Less: Investment in NHAI section 54EC (assumed redeemable after 5 years)	(8,00,000.00)
Less: Deposited in Capital Gain Account Scheme	(10,00,000.00)
Long Term Capital Gains	1,03,278.69
Gross Total Income	1,03,278.69
Less: Deduction from 80C to 80U	Nil
Total Income	1,03,278.69
Rounded off u/s 288A	1,03,280.00
<b>Computation of Tax Liability</b>	
Tax on LTCG ₹ 0 (₹ 1,03,280 – 1,03,280) @ 20%	Nil
Tax Liability	Nil

**MAY – 2015****Solution 5(a):****Computation of Total Income of Mrs. X for A.Y. 2022-23****Computation of Long term Capital Gain**

Sale consideration	₹ 37,00,000
Valuation made by Sub Registrar for stamp duty	₹ 50,00,000
Valuation made by the Divisional Revenue officer on a reference	₹ 46,00,000
Applying the provisions of section 50C to the present case, ₹46,00,000, being, the value adopted by the Divisional Revenue officer for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.	
Sale consideration as per section 50C of the Act	46,00,000.00
Less: Indexed cost of acquisition = 26,50,000/184 x 317	(45,65,489.13)
Long term capital gain	<b>34,510.87</b>
Other Income	2,80,000.00
Gross Total Income	3,14,510.87
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,14,510.87

Rounded off u/s 288A	3,14,510.00
<b>Computation of Total Income of Mrs. Y for A.Y. 2022-23</b>	
Income under the head other sources	
Gift (44,00,000 – 37,00,000)	7,00,000.00
Other Income	3,45,000.00
Gross Total Income	10,45,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	10,45,000.00

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### MAY – 2014

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**Solution 5(a):****Computation of Capital Gains chargeable to tax in the hands of Mr. X for the A.Y. 2022-23**

	₹
Full value of Consideration	70,00,000.00
Less: Indexed cost of acquisition [ $\text{₹ } 6,00,000 / 122 \times 317$ ]	(15,59,016.39)
Less: Brokerage @ 2%	<u>(1,06,000.00)</u>
Long-term capital gain	53,34,983.61
<b>Less: Exemption under section 54</b>	
- Acquisition of residential house property at Kolkata	(10,00,000.00)
- Amount deposited in capital gains accounts scheme	(4,00,000.00)
<b>Exemption under section 54EC</b>	
Amount deposited in capital gains bonds of RECL on 10.04.2022	(4,00,000.00)
<b>Long-term capital gain</b>	<b>35,34,983.61</b>
<b>Total Income (rounded off u/s 288A)</b>	<b>35,34,980.00</b>

**Computation of Tax Liability**

Tax on LTCG ₹32,84,980 ( $\text{₹}35,34,980 - 2,50,000$ ) @ 20%	6,56,996.00
Add: HEC @ 4%	26,279.84
Tax Liability	6,83,275.84
Rounded off u/s 288B	6,83,280.00

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

If we apply the above interpretation in this case, Mr. X would be eligible for exemption under section 54 in respect of ₹ 3,00,000 deposited in Capital Gains Accounts Scheme on 01.11.2022 also, since the said date falls within the time specified under section 139(4). On the basis of this interpretation, the long term capital gain chargeable to tax in the hands of Mr. X would be ₹ 32,34,980 and the consequent tax liability would also be ₹ 6,20,880.

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### NOV – 2013

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**Solution 4(a):** As per section 50C, FVC shall be taken to be ₹22,00,000 for land and ₹13,00,000 for the building and capital gains shall be computed separately for land and building.

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

**Computation of Capital Gains chargeable to tax**

Particulars	₹	₹
<b>Long term capital gain on sale of land</b>		
Consideration received or accruing as a result of transfer of land	22,00,000.00	
Less: Indexed cost of acquisition $\text{₹ } 5,19,000 / 122 \times 317$		
Long-term capital gain (A)	<u>(13,48,549.18)</u>	8,51,450.82
<b>Short-term capital loss on sale of building</b>		

Consideration received or accruing from transfer of building	13,00,000	
Less: Cost of construction	(14,00,000)	
Short term capital loss (B)		(1,00,000)
<b>Long-term capital gain (A-B)</b>		<b>7,51,450.82</b>

**Solution 6(a):****Computation of total income of Mr. X for the A.Y 2022-23**

	Particulars	₹
<b>I.</b>	<b>Income from house property</b>	
	Gross Annual Value	4,32,000
	Less: Municipal taxes paid	(32,000)
	Net Annual Value (NAV)	4,00,000
	Less: Deductions under section 24	
	(a) 30% of NAV u/s 24(a)	(1,20,000)
	(b) Interest on housing loan u/s 24(b)	(97,000)
	<b>Income under the head House Property</b>	<b>1,83,000</b>
<b>II.</b>	<b>Income from business</b>	
	Income from business	1,75,000
	Less : Current year depreciation under section 32	(40,000)
		1,35,000
	Less: Set-off of brought forward business loss of A.Y.2016-17 under section 72	(70,000)
		65,000
	Less: Unabsorbed depreciation	(65,000)
	<b>Income under the head Business/Profession</b>	<b>Nil</b>
<b>III.</b>	<b>Capital gains</b>	
	Long term capital gain on sale of land	60,000
	Short terms capital gains on sale of land (6,40,000 – 4,10,000)	2,30,000
	Assessee has the option to set off remaining depreciation of ₹90,000 (1,55,000 – ₹65,000) from normal income or from LTCG	
	<b>Option I</b>	
	Normal income shall be 4,13,000 (₹1,83,000 + 2,30,000)	
	If depreciation is set off from normal income, balance amount of normal income shall be (4,13,000 – 90,000)	3,23,000
	Long term capital gain	60,000
	<b>Gross Total Income</b>	<b>3,83,000</b>
	Less : Chapter VI-A deduction section 80C [Principal repayment of housing loan]	(70,000)
	<b>Total income</b>	<b>3,13,000</b>
	<b>Computation of Tax Liability</b>	
	Tax on ₹2,53,000 at slab rate	150.00
	Tax on LTCG ₹60,000 @ 20%	12,000.00
	Tax before rebate	12,150.00
	Less: rebate u/s 87A	(12,150.00)
	Tax Liability	Nil
	<b>Option II</b>	
	If depreciation ₹60,000 is set off from LTCG and balance from normal income (house property), tax liability shall be	
	Long term capital gains (60,000 – 60,000)	Nil
	Normal income (4,13,000 – 30,000)	3,83,000
	<b>Gross Total Income</b>	<b>3,83,000</b>
	Less : Chapter VI-A deduction section 80C [Principal repayment of housing loan]	(70,000)

<b>Total Income</b>	3,13,000
<b>Computation of Tax Liability</b>	
Tax on ₹3,13,000 at slab rate	3,150.00
Less: Rebate u/s 87A	(3,150.00)
Tax Liability	Nil
Tax liability in both the Option is same. Assessee can choose any 1.	

### MAY – 2013

#### Solution 6(a):

**(a) In case A Ltd. is an unlisted company and STT was not applicable at the time of sale**

**Computation of capital gains of Mrs. X for the A.Y. 2022-23**

Particulars	₹
<b>500 equity shares</b>	
Sale proceeds (500 × ₹ 300)	1,50,000
Less : Indexed cost of acquisition [₹ 50 × 500/100 × 317]	(79,250)
Less : Brokerage paid (2% of ₹ 1,50,000)	(3,000)
Long term capital Gain (A)	67,750
<b>50 Bonus shares (Allotted in September, 2000)</b>	
Sale proceeds (50 × ₹ 300)	15,000
Less : Indexed cost of acquisition [₹ 50 × 50 /100 × 317] [See Note below]	(7,925)
Less : Brokerage paid (2% of ₹ 15,000)	(300)
Long term capital Gain (B)	6,775
<b>550 Bonus shares (Allotted in March, 2005)</b>	
Sale proceeds (550 × ₹ 300)	1,65,000
Less: Cost of acquisition	NIL
Less: Brokerage paid (2% of ₹ 1,65,000)	(3,300)
Long term capital gain (C)	1,61,700
<b>Taxable long term capital Gain (A+B+C)</b>	<b>2,36,225</b>

**Note:** In case of bonus shares allotted before 01.04.2001, the fair market value as on 01.04.2001 is taken as the cost of acquisition. In case of bonus shares allotted after 01.04.2001, the cost of acquisition will be Nil.

**(b) In case A Ltd. is a listed company and the shares are sold in a recognized stock exchange and STT was paid at the time of sale.**

**Computation of capital gains of Mrs. X for the A.Y. 2022-23**

Particulars	₹
<b>500 equity shares</b>	
Sale proceeds (500 × ₹ 300)	1,50,000
Less : cost of acquisition	(1,00,000)
Higher of	
(i) COA = 500 x 50 = 25,000	
(ii) lower of	
(a) FMV as on 31-01-2018 = 500 shares x 200 = 1,00,000	
(b) sale value = 500 shares x 300 = 1,50,000	
COA = 1,00,000	
Less : Brokerage paid (2% of ₹ 1,50,000)	(3,000)
Long term capital Gain (A)	47,000
<b>50 Bonus shares (Allotted in September, 2000)</b>	
Sale proceeds (50 × ₹ 300)	15,000
Less : cost of acquisition	(10,000)



Higher of (i) COA = $50 \times 50 = 2,500$ (ii) lower of (a) FMV as on 31-01-2018 = $50 \text{ shares} \times 200 = 10,000$ (b) sale value = $50 \text{ shares} \times 300 = 15,000$ COA = 10,000	
Less : Brokerage paid (2% of ₹ 15,000)	(300)
Long term capital Gain (B)	4,700
<b>550 Bonus shares (Allotted in March, 2005)</b>	
Sale proceeds ( $550 \times ₹ 300$ )	1,65,000
Less: Cost of acquisition	(1,10,000)
Higher of (i) COA = Nil (ii) lower of (a) FMV as on 31-01-2018 = $550 \text{ shares} \times 200 = 1,10,000$ (b) sale value = $550 \text{ shares} \times 300 = 1,65,000$ COA = 1,10,000	
Less: Brokerage paid (2% of ₹ 1,65,000)	(3,300)
Long term capital gain (C)	51,700
<b>Taxable long term capital Gain (A+B+C) u/s 112A</b>	<b>1,03,400</b>

**Note:** In case of bonus shares allotted before 01.04.2001, the fair market value as on 01.04.2001 is taken as the cost of acquisition. In case of bonus shares allotted after 01.04.2001, the cost of acquisition will be Nil.

## NOV – 2012

### **Solution 3(a):**

#### **Computation of total income and tax liability of Mr. X for A.Y. 2022-23**

₹

#### **Previous year 2010-11**

#### **Computation of Capital Gains under section 45(2)**

Full value of consideration	30,00,000.00
Less: Indexed cost of acquisition	
= $8,00,000 / \text{Index of 01-02} \times \text{Index of 10-11}$	
= $8,00,000 / 100 \times 167 = ₹13,36,000$	(13,36,000.00)
Long Term Capital Gain	16,64,000.00

#### **Previous year 2021-22**

Long Term Capital Gain	16,64,000.00
Business Income	40,00,000.00
(₹70,00,000-₹30,00,000)	

#### **Capital Gains on sale of residential house property**

Value declared by Mr. X	₹ 63,50,000
Value adopted by Stamp Valuation Authority	₹ 85,50,000
Valuation as per Valuation Officer	₹ 87,20,000
Gross Sale consideration	85,50,000.00
Less: Brokerage @ 1% of sale consideration	(63,500.00)
Net Sale consideration	84,86,500.00
Less: Cost of acquisition	(15,00,000.00)
Less: Cost of Improvement	(10,00,000.00)
<b>Short-term capital gain</b>	<b>59,86,500.00</b>

#### **Total Income**

Long Term Capital Gain	16,64,000.00
Business Income	40,00,000.00
Short-term capital gain	59,86,500.00
Gross Total Income	1,16,50,500.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,16,50,500.00

**Computation of Tax Liability**

Tax on LTCG ₹16,64,000 @ 20% u/s 112	3,32,800.00
Tax on ₹99,86,500 @ slab rate	28,08,450.00
Tax before surcharge	31,41,250.00
Add: Surcharge @ 15%	4,71,187.50
Tax before health & education cess	36,12,437.50
Add: HEC @ 4%	1,44,497.50
Tax Liability	37,56,935.00
Rounded off u/s 288B	37,56,940.00

**Note:** In case of conversion of capital assets in to stock in trade, time period for investment shall be determined from the date of sale of stock in trade, hence in the given case exemption u/s 54F shall be allowed but at the same time exemption shall be withdrawn because house has been sold in the same year.

**MAY – 2012****Solution 3:****Computation of Long term Capital Gain for A.Y. 2022-23**

Sale consideration	₹ 30,00,000
Valuation made by registration authority for stamp duty	₹ 34,00,000
Valuation made by the valuation officer on a reference	₹ 35,00,000
Applying the provisions of section 50C to the present case, ₹ 34,00,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.	
Sale consideration as per section 50C of the Act	34,00,000.00
Less: Indexed cost of acquisition = $1,10,000 / 100 \times 317$	(3,48,700.00)
Indexed cost of improvement = $3,20,000 / 105 \times 317$	<u>(9,66,095.24)</u>
Long term capital gain	<b>20,85,204.76</b>
Less: Short term capital loss 2014-15	(50,000.00)
<b>Long term capital gains</b>	<b>20,35,204.76</b>
Since there is general exemption of ₹2,50,000, assessee should invest in the bonds of NHAI ₹20,35,204.76 – 2,50,000 = 17,85,204.76	

**Solution 6:****Computation of capital gain for the Assessment Year 2022-23**

₹

Full value of consideration	65,00,000.00
Less: Indexed cost of acquisition = ₹3,00,000/ Index of 02-03 x Index of 21-22 = ₹ 3,00,000 / 105 x 317 = ₹8,60,000.00	(9,05,714.29)
Less: Indexed cost of Improvement = ₹15,00,000/ Index of 09-10 x Index of 21-22 = ₹ 15,00,000 / 148 x 317 = ₹32,12,837.84	(32,12,837.84)
Less: Indexed cost of Improvement = ₹5,00,000/ Index of 11-12 x Index of 21-22 = ₹ 5,00,000 / 184 x 317 = ₹8,61,413.04	(8,61,413.04)
<b>Long Term Capital Gain</b>	<b>15,20,034.83</b>

**Answer 6:**

As per section 47, reverse mortgage shall not be considered to be transfer for the purpose of capital gain. Under reverse mortgage, a senior citizen 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 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 mortgagors 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.

### NOV – 2011

<b><u>Solution 3:</u></b>	<b>Computation of capital gains for A.Y. 2022-23</b>	<b>₹</b>
Full value of consideration (See Note-1)		80,00,000.00
Less: Indexed cost of acquisition = 10,00,000 / Index of 2001-2002 x Index of 2021-2022 = 10,00,000 / 100 x 317 = ₹31,70,000		(31,70,000.00)
Less: Indexed cost of improvement = 2,00,000 / Index of 2004-2005 x Index of 2021-2022 = 2,00,000 / 113 x 317 = ₹5,61,061.95		(5,61,061.95)
Long term capital gain		42,68,938.05
Less: Exempted u/s 54 -Purchase of new house		(25,00,000.00)
Long term capital gain		17,68,938.05
Gross Total Income		17,68,938.05
Less: Deduction u/s 80C to 80U		Nil
Total Income (rounded off u/s 288A)		17,68,940.00

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

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

#### **Tax consequences in case the property purchased in January 2021 sold on December 2022**

##### **Tax consequences shall be for the Assessment Year 2023-24**

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

#### **Solution 3:**

##### **Computation of Total Income and Tax Liability for A.Y. 2022-23** **₹**

###### **Original Shares**

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

Higher of  
 (i) COA = 100 x 1,000 = 1,00,000  
 (ii) lower of  
 (a) FMV as on 31-01-2018 = 100 shares x 2000 = 2,00,000  
 (b) sale value = 100 shares x 3000 = 3,00,000  
 COA = 2,00,000

Less: Expenses (3,00,000 x 1%)	(3,000.00)
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Long term capital gain u/s 112A	97,000.00
<b>Bonus shares</b>	
Full value of consideration (100 x 3000)	3,00,000.00
Less: Cost of Acquisition	Nil
Less: Expenses (3,00,000 x 1%)	(3,000.00)
Short term capital gain u/s 111A	2,97,000.00
Gross Total Income	3,94,000.00
Less: Deduction u/s 80C to 80U	Nil
Total income	3,94,000.00
<b>Computation of Tax Liability</b>	
Tax on LTCG Nil (97,000-97,000) @ 10% u/s 112A	Nil
Tax on STCG ₹47,000 (2,97,000-2,50,000) @ 15% u/s 111A	7,050.00
(Since normal income is below exemption limit hence will be reduced from STCG u/s 111A)	
Less: Rebate u/s 87A	(7,050.00)
Tax Liability	Nil

**Solution 1: Computation of chargeable capital gain of Mr. X for the A.Y. 2022-23**

Particulars	₹	₹
Sale consideration		100,00,000.00
Less: Indexed cost of acquisition (9,99,300 /117 x 317)		(27,07,505.13)
		72,92,494.87
Less: Deduction under section 54EC		
20.03.2022 RECL bonds	(50,00,000)	
16.04.2022 NHAI bonds	(20,00,000)	
<b>restricted to ₹50,00,000</b>	(70,00,000)	(50,00,000.00)
<b>Long term capital gain</b>		<b>22,92,494.87</b>
Gross Total Income		<b>22,92,494.87</b>
Less: Deduction u/s 80C to 80U		Nil
<b>Total Income (rounded off u/s 288A)</b>		<b>22,92,490.00</b>

**Computation of Tax Liability**

Tax on ₹20,42,490 (22,92,490 – 2,50,000) @ 20%	4,08,498.00
Add: HEC @ 4%	16,339.92
Tax Liability	4,24,837.92
Rounded off u/s 288B	4,24,840.00

**Answer 4.**

(i) Transfer of immovable property for inadequate consideration will (6,00,000 – 4,25,000) and difference of 1,75,000 will be taxable in the hands of Mrs. Y have tax implication in the hands of transferee under section 56. Therefore, in the hands of transferee, i.e., Mrs. Y, the provisions of section 56 would be attracted. However, for the transferor, Mrs. X, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

Particulars	Mrs. X (Transferor) ₹	Mrs. Y (Transferee) ₹
<b>Capital gains</b>		
Deemed sale consideration under section 50C	6,00,000	
Less: Indexed cost of acquisition	(4,00,000)	
	2,00,000	
Other Sources		1,75,000
<b>Other income (computed)</b>	<u>50,000</u>	<u>2,05,000</u>
<b>Total income</b>	<b>2,50,000</b>	<b>3,80,000</b>

(ii) The provisions of section 56 would not apply to any sum of money or any property received from any trust or institution registered under section 12AA. Therefore, the cash gift of ₹1 lakh received from ABC Charitable Trust, being a trust registered under section 12AA, for meeting medical expenses would not be chargeable to tax under section 56 in the hands of Mr. X.

