# INCOME TAX

**(Volume – 1)**

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- **EXAMINATION QUESTIONS**

After the book has been published, some error/mistake etc may be detected/or there may be some amendments etc, all such corrections/amendments shall be uploaded on our website and also on youtube. Students are requested to visit our website and also they should subscribe our youtube channel in order to update the book.

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**CA (INTER)**

**MAY-2020/NOV-2020**

**P.Y. 2019-20**

This Book is the result of combined efforts of Chartered Accountants/ company executives /

**A.Y. 2020-21**

other professionals / feedback of our thousands of students

**F.A. – 2019**

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**Author**

FOR ONLINE PURCHASE OF OUR BOOK PLEASE SEE DETAILS GIVEN ON OUR WEBSITE :WWW.MKGEDUCATION.COM
PAPER – 4: TAXATION
(One paper – Three hours –100 Marks)

Objective: To develop an understanding of the provisions of income-tax law and goods and services tax law and to acquire the ability to apply such knowledge to make computations and address basic application oriented issues.

SECTION A: INCOME TAX LAW (60 MARKS)

Contents:
1. Basic Concepts
   (i) Income-tax law: An introduction
   (ii) Important definitions in the Income-tax Act, 1961
   (iii) Concept of previous year and assessment year
   (iv) Basis of Charge and Rates of Tax

2. Residential status and scope of total income
   (i) Residential status
   (ii) Scope of total income

3. Incomes which do not form part of total income (other than charitable trusts and institutions, political parties and electoral trusts)
   (i) Incomes not included in total income
   (ii) Tax holiday for newly established units in Special Economic Zones

4. Heads of income and the provisions governing computation of income under different heads
   (i) Salaries
   (ii) Income from house property
   (iii) Profits and gains of business or profession
   (iv) Capital gains
   (v) Income from other sources

5. Income of other persons included in assessee's total income
   (i) Clubbing of income: An introduction
   (ii) Transfer of income without transfer of assets
   (iii) Income arising from revocable transfer of assets
   (iv) Clubbing of income of income arising to spouse, minor child and son’s wife in certain cases
   (v) Conversion of self-acquired property into property of HUF

6. Aggregation of income; Set-off, or carry forward and set-off of losses
   (i) Aggregation of income
   (ii) Concept of set-off and carry forward and set-off of losses
   (iii) Provisions governing set-off and carry forward and set-off of losses under different heads of income
   (iv) Order of set-off of losses

7. Deductions from gross total income
   (i) General provisions
   (ii) Deductions in respect of certain payments
   (iii) Specific deductions in respect of certain income
   (iv) Deductions in respect of other income
   (v) Other deductions

8. Computation of total income and tax liability of individuals
   (i) Income to be considered while computing total income of individuals
   (ii) Procedure for computation of total income and tax liability of individuals

9. Advance tax, tax deduction at source and introduction to tax collection at source
   (i) Introduction
   (ii) Direct Payment
   (iii) Provisions concerning deduction of tax at source
   (iv) Advance payment of tax
(v) Interest for defaults in payment of advance tax and deferment of advance tax
(vi) Tax collection at source – Basic concept
(vii) Tax deduction and collection account number

   (i) Return of Income
   (ii) Compulsory filing of return of income
   (iii) Fee and Interest for default in furnishing return of income
   (iv) Return of loss
   (v) Provisions relating to belated return, revised return etc.
   (vi) Permanent account number
   (vii) Persons authorized to verify return of income
   (viii) Self-assessment

SECTION B – INDIRECT TAXES (40 MARKS)

Contents:
1. Concept of indirect taxes
   (i) Concept and features of indirect taxes
   (ii) Principal indirect taxes

2. Goods and Services Tax (GST) Laws
   (i) GST Laws: An introduction including Constitutional aspects
   (ii) Levy and collection of CGST and IGST
   a) Application of CGST/IGST law
   b) Concept of supply including composite and mixed supplies
   c) Charge of tax
   d) Exemption from tax
   e) Composition levy
   (iii) Basic concepts of time and value of supply
   (iv) Input tax credit
   (v) Computation of GST liability
   (vi) Registration
   (vii) Tax invoice; Credit and Debit Notes; Electronic way bill
   (viii) Returns
   (ix) Payment of tax including reverse charge

Note – If any new legislation(s) is enacted in place of an existing legislation(s), the syllabus will accordingly include the corresponding provisions of such new legislation(s) in place of the existing legislation(s) with effect from the date to be notified by the Institute. Similarly, if any existing legislation ceases to have effect, the syllabus will accordingly exclude such legislation with effect from the date to be notified by the Institute. Students shall not be examined with reference to any particular State GST Law.

Consequential/corresponding amendments made in the provisions of the Income-tax law and Goods and Services Tax laws covered in the syllabus of this paper which arise out of the amendments made in the provisions not covered in the syllabus will not form part of the syllabus. Further, the specific inclusions/exclusions in the various topics covered in the syllabus will be effected every year by way of Study Guidelines.
WEIGHTAGE
Intermediate Course Paper 4: Taxation (100 Marks)
Section A: Income-tax Law (60 Marks)

I. (5%-10%)  
1. Basic Concepts  
(i) Income-tax law: An introduction  
(ii) Important definitions in the Income-tax Act, 1961  
(iii) Concept of previous year and assessment year  
(iv) Basis of Charge and Rates of Tax

II. (10%-15%)  
2. Residential status and scope of total income  
(i) Residential status  
(ii) Scope of total income

III. (25%-30%)  
3. Incomes which do not form part of total income (other than charitable trusts and institutions, political parties and electoral trusts)  
(i) Incomes not included in total income  
(ii) Tax holiday for newly established units in Special Economic Zones  
4. Heads of income and the provisions governing computation of income under different heads  
(i) Salaries  
(ii) Income from house property  
(iii) Profits and gains of business or profession  
(iv) Capital gains  
(v) Income from other sources

IV (15%-20%)  
5. Income of other persons included in assessee's total income  
(i) Clubbing of income: An introduction  
(ii) Transfer of income without transfer of assets  
(iii) Income arising from revocable transfer of assets  
(iv) Clubbing of income of income arising to spouse, minor child and son’s wife in certain cases  
(v) Conversion of self-acquired property into property of HUF  
6. Aggregation of income; Set-off, or carry forward and set-off of losses  
(i) Aggregation of income  
(ii) Concept of set-off and carry forward and set-off of losses  
(iii) Provisions governing set-off and carry forward and set-off of losses under different heads of income  
(iv) Order of set-off of losses  
7. Deductions from gross total income  
(i) General provisions  
(ii) Deductions in respect of certain payments  
(iii) Specific deductions in respect of certain income  
(iv) Deductions in respect of other incomes  
(v) Other deductions

V. (20%-25%)  
8. Computation of total income and tax liability of individuals  
(i) Income to be considered while computing total income of individuals  
(ii) Procedure for computation of total income and tax liability of individuals
VI. (10%-15%)

9. Advance tax, tax deduction at source
   (i) Introduction
   (ii) Direct Payment
   (iii) Provisions concerning deduction of tax at source
   (iv) Advance payment of tax
   (v) Interest for defaults in payment of advance tax and deferment of advance tax

10. Introduction to tax collection at source
    (i) Tax collection at source – Basic concept
    (ii) Tax deduction and collection account number

11. Provisions for filing return of income and self-assessment
    (i) Return of Income
    (ii) Compulsory filing of return of income
    (iii) Fee and Interest for default in furnishing return of income
    (iv) Return of loss
    (v) Provisions relating to belated return, revised return etc.
    (vi) Permanent account number
    (vii) Persons authorized to verify return of income
    (viii) Self-assessment

Section B: Indirect Taxes (40 Marks)

I (30%-50%)
1. Levy and collection of CGST and IGST
   (a) Application of CGST/IGST law
   (b) Concept of supply including composite and mixed supplies
   (c) Charge of tax (including reverse charge)
   (d) Exemption from tax
   (e) Composition levy

2. Basic concepts of time and value of supply

3. Input tax credit

II (20%-30%)
1. Computation of GST liability

III (25%-40%)
1. Registration
2. Tax invoice; Credit and Debit Notes; Electronic way bill
3. Returns
4. Payment of tax

IV (0 - 5%)
1. Concept of indirect taxes - Concept and features of indirect taxes; Principal indirect taxes
2. GST Laws: An introduction including Constitutional aspects
A man for whom teaching is neither a business nor a profession, rather a passion for doing good, great and unique in the field of teaching is none other than MK Gupta Sir.

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

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

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

The administration and management stands second to none.

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

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

THANK YOU so much Sir..

In the end i would just like to say MK GUPTA SIR NOT ONLY MAKES CA. HE MAKES HUMANS!!
Experience of those four months with M.K. GUPTA SIR was out of the world.

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

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

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

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

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

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

Sir its your Success.

A Message to all : -

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

AKSHAY JAIN
VIJENDER AGGARWAL
ALL INDIA TOPPER OF CA-IPCC (NOV-10)
ROLL NO. - 174639

MARKS IN TAXATION: 92%
(HIGHEST MARKS IN TAXATION ALL OVER INDIA)
(AGGREGATE MARKS 83.71%)

(FEEDBACK)

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

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

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

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

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

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

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

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

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

Thanks Sir !! :-

PRACHI JAIN
RESULTS OF NOV – 2014 EXAMINATION
(CA-Intermediate (IPC))

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

WE SINCERELY THANK OUR STUDENTS FOR THEIR HARD WORK

PRASHANT YADAV (354233) SECURES 92 MARKS IN TAXATION
(SECOND HIGHEST IN INDIA)

MARKS SECURED BY SOME OF THE STUDENTS IS AS UNDER:

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Name of the Students</th>
<th>Marks in Taxation</th>
<th>Roll No.</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>PRASHANT YADAV</td>
<td>92</td>
<td>354233</td>
</tr>
<tr>
<td>2</td>
<td>MOHIT SHARMA</td>
<td>89</td>
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<tr>
<td>3</td>
<td>MANISHA BHAMBRI</td>
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<td>4</td>
<td>ANISH SHRESHTA</td>
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<td>344028</td>
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<td>5</td>
<td>KAPIL KHANNA</td>
<td>85</td>
<td>341539</td>
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<td>6</td>
<td>JITENDRA</td>
<td>85</td>
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<td>7</td>
<td>PUNEET WASAN</td>
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<td>8</td>
<td>ISHA MALIK</td>
<td>84</td>
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<td>9</td>
<td>RUPAL GARG</td>
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<td>AKANSHA GOEL</td>
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<td>MANSI BAJAJ</td>
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<td>RASHI GUPTA</td>
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<td>RAHUL ARORA</td>
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<td>ASHISH GUPTA</td>
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<td>20</td>
<td>SHREYA MALIK</td>
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<td>22</td>
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<td>25</td>
<td>SHIVANGI GUPTA</td>
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OPINION OF OUR STUDENTS

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

2. MOHIT SHARMA (Roll No.353392) 89 Marks
A brilliant personality in my life who has motivated the student to a good path. He is very different from others. Sir concentrates not only on the Marks but also on the overall development of the student. I am truly glad that I studied from Sir. He taught me how to compete in life. Every student get very good marks with a little effort, if he is a student of M.K. Gupta CA Education.
<table>
<thead>
<tr>
<th>Name</th>
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<th>Marks</th>
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<tbody>
<tr>
<td>3. MANISHA BHAMBRI</td>
<td>456626</td>
<td>89</td>
</tr>
<tr>
<td>M.K. Gupta Sir is the best teacher I have ever met. His study material being the best helped me a lot in my exams. He is the most sincere teacher who never waste a single moment and gives his best towards his profession. He teaches not only the theoretical portion but the practical approach too. He teaches us how to be a good human being and how to live life happily. Thank you Sir for your support every time I needed.</td>
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<tr>
<td>4. ANISH SHRESTHA</td>
<td>344028</td>
<td>88</td>
</tr>
<tr>
<td>M.K. Gupta Sir is a very excellent teacher. The way he is dedicated towards teaching make us to be dedicated towards our study. Every concept and every doubt of taxation whichever do I had, he has made clear. The best thing about Sir is, he use to revise the concept more than 3 times which makes student very easy for preparing their exam. You will have all the sufficient material for study and lots of questions with answers for practice a systematically designed materials. Thank a lot to Sir for being so much helpful and lot of love.</td>
<td></td>
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</tr>
<tr>
<td>5. KAPIL KHANNA</td>
<td>341539</td>
<td>85</td>
</tr>
<tr>
<td>Sir ‘M.K. Gupta’ is the best teacher for Taxation. I feel fortunate to be his student, the amount of knowledge he imparts is fantastic and uncomparable. He is a person who burns himself up like a candle to light the path of his dearest students to the road of success. I wish Sir teaches all the subjects of IPCC, since he is simply the best. Thank you for everything Sir. It you and only you who can guide students like us to reach the zenith.</td>
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<tr>
<td>6. JITENDRA</td>
<td>337780</td>
<td>85</td>
</tr>
<tr>
<td>Before joining CA, I was so much scary about the “Taxation” but after joining M.K. Gupta CA Education for taking taxation class my scary converted into my strength now. This is just because of Sir’s knowledge &amp; teaching style with practicality. Study material provided by Sir is also awesome for study.</td>
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<tr>
<td>7. PUNEET WASAN</td>
<td>368537</td>
<td>84</td>
</tr>
<tr>
<td>M.K. Gupta Sir has a vast knowledge in the subject. The topics taken in the class are very well planned. I found the book really very good. Infact, I practiced all the previous attempts questions of each chapter and every small question was covered in the chapter. I recommend the students to be thorough with book and one will score undoubtedly high marks in tax. All the best!! Thank you so much Sir.</td>
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<tr>
<td>8. ISHA MALIK</td>
<td>339842</td>
<td>84</td>
</tr>
<tr>
<td>I do not have words to express my greatfulness for M.K. Gupta Sir. He really possesses vast knowledge and rich experience in taxation. Study material provided by Sir is also very good which covers everything for getting through the exam. There is no doubt that due to excellent coaching given by Sir, I have been able to secure good marks. I pray to God for his long, happy and prospective life. I wish him to continue give coaching to the prospective students for a longer period. I appeal to all the students who qualify CPT to take coaching from Gupta Sir for getting sure success. Thank you Sir.</td>
<td></td>
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<tr>
<td>9. RUPAL GARG</td>
<td>393844</td>
<td>84</td>
</tr>
<tr>
<td>M.K. Gupta Sir is, as I believe, the best teacher for Taxation. He is so knowledgeable that I was totally awe inspired by him. Every day in the class was exciting as he explains everything with real examples and full depth. The books are superb with lots of practical questions. Thank you Sir.</td>
<td></td>
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<tr>
<td>10. AKANSHA GOEL</td>
<td>336693</td>
<td>84</td>
</tr>
<tr>
<td>It was a great experience studying from M.K. Gupta Sir. He has a vast pool of the knowledge of the subject. The book is a comprehensive one too.</td>
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<td>Name</td>
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<tr>
<td>11</td>
<td>PRASIT SHARMA</td>
<td>344702</td>
</tr>
<tr>
<td></td>
<td>Taking about the coaching, the teaching style of M.K. Gupta Sir is too much excellent. He has good dealing with student in every situation. If anyone asked about the taxes coaching, I prefer M.K. Gupta Sir because he is the one &amp; only best teacher in Taxation.</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>MANSI BAJAJ</td>
<td>354329</td>
</tr>
<tr>
<td></td>
<td>Sir teaches so well and clarifies all our queries. He makes us understand the whole concept very clearly. He is an amazing teacher and the best teacher in the field of Taxation.</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>RASHI GUPTA</td>
<td>337864</td>
</tr>
<tr>
<td></td>
<td>M.K. Gupta Sir is a very friendly and helping teacher. He always answered my queries well. His coaching classes are very knowledgeable and books are also very good.</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>HARSH AGARWAL</td>
<td>491097</td>
</tr>
<tr>
<td></td>
<td>M.K. Gupta Sir is a good teacher. He teaches all aspects of Taxation whether it is practical knowledge or theoretical knowledge. He teaches every point for 2-3 times and it gets learn in class only. His practical knowledge about the subject is very good.</td>
<td></td>
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<tr>
<td>15</td>
<td>RAHUL ARORA</td>
<td>337403</td>
</tr>
<tr>
<td></td>
<td>M.K. Gupta Sir is a great mentor. Sir has excellent knowledge about the subject. He makes every concept crystal clear. Every concept is explained atleast twice in the class. He connect every topic with practical life. Study material is excellent. Bare Act is covered in the study material. Three months experience with M.K. Gupta Sir is memorable moments of my life. Thank you Sir, for your guidance and encouragement.</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>SEJAL MEHTA</td>
<td>353096</td>
</tr>
<tr>
<td></td>
<td>Coaching for Taxation was an enriching experience in terms of the conceptual clarity which I gained on each and every topic. Learning tax became so easy with the simplified notes provided. Also, the kind of knowledge that Sir shares with the students is very commendable and useful in understanding the practical aspects of Taxation. Attending the coaching is worth the time spent.</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>ANU SETHI</td>
<td>353491</td>
</tr>
<tr>
<td></td>
<td>I have never seen teacher like M.K. Gupta Sir. His way to teaching, knowledge and experience is awesome i.e. brilliant. Overall regards for such marks is only M.K. Gupta Sir.</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>ASHISH GUPTA</td>
<td>353575</td>
</tr>
<tr>
<td></td>
<td>M.K. Gupta Sir is a very good teacher and he has a very vast knowledge of taxation. He gives his best to every student in a class. The atmosphere of the class when he was teaching in a class is very awesome. I am giving all my credit to M.K. Gupta Sir for securing marks in Taxation.</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>RAGHAV GUPTA</td>
<td>491122</td>
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<tr>
<td></td>
<td>M.K. Gupta Sir is an outstanding teacher. He possesses a very vast knowledge about the subject. His way of teaching is fabulous. Every concept is explained with help of an example. Study material is all exhaustive that he provides. Also, queries are taken up promptly. Thank you Sir for your guidance.</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>SHREYA MALIK</td>
<td>340228</td>
</tr>
<tr>
<td></td>
<td>M.K. Gupta Sir is the best teacher I have ever come across. His level of knowledge is tremendous. The way he teaches, with so much patience and willingness, keeps every student motivated. The marks I have scored in tax is all because of him. Thank you so much Sir. I am a student of video class and I have never met Sir in person. I would be grateful if I would be given a chance to meet him in person.</td>
<td></td>
</tr>
</tbody>
</table>
21. PRABHAW KUMAR AGARWALLA (Roll No.369428) 82 Marks
Teaching was excellent and queries handled were excellent. Teaching methodology was really excellent and helped a lot to me.

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

23. ANKIT KHEMKA (Roll No.338055) 81 Marks
M.K. Gupta Sir is excellent teacher of Tax. He repeats the provision two to three times and doubts are also taken by the faculty. His books are also very good. Bare Act is covered in his books for more understanding about the Act. Sir also provide regular test and prize also given by him motivates the student to work hard. Environment provided by M.K. Gupta Classes is also very good to study.

24. ARTI SRIVASTAVA (Roll No.347859) 80 Marks
Sir's unmatchable style of teaching. Regular mock test, also help in to achieve good marks in Taxation. Sir's books contain illustration. Past year question also help to achiever to good marks. Sir's build confidence in every student to achieve success in life. Thank you, so much Sir.

25. SHIVANGI GUPTA (Roll No.337956) 80 Marks
M.K. Gupta Sir is an amazing teacher. The tax subject is all about provisions so many sections but Sir makes it simpler for us out of all the subjects, I found Taxation to be the most interesting one. Sir's study material and notes are sufficient. Study material covers all the past year exam questions, practice questions with solutions. His practical experiences help our understanding level to reach new heights. Thank you Sir for everything.
FEEDBACK ON FACEBOOK FROM STUDENTS WHO APPEARED IN MAY 2017- CA INTERMEDIATE (IPC) TAXATION PAPER HELD ON 09TH MAY 2017

M.K. Gupta: 9TH MAY 2017:06:00 PM
My students have given feedback to me regarding todays Tax Paper that entire paper was from our book. I would like our students to comment.

Vedansh Agarwal Yess sir Mstt hua h exam
Chirag Jain sir you're outstanding and lovable teacher. Your book is totally sufficient to score 80 above marks in your subject
M.K. Gupta Thank u everyone n love u all
Chirag Jain we also love you.... sir....
Pulkit Sharma Yes sir thanks alot even if we forgot sth your comments in class has made us remember that answer or that point .Thanks for being there.
Neelamber Budhiraja Sir yeh toh always Hona hi Hota hai exam aapki book se bahar aa hi Nhi skta
Pandit Rahul Sharma Sir ab to bta he do Ca ka exam paper app he bnate ho
Idrees Saifi Very easy paper And ap ke lie
M.K. Gupta Love u all Dear sweet students
Maneet Jain Yes sir !!!! That ques of VAT and CST was like exactly from book ....
I missed that illustration first...But while doing second revision....I attempted that ques and I was doing it wrongly....But thanks to your book sir ! Attempted for 100 marks sir !
Neha Sahni Yesss sir every ques is from ur book
Muskan Mittal true sir
Riya Kharbanda True sir😊
Hunny Jain Yes sir
Sharma Prashant Yes sir vat and service tax were same sums from your book and practice manual also
Jaiwish Rajpal Thnq sir... For being our teacher 😏
Shivam Minocha Yes sir easy paper tha
Pooja Garg Sir paper was so easy
Hemant Sahu Paper is like to easy...Thanku sir
Tanvi Jain yes !! todays paper was from ur book sir...because of you I can attempt full paper before time..oll credit goes to you sir!!
Yash Singhal Paper was easy and from your book sir
Rajn Kushwaha Dear sir , we are thankful to you .... Attempted 100 marks 😊😊😊
Mohit Saxena thanks sir every question is from book
Sandeep Tripathi Sir really 100% questions covered from your book..Nd i did 100 marks paper thanku sir😊😊
YoGesh It was awesome sir Mje Agye Paper dekr
M.K. Gupta Love u all. Thank u so much
Laxmi Dutt Joshi Yes sir u have heard ryt !!!! the paper was from ur book ,,nd u , u are awesome 😊😊😊😊😊😊 nd btw wese bhi teacher kbhi galat nhi hoty ,,vo hamesha sahi hoty h ,and hume unki baat manni chahiye bec vo hamre bhale k liye he kehtey h Laxmi Dutt Joshi or aj ka paper dekh kr bahut achaa Igaa Spicy suraj Ritesh Raj all questions are from ur book ....thnks for being our teacher....we always love u nd respect u...
Aman Tiwari Sir paper was super se bhi uppprrrrr
Ankee Mittal All ppr from book.... All que covered in class....
Thnkew sir...... 😊😊😊😊😊🌞🌞🌞🌞🌞
Maansi Jain thankyou so much Sir 😍❤️
Ankur Goyal All paper from your book sir ,love u sir ji 😍❤️
Ankur Rai Very true sir.. Service tax ki kayi questions copy paste the
RAvi Gupta Luv u sir and thanks for giving such kind of preparations for exams #100% paper cover from the best teacher
Ankur Rai Thanks a ton sir and love you too sir
Govinda Sharma Yes sir thank you sir😊😊
Sanyam Jain Yes sir thanks alot even if we forgot sth your comments in class has made us remember that answer or that point. Thanks for being there.
Dixit Kalra Yes sir all concepts were also discussed in class, & from our book😊👍
Fca Manish Mittal Easy paper Sir
Mohit Gupta Yes sir.. paper was so easy😊😊 thanku so much
Amrit Pal Singh thanku sir...
Anirudh Goyal Sir thanku so much .....100% paper from ur book....😊😊
Ankit Gola Sir ji... superb paper... so damn easy Tanuj Goyal dont frgt nov16
Āḥūj Kūmār Too much easy.. 😊😊😊😊😊 Maja aa gya sir
Nikhil Arya Sir paper full aapki book mae cover tha sir lg hi ni rha tha ki hum exm de rhe hn sir asa lg rha tha ki ghr pe aapki book ke questions kr rhe hn ..sir really uh r god of taxation..thnku so mch sir...😊;) 😊:)
Abhay Rawat #shaandaar😊
M.K. Gupta Thank u everyone. Love u all
Muskan Mittal We luv u toooo😊😊😊😊😊😊
Avish Singhal Totally Paper Was From Your Book Thanks Sir
Priyanka Manav Thankuu so much sir. Ppr was damn easy...
Ravi Kumar Thanks sir
Deepanshu Deol Tod kr diya sir ji
Ritik Singhal Bhaut easy tha mja aa gya sbse acha tax ka hi gya h tysm sir
Bhavya Arora All paper from book sir ji ..... Ghanshyam Yadav That's difference between Great teacher and you are always my Fevrate teacher
Rachit Satija Thank You so much Sir! 💜♥️ R ka Naam le kr exam shuru kiya tha! 😊
Anand Kumar All paper from sir's book Thanku sir You're so diff from all teachers
Himanshu Bansal mast osm.. paper.. sir.. 😊😊😊
Kajal Jain Thank you soo much for giving us deep knowledge about each and every topic
Garima Singla Really sir !!! It was awesome😊😊😊Thankuu so much sir!!
Vicky Jindal thank u sir 😊😊😊😊😊
Prakash Virat even examples was also from your book sir 😊😊👍
Anshu Prakash Maza aa gya question dekh kr sir.. U r the best teacher.. Mujhe to charo exam me tax hi sbse jyada easy lga.. 😊:-)
Aditya Aggarwal Paper seemed to be so easy...thank you sir😊😊😊
Kapish Jain it was good 😊
Shrishty Sharma yessss sir today's entire paper was from ur book....😊😊
Tanisha Mishra You're the best sir.. obviously from your book only
Ikshika Garg The best coaching classes taken.
Ayush Goyal Thank u so much sir, paper was very easy
Vishu Aggarwal Thnku sir
Sumit Tripathi sir paper was easy.. bcz of your classes...study
Shubham Goyal Class me pdhey bhi they 😊😊
Sumit Tripathi padhe to the be.
Lakshay Bansal Chah GE guru
Gourav Bajaj Thnku sir....
Deepak Kumar Prasad very easy paper sir
Gaurav Garg Yes, everything in d paper is from ur book sirjii.....
Vikas Zha Yes sir maximum questions were from your book. I didn't got tym to study pm and I have gone through your book only and it made my day
Antriksh Garg My exam was awesome only because of u sir, every question is from book. You have prepare for giving our best in examination by conducting, regular test. THANKS A LOT , SIR
Rishabh Verma Damn easy paper all from your book thanks sir ji 😊😊
SāçHiñ Sharma easy
Amit Jain All paper from sir's book
Jatin Garg it was an easy paper... we just did it good because of your guidance.... very lucky that we got to study from you.... had a nice time in your class... and got so much from you.... thanku again sir
Chhavi Arora Yess..paper was easy nd all questions were from mkg study material....
Ankit Ankit great sir
Amit Jain Good sir
Nitin Kumar Pal ·Maja aa Gaya sir aisa paper karke, pura paper mock test Jaisa tha Jo apne liye tha . Your mock test helps a lot👍👍👍
Samkit Jain Best paper and best book sir
Shubham Shukla Yes Sir, whole paper from your book and i thank god that he gave me chance study with you
Nikhil Singla You are Great Sir!... Lovvv u sir gggg
Sanidhay Salgotra Yes Sir, paper was really easy or maybe felt easy because the way you teach is amazingooter
Anand Kumar Yes sir
Sanyam Jain Yes sir thanks alot even if we forgot sth your comments in class has made us remember that answer or that point .Thanks for being there.
Mohd Aāřįf Whole paper from ur book sir👍👍. Best book Best teacher M.k gupta sir
Keshav Mangla Yeees sir paper was easy nd our coverage in classroom is more than enough & had a great experience in ur classes sir
Karan Rawal Thank u sir....your teachings helped a lot😊😊
### Question 1: Write a note on Computation of Total Income.

**Answer: Computation of Total Income**

If the income is taxable, it will be further divided into five different categories of income which are called heads of income i.e. if the income is received from the employer, it will be considered to be income under the head salary; if the income is in connection with letting out of house property, income is taxable under the head house property; if the income is from any business or profession, it is taxable under the head profits and gains of business/profession; if any capital asset (gold, land, house etc) has been transferred, income is taxable under the head capital gains; if there is any other income like interest or winnings from a lottery etc, it is covered under the head other sources.

Income shall be computed under each head i.e. expenses incurred shall be deducted from the gross receipt as per the provisions of the relevant head.

Income computed under each head shall be added up to compute the gross total income.

Certain concessions are allowed from the gross total income which are called deduction from gross total income under section 80C to 80U.

After permitting the deductions, remaining income is called total income.

Computation of total income can be shown mathematically in the manner given below:

**Total Income of an assessee shall be computed in the following steps:**

Compute the income of the assessee under all the five heads, permitting exemption/deductions of each head.

1. Income from Salaries (Section 15 to 17)
2. Income from House Property (Section 22 to 27)
3. Profits and gains of Business or Profession (Section 28 to 44DB)
4. Capital Gains (Section 45 to 55A)
5. Income from Other Sources (Section 56 to 59)

Gross Total Income

Deductions from gross total income [Section 80C to 80U]

Total Income
**Total Income shall be rounded off u/s 288A** in the multiples of 10 and for this purpose, any paisa shall be ignored and if the last digit is 5 or more, it will be rounded off to the higher multiple otherwise it will be rounded off to the lower multiple.

**Example**
(i) ₹6,28,456 shall be rounded off as 6,28,460  
(ii) ₹6,28,455 shall be rounded off as 6,28,460  
(iii) ₹6,28,454 shall be rounded off as 6,28,450  
(iv) ₹6,28,455.99 shall be rounded off as 6,28,460  
(v) ₹6,28,454.99 shall be rounded off as 6,28,450

**Question 2: Write a note on Computation of Tax Liability of individual.**

**Answer: Computation of Tax Liability**

Tax liability of an individual shall be computed at the slab rates given in the relevant Finance Act i.e. Finance Act, 2019 and the rates are as given below:

- **Resident individual of the age of 60 years or more at any time upto the end of relevant previous year but less than eighty years (senior citizen)**  
  If total income is upto ₹3,00,000: **NIL**  
  On next ₹2,00,000: **5%**  
  On next ₹5,00,000: **20%**  
  On Balance amount: **30%**  

  **“Senior Citizen” means an individual resident in India who is of the age of 60 years or more at any time during the relevant previous year. If date of birth is 1st April, 1960, 60 year will be completed on 31-03-20 and assessee shall be senior citizen in previous year 2019-20.**

- **Resident individual of the age of 80 years or more at any time upto the end of relevant previous year (very senior citizen)**  
  If total income is upto ₹5,00,000: **NIL**  
  On next ₹5,00,000: **20%**  
  On Balance amount: **30%**  

  **“Very Senior Citizen” means an individual resident in India who is of the age of 80 years or more at any time during the relevant previous year. If date of birth is 1st April, 1940, 80 year will be completed on 31-03-20 and assessee shall be very senior citizen in previous year 2019-20.**

- **Any other Individual**
  Income shall be taxable at the slab rates given below:  
  If total Income upto ₹2,50,000: **NIL**  
  On next ₹2,50,000: **5%**  
  On next ₹5,00,000: **20%**  
  On Balance amount: **30%**

**Example**
(i) Mr. X has total income of ₹6,00,000  
(ii) Mr. X has total income of ₹8,00,000  
(iii) Mr. X has total income of ₹10,00,000  
(iv) Mr. X has total income of ₹12,00,000  
(v) Mr. X has total income of ₹20,00,000

**Solution:**
(i) Total income 6,00,000  
On first ₹2,50,000 Nil  
On next ₹2,50,000 @ 5% 12,500  
On balance ₹1,00,000 @ 20% 20,000  
Tax before health and education cess 32,500  
Add: health & education cess @ 4% 1,300  
Tax Liability 33,800


(ii) Total income  
On first ₹2,50,000  
On next ₹2,50,000 @ 5%  
On balance ₹3,00,000 @ 20%  
Tax before health and education cess  
Add: health & education cess @ 4%  
Tax Liability  
---  
8,00,000  
Nil  
12,500  
60,000  
72,500  
2,900  
75,400  

(iii) Total income  
On first ₹2,50,000  
On next ₹2,50,000 @ 5%  
On balance ₹5,00,000 @ 20%  
Tax before health and education cess  
Add: health & education cess @ 4%  
Tax Liability  
---  
10,00,000  
Nil  
12,500  
1,00,000  
1,12,500  
4,500  
1,17,000  

(iv) Total income  
On first ₹2,50,000  
On next ₹2,50,000 @ 5%  
On balance ₹5,00,000 @ 20%  
On balance ₹2,00,000 @ 30%  
Tax before health and education cess  
Add: health & education cess @ 4%  
Tax Liability  
---  
12,00,000  
Nil  
12,500  
1,00,000  
60,000  
1,72,500  
6,900  
1,79,400  

(v) Total income  
On first ₹2,50,000  
On next ₹2,50,000 @ 5%  
On balance ₹5,00,000 @ 20%  
On balance ₹10,00,000 @ 30%  
Tax before health and education cess  
Add: health & education cess @ 4%  
Tax Liability  
---  
20,00,000  
Nil  
12,500  
1,00,000  
3,00,000  
4,12,500  
16,500  
4,29,000  

**Question 3: Explain Health and Education Cess**  
**Answer: Health and Education Cess**  
If any tax is charged for any specific purpose, it is called Cess. Health and Education Cess shall be charged @ 4% on the amount of income tax.  

**Rounding off of Tax Section 288B**  
Any amount payable, and the amount of refund due, shall be rounded off in the multiples of ₹10 in the similar manner as in case of total income under section 288A.  

**Question 4: Explain Previous Year and Assessment Year**  
**Answer:** Every person has to pay tax on Income of a particular financial year and such year is called previous year. Further computation of income and tax liability is computed in the subsequent year and it is called assessment year, eg. if income is to be computed for financial year 2019-20, it will be called previous year and subsequent year i.e. 2020-21 shall be called assessment year. The term previous year is defined u/s 3 and assessment year is defined u/s 2(9).  

**Question 5: Explain Budget / Finance Bill / Finance Act**  
**Answer: Budget / Finance Bill / Finance Act**  
Every year budget is presented in general on the last date of February and all the amendments are given in general in the budget e.g. Budget presented in 2019 shall be called budget 2019 and subsequently it will be called Finance Bill 2019 and after it has been passed by the parliament and signed by the President, it will be
called Finance Act 2019 and its provisions shall be applicable from previous year 2019-20/ assessment year 2020-21.
For the students appearing in May/Nov-2020, previous year shall be 2019-20 and assessment year shall be 2020-21.

Illustration 1:
Mr. X has income as given below:
Income under the head Salary 4,00,000
Income under the head House Property 5,00,000
Income under the head Business/Profession 6,30,253
Deductions allowed under section 80C to 80U are ₹1,10,000.
Compute the income the tax liability for previous year 2019-20.

Solution:

<table>
<thead>
<tr>
<th>Computation of Total Income of Mr. X</th>
<th>Previous Year 2019-20, Assessment Year 2020-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>4,00,000.00</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>5,00,000.00</td>
</tr>
<tr>
<td>Income under the Business/Profession</td>
<td>6,30,253.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>15,30,253.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(1,10,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>14,20,253.00</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>14,20,250.00</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

| First 2,50,000 | - | Nil |
| On next 2,50,000 x 5% | - | 12,500.00 |
| On next 5,00,000 x 20% | - | 1,00,000.00 |
| On balance 4,20,250 x 30% | - | 1,26,075.00 |
| Add: HEC @ 4% | 9,543.00 |
| Tax Liability | 2,48,118.00 |
| Rounded off u/s 288B | 2,48,120.00 |

(b) Presume he has completed age of 60 years as on 31.03.2020.

Solution:

<table>
<thead>
<tr>
<th>Computation of Total Income of Mr. X</th>
<th>Previous Year 2019-20, Assessment Year 2020-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>4,00,000.00</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>5,00,000.00</td>
</tr>
<tr>
<td>Income under the Business/Profession</td>
<td>6,30,253.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>15,30,253.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(1,10,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>14,20,253.00</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>14,20,250.00</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

| First 3,00,000 | - | Nil |
| On next 2,00,000 x 5% | - | 10,000.00 |
| On next 5,00,000 x 20% | - | 1,00,000.00 |
| On balance 4,20,250 x 30% | - | 1,26,075.00 |
| Add: HEC @ 4% | 9,543.00 |
| Tax Liability | 2,48,118.00 |
| Rounded off u/s 288B | 2,48,120.00 |
Add: HEC @ 4% 9,443.00
Tax Liability 2,45,518.00
Rounded off u/s 288B 2,45,520.00

(c) Presume he has completed age of 80 years as on 31.03.2020.

Solution:

Computation of Total Income of Mr. X
Previous Year 2019-20, Assessment Year 2020-21

Income under the head Salary 4,00,000.00
Income under the head House Property 5,00,000.00
Income under the Business/Profession 6,30,253.00
Gross Total Income 15,30,253.00
Less: Deduction u/s 80C to 80U (1,10,000.00)
Total Income 14,20,253.00
Rounded off u/s 288A 14,20,250.00

Computation of Tax Liability
Total Income 14,20,250.00
First 5,00,000 - Nil
On next 5,00,000 x 20% - 1,00,000.00
On balance 4,20,250 x 30% - 1,26,075.00
2,26,075.00
Add: HEC @ 4% 9,043.00
Tax Liability 2,35,118.00
Rounded off u/s 288B 2,35,120.00

Illustration 2:
Compute tax liability in the following cases for the assessment year 2020-21.

(i) Mr. X (resident) has total income of ₹15,00,000
(ii) Mr. X (non-resident) has total income of ₹15,00,000
(iii) Mrs. X (resident) has total income of ₹15,00,000
(iv) Mrs. X (non-resident) has total income of ₹15,00,000
(v) Mr. X (resident), aged 60 years has total income of ₹15,00,000
(vi) Mrs. X (resident), aged 60 years has total income of ₹15,00,000
(vii) Mr. X (non-resident), aged 60 years has total income of ₹15,00,000
(viii) Mrs. X (non-resident), aged 60 years has total income of ₹15,00,000
(ix) Mr. X (resident), aged 80 years has total income of ₹15,00,000
(x) Mrs. X (resident), aged 80 years has total income of ₹15,00,000
(xi) Mr. X (non-resident), aged 80 years has total income of ₹15,00,000
(xii) Mrs. X (non-resident), aged 80 years has total income of ₹15,00,000

Solution:

(i) Computation of Tax Liability
Total Income 15,00,000.00
First 2,50,000 - Nil
On next 2,50,000 x 5% - 12,500.00
On next 5,00,000 x 20% - 1,00,000.00
On balance 5,00,000 x 30% - 1,50,000.00
Tax before health and education cess 2,62,500.00
Add: HEC @ 4% 10,500.00
Tax Liability 2,73,000.00

(ii) Computation of Tax Liability
Total Income 15,00,000.00
First 2,50,000 - Nil
(iii) Computation of Tax Liability

Total Income: 15,00,000.00
First 2,50,000 - Nil
On next 2,50,000 x 5% - 12,500.00
On next 5,00,000 x 20% - 1,00,000.00
On balance 5,00,000 x 30% - 1,50,000.00
Tax before health and education cess: 2,62,500.00
Add: HEC @ 4% - 10,500.00
Tax Liability: 2,73,000.00

(iv) Computation of Tax Liability

Total Income: 15,00,000.00
First 2,50,000 - Nil
On next 2,50,000 x 5% - 12,500.00
On next 5,00,000 x 20% - 1,00,000.00
On balance 5,00,000 x 30% - 1,50,000.00
Tax before health and education cess: 2,62,500.00
Add: HEC @ 4% - 10,500.00
Tax Liability: 2,73,000.00

(v) Computation of Tax Liability

Total Income: 15,00,000.00
First 3,00,000 - Nil
On next 2,00,000 x 5% - 10,000.00
On next 5,00,000 x 20% - 1,00,000.00
On balance 5,00,000 x 30% - 1,50,000.00
Tax before health and education cess: 2,60,000.00
Add: HEC @ 4% - 10,400.00
Tax Liability: 2,70,400.00

(vi) Computation of Tax Liability

Total Income: 15,00,000.00
First 3,00,000 - Nil
On next 2,00,000 x 5% - 10,000.00
On next 5,00,000 x 20% - 1,00,000.00
On balance 5,00,000 x 30% - 1,50,000.00
Tax before health and education cess: 2,60,000.00
Add: HEC @ 4% - 10,400.00
Tax Liability: 2,70,400.00

(vii) Computation of Tax Liability

Total Income: 15,00,000.00
First 2,50,000 - Nil
On next 2,50,000 x 5% - 12,500.00
On next 5,00,000 x 20% - 1,00,000.00
On balance 5,00,000 x 30% - 1,50,000.00
Tax before health and education cess: 2,62,500.00
Add: HEC @ 4% - 10,500.00
Tax Liability: 2,73,000.00

(viii) Computation of Tax Liability

Total Income: 15,00,000.00
<p>| | | | | | | | | | | | | | | | |</p>
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</tr>
</thead>
<tbody>
<tr>
<td>First 2,50,000</td>
<td>-</td>
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</tr>
<tr>
<td>On next 2,50,000 x 5%</td>
<td>-</td>
<td></td>
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<tr>
<td>On next 5,00,000 x 20%</td>
<td>-</td>
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</tr>
<tr>
<td>On balance 5,00,000 x 30%</td>
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</tr>
<tr>
<td>Tax before health and education cess</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>- 10,500.00</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Tax Liability</td>
<td>2,73,000.00</td>
<td></td>
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</tr>
</tbody>
</table>

(ix) Computation of Tax Liability

| Total Income         | 15,00,000.00     | First 5,00,000   | -     |                  |      |                  |      | On next 5,00,000 x 20% | - | 1,00,000.00  |      |                  |      | On balance 5,00,000 x 30% | - | 1,50,000.00  |      |                  |      |  
| Tax before health and education cess    | 2,50,000.00 | Add: HEC @ 4%      | - 10,000.00 |      |                  |      |                  |      | Tax Liability    | 2,60,000.00 |      |                  |      |                  |      |  

(x) Computation of Tax Liability

| Total Income         | 15,00,000.00     | First 5,00,000   | -     |                  |      |                  |      | On next 5,00,000 x 20% | - | 1,00,000.00  |      |                  |      | On balance 5,00,000 x 30% | - | 1,50,000.00  |      |                  |      |  
| Tax before health and education cess    | 2,50,000.00 | Add: HEC @ 4%      | - 10,000.00 |      |                  |      |                  |      | Tax Liability    | 2,60,000.00 |      |                  |      |                  |      |  

(xi) Computation of Tax Liability

| Total Income         | 15,00,000.00     | First 2,50,000   | -     |                  |      |                  |      | On next 2,50,000 x 5% | - | 12,500.00   |      |                  |      | On next 5,00,000 x 20% | - | 1,00,000.00  |      |                  |      | On balance 5,00,000 x 30% | - | 1,50,000.00  |      |                  |      |  
| Tax before health and education cess    | 2,62,500.00 | Add: HEC @ 4%      | - 10,500.00 |      |                  |      |                  |      | Tax Liability    | 2,73,000.00 |      |                  |      |                  |      |  

(xii) Computation of Tax Liability

| Total Income         | 15,00,000.00     | First 2,50,000   | -     |                  |      |                  |      | On next 2,50,000 x 5% | - | 12,500.00   |      |                  |      | On next 5,00,000 x 20% | - | 1,00,000.00  |      |                  |      | On balance 5,00,000 x 30% | - | 1,50,000.00  |      |                  |      |  
| Tax before health and education cess    | 2,62,500.00 | Add: HEC @ 4%      | - 10,500.00 |      |                  |      |                  |      | Tax Liability    | 2,73,000.00 |      |                  |      |                  |      |  

Question 6: Explain surcharge in case of individual.

Answer: Surcharge shall be applicable

- **@ 10% provided total income is exceeding ₹50 lakhs but it is upto ₹100 lakhs.**
- **@ 15% provided total income is exceeding ₹100 lakhs but it is upto ₹200 lakh.**
- **@ 25% provided total income is exceeding ₹200 lakhs but it is upto ₹500 lakh.**
- **@ 37% provided total income is exceeding ₹500 Lakhs.**

Health & education cess shall be charged on the total of tax plus surcharge.

e.g. Mr. X has total income of ₹550,00,000, in this case his tax liability shall be

| Total Income                  | 550,00,000.00 |  
| Tax at slab rate             | 1,63,12,500.00 |  
| Add: Surcharge @ 37%         | 60,35,625.00  |  

Answer:

```
Surcharge shall be applicable
- @ 10% provided total income is exceeding ₹50 lakhs but it is upto ₹100 lakhs.
- @ 15% provided total income is exceeding ₹100 lakhs but it is upto ₹200 lakh.
- @ 25% provided total income is exceeding ₹200 lakhs but it is upto ₹500 lakh.
- @ 37% provided total income is exceeding ₹500 Lakhs.
```
Computation of Total Income And Tax Liability

Tax before health and education cess  2,23,48,125.00
Add: HEC @ 4%  8,93,925.00
Tax Liability  2,32,42,050.00

e.g. Mr. X has total income of ₹220,00,000, in this case his tax liability shall be
Total Income  220,00,000.00
Tax at slab rate  64,12,500.00
Add: Surcharge @ 25%  16,03,125.00
Tax before health and education cess  80,15,625.00
Add: HEC @ 4%  3,20,625.00
Tax Liability  83,36,250.00

e.g. Mr. X has total income of ₹110,00,000, in this case his tax liability shall be
Total Income  110,00,000.00
Tax at slab rate  31,12,500.00
Add: Surcharge @ 15%  4,66,875.00
Tax before health and education cess  35,79,375.00
Add: HEC @ 4%  1,43,175.00
Tax Liability  37,22,550.00

If Mr. X has total income of ₹100,00,000, his tax liability shall be
Total Income  100,00,000.00
Tax at slab rate  28,12,500.00
Add: Surcharge @ 10%  2,81,250.00
Tax before health and education cess  30,93,750.00
Add: HEC @ 4%  1,23,750.00
Tax Liability  32,17,500.00

If Mr. X has total income of ₹50,00,000, his tax liability shall be
Total Income  50,00,000.00
Tax at slab rate  13,12,500.00
Add: HEC @ 4%  52,500.00
Tax Liability  13,65,000.00

Marginal Relief
If there is marginal increase in income over ₹50 lakhs/ ₹100 lakhs/ ₹200 lakhs/ ₹500 lakhs, surcharge is applicable on entire amount of income tax and as a result increase in tax is more than the increase in income. In order to remove this defect, assessee shall be allowed relief to the extent increase in tax is more than the increase in income and it is called marginal relief and it can be shown in the manner given below:
e.g. If Mr. X has total income of ₹51,00,000, his tax liability shall be computed in the manner given below:
Total Income  51,00,000.00
Tax on ₹51,00,000 at slab rate  13,42,500.00
Add: Surcharge @ 10%  1,34,250.00
Tax before marginal relief  14,76,750.00
Less: Marginal Relief (64,250.00)
Tax after marginal relief  14,12,500.00
Add: HEC @ 4%  56,500.00

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge @10% on income of ₹51,00,000</td>
</tr>
<tr>
<td>Tax on income of ₹50,00,000</td>
</tr>
<tr>
<td>Increase in tax</td>
</tr>
<tr>
<td>Increase in income</td>
</tr>
<tr>
<td>Marginal Relief (1,64,250 – 1,00,000)</td>
</tr>
<tr>
<td>Tax after marginal relief</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
</tr>
</tbody>
</table>
Computation of Total Income And Tax Liability

Tax Liability 14,69,000.00

e.g. If Mr. X has total income of ₹102,00,000, his tax liability shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>102,00,000.00</td>
</tr>
<tr>
<td>Tax on ₹102,00,000 at slab rate</td>
<td>28,72,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>4,30,875.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>33,03,375.00</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(9,625.00)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge @15% on income</td>
<td>33,03,375</td>
</tr>
<tr>
<td>Tax + surcharge @10% on income</td>
<td>(30,93,750)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>2,09,625</td>
</tr>
<tr>
<td>Increase in income</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Marginal Relief (2,09,625 – 2,00,000)</td>
<td>9,625</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Tax after marginal relief</td>
<td>32,93,750.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,31,750.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>34,25,500.00</td>
</tr>
</tbody>
</table>

e.g. If Mr. X has total income of ₹101,80,000, his tax liability shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>101,80,000.00</td>
</tr>
<tr>
<td>Tax on ₹101,80,000 at slab rate</td>
<td>28,66,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>4,29,975.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>32,96,475.00</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(22,725.00)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge @15% on income</td>
<td>32,96,475</td>
</tr>
<tr>
<td>Tax + surcharge @10% on income</td>
<td>(30,93,750)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>2,02,725</td>
</tr>
<tr>
<td>Increase in income</td>
<td>1,80,000</td>
</tr>
<tr>
<td>Marginal Relief (2,02,725 – 1,80,000)</td>
<td>22,725</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Tax after marginal relief</td>
<td>32,73,750.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,30,950.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>34,04,700.00</td>
</tr>
</tbody>
</table>

A person having total income from ₹50 lakhs to ₹100 lakhs shall be eligible for marginal relief up to total income of ₹1,95,890 and afterwards he will not be eligible for marginal relief when slab of ₹2,50,000 is applicable. (for slab rate of ₹3,00,000, such income shall be ₹1,95,520 and for slab of ₹5,00,000, such income shall be ₹1,94,030)

A person having total income from ₹100 lakhs to ₹200 lakhs shall be eligible for marginal relief up to total income of ₹102,14,690 and afterwards he will not be eligible for marginal relief when slab of ₹2,50,000 is applicable. (for slab rate of ₹3,00,000, such income shall be ₹102,14,500 and for slab of ₹5,00,000, such income shall be ₹102,13,740)

A person having total income from ₹200 lakhs to ₹500 lakhs shall be eligible for marginal relief up to total income of ₹209,30,000 and afterwards he will not be eligible for marginal relief when slab of ₹2,50,000 is applicable. (for slab rate of ₹3,00,000, such income shall be ₹209,29,600 and for slab of ₹5,00,000, such income shall be ₹209,28,000)

A person having total income above ₹500 lakhs shall be eligible for marginal relief up to total income of ₹530,17,830 and afterwards he will not be eligible for marginal relief when slab of ₹2,50,000 is applicable. (for slab rate of ₹3,00,000, such income shall be ₹530,17,320 and for slab of ₹5,00,000, such income shall be ₹530,15,280)
**Illustration 3:**
Compute tax liability in the following cases for the assessment year 2020-21.

(i) Mr. X (resident) has total income of ₹50,05,000  
(ii) Mr. X (non-resident) has total income of ₹52,00,000  
(iii) Mrs. X (resident) has total income of ₹101,00,000  
(iv) Mrs. X (non-resident) has total income of ₹85,00,000  
(v) Mr. X (resident), aged 60 years has total income of ₹106,00,000  
(vi) Mrs. X (resident), aged 60 years has total income of ₹57,00,000  
(vii) Mr. X (non-resident), aged 60 years has total income of ₹108,00,000  
(viii) Mrs. X (non-resident), aged 60 years has total income of ₹101,50,000  
(ix) Mr. X (resident), aged 80 years has total income of ₹54,25,000  
(x) Mrs. X (resident), aged 80 years has total income of ₹102,00,000  
(xi) Mr. X (non-resident), aged 80 years has total income of ₹55,22,380  
(xii) Mrs. X (non-resident), aged 80 years has total income of ₹45,00,000  
(xiii) Mr. X (resident) has total income of ₹201,00,000  
(xiv) Mr. X (resident) has total income of ₹205,00,000  
(xv) Mr. X (resident) has total income of ₹501,00,000  
(xvi) Mr. X (resident) has total income of ₹505,00,000

**Solution:**

**(i) Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Total Income</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹50,05,000</td>
<td></td>
</tr>
<tr>
<td>Tax on ₹50,05,000 at slab rate</td>
<td>13,14,000</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,31,400</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>14,45,400</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(1,27,900)</td>
</tr>
<tr>
<td>Working Note:</td>
<td></td>
</tr>
<tr>
<td>Tax + surcharge on income of ₹50,05,000</td>
<td>14,45,400</td>
</tr>
<tr>
<td>Tax on income of ₹50,00,000</td>
<td>(13,12,500)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>1,32,900</td>
</tr>
<tr>
<td>Increase in income</td>
<td>5,000</td>
</tr>
<tr>
<td>Marginal Relief (1,32,900 – 5,000)</td>
<td>1,27,900</td>
</tr>
<tr>
<td>Tax after marginal relief</td>
<td>13,17,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>52,700</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>13,70,200</td>
</tr>
</tbody>
</table>

**(ii) Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Total Income</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹52,00,000.00</td>
<td></td>
</tr>
<tr>
<td>Tax on ₹52,00,000 at slab rate</td>
<td>13,72,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,37,250.00</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>15,09,750.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>60,390.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>15,70,140.00</td>
</tr>
</tbody>
</table>

**(iii) Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Total Income</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹101,00,000.00</td>
<td></td>
</tr>
<tr>
<td>Tax on ₹101,00,000 at slab rate</td>
<td>28,42,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>4,26,375.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>32,68,875.00</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(75,125.00)</td>
</tr>
<tr>
<td>Working Note:</td>
<td></td>
</tr>
<tr>
<td>Tax + surcharge @15% on income of ₹101,00,000</td>
<td>32,68,875</td>
</tr>
<tr>
<td>Tax + surcharge @10% on income of ₹100,00,000</td>
<td>(30,93,750)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>1,75,125</td>
</tr>
</tbody>
</table>
(iv) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Total Income</th>
<th>Tax on ₹85,00,000 at slab rate</th>
<th>Add: Surcharge @ 10%</th>
<th>Tax before health &amp; education cess</th>
<th>Add: HEC @ 4%</th>
<th>Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>85,00,000.00</td>
<td>23,62,500.00</td>
<td>2,36,250.00</td>
<td>25,98,750.00</td>
<td>1,03,950.00</td>
<td>27,02,700.00</td>
</tr>
</tbody>
</table>

(v) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Total Income</th>
<th>Tax on ₹106,00,000 at slab rate</th>
<th>Add: Surcharge @ 15%</th>
<th>Tax before health &amp; education cess</th>
<th>Add: HEC @ 4%</th>
<th>Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>106,00,000</td>
<td>29,90,000</td>
<td>4,48,500</td>
<td>34,38,500.00</td>
<td>1,37,540.00</td>
<td>35,76,040.00</td>
</tr>
</tbody>
</table>

(vi) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Total Income</th>
<th>Tax on ₹57,00,000 at slab rate</th>
<th>Add: Surcharge @ 10%</th>
<th>Tax before health &amp; education cess</th>
<th>Add: HEC @ 4%</th>
<th>Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>57,00,000</td>
<td>15,20,000</td>
<td>1,52,000</td>
<td>16,72,000.00</td>
<td>66,880.00</td>
<td>17,38,880.00</td>
</tr>
</tbody>
</table>

(vii) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Total Income</th>
<th>Tax on ₹108,00,000 at slab rate</th>
<th>Add: Surcharge @ 15%</th>
<th>Tax before health &amp; education cess</th>
<th>Add: HEC @ 4%</th>
<th>Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>108,00,000</td>
<td>30,52,500.00</td>
<td>4,57,875.00</td>
<td>35,10,375.00</td>
<td>1,40,415.00</td>
<td>36,50,790.00</td>
</tr>
</tbody>
</table>

(viii) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Total Income</th>
<th>Tax on ₹101,50,000 at slab rate</th>
<th>Add: Surcharge @ 15%</th>
<th>Tax before marginal relief</th>
<th>Less: Marginal Relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>101,50,000</td>
<td>28,57,500.00</td>
<td>4,28,625.00</td>
<td>32,86,125.00</td>
<td>(42,375.00)</td>
</tr>
</tbody>
</table>

Working Note:

| Tax + surcharge @15% on income of ₹101,50,000 | 32,86,125 |
| Tax + surcharge @10% on income of ₹100,00,000 | (30,93,750) |
| Increase in tax | 1,92,375 |
| Increase in income | 1,50,000 |
| Marginal Relief (1,92,375 – 1,50,000) | 42,375 |

| Tax after marginal relief | 32,43,750.00 |
| Add: HEC @ 4% | 1,29,750.00 |
| Tax Liability | 33,73,500.00 |
(ix) Computation of Tax Liability
Total Income 54,25,000.00
Tax on ₹54,25,000 at slab rate 14,27,500.00
Add: Surcharge @ 10% 1,42,750.00
Tax before health & education cess 15,70,250.00
Add: HEC @ 4% 62,810.00
Tax Liability 16,33,060.00

Working Note:
Tax + surcharge @15% on income of ₹102,00,000 32,89,000
Tax + surcharge @10% on income of ₹100,00,000 (30,80,000)
Increase in tax 2,09,000
Increase in income 2,00,000
Marginal Relief (2,09,000 – 2,00,000) (9,000)

Tax after marginal relief 32,80,000
Add: HEC @ 4% 1,31,200
Tax Liability 34,11,200

(x) Computation of Tax Liability
Total Income 102,00,000
Tax on ₹102,00,000 at slab rate 28,60,000
Add: Surcharge @ 15% 4,29,000
Tax before marginal relief 32,89,000
Less: Marginal Relief (9,000)
Working Note:
Tax + surcharge @15% on income of ₹102,00,000 32,89,000
Tax + surcharge @10% on income of ₹100,00,000 (30,80,000)
Increase in tax 2,09,000
Increase in income 2,00,000
Marginal Relief (2,09,000 – 2,00,000) (9,000)

Tax after marginal relief 32,80,000
Add: HEC @ 4% 1,31,200
Tax Liability 34,11,200

(xi) Computation of Tax Liability
Total Income 55,22,380.00
Tax on ₹55,22,380 at slab rate 14,69,214.00
Add: Surcharge @ 10% 1,46,921.40
Tax before health & education cess 16,16,135.40
Add: HEC @ 4% 64,645.42
Tax Liability 16,80,780.82
Rounded off u/s 288B 16,80,780.00

(xii) Computation of Tax Liability
Total Income 45,00,000.00
Tax on ₹45,00,000 at slab rate 11,62,500.00
Add: Surcharge Nil
Tax before health & education cess 11,62,500.00
Add: HEC @ 4% 46,500.00
Tax Liability 12,09,000.00

(xiii) Computation of Tax Liability
Total Income 201,00,000
Tax on ₹201,00,000 at slab rate 58,42,500
Add: Surcharge @ 25% 14,60,625
Tax before marginal relief 73,03,125
Less: Marginal Relief (5,18,750)
Working Note:
Tax + surcharge @25% on income of ₹201,00,000 73,03,125
Tax + surcharge @15% on income of ₹200,00,000 (66,84,375)
Increase in tax 6,18,750
Increase in income 1,00,000
Marginal Relief (6,18,750 – 1,00,000) 5,18,750
Computation of Total Income And Tax Liability

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

(xiv) Computation of Tax Liability

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

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

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

(xv) Computation of Tax Liability

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

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

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

(xvi) Computation of Tax Liability

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

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

| Tax after marginal relief | 1,90,15,625 |
| Add: HEC @ 4%             | 7,60,625   |
| Tax Liability             | 1,97,76,250 |
Question 7: Write a note on Rebate under section 87A.

Answer: Rebate in case of Resident Individual Section 87A

- Rebate i.e. concession from income tax shall be allowed only to **RESIDENT INDIVIDUAL** (not to non-resident individual or any other person).
- Rebate shall be allowed only if total income is not exceeding **₹5,00,000**
- Rebate shall be allowed upto **₹12,500**.
- Health & education cess shall be applied only after permitting rebate under section 87A.
- Rebate shall be allowed even from tax on LTCG or STCG under section 111A or Casual Income.
- No Rebate shall be allowed from LTCG u/s 112A.

E.g.
Mr. X has total income of **₹5,00,000**, his tax liability shall be

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Total Income</th>
<th>5,00,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹5,00,000 at slab rate</td>
<td>12,500.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500.00)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

If in the above case total income is **₹4,96,000**, tax liability shall be

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Total Income</th>
<th>4,96,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹4,96,000 at slab rate</td>
<td>12,300.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,300.00)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

If in the above case total income is **₹5,01,000**, tax liability shall be

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Total Income</th>
<th>5,01,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹5,01,000 at slab rate</td>
<td>12,700.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>12,700.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>508.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>13,208.00</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>13,210.00</td>
</tr>
</tbody>
</table>

**Illustration 4:**
Mr. X has gross total income **₹5,60,000** and deduction allowed under section 80C to 80U are **₹60,000**.

Compute his tax liability previous year 2019-20, assessment year 2020-21.

**Solution:**

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Gross Total Income</th>
<th>5,60,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(60,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Tax on ₹5,00,000 at slab rate</td>
<td>12,500</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(b) Presume he is a resident and is aged 62 years.
Solution:

Computation of Tax Liability

Gross Total Income                          5,60,000
Less: Deduction u/s 80C to 80U             (60,000)
Total Income                    5,00,000
Tax on ₹5,00,000 at slab rate                                                10,000
Less: Rebate u/s 87A                                  (10,000)
Tax before health & education cess                           Nil
Add: HEC @ 4%                                                                 0
Tax Liability                                            Nil

(c) Presume he is a non-resident and is aged 62 years.

Solution:

Computation of Tax Liability

Gross Total Income                          5,60,000
Less: Deduction u/s 80C to 80U             (60,000)
Total Income                    5,00,000
Tax on ₹5,00,000 at slab rate                                                12,500
Less: Rebate u/s 87A                                  Nil
Tax before health & education cess                           12,500
Add: HEC @ 4%                                  500
Tax Liability                                        13,000

(d) Presume he is a non-resident and is aged 82 years.

Solution:

Computation of Tax Liability

Gross Total Income                          5,60,000
Less: Deduction u/s 80C to 80U             (60,000)
Total Income                    5,00,000
Tax on ₹5,00,000 at slab rate                                                12,500
Less: Rebate u/s 87A                                  Nil
Tax before health & education cess                           12,500
Add: HEC @ 4%                                  500
Tax Liability                                        13,000

Illustration 5:
Compute tax liability in the following cases for the assessment year 2020-21.

(i) Mr. X (resident) has total income of ₹4,70,000
(ii) Mr. X (non-resident) has total income of ₹5,00,000
(iii) Mrs. X (resident) has total income of ₹4,95,000
(iv) Mrs. X (non-resident) has total income of ₹4,70,000
(v) Mr. X (resident), aged 60 years has total income of ₹4,90,000
(vi) Mrs. X (resident), aged 60 years has total income of ₹4,90,000
(vii) Mr. X (non-resident), aged 60 years has total income of ₹4,90,000
(viii) Mrs. X (non-resident), aged 60 years has total income of ₹4,90,000
(ix) Mr. X (resident), aged 80 years has total income of ₹6,00,000
(x) Mrs. X (resident), aged 80 years has total income of ₹6,00,000
(xi) Mr. X (non-resident), aged 80 years has total income of ₹5,00,000
(xii) Mrs. X (non-resident), aged 80 years has total income of ₹4,90,000

Solution:

(i) Computation of Tax Liability

Total Income                          4,70,000
Tax on ₹4,70,000 at slab rate                                                11,000
Less: Rebate u/s 87A                                  (11,000)
Tax before health & education cess                           Nil
(ii) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Tax on ₹5,00,000 at slab rate</td>
<td>12,500</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>12,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>500</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>13,000</td>
</tr>
</tbody>
</table>

Note: Rebate under section 87A is not allowed to non-resident.

(iii) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,95,000</td>
</tr>
<tr>
<td>Tax on ₹4,95,000 at slab rate</td>
<td>12,250</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,250)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(iv) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,70,000</td>
</tr>
<tr>
<td>Tax on ₹4,70,000 at slab rate</td>
<td>11,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>440</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>11,440</td>
</tr>
</tbody>
</table>

Note: Rebate under section 87A is not allowed to non-resident.

(v) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>9,500</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(9,500)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(vi) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>9,500</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(9,500)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(vii) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>12,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>480</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>12,480</td>
</tr>
</tbody>
</table>

Note: Rebate under section 87A is not allowed to non-resident.

(viii) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>12,000</td>
</tr>
</tbody>
</table>
Computation of Total Income And Tax Liability

Add: HEC @ 4% 480
Tax Liability 12,480

Note: Rebate under section 87A is not allowed to non-resident.

(ix) Computation of Tax Liability
Total Income 6,00,000
Tax on ₹6,00,000 at slab rate 20,000
Add: HEC @ 4% 800
Tax Liability 20,800

(x) Computation of Tax Liability
Total Income 6,00,000
Tax on ₹6,00,000 at slab rate 20,000
Add: HEC @ 4% 800
Tax Liability 20,800

(xi) Computation of Tax Liability
Total Income 5,00,000
Tax on ₹5,00,000 at slab rate 12,500
Add: HEC @ 4% 500
Tax Liability 13,000

Note: Rebate under section 87A is not allowed to non-resident.

(xii) Computation of Tax Liability
Total Income 4,90,000
Tax on ₹4,90,000 at slab rate 12,000
Add: HEC @ 4% 480
Tax Liability 12,480

Note: Rebate under section 87A is not allowed to non-resident.

Illustration 6:
Compute tax liability in the following cases for the assessment year 2020-21.

(i) Mr. X (resident) has total income of ₹5,05,000
(ii) Mr. X (non-resident) has total income of ₹4,20,000
(iii) Mrs. X (resident) has total income of ₹4,58,000
(iv) Mrs. X (non-resident) has total income of ₹12,00,000
(v) Mr. X (resident), aged 60 years has total income of ₹22,00,000
(vi) Mrs. X (resident), aged 60 years has total income of ₹105,00,000
(vii) Mr. X (non-resident), aged 60 years has total income of ₹70,00,000
(viii) Mrs. X (non-resident), aged 60 years has total income of ₹3,00,000
(ix) Mr. X (resident), aged 80 years has total income of ₹3,99,000
(x) Mrs. X (resident), aged 80 years has total income of ₹103,00,000
(xi) Mr. X (non-resident), aged 80 years has total income of ₹12,00,000
(xii) Mrs. X (non-resident), aged 80 years has total income of ₹9,00,000

Solution:

(i) Computation of Tax Liability
Total Income 5,05,000.00
Tax on ₹5,05,000 at slab rate 13,500.00
Add: HEC @ 4% 540.00
Tax Liability 14,040.00

(ii) Computation of Tax Liability
Total Income 4,20,000
### Computation of Total Income And Tax Liability

**Tax on ₹4,20,000 at slab rate**
- **Add: HEC @ 4%** 340
- **Tax Liability** 8,840

**Note:** Rebate under section 87A is not allowed to non-resident.

#### (iii) Computation of Tax Liability
- **Total Income** 4,58,000
- **Tax on ₹4,58,000 at slab rate** 10,400
- **Less: Rebate u/s 87A** (10,400)
- **Tax before health & education cess** Nil
- **Add: HEC @ 4%** Nil
- **Tax Liability** Nil

#### (iv) Computation of Tax Liability
- **Total Income** 12,00,000
- **Tax on ₹12,00,000 at slab rate** 1,72,500
- **Add: HEC @ 4%** 6,900
- **Tax Liability** 1,79,400

#### (v) Computation of Tax Liability
- **Total Income** 22,00,000
- **Tax on ₹22,00,000 at slab rate** 4,70,000
- **Add: HEC @ 4%** 18,800
- **Tax Liability** 4,88,800

#### (vi) Computation of Tax Liability
- **Total Income** 105,00,000
- **Tax on ₹105,00,000 at slab rate** 29,60,000
- **Add: Surcharge @ 15%** 4,44,000
- **Tax before health & education cess** 34,04,000
- **Add: HEC @ 4%** 1,36,160
- **Tax Liability** 35,40,160

#### (vii) Computation of Tax Liability
- **Total Income** 70,00,000
- **Tax on ₹70,00,000 at slab rate** 19,12,500
- **Add: Surcharge @ 10%** 1,91,250
- **Tax before health & education cess** 21,03,750
- **Add: HEC @ 4%** 84,150
- **Tax Liability** 21,87,900

#### (viii) Computation of Tax Liability
- **Total Income** 3,00,000
- **Tax on ₹3,00,000 at slab rate** 2,500
- **Add: HEC @ 4%** 100
- **Tax Liability** 2,600

**Note:** Rebate under section 87A is not allowed for non-resident.

#### (ix) Computation of Tax Liability
- **Total Income** 3,99,000
- **Tax on ₹3,99,000 at slab rate** Nil
- **Tax Liability** Nil
(x) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>103,00,000</td>
</tr>
<tr>
<td>Tax on ₹103,00,000 at slab rate</td>
<td>28,90,000</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>4,33,500</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>33,23,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,32,940</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>34,56,440</td>
</tr>
</tbody>
</table>

(xi) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Tax on ₹12,00,000 at slab rate</td>
<td>1,72,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>6,900</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,79,400</td>
</tr>
</tbody>
</table>

(xii) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>9,00,000</td>
</tr>
<tr>
<td>Tax on ₹9,00,000 at slab rate</td>
<td>92,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,700</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>96,200</td>
</tr>
</tbody>
</table>

Question 8: Explain taxability of Casual Income.

Answer: As per section 115BB, casual income shall be taxable @ 30%.
As per section 2(24)(ix), casual income means any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever.
Lottery includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called.
Card game and other game of any sort includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.
Casual income shall be taxable under the head Other Sources and it will be included in the gross total income and also total income but while computing tax liability, casual income shall be separated from total income and shall be taxable @ 30%.

If assessee has incurred any expenditure in connection with earning of casual income, such expenditure shall not be allowed to be deducted, eg. Mr. X purchased lottery tickets of ₹10,000 and he had a winning of ₹1,00,000, in this case expenditure of ₹10,000 shall not be allowed to be deducted and income of ₹1,00,000 shall be taxable @ 30%.

As per section 58(4), deduction under section 80C to 80U shall not be allowed from casual income however as per section 87A, rebate shall be allowed.

Illustration 7:
Mr. X has income under the head Salary ₹5,00,000 and casual income ₹3,00,000 and deduction under section 80C to 80U ₹2,00,000, in this case his tax liability shall be

**Computation of Total Income of Mr. X**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>5,00,000.00</td>
</tr>
<tr>
<td>Income under the Other Sources (Casual income)</td>
<td>3,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>8,00,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(2,00,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>6,00,000.00</td>
</tr>
</tbody>
</table>
Computation of Tax Liability

Tax on casual income ₹3,00,000 @ 30% 90,000.00
Tax on normal income ₹3,00,000 at slab rate 2,500.00
Tax before health & education cess 92,500.00
Add: HEC @ 4% 3,700.00
Tax Liability 96,200.00

(b) If in the above case deduction allowed under section 80C to 80U is ₹6,00,000, tax liability shall be

Computation of Total Income of Mr. X

Previous Year 2019-20, Assessment Year 2020-21

Income under the head Salary 5,00,000.00
Income under the Other Sources (Casual income) 3,00,000.00
Gross Total Income 8,00,000.00
Less: Deduction u/s 80C to 80U (5,00,000.00)
Total Income 3,00,000.00

Computation of Tax Liability
Tax on casual income ₹3,00,000 @ 30% 90,000.00
Less: Rebate u/s 87A (12,500.00)
Tax before health & education cess 77,500.00
Add: HEC @ 4% 3,100.00
Tax Liability 80,600.00

Illustration 8: Mr. X has casual income of ₹102,00,000 and deduction allowed under section 80C to 80U are ₹5,00,000, in this case his tax liability shall be

Computation of Total Income of Mr. X

Previous Year 2019-20, Assessment Year 2020-21

Income under the Other Sources (Casual income) 102,00,000.00
Gross Total Income 102,00,000.00
Less: Deduction u/s 80C to 80U Nil
Total Income 102,00,000.00

Computation of Tax Liability
Tax on casual income ₹102,00,000 @ 30% 30,60,000.00
Add: Surcharge @ 15% 4,59,000.00
Tax before marginal relief 35,19,000.00
Less: Marginal Relief (19,000.00)
Tax after marginal relief 36,40,000.00
Add: HEC @ 4% 1,40,000.00
Tax Liability 36,40,000.00

Illustration 9: Mr. X has income under the head Salary ₹70,000 and casual income ₹2,50,000 and deduction u/s 80C to 80U ₹40,000. Compute his tax liability assessment year 2020-21.
### Solution:

**Computation of Total Income of Mr. X**  
**Previous Year 2019-20, Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Income under the head Salary</th>
<th>₹ 70,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the Other Sources (Casual income)</td>
<td>₹ 2,50,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹ 3,20,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(₹ 40,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹ 2,80,000.00</td>
</tr>
</tbody>
</table>

#### Computation of Tax Liability

- **Tax on casual income**  
  ₹ 2,50,000 @ 30% = ₹ 75,000.00
- **Tax on normal income**  
  ₹ 30,000 at slab rate = Nil
- **Less: Rebate u/s 87A**  
  Nil
- **Tax before health & education cess**  
  ₹ 62,500.00
- **Add: HEC @ 4%**  
  ₹ 2,500.00
- **Tax Liability**  
  ₹ 65,000.00

(b) Presume he is non-resident.

### Solution:

**Computation of Total Income of Mr. X**  
**Previous Year 2019-20, Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Income under the head Salary</th>
<th>₹ 70,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the Other Sources (Casual income)</td>
<td>₹ 2,50,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹ 3,20,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(₹ 40,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹ 2,80,000.00</td>
</tr>
</tbody>
</table>

#### Computation of Tax Liability

- **Tax on casual income**  
  ₹ 2,50,000 @ 30% = ₹ 75,000.00
- **Tax on normal income**  
  ₹ 30,000 at slab rate = Nil
- **Less: Rebate u/s 87A**  
  Nil
- **Tax before health & education cess**  
  ₹ 62,500.00
- **Add: HEC @ 4%**  
  ₹ 2,500.00
- **Tax Liability**  
  ₹ 65,000.00

A person having Total Income from ₹50 lakhs to ₹100 lakhs shall be eligible for marginal relief upto total income of ₹52,23,880 in case of casual income.

A person having Total Income from ₹100 lakhs to ₹200 lakhs shall be eligible for marginal relief upto total income of ₹102,29,000 in case of casual income.

A person having Total Income from ₹200 lakhs to ₹500 lakhs shall be eligible for marginal relief upto total income of ₹209,60,000 in case of casual income.

A person having Total Income above ₹500 lakhs shall be eligible for marginal relief upto total income of ₹530,56,030 in case of casual income.

**Illustration 10: Mr. X has casual income ₹ 100 lakh, in this case his Tax Liability for P.Y. 2019-20 A.Y. 2020-21 shall be-**

#### Computation of Tax Liability

- **Tax on casual income**  
  ₹ 100,00,000 @ 30% = ₹ 30,00,000.00
- **Add: Surcharge @ 10%**  
  ₹ 3,00,000.00
- **Tax before health & education cess**  
  ₹ 33,00,000.00
- **Add: HEC @ 4%**  
  ₹ 1,32,000.00
- **Tax Liability**  
  ₹ 34,32,000.00
(b) Mr. X has casual income ₹ 101 lakh, in this case his Tax Liability for P.Y. 2019-20 A.Y. 2020-21 shall be-

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on casual income ₹101,00,000 @ 30%</td>
<td>₹30,30,000.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>₹4,54,500.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>₹34,84,500.00</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td></td>
</tr>
<tr>
<td><strong>Working Note:</strong></td>
<td></td>
</tr>
<tr>
<td>Tax + surcharge on income of ₹101,00,000</td>
<td>₹34,84,500</td>
</tr>
<tr>
<td>Tax + surcharge on income of ₹100,00,000</td>
<td>(33,00,000)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>₹1,84,500</td>
</tr>
<tr>
<td>Increase in income</td>
<td>₹1,00,000</td>
</tr>
<tr>
<td>Marginal Relief (1,84,500 – 1,00,000)</td>
<td>₹84,500</td>
</tr>
<tr>
<td>Tax after marginal relief</td>
<td>₹34,00,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹1,36,000.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹35,36,000.00</td>
</tr>
</tbody>
</table>

(c) Mr. X has casual income ₹ 102 lakh, in this case his Tax Liability for P.Y. 2019-20 A.Y. 2020-21 shall be-

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on casual income ₹102,00,000 @ 30%</td>
<td>₹30,60,000.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>₹4,59,000.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>₹35,19,000.00</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td></td>
</tr>
<tr>
<td><strong>Working Note:</strong></td>
<td></td>
</tr>
<tr>
<td>Tax + surcharge on income of ₹102,00,000</td>
<td>₹35,19,000</td>
</tr>
<tr>
<td>Tax + surcharge on income of ₹100,00,000</td>
<td>(33,00,000)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>₹2,19,000</td>
</tr>
<tr>
<td>Increase in income</td>
<td>₹2,00,000</td>
</tr>
<tr>
<td>Marginal Relief (2,19,000 – 2,00,000)</td>
<td>₹19,000</td>
</tr>
<tr>
<td>Tax after marginal relief</td>
<td>₹35,00,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹1,40,000.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹36,40,000.00</td>
</tr>
</tbody>
</table>

(d) Mr. X has casual income ₹103 lakh, in this case his Tax Liability for P.Y. 2019-20 A.Y. 2020-21 shall be-

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on casual income ₹103,00,000 @ 30%</td>
<td>₹30,90,000.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>₹4,63,500.00</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹35,53,500.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹1,42,140.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹36,95,640.00</td>
</tr>
</tbody>
</table>

**Question 9: Explain taxability of Capital Gains.**

**Answer:** If any capital asset has been transferred like land, building, gold etc. profit shall be called capital gains and if the asset has been transferred within a period of three years, capital gains shall be short term and shall be taxable at the normal rate and if asset is sold after 3 years, it will be long term capital gain and as per section 112, it shall be taxable @ 20% and also deductions under section 80C to 80U i.e. Chapter VI-A, shall not be allowed from long term capital gains.

In case of listed shares or units of equity oriented mutual fund etc., period of three years shall be taken as one year.

If any person has transferred listed equity shares or listed units of equity oriented mutual funds or listed units of a business trust and has paid securities transaction tax, in such cases long term capital gain shall be taxable @ 10% u/s 112A but only amount in excess of ₹1,00,000 and short term capital gains shall be...
covered under section 111A and shall be taxable @ 15% and deductions under section 80C to 80U i.e. Chapter VI-A, shall not be allowed from such short term capital gains.

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

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

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

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

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

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

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

Special provision for resident individual

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

Illustration 11:

Mr. X has incomes as given below:

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

Deductions allowed under section 80C to 80U: 2,00,000

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

Solution:

**Computation of Total Income**

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

Gross Total Income: 15,03,000
Computation of Total Income And Tax Liability

Less: Deduction u/s 80C to 80U (1,38,000)
Total Income 13,65,000

Computation of Tax Liability
Tax on Long term capital gains (₹1,10,000 – 1,10,000)@ 20% u/s 112 Nil
Tax on Short term capital gains ₹7,00,000 – 1,40,000)@ 15% u/s 111A 84,000
Tax on Long term capital gains 4,00,000 (5,00,000-1,00,000) @ 10% u/s 112A 40,000
Tax on Casual Income ₹55,000 @ 30% u/s 115BB 16,500
Tax on normal income Nil
Tax before health & education cess 1,40,500
Add: HEC @ 4% 5,620
Tax Liability 1,46,120

Solution:
Computation of Total Income
- Income under the head salary 35,000
- Income under the head house property 45,000
- Income under the head business/profession 30,000
- Long term capital gains 1,10,000
- Long term capital gains u/s 112A 5,00,000
- Short term capital gains 25,000
- Short term capital gains u/s 111A 7,00,000
- Casual Income (winnings of lottery) 55,000
- Other income 3,000
Gross Total Income 15,03,000
Less: Deduction u/s 80C to 80U (1,38,000)
Total Income 13,65,000

Computation of Tax Liability
Tax on Long term capital gains ₹1,10,000 @ 20% u/s 112 22,000
Tax on Short term capital gains ₹7,00,000 @ 15% u/s 111A 1,05,000
Tax on Long term capital gains ₹4,00,000 (5,00,000-1,00,000) @ 10% u/s 112A 40,000
Tax on Casual Income ₹55,000 @ 30% u/s 115BB 16,500
Tax on normal income Nil
Tax before health & education cess 1,83,500
Add: HEC @ 4% 7,340
Tax Liability 1,90,840

(c) Presume he is resident and is aged 62 years.

Solution:
Computation of Total Income
- Income under the head salary 35,000
- Income under the head house property 45,000
- Income under the head business/profession 30,000
- Long term capital gains 1,10,000
- Long term capital gains u/s 112A 5,00,000
- Short term capital gains 25,000
- Short term capital gains u/s 111A 7,00,000
- Casual Income (winnings of lottery) 55,000
- Other income 3,000
Gross Total Income 15,03,000
Less: Deduction u/s 80C to 80U (1,38,000)
Total Income 13,65,000
**Computation of Total Income And Tax Liability**

**Computation of Tax Liability**

- Tax on Long term capital gains (₹1,10,000 – 1,10,000) @ 20% u/s 112 Nil
- Tax on Short term capital gains (₹7,00,000 – 1,90,000) @ 15% u/s 111A 76,500
- Tax on Long term capital gains ₹4,00,000 (5,00,000-1,00,000) @ 10% u/s 112A 40,000
- Tax on Casual Income ₹55,000 @ 30% u/s 115BB 16,500
- Tax on normal income Nil
- Tax before health & education cess 1,33,000
- Add: HEC @ 4% 5,320
- Tax Liability 1,38,320

(d) Presume he is resident and is aged 82 years.

**Solution:**

**Computation of Total Income**

- Income under the head salary 35,000
- Income under the head house property 45,000
- Income under the head business/profession 30,000
- Long term capital gains 1,10,000
- Long term capital gains u/s 112A 5,00,000
- Short term capital gains 25,000
- Short term capital gains u/s 111A 7,00,000
- Casual Income (winnings of lottery) 55,000
- Other income 3,000
- Gross Total Income 15,03,000
- Less: Deduction u/s 80C to 80U (1,38,000)
- Total Income 13,65,000

**Computation of Tax Liability**

- Tax on Long term capital gains (₹1,10,000 – 1,10,000) @ 20% u/s 112 Nil
- Tax on Short term capital gains (₹7,00,000 – 3,90,000) @ 15% u/s 111A 46,500
- Tax on Long term capital gains ₹4,00,000 (5,00,000-1,00,000) @ 10% u/s 112A 40,000
- Tax on Casual Income ₹55,000 @ 30% u/s 115BB 16,500
- Tax on normal income Nil
- Tax before health & education cess 1,03,000
- Add: HEC @ 4% 4,120
- Tax Liability 1,07,120

**Illustration 11A:**

(i) Mr X has income under the head house property ₹5,00,000 and LTCG 112A ₹1,00,000. Compute tax payable.

**Answer:**

**Computation of Total Income**

- Income under the head House Property 5,00,000.00
- Income under the head Capital Gains 1,00,000.00
- Gross Total Income 6,00,000.00
- Less: Deduction u/s 80C Nil
- Total Income 6,00,000.00

**Computation of Tax Liability**

- Tax on ₹5,00,000 at slab rate 12,500.00
- Tax on Nil (₹1,00,000- ₹1,00,000) u/s LTCG 112A Nil
- Less: Rebate u/s 87A Nil
- Tax before health & education cess 12,500.00
Add: HEC @ 4%  
Tax Liability  

Note: Since total income is exceeding ₹5,00,000, rebate is not allowed.

(ii) Mr X has LTCG 112A ₹50,50,000. Compute tax payable.  
Answer: 
Computation of Total Income  
Income under the head Capital Gains 50,50,000.00  
Gross Total Income 50,50,000.00  
Less: Deduction u/s 80C Nil  
Total Income 50,50,000.00  

Computation of Tax Liability  
Tax on ₹47,00,000 (50,50,000-1,00,000-2,50,000) u/s LTCG 112A 4,70,000.00  
Add: Surcharge @ 10% 47,000.00  
Less: Marginal Relief (2,000)  

Working Note:  
Tax + surcharge on income of ₹50,50,000 5,17,000  
Tax on income of ₹50,00,000 (4,65,000)  
((50,00,000-1,00,000-2,50,000) x 10%)  
Increase in tax 52,000  
Increase in income 50,000  
Marginal Relief (52,000 – 50,000) 2,000  
Tax before health & education cess 5,15,000.00  
Add: HEC @ 4% 20,600.00  
Tax Liability 5,35,600.00  

(iii) Mr X has LTCG 112A ₹51,00,000. Compute tax payable.  
Answer: 
Computation of Total Income  
Income under the head Capital Gains 51,00,000.00  
Gross Total Income 51,00,000.00  
Less: Deduction u/s 80C Nil  
Total Income 51,00,000.00  

Computation of Tax Liability  
Tax on ₹47,50,000 (51,00,000-1,00,000-2,50,000) u/s LTCG 112A 4,75,000.00  
Add: Surcharge @ 10% 47,500.00  
Less: Marginal Relief Nil  

Working Note:  
Tax + surcharge on income of ₹51,00,000 5,22,500  
Tax on income of ₹50,00,000 (4,65,000)  
((50,00,000-1,00,000-2,50,000) x 10%)  
Increase in tax 57,500  
Increase in income 1,00,000  
Marginal Relief (57,500 – 1,00,000) Nil  
Tax before health & education cess 5,22,500.00  
Add: HEC @ 4% 20,900.00  
Tax Liability 5,43,400.00  

Illustration 12: Compute tax liability for the assessment year 2020-21 in the following situations:  
(i) Mr. X is resident in India and has income under the head house property ₹40,000 and income under the head salary ₹30,000 and long term capital gains ₹4,80,000.
(ii) Presume in the above situation the assessee is Mrs. X.
(iii) Presume in the above situation the assessee is Mrs. X and she is aged about 70 years.
(iv) Presume in the above situation the assessee is Mr. X and he is aged about 70 years.
(v) Presume in the above situation the assessee is Mrs. X and she is aged about 85 years.
(vi) Presume in the above situation the assessee is Mr. X and he is aged about 85 years.
(vii) Presume in all the above situations, the assessee is non-resident in India.

**Solution:**

(i)

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Income under the head Salary</th>
<th>30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head House Property</td>
<td>40,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains (LTCG)</td>
<td>4,80,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,50,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>5,50,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Tax on LTCG ₹3,00,000 (4,80,000 – 1,80,000) @ 20% u/s 112</th>
<th>60,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹70,000 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>60,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>2,400</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>62,400</td>
</tr>
</tbody>
</table>

(ii)

**Total Income** | 5,50,000

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Tax on LTCG ₹2,50,000 (4,80,000 – 2,30,000) @ 20% u/s 112</th>
<th>50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹70,000 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>50,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>2,000</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>52,000</td>
</tr>
</tbody>
</table>

(iii)

**Total Income** | 5,50,000

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Tax on LTCG ₹2,50,000 (4,80,000 – 2,30,000) @ 20% u/s 112</th>
<th>50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹70,000 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>50,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>2,000</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>52,000</td>
</tr>
</tbody>
</table>

(iv)

**Total Income** | 5,50,000

**Computation of Tax Liability**

| Tax on LTCG ₹50,000 (4,80,000 – 4,30,000) @ 20% u/s 112 | 10,000 |

(v)

**Total Income** | 5,50,000

**Computation of Tax Liability**

| Tax on LTCG ₹50,000 (4,80,000 – 4,30,000) @ 20% u/s 112 | 10,000 |
Tax on ₹70,000 at slab rate
Tax before health & education cess
Add: HEC @ 4%
Tax Liability

(vi)
Total Income

Computation of Tax Liability
Tax on LTCG ₹50,000 (4,80,000 – 4,30,000) @ 20% u/s 112
Tax on ₹70,000 at slab rate
Tax before health & education cess
Add: HEC @ 4%
Tax Liability

(vii)
In situation (i)
Total Income

Computation of Tax Liability
Tax on LTCG ₹4,80,000 @ 20% u/s 112
Tax on ₹70,000 at slab rate
Tax before health & education cess
Add: HEC @ 4%
Tax Liability

In situation (ii)
Total Income

Computation of Tax Liability
Tax on LTCG ₹4,80,000 @ 20% u/s 112
Tax on ₹70,000 at slab rate
Tax before health & education cess
Add: HEC @ 4%
Tax Liability

In situation (iii)
Total Income

Computation of Tax Liability
Tax on LTCG ₹4,80,000 @ 20% u/s 112
Tax on ₹70,000 at slab rate
Tax before health & education cess
Add: HEC @ 4%
Tax Liability

In situation (iv)
Total Income

Computation of Tax Liability
Tax on LTCG ₹4,80,000 @ 20% u/s 112
Tax on ₹70,000 at slab rate
Tax before health & education cess
Add: HEC @ 4%
Tax Liability

In situation (v)
Total Income

Computation of Tax Liability
Tax on LTCG ₹4,80,000 @ 20% u/s 112
Computation of Total Income And Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹70,000 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>96,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,840</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>99,840</td>
</tr>
</tbody>
</table>

**In situation (vi)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>5,50,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹4,80,000 @ 20% u/s 112</td>
<td>96,000</td>
</tr>
<tr>
<td>Tax on ₹70,000 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>96,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,840</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>99,840</td>
</tr>
</tbody>
</table>

**Illustration 13:** Compute tax liability in the following cases

(i) Mr. X a resident has long term capital gains ₹3,50,000.
(ii) Mr. X a resident has casual income ₹3,50,000.
(iii) Mr. X a resident has short term capital gains u/s 111A ₹3,50,000.
(iv) Mr. X a non-resident has long term capital gains ₹3,50,000.
(v) Mr. X a non-resident has casual income ₹3,50,000.
(vi) Mr. X a non-resident has short term capital gains u/s 111A ₹3,50,000.
(vii) Mr. X a non-resident aged 61 years has long term capital gains ₹3,50,000.
(viii) Mr. X a non-resident aged 61 years has casual income ₹3,50,000.
(ix) Mr. X a non-resident aged 61 years has short term capital gains u/s 111A ₹3,50,000.

**Solution:**

(i) Income under the head capital gains (LTCG)       ₹3,50,000
    Total Income                                       ₹3,50,000

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Long term capital gains ₹1,00,000 (₹3,50,000 – ₹2,50,000)@ 20% u/s 112</td>
<td>20,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>7,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>300</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>7,800</td>
</tr>
</tbody>
</table>

(ii) Income under the head other sources (casual income) ₹3,50,000
    Total Income                                       ₹3,50,000

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on casual income ₹3,50,000 @ 30% u/s 115BB</td>
<td>1,05,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>92,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,700</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>96,200</td>
</tr>
</tbody>
</table>

(iii) Income under the head capital gains (STCG u/s 111A) ₹3,50,000
    Total Income                                       ₹3,50,000

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Short term capital gains ₹1,00,000 (₹3,50,000 – ₹2,50,000)@ 15% u/s 111A</td>
<td>15,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>2,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>100</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>2,600</td>
</tr>
</tbody>
</table>
(iv)
Income under the head capital gains (LTCG) 3,50,000
Total Income 3,50,000

**Computation of Tax Liability**
- Tax on Long term capital gains ₹3,50,000 @ 20% u/s 112 70,000
- Add: HEC @ 4% 2,800
- Tax Liability 72,800

(v)
Income under the head other sources (casual income) 3,50,000
Total Income 3,50,000

**Computation of Tax Liability**
- Tax on casual income ₹3,50,000 @ 30% u/s 115BB 1,05,000
- Add: HEC @ 4% 4,200
- Tax Liability 1,09,200

(vi)
Income under the head capital gains (STCG u/s 111A) 3,50,000
Total Income 3,50,000

**Computation of Tax Liability**
- Tax on Short term capital gains ₹3,50,000 @ 15% u/s 111A 52,500
- Add: HEC @ 4% 2,100
- Tax Liability 54,600

(vii)
Income under the head capital gains (LTCG) 3,50,000
Total Income 3,50,000

**Computation of Tax Liability**
- Tax on Long term capital gains ₹3,50,000 @ 20% u/s 112 70,000
- Add: HEC @ 4% 2,800
- Tax Liability 72,800

(viii)
Income under the head other sources (casual income) 3,50,000
Total Income 3,50,000

**Computation of Tax Liability**
- Tax on casual income ₹3,50,000 @ 30% u/s 115BB 1,05,000
- Add: HEC @ 4% 4,200
- Tax Liability 1,09,200

(ix)
Income under the head capital gains (STCG u/s 111A) 3,50,000
Total Income 3,50,000

**Computation of Tax Liability**
- Tax on Short term capital gains ₹3,50,000 @ 15% u/s 111A 52,500
- Add: HEC @ 4% 2,100
- Tax Liability 54,600

**Illustration 14:** Compute tax liability for the assessment year 2020-21 in the following situations:
(i) Mr. X is resident in India and his incomes are as follows:
   (a) Income under the head Salary ₹1,20,000
   (b) Income under the head House Property ₹60,000
(c) Long term capital gains ₹2,20,000  
(d) Short term capital gain under section 111A ₹1,10,000  
(e) Casual Income ₹90,000  
(f) Deduction under section 80C to 80U ₹2,00,000.

(ii) Presume in the above situation the assessee is Mrs. X.  
(iii) Presume in the above situation the assessee is Mrs. X and she is aged about 70 years.  
(iv) Presume in the above situation the assessee is Mr. X and he is aged about 70 years.  
(v) Presume in the above situation the assessee is Mrs. X and she is aged about 83 years.  
(vi) Presume in the above situation the assessee is Mr. X and he is aged about 83 years.  
(vii) Presume in the above situation the assessee is Mr. X and he is aged about 70 years and he is non-resident.  
(viii) Presume in the above situation the assessee is Mr. X and he is aged about 83 years old and he is non-resident.

**Solution:**

(i) 

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>60,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>3,30,000</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Short term capital gains u/s 111A</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Income under the head Other Sources (Casual Income)</td>
<td>90,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(1,80,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,20,000</td>
</tr>
</tbody>
</table>

(ii) 

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>60,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>3,30,000</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Short term capital gains u/s 111A</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Income under the head Other Sources (Casual Income)</td>
<td>90,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(1,80,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,20,000</td>
</tr>
</tbody>
</table>

(iii) 

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>60,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>3,30,000</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Short term capital gains u/s 111A</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Income under the head Other Sources (Casual Income)</td>
<td>90,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(1,80,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,20,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax on STCG ₹80,000 (₹1,10,000 – 30,000) @ 15% u/s 111A</td>
<td>12,000</td>
</tr>
<tr>
<td>Tax on Casual income ₹90,000 @ 30% u/s 115BB</td>
<td>27,000</td>
</tr>
<tr>
<td>Tax on normal income at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before Rebate u/s 87A</td>
<td>39,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>26,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,060</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>27,560</td>
</tr>
</tbody>
</table>

(iii) 

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>60,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>3,30,000</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Short term capital gains u/s 111A</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Income under the head Other Sources (Casual Income)</td>
<td>90,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(1,80,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,20,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax on STCG ₹30,000 (1,10,000 – 80,000) @ 15% u/s 111A</td>
<td>4,500</td>
</tr>
<tr>
<td>Tax before Rebate u/s 87A</td>
<td>39,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>26,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,060</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>27,560</td>
</tr>
</tbody>
</table>
Computation of Total Income And Tax Liability

(iv)
Total Income 4,20,000

**Computation of Tax Liability**
- Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112 Nil
- Tax on STCG ₹30,000 (1,10,000 – 80,000) @ 15% u/s 111A 4,500
- Tax on Casual Income ₹90,000 @ 30% u/s 115BB 27,000
- Tax on normal income at slab rate Nil
- Tax before Rebate u/s 87A 31,500
- Less: Rebate u/s 87A (12,500)
- Tax before health & education cess 19,000
- Add: HEC @ 4% 760
- Tax Liability 19,760

(v)
Total Income 4,20,000

**Computation of Tax Liability**
- Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112 Nil
- Tax on STCG (1,10,000 – 1,10,000) @ 15% u/s 111A Nil
- Tax on Casual Income ₹90,000 @ 30% u/s 115BB 27,000
- Tax on normal income at slab rate Nil
- Tax before Rebate u/s 87A 27,000
- Less: Rebate u/s 87A (12,500)
- Tax before health & education cess 14,500
- Add: HEC @ 4% 580
- Tax Liability 15,080

(vi)
Total Income 4,20,000

**Computation of Tax Liability**
- Tax on LTCG (2,20,000 – 2,20,000) @ 20% u/s 112 Nil
- Tax on STCG (1,10,000 – 1,10,000) @ 15% u/s 111A Nil
- Tax on Casual Income ₹90,000 @ 30% u/s 115BB 27,000
- Tax on normal income at slab rate Nil
- Tax before Rebate u/s 87A 27,000
- Less: Rebate u/s 87A (12,500)
- Tax before health & education cess 14,500
- Add: HEC @ 4% 580
- Tax Liability 15,080

(vii)
Total Income 4,20,000

**Computation of Tax Liability**
- Tax on LTCG ₹2,20,000 @ 20% u/s 112 44,000
- Tax on STCG ₹1,10,000 @ 15% u/s 111A 16,500
- Tax on Casual income ₹90,000 @ 30% u/s 115BB 27,000
- Tax on normal income at slab rate Nil
Tax before Rebate u/s 87A 87,500
Less: Rebate u/s 87A Nil
Tax before health & education cess 87,500
Add: HEC @ 4% 3,500
Tax Liability 91,000

(viii)
Total Income 4,20,000

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹2,20,000 @ 20% u/s 112</td>
<td>44,000</td>
</tr>
<tr>
<td>Tax on STCG ₹1,10,000 @ 15% u/s 111A</td>
<td>16,500</td>
</tr>
<tr>
<td>Tax on Casual income ₹90,000 @ 30% u/s 115BB</td>
<td>27,000</td>
</tr>
<tr>
<td>Tax on normal income at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before Rebate u/s 87A</td>
<td>87,500</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>87,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,500</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>91,000</td>
</tr>
</tbody>
</table>

**Illustration 15:**
Mr. X has long term capital gain ₹30 lakh and normal income ₹72 lakh, in this case his tax liability shall be

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>102,00,000.00</td>
</tr>
<tr>
<td>LTCG ₹30,00,000 x 20%</td>
<td>6,00,000.00</td>
</tr>
<tr>
<td>Normal income at slab rate</td>
<td>19,72,500.00</td>
</tr>
<tr>
<td>Tax before surcharge</td>
<td>25,72,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>3,85,875.00</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>29,58,375.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,18,335.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>30,76,710.00</td>
</tr>
</tbody>
</table>

**Illustration 16:**
Mr. X has long term capital gain ₹31 lakh and normal income ₹70 lakh, in this case his tax liability shall be

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>101,00,000.00</td>
</tr>
<tr>
<td>LTCG ₹31,00,000 x 20%</td>
<td>6,20,000.00</td>
</tr>
<tr>
<td>Normal income at slab rate</td>
<td>19,12,500.00</td>
</tr>
<tr>
<td>Tax before surcharge</td>
<td>25,32,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>3,79,875.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>29,12,375.00</td>
</tr>
<tr>
<td>Less: Marginal relief</td>
<td>(48,625.00)</td>
</tr>
<tr>
<td>Tax + Surcharge on ₹101 lakhs</td>
<td>29,12,375</td>
</tr>
<tr>
<td>Tax + Surcharge on ₹100 lakhs</td>
<td></td>
</tr>
</tbody>
</table>

(₹100 lakhs can be normal income ₹70 lakhs + LTCG ₹30 lakhs or normal income ₹69 lakhs and LTCG ₹31 lakhs. It is not given in the Act what combination should be taken. Hence it is a question of law and any of the combination can be taken and it will be correct)

If first combination is taken, income tax shall be

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal income ₹70 lakhs</td>
<td>19,12,500</td>
</tr>
<tr>
<td>LTCG ₹30 lakhs</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Total</td>
<td>25,12,500</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>2,51,250</td>
</tr>
<tr>
<td>Total</td>
<td>27,63,750</td>
</tr>
<tr>
<td>Increase in tax (29,12,375 – 27,63,750)</td>
<td>1,48,625</td>
</tr>
</tbody>
</table>
Marginal relief (1,48,625 – 1,00,000) 48,625

<table>
<thead>
<tr>
<th>Computation of Total Income And Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal relief (1,48,625 – 1,00,000) 48,625</td>
</tr>
<tr>
<td>Tax before health &amp; education cess 28,63,750.00</td>
</tr>
<tr>
<td>Add: HEC @ 4% 1,14,550.00</td>
</tr>
<tr>
<td>Tax Liability 29,78,300.00</td>
</tr>
</tbody>
</table>

**Second option: Normal income ₹69 lakhs and LTCG ₹31 lakhs**

<table>
<thead>
<tr>
<th>Total income 101,00,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTCG ₹31,00,000 x 20% 6,20,000.00</td>
</tr>
<tr>
<td>Normal income at slab rate 19,12,500.00</td>
</tr>
<tr>
<td>Tax before surcharge 25,32,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 15% 3,79,875.00</td>
</tr>
<tr>
<td>Tax before marginal relief 29,12,375.00</td>
</tr>
<tr>
<td>Less: Marginal relief (59,625.00)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax + Surcharge on ₹101 lakhs 29,12,375</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + Surcharge on ₹100 lakhs</td>
</tr>
</tbody>
</table>

(₹100 lakhs can be normal income ₹70 lakhs + LTCG ₹30 lakhs or normal income ₹69 lakhs and LTCG ₹31 lakhs. It is not given in the Act what combination should be taken. Hence it is a question of law and any of the combination can be taken and it will be correct.

If second combination is taken, income tax shall be

<table>
<thead>
<tr>
<th>Normal income ₹69 lakhs 18,82,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTCG ₹31 lakhs 6,20,000</td>
</tr>
<tr>
<td>Total 25,02,500</td>
</tr>
<tr>
<td>Add: Surcharge @ 10% 2,50,250</td>
</tr>
<tr>
<td>Total 27,52,750</td>
</tr>
<tr>
<td>Increase in tax (29,12,375 – 27,52,750) 1,59,625</td>
</tr>
<tr>
<td>Marginal relief (1,59,625 – 1,00,000) 59,625</td>
</tr>
</tbody>
</table>

| Tax before health & education cess 28,52,750.00 |
| Add: HEC @ 4% 1,14,110.00 |
| Tax Liability 29,66,860.00 |

**Question 10: Write a note on taxability of income of Partnership Firm/Limited Liability Partnership Firm.**

**Answer:** **Partnership firm/LLP**

Long term capital gains are taxable @ **20%**, STCG u/s 111A shall be taxable @ **15%**, LTCG u/s 112A shall be taxable in excess of 1,00,000 @ **10%** and casual income @ **30%** and other incomes are also taxable @ **30%**.

Surcharge shall be applicable @ **12%** provided total income is exceeding **₹ 1 crore**.

**Marginal Relief**

Marginal relief shall be allowed if income has exceeded ₹100 lakhs.

Health & education cess is applicable @ **4%**

Deductions under section 80C to 80U shall be allowed in the normal manner.

Partnership firm is regulated through Partnership Act,1932 and Limited Liability Partnership firm is regulated through Limited Liability Partnership Act, 2008.

**Question 11: Write a note on taxability of income of domestic company.**

**Answer:** **Domestic Company**

Long term capital gains are taxable @ **20%**, STCG u/s 111A shall be taxable @ **15%**, LTCG u/s 112A shall be taxable in excess of 1,00,000 @ **10%** and casual income @ **30%** and other incomes are also taxable @ **30%**.
Surcharge shall be applicable:
- @ 7% provided total income is exceeding ₹100 lakhs but it is upto ₹1000 lakhs
- @ 12% provided total income is exceeding ₹1000 lakhs.

Marginal relief shall be allowed if income has exceeded ₹100 lakhs / 1000 lakhs.

Health & education cess is applicable @ 4%.

Deductions under section 80C to 80U shall be allowed in the normal manner.

(If total turnover or gross receipts in P.Y. 2017-18 does not exceed 400 crores, tax rate shall be 25% instead of 30%)

**Example**
Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹1,01,00,000 and the total income does not include any income in the nature of capital gains.

**Answer**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>1,01,00,000</td>
</tr>
<tr>
<td>Tax on @ 30%</td>
<td>30,30,000</td>
</tr>
<tr>
<td>Add: Surcharge @ 7%</td>
<td>2,12,100</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>32,42,100</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(1,42,100)</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge on income of ₹101,00,000</td>
<td>32,42,100</td>
</tr>
<tr>
<td>Tax on income of ₹100,00,000</td>
<td>(30,00,000)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>2,42,100</td>
</tr>
<tr>
<td>Increase in income</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Marginal Relief (2,42,100 – 1,00,000)</td>
<td>1,42,100</td>
</tr>
</tbody>
</table>

Tax after marginal relief 31,00,000
Add: HEC @ 4% 1,24,000
Tax Liability 32,24,000

**Example**
Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹10,01,00,000 and the total income does not include any income in the nature of capital gains.

**Answer:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>10,01,00,000</td>
</tr>
<tr>
<td>Tax on @ 30%</td>
<td>300,30,000</td>
</tr>
<tr>
<td>Add: Surcharge @ 12%</td>
<td>36,03,600</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>336,33,600</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(14,33,600)</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge @ 12% on income of ₹10,01,00,000</td>
<td>336,33,600</td>
</tr>
<tr>
<td>Tax + surcharge @ 7% on income of ₹1000,00,000</td>
<td>(321,00,000)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>15,33,600</td>
</tr>
<tr>
<td>Increase in income</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Marginal Relief (15,33,600 – 1,00,000)</td>
<td>14,33,600</td>
</tr>
</tbody>
</table>

Tax after marginal relief 322,00,000
Add: HEC @ 4% 12,88,000
Tax Liability 334,88,000

**Question 12:** Write a note on taxability of income of Foreign company.

**Answer:** Foreign Company
Long term capital gains are taxable @ 20%, STCG u/s 111A shall be taxable @ 15%, LTCG u/s 112A shall be taxable in excess of 1,00,000 @ 10% and casual income @ 30% and other incomes are taxable @ 40%.
Surcharge shall be applicable
   - @ 2% provided total income is exceeding ₹100 lakhs but it is upto ₹1000 lakhs.
   - @ 5% provided total income is exceeding ₹1000 lakhs

Marginal relief shall be allowed if income has exceeded ₹100 lakhs / 1000 lakhs
Health & education cess is applicable @ 4%
Deductions under section 80C to 80U shall be allowed in the normal manner.

**Question 13: Explain meaning of domestic company.**

**Answer: Meaning of domestic company**

As per section 2(22A), Domestic Company means an Indian company. A foreign company shall also be considered to be domestic company if it has complied with the following three conditions:

1) The share-register of shareholders is maintained at its principal place of business in India throughout the year.
2) The AGM of the company is held in India.
3) The dividends are payable only in India.

If any foreign company has complied with all the above conditions, it will be considered to be domestic company otherwise it will be considered to be foreign company.

**Illustration 17 (A):** Compute tax liability of ABC Ltd. a domestic company in the following situations:

1. The company has income under the head Business/Profession ₹50,000.
2. The company has income under the head Business/Profession ₹1,00,000.
3. The company has income under the head Business/Profession ₹500,00,000.
4. The company has income under the head Business/Profession ₹100,00,000.
5. The company has long term capital gains of ₹50,000.
6. The company has long term capital gains of ₹200,00,000.
7. The company has long term capital gains of ₹5,00,000.
8. The company has long term capital gains of ₹10,20,000.
9. The company has income under the head Business/Profession ₹11 crore.

**Solution:**

(i) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Income under the head Business/Profession</th>
<th>Total Income</th>
<th>Tax on ₹50,000 @ 30%</th>
<th>Add: HEC @ 4%</th>
<th>Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹50,000</td>
<td>₹50,000</td>
<td>₹15,000</td>
<td>₹600</td>
<td>₹15,600</td>
</tr>
</tbody>
</table>

(ii) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Income under the head Business/Profession</th>
<th>Total Income</th>
<th>Tax on ₹1,00,000 @ 30%</th>
<th>Add: HEC @ 4%</th>
<th>Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹1,00,000</td>
<td>₹1,00,000</td>
<td>₹30,000</td>
<td>₹1,200</td>
<td>₹31,200</td>
</tr>
</tbody>
</table>

(iii) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Income under the head Business/Profession</th>
<th>Total Income</th>
<th>Tax on ₹500,00,000 @ 30%</th>
<th>Add: Surcharge @ 7%</th>
<th>Add: HEC @ 4%</th>
<th>Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹500,00,000</td>
<td>₹500,00,000</td>
<td>₹150,00,000</td>
<td>₹10,50,000</td>
<td>₹6,42,000</td>
<td>₹166,92,000</td>
</tr>
</tbody>
</table>
(iv) Computation of Tax Liability
Income under the head Business/Profession 100,00,000
Total Income 100,00,000
Tax on ₹100,00,000 @ 30% 30,00,000
Add: HEC @ 4% 1,20,000
Tax Liability 31,20,000

(v) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 50,000
Total Income 50,000
Tax on ₹50,000 @ 20% 10,000
Add: HEC @ 4% 400
Tax Liability 10,400

(vi) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 200,00,000
Total Income 200,00,000
Tax on ₹200,00,000 @ 20% 40,00,000
Add: Surcharge @ 7% 2,80,000
Add: HEC @ 4% 1,71,200
Tax Liability 44,51,200

(vii) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 5,00,000
Total Income 5,00,000
Tax on ₹5,00,000 @ 20% 1,00,000
Add: HEC @ 4% 4,000
Tax Liability 1,04,000

(viii) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 10,20,000
Total Income 10,20,000
Tax on ₹10,20,000 @ 20% 2,04,000
Add: HEC @ 4% 8,160
Tax Liability 2,12,160

(ix) Computation of Tax Liability
Income under the head Business/profession 11,00,00,000
Total Income 11,00,00,000
Tax on ₹11,00,00,000 @ 30% 330,00,000
Add: Surcharge @ 12% 39,60,000
Tax before health & education cess 369,60,000
Add: HEC @ 4% 14,78,400
Tax Liability 384,38,400

Illustration 17(B): Presume in all the above situations the assessee is a partnership firm.

Solution: ₹

(i) Computation of Tax Liability
Income under the head Business/Profession 50,000
Total Income 50,000
Tax on ₹50,000 @ 30% 15,000
Add: HEC @ 4% 600
Tax Liability 15,600
(ii) Computation of Tax Liability
Income under the head Business/Profession 1,00,000
Total Income 1,00,000
Tax on ₹1,00,000 @ 30% 30,000
Add: HEC @ 4% 1,200
Tax Liability 31,200

(iii) Computation of Tax Liability
Income under the head Business/Profession 500,00,000
Total Income 500,00,000
Tax on ₹500,00,000 @ 30% 150,00,000
Add: Surcharge @ 12% 18,00,000
Tax before health & education cess 168,00,000
Add: HEC @ 4% 6,72,000
Tax Liability 174,72,000

(iv) Computation of Tax Liability
Income under the head Business/Profession 100,00,000
Total Income 100,00,000
Tax on ₹100,00,000 @ 30% 30,00,000
Add: HEC @ 4% 1,20,000
Tax Liability 31,20,000

(v) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 50,000
Total Income 50,000
Tax on ₹50,000 @ 20% 10,000
Add: HEC @ 4% 400
Tax Liability 10,400

(vi) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 200,00,000
Total Income 200,00,000
Tax on ₹200,00,000 @ 20% 40,00,000
Add: Surcharge @ 12% 4,80,000
Tax before health & education cess 44,80,000
Add: HEC @ 4% 1,79,200
Tax Liability 46,59,200

(vii) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 5,00,000
Total Income 5,00,000
Tax on ₹5,00,000 @ 20% 1,00,000
Add: HEC @ 4% 4,000
Tax Liability 1,04,000

(viii) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 10,20,000
Total Income 10,20,000
Tax on ₹10,20,000 @ 20% 2,04,000
Add: HEC @ 4% 8,160
Tax Liability 2,12,160
(ix) Computation of Tax Liability
Income under the head Business/profession 11,00,00,000
Total Income 11,00,00,000
Tax on ₹11,00,00,000 @ 30% 330,00,000
Add: Surcharge @ 12% 39,60,000
Tax before health & education cess 369,60,000
Add: HEC @ 4% 14,78,400
Tax Liability 384,38,400

Illustration 17(C): Presume in all the above situations the assessee is a foreign company.

Solution:

(i) Computation of Tax Liability
Income under the head Business/Profession 50,000
Total Income 50,000
Tax on ₹50,000 @ 40% 20,000
Add: HEC @ 4% 800
Tax Liability 20,800

(ii) Computation of Tax Liability
Income under the head Business/Profession 1,00,000
Total Income 1,00,000
Tax on ₹1,00,000 @ 40% 40,000
Add: HEC @ 4% 1,600
Tax Liability 41,600

(iii) Computation of Tax Liability
Income under the head Business/Profession 500,00,000
Total Income 500,00,000
Tax on ₹500,00,000 @ 40% 200,00,000
Add: Surcharge @ 2% 4,00,000
Add: HEC @ 4% 8,16,000
Tax Liability 212,16,000

(iv) Computation of Tax Liability
Income under the head Business/Profession 100,00,000
Total Income 100,00,000
Tax on ₹100,00,000 @ 40% 40,00,000
Add: HEC @ 4% 1,60,000
Tax Liability 41,60,000

(v) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 50,000
Total Income 50,000
Tax on ₹50,000 @ 20% 10,000
Add: HEC @ 4% 400
Tax Liability 10,400

(vi) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains) 200,00,000
Total Income 200,00,000
Tax on ₹200,00,000 @ 20% 40,00,000
Add: Surcharge @ 2% 80,000
Add: HEC @ 4% 1,63,200
Tax Liability  

**(vii) Computation of Tax Liability**
- Income under the head Capital Gains (long term capital gains)  
  Total Income  
  Tax on ₹5,00,000 @ 20%  
  Add: HEC @ 4%  
  Tax Liability

**(viii) Computation of Tax Liability**
- Income under the head Capital Gains (long term capital gains)  
  Total Income  
  Tax on ₹10,20,000 @ 20%  
  Add: HEC @ 4%  
  Tax Liability

**(ix) Computation of Tax Liability**
- Income under the head Business/profession  
  Total Income  
  Tax on ₹11,00,00,000 @ 40%  
  Add: Surcharge @ 5%  
  Tax before health & education cess  
  Add: HEC @ 4%  
  Tax Liability

**Illustration 18:** X (HUF) has incomes as given below:
1. Income under the head Business/Profession ₹5,00,000
2. Income under the head House Property ₹3,00,000
3. Long term capital gains ₹4,00,000
4. Short term capital gains under section 111A ₹3,00,000
5. Casual Income ₹2,00,000
6. Deductions allowed under section 80C to 80U ₹35,000
Compute tax liability of HUF for the assessment year 2020-21.

**Solution:**

**Computation of Total Income**
- Income under the head Business/Profession  
- Income under the head House Property  
- Income under the head Capital Gains  
  Long term capital gains  
  Short term capital gains u/s 111A  
- Income under the head Other Sources (Casual Income)  
- Gross Total Income  
- Less: Deduction u/s 80C to 80U  
  Total Income

**Computation of Tax Liability**
- Tax on LTCG ₹4,00,000 @ 20% u/s 112  
- Tax on STCG ₹3,00,000 @ 15% u/s 111A  
- Tax on Casual income ₹2,00,000 @ 30% u/s 115BB  
- Tax on ₹7,65,000 at slab rate  
- Tax before health & education cess  
- Add: HEC @ 4%  
- Tax Liability
Question 14: Write a note on Computation of Tax Liability of HUF.

Answer: Tax liability of Hindu undivided family

Hindu undivided family means any family which is Hindu by religion and its senior most male member is called karta and karta is responsible for control and management of HUF. Parental property / business etc received by karta shall be considered to be common property and taxability shall be as given below:

Normal income of Hindu undivided family shall be computed at the normal slab rate as given below:

Income shall be taxable at the slab rates given below:

<table>
<thead>
<tr>
<th>Total Income Upto</th>
<th>Slab Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹2,50,000</td>
<td>NIL</td>
</tr>
<tr>
<td>₹2,50,000 - ₹5,00,000</td>
<td>5%</td>
</tr>
<tr>
<td>₹5,00,000 - Balance</td>
<td>20%</td>
</tr>
<tr>
<td>Balance amount</td>
<td>30%</td>
</tr>
</tbody>
</table>

Slab rate of senior citizen is not applicable to HUF even if age of Karta or its member is exceeding 60 years or 80 years.

Surcharge shall be applicable

- @ 10% if total income has exceeded ₹50 lakhs but upto ₹100 lakhs.
- @ 15% if total income has exceeded ₹100 lakhs but upto ₹200 lakhs.
- @ 25% if total income has exceeded ₹200 lakhs but upto ₹500 lakhs.
- @ 37% if total income has exceeded ₹500 lakhs.

All other provisions shall be similar to individual but rebate under section 87A is not allowed. Tax rates for LTCG /LTCG 112A/ STCG u/s 111A and casual income are the same for all the persons.

If normal income of resident HUF is less than the exemption limit, the difference of the amount shall be allowed to be deducted from long term capital gain and if long term capital gains are not sufficient, it will be allowed to be adjusted from short term capital gains under section 111A or long term capital gains u/s 112A but it will not be allowed to be adjusted from casual income.

(What is HUF is given in the Hindu Law and it is not covered in the syllabus)

Example

XY HUF has income under the head business/profession ₹20 lakhs and its Karta Mr. X has individual income ₹12 lakhs, in this case tax liability of HUF and that of Karta shall be

Tax liability of HUF ₹20 lakhs at slab rate 4,12,500
Add: HEC @ 4% 16,500
Tax Liability 4,29,000
Tax Liability of Karta ₹12 lakhs at slab rate 1,72,500
Add: HEC @ 4% 6,900
Tax Liability 1,79,400

Question 15: Write a note on Computation of Tax Liability of Body of Individuals/Association of Persons.

Answer: Tax liability of BOI/AOP

Body of individual means a group of individuals which is neither a company nor a partnership firm. If it is registered in some other Act, it will be called incorporated BOI. E.g. cooperative society or Trust etc. If such a group includes persons other than individual also, it will be called AOP.

In general normal income shall be taxable at normal slab rate but rate may change as per provisions of section 167B. (NOT COVERED IN SYLLABUS)

Surcharge shall be applicable

- @ 10% if total income has exceeded ₹50 lakhs but upto ₹100 lakhs.
- @ 15% if total income has exceeded ₹100 lakhs but upto ₹200 lakhs.
- @ 25% if total income has exceeded ₹200 lakhs but upto ₹500 lakhs.
- @ 37% if total income has exceeded ₹500 lakhs.

Deductions under section 80C to 80U shall be allowed in the normal manner.
Question 16: Write a note on Computation of Tax Liability of Local Authority.
Answer: Tax liability of local authority
In order to maintain any town or city, there is always some authority responsible and such authority is called local authority e.g. MCD in Delhi. Such authority is allowed to collect house tax with regard to every type of house property and also some other tax are collected by such authority. In general income of such authority is exempt from income tax under section 10(20) but if such authority is doing any business, its income is taxable just like a partnership firm. Deductions under section 80C to 80U shall be allowed in the normal manner.

Question 17: Explain meaning of Person Section 2(31).
Answer: Meaning of Person  Section 2(31)
“Person” includes—
(i) an individual,
(ii) a Hindu undivided family,
(iii) a company,
(iv) a firm,
(v) an association of persons or a body of individuals, whether incorporated or not,
(vi) a local authority,
(vii) every artificial juridical person, not covered above and income is taxable as slab rate (juridical means legal) e.g. ICAI or Delhi University etc. Surcharge shall be applicable @ 10% if total income has exceeded ₹50 lakhs but upto ₹100 lakhs.
@ 15% if total income has exceeded ₹100 lakhs but upto ₹200 lakhs.
@ 25% if total income has exceeded ₹200 lakhs but upto ₹500 lakhs.
@ 37% if total income has exceeded ₹500 lakhs.
Deductions under section 80C to 80U shall be allowed in the normal manner.

Question 18 [V. Imp.]: Discuss Partial Integration of Agricultural Income?
Or
Discuss Indirect Taxing of Agricultural Income?
Or
Under the Constitution, the power to levy a tax on agricultural income vests in the States. However, Parliament has also levied a tax on such income. Explain how this has been achieved?
Answer:
Agricultural Income  Section 10(1)
Under section 10(1), any agricultural income in India is fully exempt from income tax but if the agricultural income is from outside India, it is chargeable to tax. (As per entry no. 82 of Union List, Central Government has the power to levy income tax on income except agricultural income and power to levy tax on agricultural income has been given to the State Government vide entry no. 46 of State List)

Indirect taxing of agricultural income or partial integration of agricultural income (Under the constitution, the power to levy a tax on agricultural income vests in the states. However, parliament has also levied a tax on such income. Explain how this has been achieved?)
If any person has agricultural income as well as non-agricultural income, his tax liability shall be computed in the manner given below:
1. Compute tax on the total of agricultural income and non- agricultural income considering it to be total income of the assessee.
2. Compute tax on exemption limit (₹2,50,000 / 3,00,000 / 5,00,000) and agricultural income considering it to be total income.
3. Deduct tax computed under Step 2 from Step 1 and apply surcharge if any and allow rebate if any and health & education cess.
4. Long term capital gain, casual income and short term capital gain u/s 111A shall not be taken into
consideration for the purpose of partial integration
5. If Agricultural income is upto ₹5,000, or non-agricultural income is up to the limit not chargeable to tax (₹2,50,000/3,00,000/5,00,000), partial integration is not applicable.
6. Partial integration is not applicable in case of a partnership firm or a company.

Illustration 19: Compute tax liability in the following cases:
(i) Mr. X has income under the head business/profession ₹5,50,000 and agricultural Income ₹2,50,000.
(ii) Mr. Y has income under the head business/profession ₹10,00,000 and agricultural Income ₹2,50,000
(iii) Mr. Z has income under the head business/profession ₹10,00,000 and agricultural Income ₹2,50,000.
    Deductions allowed under section 80C to 80U ₹1,00,000.
(iv) Mr. A has income under the head business/profession ₹5,50,000 and agricultural Income ₹10,00,000.
(v) Mr. A has income under the head business/profession ₹2,00,000 and agricultural Income ₹10,00,000.
(vi) Mr. A has LTCG ₹10,00,000 and agricultural Income ₹10,00,000.
(vii) Mr. B, a Non-Resident has LTCG ₹10,00,000 and agricultural Income ₹10,00,000.
(viii) Mr. A has Casual Income ₹10,00,000 and agricultural Income ₹10,00,000.

Solution:

(i) Computation of Total Income
Income under the head Business/Profession 5,50,000
Gross Total Income 5,50,000
Less: Deduction u/s 80C Nil
Total Income 5,50,000
Agricultural Income 2,50,000

Computation of Tax Liability
Normal income 5,50,000
Step 1. Tax on (5,50,000 + 2,50,000) at slab rate 72,500.00
Step 2. Tax on (₹2,50,000 + 2,50,000) at slab rates (12,500.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1 60,000.00
Tax before health & education cess 60,000.00
Add: HEC @ 4% 2,400.00
Tax Liability 62,400.00

(ii) Computation of Total Income
Income under the head Business/Profession 10,00,000
Gross Total Income 10,00,000
Less: Deduction u/s 80C Nil
Total Income 10,00,000
Agricultural Income 2,50,000

Computation of Tax Liability
Normal income 10,00,000
Step 1. Tax on (10,00,000 + 2,50,000) at slab rate 1,87,500.00
Step 2. Tax on (₹2,50,000 + 2,50,000) at slab rates (12,500.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1 1,75,000.00
Tax before health & education cess 1,75,000.00
Add: HEC @ 4% 7,000.00
Tax Liability 1,82,000.00

(iii) Computation of Total Income
Income under the head Business/Profession 10,00,000
Gross Total Income 10,00,000
Less: Deduction u/s 80C (1,00,000)
Total Income 9,00,000
Agricultural Income 2,50,000
Computation of Tax Liability
Normal income 9,00,000
Step 1. Tax on (9,00,000 + 2,50,000) at slab rate 1,57,500.00
Step 2. Tax on (₹2,50,000 + 2,50,000) at slab rates (12,500.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1 1,45,000.00
Tax before health & education cess 1,45,000.00
Add: HEC @ 4% 5,800.00
Tax Liability 1,50,800.00

(iv) Computation of Total Income
Income under the head Business/Profession 5,50,000
Gross Total Income 5,50,000
Less: Deduction u/s 80C Nil
Total Income 5,50,000
Agricultural Income 10,00,000

Computation of Tax Liability
Normal income 5,50,000
Step 1. Tax on (5,50,000 + 10,00,000) at slab rate 2,77,500.00
Step 2. Tax on (₹2,50,000 + 10,00,000) at slab rates (1,87,500.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1 90,000.00
Tax before health & education cess 90,000.00
Add: HEC @ 4% 3,600.00
Tax Liability 93,600.00

(v) There will be no partial Integration as normal income is less than the exemption limit and Tax Liability is Nil.

(vi) There will be no partial Integration as normal income is Nil

Computation of Total Income
Income under the head Capital Gains (LTCG) 10,00,000
Gross Total Income 10,00,000
Less: Deduction u/s 80C Nil
Total Income 10,00,000

Computation of Tax Liability
Tax on LTCG ₹ 7,50,000 (₹10,00,000- ₹ 2,50,000) @ 20% u/s 112 1,50,000
Add: HEC @ 4% 6,000
Tax Liability 1,56,000

(vii) There will be no partial Integration as normal income is Nil

Computation of Total Income
Income under the head Capital Gains (LTCG) 10,00,000
Gross Total Income 10,00,000
Less: Deduction u/s 80C Nil
Total Income 10,00,000

Computation of Tax Liability
Tax on LTCG ₹ 10,00,000 @ 20% u/s 112 2,00,000
Add: HEC @ 4% 8,000
Tax Liability 2,08,000

(viii) There will be no partial Integration as normal income is Nil

Computation of Total Income
Income under the head Other Sources (Casual Income) 10,00,000
Gross Total Income & 10,00,000
Less: Deduction u/s 80C & Nil
Total Income & 10,00,000

**Computation of Tax Liability**
Tax on Casual Income ₹10,00,000 @ 30% & 3,00,000
Add: HEC @ 4% & 12,000
Tax Liability & 3,12,000

**Illustration 20: (a)**
Mr. X, aged 68 years, has income under the head House Property ₹5,25,000, agricultural income of ₹1,00,000, Long term capital gain amounting to ₹45,000 and casual income ₹35,000. He is eligible for deduction under section 80C ₹20,000.
Compute tax liability of Mr. X for assessment year 2020-21.

**Solution:**

**Computation of Total Income**
- Income under the head House Property & 5,25,000
- Income under the head Capital Gains (Long term capital gain) & 45,000
- Income under the head Other Sources (Casual Income) & 35,000
- Gross Total Income & 6,05,000
- Less: Deduction u/s 80C & (20,000)
- Total Income & 5,85,000
- Agricultural Income & 1,00,000

**Computation of Tax Liability**
- Tax on casual income ₹35,000 @ 30% u/s 115BB & 10,500.00
- Tax on long term capital gain ₹45,000 @ 20% u/s 112 & 9,000.00
- Normal income 5,05,000 & 31,000.00
- Step 1. Tax on (5,05,000 + 1,00,000) at slab rate & 31,000.00
- Step 2. Tax on (₹3,00,000 + 1,00,000) at slab rates & (5,000.00)
- Step 3. Deduct Tax at Step 2 from Tax at Step 1 & 26,000.00
- Tax before health & education cess & 45,500.00
- Add: HEC @ 4% & 1,820.00
- Tax Liability & 47,320.00

**Computation of Total Income**

- Income under the head House Property & 5,25,000
- Income under the head Capital Gains (LTCG) & 45,000
- Income under the head Other Sources (Casual Income) & 35,000
- Gross Total Income & 6,05,000
- Less: Deduction u/s 80C & (20,000)
- Total Income & 5,85,000
- Agricultural Income & 1,00,000

**Computation of Tax Liability**
- Tax on casual income ₹35,000 @ 30% u/s 115BB & 10,500.00
- Tax on long term capital gain ₹45,000 @ 20% u/s 112 & 9,000.00
- Normal income 5,05,000 & 31,000.00
- Step 1. Tax on (5,05,000 + 1,00,000) & 33,500.00
- Step 2. Tax on (₹2,50,000 + 1,00,000) at slab rates & (5,000.00)
- Step 3. Deduct Tax at Step 2 from Tax at Step 1 & 28,500.00
- Tax before health & education cess & 48,500.00
- Add: HEC @ 4% & 1,920.00
- Tax Liability & 49,420.00

**Illustration 20: (b)**
Presume in the above question, Mr. X is Non Resident.

**Solution:**

**Computation of Total Income**
- Income under the head House Property & 5,25,000
- Income under the head Capital Gains (LTCG) & 45,000
- Income under the head Other Sources (Casual Income) & 35,000
- Gross Total Income & 6,05,000
- Less: Deduction u/s 80C & (20,000)
- Total Income & 5,85,000
- Agricultural Income & 1,00,000

**Computation of Tax Liability**
- Tax on casual income ₹35,000 @ 30% u/s 115BB & 10,500.00
- Tax on long term capital gain ₹45,000 @ 20% u/s 112 & 9,000.00
- Normal income 5,05,000 & 33,500.00
- Step 1. Tax on (5,05,000 + 1,00,000) & 33,500.00
- Step 2. Tax on (₹2,50,000 + 1,00,000) at slab rates & (5,000.00)
- Step 3. Deduct Tax at Step 2 from Tax at Step 1 & 28,500.00
- Tax before health & education cess & 48,500.00
- Add: HEC @ 4% & 1,920.00
- Tax Liability & 49,420.00
(c) Presume in the above question, Mr. X is resident and do not have any income from house property.

Solution:
There will be no partial integration.

Computation of Total Income

- Income under the head Capital Gains (LTCG) 45,000
- Income under the head Other Sources (casual income) 35,000
- Gross Total Income 80,000
- Less: Deduction u/s 80C to 80U NIL
- Total Income 80,000
- Agricultural Income 1,00,000

Computation of Tax Liability

- Tax on casual income ₹35,000 @ 30% u/s 115BB 10,500
- Tax on long term capital gain (₹45,000-45,000) Nil
- Normal income Nil
- Tax on normal income Nil
- Less: Rebate u/s 87A (10,500)
- Tax before health & education cess Nil
- Tax Liability Nil

Illustration 21: Mrs. X has income asunder –

Income under the head Salary 1,55,000
Income under the head Capital Gains
- Long term capital gain 27,000
- Short term capital gain 1,09,000
Income under the head Other Sources (lottery) 7,000
Agricultural income 1,05,000
Deduction allowed under section 80C to 80U 7,000

Compute her tax liability for the assessment year 2020-21 in two situations –
(i) She is resident
(ii) She is non-resident.

Solution:

(i) She is resident

Computation of Total Income

Income under the head Salary 1,55,000
Income under the head Capital Gains
- Long term capital gain 27,000
- Short term capital gain 1,09,000
Income under the head Other Sources (lottery) 7,000
Gross Total Income 2,98,000
Less: Deduction u/s 80C to 80U (7,000)
Total Income 2,91,000
Agricultural income 1,05,000

Computation of Tax Liability

- Tax on casual income ₹7,000 @ 30% u/s 115BB 2,100.00
- Tax on long term capital gain ₹27,000 @ 20% u/s 112 5,400.00
- Normal income ₹2,57,000 5,600.00
- Step 1. Tax on (2,57,000 + 1,05,000) 5,600.00
- Step 2. Tax on (₹2,50,000 + 1,05,000) at slab rates 5,250.00
- Step 3. Deduct Tax at Step 2 from tax at Step 1 350.00
- Less: Rebate u/s 87A (7,850.00)
- Tax before health & education cess Nil
Add: HEC @ 4%
Tax Liability Nil

(ii) She is non-resident

Computation of Total Income

Income under the head Salary 1,55,000
Income under the head Capital Gains
  Long term capital gain 27,000
  Short term capital gain 1,09,000
Income under the head Other Sources (Casual Income) 7,000
Gross Total Income 2,98,000
Less: Deduction u/s 80C to 80U (7,000)
Total Income 2,91,000
Agricultural income 1,05,000

Computation of Tax Liability

Tax on casual income ₹7,000 @ 30% u/s 115BB 2,100.00
Tax on long term capital gain ₹27,000 @ 20% u/s 112 5,400.00
Normal income ₹2,57,000
Step 1. Tax on (₹2,57,000 + 1,05,000) 5,600.00
Step 2. Tax on (₹2,50,000 + 1,05,000) at slab rates (5,250.00)
Step 3. Deduct Tax at Step 2 from tax at Step 1 350.00
Tax before health & education cess 7,850.00
Add: HEC @ 4% 314.00
Tax Liability 8,164.00
Rounded off u/s 288B 8,160.00

Note: Rebate under section 87A is not allowed to non-resident.

Illustration 22: Mr. X has agricultural income of ₹4,900 and non-agricultural income of ₹2,65,000. Compute his tax liability for the assessment year 2020-21.