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### NOV – 2010

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

Sale value	₹ 25,00,000
Less: Expenses on sale	(28,000)
Less: Net worth (See Note (i) below)	(12,72,500)
Long term capital gain	11,99,500

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

Building (excluding ₹3 lakhs on account of revaluation)	₹ 9,00,000
Machinery	3,00,000
Debtors	1,00,000
Other assets	<u>1,50,000</u>
Total assets	14,50,000
<u>Less:</u>	
Bank Loan	(1,40,000)
Creditors	<u>(37,500)</u>
<b>Net worth</b>	<b><u>12,72,500</u></b>

**Solution 4:****Computation of capital gains in the hands of Mr. X for the A.Y. 2022-23**

Particulars	₹	₹
Deemed sale consideration (under section 50C)		70,00,000.00
Less: Brokerage @ 2% of ₹55,00,000		(1,10,000.00)
Less: Indexed cost of acquisition $4,00,000 / 113 \times 317$		(11,22,123.89)
		57,67,876.11

**Less: Exemption under sections 54 and 54EC****Under section 54:**

(i) Residential house acquired at Chennai on 10.12.2021	(13,00,000)
(ii) Amount deposited in Capital Gains Accounts Scheme on 06.07.2022 (before the due date of filing of return) for construction of additional floor on the residential house property acquired at Chennai	<u>(5,00,000)</u>
	(18,00,000)

**Under section 54EC:**

Amount deposited in RECL bonds on 10.04.2022 (within six months from the date of transfer)	(10,00,000)	(28,00,000.00)
Taxable long-term capital gain		29,67,876.11
Total Income (Rounded off u/s 288A)		29,67,880.00

**Computation of tax liability of Mr. X for A.Y. 2022-23**

Tax on ₹27,17,880 (₹29,67,880 – ₹2,50,000) @ 20%	5,43,576.00
Add: HEC @ 4%	21,743.04
Tax liability	5,65,319.04
Rounded off u/s 288B	5,65,320.00

**Answer 7.**

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

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

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### MAY – 2010

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**Answer 2.**

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

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

Particulars	₹
<b>Long term capital gain on sale of land</b>	
Full value of consideration	22,00,000.00
Less: Indexed cost of acquisition $5,19,000 / 137 \times 317$	(12,00,897.81)
Long-term capital gain	9,99,102.19
<b>Short-term capital loss on sale of building</b>	
Full value of consideration	10,00,000
Less: Cost of acquisition	(14,00,000)
Short term capital loss	(4,00,000)
As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹5,99,102.19 (i.e., ₹9,99,102.19 – ₹4,00,000).	

### Income of Mr. Y

<b><u>Income under the head other sources</u></b> (32,00,000- 25,00,000)	7,00,000
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### NOV – 2009

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**Solution 2: Computation of net taxable capital gains of Smt. X for the A.Y. 2022-23**

Particulars	₹
Full value of consideration	19,00,000.00
Less: Indexed cost of acquisition $= ₹4,50,000 / 137 \times 317 = 10,41,240.88$	(10,41,240.88)
Long term capital gain	8,58,759.12
Less: Exemption under section 54	(2,00,000.00)
Long term capital gain	6,58,759.12
Income under the head other sources	70,000.00
Gross Total Income	7,28,759.12
Less: Deduction u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	7,28,760.00
<b>Computation of Tax Liability</b>	
Tax on ₹70,000 at slab rate	Nil
Tax on ₹4,78,760 (₹6,58,760 – 1,80,000) @ 20%	95,752.00
Add: HEC @ 4%	3,830.08
Tax Liability	99,582.08
Rounded off u/s 288B	99,580.00

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### NOV – 2009

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**Solution 4: Computation of Total Income and tax payable by Mr. X for the A.Y. 2022-23**

	₹	₹
<b>1. Income from Capital Gains</b>		
Full value of consideration		16,00,000.00

Less : Indexed cost of acquisition of land ₹ 75,000 / 137 x 317	(1,73,540.15)
Less : Indexed cost of improvement i.e. house ₹ 1,25,000 / 184 x 317	(2,15,353.26)
Less : Exemption under section 54 Cost of new residential house	(8,00,000.00)
<b>Long term capital gains</b>	<b>4,11,106.59</b>
<b>2. Income from other sources</b>	
Interest on Bank deposit	45,000
Add: Tax deducted at source	5,000
	<u>50,000.00</u>
<b>Gross Total Income</b>	<b>4,61,106.59</b>
Less: Deduction under Chapter VIA :	
Deduction under section 80C	
Investment in NSC	(20,000.00)
<b>Total Income</b>	<b>4,41,106.59</b>
<b>Rounded off u/s 288A</b>	<b>4,41,110.00</b>

**Computation of Tax Liability**

Tax on normal income of ₹30,000	Nil
Tax on LTCG {₹ 4,11,110 – 2,20,000} x 20% u/s 112	38,222.00
Less: Rebate u/s 87A	(12,500.00)
Tax before HEC	25,722.00
Add: HEC @4%	1,028.88
Tax Liability	26,750.88
Less: TDS	(5,000.00)
Tax Payable	21,750.88
Rounded off u/s 288B	21,750.00

**JUNE – 2009****Solution 3: Computation of total income and tax liability of Mr. X for the A.Y. 2022-23**

Particulars	₹
<b>Capital Gains:</b>	
Sale price of the residential house	58,00,000.00
Valuation as per Stamp Valuation authority (Value to be taken is the higher of actual sale price or valuation adopted for stamp duty purpose as per section 50C)	73,00,000.00
Therefore, Consideration for the purpose of Capital Gains	73,00,000.00
Less: Indexed Cost of Acquisition = 30,00,000 / 200 x 317	(47,55,000.00)
<b>Long-term Capital gain</b>	<b>25,45,000.00</b>
Less: Exemption u/s 54	(12,00,000.00)
Less: Exemption u/s 54EC	(8,00,000.00)
<b>Long-term Capital gain</b>	<b>5,45,000.00</b>
<b>Income from other sources:</b>	
Interest on fixed bank deposits	32,000.00
<b>Gross Total Income</b>	<b>5,77,000.00</b>
Less: Deduction under Chapter VI-A	
Section 80C – Investment in PPF	(12,000.00)
<b>Total Income</b>	<b>5,65,000.00</b>
<b>Computation of Tax Liability</b>	
Tax on normal income of ₹20,000	Nil
Tax on LTCG {₹ 5,45,000 – 2,30,000} x 20% u/s 112	63,000.00
Add : HEC @ 4%	2,520.00
<b>Tax Liability</b>	<b>65,520.00</b>

**Answer 4.** As per section 47, any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the transaction made by Mr. X's father will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax.

However, capital gains tax liability would be attracted at the stage of alienation of the mortgaged property by the bank for the purposes of recovering the loan.

### NOV – 2008

**Answer 1. The statement is false.**

The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL, redeemable after 5 years) to ₹50 lakh during any financial year. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of ₹50 lakh.

### NOV – 2007

**Solution 4:**

**Computation of Long term Capital Gain for A.Y. 2022-23**

Sale consideration as per section 50C of the Act	47,25,000.00
Less: Indexed cost of acquisition = $2,70,000 / 100 \times 317$	(8,55,900.00)
Less: Indexed cost of improvement = $7,00,000 / 117 \times 317$	(18,96,581.20)
Less: @ 1% of sale consideration of ₹ 37.50 lacs	(37,500.00)
<b>Long term capital gain</b>	<b>19,35,018.80</b>



# **PROFITS AND GAINS OF BUSINESS OR PROFESSION “PGBP”**

## **SECTION 28 TO 44DB**

### **SOLUTIONS OF MCQS**

**Answer**

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

# SOLUTIONS

## TO

# PRACTICE PROBLEMS

**Solution 1:**

₹

**Block I****Plant and machinery, depreciation @ 15%**

Written down value as on 1 <sup>st</sup> , April 2021	2,70,000
Add: Purchases of 2 Plants on June 2 <sup>nd</sup> , 2021 and put to use on the same date	2,10,000
Less: Sale of Plants on 30.11.2021	(5,00,000)
Add: Purchase of 2 Plants on Dec 15 <sup>th</sup> , 2021	1,60,000
Written down value as on 31.03.2022	1,40,000
Dep. @ 7.5% on ₹1,40,000	10,500

**Block II****Building, depreciation @ 10%**

Written down value as on 1 <sup>st</sup> , April 2021	6,50,000
Dep. @ 10% on ₹6,50,000	65,000
Total depreciation for Assessment Year 2022-23	75,500

**Solution 2:**

₹

**Situation 1**

Written down value of Plant A and Plant B as on 01.04.2021	2,40,000
Add: Plant C purchased on 10.06.2021 and put to use on the same date	60,000
Less: Insurance claim of plant B	(10,000)
Written down value as on 31.03.2022	2,90,000
Depreciation @ 15% on ₹2,90,000	43,500

**Situation 2**

Written down value of Plant A and Plant B as on 01.04.2021	2,40,000
Add: Plant C purchased on 10.06.2021 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 01.04.2021	2,40,000
Add: Plant C purchased on 10.06.2021 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 01.04.2021	2,40,000
Add: Plant C purchased on 10.06.2021 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 01.04.2021	60,000
Sale of surgical instruments	(30,000)
Purchase on 01.11.2021	90,000
Balance	1,20,000
Depreciation @ 7.5% on 90,000	6,750
Depreciation @ 15% on 30,000	4,500

• Motor car expenses (2/3 <sup>rd</sup> 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 u/s 80C to 80U	Nil
Total Income	54,03,950.00

**Computation of Tax Liability**

Tax on ₹54,03,950 at slab rate	14,33,685.00
Add: Surcharge @ 10%	1,43,368.50
Tax Before health & education cess	15,77,053.50
Add: HEC @ 4%	63,082.14
Tax Liability	16,40,135.64
Rounded off u/s 288B	16,40,140.00

**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 u/s 80C (54,000 + 5,000)	(59,000)
Total Income	54,68,200

**Computation of Tax Payable**

Tax on ₹54,68,200 at slab rate	14,52,960.00
Add: Surcharge @ 10%	1,45,296.00
Tax before health & education cess	15,98,256.00
Add: HEC @ 4%	63,930.24
Tax Liability	16,62,186.24
Less: Tax Paid in Advance	(22,000.00)
Tax Payable	16,40,186.24
Rounded off u/s 288B	16,40,190.00

**Note:** It is assumed that life insurance policy has been taken on or after 01.04.2012.

**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 u/s 80C to 80U	Nil
Total Income	65,17,800.00
<b>Computation of Tax Liability</b>	
Tax on ₹65,17,800 at slab rate	17,67,840.00
Add: Surcharge @ 10%	1,76,784.00
Tax before health & education cess	19,44,624.00
Add: HEC @ 4%	77,784.96
Tax Liability	20,22,408.96
Rounded off u/s 288B	20,22,410.00

**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
<b>Computation of income under the head Salary</b>	
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 u/s 80C	(4,800.00)
Total Income (Rounded off u/s 288A)	4,06,910.00

**Computation of Tax Liability**

Tax on ₹4,06,910 at slab rate	7,845.50
Less: Rebate u/s 87A	(7,845.50)
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 u/s 80C {Public Provident Fund}	(12,000.00)
Total Income	6,40,100.00

**Computation of Tax Liability**

Tax on ₹6,40,100 at slab rate	38,020.00
Add: HEC @ 4%	1,520.80
Tax Liability	39,540.80
Rounded off u/s 288B	39,540.00

**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 u/s 80C to 80U	Nil
Total Income	5,43,700.00
<b>Computation of Tax Payable</b>	
Tax on LTCG ₹2,93,700 (₹5,00,000 – 2,06,300) @ 20% u/s 112	58,740.00
Tax on ₹ 43,700 at slab rate	Nil
Add: HEC @ 4%	2,349.60
Tax Liability	61,089.60
Less: Income tax paid	(9,500.00)
Tax Payable	51,589.60
Rounded off u/s 288B	51,590.00

**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 u/s 80C to 80U	Nil
Total Income	4,20,800.00

**Computation of Tax Liability**

Tax on ₹4,20,800 at slab rate	8,540.00
Less: Rebate u/s 87A	(8,540.00)
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 u/s 80C to 80U	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 u/s 80C	(1,00,000.00)



Total Income (rounded off u/s 288A)	4,34,770.00
<b>Computation of Tax Liability</b>	
Tax on ₹4,34,770 at slab rate	9,238.50
Less: Rebate u/s 87A	(9,238.50)
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 u/s 80C to 80U	Nil
Total Income	9,69,100.00
<b>Computation of Tax Liability</b>	
Tax on ₹9,69,100 at slab rate	1,06,320.00
Add: HEC @ 4%	4,252.80
Tax Liability	1,10,572.80
Rounded off u/s 288B	1,10,570.00

**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 u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	5,08,530.00

**Computation of Tax Liability**

Tax on ₹5,08,530 at slab rate	14,206.00
Add: HEC @ 4%	568.24

Tax Liability	14,774.24
Rounded off u/s 288B	14,770.00

**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
<b>Income from Other Sources</b>	
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 u/s 80C	(42,000.00)
{Deposit in NSC}	
Total Income (rounded off u/s 288A)	13,02,640.00
<b>Computation of Tax Liability</b>	
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 ₹7,66,640 at slab rate	65,828.00
Tax before health & education cess	2,23,028.00
Add: HEC @ 4%	8,921.12
Tax Liability	2,31,949.12
Rounded off u/s 288B	2,31,950.00

**Solution 15:****Computation of Total Income of ABC Ltd. for the Assessment Year 2022-23****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 u/s 80C to 80U	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 2022-23**

₹

**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
<b>Computation of Total Income of Mr. X</b>	
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 u/s 80C to 80U	Nil
Total Income	8,94,750.00
<b>Computation of Tax Payable</b>	
Tax on ₹8,94,750 at slab rate	91,450.00
Add: HEC @ 4%	3,658.00
Tax Liability	95,108.00
Less: Advance Income Tax Paid	(38,000.00)
Tax Payable	57,108.00
Rounded off u/s 288B	57,110.00

**Note:**

Annual value of self - occupied house is taken as nil and no deduction except interest on loan is permissible

**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 u/s 80C to 80U	Nil
Total Income	13,16,000
<b>Computation of Tax Liability</b>	
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:**

<b>(i)</b>	₹
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 u/s 80C	(10,000.00)

Total Income	3,88,200.00
Tax on ₹3,88,200 at slab rate	4,410.00
Less: Rebate u/s 87A	(4,410.00)
Tax Liability	Nil
<b>(ii)</b>	
Income under the head Business/Profession	11,00,000
Gross Total Income	11,00,000
Less: Deduction u/s 80C to 80U	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
<b>(iii)</b>	
Income under the head Business/Profession	18,00,000
Total Income	18,00,000
Tax on ₹18,00,000 at slab rate	3,52,500
Add: HEC @ 4%	14,100
Tax Liability	3,66,600

**Solution 19:**

- (i) Previous year 2021-22;
- (ii) Previous year 2021-22;
- (iii) Previous year 2021-22;
- (iv) Previous year 2021-22;
- (v) 30% of the amount disallowed in P. Y. 2021-22
- (vi) Previous year 2022-23

**Solution 20:**

₹

**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
<b>Income under the head other sources</b>	
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 u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	9,02,080.00
<b>Computation of Tax Liability</b>	
Tax on ₹9,02,080 at slab rate	92,916.00
Add: HEC @ 4%	3,716.64
Tax Liability	96,632.64
Rounded off u/s 288B	96,630.00

**Solution 21:**

₹

**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 u/s 80C to 80U	Nil
Total Income	15,61,000.00

**Computation of Tax Liability**

Tax on ₹15,61,000 at slab rate	2,80,800.00
Add: HEC @ 4%	11,232.00
Tax Liability	2,92,032.00
Rounded off u/s 288B	2,92,030.00

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	5,750.00
Less: Rebate u/s 87A	(5,750.00)
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 u/s 80C		(1,00,000)
National Saving Certificate	40,000	
Public provident fund	60,000	
Total Income		4,20,000

**Computation of Tax Liability**

Tax on ₹1,70,000 (₹4,00,000 – ₹2,30,000) @ 20% u/s 112	34,000
Tax on ₹20,000 at slab rate	(12,500)
Tax before HEC	21,500
Add: HEC @ 4%	860
Tax Liability	22,360

**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 2020-21	(1,00,000)
Income under the head Business/Profession	3,17,000
Income under the head Other Sources	70,000
{Interest from Indian companies}	
Gross Total Income	3,87,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	3,87,000
<b>Computation of Tax Liability</b>	
Tax on ₹3,87,000 at slab rate	6,850.00
Less: Rebate u/s 87A	(6,850.00)
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 u/s 80C to 80U	Nil
Total Income	3,02,000
<b>Computation of Tax Liability</b>	
Tax on LTCG ₹52,000 (₹1,00,000 – ₹48,000) @ 20% u/s 112	10,400
Tax on ₹2,02,000 at slab rate	Nil
Less: Rebate u/s 87A	(10,400)
Tax Liability	Nil

**Solution 25:****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 u/s 80C to 80U	Nil
Total Income	14,84,000.00
<b>Computation of Tax Liability</b>	
Tax on ₹14,84,000 at slab rate	2,57,700.00
Add: HEC @ 4%	10,308.00
Tax Liability	2,68,008.00
Rounded off u/s 288B	2,68,010.00

**Solution 26:**

₹

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 01.04.2021	3,70,000
Add: Purchased of plant F on 01.01.2022	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
<b>Computation of income under the head house property</b>	
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
<b>Income under the head Other Sources (2,60,000 – 13,800)</b>	2,46,200.00
<b>Computation of income under the head Capital Gains</b>	
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 2020-21	(2,000.00)
Less: Brought forward short term capital loss for the assessment year 2021-22	(1,000.00)
Income under the head Capital Gains (STCG)	7,09,000.00
<b>Computation of Total Income</b>	
Gross Total Income	19,83,840.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	19,83,840.00
<b>Computation of Tax Liability</b>	
Tax on ₹19,83,840 at slab rate	4,07,652.00
Add: HEC @ 4%	16,306.08
Tax Liability	4,23,958.08
Rounded off u/s 288B	4,23,960.00

**Solution 27:**

₹

₹

**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 u/s 80C		(59,000)
Life insurance premium	34,000	
(Maximum 10% of sum assured)		
Tuition fees of Mr. X's son	5,000	
Investment in infrastructure bonds	20,000	
Total Income		6,76,000

**Computation of Tax Liability**

Tax on ₹6,76,000 at slab rate		47,700
Add: HEC @ 4%		1,908
Tax Liability		49,608
Rounded off u/s 288B		49,610

**Solution 28:**

₹

₹

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

Net profit as per profit and loss account		7,88,700.00
Add: inadmissible items		
• One fifth of car maintenance		3,300.00
• Interest on loan (50%)		30,000.00
• Municipal tax		2,000.00
• Depreciation as per books		
• (8,500 + 14,000 + 5,000 + 3,000)		30,500.00
• Printing bill for 2020-21		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
<b>Income under the head House Property</b>		
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
<b>Income under the head Other Sources</b>		

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 u/s 80C		(80,000.00)
Public provident fund contribution	60,000	
Infrastructure bonds of ICICI	20,000	
Total Income (rounded off u/s 288A)		7,17,450.00
<b>Computation of Tax Liability</b>		
Tax on STCG ₹20,800 @ 15% u/s 111A		3,120.00
Tax on ₹6,96,650 at slab rate		49,330.00
Tax before health & education cess		52,450.00
Add: HEC @ 4%		2,098.00
Tax Liability		54,548.00
Rounded off u/s 288B		54,550.00

**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 u/s 80C	(35,000.00)
Total Income (rounded off u/s 288A)	14,87,910.00
<b>Computation of Tax Liability</b>	
Tax on ₹14,87,910 at slab rate	2,58,873.00
Add: HEC @ 4%	10,354.92
Tax Liability	2,69,227.92
Rounded off u/s 288B	2,69,230.00

**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
<b>Computation of income under the head Other Sources</b>	
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 u/s 80C to 80U	Nil
Total Income	5,13,700.00
<b>Computation of Tax Liability</b>	
Tax on ₹5,13,700 at slab rates	15,240.00
Add: HEC @ 4%	609.60
Tax liability	15,849.60
Rounded off u/s 288B	15,850.00

**Solution 31:**

₹

Net Profit as per profit & loss account	17,45,600.00
<b>Add: inadmissible expenses</b>	
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
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**Deduct expenditures not debited to profit & loss account**

Opening stock undervalued by 10% (13,50,000 x 10/90)	(1,50,000.00)
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Depreciation	(5,88,150.00)
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<b>Working Note:</b>	<b>₹</b>
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
<b>Total Depreciation</b>	<b>5,88,150</b>

**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)
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2. Rental income from House Property	(1,40,000.00)
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3. Income tax refund	(700.00)
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4. Dividends from a foreign company (to be taxed under the head other sources)	(3,000.00)
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5. Sale to the proprietor should be at cost price	(20,000.00)
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Income under the head business/profession	10,94,750.00
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Income under the head other sources	3,000.00
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**Income under the head house property**

Gross Annual Value	1,40,000.00
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Less: Municipal taxes	Nil
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Net Annual Value	1,40,000.00
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Less: 30% of NAV u/s 24(a)	(42,000.00)
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Less: Interest on capital borrowed u/s 24(b)	Nil
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Income under the head House Property	98,000.00
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Gross Total Income	11,95,750.00
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Less: Deduction u/s 80C	(70,000.00)
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Total Income	11,25,750.00
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**Computation of Tax liability**

Tax on ₹11,25,750 at slab rate	1,47,725.00
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Add: HEC @ 4%	5,909.00
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Tax Liability	1,53,634.00
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Rounded off u/s 288B	1,53,630.00
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**Solution 32:**

₹

**Computation of income under the head Business/Profession**

Legal consultancy fees	9,20,000.00
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Less:

• Rent of building	(2,20,000.00)
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• Office expenses	(30,000.00)
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• Depreciation on computer	(11,060.00)
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<b>Working Note:</b>	<b>₹</b>
Computer – w.d.v	2,300
Less: Sale of computer	(7,000)
Add: New computer purchased and put to use on 01.11.2021	35,000
Add: Computer purchased and put to use on 10.11.2021	25,000
<b>Balance</b>	<b>55,300</b>

Depreciation @ 20%	11,060	
• Depreciation on car		(30,000.00)
<b>Working Note:</b>	₹	
Motor car – Purchase and put to use on 01.12.2021	4,00,000	
Depreciation @ 7.5% on ₹4,00,000	30,000	
• Depreciation on books		(1,800.00)
<b>Working Note:</b>	₹	
Books purchased and put to use on 01.01.2022	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
<b>Computation of income under the head Capital Gains on sale of house</b>		
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
<b>Computation of income under the head Other Sources</b>		
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
<b>Computation of Total Income</b>		
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 u/s 80C		(12,000.00)
Total Income		9,41,140.00
<b>Computation of Tax Liability</b>		
Tax on ₹9,41,140 at slab rate		1,00,728.00
Add: HEC @ 4%		4,029.12
Tax Liability		1,04,757.12
Less: Advance Tax Paid		(12,000.00)
Tax Payable		92,757.12
Rounded off u/s 288B		92,760.00

**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 u/s 80C	(7,000)
Total Income	4,50,000

**Computation of Tax Liability**

Tax on ₹4,50,000 at slab rate	10,000.00
Less: Rebate u/s 87A	(10,000.00)
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	50,000.00
{Interest on company deposit}	
Gross Total Income	3,76,750.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,76,750.00

**Computation of Tax Liability**

Tax on ₹ 3,76,750 at slab rate	6,337.50
Less: Rebate u/s 87A	(6,337.50)
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 u/s 80C to 80U	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	2,750.00
Less: Rebate u/s 87A	(12,500.00)
Tax before health & education cess	28,250.00
Add: HEC @ 4%	1,130.00
Tax Liability	29,380.00

**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 u/s 80C to 80U	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
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Gross Total Income	2,61,100.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,61,100.00

**Computation of Tax Liability**

Tax on normal income ₹2,61,100 at slab rate	555.00
Less: Rebate u/s 87A	(555.00)
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 2021-22.
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.

(ii) As per section 35AD, assessee shall be allowed to debit 100% of the expenditure incurred in connection with warehousing facility for agricultural produce hence assessee shall be allowed to debit 50 lakhs x 100% = 50 lakh.

(iii) ABC (P) Ltd. is entitled to a weighted deduction of a sum equal to 150% of the expenditure incurred by it on notified skill development project, under section 35CCD. Therefore, it can claim ₹ 3,75,000 (i.e., 150% of ₹ 2,50,000) as deduction under section 35CCD for the P.Y.2021-22.

**Solution 40:**

(i)

***Computation of Tax Liability***

Total Income (LTCG 112A)	300,00,000.00
Tax on ₹296,50,000 (300,00,000-1,00,000-2,50,000) @ 10% u/s 112A	29,65,000.00
Add: Surcharge @ 15%	4,44,750.00
Tax before HEC	34,09,750.00
Add: HEC @ 4%	1,36,390.00
Tax Liability	35,46,140.00

**(ii)****Computation of Tax Liability**

Total Income (STCG 111A)	300,00,000.00
Tax on ₹297,50,000 (300,00,000-2,50,000) @ 15% u/s 111A	44,62,500.00
Add: Surcharge @ 15%	6,69,375.00
Tax before HEC	51,31,875.00
Add: HEC @ 4%	2,05,275.00
Tax Liability	53,37,150.00

**(iii)****Computation of Tax Liability**

Total Income (Dividend Income)	300,00,000.00
Tax on ₹300,00,000 at slab rate	88,12,500.00
Add: Surcharge @ 15%	13,21,875.00
Tax before HEC	101,34,375.00
Add: HEC @ 4%	4,05,375.00
Tax Liability	105,39,750.00

**(iv)****Computation of Tax Liability**

Total Income (LTCG)	300,00,000.00
Tax on ₹297,50,000 (300,00,000-2,50,000) @ 20% u/s 112	59,50,000.00
Add: Surcharge @ 25%	14,87,500.00
Tax before HEC	74,37,500.00
Add: HEC @ 4%	2,97,500.00
Tax Liability	77,35,000.00

**(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	88,12,500.00
Add: Surcharge @ 25%	22,03,125.00
Tax before HEC	110,15,625.00
Add: HEC @ 4%	4,40,625.00
Tax Liability	114,56,250.00

## EXAMINATION QUESTIONS

JULY – 2021 (NEW COURSE)

**Answer 1:**

**Computation of total income of Mr. Ashish for A.Y. 2022-23**

	Particulars	₹	₹	₹
I	<b><u>Income from business or profession</u></b>			
	Excess of income over expenditure		39,43,000	
	<b>Add: Items debited but not allowable while computing business income</b>			
	- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee/not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	20,000		
	- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of “relative” for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Ashish’s sister-in- law]	Nil		
	- Employees’ Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Deduction in respect of such sum is allowed only if such amount is credited to the employee’s account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2021 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/not an expenditure incurred for the purpose of business of Mr. Ashish. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	80,000		
	- Commission to Ms. Anjaleen without deduction of tax at source – [Mr. Ashish would be liable to deduct tax at source on commission since his gross receipts from profession exceeded ₹ 50 lakhs during F.Y.2019-20. Since commission has been paid without deduction of tax at source, hence 30% of ₹ 25,000, being commission paid without deducting	7,500		

	tax at source, would be disallowed under section 40(a)(ia) while computing the business income of A.Y.2021-22]		
	- Depreciation as per books of account	90,000	
	- Purchase of Furniture [not allowable, since it is a capital expenditure]	<u>48,000</u>	<u>2,55,500</u>
			41,98,500
	<b>Less: Depreciation as per Income-tax Rules</b>		
	- On Professional Books [₹ 90,000 x 40%]	36,000	
	- On Computers [₹ 35,000 x 40%]	14,000	
	- On Furniture [₹19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an a/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2020 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]	<u>50,250</u>	<u>1,02,150</u>
			40,96,350
	<b>Less: Items of income credited but not taxable or taxable under any other head of income</b>		
	- 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"]	<u>21,000</u>	<u>1,01,000</u>
			39,95,350
<b>II</b>	<b><u>Income from other sources</u></b>		
	Interest on savings bank account		20,000
	Interest on National Savings Certificates VIII Issue (3rd Year)		<u>21,000</u>
			<u>41,000</u>
	<b>Gross Total Income</b>		40,36,350
	<b>Less: Deduction under Chapter VI-A</b>		
	<b><u>Deduction under section 80C</u></b>		
	Contribution to PPF	1,00,000	
	Interest on NSC (3rd Year) (Reinvested)	<u>21,000</u>	1,21,000

<b>Deduction under section 80D</b>			
Medical expenses for the treatment of father [Since Mr. Ashish's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000]		50,000	
<b>Deduction under section 80TTA</b>			
Interest on savings bank account to the extent of ₹10,000		<u>10,000</u>	
<b>Total income</b>			(1,81,000) <u>38,55,350</u>

**Computation of tax liability of Mr. Ashish for A.Y.2022-23**

Particulars	₹	₹
<b>Tax on total income of ₹ 38,55,350</b>		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 38,55,350 [@30% of ₹ 28,55,350]	<u>8,56,605</u>	
		9,69,105
Add: Health and education cess@4%		<u>38,764</u>
<b>Tax liability</b>		<u>10,07,869</u>
<b>Tax liability (rounded off)</b>		<b>10,07,870</b>

**JAN – 2021 (NEW COURSE)****Answer 1****Computation of total income of Mr. Krishna for A.Y. 2022-23**

	Particulars	₹	₹	₹
<b>I</b>	<b>Income from business or profession</b>			
	Net profit as per profit and loss account		5,64,44,700	
	Add: <b>Items of expenditure debited but not allowable while computing business income</b>			
	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]		<u>1,87,000</u>	
			<u>5,66,31,700</u>	

	Less: <b>Items of income credited but not taxable or taxable under any other head of income</b>		
	4. 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	
	5. 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]	<u>2,00,000</u>	<u>6,00,000</u> 5,60,31,700
	Less: <b>Allowable expenditure</b>		
	6. Depreciation on car [₹ 12 lakh x 15%, since car is put to use for more than 180 days in the P.Y.2021-22]		<u>(1,80,000)</u> 5,58,51,700
<b>II</b>	<b>Capital Gain</b>		
	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.]		-
	[Capital gain of ₹ 25 lakhs in capital gain account scheme is not taxable in P.Y. 2021-22, 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.2021-22]		<u>(50,00,000)</u>
<b>III</b>	<b>Income from Other Sources</b>		
	Royalty on patent [Taxable as “income from other sources”, since he is engaged in business of manufacturing furniture]		<u>4,00,000</u>
	Gross Total Income		<b>5,62,51,700</b>
	Less: <b>Deduction under Chapter VI-A</b>		
	<b>Deduction under section 80D</b>		
	- Mediciam premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [₹ 30,000/6 years, being relevant previous years in which the insurance is in force]	5,000	
	- Preventive health check up of self and spouse [Preventive health check up paid in cash allowed to the extent of ₹ 5,000]	<u>5,000</u>	10,000

<b>Deduction under section 80EEB</b> [Deduction of interest on loan taken for purchase of e-vehicle is allowed to the extent of ₹ 1,50,000]	1,50,000	
<b>Deduction under section 80G</b> [Donation of ₹ 20,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash]	-	
Deduction under section 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakh]	3,00,000	(4,60,000)
<b>Total income</b>		<b>5,57,91,700</b>

**Computation of tax liability of Mr. Krishna for A.Y.2022-23**

Particulars	₹	₹
<b>Tax on total income of ₹ 5,57,91,700</b>		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 5,00,000 [@5% of ₹ 2 lakh]	10,000	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 5,57,91,700 [@30% of ₹ 5,47,91,700]	<u>1,64,37,510</u>	1,65,47,510
Add: Surcharge @ 37%, since total income exceeds ₹ 5,00,00,000		<u>61,22,578.70</u>
		2,26,70,088.70
Add: Health and education cess@4%		<u>9,06,803.55</u>
<b>Total tax liability</b>		<b>2,35,76,892.25</b>
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	<u>1,00,000</u>	<u>(1,62,000)</u>
<b>Tax payable</b>		<b>2,34,14,892.25</b>
<b>Tax payable (rounded off)</b>		<b>2,34,14,890</b>

**Answer 2(b)****Computation of total income and tax liability of Mr. Xavier for A.Y. 2022-23 (under the regular provisions of the Act)**

Particulars	₹
<b>Profits and gains of business or profession</b>	
<b>Profit from unit in SEZ</b>	50,00,000
Less: Deduction under section 10AA	(30,00,000)
[50,00,000 x 90,00,000/1,50,00,000 x 100%, since it is 5th year of manufacturing]	
Business income of SEZ unit chargeable to tax	20,00,000
<b>Profit from operation of warehousing facility</b>	1,10,00,000



Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations and capitalized in the books of account on 1.4.2021. Deduction is not available on expenditure incurred on acquisition of land] [₹ 93 lakhs – ₹ 13 lakhs]	(80,00,000)
Business income of warehousing facility chargeable to tax	30,00,000
<b>Total Income</b>	<b>50,00,000</b>
<b>Computation of tax liability</b>	
Tax on ₹ 50,00,000	13,12,500
Add: Health and Education cess@4%	52,500
<b>Total tax liability</b>	<b>13,65,000</b>

**Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2022-23**

Particulars	₹	₹
Total Income (as computed above)		50,00,000
Add: Deduction under section 10AA		30,00,000
		80,00,000
Add: Deduction under section 35AD	80,00,000	
Less: Depreciation u/s 32 [On building@10% of ₹ 80 lakhs]	(8,00,000)	72,00,000
<b>Adjusted Total Income</b>		<b>1,52,00,000</b>
Alternate Minimum Tax@18.5%		28,12,000
Add: Surcharge @15% (since adjusted total income >₹ 1 crore)		4,21,800
		<b>32,33,800</b>
Add: Health and Education cess@4%		1,29,352
Total tax liability		33,63,152
<b>Tax Liability (Rounded off)</b>		<b>33,63,150</b>

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, the tax liability is ₹ 33,63,150.

**AMT Credit to be carried forward under section 115JEE**

	₹
Tax liability under section 115JC	33,63,150
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	(13,65,000)
	<b>19,98,150</b>

**Note:**

1. Assuming the capital expenditure of ₹ 80 lakhs is incurred entirely on building  
 2. In the third para of the question, there is a difference between the figure of capital expenditure incurred in respect of warehouse i.e., ₹ 93 lakhs (including cost of land ₹ 13 lakhs) and the figure of capital expenditure capitalised in the books on 1.4.2020 i.e., ₹ 63 lakhs. It appears to be a typographical error, due to which the main solution has been worked out considering ₹ 93 lakhs as the amount capitalised in the books on 1.4.2020.

However, alternative answers have been worked out below considering ₹ 63 lakhs (being the figure as printed in the question paper) as the amount capitalised in the books on 1.4.2020. In Alternative 1, it has been assumed that the amount of ₹63 lakhs capitalised on 1.4.2020 does not include cost of land. In

Alternative 2, it has been assumed that the amount of ₹ 63 lakhs capitalised on 1.4.2020 includes cost of land.

**Alternative 1 (The amount of ₹ 63 lakhs capitalized on 1.4.2021 does not include cost of land)**

**Computation of total income and tax liability of Mr. Xavier for A.Y. 2022-23 (under the regular provisions of the Act)**

Particulars	₹
<b>Profits and gains of business or profession</b>	
<b>Profit from unit in SEZ</b>	50,00,000
Less: Deduction u/s 10AA [50,00,000 x 90,00,000/1,50,00,000 x 100%, since it is 5th year of manufacturing]	(30,00,000)
Business income of SEZ unit chargeable to tax	20,00,000
<b>Profit from operation of warehousing facility</b>	1,10,00,000
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations and capitalized in the books of account on 1.4.2021. It is assumed that the capitalized expenditure of ₹ 63 lakhs does not include cost of land]	(63,00,000)
Business income of warehousing facility chargeable to tax	47,00,000
<b>Total Income</b>	<b>67,00,000</b>
<b>Computation of tax liability</b>	
Tax on ₹ 67,00,000	18,22,500
Add: Surcharge @10%	1,82,250
	20,04,750
Add: Health and Education cess@4%	80,190
<b>Total tax liability</b>	<b>20,84,940</b>

**Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2022-23**

Particulars	₹	₹
<b>Total Income (as computed above)</b>		67,00,000
Add: Deduction under section 10AA		30,00,000
		97,00,000
Add: Deduction under section 35AD	63,00,000	
Less: Depreciation u/s 32 [On building @10% of ₹63 Lakhs]	(6,30,000)	56,70,000
<b>Adjusted Total Income</b>		<b>1,53,70,000</b>
Alternate Minimum Tax@18.5%		28,43,450
Add: Surcharge@15% (since adjusted total income >₹ 1 crore)		4,26,518
		32,69,968
Add: Health and Education cess@4%		1,30,799
<b>Total tax liability</b>		<b>34,00,767</b>
<b>Tax Liability (Rounded off)</b>		<b>34,00,770</b>

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, the tax liability is ₹ 34,00,770.