Solution:

Agricultural Income 4,900
Non Agricultural income 2,65,000
In this case, Agricultural income is upto ₹5000/-, thereby, partial integration shall not be applicable.

Computation of Tax Liability

Tax on ₹2,65,000 at slab rate 750
Less: Rebate u/s 87A (750)
Tax Liability Nil

Illustration 23: Mr. X has agricultural income of ₹5,00,000 and non-agricultural income of ₹2,50,000. Compute his tax liability for the assessment year 2020-21.

Solution:

His tax liability shall be nil, since his non-agricultural income is ₹2,50,000 and partial integration is not applicable.

Illustration 24: Mr. X (aged 70 years) has agricultural income of ₹3,80,000 and non-agricultural income of ₹3,00,000. Compute his tax liability for the assessment year 2020-21.

Solution:

His tax liability shall be nil, since his non-agricultural income is ₹3,00,000 and partial integration is not applicable.

Illustration 25: Mrs. X has agricultural income of ₹1,00,000, income under the head salary amounting to ₹3,05,000, long term capital gain of ₹10,00,000 and casual income of ₹1,00,000 (winnings of a game show on
Compute her tax liability for the assessment year 2020-21. Her date of birth is 01.04.1960.

**Solution:**

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Income under the head</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>3,05,000.00</td>
</tr>
<tr>
<td>Capital Gains (LTCG)</td>
<td>10,00,000.00</td>
</tr>
<tr>
<td>Other Sources (Casual Income)</td>
<td>1,00,000.00</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>14,05,000.00</strong></td>
</tr>
<tr>
<td>Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>14,05,000.00</strong></td>
</tr>
<tr>
<td>Agricultural Income</td>
<td>1,00,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- **Tax on casual income**: ₹1,00,000 @ 30% u/s 115BB = ₹30,000.00
- **Tax on long term capital gain**: ₹10,00,000 @ 20% u/s 112 = ₹2,00,000.00
- **Normal Income**: ₹3,05,000
  - **Step 1. Tax on**: (₹3,05,000 + ₹1,00,000) = ₹5,25,000.00
  - **Step 2. Tax on**: (₹3,00,000 + ₹1,00,000) = ₹4,00,000.00
  - **Step 3. Deduct Tax at Step 2 from Tax at Step 1**: ₹250.00
- **Tax before health & education cess**: ₹2,30,250.00
- **Add: HEC @ 4%**: ₹9,210.00
- **Tax Liability**: ₹2,39,460.00

**Note**: Casual income shall include all the activities as per section 2(24)(ix).

**Illustration 26**: Mr. X has income from business ₹102,00,000 and agricultural income ₹10,00,000. Compute his tax liability.

**Solution**:

<table>
<thead>
<tr>
<th>Step</th>
<th>Calculation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1</td>
<td>Tax on (agricultural + non agricultural income)</td>
<td>₹102,00,000</td>
</tr>
<tr>
<td>Step 2</td>
<td>Tax on ₹2,50,000 + agricultural income at slab rates</td>
<td>31,72,500</td>
</tr>
<tr>
<td>Step 3</td>
<td>Deduct Tax at Step 2 from Tax at Step 1</td>
<td>29,85,000</td>
</tr>
<tr>
<td>Add: Surcharge @ 15%</td>
<td>₹4,47,750</td>
<td></td>
</tr>
<tr>
<td>Tax + Surcharge before HEC</td>
<td>34,32,750</td>
<td></td>
</tr>
<tr>
<td>Marginal relief</td>
<td>15,250</td>
<td></td>
</tr>
</tbody>
</table>

**Working Note**:

<table>
<thead>
<tr>
<th>Calculation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge on income ₹102,00,000</td>
<td>34,32,750</td>
</tr>
<tr>
<td>Tax + surcharge if total income was ₹100 lakhs</td>
<td>31,12,500</td>
</tr>
<tr>
<td>100,00,000 + 10,00,000 = 110,00,000</td>
<td>31,12,500</td>
</tr>
<tr>
<td>2,50,000 + 10,00,000 = 12,50,000</td>
<td>18,75,000</td>
</tr>
<tr>
<td>Tax</td>
<td>29,25,000</td>
</tr>
<tr>
<td>Tax + surcharge @10% on ₹100 lakhs</td>
<td>32,17,500</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>2,15,250</td>
</tr>
<tr>
<td>Increase in income 102,00,000 – 100,00,000 = 2,00,000</td>
<td>15,250</td>
</tr>
</tbody>
</table>

**Marginal relief (2,15,250 – 2,00,000)** = 15,250

- **Tax before health & education cess**: ₹34,17,500
- **Add: HEC @ 4%**: ₹1,36,700
- **Tax Liability**: ₹35,54,200

**Question 19**: Write a note on taxability of dividends.

**Answer: Taxability of Dividends**

Dividend income from the domestic company shall be exempt from tax in the hands of the shareholder as per section 10(34). (However dividends from a foreign company shall continue to be taxed in the hands of the shareholder.)
As per section 115O / 115P / 115Q the domestic company has to pay additional income tax @ 15% + surcharge @ 12% + HEC @ 4%.
The effective rate shall be 15%
Add: Surcharge @ 12%
Total
Add: HEC @ 4%
Total

Example
ABC Ltd. is a domestic company and has total income ₹80,00,000. It has declared the dividends of ₹10,00,000 and one of the shareholders Mr. X gets dividends of ₹25,000. In this case, tax liability of the company and Mr. X shall be:

| Total Income | 80,00,000.00 |
| Income tax @ 30% | 24,00,000.00 |
| Add: HEC @ 4% | 96,000.00 |
| Tax Liability | 24,96,000.00 |
| Amount of Dividend | 10,00,000.00 |
| Additional Income Tax | 2,11,709.97 |
| Rounded off u/s 288B | 2,11,710.00 |
| Tax liability of Mr. X shall be nil.

The company has to pay surcharge on additional income tax in every case even if total income is less than ₹100,00,000

Alternative Calculation:

| Amount of Dividend | 10,00,000.00 |
| Additional Income Tax | 1,76,470.59 |
| (10,00,000 / 85% x 15%) | 21,176.47 |
| Add: Surcharge @ 12% | 1,97,647.06 |
| Add: health & education Cess @ 4% | 7,905.88 |
| Total Amount of AIT | 2,05,552.94 |
| Rounded off u/s 288B | 2,05,550.00 |

Illustration 27(A): ABC Ltd., a domestic company has current profits of ₹150 lakhs and the company has distributed dividends of ₹55 lakhs. Mr. X, one of the shareholder has received dividend of ₹7,00,000. Compute income tax liability of the company and that of shareholder. Calculate additional income tax payable by the company also.

Solution:

Tax liability and additional tax liability of the company shall be as given below:

| Profit before tax | 150,00,000.00 |
| Income tax on ₹150,00,000 @ 30% | 45,00,000.00 |
| Add: Surcharge @ 7% | 3,15,000.00 |
| Add: HEC @ 4% | 1,92,600.00 |
| Income tax liability | 50,07,600.00 |
| Dividend | 55,00,000.00 |
| Additional Income Tax | 11,64,404.81 |
| (55,00,000 / 82.528% x 17.472%) | 11,64,400.00 |
| Tax liability of the shareholder shall be nil.
Illustration 27(B): Presume in the above case the company is the foreign company.

Solution:

Tax liability and additional tax liability of the company shall be as given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>₹ 150,00,000.00</td>
</tr>
<tr>
<td>Income tax on ₹ 150,00,000 @ 40%</td>
<td>₹ 60,00,000.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 2%</td>
<td>₹ 1,20,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹ 2,44,800.00</td>
</tr>
<tr>
<td>Income tax liability</td>
<td>₹ 63,64,800.00</td>
</tr>
</tbody>
</table>

Additional income tax of the foreign company shall be nil.

Tax liability of the shareholder shall be as given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend from foreign company</td>
<td>₹ 7,00,000.00</td>
</tr>
<tr>
<td>Tax on ₹ 7,00,000 at slab rate</td>
<td>₹ 52,500.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹ 2,100.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹ 54,600.00</td>
</tr>
</tbody>
</table>

Dividend in excess of ₹ 10 lakh

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Income</td>
<td>₹ 16,00,000</td>
</tr>
<tr>
<td>Less: Exempt u/s 10(34)</td>
<td>₹ 10,00,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>₹ 6,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹ 6,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹ 6,00,000</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹ 6,00,000 @ 10% u/s 115BBDA</td>
<td>₹ 60,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹ 2400</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹ 62,400</td>
</tr>
</tbody>
</table>

Question 20: Write a note on Interest or dividend income from UTI or Mutual funds.

Answer: Interest or dividend income from UTI or Mutual funds Section 10(35)

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

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

The effective rate shall be 25% plus surcharge @ 12% plus HEC @ 4%.

Add: Surcharge @ 12% 3%
Total 28%
Add: HEC @ 4% 1.12%
Total 29.12%

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

The effective rate shall be 30% plus surcharge @ 12% plus HEC @ 4%.

Add: Surcharge @ 12% 3.6%
Total 33.6%
Add: HEC @ 4% 1.344%
Total 34.944%

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

Amount of Dividend ₹ 50,00,000.00
Amount Paid to Individual & HUF $20,00,000.00
Balance Paid to other than Individual & HUF $30,00,000.00
Additional Income Tax
(20,00,000 / 70.88% x 29.12%) $8,21,670.43
(30,00,000 / 65.056% x 34.944%) $16,11,411.71
Total $24,33,082.14
Rounded off u/s 288B $24,33,080.00
If any such dividend or interest has been distributed by equity oriented mutual fund, rate of AIT shall be 10%.

**Illustration 28:** Mr. X has incomes as given below:
- Received dividend from a domestic company ₹2,00,000
- Received interest in connection with deposit given to a domestic company ₹3,00,000
- Received dividend from foreign company ₹1,50,000
- Received interest from a foreign company ₹2,50,000
- Received dividend from UTI ₹3,00,000
- Received interest from UTI ₹2,00,000
- Received dividend from mutual fund ₹1,10,000
- Received interest from mutual fund ₹3,00,000
- Agricultural Income ₹7,00,000

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

**Solution:**

**Computation of Total Income**
- Received dividend from a domestic company (Exempt u/s 10(34)) ₹Nil
- Received interest in connection with deposit given to a domestic company ₹3,00,000
- Received dividend from foreign company ₹1,50,000
- Received interest from a foreign company ₹2,50,000
- Received dividend from UTI (Exempt u/s 10(35)) ₹Nil
- Received interest from UTI (Exempt u/s 10(35)) ₹Nil
- Received dividend from mutual fund (Exempt u/s 10(35)) ₹Nil
- Received interest from mutual fund (Exempt u/s 10(35)) ₹Nil
- Gross Total Income ₹7,00,000
- Less: Deduction u/s 80C to 80U ₹Nil
- Total Income ₹7,00,000
- Agricultural Income ₹7,00,000

**Computation of Tax Liability**
- Step 1. Tax on (7,00,000 + 7,00,000) ₹2,32,500
- Step 2. Tax on (₹2,50,000 + 7,00,000) at slab rates (1,02,500)
- Step 3. Deduct Tax at Step 2 from Tax at Step 1 ₹1,30,000
- Tax before health & education cess ₹1,30,000
- Add: HEC @ 4% ₹5,200
- Tax Liability ₹1,35,200
MULTIPLE CHOICE QUESTIONS

1. The basic source of income-tax law is -
   (a) Income-tax Act, 1961
   (b) Income-tax Rules, 1962
   (c) Circulars/Notifications issued by CBDT
   (d) Judgments of Courts

2. A domestic company means -
   (a) Only an Indian company
   (b) Both Indian company and a foreign company having a branch in India
   (c) Both Indian company and a foreign company having business connection in India
   (d) Both Indian company and a foreign company which has made the prescribed arrangement for declaration
       and payment of dividends in India out of the income chargeable to tax in India

3. The rates of income-tax are mentioned in -
   (a) The Income-tax Act, 1961 only
   (b) Both Income-tax Act, 1961 and Income-tax Rules, 1962
   (c) The First Schedule to the Annual Finance Act
   (d) Both Income-tax Act, 1961 and the First Schedule to the Annual Finance Act

4. The surcharge applicable in the case of an individual is -
   (a) 10% of tax payable if total income exceeds ₹50 lakhs but does not exceed ₹1 crore
   (b) 10% of tax payable if total income exceeds ₹1 crore but does not exceed ₹2 crore
   (c) 15% of tax payable if total income exceeds ₹1 crore but does not exceed ₹2 crore
   (d) Both (a) and (c), as the case may be.

5. In respect of a non-resident assessee, who is of the age of 60 years or more but less than 80 years at any time during the previous year 2019-20, -
   (a) Basic exemption of ₹2,50,000 is available
   (b) Basic exemption of ₹3,00,000 is available
   (c) Basic exemption of ₹5,00,000 is available
   (d) No basic exemption limit would be available

6. In case of a domestic company whose gross receipts for the P.Y. 2017-18 is up to ₹400 crores, the rate of tax applicable is -
   (a) 29% , (b) 25% , (c) 30% , (d) None of the above

7. The surcharge applicable to a domestic company for A.Y. 2020-21 is -
   (a) 5%, if total income exceeds ₹1 crore.
   (b) 10%, if the total income exceeds ₹1 crore.
   (c) 7%, if the total income exceeds ₹1 crore but does not exceed ₹10 crore, and 15%, if the total income exceeds ₹10 crore.
   (d) 7%, if the total income exceeds ₹1 crore but does not exceed ₹10 crore, and 12%, if the total income exceeds ₹10 crore.

8. The surcharge applicable to a foreign company for A.Y. 2020-21 is -
   (a) 5%, if the total income exceeds ₹1 crore.
   (b) 10%, if the total income exceeds ₹1 crore.
   (c) 2%, if the total income exceeds ₹1 crore but does not exceed ₹10 crore and 5% if the total income exceeds ₹10 crore.
   (d) 2%, if the total income exceeds ₹10 crore.

9. The rate of tax applicable to a partnership firm for A.Y. 2020-21 is -
   (a) 25%
   (b) 30%
   (c) 35%
   (d) 40%

10. Where the total income of an artificial juridical person is ₹3,10,000, the income-tax before cess payable is ₹............. and surcharge payable is ₹.............
    (a) ₹3,000; surcharge – nil.
(b) ₹6,000; surcharge – nil.
(c) ₹500; surcharge – nil
(d) ₹93,000; surcharge – ₹4650
11. What is the basic exemption limit for a woman assessee for A.Y. 2020-21, who turned 60 years on 01.4.2020?
(a) ₹2,00,000
(b) ₹3,00,000
(c) ₹2,50,000
(d) ₹5,00,000
12. What is the rate of surcharge applicable to individuals having total income exceeding ₹1 crore but does not exceed ₹2 crore?
(a) 15%, (b) 12%, (c) 10%, (d) 2%
13. What is the basic exemption limit for Mrs. X, a resident individual who is of the age of 80 years as on 31.3.2020?
(a) ₹5,00,000
(b) ₹2,40,000
(c) ₹3,00,000
(d) ₹2,50,000
14. Tax Liability of a resident individual having LTCG 3.5 Lakh shall be
(a) ₹7,800
(b) ₹72,800
(c) ₹18,200
(d) ₹20,800
15. The maximum amount of rebate allowable under section 87A for A.Y. 2020-21 is -
(a) ₹2,000, if the total income does not exceed ₹5 lakh
(b) ₹5,000, if the total income does not exceed ₹5 lakh
(c) ₹12,500, if the total income does not exceed ₹5 lakh
(d) ₹2,500, if the total income does not exceed ₹3.5 lakh
16. If Mr. Y’s total income for A.Y. 2020-21 is ₹52 Lakhs, surcharge is payable at the rate of -
(a) 15%
(b) 12%
(c) 10%
(d) 2%
17. Unexhausted basic exemption limit of a non-resident individual can be adjusted against –
(a) only LTCG taxable @20% u/s 112
(b) only STCG taxable @15% u/s 111A
(c) only LTCG taxable @ 10% u/s 112A
(d) casual income taxable @30% u/s 115BB
(e) none of these
18. Unexhausted basic exemption limit of a resident individual can be adjusted against –
(a) only LTCG taxable @20% u/s 112
(b) only STCG taxable @15% u/s 111A
(c) only LTCG taxable @ 10% u/s 112A
(d) From (a) or (b) or (c)
(e) Casual income taxable @ 30% u/s 115BB
19. The concept of partial integration of agricultural income with non-agricultural income is applicable to -
(a) only individuals & HUF
(b) only firms and companies
(c) Individuals, HUF, AOPs/BOIs & Artificial juridical persons
(d) All persons
20. What is the basic exemption limit for Mr. X, a resident individual who has completed the age of 60 years as on 1.4.2021?
(a) ₹5,00,000
(b) ₹2,40,000
(c) ₹3,00,000
(d) ₹2,50,000

21. Mr. X aged, 61 years, received dividend of ₹12,00,000 from a domestic company in P.Y. 2019-20.
Tax chargeable under section 115BBDA is @10% on
(a) The entire amount of ₹12,00,000
(b) ₹2,00,000
(c) Nil
(d) ₹9,00,000

22. In respect of dividend received from domestic companies in excess of ₹10,00,000 by an individual-
(a) no deduction under Chapter VI-A is allowed but loss under other heads can be set-off against such income
(b) no deduction under Chapter VI-A is allowed and no loss can be set-off against such income
(c) both deduction under Chapter VI-A and set-off of losses against such income are allowed
(d) deduction under Chapter VI-A is allowed but set-off of losses under other heads against such income is not allowed

23. Mr. X aged, 59 years, received dividend of ₹16,00,000 from a domestic company in P.Y. 2019-20.
Tax payable shall be
(a) ₹36,400
(b) ₹62,400
(c) ₹1,66,400
(d) Nil

24. Mr. X aged, 61 years, received dividend of ₹16,00,000 from a domestic company in P.Y. 2019-20.
Tax payable shall be
(a) ₹31,200
(b) Nil
(c) ₹62,400
(d) ₹1,35,200

25. Rebate u/s 87A shall be allowed to
(a) all persons
(b) only individual
(c) only resident individual
(d) resident individual & HUF

26. Rebate u/s 87A shall be allowed if total income is
(a) less than ₹5,00,000
(b) less than ₹3,50,000
(c) upto ₹5,00,000
(d) upto ₹3,50,000

27. Marginal relief shall be allowed to
(a) all persons
(b) only individual
(c) individual & HUF
(d) non-resident

28. Mr. X has agricultural Income of ₹4,900 and non-agricultural income of ₹2,65,000. Tax Payable shall be
(a) Nil
(b) ₹780
(c) ₹1,030
(d) ₹14,030
29. Mr. X has agricultural income of ₹1,00,000 and non-agricultural income of ₹2,45,000. Tax payable shall be
(a) Nil
(b) ₹4,940
(c) ₹2,340
(d) ₹17,940

30. Tax Liability of a resident individual having only STCG 111A 3.5 Lakh shall be
(a) ₹2,600
(b) ₹15,600
(c) ₹54,600
(d) ₹13,000

31. Tax Liability of a resident individual having only casual income 3.5 Lakh shall be
(a) ₹96,200
(b) ₹18,200
(c) ₹31,200
(d) ₹1,09,200

32. Tax Liability of a non-resident individual having only STCG 111A 3.5 Lakh shall be
(a) ₹15,600
(b) ₹2,600
(c) ₹54,600
(d) ₹52,000

33. The rate of tax applicable to a limited liability partnership (LLP) for A.Y. 2020-21 is -
(a) 25%
(b) 30%
(c) 40%
(d) at slab rate

34. Mr. Devansh has agricultural income of ₹2,30,000 and business income of ₹2,45,000. Which of the following statements are correct?
(a) Agricultural income has to be aggregated with business income for tax rate purposes
(b) No aggregation is required since agricultural income is less than basic exemption limit.
(c) No aggregation is required since business income is less than basic exemption limit.
(d) Agricultural income is exempt under section 10(1) but the same has to be aggregated with business income, since it exceeds ₹5,000

35. Additional income tax is payable in case of
(a) Dividend from domestic company
(b) Interest income from domestic company
(c) Income from mutual fund
(d) (a) & (b)
(e) (a) & (c)
(f) none of these

Answers
1. (a); 2. (d); 3. (d); 4. (d); 5. (a); 6. (b); 7. (d); 8. (c); 9. (b); 10. (a); 11(c); 12. (a); 13. (a); 14. (a); 15. (c); 16. (c); 17. (c); 18. (d); 19. (c); 20. (d); 21. (b); 22. (b) 23. (b); 24. (c); 25 (c); 26 (c); 27 (a); 28 (a); 29 (a); 30 (a); 31 (a); 32 (c); 33 (b); 34 (c); 35 (e)

Hint for answer 2. As per rule 27, meaning of making prescribed arrangement for declaration and payment of dividends in India means that the company has compiled with the following conditions:
1. The share-register of the company for all shareholders shall be regularly maintained at its principal place of business within India, in respect of any assessment year from a date not later than the 1st day of April of such year.
2. The general meeting for passing the accounts of the previous year relevant to the assessment year and for declaring any dividends in respect thereof shall be held only at a place within India.
3. The dividends declared, if any, shall be payable only within India to all shareholders.
PRACTICE PROBLEMS
TOTAL PROBLEMS 17

Problem 1.
Compute tax liability in the following cases for the assessment year 2020-21.
(i) Mr. X (resident) has total income of ₹22,00,000
(ii) Mr. X (non-resident) has total income of ₹22,00,000
(iii) Mrs. X (resident) has total income of ₹22,00,000
(iv) Mrs. X (non-resident) has total income of ₹22,00,000
(v) Mr. X (resident), aged 60 years has total income of ₹22,00,000
(vi) Mrs. X (resident), aged 60 years has total income of ₹22,00,000
(vii) Mr. X (non-resident), aged 60 years has total income of ₹22,00,000
(viii) Mrs. X (non-resident), aged 60 years has total income of ₹22,00,000
(ix) Mr. X (resident), aged 80 years has total income of ₹22,00,000
(x) Mrs. X (resident), aged 80 years has total income of ₹22,00,000
(xi) Mr. X (non-resident), aged 80 years has total income of ₹22,00,000
(xii) Mrs. X (non-resident), aged 80 years has total income of ₹22,00,000

Answer = (i) Tax Liability: ₹4,91,400; (ii) ₹4,91,400; (iii) ₹4,91,400; (iv) ₹4,91,400; (v) ₹4,88,800; (vi) ₹4,88,800; (vii) ₹4,91,400; (viii) ₹4,91,400; (ix) ₹4,78,400; (x) ₹4,78,400; (xi) ₹4,91,400; (xii) ₹4,91,400

Problem 2.
Compute tax liability in the following cases for the assessment year 2020-21.
(i) Mr. X (resident) has total income of ₹100,05,000
(ii) Mr. X (non-resident) has total income of ₹102,00,000
(iii) Mrs. X (resident) has total income of ₹90,00,000
(iv) Mrs. X (non-resident) has total income of ₹4,98,000
(v) Mr. X (resident), aged 60 years has total income of ₹4,05,000
(vi) Mrs. X (resident), aged 60 years has total income of ₹102,05,000
(vii) Mr. X (non-resident), aged 60 years has total income of ₹25,00,000
(viii) Mrs. X (non-resident), aged 80 years has total income of ₹12,00,000
(ix) Mr. X (resident), aged 80 years has total income of ₹110,00,000
(x) Mrs. X (resident), aged 80 years has total income of ₹99,99,000
(xi) Mr. X (non-resident), aged 80 years has total income of ₹50,80,000
(xii) Mrs. X (non-resident), aged 80 years has total income of ₹50,20,000

Answer = (i) Tax Liability: ₹32,22,700; (ii) ₹34,25,500; (iii) ₹28,74,300; (iv) ₹12,900; (v) Nil (vi) ₹34,27,840; (vii) ₹5,85,000; (viii) ₹10,400; (ix) Nil ; (x) ₹37,07,600; (xi) ₹32,17,160; (xii) ₹1,79,400; (xiii) ₹71,59,450; (xiv) ₹1,94,64,250

Problem 3.
Compute tax liability in the following cases for the assessment year 2020-21.
(i) Mr. X (resident) has total income of ₹50,20,000
(ii) Mr. X (non-resident) has total income of ₹53,00,000
(iii) Mrs. X (resident) has total income of ₹51,00,000
(iv) Mr. X (resident), aged 60 years has total income of ₹54,00,000
(v) Mr. X (non-resident), aged 80 years has total income of ₹51,22,000
(vi) Mrs. X (non-resident), aged 80 years has total income of ₹50,80,000

Answer = (i) Tax Liability: ₹13,85,800; (ii) ₹16,04,460; (iii) ₹14,66,400; (iv) ₹16,24,480; (v) ₹14,91,880; (vi) ₹14,48,200

Problem 4.
Compute tax liability in the following cases for the assessment year 2020-21.
(i) Mr. X (resident) has total income of ₹4,90,000
(ii) Mr. X (non-resident) has total income of ₹4,90,000
(iii) Mrs. X (resident) has total income of ₹4,90,000
(iv) Mrs. X (non-resident) has total income of ₹4,90,000
(v) Mr. X (resident), aged 60 years has total income of ₹4,90,000
(vi) Mrs. X (resident), aged 60 years has total income of ₹4,90,000
(vii) Mr. X (non-resident), aged 60 years has total income of ₹4,90,000
(viii) Mrs. X (non-resident), aged 60 years has total income of ₹4,90,000
(ix) Mr. X (resident), aged 80 years has total income of ₹4,90,000
(x) Mrs. X (resident), aged 80 years has total income of ₹4,90,000
(xi) Mr. X (non-resident), aged 80 years has total income of ₹4,90,000
(xii) Mrs. X (non-resident), aged 80 years has total income of ₹4,90,000

Answer = (i) Tax Liability: Nil; (ii) ₹12,480; (iii) Nil; (iv) ₹12,480; (v) Nil; (vi) Nil; (vii) ₹12,480; (viii) ₹12,480; (ix) Nil; (x) Nil; (xi) ₹12,480; (xii) ₹12,480

Problem 5.
Mr. X has income asunder:
- Income under the head salary 2,40,000
- Income under the head house property 1,55,000
- Income under the head business/profession 3,30,000
- Long term capital gains 1,20,000
- Short term capital gains 35,000
- Casual income (winnings of lottery) 65,000
- Deductions allowed under section 80C to 80U 45,000

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

Answer = Tax Liability: ₹1,02,960

(b) Presume the assessee is Mrs. X.
Answer = Tax Liability: ₹1,02,960

(c) Presume the assessee is Mr. X, aged 65 years.
Answer = Tax Liability: ₹1,00,360

(d) Presume the assessee is Mrs. X (non-resident).
Answer = Tax Liability: ₹1,02,960

(e) Presume the assessee is Mr. X (non-resident) aged 65 years.
Answer = Tax Liability: ₹1,02,960

(f) Presume the assessee is Mr. X, aged 85 years.
Answer = Tax Liability: ₹89,960

(g) Presume the assessee is Mr. X (non-resident) aged 85 years.
Answer = Tax Liability: ₹1,02,960

Problem 6.
Compute tax liability for the assessment year 2020-21 in the following situations:
(i) Mr. X is resident in India and has income under the head house property ₹50,000 and income under the head salary ₹30,000 and long term capital gains ₹8,00,000.
(ii) Presume in the above situation the assessee is Mrs. X.
(iii) Presume in the above situation the assessee is Mrs. X and she is aged about 70 years.
(iv) Presume in the above situation the assessee is Mr. X and he is aged about 70 years.
(v) Presume in the above situation the assessee is Mrs. X and she is aged about 87 years.
(vi) Presume in the above situation the assessee is Mr. X and he is aged about 87 years.
(vii) Presume in all the above situations, the assessee is non-resident in India.

**Answer** = (i) ₹1,31,040; (ii) ₹1,31,040; (iii) ₹1,20,640; (iv) ₹1,20,640; (v) ₹79,040; (vi) ₹79,040; (vii) Situation (i): ₹1,66,400; Situation (ii): ₹1,66,400; Situation (iii): ₹1,66,400; Situation (iv): ₹1,66,400; (v): ₹1,66,400; Situation (vi): ₹1,66,400

**Problem 7.**
Compute tax liability for the assessment year 2020-21 in the following situations:

(i) Mr. X is resident in India and his incomes are as follows:
   (a) Income under the head Salary ₹90,000
   (b) Income under the head House Property ₹60,000
   (c) Long term capital gains ₹2,30,000
   (d) Short term capital gain under section 111A ₹2,40,000
   (e) Casual Income ₹70,000
   (f) Deduction under section 80C to 80U ₹2,00,000

(ii) Presume in the above situation the assessee is Mrs. X.
(iii) Presume in the above situation the assessee is Mrs. X and she is aged about 70 years.
(iv) Presume in the above situation the assessee is Mr. X and he is aged about 70 years.
(v) Presume in the above situation the assessee is Mr. X and he is aged about 70 years old and he is non-resident.
(vi) Presume in the above situation the assessee is Mrs. X and she is aged about 82 years.
(vii) Presume in the above situation the assessee is Mr. X and he is aged about 82 years.
(viii) Presume in the above situation the assessee is Mr. X and he is aged about 82 years old and he is non-resident.

**Answer** = (i) ₹56,160; (ii) ₹56,160; (iii) ₹48,360; (iv) ₹48,360; (v) ₹1,07,120; (vi) ₹21,840; (vii) ₹21,840; (viii) ₹1,07,120

**Problem 8**
Compute tax liability in the following situations:

(i) Mrs. X has income under the head House Property ₹8,42,324.
(ii) Mr. X has income under the head Business Profession ₹14,42,336.
(iii) Mr. X aged 66 years has long term capital gains ₹11,35,335.
(iv) Mr. X has long term capital gains of ₹13,35,334.90.
(v) Mrs. X has short term capital gains under section 111A ₹10,20,335.
(vi) Mrs. X, non-resident, has long term capital gains ₹5,40,337.
(vii) Mr. X, non-resident, aged about 66 years has winning of a lottery ₹7,20,000.
(viii) Mr. X aged 86 years has long term capital gains ₹15,65,385.
(ix) Mr. X, non-resident, aged about 90 years has winning of a lottery ₹10,20,000.

**Answer** = (i) ₹84,200; (ii) ₹2,55,010; (iii) ₹1,73,750; (iv) ₹2,25,750; (v) ₹1,20,170; (vi) ₹1,12,390; (vii) ₹2,24,640; (viii) ₹2,21,600; (ix) ₹3,18,240

**Problem 9.**
Compute tax liability of ABC Ltd. a domestic company in the following situations for assessment year 2020-21:

(i) The company has income under the head Business/Profession ₹70,000.
(ii) The company has income under the head Business/Profession ₹150,00,000.
(iii) The company has income under the head Business/Profession ₹6,00,000.
(iv) The company has income under the head Business/Profession ₹10,30,000.
(v) The company has long term capital gains of ₹700,00,000.
(vi) The company has long term capital gains of ₹1,50,000.
(vii) The company has long term capital gains of ₹6,00,000.
(viii) The company has long term capital gains of ₹10,30,000.
(ix) The company has casual income ₹400,00,000.
Computation of Total Income And Tax Liability

\[ \text{Answer} = (i) \text{ Tax Liability: } 21,840; (ii) 50,07,600; (iii) 1,87,200; (iv) 3,21,360; (v) 155,79,200; (vi) 31,200; (vii) 1,24,800; (viii) 2,14,240; (ix) 133,53,600 \]

(b) Presume all the above situations the company is a foreign company.
\[ \text{Answer} = (i) \text{ Tax Liability: } 29,120; (ii) 63,64,800; (iii) 2,49,600; (iv) 4,28,480; (v) 148,51,200; (vi) 31,200; (vii) 1,24,800; (viii) 2,14,240; (ix) 127,29,600 \]

**Problem 10.**
ABC (HUF) has incomes as given below:
1. Income under the head Business/Profession \( \text{₹} 6,00,000 \)
2. Income under the head House Property \( \text{₹} 4,00,000 \)
3. Long term capital gains \( \text{₹} 4,50,000 \)
4. Short term capital gains under section 111A \( \text{₹} 3,50,000 \)
5. Casual Income \( \text{₹} 3,50,000 \)
6. Deductions allowed under section 80C to 80U \( \text{₹} 1,25,000 \)
Compute tax liability of HUF for the assessment year 2020-21.
\[ \text{Answer} = \text{Tax Liability: } 3,48,400 \]

**Problem 11.**
Mr. X has income under the head salary \( \text{₹} 3,00,000 \) and income under the head house property \( \text{₹} 16,00,000 \) and long term capital gain \( \text{₹} 1,00,000 \) and agricultural income \( \text{₹} 4,00,000 \). Deductions allowed under section 80C to 80U \( \text{₹} 1,25,000 \).
Compute his income and tax liability for Assessment Year 2020-21.
\[ \text{Answer} = \text{Total Income: } 19,40,000; \text{ Tax Liability: } 4,80,480 \]

(b) Presume assessee is Mrs. X and is aged 64 years.
\[ \text{Answer} = \text{Total Income: } 19,40,000; \text{ Tax Liability: } 4,70,080 \]

**Problem 12.**
Mr. X has income under the head house property \( \text{₹} 3,00,000 \) and long term capital gain \( \text{₹} 5,00,000 \) and agricultural income \( \text{₹} 3,00,000 \). Deductions under section 80C to 80U \( \text{₹} 1,00,000 \).
Compute his income and tax liability for Assessment Year 2020-21.
\[ \text{Answer} = \text{Total Income: } 7,00,000; \text{ Tax Liability: } 93,600 \]

(b) Presume Mr. X is aged 82 years
\[ \text{Answer} = \text{Total Income: } 7,00,000; \text{ Tax Liability: } 41,600 \]

**Problem 13.**
Mrs. X has casual income \( \text{₹} 5,00,000 \) and short term capital gain under section 111A \( \text{₹} 7,00,000 \) and agricultural income \( \text{₹} 3,00,000 \).
Compute her tax liability for Assessment Year 2020-21.
\[ \text{Answer} = \text{Tax Liability: } 2,26,200 \]

(b) Presume she is non-resident and is aged 63 years.
\[ \text{Answer} = \text{Tax Liability: } 2,65,200 \]

**Problem 14.**
Mr. X has agricultural income \( \text{₹} 10,00,000 \) and income from business \( \text{₹} 12,00,000 \) and casual income \( \text{₹} 5,00,000 \) and he has completed the age of 80 years on 31.03.2020. Compute his tax liability Assessment Year 2020-21.
\[ \text{Answer} = \text{Tax Liability: } 3,74,400 \]
Problem 15.
Mrs. X has income as given below:

| Income under the head Salary             | ₹ 3,00,000 |
| Income under the head House Property     | ₹ 1,00,000 |
| Short Term Capital Gain                  | ₹ 50,000   |
| Short Term Capital Gain111A              | ₹ 2,00,000 |
| Long Term Capital Gain                   | ₹ 1,50,000 |
| Casual Income                            | ₹ 70,000   |
| Deduction u/s 80C to 80U                 | ₹ 1,10,000 |
| Agricultural Income                      | ₹ 5,00,000 |

Compute her Tax Liability for the A.Y.2020-21

**Answer** = Tax Liability: ₹1,02,960

(b) Presume in above she is aged 81 years.

**Answer** = Tax Liability: ₹51,480

(c) Presume in (a) above she is Non Resident and deduction u/s 80C-80U is ₹3,00,000.

**Answer** = Tax Liability: ₹84,240

Problem 16.
Mrs. X has income under the head house property ₹2,00,000 and long term capital gain ₹10,00,000 and agricultural income ₹7,00,000. Deduction under section 80C to 80U ₹60,000.

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

**Answer** = Total Income: ₹11,40,000; Tax Liability: ₹1,85,120

(b) Presume Mrs. X is aged 79 years and income under the head house property is ₹10,00,000

**Answer** = Total Income: ₹19,40,000; Tax Liability: ₹4,07,680

Problem 17.
ABC Ltd., a domestic company has total income of ₹500,00,000 and company has distributed dividend of ₹65,00,000 and one of the shareholder Mr. X has received dividend of ₹5,00,000. Compute tax liability and additional tax liability of the company and also that of the shareholder.

**Answer** = Income tax liability ₹166,92,000 and additional income tax liability ₹13,76,110. Tax liability of shareholder is Nil.

(b) Presume that ABC Ltd. is a foreign company.

**Answer** = Income tax liability ₹212,16,000 and additional income tax liability is nil. Tax liability of shareholder Nil.
SOLUTIONS
TO
PRACTICE PROBLEMS

Solution 1:

(i) Computation of Tax Liability

Total Income: 22,00,000
Tax on ₹22,00,000 at slab rate: 4,72,500
Add: HEC @ 4%: 18,900
Tax Liability: 4,91,400

(ii) Computation of Tax Liability

Total Income: 22,00,000
Tax on ₹22,00,000 at slab rate: 4,72,500
Add: HEC @ 4%: 18,900
Tax Liability: 4,91,400

(iii) Computation of Tax Liability

Total Income: 22,00,000
Tax on ₹22,00,000 at slab rate: 4,72,500
Add: HEC @ 4%: 18,900
Tax Liability: 4,91,400

(iv) Computation of Tax Liability

Total Income: 22,00,000
Tax on ₹22,00,000 at slab rate: 4,72,500
Add: HEC @ 4%: 18,900
Tax Liability: 4,91,400

(v) Computation of Tax Liability

Total Income: 22,00,000
Tax on ₹22,00,000 at slab rate: 4,72,500
Add: HEC @ 4%: 18,900
Tax Liability: 4,91,400

(vi) Computation of Tax Liability

Total Income: 22,00,000
Tax on ₹22,00,000 at slab rate: 4,72,500
Add: HEC @ 4%: 18,800
Tax Liability: 4,88,800

(vii) Computation of Tax Liability

Total Income: 22,00,000
Tax on ₹22,00,000 at slab rate: 4,72,500
Add: HEC @ 4%: 18,900
Tax Liability: 4,91,400

(viii) Computation of Tax Liability

Total Income: 22,00,000
Tax on ₹22,00,000 at slab rate: 4,72,500
Add: HEC @ 4%: 18,900
Tax Liability: 4,91,400

(ix) Computation of Tax Liability

Total Income: 22,00,000
Tax on ₹22,00,000 at slab rate: 4,60,000
Add: HEC @ 4% 18,400
Tax Liability 4,78,400

(x) Computation of Tax Liability
Total Income 22,00,000
Tax on ₹22,00,000 at slab rate 4,60,000
Add: HEC @ 4% 18,400
Tax Liability 4,78,400

(xi) Computation of Tax Liability
Total Income 22,00,000
Tax on ₹22,00,000 at slab rate 4,72,500
Add: HEC @ 4% 18,900
Tax Liability 4,91,400

(xii) Computation of Tax Liability
Total Income 22,00,000
Tax on ₹22,00,000 at slab rate 4,72,500
Add: HEC @ 4% 18,900
Tax Liability 4,91,400

Solution 2:

(i) Computation of Tax Liability
Total Income 100,05,000.00
Tax on ₹100,05,000 at slab rate 28,14,000.00
Add: Surcharge @ 15% 4,22,100.00
Tax before marginal relief 32,36,100.00
Less: Marginal Relief 1,37,350.00
Marginal Relief (1,42,350– 5,000) 1,37,350

Working Note:
Tax + surcharge on income of ₹100,05,000 32,36,100
Tax + surcharge on income of ₹100,00,000 (30,93,750)
Increase in tax 1,42,350
Increase in income 5,000
Marginal Relief (1,42,350– 5,000) 1,37,350

Tax after marginal relief 30,98,750.00
Add: HEC @ 4% 1,23,950.00
Tax Liability 32,22,700.00

(ii) Computation of Tax Liability
Total Income 102,00,000.00
Tax on ₹102,00,000 at slab rate 28,72,500.00
Add: Surcharge @ 15% 4,30,875.00
Tax before marginal relief 33,03,375.00
Less: Marginal Relief 9,625.00
Marginal Relief (2,09,625 – 2,00,000) 9,625

Working Note:
Tax + surcharge on income of ₹102,00,000 33,03,375
Tax on income of ₹100,00,000 (30,93,750)
Increase in tax 2,09,625
Increase in income 2,00,000
Marginal Relief (2,09,625 – 2,00,000) 9,625

Tax after marginal relief 32,93,750.00
Add: HEC @ 4% 1,31,750.00
Tax Liability 34,25,500.00

(iii) Computation of Tax Liability
Total Income 90,00,000.00
Tax on ₹90,00,000 at slab rate 25,12,500.00
Add: Surcharge @ 10% 2,51,250.00
Computation of Total Income And Tax Liability

Tax before health & education cess 27,63,750.00
Add: HEC @ 4% 1,10,550.00
Tax Liability 28,74,300.00

(iv) Computation of Tax Liability

Total Income 4,98,000.00
Tax on ₹4,98,000 at slab rate 12,400.00
Add: HEC @ 4% 496.00
Tax Liability 12,896.00
Rounded off u/s 288B 12,900.00

(v) Computation of Tax Liability

Total Income 102,05,000.00
Tax on ₹102,05,000 at slab rate 28,71,500.00
Add: Surcharge @ 15% 4,30,725.00
Tax before marginal relief 33,02,225.00
Less: Marginal Relief 6,225.00
Working Note:
Tax + surcharge on income of ₹102,05,000 33,02,225
Tax on income of ₹100,00,000 (30,91,000)
Increase in tax 2,11,225
Increase in income 2,05,000
Marginal Relief (2,11,225 – 2,05,000) 6,225
Tax after marginal relief 32,96,000.00
Add: HEC @ 4% 1,31,840.00
Tax Liability 34,27,840.00

(vii) Computation of Tax Liability

Total Income 25,00,000.00
Tax on ₹25,00,000 at slab rate 5,62,500.00
Add: HEC @ 4% 22,500.00
Tax Liability 5,85,000.00

(ix) Computation of Tax Liability

Total Income 3,80,000.00
Tax on ₹3,80,000 at slab rate Nil
Tax Liability Nil

(x) Computation of Tax Liability

Total Income 110,00,000.00
Tax on ₹110,00,000 at slab rate 31,00,000.00
Add: Surcharge @ 15% 4,65,000.00
Tax before health & education cess 35,65,000.00
Add: HEC @ 4% 1,42,600.00
Tax Liability 37,07,600.00
Computation of Total Income And Tax Liability

(xi) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>99,99,000.00</td>
</tr>
<tr>
<td>Tax on ₹ 99,99,000 at slab rate</td>
<td>28,12,200.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>2,81,220.00</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>30,93,420.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,23,736.80</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>32,17,156.80</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>32,17,160.00</td>
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</table>

(xii) Computation of Tax Liability

<table>
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<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>12,00,000.00</td>
</tr>
<tr>
<td>Tax on ₹ 12,00,000 at slab rate</td>
<td>1,72,500.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>6,900.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,79,400.00</td>
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(xiii) Computation of Tax Liability

<table>
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<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>202,00,000.00</td>
</tr>
<tr>
<td>Tax on ₹ 202,00,000 at slab rate</td>
<td>58,72,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 25%</td>
<td>14,68,125.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>73,40,625.00</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>73,40,625.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge @ 25% on income of ₹ 202,00,000</td>
<td>73,40,625</td>
</tr>
<tr>
<td>Tax + surcharge @ 15% on income of ₹ 200,00,000</td>
<td>(66,84,375)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>6,56,250</td>
</tr>
<tr>
<td>Increase in income</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Marginal Relief (6,56,250 – 2,00,000)</td>
<td>4,56,250</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Tax after marginal relief</td>
<td>68,84,375.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>2,75,375.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>71,59,750.00</td>
</tr>
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</table>

(xiv) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>502,00,000.00</td>
</tr>
<tr>
<td>Tax on ₹ 502,00,000 at slab rate</td>
<td>1,48,72,500</td>
</tr>
<tr>
<td>Add: Surcharge @ 37%</td>
<td>55,02,825.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>2,03,75,325</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>2,03,75,325</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge @ 37% on income of ₹ 502,00,000</td>
<td>203,75,325</td>
</tr>
<tr>
<td>Tax + surcharge @ 25% on income of ₹ 500,00,000 (1,85,15,625)</td>
<td>(1,85,15,625)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>18,59,700</td>
</tr>
<tr>
<td>Increase in income</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Marginal Relief (18,59,700 – 2,00,000)</td>
<td>16,59,700</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax after marginal relief</td>
<td>1,87,15,625</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>7,48,625.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,94,64,250</td>
</tr>
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</table>

Solution 3:

(i) Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>50,20,000.00</td>
</tr>
<tr>
<td>Tax on ₹ 50,20,000 at slab rate</td>
<td>13,18,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,31,850.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>14,50,350.00</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(1,17,850)</td>
</tr>
</tbody>
</table>
Working Note:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge on income of ₹50,20,000</td>
<td>14,50,350</td>
</tr>
<tr>
<td>Tax on income of ₹50,00,000</td>
<td>(13,12,500)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>1,37,850</td>
</tr>
<tr>
<td>Increase in income</td>
<td>20,000</td>
</tr>
<tr>
<td>Marginal Relief (1,37,850 –20,000)</td>
<td>1,17,850</td>
</tr>
<tr>
<td>Tax after marginal relief</td>
<td>13,32,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>53,300</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>13,85,800</td>
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(ii) Computation of Tax Liability

<table>
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<th>Description</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Total Income</td>
<td>53,00,000.00</td>
</tr>
<tr>
<td>Tax on ₹53,00,000 at slab rate</td>
<td>14,02,500.00</td>
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<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,40,250.00</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>15,42,750.00</td>
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<tr>
<td>Add: HEC @ 4%</td>
<td>61,710.00</td>
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<tr>
<td>Tax Liability</td>
<td>16,04,460.00</td>
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(iii) Computation of Tax Liability

<table>
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<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>51,00,000</td>
</tr>
<tr>
<td>Tax on ₹51,00,000 at slab rate</td>
<td>13,40,000</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,34,000</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>14,74,000</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(64,000)</td>
</tr>
</tbody>
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Working Note:

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge on income of ₹51,00,000</td>
<td>14,74,000</td>
</tr>
<tr>
<td>Tax on income of ₹50,00,000</td>
<td>(13,10,000)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>1,64,000</td>
</tr>
<tr>
<td>Increase in income</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Marginal Relief (1,64,000 –1,00,000)</td>
<td>64,000</td>
</tr>
<tr>
<td>Tax after marginal relief</td>
<td>14,10,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>56,400</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>14,66,400</td>
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(iv) Computation of Tax Liability

<table>
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<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Total Income</td>
<td>54,00,000.00</td>
</tr>
<tr>
<td>Tax on ₹54,00,000 at slab rate</td>
<td>14,20,000.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,40,200.00</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>15,62,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>62,480.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>16,24,480.00</td>
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(v) Computation of Tax Liability

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>51,22,000.00</td>
</tr>
<tr>
<td>Tax on ₹51,22,000 at slab rate</td>
<td>13,49,100.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,34,910.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>14,84,010.00</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(49,510)</td>
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Working Note:

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Tax + surcharge on income of ₹51,22,000</td>
<td>14,84,010</td>
</tr>
<tr>
<td>Tax on income of ₹50,00,000</td>
<td>(13,12,500)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>1,71,510</td>
</tr>
<tr>
<td>Increase in income</td>
<td>1,22,000</td>
</tr>
<tr>
<td>Marginal Relief (1,71,510 –1,22,000)</td>
<td>49,510</td>
</tr>
<tr>
<td>Tax after marginal relief</td>
<td>14,34,500.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>57,380.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>14,91,880.00</td>
</tr>
</tbody>
</table>
(vi) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>50,80,000.00</td>
</tr>
<tr>
<td>Tax on ₹50,80,000 at slab rate</td>
<td>13,36,500.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,33,650.00</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>14,70,150.00</td>
</tr>
<tr>
<td>Less: Marginal Relief</td>
<td>(77,650)</td>
</tr>
</tbody>
</table>

**Working Note:**
- Tax + surcharge on income of ₹50,80,000 = 14,70,150
- Tax on income of ₹50,00,000 = (13,12,500)
- Increase in tax = 1,57,650
- Increase in income = 80,000
- Marginal Relief = (1,57,650 – 80,000) = 77,650
- Tax after marginal relief = 13,92,500.00
- Add: HEC @ 4% = 55,700.00
- Tax Liability = 14,48,200.00

**Solution 4:**

(i) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>12,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,000)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(ii) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>12,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>480</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>12,480</td>
</tr>
</tbody>
</table>

**Note:** Rebate under section 87A is not allowed to non-resident.

(iii) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>12,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,000)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(iv) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>12,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>480</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>12,480</td>
</tr>
</tbody>
</table>

**Note:** Rebate under section 87A is not allowed to non-resident.

(v) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>9,500</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(9,500)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(vi) **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>4,90,000</td>
</tr>
<tr>
<td>Tax on ₹4,90,000 at slab rate</td>
<td>9,500</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(9,500)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>
(vii) Computation of Tax Liability
Total Income 4,90,000
Tax on ₹4,90,000 at slab rate 12,000
Add: HEC @ 4% 480
Tax Liability 12,480
Note: Rebate under section 87A is not allowed to non-resident.

(viii) Computation of Tax Liability
Total Income 4,90,000
Tax on ₹4,90,000 at slab rate 12,000
Add: HEC @ 4% 480
Tax Liability 12,480
Note: Rebate under section 87A is not allowed to non-resident.

(ix) Computation of Tax Liability
Total Income 4,90,000
Tax Liability Nil

(x) Computation of Tax Liability
Total Income 4,90,000
Tax Liability Nil

(xi) Computation of Tax Liability
Total Income 4,90,000
Tax on ₹4,90,000 at slab rate 12,000
Add: HEC @ 4% 480
Tax Liability 12,480
Note: Rebate under section 87A is not allowed to non-resident.

(xii) Computation of Tax Liability
Total Income 4,90,000
Tax on ₹4,90,000 at slab rate 12,000
Add: HEC @ 4% 480
Tax Liability 12,480
Note: Rebate under section 87A is not allowed to non-resident.

Solution 5:

Computation of Total Income
Income under the head Salary 2,40,000
Income under the head House Property 1,55,000
Income under the head Business/Profession 3,30,000
Income under the head Capital gains
  Long term capital gains 1,20,000
  Short term capital gains 35,000
Income under the head Other Sources (Casual Income) 65,000
Gross Total Income 9,45,000
Less: Deductions u/s 80C to 80U 45,000
Total Income 9,00,000

Computation of Tax Liability
Tax on Long term capital gains ₹1,20,000 @ 20% u/s 112 24,000
Tax on Casual Income ₹65,000 @ 30% u/s 115BB 19,500
Tax on Normal income ₹7,15,000 at slab rate 55,500
Tax before health & education cess 99,000
Add: HEC @ 4% 3,960
Tax Liability 1,02,960

Solution 5(b):
Total Income 9,00,000
### Computation of Tax Liability

**Solution 5(c):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>₹ 9,00,000</td>
</tr>
<tr>
<td>Tax on Long term capital gains @ 20% u/s 112</td>
<td>₹ 24,000</td>
</tr>
<tr>
<td>Tax on Casual Income @ 30% u/s 115BB</td>
<td>₹ 19,500</td>
</tr>
<tr>
<td>Tax on Normal income @ 7,15,000 at slab rate</td>
<td>₹ 55,500</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹ 99,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹ 3,960</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹ 1,02,960</td>
</tr>
</tbody>
</table>

**Solution 5(d):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>₹ 9,00,000</td>
</tr>
<tr>
<td>Tax on Long term capital gains @ 20% u/s 112</td>
<td>₹ 24,000</td>
</tr>
<tr>
<td>Tax on Casual Income @ 30% u/s 115BB</td>
<td>₹ 19,500</td>
</tr>
<tr>
<td>Tax on Normal income @ 7,15,000 at slab rate</td>
<td>₹ 55,500</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹ 99,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹ 3,860</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹ 1,00,360</td>
</tr>
</tbody>
</table>

**Solution 5(e):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>₹ 9,00,000</td>
</tr>
<tr>
<td>Tax on Long term capital gains @ 20% u/s 112</td>
<td>₹ 24,000</td>
</tr>
<tr>
<td>Tax on Casual Income @ 30% u/s 115BB</td>
<td>₹ 19,500</td>
</tr>
<tr>
<td>Tax on Normal income @ 7,15,000 at slab rate</td>
<td>₹ 55,500</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹ 99,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹ 3,960</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹ 1,02,960</td>
</tr>
</tbody>
</table>

**Solution 5(f):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>₹ 9,00,000</td>
</tr>
<tr>
<td>Tax on Long term capital gains @ 20% u/s 112</td>
<td>₹ 24,000</td>
</tr>
<tr>
<td>Tax on Casual Income @ 30% u/s 115BB</td>
<td>₹ 19,500</td>
</tr>
<tr>
<td>Tax on Normal income @ 7,15,000 at slab rate</td>
<td>₹ 43,000</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹ 86,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹ 3,460</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹ 89,960</td>
</tr>
</tbody>
</table>

**Solution 5(g):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>₹ 9,00,000</td>
</tr>
<tr>
<td>Tax on Long term capital gains @ 20% u/s 112</td>
<td>₹ 24,000</td>
</tr>
<tr>
<td>Tax on Casual Income @ 30% u/s 115BB</td>
<td>₹ 19,500</td>
</tr>
</tbody>
</table>
Solution 6:

(i)

Computation of Total Income

| Income under the head Salary | 30,000 |
| Income under the head House Property | 50,000 |
| Income under the head Capital Gains (LTCG) | 8,00,000 |

Gross Total Income

8,80,000

Less: Deduction u/s 80C to 80U

Nil

Total Income

8,80,000

Computation of Tax Liability

Tax on LTCG ₹6,30,000 (8,00,000 – 1,70,000) @ 20% u/s 112

1,26,000

Tax on ₹80,000 at slab rate

Nil

Tax before health & education cess

1,26,000

Add: HEC @ 4%

5,040

Tax Liability

1,31,040

(ii)

Total Income

8,80,000

Computation of Tax Liability

Tax on LTCG ₹6,30,000 (8,00,000 – 1,70,000) @ 20% u/s 112

1,26,000

Tax on ₹80,000 at slab rate

Nil

Tax before health & education cess

1,26,000

Add: HEC @ 4%

5,040

Tax Liability

1,31,040

(iii)

Total Income

8,80,000

Computation of Tax Liability

Tax on LTCG ₹5,80,000 (8,00,000 – 2,20,000) @ 20% u/s 112

1,16,000

Tax on ₹80,000 at slab rate

Nil

Tax before health & education cess

1,16,000

Add: HEC @ 4%

4,640

Tax Liability

1,20,640

(iv)

Total Income

8,80,000

Computation of Tax Liability

Tax on LTCG ₹5,80,000 (8,00,000 – 2,20,000) @ 20% u/s 112

1,16,000

Tax on ₹80,000 at slab rate

Nil

Tax before health & education cess

1,16,000

Add: HEC @ 4%

4,640

Tax Liability

1,20,640

(v)

Total Income

8,80,000

Computation of Tax Liability

Tax on LTCG ₹3,80,000 (8,00,000 – 4,20,000) @ 20% u/s 112

76,000

Tax on ₹80,000 at slab rate

Nil

Tax before health & education cess

76,000

Add: HEC @ 4%

3,040

Tax Liability

79,040
Computation of Total Income And Tax Liability

(vi)
Total Income                                      8,80,000

Computation of Tax Liability
Tax on LTCG ₹3,80,000 (8,00,000 – 4,20,000) @ 20% u/s 112  76,000
Tax on ₹80,000 at slab rate                             Nil
Tax before health & education cess                     76,000
Add: HEC @ 4%                                          3,040
Tax Liability                                         79,040

(vii) In situation (i)
Total Income                                                 8,80,000

Computation of Tax Liability
Tax on LTCG ₹8,00,000 @ 20% u/s 112                    1,60,000
Tax on ₹80,000 at slab rate                             Nil
Tax before health & education cess                     1,60,000
Add: HEC @ 4%                                          6,400
Tax Liability                                         1,66,400

In situation (ii)
Total Income                                                 8,80,000

Computation of Tax Liability
Tax on LTCG ₹8,00,000 @ 20% u/s 112                    1,60,000
Tax on ₹80,000 at slab rate                             Nil
Tax before health & education cess                     1,60,000
Add: HEC @ 4%                                          6,400
Tax Liability                                         1,66,400

In situation (iii)
Total Income                                                 8,80,000

Computation of Tax Liability
Tax on LTCG ₹8,00,000 @ 20% u/s 112                    1,60,000
Tax on ₹80,000 at slab rate                             Nil
Tax before health & education cess                     1,60,000
Add: HEC @ 4%                                          6,400
Tax Liability                                         1,66,400

In situation (iv)
Total Income                                                 8,80,000

Computation of Tax Liability
Tax on LTCG ₹8,00,000 @ 20% u/s 112                    1,60,000
Tax on ₹80,000 at slab rate                             Nil
Tax before health & education cess                     1,60,000
Add: HEC @ 4%                                          6,400
Tax Liability                                         1,66,400

In situation (v)
Total Income                                                 8,80,000

Computation of Tax Liability
Tax on LTCG ₹8,00,000 @ 20% u/s 112                    1,60,000
Tax on ₹80,000 at slab rate                             Nil
Tax before health & education cess                     1,60,000
Add: HEC @ 4%                                          6,400
Tax Liability                                         1,66,400

In situation (vi)
Total Income                                                 8,80,000

Computation of Tax Liability
Tax on LTCG ₹8,00,000 @ 20% u/s 112                    1,60,000
Tax on ₹80,000 at slab rate                             Nil
Computation of Total Income And Tax Liability

Solution 7:

(i)

Computation of Total Income

<table>
<thead>
<tr>
<th>Income under the head</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>90,000</td>
</tr>
<tr>
<td>House Property</td>
<td>60,000</td>
</tr>
<tr>
<td>Capital Gains</td>
<td></td>
</tr>
<tr>
<td>Long term capital gains u/s 111A</td>
<td>2,30,000</td>
</tr>
<tr>
<td>Short term capital gains u/s 111A</td>
<td>2,40,000</td>
</tr>
<tr>
<td>Other Sources (Casual Income)</td>
<td>70,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>6,90,000</strong></td>
</tr>
</tbody>
</table>

Less: Deduction u/s 80C to 80U (1,50,000)

**Total Income** | **5,40,000**

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Income under the head</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTCG</td>
<td>Nil</td>
</tr>
<tr>
<td>STCG</td>
<td>33,000</td>
</tr>
<tr>
<td>Casual Income</td>
<td>21,000</td>
</tr>
<tr>
<td>Normal income at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Health &amp; education cess</td>
<td>54,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>2,160</td>
</tr>
<tr>
<td><strong>Tax Liability</strong></td>
<td><strong>56,160</strong></td>
</tr>
</tbody>
</table>

(ii)

Total Income | 5,40,000

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Income under the head</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTCG</td>
<td>Nil</td>
</tr>
<tr>
<td>STCG</td>
<td>25,500</td>
</tr>
<tr>
<td>Casual Income</td>
<td>21,000</td>
</tr>
<tr>
<td>Normal income at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Health &amp; education cess</td>
<td>46,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,860</td>
</tr>
<tr>
<td><strong>Tax Liability</strong></td>
<td><strong>48,360</strong></td>
</tr>
</tbody>
</table>

(iii)

Total Income | 5,40,000

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Income under the head</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTCG</td>
<td>Nil</td>
</tr>
<tr>
<td>STCG</td>
<td>25,500</td>
</tr>
<tr>
<td>Casual Income</td>
<td>21,000</td>
</tr>
<tr>
<td>Normal income at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Health &amp; education cess</td>
<td>46,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,860</td>
</tr>
<tr>
<td><strong>Tax Liability</strong></td>
<td><strong>48,360</strong></td>
</tr>
</tbody>
</table>

(iv)

Total Income | 5,40,000

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Income under the head</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTCG</td>
<td>Nil</td>
</tr>
<tr>
<td>STCG</td>
<td>25,500</td>
</tr>
<tr>
<td>Casual Income</td>
<td>21,000</td>
</tr>
<tr>
<td>Normal income at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Health &amp; education cess</td>
<td>46,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,860</td>
</tr>
</tbody>
</table>

Tax before health & education cess 1,60,000
Add: HEC @ 4% 6,400
Tax Liability 1,66,400
### Computation of Total Income And Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>5,40,000</td>
</tr>
</tbody>
</table>

#### Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹2,30,000 @ 20% u/s 112</td>
<td>46,000</td>
</tr>
<tr>
<td>Tax on STCG ₹2,40,000 @ 15% u/s 111A</td>
<td>36,000</td>
</tr>
<tr>
<td>Tax on Casual Income ₹70,000 @ 30% u/s 115BB</td>
<td>21,000</td>
</tr>
<tr>
<td>Tax on normal income at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>1,03,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>4,120</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,07,120</td>
</tr>
</tbody>
</table>

#### Solution 8:

(i) Income under the head House Property ₹8,42,324.00
(Gross Total Income ₹8,42,324.00)
Less: Deduction u/s 80C to 80U Nil
Total Income ₹8,42,324.00
Rounded off u/s 288A ₹8,42,320.00

#### Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹8,42,320 slab rate</td>
<td>80,964.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,238.56</td>
</tr>
</tbody>
</table>
Tax Liability
Rounded off u/s 288B

(ii)
Income under the head Business/Profession
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income
Rounded off u/s 288A

Computation of Tax Liability
Tax on ₹14,42,340 slab rate
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B

(iii)
Income under the head Capital Gains (LTCG)
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income
Rounded off u/s 288A

Computation of Tax Liability
Tax on ₹18,35,340 (11,35,340 – 3,00,000) @ 20% u/s 112
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B

(iv)
Income under the head Capital Gains (LTCG)
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income
Rounded off u/s 288A

Computation of Tax Liability
Tax on ₹10,85,330 (13,35,330 – 2,50,000) @ 20% u/s 112
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B

(v)
Income under the head Capital Gains (STCG)
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income
Rounded off u/s 288A

Computation of Tax Liability
Tax on ₹7,70,340 (10,20,340 – 2,50,000) @ 15% u/s 111A
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B

(vi)
Income under the head Capital Gains (LTCG)
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income
Rounded off u/s 288A
Computation of Tax Liability

(i) Computation of Tax Liability
Income under the head Business/Profession 70,000
Total Income 70,000
Tax on ₹70,000 @ 30% 21,000
Add: HEC @ 4% 840
Tax Liability 21,840

(ii) Computation of Tax Liability
Income under the head Business/Profession 150,00,000
Total Income 150,00,000
Tax on ₹150,00,000 @ 30% 45,00,000
Add: Surcharge @ 7% 3,15,000
Add: HEC @ 4% 1,92,600
Tax Liability 50,07,600

Solution 9:


(i) Computation of Tax Liability
Income under the head Business/Profession 70,000
Total Income 70,000
Tax on ₹70,000 @ 30% 21,000
Add: HEC @ 4% 840
Tax Liability 21,840

(ii) Computation of Tax Liability
Income under the head Business/Profession 150,00,000
Total Income 150,00,000
Tax on ₹150,00,000 @ 30% 45,00,000
Add: Surcharge @ 7% 3,15,000
Add: HEC @ 4% 1,92,600
Tax Liability 50,07,600

(iii) Computation of Tax Liability
Income under the head Business/Profession 6,00,000
Total Income 6,00,000
Tax on ₹6,00,000 @ 30% 1,80,000
Add: HEC @ 4%  
Tax Liability  

(iv) Computation of Tax Liability  
Income under the head Business/Profession  
Total Income  
Tax on ₹10,30,000 @ 30%  
Add: HEC @ 4%  
Tax Liability  

(v) Computation of Tax Liability  
Income under the head Capital Gains (long term capital gains)  
Total Income  
Tax on ₹700,00,000 @ 20%  
Add: Surcharge @ 7%  
Add: HEC @ 4%  
Tax Liability  

(vi) Computation of Tax Liability  
Income under the head Capital Gains (long term capital gains)  
Total Income  
Tax on ₹1,50,000 @ 20%  
Add: HEC @ 4%  
Tax Liability  

(vii) Computation of Tax Liability  
Income under the head Capital Gains (long term capital gains)  
Total Income  
Tax on ₹6,00,000 @ 20%  
Add: HEC @ 4%  
Tax Liability  

(viii) Computation of Tax Liability  
Income under the head Capital Gains (long term capital gains)  
Total Income  
Tax on ₹10,30,000 @ 20%  
Add: HEC @ 4%  
Tax Liability  

(ix) Computation of Tax Liability  
Income under the head Other Sources (Casual Income)  
Total Income  
Tax on ₹400,00,000 @ 30%  
Add: Surcharge @ 7%  
Add: HEC @ 4%  
Tax Liability  

Solution 9(b):  

(i) Computation of Tax Liability  
Income under the head Business/Profession  
Total Income  
Tax on ₹70,000 @ 40%  
Add: HEC @ 4%  
Tax Liability  

(ii) Computation of Tax Liability  
Income under the head Business/Profession  
Total Income  
Tax on ₹150,00,000 @ 40%  
Add: Surcharge @ 2%  
Add: HEC @ 4%  
Tax Liability
Add: HEC @ 4%  2,44,800
Tax Liability  63,64,800

(iii) Computation of Tax Liability
Income under the head Business/Profession  6,00,000
Total Income  6,00,000
Tax on ₹6,00,000 @ 40%  2,40,000
Add: HEC @ 4%  9,600
Tax Liability  2,49,600

(iv) Computation of Tax Liability
Income under the head Business/Profession  10,30,000
Total Income  10,30,000
Tax on ₹10,30,000 @ 40%  4,12,000
Add: HEC @ 4%  16,480
Tax Liability  4,28,480

(v) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains)  700,00,000
Total Income  700,00,000
Tax on ₹700,00,000 @ 20%  140,00,000
Add: Surcharge @ 2%  2,80,000
Add: HEC @ 4%  5,71,200
Tax Liability  148,51,200

(vi) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains)  1,50,000
Total Income  1,50,000
Tax on ₹1,50,000 @ 20%  30,000
Add: HEC @ 4%  1,200
Tax Liability  31,200

(vii) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains)  6,00,000
Total Income  6,00,000
Tax on ₹6,00,000 @ 20%  1,20,000
Add: HEC @ 4%  4,800
Tax Liability  1,24,800

(viii) Computation of Tax Liability
Income under the head Capital Gains (long term capital gains)  10,30,000
Total Income  10,30,000
Tax on ₹10,30,000 @ 20%  2,06,000
Add: HEC @ 4%  8,240
Tax Liability  2,14,240

(ix) Computation of Tax Liability
Income under the head Other Sources (Casual Income)  400,00,000
Total Income  400,00,000
Tax on ₹400,00,000 @ 30%  120,00,000
Add: Surcharge @ 2%  2,40,000
Add: HEC @ 4%  4,89,600
Tax Liability  127,29,600

Solution 10:
Computation of Total Income
Income under the head Business/Profession  6,00,000.00
Income under the head House Property  4,00,000.00
Income under the head Capital Gains
Long term capital gains  4,50,000
<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term capital gains u/s 111A</td>
<td>3,50,000</td>
</tr>
<tr>
<td>Income under the head Other Sources (Casual Income)</td>
<td>3,50,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>21,50,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(1,25,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>20,25,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- **Tax on LTCG**: ₹4,50,000 @ 20% u/s 112 — 90,000.00
- **Tax on STCG**: ₹3,50,000 @ 15% u/s 111A — 52,500.00
- **Tax on Casual income**: ₹3,50,000 @ 30% u/s 115BB — 1,05,000.00
- **Tax on ₹8,75,000 at slab rate** — 87,500.00
- **Tax before health & education cess** — 3,35,000.00
- **Add: HEC @ 4%** — 13,400.00
- **Tax Liability** — 3,48,400.00

---

**Solution 11:**

**Computation of Total Income**

- Income under the head Salary — ₹3,00,000
- Income under the head House Property — 16,00,000
- Income under the head Capital Gains (Long term capital gains) — 1,00,000
- Gross Total Income — 20,00,000
- Less: Deduction u/s 80C to 80U — (60,000)
- Total Income — 19,40,000
- Agricultural Income — 4,00,000

**Computation of Tax Liability**

- Tax on long term capital gain ₹1,00,000 @ 20% u/s 112 — 20,000
- Normal income ₹18,40,000 — 4,84,500
- Step 1. Tax on (₹18,40,000 + ₹4,00,000) — 4,84,500
- Step 2. Tax on (₹2,50,000 + ₹4,00,000) at slab rates — (42,500)
- Step 3. Deduct Tax at Step 2 from Tax at Step 1 — 4,42,000
- Tax before health & education cess — 4,62,000
- Add: HEC @ 4% — 18,480
- Tax Liability — 4,80,480

---

**Solution 11(b):**

**Computation of Total Income**

- Income under the head Salary — ₹3,00,000
- Income under the head House Property — 16,00,000
- Income under the head Capital Gains (Long term capital gains) — 1,00,000
- Gross Total Income — 20,00,000
- Less: Deduction u/s 80C to 80U — (60,000)
- Total Income — 19,40,000
- Agricultural Income — 4,00,000

**Computation of Tax Liability**

- Tax on long term capital gain ₹1,00,000 @ 20% u/s 112 — 20,000
- Step 1. Tax on (₹18,40,000 + ₹4,00,000) — 4,82,000
- Step 2. Tax on (₹3,00,000 + ₹4,00,000) at slab rates — (50,000)
- Step 3. Deduct Tax at Step 2 from Tax at Step 1 — 4,32,000
- Tax before health & education cess — 4,52,000
- Add: HEC @ 4% — 18,080
- Tax Liability — 4,70,080
Solution 12:

Computation of Total Income

Income under the head House Property 3,00,000
Income under the head Capital gains (long term capital gains) 5,00,000
Gross Total Income 8,00,000
Less: Deduction u/s 80C to 80U (1,00,000)
Total Income 7,00,000
Agricultural income 3,00,000

Computation of Tax Liability
Tax on normal income ₹2,00,000 at slab rate Nil
Tax on long term capital gain ₹4,50,000 (₹5,00,000 – ₹50,000) @ 20% u/s 112 90,000
Tax before health & education cess 90,000
Add: HEC @ 4% 3,600
Tax Liability 93,600

Solution 12(b):

Computation of Total Income

Income under the head House Property 3,00,000
Income under the head Capital gains (long term capital gains) 5,00,000
Gross Total Income 8,00,000
Less: Deduction u/s 80C to 80U (1,00,000)
Total Income 7,00,000
Agricultural income 3,00,000

Computation of Tax Liability
Tax on normal income ₹2,00,000 at slab rate Nil
Tax on long term capital gain ₹2,00,000 (₹5,00,000 – ₹3,00,000) @ 20% u/s 112 40,000
Tax before health & education cess 40,000
Add: HEC @ 4% 1,600
Tax Liability 41,600

Note: If non-agricultural income is upto the limit not chargeable to tax (₹2,50,000/3,00,000/5,00,000), partial integration is not applicable.

Solution 13:

Computation of Total Income

Income under the head Other Sources (Casual income) 5,00,000
Income under the head Capital gains (STCG u/s 111A) 7,00,000
Gross Total Income 12,00,000
Less: Deduction u/s 80C to 80U Nil
Total Income 12,00,000
Agricultural income 3,00,000

Computation of Tax Liability
Tax on STCG ₹4,50,000 (₹7,00,000 – 2,50,000) @ 15% u/s 111A 67,500
Tax on casual income ₹5,00,000 @ 30% 1,50,000
Tax before health & education cess 2,17,500
Add: HEC @ 4% 8,700
Tax Liability 2,26,200

Note: On Long term capital gain, casual income and short term capital gain u/s 111A partial integration shall not be applicable.

Solution 13(b):

Computation of Total Income

Income under the head Other Sources (Casual income) 5,00,000
Income under the head Capital gains (STCG u/s 111A) 7,00,000
Gross Total Income 12,00,000
Less: Deduction u/s 80C to 80U Nil
Total Income 12,00,000
Agricultural income 3,00,000

**Computation of Tax Liability**

Tax on STCG ₹7,00,000 @ 15% u/s 111A 1,05,000
Tax on casual income ₹5,00,000 @ 30% 1,50,000
Tax before health & education cess 2,55,000
Add: HEC @ 4% 10,200
Tax Liability 2,65,200

**Note:** On Long term capital gain, casual income and short term capital gain u/s 111A partial integration shall not be applicable.

**Solution 14:**

**Computation of Total Income**

Income under the head Business/Profession 12,00,000
Income under the head Other Sources (Casual income) 5,00,000
Gross Total Income 17,00,000
Less: Deduction u/s 80C to 80U Nil
Total Income 17,00,000
Agricultural income 10,00,000

**Computation of Tax Liability**

Tax on casual income ₹5,00,000 @ 30% u/s 115BB 1,50,000
Normal income ₹12,00,000 4,60,000
Step 1. Tax on (12,00,000 + 10,00,000) 4,60,000
Step 2. Tax on (₹5,00,000 + 10,00,000) at slab rates (2,50,000)
Step 3. Deduct Tax at Step 2 from Tax at Step 1 2,10,000
Tax before health & education cess 3,60,000
Add: HEC @ 4% 14,400
Tax Liability 3,74,400

**Solution 15:**

**Computation of Total Income**

Income under the head Salary 3,00,000
Income under the head House Property 1,00,000
Income under the head Capital Gains
Short Term Capital Gain 50,000
Short Term Capital Gain111A 2,00,000
Long Term Capital Gain 1,50,000
Income under the head Capital Gains 4,00,000
Casual Income 70,000
Gross Total Income 8,70,000
Less: Deduction u/s 80C to 80U (1,10,000)
Total Income 7,60,000
Agricultural Income 5,00,000

**Computation of Tax Liability**

Tax on casual income ₹70,000 @ 30% u/s 115BB 21,000
Tax on long term capital gain ₹1,50,000 @ 20% u/s 112 30,000
Tax on short term capital gain ₹2,00,000 @ 15% u/s 111A 30,000
Normal income ₹3,40,000
Step 1. Tax on (3,40,000 + 5,00,000) 80,500
Step 2. Tax on (₹2,50,000 + 5,00,000) at slab rates (62,500)
Step 3. Deduct Tax at Step 2 from Tax at Step 1 18,000
Solution 15(b):

Computation of Total Income

Income under the head Salary 3,00,000
Income under the head House Property 1,00,000
Income under the head Capital Gains
Short Term Capital Gain 50,000
Short Term Capital Gain 111A 2,00,000
Long Term Capital Gain 1,50,000
Income under the head Capital Gains 4,00,000
Casual Income 70,000
Gross Total Income 8,70,000
Less: Deduction u/s 80C to 80U (1,10,000)
Total Income 7,60,000
Agricultural Income 5,00,000

Computation of Tax Liability

Tax on casual income ₹70,000 @ 30% u/s 115BB 21,000
Tax on long term capital gain Nil (₹1,50,000-1,50,000) @ 20% u/s 112 Nil
Tax on short term capital gain ₹ 1,90,000(₹2,00,000-₹10,000) @ 15% u/s 111A 28,500
Tax on normal income ₹3,40,000 at slab rate Nil
Tax before health & education cess 49,500
Add: HEC @ 4% 1,980
Tax Liability 51,480

Note: If non-agricultural income is upto the limit not chargeable to tax (₹2,50,000/ 3,00,000/5,00,000), partial integration is not applicable.

Solution 15(c):

Computation of Total Income

Income under the head Salary 3,00,000
Income under the head House Property 1,00,000
Income under the head Capital Gains
Short Term Capital Gain 50,000
Short Term Capital Gain 111A 2,00,000
Long Term Capital Gain 1,50,000
Income under the head Capital Gains 4,00,000
Casual Income 70,000
Gross Total Income 8,70,000
Less: Deduction u/s 80C to 80U (3,00,000)
Total Income 5,70,000
Agricultural Income 5,00,000

Computation of Tax Liability

Tax on casual income ₹70,000 @ 30% u/s 115BB 21,000
Tax on long term capital gain ₹1,50,000 @ 20% u/s 112 30,000
Tax on short term capital gain ₹2,00,000 @ 15% u/s 111A 30,000
Tax on normal income ₹1,50,000 at slab rate Nil
Tax before health & education cess 81,000
Add: HEC @ 4% 3,240
Tax Liability 84,240

Note: If non-agricultural income is upto the limit not chargeable to tax (₹2,50,000/ 3,00,000/5,00,000), partial integration is not applicable.
Solution 16:
Computation of Total Income

| Income under the head House Property | ₹ 2,00,000 |
| Income under the head capital gains (long term capital gains) | ₹ 10,00,000 |
| Gross Total Income | ₹ 12,00,000 |
| Less: Deduction u/s 80C to 80U | ₹ (60,000) |
| Total Income | ₹ 11,40,000 |
| Agricultural income | ₹ 7,00,000 |

Computation of Tax Liability

- Tax on normal income ₹1,40,000 at slab rate: Nil
- Tax on long term capital gain ₹8,90,000 (₹10,00,000 – ₹1,10,000) @ 20% u/s 112: ₹1,78,000
- Add: HEC @ 4%: ₹7,120
- Tax Liability: ₹1,85,120

Note: If non-agricultural income is up to the limit not chargeable to tax (₹2,50,000/ 3,00,000/5,00,000), partial integration is not applicable.

Solution 16(b):
Computation of Total Income

| Income under the head House Property | ₹ 10,00,000 |
| Income under the head capital gains (long term capital gains) | ₹ 10,00,000 |
| Gross Total Income | ₹ 20,00,000 |
| Less: Deduction u/s 80C to 80U | ₹ (60,000) |
| Total Income | ₹ 19,40,000 |
| Agricultural income | ₹ 7,00,000 |

Computation of Tax Liability

- Tax on long term capital gain ₹10,00,000 @ 20% u/s 112: ₹2,00,000
- Normal income ₹9,40,000
- Step 1. Tax on (9,40,000 + 7,00,000) at slab rates: ₹3,02,000
- Step 2. Tax on (₹3,00,000 + 7,00,000) at slab rates: ₹(1,10,000)
- Step 3. Deduct Tax at Step 2 from Tax at Step 1: ₹1,92,000
- Add: HEC @ 4%: ₹15,680
- Tax Liability: ₹4,07,680

Solution 17:
Tax liability and additional tax liability of the company shall be as given below:

```
Profit before tax                  ₹500,00,000.00
Income tax on ₹500,00,000 @ 30 %      150,00,000.00
Add: Surcharge @ 7%                10,50,000.00
Add: HEC @ 4%                      6,42,000.00
Income tax liability              166,92,000.00
Dividend                          65,00,000.00
65,00,000 + (65,00,000 / 82.528% x 17.472%)  78,76,114.77
Additional Income Tax             13,76,114.77
78,76,114.77 x 17.472%                  13,76,110.00
Rounded off u/s 288B
Tax liability of the shareholder shall be nil.
```

Solution 17(b):
Tax liability and additional tax liability of the company shall be as given below:

```
Profit before tax                  ₹500,00,000.00
Income tax on ₹500,00,000 @ 40%     200,00,000.00
```
Add: Surcharge @ 2% 4,00,000.00
Add: HEC @ 4% 8,16,000.00
Income tax liability 212,16,000.00

Additional income tax of the foreign company is nil.

**Tax liability of the shareholder shall be as given below:**
Dividend from foreign company 5,00,000.00
Tax on ₹5,00,000 at slab rate 12,500.00
Less: Rebate u/s 87A (12,500.00)
Tax Liability Nil
**EXAMINATION QUESTIONS**

**MAY – 2019 (OLD COURSE)**

**Question 5 (a)**

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

Compute her tax liability for Assessment year 2020-21.

**Solution:**

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term capital gains u/s 112A</td>
<td>₹3,80,000</td>
</tr>
<tr>
<td>Income from other sources</td>
<td>₹2,75,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹5,55,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Loan term capital gains 2,55,000 (3,80,000-1,00,000-25,000) @ 10% u/s 112A</td>
<td>₹25,500</td>
</tr>
<tr>
<td>Tax on normal income Nil (2,75,000-2,75,000)</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹25,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹1,020</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹26,520</td>
</tr>
</tbody>
</table>

**Note:**

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

---

**NOV – 2018 (NEW COURSE)**

**Question 6 (c)**

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

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

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

**Solution:**

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>₹27,88,000</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>₹15,80,000</td>
</tr>
<tr>
<td>Income under the head Other sources</td>
<td>₹7,22,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>₹50,90,000</strong></td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>₹50,90,000</strong></td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>₹50,90,000</td>
</tr>
<tr>
<td>Tax on ₹50,90,000 at slab rate</td>
<td>₹13,39,500</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>₹1,33,950</td>
</tr>
<tr>
<td>Tax before marginal relief</td>
<td>₹14,73,450</td>
</tr>
</tbody>
</table>
**Computation of Total Income And Tax Liability**

Less: Marginal Relief  

<table>
<thead>
<tr>
<th>Working Note:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + surcharge on income of ₹50,90,000</td>
<td>14,73,450</td>
</tr>
<tr>
<td>Tax on income of ₹50,00,000</td>
<td>(13,12,500)</td>
</tr>
<tr>
<td>Increase in tax</td>
<td>1,60,950</td>
</tr>
<tr>
<td>Increase in income</td>
<td>90,000</td>
</tr>
<tr>
<td>Marginal Relief (1,60,950 –90,000)</td>
<td>70,950</td>
</tr>
</tbody>
</table>

| Tax after marginal relief                                 | 14,02,500 |
| Add: HEC @ 4%                                            | 56,100    |
| Tax Liability                                            | 14,58,600 |

**MAY – 2018 (OLD COURSE)**

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

XYZ Ltd. A domestic company, declared dividend of ₹160 lakh For the Financial Year 2018-19 and distributed the same on 31-07-2019. Mr. A holding 10% share XYZ Ltd. Received dividend of ₹16 lakh in July, 2019. Mr. B holding 5 % share in XYZ Ltd. received dividend of ₹8 lakh in July 2019. 

Discuss the tax liabilities in the hands of Mr. A and Mr. B assuming that Mr. A and Mr. B have not received dividend from any other domestic company during the year.

**Answer:** As per section 115BBDA, Dividend received by *All Assessee except a domestic company or a fund or institution or trust or any university*, exceeding ₹10 lakh shall be taxable @ 10%. No further deduction or expenditure shall be allowed from such income.

**Tax Liability of Mr. A**

Dividend received  
16,00,000

Less: Exempt  
(10,00,000)

Balance Taxable @ 10% u/s 115BBDA  
6,00,000

**Computation of Tax Liability**

Tax on ₹ 6,00,000 @ 10% u/s 115BBDA  
60,000

Add: HEC @ 4%  
2,400

Tax Liability  
62,400

**Tax Liability of Mr. B**

Dividend received  
8,00,000

Less: Exempt  
(8,00,000)

Balance Taxable Nil

Tax Liability Nil

**NOV – 2011**

**Question 7**  
(4 Marks)

Discuss the taxability of agricultural income under the Income Tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income?

**Answer:** Under section 10(1), any *agricultural income in India is fully exempt* from income tax but if the agricultural income is from outside India, it is chargeable to tax.

*Indirect taxing of agricultural income or partial integration of agricultural income (Under the constitution, the power to levy a tax on agricultural income vests in the states. However, parliament has also levied a tax on such income. Explain how this has been achieved?)*

If any person has agricultural income as well as non-agricultural income, his tax liability shall be computed in the manner given below:

1. Compute tax on the total of agricultural income and non- agricultural income considering it to be total income of the assessee.
2. Compute tax on exemption limit (₹2,50,000 / 3,00,000 / 5,00,000) and agricultural income considering it to be total income.
3. Deduct tax computed under Step 2 from Step 1 and apply health & education cess.
4. Long term capital gain, casual income and short term capital gain u/s 111A shall not be taken into consideration for the purpose of partial integration
5. If Agricultural income is upto ₹5,000, or non-agricultural income is upto the limit not chargeable to tax (₹2,50,000/3,00,000/5,00,000), partial integration is not applicable.
6. Partial integration is not applicable in case of a partnership firm or a company.

**Question 3 (4 Marks)**
The broad break-up of tax and allied details of Mrs. X, born on 31st March, 1960 are as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term capital gain on sale of house</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Short-term capital gains on sale of shares in B Ltd. (STT paid)</td>
<td>30,000</td>
</tr>
<tr>
<td>Prize winning from a T.V. show</td>
<td>20,000</td>
</tr>
<tr>
<td>Business income</td>
<td>2,90,000</td>
</tr>
<tr>
<td>Net agricultural income</td>
<td>4,40,000</td>
</tr>
<tr>
<td>Deduction allowed under section 80C to 80U</td>
<td>60,000</td>
</tr>
</tbody>
</table>

Compute the tax payable by Mrs. X for the assessment year 2020-21.

**Answer**
**Computation of Total Income**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Income</td>
<td>2,90,000</td>
</tr>
<tr>
<td>Long term capital gain on sale of house</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Short-term capital gains on sale of shares in B Ltd. (STT paid)</td>
<td>30,000</td>
</tr>
<tr>
<td>Casual Income (Prize winning from a T.V. show)</td>
<td>20,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,40,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(60,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,80,000</td>
</tr>
</tbody>
</table>

**Computation of tax payable by Mrs. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Tax on long-term capital gain of ₹1,30,000 (2,00,000 – 70,000) @ 20%</td>
<td>26,000</td>
</tr>
<tr>
<td>(ii) Tax on short term capital gain of ₹30,000 @ 15%</td>
<td>4,500</td>
</tr>
<tr>
<td>(iii) Tax on winnings of ₹20,000 from a T.V. show @ 30%</td>
<td>6,000</td>
</tr>
<tr>
<td>(iv) Tax on balance income of ₹2,30,000 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Deficiency of ₹70,000 has been allowed from LTCG</td>
<td></td>
</tr>
<tr>
<td>Amount of tax before Rebate</td>
<td>36,500</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before HEC</td>
<td>24,000</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>960</td>
</tr>
<tr>
<td><strong>Tax payable by Mrs. X</strong></td>
<td><strong>24,960</strong></td>
</tr>
</tbody>
</table>

(i) Mrs. X has completed 60 years of age on 31st March, 2020 i.e. she has completed the age of 60 years on the last day of the previous year. Therefore, she is entitled to the higher basic exemption limit of ₹3,00,000.
(ii) Partial integration is not applicable because her non-agricultural income is not exceeding the exemption limit of ₹3,00,000.

**Computation of Gross Total Income**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Income</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Long term capital gain on sale of house</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Short-term capital gains on sale of shares in B Ltd. (STT paid)</td>
<td>30,000</td>
</tr>
<tr>
<td>Casual Income (Prize winning from a T.V. show)</td>
<td>20,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>7,50,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(60,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>6,90,000</td>
</tr>
</tbody>
</table>

**Computation of tax payable by Mrs. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Tax on long-term capital gain of ₹2,00,000 @ 20%</td>
<td>40,000</td>
</tr>
<tr>
<td>(ii) Tax on short term capital gain of ₹30,000 @ 15%</td>
<td>4,500</td>
</tr>
</tbody>
</table>
(iii) Tax on winnings of ₹20,000 from a T.V. show @ 30%
(iv) Tax on balance income of ₹4,40,000
1. Tax on 4,40,000 + 4,40,000 = 8,80,000
2. Tax on 3,00,000 + 4,40,000 = 7,40,000
   Tax at step no.1 minus tax at step no.2 = 28,000
Amount of tax before HEC = 78,500
Add: HEC @ 4% = 3,140
**Total payable by Mrs. X** = 81,640

Mrs. X has completed 60 years of age on 31st March, 2020 i.e. she has completed the age of 60 years on the last day of the previous year. Therefore, she is entitled to the higher basic exemption limit of ₹3,00,000.

**Question 2** (3 Marks)
(a) The total income of Mrs. X computed for the assessment year 2020-21 is ₹3,80,000, which includes the following:
   Long-term capital gains = ₹30,000
   Winnings from lotteries = ₹20,000
   Short-term capital gains covered by Sec. 111A = ₹10,000
   Agricultural income earned by her was ₹50,000.

Compute the tax payable by Mrs. X.

**Solution:**

**Computation of tax payable by Mrs. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on lottery income of ₹20,000 @ 30%</td>
<td>6,000</td>
</tr>
<tr>
<td>Tax on long-term capital gain of ₹30,000 @ 20%</td>
<td>6,000</td>
</tr>
<tr>
<td>Tax on short-term capital gain covered u/s 111A @ 15% of ₹10,000</td>
<td>1,500</td>
</tr>
<tr>
<td>Normal income ₹3,20,000</td>
<td></td>
</tr>
<tr>
<td>Tax on (₹3,20,000 + ₹50,000) at slab rate</td>
<td>6,000</td>
</tr>
<tr>
<td>Tax on (₹2,50,000 + ₹50,000) at slab rate</td>
<td>(2,500)</td>
</tr>
<tr>
<td>Tax on normal income (6,000 – 2,500)</td>
<td>3,500</td>
</tr>
<tr>
<td>Tax before rebate</td>
<td>17,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before HEC</td>
<td>4,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>180</td>
</tr>
<tr>
<td><strong>Tax payable by Mrs. X</strong></td>
<td>4,680</td>
</tr>
</tbody>
</table>
Question 1: Explain taxability of gift.
Answer:
Gift received by any person shall be taxable and the gifts shall be divided into 3 parts.

1. Gift of sum of money
2. Gift of any property other than immovable property
3. Gift of immovable property

Taxability is as given below:

1. Gift of sum of money
   If any person has received any sum of money from one or more persons without consideration and the aggregate value of all such gifts received during the year exceeds fifty thousand rupees, the whole of the aggregate value of such sum shall be taxable under the head Other Sources but if the aggregate value is upto ₹50,000, entire amount shall be exempt from income tax. E.g. Mr. X has received 3 gifts of ₹15,000 each from his 3 friends, entire amount of ₹45,000 is exempt from income tax but if he has received 3 gifts of ₹20,000 each, entire amount of ₹60,000 shall be taxable. Further it will be considered to be normal income.

2. Gift of any property other than immovable property
   If any person has received gift of any property other than immovable property without consideration and the aggregate fair market value of such properties received during a particular year exceeds ₹50,000, it will be taxable under the head Other Sources but if aggregate value of all such properties is upto ₹50,000, it will be exempt from income tax.
   If the consideration is less than the aggregate fair market value of such properties by an amount exceeding ₹50,000, aggregate fair market value as exceeds such consideration shall be taxable under the head Other Sources. Further it will be considered to be normal income.

3. Gift of immovable property
   If any person has received any immovable property without consideration, it will be exempt if stamp duty value is upto ₹50,000 but if the stamp duty value exceeds fifty thousand rupees, entire stamp duty value shall be taxable under the head Other Sources. Value of individual immovable property shall be taken into consideration instead of aggregate value of all such properties.
   (If any person is selling immovable property, its Conveyance Deed shall be prepared in the office of Registrar and some tax has to be paid to the State Government for transferring the property and it is called stamp duty and the value on which such duty is charged is called stamp duty value (also called circle rate). A person may not disclose the right value hence the value is determined by State Government.)
   If immovable property has been received for a consideration which is less than the stamp duty value of the property by an amount exceeding fifty thousand rupees and also stamp duty value is exceeding by more than 5% of the actual consideration, in such cases taxable amount shall be the stamp duty value of such property as exceeds such consideration.

Example
(i) Mr. X purchased immovable property for ₹3,00,000 but stamp duty value is ₹5,00,000, taxable amount shall be ₹2,00,000
(ii) Mr. X has sold immovable property to Mr. Y for ₹100,00,000 but stamp duty value is ₹105,00,000, in this taxable amount shall be Nil because stamp duty value is not exceeding the actual consideration by more than 5% but if stamp duty value is ₹106,00,000, taxable amount shall be ₹6,00,000 because stamp duty is exceeding by more than 5% of actual consideration.

If the date of the agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same and in such cases, the stamp duty value on the date of the agreement shall be taken into consideration but part of consideration should have been paid by account payee cheque, an account payee bank draft or by use of electronic clearing system through a bank account on or before the date of agreement. E.g. Mr. X has entered into agreement with a builder ABC Limited on 01.07.2015 for purchase of one building for ₹20,00,000 but stamp duty value was ₹27,00,000 and advance of ₹3,00,000 was given by cheque but property was transferred in his name on 01.07.2019 and on that date stamp duty value was ₹35,00,000, in this case amount of gift shall be ₹7,00,000 (27,00,000 – 20,00,000). (Difference amount is more than ₹50,000 and more than 5% of the consideration). Similarly, it will also be considered to be normal income.

**The gift is exempt in the following cases**

(a) If any individual has received any gift from any of his relative, it will be exempt from income tax. The term relative shall include
   (a) spouse of the individual;
   (b) brother or sister of the individual;
   (c) brother or sister of the spouse of the individual;
   (d) brother or sister of either of the parents of the individual;
   (e) any lineal ascendant or descendant of the individual; (ascendant means mother/ father/ grand mother / grand father and so on: Descendant means son / daughter / grand son / grand daughter etc.
   (f) any lineal ascendant or descendant of the spouse of the individual;
   (g) spouse of the person referred to in items (b) to (f)

(b) If any individual has received any gift from any person of any amount on the occasion of his/her marriage. If gift is received by the parents of such individual, in that case it will be taxable. If any individual has received gift on the occasion of anniversary, it will be taxable.

(c) If any person has received any gift under a will/ inheritance, it will be exempt from income tax.

(d) in contemplation of death of the payer or donor (Contemplation of Death means the apprehension of an individual that his life will end in the immediate future by a particular illness etc.)

(e) from any local authority or charitable hospital or charitable educational institution or charitable trust or other similar organisation.

**Question 2: Explain meaning of property.**

**Answer:**

"PROPERTY" means the following capital asset of the assessee, namely:—

(i) immovable property being land or building or both;

(ii) shares and securities;

(iii) jewellery;

(iv) archaeological collections (relating to past/ ancient)

(v) drawings (a picture or diagram made with a pencil, pen, or crayon without paint.)

(vi) paintings;

(vii) sculptures;

(viii) any work of art; or

(ix) bullion (Gold and silver in the form of biscuits / bricks / bars)

If any person has received gift of any other property, it will not be taxable e.g. motor car or plant and machinery or a watch or a mobile phone etc.

E.g. Mr. X received a mobile phone valued ₹70,000 from his friend, in this case, it will be exempt from income tax.
Taxability of Gift

Question 3: Write a note on Taxability of gift received by HUF from its members.
Answer:
If any Hindu undivided family has received any gift from any of its members, it will be exempt from income tax. E.g. One HUF has received cash gift of ₹10,00,000 from one of its members, it will be exempt from income tax.
If HUF has given gift to its member, it will be taxable.

Question 4: Write a note on Taxability of stock-in-trade.
Answer:
If any person has received any asset as stock-in-trade, it will not be taxable as gift e.g. Mr. X is a dealer in gold and he has purchased gold for ₹20 lakhs but market value is ₹27 lakhs, in this case it will not be taxable as gift (because cost will be shown in the books as ₹20 lakhs and entire profit on sale shall be taxable under the head business/profession.)

Illustration 1: Mr. X, a dealer in shares, received the following without consideration during the P.Y.2019-20 from his friend Mr. Y, -
(1) Cash gift of ₹75,000 on his anniversary, 15th April, 2019.
(2) Bullion, the fair market value of which was ₹60,000, on his birthday, 19th June, 2019.
(3) A plot of land at Faridabad on 1st July, 2019, the stamp value of which is ₹5 lakh on that date. Mr. Y had purchased the land in April, 2014.
Mr. X purchased from his friend Z, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹400 each on 19th June, 2019, the fair market value of which was ₹600 each on that date.
(4) Mr. X sold these shares in the course of his business on 23rd June, 2019.
(5) On 1st November, 2019, Mr. X took possession of property (building) booked by him two years back at ₹20 lakh. The stamp duty value of the property as on 1st November, 2019 was ₹32 lakh and on the date of booking was ₹23 lakh. He had paid ₹1 lakh by cheque as down payment on the date of booking.
Compute the income of Mr. X chargeable under the head “Income from other sources” for A.Y.2020-21.
Solution:

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

Income from Other Sources 9,35,000

Illustration 2: Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -
(i) X HUF received ₹75,000 in cash from niece of Mr. X (i.e., daughter of Mr. X’s sister). Mr. X is the Karta of the HUF.
(ii) Miss. X, a member of her father’s HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹9,00,000.
(iii) Mr. X received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹100 per share. He also received jewellery worth ₹45,000 (FMV) from his nephew on the same day.
(iv) X HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹5,25,000.
**Solution:**

<table>
<thead>
<tr>
<th>Taxable/Non-taxable</th>
<th>Amount liable to tax (₹)</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Taxable</td>
<td>75,000</td>
<td>Sum of money exceeding ₹50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. X’s sister is not a relative of X HUF, since she is not a member of X HUF.</td>
</tr>
<tr>
<td>(ii) Non-taxable</td>
<td>Nil</td>
<td>Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Miss. X is a member of the HUF, she is a relative of the HUF.</td>
</tr>
<tr>
<td>(iii) Taxable</td>
<td>55,000</td>
<td>As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹10,000) and jewellery (₹45,000) exceeds ₹50,000. Hence, the entire amount of ₹55,000 shall be taxable.</td>
</tr>
<tr>
<td>(iv) Non-taxable</td>
<td>Nil</td>
<td>Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.</td>
</tr>
</tbody>
</table>

**Illustration 3:** Discuss taxability in the following cases:

(i) Mr. X has received three gifts from his three friends
   (a) ₹55,000 in cash
   (b) Land with market value ₹5,00,000 but the value for the purpose of charging stamp duty ₹4,00,000.
   (c) Jewellery with market value ₹3,00,000
      In this case, taxable amount shall be 55,000 + 4,00,000 + 3,00,000 = 7,55,000

(ii) Mr. X has received gift of ₹50,000 in cash from his friend, in this case it will not be considered to be his income.

(iii) Mr. X has received gift of ₹1,50,000 in cash from his brother, in this case it will not be considered to be his income.

(iv) Mr. X has received gift of ₹1,50,000 in cash from his mother’s sister, in this case it will not be considered to be his income.

(v) Mr. X has received gift of ₹1,50,000 in cash from his father’s brother, in this case it will not be considered to be his income.

(vi) Mr. X has received gift of ₹1,50,000 in cash from his cousin, in this case it will be chargeable to tax.

(vii) Mr. X has received gift of ₹1,50,000 in cash from brother of his spouse, in this case it will not be considered to be his income.

(viii) Mr. X has received gift of ₹1,50,000 in cash from his grand father, in this case it will not be considered to be his income.

(ix) Mr. X has received gift of ₹1,50,000 in cash from spouse of his brother, in this case it will not be considered to be his income.

(x) Mr. X has received gift of ₹1,50,000 in cash from husband of his sister, in this case it will not be considered to be his income.

(xi) Mr. X has received gift of ₹1,50,000 in cash from sister of his brother’s wife, in this case it will be considered to be his income.

(xii) Mr. X has received gift of ₹1,50,000 in cash from the sister of his spouse, in this case it will not be considered to be his income.

(xiii) Mr. X has received gift of ₹5,000 in cash on his birthday from each of his eleven friends, in this case it will be considered to be his income because the total amount is exceeding ₹50,000.

(xiv) Mr. X has received gift of property valued ₹1,50,000 from his friend, in this case it will be considered to be his income.

(xv) Mr. X has received gift of ₹1,50,000 in cash from his friend on the occasion of his marriage, in this case it will not be considered to be his income.

(xvi) Mr. X has received gift of ₹75,000 in cash and property ₹75,000 from his fiancee, in this case gift in cash will be considered to be his income and the gift as property shall also be considered to be his income.
Question 5: Explain taxability of gift received from employer.

Answer: Gifts to the Employees Section 17(2)(viii) Rule 3(7)(iv)
Gift given by the employer in kind up to ₹5,000 in aggregate during a particular year is exempt and excess over it is taxable. If the employer has given any voucher or token in lieu of which such gift may be received, it will also be exempt in the similar manner.

Gifts in cash or gifts convertible into cash i.e. gift cheques etc. shall be fully chargeable to tax.
E.g. Mr. X is employed in ABC Ltd. and he has received a cash gift of ₹11,000 from his employer, in this case taxable amount shall be ₹11,000 and it will be income under the head Salary and shall be taxable at the normal rate but if Mr. X has received one wrist watch of ₹11,000 from his employer, taxable amount shall be ₹6,000.

Question 6: Explain Taxability of gift received in connection with business/profession.

Answer: Gifts or Perquisites from Clients Section 28
The value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession.
If any person has received any gift or perquisite or benefit either in cash or in kind from any of his clients, it will be considered to be business receipt and shall be taken into consideration while computing income under the head business/profession.
Example: A Doctor has received a gift of ₹40,000 from one of his clients, in this case it will be considered to be income under the head business/profession.

Question 7: Explain taxability of scholarship/award/reward.

Answer: Scholarship Section 10(16)
Any scholarship received by a person for meeting the cost of education shall be exempt from income tax.
Award/Reward Section 10(17A)
Any award or reward whether in cash or in kind instituted by the Central Government or the State Government shall be exempt from income tax. Similarly any private award or reward shall be exempt from income tax if approved by the Central Government.

Question 8: Explain taxability of compensation or other payment in connection with employment.

Answer: As per 56(2)(xi), any compensation or other payment, due to or received by any person, by whatever name called, in connection with the termination of his employment or the modification of the terms and conditions relating thereto shall be taxable (if not covered under the head salary).
MULTIPLE CHOICE QUESTIONS

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

2. In case of gift of immovable property, value to be taken into consideration shall be
   (a) market value of individual property
   (b) market value of all the properties
   (c) stamp duty value of individual property
   (d) stamp duty value of all the properties

3. For the purpose of gift, the term relative shall include
   (a) grand father of individual
   (b) brother’s son of individual
   (c) brother of father of spouse
   (d) all the above

4. Property for the purpose of gift shall include
   (a) shares and securities
   (b) jewellery
   (c) mobile phone
   (d) work of art
   (e) (a), (b) and (d)

5. Which of the statement is correct
   (a) gift received by an employee is exempt upto ₹10,000
   (b) cash gift received by an employee upto ₹5,000 is exempt
   (c) gift in kind upto ₹5,000 is exempt
   (d) gift in kind upto ₹50,000 is exempt

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

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

8. The term relative do not include
   (a) lineal ascendant or descendant of individual
   (b) lineal ascendant or descendant of spouse of individual
   (c) lineal ascendant or descendant of brother of individual
   (d) none of the above

9. If any person has purchased immovable property for ₹20 lakh but stamp duty value is ₹23 lakhs, in
   this case taxable amount of gift shall be
   (a) 3 lakh
   (b) 1 lakh
   (c) Nil
   (d) 23 lakh

10. Which of the following gift is taxable
    (a) Mr. X received cash gift ₹51,000 from his friend
    (b) Mr. Y received cash gift ₹51,000 from his fiancée
(c) Mr. Z received cash gift ₹51,000 from his friend’s father
(d) all the above
(c) none of the above

11. Mr. Kashyap has acquired a building from his friend on 10.10.2019 for ₹15,00,000. The stamp duty value of the building on the date of purchase is ₹15,70,000. Income chargeable to tax in the hands of Mr. Kashyap is
(a) ₹ 70,000
(b) ₹ 50,000
(c) Nil
(d) ₹ 20,000

12. Ganesh received ₹60,000 from his friend on the occasion of his birthday
(a) The entire amount of ₹60,000 is taxable
(b) ₹50,000 is taxable
(c) The entire amount is exempt
(d) ₹10,000 is taxable

13. Mr. Y has received a sum of ₹51,000 on 24.10.2019 from relatives on the occasion of his marriage.
(a) Entire ₹51,000 is chargeable to tax.
(b) Only ₹1,000 is chargeable to tax
(c) Entire ₹51,000 is exempt from tax
(d) Only 50% i.e., ₹25,500 is chargeable to tax

14. Mr. Mayank has received a sum of ₹75,000 on 24.10.2019 from his friend on the occasion of his marriage anniversary.
(a) Entire ₹75,000 is chargeable to tax.
(b) Entire ₹75,000 is exempt from tax
(c) Only ₹25,000 is chargeable to tax
(d) Only 50% i.e., ₹37,500 is chargeable to tax

15. Ashok took possession of property on 31st August 2019 booked by him three years back at ₹25 lakhs, The Stamp Duty Value (SDV) of the property as on 31st August 2019 was ₹31 lakh and on date of booking it was ₹29 lakh. He had paid ₹2 lakh by A/c payee cheque as down payment on date of booking. Which of the following will be considered as income, if any, and in which previous year
(a) ₹4 lakhs in P.Y. 2019-20
(b) ₹4 lakhs in P.Y. 2016-17
(c) ₹6 lakhs in P.Y. 2019-20
(d) No income shall be taxable, since down payment was paid by A/c cheque while booking the property

16. Mr. Kishore celebrated his 50th marriage anniversary. On this occasion, his wife received a diamond necklace worth ₹5,00,000 from Kishore's brother. Kishore's son gifted him a luxurious car worth ₹15,00,000. His grandchildren gifted them a new furniture set worth ₹3,00,000. Also, he received cash gifts from his friends amounting collectively to ₹80,000. Which of them the following statements stand true on taxability.
(a) Neither Mr. Kishore nor Mrs. Kishore will be liable for tax for any gifts since they have been received on occasion of marriage anniversary
(b) Mr. Kishore & Mrs. Kishore will jointly share the tax liability on all the gifts
(c) Mrs. Kishore will be liable to pay tax on diamond set and Mr. Kishore will bear tax for the cash gifts received
(d) Mr. Kishore will be liable for tax on cash gifts only.

17. Sujata, aged 16 years, received scholarship of ₹50,000 during the previous year 2019-20. Which of the following statements are true regarding taxability of such income:
(a) Such income shall be assessed in hands of Sujata
(b) Such income to be included with the income of parent whose income before such clubbing is higher
(c) Such income is completely exempt from tax
(d) Such income to be clubbed with father's income
18. Mr. X received cash gift ₹ 51,000 and gift of jewelry valued ₹ 49,000, in this case taxable amount shall be
(a) ₹ 51,000
(b) ₹ 49,000
(c) ₹ 1,00,000
(d) Nil
(e) none of these

19. Mr. X received cash gift ₹ 40,000, gift of land stamp duty value ₹ 40,000 and gift of building stamp duty value ₹ 40,000, in this case taxable amount shall be
(a) ₹ 40,000
(b) ₹ 80,000
(c) ₹ 1,20,000
(d) Nil
(e) none of these

20. Mr. X purchased one house property for ₹ 3,00,000 market value ₹ 7,00,000 stamp duty value ₹ 3,40,000, in this case taxable amount shall be
(a) ₹ 4,00,000
(b) ₹ 40,000
(c) Nil
(d) ₹ 3,40,000
(e) none of these

Answer
1. (b); 2. (c); 3. (a); 4. (e); 5. (c); 6. (c); 7. (d); 8. (c); 9. (a); 10. (d); 11.(c); 12.(a);13.(c); 14. (a) 15. (a) ; 16. (d) ; 17. (c); 18. (a); 19. (d); 20. (c)
PRACTICE PROBLEMS
TOTAL PROBLEMS 5

Problem 1.
Discuss taxability in the following cases:
(i) Mr. X has received gift of ₹ 50,000 in cash from his friend.
(ii) Mr. X has received gift of ₹ 2,50,000 in cash from his brother.
(iii) Mr. X has received gift of ₹ 2,50,000 in cash from his mother’s sister.
(iv) Mr. X has received gift of ₹ 2,50,000 in cash from his father’s brother.
(v) Mr. X has received gift of ₹ 2,50,000 in cash from his cousin.
(vi) Mr. X has received gift of ₹ 2,50,000 in cash from brother of his spouse.
(vii) Mr. X has received gift of ₹ 2,50,000 in cash from his grand father.
(viii) Mr. X has received gift of ₹ 2,50,000 in cash from spouse of his brother.
(ix) Mr. X has received gift of ₹ 2,50,000 in cash from brother of his spouse.
(x) Mr. X has received gift of ₹ 2,50,000 in cash from husband of his sister.
(xi) Mr. X has received gift of ₹ 2,50,000 in cash from sister of his brother’s wife.
(xii) Mr. X has received gift of ₹ 2,50,000 in cash from the sister of his spouse.
(xiii) Mr. X has received gift of ₹ 2,50,000 as property from his friend.
(xiv) Mr. X has received gift of ₹ 2,50,000 in cash from his friend on the occasion of his marriage.
(xv) Mr. X has received gift of ₹1,00,000 in cash and ₹1,00,000 as property from his fiancée.

Problem 2.
Mr. X submits the particulars for the previous year 2019-20 as given below:
1. He has received a gift of ₹27,000 from one of his friend on 01.09.2019.
2. He has received a gift of ₹11,000 on 01.10.2019 from his wife Mrs. X.
3. He has received a gift of ₹29,000 from his step daughter on 01.01.2020.
4. He has received a gift of ₹27,000 from grand mother of Mrs. X on 07.01.2020.
5. He has received a gift of ₹20,000 in kind from his employer on 01.03.2020.
6. He has received gold as gift from his friend on 01.12.2019 with value ₹2,00,000.
7. He has received ₹27,000 as gift from his maternal aunt (mother’s sister) on 10.12.2019.
8. He has received dividend of ₹2,00,000 from a domestic company on 31.03.2020.
9. He has received two gifts of ₹30,000 each from his neighbours on 01.06.2019.

Compute his tax liability for assessment year 2020-21.
Answer = Tax Liability: Nil

Problem 3.
Mr. X received gift in cash ₹5,00,000 from son of his father’s brother and gift of ₹1,00,000 in cash from brother of father of Mrs. X. He has agricultural income ₹5,00,000.

Compute his tax liability for Assessment Year 2020-21.
Answer = Tax Liability: ₹83,200

(b) He is aged 81 years.
Answer = Tax Liability: ₹31,200

(c) He is non-resident and he has completed age of 80 years as on 31.03.2020.
Answer = Tax Liability: ₹83,200

Problem 4.
Mr. X received jewellery valued ₹8,00,000 from brother of his grand father and his agricultural income is ₹1,00,000.

Compute his income and tax liability for Assessment Year 2020-21.
Answer = Total Income: ₹8,00,000; Tax Liability: ₹91,000
Problem 5.
Following gifts are received by Mrs. X, who is carrying on jewellery business, during the previous year 2019-20:
(i) On the occasion of her marriage on 07.09.2019, she has received ₹1,20,000 as gift out of which ₹85,000 are from relatives and balance from friends.
(ii) On 03.10.2019, she has received cash gift of ₹2,50,000 from cousin of her mother.
(iii) A mobile phone worth ₹15,000 is gifted by her friend on 21.09.2019.
(iv) She gets a cash gift of ₹2,40,000 from the elder brother of her husband's grandfather on 10.12.2019.
(v) She has received a cash gift of ₹6,00,000 from her friend on 27.01.2020.
(vi) She has received bullion, the fair market value of which was ₹4,75,000 on her birthday, 19.01.2020.
Mrs. X purchased from her friend, who is also carrying jewellery business, jewellery at ₹2,50,000 on 25.01.2020, the fair market value of which was ₹5,00,000 on that date.
Compute total income and tax liability of Mrs. X for A.Y.2020-21.
Answer = Total Income: ₹15,65,000; Tax Liability: ₹2,93,280
SOLUTIONS TO PRACTICE PROBLEMS

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

Solution 2:

Computation of income under the head Salary
<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift in kind from his employer (20,000 – 5,000)</td>
<td>15,000.00</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>15,000.00</td>
</tr>
</tbody>
</table>

Computation of income under the head Other Sources
<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift received from friend</td>
<td>27,000.00</td>
</tr>
<tr>
<td>Gifts received from neighbours</td>
<td>60,000.00</td>
</tr>
<tr>
<td>Gift received from friend in kind</td>
<td>2,00,000.00</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>2,87,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>3,02,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>3,02,000.00</td>
</tr>
</tbody>
</table>
**Solution 3:**

**Computation of income under the head Other Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift received from son of father’s brother</td>
<td>₹5,00,000</td>
</tr>
<tr>
<td>Gift received from bother of father’s of Mrs. X</td>
<td>₹1,00,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>₹6,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹6,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹6,00,000</td>
</tr>
<tr>
<td>Agricultural Income</td>
<td>₹5,00,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

| Step 1. Tax on (₹6,00,000 + ₹5,00,000) at slab rates                      | ₹1,42,500    |
| Step 2. Tax on (₹2,50,000 + ₹5,00,000) at slab rates                     | ₹(62,500)    |
| Step 3. Deduct Tax at Step 2 from Tax at Step 1                           | ₹80,000      |
| Tax before health & education cess                                        | ₹80,000      |
| Add: HEC @ 4%                                                             | ₹3,200       |
| Tax Liability                                                             | ₹83,200      |

**Solution 3(b):**

| Total Income                                                               | ₹6,00,000    |
| Agricultural Income                                                        | ₹5,00,000    |

**Computation of Tax Liability**

| Step 1. Tax on (₹6,00,000 + ₹5,00,000) at slab rates                      | ₹1,30,000    |
| Step 2. Tax on (₹5,00,000 + ₹5,00,000) at slab rates                     | ₹(1,00,000)  |
| Step 3. Deduct Tax at Step 2 from Tax at Step 1                           | ₹30,000      |
| Tax before health & education cess                                        | ₹30,000      |
| Add: HEC @ 4%                                                             | ₹1,200       |
| Tax Liability                                                             | ₹31,200      |

**Solution 3(c):**

| Total Income                                                               | ₹6,00,000    |
| Agricultural Income                                                        | ₹5,00,000    |

**Computation of Tax Liability**

| Step 1. Tax on (₹6,00,000 + ₹5,00,000) at slab rates                      | ₹1,42,500    |
| Step 2. Tax on (₹2,50,000 + ₹5,00,000) at slab rates                     | ₹(62,500)    |
| Step 3. Deduct Tax at Step 2 from Tax at Step 1                           | ₹80,000      |
| Tax before health & education cess                                        | ₹80,000      |
| Add: HEC @ 4%                                                             | ₹3,200       |
| Tax Liability                                                             | ₹83,200      |

**Solution 4:**

**Computation of income under the head Other Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift in kind from brother of his grand father</td>
<td>₹8,00,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>₹8,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹8,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
</tbody>
</table>
**Total Income**  
8,00,000

**Agricultural Income**  
1,00,000

**Computation of Tax Liability**

1. Tax on (8,00,000 + 1,00,000) at slab rates  
92,500

2. Tax on (2,50,000 + 1,00,000) at slab rates  
(5,000)

3. Deduct Tax at Step 2 from Tax at Step 1  
87,500

Tax before health & education cess  
87,500

Add: HEC @ 4%  
3,500

Tax Liability  
91,000

### Solution 5:

**Computation of Total Income of Mrs. X for the A.Y. 2020-21**

- **Gift received on the occasion of marriage are exempt**  
  --

- **Cash gift received from cousin of Mrs. X’s mother is taxable under section 56(2)(x)**  
  2,50,000  
  (Cousin of Mrs. X’s mother is not a relative)

- **Mobile phone gifted by her friend is not taxable since it is not included in the definition of “property” under section 56(2)(x)**  
  --

- **Cash gift received from elder brother of husband’s grandfather is taxable**  
  2,40,000  
  (Brother of husband’s grandfather is not a relative)

- **Cash gift from friend is taxable**  
  6,00,000

Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹50,000  
4,75,000

Difference of ₹2.5 lakh in the value of jewellery purchased from her friend, is not taxable as it represents the stock-in-trade of Mrs. X. Since Mrs. X is carrying jewellery business and it has been mentioned that the jewellery were subsequently sold in the course of her business, such jewellery represent the stock-in-trade of Mrs. X.  
Nil

- **Income under the head Other Sources**  
  15,65,000

- **Gross Total Income**  
  15,65,000

- **Less: Deduction u/s 80C to 80U**  
  Nil

- **Total Income**  
  15,65,000

**Computation of Tax Liability**

- **Tax on ₹ 15,65,000 at slab rate**  
  2,82,000

- **Add: HEC @ 4%**  
  11,280

- **Tax Liability**  
  2,93,280
EXAMINATION QUESTIONS

MAY – 2018 (NEW COURSE)

Question 5 (a)  
Discuss the taxability of the following receipts in the hands of Mr. Sanjay Kamboj under the Income Tax Act, 1961 for A.Y.2020-21:

(i) ₹51,000 received from his sister living in US on 1-6-2019.
(ii) Received a car from his friend on payment of ₹2,50,000 the FMV of which was ₹5,50,000.

Provisions of taxability or Non-taxability must be discussed.

Answer:
(i) As per section 56(2), Gift received from relative is not taxable. In the given case, Sister is covered under the definition of relative and Gift received from her is not taxable.
(ii) As per section 56(2), Gift in Kind exceeding ₹50,000 received from non-relative is taxable but in the given case Car is not covered under the definition of Gift in Kind hence Car received from non-relative is not taxable.

MAY – 2016

Question 4(a)  
Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

(i) Mr. N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is ₹10 lacs as per the Registrar of stamp duty.
(ii) Mr. Kumar gifted a car to his sister's son (Sunil) for achieving good marks in CA Final exam. The fair market value of the car is ₹5,00,000.

Answer:
(i) Non-Taxable: As per sec 56(2)(x), if HUF has received any Gift from its member, it will be exempt from Income tax. In the given case, HUF has received a Gift of house property from its member Mr. N hence it will be exempt from income tax and what is the value of house property shall not matter.
(ii) Non-Taxable: If any person has received a gift from brother of mother, it will be covered in the definition of relative and shall be exempt from income tax further if a gift is taxable it should be covered in the definition of property as given u/s 56(2)(x). In the given case gift is from relative and further gift is of motor car which is not covered in the definition of property hence it will be exempt from Income Tax.

MAY – 2012

Question 1  
State whether the following are chargeable to tax and the amount liable to tax.
A sum of ₹1,20,000 was received as gift from non-relatives by Mr. X on the occasion of the marriage of his son Mr. Y.

Answer: As per section 56(2)(x), if any gift has been received on the occasion of marriage, it will be exempt from income tax but if gift has been received by the parents of the person getting married, such gift shall be taxable hence in this case gift received by Mr. X is taxable because marriage is that of his son Mr. Y.

MAY – 2011

Question 7  
The following details have been furnished by Mrs. X, pertaining to the year ended 31.03.2020:
(i) Cash gift of ₹51,000 received from her friend on the occasion of her “Shastiaptha Poorthi”, a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
(ii) On the above occasion, a diamond necklace worth ₹2 lacs was presented by her sister living in Dubai.
(iii) When she celebrated her daughter’s wedding on 21.02.2020, her friend assigned in Mrs. X’s favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹51,000.
(iv) She has short term capital gains under section 111A ₹10 lakhs.

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

**Answer:**

(i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age. The gift of ₹51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. X.

(ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56(2)(x), even though jewellery falls within the definition of “property”.

(iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual’s son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds ₹50,000 in a year. “Sum of money” has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. X–

(1) The first view is that fixed deposit does not fall within the meaning of “sum of money” and therefore, the provisions of section 56(2)(x) are not attracted. Fixed deposit is also not included in the definition of “property”.

(2) However, another possible view is that fixed deposit assigned in favour of Mrs. X falls within the meaning of “sum of money” received.

**Income assessable as “Income from other sources”**

If the first view is taken, the total amount chargeable to tax as “Income from other sources” would be ₹51,000, being cash gift received from a friend on her Shastiaptha Poorthi.

As per the second view, the provisions of section 56(2)(x) would be attracted in respect of the fixed deposit assigned and the “Income from other sources” of Mrs. X would be ₹1,02,000 (₹51,000 + ₹51,000).

**Tax liability as per first view**

<table>
<thead>
<tr>
<th>Income under the head Other Sources</th>
<th>51,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Capital Gains (STCG u/s 111A)</td>
<td>10,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>10,51,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>10,51,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

| Tax on ₹51,000 at slab rate | Nil |
| Tax on ₹8,01,000 (₹10,00,000 – ₹1,99,000) @ 15% | 1,20,150.00 |
| Add: HEC @ 4% | 4,806.00 |
| Tax Liability | 1,24,956.00 |
| Rounded off u/s 288B | 1,24,960.00 |

**Tax liability as per second view**

<table>
<thead>
<tr>
<th>Income under the head Other Sources</th>
<th>1,02,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Capital Gains (STCG u/s 111A)</td>
<td>10,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>11,02,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>11,02,000.00</td>
</tr>
</tbody>
</table>
**Question 2**

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

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

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

(iii) A cell phone of ₹21,000 is gifted by her employer on 15.08.2019.

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

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

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

Compute her tax liability for assessment year 2020-21.

**Answer:**

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Taxable amount</th>
<th>Reason for taxability or otherwise of each gift</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relatives and friends</td>
<td>Nil</td>
<td>Gifts received on the occasion of marriage are not taxable.</td>
</tr>
<tr>
<td>Cousin of Mrs. X’s mother</td>
<td>18,000</td>
<td>Cousin of Mrs. X’s mother is not a relative. Hence, the gift is taxable.</td>
</tr>
<tr>
<td>Elder brother of husband’s grandfather</td>
<td>25,000</td>
<td>Brother of husband’s grandfather is not a relative. Hence, the gift is taxable.</td>
</tr>
<tr>
<td>Friend</td>
<td>2,000</td>
<td>Gift from friend is taxable.</td>
</tr>
<tr>
<td><strong>Aggregate value of gifts</strong></td>
<td>45,000</td>
<td></td>
</tr>
</tbody>
</table>

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

Gift received from the employer in kind upto ₹5,000 is exempt from income tax but excess over it is taxable hence in this case taxable amount of gift shall be ₹16,000 (21,000 – 5,000) and it will be taxable under the head Salary.

Income under the head Salary                           16,000
Income under the head Other Sources                   4,00,000
Gross Total Income                                     4,16,000
Less: Deduction u/s 80C to 80U                         Nil
Total Income                                           4,16,000

**Computation of Tax Liability**

Tax on ₹16,000 at slab rate                            Nil
Tax on ₹4,00,000 @ 30%                                  1,20,000
Less: Rebate u/s 87A                                    (12,500)
Tax before HEC                                         1,07,500
Add: HEC @ 4%                                          4,300
Tax Liability                                          1,11,800

---

**Question 3**

Choose the correct answer with reference to the provisions of the Income-tax Act, 1961:
Mr. X received ₹70,000 from his friend on the occasion of his birthday.
(a) The entire amount of ₹70,000 is taxable
(b) ₹25,000 is taxable
(c) The entire amount is exempt
(d) None of the above.
**Answer:**
(a) The entire amount of ₹70,000 is taxable.

**MAY – 2005**

**Question 1**
Gift of ₹5,00,000 received on 10th July, 2019 through account payee cheque from a non-relative regularly assessed to income-tax, is
(a) A capital receipt not chargeable to tax
(b) Chargeable to tax as income from other sources
(c) Chargeable to tax as business income
(d) Exempt upto ₹50,000 and balance chargeable to tax as income from other sources.
**Answer:**
(b) Chargeable to tax as income from other sources
ADVANCE PAYMENT OF TAX
OR
PAY AS YOU EARN SCHEME

SECTION 207 TO 219

<table>
<thead>
<tr>
<th>SECTIONS</th>
<th>PARTICULARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>207</td>
<td>Liability for payment of advance tax</td>
</tr>
<tr>
<td>208</td>
<td>Conditions of liability to pay advance tax</td>
</tr>
<tr>
<td>211</td>
<td>Instalments of advance tax and due dates</td>
</tr>
<tr>
<td>234A</td>
<td>Computation of interest in case of payment of tax after last date of filing of ROI</td>
</tr>
<tr>
<td>234B</td>
<td>Computation of interest in case of payment of tax after end of previous year</td>
</tr>
<tr>
<td>234C</td>
<td>Computation of interest in case of default in payment of advance tax</td>
</tr>
<tr>
<td>Rule 119A</td>
<td>Rounded off of the amount on which interest is to be computed</td>
</tr>
</tbody>
</table>
Question 1: Write a note on advance payment of income tax.
Answer: As per section 207, every person shall pay tax in advance as per the provisions of advance tax i.e. in general every person should estimate his income and pay tax however exact amount of income tax shall be calculated at the end of the year.
A senior citizen who do not have income under the head business/profession shall be exempt from payment of advance tax.
As per section 208, advance tax shall be payable during a financial year in every case where the amount of such tax payable by the assessee during that year, is ten thousand rupees or more.
An assessee has to estimate his current income and pay advance tax thereon. He need not submit any estimate or statement of income to the Assessing Officer.

As per section 211, all assessee have to pay advance tax in the manner given below:

<table>
<thead>
<tr>
<th>Due date of installment</th>
<th>Amount payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15th June of P.Y.</td>
<td>15% of tax payable</td>
</tr>
<tr>
<td>Upto 15th September of P.Y.</td>
<td>45% of tax payable</td>
</tr>
<tr>
<td>Upto 15th December of P.Y.</td>
<td>75% of tax payable</td>
</tr>
<tr>
<td>Upto 15th March of P.Y.</td>
<td>100% of tax payable</td>
</tr>
</tbody>
</table>

Example
For the previous year 2019-20, ABC Ltd. has estimated its tax payable to be ₹2,00,000, in this case advance tax shall be paid by the company as given below:

<table>
<thead>
<tr>
<th>Due date</th>
<th>Amount payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15.06.2019</td>
<td>30,000</td>
</tr>
<tr>
<td>Upto 15.09.2019</td>
<td>90,000</td>
</tr>
<tr>
<td>Upto 15.12.2019</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Upto 15.03.2020</td>
<td>2,00,000</td>
</tr>
</tbody>
</table>

If the last day for payment of any installment of advance tax is a day on which the receiving bank is closed, the assessee can make the payment on the next immediately following working day.

Question 2: Write a note on payment of interest for late payment of income tax
Answer: As per section 234C, if any person has defaulted in payment of advance tax, interest shall be charged @ 1% per month for a period of 3 months on the amount of default in each installment, but for the last installment, interest shall be charged only for one month.
Income tax paid upto 31st March of previous year is also called advance tax.
As per section 234B, if advance tax paid is less than 90% of actual tax liability, assessee shall be required to pay interest @ 1% per month or part of a month from 1st April of assessment year upto the date of payment. If advance tax paid is 90% or more of actual tax liability, no interest is payable.

As per section 234A, if any person has paid income tax after expiry of the last date of filing of return of income, interest shall be payable @ 1% p.m. or part of the month for the period subsequent to the last date of filing of return of income.

Illustration 1: ABC Ltd. has estimated its tax liability for assessment year 2020-21 ₹4,40,000 and has paid advance tax accordingly but actual tax liability was found to be ₹10,00,000.
The company has paid balance amount on 02.01.2021 and filed return of income on the same date.
Compute interest payable under section 234A, 234B, and 234C.

Solution:
Estimated Tax = 4,40,000    Actual Tax = 10,00,000
Interest under section 234C shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Due date</th>
<th>Tax Payable</th>
<th>Tax Paid</th>
<th>Default</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.06.2019</td>
<td>1,50,000</td>
<td>66,000</td>
<td>84,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 84000 x 1% x 3 = 2,520</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.09.2019</td>
<td>4,50,000</td>
<td>1,98,000</td>
<td>2,52,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 2,52,000 x 1% x 3 = 7,560</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.12.2019</td>
<td>7,50,000</td>
<td>3,30,000</td>
<td>4,20,000</td>
</tr>
</tbody>
</table>
Interest u/s 234C = 4,20,000 x 1% x 3 = 12,600
15.03.2020 10,00,000 4,40,000 5,60,000
Interest u/s 234C = 5,60,000 x 1% x 1 = 5,600

Total interest payable u/s 234C 28,280

Interest under section 234B shall be computed from 01.04.2020 to 02.01.2021 and is as given below:
10,00,000 – 4,40,000 = 5,60,000 x 1% x 10 = 56,000

Interest under section 234A shall be computed from 01.10.2020 to 02.01.2021 and is as given below:
5,60,000 x 1% x 4 = 22,400
Total interest payable (28,280 + 56,000 + 22,400) 1,06,680

Illustration 2: ABC Ltd. has tax liability of `7,00,000 for the previous year 2019-20 and the company has not paid any advance tax and entire tax amount was paid by the company on 31.12.2020. In this case, interest shall be calculated in the manner given below:

1. Interest u/s 234C

<table>
<thead>
<tr>
<th>Date</th>
<th>Tax Payable</th>
<th>Tax Paid</th>
<th>Default</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.06.2019</td>
<td>1,05,000 x 1% x 3</td>
<td>=</td>
<td>3,150</td>
</tr>
<tr>
<td>15.09.2019</td>
<td>3,15,000 x 1% x 3</td>
<td>=</td>
<td>9,450</td>
</tr>
<tr>
<td>15.12.2019</td>
<td>5,25,000 x 1% x 3</td>
<td>=</td>
<td>15,750</td>
</tr>
<tr>
<td>15.03.2020</td>
<td>7,00,000 x 1% x 1</td>
<td>=</td>
<td>7,000</td>
</tr>
</tbody>
</table>

Total interest payable 35,350

2. Interest u/s 234B (01-04-2020 to 31-12-2020)

7,00,000 x 1% x 9 = 63,000

3. Interest u/s 234A (01-10-2020 to 31-12-2020)

7,00,000 x 1% x 3 = 21,000
Total Interest Payable 1,19,350

Question 3: Explain Special Provision for all assessee.

Answer: Special Provision for all assessee

If the advance tax paid by the assessee upto 15th June is 12% of the tax payable and upto 15th September, is 36% of the tax payable, in such cases no interest shall be charged for default in such instalment.

Illustration 3: ABC Ltd. has estimated its tax payable to be `5,00,000 for previous year 2019-20 and has paid advance tax accordingly but actual tax liability of the company was found to be `5,50,000 and difference of tax amount was paid on 10.12.2020. Compute interest under section 234A, 234B and 234C.

Solution:

Interest under section 234C shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Tax Payable</th>
<th>Tax Paid</th>
<th>Default</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.06.2019</td>
<td>82,500</td>
<td>75,000</td>
<td>7,500</td>
</tr>
<tr>
<td>Interest u/s 234C = Nil (because advance tax paid at least 12%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.09.2019</td>
<td>2,47,500</td>
<td>2,25,000</td>
<td>22,500</td>
</tr>
<tr>
<td>Interest u/s 234C = Nil (because advance tax paid at least 36%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.12.2019</td>
<td>4,12,500</td>
<td>3,75,000</td>
<td>37,500</td>
</tr>
<tr>
<td>Interest u/s 234C = 37,500 x 1% x 3 = 1,125</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.03.2020</td>
<td>5,50,000</td>
<td>5,00,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 50,000 x 1% x 1 = 500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total interest payable u/s 234C 1,625</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest under section 234B Advance tax paid is more than 90% of actual tax liability, no interest is payable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest under section 234A shall be computed from 01.10.2020 to 10.12.2020 and is as given below:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

50,000 x 1% x 3 = 1,500
Total interest payable (1,625 + 1,500) 3,125
**Question 4:** Explain Payment of advance tax in case of capital gains/casual income/ newly setup business/ profession/ Dividend Income in excess of ₹ 10,00,000.

**Answer:** Payment of advance tax in case of capital gains/casual income/newly setup business/ profession/ Dividend Income in excess of ₹ 10,00,000  

Section 234C

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

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount Paid (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15.06.2019</td>
<td>15,000</td>
</tr>
<tr>
<td>Upto 15.09.2019</td>
<td>45,000</td>
</tr>
<tr>
<td>Upto 15.12.2019</td>
<td>95,000</td>
</tr>
<tr>
<td>Upto 15.03.2020</td>
<td>1,70,000</td>
</tr>
</tbody>
</table>

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

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

Last date for filing of return is 31.07.2020.

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

**Solution:**

**Computation of Tax Liability**

| Normal Income | ₹11,00,000 |
| Long term capital gains | ₹3,00,000 |
| Total Income | ₹14,00,000 |
| Tax on ₹11,00,000 at slab rate | ₹1,42,500 |
| Tax on ₹3,00,000 @ 20% | ₹60,000 |
| Add: HEC @ 4% | ₹8,100 |
| Tax Liability | ₹2,10,600 |

(Tax liability excluding capital gains i.e. ₹14,00,000 - ₹3,00,000 = ₹11,00,000 at slab rate + HEC @ 4% 1,48,200)

**Interest u/s 234C**

Since capital gains arises on 1\(^{st}\) January 2020, installments for 15\(^{th}\) June, 15\(^{th}\) September and 15\(^{th}\) December shall be checked without including tax on capital gain and shall be as given below:

<table>
<thead>
<tr>
<th>Amount payable</th>
<th>Amount actually paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15.06.2019 (1,48,200 x 15%)</td>
<td>22,230.00</td>
<td>15,000</td>
</tr>
<tr>
<td>Rounded off under rule 119A = 7,200</td>
<td>7,200</td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 7,200 x 1% x 3 = 216</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>Upto 15.09.2019 (1,48,200 x 45%)</td>
<td>66,690.00</td>
<td>45,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 21,600 x 1% x 3 = 648</td>
<td>648</td>
<td></td>
</tr>
<tr>
<td>Upto 15.12.2019 (1,48,200 x 75%)</td>
<td>1,11,150.00</td>
<td>95,000</td>
</tr>
<tr>
<td>Rounded off under rule 119A = 16,100</td>
<td>16,100</td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 16,100 x 1% x 3 = 483</td>
<td>483</td>
<td></td>
</tr>
</tbody>
</table>

Installment for 15\(^{th}\) March shall be including tax on capital gains and is as given below:

<table>
<thead>
<tr>
<th>Amount payable</th>
<th>Amount actually paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15.03.2020 (2,10,600 x 100%)</td>
<td>2,10,600</td>
<td>1,70,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 40,600 x 1% x 1 = 406</td>
<td>406</td>
<td></td>
</tr>
<tr>
<td>Total Interest u/s 234C</td>
<td>₹1,756</td>
<td></td>
</tr>
</tbody>
</table>

**Interest u/s 234B (01-04-2020 to 10-12-2020)**

Interest = ₹3,654
Interest u/s 234A (01-08-2020 to 10-12-2020)
40,600 x 1% x 5 ₹ 2,030

Similar provision shall be applicable in case of a newly setup Business/Profession
If any Assessee has started Business/Profession in the current year, assessee shall be exempt from payment of advance tax prior to commencement of Business/Profession i.e. advance tax has to be paid in installments subsequent to commencement of Business/Profession.
If Business/Profession has been started after 15th March, advance tax should be paid upto 31st March otherwise Interest shall be charged under section 234C for one month @ 1%.