**AMT Credit to be carried forward under section 115JEE**

	₹
Tax liability under section 115JC	34,00,770
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	(20,84,940)
	13,15,830

**Note:**

1. Since the question mentions ₹ 1,10,00,000 as the profit from operation of warehousing facility before claiming deduction u/s 35AD, it is assumed that said figure of profit is after providing depreciation u/s 32 on ₹ 17 lakhs, being the amount of capital expenditure not capitalized as on 1.4.2020 less cost of land (i.e., ₹ 93 lakhs – ₹ 63 lakhs = ₹ 30 lakhs – ₹ 13 lakhs (cost of land) = ₹ 17 lakhs)
2. Assuming the capital expenditure of ₹ 63 lakhs is incurred entirely on building

**Alternative 2 (The amount of ₹63 lakh capitalized includes cost of land)****Computation of total income and tax liability of Mr. Xavier for A.Y. 2022-23 (under the regular provisions of the Act)**

Particulars	₹
<b>Profits and gains of business or profession</b>	
Profit from unit in SEZ	50,00,000
Less: Deduction u/s 10AA	(30,00,000)
[50,00,000 x 90,00,000/1,50,00,000 x 100%, since it is 5th year of manufacturing]	
Business income of SEZ unit chargeable to tax	20,00,000
<b>Profit from operation of warehousing facility</b>	1,10,00,000
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations, and capitalized in the books of account on 1.4.2021. Deduction is not available on expenditure incurred on acquisition of land. It is assumed that the capitalized expenditure includes ₹ 13 lakhs of land] [₹ 63 lakhs – ₹ 13 lakhs]	(50,00,000)
Business income of warehousing facility chargeable to tax	60,00,000
<b>Total Income</b>	<b>80,00,000</b>
<b>Computation of tax liability</b>	
Tax on ₹ 80,00,000	22,12,500
Add: Surcharge @10%	2,21,250
	24,33,750
Add: Health and Education cess@4%	97,350
<b>Total tax liability</b>	<b>25,31,100</b>

**Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2022-23**

Particulars	₹	₹
Total Income (as computed above)		80,00,000
Add: Deduction under section 10AA		30,00,000
		1,10,00,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation u/s 32 [On building @10% of ₹ 50 lakhs]	(5,00,000)	45,00,000

<b>Adjusted Total Income</b>		<b>1,55,00,000</b>
Alternate Minimum Tax@18.5%		28,67,500
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		4,30,125
		<b>32,97,625</b>
Add: Health and Education cess@4%		1,31,905
<b>Total tax liability</b>		<b>34,29,530</b>

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, the tax liability is ₹ 34,29,530.

**AMT Credit to be carried forward under section 115JEE**

	₹
Tax liability under section 115JC	34,29,530
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	(25,31,100)
	<b>8,98,430</b>

**Note:**

1. Since the question mentions ₹ 1,10,00,000 as the profit from operation of warehousing facility before claiming deduction u/s 35AD, it is assumed that said figure of profit is after providing depreciation u/s 32 on ₹ 30 lakhs, being the amount of capital expenditure not capitalized as on 1.4.2020 (₹ 93 lakhs – ₹ 63 lakhs).
2. Assuming the capital expenditure of ₹ 50 lakhs is incurred entirely on building

**Answer 4(a)**

**Computation of Total Income of Mr. Raghav for A.Y. 2022-23**

Particulars	Amount (₹)	Amount (₹)
<b>Salary</b> [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
<b>Income from house property</b>		
<b><u>House 1 [Self-occupied]</u></b>		
Net annual value	-	
Less: Interest on loan [upto ₹2,00,000]	(2,00,000)	(2,00,000)
<b><u>House 2 [Let out]</u></b>		
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)	4,000
<b><u>House in Delhi</u></b> [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	-	3,85,000
		1,89,000
<b>Profits and gains from business or profession</b>		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
<b>Income from other sources</b>		
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	23,25,000
<b>Gross Total Income</b>		25,14,000
Less: <b>Deduction under Chapter VI-A</b>		
Deduction under section 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹ 1,50,000]	1,50,000	
Deduction under section 80TTA [Interest from savings bank account]	<u>10,000</u>	<u>1,60,000</u>
<b>Total Income</b>		<b>23,54,000</b>

**Note:**

1. Rent receivable has been taken as the gross annual value in the absence of other information

# **INCOME UNDER THE HEAD SALARY**

## **SECTION 15 TO 17**

## **SOLUTIONS OF MCQS**

**Answer**

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

# 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:**

	₹
01.07.2011 – 30.06.2012 =	40,000 p.m.
01.07.2012 – 30.06.2013 =	40,500 p.m.
01.07.2013 – 30.06.2014 =	41,000 p.m.
01.07.2014 – 30.06.2015 =	41,500 p.m.
01.07.2015 – 30.06.2016 =	42,000 p.m.
01.07.2016 – 30.06.2017 =	42,500 p.m.
01.07.2017 – 30.06.2018 =	43,000 p.m.
01.07.2018 – 30.06.2019 =	43,500 p.m.
01.07.2019 – 30.06.2020 =	44,000 p.m.
01.07.2020 – 30.06.2021 =	44,500 p.m.
01.07.2021 – 30.06.2022 =	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 u/s 80C to 80U

Nil

Total Income (Rounded off u/s 288A)

5,38,350.00

**Computation of Tax Liability**

Tax on ₹5,38,350 at slab rate

20,170.00

Add: HEC @ 4%

806.80

Tax Liability

20,976.80

Rounded off u/s 288B

20,980.00

**Solution 2:****Computation of Gross Salary**

Basic Pay

[(37,000 x 6) + (38,100 x 6)]

₹

4,50,600.00

**Working Note:**

	₹
01.10.2008 – 30.09.2009 =	25,000 p.m.
01.10.2009 – 30.09.2010 =	25,900 p.m.

01.10.2010 – 30.09.2011 =	26,800 p.m.
01.10.2011 – 30.09.2012 =	27,700 p.m.
01.10.2012 – 30.09.2013 =	28,600 p.m.
01.10.2013 – 30.09.2014 =	29,500 p.m.
01.10.2014 – 30.09.2015 =	30,400 p.m.
01.10.2015 – 30.09.2016 =	31,500 p.m.
01.10.2016 – 30.09.2017 =	32,600 p.m.
01.10.2017 – 30.09.2018 =	33,700 p.m.
01.10.2018 – 30.09.2019 =	34,800 p.m.
01.10.2019 – 30.09.2020 =	35,900 p.m.
01.10.2020 – 30.09.2021 =	37,000 p.m.
01.10.2021 – 30.09.2022 =	38,100 p.m.

Dearness Allowance

30,231.00

<b>Working Note:</b>	₹
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 u/s 80C to 80U

Nil

Total Income (rounded off u/s 288A)

4,30,830.00

**Computation of Tax Liability**

Tax on ₹4,30,830 at slab rate

9,041.50

Less: Rebate u/s 87A

(9,041.50)

Tax Liability

Nil

**Solution 3:**

₹

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.

2,500.00

(1,00,000 / 10% x 0.5%) / 2

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****Income under the head other sources**

Interest credited in excess of 9.5% p.a.

2,500.00

(1,00,000 / 10% x 0.5%) / 2



Gross Total Income	7,05,240.00
Less: Deduction u/s 80C	(96,000.00)
Total Income	6,09,240.00
<b>Computation of Tax Liability</b>	
Tax on ₹6,09,240 at slab rate	34,348.00
Add: HEC @ 4%	1,373.92
Tax Liability	35,721.92
Rounded off u/s 288B	35,720.00

**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:**

$$\begin{aligned} \text{RBS} &= 9,60,000 + 1,60,000 \\ &= 11,20,000 \end{aligned}$$

$$12\% \text{ of RBS} = 1,34,400$$

$$\text{Employer's contribution} = 14,000 \times 12 = 1,68,000$$

$$1,68,000 - 1,34,400 = 33,600$$

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 u/s 80C (₹ 1,68,000 but limited to ₹ 1,50,000)	(1,50,000.00)
Total Income	15,17,600.00
<b>Computation of Tax Liability</b>	
Tax on ₹15,17,600 at slab rate	2,67,780.00
Add: HEC @ 4%	10,711.20
Tax Liability	2,78,491.20
Rounded off u/s 288B	2,78,490.00

**Solution 5:**

₹

**(a) He is covered under Payment of Gratuity Act, 1972**

Basic Salary	1,90,566.67
--------------	-------------

<b>Working Note:</b>		₹
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
--------------------	-----------

<b>Working Note:</b>		₹
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.  $15/26 \times (37,000 + 4,000) \times 12 = ₹2,83,846.15$

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

3,86,190.00

(Rounded off u/s 288A)

**Computation of Tax Liability**

Tax on ₹3,86,190 at slab rate

6,809.50

Less: Rebate u/s 87A

(6,809.50)

Tax Liability

Nil

**(b) He is not covered under Payment of Gratuity Act, 1972**

Basic Salary

1,90,566.67

<b>Working Note:</b>	₹
<b><u>From April to May</u></b>	
33,000 x 2 =	66,000
<b><u>From June to August</u></b>	
37,000 x 3 =	1,11,000
<b><u>For September</u></b>	
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

<b>Working Note:</b>	₹
<b><u>From April to May</u></b>	
3,000 x 2 =	6,000.00
<b><u>From June to August</u></b>	
4,000 x 3 =	12,000.00
<b><u>For September</u></b>	
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

<b>Working Note:</b>	₹
<b>Least of the following is exempt</b>	
1. ₹5,10,000	
2. ₹20,00,000	
3. $\frac{1}{2} \times 35,850 \times 11 = ₹1,97,175$	
Received = ₹5,10,000	
Exempt = (₹1,97,175)	
Taxable = ₹3,12,825	
<b><u>Calculation of Average Salary</u></b>	
<b><u>Basic Pay</u></b>	
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
<b>D.A.</b>	
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	4,72,860.00
(Rounded off u/s 288A)	
<b>Computation of Tax Liability</b>	
Tax on ₹4,72,860 at slab rate	11,143.00
Less: Rebate u/s 87A	(11,143.00)
Tax Liability	Nil

**Solution 6:****Computation of income under the head Salary**

Basic Pay	2,17,100.00
[(39,000 x 5) + (39,000 x 17 /30)]	
Dearness Allowance	16,700.00
[(3,000 x 5) + (3,000 x 17/30)]	
Gratuity {Sec 10(10)}	85,384.62

**Working Note:**

- ₹5,70,000
  - ₹20,00,000
  - $15/26 \times 42,000 \times 20 = ₹4,84,615.38$
- 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**

$$5,000 \times 13/30 = 2,166.67$$

**From October to December**

$$5,000 \times 3 = 15,000.00$$

**From January to March**

$$5,000 \times 52\% \times 3 = 7,800.00$$

$$\text{Total} = ₹2,166.67 + ₹15,000 + ₹7,800 = 24,966.67$$

Commutated Pension {Sec 10(10A)}	88,000.00
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**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 u/s 80C to 80U	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	6,607.50
Less: Rebate u/s 87A	(6,607.50)
Tax Liability	Nil

**Solution 7:**

₹

**Computation of income under the head Salary**

Basic Pay	98,750.00
[(12,500 x 7) + (12,500 x 27/30)]	
Gratuity {Sec 10(10)}	1,81,250.00

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

- ₹2,50,000
  - ₹20,00,000
  - $\frac{1}{2} \times 1,25,000/10 \times 11 = ₹68,750$
- 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

**From December and January**

6,200 x 2 = 12,400

**From February to March**

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 u/s 80C to 80U 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 6,892.50

Less: Rebate u/s 87A (6,892.50)

Tax Liability Nil

**Solution 8:**

₹

**Computation of income under the head Salary**

Basic Pay 99,700.00

[(17,900 x 3) + (18,400 x 2) + (18,400 x 15/30)]

**Working Note:**

₹

01.07.2003 – 30.06.2004 = 10,800 p.m.

01.07.2004 – 30.06.2005 = 11,200 p.m.

01.07.2005 – 30.06.2006 = 11,600 p.m.

01.07.2006 – 30.06.2007 =	12,000 p.m.
01.07.2007 – 30.06.2008 =	12,400 p.m.
01.07.2008 – 30.06.2009 =	12,800 p.m.
01.07.2009 – 30.06.2010 =	13,200 p.m.
01.07.2010 – 30.06.2011 =	13,600 p.m.
01.07.2011 – 30.06.2012 =	14,000 p.m.
01.07.2012 – 30.06.2013 =	14,400 p.m.
01.07.2013 – 30.06.2014 =	14,800 p.m.
01.07.2014 – 30.06.2015 =	15,200 p.m.
01.07.2015 – 30.06.2016 =	15,600 p.m.
01.07.2016 – 30.06.2017 =	16,000 p.m.
01.07.2017 – 30.06.2018 =	16,400 p.m.
01.07.2018 – 30.06.2019 =	16,900 p.m.
01.07.2019 – 30.06.2020 =	17,400 p.m.
01.07.2020 – 30.06.2021 =	17,900 p.m.
01.07.2021 – 30.06.2022 =	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.  $\frac{1}{2} \times 27,000 \times 18 = ₹2,43,000$

Calculation of average salary**Basic Pay**

$$[(17,900 \times 8) + (18,400 \times 2)] = 1,80,000$$

**Dearness Allowance**

$$\begin{aligned} 50\% \text{ of } ₹1,80,000 &= 90,000 \\ \text{Average Salary} &= 2,70,000/10 \\ &= 27,000 \end{aligned}$$

Received = ₹2,60,000

Exempt = (₹2,43,000)

Taxable = ₹ 17,000

Uncommuted Pension {Sec 17(1)(ii)}

25,500.00

**Working Note:****From September**

$$6,000 \times 15/30 = 3,000$$

**From October to December**

$$6,000 \times 3 = 18,000$$

**From January to March**

$$6,000 \times 3 \times 25\% = 4,500$$

$$\text{Total} = ₹3,000 + 18,000 + 4,500 = 25,500$$

Commuted Pension {Sec 10(10A)}

3,33,333.33

**Working Note:**

Received =	₹	6,00,000.00
Exempt = $(6,00,000 \times 4/3 \times 1/3) =$		(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 u/s 80C to 80U

Nil

Total Income	4,75,383.33
Rounded off u/s 288A	4,75,380.00
<b>Computation of Tax Liability</b>	
Tax on ₹4,75,380 at slab rate	11,269.00
Less: Rebate u/s 87A	(11,269.00)
Tax Liability	Nil

**Solution 9:**

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:**

- ₹ 5,00,000
  - ₹ 3,00,000
  - $₹ 10 \times 2,72,000/10 = ₹ 2,72,000$
  - $2,72,000 / 10 \times 19 = ₹ 5,16,800$
- Received = ₹5,00,000  
Exempt = (₹2,72,000)  
Taxable = ₹2,28,000

Calculation of average salary**Basic Pay**

$$[(22,000 \times 2) + (25,000 \times 8)] = 2,44,000$$

**Dearness Allowance**

$$[(2,000 \times 2) + (3,000 \times 8)] = 28,000$$

$$\text{Average Salary} = 2,72,000/10$$

$$= 27,200$$

**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 u/s 80C to 80U	Nil
Total Income	5,30,000.00

**Computation of Tax Liability**

Tax on ₹5,30,000 at slab rate	18,500.00
Add: HEC @ 4%	740.00
Tax Liability	19,240.00

**Solution 10:****Computation of income under the head Salary**

Basic Pay	1,22,000.00
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**Working Note:**

$$[(9,500 \times 6) + (13,000 \times 5)]$$

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. $\frac{1}{2} \times 1,09,000/10 \times 21 = ₹1,14,450$
Received = ₹2,50,000
Exempt = (₹1,14,450)
Taxable = ₹1,35,550
<b>Calculation of Average Salary</b>
<b>Computation of Basic Pay</b>
$[(9,500 \times 6) + (13,000 \times 4)] = 1,09,000$
Average Salary = $1,09,000/10 = 10,900$

Commuted Pension {Sec 10(10A)}

48,000.00

<b>Working Note:</b>		₹
Received	=	2,88,000
Exempt = $2,88,000 / 40\% \times 100\% \times 1/3$	=	(2,40,000)
Taxable	=	48,000

Uncommuted Pension {Sec 17(1)(ii)}

3,600.00

<b>Working Note:</b>
$(6,000 \times 60\%) \times 1 = ₹3,600$

Leave Salary {Sec 10(10AA)}

1,97,500.00

<b>Working Note:</b>
<b>Least of the following is exempt:</b>
1. ₹3,10,000
2. ₹3,00,000
3. $10 \times 1,12,500/10 = ₹1,12,500$
4. $₹1,12,500/10 \times 520/30 = ₹1,95,000$
Received = ₹3,10,000
Exempt = (₹1,12,500)
Taxable = ₹1,97,500
<b>Computation of leave at credit</b>
Leave Entitlement = $30 \times 21 = 630$ days
Less: Leave Encashed = (45 days)
Less: Leave Availed = (65 days)
Leave at Credit = 520 days
<b>Calculation of Average Salary</b>
<b>Computation of Basic Pay</b>
$[(9,500 \times 5) + (13,000 \times 5)] = 1,12,500$
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 u/s 80C to 80U

Nil

Total Income

4,68,850.00

**Computation of Tax Liability**

Tax on ₹4,68,850 at slab rate

10,942.50

Less: Rebate u/s 87A

(10,942.50)

Tax Liability

Nil

**Solution 11:**

₹

**Computation of income under the head Salary**

Basic Pay

3,44,000.00

(43,000 x 8)

Leave Salary {Sec 10(10AA)}

2,12,000.00

**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, 2021	= 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) ₹ 3,00,000	
(4) ₹ 5,12,000	
Received = ₹ 5,12,000	
Exempt = (₹ 3,00,000)	
Taxable = ₹ 2,12,000	

Gross Salary	5,56,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	5,06,000.00
Gross Total Income	5,06,000.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	5,06,000.00
<b>Computation of Tax Liability</b>	
Tax on ₹5,06,000 at slab rate	13,700.00
Add: HEC @ 4%	548.00
Tax Liability	14,248.00
Rounded off u/s 288B	14,250.00

**Solution 12:**

₹

**Computation of Taxable Income**

Basic Pay	5,40,000
(45,000 x 12)	
Dearness Allowance	84,000
(7,000 x 12)	
Employer's contribution in excess of 12% of salary {Rule 6 of Part A of schedule IV}	7,200
(72,000-64,800)	
Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}	36,000

**Working Note:**

15% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation salary = Basic Pay = ₹5,40,000	
15% of rent free accommodation salary = ₹81,000	
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 u/s 80C	(72,000)
{Employee's contribution in recognised provident fund}	
Total Income	5,45,200



**Computation of Tax Liability**

Tax on ₹5,45,200 at slab rate	21,540.00
Add: HEC @ 4%	861.60
Tax Liability	22,401.60
Rounded off u/s 288B	22,400.00

**Solution 13:**

₹

**Computation of income under the head Salary**

Basic Pay (20,000 x 7)	1,40,000
Dearness Allowance (7,000 x 7)	49,000
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:**

- ₹2,60,000
  - ₹20,00,000
  - $\frac{1}{2} \times 20,000 \times 20 = ₹ 2,00,000$
- Received = ₹2,60,000  
Exempt = (₹2,00,000)  
Taxable = ₹ 60,000

Uncommuted Pension {Sec 17(1)(ii)}	19,000
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**Working Note:**

₹

**For November to December**

$$5,000 \times 2 = 10,000$$

**For January to March**

$$5,000 \times 60\% \times 3 = 9,000$$

$$\text{Total} = ₹10,000 + ₹9,000 = 19,000$$

Commuted Pension {Sec 10(10A)}	40,000
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**Working Note:**