Example: Mr. X started his business on 01.10.2019 and had income ₹ 10,00,000 upto 31.03.2020. In this case, he will be required to pay advance tax in the manner given below:

Income under the head Business/Profession 10,00,000
Gross Total Income/Total Income 10,00,000
Computation of Tax Liability
Tax on 10,00,000 at slab rate 1,12,500
Add: HEC @ 4% 4,500
Tax Liability 1,17,000

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

Similar provision shall be applicable in case of Dividend Income in excess of ₹ 10,00,000
If any Assessee has received Dividend in excess of ₹ 10,00,000 then excess amount is taxable u/s 115BBDA @ 10% and in such case advance tax is payable on actual accrual of Dividend income i.e. advance tax is to be paid in the subsequent installments and if such accrual is after 15th March, advance tax is to be paid upto 31st March of previous year otherwise interest shall be charged under section 234C and Advance Tax shall not be payable on estimated basis.
If Dividend has been received after 15th March, advance tax should be paid upto 31st March otherwise Interest shall be charged under section 234C for one month @ 1%.

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

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto June 15, 2019</td>
<td>₹ 4,15,000</td>
</tr>
<tr>
<td>Upto September 15, 2019</td>
<td>₹ 8,25,000</td>
</tr>
<tr>
<td>Upto December 15, 2019</td>
<td>₹ 16,64,000</td>
</tr>
<tr>
<td>Upto March 15, 2020</td>
<td>₹ 26,23,000</td>
</tr>
</tbody>
</table>

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

Solution: Computation of Tax Liability

| Business income | ₹ 88,00,000 |
Advance Payment Of Tax

Long term capital gains 9,50,000
Total Income 97,50,000
Tax on ₹88,00,000 @ 30% 26,40,000
Tax on ₹9,50,000 @ 20% 1,90,000
Add: HEC @ 4% 1,13,200
Tax Liability 29,43,200
(Tax liability excluding capital gains ₹97,50,000 - ₹9,50,000 = ₹88,00,000 x 30% + HEC@ 4% 27,45,600)

Interest u/s 234C
Since capital gains arises on 1st December 2019, installment for 15th June and 15th September shall be checked without including tax on capital gain and shall be as given below:

<table>
<thead>
<tr>
<th>Amount payable</th>
<th>Amount actually paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15.06 2019 (27,45,600 x 15%) 4,11,840</td>
<td>4,15,000</td>
<td>NIL</td>
</tr>
<tr>
<td>Upto 15.09 2019 (27,45,600 x 45%) 12,35,520</td>
<td>8,25,000</td>
<td>4,10,520</td>
</tr>
<tr>
<td>Round off under rule 119A = 4,10,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 4,10,500 x 1% x 3 month = 12,315</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Installments for 15th December and 15th March shall be including tax on capital gains and is as given below:

<table>
<thead>
<tr>
<th>Amount payable</th>
<th>Amount actually paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15.12.2019 (29,43,200 x 75%) 22,07,400</td>
<td>16,64,000</td>
<td>5,43,400</td>
</tr>
<tr>
<td>Interest u/s 234C = 5,43,400 x 1% x 3 month = 16,302</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upto 15.03.2020 (29,43,200 x 100%) 29,43,200</td>
<td>26,23,000</td>
<td>3,20,200</td>
</tr>
<tr>
<td>Interest u/s 234C = 3,20,200 x 1% x 1 month = 3,202</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Interest u/s 234C</td>
<td>₹31,819</td>
<td></td>
</tr>
</tbody>
</table>

Interest u/s 234B (01-04-2020 to 30-09-2020)
3,20,200 x 1% x 6 ₹19,212

Rounding off for the purpose of calculating Interest Rule 119A
As per rule 119A, the principal amount shall be rounded off in the multiples of ₹100 and for this purpose any fraction of ₹100 shall be ignored. E.g. ₹1,60,275 shall be rounded off as 1,60,200.

Illustration 7: ABC Ltd. has paid advance tax for the previous year 2019-20 as given below:
1. Upto 15.06.2019 ₹50,000
2. Upto 15.09.2019 ₹1,50,000
3. Upto 15.12.2019 ₹3,00,000
4. Upto 15.03.2020 ₹6,00,000
Actual tax liability was found to be ₹7,00,000 and balance tax was paid on 10.12.2020. Compute interest payable under section 234A, 234B, 234C.

Solution:
Interest under section 234C shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Tax Payable</th>
<th>Tax Paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.06.2019</td>
<td>1,05,000</td>
<td>50,000</td>
<td>55,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 55,000 x 1% x 3 = 1,650</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.09.2019</td>
<td>3,15,000</td>
<td>1,50,000</td>
<td>1,65,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 1,65,000 x 1% x 3 = 4,950</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.12.2019</td>
<td>5,25,000</td>
<td>3,00,000</td>
<td>2,25,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 2,25,000 x 1% x 3 = 6,750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.12.2020</td>
<td>6,75,000</td>
<td>7,00,000</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 7,00,000 x 1% x 1 month = 7,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Interest u/s 234B (01-04-2020 to 30-09-2020) 3,20,200 x 1% x 6 ₹19,212
Advance Payment Of Tax

15.03.2020  7,00,000  6,00,000  1,00,000
Interest u/s 234C = 1,00,000 x 1% x 1 = 1,000
Total interest payable u/s 234C  14,350
Interest under section 234B shall be computed from 01.04.2020 to 10.12.2020 and is as given below:
7,00,000 – 6,00,000 = 1,00,000 x 1% x 9 = 9,000
Interest under section 234A shall be computed from 01.10.2020 to 10.12.2020 and is as given below:
1,00,000 x 1% x 3 = 3,000
Total interest payable (14,350 + 9,000 + 3,000)  26,350

(b) Presume actual tax liability is ₹6,50,000.

Solution:

Interest under section 234C shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Tax Payable</th>
<th>Tax Paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.06.2019</td>
<td>97,500</td>
<td>50,000</td>
<td>47,500</td>
</tr>
<tr>
<td>Interest u/s 234C = 47,500 x 1% x 3 = 1,425</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.09.2019</td>
<td>2,92,500</td>
<td>1,50,000</td>
<td>1,42,500</td>
</tr>
<tr>
<td>Interest u/s 234C = 1,42,500 x 1% x 3 = 4,275</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.12.2019</td>
<td>4,87,500</td>
<td>3,00,000</td>
<td>1,87,500</td>
</tr>
<tr>
<td>Interest u/s 234C = 1,87,500 x 1% x 3 = 5,625</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.03.2020</td>
<td>6,50,000</td>
<td>6,00,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 50,000 x 1% x 1 = 500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total interest payable u/s 234C  11,825</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Interest under section 234B
Advance tax paid is more than 90% of actual tax liability, no interest is payable
Interest under section 234A shall be computed from 01.10.2020 to 10.12.2020 and is as given below:
50,000 x 1% x 3 = 1,500
Total interest payable (11,825 + 1,500)  13,325

Due date for filing the return of income Section 139(1)

Return is to be filed in general upto 31st July of the assessment year, however, in the following cases, the last date shall be 30th September of the assessment year.
1. Every company assessee
Example
For the previous year 2019-20, ABC Ltd. has to file its return of income upto 30.09.2020.
2. Any other person who is required to get his accounts audited either under Income Tax Act or under any other Act.
Example
Mr. X has his own business and his turnover for previous year 2019-20 is ₹102 lakhs. In this case, the last date of filing the return of income shall be 30.09.2020, but if turnover is ₹97 lakhs, the last date shall be 31.07.2020.
Similarly if a partnership firm XY has turnover of its business ₹ 65 lakhs for previous year 2019-20, in this case, the last date of filing of return of income shall be 31.07.2020.

Audit u/s 44AB
As per Section 44AB, Audit is compulsory for every person carrying on business and sales turnover or gross receipts exceeds ₹ 1 crore during the previous year and every person carrying on profession and gross receipts is exceeding ₹50 lakh during the previous year.

If tax liability is less than ₹ 10,000 then interest u/s 234B & 234C shall not be payable but Interest u/s 234A shall be payable.
Eg. Mr. X has Income under LTCG 112A is ₹ 4 Lakh and he paid income tax on 10/12/2020. Compute Interest u/s 234A, 234B & 234C. In this case, His Tax Liability shall be:
Income under the head Capital Gains  
Gross Total Income/Total Income 
Computation of Tax Liability 
Tax on ₹50,000 (4,00,000-1,00,000-2,50,000) @ 10% u/s 112A  
Add: HEC @ 4% 
Tax Liability  
Since Tax Liability is less than ₹10,000 hence Interest u/s 234B & 234C is not payable.  
Interest u/s 234A = 5,200 x 1% x 5 = ₹260

Question 5: Explain Powers of Assessing officer to direct the Assessee to pay Advance Tax.

Answer: Powers of Assessing Officer to direct the Assessee to pay Advance Tax Section 209, 210
If any person has not paid advance tax and Assessing Officer is of the opinion that such person has to pay advance tax, in such cases Assessing Officer may issue him a notice in Form No.28 directing such person to pay advance tax but notice can be given only if such person has already been assessed through regular assessment in any of the earlier years. Regular assessment shall include scrutiny assessment under section 143(3) or Best judgement assessment under section 144. If Assessing Officer has issue notice, estimated income for such year shall be the income of the latest previous year in respect of which the assessee has been assessed by way of regular assessment but if assessee has filed any return subsequently and income reported in such return is higher than the income selected above, in that case income reported by the assessee shall be considered to be estimated income of current year.
If the assessee do not pay the advance tax even after receiving such notice, he will be considered to be assessee in-default as per section 218 and penalty can be imposed equal to the amount not paid as per section 221.
If the assessee finds that his tax liability shall be less than the amount computed by the Assessing Officer, assessee may give a reply in Form No.28A and can pay tax as per his own estimate.

Example
For the previous year 2019-20, ABC Ltd. has not paid any advance tax till 10.10.2019 and in the earlier years the company was assessed in the manner given below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Assessment Type</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>143(3) (Scrutiny Assessment)</td>
<td>7,00,000</td>
</tr>
<tr>
<td>2017-18</td>
<td>144 (Best Judgement Assessment)</td>
<td>10,00,000</td>
</tr>
<tr>
<td>2018-19</td>
<td>ROI</td>
<td>8,00,000</td>
</tr>
</tbody>
</table>

In this case Assessing officer shall have the powers to give notice to the assessee and its estimated income shall be considered to be ₹10,00,000. If any assessee has received a notice in form no. 28 but he finds that his tax liability shall be less than the amount computed by the Assessing Officer, in that case he can give a reply in form no. 28A and can pay tax as per his own estimate.
MULTIPLE CHOICE QUESTIONS

1. Which of the following statement is not correct.
(a) advance tax is payable only if tax payable during a particular year is ₹10,000 or more
(b) a senior citizen is always exempt from payment of advance tax
(c) upto 15\textsuperscript{th} Dec of previous year, advance tax payable is atleast 75%
(d) in case of default in payment of advance tax interest shall be charged @ 1% p.m.

2. Which of the following statement is not correct.
(a) if atleast 12% of actual tax has been paid upto 15\textsuperscript{th} June, interest u/s 234C is not payable
(b) if atleast 24% of actual tax has been paid upto 15\textsuperscript{th} Sept, interest u/s 234C is not payable
(c) if atleast 75% of actual tax has been paid upto 15\textsuperscript{th} Dec, interest u/s 234C is not payable
(d) last date for Filing of ROI in case of a company is 30\textsuperscript{th} Sept of the assessment year

3. Which of the following statement is not correct.
(a) advance tax payable upto 15\textsuperscript{th} June of the previous year is atleast 15%
(b) advance tax payable upto 15\textsuperscript{th} Sept of the previous year is atleast 45%
(c) advance tax payable upto 15\textsuperscript{th} Dec of the previous year is atleast 70%
(d) advance tax payable upto 15\textsuperscript{th} March of the previous year is atleast 100%

4. In case of default in payment of advance tax, interest shall be charged
(a) 2% p.m. u/s 234C
(b) 1% p.m. u/s 234B
(c) 1.5% p.m. u/s 234A
(d) 1% p.m. u/s 234C

5. In case of default in payment of Self assessment tax, interest shall be charged
(a) 2% p.m. u/s 234C , (b) 1% p.m. u/s 234B ,(c) 1.5% p.m. u/s 234A , (d) 1% p.m. u/s 234C

6. In case of default in payment of self assessment tax after last date of filing of ROI, interest shall be charged
(a) 2% p.m. u/s 234C
(b) 1% p.m. u/s 234B
(c) 1% p.m. u/s 234A + 1% p.m. u/s 234B
(d) 1% p.m. u/s 234C

7. Advance tax is payable by a senior citizen only when
(a) he has income u/h capital gains
(b) he has income u/h house property
(c) he has income u/h business/profession
(d) he has income u/h casual income

8. Which of the statement is correct
(a) a company has to pay advance tax irrespective of tax payable
(b) a partnership firm has to pay advance tax if tax payable is ₹1,00,000 or more
(c) all the assessees are required to pay advance tax if tax payable is ₹10,000 or above
(d) an individual is exempt from payment of advance tax

9. Audit is required
(a) if turnover of business exceeding ₹100 lakhs
(b) if turnover of profession exceeding ₹50 lakhs
(c) (a) or (b)
(d) if income of business is exceeding ₹10 lakhs

10. Assessing Officer can issue a notice for payment of advance tax
(a) to any assessee
(b) any assessee who has been assessed through regular assessment
(c) any assessee who paid tax of ₹10 lakh or more in the earlier years
(d) any assessee who has not paid advance tax for last three year

Answer
1. (b); 2. (b); 3. (c); 4. (d); 5. (b); 6. (c); 7. (c); 8. (c); 9. (c); 10. (b)
PRACTICE PROBLEMS
TOTAL PROBLEMS 3

Problem 1.
Mr. X has incomes as given below:
1. Income under the head house property ₹15,00,000
2. Gift of a painting from a friend with market value ₹2,00,000
3. Gift of shares and securities from Mrs. X valued ₹3,00,000
4. Agricultural income ₹3,00,000
He has paid advance tax as given below:
- Upto 15th June 2019 ₹15,000
- Upto 15th Sept 2019 ₹30,000
- Upto 15th Dec 2019 ₹50,000
- Upto 15th March 2020 ₹60,000
Balance amount of tax was paid and return of income was filed on 10th Sept 2020.
Compute his tax liability for the Assessment Year 2020-21 and also interest under section 234A, 234B and 234C.
Answer = Tax Liability: ₹4,05,600; Interest under section 234A: ₹6,912; Interest under section 234B: ₹20,736; Interest under section 234C: ₹17,031

Problem 2.
ABC Ltd. (an Indian Company) has income as given below:
1. Income from Business ₹20,00,000
2. Income under the head House Property ₹7,00,000
The company has paid advance tax as given below:
- Upto 15th June 2019 ₹20,000
- Upto 15th Sept 2019 ₹30,000
- Upto 15th Dec 2019 ₹80,000
- Upto 15th March 2020 ₹1,00,000
Balance amount of tax was paid and return of income was filed on 10th Dec 2020.
Due date for filing of ROI in case of ABC Ltd. is 30.09.2020.
Compute tax liability for the Assessment Year 2020-21 and also interest under section 234A, 234B and 234C.
Answer = Tax Liability: ₹8,42,400; Interest under section 234A: ₹22,272; Interest under section 234B: ₹66,816; Interest under section 234C: ₹37,637

Problem 3.
Mrs. X has income under the head house property ₹18,00,000 and she has received gift of ₹3,00,000 in cash from her husband’s sister and ₹1,00,000 from her sister’s husband and ₹1,20,000 from sister of her mother in law. She has agricultural income of ₹4,00,000. She has paid advance tax as given below:
- Upto 15th June 2019 ₹15,000
- Upto 15th Sept 2019 ₹45,000
- Upto 15th Dec 2019 ₹75,000
- Upto 15th March 2020 ₹1,00,000
Balance amount of tax was paid on 10th Dec 2020 and return of income filed on the same date and due date for filing return of income is 31.07.2020.
Compute her tax liability for the Assessment Year 2020-21 and also interest under section 234A, 234B and 234C.
Answer = Tax Liability: ₹4,84,640; Interest under section 234A: ₹19,230; Interest under section 234B: ₹34,614; Interest under section 234C: ₹19,416
SOLUTIONS
TO
PRACTICE PROBLEMS

Solution 1:

Computation of Total Income
Income under the head House Property 15,00,000
Income under the head Other Sources
Gift in kind received from a friend 2,00,000
Gross Total Income 17,00,000
Less: Deduction u/s 80C to 80U Nil
Total Income 17,00,000
Agricultural Income 3,00,000

Computation of Tax Liability
Step 1. Tax on (17,00,000 + 3,00,000) at slab rates 4,12,500
Step 2. Tax on (2,50,000 + 3,00,000) at slab rates (22,500)
Step 3. Deduct Tax at Step 2 from Tax at Step 1 3,90,000
Add: HEC @ 4% 15,600
Tax Liability 4,05,600

Interest u/s 234C

<table>
<thead>
<tr>
<th>Amount payable</th>
<th>Amount actually paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15.06 2019 (4,05,600 x 15%) 60,840</td>
<td>15,000</td>
<td>45,840</td>
</tr>
<tr>
<td>Rounded off under rule 119A = 45,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 45,800 x 1% x 3 month = 1,374</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upto 15.09 2019 (4,05,600 x 45%) 1,82,520</td>
<td>30,000</td>
<td>1,52,520</td>
</tr>
<tr>
<td>Rounded off under rule 119A = 1,52,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 1,52,500 x 1% x 3 month = 4,575</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upto 15.12.2019 (4,05,600 x 75%) 3,04,200</td>
<td>50,000</td>
<td>2,54,200</td>
</tr>
<tr>
<td>Interest u/s 234C = 2,54,200 x 1% x 3 month = 7,626</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upto 15.03.2020 (4,05,600 x 100%) 4,05,600</td>
<td>60,000</td>
<td>3,45,600</td>
</tr>
<tr>
<td>Interest u/s 234C = 3,45,600 x 1% x 1 month = 3,456</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Interest liability under section 234C 17,031

Interest under section 234B (01-04-2020 to 10-09-2020) 20,736
Interest under section 234A (01-08-2020 to 10-09-2020) 6,912

Solution 2:

Computation of Tax Liability
Tax on ₹27,00,000 @ 30% 8,10,000
Add: HEC @ 4% 32,400
Tax Liability 8,42,400
## Advance Payment Of Tax

### Interest u/s 234C

<table>
<thead>
<tr>
<th>Amount payable</th>
<th>Amount actually paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹</td>
<td>₹</td>
<td>₹</td>
</tr>
<tr>
<td>Upto 15.06 2019 (8,42,400 x 15%)</td>
<td>1,26,360</td>
<td>20,000</td>
</tr>
<tr>
<td>Rounded off under rule 119A = 1,06,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 1,06,300 x 1% x 3 month =</td>
<td>3,189</td>
<td></td>
</tr>
<tr>
<td>Upto 15.09 2019 (8,42,400 x 45%)</td>
<td>3,79,080</td>
<td>30,000</td>
</tr>
<tr>
<td>Rounded off under rule 119A = 3,49,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 3,49,000 x 1% x 3 month =</td>
<td>10,470</td>
<td></td>
</tr>
<tr>
<td>Upto 15.12.2019 (8,42,400 x 75%)</td>
<td>6,31,800</td>
<td>80,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 5,51,800 x 1% x 3 month =</td>
<td>16,554</td>
<td></td>
</tr>
<tr>
<td>Upto 15.03.2020 (8,42,400 x 100%)</td>
<td>8,42,400</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Interest u/s 234C = 7,42,400 x 1% x 1 month =</td>
<td>7,424</td>
<td></td>
</tr>
</tbody>
</table>

### Interest liability under section 234C

₹37,637

### Interest under section 234B (01-04-2020 to 10-12-2020)

7,42,400 x 1% x 9 ₹66,816

### Interest under section 234A (01-10-2020 to 10-12-2020)

7,42,400 x 1% x 3 ₹22,272

### Solution 3:

**Computation of Total Income**

- Income under the head House Property 18,00,000
- Income under the head Other Sources 1,20,000
- Gift received from sister of her mother in law 1,20,000
- Gross Total Income 19,20,000
- Less: Deduction u/s 80C to 80U Nil
- Total Income 19,20,000
- Agricultural Income 4,00,000

**Computation of Tax Liability**

- Step 1. Tax on (19,20,000 + 4,00,000) at slab rates 5,08,500
- Step 2. Tax on (₹2,50,000 + 4,00,000) at slab rates (42,500)
- Step 3. Deduct Tax at Step 2 from Tax at Step 1 4,66,000
- Add: HEC @ 4% 18,640
- Tax Liability 4,84,640

### Interest u/s 234C

<table>
<thead>
<tr>
<th>Amount payable</th>
<th>Amount actually paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹</td>
<td>₹</td>
<td>₹</td>
</tr>
<tr>
<td>Upto 15.06 2019 (4,84,640 x 15%)</td>
<td>72,696</td>
<td>15,000</td>
</tr>
<tr>
<td>Rounded off under rule 119A = 57,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 57,600 x 1% x 3 month =</td>
<td>1,728</td>
<td></td>
</tr>
<tr>
<td>Upto 15.09 2019 (4,84,640 x 45%)</td>
<td>2,18,088</td>
<td>45,000</td>
</tr>
<tr>
<td>Rounded off under rule 119A = 1,73,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 1,73,000 x 1% x 3 month =</td>
<td>5,190</td>
<td></td>
</tr>
<tr>
<td>Upto 15.12.2019 (4,84,640 x 75%)</td>
<td>3,63,480</td>
<td>75,000</td>
</tr>
<tr>
<td>Rounded off under rule 119A = 2,88,400</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Interest u/s 234C = 2,88,400 x 1% x 3 month = 8,652

<table>
<thead>
<tr>
<th>Upto 15.03.2020 (4,84,640 x 100%)</th>
<th>4,84,640</th>
<th>1,00,000</th>
<th>3,84,640</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest u/s 234C = 3,84,600 x 1% x 1 month</td>
<td>3,846</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Interest liability under section 234C**

- **Interest under section 234B (01-04-2020 to 10-12-2020)**
  
  \[
  3,84,600 \times 1\% \times 9 = 34,614
  \]

- **Interest under section 234A (01-08-2020 to 10-12-2020)**

  \[
  3,84,600 \times 1\% \times 5 = 19,230
  \]
EXAMINATION QUESTIONS

NOV – 2017

Question 5(a) (i) (Marks 2)
Under section 208, obligation to pay advance tax arises in every case where the advance tax payable is ₹10,000 or more, State exception to this rule.

Answer: As per Section 208, Advance Tax shall be payable during a financial year in every case where the amount of such tax payable by the assessee is ₹10,000 or more however as per section 207, a senior citizen who do not have income under the head business/profession shall be exempt from payment of advance tax, eg. Mr. X is a senior citizen and he has income under the head business/profession and also under the head house property, in this case he will be required to pay advance tax but if he do not have income under the head business/profession, he will be exempt from payment of advance tax.

NOV – 2016

Question 6(a) (2 Marks)
Discuss the provision under Income Tax Act for Payment of Advance Tax in case of Capital Gain.

Answer: Refer Answer given in the book

MAY – 2016

Question 7(a)(ii). (4 Marks)
Briefly discuss the provisions of Section 234B of the Income-tax Act, 1961 for the short-payment or non-payment of advance tax.

Refer Answer given in the Chapter

NOV – 2015

Question 7(a). (4 Marks)
Explain briefly the provisions of advance tax on capital gains and casual income.

Refer Answer given in the Chapter

MAY – 2014

(2 x 2 = 4 Marks)

Question. Who is liable to pay Advance Tax? What is the procedure to compute the Advance Tax payable?

Solution: As per section 207, every person is liable to pay advance tax however a senior citizen is exempt from payment of advance tax provided he do not have any income under the head Business/Profession. As per section 208, every person in whose case tax payable is less than ₹10,000 shall also be exempt from payment of advance tax. For this purpose, the assessee himself shall estimate his tax liability / tax payable and shall pay advance tax in installments given under section 211. An assessee is exempt from payment of advance tax with regard to capital gains and casual income but advance tax should be paid after accrual of such income in subsequent installments. Net agricultural income is also to be considered for the purpose of computing advance tax.

A person may increase or reduce the amount of advance tax payable in subsequent installment(s) in accordance with his estimate of current income.

MAY – 2013

Question 7(a) (4 Marks)
Briefly discuss the provisions relating to payment of advance tax in case of capital gains and casual income.

Solution: Refer answer given in the chapter
JUNE – 2009

Question 5
Enlist the installments of advance tax and due dates thereon in case of companies.
Answer. Refer answer given in the chapter

MAY – 2008

Question 5
(a) Briefly discuss about the interest chargeable under Section 234A for delay or default in furnishing return of income.
(b) What are the due dates of instalments and the quantum of advance tax payable by companies?
Answer 5(a)/5(b) . Refer answer given in the chapter

NOV – 2007

Question 5
Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.
Answer. Refer answer given in the chapter
### Advance Payment Of Tax

- **CHALLAN NO./ ITNS 280**
- **Tax Applicable (Tick One)***
  - (0020) INCOME-TAX ON COMPANIES
  - (0021) INCOME TAX (OTHER THAN COMPANIES)

#### Permanent Account Number

<p>| | | | | | |</p>
<table>
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#### Full Name

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#### Complete Address with City & State

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#### Tel. No.

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#### Type Of Payment (Tick One)

<table>
<thead>
<tr>
<th>Advance Tax (100)</th>
<th>Self Assessment Tax (300)</th>
<th>Tax on Distributed Profits of Domestic Companies (106)</th>
<th>Tax on Distributed Income to Unit Holders (107)</th>
</tr>
</thead>
</table>

#### DETAILS OF PAYMENTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in Rs. Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td></td>
</tr>
<tr>
<td>Surcharge</td>
<td></td>
</tr>
<tr>
<td>Health &amp; education cess</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
</tr>
<tr>
<td>Penalty</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
</tr>
</tbody>
</table>

#### Total (in words)

<table>
<thead>
<tr>
<th>CRORES</th>
<th>LACS</th>
<th>THOUSANDS</th>
<th>HUNDREDS</th>
<th>TENS</th>
<th>UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Paid in Cash/Debit to A/c /Cheque No.

<table>
<thead>
<tr>
<th>Name of the Bank and Branch</th>
<th>Date:</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

#### Drawn on

<table>
<thead>
<tr>
<th>Name of the Bank and Branch</th>
<th>(Name)</th>
<th>Signature of person making payment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Taxpayers Counterfoil (To be filled up by tax payer)

<table>
<thead>
<tr>
<th>PAN</th>
<th>Received from</th>
<th>(Name)</th>
<th>Cash/ Debit to A/c /Cheque No.</th>
<th>For Rs.</th>
<th>Drawn on</th>
<th>(Name of the Bank and Branch)</th>
<th>on account of Companies/Other than Companies/Tax</th>
<th>Income Tax on</th>
<th>Type of Payment for the Assessment Year</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**FOR USE IN RECEIVING BANK**

<table>
<thead>
<tr>
<th>Debit to A/c / Cheque credited on</th>
</tr>
</thead>
<tbody>
<tr>
<td>D D M M Y Y</td>
</tr>
</tbody>
</table>

**SPACE FOR BANK SEAL**

**SPACE FOR BANK SEAL**
Section 5 to 9

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>SECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope of total income/incidence of tax</td>
<td>5</td>
</tr>
<tr>
<td>Rules for determining the residential status of an individual</td>
<td>6(1), 6(6)(a)</td>
</tr>
<tr>
<td>Rules for determining the residential status of an Hindu Undivided Family</td>
<td>6(2), 6(6)(b)</td>
</tr>
<tr>
<td>Rules for Determining the residential status of Firm/ Association of person/Body of individual</td>
<td>6(2)</td>
</tr>
<tr>
<td>Rules for determining the residential status of a company</td>
<td>6(3)</td>
</tr>
<tr>
<td>Rules for determining the residential status of any other person</td>
<td>6(4)</td>
</tr>
<tr>
<td>Incomes deemed to be received</td>
<td>7</td>
</tr>
<tr>
<td>Income deemed to accrue or arise in India</td>
<td>9</td>
</tr>
</tbody>
</table>

**Residential Status Section 6**

Whether a particular income shall be taxed or not shall depend on the residential status and the type of income. Residential status in fact explains connection of the person with the country and types of income explains the connection of the income with the country. If the person do not have any connection and also the incomes do not have any connection with the country, the income shall not be taxable but if either the person or the income has any connection, the income is taxable.

For this purpose, taxpayers are classified into three broad categories on the basis of their residential status.

1. Resident and ordinarily resident
2. Resident but not ordinarily resident
3. Non-resident

The residential status of an assessee is ascertained with reference to each previous year.

**Question 1: How to determine Residential status of individuals Section 6(1)/6(6)(a)**

**Answer:** Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

(i) He stays in India for 182 days or more during the relevant previous year

(ii) He stays in India for 60 days or more and also for 365 days or more during 4 years preceding the relevant previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident, otherwise the individual is a non-resident.

E.g. Mr. X stayed in India for 200 days in previous year 2019-20, in this case he will be considered to be resident in India.

If Mr. X stayed in India for 100 days in previous year 2019-20 and also for 365 days during 4 years preceding the previous year 2019-20, he will be considered to be resident in India.

If Mr. X stayed in India during previous year 2019-20 for 59 days, he will be considered to be non-resident in previous year 2019-20.

The term “stay in India” includes stay in the territorial waters of India (i.e. 12 nautical miles into the sea from the Indian coastline). Even the stay in a ship or boat in the territorial waters of India shall be considered to be stay in India. (1 nautical mile = 1.1515 miles = 1.852 Kms).
It is not necessary that the period of stay must be continuous nor is it essential that the stay should be at the usual place of residence, business or employment of the individual. For the purpose of counting the number of days stayed in India, both the date of departure as well as the date of arrival are considered to be in India.

**Meaning of Not-ordinarily resident Section 6(6)(a)**

An individual who is resident of India shall be considered to be NOR if he has complied with at least one of the conditions given below:

(i) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less or

(ii) If such individual has been non-resident in India in 9 years out of 10 previous years preceding the relevant previous year

If he has not complied with even a single condition, he will be considered to be ROR.

**Illustration 1:** Determine residential status of Mr. X for the assessment year 2020-21, who stays in India during various financial years asunder:

<table>
<thead>
<tr>
<th>Previous Years</th>
<th>Stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>100</td>
</tr>
<tr>
<td>2018-19</td>
<td>200</td>
</tr>
<tr>
<td>2017-18</td>
<td>91</td>
</tr>
<tr>
<td>2016-17</td>
<td>90</td>
</tr>
<tr>
<td>2015-16</td>
<td>89</td>
</tr>
<tr>
<td>2014-15</td>
<td>87</td>
</tr>
<tr>
<td>2013-14</td>
<td>82</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>91</td>
</tr>
<tr>
<td>2011-12</td>
<td>90</td>
</tr>
<tr>
<td>2010-11</td>
<td>88</td>
</tr>
<tr>
<td>2009-10</td>
<td>89</td>
</tr>
<tr>
<td>2008-09</td>
<td>86</td>
</tr>
<tr>
<td>2007-08</td>
<td>87</td>
</tr>
<tr>
<td>2006-07</td>
<td>89</td>
</tr>
<tr>
<td>2005-06</td>
<td>90</td>
</tr>
</tbody>
</table>

**Solution:**

As per section 6(1), Stay in India is 60 days plus 365 days during 4 years preceding the relevant previous year, hence he is resident. His stay during 7 years is 730 hence he is not able to comply with first condition of section 6(6)(a). He is able to comply with second condition of 6(6)(a) i.e. he is non-resident in atleast 9 years out of 10 years preceding the relevant previous year hence he is NOR.

**Illustration 2:** Determine residential status of Mr. X for the assessment year 2020-21, who stays in India during various financial years asunder:

<table>
<thead>
<tr>
<th>Previous Years</th>
<th>Stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>75</td>
</tr>
<tr>
<td>2018-19</td>
<td>197</td>
</tr>
<tr>
<td>2017-18</td>
<td>94</td>
</tr>
<tr>
<td>2016-17</td>
<td>89</td>
</tr>
<tr>
<td>2015-16</td>
<td>90</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>80</td>
</tr>
<tr>
<td>2011-12</td>
<td>91</td>
</tr>
<tr>
<td>2010-11</td>
<td>86</td>
</tr>
<tr>
<td>2009-10</td>
<td>85</td>
</tr>
<tr>
<td>2008-09</td>
<td>89</td>
</tr>
<tr>
<td>2007-08</td>
<td>72</td>
</tr>
</tbody>
</table>
Solution:

As per section 6(1), Stay in India is 60 days plus 365 days during 4 years preceding the relevant previous year, hence he is resident.

His stay during 7 years is 730 hence he is not able to comply with first condition of section 6(6)(a). He is able to comply with second condition of 6(6)(a) i.e. he is non-resident in atleast 9 years out of 10 years preceding the relevant previous year hence he is NOR.

Illustration 3: Mr. X an American citizen has come to India for the first time on 10.07.2015, as an employee of a multinational company. The particulars of his arrival and departure are as given below:

<table>
<thead>
<tr>
<th>Date of arrival</th>
<th>Date of departure</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.07.2015</td>
<td>07.08.2016</td>
</tr>
<tr>
<td>07.10.2016</td>
<td>27.11.2017</td>
</tr>
<tr>
<td>01.03.2018</td>
<td>01.02.2019</td>
</tr>
<tr>
<td>10.05.2019</td>
<td>30.03.2020</td>
</tr>
</tbody>
</table>

Not yet returned

Determine his residential status for previous year 2015-16 to 2019-20.

Solution:

Previous Year 2015-16

{July – 22, August – 31, September 30, October 31, November 30, December 31, January 31, February – 29, March – 31}

Days of stay in India are 266.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident. and his stay during 7 years is Nil hence he is able to comply with first condition of section 6(6)(a). hence he is NOR.

Previous Year 2016-17


Days of stay in India are 305.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident. and his stay during 7 years is 265 days hence he is able to comply with first condition of section 6(6)(a). hence he is NOR.

Previous Year 2017-18


Days of stay in India are 272, so Mr. X is Resident.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident. and his stay during 7 years is 571 days hence he is able to comply with first condition of section 6(6)(a). hence he is NOR.

Previous Year 2018-19


Days of stay in India are 307.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident. and his stay during 7 years is more than 729 days hence he is not able to comply with first condition of
section 6(6)(a) and he is not able to comply second condition also i.e. non-resident in atleast 9 years out of 10 years preceding the relevant previous year. hence he is ROR.

**Previous Year 2019-20**


Days of stay in India are 326.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident. and his stay during 7 years is more than 729 days hence he is not able to comply with first condition of section 6(6)(a) and he is not able to comply second condition of section 6(6)(a) also i.e. non-resident in atleast 9 years out of 10 years preceding the relevant previous year. hence he is ROR.

**Illustration 4:** Mr. X an American citizen has come to India for the first time on 01.07.2016 as an executive of a multinational company. His employer has allowed him to visit USA every year and for this purpose he will be leaving India every year on 1\textsuperscript{st} November and shall come back on 31\textsuperscript{st} December, besides that he has visited Hong Kong on several occasions in connection with the official work, because he is looking after the employer’s operations in Hong Kong also, with details asunder:

<table>
<thead>
<tr>
<th>Date of leaving India</th>
<th>Date of arriving in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>07.02.2017</td>
<td>08.05.2017</td>
</tr>
<tr>
<td>11.07.2017</td>
<td>21.10.2017</td>
</tr>
<tr>
<td>10.02.2018</td>
<td>23.07.2018</td>
</tr>
<tr>
<td>11.02.2019</td>
<td>12.06.2019</td>
</tr>
<tr>
<td>01.02.2020</td>
<td>10.04.2020</td>
</tr>
</tbody>
</table>

Determine his residential status for the previous years 2016-17 to 2019-20.

**Solution:**

**Previous Year 2016-17**


Days of stay in India are 144

As per section 6(1), Stay in India is less than 182 days but more than 60 days during the relevant previous year but Stay in India is less than 365 days during 4 years preceding the relevant previous year, hence he is not complying even a single condition of section 6(1) hence he is Non – resident.

**Previous Year 2017-18**

{May – 24, June – 30, July – 11, October – 11, November – 1, December – 1, January – 31, February – 10}

Days of stay in India are 119.

As per section 6(1), Stay in India is less than 182 days but more than 60 days during the relevant previous year but Stay in India is less than 365 days during 4 years preceding the relevant previous year, hence he is not complying even a single condition of section 6(1) hence he is Non – resident.

**Previous Year 2018-19**

{July – 9, August – 31, September – 30, October – 31, November – 1, December – 1, January – 31, February – 11}

Days of stay in India are 145

As per section 6(1), Stay in India is less than 182 days but more than 60 days during the relevant previous year but Stay in India is less than 365 days during 4 years preceding the relevant previous year, hence he is not complying even a single condition of section 6(1) hence he is Non – resident.

**Previous Year 2019-20**


Days of stay in India are 176. During the preceding 4 years, his stay is for 365 days or more so he is resident. His stay during 7 years is 729 days or less, hence he is resident but not ordinarily resident.

**Illustration 5:** Mr. X, the Australian cricketer comes to India for 105 days every year. Find out his residential status for the A.Y. 2020-21.
**Solution:** He has complied with condition of 60 + 365 days hence he is resident further stay in 7 years is more than 729 days and also condition of non-resident in 9 years out of 10 years is not complied with hence he is ROR.

**Illustration 6:** Mr. X, a Canadian citizen, comes to India for the first time during the P.Y.2015-16. During the financial years 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20 he was in India for 55 days, 60 days, 90 days, 150 days and 70 days respectively. Determine his residential status for the A.Y.2020-21.

**Solution:**
During the previous year 2019-20, Mr. B was in India for 70 days and during the 4 years preceding the previous year 2019-20, he was in India for 355 days (i.e. 55 + 60 + 90 + 150 days). Thus, he does not satisfy section 6(1). Therefore, he is a non-resident for the previous year 2019-20.

**Illustration 7:** On 01.06.2017 Mr. X, a Malaysian citizen leaves India after stay of 10 years. During the financial year 2018-19 he comes to India for a period of 46 days. Later, he returns to India for one year on 10.10.2019.
Determine Mr. X’s residential status for the assessment year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Days of Stay in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.Y. 2019-20</td>
<td>174 Days</td>
</tr>
<tr>
<td>P.Y. 2018-19</td>
<td>46 Days</td>
</tr>
<tr>
<td>P.Y. 2017-18</td>
<td>62 Days</td>
</tr>
<tr>
<td>P.Y. 2016-17</td>
<td>365 Days</td>
</tr>
<tr>
<td>P.Y. 2015-16</td>
<td>366 Days</td>
</tr>
<tr>
<td>P.Y. 2014-15</td>
<td>365 Days</td>
</tr>
<tr>
<td>P.Y. 2013-14</td>
<td>365 Days</td>
</tr>
<tr>
<td>P.Y. 2012-13</td>
<td>365 Days</td>
</tr>
<tr>
<td>P.Y. 2011-12</td>
<td>366 Days</td>
</tr>
<tr>
<td>P.Y. 2010-11</td>
<td>365 Days</td>
</tr>
<tr>
<td>P.Y. 2009-10</td>
<td>365 Days</td>
</tr>
</tbody>
</table>

The person is **resident and ordinarily resident**. Mr. X was in India for 60 days in 2019-20 and for 365 days or more in the 4 years immediately preceding the relevant previous year and he does not satisfy even a single condition of section 6(6)(a).

**NOV – 2011 (2 Marks)**

Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years. Find out his residential status for the assessment year 2020-21.

**Answer:** An individual is said to be resident in India in any previous year, if he complies with at least one of the following conditions:-
(a) He is in India in that year for a period amounting in all to 182 days or more, or
(b) He is in India in that year for a period amounting in all to 60 days or more and also for 365 days or more during four years preceding the relevant previous year.

Since, Brett Lee has complied with the second condition hence he is resident.

Further more, an individual shall be considered to be not ordinarily resident in India in case his stay in India is 729 days or less during preceding seven years or he is non-resident in atleast 9 years during preceding 10 years.

Since stay of Brett Lee during preceding seven years is 700 days. Hence, he is NOR.

**MAY – 1998 (4 Marks)**

Mr. Nixon, an American citizen, is appointed by a multi-national company to its branch in New Delhi in 2016. Mr. Nixon has never been to India before this appointment. He arrives in Bombay on 15th April, 2016 and joins the New Delhi office on 20th April, 2016. His wife and children join him in India on 20th October, 2016. The company allotted him a leased residence for purposes of his stay. This residence is occupied by him from the beginning of October, 2016.

On 10th February, 2017, he is transferred by his employer, on deputation basis, to be the Regional Chief of his employer’s operations in South East Asia having headquarters in Hongkong. He leaves New Delhi on
11th February and arrives in Hongkong on 12th February, 2017. Mr. Nixon leaves behind his wife and children in India till 14th August, 2018, when they leave along with him for Hongkong. Mr. Nixon had come to India earlier on 15th June, 2018, on two months’ leave. The members of the family occupied the residence till date of departure to Hongkong.

At the end of the period of deputation, Mr. Nixon is reposted to India and joins the New Delhi office of his employer as Chief of Indian operations on 2nd February, 2020.

In what residential status Mr. Nixon will be assessable, for the various years, to income tax in India?

**Answer:**

The period of stay of Mr. Nixon for various years is given below:

<table>
<thead>
<tr>
<th>Period of stay</th>
<th>Period of stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.Y. 2016-17/ A.Y. 2017-18</td>
<td>303 days</td>
</tr>
<tr>
<td>P.Y. 2017-18/ A.Y. 2018-19</td>
<td>Nil</td>
</tr>
<tr>
<td>P.Y. 2018-19/ A.Y. 2019-20</td>
<td>61 days</td>
</tr>
<tr>
<td>(June – 16, July – 31, August – 14)</td>
<td></td>
</tr>
<tr>
<td>P.Y. 2019-20/ A.Y. 2020-21</td>
<td>59 days</td>
</tr>
<tr>
<td>(February – 28, March – 31)</td>
<td></td>
</tr>
</tbody>
</table>

Under section 6(1) of the Act, an individual is said to be resident in India in any previous year if he satisfies one of the following basic conditions:

(i) is in India in the previous year for a period of 182 days or more;

(ii) is in India for a period of 60 days or more in the previous year and 365 days or more during the four years preceding the previous year.

A person will be considered to be ‘not ordinarily resident’ if he satisfies any of the following two conditions viz;

(i) he has been in India for a period of 729 days or less in 7 previous years preceding the relevant previous year.

(ii) he has been a non resident in India in 9 out of 10 previous years preceding the relevant previous year ; or

Maintenance of a residence in India or the stay of the wife and children in India are not relevant for determining the residential status of Mr. Nixon.

In the above background, Mr. Nixon’s case will be decided as under:

(i) **P.Y. 2016-17/ A.Y. 2017-18**: has been in India for 303 days. He will be a resident under the basic conditions. Since his stay in seven years preceding the relevant previous year is Nil i.e. 729 days or less, hence he will be NOR

(ii) **P.Y. 2017-18/A. Y. 2018-19**: has not been in India at all ; though his wife and children continue to reside in New Delhi, he will be a non-resident for this year.

(iii) **P.Y. 2018-19/A.Y. 2019-20**: has been in India for 61 days and for 303 days in 4 years preceding the relevant previous year hence he will be non-resident.

(iv) **P.Y. 2019-20/A.Y. 2020-21**: has been in India for 59 days, he will be non-resident.

**Question 2:** Write a note on determination of residential status of Individual covered in special category.

**Answer:**

**Special category**

*As per Section 6(1),* Certain individuals are covered in the special category and they will be considered to be resident only if they stay in India for 182 days or more i.e. second condition of 60 plus 365 days shall not be applicable and such individuals are:

1. Any individual who is a citizen of India and has left India for taking up any business or profession or employment outside India e.g. Mr. X is a citizen of India and has left India on 01.09.2019 for taking up an employment in Germany, in this case he will be covered in the special category and his status shall be non-resident. If any such person is employed in India and he has been transferred outside India, he will also be covered in the special category. E.g. Mr. X is employed in Punjab National Bank in India and he has been transferred to the London branch, in this case he will be covered in the special category. If any person has business or profession in India and he is going out of India in connection with business or profession, he will not be covered in special category.
2. Any individual who is a citizen of India or is a person of Indian origin and is having business/profession/employment outside India and has come to India on a visit shall also be covered in the special category e.g. Mr. X is a citizen of India and is settled as a doctor in USA and has come to India on a visit for 181 days, he will be covered in the special category and his status shall be non-resident. A person is said to be of Indian origin if he or either of his parents or either of his grandparents (including parents of mother) were born in undivided India. e.g. Mr. X has taken birth in UK and is a citizen of UK but his grand father has taken birth in India in 1942, in this case Mr. X will be considered to be person of Indian origin.

3. Any individual who is a citizen of India and has left India as a member of crew of an Indian ship, shall also be covered in special category. The time period mentioned in Continuous Discharge Certificate shall be considered to be the period of stay outside India and remaining time period shall be considered to be stay in India.

Example

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in international traffic departing from Chennai port on 6th June, 2019. From the following details for the P.Y.2019-20, determine the residential status of Mr. Anand for A.Y.2020-21, assuming that his stay in India in the last 4 previous years (preceding P.Y.2019-20) is 400 days and last seven previous years (preceding P.Y.2019-20) is 750 days:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand</td>
<td>6th June, 2019</td>
</tr>
<tr>
<td>Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand</td>
<td>9th December, 2019</td>
</tr>
</tbody>
</table>

**Answer.**

In this case, the voyage is undertaken by an Indian ship engaged in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1). Therefore, the period beginning from 6th June, 2019 and ending on 9th December, 2019, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand’s period of stay in India during the P.Y.2019-20 would be 179 days [i.e., 366 days – 187 days]. Since his period of stay in India during the P.Y.2019-20 is less than 182 days, he is a non-resident for A.Y.2020-21.

Note - Since the residential status of Mr. Anand is “non-resident” for A.Y.2020-21 consequent to his number of days of stay in P.Y.2019-20 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

**Illustration 8:** Mr. X, an Indian citizen, leaves India on 22.09.2019 for the first time, to work as an officer of a company in France. Determine his residential status for the A.Y. 2020-21.

**Solution:**

During the previous year 2019-20, Mr. X, an Indian citizen, was in India for 175 days (i.e. 30 + 31+ 30 + 31 + 31 + 22 days). He does not satisfy the minimum criteria of 182 days. Also, since he is an Indian citizen leaving India for the purposes of employment, the second condition under section 6(1) is not applicable to him. Therefore, Mr. X is a non-resident for the A.Y.2020-21.

**Illustration 9:** Mr. X and Mrs. X are settled outside India for the purpose of employment and they came to India on 15.10.2019 on a visit for 7 months. Both of them are Indian citizens. In the earlier years they were in India as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Mr. X</th>
<th>Mrs. X</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 – 2019</td>
<td>235 Days</td>
<td>365 Days</td>
</tr>
<tr>
<td>2017 – 2018</td>
<td>330 Days</td>
<td>30 Days</td>
</tr>
<tr>
<td>2016 – 2017</td>
<td>Nil</td>
<td>28 Days</td>
</tr>
<tr>
<td>2015 – 2016</td>
<td>118 Days</td>
<td>120 Days</td>
</tr>
</tbody>
</table>
Find out the residential status of Mr. X and Mrs. X for the assessment year 2020-21.

**Solution:**
Both are NR for the assessment year 2020-21.

**Stay of Mr. X in India**

**Previous Year 2019-20**

\{17 + 30 + 31 + 29 + 31\}

169 Days

**Stay of Mrs. X in India**

**Previous Year 2019-20**

\{17 + 30 + 31 + 29 + 31\}

169 Days

Since they are covered in special category they will be resident only if their stay in India in relevant previous year is 182 days or more, hence they are non-resident.

---

**NOV – 2010 (3 Marks)**

Mr. Ram an Indian citizen left India on 22.09.2019 for the first time to work as an officer of a company in Germany.

Determine the residential status of Ram for the assessment year 2020-21 and explain the conditions to be fulfilled for the same under the Income-tax Act, 1961.

**Answer:**

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions –

(i) He has been in India during the previous year for a total period of 182 days or more, or
(ii) He has been in India for a period of 60 days or more during the relevant previous year and also for 365 days or more during 4 years preceding the relevant previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days to become resident.

During the previous year 2019-20, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e. 30 + 31 + 30 + 31 + 31 + 22 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. 2020-21.

---

**NOV – 2002 (3 Marks)**

In the year P.Y. 2019-2020, a sailor has remained on ship as a crew member of an Indian Ship as follows:

1. Outside the territorial waters of India for 184 days.
2. Inside the territorial waters of India for 182 days.

Is he considered to be resident or not for the Assessment Year 2020-21. Comment.

**Answer:**

As per section 6(1) he is covered in the special category and he will be considered to be resident if he stays in India for 182 days or more.

In the given case, period of stay in India is 182 days. Therefore, the sailor is treated as a resident in India.

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**Question 3: Explain how to determine residential status of HUF Section 6(2)/6(6)(b).**

**Answer:**

As per section 6(2), an HUF would be resident in India if the control and management of its affairs is situated wholly or partly in India. If the control and management of the affairs is situated wholly outside India it will be considered to be non-resident. Since control and management of HUF is in the hands of its Karta hence place of stay of Karta shall be taken into consideration i.e. if Karta is out of India throughout the year, HUF shall be Non-resident but if Karta has come to India for a few days, HUF shall be resident.

The expression ‘control and management’ refers to the central control and management and not to the carrying on of day-to-day business by servants, employees or agents.

**Meaning of Not-ordinarily resident Section 6(6)(b)**

If an HUF is resident, as per section 6(6)(b), it will be considered to be NOR if its Karta has complied with at least one of the conditions given below:

(i) If the karta is in India during the 7 previous years preceding the relevant previous year for a period of 729 days or less.

(ii) If the karta is non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or

If karta has not complied with even a single condition, HUF shall be ROR.
**Illustration 10:** Karta of one Hindu Undivided Family comes to India every year for minimum 60 days and maximum 91 days. Determine residential status of the Hindu Undivided Family and also that of the Karta for the assessment year 2020-21.

**Solution:**
Hindu Undivided Family is resident since the Karta has come to India for at least 60 days but the stay of Karta during seven years can be maximum 637 days hence Hindu Undivided Family shall be considered to be resident but not ordinarily resident.
Karta in his individual capacity is non-resident because he cannot comply with even one of the two conditions given under section 6(1).

**Illustration 11:** One Hindu Undivided Family is being managed partly from Mumbai and partly from Nepal. Mr. X (a foreign citizen), Karta of Hindu Undivided Family, comes on a visit to India every year since 1982 in month of April for 105 days.
Determine residential status of the Hindu Undivided Family and also that of the Karta in his individual capacity for the assessment year 2020-21.

**Solution:**
For the previous year 2019-20, the control and management of the affairs of Hindu Undivided Family is being partly managed from India. Hence Hindu Undivided Family is resident but Mr. X cannot comply with any of the conditions of section 6(6)(b), hence Hindu Undivided Family is resident and ordinarily resident. Karta shall be considered to be resident and ordinarily resident because his stay during 7 years is 735 days. Also, he will not be non-resident in nine years out of ten years preceding the relevant previous year.

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**State with reason, whether the following statements are True or False:**
Mr. X, Karta of HUF, claims that the HUF is non-resident as the business of HUF is transacted from UK and all the policy decisions are taken there.

**Answer.** True, A HUF is considered to be a non-resident where the control and management of its affairs are situated wholly outside India. In the given case, since all the policy decisions of HUF are taken from UK, the HUF is a non-resident.

**Question 4: Explain how to determine residential status of partnership firm or Body of Individual or Association of Persons.**

**Answer:**

**Firms and Association of Persons Section 6(2)**
A firm and an AOP would be resident in India if the control and management of its affairs is situated wholly or partly in India. Where the control and management of the affairs is situated wholly outside India, the firm and AOP would become a non-resident. There are no ROR or NOR in case of persons other than individual or HUF. E.g. XY partnership firm has two partners Mr. X and Mr. Y and Mr. X is working partner and is in USA throughout the year and Mr. Y is a dormant partner and is in India throughout the year, in this case partnership firm shall be non-resident but if Mr. X has come to India for a few days, partnership firm shall be resident.

**Question 5: Explain how to determine residential status of a Company.**

**Answer:**

**Companies Section 6(3)**
An Indian company is always resident in India even if its control and management is outside India or its business is outside India.
A foreign company shall be resident in India if its place of effective management, at any time in that year, is in India.
“Place of effective management” means a place where key management and commercial decisions are made for the conduct of the business of an entity.
E.g. Micromax Informatics Ltd. was incorporated in India and it has business in many countries outside India, in this case company shall be considered to be resident.
E.g. HCL Technologies Ltd. was incorporated in India and it has its control and management outside India also, in this case company shall be considered to be resident.
E.g. ABC Ltd. was incorporated outside India and place of effective management is in India, in this case company shall be considered to be resident.
e.g. Videocon Industries Ltd. was incorporated in India, in this case company shall be considered to be resident.
e.g. Samsung Electronics Co., Ltd. was incorporated in South Korea and place of effective management is also in South Korea, in this case company shall be considered to be non-resident.
e.g. BlackBerry Ltd. was incorporated in Canada and place of effective management is also in Canada, in this case company shall be considered to be non-resident.

**Illustration 12:** ABC Inc., a Swedish company headquartered at Stockholm, not having a permanent establishment in India, has set up a liaison office in Mumbai in April, 2019 in compliance with RBI guidelines to look after its day to day business operations in India, spread awareness about the company’s products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant management and commercial decisions are, however, in substance made by the Board of Directors at Sweden. Determine the residential status of ABC Inc. for A.Y.2020-21.

**Answer:**
Section 6(3) has been substituted by the Finance Act, 2016 with effect from A.Y.2017-18 to provide that a company would be resident in India in any previous year, if-
(i) it is an Indian company; or
(ii) its place of effective management, in that year, is in India.
In this case, ABC Inc. is a foreign company. Therefore, it would be resident in India for P.Y.2019-20 only if its place of effective management, in that year, is in India.
Explanation to section 6(3) defines “place of effective management” to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made. In the case of ABC Inc., its place of effective management for P.Y.2019-20 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in Sweden.
ABC Inc. has only a liaison office in India through which it looks after its routine day to day business operations in India. The place where decisions relating to day to day routine operations are taken and support functions that are preparatory or auxiliary in nature are performed are not relevant in determining the place of effective management.
Hence, ABC Inc., being a foreign company is a non-resident for A.Y.2020-21, since its place of effective management is outside India in the P.Y.2019-20.

**Illustration 13:** Wipro Ltd. an Indian company has most of its business outside India. Determine its residential status.

**Solution:**
An Indian company shall always be considered to be resident in India.

**Illustration 14:** Afcons Infrastructure International Ltd. is incorporated in Mauritius and its place of effective management is in Mauritius. Determine its residential status for the assessment year 2020-21.

**Solution:**
Foreign company shall be resident in India only if its place of effective management, at any time in that year, is in India. Hence, Afcons Infrastructure International Ltd. is a non-resident company.

**Illustration 15:** Bista Ltd., a foreign company and it carries on majority of its operations and decision making activities from Calcutta and Assam but some part of operational activities and few decisions are being taken from the place at which registered office of Bista Ltd. is located, i.e. Dhaka. Determine its residential status for the assessment year 2020-21.

**Solution:**
Bista Ltd. is a foreign company and its place of effective management is in India. Hence Bista Ltd. is resident in India for the assessment year 2020-21.

**Question 6:** Explain how to determine residential status of other persons.

**Answer:**

**Local Authorities and Artificial Juridical Persons  Section 6(4)**
Local authorities and artificial juridical persons would be resident in India if the control and management of its affairs is situated wholly or partly in India. Where the control and management of the affairs is situated wholly outside India, they would become non-residents.
TAX INCIDENCE / SCOPE OF TOTAL INCOME

Question 7: Write a note on scope of total income or tax incidence.
Answer: As per section 5, scope of total income or tax incidence in various status shall be as given below:

(1) Resident and ordinarily resident – In case of ROR, the following incomes shall be taxable.
   (i) income accruing / arising in India.
   (ii) income received or deemed to be received in India even if accruing /arising abroad.
   (iii) income accruing / arising aboard and received aboard.
       In simpler terms, ROR has to pay tax on his world income in India.

Meaning of income received in India
Income shall be considered to be received in India if it has been received directly in India from its source i.e. if the income has been received outside India and after that it was transferred to India, it will not be considered to be income received in India rather it is income received abroad.
Therefore, when once an amount is received as income, remittance or transmission of that amount from one place or person to another does not constitute receipt of income in the hands of the subsequent recipient or at the place of subsequent receipt.

Example
Mr. X has one house in USA and rent has been received directly in India. It will be considered to be income received in India and it is chargeable to tax in case of all the three status, but if Mr. X has one bank account with Bank of America, New York and rent has been deposited in that account and subsequently the bank has transferred the amount to Mr. X in India, it will be considered to be income received outside India, because income has already been received outside India and subsequently it was remitted to India.
Similarly, if Mr. X has income in Nepal and it was deposited in the branch of an Indian bank in Nepal, subsequently the amount was remitted in India, it will be considered to be income received outside India.

(2) Resident but not ordinarily resident – The following incomes shall be taxable.
   (i) income accruing / arising in India.
   (ii) income received or deemed to be received in India even if accruing /arising abroad.
   (iii) income accruing / arising aboard and received aboard but from a business controlled from India or from a profession which was set up in India.

Meaning of profession setup in India
Profession set up in India means that it was originally setup in India and subsequently there was an expansion outside India. E.g. Mr. X started his profession of an advocate in Delhi and subsequently he opened his branch outside India, it will be called profession setup in India.

(3) Non-resident – The following incomes shall be taxable.
   (i) income accruing /arising in India.
   (ii) income received or deemed to be received in India even if accruing /arising abroad.

Illustration 16: Mr. X has income asunder:
1. He has income from a business in Germany amounting to ₹3,00,000 and half of it was received in India.
2. He has interest income of ₹1,00,000 from UK Development Bond and entire interest income was credited to a bank account in UK. Subsequently, the amount was transferred in India.
3. He has a business in Bombay and entire income of ₹3,00,000 was received in India.
4. He has one house property in Ghaziabad and income of ₹5,00,000 was received in UK.
5. He has received salary income of ₹5,00,000 (computed) in India and half of the services were rendered in UK and half in India.

(Presume all the above incomes are computed incomes)
Compute his income presuming that he is NOR, NR and ROR.

Solution:

<table>
<thead>
<tr>
<th></th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income received in India</td>
<td>1,50,000</td>
<td>1,50,000</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Income accruing/arising abroad and received abroad</td>
<td>1,50,000</td>
<td>xxxxx</td>
<td>xxxxx</td>
</tr>
</tbody>
</table>
2. Income accruing/arising abroad and received abroad 1,00,000 xxxxx xxxxx
3. Income accruing/arising in India 3,00,000 3,00,000 3,00,000
4. Income accruing/arising in India 5,00,000 5,00,000 5,00,000
5. Income received in India 5,00,000 5,00,000 5,00,000
Total 17,00,000 14,50,000 14,50,000

Illustration 17: ABC partnership firm has an income of ₹3 lakhs in India and income accruing/arising abroad and also received abroad ₹23 lakhs. It consists of two partners. Mr. X who is an active partner, is staying outside India throughout the year. Mr. Y is a dormant partner and is staying in India throughout the year.

Compute tax liability of the partnership firm in India for the assessment year 2020-21.
(b) Also compute tax liability of the firm if Mr. Y is also an active partner.

Solution:
(a) Partnership firm is non-resident
Income from business/profession in India 3,00,000
Gross Total Income 3,00,000
Less: Deduction u/s 80C to 80U Nil
Total Income 3,00,000
Tax @ 30% + HEC @ 4% 93,600
(b) Partnership firm is resident
Income from business/profession 26,00,000
Gross Total Income 26,00,000
Less: Deduction u/s 80C to 80U Nil
Total Income 26,00,000
Tax @ 30% + HEC @ 4% 8,11,200

Illustration 18: Mr. X had following income during the previous year ended 31st March, 2020:

(1) Salary received in India for three months (being computed income) 25,000
(2) Income from house property in India 18,000
(3) Interest on savings bank deposit in SBI, in India 4,000
(4) Amount brought into India out of the past-untaxed profits earned in Germany 20,500
(5) Income from business in Bangladesh, being controlled from India 12,542
(6) Dividends received in Belgium from French companies, out of which ₹2,500 were remitted to India 23,150

You are required to compute his gross total income for the assessment year 2020-21, if he is a
(a) resident and ordinarily resident;
(b) not ordinarily resident; and
(c) non-resident.

Presume all the above income is computed income.

Solution:

<table>
<thead>
<tr>
<th></th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Salary received in India</td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>• Taxable on receipt basis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Income from house property in India</td>
<td>18,000</td>
<td>18,000</td>
<td>18,000</td>
</tr>
<tr>
<td>• Income accruing/arising in India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Interest on savings bank deposit in SBI, in India</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>• Income accruing/arising in India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Past untaxed profits brought in India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Not an income of the previous year 2019-20 hence not taxable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Income from business in Bangladesh being controlled from India</td>
<td>12,542</td>
<td>12,542</td>
<td></td>
</tr>
<tr>
<td>• Not taxable in case of non resident</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Dividend received in Belgium</td>
<td>23,150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Income accrued &amp; received outside India</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Illustration 19: Mr. X earns the following income during the financial year 2019-20:

- (1) Income from house property in London, received in India: ₹60,000
- (2) Profits from business in Japan and managed from there (received in Japan): ₹9,00,000
- (3) Dividend from foreign company, received in India: ₹30,000
- (4) Dividend from Indian company, received in England: ₹50,000
- (5) Profits from business in Kenya, controlled from India, Profits received in Kenya: ₹3,00,000
- (6) Profits from business in Delhi, managed from Japan: ₹7,00,000
- (7) Capital gains on transfer of shares of Indian companies, sold in USA and gains were received there: ₹2,00,000
- (8) Pension from former employer in India, received in Japan: ₹50,000
- (9) Profits from business in Pakistan, deposited in bank there: ₹20,000
- (10) Profit on sale of asset in India but received in London: ₹8,000
- (11) Past untaxed profits of UK business of 2017-18 brought into India in 2019-20: ₹90,000
- (12) Interest on Government securities accrued in India but received in Paris: ₹80,000
- (13) Interest on USA Government securities, received in India: ₹20,000
- (14) Salary earned in Bombay, but received in UK: ₹60,000
- (15) Income from property in Paris, received there: ₹1,00,000

(Presume all the above incomes are computed incomes)

Determine the gross total income of Mr. X if he is (i) resident and ordinarily resident, resident but not ordinarily resident, non-resident in India during the financial year 2019-20.

Solution:

<table>
<thead>
<tr>
<th></th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Income received in India</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>(2) Income accruing/arising and received outside India</td>
<td>9,00,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(3) Income received in India</td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>(4) Income accruing in India but exempt under section 10(34)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(5) Income accruing/arising and received outside India, but business controlled from India</td>
<td>3,00,000</td>
<td>3,00,000</td>
<td>—</td>
</tr>
<tr>
<td>(6) Income accruing/arising in India</td>
<td>7,00,000</td>
<td>7,00,000</td>
<td>7,00,000</td>
</tr>
<tr>
<td>(7) Income accruing/arising in India</td>
<td>2,00,000</td>
<td>2,00,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>(8) Income accruing/arising in India</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>(9) Income accruing/arising and received outside India</td>
<td>20,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(10) Income accruing/arising in India</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>(11) Past untaxed profits</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(12) Income accruing/arising in India</td>
<td>80,000</td>
<td>80,000</td>
<td>80,000</td>
</tr>
<tr>
<td>(13) Income received in India</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>(14) Income accruing/arising in India</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>(15) Income accruing/arising and received outside India</td>
<td>1,00,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>25,28,000</td>
<td>15,08,000</td>
<td>12,08,000</td>
</tr>
</tbody>
</table>

Illustration 20: ABC Pvt. Ltd., an Indian company has an income of ₹30 lakhs from a business in India. This company has a business income of ₹12 lakhs from outside India. Out of which 7 lakhs were received in India and balance outside India.

Compute tax liability of the Indian company for the assessment year 2020-21.

Solution:

- Income from business in India: ₹30,00,000
- Income from outside India: ₹12,00,000
- Income under the head Business/Profession: ₹42,00,000
- Gross Total Income: ₹42,00,000
- Less: Deductions u/s 80C to 80U: Nil
Total Income 42,00,000

**Computation of Tax Liability**

- Tax on ₹42,00,000 @ 30% 12,60,000
- Add: HEC @ 4% 50,400
- Tax Liability 13,10,400

**Note:** Indian company is always considered to be resident in India and its incomes even earned and received outside India shall be chargeable to tax in India.

**Illustration 21:** Mr. X, a foreign citizen (not being a person of Indian origin) came to India for the first time on 2nd December, 2019 for a visit of 210 days. Mr. X had the following income during the previous year ended 31st March, 2020:

1. Salary (computed) received in India for three months ₹1,00,000
2. Income from house property in London (received there)
   - Not taxable as income is accruing & arising outside India and is also received outside India —
3. Amount brought into India out of the past untaxed profits earned in Germany ₹80,000
4. Income from agriculture in Sri Lanka, received and invested there ₹12,300
5. Income from business in Nepal, being controlled from India ₹35,000
6. Income from house property in USA received in USA
   - (₹76,000 is used in Canada for meeting the educational expenses of Mr. X’s daughter and ₹10,000 is later on remitted in India) ₹86,000

You are required to compute his total income for the assessment year 2020-21.

**Solution:**

- Mr. X is a foreign citizen. He was in India during the previous year 2019-20 for 121 (30 + 31 + 29 + 31) days. Thus, he does not satisfy the first condition of 182 days. The second condition is also not satisfied as Mr. X came to India for first time during the previous year 2019-20.
- Mr. X is therefore non-resident in India. The total income of Mr. X for the assessment year 2020-21 will be:

   1. Salary (computed) received in India for three months ₹1,00,000
   2. Income from house property in London (received there)
      - Not taxable as income is accruing & arising outside India and is also received outside India —
   3. Amount brought into India out of the past untaxed profits earned in Germany ₹80,000
   4. Income from agriculture in Sri Lanka, received and invested there
      - Not taxable as it is not income —
   5. Income from business in Nepal, being controlled from India
      - Not taxable in the case of non-resident —
   6. Income from house property in USA received in USA
      - (₹76,000 is used in Canada for meeting the educational expenses of Mr. X’s daughter and ₹10,000 is later on remitted in India) —

Gross Total Income ₹1,00,000

Less: Deduction u/s 80C to 80U Nil

Total Income ₹1,00,000

**Illustration 22:** Mr. X earns the following incomes during the financial year 2019-20.

1. Profits from a business in Japan, controlled from India, (half of the profits received in India) ₹40,000
2. Income from property in Bombay, received in UK ₹70,000
3. Income from a property in USA, received there but subsequently remitted to India ₹2,00,000
4. Income from property in USA, received there (₹50,000 remitted in India) ₹80,000
5. Salary received in India for services rendered in USA ₹50,000
6. Income from profession in Paris, which was set up in India, received in Paris ₹80,000
7. Interest from deposit with an Indian company, received in Japan ₹9,000
8. Income from profession in Bombay received in Paris ₹30,000
(9) Profits of business in Iran, deposited in a bank there, business controlled from India 
(out of ₹4,00,000, ₹1,00,000 is remitted in India) 4,00,000
(10) Interest on German development bonds, half of which is received in India 10,000
(11) Income from property in Canada, one-fifth is received in India 50,000

(Presume all the above incomes are computed income i.e. all the exemptions and deductions have already been allowed)

Determine the gross total income of Mr. X if he is (i) resident and ordinarily resident, (ii) resident but not ordinarily resident, (iii) non-resident in India during the financial year 2019-20.

Solution:

<table>
<thead>
<tr>
<th></th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Income accruing/arising outside India from a business controlled in India, half of the income received in India</td>
<td>40,000</td>
<td>40,000</td>
<td>20,000</td>
</tr>
<tr>
<td>(2) Income accruing/arising in India</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
</tr>
<tr>
<td>(3) Income accruing/arising outside India and received outside India</td>
<td>2,00,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(4) Income accruing/arising outside India and received outside India</td>
<td>80,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(5) Income received in India</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>(6) Income accruing/arising and received outside India, but profession set up in India</td>
<td>80,000</td>
<td>80,000</td>
<td>—</td>
</tr>
<tr>
<td>(7) Income accruing/arising in India</td>
<td>9,000</td>
<td>9,000</td>
<td>9,000</td>
</tr>
<tr>
<td>(8) Income accruing/arising in India</td>
<td>30,000</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>(9) Income accruing/arising outside India and received outside India, but business controlled from India</td>
<td>4,00,000</td>
<td>4,00,000</td>
<td>—</td>
</tr>
<tr>
<td>(10) Income accruing/arising outside India, half received outside India and half in India</td>
<td>10,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>(11) Income accruing/arising outside India, 4/5th received outside India and 1/5th in India</td>
<td>50,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

**Gross Total Income**

<table>
<thead>
<tr>
<th></th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10,19,000</td>
<td>6,94,000</td>
<td>1,94,000</td>
</tr>
</tbody>
</table>

Illustration 23: Mr. X is a citizen of India and is employed in ABC Limited and getting salary ₹1,00,000 p.m. and he was transferred out of India on 01.09.2019 and he left India for first time from 01.09.2019 and he visiting in India from 26.01.2020 to 15.02.2020 and salary for January 2020 was received in India and at the time of departure he received 3 gifts ₹20,000 from 3 friends each and also a phone of ₹70,000.

He has agricultural income in India ₹4,00,000.

Compute his tax liability for assessment year 2020-21.

Solution:

Mr. X shall be covered in special category so therefore his status shall be non-resident.

(30 + 31 + 30 + 31 + 1 + 6 + 15) 175 days.

Income under the head Salary accruing / arising in India
1,00,000 x 5 5,00,000
Income received in India
1,00,000 x 1 1,00,000
Gross Salary 6,00,000
Less: Deduction u/s 16(ia) (50,000)
Income under the head salary 5,50,000

Income under the head Other Sources 60,000
Gross Total Income 6,10,000
Less: Deduction 80C to 80U Nil
Total Income 6,10,000
Agricultural Income 4,00,000
Computation of Tax Liability

Step 1. Tax on (6,10,000 + 4,00,000 = 10,10,000) at slab rate 1,15,500
Step 2. Tax on \((4,00,000 + 2,50,000 = 6,50,000)\) at slab rate \((42,500)\)
Deduct step 2 from step 1 \(73,000\)
Add: HEC 4\% \(2,920\)
Tax Liability \(75,920\)

**Question 8: Explain meaning of income deemed to accrue or arise in India Section 9.**

**Answer:**
Income deemed to the accruing/arising in India shall be taxable in all the three status i.e. ROR/NOR/NR.

**As per section 9, the following incomes shall be deemed to be accruing / arising in India,**

1. If any income has its source in India, such income shall be considered to be accruing / arising in India i.e. employment/house property/business/profession/capital asset or any other source of income is in India but if source is partly in India and partly outside India, income shall be accruing / arising in India only to the extent the source is in India e.g. Mr. X is employed in Punjab National Bank and is posted in Delhi branch on a salary of ₹1,00,000 p.m. In this case, his income shall be deemed to be accruing/arising in India but if he is transferred to the London branch w.e.f 01.01.2020, his income accruing/arising in India shall be ₹9,00,000 i.e. salary upto 31.12.2019 and the income which is accruing/arising abroad shall be ₹3,00,000 (i.e. salary from 01.01.2020 to 31.03.2020)

**Business connection**

If any person has business in India as well as outside India, it will be called business connection and in case of such business, the income of the business deemed to accrue or arise in India shall be only such part of the income as is reasonably attributable to the operations carried out in India and as per rule 10, assessing officer shall have the powers to determine the extent upto which income is accruing/arising in India.

There will be a business connection if any non-resident has business outside India but has agent in India who

(a) habitually **securities orders in India**, for the non-resident.
(b) habitually **maintains in India a stock of goods** from which he regularly delivers goods on behalf of the non-resident or
(c) habitually **concludes contracts on behalf of the non-resident** or plays the principal role leading to conclusion of contracts and the contracts are in the name of non-resident or the contracts are for the transfer of ownership or for granting of right to use property owned by that non-resident or the provision of services by the non-resident.

**Significant economic presence** of a non-resident in India shall also be considered to be business connection and SEP means -

(a) transaction in respect of any goods, services or property carried out by a non-resident in India including provision of download of data or software in India, if the aggregate of payments arising from such transaction or transactions during the previous year exceeds such amount as may be prescribed; or
(b) systematic and continuous soliciting of business activities or engaging in interaction with such number of users as may be prescribed, in India through digital means:

Provided that the transactions or activities shall constitute significant economic presence in India, whether or not,—

(i) the agreement for such transactions or activities is entered in India;
(ii) the non-resident has a residence or place of business in India; or
(iii) the non-resident renders services in India:

Provided further that only so much of income as is attributable to the transactions or activities referred to in clause (a) or clause (b) shall be deemed to accrue or arise in India.'.

There is **no business connection in the following three cases:**

(a) If any non-resident has business outside India but such person is purchasing goods from India and do not have any other activity in India, in this case there is no business connection but if such person has any other activity in India, it will be considered to be business connection. e.g. Mr. X a non-resident has one shop in New York for selling Indian goods and all these goods are purchased from India. In this case, there is no business connection. However, if assessee is carrying out any other activity in India, it will be considered to be business connection.

If in the above case the assessee has manufacturing unit in India, it will be considered to be a business
connection.

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

(c) If any non-resident is doing shooting of any **cinematograph film in India**, there is no business connection but if such film is being shown in India, there will be business connection.

2. If any person is holding shares of any Indian company, any capital gain on transfer of such shares shall be considered to be income accruing/arising in India even if shares were sold outside India.

3. If any individual is a citizen of India and is an employee of the government and is posted outside India, his salary income shall be accruing/arising in India e.g. Mr. X is citizen of India and is an IFS. He is posted in Indian embassy in USA, in this case, his salary income shall be accruing/arising in India.

4. If any loan has been taken by the government from outside India, interest paid by the government shall be considered to be income of the person who has received such interest and it is accruing/arising in India and it do not matter whether loan was used in India or outside India. e.g. If Central Government has taken a loan from an agency in USA, equivalent to Indian ₹1,000 lakh @ 10%, in this case, interest of ₹100 lakhs paid by the Government to such agency shall be considered to be the income of such agency accruing/arising in India.

If such loan has been taken by a person who is resident in India, interest income shall be accruing/arising in India only if loan amount has been used in India but if loan amount has been utilized outside India it will be accruing/arising abroad. E.g. ABC Ltd. an Indian company has taken a loan from an agency in USA and the amount was utilized in USA. In this case, interest income shall be accruing/arising in USA but if loan amount is used in India in any source, it will be accruing/arising in India.

If such loan has been taken by a non-resident, interest income shall be accruing/arising in India only if loan amount has been utilised in India in business/profession but if loan amount is utilised in any other source in India or it has been used outside India, interest income shall be accruing/arising abroad. E.g. X Ltd. a non-resident company has taken a loan from outside India and loan amount was utilized in India in house property. In this case, interest paid by the company shall be income of the recipient accruing/arising abroad but if loan amount was utilised in India in business/profession, interest income shall be considered to be accruing/arising in India. The person receiving interest shall be liable to pay income tax on such income even if such person do not have any Territorial Nexus with India i.e. such non-resident do not have a residence or place of business or business connection in India.

MAY – 2006 (2 Marks)

Mr. X, left for USA on 01.05.2019. He has not visited India thereafter. Mr. X borrows money from his friend Mr. Y, who left India one week before Mr. X’s departure, to the extent of ₹10 lakhs and buys shares in X Ltd., an Indian company. Discuss the taxability of the interest charged @ 10% in Mr. Y’s hands where the same has been received in New York.

**Answer:** Stay of Mr. X and Mr. Y during the previous year 2019-20 is less than 60 days hence both of them are non-residents as per section 6(1).

As per section 9, if any non-resident has taken loan from outside India and the loan was utilized in India in any source other than business or profession, interest received by the person who has given the loan shall not be considered to be accruing/arising in India and is not taxable in India. In the given case, loan amount was invested in the shares of an Indian company hence interest received by Mr. Y shall not be considered to be income accruing/arising in India.

5. If government has taken any patent right or any technical services from outside India and has paid royalty or technical fee for such patent right etc., it will be considered to be income of the person who has received it and it is accruing/arising in India even if the patent right etc. has been used outside India.

If such payment is being given by any resident or non-resident, it will be income of the recipient accruing/
arising in India only if such patent right etc. has been used in India otherwise it will be accruing / arising abroad.

**Royalty** means amount payable in connection with patent, invention, model, design, formula, process, trade marks etc.

**Fees for Technical Services** means any consideration for the rendering of Managerial, Technical or Consultancy Services.

If any income is accruing and arising in India relating to royalty or technical fees etc., it will be taxable in India even if the person receiving income is non-resident and even if such non-resident do not have any Territorial Nexus with India i.e. such non-resident do not have a residence or place of business or business connection in India and also the non-resident has not rendered services in India.

6. If any person has received pension, it will be deemed to be accruing/arising in India if the employer is in India. E.g. Mr. X is settled in Canada and is getting a pension of ₹30,000 p.m. from Punjab National Bank, in this case his pension income shall be accruing/arising in India.

7. **If any resident has gifted any amount or has gifted any property situated in India to any person outside India, it will be considered to be income accruing/arising from India.**

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**MAY 2012 (3 Marks)**

Discuss the correctness or otherwise of the statement – “Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus”.

**Answer:** As per section 9, if any non-resident has provided any patent right or any managerial, technical services and such patent right etc was used in India, in such cases any royalty or fee received by non-resident shall be considered to be income accruing/arising in India and shall be taxable and it do not matter that the non-resident do not have residence or place of business or business connection in India i.e. there is no territorial nexus or non-resident has not rendered services in India. E.g. If Suzuki Incorporation of Japan a non-resident company has provided technical know-how in Japan to Maruti Udyog Limited for use in India and has received ₹300,00,000 in this case, such income is deemed to be accruing/arising in India and is taxable in India even if Suzuki Incorporation do not have any Territorial Nexus with India i.e. the company do not have place of residence or place of business in India. Similarly if any loan was given by a non-resident to some other non-resident and such other non-resident has utilized loan amount in India in business/profession, interest received by the non-resident shall be considered to be his income accruing/arising in India even if such non-resident do not have any territorial nexus with India.

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**MAY – 2011 (3 Marks)**

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhar, a management consultant practicing in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhar is a non-resident. The consultancy related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhar, since the services were used in India?

**Answer:** As per section 9, if any non-resident has provided any patent right or any managerial, technical services and such patent right etc was used in India, in such cases any royalty or fee received by non-resident shall be considered to be income accruing/arising in India and shall be taxable and it do not matter that the non-resident do not have residence or place of business or business connection in India i.e. there is no territorial nexus or non-resident has not rendered services in India. In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhar, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

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**NOV – 2009 (4 Marks)**

Determine the taxability of income of US based company ABC Ltd., in India on entering following transactions during the financial year 2019-20:

(i) ₹5 lacs received from an Indian domestic company for providing technical know how in India.
(ii) ₹6 lacs from an Indian firm for conducting the feasibility study for the new project in Finland.
(iii) ₹4 lacs from a non-resident for use of patent for a business in India.
(iv) ₹8 lacs from a non-resident Indian for use of know how for a business in Singapore.
(v) ₹10 lacs for supply of manuals and designs for the business to be established in Singapore.

Explain the rate of tax applicable on taxable income for US based company, ABC Ltd., in India.

**Answer:** A non resident is chargeable to tax in India in respect of following incomes:

(i) Income received or deemed to be received in India.

(ii) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, taxability of income is determined in following manner:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Transaction details</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Amount received from an Indian domestic company for providing technical know how in India is taxable in India</td>
<td>5 Lacs</td>
</tr>
<tr>
<td>(ii)</td>
<td>Conducting the feasibility study for the new project in Finland for the Indian firm is not taxable in India as it is for the business outside India.</td>
<td>Nil</td>
</tr>
<tr>
<td>(iii)</td>
<td>Money received from a non resident for use of patent for a business in India is taxable in India</td>
<td>4 Lacs</td>
</tr>
<tr>
<td>(iv)</td>
<td>Money received from a non resident Indian for use of know-how for a business in Singapore is for the business outside India, therefore not taxable in India.</td>
<td>Nil</td>
</tr>
<tr>
<td>(v)</td>
<td>Payment received for supply of manuals and designs for the business to be established in Singapore is not taxable in India.</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Total Income in India:** 9 Lacs

The basic normal rate applicable for the US based company who is a foreign company is 40% In case the taxable income is more than 1 crore but upto ₹10 crore in the previous year, the surcharge @ 2% is applicable. The HEC is payable @ 4%.

**Question 9: Explain income deemed to be received in India.**

**Answer:** Such incomes is taxable in all the three status. Under section 7, employer’s contribution to Recognised Provident Fund in excess of 12% of salary of the employee shall be considered to be income deemed to be received in India. Similarly, interest on the provident fund balance in excess of 9.5% p.a. shall be considered to be income deemed to be received in India.

As per provisions of employees provident fund and miscellaneous provisions Act,1952, every employee and employer shall contribute to Recognised provident fund @ 12% of salary of employee and for this purpose account shall be opened in the name of the employee with provident fund commissioner. Interest earned on such amount shall be credited to the RPF. Employer’s contribution in excess of 12% of salary of employee shall be taxable under the head salary. Interest on employer’s contribution in excess of 9.5% per annum shall be taxable under the head salary. Interest on employees contribution in excess of 9.5% per annum shall be taxable under the head other sources.

Deduction shall be allowed under section 80C from gross total income for employees contribution but maximum deduction allowed shall be ₹ 1,50,000 (Details given under section 80C)

If any Seafarer (crew member of ship) is Non-resident and Income is accruing/arising abroad and his income has been received directly in his bank account in India, such income shall not be taxable.

**Illustration 24:** Mrs. X is a citizen of India and is employed in ABC Ltd. in India and is getting salary of ₹60,000 p.m. and she was transferred out of India w.e.f 01.09.2019 and for this purpose she left India on 01.09.2019 for the first time and she visited India from 27.12.2019 to 07.01.2020 and her salary for the month of Dec’ 2019 was received in India. Employer and employee both have contributed @ 13% (each) of salary to the recognized provident fund and during the year interest of ₹50,000 was credited to the recognized provident fund @ 10% p.a.

Compute her total income and tax liability in India for assessment year 2020-21.

(b) Presume she was transferred w.e.f 01.11.2019 and she left India on 01.11.2019 for the first time.

**Solution:**
As per section 6(1), in this case, Mrs. X is covered in special category and her stay in India is less than 182 days hence she will be non-resident and her incomes taxable in India shall be

- Income accruing/arising in India 3,00,000.00
- 60,000 x 5
### Residential Status & Scope of Total Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income received in India</td>
<td>60,000.00</td>
</tr>
<tr>
<td>60,000 x 1</td>
<td></td>
</tr>
<tr>
<td>Income deemed to be received in India</td>
<td></td>
</tr>
<tr>
<td>Employer contribution</td>
<td>7,200.00</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Income deemed to be received in India</td>
<td></td>
</tr>
<tr>
<td>Employer contribution</td>
<td></td>
</tr>
</tbody>
</table>

#### Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income accruing/arising in India</td>
<td>4,20,000.00</td>
</tr>
<tr>
<td>60,000 x 7</td>
<td></td>
</tr>
<tr>
<td>Income received in India</td>
<td>60,000.00</td>
</tr>
<tr>
<td>60,000 x 1</td>
<td></td>
</tr>
<tr>
<td>Income accruing/arising abroad / received abroad</td>
<td>2,40,000.00</td>
</tr>
<tr>
<td>60,000 x 4</td>
<td></td>
</tr>
<tr>
<td>Income deemed to be received in India</td>
<td></td>
</tr>
<tr>
<td>Employer contribution</td>
<td>7,200.00</td>
</tr>
<tr>
<td>(60,000 x 12) x 1% (13% - 12%)</td>
<td></td>
</tr>
<tr>
<td>Interest in excess of 9.5%</td>
<td></td>
</tr>
<tr>
<td>50,000 /10% x 0.5% = 2,500</td>
<td></td>
</tr>
<tr>
<td>Interest on employer contribution</td>
<td>1,250.00</td>
</tr>
<tr>
<td>2,500 /2</td>
<td></td>
</tr>
</tbody>
</table>

(Interest on employee contribution i.e. ₹1,250 shall be taxable under the head Other Sources)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>7,28,450.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 16(ia)</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>6,78,450.00</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>1,250.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>6,79,700.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>(93,600.00)</td>
</tr>
<tr>
<td>Contribution to recognized provident fund</td>
<td></td>
</tr>
<tr>
<td>(60,000 x 12) x 13%</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>5,86,100.00</td>
</tr>
</tbody>
</table>

**Solution (b):**

In this case, Mrs. X is covered in special category and her stay in India is more than 182 days hence she will be ROR and her incomes taxable in India shall be

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income accruing/arising in India</td>
<td>4,20,000.00</td>
</tr>
<tr>
<td>60,000 x 7</td>
<td></td>
</tr>
<tr>
<td>Income received in India</td>
<td>60,000.00</td>
</tr>
<tr>
<td>60,000 x 1</td>
<td></td>
</tr>
<tr>
<td>Income accruing/arising abroad / received abroad</td>
<td>2,40,000.00</td>
</tr>
<tr>
<td>60,000 x 4</td>
<td></td>
</tr>
<tr>
<td>Income deemed to be received in India</td>
<td></td>
</tr>
<tr>
<td>Employer contribution</td>
<td>7,200.00</td>
</tr>
<tr>
<td>(60,000 x 12) x 1% (13% - 12%)</td>
<td></td>
</tr>
<tr>
<td>Interest in excess of 9.5%</td>
<td></td>
</tr>
<tr>
<td>50,000 /10% x 0.5% = 2,500</td>
<td></td>
</tr>
<tr>
<td>Interest on employer contribution</td>
<td>1,250.00</td>
</tr>
<tr>
<td>2,500 /2</td>
<td></td>
</tr>
</tbody>
</table>

(Interest on employee contribution i.e. ₹1,250 shall be taxable under the head Other Sources)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>7,28,450.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 16(ia)</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>6,78,450.00</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>1,250.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>6,79,700.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>(93,600.00)</td>
</tr>
<tr>
<td>Contribution to recognized provident fund</td>
<td></td>
</tr>
<tr>
<td>(60,000 x 12) x 13%</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>5,86,100.00</td>
</tr>
</tbody>
</table>
**Computation of Tax Liability**

Tax on ₹5,86,100 at slab rate

<table>
<thead>
<tr>
<th>Add: HEC @ 4%</th>
<th>1,188.80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Liability</td>
<td>30,908.80</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>30,910.00</td>
</tr>
</tbody>
</table>

Any past untaxed profits shall not be considered to be the income of the current year in any status i.e. ROR, NOR, NR.

**Example**

Mr. X had income of ₹3,00,000 in the year 2016-17 but he has not disclosed the income. It was detected in the previous year 2019-20. In this case, it will not be considered to be income of 2019-20 in any status, rather it will be considered to be income of the year 2016-17.

**Illustration 25:** Determine the taxability of the following incomes in the hands of a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2020-21 –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Interest on UK Development Bonds, 50% of interest received in India</td>
<td>10,000</td>
</tr>
<tr>
<td>(2) Income from a business in Chennai (50% is received in India)</td>
<td>20,000</td>
</tr>
<tr>
<td>(3) Profits on sale of shares of an Indian company received in London</td>
<td>20,000</td>
</tr>
<tr>
<td>(4) Dividend from British company received in London</td>
<td>5,000</td>
</tr>
<tr>
<td>(5) Profits on sale of plant at Germany 50% of profits are received in India</td>
<td>40,000</td>
</tr>
<tr>
<td>(6) Income earned from business in Germany which is controlled from Delhi (₹40,000 is received in India)</td>
<td>70,000</td>
</tr>
<tr>
<td>(7) Profits from a business in Delhi but managed entirely from London</td>
<td>15,000</td>
</tr>
<tr>
<td>(8) Income from property in London deposited in a Indian Bank at London, brought to India</td>
<td>50,000</td>
</tr>
<tr>
<td>(9) Interest for debentures in an Indian company received in London.</td>
<td>12,000</td>
</tr>
<tr>
<td>(10) Fees for technical services rendered in India but received in London</td>
<td>8,000</td>
</tr>
<tr>
<td>(11) Profits from a business in Bombay managed from London</td>
<td>26,000</td>
</tr>
<tr>
<td>(12) Pension for services rendered in India but received in Burma</td>
<td>4,000</td>
</tr>
<tr>
<td>(13) Income from property situated in Pakistan received there</td>
<td>16,000</td>
</tr>
<tr>
<td>(14) Past foreign untaxed income brought to India during the previous year</td>
<td>5,000</td>
</tr>
<tr>
<td>(15) Income from agricultural land in Nepal received there and then brought to India</td>
<td>18,000</td>
</tr>
<tr>
<td>(16) Income from profession in Kenya which was set up in India, received there but spent in India</td>
<td>5,000</td>
</tr>
<tr>
<td>(17) Gift received on the occasion of his wedding</td>
<td>20,000</td>
</tr>
<tr>
<td>(18) Interest on savings bank deposit in State Bank of India</td>
<td>10,000</td>
</tr>
<tr>
<td>(19) Income from a business in Russia, controlled from Russia</td>
<td>20,000</td>
</tr>
<tr>
<td>(20) Dividend from Reliance Petroleum Limited, an Indian Company</td>
<td>5,000</td>
</tr>
<tr>
<td>(21) Agricultural income from a land in Rajasthan</td>
<td>15,000</td>
</tr>
</tbody>
</table>

**Solution:**

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Resident and ordinarily resident ₹</th>
<th>Resident but not ordinarily resident ₹</th>
<th>Non resident ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Interest on UK Development Bonds, 50% of interest received in India</td>
<td>10,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>(2) Income from a business in Chennai (50% is received in India)</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>(3) Profits on sale of shares of an Indian company received in London</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>(4) Dividend from British company received in London</td>
<td>5,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(5) Profits on sale of plant at Germany 50% of</td>
<td>40,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Item</td>
<td>Part A</td>
<td>Part B</td>
<td>Part C</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Profits are received in India</td>
<td>70,000</td>
<td>70,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Income earned from business in Germany which is controlled from Delhi, out of which ₹40,000 is received in India</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Profits from a business in Delhi but managed entirely from London</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Income from property in London deposited in a Bank at London, later on remitted to India</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Interest for debentures in an Indian company received in London.</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Fees for technical services rendered in India but received in London</td>
<td>26,000</td>
<td>26,000</td>
<td>26,000</td>
</tr>
<tr>
<td>Profits from a business in Bombay managed from London</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Income from property situated in Pakistan received there</td>
<td>16,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Past foreign untaxed income brought to India during the previous year</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Income from agricultural land in Nepal received there and then brought to India</td>
<td>18,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Income from profession in Kenya which was set up in India, received there but spent in India</td>
<td>5,000</td>
<td>5,000</td>
<td>-</td>
</tr>
<tr>
<td>Gift received on the occasion of his wedding [not an income]</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest on savings bank deposit in State Bank of India</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Income from a business in Russia, controlled from Russia</td>
<td>20,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividend from Reliance Petroleum Limited, an Indian Company [it is exempt u/s 10(34)]</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Agricultural income from a land in Rajasthan [it is exempt u/s 10(1)]</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>3,49,000</td>
<td>2,15,000</td>
<td>1,80,000</td>
</tr>
</tbody>
</table>
MULTIPLE CHOICE QUESTIONS

1. If Anirudh has stayed in India in the P.Y. 2019-20 for 181 days, and he is non-resident in 9 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 420 days in all in the 7 years immediately preceding the current previous year, his residential status for the A.Y.2020-21 would be-
(a) Resident and ordinarily resident
(b) Resident but not ordinarily resident
(c) Non-resident
(d) Cannot be ascertained with the given information

2. Raman was employed in Hindustan Lever Ltd. He received a salary of ₹40,000 p.m. from 1.4.2019 to 27.9.2019. He resigned and left for Dubai for the first time on 1.10.2019 and got salary of rupee equivalent of ₹80,000 p.m. from 1.10.2019 to 31.3.2020. His salary for October to December 2019 was credited in his Dubai bank account and the salary for January to March 2020 was credited in his Bombay account directly. He is liable to tax in respect of -
(a) Income received in India from Hindustan Lever Ltd;
(b) Income received in India and in Dubai;
(c) Income received in India from Hindustan Lever Ltd. and income directly credited in India;
(d) Income received in Dubai

3. A company would be a resident in India for the P.Y. 2019-20, if
(a) it is an Indian company
(b) during the year, majority of its directors are resident in India
(c) during the year, its Place of Effective Management is in India
(d) both (a) and (c)

4. Income accruing in London and received there is taxable in India in the case of-
(a) resident and ordinarily resident only
(b) both resident and ordinarily resident and resident but not ordinarily resident
(c) both resident and non-resident
(d) non-resident

5. Incomes which accrue or arise outside India but received directly in India are taxable in case of-
(a) resident and ordinarily resident only
(b) both resident and ordinarily resident and resident but not ordinarily resident
(c) non-resident
(d) All the above

6. Income earned from a contract negotiated by an agent in India in the name of a non-resident and approved by such non-resident shall:
(a) be taxable in India as such income is deemed to accrue or arise in India
(b) not be taxable in India as there is no business connection in India
(c) be taxable in India only if it is received in India
(d) not taxable in India as such income accrues or arises outside India

7. Fees for technical services paid by the Central Government will be taxable in case of –
(a) resident and ordinarily resident only
(b) both resident and ordinarily resident and resident but not ordinarily resident
(c) non-resident
(d) All the above

8. Short term capital gains on sale of shares of an Indian company received in Australia is taxable in case of–
(a) resident and ordinarily resident only
(b) both resident and ordinarily resident and resident but not ordinarily resident
(c) non-resident only
(d) All the above

9. Income from a business in Canada, controlled from Canada is taxable in case of –
(a) resident and ordinarily resident only
(b) both resident and ordinarily resident and resident but not ordinarily resident  
(c) non-resident  
(d) All the above  
10. Dividend Income from Australian company received in Australia in the year 2017, brought to India during the previous year 2019-20 is taxable in case of–  
(a) resident and ordinarily resident only  
(b) resident but not ordinarily resident  
(c) non-resident  
(d) None of the above  
11. If Mr. Akash has stayed in India in the P.Y. 2019-20 for 100 days, and he is non-resident in 9 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 730 days in all in the 7 years immediately preceding the current previous year, his residential status for the A.Y.2020- 21 would be-  
(a) Resident and ordinarily resident  
(b) Resident but not ordinarily resident  
(c) Non-resident  
(d) Cannot be ascertained with the given information  
12. If Mr. A has stayed in India in the P.Y. 2019-20 for 100 days, and he is non-resident in 8 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 710 days in all in the 7 years immediately preceding the current previous year, his residential status for the A.Y.2020- 21 would be-  
(a) Resident and ordinarily resident  
(b) Resident but not ordinarily resident  
(c) Non-resident  
(d) Cannot be ascertained with the given information  
13. Mr. A, a Canadian citizen, comes to India for the first time during the P.Y. 2015-16. He was in India during 2015-16 – 55 days, 2016-17 – 60 days, 2017-18 – 90 days, 2018-19 – 150 days, 2019-20 – 70 days. Residential status for the previous year 2019-20 shall be  
(a) Resident and ordinarily resident  
(b) Resident but not ordinarily resident  
(c) Non-resident  
(d) Cannot be ascertained with the given information  
14. Karta of one HUF comes to India every year for minimum 10 days and maximum 104 days, residential status of HUF shall be  
(a) Resident and ordinarily resident  
(b) Resident but not ordinarily resident  
(c) Non-resident  
(d) Cannot be ascertained with the given information  
15. ABC Ltd. an Indian company has most of its business outside India and also control and management outside India. Residential status of company shall be  
(a) Resident  
(b) Resident but not ordinarily resident  
(c) Non-resident  
(d) None of the above  
16. A Korean company received ₹20 lakhs from a non – resident for use of patent for a business in India is _____________  
(a) taxable in India  
(b) not taxable in India  
(c) None of the above  
17. A non-resident received dividend of ₹15 lakhs from a Foreign Company outside India, it is_____  
(a) taxable in India  
(b) not taxable in India  
(c) partly taxable in India
18. John is a foreign citizen born in USA. His father was born in Delhi in 1960 and his grand-father was born in Lahore in 1935 but his mother was born in UK in 1963. John came to India for the first time on 1st June, 2019 and stayed in India for 183 days and then left for USA. His residential status for the A.Y. 2020-21 shall be:
(a) Resident and ordinarily resident
(b) Resident but not ordinarily resident
(c) Non-resident
(d) Foreign National

19. The following income of Ms. Nargis who is a non-resident shall be included in her total income:
(i) Salary for 2 months received in Delhi ₹40,000.
(ii) Interest on Savings Bank Account in Mumbai ₹2,100.
(iii) Agricultural income in Bangladesh and Invested in shares in Bangladesh.
(iv) Amount brought into India out of past non-taxed profits earned in USA.
(a) (i), (iii) and (iv)
(b) (i) and (ii)
(c) (i), (ii) and (iv)
(d) All the four above

20. The income earned during the previous year is subject to tax under the Act on the basis of residential status of an assessee. However, the residential status of an assessee ....................... every year.
(a) will not change
(b) will certainly change
(c) may change
(d) None of the above

21. Mr. Rajiv, born and brought up in India left for employment in Belgium on 15-10-2019. He has never gone out of India, previously. What is his residential status for the assessment year 2020-21?
(a) Non-resident
(b) Not ordinarily resident
(c) Resident and ordinarily resident in India
(d) Indian citizen

22. Mr. Ramji (age 55) is Karta of HUF doing textile business at Nagur. Mr. Ramji is residing in Dubai for the past 10 years and visited India for 20 days every year for filing the income tax return of HUF. His two major sons take care of the day to day affairs of the business in India. The residential status of HUF for the assessment year 2020-21 is:
(a) Non-resident
(b) Resident and ordinarily resident in India
(c) Not ordinarily resident
(d) None of the above

23. Past untaxed profit of the previous year 2015-16 brought to India in 2019-20 is chargeable to tax in the assessment year 2020-21 in the hands of
(a) All the assessees
(b) Resident and ordinarily resident in India
(c) Non-resident in India
(d) None of the above.

24. Total income of a person is determined on the basis of his
(a) Residential status in India
(b) Citizenship in India
(c) Both (a) and (b) above
(d) None of the above.
25. Alpha Ltd. is an Indian company. It carries its business in Delhi and London. Total control and management of the company is situated in London. More than 85% of its business income is from the business in England. If so, its residential status will be —
(a) Resident
(b) Non-resident
(c) Not ordinarily resident
(d) Foreign company.

Answer
1. (b); 2. (b); 3. (d); 4. (a); 5. (d); 6. (a); 7. (d); 8. (a); 9. (a); 10. (d); 11. (b); 12. (b); 13. (c); 14. (b); 15. (a); 16. (a); 17. (b); 18. (b); 19. (b); 20. (c); 21. (c); 22. (c); 23. (d); 24. (a); 25. (a)
PRACTICE PROBLEMS
TOTAL PROBLEMS 24

Problem 1 TO 10

Determine residential status of Mr. X for the assessment year 2020-21, who stays in India during various financial years asunder:

<table>
<thead>
<tr>
<th>Previous Years</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>65</td>
<td>183</td>
<td>181</td>
<td>69</td>
<td>300</td>
<td>70</td>
<td>72</td>
<td>95</td>
<td>180</td>
<td>93</td>
</tr>
<tr>
<td>2018-19</td>
<td>91</td>
<td>90</td>
<td>87</td>
<td>110</td>
<td>97</td>
<td>99</td>
<td>94</td>
<td>92</td>
<td>91</td>
<td>90</td>
</tr>
<tr>
<td>2017-18</td>
<td>190</td>
<td>78</td>
<td>98</td>
<td>91</td>
<td>103</td>
<td>104</td>
<td>101</td>
<td>100</td>
<td>99</td>
<td>80</td>
</tr>
<tr>
<td>2016-17</td>
<td>89</td>
<td>120</td>
<td>189</td>
<td>196</td>
<td>110</td>
<td>98</td>
<td>97</td>
<td>96</td>
<td>95</td>
<td>90</td>
</tr>
<tr>
<td>2015-16</td>
<td>87</td>
<td>91</td>
<td>92</td>
<td>93</td>
<td>94</td>
<td>95</td>
<td>94</td>
<td>93</td>
<td>92</td>
<td>100</td>
</tr>
<tr>
<td>2014-15</td>
<td>86</td>
<td>99</td>
<td>92</td>
<td>95</td>
<td>99</td>
<td>100</td>
<td>101</td>
<td>100</td>
<td>99</td>
<td>90</td>
</tr>
<tr>
<td>2013-14</td>
<td>84</td>
<td>66</td>
<td>93</td>
<td>94</td>
<td>365</td>
<td>210</td>
<td>209</td>
<td>208</td>
<td>207</td>
<td>80</td>
</tr>
<tr>
<td>2012-13</td>
<td>105</td>
<td>210</td>
<td>91</td>
<td>93</td>
<td>—</td>
<td>0</td>
<td>91</td>
<td>92</td>
<td>91</td>
<td>90</td>
</tr>
<tr>
<td>2011-12</td>
<td>110</td>
<td>92</td>
<td>92</td>
<td>362</td>
<td>300</td>
<td>200</td>
<td>100</td>
<td>100</td>
<td>—</td>
<td>100</td>
</tr>
<tr>
<td>2010-11</td>
<td>112</td>
<td>94</td>
<td>93</td>
<td>91</td>
<td>10</td>
<td>99</td>
<td>88</td>
<td>77</td>
<td>66</td>
<td>110</td>
</tr>
<tr>
<td>2009-10</td>
<td>100</td>
<td>96</td>
<td>91</td>
<td>90</td>
<td>310</td>
<td>100</td>
<td>99</td>
<td>92</td>
<td>94</td>
<td>120</td>
</tr>
<tr>
<td>2008-09</td>
<td>91</td>
<td>199</td>
<td>90</td>
<td>89</td>
<td>210</td>
<td>92</td>
<td>94</td>
<td>96</td>
<td>98</td>
<td>130</td>
</tr>
<tr>
<td>2007-08</td>
<td>94</td>
<td>81</td>
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<td>92</td>
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<td>60</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>2006-07</td>
<td>97</td>
<td>82</td>
<td>88</td>
<td>87</td>
<td>88</td>
<td>55</td>
<td>65</td>
<td>75</td>
<td>85</td>
<td>80</td>
</tr>
<tr>
<td>2005-06</td>
<td>99</td>
<td>83</td>
<td>87</td>
<td>86</td>
<td>84</td>
<td>40</td>
<td>50</td>
<td>60</td>
<td>70</td>
<td>60</td>
</tr>
</tbody>
</table>

Answer = (1) ROR; (2) ROR; (3) ROR; (4) ROR; (5) ROR; (6) NOR; (7) ROR; (8) ROR; (9) ROR; (10) NR

Problem 11.

Mr. X, a citizen of USA, has come to India for the first time on 01.07.2015. The particulars of his arrival and departure are as given below:

<table>
<thead>
<tr>
<th>Date of arrival</th>
<th>Date of departure</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2015</td>
<td>11.12.2015</td>
</tr>
<tr>
<td>27.03.2016</td>
<td>21.07.2016</td>
</tr>
<tr>
<td>10.09.2016</td>
<td>01.03.2017</td>
</tr>
<tr>
<td>01.01.2018</td>
<td>23.09.2018</td>
</tr>
<tr>
<td>01.02.2019</td>
<td>01.07.2019</td>
</tr>
<tr>
<td>11.02.2020</td>
<td>—</td>
</tr>
</tbody>
</table>

Determine his residential status for various years.

Answer = 2015-16 – Non-Resident (NR)
2016-17 – Resident but not ordinarily resident (NOR)
2017-18 – Resident but not ordinarily resident (NOR)
2018-19 – Resident but not ordinarily resident (NOR)
2019-20 – Resident and ordinarily resident (ROR)

Problem 12.

Mr. X, a citizen of U.K., has come to India for the first time on 01.07.2015. The particulars of his arrival and departure are as given below:

<table>
<thead>
<tr>
<th>Date of arrival</th>
<th>Date of departure</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2015</td>
<td>07.09.2015</td>
</tr>
<tr>
<td>01.01.2016</td>
<td>08.03.2016</td>
</tr>
<tr>
<td>10.02.2017</td>
<td>09.05.2017</td>
</tr>
</tbody>
</table>

Determine his residential status for various years.

Answer = 2015-16 – Resident but not ordinarily resident (NOR)
2016-17 – Resident but not ordinarily resident (NOR)
2017-18 – Resident but not ordinarily resident (NOR)
2018-19 – Resident but not ordinarily resident (NOR)
2019-20 – Resident and ordinarily resident (ROR)
Problem 13.
Mr. X goes out of India every year for 274 days.
Determine his residential status for the previous year 2019-20.
Answer = Resident but not ordinarily resident (NOR)

Problem 14.
Mr. X, a citizen of Japan, has come to India for the first time on 01.10.2019 for 200 days.
Determine his residential status for the assessment year 2020-21.
Answer = Resident but not ordinarily resident (NOR)

Problem 15.
Mr. X, a citizen of U.K. came to India for the first time on 01.07.2009 in connection with his employment. 
He left India on 01.11.2018 for taking up a job in USA. He again came to India on 01.01.2020 on a visit and 
left India on 01.03.2020.
Determine his residential status for the assessment year 2020-21.
Answer = Resident and ordinarily resident (ROR)

Problem 16.
Mr. X, a German citizen, came to India on 23.05.2018 and left India on 30.05.2019.
Determine his residential status for the assessment year 2019-20, 2020-21.
Answer = Assessment Year 2019-20: Resident but not ordinarily resident (NOR)  
Assessment Year 2020-21: Non- Resident (NR)

Problem 17.
Mr. X, a citizen of India, is employed in Soliton Technologies, an Indian company. His employer has 
transferred him to his branch in Japan. Mr. X left India on 29.09.2019 for his new posting in Japan.
Determine his residential status for the assessment year 2020-21.
Prior to this, Mr. X was posted outside India for 11 months in the previous year 2014-15 and for 10.5 
months in the year 2010-11.
Answer = Resident and ordinarily resident (ROR)

Problem 18.
Dr. Reddy’s Labs is an Indian company and has borrowed funds from Bank of America, New York for 
investing it in one of its projects in USA. In this case, interest paid by Dr. Reddy’s Labs to Bank of America 
shall be accruing/arising __________.
Answer = Outside India

Problem 19.
Calculate taxable income of an individual on the basis of the following informations, for the assessment year 
2020-21, if he is:
(a) Ordinarily Resident
(b) Not Ordinarily Resident; and
(c) Non-Resident
(i) Profit from business in Japan received in India. 10,000
(ii) Income from agriculture in Pakistan – it is all spent on the education of children there 5,000
(iii) Income accrued in India but received in England 10,000
(iv) Income from house property in Pakistan deposited in a bank there 2,000
(v) Profits of business in America deposited in a bank there. This business is controlled from India 50,000
(vi) Profits earned from business in Meerut 12,000
(vii) Past untaxed foreign income brought into India during the previous year 10,000

(Prosume that all the incomes are computed incomes)

Answer: Taxable Income: Resident and ordinarily resident (ROR): ₹89,000;
Resident but not ordinarily resident (NOR) : ₹82,000;
Non-Resident (NR) : ₹32,000

Problem 20.
Mr. X earns the following income during the previous year 2019-20.
Compute his gross total income for assessment year 2020-21 if he is
(i) resident and ordinarily resident.
(ii) resident but not ordinarily resident.
(iii) non-resident.

(1) Income from agricultural land in Bhutan received there and remitted to India later on 40,000
(2) Dividend from foreign company, received in India 50,000
(3) Pension for service rendered in India, but received in Paris 15,000
(4) Past untaxed profits of 2018-19 brought into India in 2019-20 50,000
(5) Profits from business in Paris, deposited in bank there 1,00,000
(6) Profits from business in Canada, controlled from India, profits received there 1,75,000
(7) Interest on saving bank deposit in Punjab National Bank, in India 20,000
(8) Capital gain on sale of a house in Delhi, amount received in Paris 2,00,000

Answer: Resident and ordinarily resident (ROR): ₹6,00,000
Resident but not ordinarily resident (NOR): ₹4,60,000
Non-Resident (NR): ₹2,85,000

Problem 21.
Mr. X earns the following income during the previous year 2019-20.
Compute his Gross total income for assessment year 2020-21 if he is
(i) resident and ordinarily resident.
(ii) resident but not ordinarily resident.
(iii) non-resident.

(1) Dividend from an Indian company, received in Japan 60,000
(2) Profit on sale of machinery in India, but received in Japan 1,20,000
(3) Profits from business in Bombay, managed from Japan 2,25,000
(4) Profits from business in Japan, managed from there, received there 1,45,000
(5) Income from house property in India 1,50,000
(6) Income from property in Japan and received there 1,50,000
(7) Income from agriculture in Japan being invested there 75,000
(8) Fees for technical services rendered in India but received in Japan 65,000
(9) Interest on Government securities accrued in India but received in Japan 80,000
(10) Interest on Japan Government securities, received in India 40,000

(Prosume that all the incomes are computed incomes)

Answer: Resident and ordinarily resident (ROR): ₹10,50,000
Resident but not ordinarily resident (NOR): ₹6,80,000
Non-Resident (NR): ₹6,80,000
Problem 22.
Mr. X earns the following incomes during the financial year 2019-20.

1. Profits from a business in Japan, controlled from India, half of the profits received in India: ₹60,000
2. Income from agriculture in Nepal, brought to India: ₹10,000
3. Income u/h house property in Bombay, received in UK: ₹1,70,000
4. Income u/h house property in USA, received there but subsequently remitted to India: ₹2,20,000
5. Income u/h house property in USA, received there (₹50,000 remitted in India): ₹1,00,000
6. Salary received in India for services rendered in USA: ₹60,000
7. Income from profession in Paris, which was set up in India, received in Paris: ₹90,000
8. Interest from deposit with an Indian company, received in Japan: ₹19,000
9. Income from profession in Bombay received in Paris: ₹39,000
10. Profits of business in Iran, deposited in a bank there, business controlled from India (out of ₹4,80,000, ₹1,00,000 is remitted in India): ₹4,80,000
11. Interest on German development bonds, half of which is received in India: ₹12,000
12. Income under the head house property in Canada, one-fifth is received in India: ₹50,000

(Presume all the above incomes are computed income i.e. all the exemptions and deductions have already been allowed)

Determine the gross total income of Mr. X if he is
(i) resident and ordinarily resident,
(ii) resident but not ordinarily resident,
(iii) non-resident in India during the financial year 2019-20.

**Answer:**

- Resident and ordinarily resident (ROR): ₹13,10,000
- Resident but not ordinarily resident (NOR): ₹9,34,000
- Non-Resident (NR): ₹3,34,000

Problem 23.
Mr. X is a citizen of India and is employed in ABC Ltd and is getting a salary of ₹60,000 p.m. He purchased one building in India on 1st May, 2019 for ₹10,00,000 and its market value is ₹22,00,000 and value for the purpose of charging stamp duty is ₹13,00,000. He purchased gold for ₹8,00,000 and its market value is ₹11,00,000. He was transferred out of India w.e.f. 1st Sept, 2019 and he left India on 1st Sept, 2019 and one of his friend gifted him one colour TV on this occasion, market value ₹1,00,000.

He has gone out of India in earlier years also.

<table>
<thead>
<tr>
<th>Year</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.Y. 2018-19</td>
<td>100</td>
</tr>
<tr>
<td>P.Y. 2017-18</td>
<td>200</td>
</tr>
</tbody>
</table>

He visited India from 01.02.2020 to 14.02.2020 and salary for January, 2020 was received in India. He has taken a loan from outside India on 01.01.2020 and amount was invested in shares of an Indian Company and received dividend of ₹30,000 outside India.

He has purchased one house property in USA in December 2019 and sold in March 2020 and there were short term capital gain of ₹6,00,000 and the amount was received in USA.

Compute his tax liability for the A.Y.2020-21.

**Answer:** Tax Liability: ₹98,280

Problem 24.
Mrs. X is employed in ABC Ltd in India and she is an American citizen and is getting a salary of ₹2,00,000 p.m. She purchased shares of a foreign Company on 01.07.2019 and received dividend of ₹3,00,000 on 01.08.2019 in India and again dividend of ₹2,00,000 on 01.03.2020 in USA.

She received gift of one painting in India from her friend on 01.07.2019 and its market value is ₹49,000 and she also received gift in cash of ₹49,000 from the same friend and gift of immovable property with value for the purpose of charging stamp duty is ₹51,000 from the same friend.

She purchased UK Development bond and interest equivalent of ₹2,00,000 was received in USA.

She visited USA for 182 days during P.Y.2019-20.

In the earlier year her stay in India was

<table>
<thead>
<tr>
<th>Year</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.Y. 2018-19</td>
<td>110</td>
</tr>
</tbody>
</table>
P.Y. 2017-18                  120 days
P.Y. 2016-17                  300 days
P.Y. 2015-16                  182 days
P.Y. 2014-15                  185 days
P.Y. 2013-14                  200 days
P.Y. 2012-13                  300 days

Compute her tax liability in India for the A.Y. 2020-21.

Answer: Tax Liability: ₹7,72,510
SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:
2019-20 Resident
2018-19 Resident
2017-18 Resident
2016-17 Non-Resident
2015-16 Resident
2014-15 Resident
2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Resident
2009-10 Resident
Total stay in 7 years preceding the relevant previous year is 732 days.
Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.
1. He is non resident in India in at least nine out of ten previous years preceding that year.
or
2. He has during the seven previous years preceding that year been in India for a period of 729 days or less.

Solution 2:
2019-20 Resident
2018-19 Resident
2017-18 Resident
2016-17 Resident
2015-16 Resident
2014-15 Resident
2013-14 Resident
2012-13 Resident
2011-12 Resident
2010-11 Resident
2009-10 Resident
Total stay in 7 years preceding the relevant previous year is 754 days.
Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.
1. He is non resident in India in at least nine out of ten previous years preceding that year.
or
2. He has during the seven previous years preceding that year been in India for a period of 729 days or less.

Solution 3:
2019-20 Resident
2018-19 Resident
2017-18 Resident
2016-17 Resident
2015-16 Resident
2014-15 Resident
2013-14 Resident
2012-13 Resident
2011-12 Non-Resident
2010-11 Non-Resident
2009-10 Non-Resident

Total stay in 7 years preceding the relevant previous year is 742 days.
Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.
1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

**Solution 4:**
2019-20 Resident
2018-19 Resident
2017-18 Resident
2016-17 Resident
2015-16 Resident
2014-15 Resident
2013-14 Resident
2012-13 Non-Resident
2011-12 Non-Resident
2010-11 Non-Resident
2009-10 Non-Resident

Total stay in 7 years preceding the relevant previous year is 772 days.
Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.
1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

**Solution 5:**
2019-20 Resident
2018-19 Resident
2017-18 Resident
2016-17 Resident
2015-16 Resident
2014-15 Resident
2013-14 Resident
2012-13 Non-Resident
2011-12 Resident
2010-11 Non-Resident
2009-10 Resident

Total stay in 7 years preceding the relevant previous year is 868 days.
Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.
1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
2. He has during the seven previous years preceding that year been in India for a period of 729 days or less.

**Solution 6:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>Resident</td>
</tr>
<tr>
<td>2018-19</td>
<td>Resident</td>
</tr>
<tr>
<td>2017-18</td>
<td>Resident</td>
</tr>
<tr>
<td>2016-17</td>
<td>Resident</td>
</tr>
<tr>
<td>2015-16</td>
<td>Resident</td>
</tr>
<tr>
<td>2014-15</td>
<td>Resident</td>
</tr>
<tr>
<td>2013-14</td>
<td>Resident</td>
</tr>
<tr>
<td>2012-13</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>2011-12</td>
<td>Resident</td>
</tr>
<tr>
<td>2010-11</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>2009-10</td>
<td>Non-Resident</td>
</tr>
</tbody>
</table>

Total stay in 7 years preceding the relevant previous year is 706 days.

Since the assessee is able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be NOR.

1. He is non resident in India in at least nine out of ten previous years preceding that year.

or

2. He has during the seven previous years preceding that year been in India for a period of 729 days or less.

**Solution 7:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>Resident</td>
</tr>
<tr>
<td>2018-19</td>
<td>Resident</td>
</tr>
<tr>
<td>2017-18</td>
<td>Resident</td>
</tr>
<tr>
<td>2016-17</td>
<td>Resident</td>
</tr>
<tr>
<td>2015-16</td>
<td>Resident</td>
</tr>
<tr>
<td>2014-15</td>
<td>Resident</td>
</tr>
<tr>
<td>2013-14</td>
<td>Resident</td>
</tr>
<tr>
<td>2012-13</td>
<td>Resident</td>
</tr>
<tr>
<td>2011-12</td>
<td>Resident</td>
</tr>
<tr>
<td>2010-11</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>2009-10</td>
<td>Non-Resident</td>
</tr>
</tbody>
</table>

Total stay in 7 years preceding the relevant previous year is 787 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is non resident in India in at least nine out of ten previous years preceding that year.

or

2. He has during the seven previous years preceding that year been in India for a period of 729 days or less.

**Solution 8:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>Resident</td>
</tr>
<tr>
<td>2018-19</td>
<td>Resident</td>
</tr>
<tr>
<td>2017-18</td>
<td>Resident</td>
</tr>
<tr>
<td>2016-17</td>
<td>Resident</td>
</tr>
<tr>
<td>2015-16</td>
<td>Resident</td>
</tr>
<tr>
<td>2014-15</td>
<td>Resident</td>
</tr>
<tr>
<td>2013-14</td>
<td>Resident</td>
</tr>
<tr>
<td>2012-13</td>
<td>Resident</td>
</tr>
</tbody>
</table>
Total stay in 7 years preceding the relevant previous year is 781 days.
Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.
1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

**Solution 9:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>Resident</td>
</tr>
<tr>
<td>2018-19</td>
<td>Resident</td>
</tr>
<tr>
<td>2017-18</td>
<td>Resident</td>
</tr>
<tr>
<td>2016-17</td>
<td>Resident</td>
</tr>
<tr>
<td>2015-16</td>
<td>Resident</td>
</tr>
<tr>
<td>2014-15</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>2013-14</td>
<td>Resident</td>
</tr>
<tr>
<td>2012-13</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>2011-12</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>2010-11</td>
<td>Non-Resident</td>
</tr>
<tr>
<td>2009-10</td>
<td>Non-Resident</td>
</tr>
</tbody>
</table>

Total stay in 7 years preceding the relevant previous year is 774 days.
Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.
1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.
or
2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

**Solution 10:**

Mr. X is in India for 60 days or more in 2019-20 but for less than 365 days in 4 years immediately preceding 2019-20, so he is non-resident in 2019-20.

**Solution 11:**

Stay of Mr. X in various years is as given below.

**In P.Y. 2015-16**

Days of stay in India are 169, so Mr. X is non-resident.

**In P.Y. 2016-17**

Days of stay in India are 285. So, he is resident and also he is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence he is NOR.

**In P.Y. 2017-18**

{January – 31, February – 28, March – 31}
Days of stay in India are 90. So, he is resident and also he is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence he is NOR.

**In P.Y. 2018-19**

Days of stay in India are 235. So, he is resident and also his stay during seven years preceding the relevant previous year is 729 days or less, hence he is NOR.
In P.Y. 2019-20
{April – 30, May – 31, June – 30, July – 1, February – 19, March – 31}
Days of stay in India are 142 and during the previous 4 years his stay is for 365 days or more so he is resident and also he is ROR because he is not able to fulfil any of the conditions of section 6(6)(a). i.e.
1. He is non resident in India in at least nine out of ten previous years preceding that year.
or
2. He has during the seven previous years preceding that year been in India for a period of 729 days or less.
Hence he is ROR.

Solution 12:
In P.Y. 2015-16
Days of stay in India are 137, so Mr. Daniel is non-resident.
In P.Y. 2016-17
{July – 21, August – 31, September – 20, February – 19, March – 31}
Days of stay in India are 122, so, he is non-resident.
In P.Y. 2017-18
{April – 30, May – 9, January – 31, February – 28, March – 31}
Days of stay in India are 129, so, he is non-resident.
In P.Y. 2018-19
{April – 30, May – 20, March – 21}
Days of stay in India are 71 and also he stays for 365 days or more during 4 years preceding the relevant previous year and also he is able to comply with at least one of the conditions of section 6(6)(a) as given below.
1. He is non resident in India in at least nine out of ten previous years preceding that year.
or
2. He has during the seven previous years preceding that year been in India for a period of 729 days or less.
Hence he is NOR.
In P.Y. 2019-20
{April – 30, May – 31, June – 21, March – 5}
Days of stay in India are 87 and during the previous 4 years his stay is more than 365 days. So he is resident but not ordinarily resident because he is able to fulfill at least one of the two condition given u/s 6(6)(a).

Solution 13:
Since he is out of India every year for 274 days so his days of stay in India are –
In 2019-20  92 Days
In 2018-19  91 Days
In 2017-18  91 Days
In 2016-17  91 Days
In 2015-16  92 Days
So his stay in India during the seven years immediately preceding the relevant previous year is less than 729 days, so he is resident but not ordinarily resident.

Solution 14:
Days of stay in India in P.Y. 2019-20 are 183.
So he is resident and also he will be able to comply with at least one of the conditions of section 6(6)(a) as given below.
1. He is non resident in India in at least nine out of ten previous years preceding that year.
or
2. He has during the seven previous years preceding that year been in India for a period of 729 days or less.
Solution 15:
His days of stay in India are as under –

In P.Y. 2009-10 274 days
In P.Y. 2010-11 365
In P.Y. 2011-12 366
In P.Y. 2012-13 365
In P.Y. 2013-14 365
In P.Y. 2014-15 365
In P.Y. 2015-16 366
In P.Y. 2016-17 365
In P.Y. 2017-18 365
In P.Y. 2018-19 215
In P.Y. 2019-20 61
{January – 31, February – 29, March – 1}

He is resident in 2019-20 but he is not able to comply with any of the conditions of section 6(6)(a) hence he is resident and ordinarily resident.

Solution 16:
His days of stay in India in year 2018-19 are 313.
So he is resident and he is also able to comply with one of the condition of section 6(6)(a) hence he will be considered to be resident but not ordinarily resident.
His days of stay in India in 2019-20 are 60.
{April – 30 and May – 30}
So he is non-resident in the year 2019-20.

Solution 17:
His days of stay in India during 2019-20 are 182.
So Mr. X is resident in previous year 2019-20 and also he is not able to comply with any of the conditions of section 6(6)(a) hence he will be considered to be ROR.

Solution 18:
It will be accruing arising abroad because if any loan has been taken by a person resident in India from outside India then interest income shall be accruing arising in India only if such resident has utilized the loan amount in India.

Solution 19:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Income accruing/arising outside India but received in India</td>
<td>10,000</td>
<td>10,000</td>
<td>[N]</td>
</tr>
<tr>
<td>(ii) Income accruing/arising outside India and also received abroad.</td>
<td>5,000</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>(iii) Income accruing/arising in India</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>(iv) Income accruing/arising outside India and also received abroad.</td>
<td>2,000</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>(v) Income accruing/arising outside India and also received outside India but from a business controlled from India</td>
<td>50,000</td>
<td>50,000</td>
<td>-------</td>
</tr>
<tr>
<td>(vi) Income accruing/arising in India</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>
### Solution 20:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Income accruing/arising outside India and received outside India</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Income received in India</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>(3) Income accruing/arising in India</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>(4) Past profits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Income accruing/arising and received outside India</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Income accruing/arising and received outside India, but business</td>
<td>1,75,000</td>
<td>1,75,000</td>
<td></td>
</tr>
<tr>
<td>controlled from India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Income deemed to be accruing/arising in India</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>(8) Income deemed to be accruing/arising in India</td>
<td>2,00,000</td>
<td>2,00,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>6,00,000</td>
<td>4,60,000</td>
<td>2,85,000</td>
</tr>
</tbody>
</table>

### Solution 21:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Income accruing/arising in India but exempt u/s 10(34)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Income accruing/arising in India</td>
<td>1,20,000</td>
<td>1,20,000</td>
<td>1,20,000</td>
</tr>
<tr>
<td>(3) Income accruing/arising in India</td>
<td>2,25,000</td>
<td>2,25,000</td>
<td>2,25,000</td>
</tr>
<tr>
<td>(4) Income accruing/arising and received outside India</td>
<td>1,45,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Income accruing/arising in India</td>
<td>1,50,000</td>
<td>1,50,000</td>
<td>1,50,000</td>
</tr>
<tr>
<td>(6) Income accruing/arising outside India and received outside India</td>
<td>1,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Income accruing/arising outside India and received outside India</td>
<td>75,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) Income accruing/arising in India</td>
<td>65,000</td>
<td>65,000</td>
<td>65,000</td>
</tr>
<tr>
<td>(9) Income accruing/arising in India</td>
<td>80,000</td>
<td>80,000</td>
<td>80,000</td>
</tr>
<tr>
<td>(10) Income received in India</td>
<td>40,000</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>10,50,000</td>
<td>6,80,000</td>
<td>6,80,000</td>
</tr>
</tbody>
</table>

### Solution 22:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Income accruing/arising outside India from a business controlled in</td>
<td>60,000</td>
<td>60,000</td>
<td>30,000</td>
</tr>
<tr>
<td>India, half of the income received in India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Income accruing/arising outside India and received outside India</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Income accruing/arising in India</td>
<td>1,70,000</td>
<td>1,70,000</td>
<td>1,70,000</td>
</tr>
<tr>
<td>(4) Income accruing/arising outside India and received outside India</td>
<td>2,20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Income accruing/arising outside India and received outside India</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Income received in India</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>(7) Income accruing/arising and received outside India, but profession</td>
<td>90,000</td>
<td>90,000</td>
<td></td>
</tr>
<tr>
<td>set up in India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) Income accruing/arising in India</td>
<td>19,000</td>
<td>19,000</td>
<td>19,000</td>
</tr>
<tr>
<td>(9) Income accruing/arising in India</td>
<td>39,000</td>
<td>39,000</td>
<td>39,000</td>
</tr>
<tr>
<td>(10) Income accruing/arising outside India and received outside India,</td>
<td>4,80,000</td>
<td>4,80,000</td>
<td></td>
</tr>
<tr>
<td>but business controlled from India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(11) Income accruing/arising outside India, half received outside India</td>
<td>12,000</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>and half in India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(12) Income accruing/arising outside India, 4/5th received outside India</td>
<td>50,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>and 1/5th in India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>13,10,000</td>
<td>9,34,000</td>
<td>3,34,000</td>
</tr>
</tbody>
</table>
Solution 23:
Since Mr. X is covered in special category and will be resident, if his stay in India in relevant previous year is 182 days or more, hence Mr. X is a non-resident as his stay in India is less than 182 days and his income taxable in India shall be

Income under the head Salary
Income accruing/arising in India
(60,000 x 5)
Income received in India
(60,000 x 1)
Gross Salary
Less: Standard Deduction u/s 16(ia)
Gross Salary

Income under the head Other Sources
Gift of gold (₹11,00,000 – ₹8,00,000)
Gift of building (₹13,00,000 – ₹10,00,000)
Income under the head Other Sources
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income

Computation of Tax Liability
Tax on ₹9,10,000 at slab rate
Add: HEC @ 4%
Tax Liability
Note: STCG is received in USA is not taxable in India as the assessee is a non-resident.

Solution 24:
In this case, Mrs. X stays in India for more than 182 days during the previous year 2019-20 and also she is not able to comply with any of the conditions of section 6(6)(a), she will be considered to be ROR.

Her incomes taxable in India shall be

Income under the head Salary
Income accruing/arising in India
(2,00,000 x 12)
Gross Salary
Less: Standard deduction u/s 16(ia)
Income under the head Salary

Income under the head Other Sources
Dividend from foreign company
(Received in India)
Gift from friend (immovable property)
Dividend from foreign company
(Received in USA)
Interest from UK Development bond
(Received in USA)
Income under the head Other Sources
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income

Computation of Tax Liability
Tax on ₹31,01,000 at slab rate
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B
EXAMINATION QUESTIONS

MAY – 2019 (NEW COURSE)

Question 2 (a)                Marks 7

The following are the income of Shri Subhash Chandra, a citizen of India for the previous year 2019-20:

(i) Income from business in India ₹ 2,00,000. The business is controlled from London and ₹ 60,000 were remitted to London.
(ii) Profits from business earned in Japan ₹ 70,000 of which ₹ 20,000 were received in India. This business is controlled from India.
(iii) Untaxed income of ₹ 1,30,000 for the year 2017-18 of a business in England which was brought in India on 3rd March, 2020.
(iv) Royalty of ₹ 4,00,000 received from Shri Ramesh, a resident for technical service provided to run a business outside India.
(v) Agricultural income ₹ 90,000 in Bhutan.
(vi) Income of ₹ 73,000 from house property in Dubai, which was deposited in bank at Dubai.

Compute Gross total income of Shri Subhash Chandra for the A.Y. 2020-21, if he is –

(1) A resident and Ordinarily Resident, and
(2) A resident and Not Ordinarily Resident

Solution:
As per section 5, All Global Income of ROR shall be taxable in India but in case of NOR income accruing arising in India or received in India shall be taxable in India. In case of NOR, income accruing / arising abroad and received aboard but from a business controlled from India or from a profession which was set up in India shall be taxable in India.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>ROR</th>
<th>NOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Income from business in India, controlled from London</td>
<td>2,00,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>(ii)</td>
<td>Profit from business in Japan, controlled from India</td>
<td>70,000</td>
<td>70,000</td>
</tr>
<tr>
<td>(iii)</td>
<td>Past years untaxed foreign income brought to India</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(iv)</td>
<td>Royalty Income from a resident for technical service to run business outside India (assumed amount received in India)</td>
<td>4,00,000</td>
<td>4,00,000</td>
</tr>
<tr>
<td>(v)</td>
<td>Agriculture Income from Bhutan (i.e. outside India) assumed received in Bhutan</td>
<td>90,000</td>
<td>-</td>
</tr>
<tr>
<td>(vi)</td>
<td>Income from house property in Dubai received in Dubai</td>
<td>73,000</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>Gross Total Income</strong></td>
<td><strong>8,33,000</strong></td>
<td><strong>6,70,000</strong></td>
</tr>
</tbody>
</table>

Note: Student can take assumption that royalty received outside India, in such case royalty shall be taxable in case of ROR only.
Note: In the above solution income of 73,000 is presumed to be computed income under the head house property. Student can also presume such amount as rent received (as the amount is deposited in bank account) and standard deduction u/s 24(a) @ 30% shall be allowed from 73,000 and taxable amount shall be 51,100.