₹

$$\text{Received} = 2,40,000$$

$$\text{Exempt} = 2,40,000 / 40\% \times 100\% \times 1/3 = (2,00,000)$$

$$\text{Taxable} = 40,000$$

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 (Interest on employee's contribution)	1,00,000
Gross Total Income	8,58,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,58,000

**Computation of Tax Liability**

Tax on ₹8,58,000 at slab rate	84,100
Add: HEC @ 4%	3,364
Tax Liability	87,464
Rounded off u/s 288B	87,460

**Solution 14:**

₹

**Computation of Gross Salary**

Basic Pay	4,80,000.00
-----------	-------------

(40,000 x 12)	
Dearness Allowance	1,92,000.00
(16,000 x 12)	
Bonus	12,000.00
(1,000 x 12)	
Commission	1,50,000.00
(2.5% of 60,00,000)	
House Rent Allowance {Sec 10 (13A), Rule 2A}	66,600.00

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

1. ₹78,000 – 72,600 = ₹5,400
  2. 50% of retirement benefit salary = ₹3,63,000  
(Retirement benefit salary = ₹7,26,000)
  3. ₹72,000
- Received = ₹72,000  
Exempt = (₹ 5,400)  
Taxable = ₹66,600

Gross Salary	9,00,600.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	8,50,600.00
Gross Total Income	8,50,600.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,50,600.00
<b>Computation of Tax Liability</b>	
Tax on ₹8,50,600 at slab rate	82,620.00
Add: HEC @ 4%	3,304.40
Tax Liability	85,924.80
Rounded off u/s 288B	85,920.00

**Solution 15:**

₹

**Computation of Gross Salary**

Basic Pay	5,40,000.00
(45,000 x 12)	
Dearness Allowance	2,28,000.00
(19,000 x 12)	
House Rent Allowance {Sec 10(13A), Rule 2A}	20,700.00

**Working Note:****From October to March****Least of the following is exempt**

1. ₹72,000 – ₹32,700 = ₹39,300
  2. 40% of retirement benefit salary = ₹1,30,800  
(Retirement benefit salary = ₹3,27,000)
  3. ₹60,000
- Received = ₹60,000  
Exempt = (₹39,300)  
Taxable = ₹ 20,700

Children Education Allowance {Sec 10(14), Rule 2BB}	1,800.00
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**Working Note:**

₹

Received = ₹75 x 4 x 12 =	3,600
Exempt = ₹75 x 2 x 12 =	(1,800)
Taxable =	1,800

Hostel Allowance {Sec 10(14), Rule 2BB}	2,400.00
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<b>Working Note:</b>	₹
Received = ₹500 x 12 =	6,000
Exempt = ₹300 x 12 =	(3,600)
Taxable =	2,400

Transport Allowance	15,300.00
Gross Salary	8,08,200.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	7,58,200.00
Gross Total Income	7,58,200.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	7,58,200.00
<b>Computation of Tax Liability</b>	
Tax on ₹7,58,200 at slab rate	64,140.00
Add: HEC @ 4%	2,565.60
Tax Liability	66,705.60
Rounded off u/s 288B	66,710.00

**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 {Sec 10(14), Rule 2BB}	7,800.00

<b>Working Note:</b>	₹
Received = ₹750 x 12 =	9,000
Exempt = ₹100 x 12 =	(1,200)
Taxable =	7,800

Transport Allowance	21,600.00
Flight Allowance {Sec 10(14), Rule 2BB}	36,000.00

<b>Working Note:</b>
<b>Least of the following is exempt:</b>
1. 70% of allowance received = 70% of (10,000 x 12) = ₹84,000
2. 10,000 x 12 = ₹1,20,000
Received = ₹1,20,000
Exempt = (₹ 84,000)
Taxable = ₹ 36,000

Gross Salary	7,91,400.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	7,41,400.00
Gross Total Income	7,41,400.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	7,41,400.00
<b>Computation of Tax Liability</b>	
Tax on ₹7,41,400 at slab rate	60,780.00
Add: HEC @ 4%	2,431.20
Tax Liability	63,211.20
Rounded off u/s 288B	63,210.00

**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 {Sec 10(14), Rule 2BB}	19,200.00

<b>Working Note:</b>	₹
Received = ₹600 x 3 x 12 =	21,600
Exempt = ₹100 x 2 x 12 =	(2,400)
Taxable =	19,200

Hostel Allowance {Sec 10(14), Rule 2BB}	8,400.00
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<b>Working Note:</b>	₹
Received = 1,000 x 1 x 12 =	12,000
Exempt = 300 x 1 x 12 =	(3,600)
Taxable =	8,400

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	7,84,500.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Less: 16(ii) Entertainment Allowance	(2,400.00)

<b>Working Note:</b>
<b>Least of the following is deductible:</b>
1. ₹2,400
2. ₹5,000
3. 20% of ₹4,68,000 = ₹93,600
So, Deductible = ₹2,400

Less: 16(iii) Professional Tax	(2,100.00)
Income under the head Salary	7,30,000.00
Gross Total Income	7,30,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	7,30,000.00

**Computation of Tax Liability**

Tax on ₹7,30,000 at slab rate	58,500.00
Add: HEC @ 4%	2,340.00
Tax Liability	60,840.00

**Solution 18:**

₹

**Computation of income under the head Salary**

Basic Pay [(43,750 x 3) + (44,500 x 9)]	5,31,750.00
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<b>Working Note:</b>	₹
01.07.2005 – 30.06.2006 =	35,600 p.m.
01.07.2006 – 30.06.2007 =	35,900 p.m.
01.07.2007 – 30.06.2008 =	36,200 p.m.
01.07.2008 – 30.06.2009 =	36,500 p.m.
01.07.2009 – 30.06.2010 =	37,000 p.m.
01.07.2010 – 30.06.2011 =	37,500 p.m.

01.07.2011 – 30.06.2012 =	38,000 p.m.
01.07.2012 – 30.06.2013 =	38,500 p.m.
01.07.2013 – 30.06.2014 =	39,000 p.m.
01.07.2014 – 30.06.2015 =	39,500 p.m.
01.07.2015 – 30.06.2016 =	40,000 p.m.
01.07.2016 – 30.06.2017 =	40,750 p.m.
01.07.2017 – 30.06.2018 =	41,500 p.m.
01.07.2018 – 30.06.2019 =	42,250 p.m.
01.07.2019 – 30.06.2020 =	43,000 p.m.
01.07.2020 – 30.06.2021 =	43,750 p.m.
01.07.2021 – 30.06.2022 =	44,500 p.m.

Dearness Allowance {11% of Basic Pay}

58,492.50

House Rent Allowance {Sec 10(13A), Rule 2A}

36,000.00

**Working Note:****From 01.04.2021 To 30.06.2021****Least of the following is exempt:**

1. Nil
2. 40% of retirement benefit salary = ₹52,500  
(Retirement benefit salary = ₹1,31,250)
3. ₹9,000

Received = ₹9,000

Exempt = Nil

Taxable = ₹9,000

**From 01.07.2021 To 31.03.2022****Least of the following is exempt:**

1. Nil
2. 40% of retirement benefit salary = ₹1,60,200  
(Retirement benefit salary = 4,00,500)
3. ₹27,000

Received = ₹27,000

Exempt = Nil

Taxable = ₹27,000

Total = 9,000 + 27,000 = ₹36,000

Entertainment Allowance

7,200.00

(600 x 12)

Professional Tax

2,400.00

Conveyance Allowance

4,800.00

**Working Note:**

Conveyance incurred for official purpose is only

₹100 p.m. Hence taxable is 400 x 12 = ₹4,800

Gross Salary

6,40,642.50

Less: Standard Deduction u/s 16(ia)

(50,000.00)

Less: 16(iii) Professional Tax

(2,400.00)

Income under the head Salary

5,88,242.50

Gross Total Income

5,88,242.50

Less: Deduction u/s 80C to 80U

Nil

Total Income

5,88,242.50

Rounded off u/s 288A

5,88,240.00

**Computation of Tax Liability**

Tax on ₹5,88,240 at slab rate

30,148.00

Add: HEC @ 4%

1,205.92

Tax Liability

31,353.92

Rounded off u/s 288B

31,350.00

**Solution 19:**

₹

**Computation of income under the head Salary**

Basic Pay [(39,000 x 4) + (40,800 x 8)]

4,82,400.00

**Working Note:**

₹

01.07.2014 – 30.06.2015 =	29,500 p.m.
01.07.2015 – 30.06.2016 =	31,000 p.m.
01.07.2016 – 30.06.2017 =	32,600 p.m.
01.07.2017 – 30.06.2018 =	34,200 p.m.
01.07.2018 – 30.06.2019 =	35,800 p.m.
01.07.2019 – 30.06.2020 =	37,400 p.m.
01.07.2020 – 30.06.2021 =	39,000 p.m.
01.07.2021 – 30.06.2022 =	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 u/s 80C to 80U

Nil

Total Income

5,84,400.00

**Computation of Tax Liability**

Tax on ₹5,84,400 at slab rate

29,380.00

Add: HEC @ 4%

1,175.20

Tax Liability

30,555.20

Rounded off u/s 288B

30,560.00

**Solution 20:**

₹

**Step 1. Previous Year 2021–22**

Salary

6,60,000

Add: Arrears for previous year 2020-21

60,000

Gross Salary

7,20,000

Less: Standard deduction u/s 16(ia)

(50,000)

Income under the head Salary

6,70,000

Tax before health &amp; education cess

46,500

Add: HEC @ 4%

1,860

Tax Liability

48,360

**Step 2. Previous Year 2021–22**

Salary

6,60,000

Gross Salary

6,60,000

Less: Standard deduction u/s 16(ia)

(50,000)

Income under the head Salary

6,10,000

Tax before health &amp; education cess

34,500

Add: HEC @ 4%

1,380

Tax Liability

35,880

**Step 3. Difference between Step 1 and Step 2**

12,480

**Step 4. Previous Year 2020–21**

Salary

6,00,000

Add: Arrears

60,000

Gross Salary

6,60,000

Less: Standard deduction u/s 16(ia)

(50,000)

Income under the head Salary

6,10,000

Tax before health &amp; education cess

34,500

Add: HEC @ 4%

1,380

Tax Liability	35,880
<b>Step 5. Previous Year 2020–21</b>	
Salary	6,00,000
Gross Salary	6,00,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head Salary	5,50,000
Tax before health & education cess	22,500
Add: HEC @ 4%	900
Tax Liability	23,400
Step 6. Difference between Step 4 and Step 5 ( 35,880-23,400)	12,480
Step 7. Relief under section 89 Step 3 – Step 6 (12,480-12,480)	Nil
Tax after adjusting relief u/s 89 [48,360 – Nil]	48,360

**Solution 21:**

₹

**Computation of income under the head Salary**

Basic Pay	4,80,000.00
(40,000 x 12)	
Dearness Allowance	60,000.00
(5,000 x 12)	
Commission	30,000.00
(1.5% of 20,00,000)	
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)}	54,000.00
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**Working Note:**

10% of rent free accommodation salary = ₹54,000

Rent free accommodation Salary = ₹5,40,000

Gross Salary	6,31,200.00
Less: Standard deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	5,81,200.00
Gross Total Income	5,81,200.00
Less: Deduction u/s 80C	(72,000.00)
Total Income	5,09,200.00

**Computation of Tax Liability**

Tax on ₹5,09,200 at slab rate	14,340.00
Add: HEC @ 4%	573.60
Tax Liability	14,913.60
Rounded off u/s 288B	14,910.00

**Solution 22:**

₹

**Computation of income under the head Salary**

Basic Pay	4,92,000.00
(41,000 x 12)	
Dearness Allowance	84,000.00
(7,000 x 12)	
Commission	36,000.00
(3,000 x 12)	
Medical Allowance	4,800.00

(400 x 12)

House Rent Allowance {Sec 10(13A), Rule 2A}

25,850.00

**Working Note:****From April to August**

1. ₹25,000 – ₹20,850 = ₹4,150

2. 40% of retirement benefit salary = ₹83,400

(Retirement benefit salary = (41,000 + 700) x 5 = 2,08,500)

3. ₹30,000

Received = ₹30,000

Exempt = (₹ 4,150)

Taxable = ₹25,850

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}

19,412.50

**Working Note:****From November to March**

Perquisite value = 7.5% of rent free accommodation salary = ₹16,912.50

Rent free accommodation Salary

= 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 = ₹16,912.50 + ₹2,500 = ₹19,412.50

Arrears of Salary

10,000.00

Advance Salary

20,000.00

Gross Salary

6,92,062.50

Less: Standard deduction u/s 16(ia)

(50,000.00)

Income under the head Salary

6,42,062.50

Gross Total Income

6,42,062.50

Less: Deductions u/s 80C to 80U

Nil

Total Income

6,42,062.50

Rounded off u/s 288A

6,42,060.00

**Computation of Tax Liability**

Tax on ₹6,42,060 at slab rate

40,912.00

Add: HEC @ 4%

1,636.48

Tax Liability

42,548.48

Rounded off u/s 288B

42,550.00

**Solution 23:**

₹

**Computation of income under the head Salary**

Basic Pay

6,00,000.00

(50,000 x 12)

Dearness Allowance

60,000.00

(5,000 x 12)

Commission

42,000.00

(3,500 x 12)

Overtime Allowance

11,000.00

(1,000 x 11)

House Rent Allowance {Sec 10(13A), Rule 2A}

4,000.00

**Working Note:****From April to May**

1. ₹1,000 – ₹10,000 = Nil

2. 50% of retirement benefit salary = ₹50,000

(Retirement benefit salary = 50,000 x 2 = ₹1,00,000)

3. ₹4,000

Received = ₹4,000

Exempt = Nil



<p>Taxable = ₹4,000</p>	
Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	65,975.00
<p><b>Working Note:</b>  <b>From September to March</b>  15% of rent free accommodation salary = ₹57,225  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 = ₹57,225 + ₹8,750 = ₹65,975</p>	
Professional Tax (200 x 12)	2,400.00
Arrears of Salary {Sec 15}	35,000.00
Gross Salary	8,20,375.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Less: 16(iii) Professional Tax	(2,400.00)
Income under the head Salary	7,67,975.00
Gross Total Income	7,67,975.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	7,67,975.00
Rounded off u/s 288A	7,67,980.00
<b>Computation of Tax Liability</b>	
Tax on ₹7,67,980 at slab rate	66,096.00
Add: HEC @ 4%	2,643.84
Tax Liability	68,739.84
Rounded off u/s 288B	68,740.00
<b>Solution 24:</b>	
<b>₹</b>	
<b>Computation of income under the head Salary</b>	
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
<p><b>Working Note:</b>  <b>From April To December</b>  15% 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  15% of rent free accommodation Salary = ₹64,530  Rent Paid = ₹1,200 x 9 = ₹10,800  (A) Perquisite value of unfurnished house = ₹10,800</p> <p><b>From January To March</b>  <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  15% of Rent free accommodation Salary = ₹21,510  Rent paid = ₹3,600</p>	

Perquisite value of Rent free accommodation of Delhi = ₹3,600  
Rent free accommodation of Bombay  
Rent free accommodation Salary  
 = Basic Pay + Dearness Allowance + Dearness Pay + Bonus  
 = 1,35,000 + 4,500 + 300 + 3,600 = ₹1,43,400  
 15% of Rent free accommodation Salary = ₹21,510  
 Perquisite value of rent free accommodation of Bombay = ₹21,510  
 (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 u/s 80C to 80U	Nil
Total Income	6,33,800.00
<b>Computation of Tax Liability</b>	
Tax on ₹6,33,800 at slab rate	39,260.00
Add: HEC @ 4%	1,570.40
Tax Liability	40,830.40
Rounded off u/s 288B	40,830.00

**Solution 25:**

₹

**Computation of income under the head Salary**

Basic Pay	4,80,000
(40,000 x 12)	
House rent allowance {Sec 10(13A), Rule 2A}	15,000

**Working Note:****From November to March**

- ₹30,000 – ₹20,000 = ₹10,000
  - 40% of retirement benefit salary = ₹80,000  
(Retirement Benefit Salary = 40,000 x 5 = ₹2,00,000)
  - ₹25,000
- Received = ₹25,000  
 Exempt = (₹10,000)  
 Taxable = ₹15,000

Advance Salary {Sec 15}	20,000
Rent Free Accommodation {Sec 17(2) (ii), Rule 3(1)}	42,000

**Working Note:**

15% of Rent free accommodation salary or Rent paid whichever is less  
 Rent free accommodation salary = Basic Pay = ₹2,80,000  
 15% of Rent free accommodation Salary = ₹42,000  
 Rent paid = ₹7,000 x 7 = ₹49,000  
 Perquisite value of unfurnished house = ₹42,000

Gross Salary	5,57,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	5,07,000
Gross Total Income	5,07,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	5,07,000

**Computation of Tax Liability**

Tax on ₹5,07,000 at slab rate	13,900
Add: HEC @ 4%	556
Tax liability	14,456
Rounded off u/s 288B	14,460

**Solution 26:****(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
<b>Total</b>		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 27:****Computation of perquisite value of Furniture**

Cost of the furniture	1,00,000
Less: Depreciation on straight line method @ 10% from 31.03.2018 to 30.03.2019	(10,000)
Less: Depreciation on straight line method @ 10% from 31.03.2019 to 30.03.2020	(10,000)
Less: Depreciation on straight line method @ 10% from 31.03.2020 to 30.03.2021	(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 01.07.2020 to 30.06.2021	(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 11.07.2019 to 10.07.2020	(5,000)
Written down value	45,000
Less: Depreciation on straight line method @ 10% from 11.07.2020 to 10.07.2021	(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 01.10.2017 to 30.09.2018	(68,000)
Written down value	2,72,000
Less: Depreciation on reducing balance method @ 20% from 01.10.2018 to 30.09.2019	(54,400)
Written down value	2,17,600
Less: Depreciation on reducing balance method @ 20% from 01.10.2019 to 30.09.2020	(43,520)
Written down value	1,74,080
Less: Depreciation on reducing balance method @ 20% from 01.10.2020 to 30.09.2021	(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 10.01.2019 to 09.01.2020	(27,500)
Written down value	27,500
Less: Depreciation on reducing balance method @ 50% from 10.01.2020 to 09.01.2021	(13,750)
Written down value	13,750
Less: Depreciation on reducing balance method @ 50% from 10.01.2021 to 09.01.2022	(6,875)
Written down value	6,875
Less: Amount paid by the assessee	(25,000)
Perquisite value of computer	Nil

**Solution 28:**

₹

**Computation of income under the head Salary**

Basic Pay	96,000.00
(8,000 x 12)	
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 u/s 80C to 80U	(3,500.00)
Total Income	3,31,100.00
Computation of Tax Liability	
Tax on ₹3,31,100 at slab rate	4,055.00
Less: Rebate u/s 87A	(4,055.00)
Tax Liability	Nil

## SOLUTIONS OF EXAMINATION QUESTIONS

**JULY – 2021 (NEW COURSE)**

**Answer 2(a):**

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.2021-22 and her income other than from foreign sources does not exceed ₹ 15,00,000, she is non-resident for the A.Y. 2022-23.

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. 2022-23**

Particulars	Amt (₹)
<b>Salaries</b>	
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor is it received in India]	Nil
<b>Income from House Property</b>	
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%	<u>(27,000)</u>
	63,000
<b>Capital Gains</b>	
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
<b>Gross Total Income</b>	<b>4,23,000</b>
<b>Less: Deduction under Chapter VI-A</b>	
Deduction under section 80C	(63,000)
- Life insurance premium of ₹ 75,000 [Premium paid to Russian Life Insurance Corporation allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG, as Chapter VI-A deductions are not allowable against such income chargeable to tax u/s 112 and 111A, respectively]	
<b>Total Income</b>	<b>3,60,000</b>

<b>Computation of Tax Liability</b>	
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%]	<u>9,000</u>
	69,000
Add: Health and Education Cess @4%	<u>2,760</u>
<b>Tax Liability</b>	<b>71,760</b>

**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, even if his income does not exceed ₹ 5 lakh.
- (iii) It is assumed that such premium is paid for self or spouse or any child of Mrs. Rohini.

**JAN – 2021 (NEW COURSE)****Solution 3(a):**

(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 2021-22, 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. 2022-23.

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 2022, 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. 2022-23**

Particulars	Amount (₹)
Salary	
Salary from 1.4.2021 to 20.9.2021 [45,000 x 5 + 45,000 x 20/30]	2,55,000
Salary from 1.10.2021 to 31.12.2021 [90,000 x 3]	2,70,000
<b>Gross Salary</b>	<b>5,25,000</b>
Less: Standard deduction u/s 16(ia)	(50,000)
<b>Net Salary</b>	<b>4,75,000</b>
Income from Other Sources	
Interest on fixed deposits	10,500
Interest on Savings account	7,500
	<b>18,000</b>

<b>Gross Total Income</b>	4,93,000
Less: <b>Deduction under Chapter VI-A</b>	
-Deduction under section 80C LIC premium for self and spouse [LIC premium for mother is not allowed for deduction]	(25,000)
-Deduction under section 80TTA [Interest on savings account with Mumbai bank]	(7,500)
<b>Total Income</b>	<b>4,60,500</b>

**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 (NEW COURSE)****Solution 1:****Computation of taxable income and tax liability of Mrs. Mitul for the Assessment year 2022-23****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	(41,500)
Income under the head salary	88,500

**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.2020- 21 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) (1,00,000/2) but limited to 30,000	(30,000)

## Income Under The Head Salary

112

Loss from first floor	(30,000)
Loss under the head house property	(41,500)

**Income under the business profession**

Net Profit	8,59,000
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**Less:** Items of income to be treated separately under the respective head of income

Salary received taxable under other head	(1,80,000)
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Rent from house property	(78,000)
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Dividend from foreign company	(10,000)
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**Less:** Allowable expenditure

Depreciation on clinical equipments (1,00,000 x 15%)	(15,000)
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On additions during the year 25,000, no depreciation is allowable,	Nil
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since payment was made in cash and hence, it will not form part of actual cost

**Add:** Items of expenditure not allowable while computing business income

Interest on housing loan for reconstruction of residential house	1,00,000
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Interest on education loan for son	26,000
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Conveyance expense in relation to her employment	12,000
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Power & Fuel expenses incurred for power back up to tenant not deductible	6,000
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Municipal taxes paid relating to residential house	10,000
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<b>Income under the head business profession</b>	<b>7,30,000</b>
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**Income under the head other sources**

Income from power back up facility

Power backup charges from tenant (3,000 x 6)	18,000
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Less: Actual expenditure incurred for providing power back up	(6,000)
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12,000

Dividend from foreign companies	10,000
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Income under the head other sources	22,000
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**Calculation of Total Income**

Income under the head salary	88,500
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Income under the head business profession	7,30,000
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Income under the head other sources	22,000
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Gross total income	8,40,500
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Deduction under section 80C – Tuition fee paid for grand child is not allowable	Nil
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Less: Deduction under section 80E - Interest on loan taken for higher education of her son is deductible [principal repayment is not deductible]	(26,000)
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Total income	8,14,500
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**Computation of tax payable**

Tax on 8,14,500 at slab rate	75,400
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Add: HEC @ 4%	3,016
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Tax liability	78,416
Rounded off u/s 288B	78,420

**Note:**

Loss from house property can also be set-off against business income. In such a case, salary income would be ₹ 1,30,000 and business income would be ₹6,88,500 (i.e., ₹7,30,000- ₹41,500). Gross total income, total income and tax liability would remain the same.

**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 2022-23****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	(41,500)
Income under the head salary	88,500

**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.2019- 20 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) (1,00,000/2) but limited to 30,000	(30,000)
Loss from first floor	(30,000)
Loss under the head house property	(41,500)

**Income under the business profession**

Consultation fees	12,00,000
Income under the head business profession	6,00,000

(50% of 12,00,000 u/s 44ADA)

**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	88,500
Income under the head business profession	6,00,000
Income under the head other sources	22,000
Gross total income	7,10,500
Less: Deductions u/s 80E	(26,000)
Total income	6,84,500

**Computation of tax payable**

Tax on 6,84,500 at slab rate	46,900
Add: HEC @ 4%	1,876
Tax liability	48,776
Rounded off u/s 288B	48,780

**Notes:**

Loss from house property can also be set-off against business income. In such a case, salary income would be ₹1,30,000 and business income would be ₹5,58,500 (i.e., ₹6,00,000- ₹41,500). Gross total income, total income and tax liability would remain the same.

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**MAY – 2019 (NEW COURSE)**


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**Solution 1:****Computation of Total Income and Net Tax Liability of Mr. Jagdish of A.Y. 22-23*****Computation of Income under the head Salary***

Basic Pay	6,12,000
(51,000 x 12)	
Dearness Allowance	1,20,000
(10,000 x 12)	
House Rent Allowance {Sec 10 (13A), Rule 2A}	37,200

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

1. ₹84,000 – 73,200 = ₹10,800
2. 50% of retirement benefit salary = ₹3,66,000  
(Retirement benefit salary (₹51,000+10,000) x 12 = ₹7,32,000)
3. ₹48,000  
Received = ₹48,000

Exempt = (₹10,800)

Taxable = ₹37,200

Gross Salary	7,69,200
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	7,19,200

**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	7,19,200
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	26,75,100
Less: Deduction u/s 80C – PPF	(1,50,000)
Less: Deduction u/s 80D (19,000+12,000 = 31,000 but limited to 25,000)	(25,000)
Less: Deduction u/s 80TTA	(10,000)
Total Income	24,90,100

**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 ₹22,60,100	4,90,530.00
Tax before health & education cess	5,39,530.00
Add: HEC @ 4%	21,581.20
Tax Liability	5,61,111.20
Less: TDS	(9,000.00)
Tax Payable	5,52,111.20

Rounded off u/s 288B

5,52,110.00

**Solution 3(a):****Computation of Taxable Income of Mr. Madhvan for the A.Y. 2022-23**

₹

**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)}	54,000

**Working Note:**

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

Rent free accommodation salary = 3,60,000

15% of ₹3,60,000 = ₹54,000

Rent Paid = ₹65,000

Value of unfurnished house 54,000

Gross Salary	4,14,000
Less: Standard Deduction u/s 16(ia) [Actual salary or 50,000, whichever is less]	(50,000)
Income under the head Salary	3,64,000

**Computation of income under the head House Property**House 1

Gross Annual Value	75,000
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**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
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**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
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Gross Total Income	5,37,400
Less: Deduction u/s	Nil
Total Income	5,37,400

**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.

**Solution 4(a):****Computation of Total Income of Ms. Geeta for the A.Y. 2022-23****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
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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
<b>Gross Total Income</b>	<b>41,93,000</b>

**Less: Deductions u/s 80C**

– Repayment of Principal amount (Mumbai House)	50,000	
– LIC Paid	<u>15,000</u>	(65,000)
<b>Total Income</b>		<b>41,28,000</b>

**Loss to be carried forward**

Loss from House Property	81,000
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Note –

- 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.
- 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.
- 2,50,000, for house property in Delhi, not allowable since loan is taken from a friend.
- 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.**

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**MAY – 2019 (OLD COURSE)**


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**Solution 1:****Computation of Total Income and Net Tax Liability of Mr. X of A.Y. 22-23****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:**

- ₹ 20,00,000

2. ₹ 20,00,000
3. ₹ $1/2 \times (1,50,000 \times 10) / 10 \times 10 = ₹ 7,50,000$
Received = ₹ 20,00,000
Exempt = (₹ 7,50,000)
Taxable = (₹ 12,50,000)

Employer contribution from URPF (lumpsum)	13,20,000
Interest on Employer's contribution	3,00,000
Gross Salary	43,60,000
Less: Standard Deduction u/s 16(ia) [Actual salary or 50,000, whichever is less]	(50,000)
<b>Income under the head Salary</b>	<b>43,10,000</b>
Less: Loss under the head house property	(1,40,000)
<b>Income under the head Salary</b>	<b>41,70,000</b>

**Income from house property**

Gross Annual Value (GAV)	Nil
Less: Municipal taxes paid	Nil
Net Annual Value (NAV)	Nil
Less: Deductions u/s 24 (a) 30% of NAV	Nil
Less: Deductions u/s 24 (b) Interest	(1,40,000)
Current Period interest ₹ 1,10,000	
Prior period installment ₹ $1,50,000 / 5 = ₹ 30,000$ (assumed all the conditions has been satisfied)	
Loss from House Property	(1,40,000)

**Income under the head business/profession**

As per section 44AE	
Small goods vehicle (3 x 7500 x 5)	1,12,500
Heavy goods vehicle (3 x 15000 x 4)	1,80,000
Income under the head business/profession	2,92,500

**Income under the head other sources**

Interest on Employee contribution	3,60,000
Gift from friend (section 56(2)(x))	6,00,000
Income under the head other sources	9,60,000

**Gross Total Income**

Income under the head salary	41,70,000
Income under the head business/profession	2,92,500
Income under the head other sources	9,60,000
<b>Gross Total Income</b>	<b>54,22,500</b>

Less: Deduction u/s 80C – LIC	(20,000)
Less: Deduction u/s 80C – Repayment of Housing Loan (2,20,000-1,10,000)	(1,10,000)
Less: Deduction u/s 80CCC – LIC Pension fund	(25,000)
	<u>1,55,000</u>
Less: Deduction u/s 80D (40,000 but limited to 25,000) (assumed payment made through cheque)	(25,000)
Total Income	52,47,500

**Computation of Tax Liability**

Tax on normal income ₹ 52,47,500	13,86,750.00
Add: Surcharge @ 10%	1,38,675.00
Tax before health & education cess	15,25,425.00
Add: HEC @ 4%	61,017.00
Tax Liability	15,86,442.00
Round off u/s 288B	15,86,440.00

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.

**Solution 5(a): Computation of Taxable salary of Mr. Janakaraj**

	₹
Basic Salary	8,80,000.00
(70,000 x 8) + (80,000 x 4)	
Dearness Allowance	4,40,000.00
(50% x 8,80,000)	
Bonus	1,05,000.00
(70,000 + 35,000)	
Contribution to recognized provident fund	52,800.00
(8,80,000 x 6%) (in excess of 12% shall be taxable)	
(Salary includes only basic salary, since dearness allowance, in this case, does not form part of salary for retirement benefits)	
Professional Tax paid by the employer Section 17 (2)(iv)	3,000.00
(Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee)	
Facility of Laptop/computer (Section 17 (2)(viii)/Rule 3(7)(vii))	Nil
(Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both)	
Leave Travel concession (section 10(5)/Rule 2B)	Nil
Gross Salary	14,80,800.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Less: Deduction of professional tax u/s 16(iii)	(6,000.00)
Income under the head Salary	14,24,800.00

**Note:**

Mr. Janakaraj can avail exemption on the entire amount of 45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple birth which take place after the first child.

**Answer 5(b): Partly taxable**

Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., ₹8,400 per month being, 70% of ₹12,000) or ₹10,000 per month, whichever is less. Hence, 1,00,800 (i.e., ₹8,400 x 12) is exempt. Balance ₹43,200 (₹1,44,000 – ₹1,00,800) is taxable in the hands of Mr. Ram.

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**NOV – 2018 (OLD COURSE)**

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**Solution 3(a):**

	₹
Basic Pay (32,000 x 12)	3,84,000
Dearness Allowance (3,200 x 12)	38,400
Medical Allowance (section 17(1))	20,000
Medical Facility taxable	3,000
Laptop facility (section 17(2)(viii) /Rule 3(7)(vii))	Nil
Servant reimbursement (1,000 x 12) (section 17(2)(iii) /Rule 3(3))	12,000
Equity Shares (500 x (₹ 250-₹ 150)) (section 17(2)(vi))	50,000
Professional Tax	1,800
Gross Salary	5,09,200
Less: Deduction u/s 16(ia)	(50,000)
Less: Deduction u/s 16(iii)	(2,500)
Income under the head Salary	4,56,700



Gross Total Income	4,56,700
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,56,700

**Notes:**

1. Bonus received on 01-10-2021 was for the previous year 2020-21 hence taxable in the year 2020-21.
2. Reimbursement of medical bill of father in law is fully taxable.
3. Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees.
4. As per section 17(2)(vi), equity shares received at less than market price then difference of market price and amount recovered shall be taxable.

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**MAY – 2018 (NEW COURSE)**


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**Solution 4:****Determination of Residential Status**

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

**Computation of Income under the head salary for the A.Y. 2022-23**

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

**Working Note:**

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

**Rent free accommodation Salary**

= Basic Pay + Children Education allowance + Hostel Allowance

= 6,00,000 + 31,200

= ₹6,31,200

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

Rent Paid = ₹15,000 x 12 = ₹1,80,000

Perquisite value of unfurnished house = ₹94,680

Guest House facility (official purpose)	Exempt
Free lunch Facility Rule 3(7) (iii)	
Total Incurred ₹48,000	
Total Stay 184 days	
Value of each lunch ₹260.87	
Less exemption ₹50.00	
Taxable ₹210.87	
Total Taxable ₹210.87 x 184 =	38,800.08
Motor car facility (used for personal and official) (2,400 x 6) Section 17(2) (iii)/Rule 3(2)	14,400.00
<b>Motor car facility (used for personal purpose only) Section 17(2) (iii)/ Rule 3(2)</b>	
Taxable value (8,00,000 x 10% x 6/12)	40,000.00
Expenditure on car (5,000 x 6)	30,000.00
Education Facility Section 17(2) (iii)/Rule 3(5)	
Elder son (12,000-12,000)	Nil
Younger Son Children Education allowance and Hostel allowance combined	36,000
Less: Exempt Children Education allowance (100 x 12) Section 10(14)/Rule 2BB	(1,200)
Less: Exempt Hostel allowance (300 x 12) Section 10(14)/ Rule 2BB	<u>(3,600)</u>
	31,200.00
Accident Insurance Policy section 17(2)(v)	Nil
Life Insurance Policy section 17(2)(v)	10,000.00
Gross Salary	8,59,080.08
Less: Standard deduction u/s 16(ia)	(50,000.00)

Income under the head salary	8,09,080.08
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**MAY – 2018 (OLD COURSE)**
**Solution 1:**

Basic Pay (25,000 x 12)	3,00,000
Dearness allowance (12,500 x 12)	1,50,000
Employer's contribution to recognised provident fund in excess of 12% of retirement benefit salary	15,000

**Working Note:**

RBS = 3,00,000 + 75,000  
= 3,75,000

12% of RBS = 45,000

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

60,000 – 45,000 = 15,000

Interest credited in recognised provident fund in excess of 9.5% (15,000/15% x 5.5%) x 2/3	3,667
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Gross Salary	4,68,667
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Less: Standard deduction u/s 16(ia)	(50,000)
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Income under the head salary	4,18,667
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**Income under the head other sources**

Interest credited in recognised provident fund in excess of 9.5% (15,000/15% x 5.5%) x 1/3	1,833
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Interest from axis bank saving account	10,000
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Interest from debentures	12,040
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Income under the head other sources	23,873
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**Income from house property**

Arrears of rent	69,000
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Less: 30% u/s 25A	(20,700)
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Income from house property	48,300
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**Income under the head Capital Gains**Gold chain and diamond ring lost

Full Value of Consideration	3,20,000.00
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Less: Indexed cost of acquisition (1,17,000/117 x 317)	(3,17,000.00)
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Long term capital gains	3,000.00
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**Gross Total Income**

Income under the head Salary	4,18,667
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Income under the head other sources	23,873
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Income from house property	48,300
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Long term capital gains	3,000
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Gross Total Income	4,93,840
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Less: Deduction u/s 80C	
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Employee contribution to RPF	30,000	
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Sukanya Samridhi account	<u>60,000</u>	(90,000)
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Less: Deduction u/s 80D for major daughter	(12,500)
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Less: Deduction u/s 80CCD Contribution to Pension fund (1,196 x 12)	(14,352)
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Less: Deduction u/s 80TTA	(10,000)
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Total Income	3,66,988
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Rounded off u/s 288A	3,66,990
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**Notes:**

1. Interest on debentures is presumed to be gross receipts.

2. Residential house is sold in 2018 hence tax on such income is already given in 2018 hence no treatment is done in current year.
3. It is assumed in section 80D that Daughter is dependent.

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**NOV – 2017**

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**Answer 2(b):**

**As per section 80CCD**, If an assessee has received any amount from the accumulated balance under National Pension Scheme, the amount so received is taxable but w.e.f. assessment year 18-19 some exemption has been granted u/s 10(12A) and is as given below:

Any payment from the National Pension System Trust to an employee on closure of his account or on his opting out of the pension scheme referred to in section 80CCD shall be exempt *to the extent of 60% of the* total amount payable to him at the time of such closure or his opting out of the scheme.

Further as per section 80CCD, Lumpsum amount received by the nominee on the death of the assessee shall be fully exempt from Income Tax.