**MAY – 2019 (OLD COURSE)**

**Question 2(a)  Marks 4**

Mr. Bachhan has provided the following details of his income for the year ended 31-3-2020.

| (1) Short term capital gains on sale of shares in Indian company received in Japan. | ₹85,000 |
| (2) Dividend from a Chinese Company received in China | ₹30,000 |
| (3) Rent from property in Bangladesh deposited in a bank at Dhaka, later on remitted to India through approved banking channels. | ₹96,000 |
| (4) Dividend from ABC Ltd., an Indian Company | ₹22,000 |

Compute his total income for the Assessment Year 2020-21 in case of he is:

(i) Resident and ordinarily resident;

(ii) Resident but not ordinarily resident; or

(iii) Non-resident

**Solution:**

As per section 5, All Global Income of ROR shall be taxable in India but in case of NOR/NR income accruing arising in India or received in India shall be taxable in India. In case of NOR, income accruing/ arising abroad and received abroad but from a business controlled from India or from a profession which was set up in India shall be taxable in India.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>ROR</th>
<th>NOR</th>
<th>NR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Short term capital gains on sale of shares in Indian company received in Japan (income accruing/arising from India)</td>
<td>₹85,000</td>
<td>₹85,000</td>
<td>₹85,000</td>
</tr>
<tr>
<td>(ii)</td>
<td>Dividend from a Chinese Company received in China from India (income accruing arising abroad received abroad)</td>
<td>₹30,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(iii)</td>
<td>Rent from property in Bangladesh deposited in a bank at Dhaka, later on remitted to India through approved banking channels (income accruing arising abroad received abroad) (96,000 – 30% of 96,000)</td>
<td>₹67,200</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(iv)</td>
<td>Dividend from ABC Ltd., an Indian Company (income accruing arising from India but income is exempt)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>1,82,200</td>
<td>85,000</td>
<td>85,000</td>
<td></td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>1,82,200</td>
<td>85,000</td>
<td>85,000</td>
<td></td>
</tr>
</tbody>
</table>

**NOV – 2018 (NEW COURSE)**

**Question 2(a)  Marks 6**

Following incomes are derived by Mr. Krishna Kumar during the year ended 31-3-2020:

Pension received from the US Government | ₹3,20,000 |
Agricultural income from lands in Malaysia | ₹2,70,000 |
Rent received from let out property in Colombo, Sri Lanka | ₹4,20,000 |
Discuss the taxability of the above items where the assessee is (i) Resident, (ii) Non-Resident

Solution:
As per section 5, Income of ROR is taxable if income is accruing/arising in India or abroad but in case of NOR & Non-Resident Income is taxable if it is accruing arising or deemed to accrue/arise in India or received or deemed to be received in India even if accrued outside India. All Global Income of ROR is taxable in India.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>ROR</th>
<th>NOR</th>
<th>Non – Resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension received from the US Government (Income accruing/arising abroad and received abroad)</td>
<td>3,20,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Agricultural income from lands in Malaysia (Income accruing/arising abroad and received abroad)</td>
<td>2,70,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rent received from let out property in Colombo, Sri Lanka (4,20,000 – 30% of 4,20,000) (Income accruing/arising abroad and received abroad)</td>
<td>2,94,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,84,000</strong></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

NOV – 2018 (OLD COURSE)

Question 2(a)                                Marks 5

Mr. Surya, an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Mumbai airport on 15th May 2019 as stamped in the passport. He has been in India for less than 365 days during the 4 years immediately preceding the previous year and has not been in India for at least 60 days in the previous year.

Determine :
(i) Residential status of Mr. Surya and
(ii) Total income for the assessment year 2020-21 from the following information:

1. Dividend amounting to `20,000 received from sassy Ltd., a switzerland based company, which was transferred to his Swiss bank account. He had borrowed money from Mr. sundarlal, a non-resident Indian, for the above mentioned investment on 2nd April, 2019. Interest on the borrowed money for the previous year 2019-20 amounted to `2,500.
2. Short term capital gain on the sale of shares of Trena India Ltd. a listed Indian company amounting to `35,000. The sale proceeds were credited to his swiss bank account.
3. Interest on fixed deposit with State Bank of India (Mumbai) amounting to `8,000 was credited to his saving account.

Solution:
(i) As per section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:
   (i) He stays in India for 182 days or more during the relevant previous year
   (ii) He stays in India for 60 days or more and also for 365 days or more during 4 years preceding the relevant previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident, otherwise the individual is a non-resident.

In the given case his stay in India in the previous year is less than 60 days hence he will be Non-Resident.

As per section 5, in case of Non-resident – The following incomes shall be taxable.
(i) income accruing/arising in India.
(ii) income received or deemed to be received in India even if accruing/arising abroad.
(ii) **Computation of Total Income for the A.Y. 2020-21**

1. Dividend received from a Switzerland based company is income accruing/arising abroad and also received outside India hence not taxable in case of Non-resident.

2. Short term capital gains on the sale of shares of an Indian company is income accruing/arising in India but the amount is received outside India. As Income is accruing/arising in India hence it is taxable in case of Non-Resident.

3. Interest on Fixed Deposits with State Bank of India (Mumbai) is income accruing/arising in India hence taxable in case of Non-resident.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount  ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term capital gains</td>
<td>35,000</td>
</tr>
<tr>
<td>Interest on fixed deposits</td>
<td>8,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>43,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>43,000</td>
</tr>
</tbody>
</table>

**Question 3**

Compute the Gross Total Income in the hands of an individual, if he is

(a) a resident and ordinary resident; and

(b) a non-resident for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>Amount  ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Interest from German Derivatives Bonds (1/3 received in India)</td>
<td>21,000</td>
</tr>
<tr>
<td>(ii)</td>
<td>Income from agriculture land situated in Malaysia, remitted to India</td>
<td>51,000</td>
</tr>
<tr>
<td>(iii)</td>
<td>Income earned from business in Dubai, Controlled from India (₹20,000 received in India)</td>
<td>75,000</td>
</tr>
<tr>
<td>(iv)</td>
<td>Profit from business in Mumbai, controlled from Australia</td>
<td>1,75,000</td>
</tr>
<tr>
<td>(v)</td>
<td>Interest received from Mr. Ashok (NRI) on loan provided to him for business in India</td>
<td>35,000</td>
</tr>
<tr>
<td>(vi)</td>
<td>Divided from Brown Ltd., an Indian Co. u/s 115 O of IT Act, 1961</td>
<td>30,000</td>
</tr>
<tr>
<td>(vii)</td>
<td>Profit from business in Canada controlled from Mumbai (60% of profits deposited in a bank in Canada and 40% remitted to India)</td>
<td>60,000</td>
</tr>
<tr>
<td>(viii)</td>
<td>Amount received from an NRI for the use of know-how for his business in Singapore</td>
<td>8,00,000</td>
</tr>
<tr>
<td>(ix)</td>
<td>Dividend received from foreign company in India</td>
<td>25,000</td>
</tr>
<tr>
<td>(x)</td>
<td>Past years untaxed foreign income brought to India</td>
<td>50,000</td>
</tr>
</tbody>
</table>

**Solution:**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>ROR  ₹</th>
<th>NR  ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Interest from German Derivatives Bonds (1/3 received in India)</td>
<td>21,000</td>
<td>7,000</td>
</tr>
<tr>
<td>(ii)</td>
<td>Income from agriculture land situated in Malaysia, remitted to India</td>
<td>51,000</td>
<td>-</td>
</tr>
<tr>
<td>(iii)</td>
<td>Income earned from business in Dubai, Controlled from India (₹20,000 received in India)</td>
<td>75,000</td>
<td>20,000</td>
</tr>
<tr>
<td>(iv)</td>
<td>Profit from business in Mumbai, controlled from Australia</td>
<td>1,75,000</td>
<td>1,75,000</td>
</tr>
<tr>
<td>(v)</td>
<td>Interest received from Mr. Ashok (NRI) on loan provided to him for business in India</td>
<td>35,000</td>
<td>35,000</td>
</tr>
<tr>
<td>(vi)</td>
<td>Divided from Brown Ltd., an Indian Co. u/s 115 O of IT Act, 1961</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(vii)</td>
<td>Profit from business in Canada controlled from Mumbai (60% of profits deposited in a bank in Canada and 40% remitted to India)</td>
<td>60,000</td>
<td>-</td>
</tr>
</tbody>
</table>

*Note: The language is not clear. It should be 100% deposited in Canada but 40% remitted to India. OR It should be 60%*
Mrs. Karuna Kapoor, is a Hollywood actress. Her passport reveals the following information about her stay in India.

<table>
<thead>
<tr>
<th>Year</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>April 3rd</td>
<td>July 11th</td>
</tr>
<tr>
<td>2018-19</td>
<td>June 22nd</td>
<td>July 11th</td>
</tr>
<tr>
<td>2017-18</td>
<td>Feb 10th</td>
<td>March 26th</td>
</tr>
<tr>
<td>2016-17</td>
<td>Sept 7th</td>
<td>March 26th</td>
</tr>
<tr>
<td>2015-16</td>
<td>May 17th</td>
<td>September 30th</td>
</tr>
<tr>
<td>2014-15</td>
<td>April 3rd</td>
<td>July 11th</td>
</tr>
<tr>
<td>2013-14</td>
<td>April 3rd</td>
<td>July 11th</td>
</tr>
<tr>
<td>2012-13</td>
<td>April 3rd</td>
<td>July 11th</td>
</tr>
<tr>
<td>2011-12</td>
<td>April 3rd</td>
<td>July 11th</td>
</tr>
</tbody>
</table>

Find out her residential status for the assessment year 2020-21.

**Solution:**

Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

(i) He stays in India for 182 days or more during the relevant previous year
(ii) He stays in India for 60 days or more and also for 365 days or more during 4 years preceding the relevant previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident, otherwise the individual is a non-resident.

**Meaning of Not-Ordinarily Resident Section 6(6)(a)**

An individual who is resident of India shall be considered to be NOR if he has complied with at least one of the conditions given below:

(i) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less or
(ii) If such individual has been non-resident in India in 9 years out of 10 previous years preceding the relevant previous year.

If he has not complied with even a single condition, he will be considered to be ROR.

Stay and Status of Mrs. Karuna Kapoor in various years is as given below.

**In P.Y. 2011-12**

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

Days of stay in India are 100, so she is non-resident.

**In P.Y. 2012-13**

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

Days of stay in India are 100, so she is non-resident.

**In P.Y. 2013-14**

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

Days of stay in India are 100, so she is non-resident.

**In P.Y. 2014-15**

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

Days of stay in India are 100, so she is non-resident.
In P.Y. 2015-16
{ May – 14, June – 30, July-31, August- 31, September - 30 }
Days of stay in India are 136, so she is resident and also she is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence she is NOR.

In P.Y. 2016-17
Days of stay in India are 201, so she is resident and also she is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence she is NOR.

In P.Y. 2017-18
{February – 19, March – 26} 
Days of stay in India are 45. So, she is non - resident.

In P.Y. 2018-19
{June – 9, July – 11} 
Days of stay in India are 20. So, she is non – resident

In P.Y. 2019-20
{April – 28, May – 31, June – 30, July – 11} 
Days of stay in India are 100. So, she is resident and also her stay during seven years preceding the relevant previous year is 729 days or less, hence she is NOR.

Question 2(a) (i) (4 Marks)
During the last four years preceding the financial year 2019-20, Mr. Damodhar, a citizen of India, was present in India for 430 days. During the last seven previous years preceding the previous year 2019-20, he was present in India for 830 days.
Mr. Damodhar is a member of crew of a Dubai bound Indian ship in the international waters, which left Kochi port in Kerala, on 12th August, 2019.

Following details are made available to you for the previous year 2019-20:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date entered into the continuous discharge certificate in respect of joining the ship by Mr. Damodhar.</td>
<td>12th August, 2019</td>
</tr>
<tr>
<td>Date entered into the continuous discharge certificate in respect of signing off the ship by Mr. Damodhar.</td>
<td>21st January, 2020</td>
</tr>
</tbody>
</table>

In May, 2019 he had gone out of India to Singapore and Malaysia on a private tour for a continuous period of 29 days.

You are required to determine the residential status of Mr. Damodhar for the previous year 2019-20.

**Answer:**

As per section 6(1), Mr. Damodhar is covered in special category.

Period of stay in India shall exclude time period from 12th August 2019 to 21st January, 2020 and also 29 days for which he stays out of India.

His stay in India shall be 174 days [April – 30 + May – 2 + June – 30 + July – 31 + August – 11 + January – 10 + February – 29 + March – 31]

Since his period of stay in India during the P.Y.2019-20 is less than 182 days, he is a non-resident for A.Y.2020-21.

Note - Since the residential status of Mr. Damodhar is “non-resident” for A.Y.2020 – 21 consequent to his number of days of stay in P.Y.2019–20 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

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

A Korean Company Damjung Ltd. entered in to the following transactions during the financial year 2019-20:

(a) Received ₹20 lakhs from a non-resident for use of patent for a business in India.

(b) Received ₹15 lakhs from a non-resident Indian for use of know-how for a business in Sri Lanka and this amount was received in Japan. [Assume that the above amount is converted/stated in Indian Rupees].

(c) Received ₹7 lakhs from RR Co. Ltd., an Indian company for providing technical know-how in India.

(d) Received ₹5 lakhs from R & Co. Mumbai for conducting the feasibility study for a new project in Nepal and the payment was made in Nepal.

Explain briefly, whether the above receipts are chargeable to tax in India.

**Solution:**

(a) **Taxable in India**: As per section 9, Amount received for use of Patent for a Business in India shall be deemed as Income accruing arising in India and chargeable to tax in India.

(b) **Not Taxable in India**: As per section 9, Amount received in Japan for use of know-how for a business in Sri Lanka shall not be deemed as Income accruing arising from India and not chargeable to tax in India.

(c) **Taxable in India**: As per section 9, Amount received for use of Technical know-how in India shall be deemed as Income accruing arising in India and shall be taxable in India.
(d) **Not Taxable in India:** As per section 9, Amount received in Nepal for feasibility study conducted for the new project in Nepal shall not be deemed as Income accruing arising from India and not chargeable to tax in India.

---

**NOV – 2016**

**Question 4(a)** (2 Marks)

State with reasons whether the following receipts are taxable or not under the provisions of Income-tax Act, 1961?

Mr. Frdie, a non-resident residing in Sweden, has received rent from Mr. Nadal, also a non-resident residing in France in respect of a property taken on lease at Mumbai. Since this income is received outside India from a non-resident, Frdie claims that his income is not chargeable to Tax in India.

**Answer:**

As per section 9, if source of income is in India, income shall be accruing/arising in India and shall be taxable in all the three status even if income has been received outside India, hence in the given case Income is chargeable to tax in India as income is accruing and arising from India as property is situated in India.

---

**MAY – 2016**

**Question 2(a)(i)** (4 Marks)

How is the residential status of a Company determined for the purpose of Income – Tax Act, 1961, for the Assessment Year 2020-21?

**Answer:** Refer answer given in the book

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**NOV – 2015**

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

Mr. X, an Indian Citizen left India on 20.04.2017 for the first time to setup a software firm in Singapore. On 10.04.2019, he entered into an agreement with XYZ Limited, an Indian Company for the transfer of technical documents and designs to setup an automobile factory in Faridabad. He reached India along with his team to render the requisite services on 15.05.2019 and was able to complete his assignment on 20.08.2019. He left for Singapore on 21.08.2019. He charged ₹ 50 Lakhs for his services from XYZ Limited.

Determine the residential status of Mr. X for the Assessment Year 2020-21 and explain as to the taxability of the fees charged from XYZ Limited as per Income Tax Act, 1961.

**Solution:**

**Residential status of Mr. X for the Assessment Year 2020-21**

As per Section 6(1), any individual who is a citizen of India and has left India for taking up any business or profession or employment outside India are covered in the special category and they will be considered to be resident only if they stay in India for 182 days or more i.e. second condition of 60 plus 365 days shall not be applicable.

In the given case Mr. X is covered under special category and stay in the current year is 99 days only which is less than 182 days. So he is non-resident.

As per section 9, if any non-resident has provided any patent right or any managerial, technical services and such patent right etc. was used in India, in such cases any royalty or fee received by non-resident shall be considered to be income accruing/arising in India and shall be taxable and it do not matter that the non-resident do not have residence or place of business or business connection in India i.e. there is no territorial nexus or non-resident has not rendered services in India.

In the given case Fees charged from XYZ Limited is taxable in India because the assessee has transferred technical documents and designs to setup an automobile factory in Faridabad (i.e. in India).

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**MAY – 2015**

**Question 2(a)(i).** (4 Marks)

Explain with reasons whether the following transactions attract income-tax in India in the hands of recipients?

(a) Salary paid to Mr. David, a citizen of India ₹15,00,000 by the Central Government for the services rendered in Canada.
(b) Legal charges of ₹7,50,000 paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court.

(c) Royalty paid to Rajeev, a non-resident by Mr. Mukesh, a resident for a business carried on in Sri Lanka.

(d) Interest received of ₹1,00,000, on money borrowed from France, by Ms. Dyana, a non-resident for the business at Bangalore.

**Solution:**

(a) **Taxable in India:** As Mr. David is an Central Government employee and salary paid by Central Government for the services rendered outside India is taxable in India.

(b) **Taxable in India:** As service is rendered in India means income accruing and arising from India.

(c) **Taxable outside India:** As Royalty is paid for business carried outside India means Income accruing outside India.

(d) **Taxable in India:** As the loan is used for business in India.

**Question 2(a)(ii).**

Ms. Bindu, a non-resident, residing in New York since 2000, came back to India on 19.02.2018 for permanent settlement in India. Explain her residential status of Ms. Bindu for the Assessment Year 2020-21. In accordance with the various provision of Indian Income tax Act.

**Solution:**

Ms. Bindu is a resident since her stay in the previous year 2019-20 is 366 days.

<table>
<thead>
<tr>
<th>Year</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-19</td>
<td>365</td>
</tr>
<tr>
<td>2017-18</td>
<td>41 (i.e. 10 + 31)</td>
</tr>
<tr>
<td>2016-17</td>
<td>Nil (since she is residing in New York)</td>
</tr>
<tr>
<td>2015-16</td>
<td>Nil (since she is residing in New York)</td>
</tr>
<tr>
<td>2014-15</td>
<td>Nil (since she is residing in New York)</td>
</tr>
<tr>
<td>2013-14</td>
<td>Nil (since she is residing in New York)</td>
</tr>
<tr>
<td>2012-13</td>
<td>Nil (since she is residing in New York)</td>
</tr>
</tbody>
</table>

Since stay in 7 years preceding the relevant previous year is less than 729 days and She is non-resident in 9 years preceding the relevant previous year, she will be considered to be NOR.

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**NOV – 2014**

**Question 2(a).**

Mrs. X and Mrs. Y are sisters and they earned the following income during the Financial Year 2019-20. Mrs. X is settled in Malaysia since 2010 and visits India for a month every year. Mrs. Y is settled in Indore since her marriage in 2010. Compute the total income of Mrs. X and Mrs. Y for the assessment year 2020-21:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Income from Profession in Malaysia, (set up in India) received there</td>
</tr>
<tr>
<td>(ii)</td>
<td>Profit from business in Delhi, but managed directly from Malaysia</td>
</tr>
<tr>
<td>(iii)</td>
<td>Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels.</td>
</tr>
<tr>
<td>(iv)</td>
<td>Dividend from PQR Ltd. an Indian Company</td>
</tr>
<tr>
<td>(v)</td>
<td>Dividend from a Malaysian company received in Malaysia</td>
</tr>
<tr>
<td>(vi)</td>
<td>Cash gift received from a friend on Mrs. Y’s 50th birthday</td>
</tr>
<tr>
<td>(vii)</td>
<td>Agricultural income from land in Maharashtra</td>
</tr>
<tr>
<td>(viii)</td>
<td>Past foreign untaxed income brought to India</td>
</tr>
<tr>
<td>(ix)</td>
<td>Fees for technical services rendered in India received in Malaysia</td>
</tr>
<tr>
<td>(x)</td>
<td>Income from a business in Pune (Mrs. X receives 50% of the income in India)</td>
</tr>
<tr>
<td>(xi)</td>
<td>Interest on debentures in an Indian company (Mrs. X received the same in Malaysia)</td>
</tr>
<tr>
<td>(xii)</td>
<td>Short-term capital gain on sale of shares of an Indian company</td>
</tr>
</tbody>
</table>
Solution:
Computation of Total Income of Mrs. X and Mrs. Y for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Particulars</th>
<th>Mrs. X NR</th>
<th>Mrs. Y ROR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Income from Profession in Malaysia, (set up in India) received there</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(ii)</td>
<td>Profit from business in Delhi, but managed directly from Malaysia</td>
<td>40,000</td>
<td>-</td>
</tr>
<tr>
<td>(iii)</td>
<td>Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels.</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(iv)</td>
<td>Dividend from PQR Ltd. an Indian Company</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(v)</td>
<td>Dividend from a Malaysian company received in Malaysia</td>
<td>-</td>
<td>8,000</td>
</tr>
<tr>
<td>(vi)</td>
<td>Cash gift received from a friend on Mrs. Y’s 50th birthday</td>
<td>-</td>
<td>51,000</td>
</tr>
<tr>
<td>(vii)</td>
<td>Agricultural income from land in Maharashtra (exempt u/s 10(1))</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(viii)</td>
<td>Past foreign untaxed income brought to India</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(ix)</td>
<td>Fees for technical services rendered in India received in Malaysia</td>
<td>25,000</td>
<td>-</td>
</tr>
<tr>
<td>(x)</td>
<td>Income from a business in Pune (Mrs. X receives 50% of the income in India)</td>
<td>12,000</td>
<td>15,000</td>
</tr>
<tr>
<td>(xi)</td>
<td>Interest on debentures in an Indian company (Mrs. X received the same in Malaysia)</td>
<td>18,500</td>
<td>14,000</td>
</tr>
<tr>
<td>(xii)</td>
<td>Short-term capital gain on sale of shares of an Indian company</td>
<td>15,000</td>
<td>25,500</td>
</tr>
<tr>
<td>(xiii)</td>
<td>Interest on fixed deposit with SBI in India</td>
<td>12,000</td>
<td>8,000</td>
</tr>
</tbody>
</table>

Total Income

<table>
<thead>
<tr>
<th></th>
<th>Mrs. X</th>
<th>Mrs. Y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,22,500</td>
<td>1,21,500</td>
</tr>
</tbody>
</table>

MAY – 2013

Question 2(a).
Mr. X and Mr. Y are brothers and they earned the following incomes during the financial year 2019-20. Mr. X settled in America in the year 2010 and Mr. Y settled in Mumbai. Mr. X visits India for 20 days every year. Mr. Y also visits America every year for a month. Compute their total income for the Assessment year 2020-21 from the following information.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Mr. X</th>
<th>Mr. Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Interest on American Development bonds, 50% of interest received in India.</td>
<td>46,000</td>
<td>18,000</td>
</tr>
<tr>
<td>2.</td>
<td>Dividend from a Japanese Company received in America.</td>
<td>10,000</td>
<td>15,000</td>
</tr>
<tr>
<td>3.</td>
<td>Short term capital gains on sale of shares of an Indian company received in India.</td>
<td>45,000</td>
<td>75,000</td>
</tr>
<tr>
<td>4.</td>
<td>Profit from a business in Mumbai, but managed directly from America.</td>
<td>10,000</td>
<td>-</td>
</tr>
<tr>
<td>5.</td>
<td>Income from a business in Mumbai.</td>
<td>32,000</td>
<td>28,000</td>
</tr>
<tr>
<td>6.</td>
<td>Fees for technical services rendered in America and received in America. The services were, however, utilized in India.</td>
<td>1,50,000</td>
<td>-</td>
</tr>
<tr>
<td>7.</td>
<td>Interest on fixed deposit with State Bank of India, Mumbai.</td>
<td>4,500</td>
<td>12,000</td>
</tr>
<tr>
<td>8.</td>
<td>Income from house property at Mumbai.</td>
<td>67,200</td>
<td>38,500</td>
</tr>
</tbody>
</table>

Solution:
Computation of Total Income of Mr. X & Mr. Y for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Mr. X NR</th>
<th>Mr. Y ROR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Interest on American Development Bonds</td>
<td>23,000</td>
<td>18,000</td>
</tr>
</tbody>
</table>
2. Dividend from Japanese Company received in America  
   3. Short term capital gains on sale of shares of an Indian company  
   received in India  
   4. Profit from a business in Mumbai but managed directly from America  
   5. Income from a business in Mumbai  
   6. Fees for technical services rendered in America, and received in  
   America, but services utilized in India  
   7. Interest on fixed deposit with State Bank of India, Mumbai  
   8. Income from house property at Mumbai  

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Mr. X</th>
<th>Mr. Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Dividend from Japanese Company received in America</td>
<td>-</td>
<td>15,000</td>
</tr>
<tr>
<td>3. Short term capital gains on sale of shares of an Indian company</td>
<td>45,000</td>
<td>75,000</td>
</tr>
<tr>
<td>received in India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Profit from a business in Mumbai but managed directly from America</td>
<td>10,000</td>
<td>-</td>
</tr>
<tr>
<td>5. Income from a business in Mumbai</td>
<td>32,000</td>
<td>28,000</td>
</tr>
<tr>
<td>6. Fees for technical services rendered in America, and received in</td>
<td>1,50,000</td>
<td>-</td>
</tr>
<tr>
<td>America, but services utilized in India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Interest on fixed deposit with State Bank of India, Mumbai</td>
<td>4,500</td>
<td>12,000</td>
</tr>
<tr>
<td>8. Income from house property at Mumbai</td>
<td>67,200</td>
<td>38,500</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>3,31,700</strong></td>
<td><strong>1,86,500</strong></td>
</tr>
</tbody>
</table>

**MAY – 2012**

**Question 2**

Mr. X & Mr. Y are brothers and they earned the following incomes during the financial year 2019-20. Mr. X settled in Canada in the year 2010 and Mr. Y settled in Delhi. Compute the total income for the assessment year 2020-21.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Mr. X</th>
<th>Mr. Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Interest on Canada Development Bond, (only 50% of interest received in India)</td>
<td>35,000</td>
<td>40,000</td>
</tr>
<tr>
<td>2.</td>
<td>Dividend from British company received in London</td>
<td>28,000</td>
<td>20,000</td>
</tr>
<tr>
<td>3.</td>
<td>Profit from a business in Nagpur, but managed directly from London</td>
<td>1,00,000</td>
<td>1,40,000</td>
</tr>
<tr>
<td>4.</td>
<td>Short term capital gain on sale of shares of an Indian company received in</td>
<td>60,000</td>
<td>90,000</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Income from a business in Chennai</td>
<td>80,000</td>
<td>70,000</td>
</tr>
<tr>
<td>6.</td>
<td>Fees for technical services rendered in India, but received in Canada</td>
<td>1,00,000</td>
<td>-----</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Interest on fixed deposit in UCO Bank, Delhi</td>
<td>7,000</td>
<td>12,000</td>
</tr>
<tr>
<td>8.</td>
<td>Agricultural income from a land situated in Andhra Pradesh</td>
<td>55,000</td>
<td>45,000</td>
</tr>
<tr>
<td>9.</td>
<td>Income under the head house property at Bhopal</td>
<td>1,00,000</td>
<td>60,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Mr. X</th>
<th>Mr. Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interest on Canada Development Bond, (only 50% of interest received in</td>
<td>17,500</td>
<td>40,000</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Dividend from British company received in London</td>
<td>-----</td>
<td>20,000</td>
</tr>
<tr>
<td>3. Profit from a business in Nagpur, but managed directly from London</td>
<td>1,00,000</td>
<td>1,40,000</td>
</tr>
<tr>
<td>4. Short term capital gain on sale of shares of an Indian company received</td>
<td>60,000</td>
<td>90,000</td>
</tr>
<tr>
<td>in India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Income from a business in Chennai</td>
<td>80,000</td>
<td>70,000</td>
</tr>
<tr>
<td>6. Fees for technical services rendered in India, but received in Canada</td>
<td>1,00,000</td>
<td>-----</td>
</tr>
<tr>
<td>7. Interest on fixed bank deposit in UCO Bank, Delhi</td>
<td>7,000</td>
<td>12,000</td>
</tr>
<tr>
<td>8. Agricultural income from a land situated in Andhra Pradesh</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>9. Income under the head house property at Bhopal</td>
<td>1,00,000</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>4,64,500</strong></td>
<td><strong>4,32,000</strong></td>
</tr>
</tbody>
</table>

**Notes:**

1. Dividend received from British company in London, by a non-resident assessee is not taxable income, while the same received by an ROR assessee is taxable and is not exempt under section 10(34) of Income Tax Act, 1961.
2. Agricultural income from a land situated in Andhra Pradesh (in India), is exempted under section 10(1) of Income tax Act, 1961 in case of both non-resident and resident assessee.

---

**NOV – 2011**

**Question 5**

Mr. X (Citizen of India) a Government employee serving in the Ministry of External Affairs left India for the first time on 31.03.2019 due to his transfer to Indian High Commission in Canada. He did not visit any time during previous year 2019-20. He has received the following income for the Previous Year 2019-20.

(i) Income under the head Salary (Computed) ₹ 5,00,000
(ii) Interest on fixed deposit from bank in India ₹ 1,00,000
(iii) Income from agriculture in Pakistan ₹ 2,00,000
(iv) Income from house property in Pakistan ₹ 2,50,000

Compute his gross total income for Assessment Year 2020-21.

**Answer:**

Mr. X is a non-resident in the previous year 2019-20 as he doesn’t come to India during the year.

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

<table>
<thead>
<tr>
<th>Income under the head Salary</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>₹</td>
</tr>
<tr>
<td>Interest on FDR</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Income from agriculture in Pakistan</td>
<td>Nil</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>₹</td>
</tr>
<tr>
<td>Income from house property in Pakistan</td>
<td>Nil</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹ 6,00,000</td>
</tr>
</tbody>
</table>

---

**MAY – 2010**

**Question 3**

From the following particulars of Income furnished by Mr. X pertaining to the year ended 31.03.2020, compute the total income for the assessment year 2020-21, if he is:

(i) Resident and ordinary resident;
(ii) Resident but not ordinary resident;
(iii) Non-resident:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Profit on sale of shares in Indian Company received in Germany</td>
<td>15,000</td>
</tr>
<tr>
<td>(b) Dividend from a Japanese Company received in Japan</td>
<td>10,000</td>
</tr>
<tr>
<td>(c) Income from business in London deposited in a bank in London, later on remitted to India through approved banking channels</td>
<td>75,000</td>
</tr>
<tr>
<td>(d) Dividend from RP Ltd., an Indian Company</td>
<td>6,000</td>
</tr>
<tr>
<td>(e) Agricultural income from lands in Gujarat</td>
<td>25,000</td>
</tr>
</tbody>
</table>

**Answer.**

**Computation of Total Income of Mr. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Resident &amp; ordinarily resident</th>
<th>Resident but not ordinarily resident</th>
<th>Non-Resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Profit on sale of shares of an Indian company, received in Germany</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>b) Dividend from a Japanese company, received in Japan.</td>
<td>10,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>c) Income from business in London deposited in a bank in London</td>
<td>75,000</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
London

d) Dividend from RP Ltd., an Indian Company [See Note (i) below]

e) Agricultural income from land in Gujarat [See Note (ii) below]

TOTAL INCOME 1,00,000 15,000 15,000

Notes
(i) Dividend from Indian company is exempt under section 10(34)

(ii) Agricultural income is exempt under section 10(1).

---

**MAY – 2010**

**Question 1**

Answer the following with reasons having regard to the provisions of the Income-Tax Act, 1961 for the Assessment Year 2020-21:

(i) State the Scope of total income in the case of an individual, whose residential status is ‘non-resident’ with reference to section 5.

(ii) Mr. X a citizen of India received salary from the Government of India for the services rendered outside India. Is the salary income chargeable to tax?

**Answer:**

(i) As per section 5, in case of non-resident, incomes taxable shall be:

(a) any income deemed to be accruing/arising in India.

(b) any income which is received or is deemed to be received in India.

(ii) As per Section 9, salaries payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India. Hence, salary received by Mr. X, a citizen of India, from the Government of India for services rendered outside India is chargeable to tax under the head ‘Salaries’.

---

**NOV – 2009**

**Question 1**

Mr. X and Mr. Y are brothers and they earned the following incomes during the financial year 2019-20. Mr. X settled in U.K. in the year 2010 and Mr. Y settled in Surat. Compute the gross total income for the Assessment Year 2020-21.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Mr. X</th>
<th>Mr. Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Interest on U.K. development bonds, 50% of interest received in India</td>
<td>25,000</td>
<td>20,000</td>
</tr>
<tr>
<td>2.</td>
<td>Dividend from British Company received in London</td>
<td>8,000</td>
<td>10,000</td>
</tr>
<tr>
<td>3.</td>
<td>Profit from a business in Mumbai, but managed directly from London</td>
<td>10,000</td>
<td>12,000</td>
</tr>
<tr>
<td>4.</td>
<td>Profit on sale of shares of an Indian company received in India</td>
<td>50,000</td>
<td>80,000</td>
</tr>
<tr>
<td>5.</td>
<td>Income from a business in Delhi</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>6.</td>
<td>Fees for technical services rendered in India, but received in London</td>
<td>1,00,000</td>
<td>-</td>
</tr>
<tr>
<td>7.</td>
<td>Interest on fixed deposit in SBI, Bangalore</td>
<td>5,000</td>
<td>15,000</td>
</tr>
<tr>
<td>8.</td>
<td>Agricultural income from a land situated in Rajasthan</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>9.</td>
<td>Income under the head House Property at Bangalore</td>
<td>50,400</td>
<td>33,600</td>
</tr>
</tbody>
</table>

**Answer:**

**Computation of Total Income of Mr. X and Mr. Y for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Mr. X Non-Resident</th>
<th>Mr. Y ROR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Interest on U.K. Development Bonds</td>
<td>12,500</td>
<td>20,000</td>
</tr>
<tr>
<td>2.</td>
<td>Dividend from British Company received in London</td>
<td>-</td>
<td>10,000</td>
</tr>
<tr>
<td>3.</td>
<td>Profit from a business in Mumbai but managed directly from London</td>
<td>10,000</td>
<td>12,000</td>
</tr>
<tr>
<td>4.</td>
<td>Profit on sale of shares of an Indian company received in India</td>
<td>50,000</td>
<td>80,000</td>
</tr>
</tbody>
</table>
5. Income from a business in Delhi | 20,000 | 20,000
6. Fees for technical services rendered in India but received in London | 1,00,000 | -
7. Interest on fixed deposit in SBI Bangalore | 5,000 | 15,000
8. Agricultural income from a land in Rajasthan [(Exempt u/s 10(1)] | - | -
9. Income under the head House property at Bangalore | 50,400 | 33,600

**Gross Total Income** | 2,47,900 | 1,90,600

**Notes:**
1. Dividend received from British company in London, by a non-resident assessee is not taxable income, while the same received by an ROR assessee is taxable and is not exempt under section 10(34) of Income Tax Act, 1961.
2. Agricultural income from a land situated in the State of Rajasthan, is exempted under section 10(1) of Income tax Act, 1961 in case of both non-resident and resident assessee.

**MAY – 2008**

**Question 3** (1 Marks)
Choose the correct answer with reference to the provisions of the Income-tax Act, 1961:
Income accruing in Japan and received there is taxable in India in the case of –
(a) Resident and ordinarily resident only
(b) Both resident and ordinarily resident and resident but not ordinarily resident
(c) Both resident and non-resident
(d) Non-resident
**Answer:** (a) Resident and ordinarily resident only

**MAY – 2007**

**Question 1** (2 Marks)
State with reasons, whether the following statement is true or false, with regard to the provisions of the Income-tax Act, 1961:
Only individuals and HUFs can be resident, but not ordinarily resident in India; firms can be either a resident or non-resident.
**Answer:** True: A person is said to be “not-ordinarily resident” in India if he satisfies either of the conditions given in sub-section (6) of section 6. This sub-section relates to only individuals and Hindu Undivided Families. Therefore, only individuals and Hindu undivided families can be resident, but not ordinarily resident in India. All other classes of assessees can be either a resident or non-resident for the purpose of income-tax. A firm can, therefore, either be a resident or non-resident.
INCOME UNDER THE HEAD
HOUSE PROPERTY

SECTION 22 TO 27

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>SECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from house property—Chargeability and meaning of house property</td>
<td>22</td>
</tr>
<tr>
<td>Annual value—</td>
<td></td>
</tr>
<tr>
<td>House let out throughout the year/partly let out/partly vacant</td>
<td>23(1)</td>
</tr>
<tr>
<td>One house which is self-occupied</td>
<td>23(2)</td>
</tr>
<tr>
<td>House partly self-occupied/partly let out, may or may not be vacant</td>
<td>23(3)</td>
</tr>
<tr>
<td>More than one house which are self-occupied</td>
<td>23(4)</td>
</tr>
<tr>
<td>Municipal tax</td>
<td>Proviso to sec 23(1)</td>
</tr>
<tr>
<td>Treatment of unrealised rent</td>
<td>Explanation to 23(1)</td>
</tr>
<tr>
<td>Statutory Deduction/Standard Deduction</td>
<td>24(a)</td>
</tr>
<tr>
<td>Interest on capital borrowed</td>
<td>24(b)</td>
</tr>
<tr>
<td>Interest in case of loan taken from outside India</td>
<td>25</td>
</tr>
<tr>
<td>Recovery of realised rent / Arrears of rent</td>
<td>25A</td>
</tr>
<tr>
<td>Property owned by co-owners</td>
<td>26</td>
</tr>
<tr>
<td>Deemed ownership</td>
<td>27</td>
</tr>
<tr>
<td>Meaning of unrealised rent</td>
<td>Rule 4</td>
</tr>
</tbody>
</table>

**Chargeability of income under the head house property  Section 22**

Income from letting out of house property is chargeable to tax under the head House Property. If the income is from sale or purchase of house property, it will be taxable under the head Capital Gains, however if the sale or purchase is part of a business, income is taxable under the head Business/Profession.

House property shall include all types of house properties i.e. residential houses, shops, godowns, cinema building, workshop building, hotel buildings etc.

The term house property shall include not only the buildings but also the lands appurtenant thereto i.e. the term house property shall include even any open land which is part and parcel of the building. E.g. Mr. X has one big house and it includes vast open area within its boundaries. The house has been let out at a rent of ₹1,00,000 p.m., out of which rent of ₹25,000 p.m. is attributable to the open land. In this case, entire rental income is taxable under the head house property.

If any person has let out only land, which is not essential part of any building, income is taxable under the head other sources. E.g. Mr. X has one big piece of land which is let out for arranging exhibitions or for the purpose of marriage parties etc., rent received or receivable is taxable under the head other sources.

**Income from business of letting out house property/Property held as stock-in-trade**

If any person is holding house property as stock-in-trade i.e. for sale/purchase of house property, income shall be taxable under the head Business/Profession. Similarly if any person has business of letting out of house property, income shall be taxable under the head Business/Profession. E.g. ABC Ltd. is holding 500 flats for the purpose of letting out, income shall be taxable under the head business/profession.

If any person is holding house property for the purpose of sale/purchase but it has been let out for some time, income shall be taxable under the head House Property.
### Computation of Income under the head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value (GAV)</td>
<td>₹.............</td>
</tr>
<tr>
<td>Less: Municipal Taxes</td>
<td>₹.............</td>
</tr>
<tr>
<td>Net Annual Value (NAV)</td>
<td>₹.............</td>
</tr>
<tr>
<td>Less: Deduction allowed under section 24</td>
<td></td>
</tr>
<tr>
<td>- Statutory deduction / standard deduction @ 30% of NAV [Section 24(a)]</td>
<td>₹.............</td>
</tr>
<tr>
<td>- Interest on borrowed capital for construction etc. [Section 24(b)]</td>
<td>₹.............</td>
</tr>
<tr>
<td>Income under the head “House Property”</td>
<td>₹.............</td>
</tr>
</tbody>
</table>

**Question 1:** Write a note on computation of income of a house property which is let out throughout the year.

**Answer:** As per section 23(1)(a)/(b), gross annual value i.e. reasonable rental value shall be computed in the manner given below:

1. Compare Fair Rent and Municipal Valuation and select the higher.
2. Compare the rent so selected with Standard Rent and the lower of the two shall be considered to be Expected Rent. (It is also called Annual Letting Value)
3. Compare Expected Rent with Rent Received or Receivable and the higher shall be considered to be Gross Annual Value.

**Fair rent** i.e. the rent of similar types of buildings in the same locality.

**Municipal valuation** i.e. rental value determined by the municipality for the purpose of charging municipal tax. It is also called rateable value.

**Standard rent** i.e. the highest possible rent as per Rent Control Act.

**Rent received** or receivable

**Illustration 1:** Mr. X has one house property which is let out @ ₹80,000 p.m. Fair rent ₹90,000 p.m., Municipal Valuation ₹70,000 p.m., Standard Rent ₹81,000 p.m. Municipal tax paid ₹60,000 and interest paid on loan for construction of house property is ₹50,000.

Compute his Income Tax Liability for A.Y 2020-21.

**Solution:**

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>9,72,000.00</td>
</tr>
<tr>
<td>Working Note:</td>
<td></td>
</tr>
<tr>
<td>(a) Fair Rent (90,000 x 12)</td>
<td>10,80,000</td>
</tr>
<tr>
<td>(b) Municipal Value (70,000 x 12)</td>
<td>8,40,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>10,80,000</td>
</tr>
<tr>
<td>(d) Standard Rent (81,000 x 12)</td>
<td>9,72,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of c or d}</td>
<td>9,72,000</td>
</tr>
<tr>
<td>(f) Rent received /receivable (80,000 x 12)</td>
<td>9,60,000</td>
</tr>
<tr>
<td>GAV shall be higher of (e) or (f)</td>
<td>9,72,000</td>
</tr>
<tr>
<td>Less: Municipal Tax</td>
<td>(60,000.00)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>9,12,000.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(2,73,600.00)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>5,88,400.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,88,400.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>NIL</td>
</tr>
<tr>
<td>Total Income</td>
<td>5,88,400.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹5,88,400 at slab rate</td>
<td>30,180.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,207.20</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>31,387.20</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>31,390.00</td>
</tr>
</tbody>
</table>
Illustration 2: Mrs. X has let out one House property @ ₹62,000 p.m., Municipal Valuation ₹72,000 p.m., Fair Rent ₹90,000 p.m., Standard Rent ₹1,00,000 p.m., Municipal Tax paid ₹40,000 and Interest on loan taken for construction ₹60,000.
She has completed the age of 60 years on 01.04.2020.

Solution:
Computation of income under the head House Property
Gross Annual Value ₹10,80,000.00

<table>
<thead>
<tr>
<th>Working Note</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (90,000 x 12)</td>
<td>10,80,000</td>
</tr>
<tr>
<td>(b) Municipal Value (72,000 x 12)</td>
<td>8,64,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>10,80,000</td>
</tr>
<tr>
<td>(d) Standard Rent (1,00,000 x 12)</td>
<td>12,00,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of c or d}</td>
<td>10,80,000</td>
</tr>
<tr>
<td>(f) Rent received/receivable (62,000 x 12)</td>
<td>7,44,000</td>
</tr>
<tr>
<td>GAV shall be higher of (e) or (f)</td>
<td>10,80,000</td>
</tr>
</tbody>
</table>

Less: Municipal Tax ₹ (40,000.00)
Net Annual Value ₹10,40,000.00
Less: 30% of NAV u/s 24(a) ₹ (3,12,000.00)
Less: Interest on capital borrowed u/s 24(b) ₹ (60,000.00)
Income from house property ₹6,68,000.00
Gross Total Income ₹6,68,000.00
Less: Deduction u/s 80C to 80U NIL
Total Income ₹6,68,000.00

Computation of Tax Liability
Tax on ₹6,68,000 at slab rate ₹46,100.00
Add: HEC @ 4% ₹1,844.00
Tax Liability ₹47,944.00
Rounded off u/s 288B ₹47,940.00

Illustration 3: Mr. X owns five houses in Chennai, all of which are let-out. Compute the GAV of each house from the information given below –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>House I</th>
<th>House II</th>
<th>House III</th>
<th>House IV</th>
<th>House V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Value</td>
<td>80,000</td>
<td>55,000</td>
<td>65,000</td>
<td>24,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Fair Rent</td>
<td>90,000</td>
<td>60,000</td>
<td>65,000</td>
<td>25,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Standard Rent</td>
<td>N.A.</td>
<td>75,000</td>
<td>58,000</td>
<td>N.A.</td>
<td>78,000</td>
</tr>
<tr>
<td>Actual rent received/ receivable</td>
<td>72,000</td>
<td>72,000</td>
<td>60,000</td>
<td>30,000</td>
<td>72,000</td>
</tr>
</tbody>
</table>

Solution:
GAV ₹90,000 72,000 60,000 30,000 78,000

MAY – 2012 (5 Marks)
Mr. X owns five houses at Cochin. Compute the gross annual value of each house from the information given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>House-I</th>
<th>House-II</th>
<th>House-III</th>
<th>House-IV</th>
<th>House-V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal value</td>
<td>1,20,000</td>
<td>2,40,000</td>
<td>1,10,000</td>
<td>90,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Fair rent</td>
<td>1,50,000</td>
<td>2,40,000</td>
<td>1,14,000</td>
<td>84,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Standard rent</td>
<td>1,08,000</td>
<td>N.A.</td>
<td>1,44,000</td>
<td>N.A.</td>
<td>78,000</td>
</tr>
<tr>
<td>Actual rent received/ receivable</td>
<td>1,80,000</td>
<td>2,10,000</td>
<td>1,20,000</td>
<td>1,08,000</td>
<td>72,000</td>
</tr>
</tbody>
</table>
Answer:

**House I**

<table>
<thead>
<tr>
<th>Computation of Gross Annual Value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>1,50,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>1,20,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>1,50,000</td>
</tr>
<tr>
<td>(d) Standard Rent</td>
<td>1,08,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>1,08,000</td>
</tr>
<tr>
<td>(f) Rent Received/Receivable</td>
<td>1,80,000</td>
</tr>
<tr>
<td>(g) Higher of (e) or (f) shall be GAV</td>
<td>1,80,000</td>
</tr>
</tbody>
</table>

**House II**

<table>
<thead>
<tr>
<th>Computation of Gross Annual Value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>2,40,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>2,40,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>2,40,000</td>
</tr>
<tr>
<td>(d) Standard Rent</td>
<td>N.A</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>2,40,000</td>
</tr>
<tr>
<td>(f) Rent Received/Receivable</td>
<td>2,10,000</td>
</tr>
<tr>
<td>(g) Higher of (e) or (f) shall be GAV</td>
<td>2,40,000</td>
</tr>
</tbody>
</table>

**House III**

<table>
<thead>
<tr>
<th>Computation of Gross Annual Value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>1,14,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>1,10,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>1,14,000</td>
</tr>
<tr>
<td>(d) Standard Rent</td>
<td>1,44,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>1,14,000</td>
</tr>
<tr>
<td>(f) Rent Received/Receivable</td>
<td>1,20,000</td>
</tr>
<tr>
<td>(g) Higher of (e) or (f) shall be GAV</td>
<td>1,20,000</td>
</tr>
</tbody>
</table>

**House IV**

<table>
<thead>
<tr>
<th>Computation of Gross Annual Value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>84,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>90,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>90,000</td>
</tr>
<tr>
<td>(d) Standard Rent</td>
<td>N.A</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>90,000</td>
</tr>
<tr>
<td>(f) Rent Received/Receivable</td>
<td>1,08,000</td>
</tr>
<tr>
<td>(g) Higher of (e) or (f) shall be GAV</td>
<td>1,08,000</td>
</tr>
</tbody>
</table>

**House V**

<table>
<thead>
<tr>
<th>Computation of Gross Annual Value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>80,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>75,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>80,000</td>
</tr>
<tr>
<td>(d) Standard Rent</td>
<td>78,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>78,000</td>
</tr>
<tr>
<td>(f) Rent Received/Receivable</td>
<td>72,000</td>
</tr>
<tr>
<td>(g) Higher of (e) or (f) shall be GAV</td>
<td>78,000</td>
</tr>
</tbody>
</table>

**Question 2: Explain deductibility of property taxes (municipal taxes).**

**Answer:** Property Taxes (municipal taxes) Proviso to Section 23(1)

In order to maintain any particular town or city, there is always some authority and it is called local authority e.g. MCD in Delhi and such authority is allowed to charge certain tax in connection with house property and such tax are called municipal tax or house tax or property tax. If an assessee has paid such tax, deduction shall be allowed for the tax so paid from GAV but if tax is due but not paid, deduction is not allowed. If tax has been paid by the tenant, in that case tax shall not be allowed to be deducted.
Example
During the previous year 2019-20 municipality has levied taxes ₹20,000, but the assessee has paid ₹15,000. In this case, amount allowed to be deducted is ₹15,000. In the next year, municipality has levied taxes of ₹45,000 but the assessee has paid ₹55,000 which includes ₹5,000 for the earlier year and ₹5,000 for the subsequent year. In this case, amount allowed to be deducted in previous year 2020-21 shall be ₹55,000.

Question 3: Write a note on set off and carry forward of losses under the head house property.
Answer: Set off and carry forward of losses under the head house property Section 70/71/71B

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

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

Where in respect of any assessment year, the net result of the computation under the head “Income from house property” is a loss and the assessee has income assessable under any other head of income, the assessee shall not be entitled to set off such loss, to the extent the amount of the loss exceeds ₹2,00,000, against income under the other head.

Carry Forward and Set Off Section 71B
As per section 71B, unadjusted loss is allowed to be carried forward to the subsequent years but for a maximum period of 8 years starting from the year subsequent to the year in which the loss was incurred and in the subsequent years, loss can be set off only from income under the head house property. E.g. Mr. X has incurred loss under the head house property in the previous year 2019-20/assessment year 2020-21 and it could not be set off in the same year, it can be carried forward upto Previous Year 2027-28/Assessment Year 2028-29 (as shown below):

<table>
<thead>
<tr>
<th>Year</th>
<th>Previous year 2020-21</th>
<th>Assessment Year 2021-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2</td>
<td>Previous year 2021-22</td>
<td>Assessment Year 2022-23</td>
</tr>
<tr>
<td>Year 3</td>
<td>Previous year 2022-23</td>
<td>Assessment Year 2023-24</td>
</tr>
<tr>
<td>Year 4</td>
<td>Previous year 2023-24</td>
<td>Assessment Year 2024-25</td>
</tr>
<tr>
<td>Year 5</td>
<td>Previous year 2024-25</td>
<td>Assessment Year 2025-26</td>
</tr>
<tr>
<td>Year 6</td>
<td>Previous year 2025-26</td>
<td>Assessment Year 2026-27</td>
</tr>
<tr>
<td>Year 7</td>
<td>Previous year 2026-27</td>
<td>Assessment Year 2027-28</td>
</tr>
<tr>
<td>Year 8</td>
<td>Previous year 2027-28</td>
<td>Assessment Year 2028-29</td>
</tr>
</tbody>
</table>

E.g. Mr. X has loss under the head house property of the previous year 2011-12/assessment year 2012-13 ₹5,00,000 and income under the head house property ₹5,00,000 in previous year 2019-20/assessment year 2020-21, in this case, loss shall be allowed to be set off because it will be allowed to be carried forward upto a period of 8 years starting from Previous Year 2012-13/Assessment Year 2013-14 and is as shown below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Previous year 2012-13</th>
<th>Assessment Year 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2</td>
<td>Previous year 2013-14</td>
<td>Assessment Year 2014-15</td>
</tr>
<tr>
<td>Year 3</td>
<td>Previous year 2014-15</td>
<td>Assessment Year 2015-16</td>
</tr>
<tr>
<td>Year 4</td>
<td>Previous year 2015-16</td>
<td>Assessment Year 2016-17</td>
</tr>
<tr>
<td>Year 5</td>
<td>Previous year 2016-17</td>
<td>Assessment Year 2017-18</td>
</tr>
<tr>
<td>Year 6</td>
<td>Previous year 2017-18</td>
<td>Assessment Year 2018-19</td>
</tr>
<tr>
<td>Year 7</td>
<td>Previous year 2018-19</td>
<td>Assessment Year 2019-20</td>
</tr>
<tr>
<td>Year 8</td>
<td>Previous year 2019-20</td>
<td>Assessment Year 2020-21</td>
</tr>
</tbody>
</table>
**Additional Points**

1. If the loss can be set off, it has to be set off compulsorily i.e. it is not voluntary. E.g. Mr. X has loss under the head house property ₹1,50,000 in previous year 2019-20/assessment year 2020-21 and income under the head business/profession ₹1,50,000 in the same year, in this case loss has to be set off.

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

3. Loss of current year shall be set off first and only after that brought forward losses can be adjusted, eg. Mr. X has income from one house ₹ 10,00,000 and loss from other house ₹ 10,00,000 in P.Y. 2019-20 and also unadjusted loss of ₹ 10,00,000 under the head house property of P.Y. 2011-12, in this case loss of current year is to be adjusted first.

**Illustration 4:** Mr. X has Loss under the head House Property ₹13,00,000 and income under the head Salary ₹8,00,000 and income under the head Business/Profession ₹6,00,000 and LTCG ₹20,00,000 and Casual income ₹5,00,000. Compute his tax liability for A.Y. 2020-21.

**Solution:**

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

**Option-1: Set off from normal income:**

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>8,00,000</td>
</tr>
<tr>
<td>Less: Loss under the head House Property</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Casual income</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>37,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>37,00,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Casual income ₹5,00,000 @ 30% u/s 115BB</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Tax on LTCG ₹20,00,000 @ 20% u/s 112</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Tax on normal income ₹12,00,000 at slab rate</td>
<td>1,72,500</td>
</tr>
<tr>
<td>Tax before HEC</td>
<td>7,22,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>28,900</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>7,51,400</td>
</tr>
</tbody>
</table>

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

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

**Option-2: Set off from LTCG:**

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>8,00,000</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Less: Loss under the head House Property</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>18,00,000</td>
</tr>
<tr>
<td>Casual income</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>37,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>37,00,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Casual income ₹5,00,000 @ 30% u/s 115BB</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Tax on LTCG ₹18,00,000 @ 20% u/s 112</td>
<td>3,60,000</td>
</tr>
<tr>
<td>Tax on normal income ₹14,00,000 at slab rate</td>
<td>2,32,500</td>
</tr>
<tr>
<td>Tax before HEC</td>
<td>7,42,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>29,700</td>
</tr>
</tbody>
</table>
Loss under the head house property of ₹11,00,000 shall be carried forward.

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

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

**Illustration 5:** Mr. X has Loss under the head House Property ₹ 20,00,000 and income under the head Salary ₹ 10,00,000 and income under the head Business/Profession ₹ 11,00,000 and LTCG ₹ 10,00,000 and deduction u/s 80C to 80U is ₹ 2,00,000. Compute his tax liability for A.Y. 2020-21.

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

**Option-1: Set off from normal income:**

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>₹10,00,000</td>
</tr>
<tr>
<td>Less: Loss under the head House Property</td>
<td>(₹2,00,000)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>₹8,00,000</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>₹11,00,000</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>₹10,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹29,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(₹2,00,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹27,00,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹10,00,000 @ 20% u/s 112</td>
<td>₹2,00,000</td>
</tr>
<tr>
<td>Tax on normal income ₹17,00,000 at slab rate</td>
<td>₹3,22,500</td>
</tr>
<tr>
<td>Tax before HEC</td>
<td>₹5,22,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹20,900</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹5,43,400</td>
</tr>
</tbody>
</table>

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

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

**Option-2: Set off from LTCG:**

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>₹10,00,000</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>₹11,00,000</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>₹10,00,000</td>
</tr>
<tr>
<td>Less: Loss under the head House Property</td>
<td>(₹2,00,000)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>₹8,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹29,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>(₹2,00,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹27,00,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹8,00,000 @ 20% u/s 112</td>
<td>₹1,60,000</td>
</tr>
<tr>
<td>Tax on normal income ₹19,00,000 at slab rate</td>
<td>₹3,82,500</td>
</tr>
<tr>
<td>Tax before HEC</td>
<td>₹5,42,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹21,700</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹5,64,200</td>
</tr>
</tbody>
</table>

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

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

Option-1 is better since Total Tax Liability is lower in this option.
Question 4: Write a note on computation of income of house lying vacant for some period.
Answer: House lying vacant for some period  Section 23(1)(c)
If the house is partly let out and partly vacant, in such cases expected rent shall be computed for 12 months but while computing rent received/receivable, rent for the period for which the house was vacant shall be excluded and GAV shall be higher of expected rent and rent received/receivable but if the rent received/receivable is less than the expected rent owing to vacancy, in that case rent received/receivable shall be gross annual value. e.g. If expected rent is ₹20,000 p.m. and rent received/receivable is ₹15,000 p.m. and there is vacancy for 5 months, in this case GAV shall be the expected rent because even if there was no vacancy, still rent received/receivable was less than expected rent.
If in this case rent received/receivable is ₹25,000 p.m. and it is vacant for 5 months, gross annual value shall be the rent received/receivable because if there was no vacancy, rent R/R would have been higher than expected rent accordingly in the given case, R/R is lower than expected rent owing to vacancy.

Illustration 6: Compute gross annual value in the following cases for the assessment year 2020-21:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Situation 1</th>
<th>Situation 2</th>
<th>Situation 3</th>
<th>Situation 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Rent (p.m.)</td>
<td>9,000</td>
<td>13,000</td>
<td>16,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Municipal Valuation (p.m.)</td>
<td>10,000</td>
<td>9,000</td>
<td>18,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Standard Rent (p.m.)</td>
<td>12,000</td>
<td>11,000</td>
<td>16,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Rent received/ receivable (p.m.)</td>
<td>7,000</td>
<td>11,500</td>
<td>16,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Vacancy</td>
<td>1 month</td>
<td>1 month</td>
<td>2 months</td>
<td>2 month</td>
</tr>
</tbody>
</table>

Solution:

Situation 1

Computation of Gross Annual Value
(a) Fair Rent
(9,000 x 12) 1,08,000
(b) Municipal Valuation
(10,000 x 12) 1,20,000
(c) Higher of (a) or (b) 1,20,000
(d) Standard Rent
(12,000 x 12) 1,44,000
(e) Expected Rent {Lower of (c) or (d)} 1,20,000
(f) Rent Received/Receivable
(7,000 x 11) 77,000
If there was no vacancy, in that case rent received/receivable would have been ₹7000 x 12 = ₹84,000 and it is still less than expected rent, therefore GAV shall be expected rent.
Gross Annual Value 1,20,000

Situation 2

Computation of Gross Annual Value
(a) Fair Rent
(13,000 x 12) 1,56,000
(b) Municipal Valuation
(9,000 x 12) 1,08,000
(c) Higher of (a) or (b) 1,56,000
(d) Standard Rent
(11,000 x 12) 1,32,000
(e) Expected Rent {Lower of (c) or (d)} 1,32,000
(f) Rent Received/Receivable
(11,500 x 11) 1,26,500
In this case, if there was no vacancy, rent received/receivable would have been ₹11500 x 12 = ₹1,38,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.
Gross Annual Value 1,26,500

**Situation 3**

**Computation of Gross Annual Value**

(a) Fair Rent 1,92,000
   \((16,000 \times 12)\)

(b) Municipal Valuation 2,16,000
   \((18,000 \times 12)\)

(c) Higher of (a) or (b) 2,16,000

(d) Standard Rent 1,92,000
   \((16,000 \times 12)\)

(e) Expected Rent \{Lower of (c) or (d)\} 1,92,000

(f) Rent Received/Receivable 1,60,000
   \((16,000 \times 10)\)

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

Gross Annual Value 1,60,000

**Situation 4**

**Computation of Gross Annual Value**

(a) Fair Rent 1,44,000
   \((12,000 \times 12)\)

(b) Municipal Valuation 1,08,000
   \((9,000 \times 12)\)

(c) Higher of (a) or (b) 1,44,000

(d) Standard Rent 84,000
   \((7,000 \times 12)\)

(e) Expected Rent \{Lower of (c) or (d)\} 84,000

(f) Rent Received/Receivable 2,00,000
   \((20,000 \times 10)\)

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

Gross Annual Value 2,00,000

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

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

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

**Question 6:** Write a note on unrealized rent.

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

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

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

Expected rent (45,000 x 12) 5,40,000
Rent received /receivable (50,000 x 9) 4,50,000
GAV 5,40,000

Rent shall be considered to be unrealised rent only if all the conditions of Rule 4 have been complied with and such conditions are:
(a) the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
(b) the defaulting tenant is not in occupation of any other property of the assessee;
(c) the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.
(d) the tenancy is bona fide (genuine)

Recovery of unrealised rent Section 25A
If any assessee has recovered unrealized rent in subsequent years, rent so recovered shall be considered to be income of the assessee under the head house property and it do not matter whether the assessee has any house property in his name in that year or not. If assessee has received any interest, it will be considered to be income of the assessee under the head other sources. If assessee has incurred any expenses on legal proceedings, it will not be allowed to be deducted.

A sum equal to thirty per cent of the unrealised rent shall be allowed as deduction.

Illustration 7: Mr. X has let out one house ₹70,000 per month fair rent ₹80,000 per month municipal valuation ₹60,000 per month, Standard Rent ₹ 65,000 per month. Municipal tax paid ₹40,000, Interest u/s 24 (b) ₹50,000. Assessee has recovered unrealized rent of ₹60,000 plus interest ₹7,000. He has incurred legal expenses ₹12,000 compute his Income and Tax Liability A.Y.2020-21.

Solution:

Computation of income under the head house property

<table>
<thead>
<tr>
<th>Gross Annual Value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (80,000 x 12)</td>
<td>9,60,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (60,000 x 12)</td>
<td>7,20,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>9,60,000</td>
</tr>
<tr>
<td>(d) Standard Rent (65,000 x 12)</td>
<td>7,80,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>7,80,000</td>
</tr>
<tr>
<td>(f) Rent received /receivable (70,000 x 12)</td>
<td>8,40,000</td>
</tr>
<tr>
<td>(g) Higher of (e) or (f) shall be GAV</td>
<td>8,40,000</td>
</tr>
<tr>
<td>Less: Municipal Tax</td>
<td>(40,000.00)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>8,00,000.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(2,40,000.00)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>5,10,000.00</td>
</tr>
<tr>
<td>Add: Recovery of Unrealised rent u/s 25A</td>
<td>60,000.00</td>
</tr>
<tr>
<td>Less: Deduction @ 30%</td>
<td>(18,000.00)</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>42,000.00</td>
</tr>
</tbody>
</table>

Income under the head other sources
Interest from unrealized rent 7,000.00

Gross Total Income 5,59,000.00
Less: Deduction u/s 80C to 80U NIL
Total Income 5,59,000.00

Computation of Tax Liability
Tax on ₹ 5,59,000 at slab rate 24,300.00
Add: HEC @ 4% 972.00
Tax Liability 25,272.00
Rounded off u/s 288B 25,270.00

Income Under The Head Property 198
Illustration 8: Compute gross annual value in the following cases for the assessment year 2020-21:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Situation 1</th>
<th>Situation 2</th>
<th>Situation 3</th>
<th>Situation 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Rent (p.m.)</td>
<td>11,000</td>
<td>13,000</td>
<td>16,000</td>
<td>14,000</td>
</tr>
<tr>
<td>Municipal Valuation (p.m.)</td>
<td>12,000</td>
<td>11,000</td>
<td>18,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Standard Rent (p.m.)</td>
<td>13,000</td>
<td>12,000</td>
<td>17,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Rent received/receivable (p.m.)</td>
<td>8,000</td>
<td>12,500</td>
<td>17,000</td>
<td>21,000</td>
</tr>
<tr>
<td>Vacancy</td>
<td>-</td>
<td>2 months</td>
<td>3 month</td>
<td>1 month</td>
</tr>
<tr>
<td>Unrealised rent</td>
<td>1 month</td>
<td>-</td>
<td>1 month</td>
<td>3 month</td>
</tr>
</tbody>
</table>

Solution:

**Situation 1**

**Computation of Gross Annual Value**

(a) Fair Rent 1,32,000 (11,000 x 12)
(b) Municipal Valuation 1,44,000 (12,000 x 12)
(c) Higher of (a) or (b) 1,44,000
(d) Standard Rent 1,56,000 (13,000 x 12)
(e) Expected Rent {Lower of (c) or (d)} 1,44,000
(f) Rent Received/Receivable 88,000 (8,000 x 11)

GAV = Higher of (e) or (f) 1,44,000

Gross Annual Value 1,44,000

**Situation 2**

**Computation of Gross Annual Value**

(a) Fair Rent 1,56,000 (13,000 x 12)
(b) Municipal Valuation 1,32,000 (11,000 x 12)
(c) Higher of (a) or (b) 1,56,000
(d) Standard Rent 1,44,000 (12,000 x 12)
(e) Expected Rent {Lower of (c) or (d)} 1,44,000
(f) Rent Received/Receivable 1,25,000 (12,500 x 10)

In this case, if there was no vacancy, rent received/receivable would have been ₹12,500 x 12 = ₹1,50,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value 1,25,000

**Situation 3**

**Computation of Gross Annual Value**

(a) Fair Rent 1,92,000 (16,000 x 12)
(b) Municipal Valuation 2,16,000 (18,000 x 12)
(c) Higher of (a) or (b) 2,16,000
(d) Standard Rent 2,04,000 (17,000 x 12)
(e) Expected Rent {Lower of (c) or (d)} 2,04,000
(f) Rent Received/Receivable 1,36,000 (17,000 x 8)
If there was no vacancy, in that case rent received/receivable would have been ₹17,000 x 11 = ₹1,87,000 and it was still less than expected rent, therefore GAV shall be expected rent.

Gross Annual Value

Situation 4

Computation of Gross Annual Value

(a) Fair Rent
   (14,000 x 12) 1,68,000
(b) Municipal Valuation
   (9,000 x 12) 1,08,000
(c) Higher of (a) or (b) 1,68,000
(d) Standard Rent
   (8,000 x 12) 96,000
(e) Expected Rent {Lower of (c) or (d)} 96,000
(f) Rent Received/Receivable
   (21,000 x 8) 1,68,000

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

Gross Annual Value 1,68,000

Illustration 9: Mr. X has let out one house property to Mr. Y @ ₹80,000 p.m. Fair rent ₹90,000 p.m. Municipal valuation ₹80,000 p.m and Standard rent of the house ₹76,000 p.m. The house remained vacant for 2 months and there was unrealised rent for 3 months. Mr. X has paid municipal tax of ₹60,000 and interest on loan for construction of house property is ₹69,000. Compute his Income Tax Liability for A.Y.2020-21.

Solution:

Computation of income under the head house property

Gross Annual Value

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (90,000 x 12)</td>
<td>10,80,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (80,000 x 12)</td>
<td>9,60,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>10,80,000</td>
</tr>
<tr>
<td>(d) Standard Rent (76,000 x 12)</td>
<td>9,12,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>9,12,000</td>
</tr>
<tr>
<td>(f) Rent received/receivable (80,000 x 7)</td>
<td>5,60,000</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received/receivable would have been ₹7,20,000 and it was still less than expected rent, therefore GAV shall be expected rent

GAV 9,12,000

Less: Municipal Tax (60,000.00)
Net Annual Value 8,52,000.00
Less: 30% of NAV u/s 24(a) (2,55,600.00)
Less: Interest on capital borrowed u/s 24(b) (69,000.00)
Income under the head House Property 5,27,400.00
Gross Total Income 5,27,400.00
Less: Deduction u/s 80C to 80U NIL
Total Income 5,27,400.00

Computation of Tax Liability

Tax on ₹5,27,400 at slab rate 17,980.00
Add: HEC @ 4% 719.20
Tax Liability 18,699.20
Rounded off u/s 288B 18,700.00

Illustration 10: Mr. X has a property whose municipal valuation is ₹1,30,000 p.a. The fair rent is ₹1,10,000 p.a and the standard rent fixed by the Rent Control Act is ₹1,20,000 p.a. The property was let out for a rent of ₹11,000 p.m. throughout the previous year. Unrealised rent was ₹11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @ 10% of municipal valuation. Interest on borrowed capital was ₹2,00,000 for the year. He has LTCG ₹6,00,000. Compute his tax liability for A.Y. 2020-21.
### Solution:
**Computation of Income from house property of Mr. X for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Gross Annual Value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,21,000.00</td>
<td></td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>1,10,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>1,30,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>1,30,000</td>
</tr>
<tr>
<td>(d) Standard Rent</td>
<td>1,20,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>1,20,000</td>
</tr>
<tr>
<td>(f) Rent received /receivable (11,000 x 11)</td>
<td>1,21,000</td>
</tr>
</tbody>
</table>

**GAV**

1,21,000

Less: Municipal Tax (10% of ₹1,30,000)                  13,000.00
Net Annual Value                                         1,08,000.00

Less: 30% of NAV u/s 24(a)                               (32,400.00)

Less: Interest on capital borrowed u/s 24(b)            (2,00,000.00)

Loss under the head House Property                        1,24,400.00

Loss shall be adjusted from LTGC and balance LTGC shall be (6,00,000 – 1,24,400) 4,75,600.00

Total Income                                             4,75,600.00

Income Tax (₹4,75,600 – 2,50,000) x 20%                   45,120.00

Less: Rebate u/s 87A                                     (12,500.00)

Tax before Health & Education cess                        32,620.00

Add: HEC @ 4%                                            1,304.80

Tax Liability                                           33,924.80

Rounded off u/s 288B                                     33,920.00

**Illustration 11:**

Mr. X has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹20,000 p.m. However, the tenant vacated the property on 31.01.2020. Unrealised rent was ₹20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @ 8% of municipal valuation. Interest on borrowed capital was ₹1,65,000 for the year. He has casual income ₹3,00,000. Compute his tax liability for A.Y. 2020-21.

(b) Presume he is non-resident and his date of birth 31.03.1960.

**Solution:**

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

<table>
<thead>
<tr>
<th>Gross Annual Value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,80,000.00</td>
<td></td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>2,00,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>2,50,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>2,50,000</td>
</tr>
<tr>
<td>(d) Standard Rent</td>
<td>2,10,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>2,10,000</td>
</tr>
<tr>
<td>(f) Rent received /receivable (20,000 x 9)</td>
<td>1,80,000</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received receivable would have been (20,000 x 11) ₹2,20,000 which is exceeding expected rent hence GAV shall be rent received /receivable i.e. ₹1,80,000

**GAV**

1,80,000

Less: Municipal Tax (8% of ₹2,50,000)                  (20,000.00)
Net Annual Value                                         1,60,000.00

Less: 30% of NAV u/s 24(a)                               (48,000.00)

Less: Interest on capital borrowed u/s 24(b)            (1,65,000.00)

Loss under the head House Property                        (53,000.00)

Loss shall be carried forward and as per section 58(4), loss shall not be adjusted from casual income

Casual income                                           3,00,000.00
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>₹3,00,000.00</td>
</tr>
<tr>
<td>Income Tax</td>
<td>₹90,000.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(₹12,500.00)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹77,500.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹3,100.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹80,600.00</td>
</tr>
<tr>
<td>(b)</td>
<td></td>
</tr>
<tr>
<td>Income Tax</td>
<td>₹90,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹3,600.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹93,600.00</td>
</tr>
</tbody>
</table>

Note: Rebate under section 87A is not allowed to non-resident.

**MAY – 2012 (4 Marks)**


**Answer:** Refer answer given in the book

**Question 7:** Write a note on Statutory Deduction or Standard Deduction.

**Answer:** Statutory Deduction or Standard Deduction  Section 24(a)

*Under section 24(a),* every assessee shall be allowed a notional expenditure equal to thirty per cent of the net annual value of the house for the various expenditures incurred by him.

Actual expenditure incurred by the assessee shall not be taken into consideration.

**Example**

Net annual value of one house is ₹3,00,000 and actual expenditure incurred on repairs are ₹75,000, deduction allowed under section 24(a) shall be ₹90,000.

**Question 8:** Write a note on deduction for interest on the capital borrowed.

**Answer:** Interest on borrowed capital is allowed as deduction under section 24(b)

If any assessee has taken a loan or advance for purchase/ construction / renovation / addition / alteration / substitution or repair etc. of the house property, interest on such loan shall be allowed to be deducted under section 24(b) from NAV and interest is allowed on due basis but only simple interest is allowed i.e. interest on interest is not allowed. The assessee can take any number of loan. Interest for the year for which income is being computed shall be allowed in the same year and shall be called current period interest. Interest for the period prior to the year in which the house was purchased or constructed shall be called prior period interest and such interest shall be allowed in 5 annual equal instalments starting from the year in which the house was purchased or constructed. E.g. If Mr. X had taken a loan of ₹5,00,000 for construction of property on 01.10.2018 and interest is payable @ 10% p.a. and the construction was completed on 30.06.2019, in this case interest allowed under section 24(b) shall be:

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest for the year (01.04.2019 to 31.03.2020)</td>
<td>₹50,000.00</td>
</tr>
<tr>
<td>Prior period interest =10% of ₹5,00,000 for 6 months (from 01.10.2018 to 31.03.2019)=₹25,000</td>
<td></td>
</tr>
<tr>
<td>Prior period interest to be allowed in 5 equal annual installments of ₹5,000 from the year of completion of construction i.e. in this case, P.Y.2019-20.</td>
<td>₹55,000.00</td>
</tr>
</tbody>
</table>

If any assessee has taken a new loan to repay the original loan, in such cases interest for such new loan shall be allowed in the similar manner.

As per section 25 if loan is taken from outside India, in that case also interest is allowed but the person making payment of interest should deduct tax at source or the person receiving interest should have an agent in India.

**Illustration 12:** Mr. X took a loan of ₹5,00,000 on 01.10.2016 @ 10% p.a. for construction of house which was completed on 31.03.2020.

Compute interest on capital borrowed for the previous year 2019-20.

**Solution:**

Prior period interest

*From 01.10.2016 to 31.03.2019*
Income Under The Head House Property

\[ = 5,00,000 \times 10\% \times \frac{30}{12} = ₹1,25,000 \]

Installment = ₹1,25,000/5 = ₹25,000

Current year interest

**From 01.04.2019 to 31.03.2020**

\[ = 5,00,000 \times 10\% = ₹50,000 \]

Total Interest = ₹25,000 + ₹50,000 = ₹75,000

**Illustration 13:** Mr. X has taken a loan of ₹15,00,000 on 01.07.2015 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.05.2019 and was let out @ ₹90,000 p.m. w.e.f 01.07.2019 and Fair rent is ₹1,25,000 p.m. and the assessee has paid municipal tax of ₹30,000 in P.Y. 2019-20 and the assessee has repaid the loan amount in annual instalment of ₹1,00,000 starting from 01.01.2018.

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

**Solution:**

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

<table>
<thead>
<tr>
<th>Gross Annual Value</th>
<th>13,75,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working Note:</strong></td>
<td>₹</td>
</tr>
<tr>
<td>(a) Fair Rent (1,25,000 x 11)</td>
<td>13,75,000</td>
</tr>
<tr>
<td>(b) Expected Rent</td>
<td>13,75,000</td>
</tr>
<tr>
<td>(c) Rent received /receivable (90,000 x 9)</td>
<td>8,10,000</td>
</tr>
<tr>
<td>If there was no vacancy, in that case rent received/receivable would have been ₹9,90,000 and it was still less than expected rent, therefore GAV shall be expected rent</td>
<td></td>
</tr>
<tr>
<td>GAV</td>
<td>13,75,000</td>
</tr>
<tr>
<td>Less: Municipal Tax</td>
<td>(30,000.00)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>13,45,000.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(4,03,500.00)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(2,84,400.00)</td>
</tr>
<tr>
<td><strong>Working Note:</strong></td>
<td>₹</td>
</tr>
<tr>
<td><strong>Current period Interest</strong></td>
<td>₹</td>
</tr>
<tr>
<td>From 01.04.2019 to 31.03.2020</td>
<td>₹</td>
</tr>
<tr>
<td>[(13,00,000 \times 12% \times 9/12) + (12,00,000 \times 12% \times 3 /12) = 1,53,000 ]</td>
<td>₹</td>
</tr>
<tr>
<td>Prior period interest</td>
<td>₹</td>
</tr>
<tr>
<td>From 01.07.2015 to 31.03.2019</td>
<td>₹</td>
</tr>
<tr>
<td>15,00,000 x 12% x 30/12 = 4,50,000</td>
<td>₹</td>
</tr>
<tr>
<td>14,00,000 x 12% x 12/12 = 1,68,000</td>
<td>₹</td>
</tr>
<tr>
<td>13,00,000 x 12% x 3/12 = 39,000</td>
<td>₹</td>
</tr>
<tr>
<td>Instalment = 6,57,000 / 5 = 1,31,400</td>
<td>₹</td>
</tr>
<tr>
<td>Total Interest = ₹1,53,000 + ₹1,31,400= 2,84,400</td>
<td>₹</td>
</tr>
</tbody>
</table>

Income under the head house property | 6,57,100.00 |
Gross Total Income | 6,57,100.00 |
Less: Deduction u/s 80C | (1,00,000.00) |
Total Income | 5,57,100.00 |

**Computation of Tax Liability**

Tax on normal income ₹5,57,100 at slab rate | 23,920.00 |
Add: HEC @ 4% | 956.80 |
Tax Liability | 24,876.80 |
Rounded off u/s 288B | 24,880.00 |

**Illustration 14:** Mr. X has taken a loan of ₹15,00,000 on 01.07.2015 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.04.2018 and was let out @ ₹90,000 p.m. w.e.f 01.05.2018 and Fair rent is ₹1,00,000 p.m. and the assessee has paid municipal tax of ₹30,000 in P.Y. 2019-20 and the assessee has repaid the loan amount in annual instalment of ₹1,00,000 starting from 01.01.2018.

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

Computation of income under the head House Property

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>12,00,000.00</td>
</tr>
</tbody>
</table>

(a) Fair Rent (1,00,000 x 12) | 12,00,000 |
(b) Expected Rent | 12,00,000 |
(c) Rent received /receivable (90,000 x 12) | 10,80,000 |
GAV | 12,00,000 |

Less: Municipal Tax | (30,000.00) |
Net Annual Value | 11,70,000.00 |
Less: 30% of NAV u/s 24(a) | (3,51,000.00) |
Less: Interest on capital borrowed u/s 24(b) | (2,51,400.00) |

Income under the head house property | 5,67,600.00 |

Computation of Tax Liability

Tax on normal income ₹5,67,600 at slab rate | 10,880.00 |
Less: Rebate u/s 87A | (10,880.00) |
Tax Liability | Nil |

Illustration 15: Mr. X has constructed one house on 01.09.2019 and it was let out @ ₹1,25,000 p.m. and municipal taxes paid are ₹35,000. The house was constructed after taking a loan from outside India and interest allowed under section 24(b) is ₹2,10,000, but the assessee has not deducted tax at source. Compute assessee’s tax liability for assessment year 2020-21.

Solution:

Gross Annual Value (1,25,000 x 7) | 8,75,000.00 |
Less: Municipal Taxes | (35,000.00) |
Net Annual Value | 8,40,000.00 |
Less: 30% of NAV u/s 24(a) | (2,52,000.00) |
Less: Interest on capital borrowed u/s 24(b) | Nil |
Income under the head House Property | 5,88,000.00 |

Computation of Tax Liability

Tax on ₹5,88,000 at slab rate | 30,100.00 |
Add: HEC @ 4% | 1,204.00 |
Tax Liability | 31,304.00 |
Rounded off u/s 288B | 31,300.00 |

(b) Presume in the above question, the person who has given the loan has one agent in India as per section 163.

Compute tax liability for the assessment year 2020-21.

Solution:

Gross Annual Value (1,25,000 x 7) | 8,75,000.00 |
Income Under The Head House Property

| Less: Municipal Taxes | (35,000.00) |
| Net Annual Value | 8,40,000.00 |
| Less: 30% of NAV u/s 24(a) | (2,52,000.00) |
| Less: Interest on capital borrowed u/s 24(b) | (2,10,000.00) |
| Income under the head House Property | 3,78,000.00 |

**Computation of Tax Liability**

| Tax on ₹3,78,000 at slab rate | 6,400.00 |
| Less: Rebate u/s 87A | (6,400.00) |
| Tax Liability | Nil |

(c) Presume in the above question, the assessee has deducted tax at source. Compute tax liability for the assessment year 2020-21.

**Solution:**

| Gross Annual Value (1,25,000 x 7) | ₹8,75,000.00 |
| Less: Municipal Taxes | (35,000.00) |
| Net Annual Value | 8,40,000.00 |
| Less: 30% of NAV u/s 24(a) | (2,52,000.00) |
| Less: Interest on capital borrowed u/s 24(b) | (2,10,000.00) |
| Income under the head House Property | 3,78,000.00 |

**Computation of Tax Liability**

| Tax on ₹3,78,000 at slab rate | 6,400.00 |
| Less: Rebate u/s 87A | (6,400.00) |
| Tax Liability | Nil |

---

**MAY – 2007 (6 Marks)**

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2019 and came to India for the first time on 16.03.2019. She left for USA on 23.09.2019. She returned to India again on 27.03.2020. While in India, she had purchased a show room in Mumbai on 22.04.2019, which was leased out to a company on a rent of ₹25,000 p.m. from 01.05.2019. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹97,500 upto 31.03.2020.

She had received the following gifts from her relatives and friends during 01.04.2019 to 30.06.2019:
- From parents of husband: ₹51,000
- From married sister of husband: ₹11,000
- From two very close friends of her husband, ₹1,51,000 and ₹21,000: ₹1,72,000

Determine her residential status and compute the total income chargeable to tax along with the amount of tax payable on such income for the Assessment Year 2020-21.

**Answer.**

As per section 6(1), an individual is considered to be resident in India if he stays in India for 182 days or more or he stays in India for 60 days or more during the relevant previous year and also for 365 days or more during 4 years preceding the relevant previous year.

Since Miss Charlie is not able to comply with any of the condition mentioned above, she is non-resident in previous year 2019-20.

Her stay in India during the previous year 2019-20 and in the preceding four years is as under:-

**P.Y. 2019-20**

| 01.04.2019 to 23.09.2019 | - 176 days |
| 27.03.2020 to 31.03.2020 | - 5 days |
| Total | 181 days |

**Four preceding previous years**

| P.Y. 2018-2019 [16.03.2019 to 31.03.2019] | - 16 days |
| P.Y. 2017-2018 [01.04.2017 to 31.03.2018] | - Nil |
| P.Y. 2016-2017 [01.04.2016 to 31.03.2017] | - Nil |
| P.Y. 2015-2016 [01.04.2015 to 31.03.2016] | - Nil |
Computation of total income of Miss. Charlie for the A.Y. 2020-21

Income from house property
Gross Annual Value [25,000 x 11] 2,75,000
Less: Municipal taxes Nil
Net Annual Value 2,75,000
Less: Standard deduction 30% of NAV u/s 24(a) (82,500)
Less: Interest on loan 24(b) (97,500)
Income under the Head House Property 95,000

Income from other sources
- ₹51,000 received from parents of husband would be exempt Nil
- ₹11,000 received from married sister of husband is exempt Nil
- From two friends of husband ₹1,51,000 and ₹21,000 aggregating to ₹1,72,000.
Income under the head Other Sources 1,72,000

Total Income 2,67,000

Computation of tax payable by Miss. Charlie for the A.Y. 2020-21
Tax on total income of ₹2,67,000 850.00
Add: HEC @ 4% 34.00
Tax Liability 884.00
Rounded off u/s 288B 880.00

Notes –
1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. Rebate under section 87A is not allowed to non-resident.

Question 9: Write a note on house which is self-occupied.

Answer: House which is self-occupied Section 23(2)
If any person has house which is self-occupied (maximum two house), its GAV shall be nil and municipal tax are not allowed to be deducted and NAV shall also be nil and deduction under section 24(a) is not allowed but deduction under section 24(b) is allowed but maximum ₹30,000 however it will be maximum ₹2,00,000 if loan has been taken w.e.f 01st April 1999 onwards for purchase or construction and house has been purchased or constructed within 5 years from the end of the year in which the assessee has taken loan and also assessee should submit a certificate from the lender certifying the amount of interest. If loan is taken for repairs / renovations etc. maximum interest allowed shall be ₹30,000.
If the house is self occupied as well as vacant, its income shall be computed as if it is self occupied house. E.g. Mr. X has one house which is vacant for 3 months and self occupied for 9 months, its income shall be computed considering it to be self occupied house.
The ceiling prescribed for two self-occupied property as above in respect of interest on loan borrowed does not apply to a deemed let-out property.

Illustration 16: Mrs. X has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹25,000 p.m. The municipal valuation is ₹23,000 p.m. Municipal taxes paid is ₹8,000. The loan of ₹20,00,000 was taken on 01.01.2013 from SBI Housing Finance Ltd. The construction was completed on 30.11.2015. The accumulated interest up to 31.03.2015 is ₹3,00,000. During the previous year 2019-20, Mrs. X paid ₹ 1,88,000 which included ₹1,44,000 as interest. Compute Mrs. X’s income from house property for A.Y. 2020-21. All the conditions for higher deduction of interest in case of self-occupied property is satisfied.

Solution:
Computation of income from house property of Mrs. X for A.Y. 2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAV</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Municipal Tax</td>
<td>Nil</td>
</tr>
</tbody>
</table>
NAV  
Nil

Less: Statutory Deduction u/s 24(a)  
Nil

Less: Interest on capital u/s 24(b)  
Nil

Current period interest ₹1,44,000
Prior period installment ₹3,00,000 / 5 = ₹60,000
Maximum allowed (2,00,000)
Loss from house property (2,00,000)

**Illustration 17(a):** Mr. X has taken a loan of ₹5,00,000 on 01.10.1998 @ 10% p.a. for construction of a house which was completed on 01.10.2018 and the house remained self-occupied throughout the previous year 2019-20.
The assessee has income under the head salary ₹4,00,000.
Compute tax liability for assessment year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Annual Value Nil</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b) (30,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>From 01.04.2019 to 31.03.2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,00,000 x 10% = 50,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>From 01.10.1998 to 31.03.2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,00,000 x 10% x 234/12 = 9,75,000</td>
</tr>
<tr>
<td>Instalment = 9,75,000 / 5 = 1,95,000</td>
</tr>
<tr>
<td>Total Interest = ₹50,000 + ₹1,95,000 = 2,45,000</td>
</tr>
<tr>
<td>Subject to maximum ₹30,000</td>
</tr>
</tbody>
</table>

Loss under the head House Property ₹30,000
Income under the head Salary ₹4,00,000
Gross Total Income ₹3,70,000
Less: Deduction u/s 80C to 80U Nil
Total Income ₹3,70,000

**Computation of Tax Liability**

| Tax on ₹3,70,000 at slab rate 6,000 |
| Less: Rebate u/s 87A (6,000) |
| Tax Liability Nil |

**Illustration 17(b):** Presume in above question, the loan was taken on 01.10.2015. The assessee has submitted a certificate confirming the amount of interest.

**Solution:**

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Annual Value Nil</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b) (75,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>From 01.04.2019 to 31.03.2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,00,000 x 10% = 50,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>From 01.10.2015 to 31.03.2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,00,000 x 10% x 30/12 = 1,25,000</td>
</tr>
<tr>
<td>Instalment = 1,25,000 / 5 = 25,000</td>
</tr>
<tr>
<td>Total Interest = ₹50,000 + ₹25,000 = 75,000</td>
</tr>
</tbody>
</table>

Loss under the head House Property (75,000)
Income under the head Salary ₹4,00,000
Gross Total Income ₹3,25,000
Mr. X owns a residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹55,000 p.m. The rented unit was vacant for three months during the year. The particulars of the house for the previous year 2019-20 are as under:

- Standard Rent: ₹11,20,000 p.a.
- Municipal Valuation: ₹10,44,000 p.a.
- Fair Rent: ₹11,35,000 p.a.
- Municipal tax paid by Mr. X: 12% of the Municipal Valuation
- Light and water charges: ₹800 p.m.
- Insurance charges: ₹3,500 p.a.
- Painting expenses: ₹16,000 p.a.

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

**Answer:**

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

Rented unit (50% of total area)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value (GAV)</td>
<td>₹4,95,000</td>
</tr>
<tr>
<td>(a) Municipal valuation (₹ 10,44,000 x ½)</td>
<td>₹5,22,000</td>
</tr>
<tr>
<td>(b) Fair rent (₹ 11,35,000 x ½)</td>
<td>₹5,67,500</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>₹5,67,500</td>
</tr>
<tr>
<td>(d) Standard rent (₹ 11,20,000 x ½)</td>
<td>₹5,60,000</td>
</tr>
<tr>
<td>(e) Expected rent lower of (c) or (d)</td>
<td>₹5,60,000</td>
</tr>
<tr>
<td>(f) Rent receivable for the whole year (₹ 55,000 x 9)</td>
<td>₹4,95,000</td>
</tr>
</tbody>
</table>

If there was no vacancy, rent received/receivable would have been ₹55,000 x 12 = ₹6,60,000, which is higher than Expected rent, hence GAV shall be rent received/receivable

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Municipal taxes (12% of ₹ 5,22,000)</td>
<td>₹62,640</td>
</tr>
<tr>
<td>Net Annual Value (NAV)</td>
<td>₹4,32,360</td>
</tr>
<tr>
<td>Less: Deductions</td>
<td></td>
</tr>
<tr>
<td>(a) 30% of NAV under section 24(a)</td>
<td>₹1,29,708</td>
</tr>
<tr>
<td>(b) Interest on borrowed capital (₹ 1,000 x 12)</td>
<td>₹12,000</td>
</tr>
<tr>
<td>Taxable income from let out portion</td>
<td>₹2,90,652</td>
</tr>
<tr>
<td>Self occupied unit (50% of total area)</td>
<td></td>
</tr>
<tr>
<td>Annual value</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Deduction under section 24(b):</td>
<td></td>
</tr>
<tr>
<td>Interest on borrowed capital (₹ 1,000 x 12)</td>
<td>₹12,000</td>
</tr>
</tbody>
</table>

**Income from house property**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>₹2,78,652</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td></td>
</tr>
<tr>
<td>Total Income (Rounded off u/s 288A)</td>
<td>₹2,78,650</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹2,78,650 at slab rate</td>
<td>₹1,432.50</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>₹(1,432.50)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Note:** No deduction will be allowed separately for light and water charges, insurance charges and painting expenses.
NOV – 2008 (5 Marks)

Mr. X owns one residential house in Mumbai. The house is having two units. First unit of the house is self occupied by Mr. X and another unit is rented for ₹55,000 p.m. The rented unit was vacant for 2 months during the year.

The particulars of the house for the previous year 2019-20 are as under:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard rent</td>
<td>₹ 10,62,000 p.a.</td>
</tr>
<tr>
<td>Municipal valuation</td>
<td>₹ 8,90,000 p.a.</td>
</tr>
<tr>
<td>Fair rent</td>
<td>₹ 10,85,000 p.a.</td>
</tr>
<tr>
<td>Municipal tax</td>
<td>15% of municipal valuation</td>
</tr>
<tr>
<td>Light and water charges paid by the tenant</td>
<td>₹ 500 p.m.</td>
</tr>
<tr>
<td>Interest on borrowed capital</td>
<td>₹ 1,500 p.m.</td>
</tr>
<tr>
<td>Insurance charges paid by Mr. X</td>
<td>₹ 3,000 p.a.</td>
</tr>
<tr>
<td>Repairs</td>
<td>₹ 12,000 p.a.</td>
</tr>
</tbody>
</table>

Compute income from house property of Mr. X and tax liability for the A.Y. 2020-21.

**Answer.**

**Computation of Income from house property for A.Y. 2020-21**

(A) Rented unit (50% of total area)

**Gross Annual Value**

<table>
<thead>
<tr>
<th>Working note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair rent (₹10,85,000 x ½)</td>
<td>5,42,500</td>
</tr>
<tr>
<td>(b) Municipal valuation (₹8,90,000 x ½)</td>
<td>4,45,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>5,42,500</td>
</tr>
<tr>
<td>(d) Standard rent (₹10,62,000 x ½)</td>
<td>5,31,000</td>
</tr>
<tr>
<td>(e) Expected rent (lower of (c) or (d))</td>
<td>5,31,000</td>
</tr>
<tr>
<td>(f) Rent received or receivable (₹55,000 x 10)</td>
<td>5,50,000</td>
</tr>
</tbody>
</table>

Since, the actual rent received is higher than the annual letting value, the actual rent received is the Gross Annual value i.e. ₹5,50,000

Less: Municipal taxes (15% of ₹4,45,000)          (66,750)

**Net Annual value**

4,83,250

Less: Deductions under section 24

(i) 30% of net annual value u/s 24(a)          1,44,975

(ii) Interest on borrowed capital (₹750 x 12) u/s 24(b) 9,000 (1,53,975)

**Taxable income from let out portion**

3,29,275

(B) Self occupied unit (50% of total area)

Annual value

Nil

Less: Deduction under section 24

Interest on borrowed capital (₹750 x 12) u/s 24(b) 9,000 (9,000)

**Income from House property**

3,20,275

Income under the head House Property

3,20,275

Gross Total Income

3,20,275

Less: Deduction u/s 80C to 80U

Nil

Total Income (rounded off u/s 288A)

3,20,280

**Computation of Tax Liability**

Tax on ₹3,20,280 at slab rate

3,514.00

Less: Rebate u/s 87A

(3,514.00)

Tax Liability

Nil

**Notes:**

(i) It is assumed that both the units are of identical size. Therefore, the rented unit would represent 50% of total area and the self-occupied unit would represent 50% of total area.

(ii) No deduction will be allowed separately for light and water charges, insurance charges and repairs.
MAY – 2000 (3 Marks)

Mr. X commenced construction of a residential house intended exclusively for his residence, on 01.11.2018. He raised a loan from PNB of ₹5,00,000 at 16 per cent interest for the purpose of construction on 01.11.2018. Finding that there was an over-run in the cost of construction he raised a further loan of ₹8,00,000 at the same rate of interest on 01.10.2019. The assessee has submitted a certificate confirming the amount of interest. What is the interest allowable under section 24, assuming that the construction was completed by 31.03.2020?

Answer:
Since the house was for self-occupation only, the annual value of the property would be ‘nil’ under section 23(2). The interest allowable for the current year has to be considered with respect to both the loans. Interest on loan borrowed after 01.04.1999 is eligible for deduction subject to a maximum of ₹2,00,000 in the case of self occupied property.

<table>
<thead>
<tr>
<th>Prior period interest (upto 31.03.2019)</th>
<th>33,333</th>
</tr>
</thead>
<tbody>
<tr>
<td>(5,00,000 x 16% x 5 / 12 )</td>
<td></td>
</tr>
<tr>
<td>This is to be allowed over 5 years beginning with assessment year 2020-21. Amount allowable for each year</td>
<td>6,667</td>
</tr>
<tr>
<td>Interest eligible for deduction for the assessment year 2020-21</td>
<td></td>
</tr>
<tr>
<td>Prior period interest : One-fifth of ₹33,333</td>
<td>6,667</td>
</tr>
<tr>
<td>Interest on first loan : Current year interest : 5,00,000 @ 16%</td>
<td>80,000</td>
</tr>
<tr>
<td>Interest on second loan : 8,00,000 @ 16% x 6/12</td>
<td>64,000</td>
</tr>
<tr>
<td>Total interest</td>
<td>1,50,667</td>
</tr>
</tbody>
</table>

Therefore, interest allowable under section 24 would be ₹1,150,667

Question 10: Write a note on more than two house which are self-occupied (deemed to be let out property).

Answer: More than two house which are self-occupied (deemed to be let out property)  Section 23(4)
If any assessee has more than two house which are self-occupied, in such cases only two of these houses shall be considered to be self-occupied and income shall be computed under section 23(2) and all other houses shall be deemed to be let out and income shall be computed in the similar manner as in case of let out house. Expected rent shall be considered to be GAV of the house.

Illustration 18: Mr. X has 3 houses which are self occupied and the details of these houses is as under.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>House I (In ₹)</th>
<th>House II (In ₹)</th>
<th>House III (In ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair rent</td>
<td>11,00,000</td>
<td>12,00,000</td>
<td>11,50,000</td>
</tr>
<tr>
<td>Municipal valuation</td>
<td>11,24,000</td>
<td>11,78,000</td>
<td>11,25,000</td>
</tr>
<tr>
<td>Standard rent</td>
<td>13,00,000</td>
<td>12,50,000</td>
<td>11,40,000</td>
</tr>
<tr>
<td>Municipal taxes paid</td>
<td>1,00,000</td>
<td>80,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Interest on capital borrowed on</td>
<td>3,20,000</td>
<td>2,90,000</td>
<td>1,90,000</td>
</tr>
<tr>
<td>01.04.2014 and all the necessary conditions are complied with to avail higher amount of interest.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repair charges</td>
<td>10,000</td>
<td>3,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Date of completion of house</td>
<td>01.10.2016</td>
<td>01.10.2016</td>
<td>01.10.2016</td>
</tr>
</tbody>
</table>

Compute income under the head house property.

Solution:

Option I

House I & II is Self Occupied

Loss

House III is deemed to be Let Out

Gross Annual Value

11,40,000
Working Note: ₹
(a) Fair rent 11,50,000
(b) Municipal valuation 11,25,000
(c) Higher of (a) or (b) 11,50,000
(d) Standard rent 11,40,000
(e) Expected rent {Lower of (c) or (d)} 11,40,000
GAV = Expected rent 11,40,000

Less: Municipal Taxes (90,000)
Net Annual Value 10,50,000
Less: 30% of NAV u/s 24(a) (3,15,000)
Less: Interest on capital borrowed u/s 24(b) (1,90,000)
Income 5,45,000
Income under Option I [(2,00,000) + 5,45,000] 3,45,000

Option II
House II & III is Self Occupied
Loss (2,00,000)

House I is deemed to be Let Out
Gross Annual Value 11,24,000

Working Note: ₹
(a) Fair rent 11,00,000
(b) Municipal valuation 11,24,000
(c) Higher of (a) or (b) 11,24,000
(d) Standard rent 13,00,000
(e) Expected rent {Lower of (c) or (d)} 11,24,000
GAV = Expected rent 11,24,000

Less: Municipal Taxes (1,00,000)
Net Annual Value 10,24,000
Less: 30% of NAV u/s 24(a) (3,07,200)
Less: Interest on capital borrowed u/s 24(b) (3,20,000)
Income 3,96,800
Income under Option II [3,96,800 + (2,00,000)] 1,96,800

Option III
House I & III is Self Occupied
Loss (2,00,000)

House II is deemed to be Let Out
Gross Annual Value 12,00,000

Working Note: ₹
(a) Fair rent 12,00,000
(b) Municipal valuation 11,78,000
(c) Higher of (a) or (b) 12,00,000
(d) Standard rent 12,50,000
(e) Expected rent {Lower of (c) or (d)} 12,00,000
GAV = Expected rent 12,00,000

Less: Municipal Taxes (80,000)
Net Annual Value 11,20,000
Less: 30% of NAV u/s 24(a) (3,36,000)
Less: Interest on capital borrowed u/s 24(b) (2,90,000)
Income 4,94,000
Income under Option III [4,94,000 + (2,00,000)] 2,94,000
Second Option is the best
Mr. X occupied two flats for his residential purposes, particulars of which are as follows:  

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Flat I (in ₹)</th>
<th>Flat II (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Valuation</td>
<td>90,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Fair Rent</td>
<td>1,20,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Fair rent under Rent Control Act (i.e. Standard Rent)</td>
<td>80,000</td>
<td>Not available</td>
</tr>
<tr>
<td>Municipal taxes paid</td>
<td>10% of municipal valuation</td>
<td>10% of municipal valuation</td>
</tr>
<tr>
<td>Fire insurance paid</td>
<td>1,000</td>
<td>600</td>
</tr>
<tr>
<td>Interest payable on capital borrowed for purchase of flat</td>
<td>40,000</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Income of Mr. X from his Proprietary business— XYZ Warehousing Corporation is ₹6,50,000.

Determine the taxable income and tax liability for the assessment year 2020-21. You are informed that Mr. X could not occupy flat for 2 months commencing from December 1st, 2019 and that he has attained the age of 60 on 23.08.2019.

**Answer:**

As per the amendments, two house shall be treated as self-occupied instead of one house but the aggregate amount of interest shall not exceed ₹30,000/₹2,00,000 as the case may be.

**Income shall be computed as per Section 23(4)**

Flat I & II is Self Occupied Sec 23(2)

Income

<table>
<thead>
<tr>
<th>(Value in ₹)</th>
<th>House — I</th>
<th>House — II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Valuation per annum</td>
<td>1,20,000</td>
<td>1,15,000</td>
</tr>
<tr>
<td>Fair Rent per annum</td>
<td>1,50,000</td>
<td>1,75,000</td>
</tr>
<tr>
<td>Standard rent per annum</td>
<td>1,00,000</td>
<td>1,65,000</td>
</tr>
<tr>
<td>Date of completion</td>
<td>31-03-1999</td>
<td>31-03-2001</td>
</tr>
<tr>
<td>Municipal taxes payable during the year (paid for House II only)</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>Interest on money borrowed for repair of property during current year</td>
<td>-</td>
<td>55,000</td>
</tr>
</tbody>
</table>

Compute Mrs. X’s income from the House Property for the Assessment Year 2020-21.

**Solution:**

In this case, Mrs. X has more than one house property for self-occupation. As per section 23(4), Mrs. X can avail the benefit of self-occupation (i.e., benefit of “Nil” Annual Value) in respect of both the house properties but aggregate amount of interest shall not exceed ₹30,000/₹2,00,000 as the case may be.
**Question 11: Write a note on computation of Income of Unoccupied House.**

**Answer:** Income of unoccupied house section 23(2)(b)

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

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

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

Municipal valuation/fair rent/standard rent, if not given separately, shall be apportioned between the let-out portion and self-occupied portion either on plinth area or built-up floor space or on such other reasonable basis.

Property taxes, if given on a consolidated basis can be bifurcated as attributable to each portion or floor on a reasonable basis.

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

**Solution:**

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

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

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

<table>
<thead>
<tr>
<th>Working Note</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair rent</td>
<td>90,000</td>
</tr>
<tr>
<td>(b) Municipal valuation</td>
<td>1,00,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>(d) Standard rent</td>
<td>1,00,000</td>
</tr>
<tr>
<td>(e) Expected rent {Lower of (c) or (d)}</td>
<td>1,00,000</td>
</tr>
<tr>
<td>(f) Rent received/ receivable (8,000 x 12)</td>
<td>96,000</td>
</tr>
<tr>
<td>GAV = Expected rent</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Less: Municipal Taxes</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>90,000</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(27,000)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>23,000</td>
</tr>
</tbody>
</table>
Question 13: Write a note on house property owned by the assessee and used for own business/profession.

Answer: House property owned by the assessee and used for own business/profession Section 22/section 30

If any person owns any house property and it is being used by him in his own business/profession, income of such building shall not be computed under the head house property rather income shall be computed under the head business/profession and as per section 30, for this purpose, while computing the income under the head business/profession, no rent shall be allowed to be debited to the profit & loss account in connection with such building. All the expenses of the house property shall be debited to the profit and loss account and deduction under section 24(a) is not allowed rather actual expenditure shall be debited to the profit and loss account. Such expenditure may be municipal tax, repairs, depreciation, land revenue, ground rent etc.

Illustration 20: Mrs. X aged 62 years is engaged in a business in her own building and furnishes the following information.

Market rent of the building is ₹1,00,000 p.m. and expenses incurred on repairs are ₹37,000 and interest on loan taken for construction of the building is ₹65,000 and depreciation ₹30,000 and municipal tax paid ₹30,000 and land revenue paid ₹10,000 and premium paid for insurance of the house ₹7,000. ground rent paid ₹8,000.

Income from business before debiting any expense of house property is ₹16,00,000.

Compute her income tax liability for Assessment Year 2020-21.

Solution:

- Income from business before debiting any expense of house property: ₹16,00,000.00
- Less: Repair of Building: (₹37,000.00)
- Less: Interest on loan taken for construction of building: (₹65,000.00)
- Less: Depreciation: (₹30,000.00)
- Less: Municipal Taxes: (₹30,000.00)
- Less: Land revenue: (₹10,000.00)
- Less: Insurance premium of the house: (₹7,000.00)
- Less: Ground rent: (₹8,000.00)
- Income under the head Business/Profession: ₹14,13,000.00
- Gross Total Income: ₹14,13,000.00
- Less: Deduction u/s 80C to 80U: Nil
- Total Income: ₹14,13,000.00

Computation of Tax Liability

- Tax on ₹14,13,000 at slab rate: ₹2,33,900.00
- Add: HEC @ 4%: ₹9,356.00
- Tax Liability: ₹2,43,256.00
- Rounded off u/s 288B: ₹2,43,260.00

Question 14: Write a note on a house property which is let-out for part of the year and self-occupied for part of the year and may or may not be vacant.

Answer: A house property which is let-out for part of the year and self-occupied for part of the year and may or may not be vacant Section 23(3)

If any house property is let out as well as self-occupied, in such cases expected rent (also called annual letting value) shall be computed for full year but Rent received/receivable shall be only for the period the house was let out and GAV shall be the higher. There will not be any such adjustment as in case of vacancy.

Illustration 21: Mr. X constructed one house in 2018 and it is let out for 4 months and self occupied for 6 months and vacant for 2 months during previous year 2019-20. Municipal valuation of the house is ₹40,000 p.m. and fair rent ₹30,000 p.m. Standard rent of the house is ₹38,000 p.m. It was let out @ ₹32,000 p.m. Municipal tax levied is ₹6,000 out of which ₹2,000 was paid by the tenant and ₹2,000 by the assessee and balance ₹2,000 yet to be paid.

Interest on the capital borrowed for construction of the house is ₹2,10,000.

Long Term Capital Gains is ₹2,10,000.
Compute his income and tax Liability for the assessment year 2020-21.

**Solution:**

*Computation of income from House Property of Mr. X*

**Gross Annual Value**

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (30,000 x 12)</td>
<td>3,60,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (40,000 x 12)</td>
<td>4,80,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>4,80,000</td>
</tr>
<tr>
<td>(d) Standard Rent (38,000 x 12)</td>
<td>4,56,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>4,56,000</td>
</tr>
<tr>
<td>(f) Rent Received/Receivable (32,000 x 4)</td>
<td>1,28,000</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received/receivable would have been ₹1,92,000 and it was still less than expected rent, therefore GAV shall be expected rent.

**GAV**

4,56,000

Less: Municipal Taxes

2,000

**Net Annual Value**

4,54,000

Less: 30% of NAV u/s 24(a)

1,36,200

Less: Interest on capital borrowed u/s 24(b)

30,000

**Income under the head House Property**

2,87,800

**Long Term Capital Gains**

2,10,000

**Gross Total Income**

4,97,800

Less: Deduction u/s 80C to 80U

Nil

**Total Income**

4,97,800

**Computation of Tax Liability**

Tax on ₹2,10,000 @ 20% u/s 112

42,000.00

Tax on ₹2,87,800 at slab rate

1,890.00

Less: Rebate u/s 87A

12,500.00

Tax before health & education cess

31,390.00

Add: HEC @ 4%

1,255.60

**Tax Liability**

32,645.60

Rounded off u/s 288B

32,650.00

**Illustration 22:** Mrs. X owns a house property at Adyar in Chennai. The municipal value of the property is ₹5,00,000, fair rent is ₹4,20,000 and standard rent is ₹4,80,000. The property was let-out for ₹50,000 p.m. up to December 2019. Thereafter, the tenant vacated the property and Mrs. X used the house for self-occupation. Rent for the months of November and December 2019 could not be realised in spite of the owner’s efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @ 12% during the year. She had paid interest of ₹25,000 during the year for amount borrowed for repairs for the house property. She has LTCG ₹110,00,000. She has completed age of 80 years as on 31.03.2020. Compute her tax liability for the A.Y. 2020-21.

**Solution:**

*Computation of income from house property of Mrs. X for the A.Y.2020-21*

**Gross Annual Value**

4,80,000.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair rent</td>
<td>4,20,000</td>
</tr>
<tr>
<td>(b) Municipal valuation</td>
<td>5,00,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>5,00,000</td>
</tr>
<tr>
<td>(d) Standard rent</td>
<td>4,80,000</td>
</tr>
<tr>
<td>(e) Expected rent {Lower of (c) or (d)}</td>
<td>4,80,000</td>
</tr>
<tr>
<td>(f) Rent received/ receivable (50,000 x 7)</td>
<td>3,50,000</td>
</tr>
</tbody>
</table>

(unrealised rent 2 months and self occupied 3 months)
From the following particulars furnished by Mr. X for the previous year ending 31.03.2020. Compute the taxable income and tax liability for assessment year 2020-21:

(i) He owns a house property at metro city. The fair rental value per annum is ₹ 27,000 and the municipal value is ₹ 24,000.

(ii) The house was let out from 01.04.2019 to 31.08.2019 @ ₹ 2,100 per month. From 01.09.2019 Mr. X occupies the house for his residence.

(iii) Expenditure incurred on property and paid:
   (a) Municipal tax ₹4,000
   (b) Fire insurance ₹2,500
   (c) Land revenue ₹4,600
   (d) Repairs ₹1,000

(iv) Interest paid on borrowings for construction:
   (a) For the current year ₹21,600
   (b) Instalment of prior period ₹12,960

He has long term capital gains of ₹5,00,000.

**Answer:**

Computation of income under the head House Property

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>27,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>24,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>27,000</td>
</tr>
<tr>
<td>(d) Expected rent</td>
<td>27,000</td>
</tr>
<tr>
<td>(e) Rent Received/Receivable (2,100 x 5)</td>
<td>10,500</td>
</tr>
<tr>
<td>GAV = Higher of (d) or (e)</td>
<td>27,000</td>
</tr>
</tbody>
</table>

Less: Municipal taxes (4,000.00)
Net Annual Value 23,000.00
Less: 30% of NAV u/s 24(a) (6,900.00)
Less: Interest on capital borrowed u/s 24(b) (34,560.00)
Loss from house property (18,460.00)
Income under the head Capital Gains (LTCG) 5,00,000.00
Income under the head Capital gains after adjusting loss from house property 4,81,540.00
Gross Total Income 4,81,540.00
Less: Deduction u/s 80C to 80U Nil
Total Income 4,81,540.00
**Computation of Tax Liability**

Tax on ₹2,31,540 (₹4,81,540 – ₹2,50,000) @ 20% u/s 112  
Less: Rebate u/s 87A  
Tax before health and education cess  
Add: HEC @ 4%  
Tax Liability  
Rounded off u/s 288B

**Illustration 23:** Mr. X has one big house. 25% of it is being used by the assessee in his own business/profession and 50% of the house is let out @ ₹10,000 p.m. However, it remained vacant for one month and there is unrealised rent for 1½ month. Remaining 25% is self occupied throughout the year. Fair rent of the entire house is ₹25,000 p.m., municipal valuation ₹22,000 p.m. and municipal tax paid is ₹22,000. Insurance premium paid is ₹6,000, repair charges ₹8,000, land revenue paid ₹4,000, ground rent is ₹3,000 and depreciation of the house is ₹12,000. Assessee’s income under the head business/profession before charging expenditure relating to house property is ₹2,00,000.

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

**Solution:**

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

**Income from self occupied portion**

Income of self occupied portion  
Nil

**Income of let out portion**

Gross Annual Value  
₹1,50,000.00

**Working Note:**

(a) Fair Rent (12,500 x 12)  
(b) Municipal Valuation (11,000 x 12)  
(c) Expected rent {Higher of (a) or (b)}  
(d) Rent Received/Receivable (10,000 x 9.5)  

If there was no vacancy, in that case rent received/receivable would have been ₹1,05,000 and it was still less than expected rent, therefore GAV shall be expected rent

GAV  
₹1,50,000

Less: Municipal taxes  
Net Annual Value  
Less: 30% of NAV u/s 24(a)  
Less: Interest on capital borrowed u/s 24(b)  
Income under the head House Property  
97,300.00

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

Income before debiting any expense of the house property  
2,00,000.00

Less: Municipal taxes  
Less: Insurance premium  
Less: Repairs charges  
Less: Land revenue  
Less: Ground Rent  
Less: Depreciation  
Income under the head Business/Profession  
1,86,250.00

**Computation of Total Income**

Income under the head House Property  
Income under the head Business/Profession  
Gross Total Income  
Less: Deductions u/s 80C to 80U  
Total Income  
2,83,550.00

**Computation of Tax Liability**

Tax on ₹2,83,550 at slab rate  
Less: Rebate u/s 87A  
1,677.50
Mr. A and B constructed their houses on a piece of land purchased by them at New Delhi. The built up area of each house was 1,000 sq. ft. ground floor and an equal area in the first floor.

A started construction on 01.04.2018 and completed on 31.03.2019. A occupied the entire house on 01.04.2019. A has availed a housing loan of ₹20 lakhs @ 12% p.a. on 01.04.2018 and has also submitted a certificate from the lender certifying the amount of interest.

B started construction on 01.07.2018 and completed on 01.07.2019. B occupied the ground floor on 01.07.2019 and let out the first floor for a rent of ₹15,000 per month. However, the tenant vacated the house on 31.12.2019 and B occupied the entire house during the period 01.01.2020 to 31.03.2020. B has availed a housing loan of ₹12 lakhs @ 10% p.a. on 01.07.2018 and has also submitted a certificate from the lender certifying the amount of interest.

Following are the other information:

1. Fair rental value of each unit: ₹6,00,000 per annum (Ground floor / First floor)
2. Municipal value of each unit: ₹3,00,000 per annum (Ground floor / First floor)
3. Municipal taxes paid by A - ₹8,000, B - ₹8,000
4. Repair and maintenance charges paid by A - ₹28,000, B - ₹30,000

No repayment was made by either of them till 31.03.2020.

Compute tax liability for the assessment year 2020-21.

**Answer:**

**Computation of income from House Property of Mr. A**

Net Annual Value:Nil

Less: 30% of NAV 24(a):Nil

Less: Interest on capital borrowed u/s 24(b): (2,00,000)

Interest paid on borrowed capital

= 20,00,000 @ 12% = ₹2,40,000

Interest deduction restricted to ₹2,00,000

There is no prior period interest

Loss under the head “House Property”: (2,00,000)

Tax Liability: Nil

**Computation of income from House Property of Mr. B**

**Ground floor (self occupied)**

Net Annual Value: Nil

Less: 30% of NAV u/s 24(a): Nil

Less: Interest on capital borrowed u/s 24(b): (69,000)

**Working Note:**

Prior period interest

**From 01.07.2018 to 31.03.2019**

= 12,00,000 x 10% x 9 / 12 = 90,000

90,000 allowed in 5 equal instalments

= 90,000 / 5 = ₹18,000 per annum

= 18,000 / 2 = ₹9,000

Current period interest

**From 01.04.2019 to 31.03.2020**

= 12,00,000 x 10% x 1/2 = ₹60,000

Total Interest = ₹60,000 + ₹9,000 = ₹69,000

Loss from House Property: (69,000)
First floor (Let out)

Gross Annual Value 4,50,000

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (6,00,000 x 9/12) 4,50,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (3,00,000 x 9/12) 2,25,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b) 4,50,000</td>
</tr>
<tr>
<td>(d) Expected Rent 4,50,000</td>
</tr>
<tr>
<td>(e) Rent Received/Receivable (15,000 x 6) 90,000</td>
</tr>
<tr>
<td>GAV = Higher of (d) or (e) 4,50,000</td>
</tr>
</tbody>
</table>

Less: Municipal taxes (4,000)
Net Annual Value 4,46,000
Less: 30% of NAV u/s 24(a) (1,33,800)
Less: Interest on capital borrowed u/s 24(b) (69,000)

Working Note:
Prior period interest
From 01.07.2018 to 31.03.2019
= 12,00,000 x 10% x 9 / 12 = 90,000
90,000 allowed in 5 equal instalments
= 90,000 / 5 = ₹ 18,000 per annum
= 18,000 / 2 = ₹9,000

Current period interest
From 01.04.2019 to 31.03.2020
= 12,00,000 x 10% x 1/2 = ₹60,000
Total Interest = ₹60,000 + ₹ 9,000 = ₹69,000

Income from House Property 2,43,200
Income under the head “Income from House Property” of Mr. B 1,74,200
(Both ground floor and first floor)
Tax Liability Nil

Question 15: Write a note on composite rent.
Answer: Composite Rent
A person may let out a house property alongwith some facilities like generator or security etc. and rent may
be charged combined for the house property as well as facility, such rent is called composite rent and in such
cases rent for house property shall be taxable under the head house property and rent for facilities shall be
taxable under the head other sources but after deducting all the expenses relating to such facility.
If there are so many facilities and bifurcation is not possible, income shall be taxable under the head
business/profession or other sources e.g. in case of hotel business/paying guest accommodation/warehousing
or auditorium etc., income is taxable under the head business/profession.

Illustration 24: Mr. X has let out one house alongwith generator facility and has charged a sum of ₹40,000
p.m. as rent, out of which ₹3,000 p.m. is attributable to the generator. He has paid ₹2,300 and the tenant has
paid ₹900 towards municipal taxes. The interest on the capital borrowed for construction of the house is
₹7,000. Mr. X has paid repair charge of the generator ₹3,400, fuel charges ₹5,600 and operator’s salary ₹300
p.m.
Compute the tax liability of Mr. X for assessment year 2020-21.

Solution:
Computation of income under the head House Property

| Gross Annual Value (37,000 x 12) 4,44,000.00 |
| Less: Municipal Taxes (2,300.00) |
| Net Annual Value 4,41,700.00 |
| Less: 30% of NAV u/s 24(a) (1,32,510.00) |
| Less: Interest on capital borrowed u/s 24(b) (7,000.00) |
| Income under the head House Property 3,02,190.00 |
**Computation of income under the head Other Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from generator</td>
<td>36,000.00</td>
</tr>
<tr>
<td>(3,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Less: Repair charges</td>
<td>(3,400.00)</td>
</tr>
<tr>
<td>Less: Fuel charges</td>
<td>(5,600.00)</td>
</tr>
<tr>
<td>Less: Operator Salary</td>
<td>(3,600.00)</td>
</tr>
<tr>
<td>(300 x 12)</td>
<td></td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>23,400.00</td>
</tr>
</tbody>
</table>

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head House Property</td>
<td>3,02,190.00</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>23,400.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>3,25,590.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>3,25,590.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹3,25,590 at slab rate</td>
<td>3,779.50</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(3,779.50)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Question 16: Write a note on letting out of building which is supplementary to the business.**

**Answer: Letting out of building which is supplementary to the business**

If any person has let out any house property for any purpose which is supplementary to the business of the assessee, in such cases rental income shall be taxable under the head business/profession and all expenses of such house property shall be debited to the profit and loss account. E.g. If a Public school has let out a part of its building to a Bank, in this case rent received shall be considered to be income under the head Business/Profession and all expenses of such house property shall be debited to profit and loss account. Similarly, if any company has constructed houses for the employees in their premises and it is let out to the employees, rental income is taxable under the head Business/Profession.

**Question 17: Write a note on tax liability in respect of arrears of rent.**

**Answer: Tax liability in respect of arrears of rent Section 25A**

Sometimes rent of a house property may be increased from retrospective effect i.e. from back date and the assessee may receive arrear of rent, such arrears are taxable in the year in which arrears have been received, however deduction shall be allowed @ 30% of such arrears and only the balance amount shall be taxable. It do not matter that the assessee do not have any house property in his name in that year.

There is no specific provision given in the Income Tax Act relating to advance payment of rent.

**Illustration 25:** Mr. X has let out his house to State Bank @ ₹20,000 p.m. The bank has increased the rent on 1st July, 2019 to ₹27,000 p.m. retrospectively w.e.f. 01.11.2018. The assessee has paid municipal taxes of ₹7,000 during the previous year 2019-20.

Compute income under the head House Property for assessment year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Computation of income under the head House Property</strong></td>
<td></td>
</tr>
<tr>
<td>Gross Annual Value (27,000 x 12)</td>
<td>3,24,000</td>
</tr>
<tr>
<td>Less: Municipal Taxes</td>
<td>(7,000)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>3,17,000</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(95,100)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: Arrears of rent (Sec 25A) (7,000 x 5)</td>
<td>35,000</td>
</tr>
<tr>
<td>Less: 30% of ₹35,000</td>
<td>(10,500)</td>
</tr>
<tr>
<td>Income under the House Property</td>
<td>2,46,400</td>
</tr>
</tbody>
</table>
Mr. X owns a house property which is let out. During the previous year ending 31.03.2020 he receives (i) arrears of rent of ₹30,000 and (ii) unrealised rent of ₹20,000.

You are requested to
(a) state, how they should be dealt with as per the provisions of the Act, and
(b) compute the income chargeable under the head “Income from house property”.

**Answer:**
(a) As per provisions of section 25A, arrears of rent will be charged to tax as income from house property in the previous year in which such rent is received, after deducting a sum equal to 30% of such amount. The taxability shall be there whether Mr. X remains as the owner of the property in the concerned year or not. In this case, it shall be taxed as income from house property in the year of receipt of such arrear rent.

(b) As per the provisions of section 25A, the unrealised rent when received, it shall be deemed to be the income chargeable under the head “Income from house property” and shall be charged to tax in the year of receipt, after deducting a sum equal to 30% of such amount. In this case also, the taxability shall be there, irrespective of the fact whether Mr. X is the owner of property or not in the year of receipt.

**Computation of income from house property**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrears of rent</td>
<td>₹30,000</td>
</tr>
<tr>
<td>Less: Deduction @ 30% of ₹30,000/- u/s 25A</td>
<td>(₹9,000)</td>
</tr>
<tr>
<td>Add: Unrealised rent received</td>
<td>₹20,000</td>
</tr>
<tr>
<td>Less: Deduction @ 30% of ₹20,000/- u/s 25A</td>
<td>(₹6,000)</td>
</tr>
<tr>
<td>Income from house property</td>
<td>₹14,000</td>
</tr>
</tbody>
</table>

**Question 18: Write a note on sub-letting of house property.**

**Answer:** Sub-letting of house property Section 56

If any person has let out any house property and the tenant has further given the same house property on rent, it is called sub-letting and in this case, income of the person who has sub-let the house property, shall be computed under the head Other Sources and income shall be equal to gross rent received – expenses incurred for such house property.

**Example**
Mr. X has let out one house to Mr. Y at a rent of ₹1,00,000 p.m. and has paid municipal tax of ₹1,00,000.
Mr. Y has sub-let 50% of the house property to Mr. Z at a rent of ₹70,000 p.m., in this case income of Mr. X and Mr. Y shall be computed in the manner given below:
Income of Mr. X shall be computed under the head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAV (1,00,000 x 12)</td>
<td>₹12,00,000</td>
</tr>
<tr>
<td>Less: Municipal Tax</td>
<td>(₹1,00,000)</td>
</tr>
<tr>
<td>NAV</td>
<td>₹11,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 24(a)</td>
<td>(₹3,30,000)</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>₹7,70,000</td>
</tr>
</tbody>
</table>

Income of Mr. Y shall be computed under the head Other Sources

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Rent received (70,000 x 12)</td>
<td>₹8,40,000</td>
</tr>
<tr>
<td>Less: Rent paid by him (1,00,000 x 50% x 12)</td>
<td>(₹6,00,000)</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>₹2,40,000</td>
</tr>
</tbody>
</table>

**Question 19: Write a note on computation of income from house property situated outside India.**

**Answer:**
Income of house property situated outside India shall be computed in the similar manner as in case of house property situated in India and such income shall be taxable in the case of ROR. In case of NR or NOR such income is exempt provided income is received outside India i.e. if income is received in India, it will be taxable in case of NR/NOR also.
Illustration 26: Mr. X, a British national, is a resident and ordinarily resident in India during the P.Y.2019-20. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2019-20. The value of one £ in Indian rupee to be taken at ₹ 82.50. Compute Mr. X’s taxable income for the A.Y. 2020-21.

Solution:
For the P.Y.2019-20, Mr. X, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is be to allowed as deduction from the gross annual value.

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value (£ 10,000 × 12 × 82.50)</td>
<td>99,00,000</td>
</tr>
<tr>
<td>Less: Municipal taxes paid (£ 8,000 × 82.50)</td>
<td>(6,60,000)</td>
</tr>
<tr>
<td>Net Annual Value (NAV)</td>
<td>92,40,000</td>
</tr>
<tr>
<td>Less: Deduction under section 24</td>
<td></td>
</tr>
<tr>
<td>(a) 30% of NAV = 30% of ₹ 92,40,000</td>
<td>(27,72,000)</td>
</tr>
<tr>
<td><strong>Income from house property</strong></td>
<td>64,68,000</td>
</tr>
</tbody>
</table>

NOV – 2009 (4 Marks)

Mrs. X, a resident and ordinarily resident individual, owns a house in U.S.A. She receives rent @ $ 2,000 per month. She paid municipal taxes of $ 1,500 during the financial year 2019-20.

She also owns a two storied house in Mumbai, ground floor is used for her residence and first floor is let out at a monthly rent of ₹10,000.

Municipal taxes paid for the house amounts to ₹7,500. Mrs. X had constructed the house by taking a loan from a nationalized bank on 20.06.2016. She repaid the loan of ₹54,000 including interest of ₹24,000 in the current year.

The value of one dollar is to be taken as ₹45.

Compute total income from house property and also tax liability of Mrs. X for assessment year 2020-21.

Answer.

Computation of Income from House Property of Mrs. X for the Assessment Year 2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GAV of the house in USA</strong></td>
<td></td>
</tr>
<tr>
<td>($2000 p.m. x ₹45 per USD x 12 months)</td>
<td>10,80,000.00</td>
</tr>
<tr>
<td><strong>Less:</strong> Municipal taxes paid ($1500 x ₹45 per USD)</td>
<td>(67,500.00)</td>
</tr>
<tr>
<td><strong>Net Annual Value</strong></td>
<td>10,12,500.00</td>
</tr>
<tr>
<td><strong>Less:</strong> Statutory deduction under section 24(a) @ 30% of NAV</td>
<td>(3,03,750.00)</td>
</tr>
<tr>
<td><strong>Income from House property</strong></td>
<td>7,08,750.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>GAV of house at Mumbai (let out portion)- 1st Floor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Annual Value (10,000 x 12)</strong></td>
</tr>
<tr>
<td><strong>Less:</strong> Municipal taxes paid (1/2 of ₹7,500)</td>
</tr>
<tr>
<td><strong>Net Annual Value (NAV)</strong></td>
</tr>
<tr>
<td><strong>Less:</strong> Statutory deduction under section 24(a) @ 30% of NAV</td>
</tr>
<tr>
<td><strong>Less:</strong> Interest on Housing loan (1/2 of ₹24,000) 24(b)</td>
</tr>
<tr>
<td><strong>Income from House property</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>GAV of house at Mumbai (self occupied portion) – Ground Floor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Less:</strong> Municipal taxes</td>
</tr>
<tr>
<td><strong>Net Annual Value</strong></td>
</tr>
<tr>
<td><strong>Less:</strong> Statutory deduction under section 24(a) @ 30% of NAV</td>
</tr>
<tr>
<td><strong>Less:</strong> Interest on Housing Loan (1/2 of ₹24,000) 24(b)</td>
</tr>
<tr>
<td><strong>Loss from House property</strong></td>
</tr>
<tr>
<td><strong>Income from House property</strong></td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
</tr>
<tr>
<td><strong>Less:</strong> Deduction u/s 80C (Repayment of housing loan)</td>
</tr>
<tr>
<td><strong>Total Income (rounded off u/s 288A)</strong></td>
</tr>
</tbody>
</table>
Computation of Tax Liability
Tax on ₹7,36,130 at slab rate 59,726.00
Add: HEC @ 4% 2,389.04
Tax Liability 62,115.04
Rounded off u/s 288B 62,120.00

Question 20: Write a note on treatment of income from co-owned property.
Answer: Treatment of income from co-owned property  Section 26
If any house property is owned by co-owners and their shares are given, in such cases each such co-owner has to pay tax on his share in the income of house property but if shares are not given, it will be considered to be income of co-owners (BOI/AOP) e.g. Mr. X and Mr. Y are co-owners of a house property and their shares are not given and income is ₹20 lakhs, in this case it will be taxable as income of co-owners but if share of each one is 50%, Mr. X will pay tax on income of ₹10 lakh and Mr. Y will pay tax on income of ₹10 lakh.

Where the house property owned by co-owners is self occupied by each of the co-owners, the annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹30,000 / ₹ 2,00,000, as the case may be, under section 24(b) on account of interest on borrowed capital e.g. Mr. X and Mr. Y are co-owners of a particular house property and it is self occupied by each one of them and each one has share of 50% and interest on loan taken for construction of a house is ₹5 lakh and loan was taken w.e.f 01.04.1999 onwards and house was completed within 5 years and a certificate has been submitted confirming the amount of interest, in this case loss of Mr. X shall be ₹2 lakh and loss of Mr. Y shall be ₹2 lakh.
If share of individual, co-owner is not given, it will be considered to be loss of BOI and loss can be maximum ₹ 2,00,000.
If any house property is owned by a partnership firm or company, it will be considered to be income of partnership firm or company and not that of partners or shareholders.

NOV – 2009 (4 Marks)
Mr. X is a co-owner of a house property along with his brother.
Municipal value of the Property 1,60,000
Fair Rent 1,50,000
Standard Rent under the Rent Control Act 1,70,000
Rent received 15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹25,000 out of which ₹21,000 have been paid. Interest on the unpaid interest is ₹450. To repay this loan, X and his brother have taken a fresh loan and interest charged on this loan is ₹5,000.
The Municipal taxes of ₹5,100 have been paid by the tenant.
Mr. X has 50% share in the house property.
Mr. X has income from Other Sources ₹2,60,000.

Compute the income from this property chargeable in the hands of Mr. X and tax liability for A.Y. 2020-21.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>1,80,000</td>
</tr>
<tr>
<td>Working Note:</td>
<td></td>
</tr>
<tr>
<td>(a) Municipal value of property</td>
<td>1,60,000</td>
</tr>
<tr>
<td>(b) Fair rent</td>
<td>1,50,000</td>
</tr>
<tr>
<td>(c) Higher of (a) and (b)</td>
<td>1,60,000</td>
</tr>
<tr>
<td>(d) Standard rent</td>
<td>1,70,000</td>
</tr>
<tr>
<td>(e) Annual Letting Value / Expected Rent [lower of (c) and (d)]</td>
<td>1,60,000</td>
</tr>
<tr>
<td>(f) Actual rent [15,000 x 12]</td>
<td>1,80,000</td>
</tr>
<tr>
<td>(g) Gross Annual Value [higher of (e) and (f)]</td>
<td>1,80,000</td>
</tr>
<tr>
<td>Less: Municipal taxes – paid by the tenant, hence not deductible</td>
<td>Nil</td>
</tr>
<tr>
<td>Net Annual Value (NAV)</td>
<td>1,80,000</td>
</tr>
</tbody>
</table>
Less: Standard deduction 30% of NAV u/s 24(a) (54,000)
Less: Interest on housing loan u/s 24(b)
  Interest on loan taken from bank (25,000)
  Interest on fresh loan to repay old loan for this property (5,000)
Income under the head house property 96,000
50% share taxable in the hands of Mr. X 48,000
Income under the head House Property 48,000
Income under the head Other Sources 2,60,000
Gross Total Income 3,08,000
Less: Deduction u/s 80C to 80U Nil
Total Income 3,08,000

Computations of Tax Liability
Tax on ₹3,08,000 at slab rate 2,900
Less: Rebate u/s 87A (2,900)
Tax before health & education cess Nil
Add: HEC @ 4% Nil
Tax Liability Nil

Note: Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.

Question 21: Write a note on owner / deemed owner.
Answer: Owner / deemed owner Section 22 / 27
As per section 22, the owner of house property shall be liable to pay income tax and if the title of the ownership of the property is under dispute in a court of law, the decision as to who will be the owner chargeable to income-tax under section 22 will be of the Income-tax Department till the court gives its decision to the suit filed in respect of such property. E.g. Ownership of a house property is disputed among two brothers Mr. X and Mr. Y and rent is being received by Mr. X, in this case Mr. X shall be considered to be the owner of the house property till decision is given by the Court and after that amount of tax shall be adjusted as per court decision.

As per section 27, the following persons, are deemed to be the owners.

(i) Transfer of a house property to spouse – In case of transfer of house property by an individual to his or her spouse otherwise than for adequate consideration, the transferor is deemed to be the owner of the transferred property. In case of transfer to spouse in connection with an agreement to live apart, the transferor will not be deemed to be the owner. The transferee will be the owner of the house property. In case of transfer of house property by an individual to his or her minor child, the transferor is deemed to be the owner of the house property transferred. In case of transfer to a minor married daughter, the transferor is not deemed to be the owner. E.g. Mr. X has two house property each having income of ₹10 lakh and Mr. X has gifted one house property to Mrs. X, in this case income from such house property shall be taxable in the hands of Mr. X but if Mr. X has sold the house property to Mrs. X and has taken full payment, in that case income from house property shall be taxable in the hands of Mrs. X.

(ii) Person in possession of a property – If any person has given possession of house property and has taken full payment but ownership in documents has not yet been transferred, in such cases the proposed buyer is the deemed owner and shall be liable to pay income tax and it is called part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act. E.g. Mr. X has sold his house property to Mr. Y for ₹50 lakhs and has taken full payment and possession has been given to Mr. Y but conveyance deed is not prepared in the name of Mr. Y, in this case Mr. Y is the deemed owner.

(iii) Member of a co-operative society etc. – A member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/company/association, shall be deemed to be owner of that building or part thereof allotted to him although the co-operative society/company/ association is the legal owner of that building.
(iv) **Holder of an impartible estate** — The impartible estate is a property which is not divisible. The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate.

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**NOV – 2010 (2 Marks each)**

Explain briefly the applicability of section 22 for chargeability of income tax for:

(i) House property situated in foreign country and

(ii) House property with disputed ownership.

**Answer:**

Applicability of section 22 for chargeability of income-tax for –

**(i) House property situated in foreign country**

A resident and ordinarily assessee is taxable under section 22 in respect of a house property situated in foreign country. A resident but not ordinarily resident or a non resident is taxable in respect of income from such property if the income is received in India during the previous year.

**(ii) House property with disputed ownership**

If the title of ownership of the house property is under dispute in a court of law, the decision about who is the owner lies with the Court but till then income tax shall be required from the person who is the beneficial owner of the house property.

**Illustration 27:** Mr. Anand sold his residential house property in March, 2019. In June, 2019, he recovered rent of ₹10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2013 to March 2015. He could not realise two months rent of ₹20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2015-16. Further, he had let out his property from April, 2015 to February, 2019 to Mr. Satish. In April, 2017, he had increased the rent from ₹12,000 to ₹15,000 per month and the same was a subject matter of dispute. In September, 2019, the matter was finally settled and Mr. Anand received ₹69,000 as arrears of rent for the period April 2017 to February, 2017. Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

**Solution:**

Since the unrealised rent was recovered in the P.Y.2019-20, the same would be taxable in the A.Y.2020-21 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2019-20, and hence the same would be taxable in the A.Y.2020-21 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent be allowed while computing income from house property of Mr. Anand for A.Y.2020-21.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovery of Unrealised Rent</td>
<td>10,000</td>
</tr>
<tr>
<td>Add: Arrear of Rent Received</td>
<td>69,000</td>
</tr>
<tr>
<td>Total</td>
<td>79,000</td>
</tr>
<tr>
<td>Less: Deduction @ 30%</td>
<td>(23,700)</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>55,300</td>
</tr>
</tbody>
</table>
MULTIPLE CHOICE QUESTIONS

1. Vacant site lease rent is taxable as
(a) Income from house property
(b) Business income or income from house property, as the case may be
(c) Income from other sources or business income, as the case may be
(d) Income from other sources or income from house property, as the case may be

2. Treatment of unrealized rent for determining income from house property
(a) To be deducted from expected rent
(b) To be deducted from actual rent
(c) To be deducted under section 24 from annual value
(d) To be deducted from both expected rent and actual rent

3. Municipal taxes to be deducted from GAV should be
(a) Paid by the tenant during the previous year
(b) Paid by the owner during the previous year
(c) Accrued during the previous year
(d) Paid during the previous year either by tenant or owner

4. Deduction under section 24(a) is
(a) 1/3rd of NAV
(b) repairs actually incurred by the owner
(c) 30% of NAV
(d) Interest on borrowed capital

5. Interest on borrowed capital accrued up to the end of the previous year prior to the year of completion of construction is
(a) allowed as a deduction in the year of completion of construction
(b) allowed in 5 equal annual installments from the year of completion of construction
(c) allowed in the respective year in which the interest accrues
(d) not allowed

6. The ceiling limit of deduction under section 24(b) in respect of interest on loan taken on 1.4.2018 for repairs of a self-occupied house is
(a) ₹30,000 p.a.
(b) ₹1,50,000 p.a.
(c) ₹2,00,000 p.a.
(d) No limit

7. Where an assessee has two house properties for self-occupation, the benefit of nil annual value will be available in respect of -
(a) Both the properties
(b) The property which has been acquired/constructed first
(c) Any one of the properties, at the option of the assessee
(d) Any one of the properties and once option is exercised cannot be changed in subsequent years

8. Leena received ₹30,000 as arrears of rent during the P.Y. 2019-20. The amount taxable under section 25A would be -
(a) ₹30,000
(b) ₹21,000
(c) ₹20,000
(d) ₹15,000

9. Vidya received ₹90,000 in May, 2019 towards recovery of unrealised rent, which was deducted from actual rent during the P.Y. 2017-18 for determining annual value. Legal expense incurred in relation to unrealized rent is ₹20,000. The amount taxable under section 25A for A.Y.2020-21 would be -
(a) ₹70,000
(b) ₹63,000
(c) ₹60,000
(d) ₹49,000
10. Ganesh and Rajesh are co-owners of a self-occupied property. They own 50% share each. The interest paid by each co-owner during the previous year on loan (taken for acquisition of property during the year 2004) is ₹2,05,000. The amount of allowable deduction in respect of each co-owner is –
(a) ₹2,05,000
(b) ₹1,02,500
(c) ₹2,00,000
(d) ₹1,00,000

11. In respect of loss from house property, which of the following statements are correct?
(a) While computing income from any house property, the maximum interest deduction allowable under section 24 is ₹2 lakhs
(b) Loss from house property relating to a particular year can be set-off against income under any other head during that year only to the extent of ₹2 lakhs
(c) The loss in excess of ₹2 lakh, which is not set-off during the year, can be carried forward for set-off against any head of income in the succeeding year(s)
(d) All of the above

12. Mr. X purchased in October, 2019, a flat in Chennai, to be used for his own residential purposes with the financial assistance of housing loan taken from PNB Housing Finance Ltd. He has paid interest on such loan till March, 2020 of ₹1,78,780. The amount of interest paid on such loan allowed u/s 24 is (all conditions for claiming higher interest have been complied with):
(a) ₹1,25,000
(b) ₹1,78,780
(c) ₹1,50,000
(d) None of the above

13. Mr. Zen owns a flat in Mumbai which was let out by him in the previous year 2019 – 20 on a rent of ₹20,000 p.m. upto December, 2019 and for ₹30,000 p.m. thereafter. The annual municipal value is of ₹3,00,000, Fair Rent is ₹2,50,000 and Standard Rent is ₹2,90,000. The Gross Annual Value of the flat shall be taken as:
(a) ₹2,70,000
(b) ₹3,00,000
(c) ₹2,50,000
(d) ₹2,90,000

14. In case of inter source adjustment the loss derived from a house property can be set off during the year against:
(a) the income of any other house property
(b) the capital gain
(c) the income under other sources
(d) (b) and (c) above

15. Mr. Ahmed acquired a property in April, 2019 for self-residential use. The loan interest payable to State Bank of India for the financial year 2019-20 amounts to ₹2,10,000. The amount eligible for deduction under section 24 is (all conditions for claiming higher interest have been complied with):
(a) ₹30,000
(b) ₹2,00,000
(c) ₹2,10,000
(d) ₹1,50,000

16. A borrowed ₹5,00,000 @ 12% p.a. on 1-4-2015 for construction of house property which was completed on 15-3-2019. The amount is still unpaid. The deduction of interest for previous year 2019-20 shall be :
(a) ₹60,000
(b) ₹96,000
(c) ₹1,80,000
(d) ₹2,40,000
17. Mr. Shahu has loss from house property for the assessment year 2020-21. He can carry forward such loss for subsequent ............... assessment years.
   (a) 4
   (b) Nil
   (c) 8
   (d) Indefinite

18. Ms. Padmaja let out a property for ₹20,000 per month during the year 2019-20. The municipal tax on the let-out property was enhanced retrospectively. Hence, she paid ₹60,000 as municipal tax which included arrears of municipal tax of ₹45,000. Her income from house property is —
   (a) ₹1,80,000
   (b) ₹1,57,500
   (c) ₹1,26,000
   (d) ₹1,36,500

19. The construction of a house was completed on 31st January, 2020. The owner of the house took a loan of ₹20,00,000 @ 6% p.a. on 1st May, 2019. In this case the deduction allowable for the previous year 2019-20 towards interest on borrowings is —
   (a) 22,000
   (b) 24,000
   (c) 1,10,000
   (d) None of the above.

20. The brought forward loss from a house property can be set off during the year against:
   (a) the income of any other house property
   (b) the capital gain
   (c) the income under other sources
   (d) all the above

21. The current year loss under the head house property can be set off from other heads maximum upto ________________.
   (a) ₹ 1,50,000
   (b) ₹ 2,00,000
   (c) ₹ 2,50,000
   (d) ₹ 3,00,000

22. Standard Deduction u/s 24(a) shall be
   (a) 25% of NAV
   (b) 30% of NAV
   (c) 25% of GAV
   (d) 30% of GAV

23. GAV shall be
   (a) Higher of expected rent and rent received/receivable
   (b) Lower of expected rent and rent received/receivable
   (c) Higher of municipal value and fair rent
   (d) NAV minus municipal taxes

24. Expected rent shall be
   (a) Higher of municipal value and fair rent but restricted to Standard rent
   (b) Lower of municipal value and fair rent but maximum to Standard rent
   (c) Higher of municipal value and fair rent
   (d) Lower of municipal value and fair rent

25. Prior Period Interest shall be allowed in
   (a) 5 annual equal installments
   (a) 4 annual equal installments
   (c) 3 annual equal installments
   (d) 2 annual equal installments
26. The Ceiling limit of deduction u/s 24(b) in respect of interest on loan taken for let out property shall be
(a) ₹ 30,000 p.a.
(b) ₹ 1,50,000 p.a.
(c) ₹ 2,00,000 p.a.
(d) No limit

27. Recovery of unrealized rent shall be taxable under the head
(a) House Property
(b) Business/Profession
(c) Other sources
(d) None of the above

28. If any person is engaged in the business of letting out of house property, income shall be taxable under the head
(a) Business/profession
(b) House property
(c) Other sources
(d) Capital gains
(e) None of these

29. Loss from house property is not allowed to be set off from
(a) Income under the head Salary
(b) Income under the head Business/Profession
(c) Income under the head Capital Gains
(d) Casual Income

30. If loan has been taken on 01.04.2018 and house was completed on 31.03.2019, in this case
(a) no prior period installment in p.y. 2019-20
(b) there is prior period installment in p.y. 2019-20

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

TOTAL PROBLEMS 30

Problem 1:
Mr. X has let out one building @ ₹ 90,000 p.m. and fair rent is ₹ 80,000 p.m. standard rent ₹ 1,00,000 p.m. Municipal valuation ₹ 81,000 p.m., Municipal Tax paid ₹ 70,000 p.a., Interest on loan for construction of house property ₹ 82,000.
Compute his tax liability for assessment year 2020-21.
Answer: Tax Liability: ₹39,000

Problem 2:
X Ltd. has let out one building to ABC Ltd. @ ₹3,00,000 p.m. and X Ltd. has paid municipal tax of ₹6,00,000 p.a. X Ltd. has paid interest of ₹3,00,000 on loan taken for construction of building. Fair rent of the building is ₹2,50,000 p.m. and Municipal Valuation is ₹2,75,000 p.m. and Standard Rent is ₹2,80,000 p.m.
Answer: Income Tax Liability: ₹5,61,600

Problem 3:
XYZ Ltd. has let out one building to ABC Ltd. @ ₹2,00,000 p.m. Fair rent is ₹1,80,000 p.m. and standard rent ₹2,20,000 p.m.. The company paid municipal tax of ₹6,00,000 during the year.
Compute income tax Liability of XYZ Ltd.
Answer: Income Tax Liability: ₹3,93,120

Problem 4:
Mr. X has let out one house at a rent of ₹50,000 p.m. Fair rent ₹55,000 p.m. Municipal Valuation ₹52,000 p.m., standard rent ₹60,000 p.m.. The house remain vacant for 3 months. The assessee paid municipal tax ₹30,000. Interest on loan u/s 24(b) is ₹20,000.Compute Income and Tax Liability A.Y. 2020-21.
Answer: Income Tax Liability: Nil
(b) Presume it is let out at a rent of ₹60,000 P.m.
Answer: Income Tax Liability: Nil
(c) Presume it is let out at a rent of ₹55,000 P.m.
Answer: Income Tax Liability: Nil
(d) Presume it is let out at a rent of ₹1,00,000 P.m.
Answer: Income Tax Liability: ₹31,510

Problem 5:
Mr. X has let out one house at a rent of ₹15,00,000 p.m. Fair rent ₹15,50,000 p.m. Municipal Valuation ₹15,20,000 p.m., standard rent ₹16,00,000 p.m.. The house remain vacant for 3 months. The assessee paid municipal tax ₹13,00,000. Interest on loan u/s 24(b) is ₹12,00,000.Compute Income and Tax Liability A.Y. 2020-21.
Answer: Income Tax Liability: ₹36,90,260
(b) Presume it is let out at a rent of ₹16,00,000 P.m.
Answer: Income Tax Liability: ₹25,20,800
(c) Presume it is let out at a rent of ₹15,60,000 P.m.
Answer: Income Tax Liability: ₹24,34,320
(d) Presume it is let out at a rent of ₹20,00,000 P.m.
Answer: Income Tax Liability: ₹35,39,560

Problem 6.
Mr. X has loss under the head house property ₹3,00,000 and LTCG ₹4,00,000 and casual income ₹1,00,000 Compute his income and tax liability for A.Y. 2020-21.
Answer: Income Tax Liability: ₹18,200
Problem 7.
Mr. X has income under the head house property ₹3,00,000 and LTCG ₹4,00,000 and casual income ₹1,00,000. He has loss under the head house property ₹4,00,000 of P.Y. 2012-13 and it could not be adjusted. Compute his income and tax liability for A.Y. 2020-21.
Answer: Income Tax Liability: ₹49,400

Problem 8.
Mr. X has income under the head house property ₹3,00,000 and income under the head business/profession ₹5,00,000 and LTCG ₹4,00,000 and casual income ₹1,00,000. He has loss under the head house property ₹4,00,000 of P.Y. 2012-13 and it could not be adjusted. Compute his income and tax liability for A.Y. 2020-21.
Answer: Income Tax Liability: ₹1,27,400

Problem 9.
Mr. X has income from house - 1 ₹8,00,000 and loss from house - 2 ₹3,00,000 and STCG 111A ₹1,50,000 and casual income ₹1,00,000 and he received Dividend of ₹2,00,000 from Domestic Company and he has Agriculture Income from India ₹2,00,000. He has loss under the head house property ₹4,00,000 of P.Y. 2012-13 and it could not be adjusted. Compute his income and tax liability for A.Y. 2020-21.
Answer: Income Tax Liability: ₹18,200

Problem 10.
Compute gross annual value in the following cases for the assessment year 2020-21:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Situation 1</th>
<th>Situation 2</th>
<th>Situation 3</th>
<th>Situation 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Rent (p.m.)</td>
<td>10,000</td>
<td>12,000</td>
<td>13,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Municipal Valuation (p.m.)</td>
<td>11,000</td>
<td>10,000</td>
<td>8,000</td>
<td>17,000</td>
</tr>
<tr>
<td>Standard Rent (p.m.)</td>
<td>12,000</td>
<td>11,000</td>
<td>7,000</td>
<td>16,000</td>
</tr>
<tr>
<td>Rent received/ receivable (p.m.)</td>
<td>7,000</td>
<td>11,500</td>
<td>20,000</td>
<td>16,000</td>
</tr>
<tr>
<td>Vacancy</td>
<td>-</td>
<td>2 months</td>
<td>1 month</td>
<td>3 month</td>
</tr>
<tr>
<td>Unrealised rent</td>
<td>1 month</td>
<td>-</td>
<td>3 month</td>
<td>1 month</td>
</tr>
</tbody>
</table>

Answer = Gross Annual Value: Situation 1: ₹1,32,000; Situation 2: ₹1,15,000; Situation 3: ₹1,60,000; Situation 4: ₹1,92,000

Problem 11.
Mr. X has let out one house property @ ₹70,000 per month and there is unrealised Rent of 2 months and there is vacancy of 3 month. Fair rent ₹60,000 per month, municipal valuation ₹55,000 per month and standard rent ₹80,000 per month. Municipal tax paid ₹62,000. Interest on loan for construction of the house property is ₹75,000. The assessee has realised Rent of ₹2,00,000 in P.Y. 2016-17 and he has recovered ₹1,50,000 in P.Y. 2019-20 and interest of ₹18,000 and he has incurred ₹11,000 as legal expense. Compute his tax liability for assessment year 2020-21.
Answer: Tax Liability: ₹14,790

Problem 12.
Mr. X (non-resident) has one house with fair rent ₹20,000 p.m., municipal valuation ₹10,000 p.m., standard rent ₹18,000 p.m. It was let out for ₹12,000 p.m. but it remains vacant for 1½ months and there was unrealised rent for 2 months. Municipal taxes paid are ₹11,000 and interest on capital borrowed for construction of the house is ₹3,00,000. Mr. X has income under the head other sources ₹7,00,000. Compute his total income and tax liability for the assessment year 2020-21.
Answer = Total Income: ₹5,43,500; Tax Liability: ₹22,050

Problem 13.
Mrs. X has taken a loan of ₹11,00,000 on 01.07.2013 at a rate of 10% per annum from SBI for construction
of one house which was completed on 31.03.2015 and the house was let out at a rate of ₹80,000 per month w.e.f. 01.11.2018 and fair rent is ₹1,00,000 per month. Municipal taxes paid in previous year 2019-2020 ₹30,000. She has taken a fresh loan of ₹11,00,000 on 01.07.2018 @ 11% per annum and it was utilized to repay the original amount.

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

**Answer:** Income Tax Liability: ₹54,180

**Problem 14.**

Mr. X took a loan of ₹6,10,500 @ 7% p.a. on 01.09.2016 from his friend for construction of one house which was completed on 01.06.2019 and it was let out @ ₹9,000 p.m. It remained vacant for 1¼ month and there is unrealised rent of ₹1,000. The fair rent of house is ₹10,000 p.m. Assessee has repaid half of the loan amount on 01.07.2018 and remaining amount on 01.02.2020. He has also paid municipal tax of ₹3,000. His income from salary ₹2,65,000.

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

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

**Problem 15.**

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

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

Compute income tax liability for assessment year 2020-21.

**Answer:** Tax Liability: Nil

**Problem 16.**

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

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


**Answer:** Tax Liability: ₹1,03,940

**Problem 17.**

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

He repaid half of the loan amount on 01.01.2020.

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

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

**Problem 18.**

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

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

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

**Answer:** Total Income: ₹118,51,500; Tax Liability: ₹20,81,310
Problem 19.
Mr. X has 2 houses. First is self occupied with fair rent ₹20,000 p.a., municipal valuation is ₹55,000 p.a.. Fair rent as per Rent Control Act is ₹50,000 p.a.. However the house remains vacant for 2 months. Architect has issued completion certificate on 01.07.2017. Mr. X has taken loan for addition to house ₹3,50,000 on 01.04.2019 @ 13% p.a. The loan was repaid on 01.03.2020 and assessee has submitted a certificate from the person from whom he has taken the loan certifying that the amount of interest claimed by Mr. X is correct. In the earlier years, the house was let out and the assessee has recovered unrealised rent of ₹2,000 in the previous year 2019-20. The assessee has also incurred legal expenses of ₹350.
The second house is also self-occupied. However its similar building rent is ₹64,000 p.a. and rent determined by municipality for charging house tax is ₹66,000 p.a. Its standard rent is ₹6,000 p.m. municipal tax payable are ₹5,000.
He has long term capital gains ₹20,00,000.
Compute his income tax liability for Assessment Year 2020-21.
Answer = Income Tax Liability: ₹3,58,050

Problem 20.
Mr. X has let out one house @ ₹45,000 p.m., but this house was vacated on 01.11.2019. The house was self occupied w.e.f. 01.01.2020. Fair rent of this house is ₹50,000 p.m., municipal valuation is ₹47,000 p.m. and standard rent is ₹48,000 p.m. The assessee has paid municipal taxes @ 10% of municipal valuation. Interest on capital borrowed is ₹42,000. Land revenue paid by the assessee is ₹11,000 and ground rent paid by him is ₹3,000. The assessee has taken a loan for payment of municipal tax and interest paid on loan is ₹500.
Compute his income under the head house property and tax liability for assessment year 2020-21.
Answer = Income under the head House Property: ₹3,21,720; Tax Liability: Nil

Problem 21.
Mr. X has two houses one of which is self occupied throughout the year. Its fair rent is ₹10,000 p.m., municipal valuation ₹11,000 p.m. and standard rent is ₹10,500 p.m. Municipal taxes paid are ₹6,000 and interest on capital borrowed is ₹41,000. The assessee has taken the loan for construction of the house on 01.04.1998.
The second house is self occupied for 4 months and let out for 8 months @ of ₹45,000 p.m. Its fair rent is ₹20,000 p.m., municipal valuation is ₹18,000 p.m. and standard rent ₹15,000 p.m. Municipal taxes paid are ₹20,000 and interest on capital borrowed is ₹45,000. The assessee has taken the loan for construction of the house on 01.04.1998.
Compute his income under the head house property for the assessment year 2020-21.
Answer = Income under the head House Property: ₹1,63,000

Problem 22.
Mr. X has let out one showroom building in Pitam Pura @ 1,00,000 p.m. and has paid municipal tax ₹85,000 and fair rent of the house is ₹98,000 p.m.
He has received arrears of rent ₹3,00,000 relating to the previous year 2018-19.
He has also received unrealized rent of ₹4,00,000 of previous year 2017-18 and also interest of ₹20,000 on such unrealised rent and he has paid ₹27,000 to the advocate in connection with recovery of unrealized rent. Compute his income tax liability for assessment year 2020-21.
Answer: Tax Liability: ₹2,07,640

Problem 23.
Mr. X occupied two flats for his residential purposes, particulars of which are as follows:
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Flat I</th>
<th>Flat II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Valuation</td>
<td>95,000 p.a.</td>
<td>50,000 p.a.</td>
</tr>
<tr>
<td>Fair Rent</td>
<td>1,25,000 p.a.</td>
<td>45,000 p.a.</td>
</tr>
<tr>
<td>Fair Rent under Rent Control Act</td>
<td>85,000 p.a.</td>
<td>Not available</td>
</tr>
</tbody>
</table>
Problem 24.
Mr. X and Mr. Y constructed their houses on a piece of land purchased by them at New Delhi. The built up area of each house was 1,000 sq. ft. ground floor and an equal area at the first floor.
Mr. X started construction of the house on 01.04.2018 and completed it on 31.03.2019. Mr. X occupied the entire house on 01.04.2019. Mr. X has availed a housing loan of ₹25 lakhs @ 12% p.a. on 01.04.2018 and has also submitted a certificate from the lender certifying the amount of interest.
Mr. Y started construction on 01.04.2018 and completed it on 30.06.2019. Mr. Y occupied the ground floor on 01.07.2019 and let out the first floor for a rent of ₹20,000 per month. However, the tenant vacated the house on 31.12.2019 and Mr. Y occupied the entire house during the period 01.01.2020 to 31.03.2020. Mr. Y has availed a housing loan of ₹15 lakhs @ 10% p.a. on 01.07.2018 and has also submitted a certificate from the lender certifying the amount of interest.
Following are the other information:
(i) Fair rental value of each unit (Ground floor / first floor) ₹1,20,000 Per annum
(ii) Municipal value of each unit (Ground floor / first floor) ₹92,000 Per annum
(iii) Municipal taxes paid by
X - ₹10,000
Y - ₹10,000
(iv) Repair and maintenance charges paid by
X - ₹30,000
Y - ₹32,000
No repayment was made by either of them till 31.03.2020. Compute income from house property for Mr. X and Mr. Y for the previous year 2019-20 (assessment year 2020-21).
Answer = Mr. X: ₹ (2,00,000); Mr. Y: ₹ (92,000)

Problem 25.
Mrs. X is the owner of a house property. She borrowed ₹60,000 from life insurance corporation of India on 1st September 2012 @ 15% p.a. for the construction of this house. The construction was completed on 31.03.2015. Since then the house is under her self-occupation. On 1st June 2019 the house was let out @ ₹3,000 p.m. The tenant vacated the house on 1st August 2019. She occupied the house for self-occupancy. The house is again let out @ ₹3,500 p.m. from 1st October 2019.
Other particulars of the house for the previous year 2019-20.
Municipal Valuation ₹22,000 p.a.
Municipal taxes disputed, hence not paid ₹2,200 p.a.
Ground rent for the previous year 2019-20 outstanding ₹3,200
Insurance premium paid ₹1,200
Refund of first loan instalment to LIC on 01.10.2019 ₹15,000
Compute the income from house property for assessment year 2020-21.
Answer = Income under the head House Property: ₹11,025

Problem 26.
Mr. X owns a residential house property. It has two identical units—unit I and unit II. Unit I is self-occupied by Mr. X and his family members, unit II is let out (rent being ₹7,500 per month, this unit remained vacant for one month during which it was self-occupied). Municipal value of the property is ₹1,30,000. Standard
rent is ₹1,40,000 and fair rent is ₹1,53,000. Municipal taxes is imposed @ 12% (on municipal value) which is paid by Mr. X. Other expenses for the previous year 2019-20 being repairs ₹5,100 and insurance ₹6,300. Mr. X borrowed ₹9,00,000 on 01.07.2016 from LIC @ 12% p.a. to construct the property. Construction of the house was completed on 30.06.2018. The entire loan is still unpaid. Compute the total income and tax liability of Mr. X for the assessment year 2020-21 on the assumption that income of Mr. X from other sources is ₹3,90,000.

**Answer** = Total Income: ₹3,39,390; Tax Liability: Nil

**Problem 27.**
Mr. X has a house property situated in Mumbai which has two units. Unit I has a floor area of 70% whereas the unit II has a floor area of 30%. Both the units were self-occupied by the assessee. As the assessee was allowed a rent free accommodation by his employer w.e.f. 01.04.2019, he vacated both of the units and let out unit I at a rent of ₹13,000 p.m. and unit II for ₹5,000 p.m. unit I remained vacant for 1½ months whereas unit II was vacant for one month. Other particulars of the house property are asunder:

- Municipal Valuation: ₹1,55,000
- Fair Rent: ₹1,75,000
- Standard Rent: ₹1,65,000
- Municipal taxes paid: ₹35,000
- Ground rent due: ₹15,000

Compute income from house property for the assessment year 2020-21.

**Answer** = Income under the head House Property: ₹1,09,550

**Problem 28.**
Mr. X is the owner of a residential house whose construction was completed on 31.08.2015. It has been let out from 01.01.2016 for residential purposes. Its particulars for the financial year 2019-20 are given below:

1. Municipal Valuation (p.a.) ₹68,000
2. Expected Fair Rent (p.a.) ₹75,000
3. Standard Rent under the Rent Control Act (p.m.) ₹7,200
4. Actual Rent (p.m.) ₹7,200
5. Municipal taxes paid (including ₹7,000 paid by tenant) ₹21,000
6. Water/sewerage benefit tax, levied by State Government paid under protest ₹5,100
7. Interest on loan taken for the construction of the house. The interest has been paid outside India to a non-resident without deduction of tax at source ₹20,000
8. Stamp duty and registration charges incurred in respect of the lease agreement of the house ₹2,500
9. The unrealised rent for previous year 2018-19 amounts to ₹42,000. There is recovery of ₹22,000 from the defaulting tenant. Legal charges for the recovery of rent ₹4,500

Compute income from house property for the assessment year 2020-21.

**Answer** = Income under the head House Property: ₹66,080

**Problem 29.**
Mr. X has three houses with details given below:

**House 1**
It is self occupied with fair rent of ₹20,000, municipal valuation ₹55,000, rent as per Rent Control Act is ₹50,000. However the house remains vacant for 2 months. Architect has issued completion certificate on 01.07.2017. Loan taken for addition to the house ₹5,00,000 on 01.04.2019 @ 13% p.a. and loan amount was repaid on 01.03.2020. The assessee has submitted a certificate from the person from whom he has taken the loan certifying the amount of the interest claimed.

In the earlier years the house was let out and the assessee has recovered unrealised rent of ₹2,000 in the previous year 2019-20 and interest on such unrealised rent also amounting to ₹250. However the assessee has incurred legal expenses of ₹350.
House II
It is self occupied. Its similar building rent is ₹64,000 and rent determined by municipality for charging house tax is ₹66,000 and its fair rent under Rent Control Act (p.m.) is ₹6,000. Municipal taxes payable ₹5,000.
The assessee has also recovered unrealised rent of ₹2,000 in the previous year 2017-18 but the expenses thereon are paid in the year 2019-20 amounting to ₹200.

House III
It is let out @ ₹50,000 p.m. and fair rent is ₹60,000 p.m. Water tax and house tax paid to municipality is ₹11,000. Insurance premium paid ₹6,500 and expenses on repairs ₹3,000.
Interest on capital borrowed for purchase of house is ₹55,000.
He has long term capital gains of ₹3,50,000.
Compute his total income and tax liability for assessment year 2020-21.
Answer = Total Income: ₹7,62,950; Tax Liability: ₹81,270

Problem 30.
Determine the income head under which the following incomes shall be taxable.
(i) Mr. X has income from letting out house property.
(ii) Mr. X has sold one house property.
(iii) ABC Ltd. has 500 flats for the purpose of sale/purchase.
(iv) Mr. X has let out an open land.
(v) ABC Ltd. has 500 flats for the purpose of letting out.
(vi) ABC Ltd. has constructed flats within its premises for letting out to the employees.
(vii) Mr. X is engaged in the business of providing paying guest accommodation in his own building.
(viii) Mr. X is engaged in the business of warehousing.
(ix) Mr. X has sublet one house property.
(x) Mr. X has let out his hotel building.
Answer = (i) House Property; (ii) Capital Gains; (iii) Business/Profession; (iv) Other Sources; (v) House Property; (vi) Business/Profession; (vii) Business/Profession; (viii) Business/Profession; (ix) Other Sources; (x) House Property
SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:

Computation of income under the head House Property

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (₹ 80,000 x 12)</td>
<td>9,60,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (₹ 81,000 x 12)</td>
<td>9,72,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>9,72,000</td>
</tr>
<tr>
<td>(d) Standard Rent (₹ 1,00,000 x 12)</td>
<td>12,00,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>9,72,000</td>
</tr>
<tr>
<td>(f) Rent received (₹90,000 x 12)</td>
<td>10,80,000</td>
</tr>
<tr>
<td><strong>GAV = Higher of (e) or (f)</strong></td>
<td><strong>10,80,000</strong></td>
</tr>
</tbody>
</table>

- Less: Municipal Tax | ₹(70,000) |
- Net Annual Value | ₹10,10,000 |
- Less: 30% of NAV u/s 24(a) | ₹(3,03,000) |
- Less: Interest on capital borrowed u/s 24(b) | ₹(82,000) |
- Income under the head House Property | ₹6,25,000 |
- Gross Total Income | ₹6,25,000 |
- Less: Deduction u/s 80C to 80U | Nil |
- **Total Income** | **₹6,25,000** |

Computation of Tax Liability

- Tax on ₹6,25,000 at slab rate | ₹37,500 |
- Add: HEC @ 4% | ₹1,500 |
- **Total tax liability** | **₹39,000** |

Solution 2:

Computation of income under the head House Property

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (2,50,000 x 12)</td>
<td>30,00,000</td>
</tr>
<tr>
<td>(b) Municipal Value (2,75,000 x 12)</td>
<td>33,00,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>33,00,000</td>
</tr>
<tr>
<td>(d) Standard Rent (2,80,000 x 12)</td>
<td>33,60,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>33,00,000</td>
</tr>
<tr>
<td>(f) Rent received /receivable (3,00,000 x 12)</td>
<td>36,00,000</td>
</tr>
<tr>
<td><strong>GAV shall be higher of (e) or (f)</strong></td>
<td><strong>36,00,000</strong></td>
</tr>
</tbody>
</table>

- Less: Municipal Tax | ₹(6,00,000.00) |
- Net Annual Value | ₹30,00,000.00 |
- Less: 30% of NAV u/s 24(a) | ₹(9,00,000.00) |
- Less: Interest on capital borrowed u/s 24(b) | ₹(3,00,000.00) |
- Income under the head House Property | ₹18,00,000.00 |
- Gross Total Income | ₹18,00,000.00 |
- Less: Deduction u/s 80C to 80U | Nil |
Total Income 18,00,000.00

**Computation of Tax Liability**

Tax on ₹18,00,000 @ 30% 5,40,000.00
Add: HEC @ 4% 21,600.00
Tax Liability 5,61,600.00

**Solution 3.**

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

Gross Annual Value (2,00,000 x 12) 24,00,000.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (1,80,000 x 12)</td>
<td>21,60,000</td>
</tr>
<tr>
<td>(b) Standard Rent (2,20,000 x 12)</td>
<td>26,40,000</td>
</tr>
<tr>
<td>(c) Expected Rent (lower of (a) or (b))</td>
<td>21,60,000</td>
</tr>
<tr>
<td>(d) Rent Received/Receivable (2,00,000 x 12)</td>
<td>24,00,000</td>
</tr>
<tr>
<td>GAV = Higher of (c) or (d)</td>
<td>24,00,000</td>
</tr>
</tbody>
</table>

Less: Municipal Tax (6,00,000.00)
Net Annual Value 18,00,000.00
Less: 30% of NAV u/s 24(a) (5,40,000.00)
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 12,60,000.00
Gross Total Income 12,60,000.00
Less: Deduction u/s 80C to 80U Nil
Total Income 12,60,000.00

**Computation of Tax Liability**

Tax on ₹12,60,000 @ 30% 3,78,000.00
Add: HEC @ 4% 15,120.00
Tax Liability 3,93,120.00

**Solution 4: Computation of Total Income & Tax Liability of Mr. X**

Gross Annual Value 6,60,000.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (₹55,000 x 12)</td>
<td>6,60,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (₹52,000 x 12)</td>
<td>6,24,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>6,60,000</td>
</tr>
<tr>
<td>(d) Standard Rent (₹60,000 x 12)</td>
<td>7,20,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>6,60,000</td>
</tr>
<tr>
<td>(f) Rent received /receivable (50,000 x 9)</td>
<td>4,50,000</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received/receivable would have been (50,000 x 12) ₹6,00,000 which is not exceeding expected rent hence GAV shall be expected rent i.e. ₹6,60,000

GAV 6,60,000

Less: Municipal Tax (30,000.00)
Net Annual Value 6,30,000.00
Less: 30% of NAV u/s 24(a) (1,89,000.00)
Less: Interest on capital borrowed u/s 24(b) (20,000.00)
Income under the head House Property 4,21,000.00
Total Income 4,21,000.00

**Computation of Tax Liability**

Tax on Normal Income ₹4,21,000 at slab rate 8,550.00
Less: Rebate u/s 87A (8,550.00)
Tax Liability Nil
### Solution 4(b): Computation of Total Income & Tax Liability of Mr. X

<table>
<thead>
<tr>
<th>Gross Annual Value</th>
<th>₹ 5,40,000.00</th>
</tr>
</thead>
</table>

**Working Note:**

(a) Fair Rent (₹55,000 x 12) 6,60,000
(b) Municipal Valuation (₹52,000 x 12) 6,24,000
(c) Higher of (a) or (b) 6,60,000
(d) Standard Rent (₹60,000 x 12) 7,20,000
(e) Expected Rent {Lower of (c) or (d)} 6,60,000
(f) Rent received/receivable (60,000 x 9) 5,40,000

If there was no vacancy, in that case rent received/receivable would have been (60,000 x 12) ₹7,20,000 which is exceeding expected rent hence GAV shall be Rent received/receivable i.e. ₹5,40,000

<table>
<thead>
<tr>
<th>GAV</th>
<th>₹ 5,40,000</th>
</tr>
</thead>
</table>

Less: Municipal Tax 30,000.00
Net Annual Value 5,10,000.00
Less: 30% of NAV u/s 24(a) 1,53,000.00
Less: Interest on capital borrowed u/s 24(b) 20,000.00
Income under the head House Property 3,37,000.00
Total Income 3,37,000.00

**Computation of Tax Liability**

Tax on Normal Income ₹3,37,000 at slab rate 4,350.00
Less: Rebate u/s 87A (4,350.00)
Tax Liability Nil

### Solution 4(c): Computation of Total Income & Tax Liability of Mr. X

<table>
<thead>
<tr>
<th>Gross Annual Value</th>
<th>₹ 4,95,000.00</th>
</tr>
</thead>
</table>

**Working Note:**

(a) Fair Rent (₹55,000 x 12) 6,60,000
(b) Municipal Valuation (₹52,000 x 12) 6,24,000
(c) Higher of (a) or (b) 6,60,000
(d) Standard Rent (₹60,000 x 12) 7,20,000
(e) Expected Rent {Lower of (c) or (d)} 6,60,000
(f) Rent received/receivable (55,000 x 9) 4,95,000

If there was no vacancy, in that case rent received/receivable would have been (55,000 x 12) ₹6,60,000 which is equal to expected rent hence GAV shall be Rent received/receivable i.e. ₹4,95,000

<table>
<thead>
<tr>
<th>GAV</th>
<th>₹ 4,95,000</th>
</tr>
</thead>
</table>

Less: Municipal Tax 30,000.00
Net Annual Value 4,65,000.00
Less: 30% of NAV u/s 24(a) 1,39,500.00
Less: Interest on capital borrowed u/s 24(b) 20,000.00
Income under the head House Property 3,05,500.00
Total Income 3,05,500.00

**Computation of Tax Liability**

Tax on Normal Income ₹3,05,500 at slab rate 2,775.00
Less: Rebate u/s 87A (2,775.00)
Tax Liability Nil
Solution 4(d): Computation of Total Income & Tax Liability of Mr. X

Gross Annual Value

<table>
<thead>
<tr>
<th>Working Note</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (₹55,000 x 12)</td>
<td>6,60,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (₹52,000 x 12)</td>
<td>6,24,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>6,60,000</td>
</tr>
<tr>
<td>(d) Standard Rent (₹60,000 x 12)</td>
<td>7,20,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>6,60,000</td>
</tr>
<tr>
<td>(f) Rent received/receivable (1,00,000 x 9)</td>
<td>9,00,000</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received/receivable would have been (1,00,000 x 12) ₹12,00,000 which is exceeding expected rent hence GAV shall be Rent received/receivable i.e. ₹9,00,000

GAV 9,00,000

Less: Municipal Tax (30,000.00)
Net Annual Value 8,70,000.00
Less: 30% of NAV u/s 24(a) (2,61,000.00)
Less: Interest on capital borrowed u/s 24(b) (20,000.00)
Income under the head House Property 5,89,000.00
Total Income 5,89,000.00

Computation of Tax Liability

Tax on Normal Income ₹5,89,000 at slab rate 30,300.00
Add: HEC @ 4% 1,212.00
Tax Liability 31,512.00
Rounded off u/s 288B 31,510.00

Solution 5:

Computation of Total Income & Tax Liability of Mr. X

Gross Annual Value 186,00,000.00

<table>
<thead>
<tr>
<th>Working Note</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (₹15,50,000 x 12)</td>
<td>186,00,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (₹15,20,000 x 12)</td>
<td>182,40,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>186,00,000</td>
</tr>
<tr>
<td>(d) Standard Rent (₹16,00,000 x 12)</td>
<td>192,00,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>186,00,000</td>
</tr>
<tr>
<td>(f) Rent received/receivable (15,00,000 x 9)</td>
<td>135,00,000</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received/receivable would have been (15,00,000 x 12) ₹180,00,000 which is not exceeding expected rent hence GAV shall be expected rent i.e. ₹186,00,000

GAV 186,00,000

Less: Municipal Tax (13,00,000.00)
Net Annual Value 173,00,000.00
Less: 30% of NAV u/s 24(a) (51,90,000.00)
Less: Interest on capital borrowed u/s 24(b) (12,00,000.00)
Income under the head House Property 109,10,000.00
Total Income 109,10,000.00

Computation of Tax Liability

Tax on Normal Income ₹109,10,000 at slab rate 30,85,500.00
Add: Surcharge @ 15% 4,62,825.00
Tax before health & education cess 35,48,325.00
Add: HEC @ 4% 1,41,933.00
Tax Liability 36,90,258.00
Rounded off u/s 288B 36,90,260.00
### Solution 5(b):

**Computation of Total Income & Tax Liability of Mr. X**

<table>
<thead>
<tr>
<th>Gross Annual Value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>144,00,000.00</td>
<td></td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>₹</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (₹15,50,000 x 12)</td>
<td>186,00,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (₹15,20,000 x 12)</td>
<td>182,40,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>186,00,000</td>
</tr>
<tr>
<td>(d) Standard Rent (₹16,00,000 x 12)</td>
<td>192,00,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>186,00,000</td>
</tr>
<tr>
<td>(f) Rent received/receivable (16,00,000 x 9)</td>
<td>144,00,000</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received/receivable would have been (16,00,000 x 12) ₹192,00,000 which is exceeding expected rent hence GAV shall be rent received/receivable i.e. ₹144,00,000

<table>
<thead>
<tr>
<th>GAV</th>
<th>144,00,000</th>
</tr>
</thead>
</table>

Less: Municipal Tax | ₹ (13,00,000.00)

Net Annual Value | ₹ 131,00,000.00
Less: 30% of NAV u/s 24(a) | ₹ (39,30,000.00)
Less: Interest on capital borrowed u/s 24(b) | ₹ (12,00,000.00)

Income under the head House Property | ₹ 79,70,000.00
Total Income | ₹ 79,70,000.00

**Computation of Tax Liability**

Tax on Normal Income ₹ 79,70,000 at slab rate | ₹ 22,03,500.00
Add: Surcharge @ 10% | ₹ 2,20,350.00
Tax before health & education cess | ₹ 24,23,850.00
Add: HEC @ 4% | ₹ 96,954.00
Tax Liability | ₹ 25,20,804.00
Rounded off u/s 288B | ₹ 25,20,800.00

### Solution 5(c):

**Computation of Total Income & Tax Liability of Mr. X**

<table>
<thead>
<tr>
<th>Gross Annual Value</th>
<th>₹ 140,40,000.00</th>
</tr>
</thead>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>₹</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (₹15,50,000 x 12)</td>
<td>186,00,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation (₹15,20,000 x 12)</td>
<td>182,40,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>186,00,000</td>
</tr>
<tr>
<td>(d) Standard Rent (₹16,00,000 x 12)</td>
<td>192,00,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>186,00,000</td>
</tr>
<tr>
<td>(f) Rent received/receivable (15,60,000 x 9)</td>
<td>140,40,000</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received/receivable would have been (15,60,000 x 12) ₹187,20,000 which is exceeding expected rent hence GAV shall be rent received/receivable i.e. ₹140,40,000

<table>
<thead>
<tr>
<th>GAV</th>
<th>140,40,000</th>
</tr>
</thead>
</table>

Less: Municipal Tax | ₹ (13,00,000.00)

Net Annual Value | ₹ 127,40,000.00
Less: 30% of NAV u/s 24(a) | ₹ (38,22,000.00)
Less: Interest on capital borrowed u/s 24(b) | ₹ (12,00,000.00)

Income under the head House Property | ₹ 77,18,000.00
Total Income | ₹ 77,18,000.00

**Computation of Tax Liability**

Tax on Normal Income ₹77,18,000 at slab rate | ₹ 21,27,900.00
Add: Surcharge @ 10% | ₹ 2,12,790.00
Tax before health & education cess | ₹ 23,40,690.00
Add: HEC @ 4%  
Tax Liability  
Rounded off u/s 288B  

**Solution 5(d):**

**Computation of Total Income & Tax Liability of Mr. X**

Gross Annual Value 180,00,000.00

<table>
<thead>
<tr>
<th>Working Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (₹15,50,000 x 12)</td>
</tr>
<tr>
<td>(b) Municipal Valuation (₹15,20,000 x 12)</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
</tr>
<tr>
<td>(d) Standard Rent (₹16,00,000 x 12)</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
</tr>
<tr>
<td>(f) Rent received/receivable (20,00,000 x 9)</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received/receivable would have been (20,00,000 x 12) ₹240,00,000 which is exceeding expected rent hence GAV shall be rent received/receivable i.e. ₹180,00,000

GAV 180,00,000

Less: Municipal Tax 13,00,000.00
Net Annual Value 167,00,000.00
Less: 30% of NAV u/s 24(a) 50,10,000.00
Less: Interest on capital borrowed u/s 24(b) 12,00,000.00
Income under the head House Property 104,90,000.00
Total Income 104,90,000.00

**Computation of Tax Liability**

Tax on Normal Income ₹104,90,000 at slab rate 29,59,500.00
Add: Surcharge @ 15% 4,43,925.00
Tax before health & education cess 34,03,425.00
Add: HEC @ 4% 1,36,137.00
Tax Liability 35,39,562.00
Rounded off u/s 288B 35,39,560.00

**Solution 6:**

**Computation of Total Income of Mr. X for A.Y. 2020-21**

**Income under the head Capital Gains**

Long Term Capital Gain 4,00,000
Less: Loss under the head House Property (2,00,000)
Long Term Capital Gain 2,00,000
Income under the head other sources
Casual Income 1,00,000
Gross Total Income 3,00,000
Less: Deduction u/s 80C to 80U Nil
Total Income 3,00,000

**Computation of Tax Liability**

Tax on LTCG Nil (₹2,00,000- ₹2,00,000) @ 20% Nil
Tax on casual Income ₹1,00,000 @ 30% 30,00,000.00
Less: Rebate u/s 87A (12,50,000) 17,50,000.00
Tax before health & education cess 700.00
Add: HEC @ 4% 18,200.00
Note: As per section 71, Maximum loss of ₹2,00,000 is allowed to be set off from other heads.

**Solution 7:**

**Computation of Total Income of Mr. X for A.Y. 2020-21**

**Income under the head House Property**

Income under the head House Property 3,00,000  
Less: Set off of Loss of P.Y. 2012-13 (3,00,000)  
Income under the head House Property Nil

**Income under the head Capital Gains**

Long Term Capital Gain 4,00,000

**Income under the head other sources**

Casual Income 1,00,000

Gross Total Income 5,00,000  
Less: Deduction u/s 80C to 80U Nil  
Total Income 5,00,000

**Computation of Tax Liability**

Tax on LTCG ₹ 1,50,000 (₹4,00,000 - ₹2,50,000) @ 20% u/s 112 30,000.00  
Tax on casual Income ₹1,00,000 @ 30% 30,000.00  
Less: Rebate u/s 87A (12,500.00)  
Tax before health & education cess 47,500.00  
Add: HEC @ 4% 1,900.00  
Tax Liability 49,400.00

Note : Brought forward loss cannot be set off from income of other heads hence remaining loss of ₹1,00,000 of House Property of P.Y. 2012-13 shall be carried forward.

**Solution 8:**

**Computation of Total Income of Mr. X for A.Y. 2020-21**

**Income under the head House Property**

Income under the head House Property 3,00,000  
Less: Set off of Loss of P.Y. 2012-13 (3,00,000)  
Income under the head House Property Nil

**Income under the head Business/Profession**

5,00,000

**Income under the head Capital Gains**

Long Term Capital Gain 4,00,000

**Income under the head other sources**

Casual Income 1,00,000

Gross Total Income 10,00,000  
Less: Deduction u/s 80C to 80U Nil  
Total Income 10,00,000

**Computation of Tax Liability**

Tax on Normal Income ₹5,00,000 at slab rate 12,500.00  
Tax on LTCG ₹ 4,00,000 @ 20% u/s 112 80,000.00  
Tax on casual Income ₹1,00,000 @ 30% 30,000.00  
Tax before health & education cess 1,22,500.00
Add: HEC @ 4% &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;4,900.00
Tax Liability &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;1,27,400.00

Note : Brought forward loss cannot be set off from income of other heads hence remaining loss of ₹1,00,000 of House Property of P.Y. 2012-13 shall be carried forward.

**Solution 9:**
**Computation of Total Income of Mr. X for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Income under the head House Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from House -1         8,00,000</td>
</tr>
<tr>
<td>Less: Loss from House – 2         (3,00,000)</td>
</tr>
<tr>
<td>Less: Set off of Loss of P.Y. 2012-13         (4,00,000)</td>
</tr>
<tr>
<td>Income under the head House Property         1,00,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income under the head Capital Gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Capital Gain 111A         1,50,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income under the head other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casual Income         1,00,000</td>
</tr>
<tr>
<td>Dividend Income exempt u/s 10(34)         Nil</td>
</tr>
<tr>
<td>Income under the head other sources         1,00,000</td>
</tr>
</tbody>
</table>

| Gross Total Income &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;3,50,000 |
| Less: Deduction u/s 80C to 80U &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;Nil |
| Total Income &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;3,50,000 |
| Agriculture Income &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;2,00,000 |

**Computation of Tax Liability**

| Tax on Normal Income ₹1,00,000 at slab rate &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;Nil |
| Tax on STCG 111A ₹Nil (₹1,50,000 – ₹1,50,000) @ 15% u/s 111A &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;Nil |
| Tax on casual Income ₹1,00,000 @ 30% &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;30,000.00 |
| Less: Rebate u/s 87A &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;(12,500.00) |
| Tax before health & education cess &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;17,500.00 |
| Add: HEC @ 4% &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;700.00 |
| Tax Liability &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;18,200.00 |

Note : 1. Partial Integration is not applicable as Normal Income is less than basic exemption limit.
2. Current year loss of house shall be fully allowed to set off from income of another house in the same year however such loss shall be allowed to set off from income of other heads maximum upto ₹2,00,000

**Solution 10:**

**Situation 1**

**Computation of Gross Annual Value**

| (a) Fair Rent | &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;1,20,000 |
| (10,000 x 12) |
| (b) Municipal Valuation | &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;1,32,000 |
| (11,000 x 12) |
| (c) Higher of (a) or (b) | &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;1,32,000 |
| (d) Standard Rent | &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;1,44,000 |
| (12,000 x 12) |
| (e) Expected Rent {Lower of (c) or (d)} | &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;1,32,000 |
| (f) Rent Received/Receivable | &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;77,000 |
| (7,000 x 11) |
GAV = Higher of (e) or (f)

**Situation 2**

**Computation of Gross Annual Value**

(a) Fair Rent  
\[(12,000 \times 12)\]  
1,44,000

(b) Municipal Valuation  
\[(10,000 \times 12)\]  
1,20,000

(c) Higher of (a) or (b)  
1,44,000

(d) Standard Rent  
\[(11,000 \times 12)\]  
1,32,000

(e) Expected Rent \{Lower of (c) or (d)\}  
1,32,000

(f) Rent Received/Receivable  
\[(11,500 \times 10)\]  
1,15,000

In this case, if there was no vacancy, rent received/receivable would have been ₹1,38,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.

**Situation 3**

**Computation of Gross Annual Value**

(a) Fair Rent  
\[(13,000 \times 12)\]  
1,56,000

(b) Municipal Valuation  
\[(8,000 \times 12)\]  
96,000

(c) Higher of (a) or (b)  
1,56,000

(d) Standard Rent  
\[(7,000 \times 12)\]  
84,000

(e) Expected Rent \{Lower of (c) or (d)\}  
84,000

(f) Rent Received/Receivable  
\[(20,000 \times 8)\]  
1,60,000

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

**Situation 4**

**Computation of Gross Annual Value**

(a) Fair Rent  
\[(15,000 \times 12)\]  
1,80,000

(b) Municipal Valuation  
\[(17,000 \times 12)\]  
2,04,000

(c) Higher of (a) or (b)  
2,04,000

(d) Standard Rent  
\[(16,000 \times 12)\]  
1,92,000

(e) Expected Rent \{Lower of (c) or (d)\}  
1,92,000

(f) Rent Received/Receivable  
\[(16,000 \times 8)\]  
1,28,000

If there was no vacancy, in that case rent received/receivable would have been ₹1,76,000 and it was still less than expected rent, therefore GAV shall be expected rent.

**Solution 11:**

Income under the head House Property

Gross annual value  
7,20,000.00

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair rent (60,000 \times 12)</td>
</tr>
</tbody>
</table>
Income Under The Head House Property

(b) Municipal valuation (55,000 x 12) 6,60,000  
(c) Higher of (a) or (b) 7,20,000  
(d) Standard Rent (80,000 x 12) 9,60,000  
(e) Expected Rent {Lower of (c) or (d)} 7,20,000  
(f) Rent Received (70,000 x 7) 4,90,000  

If there was no vacancy, then Rent Receivable shall be 70,000 x 10 = 70,00,000, which is lower than the expected rent, hence the GAV shall be 72,00,000  

Less: Municipal taxes paid (62,000.00)  
Net Annual Value 6,58,000.00  
Less: 30% of NAV u/s 24(a) (1,97,400.00)  
Less: Interest on capital borrowed u/s 24(b) (75,000.00)  
3,85,600.00  

Unrealised rent recovered of 2016-17 section 25A 1,05,000.00  
(1,50,000 – 45,000)  
Income under the head House Property 4,90,600.00  
Income from other sources 18,000.00  
Gross Total Income 5,08,600.00  
Less: Deduction u/s 80C to 80U Nil  
Total Income 5,08,600.00  

Computation of Tax Liability  
Tax on ₹5,08,600 at slab rate 14,220.00  
Add: HEC @ 4% 568.80  
Tax Liability 14,788.80  
Rounded off u/s 288B 14,790.00  

Solution 12:  
Gross Annual Value 2,16,000.00  

Working Note:  
(a) Fair Rent (20,000 x 12) 2,40,000  
(b) Municipal Valuation (10,000 x 12) 1,20,000  
(c) Higher of (a) or (b) 2,40,000  
(d) Standard Rent (18,000 x 12) 2,16,000  
(e) Expected Rent {Lower of (c) or (d)} 2,16,000  
(f) Rent Receivable = (12,000 x 8.5) 1,02,000  

If there was no vacancy, in that case rent received/receivable would have been ₹1,20,000 and it was still less than expected rent, therefore GAV shall be expected rent.  
GAV 2,16,000  

Less: Municipal Tax (11,000.00)  
Net Annual Value 2,05,000.00  
Less: 30% of NAV u/s 24(a) (61,500.00)  
Less: Interest on capital borrowed u/s 24(b) (3,00,000.00)  
Loss under the head House Property (1,56,500.00)  
Income under the head Other Sources 7,00,000.00  
Gross Total Income 5,43,500.00  
Less: Deduction u/s 80C to 80U Nil  
Total Income 5,43,500.00  

Computation of Tax Liability  
Tax on ₹5,43,500 at slab rate 21,200.00  
Add: HEC @ 4% 848.00  
Tax Liability 22,048.00  
Rounded off u/s 288B 22,050.00
### Solution 13:
#### Income under the head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross annual value</td>
<td>₹12,00,000.00</td>
</tr>
</tbody>
</table>

#### Working Note:
- Fair rent (1,00,000 x 12) = ₹12,00,000
- Rent received (80,000 x 12) = ₹9,60,000

Less: Municipal taxes paid = ₹(30,000.00)
- Net Annual Value = ₹11,70,000.00
- Less: 30% of NAV u/s 24(a) = ₹(3,51,000.00)
- Less: Interest on capital borrowed u/s 24(b) = ₹(1,21,000.00)

#### Income under the head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior period interest</td>
<td>Nil</td>
</tr>
<tr>
<td>Current year interest 11,00,000 x 11% = 1,21,000</td>
<td></td>
</tr>
</tbody>
</table>

Income under the head House Property = ₹6,98,000.00
Gross Total Income = ₹6,98,000.00
Less: Deduction u/s 80C to 80U = Nil
Total Income = ₹6,98,000.00

#### Computation of Tax Liability

Tax on ₹6,98,000 at slab rate = ₹52,100.00
Add: HEC @ 4% = ₹2,084.00
Tax Liability = ₹54,184.00
Rounded off u/s 288B = ₹54,180.00

### Solution 14:
#### Gross Annual Value

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (10,000 x 10)</td>
<td>₹1,00,000.00</td>
</tr>
<tr>
<td>(b) Expected Rent</td>
<td>₹1,00,000.00</td>
</tr>
<tr>
<td>(c) Received/Receivable = 9,000 x 8.5 = 76,500 – 1,000 =</td>
<td>₹75,500</td>
</tr>
</tbody>
</table>

If there was no vacancy, in that case rent received/receivable would have been ₹89,000 and it was still less than expected rent, therefore GAV shall be expected rent.

GAV = ₹1,00,000.00

Less: Municipal taxes = ₹(3,000.00)
- Net Annual Value = ₹97,000.00
- Less: 30% of NAV u/s 24(a) = ₹(29,100.00)
- Less: Interest on capital borrowed u/s 24(b) = ₹(36,680.88)

#### Working Note:
Current Period interest

**From 01.04.2019 to 31.01.2020**

= 3,05,250 x 7% x 10/12 = ₹17,806.25
Prior period interest

**From 01.09.2016 to 31.03.2019**

**From 01.09.2016 to 30.06.2018**
= 6,10,500 x 7% x 22/12 = ₹78,347.5

**From 01.07.2018 to 31.03.2019**
= 3,05,250 x 7% x 9/12 = ₹16,025.63
Total = ₹94,373.13
Instalment = ₹94,373.13/5 = ₹18,874.63
Total interest = ₹17,806.25 + ₹18,874.63 = ₹36,680.88
### Income Under the Head House Property

Income under the head House Property: 31,219.12
Income under the head Salary: 2,65,000.00
Gross Total Income: 2,96,219.12
Less: Deductions u/s 80C: Nil
Total Income (rounded off u/s 288A): 2,96,220.00

### Computation of Tax Liability

- Tax on ₹2,96,220 at slab rate: 2,311.00
- Less: Rebate u/s 87A: (2,311.00)
- Tax Liability: Nil

### Solution 15:

Income under the head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>NIL</td>
</tr>
<tr>
<td>Less: Municipal taxes paid</td>
<td>NIL</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>NIL</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>NIL</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(2,00,000.00)</td>
</tr>
</tbody>
</table>

### Working Note:

**Prior period interest**

- **01.07.2016 to 31.03.2018**
  - Installment: \(2,88,750/5 = 57,750\)

**Current year interest**

- \(15,00,000 \times 11\% \times 9/12 = 1,23,750\)
- \(14,30,000 \times 11\% \times 3/12 = 39,325\)
- Total: 1,63,075

Subject to maximum of 2,00,000.

Loss under the head House Property: (2,00,000.00)
Income under the head Salary: 6,00,000.00
Gross Total Income: 4,00,000.00
Less: Deduction u/s 80C: (70,000.00)
Total Income: 3,30,000.00

### Computation of Tax Liability

- Tax on ₹3,30,000 at slab rate: 4,000.00
- Less: Rebate u/s 87A: (4,000.00)
- Tax Liability: Nil

### Solution 16:

Income under the head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>NIL</td>
</tr>
<tr>
<td>Less: Municipal taxes paid</td>
<td>NIL</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>NIL</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>NIL</td>
</tr>
<tr>
<td>Less : Interest on capital borrowed u/s 24(b)</td>
<td>(83,750.00)</td>
</tr>
</tbody>
</table>

### Working Note:

**Prior period interest**

- Nil

**Current year interest**

- From 01.04.2019 to 31.03.2020
  - \(8,50,000 \times 10\% \times 9/12 = 63,750\)
  - \(8,00,000 \times 10\% \times 3/12 = 20,000\)
  - Total: 83,750

Loss under the head House Property: (83,750.00)
Income under the head capital gains (STCG u/s 111A) 10,00,000.00
Gross Total Income 9,16,250.00
Less: Deduction u/s 80C Nil
Total Income 9,16,250.00

Computation of Tax Liability
Tax on ₹6,66,250 (₹9,16,250 – 2,50,000) @ 15% 99,937.50
Add: HEC @ 4% 3,997.50
Tax Liability 1,03,935.00
Rounded off u/s 288B 1,03,940.00

Solution 17:
Computation of income under the head House Property
Gross Annual Value 9,90,000.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent (90,000 x 11)</td>
<td>9,90,000</td>
</tr>
<tr>
<td>(b) Expected Rent</td>
<td>9,90,000</td>
</tr>
<tr>
<td>(c) Rent Received/Receivable (80,000 x 10)</td>
<td>8,00,000</td>
</tr>
<tr>
<td>If there was no vacancy, in that case rent received/receivable would have been ₹8,80,000 and it was still less than expected rent, therefore GAV shall be expected rent.</td>
<td></td>
</tr>
<tr>
<td>GAV</td>
<td>9,90,000</td>
</tr>
</tbody>
</table>

Less: Municipal Tax Nil
Net Annual Value 9,90,000.00
Less: 30% of NAV u/s 24(a) (2,97,000.00)
Less: Interest on capital borrowed u/s 24(b) (1,83,750.00)

Working Note:
Prior period interest
From 01.07.2017 to 31.03.2019
= (15,00,000 x 10% x 1) + (15,00,000 x 10% x 9/12) = ₹1,50,000 + ₹1,12,500 = ₹2,62,500
Installment = ₹2,62,500/5 = ₹52,500
Current period interest
From 01.04.2019 to 31.03.2020
= (15,00,000 x 10% x 9/12) + (7,50,000 x 10% x 3/12) = ₹1,12,500 + ₹18,750 = ₹1,31,250
Total interest on capital borrowed = ₹52,500 + ₹1,31,250 = ₹1,83,750

Income under the head House Property 5,09,250.00
Gross Total Income 5,09,250.00
Less: Deduction u/s 80C {Repayment of housing loan} (1,50,000.00)
Total Income 3,59,250.00

Computation of Tax Liability
Tax on ₹3,59,250 at slab rate 5,462.50
Less: Rebate u/s 87A (5,462.50)
Tax Liability Nil

Solution 18:
Computation of income under the head House Property
Net Annual Value Nil
Less: Interest on capital borrowed u/s 24(b) (1,48,500.00)

Working Note: ₹
Current period interest
Income Under The Head House Property

<table>
<thead>
<tr>
<th>01.04.2019 to 31.03.2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>11,00,000 x 10% = 1,10,000</td>
</tr>
</tbody>
</table>

Prior period interest

From 01.07.2016 to 31.03.2018

11,00,000 x 10% x 21/12 = 1,92,500
Instalment = 1,92,500/5 = 38,500
Total interest = 1,10,000 + 38,500 = 1,48,500

Loss under the head House Property (1,48,500.00)
Income under the head capital gains
Short term capital gains u/s 111A 120,00,000.00
Gross Total Income 118,51,500.00
Less: Deduction u/s 80C to 80U Nil
Total Income 118,51,500.00

Computation of Tax Liability
Tax on ₹116,01,500 (₹118,51,500 – 2,50,000) @ 15% 17,40,225.00
Add: Surcharge @ 15% 2,61,033.75
Tax before health & education cess 20,01,258.75
Add: HEC @ 4% 80,050.35
Tax liability 20,81,309.10
Rounded off u/s 288B 20,81,310.00

Solution 19:
As per the amendments now two house shall be treated as self-occupied.

House I & II is self-occupied

Income from house I & II (30,000.00)
Income under the head House Property (30,000.00)
Add: Unrealised rent received (2,000 – 600) 1,400.00
Loss under the head House Property (28,600.00)
Income under the head Capital Gains (LTCG) 20,00,000.00
Gross Total Income 19,71,400.00
Less: Deduction u/s 80C Nil
Total Income 19,71,400.00

Computation of Tax Liability
Tax on ₹17,21,400 (₹19,71,400 – ₹2,50,000) @ 20% 3,44,280.00
Add: HEC @ 4% 13,771.20
Tax Liability 3,58,051.20
Rounded off u/s 288B 3,58,050.00

Solution 20:

Gross Annual Value 5,76,000.00

Working Note:

(a) Fair Rent (50,000 x 12) 6,00,000
(b) Municipal Valuation (47,000 x 12) 5,64,000
(c) Higher of (a) or (b) 6,00,000
(d) Standard Rent (48,000 x 12) 5,76,000
(e) Expected rent {Lower of (c) or (d)} 5,76,000
(f) Rent Receivable (45,000 x 7) 3,15,000

If there was no vacancy, in that case rent received/receivable would have been ₹4,05,000 and it was still less than expected rent, therefore GAV shall be expected rent

GAV 5,76,000

Less: Municipal Tax 56,400.00
Net Annual Value 5,19,600.00
Less: 30% of NAV u/s 24(a) (1,55,880.00)
Less: Interest on capital borrowed u/s 24(b) (42,000.00)
Income under the head House Property 3,21,720.00
Gross Total Income 3,21,720.00
Less: Deduction u/s 80C to 80U Nil
Total Income 3,21,720.00

Computation of Tax Liability
Tax on ₹3,21,720 at slab rate 3,586.00
Less: Rebate u/s 87A (3,586.00)
Tax Liability Nil

Solution 21:
Income from self occupied house
Net Annual Value Nil
Less: 30% of NAV u/s 24(a) Nil
Less: Interest on capital borrowed u/s 24(b) (30,000)
Income from self occupied house (30,000)
Income from partly self occupied and partly let out house
Gross Annual Value 3,60,000

Working Note:
(a) Fair Rent (20,000 x 12) 2,40,000
(b) Municipal Valuation (18,000 x 12) 2,16,000
(c) Higher of (a) or (b) 2,40,000
(d) Standard Rent (15,000 x 12) 1,80,000
(e) Expected Rent 1,80,000
(f) Rent Receivable (45,000 x 8) 3,60,000
GAV = Higher of (e) or (f) 3,60,000

Less: Municipal taxes Nil
Net Annual Value 3,40,000
Less: 30% of NAV u/s 24(a) (1,02,000)
Less: Interest on capital borrowed u/s 24(b) (45,000)
Income from House Property 1,93,000
Income under the head House Property 1,63,000
[₹1,93,000 + ₹(30,000)]

Solution 22:
Gross Annual Value 12,00,000.00

Working Note:
(a) Fair rent (98,000 x 12) 11,76,000
(b) Rent receivable (1,00,000 x 12) 12,00,000
GAV {Higher of (a) or (b)} 12,00,000

Less: Municipal Taxes Nil
Net Annual Value 11,15,000.00
Less: 30% of NAV u/s 24(a) (3,34,500.00)
Less: Interest on capital borrowed u/s 24(b) Nil
Add: Arrears of rent (Sec 25A) 3,00,000
Less: 30% of ₹3,00,000 (90,000) 2,10,000.00
Add: Unrealised Rent (4,00,000 – 1,20,000) 2,80,000.00
Income under the head House Property 12,70,500.00
Income under the head Other Sources 20,000.00
Gross Total Income 12,90,500.00
Less: Deduction u/s 80C to 80U
Total Income

**Computation of Tax Liability**

Tax on ₹12,90,500 at slab rate
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B

**Solution 23:**
As per the amendments now two house shall be treated as self-occupied.

**Flat I & II is self-occupied**
Income

**Computation of Total Income**
Income under the head House Property
Income under the head Business Profession
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income

**Computation of Tax Liability**
Tax on ₹6,70,000 at slab rate
Add: HEC @ 4%
Tax Liability

**Solution 24:**

**Computation of income from House Property of Mr. X**
Net annual value is Nil
Less: Deduction u/s 24(b)
Interest paid on borrowed capital
25,00,000 @ 12% = ₹3,00,000
As per second proviso to section 24(b)
interest deduction restricted to ₹2,00,000
Loss under the head “House Property”

**Computation of income from house property of Mr. Y**

**Ground Floor (Self Occupied)**

**Working Note:**
Current period interest

**From 01.04.2019 to 31.03.2020**
= 15,00,000 x 10% x 1/2 = ₹75,000
Prior period interest

**From 01.07.2018 to 31.03.2019**
= 15,00,000 x 10% x 9 / 12 = 1,12,500
1,12,500 allowed in 5 equal instalments
= 1,12,500 / 5 = ₹ 22,500 per annum
= 22,500 / 2 = ₹11,250
Total interest = ₹75,000 + ₹ 11,250 = ₹86,250

Loss from house property

**First Floor (Let Out)**
Gross Annual Value

**Working Note:**
Income Under The Head House Property

(a) Fair Rent \((1,20,000 \times 9/12)\)  
(b) Municipal Value \((92,000 \times 9/12)\)  
(c) Higher of (a) or (b)  
(d) Expected Rent  
(e) Rent Received/Receivable = \(20,000 \times 6\)  
\(\text{GAV} = \text{Higher of (d) or (e)}\)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Rent</td>
<td>90,000</td>
</tr>
<tr>
<td>Municipal Value</td>
<td>69,000</td>
</tr>
<tr>
<td>Higher of (a) or (b)</td>
<td>90,000</td>
</tr>
<tr>
<td>Expected Rent</td>
<td>90,000</td>
</tr>
<tr>
<td>Rent Received/Receivable</td>
<td>1,20,000</td>
</tr>
<tr>
<td>GAV</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Less: Municipal taxes</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>1,15,000</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(34,500)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(86,250)</td>
</tr>
</tbody>
</table>

**Working Note:**

Current period interest

**From 01.04.2019 to 31.03.2020**

\[= 15,00,000 \times 10% \times 1/2 = \text{₹}75,000\]

Prior period interest

**From 01.07.2018 to 31.03.2019**

\[= 15,00,000 \times 10% \times 9/12 = 1,12,500\]

1,12,500 allowed in 5 equal instalments

\[= 1,12,500 / 5 = \text{₹}22,500 \text{ per annum}\]

\[= 22,500 / 2 = \text{₹}11,250\]

Total Interest = \(\text{₹}75,000 + \text{₹}11,250 = \text{₹}86,250\)

Loss from house property  
Loss under the head “income from house property” of Mr. Y  
(Both ground floor and first floor)  

Solution 25:

Computation of income under the head House Property

Gross Annual Value  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Municipal Valuation</td>
<td>22,000</td>
</tr>
<tr>
<td>(b) Expected Rent</td>
<td>22,000</td>
</tr>
<tr>
<td>(c) Rent Received/Receivable ((3,000 \times 2) + (3,500 \times 6))</td>
<td>27,000</td>
</tr>
<tr>
<td>GAV</td>
<td>27,000</td>
</tr>
<tr>
<td>Less: Municipal taxes</td>
<td>Nil</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>27,000</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(8,100)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(7,875)</td>
</tr>
</tbody>
</table>

Working Note:

\[= [(60,000 \times 15% \times 6/12) + (45,000 \times 15% \times 6/12)] = \text{₹}7,875\]

Income under the head House Property  

11,025

Solution 26:

Computation of income of Unit-I

Since the unit is self-occupied throughout the year. Hence its income shall be computed under section 23(2), accordingly there will be loss ₹30,000.

Computation of income of Unit-II

It will be considered to be partially self-occupied and partially let out and income shall be computed under section 23(3) in the manner given below:

Gross Annual Value  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rental Value</td>
<td>76,500</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>65,000</td>
</tr>
</tbody>
</table>
### Income Under The Head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>76,500</td>
</tr>
<tr>
<td>(d) Standard Rent</td>
<td>70,000</td>
</tr>
<tr>
<td>Expected Rent {Lower of (c) or (d)}</td>
<td>70,000</td>
</tr>
<tr>
<td>(e) Expected Rent</td>
<td>70,000</td>
</tr>
<tr>
<td>(f) Rent Received/Receivable (7,500 x 11)</td>
<td>82,500</td>
</tr>
<tr>
<td>GAV = Higher of (e) or (f)</td>
<td>82,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Municipal taxes</td>
<td>(7,800.00)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>74,700.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(22,410.00)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(72,900.00)</td>
</tr>
</tbody>
</table>

**Working note:**

**Current period interest**

**From 01.04.2019 to 31.03.2020**

\[= 9,00,000 \times 12\% = \text{₹}1,08,000\]

**Prior period interest**

**From 01.07.2016 to 31.03.2018**

\[= 9,00,000 \times 12\% \times 21 / 12 = 1,89,000\]

**Installment = 1,89,000 / 5 = 37,800**

**Total interest = 1,08,000 + 37,800 = 1,45,800**

**Interest allowed for one unit = 1,45,800 / 2 = ₹72,900**

**Loss from house property**

\[(20,610.00)\]

**Loss under the head House Property is**

\[(20,610) + (30,000)\]

**Income under the head Other Sources**

3,90,000.00

**Gross Total Income**

3,39,390.00

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

Nil

**Total Income**

3,39,390.00

**Computation of Tax Liability**

Tax on ₹3,39,390 at slab rate

4,469.50

Less: Rebate u/s 87A

(4,469.50)

Tax Liability

Nil

**Note:** Since condition regarding certificate has not been complied with hence interest has been allowed maximum to the extent of ₹30,000.

### Solution 27:

**Unit I**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>1,36,500</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rental Value (1,75,000 x 70%)</td>
<td>1,22,500</td>
</tr>
<tr>
<td>(b) Municipal Valuation (1,55,000 x 70%)</td>
<td>1,08,500</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>1,22,500</td>
</tr>
<tr>
<td>(d) Standard Rent (1,65,000 x 70%)</td>
<td>1,15,500</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>1,15,500</td>
</tr>
<tr>
<td>(f) Rent Received/Receivable (13,000 x 10.5)</td>
<td>1,36,500</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAV</td>
<td>1,36,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Municipal taxes (35,000 x 70%)</td>
<td>(24,500)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>1,12,000</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(33,600)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>Nil</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>78,400</td>
</tr>
</tbody>
</table>
Unit II

Gross Annual Value 55,000

Working Note:]
(a) Fair Rental Value (1,75,000 x 30%) 52,500
(b) Municipal Valuation (1,55,000 x 30%) 46,500
(c) Higher of (a) or (b) 52,500
(d) Standard Rent (1,65,000 x 30%) 49,500
(e) Expected Rent {Lower of (c) or (d)} 49,500
(f) Rent Received/Receivable (5,000 x 11) 55,000

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

GAV 55,000

Less: Municipal taxes (35,000 x 30%) (10,500)
Net Annual Value 44,500
Less: 30% of NAV u/s 24(a) (13,350)
Less: Interest on capital borrowed u/s 24(b) Nil

Income under the head house property 31,150

Total income from house property (78,400 + 31,150) 1,09,550

Solution 28:

Gross Annual Value 86,400

Working Note:]
(a) Fair Rental Value 75,000
(b) Municipal Valuation 68,000
(c) Higher of (a) or (b) 75,000
(d) Standard Rent (7,200 x 12) 86,400
(e) Expected Rent {Lower of (c) or (d)} 75,000
(f) Rent Received/Receivable (7,200 x 12) 86,400

GAV = Higher of (e) or (f) 86,400

Less: Municipal taxes (14,000)
Net Annual Value 72,400
Less: 30% of NAV u/s 24(a) (21,720)
Less: Interest on capital borrowed u/s 24(b) Nil

Interest paid to non-resident without deducting tax at source is not deductible
Income from house property 50,680
Add: Recovery of unrealised rent sec 25A 15,400
(22,000 – 6,600)
Income under the head House property 66,080

Solution 29:

Option I

House I self-occupied
Income from house property I (30,000.00)
Interest on the capital borrowed = ₹59,583.33
(5,00,000 x 13% x 11/12 = 59,583.33).
But subject to maximum of ₹30,000
Interest upto ₹2,00,000 is allowed only if the loan is taken for purchase or construction of the house i.e. if
the loan is taken for reconstruction, higher amount is not allowed.

House II Self Occupied
Income from house II Nil

House III

Gross Annual Value 7,20,000

Working Note:]
(a) Fair rent (60,000 x 12) 7,20,000
(b) Expected Rent 7,20,000
(c) Rent Received/Receivable (50,000 x 12) 6,00,000
GAV = Expected Rent 7,20,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Municipal Taxes</td>
<td>(11,000.00)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>7,09,000.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(2,12,700.00)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(55,000.00)</td>
</tr>
<tr>
<td>Income from house III</td>
<td>4,41,300.00</td>
</tr>
</tbody>
</table>

**Income under the head House Property**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>House I and II</td>
<td>(30,000.00)</td>
</tr>
<tr>
<td>House III</td>
<td>4,41,300.00</td>
</tr>
<tr>
<td>Recovery of unrealised rent (house I)</td>
<td>1,400.00</td>
</tr>
<tr>
<td>(2,000 – 600)</td>
<td></td>
</tr>
</tbody>
</table>

**Income under the head House Property**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head House Property</td>
<td>4,12,700.00</td>
</tr>
</tbody>
</table>

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head House Property</td>
<td>4,12,700.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains (long term capital gain)</td>
<td>3,50,000.00</td>
</tr>
<tr>
<td>Income from Other Sources</td>
<td>250.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>7,62,950.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>7,62,950.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹4,12,950 at slab rate</td>
<td>8,147.50</td>
</tr>
<tr>
<td>Tax on ₹3,50,000 @ 20% u/s 112</td>
<td>70,000.00</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>78,147.50</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,125.90</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>81,273.40</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>81,270.00</td>
</tr>
</tbody>
</table>

**Solution 30:**

(i) Income under the head House Property.
(ii) Income under the head Capital Gains.
(iii) Income under the head Business/Profession.
(iv) Income under the head Other Sources.
(v) Income under the head House Property.
(vi) Income under the head Business/Profession.
(vii) Income under the head Business/Profession.
(viii) Income under the head Business/Profession.
(ix) Income under the head Other Sources.
(x) Income under the head House Property.
Question 3(a)                                Marks 7
Mrs. Disha Khanna, a resident of India, owns a house property at Bhiwani in Haryana. The Municipal value of the property is ₹7,50,000, Fair Rent of the property is ₹6,30,000 and Standard Rent is ₹7,20,000 per annum.

The property was let out for ₹75,000 per month for the period April 2019 to December 2019. Thereafter, the tenant vacated the property and Mrs. Disha Khanna used the house for self-occupation. Rent for the months of November and December 2019 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of ₹35,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from “House Property” for the A.Y. 2020-21.

**Solution: Computation of Income under the head House Property**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>₹7,20,000.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair rent</td>
<td>6,30,000</td>
</tr>
<tr>
<td>(b) Municipal Valuation</td>
<td>7,50,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>7,50,000</td>
</tr>
<tr>
<td>(d) Standard Rent</td>
<td>7,20,000</td>
</tr>
<tr>
<td>(e) Expected Rent {Lower of (c) or (d)}</td>
<td>7,20,000</td>
</tr>
<tr>
<td>(f) Rent Received/Receivable (75,000 x 9)</td>
<td>6,75,000</td>
</tr>
<tr>
<td></td>
<td>GAV = Higher of (e) or (f)</td>
</tr>
</tbody>
</table>

Less: Municipal taxes (90,000.00)
Net Annual Value 6,30,000.00
Less: 30% of NAV u/s 24(a) (1,89,000.00)
Less: Interest on capital borrowed u/s 24(b) (35,000.00)
Income from house property 4,06,000.00

**Note:** As per explanation to section 23(1)/Rule 4, in case of unrealised rent expected rent shall be computed for full year and while computing rent received/receivable, such unrealised rent shall be excluded and GAV shall be higher of expected rent and rent received or receivable.

In the given case conditions of rule 4 has not been complied hence rent shall not be treated as unrealised and shall not be excluded.

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Question 2(b)                                Marks 5
Mr. Chakrobarty, a resident, aged 35 years, works as a deputy manager in Dews Limited, located in Noida since April 2012. He owns two houses and uses it for self-purpose. The following information relates to the houses for the previous year 2019-2020:

<table>
<thead>
<tr>
<th>Location</th>
<th>House-I</th>
<th>House-II</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Noida (He and his family reside)</td>
<td>Gurgaon (His parents reside)</td>
</tr>
<tr>
<td>Municipal value per annum (₹)</td>
<td>8,00,000</td>
<td>9,00,000</td>
</tr>
<tr>
<td>Fair rent (₹)</td>
<td>9,20,000</td>
<td>8,80,000</td>
</tr>
<tr>
<td>Standard rent per annum (₹)</td>
<td>8,40,000</td>
<td>9,20,000</td>
</tr>
<tr>
<td>Actual rent (per month) (₹)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Municipal taxes paid during the year</td>
<td>8%</td>
<td>10%</td>
</tr>
</tbody>
</table>
He had taken a loan of ₹18,00,000 for the construction of the House-II on 1st April, 2016. Interest was payable @ 10% per annum. Till date, no payment was made towards the principal amount.

Compute his income under the head House Property

**Solution:**

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

**House I is Self-Occupied**

Loss Nil

**House II is Self-Occupied**

Loss (2,00,000)

**Working Note:**

Prior period interest

*From 01.04.2016 to 31.03.2018*

= 18,00,000 x 10% x 2 = 3,60,000

3,60,000 allowed in 5 equal instalments

= 3,60,000 / 5 = ₹ 72,000 per annum

Current period interest

*From 01.04.2019 to 31.03.2020*

= 18,00,000 x 10% x 1 = ₹1,80,000

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

Income under the head house property (2,00,000)

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**MAY – 2018 (OLD COURSE)**

**Question 3 (b) Marks 5**

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

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

**Solution:**

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

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

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

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

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**NOV – 2017**

**Question 4(a) (Marks 5)**

Mr. Aditya, a resident but not ordinarily resident in India during the Assessment Year 2020-21. He owns
two houses, one in Dubai and the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1DIRHAM=INR 18). The entire rent is received in India. He paid Property tax of DHS 2,500 and Sewerage Tax DHS 1,500 there, for the Financial Year 2019-20. The house in Mumbai is self-occupied.

He has taken a loan of ₹25,00,000 to construct the house on 1st June, 2016 @ 12%. The construction was completed on 31st May, 2018 and he occupied the house on 1st June, 2018. The entire loan is outstanding as on 31st March, 2020. Property tax paid in respect of the second house is ₹2,400 for the Financial Year 2019-20. Compute the income chargeable under the head “Income from House property” in the hands of Mr. Aditya for the Assessment Year 2020-21.

Solution:
In the given Mr. Aditya is NOR Hence Income received in India is taxable in India.

**Computation of Income from House Property of Mr. Aditya for the Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAV of the house in Dubai</td>
<td>₹43,20,000.00</td>
</tr>
<tr>
<td>(20,000 p.m. x ₹18 per DHS x 12 months)</td>
<td></td>
</tr>
<tr>
<td>Less: Municipal taxes paid (1500 +2500) x ₹18 per DHS</td>
<td>₹72,000.00</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>₹42,48,000.00</td>
</tr>
<tr>
<td>Less: Statutory deduction under section 24(a) @ 30% of NAV</td>
<td>₹12,74,400.00</td>
</tr>
<tr>
<td>Income from House property</td>
<td>₹29,73,600.00</td>
</tr>
</tbody>
</table>

GAV of house at Mumbai (self occupied)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Municipal taxes paid</td>
<td>Nil</td>
</tr>
<tr>
<td>Net Annual Value (NAV)</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Statutory deduction under section 24(a) @ 30% of NAV</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>₹2,00,000.00</td>
</tr>
</tbody>
</table>

**Working Note:**
Prior period interest

**From 01.06.2016 to 31.03.2018**

\[= 25,00,000 \times 12\% \times \frac{22}{12} = 5,50,000\]

5,50,000 allowed in 5 equal instalments

\[= 5,50,000 / 5 = 1,10,000\] per annum

Current period interest

**From 01.04.2019 to 31.03.2020**

\[= 25,00,000 \times 12\% \times 1 = 3,00,000\]

Total Interest = 1,10,000 + 3,00,000 = 4,10,000 but maximum upto ₹2,00,000

(assuming all the conditions for higher Interest is satisfied.)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss from House property</td>
<td>₹2,00,000.00</td>
</tr>
<tr>
<td>Income from House property</td>
<td>₹27,73,600.00</td>
</tr>
</tbody>
</table>

**MAY – 2017**

**Question 4(a) (ii)**

Mr. Ganesh owns a commercial building whose construction got completed in June 2018. He took a loan of ₹15 lakhs from his friend on 1-8-2017 and had been paying interest calculated at 15% per annum. He is eligible for pre-construction interest as deduction as per the provisions of the Income Tax Act.

Mr. Ganesh has let out the commercial building at a monthly rent of ₹40,000 during the financial year 2019-20. He paid municipal tax of ₹18,000 each for the financial year 2018-19 and 2019-20 on 1-5-2019 and 5-4-2020 respectively.

Compute income under the head 'House Property' of Mr. Ganesh for the Assessment Year 2020-21.
Income Under The Head House Property

Solution:
Computation of Income under the head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value (40,000 x 12)</td>
<td>4,80,000</td>
</tr>
<tr>
<td>Less: Municipal Taxes</td>
<td>(18,000)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>4,62,000</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(1,38,600)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(2,55,000)</td>
</tr>
</tbody>
</table>

Working Note:
Prior period interest
From 01.08.2017 to 31.03.2018
= 15,00,000 x 15% x 8 / 12 = 1,50,000
1,50,000 allowed in 5 equal instalments
= 1,50,000 / 5 = 30,000 per annum

Current period interest
From 01.04.2019 to 31.03.2020
= 15,00,000 x 15% x 1 = 2,25,000
Total Interest = 30,000 + 2,25,000 = 2,55,000

Income under the head House Property

Note: As per proviso to section 23(1), Municipal Taxes actually paid by the owner during the previous year is allowed to be deducted from GAV.

NOV – 2015

Question 6(a). (8 Marks)
Mr. X constructed a shopping complex. He had taken a loan of ₹25 lakhs for construction of the said property on 01.08.2017 from SBI @ 10% for 5 years. The construction was completed on 30.06.2018.
Rental income received from shopping complex ₹30,000 per month let out for the whole year. Municipal Taxes paid for shopping complex ₹8,000.
Arrears of rent received from shopping complex ₹1,20,000.
Interest paid on loan taken from SBI for purchase of house for use as own residence for the period 2019-2020 ₹3 lakhs. The loan was taken after 01.04.1999 and house was purchased within 5 years from the end of the year in which loan was taken and assessee has submitted certificate certifying the amount of interest.
You are required to compute Income from House property of Mr. X for AY 2020-2021 as per Income Tax Act, 1961.

Solution 6(a):
Income under the head House Property

Income from shopping Complex

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>3,60,000.00</td>
</tr>
<tr>
<td>Less: Municipal taxes paid</td>
<td>(8,000.00)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>3,52,000.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(1,05,600.00)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(2,83,333.33)</td>
</tr>
</tbody>
</table>

Working Note:
Prior period interest
From 01.08.2017 to 31.03.2018
25,00,000 x 10% x 8/12 = 1,66,666.67
Installment allowed = 1,66,666.67/5 = 33,333.33

Current year interest
From 01.04.2019 to 31.03.2020
25,00,000 x 10% x 1 = 2,50,000
Total
2,83,333.33

Loss from shopping complex
(36,933.33)
Add: Arrear of Rent Received 1,20,000
Less: Deduct @ 30% (36,000) 84,000.00

**Income from shopping complex** 47,066.67

**Income from self-occupied property**

- Gross Annual Value: NIL
- Less: Municipal taxes paid: NIL
- Net Annual Value: NIL
- Less: 30% of NAV u/s 24(a): NIL
- Less: Interest on capital borrowed u/s 24(b): (2,00,000.00)

**Loss from self-occupied property** (2,00,000.00)

Loss under the head House Property (47,066.67-(2,00,000)) (1,52,933.33)
### DEDUCTION FROM GROSS TOTAL INCOME

#### CHAPTER VI-A

**SECTION 80C TO 80U**

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>SECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Deduction in respect of investment in NSC/PPF/Bank FD etc.</td>
<td>80C</td>
</tr>
<tr>
<td>2. Deduction in respect of contribution to certain pension funds</td>
<td>80CCC</td>
</tr>
<tr>
<td>3. Deduction in respect of medical insurance premia</td>
<td>80D</td>
</tr>
<tr>
<td>4. Deduction in respect of maintenance including medical treatment of a</td>
<td>80DD</td>
</tr>
<tr>
<td>dependent who is a person with disability</td>
<td></td>
</tr>
<tr>
<td>5. Deduction in respect of medical treatment, etc.</td>
<td>80DDB</td>
</tr>
<tr>
<td>6. Deduction in respect of interest on loan taken for higher education</td>
<td>80E</td>
</tr>
<tr>
<td>7. Deduction in respect of interest on loan taken for certain house property</td>
<td>80EEA</td>
</tr>
<tr>
<td>8. Deduction in respect of purchase of electric vehicle.</td>
<td>80EEB</td>
</tr>
<tr>
<td>9. Deduction in respect of donations to certain funds, charitable institutions, etc.</td>
<td>80G</td>
</tr>
<tr>
<td>10. Deduction in respect of rents paid</td>
<td>80GG</td>
</tr>
<tr>
<td>11. Deduction in respect of certain donations for scientific research or rural development</td>
<td>80GGA</td>
</tr>
<tr>
<td>12. Deduction in case of donation to political parties</td>
<td>80GGB/80GGC</td>
</tr>
<tr>
<td>13. Deduction in respect of employment of new workmen</td>
<td>80JJAA</td>
</tr>
<tr>
<td>14. Deduction in respect of royalty income, etc., of authors of certain books</td>
<td>80QQB</td>
</tr>
<tr>
<td>15. Deduction in respect of royalty on patents</td>
<td>80RRB</td>
</tr>
<tr>
<td>16. Deduction from interest on savings bank account</td>
<td>80TTA</td>
</tr>
<tr>
<td>17. Deduction from interest on savings bank account to Senior Citizens</td>
<td>80TTB</td>
</tr>
<tr>
<td>18. Deduction in case of disabled person</td>
<td>80U</td>
</tr>
</tbody>
</table>
DEDUCTION FROM GROSS TOTAL INCOME
CHAPTER VI-A
SECTION 80C to 80U

Deductions under section 80C to 80U are allowed from gross total income to compute total income however such deduction is allowed only from normal income.

- As per section 112, such deductions are not allowed from long term capital gains.
- As per section 58(4), such deductions are not allowed from casual income.
- As per section 111A, such deduction are not allowed from short term capital gains on the sale of short term equity shares or short term units of equity oriented mutual funds provided securities transaction tax has been paid.
- As per section 112A, such deduction are not allowed from long term capital gains on the sale of long term equity shares or long term units of equity oriented mutual funds provided securities transaction tax has been paid.

Example
Mr. X has income under the head salary ₹75,000, income from long term capital gains ₹2,10,000 and casual income ₹35,000, in this case maximum amount of deductions allowed shall be ₹75,000.

Question 1 [V. Imp.]. Write a note on deduction under Section 80C.
Answer: Deduction under section 80C shall be allowed only to

(i) an individual
(ii) Hindu Undivided Family

(Deduction under section 80C is not allowed to any partnership firm or a company etc.)

Deduction shall be allowed to the extent of the following investments but as per section 80CCE, maximum deduction allowed shall be ₹1,50,000 (Including deduction under section 80CCC and section 80CCD).

1. Deduction shall be allowed if amount has been invested in National Saving Certificate (NSC) and NSC are just like a fixed deposit with a bank. Amount can be invested in the name of self, spouse or minor children and HUF can invest the amount in the name of any of its members. Deduction shall be allowed equal to the amount invested and amount received on maturity shall be exempt from income tax but interest shall be taxable every year on accrual basis but payment of interest shall be received on maturity. Deduction under section 80C shall also be allowed for such accrued interest but no deduction shall be allowed for accrued interest of the year in which assessee has received payment. NSC are issued for 5 years / 10 years.

Example
Mr. X has income under the head House Property ₹10 lakh and he invested ₹50,000 in NSC on 01.10.2019. He has invested ₹40,000 in previous year 2018-19 also and there is accrued interest of ₹4,000 in previous year 2019-20. He has also received ₹1,00,000 on maturity of NSC which were invested in the earlier year and original amount is ₹60,000 and interest for current year is ₹8,000, in this case his tax liability shall be

| Income under the head House Property | 10,00,000 |
| Income under the head Other Sources (4,000+ 8,000) | 12,000 |
| Gross Total Income | 10,12,000 |
| Less: Deduction u/s 80C | |
| Investment in current year | 50,000 |
| Accrued interest | 4,000 |
| (no deduction shall be allowed for interest received on maturity) |
| Total Income | 9,58,000 |
| Tax on ₹9,58,000 at slab rate | 1,04,100 |
| Add: HEC @ 4% | 4,164 |
| Tax Liability | 1,08,264 |
Rounded off u/s 288B 1,08,260

2. Public provident fund is a deposit scheme run by Central Government and account can be opened in the bank or post office and maturity shall be after 15 years and the account can be opened in the name of self, spouse or children. HUF can open the account in the name of any of its members. Amount received on maturity shall be exempt from income tax and also interest is exempt from income tax. No deduction is allowed under section 80C for interest.

3. Investment in fixed deposit for a period of 5 years or more with scheduled banks, provided the term deposit are issued in accordance with a scheme notified by the Central Government. (Bank Term Deposit Scheme, 2006 – depositor can be individual or Hindu Undivided Family. The deposit should be for a minimum period of 5 years. Interest income shall be taxable on accrual basis and it will not qualify for deduction under section 80C.) Principal amount received on maturity shall be exempt. Individual can deposit the amount only in his own name and HUF can deposit the amount in the name of any of its member.

4. Five Year Post Office Time Deposit Account.
An assessee is allowed to invest the amount in five year post office time deposit account and deduction shall be allowed equal to the amount invested. Interest shall be paid on annual basis and it will be taxable and deduction under section 80C is not allowed. Amount received on maturity shall be exempt. Individual can invest the amount in his name and HUF can invest the amount in the name of any of its member.

Pre-mature payment is allowed but amount received on pre-mature payment shall be taxable.

5. If an assessee has taken a loan from a notified organization like banks or financial institution etc. for purchase or construction of a residential house, in such cases deduction shall be allowed equal to the amount re-paid by the assessee towards principal (not towards interest). If loan has been taken for Addition, Alteration, or Repairs etc of the house property, no deduction is allowed.
If the assessee has transferred the house property before the expiry of 5 years from the end of the financial year in which possession of such properties was taken by him, no deduction shall be allowable in the previous year in which the house property has been transferred. The deduction allowed in the past years shall be considered to be income of the assessee of the previous year in which the house property is transferred.

6. If any individual or HUF has taken life policy, deduction shall be allowed for the premium paid for such life policy and individual can take the policy in the name of self, spouse and children and Hindu Undivided Family can take the policy in the name of any of its members. (Children may be dependant or independent or may be married or unmarried or step or adopted.)
Deduction is allowed equal to the premium paid but maximum upto 10% of capital sum assured, i.e. if premium paid is more than 10% of capital sum assured, deduction shall be allowed only for 10% of sum assured. (In respect of policy issued before 01.04.2012, 10% shall be taken as 20%)
If LIC policy has been taken in the name of a person who is suffering from disability given under section 80U or from a specified disease given under section 80DDB, 10% shall be taken as 15% but it is applicable for the policies taken w.e.f 01.4.2013 onwards.
If an assessee has discontinued a life insurance policy before paying premium for a period of atleast 2 years, deduction allowed in the earlier years shall be considered to be income of the year in which policy has been discontinued.

As per section 10(10D), any payment received on maturity of insurance policy shall be exempt from income tax i.e. even the amount of bonus received shall be exempt from income tax. If the policy holder has paid premium of more than the specified limit (10% / 15% / 20%) in any of the years, amount received on maturity shall be chargeable to tax but if the amount has been received on the death of the policy holder, it will be exempt from income tax.

E.g. Mr. X has paid premium of one life policy ₹25,000 and sum assured is ₹ 1,00,000 and policy was taken on 01.04.2012 onwards, in this case deduction allowed shall be ₹10,000 but if policy was taken before 01.04.2012, deduction allowed shall be ₹20,000. If Mr. X is a handicapped person and policy was taken w.e.f 01.04.2013 onwards, deduction allowed shall be ₹15,000.
7. **Payment of tuition fees to School, College, University or any other Educational Institution in India**
   provided the fees has been paid in connection with the **children of the assessee** and further for **maximum two children** and it should be **whole time education**. Children shall include even adopted and step children also. Deduction is not allowed to HUF. If payment is made outside India, deduction is not allowed. Similarly if payment is given for part time education or correspondence course, deduction is not allowed.

8. **Employees contribution to** **statutory provident fund or recognised provident fund or approved superannuation fund**

9. **Investment in** **Units of Unit trust of India or mutual fund including Unit Linked Insurance Plan of UTI or mutual fund**

10. **Subscription to** **Notified Deposit Schemes of NHB e.g. subscription to Home Loan Account Scheme** of NHB.

11. **Investment in equity shares or debentures etc forming part of an eligible issue.**
   
   **Eligible issue** **means an issue made by an Indian Public Ltd Company or a Public Financial Institution, a Mutual Fund etc. and the funds so collected are utilised for Developing, Maintaining and Operating Infrastructure Facility.**
   
   If any such equity shares etc. have been sold within a **period of 3 years** from the date of purchase, in such cases deduction earlier allowed shall be considered to be income of such year

12. **Investment in notified bonds issued by the National Bank for Agriculture and Rural Development.**

13. **Senior Citizens Savings Scheme**. Amount should be invested in the name of self and amount received on maturity shall be exempt and interest shall be payable on quarterly basis and interest received is taxable. Deduction under section 80C for interest is not allowed.

14. Investment in Sukanya Samridhi Account and amount can be invested by an individual as guardian in the name of girl child who is of the age of 10 years or less. Interest received is exempt. Amount received on maturity is exempt. Account can be closed after the completion of 21 years of age. In case of marriage, payment is allowed after completion of 18 years of age.

15. **Investment by an employee of the Central Government, as a contribution to a specified account of the pension scheme referred to in section 80CCD—**
   
   (a) for a fixed period of not less than three years; and
   
   (b) which is in accordance with the scheme as may be notified by the Central Government in the Official Gazette for the purposes of this clause.

   **Explanation.—** For the purposes of this clause, “specified account” means an additional account referred to in sub-section (3) of section 20 of the Pension Fund Regulatory and Development Authority Act, 2013.

Deduction shall be allowed only if the amount has been actually paid by the assessee i.e. if the **amount is due but not paid deduction is not allowed**. E.g. Premium of ₹25,000 was due on 27.03.2020 but it was paid on 10.04.2020, in this case no deduction is allowed in the previous year 2019-20, rather deduction shall be allowed in the previous year 2020-21.

**Illustration 1:** Mr. X, aged about 61 years, has earned a lottery income of ₹ 1,20,000 (gross) during the P.Y. 2019-20. He also has a business income of ₹6,00,000. He invested an amount of ₹10,000 in Public Provident Fund account and ₹ 24,000 in National Saving Certificates and ₹60,000 in eligible mutual funds. He has paid premium of ₹30,000 for a life policy having sum assured ₹2,00,000 and policy was taken after 01.04.2012. Compute his tax liability for assessment year 2020-21.

**Solution:**

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

| Income under the head business/profession | 6,00,000 |
| Income under the head Other Sources (casual income) | 1,20,000 |
| Gross Total Income | 7,20,000 |
| Less: Deduction u/s 80C | (10,000) |
| 1. Public Provident Fund | |
2. Investment in NSC (24,000)
3. Mutual Fund (60,000)
4. Payment of premium for LIC policy (20,000)
Total Income 6,06,000

**Computation of Tax Liability**

Tax on casual income ₹1,20,000 @ 30% 36,000
Tax on ₹4,86,000 at slab rate 9,300
Tax before health & education cess 45,300
Add: HEC @ 4% 1,812
Tax Liability 47,112
Rounded off u/s 288B 47,110

**Illustration 2:** Mr. X has income under the head Business/Profession ₹19,90,000.

His investments are as given below:
1. Investment in NSC ₹50,000
2. Investment in PPF in name of Mrs. X ₹5,000
3. Payment of premium for LIC policy taken in the name of dependent father on 16.06.2019 and its premium paid is ₹11,000
4. Payment of premium for LIC policy taken in the name of independent son on 15.04.2019 and its premium paid is ₹6,000 (sum assured ₹1,00,000)
5. Payment of premium for LIC policy taken in the name of independent married daughter on 11.01.2020 and its premium paid is ₹21,000 (sum assured ₹1,00,000)

Compute Income Tax liability for the A.Y. 2020-21.

**Solution:**

Income under the head business/profession 19,90,000
Gross Total Income 19,90,000
Less: Deduction u/s 80C
1. Investment in NSC ₹50,000
2. Investment in PPF in the name of Mrs. X (5,000)
3. Payment of premium for LIC policy taken in the name of dependent father NIL
4. Payment of premium for LIC policy taken in the name of independent son (6,000)
5. Payment of premium for LIC policy taken in the name of independent married daughter (allowed 10% of sum assured) (10,000)
Total Income 19,19,000

**Computation of Tax Liability**

Tax on ₹19,19,000 at slab rate 3,88,200
Add: HEC @ 4% 15,528
Tax Liability 4,03,728
Rounded off u/s 288B 4,03,730

**Illustration 3:** Mr. X furnishes you the following information:

Raw material purchased ₹5,00,000. Manufacturing expenses (revenue nature) ₹2,00,000.
Sale price ₹18,00,000. Plant & machinery acquired ₹2,60,000. Depreciation is allowed @ 15%.

He has made the investments as given below:
(i) Fixed deposit with State Bank for two years ₹5,000.
(ii) Investment in National Saving Certificates ₹5,000.
(iii) Deposit in Public Provident Fund Account in the name of major married independent son ₹5,000.
(iv) Deposit in Public Provident Fund Account in the name of minor son ₹5,000.
(v) Payment of premium for LIC policy in name of major married independent daughter on 15.09.2019 ₹5,000. (sum assured ₹1,00,000).
(vi) Payment of premium for LIC policy in name of major married independent son on 11.11.2019 ₹5,000. (sum assured ₹20,000)
(vii) Investment in Home Loan Account Scheme of National Housing Bank ₹5,000 (Investment was made out of past savings).
(viii) Investment in units of Mutual Funds notified under section 10(23D) ₹5,000. (Investment was made out of current income exempt from income tax).
(ix) Investment in Equity Shares of Infrastructure Companies ₹5,000.
(x) Payment of Tuition fees of his son to a private coaching centre for coaching in taxation ₹5,000.

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

Solution:

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

| Sale price | 18,00,000.00 |
| Less: Purchase Price | (5,00,000.00) |
| Less: Manufacturing expenses | (2,00,000.00) |
| Less: Depreciation on plant and machinery (2,60,000 × 15%) | (39,000.00) |
| Income under the head Business/profession | 10,61,000.00 |
| Gross Total Income | 10,61,000.00 |
| Less: Deduction u/s 80C | |
| National Saving Certificate | (5,000.00) |
| Public Provident Fund | (10,000.00) |
| LIC policy in name of major married independent daughter | (5,000.00) |
| LIC policy in name of major married independent son | (2,000.00) |
| Home Loan Account Scheme | (5,000.00) |
| Units of Mutual Funds | (5,000.00) |
| Equity Shares of Infrastructure Companies | (5,000.00) |
| Total Income | 10,24,000.00 |

**Computation of Tax Liability**

Tax on ₹10,24,000 at slab rate 1,19,700.00
Add: HEC @ 4% 4,788.00
Tax Liability 1,24,488.00
Rounded off u/s 288B 1,24,490.00

**Illustration 4:** Compute the eligible deduction under section 80C for A.Y.2020-21 in respect of life insurance premium paid by Mr. X during the P.Y.2019-20, the details of which are given hereunder –

<table>
<thead>
<tr>
<th>Date of issue of policy</th>
<th>Person insured</th>
<th>Actual capital sum assured (₹)</th>
<th>Insurance premium paid during 2019-20 (₹)</th>
<th>Deduction u/s 80C for A.Y.2020-21</th>
<th>Remark (restricted to % of sum assured)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) 01.04.2011</td>
<td>Self</td>
<td>2,00,000</td>
<td>50,000</td>
<td>40,000</td>
<td>20%</td>
</tr>
<tr>
<td>(ii) 01.05.2017</td>
<td>Spouse</td>
<td>1,50,000</td>
<td>20,000</td>
<td>15,000</td>
<td>10%</td>
</tr>
<tr>
<td>(iii) 01.06.2018</td>
<td>Handicapped Son (section 80U disability)</td>
<td>3,00,000</td>
<td>60,000</td>
<td>45,000</td>
<td>15%</td>
</tr>
</tbody>
</table>

**Total** 1,00,000

**Illustration 5 (From RTP):** Compute the eligible deduction under section 80C for A.Y.2020-21 in respect of life insurance premium paid by Mr. X during the P.Y.2019-20, the details of which are given hereunder –
### Deduction From Gross Total Income

<table>
<thead>
<tr>
<th>Date of issue of policy</th>
<th>Person insured</th>
<th>Actual capital sum Assured (₹)</th>
<th>Insurance premium paid during 2019-20 (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) 01.06.2011</td>
<td>Mr. X</td>
<td>4,00,000</td>
<td>75,000</td>
</tr>
<tr>
<td>(ii) 01.05.2017</td>
<td>Mrs. X, her wife</td>
<td>1,00,000</td>
<td>25,000</td>
</tr>
<tr>
<td>(iii) 01.07.2018</td>
<td>Ms. Y, his handicapped daughter (section 80U disability)</td>
<td>5,00,000</td>
<td>60,000</td>
</tr>
<tr>
<td>(iv) 01.07.2018</td>
<td>Mr. Z, his son</td>
<td>1,00,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>

**Total Premium paid** 1,85,000

#### Solution:

**Computation of eligible deduction under section 80C for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Date of issue of policy</th>
<th>Person insured</th>
<th>Actual capital sum assured</th>
<th>Insurance premium paid during 2019-20</th>
<th>Restricted to % of sum assured</th>
<th>Deduction u/s 80C for A.Y.2020-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) 01.06.2011</td>
<td>Mr. X</td>
<td>4,00,000</td>
<td>75,000</td>
<td>20%</td>
<td>75,000</td>
</tr>
<tr>
<td>(ii) 01.05.2017</td>
<td>Mrs. X</td>
<td>1,00,000</td>
<td>25,000</td>
<td>10%</td>
<td>10,000</td>
</tr>
<tr>
<td>(iii) 01.07.2018</td>
<td>Handicapped daughter</td>
<td>5,00,000</td>
<td>60,000</td>
<td>15%</td>
<td>60,000</td>
</tr>
<tr>
<td>(iv) 01.07.2018</td>
<td>Son</td>
<td>1,00,000</td>
<td>25,000</td>
<td>10%</td>
<td>10,000</td>
</tr>
</tbody>
</table>

|                                  | Total          | 1,55,000                   |                                         |                                 | Maximum deduction u/s 80C restricted to 1,50,000 |

**Note:**

<table>
<thead>
<tr>
<th>In respect of policies issued</th>
<th>Maximum deduction u/s 80C (%) of actual capital sum assured</th>
</tr>
</thead>
<tbody>
<tr>
<td>between 01.04.2003 and 31.03.2012</td>
<td>20%</td>
</tr>
<tr>
<td>between 01.04.2012 and 31.03.2013</td>
<td>10%</td>
</tr>
<tr>
<td>on or after 01.04.2013</td>
<td></td>
</tr>
<tr>
<td>- Insurance on life of person with disability u/s 80U</td>
<td>15%</td>
</tr>
<tr>
<td>- Others</td>
<td>10%</td>
</tr>
</tbody>
</table>

#### NOV – 2014 (2 Marks)

Determine the eligibility and quantum of deduction under Chapter VI-A in the following case:
Mr. X has paid life insurance premium of ₹70,000 during the year. (Sum Assured 3,50,000 policy issued on 31.03.2011)

**Solution:**
Deduction for Life Insurance Premium shall be available under section 80C of ₹70,000 (being maximum 20% of ₹3,50,000 as the policy was issued before 01.04.2012)

#### MAY – 2001 (5 Marks)

The particulars of income of Mrs. X. aged 55 years for the financial year 2019-20 are given below:

1. **Income under the head salary received from M/s ABC Ltd. for the year** 4,00,000
2. **Rental income received from a commercial complex** 12,000 p.m.
3. **Arrears of rent received from the complex, which were not charged to tax in any earlier years** 30,000
4. **Interest paid on loan taken for the purchase of a house from a scheduled bank for use as own residence** 1,20,000
5. **Repayment of instalments of loan taken from the bank for the purchase of the above property** 60,000
6. **Deposits in public provident fund account**
Deduction From Gross Total Income

(i) Towards loan taken from public provident account 20,000
(ii) Out of current year’s income 40,000

(7) Investment made in units of a mutual fund approved by the board under section 80C of the Income-Tax Act. 40,000

Compute the total income of Mrs. X and the tax payable thereon in respect of assessment year 2020-21.

Answer:

Computation of total income and tax liability Mrs. X

Income from under the head salary
Income under the head Salary 4,00,000.00

Income from house property

Let out commercial complex
Gross Annual Value (12,000 x 12) 1,44,000.00
Less: Municipal taxes Nil
Net Annual Value 1,44,000.00
Less: 30% of NAV u/s 24(a) (43,200.00)
Less: Interest on capital borrowed u/s 24(b) Nil
Income from let out property 1,00,800.00

Property self-occupied for residence
Net Annual Value Nil
Less: Interest on capital borrowed u/s 24(b) (30,000.00)
Loss from self-occupied property (30,000.00)

Arrears of rent Section 25A 30,000
Less: (30% of ₹30,000) (9,000) 21,000.00
Income under the head House Property 91,800.00
Gross Total Income 4,91,800.00
Less: Deduction u/s 80C (1,40,000.00)
Repayment of loan taken to purchase residential house property 60,000
Deposit in public provident fund out of current income 40,000
Investment made in units of mutual fund for infrastructure facility 40,000
Total Income 3,51,800.00

Computation of Tax Liability
Tax on ₹3,51,800 at slab rate 5,090.00
Less: Rebate u/s 87A (5,090.00) Nil
Add: HEC @ 4% Nil
Tax Liability Nil

Question 2: Write a note on deduction in case of contribution to a Pension Fund.
Answer: Deduction in respect of contribution to certain pension Funds Section 80CCC

In general in case of life insurance, lump sum amount is paid to the policyholder but in some of the life policies pension is given instead of lump sum amount e.g. Jeevan Suraksha policy. If any person has paid premium for such policy, deduction is allowed under section 80CCC instead of section 80C. Deduction is allowed only to an individual and individual can take the policy only in his name (and not in name of spouse or children). Any pension received shall be taxable under the head Other Sources. If the assessee has surrendered the policy, amount received shall be taxable under the head Other Sources.

e.g. (i) Mr. X has taken Jeevan Suraksha Policy in his name and has paid premium of ₹10,000, in this case deduction allowed shall be ₹10,000
(ii) Mr. X has taken Jeevan Suraksha Policy in the name of Mrs. X and has paid premium of ₹10,000, in this case deduction is not allowed.
(iii) Mr. X has taken Jeevan Suraksha Policy in the name of his dependant son and has paid premium of ₹10,000, in this case deduction is not allowed.
As per section 80CCE, Maximum Deduction allowed u/s 80C + 80CCC + 80CCD shall be ₹1,50,000.

**Illustration 6:** Mr. X has income under the head business/profession ₹3,35,000.

He has made the following investments:-
- NSC ₹10,000
- Investment in post office 5 year time deposit account ₹15,000
- Payment of premium for life policy in the name of major married independent son on 10.10.2019 ₹30,000 (sum assured ₹90,000)
- Paid premium of ₹11,000 for Jeeven Suraksha policy taken in name of Mr. X on 11.11.2019.

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

**Solution:**

<table>
<thead>
<tr>
<th>Particular</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Business/Profession</td>
<td>3,35,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>3,35,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td></td>
</tr>
<tr>
<td>NSC</td>
<td>(10,000.00)</td>
</tr>
<tr>
<td>Investment in 5 years post office</td>
<td>(15,000.00)</td>
</tr>
<tr>
<td>Payment of premium of LIC</td>
<td>(9,000.00)</td>
</tr>
<tr>
<td>Less: Deduction u/s 80CCC</td>
<td>(11,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,90,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

Tax on ₹2,90,000 at slab rate 2,000.00
Less: Rebate u/s 87A (2,000.00)
Tax Liability Nil

**Illustration 7:** The gross total income of Mr. X for the A.Y.2020-21 is ₹5,00,000. He has made the following investments/payments during the F.Y.2019-20

1. Contribution to PPF 90,000
2. Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI 45,000
3. Repayment of housing loan taken from Standard Chartered Bank 25,000
4. Contribution to approved pension fund of LIC 10,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2020-21.

**Solution:**

**Computation of deduction under Chapter VI-A for the A.Y.2020-21**

<table>
<thead>
<tr>
<th>Particular</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduction under section 80C</td>
<td></td>
</tr>
<tr>
<td>(1) Contribution to PPF</td>
<td>90,000</td>
</tr>
<tr>
<td>(2) Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI</td>
<td>45,000</td>
</tr>
<tr>
<td>(3) Repayment of housing loan</td>
<td>25,000</td>
</tr>
<tr>
<td>Deduction under section 80CCC</td>
<td></td>
</tr>
<tr>
<td>(1) Contribution to approved pension fund of LIC</td>
<td>10,000</td>
</tr>
<tr>
<td>As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD has to be restricted to ₹1,50,000</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Deduction allowable under Chapter VI-A for the A.Y.2020-21</td>
<td>1,50,000</td>
</tr>
</tbody>
</table>

Deduction under section 80CCD shall be discussed under the head Salary.
Question 3 [V. Imp.]: Write a note on deduction in case of payment of premium for Medical Insurance/Mediclaim Policy.

Answer: Deduction in respect of Medical Insurance Premia  
Section 80D
1. Deduction shall be allowed only to an individual or Hindu Undivided Family.
2. Deduction shall be allowed if the assessee has made payment towards
   (i) Medical Insurance or
   (ii) Central Government Health Scheme or such other scheme as may be notified by the Central Government in this behalf
   (iii) Preventive Health Check-up
3. Individual can make payment for wife or husband or dependent children and deduction shall be allowed equal to the amount paid but subject to a maximum of ₹25,000 but in case of senior citizen deduction shall be allowed upto ₹50,000.

   If the individual has taken policy in the name of parents (dependent or independent), additional deduction shall be allowed to the extent of the premium paid but maximum ₹25,000, however, if the policy has been taken in the name of senior citizen, deduction shall be allowed to the extent of ₹50,000.

   Deduction for Preventive Health Check up shall be maximum ₹5,000 in aggregate for self, spouse, dependant children and parents.

   Hindu Undivided Family can take the policy in the name of any of its members and deduction shall be allowed in the similar manner.

   Payment should be made otherwise than in cash but payment for preventive health check-up can be made in any manner.

   In case of a senior citizen, in general medi-claim policy is not issued hence expenditure can be incurred on their medical treatment and deduction for such expenditure shall also be allowed but limit shall be the same as given above.

   e.g. (i) Mr. X has taken medi claim policy in his name and paid premium ₹27,000 by cheque, in this case deduction allowed shall be ₹25,000 but if Mr. X is a senior citizen, deduction allowed shall be ₹27,000
   (ii) Mr. X has paid ₹7,000 for self for preventive health checkup and ₹7,000 for preventive health checkup of his father, in this case deduction allowed shall be ₹5,000
   (iii) Mr. X paid premium of medi claim policy by cheque for self, spouse and children ₹22,000 and for parents ₹28,000, in this case deduction allowed shall be ₹47,000
   (iv) Mr. X paid premium of medi claim policy ₹15,000 in cash, deduction allowed shall be Nil
   (v) Mr. X paid premium of medi claim policy by cheque ₹18,000 in the name of his father who is not dependant on Mr. X, deduction allowed shall be ₹18,000

Illustration 8: Mr. X, aged 40 years, paid medical insurance premium of ₹18,000 by cheque during the P.Y.2019-20 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹26,000 by cheque during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 5,000 by cheque to Central Government Health Scheme during the year. He has incurred ₹3,000 in cash on preventive health check-up of himself and his spouse and ₹4,000 by cheque on preventive health check-up of his father.

   Compute the deduction allowable under section 80D for the A.Y.2020-21.

Solution:

Deduction allowable under section 80D for the A.Y.2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Payment</td>
<td>Maximum deduction allowable</td>
<td></td>
</tr>
<tr>
<td>Premium paid and medical expenditure incurred for self and spouse</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Medical insurance premium paid for self and spouse</td>
<td>18,000</td>
<td>18,000</td>
</tr>
<tr>
<td>(ii) Contribution to CGHS</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>(iii) Exp. on preventive health check-up of self &amp; spouse</td>
<td>3,000</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>26,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>
Illustration 9: Mr. X, aged 40 years, paid medical insurance premium of ₹ 20,000 by cheque during the P.Y.2019-20 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹51,000 by cheque during the year to insure the health of his father, aged 67 years, who is not dependent on him. He contributed ₹6,000 by cheque to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y.2020-21.

Solution:

Deduction allowable under section 80D for the A.Y.2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Medical insurance premium paid for self, spouse and dependent children</td>
<td>20,000</td>
</tr>
<tr>
<td>(ii) Contribution to CGHS</td>
<td>6,000</td>
</tr>
<tr>
<td>(iii) Deduction allowed</td>
<td>26,000</td>
</tr>
<tr>
<td>(iii) Mediclaim premium paid for father, who is 67 years of age (restricted to 50,000)</td>
<td>50,000</td>
</tr>
<tr>
<td>Total</td>
<td>75,000</td>
</tr>
</tbody>
</table>

Note – The total deduction under (i) and (ii) above should not exceed ₹ 25,000. In this case, since the total of (i) and (ii) is exceeding ₹25,000 (i.e., ₹ 26,000) hence it is restricted to ₹ 25,000.

Illustration 10: Mr. Arjun (52 years old) furnishes the following particulars in respect of the following payments:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Premium paid for insuring the health of –</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Self</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>• Spouse</td>
<td>8,000</td>
</tr>
<tr>
<td></td>
<td>• Dependant son</td>
<td>4,000</td>
</tr>
<tr>
<td></td>
<td>• Mother</td>
<td>18,000</td>
</tr>
<tr>
<td>2.</td>
<td>Paid for Preventive Health Check-up of –</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• himself</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>• spouse</td>
<td>1,500</td>
</tr>
<tr>
<td></td>
<td>• mother</td>
<td>4,000</td>
</tr>
<tr>
<td>3.</td>
<td>Incurred medical expenditure of ₹ 25,000 and ₹15,000 for his mother, aged 80 years and father, aged 85 years. Both mother and father are resident in India.</td>
<td></td>
</tr>
</tbody>
</table>

Compute the deduction available to Mr. Arjun under section 80D for the A.Y. 2020-21.

Solution:

Computation of deduction under section 80D for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>I. In respect of premium paid for insuring the health of -</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Self</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>• Spouse</td>
<td>8,000</td>
</tr>
<tr>
<td></td>
<td>• Dependant son</td>
<td>4,000</td>
</tr>
<tr>
<td></td>
<td>II. In respect of expenditure on preventive health check-up of -</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Self</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>• Spouse</td>
<td>1,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,500</td>
</tr>
</tbody>
</table>
Deduction From Gross Total Income

Restricted to ₹25,000 – ₹22,000, since maximum deduction is ₹25,000

Aggregate of deduction (I+II) under (1) restricted to

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.  

I. In respect of payment towards health insurance premium for his mother

II. In respect of preventive health check-up of his mother [₹4,000, restricted to ₹2,000, (₹5,000 – ₹3,000), since maximum deduction for preventive health check-up under section 80D is ₹5,000]

III. Medical expenditure for father would only be eligible for deduction

[See Note below]

Amount of deduction under (2)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

III. Medical expenditure for father would only be eligible for deduction

Amount of deduction under (2)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Irrespective of the fact that the mother of Arjun is a very senior citizen the deduction under section 80D would not available to him in respect of the medical expenditure incurred for his mother, since Mr. Arjun has taken a health insurance policy for his mother.

MAY – 2015 (4 Marks)

Compute the eligible deduction under Chapter VI-A for the Assessment year 2020-21 of Ms. Roma, who has a gross total income of ₹15,00,000 for the assessment year 2020-21 and provide the following informations about his investments/payments during the financial year 2019-20:

<table>
<thead>
<tr>
<th>SI. No.</th>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Life Insurance premium paid (Policy taken on 01.01.2012 and sum assured is ₹1,50,000)</td>
<td>35,000</td>
</tr>
<tr>
<td>2.</td>
<td>Public Provident Fund contribution.</td>
<td>90,000</td>
</tr>
<tr>
<td>3.</td>
<td>Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore.</td>
<td>20,000</td>
</tr>
<tr>
<td>4.</td>
<td>Payment to L.I.C. Pension Fund</td>
<td>25,000</td>
</tr>
<tr>
<td>5.</td>
<td>Mediclaim Policy taken for self, spouse and dependent children, premium paid by cheque</td>
<td>20,000</td>
</tr>
<tr>
<td>6.</td>
<td>Medical Insurance premium paid for parents (Senior Citizen), premium paid by cheque</td>
<td>25,000</td>
</tr>
</tbody>
</table>

Solution:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Gross Total Income

Less:

Deduction u/s 80C

L.I.C. Premium paid

(Paid ₹35,000, but maximum allowed 20% of ₹1,50,000)

P.P.F. amount paid

Repayment of housing loan to Bhartiya Mahila Bank

Deduction u/s 80 CCC

L.I.C. pension fund

Total

Maximum deduction allowed 80CCE

(1,50,000)

Deduction u/s 80D

Mediclaim for self, spouse and dependent children

(assumed amount paid through cheque)

Mediclaim premium for parents

(assumed amount paid through cheque)

Total Income

13,05,000

NOV – 2011 (3 Marks)

The gross total income of Mr. X for the Assessment Year 2020-21, was ₹12,00,000. He has made the following investments/payments during the financial year 2019-20.

1. L.I.C. Premium paid (Policy value ₹1,00,000) (Policy taken after 01.04.2012) 25,000
Compute eligible deduction under Chapter VI-A for the Assessment Year 2020-21 and also compute his tax liability.

Answer:

| Gross Total Income | ₹ 12,00,000 |

Less:

**Deduction u/s 80C**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.I.C. Premium paid</td>
<td>10,000</td>
</tr>
<tr>
<td>(Paid ₹25,000, but maximum allowed 10% of ₹1,00,000)</td>
<td></td>
</tr>
<tr>
<td>P.P.F. amount paid</td>
<td>70,000</td>
</tr>
<tr>
<td>Repayment of housing loan to Indian Bank</td>
<td>50,000</td>
</tr>
</tbody>
</table>

**Deduction u/s 80 CCC**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.I.C. pension fund</td>
<td>25,000</td>
</tr>
</tbody>
</table>

**Total**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,55,000</td>
</tr>
</tbody>
</table>

Maximum deduction allowed 80CCE

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1,50,000)</td>
</tr>
</tbody>
</table>

**Deduction u/s 80D**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediclaim for self, wife and dependant children</td>
<td>18,000</td>
</tr>
<tr>
<td>(assumed amount paid through cheque)</td>
<td></td>
</tr>
<tr>
<td>Mediclaim premium for parents</td>
<td>30,000</td>
</tr>
<tr>
<td>(assumed amount paid through cheque)</td>
<td></td>
</tr>
</tbody>
</table>

Total Income

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,02,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹10,02,000 at slab rate</td>
<td>1,13,100</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>4,524</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,17,624</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>1,17,620</td>
</tr>
</tbody>
</table>

JUNE – 2009 (2 Marks)

Mr. X, an individual, made payment of health insurance premium to General Insurance Corporation in an approved scheme. Premium paid on his health is ₹10,000 and his spouse’s health is ₹15,000 during the year 2019-20. He also paid health insurance premium of ₹25,000 on his father’s health who is a senior citizen and not dependent on him. The payments have not been made by cash. Compute the amount of deduction under Chapter VI-A of the Act, available to Mr. X from his gross total income for the assessment year 2020-21.

Answer.

Mr. X will be eligible to claim deduction under section 80D on payment of health insurance premium. The premium is paid otherwise than by way of cash and hence qualifies for deduction under section 80D. Therefore, the amount of deduction under section 80D would be –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On health insurance premium paid on the health of himself and his spouse</td>
<td>25,000</td>
</tr>
<tr>
<td>(₹10,000 + ₹15,000 = ₹25,000)</td>
<td></td>
</tr>
<tr>
<td>On health insurance premium paid on the health of his father</td>
<td>25,000</td>
</tr>
<tr>
<td>(whether dependent or not)</td>
<td></td>
</tr>
</tbody>
</table>

**Total deduction under section 80D**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>50,000</td>
</tr>
</tbody>
</table>

Question 4 [Imp.]: Deduction in case of expenditure in connection with handicapped dependant relative.

Answer: Deduction in respect of maintenance including medical treatment of a dependant who is a person with disability Section 80DD

1. Deduction is allowed only to a resident individual and a resident Hindu Undivided Family.
2. Deduction is allowed if the assessee has incurred any expenditure for the medical treatment, training and rehabilitation etc, of a dependant disabled person, or has deposited any amount with LIC or any other insurer for the benefit of such dependant.

3. “Dependant” in the case of an individual, means the spouse, children, parents, brothers and sisters who are dependant on the individual and in the case of Hindu Undivided Family means any member of the Hindu Undivided Family who is dependant on such Hindu Undivided Family.

4. Deduction allowed shall be ₹75,000 irrespective of the expenditure incurred by the assessee and in case of severe disability, deduction allowed shall be ₹1,25,000.

5. The assessee should enclose a certificate with the return from prescribed medical authority.

**Illustration 11:** Mr. X is a resident individual. He deposits a sum of ₹25,000 with Life Insurance Corporation every year for the maintenance of his handicapped grandfather. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2020-21.

**Solution:** Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the definition of dependant relative.

**Illustration 12:** What will be the deduction if Mr. X had made this deposit for his dependant father?

**Solution:** Since the expense was incurred for a dependant disabled relative, Mr. X will be entitled to claim a deduction of ₹75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹1,25,000.

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**MAY – 1997 (4 Marks)**

In respect of assessment year 2020-21, an author of text-books for schools furnishes the following particulars and request you to work out his tax liability:

1. Royalty from Printers Ltd. on publication of books 2,20,000
2. Capital gains long term 1,90,000
3. Other Sources:
   (a) Interest on Bank fixed Deposits 12,000
   (b) Dividend income from Indian company 3,000
   (c) Income from units of U.T.I. 5,000

Deductions: (i) Contributions towards:
   (a) LIC Pension Scheme 15,000
   (b) LIC Premium 10,000
   (ii) Contribution to public provident fund 10,000
   (iii) Investment in National Savings Certificates 50,000
   (iv) Medical treatment of handicapped dependent relative 20,000

**Answer:**

Income under the head Capital Gains (LTCG) 1,90,000

**Computation of income under the head Other Sources**

Royalty income 2,20,000

Income under the head Other Sources

Interest from bank fixed deposits 12,000

Dividend income {exempt u/s 10(34)} Nil

Interest from units of UTI {exempt u/s 10(35)} Nil

Gross Total Income 4,22,000

Less: Deduction u/s 80C
   LIC Premium (10,000)
   Contribution in Public provident fund (10,000)
   National Saving Certificate (50,000)

Less: Deduction u/s 80CCC (15,000)

Less: Deduction u/s 80DD (75,000)

Total Income 2,62,000

**Computation of Tax Liability**

Tax on LTCG ₹12,000 (₹1,90,000 – ₹1,78,000) @ 20% u/s 112

2,400
Tax on ₹72,000 at slab rate Nil
Less: Rebate u/s 87A (2,400)
Tax Liability Nil

**Question 5 [V. Imp.]:** Briefly explain the provisions under the Income Tax Act relating to deduction from gross total income in the case of blind or physically handicapped persons.

**Answer:**

**Deduction in case of handicapped person  Section 80U**

(1) In computing the total income of an individual, being a resident, who, at any time during the previous year, is certified by the medical authority to be a person with disability, there shall be allowed a deduction of a sum of ₹75,000.

Provided that where such individual is a person with severe disability, the provisions shall have effect as if for the words “₹75,000”, the words “₹1,25,000” had been substituted.

(2) The assessee should enclose a certificate with the return from prescribed medical authority.

e.g. (i) Mr. X is suffering from a disability and has income under the head salary ₹10,00,000 and he has invested ₹1,00,000 in NSC, in this case deduction allowed under section 80C shall be ₹1,00,000 and under section 80U shall be ₹75,000

(ii) Mr. X is suffering from a severe disability and has income under the head salary ₹10,00,000 and he has invested ₹2,00,000 in NSC, in this case deduction allowed under section 80C shall be ₹1,50,000 and under section 80U shall be ₹1,25,000.

---

**Question 6 [Imp.]:** Write a note on deduction in case of expenditure on the treatment of Specified Disease.

**Answer:** **Deduction in respect of medical treatment, etc. of specified disease  Section 80DDB**

1. Deduction is allowed only to a resident individual or resident Hindu Undivided Family.
2. Deduction is allowed if the assessee has incurred any amount for treatment of such disease as are specified in the rule 11DD.
3. The expenditure can be incurred for himself or a dependant person, and in case of an individual, such person may be spouse, children, parents, brothers or sisters who are dependant on such individual and in case of Hindu Undivided Family such person may be any member of the Hindu Undivided Family who is dependant on the Hindu Undivided Family.
4. Deduction allowed shall be the amount incurred or ₹40,000 whichever is less and if the amount has been paid with regard to a Senior Citizen, deduction allowed shall be upto ₹1,00,000.
5. **Deduction allowed shall be reduced by the amount received under medi-claim insurance and also by the amount which has been paid by the employer.**
6. The assessee should enclose a certificate with the return from prescribed medical authority.

**Example**

Mr. X has incurred ₹1,25,000 on the treatment of a specified disease for himself, in this case deduction allowed shall be ₹40,000 but if a claim of ₹10,000 has been received under medi-claim policy, deduction allowed shall be ₹30,000. If Mr. X is a senior citizen, deduction allowed shall be 1,00,000 – 10,000 = 90,000

**Question 7 [Imp.]:** Write a note on deduction in case of payment of interest on loan taken for Higher Education.

**Answer:** **Deduction in case of payment of interest on loan taken for pursuing Higher Education  Section 80E**

1. Deduction is allowed only to an individual.
2. Deduction is allowed if the assessee has paid interest on loan taken by him from any financial institutions or any approved charitable institution.
3. The loan should have been taken for pursuing higher education which means any course of study pursued after passing the Senior Secondary Examination or its equivalent.
4. Education can be either of self or spouse or children or any person for whom the assessee is legal
5. The entire amount of interest paid by an individual is allowed as deduction.
6. No deduction shall be allowed for repayment of the principal loan amount.
7. Deduction is allowed for a maximum period of **8 years** starting from the year in which first payment of interest was given.
8. **Approved charitable institution** means the institution notified by the Central Government.
   **Financial institution** means banking company or other financial institution notified by the Government.
9. No deduction is allowed **after the period of 8 years.**

**Example**

Mr. X has taken a loan of ₹2,00,000 from State Bank on 01.10.2009 for pursuing MBBS course & after becoming a doctor he has given payment of interest of ₹45,000 on 01.10.2019, in this case deduction allowed shall be ₹45,000.

**Illustration 13:** Mr. X has taken three education loans on April 1st, 2019, the details of which are given below:

<table>
<thead>
<tr>
<th>Loan 1</th>
<th>Loan 2</th>
<th>Loan 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>For whose education loan was taken</td>
<td>Mr. X</td>
<td>Son of Mr. X</td>
</tr>
<tr>
<td>Purpose of loan</td>
<td>MBA</td>
<td>B. Sc.</td>
</tr>
<tr>
<td>Amount of loan (₹)</td>
<td>5,00,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Annual repayment of loan (₹)</td>
<td>1,00,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Annual repayment of interest (₹)</td>
<td>20,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Compute the amount deductible under section 80E for the A.Y.2020-21.

**Solution:**

Deduction under section 80E is available to an individual assesse in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = ₹20,000 + ₹10,000 + ₹18,000 = ₹48,000

**Question 8 : Deduction in respect of interest on loan taken for certain house property. Section 80EEA.**

(1) In computing the total income of an assesse, being an individual not eligible to claim deduction under section 80EE, there shall be deducted, in accordance with and subject to the provisions of this section, interest payable on loan taken by him from any financial institution for the purpose of acquisition of a residential house property.

(2) The deduction under sub-section (1) shall not exceed one lakh and fifty thousand rupees and shall be allowed in computing the total income of the individual for the assessment year beginning on the 1st day of April, 2020 and subsequent assessment years.

(3) The deduction under sub-section (1) shall be subject to the following conditions, namely:—
   (i) the loan has been sanctioned by the financial institution during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2020;
   (ii) the stamp duty value of residential house property does not exceed forty-five lakh rupees;
   (iii) the assesse does not own any residential house property on the date of sanction of loan.

(4) Where a deduction under this section is allowed for any interest referred to in sub-section (1), deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.

(5) For the purposes of this section,—
   (a) the expression “financial institution” shall have the meaning assigned to it in clause (a) of sub-section (5) of section 80EE;
   (b) the expression “stamp duty value” means value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property.
Question 9: Deduction in respect of purchase of electric vehicle.
Answer: Deduction in respect of purchase of electric vehicle. Section 80EEB.

(1) In computing the total income of an assessee, being an individual, there shall be deducted, in accordance with and subject to the provisions of this section, interest payable on loan taken by him from any financial institution for the purpose of purchase of an electric vehicle.

(2) The deduction under sub-section (1) shall not exceed one lakh and fifty thousand rupees and shall be allowed in computing the total income of the individual for the assessment year beginning on the 1st day of April, 2020 and subsequent assessment years.

(3) The deduction under sub-section (1) shall be subject to the condition that the loan has been sanctioned by the financial institution during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2023.