Gross Value	2,00,000
Less: Exempt u/s 10(12A) (60% x 2,00,000)	(1,20,000)
Taxable Value	80,000

**Solution 3:****Computation of Salary chargeable to tax of Mrs. Jaya for A.Y. 2022-23**

	<b>₹</b>
Basic Salary (65,000 x 12)	7,80,000.00
Dearness Allowance (22,000 x 12)	2,64,000.00
Bonus (17,000 x 12)	2,04,000.00
Health Insurance by Employer proviso to Section 17(2)	Nil
Gift Voucher (Rule 3(7)(iv)) (8,000-5,000)	3,000.00
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	36,000.00

**Working Note:**

**In the given question accommodation is given on 01-04-21 but occupied on 01-11-2021, in such cases it will be taxable from 01-11-21 and taxable value shall be as given below:**

Rent paid or 15% of rent free accommodation salary whichever is less	
Rent free accommodation Salary (65,000 + 6,600 + 17,000) x 5	4,43,000
15% of rent free accommodation salary	66,450
Rent paid (12,000 x 5)	60,000
Value of unfurnished house	60,000
Less: Amount recovered from the employee (4,800 x 5)	(24,000)
Perquisite value of accommodation at concessional rent	36,000

Employer's contribution to provident fund {Part A of schedule IV}	51,552.00
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**Working Note:**

Retirement benefit salary = ₹65,000 + (30% of 22,000) x 12 =	₹8,59,200
Taxable Amount of Employer contribution (8,59,200 x 6%)	₹51,552

Perquisite value of use of motor car (section 17 (2) (iii)/Rule 3(2)) (1,800 x 5)	9,000.00
Gross Salary	13,47,552.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Gross Total Income	12,97,552.00
Less: Deduction u/s 80C (8,59,200 x 18%) but maximum ₹ 1,50,000	(1,50,000.00)

Total Income	11,47,552.00
Rounded off u/s 288A	11,47,550.00
<b>Computation of Tax Liability</b>	
Tax on ₹11,47,550 at slab rate	1,56,765.00
Add: HEC @ 4%	6,270.60
Tax Liability	1,63,035.60
Rounded off u/s 288B	1,63,040.00

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### MAY – 2017

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**Solution 3(a):****Computation of Salary chargeable to tax of Mr. Nambi for A.Y. 2022-23**

	₹
Basic Salary	6,00,000.00
Dearness Allowance	3,20,000.00
Commission	50,000.00
Entertainment allowance	7,500.00
Professional Tax paid by the employer Section 17 (2)(iv)	3,500.00
Facility of Laptop/computer (Rule 3(7)(vii))	Nil
Health Insurance by Employer proviso to Section 17(2)	Nil
Gift Voucher (Rule 3(7)(iv)) (12,000-5,000)	7,000.00
Life Insurance paid by Employer (section 17 (2) (v))	34,000.00
Perquisite value of use of motor car (section 17 (2) (iii)/Rule 3(2)) (1,800 x 12)	21,600.00
Annual Credit card fees (Rule 3 (7)(v))	2,000.00
Gross Salary	10,45,600.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Less: Deduction of professional tax u/s 16(iii)	(7,000.00)
Income under the head Salary	9,88,600.00

**Notes:**

- As per section 16(ii) Deduction of entertainment allowance is allowed to Government employees and not to other employees.
- Professional tax paid by employer shall be added to the gross salary of the employee then deduction u/s 16 (iii) shall be allowed for professional tax.
- Health insurance premium paid by the employer to effect an insurance on the health of the employee is fully exempt.
- As per Rule 3 (7)(iv), The value of any gift or voucher or token in lieu of which gift is received by the employee or by member of his household upto ₹5,000 in aggregate during the previous year is exempt. In the given case Gift voucher received on birthday exceeds ₹5000. Hence, excess amount is taxable.
- As per section 17 (2) (v), Life Insurance premium of employee paid by employer shall be included in his income as it is a perquisite for an employee.
- Credit card facility is exempt only if it is exclusively for official purpose and employer has maintained complete records.

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### NOV – 2016

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**Solution 3(a):**

Mr. X is a Non- Resident as he did not come to India during the current financial year.

**Computation of Gross Total Income of Mr. X for the Assessment year 2022-23****Income under the head Salary**

Salary from Govt. of India	7,20,000
Foreign Allowances from Govt. of India (exempt)	Nil
Gross Salary	7,20,000
Less: Standard Deduction u/s 16(ia)	(50,000)

Income under the head Salary	6,70,000
<b>Income under the head other sources</b>	
Interest accrued on National Saving Certificate during the year 2021-22	45,000
Income under the head other sources	45,000
Gross Total Income	7,15,000

**Note:**

1. Rent from a house situated at London, received in London is a Income accruing arising outside India and received outside India hence not taxable in case of Non- Resident.
2. Salary Received from Govt. of India is taxable in India as Income is accruing arising from India.
3. Foreign allowances received from Govt. of India are exempt from Tax as per section 10(7).
4. Interest accrued on NSC is deemed to accrue arise in India and taxable in India.

**Solution 5(a):**

As per Section 10(5), Leave Travel concession shall be allowed to employee and his family. Exemption shall be allowed for the expenditure incurred during the trip.

Family shall include spouse and children of the employee however exemption shall be allowed for maximum of 2 children but in case of multiple birth after the birth of one child, exemption is allowed for all the children.

- (i) As per the above provision Exemption shall be allowed for all the children as the case is of multiple birth after the birth of one child. Hence cost of travel of all shall be exempt.
- (ii) As per the above provision Exemption shall be allowed for only 2 children.  
Hence Exemption shall be ₹80,000 – ₹30,000/3 = ₹70,000.  
Taxable Amount shall be ₹80,000 - ₹70,000 = ₹10,000.

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**MAY – 2016**

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**Solution 1(a):****Computation of Total Income of Mr. Vinod Kumar for the A.Y. 2022-23**

₹

**Income from Salaries**

Pension	6,52,000.00
Gross Salary	6,52,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	<b>6,02,000.00</b>

**Profits and gains of business or profession**

Gross Receipts	12,60,000.00
Less: Allowable expenses	
Rent	(1,44,000.00)
Salary to P.A.	(1,20,000.00)
Stenographer's salary	(1,00,000.00)
Business Development expenditure	(91,000.00)
Conveyance (3/4 <sup>th</sup> of ₹3,00,000 allowed)	(2,25,000.00)
<b>Income under the head Profits and gains of business or profession</b>	<b>5,80,000.00</b>

**Income from Other Sources**

Interest from Post Office Saving Bank	18,000.00
Less: Exempt u/s 10(15)	(3,500.00)
	14,500.00
Interest income from fixed deposits	1,60,000.00
<b>Income under the head Other Sources</b>	<b>1,74,500.00</b>

**Income under the head Capital Gains**

Short Term Capital Gains u/s 111A	65,000.00
Long Term Capital Gains u/s 112A	1,24,000.00
<b>Income under the head Capital Gains</b>	<b>89,000.00</b>

**Gross Total Income****15,45,500.00**

Less: Deduction under section 80C

- PPF	1,10,000.00	
- LIC (lower of 10% of 5,00,000 or 60,000)	50,000.00	
Restricted to 1,50,000		(1,50,000.00)
Less: Deduction under section 80D (27,000+ 5,000= 32,000)		(32,000.00)
Less: Deduction under section 80TTB		(50,000.00)
<b>Total Income</b>		<b>13,13,500.00</b>

**Note: 1.** Deduction under section 80G is not allowed because payment is made by cash.

**2.** Business development expenditure are assumed as revenue in nature and wholly incurred for the purpose of business/profession.

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### NOV – 2015

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#### Solution 1(a):

#### **Computation of total income of Mrs. X for the A.Y. 2022-23**

₹

#### **Income from Salaries**

Salary including dearness allowance	7,20,000.00
House rent allowance {Sec 10(13A) Rule 2A}	36,000.00

#### **Working Note:**

#### **Least of the following is exempt:**

1. ₹2,16,000-₹72,000 =1,44,000
2. 40% of retirement benefit salary = ₹2,88,000  
(Retirement benefit salary = ₹7,20,000)
3. ₹1,80,000  
Received = ₹1,80,000  
Exempt = (1,44,000)  
Taxable = ₹36,000

Children Education Allowance {Sec 10(14), Rule 2BB}	15,600.00
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#### **Working Note:**

₹

Received = ₹1500 x 12 =	18,000
Exempt = ₹100 x 12 x 2 =	(2,400)
Taxable =	15,600

Gross Salary	<b>7,71,600.00</b>
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	<b>7,21,600.00</b>

#### **Profits and gains of business or profession**

Income from truck business (11,000 x 8)	88,000.00
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(Taken 11,000 P.m. Because assessee is declaring higher income)

<b>Income under the head Profits and gains of business or profession</b>	<b>88,000.00</b>
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#### **Income from Other Sources**

Interest from Post Office Saving Bank (8,500-3,500)	5,000.00
Interest income from company deposits [₹25,000 – 5,000]	20,000.00
Withdrawn from National Saving Scheme (Note)	25,000.00

<b>Income under the head Other Sources</b>	<b>50,000.00</b>
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<b>Gross Total Income</b>	<b>8,59,600.00</b>
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Less: Deduction under section 80C - Tuition Fees	(80,000.00)
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Less: Deduction under section 80D	(25,000.00)
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Less: Deduction under section 80TTA	(5,000.00)
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<b>Total Income</b>	<b>7,49,600.00</b>
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#### **Computation of Tax Liability**

Tax on ₹7,49,600 at slab rate	62,420.00
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Add: HEC @ 4%	2,496.80
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Tax Liability	64,916.80
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Rounded off u/s 288B

64,920.00

**Note:** The taxability of withdrawals from National Savings Scheme depends on whether the withdrawal was from National Savings Scheme, 1992 or National Savings Scheme, 1987. In the above solution, the interest component alone has been brought to tax on the assumption that the withdrawal is from National Savings Scheme, 1992. However, if the withdrawal is in respect of National Savings Scheme, 1987, both the interest and the principal would be chargeable to tax and in such case, amount of ₹35,000 shall be taxable.

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## MAY – 2015

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**Solution 4(a):****Computation of Gross Total Income of Mr. Dinesh for the A.Y. 2022-23**

₹

**Income under the head Salary**

Salary including dearness allowance	6,50,000
Conveyance allowance (see Note 1 below)	Nil
Bonus	50,000
Value of perquisites:	
(i) Salary of servant	48,000
(ii) Free gas, electricity and water	82,000
(iii) Education facility (2,500 – 1,000) x 12 (see Note 2 below)	18,000
Gross Salary	8,48,000
Less: Standard Deduction u/s 16(ia)	(50,000)
<b>Income under the head Salary</b>	<b>7,98,000</b>

**Income from house property****Letout house**

Gross Annual Value (GAV) (Rent receivable is taken as GAV in the Absence of other information) (35,000 × 12)	4,20,000
Less: Municipal taxes paid	<u>(12,000)</u>
Net Annual Value (NAV)	4,08,000
Less: Deductions under section 24	
(i) 30% of NAV	(1,22,400)
(ii) Interest on loan	<u>Nil</u>
Income from House 1	2,85,600

**Self occupied house**

Gross Annual Value (GAV)	Nil
Less: Municipal taxes paid	<u>Nil</u>
Net Annual Value (NAV)	Nil
Less: Deductions under section 24	
(i) 30% of NAV	Nil
(ii) Interest on loan (18,50,000 x 11 % but restricted to ₹2,00,000)	(2,00,000)
Loss from House 2	(2,00,000)
Income under the head house property	<b>85,600</b>

**Income from Other Sources**

(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Mr. Dinesh as per section 64(1A)	7,200
Less: Exempt under section 10(32)	<u>(1,500)</u>
	5,700
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	7,200
(iii) Gift received from two friends (taxable under section 56(2) as the aggregate amount received during the year exceeds ₹50,000)	<u>90,000</u>
Income under the head other sources	1,02,900
<b>Gross Total Income</b>	<b>9,86,500</b>

**Note:**

1. The allowances given by the employer for official purpose are called official allowance and are exempt from income tax however saving is taxable and assuming conveyance allowance entire for official purpose. It is exempt.
2. If education facility is provided in employer's own institution, it is taxable in case of members of household but in case of children, it is exempt upto ₹1,000 p.m. per child. Value for this purpose shall be the cost of similar type of education in a similar type of institution in the same locality.

**NOV – 2014****Solution 4(a):**

₹

**Computation of income under the head Salary**

Basic Pay (80,000 x 9)	7,20,000
Bonus	36,000
House rent allowance {Sec 10(13A), Rule 2A}	1,17,000

**Working Note:**

1. ₹90,000 – ₹72,000 = ₹18,000
2. 50% of retirement benefit salary = ₹3,60,000  
(Retirement Benefit Salary = 80,000 x 9 = ₹7,20,000)
3. ₹1,35,000  
Received = ₹1,35,000  
Exempt = (₹18,000)  
Taxable = ₹1,17,000

Employer's contribution to provident fund {Part A of schedule IV} 23,600

**Working Note:**

- Retirement benefit salary = ₹7,20,000  
Employer contribution = ₹1,10,000  
Allowed = 12% of retirement benefit salary = ₹86,400  
Taxable = ₹23,600

Gratuity {Sec 10(10)} 4,82,409.23

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

1. ₹20,51,640
  2. ₹20,00,000
  3.  $15/26 \times 80,000 \times 34 = ₹15,69,230.77$
- Received = ₹20,51,640.00  
Exempt = (₹15,69,230.77)  
Taxable = ₹4,82,409.23

Uncommuted Pension {Sec 17(1)} 12,000.00

**Working Note:**

₹

**January**

8,000 x 1 = 8,000.00

**February & March**

8,000 x 25% x 2 = 4,000.00

Total = 12,000.00

Commuted Pension {Sec 10(10A)} 2,50,000.00

**Working Note:**

₹

Received = 4,50,000

Exempt =  $4,50,000 / 75\% \times 100\% \times 1/3 =$  (2,00,000)

Taxable = 2,50,000

Gross Salary 16,41,009.23



Less: Standard Deduction u/s 16(ia)	(50,000.00)
Less: Deduction u/s 16(iii) - Professional Tax	(2,000.00)
Income under the head Salary	15,89,009.23
<b>Note:</b> ₹6,00,000 as accumulated balance of Recognised Provident fund received from employer is exempt as Mr. X has rendered continuous service of more than 5 Years with the employer.	

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### MAY – 2014

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#### **Solution 1(a): Computation of total income of Mr. X for the A.Y. 2022-23**

Particulars	₹
<b>Income from Salaries</b>	
Salary including dearness allowance	5,00,000
Bonus	15,000
Salary of servant provided by employer Sec 17(2)(iii)Rule 3(3)	12,000
Free gas, electricity and water provided by employer Sec 17(2)(iii) Rule 3(4)	14,500
Laptop Sec 17(2)(viii) Rule 3(7)(vii)	Nil
Gross Salary	<b>5,41,500</b>
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	<b>4,91,500</b>
<b>Income from house property</b>	
Gross Annual Value (GAV) (₹ 5,500 × 12)	66,000
Less: Municipal taxes paid	(4,500)
Net Annual Value (NAV)	61,500
Less: Deductions	
30% of NAV 24(a)	(18,450)
Less: Interest on loan from State Bank of India@15% of ₹ 1,60,000 u/s 24(b)	(24,000)
Income under the head House Property	19,050
<b>Profits and gains of business or profession</b>	
Income from share speculation business	15,000
Less: Loss from cotton speculation business	(20,200)
Net loss from speculation business to be carried forward	(5,200)
<b>Income from Other Sources</b>	
Income of minor child (30,000 x 15%) – 1,500	3,000
Interest income of spouse [₹ 50,000 x 15%]	7,500
Gift (₹ 25,000 x 4)	1,00,000
Income under the head Other Sources	1,10,500
<b>Gross Total Income</b>	
	<b>6,21,050</b>
Less: Deduction under section 80C	
- Public Provident Fund	(10,500)
- Unit Linked Insurance Plan	(6,000)
- Tax saver deposit with Nationalized bank in the name of his married son does not qualify for deduction under section 80C. The deposit has to be in Mr. X's own name.	Nil
- Life Insurance Premium [paid to insure life of married daughter is allowable]	
[In respect of policies taken on or after 01.04.2012, the deduction is restricted to 10% of minimum capital sum assured. Hence, in this case, deduction is restricted to 10% of ₹ 2,00,000]	(20,000)
<b>Total Income</b>	<b>5,84,550</b>

#### **Notes:**

- (1) No separate deduction is available for insurance of ₹1,275, while computing income under the head "Income from house property".
- (2) It is assumed that ₹1,60,000 is the loan outstanding at the beginning of the year and there is no principal repayment of housing loan during the year qualifying for deduction under section 80C. Interest under section 24 has, accordingly, been calculated at the rate 15% of ₹ 1,60,000.
- (3) It is assumed that Mr. X's total income, before including minor's income, is higher than that of his spouse.

**NOV – 2013****Solution 3(a):****Computation of taxable salary of Mr. X for A.Y. 2022-23**

Particulars	₹
Basic pay [(₹ 25,000×11) + (₹ 27,500×1)] = ₹ 2,75,000 + ₹ 27,500	3,02,500
Dearness allowance [15% of basic pay]	45,375
Bonus [₹ 27,500 × 1.5]	41,250
Employer's contribution to Recognized Provident Fund in excess of 12% (18% - 12% = 6% of ₹ 3,47,875)	20,873
Telephone allowance	12,000
Rent-free accommodation Sec 17(2)(i)/Rule 3(1) 15% of salary (3,02,500 + 45,375 + 41,250 + 12,000) or ₹1,80,000 whichever is less.	60,169
Reimbursement of salary of housekeeper [₹ 2,000 × 12] Sec 17(2)(iv)	24,000
Gift voucher Sec 17(2)(viii)Rule 3(7)(iv)	-
Motor car owned and driven by employee, Sec 17(2)(iii) Rule 3(2) [₹ 36,600 – ₹ 21,600 (i.e., ₹ 1,800 × 12)]	15,000
Value of free lunch facility Sec 17(2)(viii) Rule 3(7)(iii) (Presuming that value per lunch was upto ₹50)	-
<b>Gross Salary</b>	<b>5,21,167</b>
Less: Standard Deduction u/s 16(ia)	<b>(50,000)</b>
<b>Income under the head Salary</b>	<b>4,71,167</b>

1. Medical insurance premium paid by the employer to effect an insurance on the health of the employee is fully exempt.

**NOV – 2012****Answer 6(a):**

- (i) Bonus shares received by equity shareholders is not taxable. Bonus share is deemed dividend in the hands of preference shareholder only and it is covered under the head Other Sources
- (ii) Such loan is deemed dividend in the hand of shareholder u/s 2(22)(e). He is liable to tax thereon under the head other sources.
- (iii) Fully taxable under the head salary.
- (iv) ₹60,000 taxable as gift under the head other Sources.
- (v) Perquisites under section 28 taxable as PGBP
- (vi) Taxable as income under the head Business/Profession.
- (vii) Employer's contribution & interest is taxable as salary. Employee's contribution is not taxable. However, interest on his contribution is taxable as Income from other Sources.