(4) Where a deduction under this section is allowed for any interest referred to in sub-section (1), deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.

(5) For the purposes of this section,—
(a) “electric vehicle” means a vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle and has such electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy;
(b) “financial institution” means a banking company to which the Banking Regulation Act, 1949 applies, or any bank or banking institution referred to in section 51 of that Act and includes any deposit taking non-banking financial company or a systemically important non-deposit taking non-banking financial company as defined in clauses (e) and (g) of Explanation 4 to section 43B.

Question 10 [V. Imp.]: Write a note on deduction in case of donations to the Notified Institutions.
Answer: Deduction in respect of donations to certain Funds, Charitable Institutions, etc. Section 80G

Deduction is allowed to all the assessees if they have given any donation or contribution to any of the below mentioned institutions or funds and deduction allowed shall be either 100% or 50% of the donation given.

1. The Prime Minister’s National Relief Fund (100%)
2. The Prime Minister’s Armenia Earthquake Relief Fund (100%)
3. The National Foundation for Communal Harmony (100%)
4. The National Defence Fund (100%)
5. The National Children’s Fund (100%)
6. The Africa Fund (100%)
7. A University or any educational institution of national eminence as may be approved by the prescribed authority in this behalf (100%)
8. The Chief Minister’s Earthquake Relief Fund, Maharashtra (100%)
9. The Andhra Pradesh Chief Minister’s Cyclone Relief Fund, 1996 (100%)
10. Any fund set up by the State Government of Gujarat for providing relief to the victims of earthquake (100%)
11. The Chief Minister’s Relief Fund (100%)
12. The Lieutenant Governor’s Relief Fund in respect of any Union territory (100%)
13. Zila Saksharta Samiti. (100%)
14. The National Blood Transfusion Council (100%)
15. The State Blood Transfusion Council. (100%)
16. The National Illness Assistance Fund (100%)
17. The Army Central Welfare Fund (100%)
18. The Air Force Central Welfare Fund (100%)
19. The Indian Naval Benevolent Fund (100%)
20. The National Sports Fund (100%)
21. The National Cultural Fund (100%)
22. The Fund for Technology Development and Application (100%)
23. Any fund set up by a State Government to provide medical relief to the poor (100%)
24. The National Trust for Welfare of Persons suffering with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities (100%)
25. Swachh Bharat Kosh (100%)
26. Clean Ganga Fund (100%)
27. National Fund for Control of Drugs (100%)
28. The Jawaharlal Nehru Memorial Fund (50%)
29. The Indira Gandhi Memorial Trust, (50%)
30. The Rajiv Gandhi Foundation (50%)
31. The Prime Minister’s Drought Relief Fund (50%)

**Deduction in case of donation to other institutions**

If the donation has been given to any other institution or fund notified under section 80G, deduction allowed shall be **50%** of the qualifying amount. However, deduction allowed shall be **100%** of the qualifying amount if the donation has been given to Government / local authority/ other notified institution for the purpose of promoting family planning.

**Qualifying amount** = 10% of the adjusted gross total income or the donation (except donation to the above mentioned 31 funds) given, whichever is less.

**Adjusted gross total income** = Gross Total Income – Long term capital Gains (including LTCG u/s 112A) – Short term capital gains u/s 111A – All Deduction under section 80C to 80U except section 80G

The other institutions which may be notified under this section may be charitable organisation or social organisation or religious organisation or other similar organisation.

No deduction shall be allowed under this section in respect of any donation unless such donation is of a sum of money i.e. if donation is given in kind, deduction is not allowed.

No deduction shall be allowed under this section in respect of donation of any sum exceeding two thousand rupees unless such sum is paid by any mode other than cash.

**Illustration 14:** Mr. X has income from business/profession ₹6,00,000 and long term capital gain ₹4,00,000 and short term capital gain u/s 111A ₹2,00,000 and casual income ₹1,00,000.

He has paid premium of a mediclaim policy amounting to ₹20,000 taken in the name of his dependant grandfather who is senior citizen and payment was made by a cheque on 09.01.2020.

He has given premium of Jeevan Suraksha policy ₹7,000, has donated ₹12,000 to the National Defence Fund, ₹4,000 to Rajiv Gandhi Foundation and ₹3,00,000 to a charitable institution and ₹1,00,000 to a social organization and ₹4,00,000 to religious organization and all such organization are notified under section 80G. (all the donations was made by cheque)

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

(b) Presume in the above question the assessee has given donation of ₹10,000 by cheque for family planning also to the Government.

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

(c) Presume in part (b), donation to government for family planning is ₹2,00,000 by cheque.

**Solution 14(a):**

| Income under the head Business/Profession | ₹6,00,000.00 |
| Income under the head Capital Gain (LTCG) | ₹4,00,000.00 |
| Income under the head Capital Gain (STCG u/s 111A) | ₹2,00,000.00 |
| Income under the head Other Sources (casual income) | ₹1,00,000.00 |
| Gross Total Income | ₹13,00,000.00 |
| Less: Deduction u/s 80CCC | (₹7,000.00) |
| Less: Deduction u/s 80G | |
| (i) National Defence Fund | (₹12,000.00) |
| (ii) Rajiv Gandhi Foundation | (₹2,000.00) |
| (iii) Charitable Institution/ Social organization/ Religious organization | (₹34,650.00) |

| Working Note: |
| Charitable Institution | ₹3,00,000 |
| Social organization | ₹1,00,000 |
| Religious organization | ₹4,00,000 |
Deduction From Gross Total Income

\[ AGTI = GTI - LTCG - STCG \text{ u/s 111A} - \text{Deduction u/s 80C to 80U (except 80G)} \]
\[ = 13,00,000 - 4,00,000 - 2,00,000 - 7,000 \]
\[ = 6,93,000 \]

Qualifying amount = 10% of AGTI or donation whichever is less
\[ = 69,300 \text{ or } 8,00,000 \text{ whichever is less} \]
\[ = 69,300 \]

50% of the qualifying amount = 34,650

Total Income = 12,44,350.00

Computation of Tax Liability

| Tax on casual income ₹1,00,000 @ 30% u/s 115BB | 30,000.00 |
| Tax on STCG ₹2,00,000 @ 15% u/s 111A | 30,000.00 |
| Tax on LTCG ₹4,00,000 @ 20% u/s 112 | 80,000.00 |
| Tax on normal income ₹5,44,350 at slab rate | 21,370.00 |
| Tax before health & education cess | 1,61,370.00 |
| Add: HEC @ 4% | 6,454.80 |
| Tax Liability | 1,67,824.80 |
| Rounded off u/s 288B | 1,67,820.00 |

Solution 14(b): Computation of Total Income

Gross Total Income = 13,00,000.00

Less: Deduction u/s 80CCC = (7,000.00)
Less: Deduction u/s 80G
(i) National Defence Fund = (12,000.00)
(ii) Rajiv Gandhi Foundation = (2,000.00)
(iii) Other Donations u/s 80G = (39,650.00)

Working Note:

| Charitable Institution | ₹3,00,000 |
| Social organization | ₹1,00,000 |
| religious organization | ₹4,00,000 |
| Family planning | ₹10,000 |

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)
\[ = 13,00,000 - 4,00,000 - 2,00,000 - 7,000 \]
\[ = 6,93,000 \]

Qualifying amount = 10% of AGTI or donation whichever is less
\[ = 69,300 \text{ or } 8,10,000 \text{ whichever is less} \]
\[ = 69,300 \]

Deduction of donation for family planning ₹10,000

50% of balance amount (i.e. ₹59,300) ₹29,650

Total deduction allowed 10,000 + 29,650 = 39,650

Total Income = 12,39,350.00

Computation of Tax Liability

Tax on casual income ₹1,00,000 @ 30% u/s 115BB | 30,000.00 |
Tax on STCG ₹2,00,000 @ 15% u/s 111A | 30,000.00 |
Tax on LTCG ₹4,00,000 @ 20% u/s 112 | 80,000.00 |
Tax on normal income ₹5,39,350 at slab rate | 20,370.00 |
Tax before health & education cess | 1,60,370.00 |
Add: HEC @ 4% | 6,414.80 |
Tax Liability | 1,66,784.80 |
Rounded off u/s 288B | 1,66,780.00 |
Solution 14(c):

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>13,00,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80CCC</td>
<td>(7,000.00)</td>
</tr>
<tr>
<td>Less: Deduction u/s 80G</td>
<td></td>
</tr>
<tr>
<td>(i) National Defence Fund</td>
<td>(12,000.00)</td>
</tr>
<tr>
<td>(ii) Rajiv Gandhi Foundation</td>
<td>(2,000.00)</td>
</tr>
<tr>
<td>(iii) Other donations u/s 80G</td>
<td>(69,300.00)</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable Institution</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Social organization</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Religious organization</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Family planning</td>
<td>2,00,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,00,000</strong></td>
</tr>
</tbody>
</table>

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)

= 13,00,000 – 4,00,000 – 2,00,000 – 7,000

= 6,93,000

Qualifying amount = 10% of AGTI or donation whichever is less

= 69,300 or 10,00,000 whichever is less

= 69,300

Donation for family planning is ₹2,00,000 but maximum deduction allowed shall be ₹69,300

Total Income = 12,09,700.00

**Computation of tax liability**

- Tax on casual income ₹1,00,000 @ 30% u/s 115BB: 30,000.00
- Tax on STCG ₹2,00,000 @ 15% u/s 111A: 30,000.00
- Tax on LTCG ₹4,00,000 @ 20% u/s 112: 80,000.00
- Tax on normal income ₹5,09,700 at slab rate: 14,440.00
- Tax before health & education cess: 1,54,440.00
- Add: HEC @ 4%: 6,177.60
- Tax Liability: 1,60,617.60
- Rounded off u/s 288B: 1,60,620.00

MAY – 2017

**Question 6(a) (ii)**

Mr. Rohan, a resident individual has Gross Total Income of ₹7,50,000 comprising of Income from Salary and income from house property for the assessment year 2020-21. He provides the following information:

- Paid ₹70,000 towards premium on life insurance policy of his Handicapped Son (Section 80U disability).
- Sum assured ₹4,00,000 ; and date of issue of policy 1-8-2017.
- Deposited ₹90,000 in tax saver deposit in the name of his major son in State Bank of India.
- Contributed by cheque ₹25,000 to The Clean Ganga Fund, set up by the Central Government.

Compute the Total Income and deduction under Chapter VI-A for the Assessment year 2020-21.

**Solution:**

**Computation of Total Income and deduction under chapter VI-A**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>7,50,000</td>
</tr>
<tr>
<td>Less: Deduction under chapter VI-A</td>
<td></td>
</tr>
<tr>
<td>Deduction u/s 80C for LIC Premium (15% of 4,00,000)</td>
<td>(60,000)</td>
</tr>
<tr>
<td>Deposited in Tax Saver Deposit in the name of major son</td>
<td>(Nil)</td>
</tr>
<tr>
<td>Deduction u/s 80G – Contribution in Clean Ganga Fund (100%)</td>
<td>(25,000)</td>
</tr>
</tbody>
</table>
Total Income 6,65,000

Note: Tax Saver deposits in the name of major son does not qualify for deduction u/s 80C since such deposits has to be made in the name of assessee himself.

MAY – 2011 (3 Marks)

Mr. X having gross total income of ₹6,35,000 for the financial year 2019-20 furnishes you the following information:
(i) Paid ₹25,000 towards premium on life insurance policy of his married daughter.
(ii) Contributed ₹10,000 by cheque to Prime Minister’s National Relief Fund.
(iii) Donated ₹20,000 to a Government recognized institution (by cheque) for scientific research.

Note: Assume that the gross total income of Mr. X does not include any income under the head ‘profits and gains of business or profession’.

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

Answer.

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>6,35,000</td>
</tr>
<tr>
<td>Less: Deductions under Chapter VI-A</td>
<td></td>
</tr>
<tr>
<td>(i) Premium on life insurance policy of his married daughter - Eligible for deduction under section 80C</td>
<td>25,000</td>
</tr>
<tr>
<td>(ii) Contribution of ₹10,000 to PM’s National Relief Fund - Eligible for 100% deduction under section 80G</td>
<td>10,000</td>
</tr>
<tr>
<td>(iii) Payment of ₹20,000 to a Government recognized institution for scientific research - Eligible for deduction under section 80GGA</td>
<td>(55,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>5,80,000</td>
</tr>
</tbody>
</table>

NOV – 2008 (4 Marks)

Mr. X declares gross total income ₹4,00,000 for the assessment year 2020-21. The gross total income includes taxable long term capital gain ₹65,000 and short term capital gain ₹35,000 which is taxable @ 15% under section 111A of the Income-tax Act, 1961. The details of fund investment made during the year 2019-20 are:

(i) Medical insurance premium paid by cheque –
   (a) in the name of Mr. X 4,000
   (b) in name of Mrs. X 5,000

(ii) Contribution made to –
   (a) Indira Gandhi Memorial Trust by cheque 7,000
   (b) Delhi University (declared as an institution of national eminence) by cheque 3,000
   (c) Zila Saksharta Samiti by cheque 5,000
   (d) An approved charitable institute by cheque 30,000
   (e) Government by cheque for the purpose of promoting family planning 10,000
   (f) Hanuman Temple in Mohalla by cheque 20,000

Compute the total income of Mr. X chargeable to tax for the Assessment year 2020-21 and also compute his tax liability.

Answer.

Computation of Total Income of Mr. X for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>4,00,000.00</td>
</tr>
<tr>
<td>Less : Deduction</td>
<td></td>
</tr>
<tr>
<td>Section 80D</td>
<td></td>
</tr>
<tr>
<td>Medical insurance premium paid by cheque</td>
<td></td>
</tr>
<tr>
<td>(i) in the name of Mr. Prasad (4,000.00)</td>
<td></td>
</tr>
<tr>
<td>(ii) in name of Mrs. Prasad (5,000.00)</td>
<td></td>
</tr>
<tr>
<td>Section 80G</td>
<td></td>
</tr>
<tr>
<td>Donation to Indira Gandhi Memorial trust @ 50% of ₹ 7,000 (3,500.00)</td>
<td></td>
</tr>
</tbody>
</table>
Donation to Delhi University @ 100% (3,000.00)
Donation to Zila Saksharta Samiti @ 100% (5,000.00)
Other donations u/s 80G (19,550.00)

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation to approved Charitable Institute 30,000</td>
</tr>
<tr>
<td>Donation to Government for promoting family planning 10,000</td>
</tr>
</tbody>
</table>

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

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

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

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

Total Income 3,59,950.00

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

NOV – 2002 (4 Marks)

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

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

Compute the total income and tax thereon of Mr. X, who is 70 years old as on 31.03.2020.

Answer:

<table>
<thead>
<tr>
<th>Computation of Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Capital Gain 45,000.00</td>
</tr>
<tr>
<td>Short Term Capital Gain 80,000.00</td>
</tr>
<tr>
<td>Bank Interest 12,000.00</td>
</tr>
<tr>
<td>Other Income 3,13,240.00</td>
</tr>
<tr>
<td>Gross Total Income 4,50,240.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C {Public Provident Fund} (60,000.00)</td>
</tr>
<tr>
<td>Less: Deduction u/s 80D (11,000.00)</td>
</tr>
<tr>
<td>Less: Deduction u/s 80G (7,500.00)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGTI = GTI – LTCG – Deductions u/s 80C to 80U (Except 80G)</td>
</tr>
<tr>
<td>= 4,50,240 – 60,000 – 45,000 – 11,000</td>
</tr>
<tr>
<td>= ₹3,34,240</td>
</tr>
</tbody>
</table>

Qualifying Amount = 10% of AGTI or Donation given whichever is less
= ₹33,424 or 15,000
Deduction From Gross Total Income

\[
\text{Total Income} = 15,000 \\
50\% \text{ of qualifying amount} = \text{ ₹7,500}
\]

**Computation of Tax Liability**

- Tax on long term capital gain ₹45,000 @ 20% u/s 112  
  \[9,000.00\]
- Tax on normal income ₹3,26,740 at slab rate  
  \[1,337.00\]
- Less: Rebate u/s 87A  
  \[-10,337.00\]
- Tax liability  
  \[\text{Nil}\]

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

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

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

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

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

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

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

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

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

**Solution:**

**Income under the head Business/Profession**  

\[5,00,000\]

**Computation of income under the head Capital Gain**

- Long Term Capital Gain  
  \[2,00,000\]
- Short Term Capital Gain u/s 111A  
  \[3,00,000\]
- Income under the head capital gain  
  \[5,00,000\]

**Computation of income under the head Other Sources**

- Casual income  
  \[1,00,000\]
- Income under the head Other Sources  
  \[1,00,000\]
- Gross Total Income  
  \[11,00,000\]

Less:

- Deduction u/s 80C  
  \[-30,000\]
- Deduction u/s 80GG  
  \[-60,000\]

**Working Note:**

Least of the following:
1. ₹4,80,000 – 57,000 = 4,23,000
2. 60,000
3. 25% \times 5,70,000 = 1,42,500
AGTI = GTI – LTCG – STCG 111A – Deduction u/s 80C to 80U (except 80GG)
= 11,00,000 – 2,00,000 – 3,00,000 – 30,000
= 5,70,000

Total Income

Computation of Tax Liability
Tax on casual income ₹ 1,00,000 @ 30% 30,000
Tax on LTCG ₹2,00,000 @ 20% 40,000
Tax on STCG 111A ₹ 3,00,000 @ 15% 45,000
Tax on ₹4,10,000 at slab rate 8,000
Tax before health & education cess 1,23,000
Add: HEC @ 4% 4,920
Tax Liability 1,27,920

MAY – 2000 (4 Marks)
Mr. X is a retired Government officer aged 65 years, who derived the following income in respect of financial year 2019-20. He resides in Cochin:

Pension 1,95,000.00
Interest from bank deposits (fixed deposits) 1,52,000.00
Total income 3,47,000.00

He has paid ₹18,000 as premium to effect an insurance on his health and his dependant parents and it was paid by a cheque. He pays a rent of ₹3,000 per month in respect of furnished accommodation. What is his eligibility for deduction under Section 80GG? Compute his total income and tax liability for assessment year 2020-21.

What are the conditions to be satisfied by him to qualify for the deduction?

Answer:

Pension 1,95,000.00
Less: Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 1,45,000.00
Income under the head Other Sources {Bank Interest} 1,52,000.00
Gross Total Income 2,97,000.00
Less: Deduction under section 80D (18,000.00)
Less: Deduction under section 80TTB (50,000.00)
Less: Deduction under section 80GG (13,100.00)

Total Income 2,15,900.00
Tax Liability Nil

Working Note:
Least of the following:
1. ₹60,000
2. 25\% \times 2,29,000 = ₹57,250
3. ₹36,000 – ₹22,900 = ₹13,100
(AGTI = ₹2,97,000 – ₹18,000 - ₹50,000 = ₹2,29,000)

Conditions to be fulfilled for grant of deduction under section 80GG :
1. The assessee should not be getting any house rent allowance and also he is not being provided with Rent Free Accommodation by his employer.
2. The assessee should not have any house in his name or in the name of the spouse or in the name of minor child or in the name of Hindu Undivided Family of which he is a member, at a place where he ordinarily resides or performs duties of his office or employment or carries on his business or profession.
3. Also he should not have house even at any other place which he has declared to be self occupied.
4. The assessee has paid rent for the accommodation taken by him for his residence.
Question 12: Write a note on deductions under section 80GGA in respect of donations etc to certain notified institutions.

Answer: Deduction in case of certain donation Section 80GGA

Deduction is allowed to **all the assesses** except the assesses whose gross total income includes income which is chargeable under the head “Profits and gains of business or profession”. (because such assesses is allowed to debit the amount to profit and loss account of business/profession)

Deduction is allowed in case of donation or contributions to any of the below mentioned institutions. Deduction allowed is equal to the amount of donations.

(i) Donation given to an institution notified under section 35 for **scientific research** / **research in social science** or **statistical research**.

(ii) Donation given to an institution notified under section 35AC for **eligible project** i.e. the projects of social or economic importance like construction of houses for the poor person or taking up drinking water project or other similar projects.

(iii) Donation given to an institution notified under section 35CCA for rural development including donation to **Rural Development Fund setup by central Government or donation to National Urban Poverty Eradication Fund**.

No deduction shall be allowed under this section in respect of any sum exceeding ten thousand rupees unless such sum is paid by any mode other than cash.

**Example:**

(i) Mr. X has donated `2,00,000 by cheque to an institution notified under section 35AC for eligible projects and Mr. X do not have any business/profession, in this case he will be allowed deduction under section 80GGA for `2,00,000 but if he has business/profession, he will not be allowed deduction under section 80GGA rather he will be allowed to debit the amount to profit and loss account.

(ii) ABC Ltd. has donated `2,00,000 by cheque to an institution notified under section 35CCA for rural development and company has business/profession, in this case deduction under section 80GGA is not allowed but company can debit the amount to profit and loss account.

**Illustration 16:** Mr. X has income under the head salary `6,00,000 and income under the head house property `7,00,000 and he has submitted information as given below:

(i) Paid premium of life policy `40,000 (sum assured `1,50,000) and policy has taken before 01.04.2012 in the name of Mr. X

(ii) Paid premium of life policy `40,000 (sum assured `1,50,000) and policy has taken after 01.04.2012 in the name of Mrs. X

(iii) Paid premium of life policy `40,000 (sum assured `1,50,000) and policy has taken before 01.04.2012 in the name of father of Mr. X who is dependant on Mr. X.

(iv) Paid premium of life policy `40,000 (sum assured `1,50,000) and policy has taken before 01.04.2012 in the name of son of Mr. X who is not dependant on Mr. X.

(v) He has donated `1,00,000 by cheque in rural development fund setup by government.

(vi) He has paid premium of Jeevan Suraksha Policy `10,000 by cheque in the name of Mrs. X.

(vii) He has paid `15,000 in cash in connection with preventive health checkup for his father.

(viii) He has donated `60,000 by cheque to a charitable institution notified under section 80G

Compute his tax liability assessment year 2020-21.

**Solution:**

| Income under the head Salary | 6,00,000 |
| Income under the head House Property | 7,00,000 |
| Gross Total Income | 13,00,000 |
| Less: Deduction u/s 80C | |
| Premium of life policy in name of Mr. X | (30,000) |
| Premium of life policy in name of Mrs. X | (15,000) |
| Premium of life policy in name of Son | (30,000) |
| Less: Deduction u/s 80D (Preventive Health Checkup) | (5,000) |
| Less: Deduction u/s 80GGA | (1,00,000) |
| Less: Deduction u/s 80G | |
Charitable Institution: $(30,000)

**Working Note:**

<table>
<thead>
<tr>
<th>AGTI = GTI – Deductions u/s 80C to 80U (Except 80G)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$= 13,00,000 – 30,000 – 15,000 – 30,000 – 1,00,000 – 5,000$</td>
</tr>
<tr>
<td>$= ₹11,20,000$</td>
</tr>
</tbody>
</table>

Qualifying Amount = 10% of AGTI or Donation given whichever is less

= $₹1,12,000$ or $60,000$

= $60,000$

50% of qualifying amount = $₹30,000$

---

**Total Income** $10,90,000$

**Computation of Tax Liability**

Tax on $₹10,90,000$ at slab rate $1,39,500$

Add: HEC @ 4% $5,580$

Tax Liability $1,45,080$

---

**Question 13:** Write a note on deduction in case of donation to the political parties or an Electoral trust.

**Answer:** Deduction in respect of contributions given by companies to political parties **Section 80GGB**

In computing the total income of an assessee, being an Indian company, there shall be deducted any sum contributed by it, in the previous year to any political party or an electoral trust.

No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

E.g. ABC Ltd. an Indian company has given donation of $₹10,00,000$ by cheque to Bharatiya Janata Party, in this case deduction allowed shall be $₹10,00,000$

E.g. ABC Ltd. an Indian company has given donation of $₹9,000$ in cash to Bharatiya Janata Party, in this case deduction shall not be allowed.

Deduction in respect of contributions given by any person to political parties **Section 80GGC**

In computing the total income of an assessee, there shall be deducted any amount of contribution made by him, in the previous year, to a political party or an electoral trust.

No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

E.g. Mr. X has given donation of $₹10,00,000$ by cheque to Bharatiya Janata Party, in this case deduction allowed shall be $₹10,00,000$

E.g. Mr. X has given donation of $₹9,000$ in cash to Bharatiya Janata Party, in this case deduction shall not be allowed.

---

**MAY – 2012 (4 Marks)**

Explain how contributions to political parties are deductible in the hands of corporate and non-corporate assessee under the Income tax law.

**Answer:** refer answer given above

**Question 14:** Write a note on deduction in case of employment by any Person.

**Answer:** Deduction in case of new employment **Section 80JJAA**

1. Deduction is allowed to all assessee whose accounts are required to be audited.
2. Deduction shall be allowed equal to 30% of additional employee cost incurred.
3. Deduction is allowed for 3 assessment years including the assessment year in which such employment is provided.
4. It should be a new business.
5. *Emoluments should be paid through bank account or through such other electronic mode as may be prescribed*
6. “Additional employee cost” means total emoluments paid or payable to additional employees employed during the previous year.

Provided that in the case of an existing business, the additional employee cost shall be nil, if there is no increase in the number of employees from the total number of employees employed as on the last day of the preceding year.
7. “Additional employee” means an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year, but does not include,—

(a) an employee whose total emoluments are more than twenty-five thousand rupees per month; or
(b) an employee employed for a period of less than two hundred and forty days during the previous year.

In the case of an assessee who is engaged in the business of manufacturing of apparel or footwear or leather products, 240 days shall be taken as 150 days.

Where an employee is employed during the previous year for a period of less than two hundred and forty days or one hundred and fifty days, as the case may be, but is employed for a period of two hundred and forty days or one hundred and fifty days, as the case may be, in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year and the provisions of this section shall apply accordingly.

Mr. Satya is a manufacturer of household goods in a factory located in Navi Mumbai and commenced his business on 1st April 2019 and he employed 120 new work men during the previous year 2019-20 which included:

(a) 20 employee whose total emoluments paid @ ₹30,000 p.m. per employee;
(b) 40 worker employed on 01st April, 2019
(c) 35 worker employed on 1st May, 2019
(d) 25 worker employed on 5th October, 2019

Compute the Deduction under Section 80JJAA, if available to Mr. Satya for Assessment year 2020-21, if wages are paid to each worker @ ₹3,000 per month. His profit from the manufacture of goods for Assessment year 2020-21 is ₹9.50 lakhs.

The Assessee is liable to Audit his accounts.

Solution:
Mr. Satya is eligible for deduction under section 80JJAA since he is liable to Audit of his accounts in the previous year 2019-20.

Calculation of Additional employee cost = \( (₹3,000 \times 12 \times 40) + (₹3,000 \times 11 \times 35) = ₹25,95,000 \)
Deduction u/s 80JJAA = 30% of ₹25,95,000 = ₹7,78,500

Calculation of additional employee

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No. of Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total No. of workmen employed</td>
<td>120</td>
</tr>
<tr>
<td>Less: Employee Emoluments paid @ 30,000 p.m.</td>
<td>(20)</td>
</tr>
<tr>
<td>Less: Employee Employed for less than 240 days</td>
<td>(25)</td>
</tr>
<tr>
<td>(employed on 05.10.2019)</td>
<td></td>
</tr>
<tr>
<td>Total No. of Additional Employee</td>
<td>75</td>
</tr>
</tbody>
</table>

Question 15. Write a note on deduction in case of royalty income from certain books.

Answer: Deduction in respect of royalty income, etc., of authors of certain books other than text books

Section 80QQB

1. Deduction is allowed only to a resident individual who is an author.
2. He should have income through his copyright in a book which is a work of literary, artistic or scientific nature but such should not be text-books for schools/colleges etc. and also it should not be any help book or guide etc. or any newspaper or magazine etc.
3. Deduction allowed shall be equal to the amount of royalty income or ₹3,00,000 whichever is less.
4. Royalty received by the author in excess of 15% of the value of such books sold during the previous year shall be ignored.

E.g. Mr. X is an author of a book of literary nature and print price is ₹200 and total copies sold are 3000
and he claims that he is getting royalty @ 50% of print price, in this case deduction allowed shall be 200 x 15% x 3000 = 90,000

5. In respect of any income earned from any source outside India, so much of the income shall be taken into account for the purpose of this section as is brought into India by the assessee in convertible foreign exchange within a period of six months from the end of the previous year in which such income is earned or within such further period as the competent authority may allow in this behalf.

Illustration 17: Mrs. X is author of one book of scientific nature and its print price is ₹500 and total copies sold are 2000 and she has received royalty @ 50%.

She has taken a loan from State Bank in 2010 for pursuing bachelor’s degree in Engineering and she has given repayment of principal amount ₹80,000 and interest ₹20,000 to State Bank. (payment of interest was given for the first time in financial year 2016-17)

She has paid tuition fee of her son for whole time education ₹ 3,000 in India


Solution:

Income under the head Other Sources
500 x 50% x 2000                      5,00,000.00
Gross Total Income                                 5,00,000.00
Less: Deduction u/s 80C
Tuition Fee                            (3,000.00)
Less: Deduction u/s 80E
Payment of Interest                     (20,000.00)
Less: Deduction u/s 80QQB
500 x 15% x 2000                  (1,50,000.00)
Total Income                               3,27,000.00

Computation of tax liability
Tax on ₹3,27,000 at slab rate                                     3,850.00
Less: Rebate u/s 87A             (3,850.00)
Tax Liability                                  Nil

---

NOV – 2001 (3 Marks)

Mr. X, a writer and a professional furnishes the following particulars for the previous year ended 31.03.2020:

(a) Royalty on books (eligible for deduction u/s 80QQB)                                              42,000
(b) Expenditure on books                     8,000
(c) Income from profession                        3,80,000
(d) Deposited in public provident fund (15.03.2020)              70,000

You are required to compute

(i) Taxable income,

(ii) Tax payable for assessment year 2020-21.

Answer:

Computation of total income and tax payable by Mr. X

Income from business/profession
Income from profession                                 3,80,000
Income under the head Business/Profession              3,80,000

Income under the head Other Sources
Royalty on books                                      42,000
Less: Expenses                                          (8,000)
Income under the head Other Sources                    34,000
Gross Total Income                                 4,14,000
Less: Deduction u/s 80C                              (70,000)
Less: Deduction u/s 80QQB                           (34,000)
Total Income                                           3,10,000
Computation of Tax Payable
Tax on ₹3,10,000 at slab rate 3,000
Less: Rebate u/s 87A (3,000)
Tax Payable Nil

Question 16: Write a note on deduction in case of Royalty on Patents.

Answer: Deduction in respect of royalty on patents Section 80RRB
1. Deduction is allowed only to resident individual.
2. His gross total income should include royalty in respect of a patent.
3. Deduction allowed shall be equal to the amount of royalty or ₹3,00,000 whichever is less.
4. In respect of any income earned from any source outside India, so much of the income, shall be taken into account for the purpose of this section as is brought into India by the assessee in convertible foreign exchange within a period of six months from the end of the previous year in which such income is earned or within such further period as the competent authority may allow in this behalf.

Question 17: Write a note on deduction in respect of interest on deposits in savings account.

Answer: Deduction in respect of interest on deposits in savings account Section 80TTA
1. Deduction is allowed only to an individual or HUF. (Other than those covered in 80TTB)
2. Deduction is allowed is the assessee has interest income on saving bank accounts with any bank/ Post Office.
3. No deduction is allowed from interest on time deposit/ fixed deposit.
4. Deduction is allowed to the extent of ₹10,000.
E.g. Mr. X has interest income ₹8,000 from savings bank account with State Bank and interest income of ₹13,000 from fixed deposit with State Bank, deduction allowed under section 80TTA shall be ₹8,000.

As per section 10(15), Interest on Post Office Savings Bank Account to the extent of ₹3,500 per year shall be exempt from income tax and in the case of joint account, exemption shall be allowed up to ₹7,000 per year.

Example: Mr. X has Income under the head salary ₹7,00,000 and interest on post office savings bank account ₹7,000 and interest on savings bank account with State Bank ₹9,000, in this case tax liability of Mr. X shall be

| Income under the head Salary | 7,00,000 |
| Income under the head Other sources | |
| Interest on Post office Saving Bank Account | 7,000 |
| Less: Exemption u/s 10(15) (3,500) | 3,500 |
| Interest on Saving Bank Account with SBI | 9,000 |
| Income under the head other sources | 12,500 |

Gross Total Income 7,12,500
Less: Deduction u/s 80TTA (10,000)
Total Income 7,02,500

Computation of Tax Liability
Tax on ₹ 7,02,500 at slab rate 53,000
Add: HEC @ 4% 2,120
Tax Liability 55,120

Question 18: Write a note on deduction in respect of interest on deposits in savings account.

Answer: Deduction in respect of interest on deposits in savings account Section 80TTB
Deduction shall be allowed only to a senior citizen with regard to interest income from banks/cooperative bank/ cooperative society/post office and further it may be in connection with time deposits/saving bank account or any other deposits.
Deduction shall be allowed upto such income but maximum ₹ 50,000.
Illustration 18: Mr. X, aged 62 years, earned professional income (computed) of ₹5,50,000 during the year ended 31.03.2020. He has earned interest of ₹14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. X for the assessment year 2020-21 from the following particulars:

(i) Life insurance premium paid to Birla Sun life Insurance in cash amounting to ₹25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2019 and the sum assured on life of his dependent parents is ₹1,25,000.

(ii) Life insurance premium of ₹25,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹1,75,000 and the life insurance policy was taken on 18.04.2011.

(iii) Life insurance premium paid by cheque of ₹22,500 for insurance of his life. The insurance policy was taken on 08.09.2019 and the sum assured is ₹2,00,000.

(iv) Premium of ₹16,000 paid by cheque for health insurance of self and his wife (₹8,000 for self and ₹8,000 for spouse).

(v) ₹1,500 paid in cash for his health check-up and ₹4,500 paid in cheque for health checkup for his parents.

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

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

(viii) Contribution ₹10,500 made in cheque to an electoral trust.

Solution: Computation of total income of Mr. X for the Assessment Year 2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Income (computed)</td>
<td>5,50,000</td>
</tr>
<tr>
<td>Interest on saving bank deposit</td>
<td>14,500</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,64,500</td>
</tr>
</tbody>
</table>

Less: Deduction under Chapter VIA

Under section 80C

Life insurance premium paid for life insurance of:

- major son                                       | (25,000) |
- self ₹22,500 restricted to 10% of ₹2,00,000     | (20,000) |

Under section 80D

Premium paid for health insurance of self and wife by cheque | (16,000) |
Payment made for health check-up: - Self                | (1,500)  |
Parents ₹4,500 (but maximum amount PHC is ₹5,000)       | (3,500)  |

Under section 80E

For payment of interest on loan taken from bank for MBA course of his daughter | (6,500)  |

Under section 80GGC

Contribution to electoral trust                       | (10,500) |

Under section 80TTB

Interest on savings bank account                      | (14,500) |

Total Income                                         | 4,67,000 |

MAY – 2019 (OLD COURSE) 4 Marks

(i) Prakash is retired Government Officer aged 65 years, resides in Cochin, derived following income:

<table>
<thead>
<tr>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
</tr>
<tr>
<td>Interest from bank on fixed deposits (Gross)</td>
</tr>
</tbody>
</table>

Compute the total income of Mr. Prakash for the assessment year 2020-21 from the following particulars:
(i) Life insurance premium paid by cheque ₹22,500 for insurance of his life. The insurance policy was taken on 08-09-2016 and the sum assured is ₹2,00,000.
(ii) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
(iii) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his parents, who are senior citizens.
(iv) Paid interest ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
(v) A sum of ₹ 15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

**Solution:**

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

<table>
<thead>
<tr>
<th>Income under the head salary</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>6,60,000</td>
</tr>
<tr>
<td>Gross salary</td>
<td>6,60,000</td>
</tr>
<tr>
<td>Less: Standard deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Income under the head salary</td>
<td>6,10,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income under the head other sources</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income on Fixed Deposits</td>
<td>55,000</td>
</tr>
<tr>
<td>Income under the head other sources</td>
<td>55,000</td>
</tr>
</tbody>
</table>

**Gross Total Income**

<table>
<thead>
<tr>
<th>₹</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6,65,000</td>
<td></td>
</tr>
</tbody>
</table>

Less: Deduction u/s 80C- LIC (22,500 limited to 10% of 2,00,000) | (20,000) |
Less: Deduction u/s 80D- Health Insurance (26,000 limited to 25,000) | (25,000) |
Less: Deduction u/s 80D- PHC of parents (6,000 limited to 5,000) | (5,000) |
Less: Deduction u/s 80E Interest paid on higher studies | (6,500) |
Less: Deduction u/s 80TTB - Interest on FD | (50,000) |
Total Income | 5,58,500 |

**Note:**

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

1. As per section 80CCE, ₹1.5 lakh is the maximum qualifying limit for deduction under -
   (a) Section 80C and 80CCD.
   (b) Sections 80CCC and 80CCD
   (c) Sections 80C, 80CCC and 80CCD
   (d) Section 80C, 80CCC and 80D

2. Deduction u/s 80C in respect of Life Insurance Premium, Contribution to provident fund, etc. is allowed to:
   (a) Any assessee
   (b) an individual
   (c) An individual or HUF
   (d) An individual or HUF who is resident in India

3. An assessee has paid life insurance premium of ₹25,000 during the previous year 2019-20 for a policy of ₹1,00,000 taken on 1.4.2015. He shall:
   (a) not be allowed deduction u/s 80C
   (b) be allowed deduction of ₹20,000 u/s 80C
   (c) be allowed deduction of ₹25,000 under section 80C
   (d) be allowed deduction of ₹10,000 u/s 80C

4. Mr. Srivastav, aged 72 years, paid medical insurance premium of ₹40,000 by cheque and ₹4,000 by cash during May, 2019 under a Medical Insurance Scheme of the General Insurance Corporation. The above sum was paid for insurance of his own health. He would be entitled to a deduction under section 80D of a sum of-
   (a) ₹30,000 (b) ₹40,000 (c) ₹52,000 (d) ₹56,000

5. The payment for Insurance premium under section 80D should be paid:
   (a) in cash
   (b) by any mode other than cash
   (c) by cheque
   (d) through account payee cheque/ account payee bank draft

6. Rajan, a resident Indian, has incurred ₹15,000 for medical treatment his dependent brother, who is a person with severe disability and has deposited ₹20,000 with LIC for his maintenance. For A.Y.2020-21, Rajan would be eligible for deduction under section 80DD of an amount equal to –
   (a) ₹15,000 (b) ₹35,000 (c) ₹75,000 (d) ₹1,25,000

7. The maximum amount which can be donated in cash for claiming deduction under section 80G is–
   (a) ₹5,000 (b) ₹10,000 (c) ₹1,000 (d) ₹2,000

8. Mr. Shiva made a donation of ₹50,000 to National Children's Fund and ₹20,000 to Rajiv Gandhi Foundation by cheque. He made a cash donation of ₹10,000 to a public charitable trust. The deduction allowable to him under section 80G for A.Y.2020-21 is
   (a) ₹80,000 (b) ₹70,000 (c) ₹60,000 (d) ₹55,000

9. Mr. Ramesh pays a rent of ₹5,000 per month. His adjusted gross total income is ₹2,80,000. He is also in receipt of HRA. He would be eligible for a deduction under section 80GG of an amount of -
   (a) ₹60,000 (b) ₹50,000 (c) ₹70,000 (d) ₹75,000

10. Mr. Shaleen, a businessman, whose adjusted gross total income for A.Y.2020-21 is ₹4,60,000, paid house rent at ₹12,000 p.m. in respect of residential accommodation occupied by him at Chennai. The deduction allowable to him under section 80GG for A.Y.2020-21 is
    (a) ₹98,000 (b) ₹1,15,000 (c) ₹60,000 (d) ₹24,000

11. Mr. Anuj, a businessman, whose adjusted gross total income for AY 2020-21 is ₹5,95,000. He does not own any house property and is staying in a rented accommodation in Patna for a monthly rent of ₹9,000. Deduction allowance under section 80GG for A.Y. 2020-21 is:
    (a) ₹48,500 (b) ₹1,48,750 (c) ₹60,000 (d) ₹1,08,000
12. Under section 80GGB, deduction is allowable in respect of contribution to political parties by -
(a) any person other than local authority and every artificial juridical person wholly or partly funded by the Government
(b) Local authority and every artificial juridical person wholly or partly funded by the Government
(c) An Indian company
(d) Any assessee

13. The deduction under section 80QQB in respect of royalty income of authors of certain books is subject to a maximum limit of-
(a) ₹1,00,000
(b) ₹3,00,000
(c) ₹5,00,000
(d) ₹2,00,000

14. Deduction allowed under section 80JJAA is
(a) 20%
(b) 30%
(c) 33%
(d) none of these

15. Deduction allowed under section 80JJAA is for
(a) 2 year
(b) 1 year
(c) 4 year
(d) 3 year
(e) none of these

16. Deduction under section 8QQB is allowed for
(a) book of literary nature
(b) book of artistic nature
(c) book of scientific nature
(d) any of the above
(e) none of the above

17. Deduction under section 80TTA is allowed
(a) to every person for interest on saving accounts
(b) to an individual for interest on fixed deposit
(c) to an individual and HUF for interest on savings account
(d) to an individual and HUF for interest on any account

18. Deduction under section 80TTB is allowed
(a) to all individual upto ₹ 40,000
(b) to all individual upto ₹ 10,000
(c) to all individual upto ₹ 50,000
(d) to a senior citizen upto ₹ 40,000
(e) none of these

19. Deduction for investment in Kisan Vikas Patra is allowed under section
(a) 80C
(b) 80CCC
(c) 80CCD
(d) 80D
(e) none of these

20. Deduction for repayment of principal amount under section 80C is allowed
(a) for any house property
(b) repairs of residential house property
(c) purchase of residential house property
(d) construction of residential house property
(e) (c) or (d)
(f) none of these
21. Deduction under section 80C to 80U is allowed from
(a) normal income
(b) normal income including capital gains
(c) only capital gains
(d) only casual income
(e) none of these

22. Mr. X has income under the head salary ₹1,25,000 and income from long term capital gains ₹3,50,000, in this case maximum amount of deduction allowed shall be
(a) ₹3,50,000
(b) ₹4,75,000
(c) ₹1,25,000
(d) Nil

23. Mr. X has taken a Life Insurance policy in the name of dependent father on 10.01.2020 and paid premium by cheque of ₹25,000 and sum assured shall be ₹3,00,000, in this case maximum amount of deduction allowed u/s 80C shall be
(a) ₹25,000
(b) ₹2,500
(c) ₹30,000
(d) Nil

24. Mr. X has taken a Life Insurance policy in the name of dependent son on 10.01.2020 and paid premium by cheque of ₹25,000 and sum assured shall be ₹3,00,000, in this case maximum amount of deduction allowed u/s 80C shall be
(a) ₹25,000
(b) ₹2,500
(c) ₹30,000
(d) Nil

25. Mr. X has purchased NSC of ₹50,000 in the name of dependent father on 10.01.2020, in this case maximum amount of deduction allowed u/s 80C shall be
(a) ₹50,000
(b) ₹5,000
(c) ₹75,000
(d) Nil

26. Mr. X has purchased NSC of ₹50,000 in the name of dependent minor son on 10.01.2020, in this case maximum amount of deduction allowed u/s 80C shall be
(a) ₹50,000
(b) ₹5,000
(c) ₹75,000
(d) Nil

27. Mr. X has taken a Life Insurance policy in the name of handicapped daughter on 10.01.2020 and paid premium by cheque of ₹60,000 and sum assured shall be ₹5,00,000, in this case maximum amount of deduction allowed u/s 80C shall be
(a) ₹50,000
(b) ₹60,000
(c) ₹5,00,000
(d) Nil

28. Deduction u/s 80D in respect of payment of premium of Medical Insurance or Medical Policy, etc. is allowed to:
(a) Any assessee
(b) an individual
(c) An individual or HUF
(d) An individual or HUF who is resident in India
29. Mr. X taken Mediclaim policy for self and his spouse and paid premium by cheque of ₹35,000. Deduction allowed u/s 80D shall be:
(a) ₹25,000
(b) ₹35,000
(c) ₹60,000
(d) Nil

30. Mr. X taken Mediclaim policy for his parents who is senior citizen and paid premium by cheque of ₹35,000. Deduction allowed u/s 80D shall be:
(a) ₹25,000
(b) ₹35,000
(c) ₹50,000
(d) Nil

31. Mr. X taken Preventive health check up of ₹3,000 (paid in cash) for himself and also taken in the name of parents who is senior citizen and paid ₹5,000 (in cash). Deduction allowed u/s 80D shall be:
(a) ₹5,000
(b) ₹8,000
(c) ₹3,000
(d) Nil

32. Deduction u/s 80DD in case of expenditure in connection with handicapped dependent relative is allowed to:
(a) Any assessee
(b) an individual
(c) An individual or HUF
(d) An individual or HUF who is resident in India

33. Deduction u/s 80U in case of blind or physically handicapped persons is allowed to:
(a) Any assessee
(b) an individual
(c) An individual or HUF
(d) An individual who is resident in India

34. Deduction u/s 80E in case of payment of interest on loan taken for pursuing higher education is allowed to:
(a) Any assessee
(b) an individual
(c) An individual or HUF
(d) An individual who is resident in India

35. Deduction u/s 80E in case of payment of interest on loan taken for pursuing higher education is allowed for maximum period of:
(a) 5 years
(b) 1 year
(c) 10 years
(d) 8 years

Answer
1.(c); 2.(c); 3.(d); 4.(b); 5 (b); 6.(d); 7.(d); 8.(c); 9. (d); 10.(c); 11.(a); 12.(c); 13.(b); 14.(b); 15. (d); 16. (d);
17. (c); 18. (e); 19. (e); 20. (e); 21.(a); 22.(c); 23.(d); 24.(a); 25.(d); 26.(a); 27.(b); 28.(c); 29.(a); 30.(b);
31.(a); 32.(d); 33.(d); 34.(b); 35.(d)
PRACTICE PROBLEMS

TOTAL PROBLEMS 17

Problem 1.
Mr. X has taken a loan of ₹10,00,000 from S.B.I @ 10 % p.a. on 01.07.2015 for construction of one residential house which was completed on 01.07.2017. It was let out @ ₹80,000 p.m. w.e.f 01.04.2019 and Mr. X has paid Municipal tax of ₹20,000 though the amount due is ₹30,000.
He has repaid Principal amount of ₹70,000 on 01.07.2019.
He has Agricultural income of ₹3,00,000 and unadjusted loss of house property of P.Y. 2010-11 ₹10,000 and P.Y. 2011-12 ₹21,000.
He has invested ₹10,000 in NSC and ₹5,000 in Public Provident Fund and ₹5,000 in Post Office 5 Year Time Deposit.
Compute his Income Tax Liability for the A.Y. 2020-21.
Answer: Tax Liability: ₹21,790

Problem 2.
Mr. X has taken a loan of ₹12,00,000 @ 10 % p.a. on 01.07.2015 and the house completed on 01.05.2019. It was let out @ ₹30,000 p.m. w.e.f 01.08.2019 and the loan was repaid in annual installment of ₹40,000 starting from 01.01.2017.
Mr. X has STCG 111A ₹10,00,000.
He has paid premium of life policy ₹40,000 on 12.12.2019 and sum assured is ₹1,00,000.
He has paid premium of Jeevan Suraksha Policy ₹20,000.
Compute his Total Income and Tax Liability for the A.Y. 2020-21.
Answer: Total Income: ₹9,74,000; Tax Liability: ₹1,12,940

Problem 3.
Mr. X has income from business ₹410000 and he has received income of ₹3,80,000 from subletting also.
He has paid premium of medi-claim policy of ₹31,000. It was paid by cheque and the policy was taken on 02.01.2020 in the name of his father.
Compute his total income and tax liability for assessment year 2020-21.
Answer: Total Income: ₹7,65,000; Tax Liability: ₹68,120

Problem 4.
Mr. X has income from business ₹7,00,000.
Mr. X has incurred ₹65,000 on the treatment of his dependent brother who is suffering from a disease notified under Rule 11DD and he has received claim under medi-claim policy ₹35,000.
Compute his income and tax liability for assessment year 2020-21.
Answer: Total Income: ₹6,95,000; Tax Liability: ₹53,560

(b) Presume assessee incurred ₹65,000 on the treatment of his independent brother.
Answer: Total Income: ₹7,00,000; Tax Liability: ₹54,600

Problem 5.
Mrs. X has let out one residential house property @ ₹1,00,000 p.m. and she has paid municipal tax of ₹1,00,000.
She has taken a Medi-claim policy on 17.07.2019 in the name of Mr. X and paid premium of ₹18,000 by cheque.
She has also taken a Medi-claim policy on 15.10.2019 in the name of her Father in law who is aged 66 years and paid premium of ₹16,000 by cheque.
She has incurred ₹21,000 on the treatment of her brother who is dependent on her and suffering from severe disability.
She has purchased N.S.C. in P.Y. 2017-18 and there is accrued interest of ₹30,000 and also there is accrued interest of PPF ₹10,000.
She has taken Jeevan Suraksha Policy in the name of Mr. X and paid premium of ₹19,000. She has taken a loan in 2013-14 from SBI for the education of his son who is studying in B.com (Hons) in SRCC and she had paid principal amount of ₹60,000 and interest ₹10,000 in P.Y.2019-20. She has Agricultural Income ₹1,00,000
Compute her Income Tax Liability for the A.Y.2020-21.
Answer: Tax Liability: ₹52,940

**Problem 6.**
Mr. X has incomes asunder:
1. Rent from letting out one house property ₹3,00,000
2. Long term capital gains ₹2,00,000
He has donated ₹5,000 by cheque to MCD which is notified under section 80G and has donated ₹2,000 by cheque to National Children’s Fund and ₹2,000 by cheque to the Government for promotion of family planning norms.
He has invested ₹6,000 in NSC. He is aged about 67 years.
Compute his total income and tax liability for the assessment year 2020-21.
Answer: Total Income: ₹3,97,500; Tax Liability: ₹7,280

**Problem 7.**
Mr. X is a Practicing Chartered Accountant and he started his practice from 01.04.2019 and he has income from profession ₹8,00,000.
He has LTCG of ₹3,00,000, STCG 111A of ₹1,00,000, casual income ₹2,00,000.
Investment and donations are as given below:-
- **NSC**: ₹10,000.
- **Medi-claim premium (by cheque)**: ₹15,000.
- **Prime Minister’s National Relief Fund**: ₹10,000. (Paid by cheque)
- **Rajiv Gandhi Foundation**: ₹8,000. (Paid by cheque)
- **Donation to Birla Temple (Notified u/s 80G)**: ₹1,60,000. (Paid by cheque)
- **Charitable institution (Notified u/s 80G)**: ₹40,000. (Paid by cheque)
- **Social organization (Notified u/s 80G)**: ₹20,000. (Paid by cheque)
- **Municipal Corporation of Delhi (notified under section 80G)**: ₹10,000. (Paid by cheque)

Compute income tax liability for A.Y. 2020-21.
Answer: Tax Liability: ₹1,97,550

(b) Presume in the above question the assessee has given donation to the Government also for family planning is ₹ 20,000.
Answer: Tax Liability: ₹1,95,470

(c) Presume in the above question the assessee has given donation to the Government also for family planning is ₹ 3,00,000.
Answer: Tax Liability: ₹1,87,410

**Problem 8.**
Mr. X has short term capital gain of ₹6 lakhs and he has donated ₹20,000 by cheque to a charitable institution which is notified under section 80G and he has spent ₹25,000 on the treatment of his handicapped dependant brother.
Compute his total income and tax liability for the assessment year 2020-21.
Answer: Total Income: ₹5,15,000; Tax Liability ₹16,120

**Problem 9.**
Mr. Ram Kumar has incomes asunder:
1. He has received dividends from an Indian company of ₹11,000.
2. He has income from Business/Profession ₹1,22,000.
3. He has long term capital gains of ₹2,00,000.
4. He has donated ₹10,000 by cheque to MCD for family planning and has donated ₹3,000 by cheque to a charitable institution notified under section 80G.

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

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

**Problem 10.**

Mr. X has incomes asunder:

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

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

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

**Problem 11.**

Mr. X has incomes asunder:

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

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

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

**Problem 12.**

Mr. X has incomes asunder:

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

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

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

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

**Problem 13.**

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

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

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

**Problem 14.**

During the previous year 2018-19, Mr. X has income under the head house property ₹4,00,000. He has donated ₹12,000 by cheque to a notified institution for the purpose of scientific research.

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

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

**Problem 15.**

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

<table>
<thead>
<tr>
<th>Property income</th>
<th>House I (₹)</th>
<th>House II (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Rent</td>
<td>75,000</td>
<td>82,000</td>
</tr>
<tr>
<td>Rent Received/Receivable</td>
<td>78,000</td>
<td>85,000</td>
</tr>
<tr>
<td>Municipal Valuation</td>
<td>76,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Municipal Taxes (due but outstanding)</td>
<td>13,000</td>
<td>14,000</td>
</tr>
</tbody>
</table>
Deduction From Gross Total Income

Repairs 3,500 47,000
Insurance 2,000 3,000
Land Revenue (Paid) 2,500 4,000
Ground Rent (due but outstanding) 1,600 6,000
Interest on capital borrowed by mortgaging house I (Funds are used for construction of house II) 14,000
Nature of Occupation Let out for Residence Let out for Business
Date of completion of construction 30.04.2015 07.04.2017

Assume that standard rent is less than rent actually received.
Mr. X has brought forward losses of house property asunder.
Assessment year 2011-12 1,00,000
Assessment year 2015-16 10,100
Other incomes of Mr. X
1. Vacant site lease rent 4,12,000
2. Rent from house property at Chennai 3,000 p.m.
   This house was constructed by taking a loan of ₹ 2,00,000 @ 10% from State Bank of India but it was repaid on 01.10.2019 by taking a loan of ₹2,00,000 from Punjab National Bank on 01.10.2019 @ 9.5% p.a.
3. He has also received ₹3,000 during the year from Calcutta University for acting as an examiner and ₹1,500 from Delhi University also, for acting as an examiner.
4. He has received from Life Insurance Corporation of India ₹1,20,000 being the maturity amount of life insurance policy.
5. He has received a reward of ₹5,000 from Central Government and the reward is notified under section 10(17A).
He has invested ₹1,000 in the notified bonds of NABARD eligible for deduction under section 80C, but the investment is out of past savings and has invested ₹1,000 in master equity plan of Unit Trust of India. He is eligible for deductions under section 80D to 80U amounting to ₹1,005.
Compute his income and also tax liability for assessment year 2020-21.
**Answer** = Total Income: ₹3,71,000; Tax Liability: Nil

**Problem 16.**
Mrs. X has income under the head Business/Profession ₹6,00,000.
She has spent ₹30,000 on the treatment and education of her sister who is a disabled person as per section 80U and she is dependent on Mrs. X.
She has paid premium of medi-claim policy ₹18,000 by cheque and policy is taken on 15.11.2019 in the name of her father who is not dependent on Mrs. X.
She is holder of one patent right and has received royalty of ₹3,20,000
She has paid rent of ₹30,000 p.m. and she has complied with all the conditions of section 80GG
You are required to compute her Income tax liability for the A.Y. 2020-21.
**Answer:** Tax Liability: Nil

**Problem 17.**
Mr. X has received royalty of ₹8,00,000 in connection with a patent right registered in his name.
Other informations are as given below:
1. He has donated ₹ 30,000 to a political party by cheque.
2. He donated ₹10,000 by cheque to Delhi University notified under section 80G
3. He donated ₹10,000 by cheque to Government for the purpose of promoting family planning.
4. He paid premium of medi-claim policy ₹6,000 by cheque in the name of his major married independent son.
5. LIC premium paid ₹25,000 on 15.01.2020 (Policy value ₹1,00,000)
6. Repayment of housing loan to Indian Bank ₹50,000
7. Payment made to LIC pension fund notified under section 80CCC ₹20,000
Compute income tax liability for A.Y 2020-21.
**Answer:** Tax Liability: Nil
SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:
Computation of income under the head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>9,60,000.00</td>
</tr>
<tr>
<td>Less: Municipal Tax</td>
<td>(20,000.00)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>9,40,000.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(2,82,000.00)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(1,29,750.00)</td>
</tr>
</tbody>
</table>

**Working Note:**

Prior period interest

**From 01.07.2015 to 31.03.2017**

\[
\text{= (10,00,000 x 10\% x 9/12) + (10,00,000 x 10\% x 1)}
\]

\[
= ₹75,000 + ₹1,00,000 = ₹1,75,000
\]

Installment = ₹1,75,000/5 = ₹35,000

Current period interest

**From 01.04.2019 to 31.03.2020**

\[
\text{= (10,00,000 x 10\% x 3/12) + (9,30,000 x 10\% x 9/12)}
\]

\[
= ₹25,000 + ₹69,750 = ₹94,750
\]

Total interest on capital borrowed

\[
= ₹35,000 + ₹94,750 = ₹1,29,750
\]

Income under the head House Property                                5,28,250.00
Less: Brought forward Loss of P.Y.2011-12                             (21,000.00)
Income under the head House Property                                  5,07,250.00
Gross Total Income                                                   5,07,250.00
Less: Deduction u/s 80C                                              (70,000.00)
Repayment of Housing loan                                            (10,000.00)
NSC                                                                 (5,000.00)
PPF                                                                  (5,000.00)
Post Office Time Deposit                                             (3,00,000.00)
Total Income                                                         4,17,250.00
Agricultural Income                                                  3,00,000.00

Computation of Tax Liability

Step 1 Tax on (4,17,250 + 3,00,000) at slab rates                   55,950.00
Step 2 Tax on (2,50,000 + 3,00,000) at slab rates                  (22,500.00)
Deduct Tax at Step 2 from Step 1                                     33,450.00
Less: Rebate u/s 87A                                                 (12,500.00)
Tax before health & education cess                                   20,950.00
Add: HEC @ 4%                                                        838.00
Tax Liability                                                        21,788.00
Rounded off u/s 288B                                                 21,790.00
Solution 2:

Income under the head House Property

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>₹2,40,000</td>
</tr>
<tr>
<td>Less: Municipal Tax</td>
<td>Nil</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>₹2,40,000</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>₹72,000</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>₹1,94,000</td>
</tr>
</tbody>
</table>

Working Note:

Prior period interest

From 01.07.2015 to 31.03.2019

\[
\text{Interest} = (12,00,000 \times 10\% \times 6/12) + (12,00,000 \times 10\% \times 1) + (11,60,000 \times 10\% \times 1) + (10,80,000 \times 10\% \times 3/12)
\]

\[
\text{Total Interest} = 60,000 + 1,20,000 + 1,16,000 + 1,12,000 + 27,000 = 4,35,000
\]

Current period interest

From 01.04.2019 to 31.03.2020

\[
\text{Current Interest} = (10,80,000 \times 10\% \times 9/12) + (10,40,000 \times 10\% \times 3/12)
\]

\[
\text{Total Interest} = 87,000 + 1,07,000 = 1,94,000
\]

Loss under the head House Property

Income under the head Capital Gains (STCG u/s 111A)

Gross Total Income

Less: Deduction u/s 80C to 80U

Total Income

Computation of Tax Liability

Tax on STCG

Add: HEC @ 4%

Tax Liability

Rounded off u/s 288B

Note: Deduction under section 80C to 80U is not allowed from STCG u/s 111A.

Solution 3:

Income under the head Business/Profession

Income under the head Other Sources

Income from subletting

Income under the head Other Sources

Gross Total Income

Less: Deduction u/s 80D

Total Income

Computation of Tax Liability

Tax on ₹7,65,000 at slab rate

Add: HEC @ 4%

Tax Liability

Solution 4:

Income under the head Business/Profession

Gross Total Income

Less: Deduction u/s 80DDB (40,000 – 35,000)

Total Income

Computation of Tax Liability

Tax on ₹6,95,000 at slab rate

Add: HEC @ 4%
Solution 4(b):

Income under the head Business/Profession 7,00,000
Gross Total Income 7,00,000
Less: Deduction u/s 80DDB Nil
Total Income 7,00,000

Computation of Tax Liability
Tax on ₹7,00,000 at slab rate 52,500
Add: HEC @ 4% 2,100
Tax Liability 54,600

Note: Deduction under section 80DDB is not allowed in case assessee incurred expenditure on treatment of his independent brother.

Solution 5:

Computation of income under the head House Property
Gross Annual Value 12,00,000
Less: Municipal Tax (1,00,000)
Net Annual Value 11,00,000
Less: 30% of NAV u/s 24(a) (3,30,000)
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 7,70,000
Income under the head other sources 30,000
Gross Total Income 8,00,000
Less: Deductions
Deduction u/s 80C for NSC (30,000)
Deduction u/s 80CCC for Jeevan Suraksha Policy Nil
Deduction u/s 80D for Mediclaim Policy (18,000)
Deduction u/s 80DD for Severe Disability (1,25,000)
Deduction u/s 80E for Education Loan Interest (10,000)
Total Income 6,17,000
Agricultural Income 1,00,000

Computation of Tax Liability
Step 1 Tax on (6,17,000 + 1,00,000) at slab rates 55,900
Step 2 Tax on (2,50,000 + 1,00,000) at slab rates (5,000)
Deduct Tax at Step 2 from Step 1 50,900
Tax before HEC 50,900
Add: HEC @ 4% 2,036
Tax Liability 52,936
Rounded off u/s 288B 52,940

Solution 6:

Computation of income under the head House Property
Gross Annual Value 3,00,000
Less: Municipal taxes Nil
Net Annual Value 3,00,000
Less: 30% of NAV u/s 24(a) (90,000)
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 2,10,000

Computation of Total Income
Income under the head House Property 2,10,000
Income under the head Capital Gains (LTCG) 2,00,000
Gross Total Income 4,10,000
Less: Deduction u/s 80C {NSC} (6,000)
Less: Deduction u/s 80G
(i) National Children Fund {100% of ₹2,000} (2,000)
(ii) Other Donations u/s 80G (4,500)

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCD</td>
<td>5,000</td>
</tr>
<tr>
<td>Family planning</td>
<td>2,000</td>
</tr>
</tbody>
</table>

AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)
= 4,10,000 – 2,00,000 – 6,000 = 2,04,000
Qualifying amount = 10% of AGTI or donation whichever is less
= 20,400 or 7,000
= 7,000
Deduction = 50% of ₹5,000 + ₹2,000
= ₹4,500

Total Income 3,97,500

Computation of Tax Liability
Tax on LTCG ₹97,500 (2,00,000 – 1,02,500) @ 20% u/s 112 19,500
Tax on ₹1,97,500 at slab rate Nil
Less: Rebate u/s 87A (12,500)
Tax before health & education cess 7,000
Add: HEC @ 4% 280
Tax Liability 7,280

Solution 7 (a):
Income under the head business / profession ₹8,00,000.00
Income under the head Other Sources
Casual income ₹2,00,000.00
Income under the head other sources ₹2,00,000.00
Income under the head Capital Gain
Long term capital gain ₹3,00,000.00
Short term capital gain 111A ₹1,00,000.00
Income under the head capital gain ₹4,00,000.00
Gross Total Income ₹14,00,000.00
Less: Deductions
Deduction u/s 80C for NSC (10,000.00)
Deduction u/s 80D for Mediclaim policy (15,000.00)
Deduction u/s 80G
Prime Minister National Relief Fund (10,000.00)
Rajiv Gandhi Foundation (50% of ₹8,000) (4,000.00)
Donations (48,750.00)

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)</td>
<td></td>
</tr>
</tbody>
</table>
= 14,00,000 – 3,00,000 – 1,00,000 – 25,000
= 9,75,000
Qualifying amount = 10% of AGTI or donation whichever is less
= 97,500 or 2,30,000 whichever is less
= 97,500
50% of qualifying amount = 48,750
Total Income ₹13,12,250.00
### Solution 7(b):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>₹1,40,00,000.00</td>
</tr>
<tr>
<td>Less: Deductions</td>
<td></td>
</tr>
<tr>
<td>Deduction u/s 80C for NSC</td>
<td>₹10,000.00</td>
</tr>
<tr>
<td>Deduction u/s 80D for Mediclaim policy</td>
<td>₹15,000.00</td>
</tr>
<tr>
<td>Deduction u/s 80G</td>
<td></td>
</tr>
<tr>
<td>Prime minister national relief fund</td>
<td>₹10,000.00</td>
</tr>
<tr>
<td>Rajiv Gandhi Foundation</td>
<td>₹4,000.00</td>
</tr>
<tr>
<td>Donations</td>
<td>₹58,750.00</td>
</tr>
</tbody>
</table>

#### Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)

= 14,00,000 – 3,00,000 – 1,00,000 – 25,000

= 9,75,000

Qualifying amount = 10% of AGTI or donation whichever is less

= 97,500 or 2,50,000 whichever is less

= 97,500

50% of qualifying amount = 77,500 x 50% + 20,000

= 58,750

Total Income = ₹13,02,250.00

### Solution 7(c):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>₹1,40,000.00</td>
</tr>
<tr>
<td>Less: Deductions</td>
<td></td>
</tr>
<tr>
<td>Deduction u/s 80C for NSC</td>
<td>₹10,000.00</td>
</tr>
<tr>
<td>Deduction u/s 80D for Mediclaim policy</td>
<td>₹15,000.00</td>
</tr>
<tr>
<td>Deduction u/s 80G</td>
<td></td>
</tr>
<tr>
<td>Prime minister national relief fund</td>
<td>₹10,000.00</td>
</tr>
<tr>
<td>Rajiv Gandhi Foundation</td>
<td>₹4,000.00</td>
</tr>
<tr>
<td>Donations</td>
<td>₹97,500.00</td>
</tr>
</tbody>
</table>

#### Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)

= 14,00,000 – 3,00,000 – 1,00,000 – 25,000
Deduction From Gross Total Income

= 9,75,000
Qualifying amount = 10% of AGTI or donation whichever is less
= 97,500 or 5,30,000 whichever is less
= 97,500
100% deduction is allowed 97,500

Total Income 12,63,500.00

Computation of Tax Liability

- Tax on casual income ₹2,00,000 @ 30% u/s 115BB 60,000.00
- Tax on LTCG ₹ 3,00,000 @ 20% 60,000.00
- Tax on STCG 111A ₹1,00,000 @ 15% 15,000.00
- Tax on normal income ₹6,63,500 at slab rate 45,200.00
- Tax before health & education cess 1,80,200.00
- Add: HEC @ 4% 7,208.00
- Tax Liability 1,87,408.00
- Rounded off u/s 288B 1,87,410.00

Solution 8:

Income under the head Capital Gains (STCG) 6,00,000
Gross Total Income 6,00,000
Less: Deduction u/s 80DD (75,000)
Less: Deduction u/s 80G (10,000)

Working Note:
AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G) = 6,00,000 – 75,000 = 5,25,000
Qualifying amount = 10% of AGTI or donation, whichever is less
= 52,500 or 20,000
= 20,000
Deduction = 50% of ₹20,000
= ₹10,000

Total Income 5,15,000
Computation of Tax Liability
- Tax on ₹5,15,000 at slab rate 15,500
- Add: HEC @ 4% 620
- Tax Liability 16,120

Solution 9:

Income under the head Other Sources
Dividend from Indian company {exempt u/s 10(34)} Nil
Income under the head Other Sources Nil
Income under the head Business/Profession 1,22,000.00
Income under the head Capital Gains {LTCG} 2,00,000.00
Gross Total Income 3,22,000.00
Less: Deduction u/s 80G (11,100.00)

Working Note:
MCD for family planning 10,000
Charitable institution 3,000

Adjusted GTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G) = ₹3,22,000 – ₹2,00,000 = ₹1,22,000
Qualifying amount = 12,200 or 13,000 whichever is less
= ₹12,200
Deduction = 50% of ₹2,200 + ₹10,000 = ₹11,100
Total Income 3,10,900.00

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Long term capital gain ₹60,900 (2,00,000 – 1,39,100) @ 20% u/s 112</td>
<td>12,180.00</td>
</tr>
<tr>
<td>Tax on ₹1,10,900 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,180.00)</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Solution 10:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Capital Gains {STCG}</td>
<td>₹5,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹5,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80G</td>
<td></td>
</tr>
<tr>
<td>(i) Prime Minister’s National Relief Fund</td>
<td>₹(7,000)</td>
</tr>
<tr>
<td>(ii) Other donations</td>
<td>₹(10,000)</td>
</tr>
</tbody>
</table>

**Working Note:**

\[
AGTI = GTI - LTCG - STCG u/s 111A - Deduction u/s 80C to 80U (except 80G) \\
= 5,00,000
\]

Qualifying amount = 10% of AGTI or donation whichever is less

\[
= 50,000 \text{ or } 20,000 \text{ whichever is less} \\
= 20,000
\]

50% of the qualifying amount (i.e. 10,000)

Total Income 4,83,000

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹4,83,000 at slab rate</td>
<td>₹11,650.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(₹11,650.00)</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Solution 11:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Business/Profession</td>
<td>₹1,00,000.00</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>₹1,10,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td></td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>₹2,50,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>₹2,50,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹4,60,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80G</td>
<td></td>
</tr>
<tr>
<td>(i) National Defence Fund</td>
<td>(₹10,000.00)</td>
</tr>
<tr>
<td>(ii) Charitable institutions</td>
<td>(₹2,500.00)</td>
</tr>
</tbody>
</table>

**Working Note:**

\[
AGTI = GTI - LTCG - STCG u/s 111A - Deduction u/s 80C to 80U (except 80G) \\
= 4,60,000 - 2,50,000 = 2,10,000
\]

Qualifying amount = 10% of AGTI or donation whichever is less

\[
= 21,000 \text{ or } 5,000 \\
= 5,000
\]

50% of the qualifying amount = 2,500

Total Income 4,47,500.00

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on long term capital gains ₹1,97,500 (₹2,50,000 – ₹52,500) @ 20% u/s 112</td>
<td>₹39,500.00</td>
</tr>
<tr>
<td>Tax on normal income ₹1,97,500 at slab rate</td>
<td>Nil</td>
</tr>
</tbody>
</table>
Less: Rebate u/s 87A  (12,500.00)
Tax before health & education cess  27,000.00
Add: HEC @ 4%  1,080.00
Tax Liability  28,080.00

**Solution 12:**

**Computation of income under the head Capital Gains**

- Short term capital gains  2,55,000.00
- Long term capital gains  1,00,000.00
- Income under the head Capital Gains  3,55,000.00

**Computation of income under the head Other Sources**

- Casual income  10,000.00
- Income under the head Other Sources  10,000.00
- Gross Total Income  3,65,000.00
- Less: Deduction u/s 80G  (14,750.00)

**Working Note:**

- Charitable institutions  45,000
- Family planning  3,000
- Total  48,000

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)

\[
AGTI = 3,65,000 - 1,00,000 = 2,65,000
\]

Qualifying amount = 10% of AGTI or donation whichever is less

\[
\text{Qualifying amount} = 26,500 \text{ or } 48,000
\]

Deduction = 50% of 23,500 + 3,000

\[
\text{Deduction} = 11,750 + 3,000 = 14,750
\]

Total Income  3,50,250.00

**Computation of Tax Liability**

- Tax on LTCG  ① 90,250 (₹1,00,000 – 9,750) @ 20% u/s 112  18,050.00
- Tax on casual income  ① 10,000 @ 30% u/s 115BB  3,000.00
- Tax on normal income  ① 2,40,250 at slab rate  Nil
- Less: Rebate u/s 87A  (12,500.00)
- Tax before health & education cess  8,550.00
- Add: HEC @ 4%  342.00
- Tax Liability  8,892.00
- Rounded off u/s 288B  8,890.00

**Solution 13.**

Income under the head Business/Profession  5,00,000
Gross Total Income  5,00,000
Less: Deduction u/s 80C  (75,000)
Less: Deduction u/s 80GG  (60,000)

**Working Note:**

Least of the following:

(i) ₹1,20,000 – 10% of ₹4,25,000 = ₹77,500
(ii) ₹60,000
(iii) 25% of ₹4,25,000 = ₹1,06,250

\[
\text{AGTI} = \text{₹5,00,000} - \text{₹75,000} = \text{₹4,25,000}
\]

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)
Add: HEC @ 4%  
Tax Liability  

**Solution 14:**  
\[
\begin{align*}
\text{Income under the head House Property} & \quad 4,00,000 \\
\text{Gross Total Income} & \quad 4,00,000 \\
\text{Less: Deductions u/s 80GGA} & \quad (12,000) \\
\text{Total Income} & \quad 3,88,000 \\
\text{Computation of Tax Liability} & \\
\text{Tax on ₹3,88,000 at slab rate} & \quad 6,900 \\
\text{Less: Rebate u/s 87A} & \quad (6,900) \\
\text{Add: HEC @ 4%} & \quad \text{Nil} \\
\text{Tax Liability} & \quad \text{Nil}
\end{align*}
\]

**Solution 15:**  
**Computation of income under the head House Property**  

**HOUSE I**  
Gross Annual Value  

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>75,000</td>
</tr>
<tr>
<td>(b) Municipal valuation</td>
<td>76,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>76,000</td>
</tr>
<tr>
<td>(d) Expected Rent</td>
<td>76,000</td>
</tr>
<tr>
<td>(e) Rent Received or Receivable</td>
<td>78,000</td>
</tr>
<tr>
<td>GAV = Higher of (d) or (e)</td>
<td>78,000</td>
</tr>
</tbody>
</table>

Less: Municipal taxes  
Net Annual Value  
Less: 30% of NAV u/s 24(a)  
Less: Interest on capital borrowed u/s 24(b)  
Income under the head House Property  

**HOUSE II**  
Gross Annual Value  

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fair Rent</td>
<td>82,000</td>
</tr>
<tr>
<td>(b) Municipal valuation</td>
<td>75,000</td>
</tr>
<tr>
<td>(c) Higher of (a) or (b)</td>
<td>82,000</td>
</tr>
<tr>
<td>(d) Expected Rent</td>
<td>82,000</td>
</tr>
<tr>
<td>(e) Rent Received or Receivable</td>
<td>85,000</td>
</tr>
<tr>
<td>GAV = Higher of (d) or (e)</td>
<td>85,000</td>
</tr>
</tbody>
</table>

Less: Municipal Taxes  
Net Annual Value  
Less: 30% of NAV u/s 24(a)  
Less: Interest on capital borrowed u/s 24(b)  
Income under the head House Property

**HOUSE AT CHENNAI**  
Gross Annual Value (3,000 x 12)  
Less: Municipal taxes  
Net Annual Value  
Less: 30% of NAV u/s 24(a)  
Less: Interest on capital borrowed u/s 24(b)
Working Note:
Current period interest

**From 01.04.2019 to 30.09.2019**
= 2,00,000 x 10% x 6/12 = ₹ 10,000

**From 01.10.2019 to 31.03.2020**
= 2,00,000 x 9.5% x 6/12 = ₹ 9,500

Total interest = 10,000 + 9,500 = 19,500

Income under the head House Property 5,700
Brought forward house property loss of assessment year 2015-16 10,100
Income under the head house property after adjusting losses 95,700

**Income under the head Other Sources**
Vacant site lease rent 4,12,000
Remunerations from Calcutta University 3,000
Remuneration from Delhi University 1,500
Income under the head Other Sources 4,16,500
Income under the head Business/Profession 9,800
Gross Total Income 5,22,000
Less: Deduction u/s 80C 1,50,000
Investment in bonds of NABARD 1,000
Investment in master equity plan of UTI 1,000
Repayment of housing loan 2,00,000
(Whether deduction u/s 80C on repayment of the loan by taking a fresh loan is allowed or not is not clear in the act)
(But maximum upto ₹1,50,000)
Less: Deductions u/s 80D to 80U (1,005)
Total Income (rounded off u/s 288A) 3,71,000

**Computation of Tax Liability**
Tax on ₹3,71,000 at slab rate 6,050.00
Less: Rebate u/s 87A (6,050.00)
Add: HEC @ 4% Nil
Tax Liability Nil

**Explanations**
1. Payments received from LIC on maturity of LIC policy is exempt under section 10(10D)
2. Investment under section 80C is allowed even from past savings and out of incomes exempt from tax.
3. Any award/reward of Central Government or State Government notified under section 10(17A) shall be exempt from income tax.

**Solution 16:**

**Computation of Total Income**
Income under the head Business/Profession 6,00,000.00
Income under the head Other Sources (Patent right) 3,20,000.00
Gross Total Income 9,20,000.00
Less: Deduction u/s 80D (18,000.00)
Less: Deduction u/s 80DD (75,000.00)
Less: Deduction u/s 80RRB (3,00,000.00)
Less: Deduction u/s 80GG (60,000.00)

**Working Note:**
Least of the following:
1. ₹60,000
2. 25% x 5,27,000 = ₹1,31,750
3. ₹3,60,000 – ₹52,700 = ₹3,07,300
(AGTI = ₹9,20,000 – 18,000 – 75,000 – 3,00,000 = ₹5,27,000)
Total Income 4,67,000.00

**Computation of Tax Liability**
Tax on ₹4,67,000 at slab rate 10,850.00
Less: Rebate u/s 87A (10,850.00)
Add: HEC @ 4% Nil
Tax Liability Nil

**Solution 17:**

**Income under the head Other Sources**
Royalty received in connection with a patent right 8,00,000.00
Gross Total Income 8,00,000.00
Less: Deduction u/s 80C (10,000.00)
LIC premium (allowed 10% of sum assured) (50,000.00)
Repayment of housing loan to Indian Bank (20,000.00)
Less: Deduction u/s 80CCC Nil
LIC Pension Fund (20,000.00)
Less: Deduction u/s 80D Nil
Premium of medi-claim policy by cheque in the name of his major married independent son. Nil
Less: Deduction u/s 80G Donation to Delhi University (10,000.00)
Family planning (10,000.00)

**Working Note:**
Donation to Government for promoting family planning 10,000
AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (Except section 80G)
= 8,00,000 – 10,000 – 50,000 – 20,000 – 30,000 – 3,00,000
= 3,90,000
Qualifying amount = 10% of AGTI or donation whichever is less
= 39,000 or 10,000
100% of qualifying amount = ₹10,000
Less: Deduction u/s 80GGC Donation to a political party (30,000.00)
Less: Deduction u/s 80RRB (3,00,000.00)
Total Income 3,70,000.00

**Computation of Tax Liability**
Tax on ₹3,70,000 at slab rate 6,000.00
Less: Rebate u/s 87A (6,000.00)
Add: HEC @ 4% Nil
Tax Liability Nil
Question 1 [V. Imp.]: Explain exemption in case of Units established in Special Economic Zone. Section 10AA

Answer:

**Units established in Special Economic Zone**

1. Exemption shall be allowed to all the assesses, may be individual, firm, company etc. provided the assessee has its unit in Special Economic Zone.

2. **Quantum of exemption:**

Exemption shall be allowed to the units in the Special Economic Zone for a continuous period of 15 years in the manner given below:

- For first 5 Assessment Years: 100% of export profits
- For next 5 Assessment Years: 50% of export profits
- For next 5 Assessment Years: 50% of export profit provided such profits have been credited to the Special Economic Zone Re-investment Reserve Account.

Export profits means \( \text{Profits of Business} \times \text{Export Turnover} \div \text{Total Turnover} \)

*E.g.* ABC Ltd. has one unit in SEZ and total turnover is ₹1000 lakhs and profits ₹400 lakhs and export turnover ₹800 lakhs, in this case export profits shall be \( 400 \div 1000 \times 800 = 320 \) lakhs

The amount credited to the Special Economic Zone Reinvestment Reserve Account should be utilised for acquiring a new plant and machinery within a period of 3 years. The period of 3 years shall be determined from the end of the previous year in which the reserve was created. E.g. If amount has been transferred in reserve account in the previous year 2019-20, amount should be utilised for purchasing plant and machinery upto 31.03.2023.

The particulars of the new plant and machinery is to be given to the Assessing Officer alongwith return of income in the prescribed form.

3. If the amount credited to the Special Economic Zone Reinvestment Reserve Account is not utilised within 3 years, it will be taxable in the 4th year.

4. If the amount is misutilised within the period of 3 years, it will be taxable in the year in which it was misutilised.

4. The assessee should furnish in the prescribed form a report of Chartered Accountant certifying that the deduction has been correctly claimed.

---

**MAY – 2019 (OLD COURSE) Marks 3**

Krishna furnishes the following particulars for the previous year 2018-19 and 2019-20 in respect of an industrial undertaking established in “Special Economic Zone” during the financial year 2014-15.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2018-19 (₹)</th>
<th>2019-20 (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales</td>
<td>60,00,000</td>
<td>85,00,000</td>
</tr>
<tr>
<td>Export sales</td>
<td>48,00,000</td>
<td>55,00,000</td>
</tr>
<tr>
<td>Domestic sales</td>
<td>12,00,000</td>
<td>30,00,000</td>
</tr>
<tr>
<td>Money received in or brought to India in convertible foreign exchange up to 30-09-2019/30-09-2020.</td>
<td>43,20,000</td>
<td>40,00,000</td>
</tr>
<tr>
<td>Profit from the above undertaking</td>
<td>6,00,000</td>
<td>10,00,000</td>
</tr>
</tbody>
</table>

Total Sales of F.Y. of 2019-20 includes freight of ₹ 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Krishna under section 10AA.
Solution:
Computation of the amount of deduction available to Mr. Krishna u/s 10AA
Exemption shall be allowed to the units in the Special Economic Zone for a continuous period of 15 years in the manner given below:

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage of Export Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 5 Years</td>
<td>100%</td>
</tr>
<tr>
<td>Next 5 Years</td>
<td>50%</td>
</tr>
<tr>
<td>Next 5 Years</td>
<td>50% of export profit provided such profits have been credited to the Special Economic Zone Re-investment Reserve Account</td>
</tr>
</tbody>
</table>

Export profit means = Profit of business / Total Turnover x Export turnover

In the given case, deduction is calculating for P.Y. 19-20 and the business was established in P.Y. 2014-15 which is 6th year hence assessee is eligible for 50% of export profits.

Export turnover = 55,00,000-5,00,000 = 50,00,000
Total Turnover = 85,00,000-5,00,000 = 80,00,000
Export profit = 10,00,000 / 80,00,000 x 50,00,000 = 6,25,000
Deduction allowed = 6,25,000 x 50% = 3,12,500

Note: Freight shall not be included in export turnover.

---

Mrs. Vibha Gupta, a resident individual is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2020, pertaining to these two units (₹ in lakhs)

<table>
<thead>
<tr>
<th></th>
<th>DTA Unit</th>
<th>SEZ Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export turnover</td>
<td>100</td>
<td>1000</td>
</tr>
<tr>
<td>Total turnover</td>
<td>400</td>
<td>1100</td>
</tr>
<tr>
<td>Net profit</td>
<td>50</td>
<td>220</td>
</tr>
</tbody>
</table>

Compute the deduction available u/s 10AA:
(i) When the SEZ unit had been set up on 12-3-2012, and
(ii) When the SEZ unit had been set up on 12-8-2017

Solution:
(i) 50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2019-20 falls in the next five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

\[
\text{Profit of the business of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}}
\]

\[
= 50% \times \frac{220 \text{ lakhs}}{1100 \text{ lakhs}}
\]

(ii) 100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2019-20 falls in the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

\[
\text{Profit of the business of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}}
\]
Deduction From Gross Total Income

\[
= 100\% \text{ of } ₹ 220 \text{ lakhs} \times \frac{1000 \text{ Lakhs}}{1100 \text{ Lakhs}} \\
= 100\% \times ₹200 \text{ lakhs} \\
= ₹200 \text{ lakhs}
\]

MAY – 2016 (4 Marks)

Mr. Suresh has set up an undertaking in SEZ (Unit A) and another undertaking in DTA (Unit B) in the financial year 2014-15. In the Previous year 2019-20, total turnover of the unit A is ₹180 lacs and total turnover of Unit B is ₹120 lacs. Export Turnover of Unit A for the year is ₹150 lacs and Profit for the unit A is ₹60 lacs.

Calculate the deduction available, if any, to Mr. Suresh under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2020-21, If the manufacturing started in Unit A in the Financial year 2014-15.

**Solution:**

As per Section 10AA, in case of a unit in SEZ, Deduction shall be allowed to the extent of 100% of Export Profits in the first five years and 50% of export profits in the next five years. In the given case Unit was setup in Financial year 2014-15 hence it is sixth year in Previous year 2019-20 and Deduction shall be allowed to the extent of 50% of export profit and shall be as given below:

\[
= \text{Profit of the business of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}} \\
= ₹60 \text{ lacs} \times \frac{150 \text{ Lacs}}{180 \text{ Lacs}} \\
= ₹50\text{lacs}
\]

Deduction allowed = 50% of ₹50 lacs 
= ₹25 lacs

Taxable amount of Unit A (₹60 lacs – ₹25 lacs) = ₹35 lacs

MAY – 2015 (4 Marks)

Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA), the company provides the following details for the previous year 2019-20.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rudra Ltd. (₹)</th>
<th>Unit in DTA (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>6,00,00,000</td>
<td>2,00,00,000</td>
</tr>
<tr>
<td>Export Sales</td>
<td>4,60,00,000</td>
<td>1,60,00,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>80,00,000</td>
<td>20,00,000</td>
</tr>
</tbody>
</table>

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2020-21, in the following situations:

(i) If both the units were set up and start manufacturing from 22.05.2013.
(ii) If both the units were set up and start manufacturing from 14.05.2017.

**Solution:**

(i) 50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2019-20 falls in the next five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

\[
= \text{Profit of the business of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}} \\
= 50\% \text{ of } ₹60 \text{ lakhs} \times \frac{300 \text{ Lakhs}}{400 \text{ Lakhs}} \\
= 50\% \times ₹45 \text{ lakhs} \\
= ₹22.5 \text{ lakhs}
\]
(ii) 100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2019-20 falls in the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

\[
\text{Profit of the business of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}}
\]

\[
= 100\% \times \frac{60 \text{ lakhs}}{400 \text{ Lakhs}}
\]

\[
= \frac{45 \text{ lakhs}}{}
\]

NOV – 2013 (4 Marks)

Mr. X is running two industrial undertakings, one in a SEZ (Unit A) and another in a Domestic Tariff Area (Unit B). The brief details for the year ended 31.03.2020 are as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹ in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unit A</td>
</tr>
<tr>
<td>Domestic turnover</td>
<td>10</td>
</tr>
<tr>
<td>Export turnover</td>
<td>120</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>20</td>
</tr>
<tr>
<td>Less: Expenses and depreciation</td>
<td>(07)</td>
</tr>
<tr>
<td>Profits derived from the units</td>
<td>13</td>
</tr>
</tbody>
</table>

The brought forward business loss pertaining to assessment year 2017-18 for Unit B is ₹3.2 lacs. Briefly compute the business income of the assessee.

Answer.  

Computation of business income of Mr. X

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ (in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total profit derived from Units A &amp; B (₹ 13 lacs + ₹ 5 lacs)</td>
<td>18.0</td>
</tr>
<tr>
<td>Less: Exemption under section 10AA (( \frac{13 \times 120}{130} ))</td>
<td>(12.0)</td>
</tr>
<tr>
<td>Less: Set-off of brought forward business loss as per section 72</td>
<td>6.0</td>
</tr>
<tr>
<td></td>
<td>(3.2)</td>
</tr>
</tbody>
</table>

Note - 100% of the profit derived from export of articles or things or services is eligible for exemption under section 10AA, assuming that F.Y.2019-20 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by Unit A in SEZ.

MAY – 2011 (5 Marks)

ABC Ltd. is running two industrial undertakings, one in a SEZ (Unit S) and another in a normal area (Unit N). The brief summarized details for the year ended 31.03.2020 are as under:

<table>
<thead>
<tr>
<th>₹ (in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>S</td>
</tr>
<tr>
<td>Domestic turnover</td>
</tr>
<tr>
<td>Export turnover</td>
</tr>
<tr>
<td>Gross profit</td>
</tr>
<tr>
<td>Less: Expenses and depreciation</td>
</tr>
<tr>
<td>Profits derived from the unit</td>
</tr>
</tbody>
</table>

The brought forward business loss pertaining to Unit N is ₹2 lacs. Briefly compute the business income of the assessee.

Answer.  

Computation of business income of ABC Ltd.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ in lacs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total profit derived from Units S &amp; N (₹13 lacs + ₹4 lacs)</td>
<td>17</td>
</tr>
</tbody>
</table>
Less: Exemption under section 10AA (\(\frac{13 \times 120}{130}\)) \(\frac{(12)}{5}\)

Less: Brought forward business loss \(\frac{(2)}{3}\)

**Note** – 100% of the profit derived from export of articles or things or from services is eligible for exemption under section 10AA, assuming that F.Y. 2019-20 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ.

---

**MAY – 2011 (4 Marks)**

Y Co. Ltd. Furnishes you the following information for the year ended 31.03.2020:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total turnover of Unit A located in Special Economic Zone</td>
<td>100 lakhs</td>
</tr>
<tr>
<td>Profit of the business of Unit A</td>
<td>30 lakhs</td>
</tr>
<tr>
<td>Export turnover of Unit A</td>
<td>50 lakhs</td>
</tr>
<tr>
<td>Total turnover of Unit B located in Domestic Tariff Area (DTA)</td>
<td>200 lakhs</td>
</tr>
<tr>
<td>Profit of the business of Unit B</td>
<td>20 lakhs</td>
</tr>
</tbody>
</table>

Compute deduction under section 10AA for the assessment year 2020-21.

**Answer.**

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y. 2019-20 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

\[
\text{Profit from Export} = \frac{\text{Profit of the business of Unit A} \times \text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}}
\]

\[
= \₹ \frac{30 \text{ lakhs} \times 50}{100}
\]

\[
= \₹ 15 \text{ lakhs.}
\]
**AGRICULTURAL INCOME**

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>SECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition of agricultural income</td>
<td>2(1A)</td>
</tr>
<tr>
<td>• Rent or revenue derived from agricultural land</td>
<td>2(1A)(a)</td>
</tr>
<tr>
<td>• Income derived from agricultural land by agricultural operations</td>
<td>2(1A)(b)</td>
</tr>
<tr>
<td>• Income of a farm building</td>
<td>2(1A)(c)</td>
</tr>
<tr>
<td>Exemption of agricultural income</td>
<td>10(1)</td>
</tr>
<tr>
<td>Income which is partially agricultural and partially from business</td>
<td>Rule 7</td>
</tr>
<tr>
<td>Income from growing and manufacturing of rubber</td>
<td>Rule 7A</td>
</tr>
<tr>
<td>Income from growing and manufacturing of coffee</td>
<td>Rule 7B</td>
</tr>
<tr>
<td>Income from growing and manufacturing of tea</td>
<td>Rule 8</td>
</tr>
</tbody>
</table>

**Question 1.** [V. Imp.] Explain meaning of agricultural income.

**Answer:** Meaning of Agricultural Income Section 2(1A)

The term Agricultural Income is defined in three parts under Income Tax Act under section 2(1A) (a), 2(1A) (b), 2(1A) (c) as given below:

**Income from leasing out of agricultural land** Section 2(1A) (a)

If any person has given any agricultural land on rent, rent so received shall be considered to be agricultural income and shall be exempt from income tax e.g. Mr. X has ten acres of agricultural land in India which is given on lease at a rent of ₹2,00,000. It will be considered to be agricultural income.

If rent is received in kind, still it will be considered to be agricultural income e.g. Mr. X has leased out ten acres of agricultural land and has received wheat crop worth ₹2,00,000. In this case, ₹2,00,000 shall be considered to be his agricultural income.

If rent to be received has not been received in time and accordingly interest has been received, such interest shall not be considered to be agricultural income, rather it is his income under the head other sources.

If the agricultural land is situated outside India, income from agricultural land is taxable as income from other sources.

(One acre is equal to an area of 4,840 square yards (0.405 hectare))

**Income from Agricultural Operations** Section 2(1A)(b)

If any person is engaged in agricultural activities, income derived from such agricultural operations shall be considered to be agricultural income.

**Dividends received by a shareholder from the company having agricultural income**

If any shareholder has received dividend from a company having income from agricultural activities, such income shall not be considered to be agricultural income rather it will be considered to be dividend income. However, if the company paying dividend is a domestic company, dividend upto ₹10,00,000 shall be exempt under section 10(34) and the company has to pay additional income tax under section 115-O @ 15% plus surcharge @ 12% plus HEC @ 4%. E.g. ABC Ltd. an Indian company has agricultural income of ₹500 lakhs and company has distributed dividend of ₹50 lakh and one of the shareholder Mr. X has received dividend of ₹8 lakh, in this case tax treatment shall be:

Tax liability of ABC Ltd. Shall be nil as per section 10(1), however company has to pay additional income tax as given below:

\[
50,00,000 / 82.528 \times 17.472 = 10,58,549.83 \text{ Rounded off u/s 288B 10,58,550}
\]

Dividend received by Mr. X shall be exempt from income tax under section 10(34)

If any foreign company is doing agriculture, its agricultural income in India shall also be exempt and if the company has paid dividend, it will be taxable in the hands of the shareholder and the company shall be exempt from additional income tax e.g. If in the above case it is a foreign company, its tax liability shall be nil also additional income tax shall be nil and tax liability of shareholder shall be as given below:

Tax on ₹8,00,000 at slab rate 72,500

Add: HEC @ 4% 2900
Illustration 1: ABC Ltd. an Indian company has agricultural income ₹350 lakhs and company has distributed dividend of ₹60 lakhs to its shareholders and one of the shareholder Mr. X has received dividend of ₹7,00,000. Compute tax liability and additional income tax liability of the company and tax liability of shareholder.

Solution:
Tax liability of ABC Ltd. Shall be nil as per section 10(1), however company has to pay additional income tax as given below:
60,00,000 / 82.528 x 17.472 = 12,70,259.79 Rounded off u/s 288B 12,70,260
Dividend received by Mr. X shall be exempt from income tax under section 10(34)
(b) Presume it is foreign company.

Solution:
It is a foreign company, its tax liability shall be nil also additional income tax shall be nil and tax liability of shareholder shall be as given below:
Tax on ₹7,00,000 at slab rate 52,500
Add: HEC @ 4% 2,100
Tax Liability 54,600

(c) Presume it is Indian company and income is from business and not from agriculture and turnover during F.Y. 2017-18 was 500 Crores.

Solution:
Tax liability and additional tax liability of the company shall be as given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>₹350,00,000.00</td>
</tr>
<tr>
<td>Income tax on ₹350,00,000 @ 30%</td>
<td>₹105,00,000.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 7%</td>
<td>₹7,35,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹4,49,400.00</td>
</tr>
<tr>
<td>Income tax liability</td>
<td>₹116,84,400.00</td>
</tr>
<tr>
<td>Dividend</td>
<td>₹60,00,000.00</td>
</tr>
<tr>
<td>Additional Income Tax</td>
<td>₹12,70,259.79</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹12,70,260.00</td>
</tr>
<tr>
<td>Tax liability of the shareholder</td>
<td>₹54,600</td>
</tr>
</tbody>
</table>

(d) Presume it is foreign company and income is from business and not from agriculture

Solution:
Tax liability and additional tax liability of the company shall be as given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>₹350,00,000.00</td>
</tr>
<tr>
<td>Income tax on ₹350,00,000 @ 40%</td>
<td>₹140,00,000.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 2%</td>
<td>₹2,80,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹5,71,200.00</td>
</tr>
<tr>
<td>Income tax liability</td>
<td>₹148,51,200.00</td>
</tr>
<tr>
<td>Additional income tax of the foreign company shall be nil</td>
<td></td>
</tr>
<tr>
<td>Tax liability of the shareholder</td>
<td>₹54,600</td>
</tr>
</tbody>
</table>

Payments received by a partner from the partnership firm
If any partnership firm has agricultural income, it will be exempt from income tax and if partnership firm has paid any salary or interest to the partners, it will be considered to be agricultural income to the partners as decided in R.M. Chidambaram Pillai v CIT (SC)
If any partner has received any share out of profits of partnership firm, it will be exempt under section 10(2A) and it do not matter whether partnership firm has agricultural income or non-agricultural income.
If partnership firm has non-agricultural income, salary or interest received by a partner from the partnership firm shall be considered to be their income under the head business/profession as per section 28 and shall be
taxable in the hands of partner e.g. XY partnership firm has two partners Mr. X and Mr. Y and profit sharing ratio is 1:1 and the firm has agricultural income ₹300 lakhs without debiting salary or interest to the partners. The firm has paid salary of ₹8 lakh to each of the partner and interest of ₹4 lakh to each of the partner. Mr. X has income under the head house property ₹6 lakh and Mr. Y has income under the head house property ₹7 lakh. Compute tax liability of the firm and also that of partners.

Solution:
Since partnership firm has agricultural income, it is exempt from income tax under section 10(1).

Tax liability of Mr. X shall be

Income under the head House Property 6,00,000
Agricultural income (8,00,000 + 4,00,000) 12,00,000
Partial integration
6,00,000 + 12,00,000 = 18,00,000 at slab rate 3,52,500
2,50,000 + 12,00,000 = 14,50,000 at slab rate 2,47,500
(3,52,500 – 2,47,500) 1,05,000
Tax before health & education cess 1,05,000
Add: HEC @ 4% 4,200
Tax Liability 1,09,200

Tax liability of Mr. X shall be

Income under the head House Property 7,00,000
Agricultural income (8,00,000 + 4,00,000) 12,00,000
Partial integration
7,00,000 + 12,00,000 = 19,00,000 at slab rate 3,82,500
2,50,000 + 12,00,000 = 14,50,000 at slab rate 2,47,500
(3,82,500 – 2,47,500) 1,35,000
Add: HEC @ 4% 5,400
Tax Liability 1,40,400

Share received out of profits is exempt under section 10(2A).

Presume in the above case partnership firm has income from business and not agricultural income.

Solution:
Tax Liability of partnership firm shall be as given below:

Profits before debiting salary and interest 300,00,000
Less: Salary and Interest 24,00,000
Income under the head Business/Profession 276,00,000
Gross Total Income/Total Income 276,00,000
Tax Liability 276,00,000 x 30% 82,80,000
Add: Surcharge @ 12% 9,93,600
Tax before health & education cess 92,73,600
Add: HEC @ 4% 3,70,944
Tax Liability 96,44,544
Rounded off u/s 288B 96,44,540

Tax Liability of Mr. X

Income under the head Business/Profession (salary + interest) 12,00,000
Income under the head House Property 6,00,000
Gross Total Income/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

Tax Liability of Mr. Y

Income under the head Business/Profession (salary + interest) 12,00,000
Income under the head House Property 7,00,000
Gross Total Income/Total Income 19,00,000
Tax on ₹19,00,000 at slab rate 3,82,500
Add: HEC @ 4% 15,300
Agricultural Income

320

Tax Liability 3,97,800

**Meaning of Agriculture:** The term agriculture and agricultural purposes has not been defined under Income Tax Act, accordingly its meaning has been explained in [Raja Benoy Kumar Sahas Roy v CIT (SC)](https://www.indiankanojia.com). If any person has performed the following two operations, it will be called agriculture.

1. **Basic Operations:**
   In order to constitute agriculture, there must be basic operations like ploughing of land, sowing of seeds, planting and similar kind of operations on the land.

2. **Subsequent Operations:**
   After carrying out basic operations, there must be subsequent operations like weeding, digging the soil around the growth, watering of the plant at regular intervals, using pesticides and insecticides to protect the crop and it will also include pruning, cutting, harvesting etc.
   (Pruning means to trim (a tree, shrub, or bush) by cutting away dead or overgrown branches or stems, especially to encourage growth.)

If there are basic and subsequent operations, it will be considered to be agricultural income even if what is produced is not food grains, example:

(i) If a person is growing betel, coffee, tea, spices etc through basic and subsequent operations, it will be agricultural income.

(ii) If a person is growing commercial crops like cotton, flax, jute, indigo etc. through basic and subsequent operations, it will be considered to be agricultural income.

(iii) If a person is growing trees like Sal, Seesam, Sangwan etc for obtaining timber, it will be considered to be agricultural income, provided there are basic and subsequent operations.

**Income which is partially agricultural and partially from business**

If any person is engaged in growing as well as manufacturing activity, in such cases it will be presumed that he has transferred his agricultural produce to his industrial undertaking at the market price and expenses on agriculture shall be deducted from such amount and balance shall be agricultural income. While computing income of business, such market price is allowed to be deducted as cost of raw material. E.g. Mr. X is engaged in growing of sugarcane and also has a sugar factory. He has incurred expenses of ₹3,00,000 in connection with growing of sugarcane crop. Entire sugarcane crop was transferred to the industrial unit when market price of sugarcane was ₹10,00,000. In this case, agricultural income of Mr. X shall be ₹7,00,000. While computing income of sugar factory, ₹10,00,000 shall be debited to profit and loss account as the cost of raw material.

**Example**

Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 50% of sugarcane produce is sold for ₹10 lacs, and the cost of cultivation of such sugarcane is ₹3 lacs.

The cost of cultivation of the balance sugarcane (50%) is 3 lacs and the market value of the same is ₹10 lacs. After incurring ₹1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹25 lacs.

Compute Mr. X’s business income and agricultural income. Compute his Tax Liability.

**Solution:**

Agricultural income = Actual sale of sugarcane + Market value of sugarcane transferred to the manufacturing unit – Cost of cultivation

= [₹10 lacs + ₹10 lacs] – [₹3 lacs + ₹3 lacs]
= ₹20 lacs – ₹6 lacs
= ₹14 lacs

Business income = Sales – Market value of 50% of sugarcane produce – Manufacturing expenses

= ₹25 lacs – 10 lacs – 1.5 lacs
= 13.5 lacs

**Computation of tax liability**

**Step 1:** Tax on (₹14,00,000 + ₹13,50,000 = ₹27,50,000) 6,37,500

**Step 2:** Tax on (₹2,50,000 + ₹14,00,000) (3,07,500)

**Step 3:** ₹6,37,500 – ₹3,07,500 3,30,000

Tax before health & education cess 3,30,000

Add : HEC @ 4% 13,200
Agricultural Income

321

Tax Liability 3,43,200

Computation of income in case of growing and manufacturing of Rubber  Rule 7A
If any person is engaged in growing and manufacturing of rubber, income shall be computed combined for agriculture as well as business and 35% of such income shall be business income and balance shall be agricultural income e.g. If income from growing + manufacturing is ₹100 lakhs, income from business shall be ₹35 lakhs and income from agriculture shall be ₹65 lakhs.

Computation of income from the growing and manufacturing of Coffee  Rule 7B
If any person is engaged in growing and manufacturing of coffee, income shall be computed combined for agriculture as well as business and 40% of such income shall be business income and balance shall be agricultural income e.g. If income from growing + manufacturing is ₹100 lakhs, income from business shall be ₹40 lakhs and income from agriculture shall be ₹60 lakhs.
If any person is engaged in growing and curing of coffee, 25% of such income shall be business income and balance shall be agricultural income.

Computation of income in case of persons Growing and Manufacturing Tea  Rule 8
If any person is engaged in growing and manufacturing of tea, income shall be computed combined for agriculture as well as business and 40% of such income shall be business income and balance shall be agricultural income e.g. If income from growing + manufacturing is ₹100 lakhs, income from business shall be ₹40 lakhs and income from agriculture shall be ₹60 lakhs.

Marketing operations /Marketing process
Sometimes a cultivator may not get the ready market to sell the crop in the form in which it was grown, rather some essential processes are required to be carried out to make the crop fit for sale. In such cases, the income shall continue to be agricultural income.

Example
Threshing is done in case of wheat crop to render it fit for sale, similarly, tobacco leaves are dried to make them fit for sale. In all such cases, it will continue to be agricultural income.

- Income derived from animal husbandry, fisheries, poultry farming, dairy farming etc. shall not be considered to be agricultural income.
- Income derived from saplings or seedlings growing in a nursery shall be considered to be agricultural income.
- Income from sale of agricultural land shall not be considered to be agricultural income rather it will be considered to be capital gain.
- Rent received for letting out agricultural land for a movie shooting shall not be considered to be agricultural income.

Illustration 2: Mr. X, a resident, has provided the following particulars of his income for the P.Y.2019-20.

i. Income under the head salary ₹3,40,000
ii. Income under the head house property ₹3,00,000
iii. Agricultural income from a land in Jaipur ₹1,80,000
iv. Expenses incurred for earning agricultural income ₹1,20,000

Compute his tax liability assuming his age is -
(a) 45 years
(b) 70 years

Solution: Computation of total income of Mr. X for the A.Y.2020-21
(a) Computation of tax liability (age 45 years)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head salary</td>
<td>3,40,000</td>
</tr>
<tr>
<td>Income under the head house property</td>
<td>3,00,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>6,40,000</strong></td>
</tr>
<tr>
<td>Less: Deductions under Chapter VI-A</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>6,40,000</strong></td>
</tr>
</tbody>
</table>

Agricultural income (1,80,000 – 1,20,000) = ₹60,000

Computation of tax liability

Step 1: Tax on (₹6,40,000 + ₹60,000 = ₹7,00,000) = ₹52,500
Step 2: Tax on (₹2,50,000 + ₹60,000) = ₹3,10,000 (₹3,000)
Step 3: ₹ 52,500 – ₹ 3,000 
Tax before health & education cess 49,500
Add : HEC @ 4% 1980
Tax Liability 51,480

(b) Computation of tax liability (age 70 years)
Step 1: Tax on (₹ 6,40,000 + ₹ 60,000 = ₹ 7,00,000) 50,000
Step 2: Tax on (₹ 3,00,000 + ₹ 60,000 = ₹ 3,60,000) (3,000)
Step 3: ₹ 50,000 – ₹ 3,000 47,000
Tax before health & education cess 47,000
Add : HEC @ 4% 1880
Tax Liability 48,880

Illustration 3: Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute Mr. X’s business income and agricultural income.

Solution:
Income from sale of sugarcane gives rise to agricultural income and from sale of sugar gives rise to business income.

Business income = Sales – Market value of 70% of sugarcane produce – Manufacturing expenses = ₹25 lacs – ₹22 lacs - ₹1.5 lacs = ₹1.5 lacs.

Illustration 4: Mr. X is engaged in growing and manufacturing of rubber. These are then sold in the market for ₹30 lacs. The cost of growing rubber plants is ₹10 lacs and that of manufacturing rubber is ₹8 lacs. Compute his total income.

Solution:
The total income of Mr. X comprises of agricultural income and business income.

Total profits from the sale of rubber = ₹30 lacs – ₹10 lacs – ₹8 lacs = ₹12 lacs.
Agricultural income = 65% of ₹12 lacs. = ₹7.8 lacs
Business income = 35% of ₹12 lacs. = ₹4.2 lacs

Illustration 5: Mr. X has estates in rubber, tea and coffee. He derives income from them. He has a nursery wherein he grows and sells the plants. For the previous year ending 31.03.2020, he furnishes the following particulars of his income from estates and sale of plants. You are requested to compute the taxable income and tax liability for the assessment year 2020-21:

(a) Income from growing and manufacturing of rubber {Rule 7A}
[Agricultural income 65% and business income 35%] 3,25,000 1,75,000
(b) Income from Coffee grown and cured {Rule 7B}
[Agricultural income 75% and business income 25%] 2,62,500 87,500
(c) Income from growing and manufacturing of Tea {Rule 8}
[Agricultural income 60% and business income 40%] 4,20,000 2,80,000

Solution:
(d) Income from growing and selling of plants 1,00,000  

**Total**  

<table>
<thead>
<tr>
<th>Computation of Income under the head House Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value (7,000 x 12) 84,000.00</td>
</tr>
<tr>
<td>Less: Municipal Taxes 90,000.00</td>
</tr>
<tr>
<td>Net Annual Value 6,000.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a) Nil</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b) Nil</td>
</tr>
<tr>
<td>Loss under the head House Property 6,000.00</td>
</tr>
</tbody>
</table>

**Option I**  
Loss under the head house property set off from long term capital gains 3,13,500.00  
Loss under the head House Property 6,000.00  
Loss under the head House property after adjusting loss from house property 3,07,500.00  
Income under the head Business/Profession 5,42,500.00  
Gross Total Income 8,50,000.00  
Less: Deduction under section 80C to 80U Nil  
**Total Income 8,50,000.00**  

**Computation of Tax Liability**  
Tax on long term capital gain 3,07,500 @ 20% u/s 112 61,500.00  
Normal income 5,42,500  
Tax on (5,42,500 + 11,07,500) 3,07,500.00  
Tax on (2,50,000 + 11,07,500) (2,19,750.00)  
Tax on Normal Income (3,07,500 - 2,19,750) 87,750.00  
Tax before health & education cess 1,49,250.00  
Add: HEC @ 4% 5,970.00  
**Tax Liability 1,55,220.00**  

**Option II**  
Loss under the head house property set off from business income 5,42,500.00  
Income under the head Business/Profession 5,36,500.00  
Income under the head Business/Profession 5,36,500.00  
Income under the head Capital gain (LTCG) 3,13,500.00  
Gross Total Income 8,50,000.00  
Less: Deduction under section 80C to 80U Nil  
**Total Income 8,50,000.00**  

**Computation of Tax Liability**  
Tax on long term capital gain 3,13,500 @ 20% u/s 112 62,700.00  
Normal income 5,36,500  
Tax on (5,36,500 + 11,07,500) 3,05,700.00  
Tax on (2,50,000 + 11,07,500) (2,19,750.00)  
Tax on Normal Income (3,05,700 - 2,19,750) 85,950.00  
Tax before health & education cess 1,48,650.00  
Add: HEC @ 4% 5,946.00  
**Tax Liability 1,54,596.00**  
Rounded off u/s 288B 1,54,600.00  
**Hence Option II is better.**  

**Income from a Farm Building Section 2(1A)(c)**  
If any building is in the agricultural field or is very near to the agricultural field and it is being used for storing agricultural produce or for storing agricultural implements or it is being used as dwelling unit by the farmer himself, such building is called farm building and its income shall be computed as per provisions given under the head house property and income shall be considered to be agricultural income.
Such building must be in the rural area. If it is in the urban area, it should be constructed on the land which has been classified as agricultural land.

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

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

A farm house shall not be considered to be farm building and income of farm house shall be taxable.

### Judicial Decisions

**B. Gupta Private Ltd. v CIT, (HC)**

Compensation received from an insurance company on account of damage caused to the crops is agricultural income.

**Venkataswamy Naidu v CIT, (SC)**

Income from butter and cheese making is not agricultural income.

**Sri Ranga Vilas Ginning & Oil Mills v. CIT, (HC)**

Income from supplying surplus water to other agriculturists is not agricultural income.

**New Ambadi Estates Ltd. v CIT, (SC)**

Harvest crops on purchased land is not agricultural income.

**K. Lakshmansa & Co. v CIT, (SC)**

If the assessee was growing mulberry leaves, feeding them to silkworms and obtaining silk cocoons, income from sale of silk cocoons would not be agricultural income.

### Illustration 6:

Mr. X is employed in MP Agricultural University and getting basic pay ₹20,000 p.m. He claims that it is his agricultural income. Discuss.

**Solution:** Income from an agricultural university cannot be considered to be agricultural income rather it is his income under the head salary.

### Illustration 7:

Mr. X has sold his agricultural land in Delhi and there are long term capital gains of ₹10,00,000. Mr. X claims it to be his agricultural income. Discuss.

**Solution:** Income from sale of agricultural land cannot be considered to be agricultural income and accordingly it is chargeable to tax under the head capital gains.

### Illustration 8:

Mr. X holds shares in ABC Ltd., an Indian Company, which is engaged in agricultural operations. He has received dividends of ₹1,20,000 from ABC Ltd. and claims that it is his agricultural income. Discuss.

**Solution:** Dividend from a company which is engaged in agricultural operations cannot be considered to be agricultural income rather it is dividend income of the recipient. However, dividend income is exempt from tax under section 10(34).
1. Which of the following would be agricultural income -
   (a) Income from breeding of livestock
   (b) Income from poultry farming
   (c) Rent received from land used for movie shooting
   (d) Rent received from land used for grazing of cattle required for agricultural activities

2. The proportion of agricultural and business income in case of income derived from the sale of coffee grown and cured by the assessee in India is -
   (a) 65% and 35%, respectively  
   (b) 75% and 25%, respectively
   (c) 60% and 40%, respectively  
   (d) 70% and 30%, respectively

3. The proportion of agricultural and business income in case of income derived by the assessee from growing of tea leaves in India and manufacturing of tea is -
   (a) 65% and 35%, respectively  
   (b) 75% and 25%, respectively
   (c) 60% and 40%, respectively  
   (d) 70% and 30%, respectively

4. In case of an individual aged 61 years, partial integration of agricultural income is not required if his–
   (a) Net agricultural income does not exceed ₹5,000.
   (b) Non-agricultural income does not exceed ₹2,50,000.
   (c) Non-agricultural income does not exceed ₹3,00,000.
   (d) Either (a) or (c) above.

5. Which of the following is an agricultural land assuming that crops are being cultivated on such land and such land is situated in –
   (a) an area at a distance of 3 kms from the local limits of a municipality which has a population of 80,000 as per last census
   (b) an area within 1.5 kms from the local limits of a municipality and has a population of 12,000 as per last census
   (c) an area within 2 kms from the local limits of a municipality and has a population of 11,00,000 as per last census
   (d) an area within 8 kms from the local limits of a municipality and has a population of 10,50,000 as per last census

6. Mr. Harini earned income of ₹4,00,000 from sale of tea grown and manufactured in Shimla. Income from sapling and seedling grown in nursery at Cochin is ₹80,000. The basic operations were not carried out by her on land. Her agricultural income is
   (a) ₹4,80,000  
   (b) ₹4,00,000  
   (c) ₹2,40,000  
   (d) ₹3,20,000

7. Mr. Prem earned income of ₹22 lakhs from manufacture and sale of coffee grown, cured, roasted and grounded by him in India. The business income chargeable to tax in his hands would be –
   (a) ₹8,80,000  
   (b) ₹5,50,000  
   (c) ₹13,20,000  
   (d) ₹16,50,000

8. Mr. X has agricultural land which he has given on rent, in this case income shall be
   (a) taxable under the head other sources  
   (b) taxable under the head house property
   (c) taxable under the head Business/Profession  
   (d) Agricultural income
   (e) none of these

9. Which of the following statements is correct?
   (a) Dividend received from a domestic company doing agriculture is agricultural income
   (b) Share received by a partner out of profits of partnership firm doing agriculture is taxable under the head Business/Profession
   (c) Salary and interest received by a partner from partnership firm doing agriculture is taxable under the head Business/Profession
   (d) none of these
10. Which of the following statements is correct?
(a) Dividend received from a foreign company doing agriculture is agricultural income
(b) Share received by a partner out of profits of partnership firm doing agriculture is exempt u/s 10(2A)
(c) Salary received by a partner from partnership firm doing agriculture is taxable under the head Salary
(d) none of these

11. Which of the following statements is correct?
(a) Dividend received from a foreign company doing agriculture is exempt u/s 10(34)
(b) Share received by a partner out of profits of partnership firm doing agriculture is taxable under the head other sources
(c) Salary received by a partner from partnership firm doing agriculture is taxable under the head Salary
(d) Interest received by a partner from partnership firm doing agriculture is taxable under the head other sources
(e) none of these

12. Which of the following statements is correct?
(a) in order to constitute agriculture there must be basic operations
(b) in order to constitute agriculture there must be subsequent operations
(c) in order to constitute agriculture there must be both basic and subsequent operations
(d) in order to constitute agriculture there must be ploughing of field
(e) in order to constitute agriculture there must be either basic or subsequent operations
(f) none of these

13. Which of the following statements is not correct?
(a) If any person is engaged in growing and manufacturing of rubber, income from business shall be 35%
(b) If any person is engaged in growing and manufacturing of coffee, income from business shall be 35%
(c) If any person is engaged in growing and manufacturing of tea, income from business shall be 40%
(d) If any person is engaged in growing and curing of coffee, income from business shall be 25%
(e) none of these

14. Which of the following statements is not correct?
(a) Income from animal husbandry or fisheries etc. shall be considered to be agriculture income
(b) Income from sale of sapling or seeding grown in nursery shall be considered to be agriculture income
(c) Income from sale of agricultural land is taxable under the head capital gains
(d) Rent received for letting out agriculture land for a movie shooting shall not be considered to be agriculture income
(e) none of these

15. Which of the following statements is not correct?
(a) If an individual has income from salary ₹ 3,50,000 and agricultural income ₹ 2,00,000, partial integration is applicable
(b) If an individual has income from salary ₹ 5,00,000 and agricultural income ₹ 50,000, partial integration is applicable
(c) If an individual has income from salary ₹2,00,000 and agricultural income ₹10,00,000, partial integration is applicable
(d) If an individual has income from salary ₹ 3,00,000 and agricultural income ₹ 5,00, partial integration is applicable
(e) (b) & (c)
(f) (c) & (d)
(g) none of these

Answer
1.(d); 2.(b); 3.(c); 4.(d); 5.(a); 6.(d); 7.(a); 8(d); 9(d); 10(b); 11(e); 12(c); 13(b); 14(a); 15(f)
PRACTICE PROBLEMS
TOTAL PROBLEMS 6

Problem 1.
Mr. X (non-resident, aged 68 years) has incomes as given below:
(i) Income under the head Salary ₹3,00,000
(ii) Income under the head House Property ₹1,20,000
(iii) Income from long term capital gains ₹50,000
(iv) Casual income ₹30,000
(v) Agricultural income ₹60,000
(vi) Deductions under section 80D to 80U ₹1,40,000
(vii) He has invested ₹40,000 in Kisan Vikas Patra, ₹20,000 in equity shares of infrastructure development companies.
Compute his total income and tax liability for the assessment year 2020-21.
Answer: Total Income: ₹3,40,000; Tax Liability: ₹20,280

Problem 2.
Mrs. X (aged 58 years) has income and losses as given below:
(i) Income from growing and manufacturing of Rubber ₹3,00,000
(ii) Income from growing and curing coffee ₹2,00,000
(iii) Income under the head Salary ₹2,40,000
(iv) Loss under the head House Property ₹1,00,000
(v) Income from short term capital gains ₹40,000
(vi) Income from long term capital gains ₹50,000
(vii) Casual income ₹60,000
Compute her total income and tax liability for the assessment year 2020-21.
Answer: Total Income: ₹4,45,000; Tax Liability: ₹33,800

Problem 3.
Mrs. X (resident but not ordinarily resident) have incomes as given below:
(i) Income from growing and manufacturing of Tea in India ₹10,00,000
(ii) Income from house property situated outside India ₹3,50,000, received outside India.
(iii) Income from agriculture in Nepal ₹1,50,000, received in India
(iv) Income from business in Paris and received in Paris ₹1,00,000
Compute her total income and tax liability for the assessment year 2020-21.
Answer: Total Income: ₹5,50,000; Tax Liability: ₹78,000

Problem 4.
Mr. X (resident but not ordinarily resident) have incomes and losses as given below:
(i) Loss from house I in India ₹80,000
(ii) Income from house II in India ₹1,00,000
(iii) Carried forward loss assessment year 2009-10 from house III in India ₹50,000
(iv) Income under the head Business/Profession in India ₹2,20,000
(v) Royalty received in the UK for use of formula in U.K. ₹30,000
(vi) Long term capital gains in India ₹1,00,000
(vii) Income from agriculture in Indonesia but received in India and subsequently invested it in Indonesia ₹50,000
(viii) Income from agriculture in India ₹2,00,000
Compute his total income and tax liability for the assessment year 2020-21.
Answer: Total Income: ₹3,90,000; Tax Liability: ₹9,880
Problem 5.
A partnership firm XY has agricultural income ₹2,00,000, income under the head business/profession ₹1,00,000 and long term capital gains ₹10,000.
Compute its tax liability for the assessment year 2020-21.
**Answer:** Tax Liability: ₹33,280

Problem 6.
A partnership firm Z & Co. has agricultural income ₹20,00,000 and its partner Mr. Z has received ₹5,00,000 being his share in the profits of partnership. Mr. Z has income under the head house property ₹2,75,000.
Compute tax liability of the partnership firm and also that of Mr. Z.
**Answer:** Tax Liability: Partnership Firm: Nil; Mr. Z: Nil
SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:

Income under the head Salary: ₹3,00,000
Income under the head House Property: ₹1,20,000
Income under the head Capital Gains (LTCG): ₹50,000
Income under the head Other Sources (Casual Income): ₹30,000
Gross Total Income: ₹5,00,000
Less: Deduction u/s 80C: (₹20,000)
Less: Deduction u/s 80D to 80U: (₹1,40,000)
Total Income: ₹3,40,000
Agricultural income: ₹60,000

Computation of Tax Liability

Tax on casual income ₹30,000 @ 30% u/s 115BB: ₹9,000
Tax on Long term capital gain ₹50,000 @ 20% u/s 112: ₹10,000
Normal income: ₹2,60,000
Tax on (₹2,60,000 + ₹60,000) at slab rate: ₹3,500
Tax on (₹2,50,000 + ₹60,000) at slab rate: (₹3,000)
Tax on normal income (₹3,500 – ₹3,000): ₹500
Tax before health & education cess: ₹19,500
Add: HEC @ 4%: ₹780
Tax Liability: ₹20,280

Note: 1. Benefit of the slab rate for senior citizen is not available to non-resident assessee.
2. Rebate u/s 87A is not allowed to non-resident.

Solution 2:

Agricultural Income: ₹1,95,000
Business Income: ₹1,05,000

Income from growing and manufacturing of Rubber {Rule 7A}:
Agricultural income 65% and business income 35%: ₹1,95,000
Income from Coffee grown and cured {Rule 7B}:
Agricultural income 75% and business income 25%: ₹1,50,000
Total: ₹3,45,000

Option I

House property loss can be set off from normal income

Income under the head Salary: ₹2,40,000
Loss under the head House Property: (₹1,00,000)
Income under the head salary after adjusting house property loss: ₹1,40,000
Income under the head Business/Profession: ₹1,55,000
Income under the head Capital Gains:
Short term capital gains: ₹40,000
Long term capital gains: ₹50,000
Income under the head Other Sources (Casual Income): ₹60,000
Gross Total Income: ₹4,45,000
Less: Deductions u/s 80C to 80U: Nil
Total Income: ₹4,45,000
Agricultural Income

**Computation of Tax Liability**

- Tax on casual income ₹60,000 @ 30% u/s 115BB: 18,000
- Tax on Long term capital gain ₹50,000 @ 20% u/s 112: 10,000
- Normal income ₹3,35,000
- Tax on (3,35,000 + 3,45,000) at slab rate: 48,500
- Tax on (2,50,000 + 3,45,000) at slab rate: (31,500)
- Tax on normal income (48,500 – 31,500): 17,000
- Tax before Rebate u/s 87A: 45,000
- Less: Rebate u/s 87A: (12,500)
- Tax before health & education cess: 32,500
- Add: HEC @ 4%: 1,300
- Tax Liability: 33,800

**Option II**

House property loss can be set off from LTCG

- Income under the head Capital Gains (LTCG): 50,000
- Loss under the head House Property: 50,000
- Income under the head Capital Gains (LTCG) after adjusting house property loss: Nil
- Income under the head Capital Gains (STCG): 40,000
- Income under the head Salary: 2,40,000
- Loss under the head House Property: 50,000
- Income under the head salary after adjusting house property loss: 1,90,000
- Income under the head Business/Profession: 1,55,000
- Income under the head Other Sources (Casual income): 40,000
- Gross Total Income: 4,45,000
- Less: Deduction u/s 80C to 80U: Nil
- Total Income: 4,45,000
- Agricultural Income: 3,45,000

**Computation of Tax Liability**

- Tax on casual income ₹60,000 @ 30% u/s 115BB: 18,000
- Normal income ₹3,35,000
- Tax on (3,35,000 + 3,45,000) at slab rate: 48,500
- Tax on (2,50,000 + 3,45,000) at slab rate: (31,500)
- Tax on normal income (48,500 – 31,500): 17,000
- Tax before Rebate u/s 87A: 45,000
- Less: Rebate u/s 87A: (12,500)
- Tax before health & education cess: 32,500
- Add: HEC @ 4%: 1,300
- Tax Liability: 33,800

Tax liability is same in both the options. Therefore, house property loss can be set off either from income of normal business or from income of long term capital gain.

**Solution 3:**

<table>
<thead>
<tr>
<th>Agricultural Income</th>
<th>Business Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from growing and manufacturing of Tea {Rule 8}</td>
<td>₹</td>
</tr>
<tr>
<td>Agricultural income 60% and business income 40%</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Total</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Income under the head business/Profession</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Income from agriculture in Nepal but received in India</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,50,000</td>
</tr>
<tr>
<td>Less: Deductions u/s 80C to 80U</td>
<td>Nil</td>
</tr>
</tbody>
</table>
Total Income 5,50,000
Agricultural income 6,00,000

**Computation of Tax Liability**
Tax on (5,50,000 + 6,00,000) at slab rate 1,57,500
Tax on (2,50,000 + 6,00,000) at slab rate (82,500)
Tax on normal income (1,57,500 – 82,500) 75,000
Add: HEC @ 4% 3,000
Tax Liability 78,000

**Solution 4:**
Income from House II 1,00,000
Loss from House I (80,000)
Income under the head House Property 20,000
Income under the head Business/Profession 2,00,000
Income under the head Capital Gains (LTCG) 1,00,000
Income under the head Other Sources
{Income from agriculture in Indonesia, received in India} 50,000
Gross Total Income 3,90,000
Less: Deduction u/s 80C to 80U Nil
Total Income 3,90,000
Agricultural Income 2,00,000

**Computation of Tax Liability**
Tax on Long term capital gain ₹1,00,000 @ 20% u/s 112 20,000
Normal income ₹2,90,000
Tax on (2,90,000 + 2,00,000) at slab rate 12,000
Tax on (2,50,000 + 2,00,000) at slab rate (10,000)
Tax on normal income (12,000 – 10,000) 2,000
Tax before Rebate u/s 87A 22,000
Less: Rebate u/s 87A (12,500)
Tax before health & education cess 9,500
Add: HEC @ 4% 380
Tax Liability 9,880

**Solution 5:**
Income under the head Business/Profession 1,00,000
Income under the head Capital Gains (LTCG) 10,000
Gross Total Income 1,10,000
Less: Deduction u/s 80C to 80U Nil
Total Income 1,10,000
Agricultural income 2,00,000

**Computation of Tax Liability**
Tax on ₹1,00,000 @ 30% 30,000
Tax on Long term capital gain ₹10,000 @ 20% u/s 112 2,000
Tax before health & education cess 32,000
Add: HEC @ 4% 1,280
Tax Liability 33,280

**Note:** Partial integration is not applicable in case of a partnership firm or a company.

**Solution 6:**
**Computation of Tax Liability of Partnership firm**
Agricultural income 20,00,000
Tax liability Nil
Computation of Tax Liability of Mr. Z
Share of profit from partnership firm {exempt u/s 10(2A)} Nil
Income under the head House Property 2,75,000
Gross Total Income 2,75,000
Less: Deduction u/s 80C to 80U Nil
Total Income 2,75,000
Tax on ₹2,75,000 at slab rate 1,250
Less: Rebate u/s 87A (1,250)
Tax Liability Nil
MAY – 2018 (Old Course)

Question 2(a) (5 Marks)
Miss. Kavita, a resident and ordinarily resident in India, has derived the following income for the year ended 31-3-2020.

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

You are required to compute the business income and agricultural income of Miss. Kavita for the Assessment Year 2020-21.

Solution:

Computation of Business Income & Agriculture Income

<table>
<thead>
<tr>
<th>Income</th>
<th>Agricultural Income</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Income from growing and manufacturing of Rubber {Rule 7A}</td>
<td>Agricultural income 65% and business income 35%</td>
<td>65,000</td>
</tr>
<tr>
<td>(ii) Income from Coffee grown and cured {Rule 7B}</td>
<td>Agricultural income 75% and business income 25%</td>
<td>1,50,000</td>
</tr>
<tr>
<td>(iii) Income from Coffee grown and cured outside India</td>
<td>(Agriculture Income from outside India is taxable u/h other sources)</td>
<td>-</td>
</tr>
<tr>
<td>(iv) Income from growing and manufacturing of Tea {Rule 8}</td>
<td>Agricultural income 60% and business income 40%</td>
<td>6,00,000</td>
</tr>
<tr>
<td>(v) Income from sapling and seedling grown in a nursery at Cochin</td>
<td>(Agriculture Income from outside India is taxable u/h other sources)</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10,15,000</td>
</tr>
</tbody>
</table>

Note: As per Rule 7B, it is applicable for sale of coffee grown, cured, Roasted and grounded in India hence if it is outside India then whole will be treated as business income.

MAY – 2018 (New Course)

Question 5(b) (7 Marks)
Mr. Avani, a resident aged 25 years, manufactures tea leaves from the tea plants grown by him in India. These are then sold in the Indian market for ₹40 lakhs. The cost of growing tea plants was ₹15 lakhs and the cost of manufacturing tea leaves was ₹10 lakhs.

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

Solution:

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

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

Business Income = 15,00,000 x 40% = 6,00,000
Agriculture Income = 15,00,000 x 60% = 9,00,000

Computation of Tax Liability

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

Add: HEC @ 4% 4,200
Tax Liability 1,09,200

MAY – 2017

Question 2(a) (ii) (4 Marks)
Discuss with brief reasons, whether rent received for letting out agricultural land for a movie shooting and amounts received from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee can be regarded as agricultural income, as per the provisions of the provisions of the Income tax Act,1961.

Answer:
Rent received from letting out agricultural land for a movie shooting: As per section 2(1A) Agricultural income means, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. Hence, Rent received from letting out agricultural land for a movie shooting is not Agricultural income.

Amount received from sale of seedlings in a nursery: As per Section 2(1A), Income derived from sapling or seedling grown in nursery is deemed to be agricultural Income. Therefore, Amount received from sale of seedlings in a nursery adjacent to the agricultural lands is Agricultural income.

NOV – 2016

Question 5(a) (4 Marks)
Mr. Kamal grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. The cost of cultivation of 40% of paddy produce is ₹7,00,000 which is sold for ₹15,00,000; and the cost of cultivation of balance 60% of paddy is ₹12,00,000 and the market value of such paddy is ₹24,00,000. To manufacture the rice, he incurred ₹2,00,000 in the manufacturing process on the balance (60%) paddy. The rice was sold for ₹30,00,000.
Compute the Business income and Agriculture Income of Mr. Kamal.

Solution:
As per Rule 7 of Income Tax Rules 1962, if any person is growing agricultural produce and is using it in his own factory to manufacture a product, in such cases it will be presumed that the assessee has sold his agricultural produce to his manufacturing unit at the market price and income shall be computed accordingly. In the given case, computation of income shall be as given below:

Agricultural income = Actual sale of paddy + Market value of paddy transferred to the manufacturing unit – Cost of cultivation
= [₹15 lacs + ₹24 lacs] – [₹7 lacs + ₹12 lacs]
= ₹39 lacs – ₹19 lacs
= ₹20 lacs

Business income = Sales – Market value of 60% of paddy produce – Manufacturing expenses
= ₹30 lacs – 24 lacs – 2 lacs
= 4 lacs

NOV – 2011

Question 4 (2 Marks)
Mr. X, a 60 years old individual, is engaged in the business of roasting and grinding of coffee, derives income ₹10 lacs during the financial year 2019-20. Compute the tax payable by him assuming he has not earned any other income during the financial year 2019-20.

Answer:
Computation of income from the growing and manufacturing of Coffee Rule 7B
Income derived from the sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax.
In the given case, assessee is not engaged in growing of coffee hence entire income is business income and tax liability shall be as given below:

<table>
<thead>
<tr>
<th>Total income</th>
<th>₹ 10,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax + HEC</td>
<td>₹ 1,14,400</td>
</tr>
</tbody>
</table>

**MAY – 2011**

**Question 1**

Mr. X earned ₹5,00,000 from sale of coffee grown and cured by him. He claims the entire income as agricultural income, hence exempt from tax. Is he correct? 

**Answer.**

Mr. X is not correct in claiming the entire income as agricultural income. As per rule 7B, in the case of income derived from the sale of coffee grown and cured by the seller in India, 25% of such income is taxable as business income under the head ‘Profits and gains from business or profession’ and the balance (i.e. 75%) is agricultural income. Hence, only ₹3,75,000 (75% of ₹5,00,000) being agricultural income is exempt from tax.

**JUNE – 2009**

**Question 1**

Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? 

**Answer.**

As per Explanation 3 to section 2(1A) of the Act, income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

**NOV – 2004**

**Question 1**

Mr. X has estates in Rubber, Tea and Coffee. He derives income from them. He has also a nursery wherein he grows plants and sells. For the previous year ending 31.03.2020, he furnishes the following particulars of his sources of income from estates and sale of Plants.

You are requested to compute the taxable income and tax liability for the assessment year 2020-21. 