**MAY – 2012****Answer 1(a):****Computation of Total Income of Ms. X for the A.Y. 2022-23**

	₹
Income under the head Salary	3,45,000
Income under the head Other Sources (Bank Interest)	15,000
<b>Gross Total Income</b>	<b>3,60,000</b>
Less: Deduction u/s 80C – Contribution to Recognized Provident Fund	(60,000)
Less: Deduction u/s 80D – Health Insurance Premium	(7,000)
Less: Deduction u/s 80DD – Medical expenditure for dependent sister with disability	(75,000)
Less: Deduction u/s 80TTA (10,000 or 15,000 whichever is less)	(10,000)
<b>Total Income</b>	<b>2,08,000</b>

**Note:** Tax on non-monetary perquisite paid by employer is exempt u/s 10(10CC)

**Answer 3:**

	₹
Basic Pay [(50,000 x 12)	6,00,000.00
Dearness Allowance (50,000 x 40% x 12)	2,40,000.00
Transport Allowance	36,000.00
Motor Car Facility {Section 17(2)(iii) Rule 3(2)} [2,400 x 12]	28,800.00
Gross Salary	9,04,800.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head salary	8,54,800.00
Gross Total Income	8,54,800.00
Less: Deduction u/s 80D-Medical Insurance Premium	(15,200.00)
Total Income	8,39,600.00

**Notes:**

1. Expenditure on accommodation in hotels while touring on official duties met by the employer is not taxable.
2. Lunch provided by the employer during office hours is not taxable as per Section 17(2)(viii) Rule 3(7)(iii). It is assumed that expenditure per meal is upto ₹50.
3. Computer provided at the residence of Mr. X is not taxable as per section 17(2)(viii)Rule 3(7)(vii)

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**NOV – 2011**

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**Solution 2:****Computation of Salary chargeable to tax of Mr. X for A.Y. 2022-23**

	₹
Basic Salary	6,50,000.00
(50,000 x 7)+ (60,000 x 5)	
Dearness Allowance	2,60,000.00
(40% x 6,50,000)	
Bonus	70,000.00
(50,000 + 20,000)	
Contribution to recognized provident fund	26,000.00
(6,50,000 x 4%)	
Professional Tax paid by the employer	2,000.00
Facility of Laptop/computer	NIL
Perquisite value of use of motor car	12,000.00
(2,400 x 5)	
Leave Travel concession	NIL
Gross Salary	10,20,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Less: Deduction of professional tax u/s 16(iii)	(3,000.00)
Income under the head Salary	9,67,000.00
Gross Total Income	9,67,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	9,67,000.00
<b>Computation of Tax Liability</b>	
Tax on ₹9,67,000 at slab rate	1,05,900.00
Add: HEC @ 4%	4,236.00
Tax Liability	1,10,136.00
Rounded off u/s 288B	1,10,140.00

**Answer 3:****Computation of Taxable Income of Mrs. X for the A.Y. 2022-23****Computation of income under the head Salary**

	₹
Basic salary	7,20,000

(60,000 x 12)	
Dearness Allowance	2,88,000
(7,20,000 x 40%)	
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	84,000

**Working Note:**

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

Rent free accommodation salary = 7,20,000

15% of ₹7,20,000 = ₹1,08,000

(assuming that dearness allowance does not form part of pay for retirement benefits)

Rent Paid = ₹15,000 x 12 = ₹1,80,000

Value of unfurnished house	1,08,000
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Less: Amount recovered from the employee (2,000 x 12)	(24,000)
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Perquisite value of accommodation at concessional rent	84,000
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Perquisite of Interest on loan {Sec 17(2)(viii) Rule 3(7)(i)}	10,000
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[(2,00,000 x 10%) – 10,000]

Gross Salary	11,02,000
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Less: Standard Deduction u/s 16(ia)	(50,000)
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Less: Professional Tax u/s 16(iii)	(6,000)
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Income under the head Salary	10,46,000
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**Computation of income under the head House Property**

Gross Annual Value	1,80,000
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(15,000 x 12)

Less: Municipal Tax	Nil
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Net Annual Value	1,80,000
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Less: 30% of NAV u/s 24(a)	(54,000)
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Less: Interest on capital borrowed u/s 24(b)	(1,75,000)
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Loss under the head House Property	(49,000)
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Gross Total Income	9,97,000
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Less: Deduction u/s

80C-Repayment of principal	(1,00,000)
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Total Income	8,97,000
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**Computation of Tax Liability**

Tax on ₹8,97,000 at Slab rate	91,900
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Add: HEC @ 4%	3,676
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Tax Liability	95,576
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Rounded off u/s 288B	95,580
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**Answer 4:**

₹

**Computation of Total Income**

Basic Salary	2,00,000
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(20,000 x 10)

DA	1,00,000
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(2,00,000 x 50%)

Gift voucher	1,000
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(6,000-5,000)

Motor Car (Sec 17(2)(viii) Rule 3(7)(viii))	56,000
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**Working Note:**

Cost	5,00,000
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Less: Depreciation @ 20%

01.07.2018-30.06.2019	(1,00,000)
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01.07.2019-30.06.2020	(80,000)
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01.07.2020-30.06.2021	(64,000)
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WDV	2,56,000	
Less: Amount Recovered	(2,00,000)	
Perquisite value of car	56,000	
Uncommuted Pension {Sec 17(1)} (5,000 x 2)		10,000
Commuted pension {Sec 10(10A)}		1,50,000
<b>Working Note:</b>		
Amount received	3,00,000	
Less: exempted (3,00,000 x 3/2 x 1/3)	(1,50,000)	
Taxable	1,50,000	
Gratuity {Sec 10(10)}		80,769
<b>Working Note:</b>		
<b>Least of the following is exempt</b>		
1. Gratuity received ₹6,00,000		
2. ₹20,00,000		
3. $15/26 \times 30,000 \times 30 = 5,19,231$		
Received = ₹6,00,000		
Exempt = (₹5,19,231)		
Taxable = ₹ 80,769		
Leave Salary {Sec 10(10A)}		1,30,000
<b>Working Note:</b>		
<b>Least of the following is exempt</b>		
1. ₹3,30,000		
2. ₹10 x 20,000 = ₹2,00,000		
3. ₹3,00,000		
3. $330/30 \times 20,000 = 2,20,000$		
Received = ₹3,30,000		
Exempt = (₹2,00,000)		
Taxable = ₹1,30,000		
Gross Salary		7,27,769
Less: Standard Deduction u/s 16(ia)		(50,000)
Income under the head Salary		6,77,769
Income under the head Other Sources		Nil
(Since LCD is not covered under the definition of kind as given under section 56)		
Gross Total Income		6,77,769
Less: Deduction u/s 80C to 80U		Nil
Total Income		6,77,769
Rounded off u/s 288A		6,77,770
<b>Computation of Tax Liability</b>		
Tax on ₹6,77,770 at slab rate		45,554.00
Add: HEC @ 4%		1,822.16
Tax Liability		47,376.16
Rounded off u/s 288B		47,380.00

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### MAY – 2011

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**Answer 3.****Taxability of perquisites provided by ABC Co. Ltd. to Mr. X**

(i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = ₹1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹18,000.

(ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality.

However, there would be no perquisite if the cost of such education per child does not exceed ₹1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Mr. S, since the cost does not exceed ₹1,000 per month.

However, the cost of free education provided to his child Mr. A would be taxable, since the cost exceeds ₹1,000 per month.

Only the sum in excess of ₹ 1,000 per month is taxable. The value of perquisite would be ₹2,400.

(iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹1,10,000.

The perquisite value would be 10% of the actual cost i.e., ₹11,000, being 10% of ₹1,10,000.

(iv) Only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite.

**Total value of taxable perquisite = ₹ 36,400 [i.e. ₹18,000 + 2,400 + 11,000 + 5,000].**

## NOV – 2010

**Answer 5.**

**Computation of taxable salary of Mr. X for A.Y. 2022-23**

Particulars	₹
Basic pay [(20,000×9) + (21,000×3)] = 1,80,000 + 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus [See Note (1) below]	21,000
Employer's contribution to RPF in excess of 12% (15%-12% =3% of ₹2,67,300)	8,019
<b>Taxable allowances</b>	
Telephone allowance	6,000
<b>Taxable perquisites</b>	
Rent-free accommodation [See Note (2) below]	44,145
Reimbursement of salary of housekeeper	12,000
Gift voucher (10,000 – 5,000)	5,000
<b>Salary income chargeable to tax</b>	<b>3,63,464</b>
Less: Standard deduction u/s 16 (ia)	(50,000)
<b>Income under the head Salary</b>	<b>3,13,464</b>

**Notes:**

(1) Bonus has been taken as one month's basic pay as at the end of the year i.e. ₹21,000. In the alternative, the problem can also be worked out by taking bonus as ₹20,000, being one month's basic pay upto 31.12.2021.

(2) Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

(i) Basic salary i.e., ₹2,43,000

(ii) Dearness allowance i.e. ₹24,300

(iii) Bonus i.e., ₹21,000

(iv) Telephone allowance i.e., ₹6,000

Therefore, salary works out to

$$2,43,000 + 24,300 + 21,000 + 6,000 = 2,94,300.$$

$$15\% \text{ of salary} = 2,94,300 \times 15/100 = 44,145$$

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹1,20,000) or 15% of salary (i.e., ₹44,145).

Therefore, the perquisite value is ₹44,145.

(3) Facility of laptop is not a taxable perquisite.

(4) Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.

(5) Premium of ₹5,000 paid by the company for personal accident policy is not liable to tax.

(6) As per Circular No.15/2001, dated: 12.12.2001, Gift, voucher or token in lieu of gift - It is customary in India, as it is in other parts of the world, to provide presents directly or indirectly in the form of vouchers or tokens to employees on social and religious occasions like Diwali, Christmas, New Year, the anniversary of the organization etc. Such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. However, gifts made in cash or convertible into cash, like gift cheques etc. do not fall in the purview of this sub-rule.

### Answer 7.

#### Computation of gratuity taxable in the hands of Mr. X for the P.Y. 2021-22

As per section 10(10), gratuity received by an employee would be exempt upto the least of the following limits –

(i) Gratuity received = ₹ 8,00,000

(ii) Half-month's salary for every year of completed service

$$= \frac{1}{2} \times 26,700 \times 30 = ₹4,00,500$$

(iii) Monetary limit = ₹20,00,000

Received	8,00,000
Less: Exempt	(4,00,500)
Taxable	3,99,500

#### Note:

(1) One of the limits for calculation of gratuity exempt under section 10(10) is one-half-month's salary for each year of completed service (fraction of a year to be ignored), calculated on the basis of average salary for the ten months immediately preceding the month of retirement. In this case, the month of retirement is January, 2022. Therefore, average salary for the months of March 2021 to December 2021 have to be considered. The salary is ₹25,000 p.m. upto 30.09.2021 and ₹27,000 p.m. from 01.10.2021. Hence, average salary would be ₹26,700 [(₹25,000 × 7) + (₹27,000 × 3) + (2000 × 55% × 10)]/10.

Further, half-month's salary should be multiplied by the number of years of completed service and any fraction of a year has to be ignored. Therefore, in this case, half-month's salary should be multiplied by 30 and the fraction of 7 months should be ignored.

(2) PS – The requirement of the question has not been specified. Having regard to the information given in the question, the taxable gratuity has been computed.

### Answer 5.

#### Computation of Total Income of Mr. X for the Assessment Year 2022-23

Particulars	₹	₹
Basic salary		12,00,000
Dearness allowance		6,00,000
Bonus		2,00,000
Employer contribution to RPF in excess of 12% is taxable (3% of 18,00,000) [See Note below]		54,000
Rent free accommodation @ 15% of ₹20 lakh (basic salary + dearness allowance + bonus)		<u>3,00,000</u>
Gross Salary		23,54,000
<b>Less: Standard deduction u/s 16 (ia)</b>		<b>(50,000)</b>
		23,04,000

**Less: Deductions under Chapter VI-A**

**Section 80C**

Contribution to RPF		1,50,000	
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**Section 80D – Health insurance premium**

Family	20,000		
Parents (Senior Citizens)	<u>28,000</u>	48,000	

**Section 80DD**

Medical treatment of dependent brother with severe disability (flat deduction irrespective of expenditure incurred)		1,25,000	
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**Section 80E – Interest on loan taken for full-time education of**

- his son studying B.Com.	24,000		
- a student studying B.Sc. for whom he is the legal guardian	<u>20,000</u>		

		<u>44,000</u>	<u>(3,67,000)</u>
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**Total income**

			<u><b>19,37,000</b></u>
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**Answer 6.**

Under section 10(14), any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., ₹7,000 per month, being 70% of ₹10,000) or ₹10,000 per month, whichever is less. Hence, ₹84,000 (i.e., 7,000 × 12) is allowable as deduction under section 10(14).

**Answer 6.**

Any amount withdrawn from public provident fund as per relevant rules is not exigible to tax. Such exemption is provided in section 10(11).

**Answer 6.**

Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite as per section 17(2)(viii) Rule 3(7)(ix).

**Answer 7.**

(i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	₹
Fair market value of 1,000 sweat equity shares @ ₹300 each	3,00,000
Less: Amount recovered from Mr. X 1,000 shares @ ₹200 each	(2,00,000)
<b>Value of perquisite of sweat equity shares allotted to Mr. X</b>	<b>1,00,000</b>

(ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi).

Therefore, in case of subsequent sale of sweat equity shares by Mr. X, the cost of acquisition would be ₹ 3,00,000.

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**MAY – 2010**

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**Answer 3. Perquisite value for housing loan**

The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1<sup>st</sup> day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.



“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is  $10.50\% - 6\% = 4.5\%$

Month	Maximum outstanding balance as on last date of month	Perquisite value at 4.5% for the month
April, 2021	5,88,000	$5,88,000 \times 4.5\% \times 1/12 = 2,205$
May, 2021	5,76,000	$5,76,000 \times 4.5\% \times 1/12 = 2,160$
June, 2021	5,64,000	$5,64,000 \times 4.5\% \times 1/12 = 2,115$
July, 2021	5,52,000	$5,52,000 \times 4.5\% \times 1/12 = 2,070$
August, 2021	5,40,000	$5,40,000 \times 4.5\% \times 1/12 = 2,025$
September, 2021	5,28,000	$5,28,000 \times 4.5\% \times 1/12 = 1,980$
October, 2021	5,16,000	$5,16,000 \times 4.5\% \times 1/12 = 1,935$
November, 2021	5,04,000	$5,04,000 \times 4.5\% \times 1/12 = 1,890$
December, 2021	4,92,000	$4,92,000 \times 4.5\% \times 1/12 = 1,845$
January, 2022	4,80,000	$4,80,000 \times 4.5\% \times 1/12 = 1,800$
February, 2022	4,68,000	$4,68,000 \times 4.5\% \times 1/12 = 1,755$
March, 2022	4,56,000	$4,56,000 \times 4.5\% \times 1/12 = 1,710$
<b>Total value of this perquisite</b>		<b>23,490</b>

**Perquisite Value of Air Conditioners:**

Original cost	2,00,000	₹
Depreciation on SLM basis for 4 years @10% i.e. ₹2,00,000 x 10% x 4	80,000	
<b>Written down value</b>	<b>1,20,000</b>	
Amount recovered from the employee	90,000	
<b>Perquisite value</b>	<b>30,000</b>	
<b>Chargeable perquisite in the hands of Mr. X for the assessment year 2022-23</b>		
Housing loan	23,490	₹
Air Conditioner	30,000	
<b>Total</b>	<b>53,490</b>	

**Note:** It is assumed that payment of ₹12,000 is excluding interest.

## NOV – 2009

**Answer 1: Computation of Total Income and Tax Liability of Mr. X for the A.Y. 2022-23**

	₹	₹
<b>Salary Income</b>		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Car (1,800 x 12)	21,600	
(iii) Free gas, electricity and water	11,000	44,600
		<b>3,90,600</b>
Less: Standard deduction u/s 16 (ia)		(50,000)
<b>Income under the head salary</b>		<b>3,40,600</b>
<b>Income from house property</b>		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (20,000 × 12)	2,40,000	
Less: Municipal taxes paid [See Note (ii)(a)]	(4,300)	
Net Annual Value (NAV)	2,35,700	
Less: Deductions under section 24		
(i) 30% of NAV	70,710	
(ii) Interest on loan from LIC @ 15% of 1,60,000	24,000	(94,710)
[See Note (ii)(b)]		
<b>Income from speculative business</b>		1,40,990

Income from share speculation business	2,700	
Less: Loss from cotton speculation business	(4,200)	
Net Loss	<u>1,500</u>	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.		
<b>Income from Other Sources</b>		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Mr. X as per section 64(1A)	3,800	
Less: Exempt under section 10(32)	(1,500)	
	<u>2,300</u>	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2) as the aggregate amount received during the year exceeds ₹50,000)	<u>1,00,000</u>	
		<u>1,08,000</u>
<b>Gross Total Income</b>		<b>5,89,590</b>
Less: Deduction under section 80C		
Contribution to Public Provident Fund	5,600	
Unit Linked Insurance Plan	<u>4,000</u>	<u>(9,600)</u>
<b>Total Income</b>		<b>5,79,990</b>
		<b>₹</b>
<b>Particulars</b>		
Tax on total income		28,498.00
Add: HEC @ 4%		1,139.92
Tax Liability		29,637.92
Rounded off u/s 288B		29,640.00

**Notes:**

(i) National Award for humanitarian work given by the Central Government is exempt under section 10(17A) of the Income-tax Act, 1961.

(ii) The following assumptions have been made while computing income under the head "Income from house property" –

(a) It is the owner, namely, Mr. X, who has paid the municipal taxes;

(b) The entire loan of ₹1,60,000 is outstanding as on 31.03.2022; and

(c) Society charges of ₹1,900 p.a. is not included in the rent of ₹20,000 p.m. payable by the tenant. Such charges have either been paid directly by Mr. X or recovered separately from the tenant.

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## NOV – 2008

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<b>Answer 3.</b>	<b>Computation of Taxable Salary of Mr. X for the Assessment Year 2022-23</b>		
	<b>Particulars</b>	<b>Amount (₹)</b>	<b>Amount (₹)</b>
	Basic Salary (₹20,000 x 5) + (₹25,000 x 7)		2,75,000.00
	Transport allowance ( ₹2,000 x 12)		24,000.00
	Children education allowance (₹500 x 12)	6,000	
	Less: Exempt under section 10(14) ( ₹100 x 2 x 12)	(2,400)	3,600.00
	City Compensatory Allowance (₹300 x 12)		3,600.00
	Hostel Expenses Allowance (₹380 x 12)	4,560	
	Less: Exempt under section 10(14) ( ₹300 x 2 x 12 i.e. ₹7,200 but restricted to the actual allowance of ₹4,560)	(4,560)	Nil
	Tiffin allowance (fully taxable)		5,000.00
	Tax paid on employment		2,500.00
	Employer's contribution to Recognised Provident Fund in excess of 12% of salary (i.e. 3% of ₹2,75,000)		<u>8,250.00</u>
	<b>Gross Salary</b>		<b>3,21,950.00</b>

## Income Under The Head Salary

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Less: Standard deduction u/s 16 (ia)	(50,000.00)
Less : Tax on employment under section 16(iii)	<u>(2,500.00)</u>
<b>Taxable salary</b>	<b><u>2,69,450.00</u></b>

**Computation of Total Income**

Gross Total Income	2,69,450.00
Less: Deduction u/s 80C	
Employee's contribution in Recognised Provident Fund	(41,250.00)
Total Income	2,28,200.00

**Computation of Tax Liability**

Tax on ₹2,28,200 at slab rate	Nil
Tax Liability	Nil

**Notes:**

Professional tax paid by employer should be included in the salary of Mr. X as a perquisite since it is discharge of monetary obligation of the employee by the employer. Thereafter, deduction of professional tax paid is allowed to the employee from his gross salary.