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Agriculture Income</th>
<th>Business Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Manufacture of rubber</td>
<td>₹ 5,00,000</td>
<td></td>
</tr>
<tr>
<td>(ii) Manufacture of coffee grown and cured</td>
<td>₹ 3,50,000</td>
<td></td>
</tr>
<tr>
<td>(iii) Manufacture of tea</td>
<td>₹ 7,00,000</td>
<td></td>
</tr>
<tr>
<td>(iv) Sale of plants from nursery</td>
<td>₹ 1,00,000</td>
<td></td>
</tr>
</tbody>
</table>

**Answer:**

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Agricultural Income</th>
<th>Business Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from growing and manufacturing of Rubber {Rule 7A}</td>
<td>3,25,000</td>
<td>1,75,000</td>
</tr>
<tr>
<td>Agricultural income 65% and business income 35%</td>
<td>3,25,000</td>
<td>1,75,000</td>
</tr>
<tr>
<td>Income from Coffee grown and cured {Rule 7B}</td>
<td>2,62,500</td>
<td>87,500</td>
</tr>
<tr>
<td>Agricultural income 75% and business income 25%</td>
<td>2,62,500</td>
<td>87,500</td>
</tr>
<tr>
<td>Income from growing and manufacturing of Tea {Rule 8}</td>
<td>4,20,000</td>
<td>2,80,000</td>
</tr>
<tr>
<td>Agricultural income 60% and business income 40%</td>
<td>4,20,000</td>
<td>2,80,000</td>
</tr>
<tr>
<td>Income from growing and selling of plants</td>
<td>1,00,000</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Total</td>
<td>₹ 11,07,500</td>
<td>₹ 5,42,500</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

| Normal income | ₹ 5,42,500 |
|              |           |
| Tax on (5,42,500 + 11,07,500) | ₹ 3,07,500.00 |
| Tax on (2,50,000 + 11,07,500) | (2,19,750.00) |
MAY – 1998

**Question 2**

From the following information, compute taxable income and tax liability of Mrs. X for the assessment year 2020-21.

\[
\begin{align*}
\text{Income from business – letting cycles on hire} & \quad 2,40,000 \\
\text{Fixed deposit interest received from companies on deposits made of sale proceeds of land} & \quad 18,000 \\
\text{Dividends from an Indian company having rubber plantations} & \quad 6,000 \\
\text{Salary received as a partner from a firm growing and manufacturing tea} & \quad 40,000 \\
\text{Sale of agricultural produce} & \quad 1,75,000 \\
\text{Payment of government tax on agricultural lands} & \quad 6,000 \\
\text{Expenses on power, irrigation cess and farm labour} & \quad 10,000 \\
\text{Purchase of seeds} & \quad 1,000 \\
\text{Tractor hire charges (for agricultural operations)} & \quad 2,500
\end{align*}
\]

**Answer:**

**Computation of income from agriculture**

\[
\begin{align*}
\text{Salary from firm growing and manufacturing tea} & \quad 24,000 \\
\text{Sale of agricultural produce} & \quad 1,75,000 \\
\text{Less : Government tax} & \quad (6,000) \\
\text{   Power, Irrigation cess etc} & \quad (10,000) \\
\text{   Purchase of seeds} & \quad (1,000) \\
\text{   Tractor hire charges} & \quad (2,500)
\end{align*}
\]

**Agricultural income**

1,79,500

**Computation of Non agricultural income :**

**Income from Business:**

\[
\begin{align*}
\text{Cycle hire charges} & \quad 2,40,000 \\
\text{Salary from firm (non –agricultural part – 40,000 x 40%)} & \quad 16,000
\end{align*}
\]

**Other sources:**

\[
\begin{align*}
\text{Dividends from Plantation company – exempt u/s.10(34)} & \quad \text{Nil} \\
\text{Interest on fixed deposit with companies:} & \quad 18,000
\end{align*}
\]

**Non-Agricultural Income**

2,74,000

**Computation of Tax Liability**

\[
\begin{align*}
\text{Tax on (2,74,000 + 1,79,500) at slab rate} & \quad 10,175 \\
\text{Tax on (2,50,000 + 1,79,500) at slab rate} & \quad (8,975) \\
\text{Tax liability (10,175 – 8,975)} & \quad 1,200 \\
\text{Less: Rebate u/s 87A} & \quad (1,200) \\
\text{Tax Liability} & \quad \text{Nil}
\end{align*}
\]
In general a person has to pay tax only on his own income but sometimes incomes of other persons is added to his income to charge tax from him, it is called ‘clubbing of income’. Clubbing provision are applicable to check tax evasion.

Clubbing provision are applicable in the following cases:

1. Transfer of income without transferring the asset  
   **Section 60**
   If any person has transferred any income without transferring the asset, in such cases clubbing provision shall be applicable.

   **Example**
   Mr. X has two deposits of ₹10 lakhs each and interest income of each deposit is ₹1.5 lakhs. He has transferred income of one of the deposit to his brother Mr. Y. In this case, clubbing provision shall be applicable and income shall be taxable in the hands of Mr. X.

2. Transfer of asset through revocable transfer  
   **Section 61**
   If any person has transferred any asset through revocable transfer, income from that asset shall be clubbed in the income of transferor.

   **Example**
   Mr. X has transferred a deposit of ₹10 lakhs to his friend Mr. Y with the condition that the deposit can be taken back by him at any time. In this case, clubbing provision shall be applicable.

3. Transfer of an asset through irrevocable transfer  
   **Section 62, 63**
   If any person has transferred any asset through irrevocable transfer, in this case clubbing provision shall not apply. However, if the transferor has any right to interfere with the asset in any manner or has any right to derive any benefit from the asset, clubbing provision shall be applicable.

   All income arising to any person by virtue of any such transfer shall be chargeable to income-tax as the
income of the transferor as and when the power to revoke the transfer arises. If any person has transferred any asset through a transfer which is not revocable during the life time of the beneficiary, in this case clubbing provision shall not apply.

**Example**

Mr. X has transferred one asset to Mr. Y with the condition that the asset shall be retained by Mr. Y as long as he is alive and after that the asset shall be taken back by Mr. X. In this case, clubbing provision shall not apply.

**Meaning of revocable transfer**

A transfer shall be deemed to be revocable if it contains any provision for the re-transfer directly or indirectly of the whole or any part of the income or assets to the transferor, or it, in any way, gives the transferor a right to re-assume power directly or indirectly over the whole or any part of the income or assets.

4. TRANSFER OF ASSETS TO SPOUSE SECTION 64(1)[V. IMP.]

(i) If any person has transferred any asset, other than a house property to his or her spouse directly or indirectly without adequate consideration, in such cases, income of the asset shall be clubbed in the income of transferor.

(ii) If the asset is transferred for adequate consideration, clubbing provisions are not applicable. Similarly if the asset is transferred under an agreement to live apart, clubbing provision shall not apply.

**Example**

Mr. X has transferred one deposit to his wife Mrs. X by charging full consideration of ₹10,00,000. In this case, interest income shall not be clubbed in the income of Mr. X.

(iii) If there is inadequate consideration, clubbing provisions shall be applicable only with regard to the income relating to that part of the consideration which is considered to be inadequate.

**Example**

Mr. X has transferred one deposit of ₹10,00,000 for a consideration of ₹7,00,000 and there is interest income of ₹1,00,000 from the said deposit, in this case income of ₹30,000 shall be clubbed.

(iv) In order to apply clubbing provision relationship of husband and wife must exist on the date of transfer of the asset and also on the date of accrual of income otherwise clubbing provision shall not be apply, as decided in Philip Johan Plasket Thomas v. CIT (SC).

**Example**

Mr. X has transferred certain assets on 01.01.2020 to his would be wife. He got married on 10.01.2020, in this case clubbing provision shall not apply.

(v) If any person has transferred the asset to the spouse and there is accretion to the asset, income from such accretion shall not be clubbed, as decided in case of M. P. Birla (HC), e.g. Mr. X gifted certain shares to Mrs. X and Mrs. X has received bonus shares, dividend from bonus shares shall not be clubbed and also capital gains on sale of bonus shares shall not be clubbed.

Similarly if any asset has been transferred to spouse, income from the asset shall be clubbed but if same income is invested further, income from such income shall not be clubbed e.g. Mr. X has gifted one fixed deposit to Mrs. X, interest income from such fixed deposit shall be clubbed but if interest income is invested further, any fresh income from such income shall not be clubbed.

**Illustration 1:** Mr. X transferred 2,000 debentures of ₹100 each of Wild Fox Ltd. to Mrs. X on 03.04.2019 without consideration. The company paid interest of ₹30,000 in September, 2019 which was deposited by Mrs. X with Kartar Finance Co. in October, 2019. Kartar Finance Co. paid interest of ₹3,000 upto March, 2020. How would both the interest income be charged to tax in assessment year 2020-21?

**Solution:**

As per section 64(1), income arising from assets transferred without adequate consideration by an individual to his spouse is liable to be clubbed in the hands of the individual, but if there is any further income from such income, it will not be clubbed.
Therefore, ₹30,000, being the interest on debentures received by Mrs. X in September, 2019 will be clubbed with the income of Mr. X, since he had transferred the debentures of the company without consideration to her.

However, the interest of ₹3,000 up to March 2020 earned by Mrs. X on the interest of the debentures deposited by her with Kartar Finance Company shall be taxable in her individual capacity and will not be clubbed with the income of Mr. X.

(vi) Where the asset transferred directly or indirectly by an individual to the spouse has been invested by the transferee in any business, the income arising out of the business to the transferee in any previous year shall be clubbed in the income of transferor but for this purpose capital as on first day of relevant previous year shall be taken into consideration.

**Example**

(a) Mr. X has gifted ₹5,00,000 to Mrs. X on 01.04.2019 and She invested it in the proprietary business on the same date and there were profits of ₹2,00,000. In this case, entire income of ₹2,00,000 shall be clubbed in the income of Mr. X.

(b) Mrs. X has one business on 01.04.2019 with capital of ₹5 lakh and Mr. X has gifted ₹5,00,000 to Mrs. X on 01.04.2019 and She invested it in the proprietary business on the same date and there were profits of ₹2,00,000. In this case, income of ₹1,00,000 shall be clubbed in the income of Mr. X.

(c) Mrs. X has one business on 01.04.2019 with capital of ₹5 lakh and Mr. X has gifted ₹5,00,000 to Mrs. X on 20.04.2019 and She invested it in the proprietary business on the same date and there were profits of ₹2,00,000. In this case, income from business shall not be clubbed in the income of Mr. X because amount was transferred in business after first day of previous year.

**Illustration 2:** A proprietary business was started by Smt. X in the year 2017. As on 01.04.2019 her capital in business was ₹4,00,000. Her husband gifted ₹3,00,000, on 01.04.2019, which Smt. X invested in her business on the same date. Smt. X earned profits from her proprietary business for the

Financial year 2019-20 ₹2,00,000
Financial year 2020-21 ₹2,40,000
Financial year 2021-22 ₹2,80,000
Financial year 2022-23 ₹3,00,000

Amount of profit was further invested in the business.

Compute amount to be clubbed in the income of Mr. X in each of the year.

**Solution:**

Amount to be clubbed in various years shall be as given below:

(i) **Previous Year 2019-20:** amount to be clubbed shall be as given below:

\[
\frac{2,00,000}{7,00,000} \times 3,00,000 = 85,714.29
\]

(ii) **Previous Year 2020-21:** amount to be clubbed shall be

\[
\frac{2,40,000}{9,00,000} \times 3,00,000 = 80,000
\]

(iii) **Previous Year 2021-22:** amount to be clubbed shall be

\[
\frac{2,80,000}{11,40,000} \times 3,00,000 = 73,684.21
\]

(iv) **Previous Year 2022-23:** amount to be clubbed shall be

\[
\frac{3,00,000}{14,20,000} \times 3,00,000 = 63,380.28
\]

(b) Presume amount was gifted on 10.04.2019.

**Solution:**

Amount to be clubbed in various years shall be as given below:

(i) **Previous Year 2019-20:** amount to be clubbed shall be Nil because amount was not invested in business on the first day of the previous year

(ii) **Previous Year 2020-21:** amount to be clubbed shall be

\[
\frac{2,40,000}{9,00,000} \times 3,00,000 = 80,000
\]

(iii) **Previous Year 2021-22:** amount to be clubbed shall be

\[
\frac{2,80,000}{11,40,000} \times 3,00,000 = 73,684.21
\]

(iv) **Previous Year 2022-23:** amount to be clubbed shall be

\[
\frac{3,00,000}{14,20,000} \times 3,00,000 = 63,380.28
\]
(vii) If any person has transferred the asset to the spouse and the spouse has invested it in some partnership firm as capital contribution or otherwise, in this case interest received from the partnership firm shall be clubbed in the income of the transferor and capital as on first day of relevant previous year shall be taken into consideration.

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

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

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

(ix) **Cross-transfers are also covered**

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

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

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

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

If any person has transferred the asset to the son’s wife, in this case, clubbing provision shall apply in the similar manner as in the case of transfer of the assets to the spouse. Such clubbing provisions are applicable from 01.06.1973.

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

If any person has transferred the asset to any other person, clubbing provision shall not be applicable, but if the transferor has any right to receive any benefit from the asset or the benefit shall be received by the spouse of the transferor or by the son’s wife of the transferor, in that case, clubbing provision shall be applicable.

7. **Salary/commission/fee etc. from a concern in which the spouse has substantial interest**  **Section 64(1)**

(i) If any person is getting salary, commission, fee or any other remuneration whether in cash or in kind from a concern in which his or her spouse has substantial interest and further salary etc. is being received without any technical or professional qualification, in such case, salary etc. so received shall be clubbed in the income of the spouse having substantial interest. However clubbing shall not be applicable in relation to any income arising to the spouse where the spouse possesses technical or professional qualifications and the income is solely attributable to the application of his or her technical or professional knowledge and experience.

If the spouse has substantial interest along with his relative, even in that case clubbing provisions are applicable.

**Example**

Mr. X is holding 11% shares of ABC Ltd. and his father is holding 10% shares in ABC Ltd. and his wife Mrs. X is employed in ABC Ltd. without any technical or professional qualification, in this case, salary income of Mrs. X shall be clubbed in the income of Mr. X.

(ii) Technical and professional qualification shall include not only degree or membership but also any experience or expertise or any natural talent also, as decided in **Batta Kalyani v. CIT, (HC)**.

(iii) **As per section 2(41), Relative**, means the husband, wife, brother or sister or any lineal ascendant or descendant.

(iv) **As per section 2(32), Substantial Interest** means having 20% or more of the equity shares in a
company or having 20% of more of the shares in profits in any other concern.

8. **Asset held by Minor Child**  
   **Section 64(1A) [V. IMP.]**  
   (i) If any income accrues or arises to a minor child, such income shall be clubbed in the income of mother or father whosoever has higher income before taking into consideration the income to be clubbed.
   (ii) **If the marriage of mother, father doesn’t subsist,** in that case, income shall be clubbed in the income of mother or father whosoever maintains the minor child.
   (iii) Minor child for this purpose shall include even an adopted child and also step child, however, it will not include the minor child suffering from a disability mentioned under section 80U, e.g. Minor son of Mr. X has interest income of ₹2,00,000 and the minor child is suffering from a disability, in this case, clubbing provisions shall not be applicable.
   (iv) If any minor child has income through  
   (i) Manual labour or  
   (ii) has income through activity involving application of his skill, talent or specialized knowledge and experience.
   in this case, clubbing provision shall not apply, rather it will be considered to be the income of minor child and his tax liability shall be computed separately but the return shall be filed by his father as his guardian.
   (v) If the income of minor child is to be clubbed, **exemption shall be allowed under section 10(32) upto ₹1,500 per annum per child.** E.g. Minor son of Mr. X has interest income from bank fixed deposit ₹35,000, in this case amount to be clubbed shall be 35,000 – 1,500 = 33,500
   If any minor child has casual income and such income is to be clubbed, in that case exemption of ₹1,500 under section 10(32) shall be allowed or not is controversial.
   (vi) If any person has transferred any asset to minor married daughter, clubbing provision shall applicable in that case also e.g. Minor married daughter of Mr. X has interest income of ₹1,00,000 from bank deposit, in this case income shall be clubbed in the minor of mother or father whosoever has higher income and exemption under section 10(32) shall be allowed.
   (vii) If any minor child has income from manual labour or through activity involving application of his skill, talent or specialized knowledge and experience, such income shall not be clubbed but if such income has been invested further, any new income shall be clubbed in the income of mother or father.

   **Example**  
   Minor son of Mr. X is a child actor. He has income of ₹5,00,000 from stage acting, this income will not be clubbed but if this amount was invested by him in a bank as fixed deposit, interest received by him shall be clubbed.

9. **Transfer of the asset by the member of Hindu Undivided Family to the Hindu undivided family**  
   **Section 64(2)(Conversion of self acquired property into common property of HUF)**  
   If any member of HUF has gifted any asset to the HUF, income from such asset shall be clubbed in the income of such member but if partition has been taken place, in that case clubbing provision shall not be applicable however income from that part of asset which has been received by the spouse of such person, shall be clubbed in the income of such member.

   ➢ Income for the purpose of clubbing includes loss also.

   **Illustration 3:** Mr. X is an employee of X Ltd. and he has 25% shares of that company. His salary is ₹50,000 p.m. Mrs. X is working as a computer software programmer in X Ltd. at a salary of ₹30,000 p.m. She is, however, not qualified for the job. Compute the gross total income of Mr. X and Mrs. X for the A.Y.2020-21, assuming that they do not have any other income.

   **Solution:**  
   Mr. X is an employee of X Ltd and has 25% shares of X Ltd i.e. a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. X from X Ltd. will be clubbed in the hands of Mr. X.
### Computation of Gross Total Income of Mr. X

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary received by Mr. X (₹ 50,000 x 12)</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Salary received by Mrs. X (₹ 30,000 x 12)</td>
<td>3,60,000</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>9,60,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Income under the head salary</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>9,10,000</td>
</tr>
</tbody>
</table>

The gross total income of Mrs. X is nil.

**Illustration 4:** Will your answer be different if Mrs. A was qualified for the job?

**Solution:**
If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. X = Salary received by Mr. A [₹ 50,000 × 12] = ₹ 6,00,000 - 50,000 = 5,50,000
Gross total income of Mrs. X = Salary received by Mrs. A [₹ 30,000 x 12] = ₹ 3,60,000 - 50,000 = 3,10,000

**Illustration 5:** Mr. X is an employee of Y Ltd. and has substantial interest in the company. His salary is ₹20,000 p.m. Mrs. X is also working in Y Ltd. at a salary of ₹12,000 p.m. without any qualifications. Mr. X also receives ₹30,000 as interest on securities. Mrs. X owns a house property which she has let out. Rent received from tenants is ₹6000 p.m. Compute the gross total income of Mr. X and Mrs. X for the A.Y.2020-21.

**Solution:**
Since Mrs. X is not professionally qualified for the job, the clubbing provisions shall be applicable.

### Computation of Gross Total Income of Mr. X

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income from Salary</strong></td>
<td></td>
</tr>
<tr>
<td>Salary received by Mr. X (₹ 20,000 x 12)</td>
<td>2,40,000</td>
</tr>
<tr>
<td>Salary received by Mrs. X (₹ 12,000 x 12)</td>
<td>1,44,000</td>
</tr>
<tr>
<td><strong>Gross salary</strong></td>
<td>3,84,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Income from salary</td>
<td>3,34,000</td>
</tr>
<tr>
<td>Income from other sources</td>
<td></td>
</tr>
<tr>
<td>Interest on securities</td>
<td>30,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>3,64,000</td>
</tr>
</tbody>
</table>

### Computation of Gross Total Income of Mrs. X

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>Nil</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income from Salary</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[clapped in the hands of Mr. X]</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income from house property</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Annual Value [₹ 6,000 x 12]</td>
<td>72,000</td>
<td></td>
</tr>
<tr>
<td>Less: Municipal taxes paid</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Net Annual Value (NAV)</strong></td>
<td>72,000</td>
<td></td>
</tr>
<tr>
<td><strong>Less: Deductions under section 24</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 30% of NAV i.e., 30% of ₹ 72,000</td>
<td>(21,600)</td>
<td></td>
</tr>
<tr>
<td>- Interest on loan</td>
<td>- 50,400</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>50,400</td>
<td></td>
</tr>
</tbody>
</table>

**Illustration 6:** Mr. X has three minor children – two twin daughters and one son. Income of the twin daughters is ₹2,000 p.a. each and that of the son is ₹1,200 p.a. Compute the income, in respect of minor children, to be clubbed in the hands of Mr. X.

**Solution:**
Taxable income, in respect of minor children, in the hands of Mr. X is

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twin minor daughter [₹ 2,000 x 2]</td>
<td>4,000</td>
</tr>
</tbody>
</table>
Illustration 7: Mr. X, a mentally retarded minor, has a total income of ₹1,20,000 for the assessment year 2020-21. The total income of his father Mr. Y and of his mother Mrs. Y for the relevant assessment year is ₹2,40,000 and ₹1,80,000 respectively. Discuss the treatment to be accorded to the total income of Mr. X for the relevant assessment year.

Solution: Section 64(1A) provides that all income accruing or arising to a minor child has to be included in the income of that parent, whose total income is greater. However, the income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the income of the parents but shall be assessed in the hands of the child. Thus, the total income of Mr. X has to be assessed in his hands and cannot be included in the total income of either his father or his mother.

Illustration 8: Mr. X gifts ₹1 lakh to his wife Mrs. X on April 1, 2019 which she invests in a firm on interest rate of 14% per annum. On January 1, 2020, Mrs. X withdraws the money and gift it to her son’s wife. She claims that interest which has accrued to the daughter-in-law, from January 1, 2020 to March 31, 2020 on investment made by her is not assessable in her hands but in the hands of Mr. X. Is this correct? What would be the position, if Mrs. X had gifted the money to minor grandson, instead of the daughter-in-law?

Solution: Section 64(1) provides that in computing the total income of any individual, there shall be clubbed all such income as arises directly or indirectly to the son’s wife, of such individual, from assets transferred directly or indirectly to the son’s wife by such individual otherwise than for adequate consideration. There is an indirect transfer by Mr. X to the daughter-in-law and therefore, the interest income shall be clubbed with income of Mr. X.

If Mrs. X had gifted the money to her minor grandson, then the interest income arising to the minor shall be clubbed under section 64(1A) in the total income of that parent (son/daughter-in-law) whose total income (before including such income) is higher.

Illustration 9: Mr. X, entered into the following transactions during the previous year 2019-20:
(a) Mr. X had a fixed deposit of ₹ 8,00,000 with State Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01.04.2019 to 31.03.2020 to the savings bank account of Ms. Y, his niece, to help her in her higher education.
(b) Mr. X holds 51% share in a partnership firm. Mrs. X (wife of Mr. X) received a remuneration of ₹45,000 from the firm for writing its books of accounts. Mrs. X, being a fashion designer, does not possess any qualification or training in the accountancy field.
(c) Mr. X gifted a flat to Mrs. X on April 1, 2019. During the previous year 2019-20, she received rent of ₹8,500 p.m. from letting out of the flat.
(d) Mr. X gifted ₹ 4,00,000 to his minor son who invested the same in a business and he derived income of ₹40,000 from the investment.
(e) Mr. X’s minor daughter derived an income of ₹25,000 from participation in music shows.

During the year, Mr. X got a monthly pension of ₹18,000. He had no other income. Mrs. X received salary of ₹25,000 per month from a part time job as a fashion designer.

Discuss the tax implications of each transaction and compute the total income of Mr. X and Mrs. X.

Solution:

Computation of Total Income of Mr. X
(a) Interest income received by Miss. Y shall be clubbed in the income of Mr. X as per section 60 (8,00,000 x 9%) 72,000
(b) Remuneration of ₹45,000 received by Mrs. X shall be clubbed in the income of Mr. X as per section 64(1) 45,000
(c) Income from House Property gifted to Mrs. X shall be taxable in the hands of Mr. X because as per section 27 Mr. X is the deemed owner 71,400

(Rent received (i.e. ₹ 1,02,000) is taken as Gross Annual Value. Deduction @ 30% of

| Less: Exempt under section 10 (32) [₹ 1,500 × 2] | 3,000 | Nil |
| Minor son | 1,200 | 1,000 |

Income to be clubbed in the hands of Mr. X
Net Annual Value is allowed u/s 24. The net income from house property would be ₹71,400 (i.e. ₹1,02,000 - ₹30,600 being 30% of NAV)

(d) Income of minor child shall be clubbed in the income of Mr. X as per section 64(1A) because Mr. X has higher income (40,000 – 1,500)

(e) Income of minor daughter from music show shall not be clubbed

Pension income of Mr. X (₹18,000 × 12) 2,16,000

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

Income under the head salary 1,66,000

Total Income 3,92,900

Salary income of Mrs. X 3,00,000

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

Income under the head salary 2,50,000
MULTIPLE CHOICE QUESTIONS

1. Income of a minor child suffering from any disability of the nature specified in section 80U is -
   (a) to be assessed in the hands of the minor child
   (b) to be clubbed with the income of that parent whose total income, before including minor’s income, is higher
   (c) completely exempt from tax
   (d) to be clubbed with the income of father

2. Income arising to a minor married daughter is -
   (a) to be assessed in the hands of the minor married daughter
   (b) to be clubbed with the income of that parent whose total income, before including minor’s income, is higher
   (c) completely exempt from tax
   (d) to be clubbed with the income of her husband

3. Where a member of a HUF has converted or transferred his self-acquired property for inadequate consideration into joint family property, income arising therefrom is -
   (a) taxable as the income of the transferor-member.
   (b) taxable in the hands of the HUF.
   (c) taxable in the hands of the karta of the HUF.
   (d) exempt from tax.

4. If the converted property is subsequently partitioned among the members of the family, the income derived from such converted property as is received by the spouse of the transferor will be taxable -
   (a) as the income of the karta of the HUF
   (b) as the income of the spouse of the transferor
   (c) as the income of the HUF.
   (d) as the income of the transferor-member

5. Exemption of a certain amount (not exceeding the income clubbed) is available under section 10(32), where a minor’s income is clubbed with the income of the parent. The maximum exemption available is -
   (a) upto ₹1,500 in respect of each minor child
   (b) upto ₹1,500 in respect of each minor child maximum of two children
   (c) upto ₹2,000 in respect of each minor child
   (d) upto ₹2,000 in respect of each minor child maximum of two children

6. Mr. A gifts a sum of ₹1,00,000 to his brother’s wife Mrs. B. Mr. B gifts a sum of ₹1,00,000 to Mrs. A. From the sum gifted to her, Mrs. B invests in a fixed deposit, income therefrom is ₹10,000. Aforesaid ₹10,000 will be included in the total income of ............
   (a) Mr. A
   (b) Mrs. A
   (c) Mrs. B
   (d) Mr. B

7. Scholarship received by a minor child is –
   (a) to be assessed in the hands of the minor child
   (b) to be clubbed with the income of that parent whose total income, before including minor’s income, is higher
   (c) completely exempt from tax u/s 10(16)
   (d) to be clubbed with the income of father

8. Income of a minor child from a fixed deposit with a bank, made out of income earned from scholarship is-
   (a) to be assessed in the hands of the minor child
   (b) to be clubbed with the income of that parent whose total income, before including minor’s income, is higher
   (c) completely exempt from tax
(d) to be clubbed with the income of father

9. Mr. X transfers income of ₹51,000 from rent to his major son without transfer of house property.
   Rent of ₹51,000 is –
   (a) taxable in the hands of the transferor-father
   (b) taxable in the hands of his son
   (c) taxable in the hands of the that parent whose total income is higher
   (d) exempt from tax

10. Interest from a fixed deposit received by a minor married daughter is –
    (a) to be assessed in the hands of the minor child
    (b) to be clubbed with the income of that parent whose total income, before including minor’s income, is higher
    (c) completely exempt from tax
    (d) to be clubbed with the income of her husband

11. Mr. Aarav gifted a house property valued at ₹50 lakhs to his wife, Geetha, who in turn has gifted the same to her daughter-in-law Deepa. The house was let out at ₹25,000 per month throughout the P.Y.2019-20. Compute income from house property for A.Y.2020-21.
    In whose hands is the income from house property chargeable to tax?
    (a) ₹3,00,000 in the hands of Mr. Aarav
    (b) ₹2,10,000 in the hands of Mr. Aarav
    (c) ₹2,10,000 in the hands of Geetha
    (d) ₹2,10,000 in the hands of Deepa

12. As per section 60, which of the following statement is correct?
    (a) If any person has not transferred the asset but has transferred income from such asset to any person, such income shall be included in the income of transferor
    (b) If any person has not transferred the asset but has transferred income from such asset to any person, such income shall be included in the income of transferee
    (c) If any person has not transferred the asset but has transferred income from such asset to any person, such income is not taxable in the hands of transferor or transferee
    (d) none of these

13. Which of the following is correct as per section 61?
    (a) All income arising to any person by virtue of a revocable transfer of assets shall be chargeable to income-tax as the income of the transferee and shall be included in his total income.
    (b) All income arising to any person by virtue of a revocable transfer of assets shall be chargeable to income-tax as the income of the transferor and shall be included in his total income.
    (c) All income arising to any person by virtue of a irrevocable transfer of assets shall be chargeable to income-tax as the income of the transferor and shall be included in his total income.
    (d) none of these

14. Which of the following statement is correct as per section 64(1)?
    (a) If any individual has transferred any asset other than house property to the spouse, directly or indirectly, income from the asset transferred, directly or indirectly shall be included in the income of transferor provided the asset was transferred for adequate consideration or in connection with an agreement to live apart.
    (b) If any individual has transferred any asset other than house property to the spouse, directly or indirectly, income from the asset transferred, directly or indirectly shall be included in the income of transferee provided the asset was transferred otherwise than for adequate consideration or in connection with an agreement to live together.
    (c) If any individual has transferred any asset other than house property to the spouse, directly or indirectly, income from the asset transferred, directly or indirectly shall be included in the income of transferor provided the asset was transferred otherwise than for adequate consideration or in connection with an agreement to live apart.
    (d) none of these
15. Which of the following statements is correct?
(a) As per section 64(1A), in computing the total income of any individual, there shall be included all such income as arises or accrues to his minor child, including a minor child suffering from any disability of the nature specified in section 80U:

Provided that nothing contained in this sub-section shall apply in respect of such income as arises or accrues to the minor child on account of any—

(a) manual work done by him; or
(b) activity involving application of his skill, talent or specialised knowledge and experience.

(b) As per section 64(1A), in computing the total income of any individual, there shall be included all such income as arises or accrues to his minor child, not being a minor child suffering from any disability of the nature specified in section 80U:

This section shall also apply in respect of such income as arises or accrues to the minor child on account of any—

(a) manual work done by him; or
(b) activity involving application of his skill, talent or specialised knowledge and experience.

(c) As per section 64(1A), in computing the total income of any individual, there shall be included all such income as arises or accrues to his minor child, not being a minor child suffering from any disability of the nature specified in section 80U:

Provided that nothing contained in this sub-section shall apply in respect of such income as arises or accrues to the minor child on account of any—

(a) manual work done by him; or
(b) activity involving application of his skill, talent or specialised knowledge and experience.

(d) As per section 64(1A), in computing the total income of any individual, there shall be included all such income as arises or accrues to his major child, not being a major child suffering from any disability of the nature specified in section 80U:

Provided that nothing contained in this sub-section shall apply in respect of such income as arises or accrues to the minor child on account of any—

(a) manual work done by him; or
(b) activity involving application of his skill, talent or specialised knowledge and experience.

(c) none of these

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

**MAY – 2019 (Old Course)**

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

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

**Answer:** Refer answer given in the book.

**NOV – 2018 (Old Course)**

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

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

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

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

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

- in-laws-gold chain worth ₹35,000

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

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

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

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

**Solution:**

**Computation of Gross Total Income of Mr. Sharma**

**Income under the head Other Sources**

\[
\begin{align*}
\text{Royalty income (6,00,000-20,000)} & \quad 5,80,000 \\
\text{Interest from bank fixed deposits clubbed u/s 64(1A) (₹5,000 -₹1,500)} & \quad 3,500 \\
\text{Income under the head Other Sources} & \quad 5,83,500 \\
\text{Gross Total Income} & \quad 5,83,500
\end{align*}
\]

**Notes:**

1. Statue of Lord Ganesh is not covered under the definition of property as given under section 56 hence gift is not taxable.
2. Gold chain received is less than ₹ 50,000 hence it is not taxable. (section 56).
3. As per section 64(1A), Income of minor shall be clubbed with the income of parents having higher income and a deduction of ₹1,500 shall be allowed u/s 10(32).

**NOV – 2018 (New Course)**

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

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

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

(ii) M won a prize money of ₹3,00,000 in National Quiz competition. This was invested in debentures of a company, from which interest of ₹19,000 (gross) accrued during the year.

(iii) N won prize in a lottery. The net amount received after deduction of tax at source was ₹1,05,000.
Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required.

**Solution:**

As per section 64(1A), If any income accrues or arises to a minor child, such income shall be clubbed in the income of mother or father whosoever has higher income before taking into consideration the income to be clubbed but if any minor child has income through Manual labour or has income through activity involving application of his skill, talent or specialized knowledge and experience, in this case, clubbing provision shall not apply, rather it will be considered to be the income of minor child and his tax liability shall be computed separately but the return shall be filed by his father as his guardian. If the income of minor child is to be clubbed, exemption shall be allowed under section 10(32) upto ₹1,500 per annum per child.

In the given case income of father is higher then the mother hence all income to be clubbed shall be clubbed with the income of the Father.

(i) Gift of ₹70,000 received by M from her friend father is taxable as it is not received from any relative of M.

(ii) Prize money earned by M in National Quiz Competition shall not be clubbed as it is earned through application of her skill, talent or specialized knowledge and experience but income from such income i.e. interest on debentures (₹19,000) shall be clubbed with the father.

(iii) Prize Money earned by N shall be taxable and shall be clubbed with the income of the father. (₹1,05,000/70% = ₹1,50,000 shall be clubbed)

Exemption shall be allowed u/s 10(32) upto ₹1500 per annum per child but in case of casual income such exemption is allowed or not is controversial.

**Question 6(b).**

Kamal gifted ₹10 lakhs to his wife, Sulochana on her birthday on, 1st January, 2019.

Sulochana lent ₹5,00,000 out of the gifted amount to Krishna on 1st April, 2019 for six months on which she received interest of ₹50,000. The said sum of ₹50,000 was invested in shares of a listed company on 15th October, 2019, which were sold for ₹75000 on 30th December, 2019. Securities transactions tax was paid on such sale. The balance amount of gift was invested as capital by Sulochana in a business. She suffered loss of ₹15,000 in the business in financial Year 2019-20.

In whose hands the above income and loss shall be included in Assessment Year 2020-21? Support your answer with brief reasons.

Answer:

As per section 64(1), If any person has transferred any asset to his or her spouse without adequate consideration in such case Income shall be clubbed in the income of the transferor, hence Interest income of ₹ 50,000 shall be clubbed in the income of Mr. Kamal.

If asset received by the spouse has been invested in the proprietor business, income from the business shall be clubbed in the income of transferor and if there is any loss, it will also be clubbed. In the given case there is a loss of ₹15,000 from business, such loss shall be clubbed in the income of Mr. Kamal.

If any person has transferred the asset to the spouse, income from the asset shall be clubbed but if same income is invested further, any subsequent income shall not be clubbed as decided in the case of M.P. BIRLA. In the given case, Mrs. Sulochana has invested interest income in the shares and there was capital gain on the sale of shares, such capital gain shall not be clubbed rather it will be taxable in the hands of Mrs. Sulochana.

**Question 6(a)(ii).**

Mr. Ramesh gifted a sum of ₹5 lacs to his brother's minor son on 16.04.2019. On 18.04.2019, his brother gifted debentures worth ₹6 lacs to Mrs. Ramesh. Son of Mr. Ramesh' brother invested the amount in fixed
deposit with Bank of India @ 9% p.a. interest and Mrs. Ramesh received interest of ₹45,000 on debentures received by her.

Discuss the implications under the provisions of the Income-tax Act, 1961.

**Answer:** The Supreme Court, in case of Keshavji Morarji, observed that if two transactions are interconnected and are parts of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. In the given case, the income arising to Mrs. Ramesh from debentures should be included in the total income of Mr. Ramesh and the interest from fixed deposit transferred to minor son of Ramesh brother would be taxable in the hands of brother of Mr. Ramesh.

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**NOV – 2014**

**Question 6(a)(ii)** (4 Marks)

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

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

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

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

**Solution:**

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

(i) Income of First Daughter 10,000

Less: Scholarship received exempt u/s 10(16) (assumed received for education) (5,000)
Less: Exempt u/s 10(32) (1,500)

3,500

(ii) Income of Second Daughter 8,500

Less: Exempt u/s 10(32) (1,500)

7,000

(iii) Income of Third Daughter who is suffering from disability shall not be clubbed

(iv) Income of Son 40,000

Less: Exempt u/s 10(32) (1,500)

38,500

Total Income to be clubbed (3,500 + 7,000 + 38,500) 49,000

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**MAY – 2013**

**Question 5(a)** (4 Marks)

Mr. X is an employee of Larsen Limited and has substantial interest in the company. His salary is ₹25,000 p.m. Mrs. X also is working in that company at a salary of ₹10,000 p.m. without any professional qualification.

Mr. X also receives ₹30,000 as income from securities, Mrs. X owns a house property which she has let out. Rent received from such house property is ₹12,000 p.m.

Mr. & Mrs. X have three minor children—two twin daughters and one son. Income of the twin daughters is ₹2,000 p.a. each and that of his son is ₹1,200 p.a. Compute the income of Mr. & Mrs. X.

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Mr. X (₹)</th>
<th>Mrs. X (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from Salaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary income of Mr. X (₹ 25,000 × 12)</td>
<td>3,00,000</td>
<td></td>
</tr>
<tr>
<td>Salary income of Mrs. X (₹ 10,000 × 12)(Note 1)</td>
<td>1,20,000</td>
<td></td>
</tr>
</tbody>
</table>
Clubbing of Income

Less: Deduction u/s 16(ia)                              (50,000)  
Income from House Property                          
Rent received (₹ 12,000×12)                         1,44,000  1,00,800  
Less: Deduction under section 24 @ 30%              (43,200)  
Income from other sources                          30,000  
Income before including income of minor children under section 64(1A) (Note 2)  
Income of twin daughters                           ₹ 4,000  
(₹ 2,000 per child x 2)                             
Less: Exempt u/s 10(32) (₹1,500 x 2)               (₹ 3,000)  1,000  
Income of the minor son                             ₹ 1,200  
Less: Exempt u/s 10(32) (₹1,200)                    (₹1,200)  
Total Income                                        4,01,000  1,00,800  

Notes: 
(1) As per section 64(1), the salary of ₹ 10,000 p.m. received by Mrs. X from the company has to be included in the total income of Mr. X, as Mrs. X does not possess any technical or professional qualification for earning such income and Mr. X has substantial interest in the company.  
(2) As per section 64(1A), the income of a minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Question No. 2(a)                                           (3 Marks)  
Mr. X is the Karta of an HUF, whose members derive income as given below:  
(i) Income from Mr. X’s Business                        ₹ 4,50,000  
(ii) Mrs. X’s Salary Income (Computed) as fashion designer  
(Mrs. X is working as fashion designer in the business of Mr. X)         ₹ 7,60,000  
(iii) Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle) 10,000  
(iv) Minor daughter P’s earning from sports             95,000  
(v) D’s winning from lottery (gross)                    1,95,000  
Discuss the tax implications in the hands of Mr. and Mrs. X.  
Answer:  
Computation of income of Mr. X and Mrs. X  

<table>
<thead>
<tr>
<th></th>
<th>Mr. X</th>
<th>Mrs. X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from X’s Business</td>
<td>4,50,000</td>
<td>-------</td>
</tr>
<tr>
<td>Salary as fashion designer</td>
<td>-------</td>
<td>7,60,000</td>
</tr>
<tr>
<td>Bank Interest to Minor Son D</td>
<td>1,500</td>
<td>8,500</td>
</tr>
<tr>
<td>Income of Minor Daughter from Sports (since she is earning income from her (own talent, sports, income is not to be clubbed)</td>
<td>1,95,000</td>
<td></td>
</tr>
<tr>
<td>Lottery income to minor son D</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>4,50,000</td>
<td>9,63,500</td>
</tr>
</tbody>
</table>

Note: Whether exemption under section 10(32) shall be allowed from casual income or not is controversial.

Question 2                                           (3 Marks)  
Mr. X has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300 respectively. The daughter who has income of ₹ 4,500 was
Clubbing of Income

suffering from a disability specified under section 80U. Compute the amount of income earned by minor children to be clubbed in hands of Mr. X.

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

(i) Income of First Daughter
Less: Exempt u/s 10(32) (1,500)
9,000
Less: Exempt u/s 10(32) (1,500)
7,500
(ii) Income of Second Daughter who is suffering from disability shall not be clubbed
(iii) Income of First Son
Less: Exempt u/s 10(32) (1,500)
6,200
Less: Exempt u/s 10(32) (1,500)
4,700
(iv) Income of Second Son
Less: Exempt u/s 10(32) (1,500)
4,300
Less: Exempt u/s 10(32) (1,500)
2,800
Total Income to be clubbed (7,500 + 4,700 + 2,800)
15,000

Question 5
(5 Marks)

During the previous year 2019-20 the following transactions occurred in respect of Mr. X.

(a) Mr. X had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01.04.2019 to 31.03.2020 to the savings bank account of Mr. B, son of his brother, to help him in his education.

(b) Mr. X holds 75% share in a partnership firm. Mrs. X received a commission of ₹25,000 from the firm for promoting the sales of the firm. Mrs. X possesses no technical or professional qualification.

(c) Mr. X gifted a flat to Mrs. X on April 1, 2019. During the previous year the flat had income under the head House Property ₹52,000 to Mrs. X.

(d) Mr. X gifted ₹2,00,000 to his minor son who invested the same in a business and he got a share income of ₹20,000 from the investment.

(e) Mr. X’s minor son derived an income of ₹20,000 through a business activity involving application of his skill and talent. During the year Mr. X got a monthly pension of ₹10,000. He had no other income. Mrs. X received salary of ₹20,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. X, Mrs. X and their minor child.

Answer:

(a) As per Section 60 of the Income Tax Act, if any person has transferred any income without transferring the asset in such case clubbing provision shall be applicable. In the given case, Mr. X transferred interest on fixed deposit to Mr. B (son of his brother) without transferring the fixed deposit, such income shall be clubbed in the hands of Mr. X as per section 60.

Amount to be clubbed = ₹5,00,000 x 9% = ₹45,000

(b) As per Section 64(1) of the Income Tax Act, if any person is getting salary, commission etc. from a concern in which his or her spouse has substantial interest and further salary etc. is received without any professional or technical qualification, in such case, salary etc. so received shall be clubbed in the income of the spouse having substantial interest. In the given case Mr. X is having substantial interest in the partnership firm and Mrs. X received a commission of ₹25,000 from the firm for promoting the sales of the firm without any technical or professional qualification. So the commission shall be clubbed in the hands of Mr. X

(c) As per section 27, An individual who transfers otherwise than for adequate consideration any house property to his or her spouse, not being a transfer in connection with an agreement to live apart shall be deemed to be the owner of the house property so transferred. In the given case Mr. X transfers flat to Mrs. X without adequate consideration on April 1, 2019. So Mr. X shall be deemed to be the owner of the house property and income ₹52,000 shall be considered as income of Mr. X.
(d) As per section 64(1A), if any income accrues or arises to a minor child, such income shall be clubbed in the income of mother or father whosoever has higher income before taking in to consideration the income to be clubbed. So in the given case, income of ₹ 20,000 shall be clubbed in the income of mother or father whosoever has higher income before taking in to consideration the income to be clubbed. Amount to be clubbed = 20,000 – 1500 = ₹18,500

(e) As per section 64(1A), if any minor child has income from manual labour or through activity involving application of his skill, talent or specialized knowledge and experience, such income shall not be clubbed but if such income has been invested further, any new income shall be clubbed in the income of mother or father.

In the given case clubbing provision is not applicable as Mr. X’s minor son derived an income of ₹20,000 through a business activity involving application of his skill and talent.

**Computation of Total Income of Mr. X**

<table>
<thead>
<tr>
<th>Income under the head Salary</th>
<th>1,20,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>70,000.00</td>
</tr>
</tbody>
</table>

**Income under the head House property**

(Since asset is transferred to wife hence deeming provision shall apply)

| Income under the head house property | 52,000.00 |

**Income under the head other sources**

<table>
<thead>
<tr>
<th>Commission given to Mrs. X</th>
<th>25,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Since Mr. X is having substantial interest in firm)</td>
<td></td>
</tr>
<tr>
<td>Interest on Fixed deposit transferred to Mr. B</td>
<td>45,000.00</td>
</tr>
<tr>
<td>Income from investment made by Minor son</td>
<td>18,500.00</td>
</tr>
<tr>
<td>Income under the head other sources</td>
<td>88,500.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>2,10,500.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,10,500.00</td>
</tr>
</tbody>
</table>

**Computation of Total Income of Mrs. X**

| Gross Salary | 2,40,000.00 |
| Less: Standard Deduction u/s 16(ia) | (50,000.00) |
| Income under the head salary | 1,90,000.00 |
| Gross Total Income | 1,90,000.00 |
| Less: Deduction u/s 80C to 80U | Nil |
| Total Income | 1,90,000.00 |

**Computation of Total Income of Minor Child**

| Income from Business | 20,000.00 |
| Gross Total Income | 20,000.00 |
| Less: Deduction u/s 80C to 80U | Nil |
| Total Income | 20,000.00 |

**Question 1**

Mr. X (age 67 years) gifted a building owned by him to his son’s wife Mrs. X on 01.10.2018. The building fetched a rental income of ₹10,000 per month throughout the year. Municipal tax for the first half-year of ₹5,000 was paid in June 2019 and the municipal tax for the second half-year was not paid till 30.09.2020.

Incomes of Mr. X and Mrs. X other than income from house property are given below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Business income</th>
<th>Capital gain</th>
<th>Other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. X</td>
<td>₹1,00,000</td>
<td>₹50,000 (long-term)</td>
<td>₹1,50,000</td>
</tr>
<tr>
<td>Mrs. X</td>
<td>(₹75,000)</td>
<td>₹2,00,000 (short-term)</td>
<td>₹50,000</td>
</tr>
</tbody>
</table>

Note: Capital gain does not relate to gain from shares and securities.
Compute the total income of Mr. X and Mrs. X taking into account income from property given above and also compute their income-tax liability for the assessment year 2020-21.

**Answer:**

**Computation of total income and income tax liability of Mr. X**

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Business Profession</td>
<td>1,00,000.00</td>
</tr>
<tr>
<td>Income under the head Capital gains</td>
<td>50,000.00</td>
</tr>
<tr>
<td>Income under the head House property</td>
<td></td>
</tr>
<tr>
<td>(Since asset is transferred to son's wife hence clubbing shall be done)</td>
<td></td>
</tr>
<tr>
<td>Gross Annual Value</td>
<td>1,20,000.00</td>
</tr>
<tr>
<td>Less: Municipal Taxes</td>
<td>(5,000.00)</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>1,15,000.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(34,500.00)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>Nil</td>
</tr>
<tr>
<td>Income under the head house property</td>
<td>80,500.00</td>
</tr>
<tr>
<td>Income under the head other sources</td>
<td>1,50,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>3,80,500.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>3,80,500.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- Tax on ₹3,30,500 at slab rate: 1,525.00
- Tax on capital gains @ 20%: 10,000.00
- Less: Rebate u/s 87A: (11,525.00)
- Tax Liability: Nil

**Computation of total income and tax liability of Mrs. X**

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from house property</td>
<td>Nil</td>
</tr>
<tr>
<td>Loss from business profession</td>
<td>(75,000.00)</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>50,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains (STCG)</td>
<td>2,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>1,75,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>1,75,000.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**NOV – 2011**

**Question 1** (3 Marks)

Mr. X started a proprietary business on 01.04.2018 with a capital of ₹5,00,000. He incurred a loss of ₹2,00,000 during the year 2018-19. To overcome the financial position, Mrs. X, a software Engineer gave a gift of ₹5,00,000 on 01.04.2019, which was immediately invested in the business by Mr. X. He earned a profit of ₹4,00,000 during the year 2019-20. Compute the amount to be clubbed in the hands of Mrs. X for the Assessment Year 2020-2021. If Mrs. X gave the said amount as loan, what would be the amount to be clubbed?

**Answer:**

**Computation of amount to be clubbed**

- Capital of Mr. X as on 01.04.2018: 5,00,000
- Opening Capital: 5,00,000
- Less: Loss from the business during 2018-19: (2,00,000)
- Capital as on 01.04.2019: 3,00,000

Amount to be clubbed in the income of Mrs. X

= 4,00,000 / 8,00,000 x 5,00,000

= 2,50,000

In case it has been given as loan, then no clubbing shall be done.
**Question 1**

Mr. X bought 200 listed shares on 19.04.2018 @ ₹2,000 per share.

He gifted these shares to Mrs. X on 21.03.2019.

On 01.04.2019, bonus shares were allotted in the ratio of 1:1.

All these shares were sold by Mrs. X as under:

<table>
<thead>
<tr>
<th>Date of sale</th>
<th>Manner of sale</th>
<th>No. of shares</th>
<th>Net sales value (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.04.2019</td>
<td>Private sale, to her friend Mrs. Y (Market value on this date was ₹2,50,000)</td>
<td>100 original shares</td>
<td>1,70,000</td>
</tr>
<tr>
<td>21.05.2019</td>
<td>Sold in recognized stock exchange, STT paid</td>
<td>100 original shares</td>
<td>4,20,000 (Taxable LTCG – 2,20,000)</td>
</tr>
<tr>
<td>21.07.2019</td>
<td>Private sale to an outsider</td>
<td>All bonus shares</td>
<td>2,50,000</td>
</tr>
</tbody>
</table>

Briefly state the income-tax consequences in respect of the sale of the shares by Mrs. X, showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is **NOT** required. Also Discuss tax consequences in the hands of Mrs. Y.

**Answer.** Where an asset has been transferred by an individual to his spouse otherwise than for adequate consideration, the income arising from the sale of the said asset by the spouse will be clubbed in the hands of the individual.

Where there is any accretion to the asset transferred, income arising to the transferee from such accretion will not be clubbed. Hence, the profit from sale of bonus shares allotted to Mrs. X will be chargeable to tax in the hands of Mrs. X.

Therefore, the capital gains arising from the sale of the original shares has to be included in the hands of Mr. X, and the capital gains arising from the sale of bonus shares would be taxable in the hands of Mrs. X.

**Income/loss to be clubbed in the hands of Mr. X**

(i) **100 Original shares sold on 10.04.2019**

- Sale consideration: 1,70,000.00
- Less: Cost of acquisition of 100 shares (₹ 2,000 x 100) (2,00,000.00)
- Short term capital loss to be included in the hands of Mr. X (30,000.00)

(ii) **100 Original shares sold on 21.05.2019**

100 shares sold on 21.05.2019 in a recognized stock exchange, STT paid. Long-term capital gains on sale of such shares is taxable in excess of ₹ 1,00,000 so taxable value shall be (2,20,000-1,00,000) 1,20,000

**Income taxable in the hands of Mrs. X Short-term capital gains (on sale of 200 bonus shares)**

<table>
<thead>
<tr>
<th>Bonus shares</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale consideration</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition of bonus shares</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Short-term capital gains</strong></td>
<td>2,50,000</td>
</tr>
</tbody>
</table>

**Taxability in the hands of Mrs. Y under the head “Income from other sources”**

Mrs. Y has received shares from her friend for ₹1,70,000 but market value is ₹2,50,000 hence ₹80,000 is taxable as gift under the head other sources as per section 56.

**Question 1**

Mrs. X transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹36,000 per annum shall be utilized for the benefit of her son’s wife.

Mrs. X claims that the amount of ₹36,000 (utilized by her son’s wife) should not be included in her total income as she no longer owned the property.

State with reasons whether the contention of Mrs. X is valid in law?
Answer.
The clubbing provisions are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son’s wife. Such income shall be included in computing the total income of the transferor-individual. Therefore, income of ₹36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Smt. X in this case. The contention of Smt. X is, hence, not valid in law.

MAY – 2010

Question 3
Mr. X commenced a proprietary business in the year 2014. His capital as on 01.04.2018 was ₹6,00,000.
On 10.04.2018 his wife gifted ₹2,00,000 which he invested in the business on the same date.
Mr. X earned profit from his proprietary business as given below:

<table>
<thead>
<tr>
<th>Previous Year</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-19</td>
<td>₹3,00,000</td>
</tr>
<tr>
<td>2019-20</td>
<td>₹4,40,000</td>
</tr>
</tbody>
</table>

During the Previous Year 2019-20, he sold a vacant site which resulted in chargeable long-term capital gain of ₹5,00,000 (computed). The vacant site was sold on 20.12.2019.
Compute the total income and tax liability of Mr. X.

**Answer:**

**Computation of business income of Mr. X**

| Capital as on 01.04.2018 | 6,00,000 |
| Add: Gift from wife (10.04.2018) | 2,00,000 |
| Add: Profit for the year ended 31.03.2019 | 3,00,000 |

**Capital as on 01.04.2019**

| Profit for the year ended 31.03.2020 | 4,40,000 |

**Amount of income to be clubbed in the hands of Mrs. X under section 64(1)**

= ₹4,40,000/11,00,000 x 2,00,000 = 80,000

**Income assessable in the hands of Mr. X**

= ₹4,40,000 – 80,000 = 3,60,000

**Total Income of Mr. X**

| Income from Business | 3,60,000 |
| Long term capital gain | 5,00,000 |
| Gross Total Income | 8,60,000 |
| Less: Deduction u/s 80C to 80U | Nil |

**Total Income**

= ₹8,60,000

**Tax liability on normal income of ₹3,60,000**

= ₹5,500

**On LTCG @ 20% on ₹5,00,000**

= ₹1,00,000

= ₹1,05,500

**Add: HEC @ 4%**

= ₹4,220

**Tax Liability**

= ₹1,09,720

Question 5
In whose hands the income from an asset is chargeable to tax in the case of transfer which is not revocable during the life time of the beneficiary/transferee?

**Answer.**

As per section 61, all income arising to any person by virtue of a revocable transfer of assets is to be included in the total income of the transferor.
As per section 62 the clubbing provisions are not attracted, if there is a transfer of asset which is not revocable during the life time of the transferee, the income from the transferred asset is not includable in the total income of the transferor provided the transferor derives no direct or indirect benefit from such income.

MAY – 2008

Question 1
Mr. X has transferred through a duly registered document the income arising from a godown, to his son, without transferring the godown. In whose hands will the rental income from godown be charged?
Answer.
Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be charged in the hands of Mr. X.

**Question 4** (4 Marks)
Mr. X and Mrs. X furnish the following information:

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

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

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

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

**Notes:**
(i) The income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the hands of the parents.
(ii) The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialized knowledge or experience will not be included in the income of his parent.
(iii) Under section 56, cash gifts received from any person/persons exceeding ₹ 50,000 during the year in aggregate are taxable. Since the cash gift in this case does not exceed ₹ 50,000 the same is not taxable.
(iv) The clubbing provisions are attracted even in respect of income of minor married daughter. The income of the minor will be included in the income of that parent whose total income is greater. Hence, income of minor married daughter ‘A’ from company deposit shall be clubbed in the hands of the Mr. X and exemption under section 10(32) of ₹ 1,500 per child shall be allowed in respect of such income.

**Question 4** (3 Marks)
Mr. X has four minor children consisting 2 daughters and 2 sons. The annual income of 2 daughters was ₹7,500 and ₹ 5,000 and of sons was ₹ 5,500 and ₹ 1,250 respectively. The daughter who was having income of ₹ 5,000 was suffering from a disability specified under section 80U. Work out the amount of income earned by minor children to be clubbed in the hands of Mr. X.

**Answer.**

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

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

**Total Income to be clubbed as per section 64(1A)** 10,000

The income of daughter suffering from disability specified under section 80U is not to be clubbed with the income of Mr. X.
### NOV – 2005

**Question 1** (3 Marks)

Compute the total income of Mr. & Mrs. X from the following information:

- (a) Salary Income (computed) of Mrs. X \( \text{₹} 2,30,000 \)
- (b) Income from profession of Mr. X \( \text{₹} 3,90,000 \)
- (c) Income of minor son A from company deposit \( \text{₹} 15,000 \)
- (d) Income of minor daughter B from special talent \( \text{₹} 32,000 \)
- (e) Interest from bank received by B on fixed deposit made out of her special talent \( \text{₹} 3,000 \)
- (f) Gift received by B on 30.09.2019 from friend of Mrs. X \( \text{₹} 2,500 \)

**Answer:**

Since income of Mr. X is higher, income shall be clubbed in the income of Mr. X

- Interest income (minor son A) \( \text{₹} (15,000 - 1,500) = 13,500 \)
- Income of minor daughter B from special talent shall not be clubbed \( \text{Nil} \)
- Interest income of minor daughter B \( \text{₹} (3,000 - 1,500) = 1,500 \)
- Total income of Mr. X \( \text{₹} (3,90,000 + 13,500 + 1,500) = 4,05,000 \)
- Total income of Mrs. X shall be \( \text{₹} 2,30,000 \)

### NOV – 2004

**Question 1** (3 Marks)

A proprietary business was started by Smt. X in the year 2017. As on 01.04.2018 her capital in business was \( \text{₹} 3,00,000 \). Her husband gifted \( \text{₹} 2,00,000 \), on 10.04.2018, which amount Smt. X invested in her business on the same date. Smt. X earned profits from her proprietary business for the financial years 2018-19, \( \text{₹} 1,50,000 \) and financial year 2019-20 \( \text{₹} 3,90,000 \).

Compute the income, to be clubbed in the hands of X’s husband for the assessment year 2020-21 with reasons.

**Answer:**

- Capital as on 01.04.2019 \( \text{₹} (3,00,000 + 2,00,000 + 1,50,000) = 6,50,000 \)
- Total profits \( \text{₹} 3,90,000 \)
- Amount to be clubbed \( \text{₹} (3,90,000/6,50,000 \times 2,00,000) = 1,20,000 \)

Income relating to the amount gifted shall be clubbed and not any subsequent income from the income so clubbed.

### NOV – 1999

**Question 1** (4 Marks)

Mr. X is the Karta of a HUF, whose members derive income as given below:

- (i) Income of Mr. X from own business \( \text{₹} 5,00,000 \)
- (ii) Income of Mrs. X under the head Salary \( \text{₹} 8,00,000 \)
- (iii) Minor son Deepak (earning interest on fixed deposits with bank, which were gifted to him by his grandfather) \( \text{₹} 15,000 \)
- (iv) Deepak got winnings from lottery (gross) \( \text{₹} 2,00,000 \)
- (v) Minor daughter Priya gave a dance performance and received remuneration \( \text{₹} 1,00,000 \)

Explain how the above will be taxed.

**Answer:**

Since Mrs. X has higher income, income of minor children shall be clubbed in the income of Mrs. X and incomes to be clubbed shall be as given below:

- Interest income + Income of lottery of minor son – Deepak \( \text{₹} (15,000 + 2,00,000) - 1,500 = 2,13,500 \)
- Income of minor daughter Priya shall not be clubbed \( \text{Nil} \)

**Note 1:** Income of Priya arises out of an activity involving application of her talent and is therefore not to be included in the taxable income of her parents [Section 64(1A)].

**Note 2:** Whether exemption under section 10(32) shall be allowed from casual income or not is controversial.
Mr. X is a trader. Particulars of his income and those of the members of his family are given below. These incomes relate to the previous year ended 31st March, 2020:

(i) Income from business—Mr. X’s

(ii) Salary derived from an educational institution by Mrs. X. She is the principal of the institution

(iii) Interest on company deposits derived by master Deep Singh (minor son). These deposits were made in the name of master Deep Singh by his father’s father about 6 years ago (Gross)

(iv) Receipts from sale of paintings and drawings made by minor Dipali Singh (minor daughter and noted child artist)

(v) Income by way of lottery earnings by Master Dipindar Singh (minor son)

Discuss whether the above will form part of the assessable income of any individual and also compute the assessable income of Mr. X.

**Answer:** Since income of Mr. X is higher, income shall be clubbed in the income of Mr. X and such incomes shall be clubbed as follows:

- **Interest income of master Deep Singh (12,000 – 1,500)**
  
- **Income of minor daughter Dipali Singh shall not be clubbed**
  
- **Lottery income of master Dipindar Singh (6,000 – 1,500)**
  
- **Total income of Mr. X shall be (9,00,000 + 10,500 + 4,500)**

**Note:** Whether exemption under section 10(32) shall be allowed from casual income or not is controversial.
INCOME UNDER THE HEAD
OTHER SOURCES

SECTION 56 TO 59

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>SECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from other sources</td>
<td>56</td>
</tr>
<tr>
<td>Deductions while computing income</td>
<td>57</td>
</tr>
<tr>
<td>amounts not deductible</td>
<td>58</td>
</tr>
<tr>
<td>Deemed income chargeable to tax</td>
<td>59</td>
</tr>
<tr>
<td>Deemed dividend</td>
<td>2(22)</td>
</tr>
<tr>
<td>Method of accounting</td>
<td>145</td>
</tr>
</tbody>
</table>

Question 1: What are the incomes taxable under the head Other Sources.
Answer: Incomes taxable under the head Other Sources Section 56
If any income cannot be taxed under first 4 heads, such income shall be taxable under the head other sources and such income may be
1. Interest income
2. Dividend income
3. Casual income
4. Gift
5. Family pension
6. Payment received under keyman insurance policy to a person who is not an employee
7. Income from owning and maintaining of race horses
8. Forfeiture of advance money
9. Any other income which is not taxable under first four heads.

Question 2 [Imp.]: Discuss the deductions allowable under section 57 of the Income Tax Act, 1961, in respect of Income from Other Sources.
Answer:

Deductions allowable under Section 57
While computing income under the head other sources, expenses incurred in connection with earning of such income shall be allowed to be deducted.

Amounts not deductible Section 58
While computing income, any personal expense shall not be allowed to be deducted and also in case of capital expenditure only depreciation shall be allowed.

As per section 58(4), no deduction in respect of any expenditure or allowance shall be allowed in computing the income by way of any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature, whatsoever.
e.g. Mr. X purchased lottery tickets of ₹10,000 and he had a winning of ₹1,00,000, in this case, his income shall be considered to be ₹1,00,000 and expenditure of ₹10,000 shall not be allowed.

Profits chargeable to tax Section 59
If the assessee has claimed any expenditure while computing income and subsequently he has recovered the same amount, the amount so recovered shall be considered to be income of the year in which amount has been recovered.
**Question 3:** Write a note on Family Pension.

**Answer: Family Pension**

Regular payments given by the employer to the employee after retirement is called pension and it is taxable under the head Salary. After the death of the employee, employer may pay some pension to the family member of the employee and it is called family pension. It is taxable under the head Other Sources but as per section 57 deduction is allowed equal to 1/3rd of such pension but maximum ₹15,000. E.g. Mrs. X is getting family pension of ₹5,000 p.m., in this case taxable amount shall be (5,000 x 12)minus 1/3 of ₹60,000 or ₹15,000 whichever is less i.e. taxable amount shall be ₹45,000

**Illustration 1:** Mrs. X is getting family pension of ₹7,000 p.m. She also has dividend income from domestic company of ₹7,00,000. She has long term capital gain of ₹3,89,000.

Compute her tax liability for assessment year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Pension</td>
<td>84,000</td>
</tr>
<tr>
<td>(7,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Less: Deduction u/s 57</td>
<td>(15,000)</td>
</tr>
<tr>
<td>1/3 of ₹84,000 or ₹15,000 whichever is less</td>
<td></td>
</tr>
<tr>
<td>Dividend income (exempt u/s 10(34))</td>
<td>Nil</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>69,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td></td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>3,89,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>4,58,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,58,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹2,08,000 (₹3,89,000 – ₹1,81,000) @ 20% u/s 112</td>
<td>41,600</td>
</tr>
<tr>
<td>Tax on ₹69,000 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>41,600</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before HEC</td>
<td>29,100</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,164</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>30,264</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>30,260</td>
</tr>
</tbody>
</table>

**Question 4:** Write a note on taxability of interest received on late payment of compensation from the government.

**Answer:**

As per section 145A, **interest received for late payment of compensation** from the Government or other similar agency in connection with compulsory acquisition of land or building shall be taxable in the year in which it has been received and it will be taxable under the head other sources however, **deduction shall be allowed @ 50% of such interest**, e.g. Government has acquired one land of Mr. X in Noida in 2012 and payment was given by the Government in the year 2019-20 and has also paid interest of ₹1,00,000, in this case, taxable amount shall be ₹1,00,000 – ₹50,000 = ₹50,000.

**Illustration 2:** Interest on enhanced compensation received by Mr. X during the previous year 2019-20 is ₹5,00,000. Out of this interest, ₹1,50,000 relates to the previous year 2016-17, ₹1,65,000 relates to previous year 2017-18 and ₹1,85,000 relates to previous year 2018-19. Discuss the tax implication, if any, of such interest income for A.Y.2020-21.

**Solution:**

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y.2019-20.

<table>
<thead>
<tr>
<th>particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on enhanced compensation taxable u/s 56</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Less: Deduction under section 57 @ 50%</td>
<td>(2,50,000)</td>
</tr>
<tr>
<td>Interest chargeable under the head “Income from other sources”</td>
<td>2,50,000</td>
</tr>
</tbody>
</table>
NOV – 2013 (4 Marks)

State with brief reasoning whether the following receipts are chargeable to income-tax or are exempt (if chargeable, the amount taxable is to be mentioned) for the assessment year 2020-21:

<table>
<thead>
<tr>
<th>Nature of receipt</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Interest on enhanced compensation received on 12.03.2020 for acquisition of urban land, of which 40% relates to the earlier year.</td>
<td>96,000</td>
</tr>
<tr>
<td>(ii) Rent received for letting out agricultural land for a movie shooting.</td>
<td>72,000</td>
</tr>
</tbody>
</table>

Computation is NOT required.

Solution:

(i) Yes, it is chargeable to tax.

As per section 145A, interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y.2019-20 under section 56 after providing deduction of 50% under section 57. Therefore, ₹ 48,000 is chargeable to tax under the head “Income from other sources”.

(ii) Yes, it is chargeable to tax.

Agricultural income is exempt from tax as per section 10(1). Agricultural income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹ 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head “Income from other sources”.

NOV – 2011 (2 Marks)

On 10.10.2019, Mr. X (a bank employee) received ₹5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2015-16.

Out of this interest, ₹1,50,000 relates to the financial year 2016-17; ₹1,65,000 to the financial year 2017-18; and ₹1,85,000 to the financial year 2018-19. He incurred ₹50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2020-21?

Answer:

**Computation of amount chargeable to tax**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on enhanced compensation received</td>
<td>5,00,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 57</td>
<td>(2,50,000.00)</td>
</tr>
<tr>
<td>(5,00,000 x 50/100)</td>
<td></td>
</tr>
<tr>
<td>Amount chargeable to tax</td>
<td>2,50,000.00</td>
</tr>
</tbody>
</table>

**Question 5 [V. Imp.]: Write a note on taxability of Dividend Income.**

**Answer: Dividend Income Section 56**

Dividend income from the domestic company shall be exempt from tax in the hands of the shareholder as per section 10(34). However dividends from a foreign company shall continue to be taxed in the hands of the shareholder.

As per section 115BBDA, Dividend received by All Assessee except a domestic company or a fund or institution or trust or any university, exceeding ₹10 lakh shall be taxable @ 10%. No further deduction or expenditure shall be allowed from such income.

As per section 115O the domestic company has to pay additional income tax @ 15% + surcharge @ 12% + HEC @ 4%.

The effective rate shall be 15%

Add: Surcharge @ 12% 1.8%
Add: HEC @ 4% 0.672%
Total 17.472%
Example
ABC Ltd. is a domestic company and has total income ₹80,00,000. Turnover in P.Y. 2017-18 was 405 crore. It has declared the dividends of ₹10,00,000 and one of the shareholders Mr. X gets dividends of ₹25,000. In this case, tax liability of the company and Mr. X shall be:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>₹80,00,000.00</td>
</tr>
<tr>
<td>Income tax @ 30%</td>
<td>₹24,00,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹96,000.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹24,96,000.00</td>
</tr>
<tr>
<td>Additional Income Tax</td>
<td>₹2,11,709.97</td>
</tr>
<tr>
<td>(10,00,000 / 82.528% x 17.472%)</td>
<td></td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹2,11,710.00</td>
</tr>
<tr>
<td>Tax liability of Mr. X shall be nil.</td>
<td></td>
</tr>
</tbody>
</table>

The company has to pay surcharge on additional income tax in every case even if total income is less than ₹100,00,000.

Alternative Calculation:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of Dividend</td>
<td>₹10,00,000.00</td>
</tr>
<tr>
<td>Additional Income Tax</td>
<td>₹1,76,470.59</td>
</tr>
<tr>
<td>(10,00,000 / 85% x 15%)</td>
<td></td>
</tr>
<tr>
<td>Add: Surcharge @ 12%</td>
<td>₹21,176.47</td>
</tr>
<tr>
<td>Tax plus Surcharge</td>
<td>₹1,97,647.06</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹7,905.88</td>
</tr>
<tr>
<td>Total Amount of AIT</td>
<td>₹2,05,552.94</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹2,05,550.00</td>
</tr>
</tbody>
</table>

Illustration 3: ABC Ltd. has current profits of ₹150 lakhs and the company has distributed dividends of ₹55 lakhs. Turnover in P.Y. 2017-18 was 402 crore. Compute income tax liability of the company and that of shareholder. Calculate additional income tax payable by the company also.

Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>₹150,00,000.00</td>
</tr>
<tr>
<td>Income tax on ₹150,00,000 @ 30%</td>
<td>₹45,00,000.00</td>
</tr>
<tr>
<td>Surcharge @ 7%</td>
<td>₹3,15,000.00</td>
</tr>
<tr>
<td>HEC @ 4%</td>
<td>₹1,92,600.00</td>
</tr>
<tr>
<td>Income tax liability</td>
<td>₹50,07,600.00</td>
</tr>
<tr>
<td>Dividend</td>
<td>₹55,00,000.00</td>
</tr>
<tr>
<td>55,00,000 + (55,00,000 / 82.528% x 17.472%)</td>
<td>₹66,64,404.81</td>
</tr>
<tr>
<td>Additional income tax</td>
<td>₹11,64,404.81</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹11,64,400.00</td>
</tr>
</tbody>
</table>

Dividend chargeable to tax

If any person has received any dividend from a foreign company such dividends shall be chargeable to tax in the hands of the shareholder.

MEANING OF DIVIDEND  SECTION 2(22)

The term dividend has a very limited meaning under Companies Act but it has a very wide meaning under Income Tax Act and is called deemed dividend and it is divided into 5 parts:

- **Distribution in cash or as assets**  Section 2(22)(a)
  If any company has distributed any amount to its shareholders either in cash or in kind, it will be considered to be dividend but only to the extent of accumulated profits.

  **Example**
  ABC Ltd. has share capital of ₹35 lakhs. The company has general reserve of ₹25 lakhs and has distributed dividends. One of the shareholders Mr. X has received dividend of ₹27,000 and is holding 2% of the shares. In this case, entire amount of ₹27,000 received by him shall be considered to be dividend.

- **Issue of bonus shares etc.**  Section 2(22)(b)
If any company has issued bonus shares to the equity shareholders, it will not be considered to be dividend but if the bonus shares have been issued to the preference shareholders, it will be considered to be dividend but to the extent of accumulated profits whether capitalised or not. Further, market value of the bonus shares shall be taken into consideration.

**Example**

Mr. X is holding 100 preference share in ABC Ltd. The company has issued him 100 bonus shares and their market value is ₹1,200. In this case, it will be considered to be dividend but only to the extent of accumulated profits whether capitalized or not.

**Distribution on liquidation Section 2(22)(c)**

If any company has distributed any amount to its shareholders in connection with its liquidation, it will be considered to be dividend but only to the extent of accumulated profits and any excess over it shall be considered to be full value of consideration as per section 46 and capital gains shall be computed accordingly.

**Example**

ABC Ltd. has 1,00,000 equity shares of ₹10 each and the company goes into liquidation on 31.07.2019 and company has net distributable amount of ₹60 lakhs after discharging all the liabilities including income tax and additional income tax and it includes accumulated profits of ₹20 lakhs and the entire amount was distributed among the shareholders and Mr. X is holding 10,000 equity shares which were purchased by him on 01.03.2019 for ₹1,10,000, in this case, tax treatment shall be as given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Distributable Amount</td>
<td>60,00,000</td>
</tr>
<tr>
<td>Share of Mr. X (10%)</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Share of Mr. X out of accumulated profits which is considered dividend u/s 2(22)(c)</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Balance to be considered full value of consideration</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition of shares</td>
<td>(1,10,000)</td>
</tr>
<tr>
<td>Short term Capital Gain</td>
<td>2,90,000</td>
</tr>
<tr>
<td>Dividend u/s 2(22)(c) shall be exempt u/s 10(34)</td>
<td></td>
</tr>
<tr>
<td>Tax liability on ₹ 2,90,000 at slab rate</td>
<td>2,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**MAY – 2008 (5 Marks)**

Mr. X purchased 10,000 equity shares of ABC Co. Pvt. Ltd. on 28.02.2019 for ₹1,20,000. The company was wound up on 31.07.2019. The following is the summarized financial position of the company as on 31.07.2019:

<table>
<thead>
<tr>
<th>Liability</th>
<th>₹</th>
<th>Assets</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,00,000 Equity shares</td>
<td>10,00,000</td>
<td>Land</td>
<td>42,00,000</td>
</tr>
<tr>
<td>General reserve</td>
<td>40,00,000</td>
<td>Cash at bank</td>
<td>10,50,000</td>
</tr>
<tr>
<td>Provision for taxation</td>
<td>2,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>52,50,000</strong></td>
<td></td>
<td><strong>52,50,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

The tax liability (towards dividend distribution tax) was ascertained at ₹3,00,000. The remaining assets were distributed to the shareholders in the proportion of their shareholding. The market value of land as on 31.07.2019 is ₹100,00,000.

The land received above was sold by Mr. X on 28.02.2020 for ₹15,00,000.

Discuss the tax consequences in the hands of the company and Mr. X

**Answer.**

**In the hands of the company:**

As per section 46, if any company is in liquidation and it has sold its assets to its shareholders, no capital gains shall be computed in the hands of the company hence in the given case there is no capital gains for sale of land to shareholder.

**In the hands of Mr. X (shareholder)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. X holds 1/10th of the shareholding of the company</td>
<td></td>
</tr>
</tbody>
</table>
Market value of land received (1/10 x 100,00,000) 10,00,000
Cash at bank [1/10 of ₹ (10,50,000 – ₹ 3,00,000)] 75,000

Less: Deemed Dividend u/s 2(22)(c) 1/10th of (₹40,00,000-₹ 50,000) (3,95,000)
Consideration for computing Capital Gain 6,80,000
Cost of acquisition of Shares 1,20,000

Short term capital gains 5,60,000

Mr. X has received the land from the company for ₹10 lakh but it has been sold by him for ₹15 lakh, in this case capital gains shall be computed in the manner given below:

Particulars ₹
Sale consideration 15,00,000
Less : Fair market value of the land on the date of distribution (10,00,000)

Short term capital gain 5,00,000

Dividend u/s 2(22)(c) ₹ 3,95,000 will be exempt under section 10(34).

Distribution on reduction of share capital Section 2(22)(d)
Any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits e.g. Mr. X is holding 100 shares in ABC Ltd. of ₹10 each and company has paid ₹5 per share in connection with reduction of share capital, in this case amount so received shall be considered to be dividend but only to the extent of accumulated profits including capitalized profits.

Example
Mr. X is holding 1000 shares of ABC Ltd. of ₹10 each and company has reduced its share capital and has refunded ₹5 per share to the shareholders, the amount so received by the shareholders shall be considered to be dividend to the extent of accumulated profit.

Loan and advance by a closely held company Section 2(22)(e)
If any closely held company (also called company in which public are not substantially interested) has given any loan or advance to an equity shareholder who is holding not less than 10% of the voting power of the company, in such cases such loan or advance shall be considered to be dividend in the hands of such shareholder but only to the extent of accumulated profits excluding capitalized profits (however AIT shall be paid by the company) e.g. ABC Pvt. Ltd. a closely held company has general reserves of ₹7,00,000 and current profits of ₹2,00,000. The company has given a loan of ₹3,00,000 to one such shareholder Mr. X. in this case, it will be considered to be dividend in the hands of Mr. X. (however AIT shall be paid by the company) If loan given by the company is ₹10,00,000, the amount of dividend shall be ₹9,00,000.

Example
(i) Mr. X is the beneficial owner of 10% equity shares in ABC Pvt. Ltd. and the company has general reserve of ₹10,00,000 and has given a loan of ₹6,00,000 to a partnership firm XY in which Mr. X is holding 20% shares. In this case, the loan so given shall be considered to be dividend in the hands of partnership firm (however AIT shall be paid by the company).
(ii) Mr. X is a shareholder in a Company A as well as Company B. He has 10% shareholding in Company A and 20% shareholding in Company B. The accumulated profits of Company A = ₹10 lakh. A loan of ₹12 lakh is given by Company A to Company B. This loan up to the extent of accumulated profits of ₹ 10 lakh is treated as dividend and is taxable in the hands of Company B (however AIT shall be paid by the company).

If the loan or advance has been given to any person on behalf of such a shareholder, it will also be considered to be dividend.

If any such company has the business of lending as substantial part of its business, in such cases the above provisions shall not apply e.g. ABC Pvt. Ltd. is a closely held company and is engaged in banking business (lending of money), in this case section 2(22)(e) is not applicable for ABC Pvt. Ltd.

‘Concern’ means a Hindu Undivided Family, or a firm or an association of persons or a body of individuals or a company.
As per section 2(22)(e), if any trade advance is given to the shareholder covered under section 2(22)(e), it will not be considered to be dividend, eg. Mr. X is holding 10% share in XYZ private limited a closely held company and Mr. X is supplying certain goods to the company and has received some advance, it will not be considered to be dividend.

MAY – 2011 (2 Marks)

Mr. X holding 28% of equity shares in a company took a loan of ₹5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹4,00,000. The company is engaged in some manufacturing activity.

(i) Is the amount of loan taxable as deemed dividend in the hands of Mr. X, if the company is a company in which the public are substantially interested?

(ii) What would be your answer, if the lending company is a private limited company (i.e.) a company in which the public are not substantially interested?

Answer:
Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

(i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.

(ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Mr. X holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹4,00,000 and not the amount of loan which is ₹5,00,000 (however AIT shall be paid by the company).

Question 6 [V. Imp.]: Write a note on taxability of Casual Income.
Answer: Casual Income Section 56

Under section 2(24)(ix), casual income shall include card games, cross word puzzles, betting, races including horse races, any game show on electronic media or any other gambling.

While computing income from casual income, as per section 58(4) no expenditure or allowance or deductions shall be allowed and accordingly the gross receipt itself shall be considered to be income.

Example
Mr. X purchased one lottery ticket of ₹10,000 and there was a winning of ₹1,20,000. In this case, his taxable income shall be ₹1,20,000 and tax liability shall be

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹1,20,000 @ 30%</td>
<td>36,000</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
</tr>
<tr>
<td>Tax before HEC</td>
<td>23,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>940</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>24,440</td>
</tr>
</tbody>
</table>

- Since no expenditure etc. is allowed hence there cannot be any loss from casual income, accordingly set off and carry forward is not applicable.
- Casual income shall be taxed at flat rate of 30%.

Question 7. Write a note on taxability of income from Owning and Maintaining of Race Horses.
Answer: Income from Owning and Maintaining of Race Horses Section 56

If any person has income from owning and maintaining of race horses, such income shall be taxable under the head other sources and income shall be computed in the normal manner and will be taxed at the
normal rates.
As per Section 74A, If any person has any loss from the activities of owning and maintaining race horse, such loss is not allowed to be set off from any income under any head. However, if the assessee has any other business of owning and maintaining race horses, loss of one such business can be set off from the income of other such business.
If the loss can not be set off, it will be allowed to be carried forward, but such carry forward is allowed for a maximum period of **four years** and brought forward loss can be set off only from the income of owning and maintaining race horses.

**Income from owning and maintaining of any other animal**
If the assessee is engaged in the business of owning and maintaining any other animal, his income shall be computed **under the head business/profession** because section 56 includes only income from owning and maintaining race horses. E.g. Mr. X has income from owning and maintaining of race camels, in this case income shall be taxable under the head business/profession.

E.g. (i) Mr. X has loss of ₹5,00,000 from owning and maintaining of race horses and income under the head house property ₹5,00,000, in this case loss is not allowed to be setoff, however its carry forward is allowed for a period of 4 years.
(ii) Mr. X has loss of ₹2,00,000 from house property and income from owning and maintaining of race horses ₹2,00,000, in this case loss is allowed to be setoff.
(iii) Mr. X has loss of ₹5,00,000 from business/profession and income from owning and maintaining of race horses ₹5,00,000, in this case loss is allowed to be setoff.
(iv) Mr. X has loss of ₹5,00,000 from owning and maintaining of race horses and income under the head capital gains ₹5,00,000, in this case loss is not allowed to be setoff, however its carry forward is allowed for a period of 4 years.

**Question 8 [Imp.]: Write a note on taxability of interest income.**
**Answer:** Taxability of interest income   Section 56
Any Interest income shall be taxable under the head Other Sources however some of the interest incomes shall be exempt from income tax under section 10(15) and are as given below:
1. Interest on Capital Investment Bonds issued by the Government.
2. Interest on Relief Bonds issued by RBI.
3. Interest on Post Office Savings Bank Account to the extent of ₹3,500 per year and in the case of joint account, exemption shall be allowed upto ₹7,000 per year.
4. Any other interest income notified under section 10(15).

**Question 9: Explain taxability of Interest or dividend income from UTI or Mutual Funds.**
**Answer:** Interest or dividend income from UTI or Mutual Funds   Section 10(35)
If any person has received any interest or dividend from the UTI or Mutual Fund notified under section 10(23D), such income is exempt from income tax.
If UTI or Mutual Funds have distributed any interest or dividend, as per section 115R, UTI, Mutual Funds, have to pay additional income tax (Corporate dividend tax) at the rate of 25% plus surcharge @ 12% plus HEC @ 4%, if the amount is distributed to individual or Hindu Undivided Family.
If amount is distributed to any other person, rate shall be 30% plus surcharge @ 12% plus HEC @ 4%.

**Question 10: Explain taxability of income from letting out of building alongwith furniture, fixtures etc.**
**Answer:** If any person has let out any building alongwith plant and machinery and furniture, fixtures etc. and it is not a case of composite rent and also income is not taxable under the head business/profession, in such cases income shall be taxable under the head Other Sources and while computing income all expenses incurred shall be allowed to be deducted e.g. Mr. X has one factory building along with machines and furniture in Bombay which has been let out @ ₹50,000 p.m. Repair charges of the building is ₹7,000 and that of furniture fixtures are ₹4,000, insurance premium paid ₹3,000 and depreciation is ₹27,000, in this case income shall be computed in the manner given below:

**Solution:**
\[
\begin{align*}
\text{Gross Rent (50,000 x 12)} & \quad 6,00,000 \\
\text{Less: Repair of building} & \quad (7,000)
\end{align*}
\]
Less: Repair of Furniture and fixtures (4,000)
Less: Insurance premium (3,000)
Less: Depreciation (27,000)
Income under the head Other Sources 5,59,000

**Question 11: Write a note on Books of Accounts.**

**Answer:** Books of Accounts Section 145

A person is not required to maintain any books of accounts under the head salary or house property or capital gains and income has to be computed as per the procedure given in the relevant head.

Books of accounts are required under the head Business/Profession and under the head Other Sources. An assessee has the option to maintain books of accounts either on the basis of mercantile system of accounting or on cash basis. Any system of accounting once adopted has to be followed consistently, however it can be changed with the permission of Assessing Officer.

**Example**

Mr. X has deposited ₹10,00,000 in ABC Ltd. @ 10% p.a. and interest income is due on yearly basis on 31st March every year. Interest income which was due on 31.03.2020 was received on 01.04.2020. In this case, if the assessee is maintaining books of account on the basis of mercantile system of accounting, income is taxable in previous year 2019-20, and if the books are maintained on cash basis, income is taxable in the previous year 2020-21.

**Question 12: Write a note on payment under keyman insurance policy.**

**Answer:** Payment under Keyman Insurance Policy

Sometimes employer may take a life policy in the name of any of his employees who are considered to be very important for business or profession and such policy is called keyman insurance policy and premium is paid by employer and employer is allowed to debit it to profit and loss account and amount received on maturity shall be considered to be income of employer as per section 28.

If any payment has been received by the employee, it will be considered to be income under the head salary. Similarly a policy may be taken in the name of any other person who is considered to be very important for the business of the employer, such policy is also called keyman insurance policy. If payment has been received by such other person, it will be considered to be his income under the head other sources as per section 56.

**Question 13: Write a note on forfeiture of advance money.**

**Answer:** Forfeiture of advance money

If any person has entered into an agreement to sell any capital asset and some advance money was received but the buyer refused to purchase the capital asset and advance money was forfeited, in such cases the amount so forfeited shall be considered to be income under the head Other Sources. e.g. Mr. X has entered into agreement to sell a house property for ₹50 lakh to Mr. Y and advance money of ₹5,00,000 was received but Mr. Y refused to purchase the property and advance money was forfeited, in this case ₹5,00,000 shall be considered to be income of Mr. X under the head Other Sources.

**Question 14 [Imp.]: Write short note on Set Off and Carry Forward of loss arising under the head “Income from Other Sources”.**

**Answer:** Set Off and Carry Forward of Losses under the head “Income from Other Sources”

As per section 70, if there is loss in one source under the head other sources, such loss can be set off from income of any other source under the same head.

However, as per section 58(4), no deduction or set off shall be allowed from the income by way of any winnings from lotteries, crossword puzzles, races including horse races, card games, and other games of any sort or from gambling or betting of any form whatsoever. 

As per section 71, if the loss can not be set off under the same head, it can be set off from the incomes of other heads.

If the loss can not be set off even from the incomes of other heads, its carry forward is not allowed.

e.g. (i) Mr. X has loss under the head other sources ₹2,00,000 and income under the head other sources ₹5,00,000, in this case loss is allowed to be setoff.

(ii) Mr. X has loss under the head other sources ₹2,00,000 and income under the head house property ₹5,00,000, in this case loss is allowed to be setoff.
(iii) Mr. X has loss under the head other sources ₹2,00,000 and income from owning and maintaining of race horses ₹5,00,000, in this case loss is allowed to be setoff.
(iv) Mr. X has loss under the head other sources ₹2,00,000 but do not have income under any other head, in this case carry forward of loss is not allowed.

**Illustration 4:** Mr. X has taken a loan of ₹1,00,000 @ 10%. The amount was invested by him in the securities of one company. During the year he has received gross interest of ₹18,000 and has paid collection charges to the bank ₹500. He has paid interest ₹10,000 on the loan taken by him for investment and has long term capital gain of ₹2,80,000.
Compute his tax liability for assessment year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Interest</td>
<td>18,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>(i) Bank Charges u/s 57</td>
<td>(500)</td>
</tr>
<tr>
<td>(ii) Interest paid for borrowing the amount u/s 57</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>7,500</td>
</tr>
<tr>
<td>Income under the head Capital Gains (LTCG)</td>
<td>2,80,000</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,87,500</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

| Tax on ₹37,500 (₹2,80,000 – ₹2,42,500) @ 20% u/s 112 | 7,500 |
| Tax on ₹7,500 at slab rate                          | Nil   |
| Less: Rebate u/s 87A                                | (7,500) |
| Tax Liability                                       | Nil   |

**Illustration 5 (From RTP):** Mr. X reports the following transactions to you:
(i) Received cash gifts on the occasion of his marriage on 15.06.2019 of ₹1,08,000. It includes gift of ₹28,000 received from non-relatives.
(ii) On 15.08.2019, being his birthday, he received a gift by means of cheque from his mother's maternal aunt for an amount of ₹49,000.
(iii) On 25.12.2019 he acquired a vacant site from his friend for ₹1,50,000. The State stamp valuation authority fixed the value of site at ₹2,25,000 for stamp duty purpose.
(iv) He bought 200 equity shares of a listed company from another friend for ₹75,000.
The value of shares in the stock exchange on the date of purchase was ₹1,75,000.
(v) A cell phone worth ₹21,000 is gifted by his friend on 16.8.2019
Determine the amount chargeable to tax in the hands of Mr. X for the Assessment Year 2020-21.
Your answer should be supported with reasons.

**Solution:**

**Computation of amount chargeable to tax in hands of Mr. X for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Cash gift of ₹1,08,000 received on the occasion of his marriage is not taxable since gifts received by an individual on the occasion of marriage are excluded under section 56, even if the same are from non-relatives.</td>
<td>Nil</td>
</tr>
<tr>
<td>(ii) Even though mother's maternal aunt does not fall within the definition of “relative” under section 56, gift of ₹49,000 received from her by cheque is not chargeable to tax since the aggregate sum of money received by Mr. X without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2019-20 does not exceed ₹50,000.</td>
<td>Nil</td>
</tr>
<tr>
<td>(iii) Purchase of land for inadequate consideration on 25.12.2019 would attract the provisions of section 56. Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of the individual. Therefore, in the given case ₹75,000 is taxable in the hands of Mr. X. (Difference amount is more than ₹50,000 and more than 5% of the consideration)</td>
<td>75,000</td>
</tr>
</tbody>
</table>
(iv) Since shares are included in the definition of “property” and difference between the purchase price and fair market value of shares is ₹ 1,00,000 (₹ 1,75,000 – ₹ 75,000) i.e. it exceeds ₹ 50,000, the difference would be taxable under section 56.

(v) Cell phone is not included in the definition of “property” as per section 56. Hence, it is not taxable.

| Amount chargeable to tax | 1,75,000 |

Question 15: Write a note on income of closely held company by issue of Shares.
**Answer:** As per Section 56(2) (viib), if any closely held company has issued shares at a value exceeding the market value, in such cases excess over market value shall be considered to be income of closely held company under the head other sources. E.g. ABC Private Limited is a closely held company and market value of its shares is ₹20 per share but company has issued share at a rate of ₹100 per share, in this case ₹80 shall be considered to be income of the company.

Question 16: Write a note on Bond Washing Transactions.
**Answer:** Bond Washing Transactions Section 94
If any person has transferred any security in the name of any other person sometimes before the due date and has reacquired it sometimes after the due date in order to evade tax, it will be considered to be a bond washing transaction and income shall be considered to be of the person who has manipulated in this manner.

**Example**
Mr. Yuvraj Arora has purchased security of ₹10,00,000 in ABC Ltd. on 01.04.2019 @ 10% and interest is due on half yearly basis i.e. on 30th Sept and 31st March of every year. If Mr. Yuvraj Arora has transferred this security just before the due date in the name of any other person through a fictitious sale transaction and has re-transferred it in his name after the due date through a fictitious purchase transaction so that he can evade tax, it will be called bond washing transaction and in such cases interest income is taxable in the hands of Mr. Yuvraj Arora.

[This practice is generally adopted by high-income class assessees to evade the tax by transferring securities to low income class assessees on the eve of due date of payment of interest.]

Question 17: Write a note on Dividend Stripping.
**Answer:** Dividend Stripping Section 94
As per section 94, if any person buys any securities or units within a period of three months prior to the record date and such person sells such securities within a period of three months after such date, or such units within a period of nine months after such date and the dividend or income on such securities or units received or receivable by such person is exempted, then, the loss, if any, arising therefrom shall not be allowed to be setoff or carried forward but if such loss is more than the amount of income, in that case excess over such income shall be allowed to be setoff or carried forward.

**Example:** Mr. X purchased equity shares of ₹1,00,000 of ABC limited on 01.11.2019 and company declared dividend of ₹10,000 and record date is 31.12.2019. Mr. X sold the shares on 10.11.2019 to Mr. Y for ₹1,08,000 and Mr. Y received dividend of ₹10,000 from the company on 31.12.2019. He sold the shares on 10.01.2020 for ₹1,01,000, in this case loss of ₹7,000 shall not be allowed to be setoff or carried forward.
MULTIPLE CHOICE QUESTIONS

1. Income from letting of machinery, plant and furniture is -
   (a) always chargeable to tax under the head “Profits and gains of business and profession”
   (b) always chargeable to tax under the head “Income from other sources”
   (c) chargeable under the head “Income from other sources” only if not chargeable under the head “Profits
   and gains of business and profession”
   (d) chargeable to tax under the head “Income from house property”

2. In respect of winnings from lottery, crossword puzzle or race including horse race or card game etc.
   (a) no deduction under Chapter VI-A is allowed and basic exemption limit cannot be exhausted
   (b) no deduction under Chapter VI-A is allowed but unexhausted basic exemption can be exhausted
   (c) both deduction under Chapter VI-A and basic exemption are allowed
   (d) deduction under Chapter VI-A is allowed but basic exemption limit cannot be exhausted

3. The deduction allowable in respect of family pension taxable under “Income from other sources” is
   (a) 33-1/3% of the pension
   (b) 30% of the pension or ₹15,000, whichever is less
   (c) 33-1/3% of the pension or ₹15,000, whichever is less
   (d) 30% of the pension

4. The deduction in respect of interest on enhanced compensation of ₹1,50,000 received during the
   previous year 2019-20, would be –
   (a) ₹ 1,50,000, being 100% of ₹ 1,50,000
   (b) ₹ 75,000, being 50% of ₹ 1,50,000
   (c) ₹ 45,000, being 30% of ₹ 1,50,000
   (d) Nil

5. Mr. Arjun, aged 53 years, has a total income of ₹51 lakhs for A.Y.2020-21. His total income
   comprises of salary, income from house property and interest on savings bank account. His tax
   liability for A.Y.2020-21 would be –
   (a) ₹ 13,96,200
   (b) ₹ 14,82,000
   (c) ₹ 15,35,820
   (d) ₹14,69,000

6. Mr. Harish, aged 40 years, earned interest of ₹15,000 during P.Y. 2019-20 from post office savings
   bank account. What portion of such income would be ultimately included in his total income?
   (a) ₹15,000
   (b) ₹5,000
   (c) ₹1,500
   (d) Nil

7. Which of the following statement is not correct?
   (a) Loss from owning and maintaining of race horses cannot be set off from the income of house property
   (b) Loss from owning and maintaining of race horses cannot be set off from any income except income of
   owning and maintaining race horses
   (c) Loss from owning and maintaining of race horses is allowed to be carry forward for a period of 4 years
   (d) Loss from owning and maintaining of race horses is allowed to be carry forward for a period of 4 years
   and in subsequent years it can be set off from any income

8. Jenny has invested in debt securities of Haryali Pvt. Ltd., a company deriving its main source of
   income from business of growing and processing organic vegetables and fruits. Thus, the company has
   80% of income exempt as agricultural income and 20% is taxable as business income. During the P.Y.
   2019-20, Jenny derived ₹ 5,000 as interest income from the above investments. Which of the following
   statements are correct on taxability:
   (a) Interest will be exempt from tax to the extent of 80%, since Haryali Pvt. Ltd has 80% exempted income.
   (b) Interest will be exempt from tax to the extent of 20%, since Haryali Pvt. Ltd has claimed 80% of income
   as exempt.
   (c) Interest will be fully taxable
   (d) Interest will be fully exempt

9. Which of the following statements is not correct?
   (a) Issue of bonus shares to the preference shareholders shall be considered to be dividend
   (b) Issue of bonus shares to the equity shareholders shall be considered to be dividend
   (c) Distribution on the liquidation to the extent of accumulated profits shall be considered to be dividend
   (d) None of these
10. Loan or advance by a closely held company shall be dividend
(a) If such loan and advance has been given to any equity shareholder who is holding not less than 20% of the voting power of the company
(b) If such loan and advance has been given to any equity shareholder who is holding not less than 10% of the voting power of the company
(c) If such loan and advance has been given to any equity shareholder who is holding not less than 15% of the voting power of the company
(d) If such loan and advance has been given to any equity shareholder who is holding not less than 12% of the voting power of the company
(e) None of these

11. Which is the correct statement.
(a) Section (2)(22)(a), 2(22)(b) and 2(22)(e) is applicable only in case of a closely held company
(b) Section (2)(22)(a), 2(22)(b) and 2(22)(e) is applicable only in case of a widely held company
(c) Section (2)(22)(a), 2(22)(b) and 2(22)(c) is applicable only in case of a closely held company
(d) Section (2)(22)(a), 2(22)(b) and 2(22)(c) is applicable in case of all the companies
(e) None of these

12. Salary received by a member of parliament is taxable under the head
(a) Salary  (b) Business/Profession  (c) Capital Gains  (d) Other Sources
(e) None of these

13. Salary and interest received by a partner from a partnership firm shall be
(a) Exempt from Income tax
(b) Salary taxable under the head salary and interest taxable under the head other sources
(c) Salary taxable under the head Business/Profession and interest taxable under the head other sources
(d) Salary taxable under the head salary and interest taxable under the head Business/Profession
(e) Salary taxable under the head Business/Profession and interest taxable under the head Business/Profession
(f) None of these

14. Mr. X has taken a loan and the amount was given as deposit to a company and interest received is less than interest paid, in this case loss can be
(a) Set off within the same head including casual income
(b) Set off within the same head excluding casual income and also its carry forward is allowed
(c) Set off within the same head excluding casual income or it can be set off from the income of other heads but its carry forward is not allowed
(d) None of these

15. Mr. X received a cell phone as a gift from his friend valued ₹ 1,00,000, in this case
(a) It is taxable under the head Other Sources
(b) It is taxable under the head Salary
(c) It is taxable under the head Business/Profession
(d) It is not taxable
(e) None of these

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

TOTAL PROBLEMS 6

Problem 1.
Mr. X has income from business of owning and maintaining race camels ₹60,000, loss from owning and maintaining race horses ₹7,000 and income from horse races ₹7,000. He has brought forward business loss of ₹7,000 of the assessment year 2007-08 and brought forward business loss of ₹7,000 of the assessment year 2015-16.
Compute his tax liability for the assessment year 2020-21.
Answer = Total Income: ₹60,000; Tax Liability: Nil; Carry forward loss from owning and maintaining race horses: ₹7,000

Problem 2.
Mr. X has income from owning and maintaining of race horses ₹4 lakhs and loss from horse races ₹10 lakhs.
Determine his tax liability for the assessment year 2020-21.
Answer = Tax Liability: Nil

Problem 3.
Mr. X has loss from owning and maintaining of race horses ₹4 lakhs and income from owning and maintaining of race camels ₹4 lakhs.
Determine his tax liability for the assessment year 2020-21.
Answer = Tax Nil; Carry forward loss from owning and maintaining of race horses: ₹4,00,000

Problem 4.
Find the tax liability of Mrs. X (age 40 years), a resident individual, for the assessment year 2020-21. From the following particulars of her incomes and spending for the previous year ending March 31st, 2020.

| Income from house property (Computed) | 90,000 |
| Dividend from UTI | 35,000 |
| Family pension (gross) | 90,000 |
| Interest on bank FD (gross) | 14,000 |
| Dividend from foreign company | 36,000 |
| Gift received from her sister | 26,000 |
| Winnings from lotteries (gross) | 70,000 |
| Long-term capital gain | 1,20,000 |
| Payment for purchase of National Savings Certificates | 35,000 |

Answer = Tax Liability: ₹19,240

Problem 5.
Mr. X has submitted information given below.

i) Income from owning and maintaining of race horse ₹2,00,000.
ii) Income from owning and maintaining of race camels ₹1,00,000.
iii) He had winning of ₹1,60,000 from horse race on 01.12.2019 and winning from camel race ₹1,80,000 on 07.12.2019.
iv) He purchased lottery tickets of ₹10,000 on 01.02.2020 and had winning of ₹2,00,000 on 12.02.2020.
v) He has received Royalty of book of literary nature @ 50% of print price of ₹600 and total copies sold are 2,000.
vi) He has paid advance tax as given below:
Upto 15.06.2019 ₹ 20,000
Upto 15.09.2019 ₹ 35,000
Income Under The Head Other Sources

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15.12.2019</td>
<td>₹ 80,000</td>
</tr>
<tr>
<td>Upto 15.03.2020</td>
<td>₹ 1,30,000</td>
</tr>
</tbody>
</table>

Balance was paid on 10.06.2020

Compute tax liability for the A.Y 2020-21 and interest under section 234A, 234B and 234C.

**Answer** = Tax Liability: ₹2,27,240; Interest under section 234A: Nil; 234B: ₹2,916; 234C: ₹2,280

**Problem 6.**

ABC Ltd. has 1,00,000 equity shares of ₹10 each and Mr. X purchased 10,000 equity shares on 01.01.2019 of ₹10 each and the company goes into liquidation on 31.07.2019 and company has net distributable amount of ₹60 lakhs after discharging all the liabilities including additional income tax and it includes accumulated profits of ₹20 lakhs and the entire amount was distributed among the shareholders.

Minor son of Mr. X has interest income of ₹2 lakhs from one bank deposit which was gifted to him by his grand father.

Mrs. X has one business and income from business is ₹1 lakh entire capital was gifted by Mr. X.

Mr. X is growing flowers and has income of ₹7 lakh from sale of flowers.

Compute his tax liability for Assessment Year 2020-21.

**Answer** = Tax Liability: ₹1,03,530
SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:
Income under the head Business/Profession 60,000
Less: Brought forward business loss (7,000)
Income under the head Business/Profession 53,000
Income under the head Other Sources (horse races) 7,000
Gross Total Income 60,000
Less: Deductions u/s 80C to 80U Nil
Total Income 60,000

Computation of tax liability
Tax on ₹7,000 @ 30% 2,100
Tax on ₹53,000 at slab rate Nil
Less: Rebate u/s 87A (2,100)
Tax Liability Nil
Carry forward loss from owning and maintaining race horses 7,000

Solution 2:
Income under the head Other Sources 4,00,000
Gross Total Income 4,00,000
Less: Deductions u/s 80C to 80U Nil
Total Income 4,00,000
Tax on ₹4,00,000 at slab rate 7,500
Less: Rebate u/s 87A (7,500)
Tax Liability Nil

Note: Loss from casual income has no tax treatment and hence it is dead loss.

Solution 3:
Income under the head Business/Profession 4,00,000
Gross Total Income 4,00,000
Less: Deductions u/s 80C to 80U Nil
Total Income 4,00,000
Tax on ₹4,00,000 at slab rate 7,500
Less: Rebate u/s 87A (7,500)
Tax Liability Nil
Carry forward loss from owning and maintaining race horses 4,00,000

Solution 4:
Income from House Property 90,000

Computation of income under the head Other Sources
Dividend from UTI {exempt u/s 10(35)} Nil
Pension 75,000

Working Note:
Received = ₹90,000
Exempt = 1/3 of pension or ₹15,000, whichever is less
Taxable = ₹75,000

<table>
<thead>
<tr>
<th>Income Under The Head Other Sources</th>
<th>376</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on bank FD</td>
<td>14,000</td>
</tr>
<tr>
<td>Dividend from foreign company</td>
<td>36,000</td>
</tr>
<tr>
<td>Winning from lottery</td>
<td>70,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>1,95,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains (LTCG)</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>4,05,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>35,000</td>
</tr>
<tr>
<td>Total Income</td>
<td>3,70,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- Tax on Long term capital gain ₹50,000 (1,20,000 – 70,000) @ 20% u/s 112: 10,000
- Tax on casual income ₹70,000 @ 30% u/s 115BB: 21,000
- Tax on ₹1,80,000 at slab rate: Nil
- Less: Rebate u/s 87A: (12,500)
- Tax before health & education cess: 18,500
- Add: HEC @ 4%: 740
- Tax Liability: 19,240

**Solution 5:**

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

**Income under head Other Source**

- Income from owning and maintaining race horse: 2,00,000
- Income from Royalty: 6,00,000
- Income from winning horse race (casual income): 1,60,000
- Income from winning camel race (casual income): 1,80,000
- Income from lottery income (casual income): 2,00,000
- Income under head Other Sources: 13,40,000

**Income under head Business/Profession**

- Income from owning and maintaining race camel: 1,00,000
- Gross Total Income: 14,40,000
- Less: Deduction u/s 80QBB (WN 1): (1,80,000)
- Total Income: 12,60,000

**Computation of Tax Liability**

- Tax on ₹7,20,000 at slab rate: 56,500
- Tax on casual income i.e. ₹5,40,000 @ 30%: 1,62,000
- Tax before health & education cess: 2,18,500
- Add: HEC @ 4%: 8,740
- Tax Liability: 2,27,240

**Interest u/s 234A**

Nil

**Interest u/s 234B**

\[
2,27,240 - 1,30,000 = 97,240 = 97,200 \times 1\% \times 3
\]

2,916
### Interest u/s 234C

<table>
<thead>
<tr>
<th>Date</th>
<th>Advance tax paid</th>
<th>Amount payable</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>upto 15.06.2019</td>
<td>20,000</td>
<td>8,814 (58,760 x 15%)</td>
<td>NIL</td>
</tr>
<tr>
<td>Interest = NIL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>upto 15.09.2019</td>
<td>35,000</td>
<td>26,442 (58,760 x 45%)</td>
<td>NIL</td>
</tr>
<tr>
<td>Interest = NIL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>upto 15.12.2019</td>
<td>80,000</td>
<td>1,23,360 (1,64,840 x 75%)</td>
<td>43,630</td>
</tr>
<tr>
<td>Rounded off 119A = 43,600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest = 43,600 x 1% x 3 = 1,308</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>upto 15.03.2020</td>
<td>1,30,000</td>
<td>2,27,240</td>
<td>97,240</td>
</tr>
<tr>
<td>Rounded off 119A = 97,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest = 97,200 x 1% x 1 = 972</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Interest u/s 234C**

Total Interest Payable 5,196
Rounded off u/s 288B 5,200

**Working Notes:**

1. **Maximum deduction allowed u/s 80QOB**
   15% of print price i.e. ₹ 600 x 15% x 2,000 = ₹1,80,000.

**Solution 6:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Distributable Amount</td>
<td>60,00,000</td>
</tr>
<tr>
<td>Share of Mr. X (10%)</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Share of Mr. X out of accumulated profits which is considered dividend u/s 2(22)(c)</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Balance to be considered full value of consideration</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition of shares</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Short term Capital Gain</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Dividend u/s 2(22)(c) shall be exempt u/s 10(34)</td>
<td></td>
</tr>
</tbody>
</table>

### Computation of Total Income of Mr. X for A.Y. 2020-21

**Income under the head Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Capital Gains</td>
<td>3,00,000</td>
</tr>
</tbody>
</table>

**Income under the head Other Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income of Minor Son clubbed u/s 64(1A)</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Less: Exempt u/s 10(32)</td>
<td>1,500</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>1,98,500</td>
</tr>
</tbody>
</table>

**Income under the head Business Profession**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income of Mrs. X clubbed u/s 64(1)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,98,500</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>5,98,500</td>
</tr>
<tr>
<td>Agricultural Income</td>
<td>7,00,000</td>
</tr>
</tbody>
</table>

### Computation of Tax Liability

Normal income 5,98,500
Step 1. Tax on (5,98,500 + 7,00,000) at slab rate 2,02,050.00
Step 2. Tax on (₹2,50,000 + 7,00,000) at slab rates (1,02,500.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1 99,550.00
Add: HEC @ 4% 3,982.00
Tax Liability 1,03,532.00
Rounded off u/s 288B 1,03,530.00
EXAMINATION QUESTIONS

MAY – 2018

Question 3(b) (3 Marks)
XYZ Ltd. A domestic company, declared dividend of ₹170 lakh for the Financial Year 2018-19 and distributed the same on 31-07-2019. Mr. A holding 10% share in XYZ Ltd. received dividend of ₹17 lakh in July, 2019. Mr. B holding 5% share in XYZ Ltd. received dividend of ₹8.5 lakh in July 2019. Discuss the tax liabilities in the hands of Mr. A and Mr. B assuming that Mr. A and Mr. B have not received dividend from any other domestic company during the year.

Answer: As per section 115BBDA, Dividend received by All Assessee except a domestic company or a fund or institution or trust or any university, exceeding ₹10 lakh shall be taxable @ 10%. No further deduction or expenditure shall be allowed from such income.

Tax Liability of Mr. A
Dividend received 17,00,000
Less: Exempt (10,00,000)
Balance Taxable @ 10% u/s 115BBDA 7,00,000
Computation of Tax Liability
Tax on ₹ 7,00,000 @ 10% u/s 115BBDA 70,000
Add: HEC @ 4% 2,800
Tax Liability 72,800

Tax Liability of Mr. B
Dividend received 8,50,000
Less: Exempt (8,50,000)
Balance Taxable Nil
Tax Liability Nil

NOV – 2016

Question 3(a) (4 Marks)
Mr. Rakesh has 15% share holding in RSL (P) Ltd and has also 50% share in Rakesh & Sons, a partnership firm.
The accumulated profit of RSL (P) Ltd. is 20 Lakh. Rakesh & Sons had taken a loan of ₹25 Lakh, from RSL (P) Ltd. Explain, whether the above loan is treated as dividend, as per the provision of Income Tax Act, 1961.

Solution:
As per Section 2(22)(e), If the loan or advance has been given to any concern in which shareholder has substantial interest, such loan or advance shall be considered to be dividend in the hands of such concern but only to the extent of accumulated profits excluding capitalized profits. (however AIT shall be paid by the company).
In this case dividend in the hands of the shareholder is nil and in hands of the firm are ₹20 lakhs. (however AIT shall be paid by the company).

Question 4(a) (2 Marks)
State with reasons whether the following receipts are taxable or not under the provisions of Income-tax Act, 1961?
Mr. Suman received an advance of ₹3 lakhs on 06-06-2019 to transfer his residential house property. Since the transfer was not effected during the previous year due to failure in negotiations, he deducted the advance money forfeited from the cost of acquisition of the property.

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

**MAY – 2016**

**Question 4(a)**

(2 x 2 = 4 Marks)

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

(i) ABC Private Limited, a closely held company, issued 10,000 share at ₹130 per share. (The face value of the share is ₹100 per share and the fair market value of the share is ₹120 per share).

(ii) Mr. A received an advance of ₹50,000 on 01.09.2019 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹50,000 was forfeited.

**Answer:**

(i) **Taxable:** As per section 56(2)(viib), If any closely held company receives any consideration for issue of shares that exceeds the face value of shares then the aggregate consideration received as exceeds the fair market value of shares is considered as income under the other sources. In the given case, ABC Private Ltd. issued shares at a price which exceeds the face value of shares. So the taxable amount shall be ₹1,00,000 (10,000 shares x (₹130-₹120))

(ii) **Taxable:** If any person has entered into an agreement to sell any capital asset and some advance money was received but the buyer refused to purchase the capital asset and advance money was forfeited, in such cases the amount so forfeited shall be considered to be income under the head Other Sources. In the given case, Mr. A forfeited ₹50,000 against sale of his house shall be considered as income under the head other sources.

**Question 7(a)(iii)**

(2 Marks)

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

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

**Answer:**

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

**NOV – 2010**

**Question 7**

(4 Marks)

State under which heads the following incomes are taxable:

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

**Answer.**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Head of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental income in case of dealer in property</td>
<td>Income from house property</td>
</tr>
<tr>
<td>Dividend on shares in case of a dealer in shares</td>
<td>Income from other sources</td>
</tr>
<tr>
<td>Salary by partner from his partnership firm</td>
<td>Profit and gains of business or profession</td>
</tr>
</tbody>
</table>
(iv) Rental income of machinery (See Note below)  
Income from other sources/ Profits and gains of business or profession
(v) Winnings from lotteries by a person having the same as business activity  
Income from other sources
(vi) Salaries payable to a Member of Parliament  
Income from other sources
(vii) Receipts without consideration  
Income from other sources

**Note:** As per section 56, rental income of machinery would be chargeable to tax under the head “Income from Other Sources”, if the same is not chargeable to income-tax under the head “Profits and gains of business or profession”. 
### DEDUCTION OF TAX AT SOURCE

**SECTION 190 TO 206AA**

- Section 190 – Deduction at source and advance payment
- Section 191 – Direct payment
- Section 192 – Deduction of tax from salary income
- Section 192A – Deduction of tax at source in case of payment from recognized provident fund
- Section 193 – Deduction of tax from interest on securities
- Section 194A – Deduction of tax from interest other than “interest on securities”
- Section 194B – Deduction of tax from winnings from lottery, crossword puzzle, card game, etc.
- Section 194BB – Deduction of tax from winnings from horse races
- Section 194C – Deduction of tax from payment to contractors (V. Imp.)
- Section 194D – Deduction of tax from insurance commission
- Section 194DA – Payment in respect of life insurance policy
- Section 194E – Payments to non-resident sportsmen or sports associations
- Section 194G – Deduction of tax from commission, etc. on sale of lottery tickets
- Section 194H – Commission or brokerage
- Section 194-I – Deduction of tax from rent (V. Imp.)
- Section 194-IA – Payment for purchase of immovable property
- Section 194-IB – Payment of rent by certain individuals or HUF.
- Section 194-IC – Payment under specified agreement.
- Section 194J – Deduction of tax from fees for professional or technical services
- Section 194LA – Payment of compensation on acquisition of certain immovable property
- Section 194M – Payment of certain sums by certain individuals or Hindu undivided family
- Section 194N – Payment of certain amounts in cash
- Section 195 – Payments to non-residents
- Section 197 – Certificate for deduction at lower rate (V. Imp.)
- Section 197A – Declaration for not Deducting Tax at Source
- Section 200 – Duty of person deducting tax (V. Imp.)
- Section 201 – Consequences of failure to deduct or pay (V. Imp.)
- Section 203 – Certificate for tax deducted
- Section 203A – Tax deduction account number
- Section 203AA – Furnishing of annual statement of tax deducted
- Section 206AA – Requirements to furnish Permanent Account Number
- Section 206C – Collection of Tax Source
Deduction Of Tax At Source

**Deduction at Source and Advance Payment Section 190**

Every person shall be required to pay tax through TDS and advance tax even if exact tax is to be computed in the assessment year.

**Direct Payment Section 191**

If tax is not to be deducted at source with regard to any income, assessee shall pay advance tax. Similarly if tax was to be deducted at source but it has not been deducted at source, in such cases also the assessee is required to pay advance tax.

**Question 1: Write a note on Deduction of Tax at Source with regard to Salary Income.**

**Answer: Deduction of Tax at Source with regard to Salary Income Section 192**

1. Every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) making payment of salary income to resident or non-resident shall deduct tax at source and for this purpose the employer shall estimate tax liability of the employee and tax so estimated shall be deducted in 12 monthly equal installments. While estimating tax liability, deduction under section 80C to 80U shall be allowed. It can be shown in the manner given below:

Mr. X is employed in ABC Ltd. and salary is ₹60,000 p.m. and he has invested ₹50,000 in NSC. In this case, tax to be deducted at source at the time of payment of salary shall be:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary (60,000 x 12)</td>
<td>7,20,000.00</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>6,70,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>6,70,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C {NSC}</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>6,20,000.00</td>
</tr>
<tr>
<td>Tax on ₹6,20,000 at slab rate</td>
<td>36,500.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,460.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>37,960.00</td>
</tr>
</tbody>
</table>

Monthly installment shall be 37,960 / 12 = 3,163.33

If employer has deducted tax at source for the month of April and May and salary was increased to ₹70,000 p.m. w.e.f. 01.06.2019, tax to be deducted in subsequent installments shall be:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary (60,000 x 2) + (70,000 x 10)</td>
<td>8,20,000.00</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>7,70,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>7,70,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C {NSC}</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>7,20,000.00</td>
</tr>
<tr>
<td>Tax at slab rate including HEC</td>
<td>58,760.00</td>
</tr>
<tr>
<td>Tax deducted at source in April and May (3,163.33 x 2)</td>
<td>(6,326.66)</td>
</tr>
<tr>
<td>Balance amount of tax</td>
<td>52,433.34</td>
</tr>
<tr>
<td>Tax to be deducted in subsequent installments (52,433.34 / 10)</td>
<td>5,243.33</td>
</tr>
</tbody>
</table>

2. If any person is working with two or more employers, in that case he should submit the particulars of his salary income from all the employers to one of the employer who will deduct tax at source taking into consideration income from all employers. (Information has to be given in Form 12B)

**Example**

Mr. X is working with two employer A Ltd. and B Ltd. and is getting basic pay of ₹15,000 p.m. from each of the employer. In this case, he must inform one of the employer regarding his salary income from other employer and such employer shall deduct tax at source taking into consideration income from other employer.

3. **If any employee has income/loss under any other head**, the employee shall be allowed even to report such incomes/loss to the employer and the employer shall take it into consideration. The employee shall be
required to give proof.

**Question 2:** Write a note on deduction of tax at source in case of payment from recognized provident fund.

**Answer:** Deduction of tax at source in case of payment from recognized provident fund **Section 192A**

The person responsible for making **payment of recognized provident fund** to any person shall deduct tax at source if the amount to be paid is taxable and tax shall be deducted at source @ **10%** provided the amount paid or payable during a particular year is **₹50,000** or more.

Payments received from recognized provident fund shall be exempt from income tax if the employee has complied with any of the conditions given below:

(i) If the employee has rendered continuous service for a period of **5 years** or more, or
(ii) If he has not rendered such continuous service, the service has been terminated by reason of the employee’s ill-health, or by the contraction or discontinuance of the employer’s business or other cause beyond the control of the employee, or
(iii) If the employee obtains employment with any other employer and the provident fund has been transferred to such employer and the total service with the former employer and the current employer is of 5 years or more.

If the employee has not complied with even a single condition, in that case amount received by him shall be taxable but only the amount which was exempt earlier.

*To be discussed under the head Salary*

---

**Question 3:** Write a note on TDS in case of interest on securities.

**Answer:** TDS in case of interest on securities **Section 193**

Every person responsible for making payment of interest on securities to any resident shall deduct tax at source @ **10%** provided the amount being paid or payable during a particular year to a particular person is exceeding **₹5,000**.

No tax shall be deducted at source in the following cases:

1. Any interest payable on any security of the **Central Government or a State Government**.
2. Any interest being paid to Bank/LIC or other notified financial organizations.
3. Interest payable by a company in connection with **security held in dematerialised form**.

“**Interest on securities**” as per section 2(28B), interest on securities means interest on bond / debenture etc. issued by Government / local authority / company or statutory corporation etc.

**Example**

(i) ABC Ltd. has to pay interest of **₹2,00,000** to Mr. X in connection with listed debentures, amount of TDS shall be **₹20,000**.

(ii) ABC Ltd. has to pay interest of **₹12,00,000** to Mr. X in connection with listed debentures, amount of TDS shall be **₹1,20,000**

(iii) ABC Ltd. has to pay interest of **₹5,000** to Mr. X, no tax shall be deducted at source in this case.

**Illustration 1:** Mr. X has invested some amount in ABC Ltd. and the company has paid him interest of **₹2,70,000** after deducting tax at source @ **10%**. The cheque was collected by the bank and the bank charges were **1%**. He has also received dividend from domestic company of **₹65,000** and bank charges are **1%**.

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

**Solution:**

**Gross interest**

(2,70,000 x 100 /90) 3,00,000.00

Less: bank charges u/s 57 (1% of 2,70,000) (2,700.00)

**Income under the head Other Sources** 2,97,300.00

**Total Income** 2,97,300.00

**Computation of Tax Liability**

Tax on **₹2,97,300** at slab rate 2,365.00

Less: Rebate u/s 87A (2,365.00)

Tax Liability Nil

Less: TDS (30,000.00)
Illustration 2: Mr. X has borrowed ₹1,00,000 from the market. The amount was invested in some company and the assessee has received a cheque for ₹36,000 (after TDS @ 10%) being the amount of interest and assessee has paid interest of ₹11,000.

The cheque was given for collection to a bank and the bank has deducted collection charges of 2%.

Mr. X has income under the head house property ₹2,50,000.

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

Solution:

| Income under the head House Property | ₹2,50,000.00 |
| Income under the head other sources | ₹28,280.00  |
| (36,000 x 100 / 90) -11,000-720   | ₹2,78,280.00 |
| (40,000 – 11,000 – 720)            | Nil         |
| Gross Total Income                 | ₹2,78,280.00 |
| Less: Deduction u/s 80C to 80U     | Nil         |
| Total Income                       | ₹2,78,280.00 |

**Computation of Tax Liability**

- Tax on ₹2,78,280 at slab rate: ₹1,414.00
- Less: Rebate u/s 87A: (1,414.00)
- Tax Liability: Nil
- Less: TDS: ₹4,000.00
- Tax Refund: ₹4,000.00

Question 4: Write a note on TDS in case of Interest other than “Interest on Securities”.

**Answer:** TDS in case of Interest other than “Interest on Securities” Section 194A

Every person making payment of interest other than interest on securities to any resident shall deduct tax at source @ 10% provided the amount being paid or payable during a particular year to a particular person is exceeding ₹5,000 but if payment is being made by bank or post office, tax shall be deducted only if interest being paid or payable is exceeding ₹10,000, however if the payee is senior citizen, ₹40,000 shall be taken as ₹50,000.

Further TDS shall be only on time deposit including recurring deposit. Limit of ₹40,000 (₹50,000 for senior citizen) shall be per branch of the bank but if the bank has core banking solution, limit shall be per bank and not per branch.

An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover of business or profession has exceeded the limit mentioned under section 44AB during the financial year immediately preceding the relevant year.

**Example**

(i) Punjab National Bank has to pay interest of ₹1,00,000 to Mr. X. In this case, amount of TDS shall be ₹10,000.

(ii) Punjab National Bank has to pay interest of ₹10,00,000 to Mr. X. In this case, amount of TDS shall be ₹1,00,000.

(iii) Punjab National Bank has to pay interest of ₹1,00,000 to X Ltd. In this case, amount of TDS shall be ₹10,000.

(iv) Punjab National Bank has to pay interest of ₹1,00,000 to an Hindu Undivided Family. In this case, amount of TDS shall be ₹10,000.

(v) Punjab National Bank has to pay interest of ₹1,00 to a Hindu Undivided Family. In this case, amount of TDS shall be Nil.

(vi) Punjab National Bank has to pay interest of ₹39,900 to Mr. X. In this case, amount of TDS shall be Nil.

No tax shall be deducted at source in the following cases:

1. Interest paid by a firm to a partner of the firm;
2. Any interest being paid to Bank/LIC or other notified financial organizations
3. Interest paid by a co-operative society (other than a co-operative bank) to their member;
4. Interest on income tax refund or wealth tax refund etc.
(5) Income paid in relation to a Zero Coupon Bond.
(6) Interest paid in respect of deposits under any scheme notified by the government.

"Zero Coupon Bond" Section 2(48)

means a bond which are issued by the specified companies and which are issued for minimum 10 years and maximum 20 years and in respect of which no payment and benefit is received before maturity or redemption from such specified company and further such bonds shall be notified by the Central Government.

Additional amount received on redemption shall be considered to be capital gain.

Illustration 3: Mrs. Nupur Sharma is getting a family pension of ₹7,000 p.m. She has also received interest on fixed deposit of ₹36,000 after deducting tax at source of ₹4,000. The bank has deducted collection charges @ 1.5%.

Compute her tax liability for assessment year 2020-21.

Solution:

<table>
<thead>
<tr>
<th>Family Pension</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7,000 x 12)</td>
<td>84,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 57</td>
<td>(15,000)</td>
</tr>
<tr>
<td>1/3 of ₹84,000 or ₹15,000 whichever is less</td>
<td>40,000</td>
</tr>
<tr>
<td>Less: Bank Charges [36,000 @ 1.5 %]</td>
<td>(540)</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>1,08,460</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Illustration 4 (From RTP): Examine the implications of tax deduction at source under section 194A in the cases mentioned hereunder, based on the provisions of the Income-tax Act, 1961.

(i) On 01.10.2019, Mr. Mohit made a six-month fixed deposit of ₹ 12 lakh @ 8% p.a. with Theta Co-operative Bank. The fixed deposit matures on 31.3.2020.

(ii) Mr. Harish made fixed deposits carrying interest @10% p.a. with the following branches of Omega Bank, a bank which has adopted CBS.

<table>
<thead>
<tr>
<th>Branch</th>
<th>Amount of deposit (₹)</th>
<th>Date of deposit</th>
<th>Date of Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adyar</td>
<td>60,000</td>
<td>01.06.2019</td>
<td>31.03.2020</td>
</tr>
<tr>
<td>Anna Nagar</td>
<td>80,000</td>
<td>01.07.2019</td>
<td>31.03.2020</td>
</tr>
<tr>
<td>Nungambakkam</td>
<td>75,000</td>
<td>01.08.2019</td>
<td>31.03.2020</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>16,000</td>
</tr>
</tbody>
</table>

(iii) On 01.04.2019, Ms. Meena started a 1 year recurring deposit of ₹ 50,000 per month @ 10% p.a. with Gamma Bank. The recurring deposit matures on 31.3.2020. Gamma bank pays interest of ₹43,000.

Solution:

(i) Theta Co-operative Bank has to deduct tax at source @ 10% on the interest of ₹ 48,000 (8% × ₹ 12 lakh × ½) under section 194A.

(ii) Since Omega Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered, and if the same exceeds ₹ 40,000, tax is deductible under section 194A. Omega Bank is not required to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 16,000, which does not exceed the threshold limit of ₹ 40,000.

Illustration 5 (From RTP): Examine the TDS implications under section 194A in the cases mentioned hereunder –
(i) On 1.10.2019, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2020.
(ii) On 01.06.2019, Mr. Ganesh made three nine month fixed deposits of ₹ 2 lakh each carrying interest @ 9% with Dwarka Branch, Janakpuri Branch and Rohini Branches of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2020.
(iii) On 01.04.2019, Mr. Rajesh started a 1 year recurring deposit of ₹ 60,000 per month @ 8% p.a. with PQR Bank. The recurring deposit matures on 31.03.2020. PQR bank pays interest of ₹50,400.

**Answer:**

(i) ABC Co-operative Bank has to deduct tax at source @10% on the interest of ₹ 45,000 (9% × ₹ 10 lakh × ½) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹4,500.

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

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

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

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

**Answer:**

TDS in case of Winnings from Lottery or Crossword Puzzle etc. **Section 194B**

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

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

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

**Answer:**

TDS in case of Winnings from Horse Race **Section 194BB**

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

**Example**

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

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

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

**Solution:**

| Income from lottery (2,80,000 /70% x 100%) | ₹ 4,00,000.00 |
| Interest | 80,000 |
| Less: Bank charges u/s 57 (2% of ₹72,000) | (1,440) | 78,560.00 |
| Sub-letting of house property (9,000 x 12) | 1,08,000.00 |
| Family pension | 48,000 |
Less: 1/3 of income or ₹15,000 whichever is less (15,000) 33,000.00
Income under the head Other Sources 6,19,560.00

**Computation of Tax Liability**
- Tax on casual income ₹4,00,000 @ 30% u/s 115BB 1,20,000.00
- Tax on ₹2,19,560 at slab rate Nil
- Tax before health & education cess 1,20,000.00
- Add: HEC @ 4% 4,800.00
- Tax Liability 1,24,800.00
- Less: TDS (1,20,000 + 8,000) (1,28,000.00)
- Tax Refund 3,200.00

**Note:** Interest received is a interest other than interest on deposit in a saving bank account with bank, co-operative society, post office i.e. not eligible for deduction under section 80TTA.

**Question 7:** Write a note on TDS in case of Payments to Contractors.

**Answer:** TDS in case of Payments to Contractors: Section 194C

1. Every person responsible for making payment to a **resident contractor** in connection with any work shall deduct tax at source @ 2% and in case of payment to individual or Hindu Undivided Family, the rate of TDS shall be 1%. Tax shall be deducted at source only if the amount being paid is exceeding ₹30,000 or the amount paid or payable during a particular financial year to a particular person exceeds ₹1,00,000.

**Example**
- ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2019-20 –
  - ₹15,000 on 01.05.2019
  - ₹25,000 on 01.08.2019
  - ₹30,000 on 01.12.2019
- On 01.03.2020, a payment of ₹48,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

**Solution:**

In this case, the individual contract payments made to Mr. X does not exceed ₹30,000. However, since the aggregate amount paid to Mr. X during the P.Y.2019-20 exceeds ₹1,00,000 (on account of the last payment of ₹48,000, due on 01.03.2020, taking the total from ₹70,000 to ₹1,18,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @ 1% on the entire amount of 1,18,000 from the last payment of ₹48,000 and the balance of ₹46,820 (i.e. ₹48,000 – ₹1,180) has to be paid to Mr. X.

**Example**

(i) If DDA has to pay a sum of ₹5,00,000 to Mr. X in connection with a particular contract, amount of TDS shall be ₹5,000.

(ii) If in the above case amount is to be paid to X Ltd. An Indian company, amount of TDS shall be ₹10,000.

2. An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover of business or profession has exceeded the limit mentioned under section 44AB during the financial year immediately preceding the relevant year.

**Example**

If Mr. X is engaged in a business and turnover of business is ₹41,00,000 in the previous year 2018-19 and he has to pay ₹1,10,000 to Mr. Y in the previous year 2019-20 in connection with a contract, amount of TDS shall be Nil but if his turnover in previous year 2018-19 was ₹110,00,000, amount of TDS shall be ₹1,100 but if payment is to given to Y Ltd., amount of TDS shall be ₹2,200.

3. No individual or HUF shall deduct tax at source under this section, if the amount is paid for **personal purpose** of such **individual or HUF**.

**Example**

If in the above case, Mr. X has to pay ₹1,10,000 to Mr. Y in connection with a contract which is for personal purpose of Mr. X, TDS under section 194C, shall be Nil.

4. Contract for this purpose shall include every type of contract e.g. Advertising contract/Broadcasting and
telecasting contract / Carriage of passenger by any mode of transport / Catering contract / Contract for construction / Contract for courier services / Contract of maintenance of plant and machinery etc.

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

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

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

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

Question 8: Write a note on TDS in case of payment of Insurance Commission.
Answer: TDS in case of payment of Insurance Commission Section 194D
Every person responsible for making payment for insurance commission to a resident insurance agent shall deduct tax at source @ 5% provided the amount paid or payable during a particular year to a particular agent is exceeding ₹15,000 e.g. If LIC has to pay commission of ₹5,00,000 to one of the agent Mr. X, amount of TDS shall be ₹5,00,000 x 5% = ₹25,000

Question 9: write a note on Payment on maturity of life insurance policy.
Answer: Payment on maturity of life insurance policy Section 194DA
In general payment on maturity of Life policy is exempt from income tax under section 10(10D) however sometimes the amount is taxable (if premium paid has exceeded the prescribed percentage (i.e. 10% / 15% / 20%)) and in that case tax has to deducted at source @ 5% on the amount of income provided the amount paid or payable to any resident during a particular financial year is ₹1,00,000 or more.

Example
Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -
(i) Mr. X, a resident, is due to receive ₹4.50 lakhs on 31.03.2020, towards maturity proceeds of LIC policy taken on 01.4.2012, for which the sum assured is ₹4 lakhs and the annual premium is ₹1,25,000.
(ii) Mr. Y, a resident, is due to receive ₹2.20 lakhs on 31.03.2020 on LIC policy taken on 01.04.2010, for which the sum assured is ₹2 lakhs and the annual premium is ₹35,000.
(iii) Mr. Z, a resident, is due to receive ₹95,000 on 01.10.2019 towards maturity proceeds of LIC policy taken on 01.10.2010 for which the sum assured is ₹90,000 and the annual premium was ₹19,000.

Answer
(i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken on 01.04.2012, the maturity proceeds of ₹4.50 lakhs are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 5% under section 194DA on the maturity proceeds of ₹4.50 lakhs payable to Mr. X.

(ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 01.04.2012, the sum of ₹2.20 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.

(iii) Even though the annual premium exceeds 20% of sum assured in respect of a policy taken before 01.04.2012, and consequently, the maturity proceeds of ₹95,000 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the
maturity proceeds are less than ₹ 1 lakh.

**Question 10:** Write a note on Payments to non-resident sportsmen or sports association.

**Answer:** Payments to non-resident sportsmen or sports association Section 194E

Every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) responsible for making payment to a non-resident sportman / athlete / entertainer shall deduct tax at source @ 20% plus HEC. Further such non-resident should not be a citizen of India. The incomes should be such as are covered under section 115BBA i.e. the incomes listed below:

(a) participation in any game or sport in India or

(b) advertisement; or

(c) Contribution of articles relating to any game or sport in India in newspapers, magazines or journals.

**Example:** Madona, a non-resident, received ₹ 40 lakh for her stage shows in India from Optimistic Ltd., an event management company in India, on 26.12.2019, in this case, payments made to a non-resident entertainer, shall be subject to tax deduction @ 20% under the provisions of section 194E plus HEC @ 4%. Tax deductible under section 194E = ₹ 40 lakh × 20.8% = ₹ 8,32,000

**Question 11:** Write a note on TDS in case of Commission, etc., on the Sale of Lottery Tickets.

**Answer:** TDS in case of Commission, etc., on the Sale of Lottery Tickets Section 194G

Every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) making payment of commission for sale of lottery tickets to any person resident or non-resident, shall deduct tax at source @ 5% provided the amount paid or payable to a particular person during a particular year is exceeding ₹15,000.

**Question 12:** Write a note on TDS on payment of Commission or Brokerage.

**Answer:** TDS on payment of Commission or Brokerage Section 194H

Every person making payment of any commission or brokerage to a resident shall, deduct income-tax at the rate of 5%, provided amount paid or payable during a particular year to a particular person is exceeding ₹15,000.

An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover of business or profession has exceeded the limit mentioned under section 44AB during the financial year immediately preceding the relevant year.

**Example**

Manoj trading limited rendered services in relation to sale of mustard oil to Ashish oils limited and commission charged is ₹7,00,000, in this case, tax to be deducted at source by Ashish oils limited shall be

- Commission: 7,00,000
- Less: TDS(7,00,000 x 5%) = 35,000
- Amount Payable: 6,65,000

**Question 13:** Write a note on TDS in case of payment of rent.

**Answer:** TDS in case of payment of rent Section 194-I

Every person making payment of rent to a resident shall deduct tax at source provided the amount paid or payable during a particular year is exceeding ₹2,40,000. Tax shall be deducted at source @ 2% if rent is for plant and machinery but @ 10% if rent is for land/building / furniture / fixture etc.

An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover of business or profession has exceeded the limit mentioned under section 44AB during the financial year immediately preceding the relevant year.

**Illustration 7:**

(i) Amount of TDS in the following cases shall be:

<table>
<thead>
<tr>
<th>Person receiving the payment</th>
<th>Mr. A</th>
<th>Mr. B</th>
<th>Mr. C</th>
<th>Mr. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Person making the payment</td>
<td>Individual (not exceeded the limit of 44AB in P.Y. 2018-19)</td>
<td>Individual (exceeded the limit of 44AB in P.Y. 2018-19)</td>
<td>Partnership firm</td>
<td>Company (Indian company)</td>
</tr>
<tr>
<td>Rent for house property</td>
<td>₹3,00,000</td>
<td>₹3,00,000</td>
<td>₹3,00,000</td>
<td>₹3,00,000</td>
</tr>
</tbody>
</table>
### Example 1
XYZ Ltd. raised an invoice of ₹3,00,000/- to ABC Limited for renting of commercial building. The above figure includes ₹50,000/- of parking charges. The bill is raised on 30th June, 2019 and ABC Limited made the payment on the same date.

Compute the Amount of TDS required to be deducted by ABC Limited and the due date of deposit of TDS amount and last date of filing of quarterly Statement?

**Solution:**

<table>
<thead>
<tr>
<th>Rent for plant and machinery</th>
<th>₹3,00,000</th>
<th>₹3,00,000</th>
<th>₹3,00,000</th>
<th>₹3,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of TDS</td>
<td>Nil</td>
<td>₹6,000</td>
<td>₹6,000</td>
<td>₹6,000</td>
</tr>
<tr>
<td>Rent for house property</td>
<td>₹1,00,000</td>
<td>₹1,00,000</td>
<td>₹1,00,000</td>
<td>₹1,00,000</td>
</tr>
<tr>
<td>Amount of TDS</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Rent for plant and machinery</td>
<td>₹1,00,000</td>
<td>₹1,00,000</td>
<td>₹1,00,000</td>
<td>₹1,00,000</td>
</tr>
<tr>
<td>Amount of TDS</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Example 2**

ABC limited has let out one commercial building to Idea cellular limited at Gurgaon and rent charged is ₹2,50,000 per month, in this case, tax to be deducted at source by Idea cellular limited shall be as given below:

**Solution:**

<table>
<thead>
<tr>
<th>Rent (2,50,000 x 12)</th>
<th>30,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: TDS(30,00,000 x 10%)</td>
<td>(3,00,000)</td>
</tr>
<tr>
<td>Amount payable</td>
<td>27,00,000</td>
</tr>
</tbody>
</table>

**Question 14:** Write a note on TDS in case of Payment for purchase of immovable property.

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

1. Every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) making payment to a resident for purchase of **immovable property of ₹50 lakhs** or more shall deduct tax at source @ 1% of such sum.

2. **Consideration for immovable property** shall include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property.

3. No tax shall be deducted at source in case of payment for purchase of **agricultural land which is situated in the rural area.**

E.g. Mr. X has purchased one building for ₹65 lakhs, in this case amount of TDS shall be 65,00,000 x 1% = ₹65,000 but if building was purchased for ₹47 lakhs, amount of TDS shall be nil.

4. The person deducting tax at source shall not be required to obtain Tax Deduction Account Number as per section 203A.

**Example:** Mr. X sold his house property in Chennai for a consideration of ₹75 lakh to Mr. Y on 31.01.2020, in this case, Mr. Y is required to deduct tax at source under section 194-IA @ 1% of ₹75 lakh and tax deductible under section 194-IA shall be ₹ 75 lakh x 1% = ₹ 75,000

**Question 15:** Write a note on TDS in case of Payment of Rent by Certain Individual and HUF.

**Answer:** **TDS in case of Payment of Rent by Certain Individual and HUF Section 194-IB**

1. Any person, being an individual or a Hindu undivided family not liable to audit in the preceding financial year, responsible for paying to a resident any income by way of rent exceeding **₹50,000** for a month or part of a month during the previous year, shall deduct tax @ 5%.

2. Tax shall be deducted at the time of making payment of rent for the last month of the previous year or the last month of tenancy whichever is earlier.

3. No requirement to take tax deduction account number.
(4) If the person receiving payment of rent has not submitted PAN, tax shall be deducted @ 20% but maximum rent payable for the last month.

Example: Mr. X has taken a house on rent ₹60,000 p.m. (he is not liable to audit in P.Y. 2018-19), in this case he will be required to deduct tax at source @ 5% but tax is to be deducted in the last month instead of every month. While paying rent of ₹ 60,000 for March 2020 he should deduct tax at source ₹ 7,20,000 x 5% = 36,000 but if per receiving payment has not submitted PAN, amount of TDS shall be 7,20,000 x 20% = 1,44,000 but maximum ₹ 60,000.

Question 16: Write a note on TDS in case of Payment under specified agreement.
Answer: TDS in case of Payment under specified agreement  Section 194-IC
Notwithstanding anything contained in section 194-IA, any person responsible for paying to a resident any sum by way of consideration, not being consideration in kind, under the agreement referred to in section 45 (5A), shall deduct tax @ 10%.

Question 17: Write a note on TDS in case of Fees for Professional or Technical Services.
Answer: TDS in case of Fees for Professional or Technical Services  Section 194J
1. Every person, who is responsible for paying to a resident any sum by way of –
   (i) fees for Professional services
   (ii) fees for Technical services
   (iii) any Remuneration or fees or commission to a director of a company (in case salary is being paid to a director, tax shall be deducted at source under section 192).
   (iv) Royalty
   (v) Non-compete fee referred to in section 28
shall deduct tax at source at the rate of 10%.
An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover of business or profession has exceeded the limit mentioned under section 44AB during the financial year immediately preceding the relevant year.

TDS shall be deducted @ 2% (instead of 10%) in case of a payee engaged only in the business of operation of a call centre.

2. No tax shall be deducted at source where the amount paid or payable during the year do not exceed ₹30,000. (limit of ₹30,000 is applicable separately for each of the above payments). There is no such limit in case of payment to a director i.e. tax has to be deducted at source in case of payment to a director irrespective of the amount to be paid.

Illustration 8: XYZ Ltd. makes a payment of ₹28,000 to Mr. X on 02.08.2019 towards fees for professional services and another payment of ₹25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.
Solution:
TDS provisions under section 194J would not get attracted, since the limit of ₹30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. X towards fees for professional services and fees for technical services during the P.Y.2019-20.

Example: X Ltd. paid retainership fees of ₹25,000 to its Director, Mr. Ram Sharma, on 30.01.2020, as per section 194J, the company shall be liable to deduct tax at source @ 10% on any remuneration or fees or commission paid to a director, on which the tax is not deductible under section 192. The limit of ₹30,000 under section 194J is not applicable on any remuneration or fees or commission payable to director of a company.
Tax deductible under section 194J = ₹ 25,000 x 10% = ₹ 2,500

3. “Professional services” means services rendered by a person in the course of carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or advertising or such other profession as is notified by the Board for the purposes of section 44AA or of this section.
Example
(i) If ABC Ltd. has to pay a sum of ₹2,00,000 to an architect, amount of TDS shall be ₹20,000.
(ii) If ABC Ltd. has to pay ₹10,00,000 to a Chartered Accountant, amount of TDS shall be ₹1,00,000.
(iii) If Mr. X has to pay ₹50,000 to an advocate, amount of TDS shall be Nil and if Turnover of Mr. X was exceeded the prescribed limit u/s 44AB during 2018-19, amount of TDS shall be ₹5,000.
(iv) If Z Ltd. has to pay ₹15,000 in connection with technical services, amount of TDS shall be Nil.

4. If individual or HUF is making payment for professional services and it is for personal purpose, no tax shall be deducted at source.

Question 18: Write a note on TDS in case of Payment of Compensation on Acquisition of certain Immovable Property.
Answer: TDS in case of Payment of Compensation on Acquisition of certain Immovable Property
Section 194LA
If any land or building has been acquired by the government or other similar agency, tax shall be deducted at source @ 10% provided the amount paid or payable to any resident is exceeding ₹2,50,000. No tax shall be deducted at source if the payment relates to acquisition of agricultural land.

No deduction shall be made under this section where such payment is made in respect of any award or agreement which has been exempted from levy of income-tax under section 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.

Example: If ₹3,00,000 is to be paid to Mr. X on 05.05.2019 by State Government on compulsory acquisition of his urban land, amount of TDS shall be 3,00,000 x 10% = 30,000.

Question 19: Write a note on TDS in case of Payment of certain sums by certain individuals or Hindu undivided family.
Answer: TDS in case of Payment of certain sums by certain individuals or Hindu undivided family
Section 194M
Any person, being an individual or a Hindu undivided family (other than those who are required to deduct income-tax as per the provisions of section 194C or section 194J) responsible for paying any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract or by way of fees for professional services during the financial year, shall, at the time of credit of such sum or at the time of payment of such sum in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to five per cent. of such sum as income-tax thereon:
Provided that no such deduction under this section shall be made if such sum or, as the case may be, aggregate of such sums, credited or paid to a resident during a financial year does not exceed fifty lakh rupees.

The provisions of section 203A shall not apply to a person required to deduct tax in accordance with the provisions of this section.

Question 20: Write a note on TDS in case of Payment of certain amounts in cash.
Answer: TDS in case of Payment of certain amounts in cash
Section 194N
Every person, being,—
(i) a banking company to which the Banking Regulation Act, 1949 applies (ii) a co-operative society engaged in carrying on the business of banking; or
(iii) a post office,
who is responsible for paying any sum, or, as the case may be, aggregate of sums, in cash, in excess of one crore rupees during the previous year, to any person (herein referred to as the recipient) from an account maintained by the recipient with it shall, at the time of payment of such sum, deduct an amount equal to two per cent. of sum exceeding one crore rupees, as income-tax:

Provided that nothing contained in this sub-section shall apply to any payment made to,—
(i) the Government;
(ii) any banking company or co-operative society engaged in carrying on the business of banking or a post office;
(iii) any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the guidelines issued in this regard by the Reserve Bank of India under the Reserve Bank of India Act, 1934;
(iv) any white label automated teller machine operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the Reserve Bank of India under the Payment and Settlement Systems Act, 2007;
(v) such other person or class of persons, which the Central Government may, by notification in the Official Gazette, specify in consultation with the Reserve Bank of India.

Question 21: Write a note on TDS in case of Payment to Non-Resident or Foreign Company.
Answer: **TDS in case of Payment to Non-Resident or Foreign Company Section 195**
Every person making any payment to a non-resident or to a foreign company shall deduct tax at source at the prescribed rate.

Question 22: Write a note on TDS in case of payment by individual or Hindu Undivided Family.
Answer: **TDS in case of payment by individual or Hindu Undivided Family**
An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover of business or profession has exceeded the limit mentioned under section 44AB during the financial year immediately preceding the relevant year.

Question 23: Write a note on Deduction of tax at Lower Rate.
Answer: **Deduction of tax at Lower Rate Section 197**
If on income of any person, income-tax is required to be deducted at the time of payment under section 192, 193, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194LA, **194M** and 195 and the Assessing Officer is satisfied that the total income of the recipient justifies the deduction of income-tax at any lower rates or no deduction of income-tax, as the case may be, the Assessing Officer shall, on an application made by the assessee in this behalf, give to him such certificate as may be appropriate.
Application should be given in Form No. 13.
* (Section 197 is not applicable in case of TDS under section 192A, 194B, 194BB, 194DA, 194E, 194-IA)

Question 24: Write a note on self declaration for not deducting tax at source.
Answer: **Self declaration for not deducting tax at source Section 197A**
As per section 197A, if any individual or Hindu Undivided Family has interest income not exceeding the exemption limit and also his tax liability is nil, such individual or HUF can furnish a declaration in Form No. 15G to the person making payment of interest and in that case no tax shall be deducted at source. A senior citizen can give a declaration in Form No 15H if his tax liability is nil.
Similar provision shall be applicable in case of section 192A, 194D, 194DA & 194I.

Question 25: Write a note on time period for depositing tax deducted at source.
Answer: **Time period for depositing tax deducted at source Section 200 / Rule 30**
As per Rule 30, the payment is to be made in general within 7 days from the last day of the month in which the deduction is made.
If the tax has been deducted in the month of March, tax should be deposited on or before 30th April.
In certain cases, Assessing Officer may permit the payments on quarterly basis.

Question 26: Write a note on filing of quarterly statement of TDS.
Answer: **Filing of quarterly statement of TDS Section 200 / Rule 31A**
Every person deducting tax at source has to submit quarterly statement containing details of the tax deducted at source. The statement should be submitted latest by 31st of the month succeeding the relevant quarter but statement for the quarter ending March can be submitted upto 31st May. e.g. Statement for quarter ending March, 2020 can be submitted upto 31st May, 2020.
Question 27: Write a note on Consequences of Failure to Deduct or Pay.
Answer: Consequences of Failure to Deduct or Pay Section 201

1. If any person has failed to deduct tax at source, interest shall be charged @ 1% p.m. or part of a month for the period of delay. E.g. ABC Ltd. has made one payment on 03.01.2020 but tax was deducted at source on 20.01.2020, in this case interest shall be charged @ 1% for one month.

2. If person has deducted tax at source but tax was not deposited within the time allowed under section 200, interest shall be charged @ 1.5% p.m. or part of a month from date of deducting tax at source up to the date of depositing the amount.

Example
Assessee deduct TDS on 10.10.2019 but pays TDS on 31.12.2019, Interest under section 201 shall be charged from 10.10.2019 to 31.12.2019 @ 1.5% per month i.e., for 3 months.

If in the above case assessee has not deducted tax at source on 10.10.2019 rather assesse deducted TDS on 31.12.2019 and assesse pays TDS on 17.01.2020, interest shall be charged in the manner given below:
(i) Interest under section 201 shall be charged for 3 months @ 1% for the period 10.10.2019 to 31.12.2019.
(ii) Interest under section 201 shall be charged @ 1.5% per month for one month from 31.12.2019 to 17.01.2020.

3. Assessee shall also be considered to be assessee in default and penalty may be imposed equal to the amount which he has failed to deduct or pay but in following two situations he will not be considered to be assessee in default
1. If there were sufficient reasons for not deducting tax at source
2. Payment was made to a payee and such payee has shown the amount in his income and has paid tax and also return has been filed and it has been confirmed by a Chartered Accountant.

In this case assessee shall pay interest from the date when tax was to be deducted up to the date of filing the return.

Example
ABC Ltd. paid certain amount on 05.01.2020 to Mr. X and tax was not deducted at source but Mr. X himself has paid his tax and return was filed on 31.07.2020, in this case interest shall be charged @ 1% p.m. for a period of 7 months i.e. from 05.01.2020 to 31.07.2020.

Illustration 9: An amount of ₹40,000 was paid to Mr. X on 01.07.2019 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹50,000 was due to Mr. X on 29.02.2020, from which tax @ 10% (amounting to ₹9,000) on the entire amount of ₹90,000 was deducted. However, this tax of ₹9,000 was deposited only on 22.06.2020.

Compute the interest chargeable under section 201.
Solution:
Interest under section 201 would be computed as follows –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1% on tax deductible but not deducted i.e., 1% on ₹4,000 for 8 months (01.07.2019 to 29.02.2020)</td>
<td>320</td>
</tr>
<tr>
<td>1½% on tax deducted but not deposited i.e. 1½% on ₹9,000 for 4 months (29.02.2020 to 22.06.2020)</td>
<td>540</td>
</tr>
<tr>
<td>Total</td>
<td>860</td>
</tr>
</tbody>
</table>

Answer: Certificate for Tax Deducted Section 203/ Rule 31

TDS Certificate
Every person deducting tax at source shall issue a certificate to the person with regard to whom tax has been deducted at source. In case of payment of salary, certificate shall be issued in Form No. 16 and in other cases it will be in Form No. 16A.
The certificate in Form No. 16 should be given upto 31st May of the succeeding year in case of an employee and it will be an annual certificate.
In other cases certificate in Form No. 16A should be issued on quarterly basis and it should be issued within 15 days from the last date of submitting the quarterly statement under section 200.
Question 29: Write a note on Tax Deduction Account Number (TAN).
Answer: Tax Deduction Account Number (TAN) Section 203A
Every person, deducting tax at source shall apply for allotment of tax deduction account number and application has to be given in Form No.49B within one month from the end of the month in which tax was deducted for the first time.

Question 30: Write a note on Furnishing of Statement of Tax Deducted.
Answer: Furnishing of Statement of Tax Deducted Section 203AA / Rule 31AB
Income Tax Authorities shall prepare annual statement for every person with regard to whom tax has been deducted at source and such statement shall be prepared in the Form No. 26AS on the basis of quarterly return filed by the person deducting tax at source. Such statement shall be sent to every person upto 31st July of assessment year. Tax credit can be claimed on the basis of such statement. In case of any discrepancy, such person shall report it to the Income Tax Department.

Question 31: Write a note on Requirement to Furnish Permanent Account Number.
Answer: Requirement to Furnish Permanent Account Number Section 206AA
Every person on whose behalf, tax is being deducted at source shall submit his PAN to the person deducting tax at source otherwise rate of TDS shall be the actual rate or 20% whichever is higher. The person deducting tax at source has to mention such PAN in the quarterly statement.

<table>
<thead>
<tr>
<th>TDS shall be on the amount excluding tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>As per Circular No. 23/2017, Dated 19-7-2017, wherever in terms of the agreement/contract between the payer and the payee, the tax component comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid/payable without including such tax component.</td>
</tr>
</tbody>
</table>

Illustration 10: Mrs. X has received incomes as given below during the previous year 2019-20:
1. Interest on savings bank account with State Bank ₹50,000 (gross).
2. Interest from Government securities ₹1,00,000 on 01.01.2020 (collection charge paid to the bank @ 1.5%).
3. Interest from ABC Ltd on non listed debentures ₹3,60,000 (after TDS) on 01.03.2020 (collection charge paid to the bank ₹30).
4. Interest credited to post office savings bank account during the year ₹ 10,000.
5. Interest credited to public provident fund during the year ₹ 15,000.
6. Interest received from XYZ Ltd on listed debentures ₹ 1,35,000 (Net).
   (Collection charge ₹30) The amount was invested by taking a loan of ₹15,00,000 @ 12% p.a.
7. Mrs. X received rent of house property ₹ 72,000 per month after TDS.
8. Winnings from a lottery ₹70,000 (after TDS)
Compute her tax liability and also tax payable for the assessment year 2020-21.

Solution:

<table>
<thead>
<tr>
<th>Income under the head other sources</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross interest from State Bank of India</td>
<td>₹50,000.00</td>
</tr>
<tr>
<td>Interest from Government securities {₹1,00,000 – ₹1,500}</td>
<td>98,500.00</td>
</tr>
<tr>
<td>Interest from ABC Ltd {(₹3,60,000 / 90 x 100) – ₹30}</td>
<td>3,99,970.00</td>
</tr>
<tr>
<td>Interest on P.O.S.B (10,000 – 3,500)</td>
<td>6,500.00</td>
</tr>
<tr>
<td>Interest on PPF (exempt u/s 10(15))</td>
<td>Nil</td>
</tr>
<tr>
<td>Interest from XYZ Ltd. (30,030.00)</td>
<td></td>
</tr>
<tr>
<td>{Gross interest = ₹1,35,000 / 90 x 100 = 1,50,000}</td>
<td></td>
</tr>
<tr>
<td>Less: Collection charges = (₹30)</td>
<td></td>
</tr>
<tr>
<td>Less: Interest paid on loan = (₹1,80,000)</td>
<td></td>
</tr>
<tr>
<td>Winning from lottery 1,00,000.00</td>
<td>(70,000 / 70 x 100)</td>
</tr>
</tbody>
</table>
Deduction Of Tax At Source

Income under the head Other Sources 6,24,940.00
Income under the head House Property
Gross Annual Value  (72,000/90% x 12) 9,60,000.00
Less: Municipal Tax
Net Annual Value 9,60,000.00
Less: 30% of NAV u/s 24(a) (2,88,000.00)
Less: Interest on capital borrowed u/s 24(b) (Nil)
Income from house property 6,72,000.00

Gross Total Income 12,96,940.00
Less: Deduction u/s 80TTA (10,000.00)
Total Income 12,86,940.00

Computation of tax liability
Tax on winning from lottery ₹1,00,000 @ 30% u/s 115BB 30,000.00
Tax on ₹11,86,940 at slab rate 1,68,582.00
Tax before health & education cess 1,98,582.00
Add: HEC @ 4% 7,943.28
Tax Liability 2,06,525.28
Less: TDS u/s 193 on Non Listed Debentures (40,000.00)
Less: TDS u/s 193 on Listed Debentures (15,000.00)
Less: TDS u/s 194B on winning from lottery (30,000.00)
Less: TDS u/s 194I (96,000.00)
Tax Payable 25,525.28
Rounded off u/s 288B 25,530.00

Illustration 11: Mr. X has let out one House property and rent received is ₹90,000 p.m. after TDS. He paid Municipal Tax ₹1,00,000 and Interest u/s 24 (b) is ₹2,00,000. He has received ₹ 9,00,000 in connection with professional services after TDS. The Assessee made the payment of tax on 10.05.2020. Compute Total Income and Tax Payable and also Compute Interest u/s 234A, 234B & 234C.

Solution:

Computation of income under the head House Property ₹
Gross Annual Value  (90,000/90% x 12) 12,00,000.00
Less: Municipal Tax (1,00,000.00)
Net Annual Value 11,00,000.00
Less: 30% of NAV u/s 24(a) (3,30,000.00)
Less: Interest on capital borrowed u/s 24(b) (2,00,000.00)
Income from house property 5,70,000.00
Income under the head Business/Profession (9,00,000/90%) 10,00,000.00
Gross Total Income 15,70,000.00
Less: Deduction u/s 80C to 80U Nil
Total Income 15,70,000.00

Computation of Tax Liability
Tax on ₹ 15,70,000 at slab rate 2,83,500.00
Add: HEC @ 4% 11,340.00
Tax Liability 2,94,840.00
Less: TDS u/s 194I (1,20,000.00)
Less: TDS u/s 194J (1,00,000.00)
Tax Payable 74,840.00

Interest under section 234C shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Tax Payable</th>
<th>Tax Paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.06.2019</td>
<td>11,226 (74,840 x 15%)</td>
<td>Nil</td>
<td>11,226</td>
</tr>
</tbody>
</table>

Rounded off Rule 119A = 11,200
Interest u/s 234C = 11,200 x 1% x 3 = 336
15.09.2019  33,678 (74,840 x 45%)  Nil  33,678
Rounded off Rule 119A = 33,600
Interest u/s 234C = 33,600 x 1% x 3 = 1,008
15.12.2019  56,130 (74,840 x 75%)  Nil  56,130
Rounded off Rule 119A = 56,100
Interest u/s 234C = 56,100 x 1% x 3 = 1,683
15.03.2020  74,840 (74,840 x 100%)  Nil  74,840
Rounded off Rule 119A = 74,800
Interest u/s 234C = 74,800 x 1% x 1 = 748

Total interest payable u/s 234C  3,775

**Interest under section 234B** shall be computed from 01.04.2020 to 10.05.2020 and is as given below:

Tax Liability – TDS shall be considered to be tax payable i.e. 74,840
74,840 = 74,800 x 1% x 2 = 1,496
(Rounded off Rule 119A = 74,800)
Total interest payable (3,775 + 1,496)  5,271
Rounded off u/s 288B  5,270

**Question 32:** Write a note on TCS under the Income-tax Act, 1961.

**Answer:**
As per section 206C, tax collection at source means the person receiving payment for selling of alcoholic liquor shall collect tax at source from the buyer and also in some other cases, tax has to be collected at source and is given below:

(i) Alcoholic Liquor for human consumption  One per cent
(ii) Timber obtained under a forest lease  Two and one-half per cent
(iii) Scrap  One per cent
(iv) Parking lot  Two per cent
(v) Toll plaza  Two per cent
(vi) Mining  Two per cent
(vii) Minerals, being coal or lignite or iron ore  One per cent
(viii) Motor vehicle, value exceeding ten lakh rupees  One per cent

**Q.1 Whether TCS @ 1% is on sale of motor vehicle at retail level or also on sale of motor vehicles by manufacturers to dealers/distributors?**

A. To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 1% from the purchaser on sale of motor vehicle of the value exceeding ₹ 10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it **will not apply on sale of motor vehicles by manufacturers to dealers/distributors.**

**Q.2 Whether TCS @ 1% on sale of motor vehicle is applicable only to luxury cars?**

A. No, as per section 206C(1F), the seller shall collect tax@1% from the purchaser on sale of any motor vehicle of the value exceeding ₹ 10 lakhs.

**Q.3 Whether TCS @ 1% is applicable in the case of sale to Government Departments, Embassies, Consulates and United Nation Institutions, of motor vehicle or any other goods or provision of services?**

A. Government, institutions notified under United Nations (Privileges and Immunities) Act 1947, and Embassies, Consulates, High Commission, Legation, Commission and trade representation of a foreign State shall not be liable to levy of TCS.
Q.4 Whether TCS is applicable on each sale of motor vehicle or on aggregate value of sale during the year?
A. Tax is to be collected at source@1% on sale consideration of a motor vehicle exceeding ₹ 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.

Q.5 Whether TCS @ 1% on sale of motor vehicle is applicable in case of an individual?
A. An individual who is liable to audit as per the provisions of section 44AB during the financial year immediately preceding the financial year in which the motor vehicle is sold shall be liable for collection of tax at source on sale of motor vehicle by him.

Q.6 How would the provisions of TCS on sale of motor vehicle be applicable in a case where part of the payment is made in cash and part is made by cheque?
A. The provisions of TCS on sale of motor vehicle exceeding ₹ 10 lakhs is not dependent on mode of payment. Any sale of motor vehicle exceeding ₹ 10 lakhs would attract TCS @ 1%.

Time of Collection of tax
The tax should be collected at the time of debiting of the amount payable by the buyer or licensee or lessee, as the case may be, to his account or at the time of receipt of such amount from the buyer or licensee or lessee, as the case may be, in cash or by the issue of a cheque or draft or any other made, whichever is earlier.
In case of sale of a motor vehicle of the value exceeding ₹ 10 lakhs, tax shall be collected at the time of receipt of such amount.

Non-applicability of TCS
No collection of tax shall be made in the case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration in writing in duplicate in the prescribed form and verified in the prescribed manner to the effect that goods are to be utilised for the purpose of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes.
MULTIPLE CHOICE QUESTIONS

1. The rate of TDS on rental payments of plant, machinery or equipment is -
   (a) 2%  (b) 5%  (c) 10%  (d) 1%

2. Advance tax will not be paid if tax payable after TDS is less than–
   (a) ₹ 10,000  (b) ₹5,000  (c) ₹20,000  (d) ₹25,000

3. For deferment of advance tax -
   (a) interest is payable under section 234A
   (b) interest is payable under section 234B
   (c) interest is payable under section 234C
   (d) interest is payable under all the three sections 234A, 234B and 234C

4. Mr. X, a resident Indian, wins ₹10,000 in a lottery. Which of the statement is true?
   (a) Tax is deductible u/s 194B @ 30%
   (b) Tax is deductible u/s 194B @ 30.9%
   (c) No tax is deductible at source
   (d) None of the above

5. Mr. X paid fees for professional services of ₹40,000 to Mr. Y, who is engaged only in the business of operation of call centre, on 15.7.2019. Tax is to be deducted by Mr. X at the rate of –
   (a) 1%  (b) 2%  (c) 10%  (d) 20%

6. Mr. A, a salaried individual, pays rent of ₹51,000 per month to Mr. B from June, 2019. Which of the statement is true?
   (a) No tax is deductible at source since Mr. A is not liable to tax audit u/s 44AB.
   (b) Tax is deductible at source every month @ 10% on rent paid to Mr. B.
   (c) Tax is deductible at source every month @ 5% on rent paid to Mr. B.
   (d) Tax is deductible at source @ 5% on annual rent from the rent paid for March 2020.

7. ₹2 lakh is paid to Mr. Vallish, a resident individual on 15.3.2020 by the State of Haryana on compulsory acquisition of his urban agricultural land.
   (a) No tax is deductible at source  (b) Tax is deductible@ 1%
   (c) Tax is deductible @ 5%  (d) Tax is deductible@ 10%

8. Two motor cars of the value of ₹12 lakhs and ₹8 lakhs was sold by a dealer to two different customers.
   (a) Tax @ 1% has to be collected on ₹20 lakhs
   (b) Tax @ 1% has to be collected on ₹12 lakhs
   (c) Tax @ 1% has to be collected on ₹8 lakhs
   (d) No tax collection at source is required in this case

9. A registered firm pays salary and interest on capital to its resident partners. Which of the following statements is true?
   (a) Tax has to be deducted u/s 192 on salary and u/s 194A on interest
   (b) Tax has to be deducted u/s 192 on salary but no tax needs to be deducted on interest
   (c) No tax has to be deducted on salary but tax has to be deducted u/s 194A on interest
   (d) No tax has to be deducted at source on either salary or interest

10. M/S Mohan & Sons (liable to audit) paid ₹35,000 to Mr. Goel on 01.05.2019 towards fee for legal advisory services without deduction of tax at source. Another payment of ₹47,000 was due to Mr. Goel on 31.07.2019 and TDS on entire amount (i.e. ₹35,000 plus ₹47,000) was deducted and then the net amount was paid. However, the total tax deducted was deposited on 15.11.2019. The interest chargeable under section 201 will be:
    (a) ₹650
    (b) ₹433
    (c) ₹486
    (d) ₹597
11. Which of the following statement is correct.
(a) As per section 192A tax shall be deducted at source @ 12% provided the amount paid or payable during a particular year is ₹ 50,000 or more
(b) As per section 192A tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is ₹ 1,50,000 or more
(c) As per section 192A tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is ₹ 50,000 or more
(d) None of these

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

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

14. Which of the following statement is correct.
(a) As per section 194C, tax shall be deducted at source @ 2% in case of payment to individual or HUF and @ 1% in case of payment to any other person provided the amount being paid is exceeding ₹ 1,00,000
(b) As per section 194C, tax shall be deducted at source @ 10% in case of payment to individual or HUF and @ 1% in case of payment to any other person provided the amount being paid is exceeding ₹ 30,000
(c) As per section 194C, tax shall be deducted at source @ 2% in case of payment to individual or HUF and @ 1% in case of payment to any other person provided the amount being paid is exceeding ₹ 30,000
(d) None of these

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

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

**MAY – 2019 (NEW COURSE)**

**Question 2 (b) (7 Marks)**
Examine the TDS implications in the following cases along-with reasons thereof;

(i) Ms. Varsha received a sum of ₹ 95,000 on 31st December 2019 towards maturity proceeds of LIC taken on 1st October 2013 for which sum assured was ₹ 80,000 and annual premium was ₹ 10,000.

(ii) Mr. Deepak transferred a residential house property to Mr. Karan for ₹ 45 lacs. The stamp duty value of such property is ₹ 55 lacs.

(iii) XYZ Private Limited pays the following amounts to Mr. Narayan during previous year 2019-20:
    (1) ₹ 22,000 towards fee for professional services
    (2) ₹ 18,000 towards royalty

(iv) Payment of ₹ 1,75,000 made to Mr. Vaibhav for purchase of calendar according to specification of M/s. ABC Limited. However, no material was supplied for such calendar by ABC Limited to Mr. Vaibhav.

(v) Talent Private Limited pays ₹ 12,000 to Ms. Sudha, its director, towards sitting fee which is not taxable u/s 192.

(vi) Radha Limited is engaged for Shyam Limited only in the business of operation of call centre. On 18-03-2020, the total amount credited by Shyam Limited in the ledger account of Radha Limited is ₹ 70,000 regarding service charges of call centre. The amount is paid through cheque on 28/03/2020 by Shyam Limited.

**Answer:**

(i) **As per section 194DA**, in general payment on maturity of Life policy is exempt from income tax under section 10(10D) however sometimes the amount is taxable (if premium paid has exceeded the prescribed percentage (i.e. 10% / 15% / 20%)) and in that case tax has to deducted at source @ 5% on the amount of income provided the amount paid or payable to any resident during a particular financial year is ₹ 1,00,000 or more. In the given case, premium paid is more than 10% and the maturity proceeds is taxable but the amount is less than 1,00,000 hence TDS shall not be deducted.

(ii) **As per section 194-IA**, every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) making payment to a resident for purchase of immovable property of ₹ 50 lakhs or more shall deduct tax at source @ 1% of such sum. In the given case, though the stamp duty value is exceeding ₹ 50 lakhs but payment is not exceeding ₹ 50 lakhs hence TDS is not applicable and Mr. Karan is not required to deduct TDS.

(iii) **As per section 194J**, every person, who is responsible for paying to a resident any sum by way of –
    (i) fees for Professional services
    (ii) fees for Technical services
    (iii) any Remuneration or fees or commission to a director of a company (in case salary is being paid to a director, tax shall be deducted at source under section 192).
    (iv) Royalty
    (v) Non-compete fee referred to in section 28 shall deduct tax at source at the rate of 10% if amount paid or payable is more than ₹ 30,000 and limit shall be separately applicable for each of the above payments but there is no limit for payment to a director.

In the given case, amount paid is less than limit prescribed above hence no TDS shall be required to be deducted.

(iv) **As per section 194C**, every person responsible for making payment to a resident contractor in connection with any work shall deduct tax at source @ 2% and in case of payment to individual or Hindu Undivided Family, the rate of TDS shall be 1%. Tax shall be deducted at source only if the amount being paid is exceeding ₹ 30,000 or the amount paid or payable during a particular financial year to a particular person exceeds ₹ 1,00,000.

If any person making payment for purchase of goods, no tax shall be deducted at source but if such person has supplied raw material etc. and contract is only for labour etc., tax shall be deducted at source.

In the given case, material is not supplied hence TDS is not required to be deducted.
(v) **As per section 194J**, TDS is required to be deducted if payment is made to a director and no limit of ₹30,000 is applicable in case of payment to director. In the given case, payment is made to director hence TDS is applicable and required to be deducted @ 10% on ₹12,000.

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

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**MAY – 2019 (OLD COURSE)**

**Question 2 (b) (3 Marks)**

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

(i) An employee of the Central Government receives arrears of salary for the earlier 3 years. He inquires whether amount will be received after deduction of tax at source during the current year.

(ii) A T.V. channel pays ₹10 lacs as prize money to the winner of a quiz programme.

(iii) A Nationalized bank pays ₹50,000 per month as rent to the Central Government for a building in which one of its branch is situated.

(iv) A television company pays ₹50,000 to a cameraman for shooting of a documentary film.

**Answer:**

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

(ii) Every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) responsible for paying to any resident or non-resident, any income by way of winnings from any lottery or crossword puzzle or card game and other game of any sort shall deduct tax at source @ 30% provided the amount being paid or payable is exceeding ₹10,000. In the given case a T.V. channel pays 10 lacs as prize hence TDS is required to be deducted @ 30%.

(iii) As per section 194I, TDS is required to be deducted in case of person responsible for paying to a resident any income by way of rent shall deduct tax @ 10% on renting of immovable property provided the amount paid or payable is more than ₹2,40,000 in a year. In the given case Nationalized bank pays ₹50,000 per month which is more than ₹2,40,000 in a year hence TDS is required to be deducted @ 10% on ₹50,000 per month.

(iv) As per section 194C, tax has to be deducted in respect of payments made to resident for any work provided amount paid is exceeding 30,000 in a single payment or 1,00,000 during the year. TDS is required to be deducted @ 1% if the payee is individual or HUF and @ 2% in case of other person. In the given case, A television company pays to an individual (i.e. cameraman) for shooting of documentary film and amount paid is ₹50,000 which is more than 30,000 hence TDS is required to be deducted @ 1%.

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**NOV – 2018 (NEW COURSE)**

**Question 2 (b) (2 Marks)**

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

**Answer:**

**TDS in case of Payment for purchase of immovable property Section 194-1A**

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

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

\[
\text{TDS} = 1\% \text{ of } ₹60,00,000 = ₹60,000
\]
(ii) As per the above provision TDS is not required to be deducted on purchase of agriculture land on rural area.

**Question 2(c)**  
(2 Marks)

Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for ₹2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than ₹12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations.

**Answer:**

As per section 206C, tax collection at source means the person receiving payment for selling of motor vehicle value exceeding ₹10 lakhs shall collect tax at source from the buyer however TCS on sale of motor vehicle shall be applicable in case of retail sale only accordingly it will not apply on sale of motor vehicle by manufacturer to distributors/dealers.

In the given case, TCS shall not be applicable in case of sale of car from manufacturer to dealers. So, XYZ Ltd. is not required to collect TCS on sale of motor vehicle to dealers.

In the given case, Rahil & Co. selling cars to individual buyers and value is exceeding ₹10 lakhs hence Rahil & Co. shall be required to collect TCS @ 1% on sale of car.

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

Examine the applicability of the provisions for tax deduction at source under Income Tax Act, 1961.

(i) Mr. Z, a resident, is due to receive, ₹95,000 on 01.10.2019 towards maturity proceeds of LIC policy taken on 01.10.2012 for which sum assured was ₹90,000 and the annual premium was ₹15,000.

(ii) Mudra Ltd., an advertising Company, has retained a sum of ₹15 Lakhs, towards charges for procuring and canvassing advertisement, from payment of 1 crore due to Cloud TV, a television channel and remitting the balance amount of ₹85 Lakhs to the television channel. Would the provisions of Tax deduction at source under section 194H be attracted on the sum of ₹15 Lakhs retained by the advertising company?

(iii) Mr. X is salaried Individual pays rent of 55,000 per month to Mr. Y (does not have PAN) from June 2019. Is he required to deduct TDS? If so, when is he required to deduct tax? Mr. X vacated the premises on 31st December, 2019.

**Answer:**

(i) As per section 194DA, in general payment on maturity of Life policy is exempt from income tax under section 10(10D) however sometimes the amount is taxable (if premium paid has exceeded the prescribed percentage (i.e. 10% / 15% / 20%)) and in that case tax has to deducted at source @ 5% on the amount of income provided the amount paid or payable to any resident during a particular financial year is ₹1,00,000 or more.

In the given case premium paid is exceeding the prescribed limit hence it is taxable but the amount paid or payable is not exceeding ₹1,00,000 hence TDS is not required to be deducted.

(ii) The issue of whether fees/charges taken or retained by advertising companies from media companies for canvasing/bookings advertisements (typically 15% of the billing) is 'commission' or 'discount' to attract the provisions of tax deduction at source has been clarified by the CBDT vide its Circular No.5/2016 dated 29.2.2016.

The relationship between the media company and the advertising agency is that of a 'principal-to-principal' and, therefore, not liable for TDS under section 194H. In view of the same, the CBDT has clarified that no liability to deduct tax is attracted on payments made by television channels to the advertising agency for booking or procuring of or canvassing for advertisements.

Accordingly, in view of the clarification given by CBDT, no tax is deductible at source on the amount of ₹15 lakhs retained by Mudra Adco Ltd., the advertising company, from payment due to Cloud TV, a television channel.

(iii) As per section 194IB, any person, being an individual or a Hindu undivided family not liable to audit in
the preceding financial year, responsible for paying to a resident any income by way of rent exceeding ₹50,000 for a month or part of a month during the previous year, shall deduct tax @ 5% but if the person receiving payment of rent has not submitted PAN, tax shall be deducted @ 20% but maximum rent payable for the last month. Tax shall be deducted at the time of making payment of rent for the last month of the previous year or the last month of tenancy whichever is earlier.

In the given case, TDS is required to be deducted as rent is exceeding ₹50,000 per month.

Total Rent from June to Dec 2019 = ₹55,000 x 7 months = ₹3,85,000

he should deduct at source ₹3,85,000 x 5% = ₹19,250 but if per receiving payment has not submitted PAN, amount of TDS shall be ₹3,85,000 x 20% = ₹77,000 but maximum ₹55,000.

6 (c). The following details are provided by Mr. Pinto, an individual, for the assessment year 2020-2021.

<table>
<thead>
<tr>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total estimated tax payable</td>
</tr>
<tr>
<td>TDS (estimated but not deducted)</td>
</tr>
</tbody>
</table>

Determine the advance tax payable with their due dates for the assessment year 2020-2021.

Answer:

As per Section 208, if tax payable is ₹10,000 or more, in that case assessee shall be required to pay advance tax. Tax payable means total tax liability less tax deducted at source hence in the given case advance tax has to be paid with regard to ₹2,00,000 (2,00,000 – Nil (as estimated but not deducted))

**As per section 211, all assessee has to pay advance tax in the manner given below:**

<table>
<thead>
<tr>
<th>Due date of installment</th>
<th>Amount payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15th June of P.Y.</td>
<td>₹30,000 (15% of ₹2,00,000)</td>
</tr>
<tr>
<td>Upto 15th September of P.Y.</td>
<td>₹90,000 (45% of ₹2,00,000)</td>
</tr>
<tr>
<td>Upto 15th December of P.Y.</td>
<td>₹1,50,000 (75% of ₹2,00,000)</td>
</tr>
<tr>
<td>Upto 15th March of P.Y.</td>
<td>₹2,00,000 (100%)</td>
</tr>
</tbody>
</table>

**MAY – 2018**

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

Discuss the applicability of provisions of Tax Deduction at source, the rate and amount of tax deduction to be made in the following cases for the financial year 2019-20.

(A) Mr. Bobby, a resident whose turnover during the previous financial year is ₹205 Lakhs and for the current year 2019-20 it is ₹80 lakhs.

(i) Shop rent paid to Mr. Rajasekharan, a resident ₹25,000 per month.

(ii) On 1-11-2019 paid towards fee for technical services ₹25,000 and royalty of ₹20,000 to Mr. Swamy, a resident who is having PAN. No other payment made to Mr. Swamy.

(iii) On 01-10-2019 payment of ₹2,00,000 made to Mr. A for purchase of diaries according to specifications. However, no material was supplied for such diaries.

(iv) Contract payments made to Mr. Satheesan on 01-05-2019 for painting ₹25,000 and another contract for interior furnishing on 22-03-2020 for ₹20,000.

(B) Mr. Thrilok an individual not assessed to tax pays towards rent ₹60,000 per month.

Answer:

(A) As the turnover of Mr. Bobby for F.Y.2018-19, i.e. ₹205 lakh, has exceeded the monetary limit prescribed under section 44AB, he has to comply with the tax deduction provisions during the financial year 2019-20.

(i) As per Section 194-I TDS is required to be deducted @ 10% as the rent amount does exceeds ₹2,40,000 TDS per month = 25,000 x 10% = 2,500

(ii) As per section 194J, Limit of 30,000 per annum shall be considered separately for each services hence no TDS is required to be deducted as payment made for technical services and royalty both is not exceeding 30,000 separately.

(iii) Tax shall not be deducted at source in case of purchase of goods.
(iv) It is covered under section 194C but payment is not exceeding ₹30,000 hence no tax shall be deducted at source.

(B) **As per section 194-IB**, Any person, being an individual or a Hindu undivided family not liable to audit in the preceding financial year, responsible for paying to a resident any income by way of rent exceeding ₹50,000 for a month or part of a month during the previous year, shall deduct tax @ 5%. In the given case rent is exceeding ₹50,000 hence TDS shall be deducted 5%.

\[
\text{TDS} = 60,000 \times 12 \times 5\% = 36,000.
\]

**Question 6 (b) (Marks 5)**

Write any four cases where seller of certain goods is required to collect tax from buyers and also state the circumstances where TCS is not applicable.

**Answer:** As per section 206C, tax collection at source means the person receiving payment for selling of alcoholic liquor shall collect tax at source from the buyer and also in some other cases, tax has to be collected at source and is given below:

1. **Alcoholic Liquor for human consumption**
   - One per cent

2. **Timber obtained under a forest lease**
   - Two and one-half per cent

3. **Scrap**
   - One per cent

4. **Parking lot**
   - Two per cent

5. **Toll plaza**
   - Two per cent

6. **Mining**
   - Two per cent

7. **Minerals, being coal or lignite or iron ore**
   - One per cent

8. **Motor vehicle, value exceeding ten lakh rupees**
   - One per cent

No collection of tax shall be made in the case of a buyer, who is resident in India, if such buyer furnishes to the person responsible for collecting tax, a declaration in writing in duplicate in the prescribed form and verified in the prescribed manner to the effect that the goods are to be utilised for the purposes of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes.

**MAY – 2017**

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

Pallavi Bank Ltd., has paid interest of ₹29,000 to Mr. A, a resident Indian, from its Chennai branch and ₹28,000 from Bangalore branch. If there is no core banking services in the bank, is tax required to be deducted at source from such interest payments made on 31-3-2020? Will your answer be different if there is core banking service present in the bank? Also, explain the provisions of the Income-tax Act, 1961 in this regard.

**Answer:**

As per section 194A, Every person making payment of interest other than interest on securities to any resident shall deduct tax at source @ 10% provided the amount being paid or payable during a particular year to a particular person is exceeding ₹5,000 but if payment is being made by bank or post office, tax shall be deducted only if interest being paid or payable is exceeding ₹40,000. Further TDS shall be only on time deposit including recurring deposit. Limit of ₹40,000 shall be per branch of the bank but if the bank has core banking solution, limit shall be per bank and not per branch.

In the first case there is no core banking services in the bank then the limit shall be per branch and amount has not exceeded ₹40,000 per branch hence no TDS shall be required to be deducted.

In the Second case, there is a core banking services and limit has exceeded including both the branch hence TDS shall be required to be deducted @ 10% on ₹57,000.

**Question 7 (c) (4 Marks)**

Mr. Sachal, a resident individual aged 54, furnishes income details as under:
(i) Wholesale Cloth business, whose turnover is ₹150 lakhs, for which accounts are audited u/s 44AB.

   Income from such business ₹8,10,000.

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

(iii) Tax deducted at source ₹25,000.

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

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

**Solution: As per section 234B,** if advance tax paid is less than 90% of actual tax liability, assessee shall be required to pay interest @ 1% per month or part of a month from 1st April of assessment year upto the date of payment. If advance tax paid is 90% or more of actual tax liability, no interest is payable.

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

**Computation of Tax Payable**

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

**Calculation of Interest u/s 234C**

Interest under section 234C shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Tax Payable</th>
<th>Tax Paid</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.06.2019</td>
<td>17,544 (1,16,960 x 15%)</td>
<td>Nil</td>
<td>17,544</td>
</tr>
<tr>
<td>Rounded off Rule 119A = 17,500</td>
<td>Interest u/s 234C = 17,500 x 1% x 3 = 525</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.09.2019</td>
<td>52,632 (1,16,960 x 45%)</td>
<td>Nil</td>
<td>52,632</td>
</tr>
<tr>
<td>Rounded off Rule 119A = 52,600</td>
<td>Interest u/s 234C = 52,600 x 1% x 3 = 1,578</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.12.2019</td>
<td>87,720 (1,16,960 x 75%)</td>
<td>Nil</td>
<td>87,720</td>
</tr>
<tr>
<td>Interest u/s 234C = 87,700 x 1% x 3 = 2,631</td>
<td>15.03.2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest u/s 234C = 13,900 x 1% x 1 = 139</td>
<td>1,16,960 (1,16,960 x 100%)</td>
<td>10,3,000</td>
<td>13,960</td>
</tr>
<tr>
<td>Total interest payable u/s 234C</td>
<td>4,873</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Since Advance Tax paid i.e. ₹1,03,000 is less than 90% of the actual tax payable i.e. ₹1,15,600, hence Interest u/s 234B shall be payable and Interest shall be –

13,900 x 1% x 9 = 1,251
Deduction Of Tax At Source

Total Interest Payable (4,873 + 1,251) 6,124

**NOV – 2016**

**Question 4(a) (2 Marks)**
State with reasons whether TDS is applicable or not on the following payment under the provisions of Income-tax Act, 1961?
TDS is not applicable in respect of payment of ₹1,00,000 to Mr. Pandey a resident, being interest on recurring deposit with SBI.

**Answer:**
**False:** As per Section 194A, every person making payment of interest other than interest on securities to any resident shall deduct tax at source @ 10% provided the amount being paid or payable during a particular year to a particular person is exceeding ₹40,000. Further TDS shall be only on time deposit including recurring deposit. Hence TDS shall be applicable in the given case.

**Question 7(a) (4 Marks)**
(i) Discuss the provisions, relating to the premature withdrawal from Employees Provident Fund, under section 192A, for A.Y. 2020-21.

**Answer:** Refer Answer given in the book

(ii) Mr. Barun provides you the following information and requests you to determine the Advance Tax liability with due dates for the financial year 2019-20.

**Estimated tax liability for the financial year 2019-20**
₹65,000

**Tax deducted at source for this year**
₹5,000

**Answer:** As per Section 208, if tax payable is ₹10,000 or more, in that case assessee shall be required to pay advance tax. Tax payable means total tax liability less tax deducted at source hence in the given case advance tax has to be paid with regard to ₹60,000 (65,000 – 5,000)

**As per section 211, all assessee has to pay advance tax in the manner given below:**

<table>
<thead>
<tr>
<th>Due date of installment</th>
<th>Amount payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 15th June of P.Y.</td>
<td>₹9,000 (15% of ₹60,000)</td>
</tr>
<tr>
<td>Upto 15th September of P.Y.</td>
<td>₹27,000 (45% of ₹60,000)</td>
</tr>
<tr>
<td>Upto 15th December of P.Y.</td>
<td>₹45,000 (75% of ₹60,000)</td>
</tr>
<tr>
<td>Upto 15th March of P.Y.</td>
<td>₹60,000</td>
</tr>
</tbody>
</table>

**MAY – 2016**

**Question 7(a)(i) (4 Marks)**
Ashwin a resident Individual carrying on business, furnishes you the following information:

- Total turnover for the financial year:
  - 2018-19: ₹120,00,000
  - 2019-20: ₹98,00,000

State whether tax deduction at source provisions are attracted for the under - mentioned expenses incurred during the financial year 2019-20:

**Particulars**
- Commission paid to Babloo: ₹18,500
- Payment to Vijay for repair of office building: ₹23,000
- Payment of fees for Technical Services, to Vivek: ₹35,000

All payments are made to residents.

If Tax has to be deducted at source, state the amount of tax to be deducted at source.

**Answer:**
As the turnover of Mr. Ashwin for F.Y.2018-19, i.e. ₹120 lakh, has exceeded the monetary limit prescribed under section 44AB, he has to comply with the tax deduction provisions during the financial year 2019-20.
Commission paid to Babloo – Tax has to be deducted under section 194-H as the commission exceeds ₹15,000.
Tax shall be deducted at source u/s 194H and shall be = 18,500 x 5% = ₹925

Contract payment of ₹23,000 to Mr. Vijay
TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹30,000 in a single payment or ₹1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Payment of fees for Technical Services, to Vivek
Tax shall be deducted at source under section 194J @ 10% because the total amount payable is exceeding ₹30,000 and amount of TDS shall be = 35,000 x 10% = ₹3,500

Question 7(a). (4 Marks)
What are the consequences of failure to deduct or pay the tax under section 201 of the Income Tax Act, 1961?
Refer Answer given in the Chapter

MAY – 2015

Question 7(a)(ii). (4 Marks)
Mr. Madan sold his house property in Surat as well as his rural agricultural land for a consideration of ₹65 lakhs and ₹20 lakhs respectively, to Mr. Raman on 01.10.2019. He has purchased the house property for ₹40 lakhs and the land for ₹15 lakhs, in the year 2014. There was no difference in the stamp valuation. You are required to determine TDS implications, if any, assuming both persons are resident Indians.

Solution:
As per Section 194-IA every person making payment to a resident for purchase of immovable property of ₹50 lakhs or more shall deduct tax at source @ 1% of such sum. No tax shall be deducted at source in case of payment for purchase of agricultural land which is situated in the rural area.
In the given case Mr. Raman is required to deduct tax at source @ 1% of ₹65 lakh = ₹65,000.
The person deducting tax at source shall not be required to obtain Tax deduction account number as per section 203A.

Question 7(a)(iii). (4 Marks)
What is the difference between TDS and TCS under the Income-tax Act, 1961?
Answer: Refer Answer given in the Chapter

Question 7(a). (4 Marks)
State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2019-20
(1) Payment of ₹27,000 made to a South African cricketer, by an Indian newspaper agency on 02.07.2019 for contribution of articles in relation to the sport of cricket.
(2) Rent of ₹1,70,000 paid by a partnership firm for use of plant and machinery.
(3) Winning from horse race ₹1,50,000.
(4) ₹2,00,000 paid to Mr. X, a resident individual on 22.02.2020 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

Solution:
(1) TDS shall be deducted u/s 194E @ 20%+HEC. TDS shall be 20.8% of ₹27,000 = ₹5,616.
(2) As per Section 194-I TDS is not required to be deducted as the Rent amount does not exceeds ₹2,40,000.
(3) TDS shall be deducted under section 194BB @ 30% as the amount exceeds ₹10,000. TDS shall be 30% of ₹1,50,000 = ₹45,000.
(4) As per Section 194LA No TDS is deductible by State of Uttar Pradesh as the amount paid does not exceeds ₹2,50,000.
### MAY – 2014

**Question 7(A).**  (2 x 2 = 4 Marks)

What are the provisions relating to tax deduction at source in respect of:

(A) ABC and Co. Ltd. Paid ₹19,000 to one of its Directors as sitting fees on 01.01.2020.

(B) Mr. X sold his House to Mr. Y on 01.02.2020 for ₹60 lacs?

**Solution:**

(A) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director. Therefore, tax @ 10% has to be deducted at source under section 194J in respect of the sum of ₹19,000 paid by ABC Ltd. to its director.

(B) Section 194-IA, tax shall be deducted at source if the amount paid or payable is ₹50,00,000 or more hence in the given case tax deducted at source amounting to ₹60,00,000 x 1% = 60,000.

### NOV – 2012

**Question No. 7(a)**  (4 Marks)

(i) Mr. X doing textiles business furnishes you the following information:

Total turnover for the financial year:

<table>
<thead>
<tr>
<th>Year</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-19</td>
<td>201,00,000</td>
</tr>
<tr>
<td>2019-20</td>
<td>95,00,000</td>
</tr>
</tbody>
</table>

State whether the provisions of tax deduction at source are attracted for the following expenses incurred during the financial year 2019-20;

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid to Indian Bank on Term Loan</td>
<td>92,800</td>
</tr>
<tr>
<td>Advertisement expenses to Mr. X (two individual expense of ₹24,000 and ₹34,000)</td>
<td>58,000</td>
</tr>
<tr>
<td>Factory rent paid to C</td>
<td>2,85,000</td>
</tr>
<tr>
<td>Brokerage paid to B, a sub-broker</td>
<td>16,000</td>
</tr>
</tbody>
</table>

**Answer.**

As the turnover of Mr. X for F.Y.2018-19, i.e. ₹ 201 lakh, has exceeded the limit prescribed under section 44AB, he has to comply with the tax deduction provisions during the financial year 2019-20.

(i) TDS under section 194A is not attracted in respect of interest paid to a banking company.

(ii) Advertisement =TDS on ₹34,000 @ 1% = ₹340 (Sec 194C is applicable if single payment exceeds ₹30,000)

(iii) Tax has to be deducted under section 194-I as the rent amount exceeds ₹2,40,000.

\[
\text{TDS} @ 10\% \text{ on } ₹2,85,000 = ₹28,500
\]

(iv) Tax has to be deducted under section 194-H as the commission exceeds ₹15,000.

\[
\text{TDS} @ 5\% \text{ on } ₹16,000 = ₹800
\]

### NOV – 2011

**Question 7**  (4 Marks)

State the applicability of TDS provisions and TDS amount in the following cases:

(a) Rent paid for hire of machinery by ABC Ltd. to Mr. X ₹3,10,000.

(b) Fee paid to Dr. Y by X (HUF) ₹35,000 for surgery performed to a member of the family.

**Answer.**

(a) Since the rent paid for hire of machinery by ABC Ltd. to Mr. X exceeds ₹2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2% assuming that Mr. X had furnished his permanent account number to ABC Ltd. Therefore, the amount of tax to be deducted at source: = ₹3,10,000 x 2% = ₹6,200

(b) As per the provisions of section 194M, Any person, being an individual or a Hindu undivided family (other than those who are required to deduct income-tax as per the provisions of section 194C or section
194J) responsible for paying any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract or by way of fees for professional services during the financial year, shall, at the time of credit of such sum or at the time of payment of such sum in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to five percent. of such sum as income-tax thereon:

Provided that no such deduction under this section shall be made if such sum or, as the case may be, aggregate of such sums, credited or paid to a resident during a financial year does not exceed fifty lakh rupees.

Therefore, in the given case, fee paid to Dr. Y is ₹ 35,000, which is less than 50,00,000, the liability to deduct tax at source is not attracted.

NOV – 2011

Question 6

Compute amount of tax to be deducted at source on the following payments made by M/s ABC Ltd. during the financial year 2019-20 as per the provisions of the Income-Tax Act, 1961.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Date</th>
<th>Nature of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>01.10.2019</td>
<td>Payment of ₹2,00,000 to Mr. “X” a transporter who is having PAN and who do not have more than 10 goods carriages.</td>
</tr>
<tr>
<td>(ii)</td>
<td>01.11.2019</td>
<td>Payment of fee for technical services of ₹45,000 to Mr. X who is having PAN.</td>
</tr>
<tr>
<td>(iii)</td>
<td>30.12.2019</td>
<td>Payment of ₹25,000 to M/s X Ltd. for repair of building.</td>
</tr>
<tr>
<td>(iv)</td>
<td>01.01.2020</td>
<td>Payment of ₹2,00,000 made to Mr. Y for purchase of diaries made according to specifications of M/s ABC Ltd. However, no material was supplied for such diaries to Mr. Y by M/s ABC Ltd.</td>
</tr>
<tr>
<td>(v)</td>
<td>01.01.2020</td>
<td>Payment made ₹2,20,000 to Mr. Z for compulsory acquisition of his house as per Law of the State Government.</td>
</tr>
<tr>
<td>(vi)</td>
<td>01.02.2020</td>
<td>Payment of commission of 25,000 to Mr. A.</td>
</tr>
</tbody>
</table>

Answer.

(i) No tax shall be deducted at source in case of payment to a transporter who has submitted his PAN.

(ii) Tax shall be deducted at source under section 194J @ 10% because the total amount payable is exceeding ₹30,000 and amount of TDS shall be = 45,000 x 10% = ₹4,500

(iii) It is covered under section 194C but payment is not exceeding ₹30,000 hence no tax shall be deducted at source.

(iv) Tax shall not be deducted at source in case of purchase of goods.

(v) Since payment is not exceeding ₹2,50,000 hence no tax shall be deducted at source under section 194LA.

(vi) Tax shall be deducted at source u/s 194H and shall be = 25,000 x 5% = ₹1,250

MAY – 2011

Question 5

List any 5 instances where the tax deductible at source in terms of section 194A will not apply.

Answer.

The provisions of section 194A will not apply in the following cases where the –

1) Interest is paid by a firm to a partner of the firm;

2) Any interest being paid to Bank/LIC or other notified financial organizations

3) Interest paid by a co-operative society (other than cooperative bonus) to their member;

4) Interest on income tax refund or wealth tax refund etc.

5) Income paid in relation to a Zero Coupon Bond.

Question 7

Mr. X doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year

<table>
<thead>
<tr>
<th></th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹</td>
<td>215,00,000</td>
<td>105,00,000</td>
</tr>
</tbody>
</table>

State whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2019-20:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid to UCO Bank</td>
<td>41,000</td>
</tr>
</tbody>
</table>
Answer.
As the turnover of Mr. X for F.Y.2018-19, i.e. ₹215 lakh, has exceeded the monetary limit prescribed under section 44AB, he has to comply with the tax deduction provisions during the financial year 2019-20, subject to however the exemptions provided for under the relevant sections for applicability of TDS provisions.

**Interest paid to UCO Bank**
TDS under section 194A is not attracted in respect of interest paid to a banking company.

**Contract payment of ₹24,000 to Mr. Y for 2 contracts of ₹12,000 each**
TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹30,000 in a single payment or ₹1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

**Shop Rent paid to one payee** – Tax has to be deducted under section 194-I as the rental payment exceeds ₹2,40,000.

**Commission paid to Balu** – Tax has to be deducted under section 194-H as the commission exceeds ₹15,000.

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**NOV – 2010**

**Question 4**
(4 Marks)
Explain the consequences of not deducting tax and paying to Govt. account under section 201 of the Income Tax Act, 1961.

Refer Answer given in the Chapter

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**MAY – 2010**

**Question 4**
(2 Marks)
State the concessions granted to transport operators in the context of deduction of tax at sources under section 194-C.

**Answer.** No deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the contractor furnishes his permanent account number (PAN) to the person paying or crediting such sum and submitted a declaration that he don’t own more than 10 goods carriages at any time during the year.

---

**MAY – 2010**

**Question 4**
(4 Marks)
State with reasons, whether tax deduction at source provisions are applicable to the following transactions and if so, the rate of tax deduction:
(i) X & Co. (Firm) engaged in wholesale business assigned a contract for construction of its godown building to Mr. X, a contractor. It paid ₹25,00,000 to Mr. X as contract payment.
(ii) Y & Co. engaged in real estate business conducted a lucky dip and gave Maruti car to a prize winner.
(iii) An Insurance Company paid ₹45,000 as Insurance Commission to its agent Mr. Y.
(iv) AB Ltd. allowed a discount of ₹50,000 to XY & Co. (a firm) on prompt (immediate) payment towards supply of automobile parts.

**Answer.**
(i) Section 194C provides for deduction of tax at source from the payment made to resident contractors and sub-contractors. Therefore, tax is deductible at source under section 194C for the contract payments made for the construction of godown building. The rate of TDS under section 194C on payments made to contractors who are individuals or HUF shall be @ 1%. Hence, X & Co. (firm) must deduct tax at source on the contract payments made to Mr. X.
(ii) In respect of lucky dip conducted by Y & Co., the provisions of Section 194B would apply. As per Section 194B, winning from lottery or crossword puzzle or card game or other game of any sort exceeding ₹10,000 payable by any person to any other person, subject to tax deduction at the rate of 30%. Since the value of prize i.e. Maruti car would exceed ₹10,000 tax is deductible at source @ 30%. As the winning is in
kind, the winner must deposit 30% of the prize value to Y & Co. for remitting the same as tax. Only after such deduction / recovery, the Maruti car is to be delivered to the prize winner.

(iii) As per section 194D, any person paying insurance commission in excess of ₹15,000 to any resident person is liable to deduct tax at the rate of 5% in case of all assesses. Therefore, the insurance company must deduct tax at source @ 5% in respect of the insurance commission paid to Mr. Y.

(iv) Discount allowed to a customer for prompt payment is not covered by any of the tax deduction at source provisions of the Income tax Act, 1961. Therefore, AB Ltd. need not deduct any tax at source since no payment was involved in allowing discount to its customer viz. (namely) XY & Co.

NOV – 2009

Question 2 (6 Marks)

From the following particulars of Mr. X for the previous year ended 31st March, 2020 compute total income and tax liability for assessment year 2020-21.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors’ fees</td>
<td>3,00,000.00</td>
</tr>
<tr>
<td>Interest on bank deposit</td>
<td>23,000.00</td>
</tr>
<tr>
<td>Income from undisclosed source</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Winnings from Lotteries (Net)</td>
<td>35,000.00</td>
</tr>
<tr>
<td>Royalty on a book written by him</td>
<td>2,09,000.00</td>
</tr>
<tr>
<td>Lectures in Seminars</td>
<td>5,000.00</td>
</tr>
<tr>
<td>Interest on loan given to a relative</td>
<td>7,000.00</td>
</tr>
<tr>
<td>Interest on debentures of a company (listed in a Recognised Stock Exchange) net of TDS</td>
<td>36,000.00</td>
</tr>
<tr>
<td>Interest on Post Office Savings Bank Account</td>
<td>500.00</td>
</tr>
<tr>
<td>Interest on Government Securities</td>
<td>2,200.00</td>
</tr>
<tr>
<td>Interest on Monthly Income Scheme of Post office</td>
<td>33,000.00</td>
</tr>
<tr>
<td>Winnings from lotteries</td>
<td>50,000.00</td>
</tr>
</tbody>
</table>

He paid ₹10,000 for typing the manuscript of book written by him.

Answer.

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Directors’ fees</td>
<td>3,00,000.00</td>
</tr>
<tr>
<td>2. Interest on bank deposit</td>
<td>23,000.00</td>
</tr>
<tr>
<td>3. Income from undisclosed source</td>
<td>12,000.00</td>
</tr>
<tr>
<td>4. Royalty on books written (2,09,000 – 10,000)</td>
<td>1,99,000.00</td>
</tr>
<tr>
<td>5. Lectures in seminars</td>
<td>5,000.00</td>
</tr>
<tr>
<td>6. Interest on loan given to a relative</td>
<td>7,000.00</td>
</tr>
<tr>
<td>7. Interest on listed debentures</td>
<td>40,000.00</td>
</tr>
<tr>
<td>36,000/ 90% x 100%</td>
<td>40,000.00</td>
</tr>
<tr>
<td>8. Interest on Post Office Savings Bank [exempt under section 10(15)]</td>
<td>-</td>
</tr>
<tr>
<td>9. Interest on Government securities</td>
<td>2,200.00</td>
</tr>
<tr>
<td>10. Interest on Post Office Monthly Income Scheme</td>
<td>33,000.00</td>
</tr>
<tr>
<td>11. Winnings from lotteries</td>
<td>50,000.00</td>
</tr>
<tr>
<td>35,000 / 70% x 100%</td>
<td>50,000.00</td>
</tr>
<tr>
<td>Income from Other Sources</td>
<td>6,71,200.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>6,71,200.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80TTA</td>
<td>(10,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>6,61,200.00</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on casual income ₹50,000 @ 30% u/s 115BB</td>
<td>15,000.00</td>
</tr>
<tr>
<td>Tax on ₹6,11,200 at slab rate</td>
<td>34,740.00</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>49,740.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,989.60</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>51,729.60</td>
</tr>
</tbody>
</table>
Rounded off u/s 288B  

**Question 4**  
(4 Marks)  
Explain the consequences of not deducting tax and paying to Govt. account under section 201 of the Income Tax Act, 1961.  

Refer Answer given in the Chapter  

<table>
<thead>
<tr>
<th>Question 1</th>
<th>(2 Marks)</th>
<th><strong>NOV – 2009</strong></th>
</tr>
</thead>
</table>
| State with reasons, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961, for the assessment year 2020-21:  
An individual having gross receipts of ₹110 lacs during the financial year 2018-19 is not required to deduct tax at source under section 194C of the Income-tax Act, 1961, on payment made to contractors during the financial year 2019-20.  
Answer.  
False: An individual whose total sales/gross receipts/turnover from the business or profession exceeds the monetary limits specified in section 44AB during the financial year immediately preceding the financial year in which such sum is credited or paid to the account of the contractor shall be required to deduct tax at source. | | |

<table>
<thead>
<tr>
<th>Question 3</th>
<th>(4 Marks)</th>
<th><strong>JUNE – 2009</strong></th>
</tr>
</thead>
</table>
| Mrs. X, a landlord, derived income from rent from letting a house property to M/s ABC Corporation Ltd. of ₹1,00,000 per month. Calculate the deduction of tax at source (TDS) to be made by M/s ABC Corporation Ltd. on payment made to Mrs. X and narrate related formalities in relation to TDS.  
Answer.  
(1) Tax deducted at source under section 194-I would be required to be made on the amount of rent i.e. on ₹12,00,000.  
(2) TDS shall be applicable @ 10%.  
(3) Hence, in the given case, TDS under section 194-I @ 10% on ₹12,00,000 comes to ₹1,20,000 i.e. ₹10,000 will be deducted every month and cheque for net amount of (₹1,00,000 – ₹10,000 = ₹90,000) will be issued by M/s. ABC Corporation Ltd. to Mrs. X.  
(4) Tax deducted will be deposited within one week from the last day of the month in which deduction is made but if the tax has been deducted in the month of March, tax should be deposited on or before 30th April.  
(5) Form No. 16-A has to be issued by M/s. ABC Corporation Ltd. to Mrs. X within 15 days from the last date of submitting the quarterly return under section 200.  
(6) Assessee should file quarterly statement upto 31st of the month succeeding the relevant quarter but for the last quarter ending March, return can be submitted upto 31st May. | | |

<table>
<thead>
<tr>
<th>Question 1</th>
<th>(2 Marks)</th>
<th><strong>MAY – 2008</strong></th>
</tr>
</thead>
</table>
| When will tax not required to be deducted at source on interest payable to a resident on any bond or security issued by a company though the aggregate amount of interest exceeds ₹5,000, the basic exemption limit under section 193 of the Act?  
Answer. As per section 193 of the Act, no tax is required to be deducted at source on any interest payable to a resident on any bond or security issued by a company, where the following conditions are satisfied –  
(i) where such security is in dematerialised form and  
(ii) is listed on a recognised stock exchange in India. | | |

<table>
<thead>
<tr>
<th>Question 1</th>
<th>(2 Marks)</th>
<th><strong>JUNE – 2009</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mrs. X has made payments of ₹ 5 lacs to a contractor (for business purposes) during the last two quarters of the year ended 31.03.2020. Her turnover for the year ended 31.03.2019 was ₹215 lacs. Is there any obligation to deduct tax at source?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Answer. In the case of an individual, the provisions of section 194C shall apply, where the turnover from business has exceeded the prescribed limit u/s 44AB during the financial year immediately preceding the financial year in which such payment is made and payment is made for a purpose other than the personal purpose. In the given case, since the turnover of Mrs. X has exceeded the prescribed limit for the year ended 31st March 2019 and the payment is relating to business activities, she shall be liable to deduct tax at source in respect of payment made to a contractor at the applicable rate.

**NOV – 2007**

**Question 5** (4 Marks)
Briefly explain the provisions of section 197 in respect of obtaining certificate for deduction of tax at a lower rate.

*Refer Answer given in the Chapter*

**MAY – 2007**

**Question 5** (4 Marks)
What are the consequences of failure to deduct tax at source or pay the tax deducted at source to the credit of Central Government?

*Answer.* Refer to Answer given in NOV – 2010 Question No.4
## T.D.S./TCS TAX CHALLAN

<table>
<thead>
<tr>
<th>CHALLAN NO. ITNS 281</th>
<th>Tax Applicable (Tick One)*</th>
<th>Assessment Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(0020) Company Deductees</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0021) Non-Company Deductees</td>
<td></td>
</tr>
</tbody>
</table>

Tax Deduction Account No.(T.A.N.)

Full Name

Complete Address with City & State

Tel. No. Pin

---

**Type of Payment**

(Tick One)

- TDS/TCS Payable by Taxpayer (200)
- TDS/TCS Regular Assessment (Raised by I.T. Dept.) (400)

**DETAILS OF PAYMENTS**

<table>
<thead>
<tr>
<th>Amount (in Rs. Only)</th>
<th>Debit to A/c / Cheque credited on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>D D M M Y Y</td>
</tr>
</tbody>
</table>

SPACE FOR BANK SEAL

**FOR USE IN RECEIVING BANK**

Debit to A/c / Cheque credited on

**SPACE FOR BANK SEAL**

For the Assessment Year

---

**Taxpayers Counterfoil**

(To be filled by the taxpayer)

TAN

Received From

Paid in Cash/Debit to A/c /Cheque No.

Dated

Drawn on

(Name of the Bank and Branch)

Signature of person making payment

**SPACE FOR BANK SEAL**

Cash/Debit to A/c / Cheque No.

For Rs.

Rs. (in words)

drawn on

(Name of the Bank and Branch)

Company/Non-Company Deductees

on account of Tax Deducted at Source(TDS)/Tax Collected at Source(TCS)

(Strike out whichever is not applicable)

For the Assessment Year

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SET OFF AND CARRY FORWARD OF LOSSES

SECTION 70 TO 80

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<td>74A</td>
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Question 1 [V. Imp.]: Write a note on Set Off and Carry Forward of Losses under the head House Property.

Answer: As per section 70, if any person has loss from any house property, such loss can be set off from income of any other house property and it is called inter-source adjustment or intra-head adjustment. E.g. Mr. X has two houses: there is loss of ₹34,000 from one house and income of ₹80,000 from the other house, in this case, loss of one source (house) can be set off from income of the other source (house).

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

Where in respect of any assessment year, the net result of the computation under the head “Income from house property” is a loss and the assessee has income assessable under any other head of income, the assessee shall not be entitled to set off such loss, to the extent the amount of the loss exceeds ₹2,00,000, against income under the other head.’.

As per section 71B, unadjusted loss is allowed to be carried forward to the subsequent years but for a maximum period of 8 years starting from the year subsequent to the year in which the loss was incurred and in the subsequent years, loss can be set off only from income under the head house property. E.g. Mr. X has incurred loss under the head house property in the previous year 2019-20/assessment year 2020-21 and it could not be set off in the same year, it can be carried forward upto previous year 2027-28/assessment year 2028-29 (as shown below)

| Year 1 | Previous year 2020-21 | Assessment Year 2021-22 |
| Year 2 | Previous year 2021-22 | Assessment Year 2022-23 |
| Year 3 | Previous year 2022-23 | Assessment Year 2023-24 |
| Year 4 | Previous year 2023-24 | Assessment Year 2024-25 |
| Year 5 | Previous year 2024-25 | Assessment Year 2025-26 |
| Year 6 | Previous year 2025-26 | Assessment Year 2026-27 |
| Year 7 | Previous year 2026-27 | Assessment Year 2027-28 |
| Year 8 | Previous year 2027-28 | Assessment Year 2028-29 |

E.g. Mr. X has loss under the head house property of the previous year 2011-12/assessment year 2012-13 ₹5,00,000 and income under the head house property ₹5,00,000 in previous year 2019-20/assessment year 2020-21, in this case, loss shall be allowed to be set off because it will be allowed to be carried forward upto a period of 8 years starting from previous year 2012-13/assessment year 2013-14 and is as shown below:

| Year 1 | Previous year 2012-13 | Assessment Year 2013-14 |
| Year 2 | Previous year 2013-14 | Assessment Year 2014-15 |
If the loss can be set off, it has to be set off compulsorily i.e. it is not voluntary. E.g. Mr. X has loss under the head house property ₹2,00,000 in previous year 2019-20/assessment year 2020-21 and income under the head business/profession ₹2,50,000 in the same year, in this case loss has to be set off.

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

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

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

As per section 72, unadjusted loss is allowed to be carried forward to the subsequent years but for a maximum period of 8 years starting from the year subsequent to the year in which the loss was incurred and in the subsequent years, loss can be set off only from income under the head business/profession. E.g. Mr. X has incurred loss under the head business/profession in the previous year 2019-20/assessment year 2020-21 and it could not be set off in the same year, it can be carried forward upto previous year 2027-28/assessment year 2028-29 (as shown below)

<table>
<thead>
<tr>
<th>Year</th>
<th>Previous year</th>
<th>Assessment Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>2020-21</td>
<td>2021-22</td>
</tr>
<tr>
<td>Year 2</td>
<td>2021-22</td>
<td>2022-23</td>
</tr>
<tr>
<td>Year 3</td>
<td>2022-23</td>
<td>2023-24</td>
</tr>
<tr>
<td>Year 4</td>
<td>2023-24</td>
<td>2024-25</td>
</tr>
<tr>
<td>Year 5</td>
<td>2024-25</td>
<td>2025-26</td>
</tr>
<tr>
<td>Year 6</td>
<td>2025-26</td>
<td>2026-27</td>
</tr>
<tr>
<td>Year 7</td>
<td>2026-27</td>
<td>2027-28</td>
</tr>
<tr>
<td>Year 8</td>
<td>2027-28</td>
<td>2028-29</td>
</tr>
</tbody>
</table>

Loss of the current year shall be adjusted first and only after that brought forward loss can be adjusted. E.g. Mr. X has loss under the head house property ₹2,00,000 and income from business/profession ₹2,00,000 in previous year 2019-20 and also brought forward loss of business/profession ₹2,00,000 of previous year 2011-12, in this case, loss of house property shall be adjusted from income of business/profession and loss of previous year 2011-12 shall lapse.

**Illustration 1:** Mr. X has loss under the head House Property ₹5,00,000 and income under the head Salary ₹3,00,000 and income under the head Business/Profession ₹10,00,000 and LTCG ₹6,00,000 and Casual income ₹2,00,000 and unadjusted loss of Business/Profession ₹4,00,000 of Assessment Year 2015-16 and loss of Business/Profession ₹3,00,000 of Assessment Year 2016-17.

Compute his tax liability for assessment year 2020-21.

**Solution:**

The asessee has the option to adjust loss of house property from normal income or from LTCG.

**Option 1**

**Loss of house property is set off from normal income**

Income under the head Salary 3,00,000.00
Set Off and Carry Forward Of Losses

Less: loss of house property (2,00,000.00)
Income under the head Salary 1,00,000.00
Income under the head Business/Profession 10,00,000.00
Less: Brought forward business loss of A.Y. 2015-16 (4,00,000.00)
Less: Brought forward business loss of A.Y. 2016-17 (3,00,000.00)
Income under the head Business/Profession 3,00,000.00
Long term capital gain 6,00,000.00
Casual Income 2,00,000.00
Gross Total Income 12,00,000.00
Less: Deduction u/s 80C to 80U Nil
Total Income 12,00,000.00

**Computation of Tax Liability**
- Tax on LTCG ₹6,00,000 @ 20% 1,20,000.00
- Tax on Casual income ₹2,00,000 @ 30% 60,000.00
- Tax on Normal income ₹4,00,000 at slab rate 7,500.00
- Tax before health & education cess 1,87,500.00
- Add: HEC @ 4% 7,500.00
- Tax Liability 1,95,000.00

**Option II**
- Loss of house property is set off from LTCG
- Income under the head Salary 3,00,000.00
- Income under the head Business/Profession 10,00,000.00
- Less: Brought forward business loss of A.Y. 2015-16 (4,00,000.00)
- Less: Brought forward business loss of A.Y. 2016-17 (3,00,000.00)
- Income under the head Business/Profession 3,00,000.00
- Long term capital gain 6,00,000.00
- Less: loss of house property (2,00,000.00)
- Long term capital gain 4,00,000.00
- Casual Income 2,00,000.00
- Gross Total Income 12,00,000.00
- Less: Deduction u/s 80C to 80U Nil
- Total Income 12,00,000.00

**Computation of Tax Liability**
- Tax on LTCG ₹4,00,000 @ 20% 80,000.00
- Tax on Casual income ₹2,00,000 @ 30% 60,000.00
- Tax on Normal income ₹6,00,000 at slab rate 32,500.00
- Tax before health & education cess 1,72,500.00
- Add: HEC @ 4% 6,900.00
- Tax Liability 1,79,400.00

Option II is better.

**Illustration 2:** Mrs. X has income and losses as given below:
1. Income under the head Salary ₹ 5,00,000
2. Loss under the head House Property ₹10,00,000
3. Income under the head Business/Profession ₹12,00,000
4. Income from STCG ₹ 2,00,000
5. Income from STCG u/s 111A ₹10,00,000
6. Casual Income ₹ 3,00,000
Deduction under section 80C to 80U ₹ 1,00,000
Brought forward Business/Profession loss for
   - Previous year 2010-11 ₹ 3,00,000
   - Previous year 2012-13 ₹ 6,00,000
   - Previous year 2013-14 ₹ 3,00,000
Compute tax liability of Mrs. X for Assessment Year 2020-21.

**Solution:**

**Option I**

**Loss of house property is set off from normal income**

| Income under the head Salary | ₹5,00,000.00 |
| Less: Loss of house property | (₹2,00,000.00) |
| Income under the head Salary | ₹3,00,000.00 |
| Income under the head Business/Profession | ₹12,00,000.00 |
| Less: Brought forward business/profession loss P.Y. 2012-13 | (₹6,00,000.00) |
| Less: Brought forward business/profession loss P.Y. 2013-14 | (₹3,00,000.00) |
| Income under the head Business/Profession | ₹3,00,000.00 |
| Short term capital gain | ₹3,00,000.00 |
| Short term capital gain u/s 111A | ₹10,00,000.00 |
| Casual Income | ₹3,00,000.00 |
| Gross Total Income | ₹21,00,000.00 |
| Less: Deduction u/s 80C to 80U | (₹1,00,000.00) |
| Total Income | ₹20,00,000.00 |

**Computation of Tax Liability**

- Tax on STCG u/s 111A ₹10,00,000 @ 15% | ₹1,50,000.00 |
- Tax on Casual income ₹3,00,000 @ 30% | ₹90,000.00 |
- Tax on Normal income ₹7,00,000 at slab rate | ₹52,500.00 |
- Tax before health & education cess | ₹2,92,500.00 |
- Add: HEC @ 4% | ₹11,700.00 |
- Tax Liability | ₹3,04,200.00 |

**Option II**

**Loss of house property is set off from STCG u/s 111A**

| Income under the head Salary | ₹5,00,000.00 |
| Income under the head Business/Profession | ₹12,00,000.00 |
| Less: Brought forward business/profession loss P.Y. 2012-13 | (₹6,00,000.00) |
| Less: Brought forward business/profession loss P.Y. 2013-14 | (₹3,00,000.00) |
| Income under the head Business/Profession | ₹3,00,000.00 |
| Short term capital gain | ₹3,00,000.00 |
| Short term capital gain u/s 111A | ₹10,00,000.00 |
| Less: loss of house property | (₹2,00,000.00) |
| Short term capital gain u/s 111A | ₹8,00,000.00 |
| Casual Income | ₹3,00,000.00 |
| Gross Total Income | ₹21,00,000.00 |
| Less: Deduction u/s 80C to 80U | (₹1,00,000.00) |
| Total Income | ₹20,00,000.00 |

**Computation of Tax Liability**

- Tax on STCG u/s 111A ₹8,00,000 @ 15% | ₹1,20,000.00 |
- Tax on Casual income ₹3,00,000 @ 30% | ₹90,000.00 |
- Tax on Normal income ₹9,00,000 at slab rate | ₹92,500.00 |
- Tax before health & education cess | ₹3,02,500.00 |
- Add: HEC @ 4% | ₹12,100.00 |
- Tax Liability | ₹3,14,600.00 |

Option I is better.

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

**Answer:** **Unabsorbed Depreciation Section 32(2)**

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

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

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

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

**Question 4 [V. Imp.]:** Write a note on Set Off and Carry Forward of loss from Speculative Business.

**Answer:** As per section 28, income from speculative business shall be taxable under the head business/profession and such income shall be computed in the normal manner and shall be taxable at the normal rate i.e. it will not be considered to be causal income.

**Meaning of speculative business Section 43(5)**

"Speculative Transaction" means a transaction in which a contract for the purchase or sale of any commodity, including stocks and shares, is settled otherwise than by the actual delivery or transfer of the commodity or scrips i.e. the transactions are set off against each other instead of actually materializing them e.g. Mr. X entered into a contact for purchase of one plot from Mr. A and same plot was sold by him to Mr. Y at a higher rate and he has directed Mr. Y to pay the amount directly to Mr. A and surplus amount to Mr. X and he directed Mr. A to transfer the plot directly in the name of Mr. Y, it will be called speculative transaction but if Mr. X has transferred the plot in his name and after that plot was transferred in the name of Mr. Y, it will be called normal business.

**Set Off and Carry forward of loss from Speculative Business Section 73**

If any assessee has loss from speculative business, such loss can not be set off from any income under any head however, if the assessee has two or more similar business, loss of one such business can be set off from the income of other such business.

Unadjusted loss is allowed to be carried forward but for a maximum period of 4 years starting from the year subsequent to the year in which the loss was incurred. Even in the subsequent years, loss can be set off only from income of speculative business.

Loss under the head house property, loss from normal business, unabsorbed depreciation, loss under the head other sources can be set off from the income of speculative business.

E.g. Mr. X has loss from speculative business ₹5,00,000 and income from normal business ₹5,00,000, in this case, loss is not allowed to be set off however its carry forward is allowed but for a maximum period of 4 years and in the subsequent years its can be set off only from income of speculation business.

E.g. Mr. X has loss from house property ₹5,00,000 and income from speculative business ₹5,00,000, in this case, loss can be set off from income of speculative business.

E.g. Mr. X has loss of speculative business ₹5,00,000 and income from some other speculative business ₹5,00,000, in this case, loss can be set off from income of such speculative business.

**Question 5 [V. Imp.]:** Write a note on Set Off and Carry Forward of losses under the head Capital Gains.

**Answer:** Set off and Carry forward of Loss under the head Capital Gain Section 70, 71 and 74

**Set off of loss from one source against income from another source under the same head of income Section 70**

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

**Example**

Mr. X has long term loss of ₹5,00,000 and income from normal business ₹5,00,000, in this case, long term loss can not
be set off from short term gains and his tax liability shall be NIL but if he has long term gain of ₹5,00,000 and short term loss of ₹5,00,000, in this case, set off is allowed and his tax liability shall be nil.

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

**Set off of loss from one head against income from another**  
Section 71

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

**Example**

Mr. X has short term loss ₹5,00,000 and business income of ₹5,00,000, his tax liability shall be NIL.

**Carry forward of losses under the head “Capital Gains”**  
Section 74

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

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

**Question 6: Write a note on Set Off and Carry Forward of Losses under the head “Income from Other Sources”**.

**Answer:** Set off and Carry forward of Losses under the head “Income from Other Sources”

As per section 70, if the assessee has loss under the head other sources, such loss is allowed to be set off from any income under the same head except casual income.

As per section 71, unadjusted loss can be set off even from incomes of other heads.

Carry forward of the loss is not allowed.

**Set Off and Carry Forward of losses in connection with Owning and Maintaining of Race Horses**  
Section 74A

If any assessee has loss from the business of owning and maintaining race horses, such loss can not be set off from any income under any head but if the assessee has two or more business of owning and maintaining race horses, loss of one such business can be set off from the income of other such business.

Unadjusted loss is allowed to be carried forward but for a maximum period of 4 years starting from the year subsequent to the year in which the loss was incurred and even in the subsequent year, the loss can be set off only from income of business of owning and maintaining race horses.

If the assessee has business of owning and maintaining any other race animal, income shall be taxable under the head business/profession and loss will have the same treatment as in case of loss under the head business/profession. E.g. If Mr. X has loss from business of owning and maintaining race camels, the loss will have the same treatment as the loss under the head business/profession.

**Additional points:**

1. Set off and carry forward is mandatory not voluntary. e.g. Mr. X has loss under the head house property ₹50,000 and income under the head business/profession ₹50,000 during the assessment year 2020-21, in this case, loss of house property has to be set off from business income of assessment year 2020-21 and Mr. X is not allowed to carry forward the loss of house property.

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

3. Loss of current year shall be set off first and only after that brought forward losses can be adjusted, eg. Mr. X has income from one house ₹10,00,000 and loss from other house ₹10,00,000 in P.Y. 2019-20 and also unadjusted loss of ₹10,00,000 under the head house property of P.Y. 2011-12, in this case loss of current year is to be adjusted first.

**Question 7: Explain setoff and carry forward of loss from agriculture**

**Answer:** Loss from Agriculture

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

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

**Illustration 3:** Mr. A submits the following particulars pertaining to the A.Y.2020-21:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head salary</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Loss from self-occupied property</td>
<td>(-70,000)</td>
</tr>
<tr>
<td>Business loss</td>
<td>(-1,00,000)</td>
</tr>
<tr>
<td>Bank interest (FD) received</td>
<td>80,000</td>
</tr>
</tbody>
</table>

Compute the taxable income of Mr. A for the A.Y.2020-21.

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Less: Loss from house property</td>
<td>(70,000)</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>3,30,000</td>
</tr>
<tr>
<td>Income from other sources (interest on fixed deposit with bank)</td>
<td>80,000</td>
</tr>
<tr>
<td>Less: Loss from business</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Business loss to be carried forward</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Gross total income</td>
<td>3,30,000</td>
</tr>
<tr>
<td>Less: Deduction under chapter VIA</td>
<td>Nil</td>
</tr>
<tr>
<td>Taxable income</td>
<td>3,30,000</td>
</tr>
</tbody>
</table>

**Illustration 4:** Mr. B, a resident individual, furnishes the following particulars for the P.Y. 2019-20:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>45,000</td>
</tr>
<tr>
<td>Loss from house property</td>
<td>(24,000)</td>
</tr>
<tr>
<td>Loss from business – non-speculative</td>
<td>(22,000)</td>
</tr>
<tr>
<td>Loss from speculative business</td>
<td>(4,000)</td>
</tr>
<tr>
<td>Short-term loss</td>
<td>(25,000)</td>
</tr>
<tr>
<td>Long-term capital gains</td>
<td>19,000</td>
</tr>
</tbody>
</table>

What is the total income chargeable to tax for the A.Y. 2020-21?

**Solution:** The total income chargeable to tax for the A.Y. 2020-21 is calculated as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head salaries</td>
<td>45,000</td>
</tr>
<tr>
<td>Less: Loss from house property</td>
<td>(24,000)</td>
</tr>
<tr>
<td>Profits and gains of business and profession</td>
<td>(21,000)</td>
</tr>
<tr>
<td>Business loss to be carried forward [Note 1]</td>
<td>(22,000)</td>
</tr>
<tr>
<td>Speculative loss to be carried forward [Note 2]</td>
<td>(4,000)</td>
</tr>
<tr>
<td>Capital Gains</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>19,000</td>
</tr>
<tr>
<td>Less: Short term capital loss</td>
<td>(25,000)</td>
</tr>
<tr>
<td>Short term capital loss to be carried forward [Note 3]</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>21,000</td>
</tr>
</tbody>
</table>

**Note 1:** Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.

**Note 2:** Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.

**Note 3:** Short term capital loss can be set off against both short term capital gain and long term capital gain. Therefore, short term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.
Illustration 5: During the P.Y. 2019-20, Mr. C has the following income and the brought forward losses:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term capital gains on sale of shares</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Long term capital loss of A.Y. 2018-19</td>
<td>(96,000)</td>
</tr>
<tr>
<td>Short term capital loss of A.Y. 2019-20</td>
<td>(37,000)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>75,000</td>
</tr>
</tbody>
</table>

What is the capital gain taxable in the hands of Mr. C for the A.Y.2020-21?

Solution: The capital gains taxable are as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term capital gains on sale of shares</td>
<td>1,50,000</td>
<td>1,13,000</td>
</tr>
<tr>
<td>Less: Brought forward short term capital loss of the A.Y.2019-20</td>
<td>(37,000)</td>
<td></td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>75,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Brought forward long term capital loss of A.Y.2018-19 [See Note below]</td>
<td>(75,000)</td>
<td></td>
</tr>
<tr>
<td>Taxable short-term capital gains</td>
<td></td>
<td>1,13,000</td>
</tr>
</tbody>
</table>

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long term capital loss of A.Y. 2018-19 of ₹21,000 (i.e. ₹96,000 – ₹75,000) has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Illustration 6: Mr. D has the following income for the P.Y. 2019-20 –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from the activity of owning and maintaining the race horses</td>
<td>75,000</td>
</tr>
<tr>
<td>Income from textile business</td>
<td>85,000</td>
</tr>
<tr>
<td>Brought forward textile business loss</td>
<td>50,000</td>
</tr>
<tr>
<td>Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2017-18)</td>
<td>96,000</td>
</tr>
</tbody>
</table>

What is the taxable income in the hands of Mr. D for the A.Y. 2020-21?

Solution: The taxable income is calculated as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from the activity of owning and maintaining race horses</td>
<td>75,000</td>
<td>(96,000)</td>
</tr>
<tr>
<td>Less: Brought forward loss from the activity of owning and maintaining race horses</td>
<td>(21,000)</td>
<td></td>
</tr>
<tr>
<td>Loss from the activity of owning and maintaining race horses to be carried forward to A.Y.2021-22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from textile business</td>
<td>85,000</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Less: Brought forward business loss from textile business.</td>
<td></td>
<td>35,000</td>
</tr>
<tr>
<td>Taxable business income</td>
<td></td>
<td>35,000</td>
</tr>
</tbody>
</table>

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

Illustration 7: Mr. E has furnished his details for the A.Y.2020-21 as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head salary</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Income from speculation business</td>
<td>60,000</td>
</tr>
<tr>
<td>Loss from non-speculation business</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Short term capital gain</td>
<td>80,000</td>
</tr>
<tr>
<td>Long term capital loss of A.Y.2018-19</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Winning from lotteries</td>
<td>20,000</td>
</tr>
</tbody>
</table>

What is the taxable income of Mr. E for the A.Y. 2020-21?
**Solution:** Computation of taxable income of Mr. E for the A.Y.2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head salary</td>
<td></td>
<td>1,50,000</td>
</tr>
<tr>
<td>Income from speculation business</td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td>Less: Loss from non-speculation business</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Short-term capital gain</td>
<td></td>
<td>80,000</td>
</tr>
<tr>
<td>Winning from lotteries</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td></td>
<td>2,70,000</td>
</tr>
</tbody>
</table>

**Note:** Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹30,000 has to be carried forward to the next assessment year.

**Illustration 8:** Compute the gross total income of Mr. F for the A.Y.2020-21 from the information given below –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income from house property</td>
<td>1,25,000</td>
</tr>
<tr>
<td>Income from business (before provided for depreciation)</td>
<td>1,35,000</td>
</tr>
<tr>
<td>Short term capital gains on sales of shares</td>
<td>56,000</td>
</tr>
<tr>
<td>Long term capital loss from sale of property (brought forward from A.Y. 2019-20)</td>
<td>(90,000)</td>
</tr>
<tr>
<td>Income from tea business</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Dividend from Indian companies carrying on agricultural operations</td>
<td>80,000</td>
</tr>
<tr>
<td>Current year depreciation</td>
<td>26,000</td>
</tr>
<tr>
<td>Brought forward business loss (loss incurred six years ago)</td>
<td>(45,000)</td>
</tr>
</tbody>
</table>

**Solution:**

The gross total income of Mr. F for the A.Y. 2020-21 is calculated as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from house property</td>
<td></td>
</tr>
<tr>
<td><strong>Income from business</strong></td>
<td></td>
</tr>
<tr>
<td>Profits before depreciation</td>
<td>1,35,000</td>
</tr>
<tr>
<td>Less: Current year depreciation</td>
<td>(26,000)</td>
</tr>
<tr>
<td>Less: Brought forward business loss</td>
<td>(45,000)</td>
</tr>
<tr>
<td>Income from tea business (40% is business income)</td>
<td>64,000</td>
</tr>
<tr>
<td>Dividend from Indian companies carrying on agricultural operations</td>
<td>48,000</td>
</tr>
<tr>
<td>Current year depreciation</td>
<td>1,12,000</td>
</tr>
<tr>
<td><strong>Income from the capital gains</strong></td>
<td></td>
</tr>
<tr>
<td>Short term capital gains</td>
<td>56,000</td>
</tr>
<tr>
<td>Long term capital loss from property (cannot be set off)</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>2,93,000</td>
</tr>
</tbody>
</table>

**Note:** Dividend from Indian companies is exempt from tax. 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax.
MULTIPLE CHOICE QUESTIONS

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

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

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

4. Loss from house property of ₹3,10,000 of A.Y. 2018-19 is allowed to be set-off against income from house property of A.Y. 2020-21 of ₹5,00,000 to the extent of –
   (a) ₹2,00,000
   (b) fully allowed i.e., ₹3,10,000
   (c) ₹2,50,000
   (d) ₹1,00,000

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

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

7. Mr. Ravi incurred loss of ₹4 lakh in the P.Y.2019-20 in retail trade business. Against which of the following incomes earned during the same year, can he set-off such loss?
   (a) profit of ₹1 lakh from wholesale cloth business
   (b) long-term capital gains of ₹1.50 lakhs on sale of land
   (c) speculative business income of ₹40,000
   (d) All of the above

8. Virat, runs a business of manufacturing of shoes in P.Y. 2017-18. During the P.Y. 2017-18 and P.Y. 2018-19, Virat had incurred business losses. For P.Y. 2019-20, he earned business profit (computed) of Rs.3 lakhs. Considering he may/may not has sufficient business income to set off his earlier losses, which of the following order of set off shall be considered:
   (He does not have income from any other source)
   (a) First adjustment for loss of P.Y. 2017-18, then loss for P.Y. 2018-19 and then unabsorbed depreciation, if any, income is available for adjustment.
   (b) First adjustment for loss of P.Y. 2018-19, then loss for P.Y. 2017-18 and then unabsorbed depreciation, if any, income is available for adjustment.
   (c) First adjustment for unabsorbed depreciation, then loss of P.Y. 2018-19 and then loss for P.Y. 2017-18, if any, income is available for adjustment.
   (d) First adjustment for unabsorbed depreciation, then loss of P.Y. 2017-18 and then loss for P.Y. 2018-19, if any, income is available for adjustment

9. Loss under the head business/profession cannot be set off from
   (a) income of owning and maintaining race horses
   (b) casual income
   (c) income from house property
   (d) income from salary
   (e) (b) & (c)
   (f) (b) & (d)
(g) none of these

10. **Short term loss can be set off**
   (a) from short term gain  (b) long term gain
   (c) neither from short term nor from long term  (d) either short term or long term
   (e) income under the head business/profession  (f) none of these

11. Mr. X has unadjusted loss from house property ₹10,00,000 of the previous year 2010-11 and income from house property of previous year 2019-20 ₹10,00,000, in this case
   (a) loss cannot be set off and it will lapse
   (b) loss will be set off from income from house property
   (c) loss shall be carried forward to subsequent years
   (d) none of these

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

13. Mr. X has loss from house property ₹5,00,000 and LTCG ₹5,00,000, in this case his tax liability shall be
   (a) ₹7,500
   (b) ₹10,400
   (c) Nil
   (d) ₹7,800
   (e) none of these

14. Mr. X a senior citizen has loss from house property ₹5,00,000 and LTCG ₹5,00,000, in this case his tax liability shall be
   (a) ₹7,500
   (b) ₹10,400
   (c) Nil
   (d) ₹7,800
   (e) none of these

15. Mr. X a senior citizen has loss from house property ₹5,00,000 and as income from business ₹12,00,000, in this case his tax liability shall be
   (a) ₹1,12,500
   (b) ₹1,14,400
   (c) ₹82,500
   (d) none of these

**Answer**
1. (a); 2. (a); 3. (b); 4. (b); 5. (d); 6. (c); 7. (d); 8. (a); 9. (f); 10. (d); 11. (a); 12(d); 13. (c); 14. (c); 15. (b)
Mr. Rajeev submits the following information for the previous year 2019-2020.

(Amount in ₹)

(i) Income under the head salary 6,50,000
(ii) Income from House-I 55,000
(iii) Loss from house-II (self-occupied property) 1,25,000
(iv) Loss from house-III 1,90,000
(v) Loss from leather business 68,000
(vi) Profit from cloth business 1,70,000
(vii) Business loss of chemical business acquired by Inheritance 45,000
(viii) Brought forward loss of discontinued business of textile relating to financial year 2014-2015 50,000
(ix) Long term capital gain on transfer of listed equity shares on which STT was paid 75,000
(x) Short term capital loss in equity-oriented funds on which STT was paid 35,000
(xi) Income from crossword puzzles 12,000
(xii) Dividend from foreign company 8,500
(xiii) Loss on owning and maintenance of race horses 7,500
(xiv) Income from owning and maintenance of race bulls 9,000
(xv) Mr. Rajeev had taken an education loan from XYZ Bank for his niece who is dependent on him for pursuing full time MBA course on 2nd April, 2019. During the year, interest on loan was due for ₹55,000. However, he paid towards principal and interest ₹90,000 and ₹30,000 respectively.

Compute the gross total income and losses to be carried forward of Mr. Rajeev for assessment year 2020-2021.

Solution: Computation of Gross total income and losses to be carried forward

<table>
<thead>
<tr>
<th>Income under the head Salary</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from House-I</td>
<td>55,000</td>
</tr>
<tr>
<td>Loss from house-II (self-occupied property)</td>
<td>(1,25,000)</td>
</tr>
<tr>
<td>Loss from house-III</td>
<td>(1,90,000)</td>
</tr>
<tr>
<td>Loss under the head House property</td>
<td>(2,60,000)</td>
</tr>
<tr>
<td>Loss upto 2,00,000 shall be adjusted with other head and balance shall be carried forward for 8 years.</td>
<td></td>
</tr>
</tbody>
</table>
Income under the head Business/Profession
Profit from cloth business 1,70,000.00
Income from owning and maintaining of race bulls 9,000.00
Less: loss from leather business (section 70) (68,000.00)
Less: loss from chemical business (section 70) (45,000.00)
Less: Brought forward business loss of A.Y. 2015-16 (section 72) (50,000.00)
Income under the head Business/Profession 16,000.00

Income under the head capital gains
Long term capital gains (STT paid) 75,000
Less: Short term loss (STT paid) (35,000)

Income under the head other sources
Income from crossword puzzles (casual income) 12,000.00
Dividend from foreign company 8,500.00
Income under the head other sources 20,500.00

Gross Total Income
Income under the head Salary 4,50,000.00
Income under the head Business/Profession 16,000.00
Income under the head other sources 20,500.00
Income under the head capital gains 40,000.00
Gross Total Income 5,26,500.00

Losses to be carried forward
1. Loss under the head house property F.Y. 2019-20 (for 8 years) (section 71B) 60,000.00
2. Loss from owning and maintaining race horses F.Y. 2019-20 (for 4 years) (section 74A) 7,500.00

Notes:
1. Short term capital loss can be set off from short term capital gains or from long term capital gains and such loss is not allowed to be set off from other head income.(section 71)
2. Loss from owning and maintaining race horses shall not be allowed to set off from other income and shall be carried forward for 4 years.
3. Where there is a loss under the head house property, such loss shall be adjusted from other head income maximum upto ₹2,00,000 and balance shall be carried forward for 8 years and shall be allowed to be adjusted from same head.
4. Dividend from Indian company is exempted but dividend from foreign company is taxable under the head other sources.

**MAY – 2017**

**Question 6(a)(i)** (4 Marks)
Mr. Shyam, a resident of Chandigarh, provides the following information for the financial year 2019-20:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from textile business</td>
<td>4,60,000</td>
</tr>
<tr>
<td>Income from speculation business</td>
<td>25,000</td>
</tr>
<tr>
<td>Loss from gambling</td>
<td>12,000</td>
</tr>
<tr>
<td>Loss on maintenance of race horse</td>
<td>15,000</td>
</tr>
<tr>
<td>Eligible current year depreciation of textile business not adjusted in the income given above.</td>
<td>5,000</td>
</tr>
<tr>
<td>Unabsorbed depreciation of Assessment year 2019-20 brought forward</td>
<td>10,000</td>
</tr>
<tr>
<td>Speculation business loss of Assessment year 2019-20</td>
<td>30,000</td>
</tr>
</tbody>
</table>
Compute the Gross total Income of Mr. Shyam for the assessment year 2020-21 and any other item of expense or loss eligible for carry forward.

**Solution:**

**Computation of Gross Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from Textile Business</td>
<td>₹ 4,60,000</td>
</tr>
<tr>
<td>Less: Current year depreciation</td>
<td>(₹ 5,000)</td>
</tr>
<tr>
<td>Less: Unabsorbed depreciation</td>
<td>(₹ 10,000)</td>
</tr>
<tr>
<td>Income From Textile Business</td>
<td>₹ 4,45,000</td>
</tr>
<tr>
<td>Income from speculation business</td>
<td>₹ 25,000</td>
</tr>
<tr>
<td>Less: Brought forward speculation loss (Section 73)</td>
<td>(₹ 25,000)</td>
</tr>
<tr>
<td>Income from Speculation business</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>₹ 4,45,000</td>
</tr>
</tbody>
</table>

**Note:**

1. As per Section 73, Unadjusted Brought Forward Speculation loss of A.Y. 2019-20 shall be carried forward of ₹5,000.
2. Loss from Gambling shall not be treated as loss and have no treatment.
3. Loss on maintenance of race horse shall be allowed to be set off from income of maintenance of race horse only and unadjusted loss of ₹15,000 shall be carried forward for 4 years as per section 74A.

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**NOV – 2015**

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

Mr. X provides the following details for the previous year ending 31.03.2020.

(i) Income under the head salary from XYZ Ltd. ₹ 6,00,000
(ii) Interest on FD with SBI for the Financial Year 2019-20 ₹ 72,000 (Net of TDS)
(iii) Determined long term capital loss of AY 2018-19 ₹ 96,000
(iv) Long term Capital gain ₹ 75,000
(v) Loss of minor son ₹ 90,000 computed in accordance with the provisions of Income Tax Act. Mr. X transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss.
(vi) Loss of his wife’s business ₹ (2,00,000)

She carried business with funds which Mr. X gifted to her.

You are required to compute taxable income of Mr. X for the AY 2020-21.

**Solution 4(a):**

**Computation of taxable income of Mr. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income under the head Salary</strong></td>
<td>₹ 6,00,000</td>
</tr>
<tr>
<td>Less: Loss under the head house property (Loss of minor son)</td>
<td>(₹ 90,000)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>₹ 5,10,000</td>
</tr>
<tr>
<td><strong>Income under the head capital Gains</strong></td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>₹ 75,000</td>
</tr>
<tr>
<td>Less: Loss from Business of his wife</td>
<td>(₹ 75,000)</td>
</tr>
<tr>
<td>Income under the head capital Gains</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Income under the head other sources</strong></td>
<td></td>
</tr>
<tr>
<td>Interest Income from Fixed Deposit</td>
<td>₹ 80,000</td>
</tr>
<tr>
<td>Less: Loss from Business of his wife</td>
<td>(₹ 80,000)</td>
</tr>
<tr>
<td>Income under the head other sources</td>
<td>Nil</td>
</tr>
<tr>
<td>(Balance amount of ₹45,000 to be carried forward)</td>
<td></td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹ 5,10,000</td>
</tr>
<tr>
<td>Less: Deduction from 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹ 5,10,000</td>
</tr>
</tbody>
</table>
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 2018-19 to be carried forward ₹96,000.

**MAY – 2014**

**Question 6(A).** (4 Marks)
Mr. X, a resident individual, furnishes the following particulars of his income and other details for the previous year 2019-20.

- (1) Income under the head salary ₹15,000
- (2) Income from Business ₹66,000
- (3) Long term capital gain on sale of Land ₹10,800
- (4) Loss on maintenance of Race Horses ₹15,000
- (5) Loss from Gambling ₹9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2019-20 are as follows:

- (1) Unabsorbed depreciation ₹11,000
- (2) Loss from Speculative business ₹22,000
- (3) Short term capital loss ₹9,800

Compute the Gross total income of Mr. X for the Assessment Year 2020-21 and the amount of loss, if any, that can be carried forward, or not.

**Solution:**

**Computation of Gross Total Income of Mr. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Salary</td>
<td>₹15,000</td>
</tr>
<tr>
<td>Profits and gains of business or profession</td>
<td>₹66,000</td>
</tr>
<tr>
<td>Less : Unabsorbed depreciation brought forward from A.Y.2019-20</td>
<td>(₹11,000)</td>
</tr>
<tr>
<td>Capital gains</td>
<td>₹55,000</td>
</tr>
<tr>
<td>Long term capital gain on sale of land</td>
<td>₹10,800</td>
</tr>
<tr>
<td>Less : Brought forward short term capital loss</td>
<td>(₹9,800)</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>₹71,000</td>
</tr>
</tbody>
</table>

**Amount of loss to be carried forward to A.Y.2021-22**

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

**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**

**Question 5(a)** (4 Marks)
Mr. X an assessee aged 61 years gives the following information for the previous year 31.03.2020:

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Loss from profession</td>
<td>₹1,05,000</td>
</tr>
<tr>
<td>b.</td>
<td>Capital loss on the sale of property-short term</td>
<td>₹55,000</td>
</tr>
<tr>
<td>c.</td>
<td>Capital gains on sale of shares-long term</td>
<td>₹2,05,000</td>
</tr>
<tr>
<td>d.</td>
<td>Loss in respect of self occupied property</td>
<td>₹15,000</td>
</tr>
<tr>
<td>e.</td>
<td>Loss in respect of let out property</td>
<td>₹30,000</td>
</tr>
<tr>
<td>f.</td>
<td>Share of loss from firm</td>
<td>₹1,60,000</td>
</tr>
<tr>
<td>g.</td>
<td>Income from card games</td>
<td>₹55,000</td>
</tr>
<tr>
<td>h.</td>
<td>Winnings from lotteries</td>
<td>₹1,00,000</td>
</tr>
</tbody>
</table>
i. Loss from horse races in Mumbai 40,000
j. Medical insurance premium paid by cheque 18,000

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

**Solution:**

**Income under the head Capital Gains**
- 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

**Income under the head Other Sources**
- 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

**Working Notes:**
1. Share of loss from firm is not allowed to be set off by the partner.
2. Loss from races can neither be set off nor be carried forward.

**NOV – 2011**

**Question 1** (5 Marks)

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

- Short term capital gain 1,40,000
- Loss from speculative business (60,000)
- Long term capital gain on sale of land 30,000
- Long term capital loss on sale of shares 1,00,000
- Income from business of textile (after allowing current year depreciation) 50,000
- Income from activity of owning and maintaining race horses 15,000
- Income under the head salary 1,00,000
- Loss from house property (40,000)

Following are the carry forward losses:
(i) Losses from activity of owning and maintaining race horses-pertaining to A.Y. 2017-18 ₹25,000.
(ii) Carry forward loss from business of textile ₹60,000- Loss pertains to A.Y. 2012-13.

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

Also state the eligible carry forward losses for the assessment Year 2020-21.

**Answer:**

**Calculation of Gross Total Income of Mr. X for the assessment year 2020-21**

**Income under the head Salary**
- Salary 1,00,000
- Less: Loss from house property (40,000)
- Income under the head Salary after set off 60,000

**Income under the head Business/Profession**
- Income from Business of textile 50,000
- Less: Loss Carried forward from textile business (A.Y. 2012-13) (50,000)

**Balance loss of ₹10,000 shall lapse**

**Income under the head Capital Gains**
- 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. 2017-18) (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. 2020-21 ₹60,000 to be carried forward for 4 years starting from assessment year 2021-22.

**MAY – 2011**

**Question 4**

The following are the details relating to Mr. X, a resident Indian, aged 57, relating to the year ended 31.03.2020:

Income under the head salary 2,20,000
Loss from house property (1,90,000)
Loss from cloth business (2,40,000)
Income from speculation business 30,000
Loss from cloth business set off (30,000)
Long-term capital gains from sale of urban land 2,50,000
Loss on sale of listed shares (90,000)
Loss from cloth business set off (1,60,000)
Income from betting 45,000
Life insurance premium paid 1,20,000

Compute the total income and show the items eligible for carry forward.

**Answer.**

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

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

**Notes**
(i) Business loss cannot be set off against salary income.
(ii) Loss from card games can neither be set off against any other income, nor can it be carried forward.
(iii) 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.

**Question 4**

Mr. X furnishes the following information for the year ended 31.03.2020:

Income from business (1,35,000)
Income from house property (15,000)
Lottery winning (Gross) 3,00,000
Speculation business income 1,00,000
Income under the head salary 60,000
Long term capital gain 70,000

Compute his total income, tax liability and advance tax obligations.

**Solution:** Computation of total income of Mr. X for the year ended 31.03.2020

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head salary</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td>Less: Loss from house property</td>
<td>(15,000)</td>
<td></td>
</tr>
<tr>
<td>Net Salary (after set off of loss from house property)</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td><strong>Profits and gains of business or profession</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Speculation business income</td>
<td>1,00,000</td>
<td></td>
</tr>
<tr>
<td>Less: Business loss set-off</td>
<td>(1,35,000)</td>
<td></td>
</tr>
<tr>
<td>Net business loss to be set-off against long-term capital gain</td>
<td>(35,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Capital Gains</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>Less: Business loss set-off</td>
<td>(35,000)</td>
<td></td>
</tr>
<tr>
<td>Long term capital gain after set off of business loss</td>
<td>35,000</td>
<td></td>
</tr>
<tr>
<td><strong>Income from other sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lottery winnings (Gross)</td>
<td>3,00,000</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>3,80,000</td>
<td></td>
</tr>
<tr>
<td><strong>Computation of tax liability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Particulars</strong></td>
<td>₹</td>
<td>₹</td>
</tr>
<tr>
<td>On Normal Income Nil (₹45,000 - ₹45,000) at slab rate</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>On LTCG Nil (₹35,000 - ₹35,000) u/s 112 @ 20%</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>On lottery winnings of ₹3,00,000 @ 30%</td>
<td>90,000</td>
<td></td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(12,500)</td>
<td></td>
</tr>
<tr>
<td>Tax Liability after rebate</td>
<td>77,500</td>
<td></td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,100</td>
<td></td>
</tr>
<tr>
<td>Total tax liability</td>
<td>80,600</td>
<td></td>
</tr>
</tbody>
</table>

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**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head salary</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td><strong>Profits and gains of business or profession</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Speculation business income</td>
<td>1,00,000</td>
<td></td>
</tr>
<tr>
<td>Less: Business loss set-off</td>
<td>(1,35,000)</td>
<td></td>
</tr>
<tr>
<td>Net business loss to be set-off against long-term capital gain</td>
<td>(35,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Capital Gains</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>Less: Business loss set-off</td>
<td>(35,000)</td>
<td></td>
</tr>
<tr>
<td>Less: Loss from House Property</td>
<td>(15,000)</td>
<td></td>
</tr>
<tr>
<td>Long term capital gain after set off of loss</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td><strong>Income from other sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lottery winnings (Gross)</td>
<td>3,00,000</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>3,80,000</td>
<td></td>
</tr>
<tr>
<td><strong>Computation of tax liability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Particulars</strong></td>
<td>₹</td>
<td>₹</td>
</tr>
<tr>
<td>On Normal Income Nil (₹60,000 - ₹60,000) at slab rate</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>
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
Total tax liability 80,600

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**

**Question 1** *(5 Marks)*

Mr. X submits the following details of his income for the assessment year 2020-21.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head salary</td>
<td>3,00,000.00</td>
</tr>
<tr>
<td>Loss from let out house property</td>
<td></td>
</tr>
<tr>
<td>Income from sugar business</td>
<td>40,000.00</td>
</tr>
<tr>
<td>Loss from iron ore business b/f (discontinued in 2013-14)</td>
<td>1,20,000.00</td>
</tr>
<tr>
<td>Short term capital loss</td>
<td>60,000.00</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>40,000.00</td>
</tr>
<tr>
<td>Dividend</td>
<td>5,000.00</td>
</tr>
<tr>
<td>Income received from lottery winning (Gross)</td>
<td>50,000.00</td>
</tr>
<tr>
<td>Winnings in card games (Gross)</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Agricultural income</td>
<td>20,000.00</td>
</tr>
<tr>
<td>Long term capital gain from shares (STT paid)</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Short term capital loss under section 111A</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Bank interest on fixed deposit</td>
<td>5,000.00</td>
</tr>
</tbody>
</table>

Calculate gross total income and losses to be carried forward.

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salaries</strong></td>
<td></td>
</tr>
<tr>
<td>Income under the head salary</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Less: Loss from house property set-off against salary income</td>
<td>(40,000)</td>
</tr>
<tr>
<td>as per section 71</td>
<td></td>
</tr>
<tr>
<td><strong>Profits and gains of business or profession</strong></td>
<td></td>
</tr>
<tr>
<td>Income from sugar business</td>
<td>50,000</td>
</tr>
<tr>
<td>Less: Brought forward loss from iron-ore business set-off as per section 72</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Balance business loss of ₹70,000 of P.Y.2013-14 carried forward to A.Y.2021-22</td>
<td></td>
</tr>
<tr>
<td><strong>Capital gains</strong></td>
<td></td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>40,000</td>
</tr>
<tr>
<td>Less: Short term capital loss set-off</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Long term capital gain 112A</td>
<td>10,000</td>
</tr>
<tr>
<td>Less: Short term capital loss set-off</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Balance short-term capital loss of ₹10,000 to be carried forward</td>
<td></td>
</tr>
<tr>
<td>Short-term capital loss of ₹10,000 under section 111A to be carried forward</td>
<td></td>
</tr>
<tr>
<td><strong>Income from other sources</strong></td>
<td></td>
</tr>
<tr>
<td>Winnings from lottery</td>
<td>50,000</td>
</tr>
<tr>
<td>Winnings from card games</td>
<td>6,000</td>
</tr>
<tr>
<td>Bank interest on fixed deposit</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>3,21,000</td>
</tr>
</tbody>
</table>
**Set Off and Carry Forward Of Losses**

**Losses to be carried forward to A.Y. 2021-22**
- Loss of iron-ore business: 70,000
- Short term capital loss: 30,000

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

**Question 1**
(5 Marks)
Determine the total income of Mr. X from the following information for the Assessment Year 2020-21:

(i) Interest received on enhanced compensation (It relates to transfer of land in the financial year 2014-15. Out of the above ₹65,000 relates to financial year 2019-20 and the balance relate to preceding years)

(ii) Business loss relating to discontinued business of the assessment year 2014-15 brought forward and eligible for set off.

(iii) Current year business income (i.e. financial year 2019-20) (Computed)

**Answer.**

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

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

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

---

**MAY – 2010**

**Question 4**
(6 Marks)
Mr. X furnishes you the following details for the year ended 31.03.2020:

- Income (loss) from house property
  - House – 1: 36,000
  - House – 2 Self occupied: (20,000)
  - House – 3: 60,000
- Profits and gains from Business or Profession
  - Textile Business: 2,00,000
  - Automobile Business: (3,00,000)
  - Speculation Business: 2,00,000
- Capital Gains
  - Long-term capital gain from sale of shares (STT paid): 1,50,000
  - Long-term capital gain from sale of vacant site: 2,00,000
- Short-term capital loss from sale of building: 1,00,000
(Note: Assume that the figures given above are computed and arrived at after considering eligible
deductions).

Other sources:
Gift from a Friend (non-relative) on 05.06.2019 60,000
Gift from Maternal Uncle on 25.02.2020 1,00,000
Gift from Grandfather’s Younger Brother on 10.02.2020 1,00,000

Compute the total income of Mr. X for the Assessment Year 2020-21.

**Answer. Computation of total income of Mr. X for the Assessment year 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (loss) House property</td>
<td></td>
</tr>
<tr>
<td>House –1</td>
<td>36,000</td>
</tr>
<tr>
<td>House-2 –Self occupied</td>
<td>(20,000)</td>
</tr>
<tr>
<td>House-3</td>
<td>60,000</td>
</tr>
<tr>
<td>Income from House Property</td>
<td>76,000</td>
</tr>
<tr>
<td>Profits and gains of business and profession</td>
<td></td>
</tr>
<tr>
<td>Textile business</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Automobile business</td>
<td>(3,00,000)</td>
</tr>
<tr>
<td>Speculation business</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Income from business or profession representing speculation</td>
<td>1,00,000</td>
</tr>
<tr>
<td>business profit (after set off of loss of automobile business)</td>
<td></td>
</tr>
<tr>
<td>Capital Gains</td>
<td></td>
</tr>
<tr>
<td>Long term capital gain from sale of shares (STT paid) u/s 112A</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Long term capital gain from sale of vacant site</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Short term capital loss from sale of building</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Long term capital gain-after set off of short term loss against</td>
<td>1,00,000</td>
</tr>
<tr>
<td>long term capital gain</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Income from Other sources</td>
<td></td>
</tr>
<tr>
<td>Gift from a friend (non relative) on 05.06.2019</td>
<td>60,000</td>
</tr>
<tr>
<td>Gift from maternal uncle (on 25.02.2020) ₹1,00,000, not taxable</td>
<td>Nil</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,86,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>5,86,000</strong></td>
</tr>
</tbody>
</table>

**Question 4** (4 Marks)

Mrs. X, a resident individual, provides the following details of her income / losses for the year ended 31.03.2020:

(i) Salary received as a partner from a partnership firm ₹ 7,50,000.
(ii) Loss on sale of shares listed in BSE ₹1,00,000. Shares were held for 15 months and STT paid on sale.
(iii) Long-term capital gain on sale of land ₹ 5,00,000.
(iv) ₹ 51,000 received in cash from friends in party.
(v) ₹ 55,000, received towards dividend on listed equity shares of domestic companies.
(vi) Brought forward business loss of assessment year 2019-20 ₹ 12,50,000.

The return for assessment year 2019-20 was filed in time.

Compute gross total income of Mrs. X for the assessment year 2020-21 and ascertain the amount of loss that can be carried forward.
### Question 4 (4 Marks)
Mr. X, a resident individual, furnishes the following particulars of his income and other details for the previous year 2019-20:

- **(i)** Income under the head salary: Rs 18,000
- **(ii)** Net annual value of house property: Rs 70,000
- **(iii)** Income from business: Rs 80,000
- **(iv)** Income from speculative business: Rs 12,000
- **(v)** Long term capital gain on sale of land: Rs 15,800
- **(vi)** Loss on maintenance of race horse: Rs 9,000
- **(vii)** Loss on gambling: Rs 8,000

Depreciation allowable under the Income-tax Act comes to Rs 8,000 for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses of previous year 2016-17 are:

- **(i)** Unabsorbed depreciation: Rs 9,000
- **(ii)** Loss from speculative business: Rs 16,000
- **(iii)** Short term capital loss: Rs 7,800

Compute the gross total income of Mr. X, for the Assessment year 2020-21, and the amount of loss that can or cannot be carried forward.

### Answer. Computation of Gross Total Income of Mr. X for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Income under the head salary</td>
<td>18,000</td>
</tr>
<tr>
<td>(ii) Income from House Property</td>
<td></td>
</tr>
<tr>
<td>- Net annual value</td>
<td>70,000</td>
</tr>
<tr>
<td>- Less: Deduction under section 24(a) (30% of Rs 70,000)</td>
<td>(21,000)</td>
</tr>
<tr>
<td>(iii) Income from business and profession</td>
<td></td>
</tr>
<tr>
<td>- (a) Profit from business</td>
<td>80,000</td>
</tr>
<tr>
<td>- Less: Current year depreciation</td>
<td>(8,000)</td>
</tr>
<tr>
<td>- Less: Unabsorbed depreciation</td>
<td>(9,000)</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>63,000</td>
</tr>
</tbody>
</table>
(b) Income from speculative business  
  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  

Gross total income 1,38,000

Amount of loss to be carried forward to the next year

Particulars ₹
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. 2016-17 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. 2021-22. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73.

**NOV – 2007**

**Question 5**

Discuss in brief the provisions relating to set off and carry forward of losses in speculation business.

**Refer answer given in the chapter**

**MAY – 2007**

**Question 4**

Mr. X, engaged in various types of activities, gives the following particulars of her income for the year ended 31.03.2020:

(a) Profit of business of consumer and house-hold products ₹50,000  
(b) Loss of business of readymade garments ₹10,000  
(c) Brought forward loss of catering business which was closed in Asst. Year 2019-20 ₹15,000  
(d) Short-term loss on sale of securities and shares ₹15,000  
(e) Profit of speculative transactions entered into during the year ₹12,500  
(f) Loss of speculative transactions of Asst. Year 2015-16 not set off till Asst. Year 2019-20 ₹15,000

Compute the total income of Mr. X for the A.Y. 2020-21.

**Answer.**

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit of business of consumer and house-hold products</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Less: Loss of business of readymade garments for the year adjusted under section 70</td>
<td>(10,000)</td>
<td>40,000</td>
</tr>
<tr>
<td>Less: Brought forward loss of catering business closed in A.Y. 2019-20 set off against business income for the year as per section 72</td>
<td>(15,000)</td>
<td>25,000</td>
</tr>
<tr>
<td>Profit of speculative transaction</td>
<td>12,500</td>
<td></td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>37,500</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**
(i) Loss of speculative transaction of A.Y. 2015-16 is not allowed to be set off against the profit of speculative transaction of the A.Y. 2020-21, 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. 2019-20.
(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. 2020-21. 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.
Question 1 [V. Imp.]: Write a note on filing of return of income. Section 139(1) 
Or 
Write a note on filing of compulsory return of income.

Answer:
Filing of return of income/ filing of voluntary return of income
Under section 139(1), a return of income is to be filed by the following persons:

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

(ii) Any other person like Individual, HUF etc shall be required to file return of income if Gross total income, before claiming the exemption under section 54, 54B, 54D, 54EC, 54F, 54G, 54GA, and 54GB, is exceeding exemption limit e.g. If for previous year 2019-20 gross total income of Mrs. X is ₹2,55,000 and deductions allowed under section 80C to 80U are ₹60,000 and total income is ₹1,95,000 and tax liability shall be nil but still Mrs. X has to file her return of income.

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

(iv) If any person is resident and ordinarily resident in India and has any asset outside India including a financial interest in any entity or has signing authority in account outside India, such person shall also be required to file his return of income.

(v) Following persons are also required to furnish the return of income even if they are not falling in any of the above category:

(i) Persons, who has deposited an amount or aggregate of the amounts exceeding one crore rupees in one or more current accounts maintained with a banking company or a co-operative bank; or
(ii) Persons, who has incurred expenditure of an amount or aggregate of the amounts exceeding two lakh rupees for himself or any other person for travel to a foreign country; or
(iii) Persons, who has incurred expenditure of an amount or aggregate of the amounts exceeding one lakh rupees towards consumption of electricity; or
(iv) fulfils such other conditions as may be prescribed.
Due date for filing the return of income
Return is to be filed in general up to 31st July of the assessment year, however, in the following cases, the last date shall be 30th September of the assessment year.

1. Every company assessee

Example
For the previous year 2019-20, ABC Ltd. has to file its return of income upto 30.09.2020.

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

Example
Mr. X has his own business and his turnover for previous year 2019-20 is ₹102 lakhs. In this case, the last date of filing the return of income shall be 30.09.2020, but if turnover is ₹97 lakhs, the last date shall be 31.07.2020.

Similarly if a partnership firm XY has turnover of its business ₹65 lakhs for previous year 2019-20, in this case, the last date of filing of return of income shall be 31.07.2020.

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

Question 2 [V. Imp.]: Write a note on Return of Loss Section 139(3).
Answer: Return of Loss Section 139(3)
If any person has sustained any loss under the head Business/Profession or under the head capital gains or the loss is from owning and maintaining of race horses and such person claims that the loss is to be carried forward, such person has to file a return of loss and such return shall be examined by the Assessing Officer and the loss computed by the assessee shall be confirmed by the Assessing Officer by sending an intimation under section 157 and only after that carry forward of loss shall be allowed to the assessee.

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

Under section 80, if return of loss has been filed after the last date of filing of return of income, In that case carry forward of losses is not allowed. E.g. For previous year 2019-20 ABC Ltd. has incurred business loss of ₹90 lakhs. In this case, the company must file return of loss under section 139(3) maximum upto 30.09.2020, otherwise carry forward of the loss is not allowed.

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

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

Question 3 [V. Imp.]: Write a note on Belated Return of Income Section 139(4).
Answer: Belated Return of Income Section 139(4)
Every person is required to file a return of income within the time allowed under section 139(1) however return of income can be filed even after the due date but maximum upto the end of relevant assessment year. E.g. For previous year 2019-20 ABC Ltd. has to file its return of income upto 30.09.2020. However, belated return is allowed under section 139(4) but maximum upto 31.03.2021.

Question 4: Write a note on fee for default in furnishing return of income
Answer: Fee for default in furnishing return of income. Section 234F
where a person required to furnish a return of income under section 139, fails to do so within the time prescribed u/s 139(1), he shall pay, by way of fee, a sum of,—
- ₹ 5,000, if the return is furnished on or before the 31st day of December of the assessment year;
- ₹ 10,000 in any other case.

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

Example: For the P.Y.19-20, Mr. X has Total Income ₹7,00,000 and he files his return on 10th August 2020, in this case Penalty of ₹5000 is payable and if he files his return on 10th January 2021, Penalty is ₹10,000 but if his total income is upto ₹5,00,000, Penalty shall be ₹1000 in either case.

Question 5 [V. Imp.]: Write a note on Revised Return of Income Section 139(5).
Answer: Revised Return of Income Section 139(5)
If any person has furnished a return under section 139(1) or under section 139(4), discovers any omission
or any wrong statement, he may furnish a revised return at any time before the end of the relevant assessment year e.g. If ABC Ltd. has filed its return of income on 30.09.2020 for previous year 2019-20 and subsequently the company has detected any bonafide error, in this case, the company is allowed to revise its return of income under section 139(5) but maximum upto 31.03.2021.

If the assessment on the return has already been completed, revision is not allowed after completion of assessment e.g. For the previous year 2019-20 ABC Ltd. has filed its return of income on 30.09.2020. This return was checked by the Assessing Officer on 01.03.2021 and the company wish to file a revised return on 15.03.2021. In this case, revised return shall not be accepted.

An assessee is allowed to revise the return of income any number of times, however, if the earlier return has already been assessed, revised return shall not be allowed.

Revision is allowed only with regard to a return, which was filed under section 139(1) or 139(4), i.e. if the return has been filed under any other section, its revision is not allowed.

However, the return filed under section 139(3) is considered to be return under section 139(1), its revision is allowed.

**Question 6: What are the particulars required to be furnished with the return of income in certain specified cases, as per section 139(6).**

**Answer:** As per section 139(6), the following particulars are required to be submitted:
- Income exempt from tax,
- Assets of the prescribed nature, value and belonging to him,
- Bank account and credit card held by him
- Expenditure exceeding the prescribed limits incurred by him under prescribed heads and such other outgoings as may be prescribed.

**Question 7:** Write a note on Particulars to be Furnished with Return of Income in the case of an Assessee engaged in Business or Profession.

**Answer:** Particulars to be Furnished with Return of Income in the case of an Assessee engaged in Business or Profession Section 139(6A)
The prescribed form of the return shall, in the case of an assessee engaged in any business or profession, also require him to furnish –
(i) the report of any audit referred to in section 44AB.
(ii) the particulars of the location and style of the principal place where he carries on the business or profession and all the branches thereof.
(iii) the names and addresses of his partners, if any, in such business or profession.
(iv) if he is a member of an association or body of individuals,
   (a) the names of the other members of the association or the body of individuals; and
   (b) the extent of the share of the assessee and the shares of all such partners or members, as the case may be, in the profits of the business or profession.

**Question 8 [V. Imp.]: Write a note on Defective Return of Income Section 139(9).**

**Answer:** Defective Return of Income Section 139(9)
If return filed by an assessee is found to be defective, assessing officer may intimate the defect to the assessee and give him an opportunity to rectify the defect within a period of fifteen days from the date of such intimation or within such further period which, the Assessing Officer may, allow and if the defect is not rectified within the said period, then the return shall be treated as an invalid return i.e. it will be presumed that the assessee has not filed any return of income.

If the assessee rectifies the defect after the expiry of the said period of fifteen days or the further period allowed, but before the assessment is made, the Assessing Officer may condone the delay and treat the return as a valid return.

A Return of income shall be regarded as defective unless all the annexures, statements and columns in the return of income relating to computation of income chargeable under each head of income, computation of gross total income and total income have been duly filled in.

An unsigned return is not a valid return at all i.e. it will not be considered to be defective return rather it is
an invalid return.

**Question 9 [V. Imp.]: Write a note on Permanent Account Number Section 139A.**

**Answer:** Permanent Account Number  Section 139A

The following persons have to apply for allotment of permanent account number.

1. Every person having total income more than the income exempt from tax and also every person who is assessable on behalf of any other person and the person on whose behalf he is assessable has income more than the income exempt from tax.
2. Every person who is engaged in business/profession and his turnover is likely to exceed ₹5 lakh during the year.
3. Every charitable trust who is required to file a return of income under section 139(4A).
4. Every person who has been notified by the Central Government.
5. A person who is entitled to receive any sum on which tax is deductible.
6. Being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to two lakh fifty thousand rupees or more in a financial year; or
7. Who is the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the person referred to in point no.6 or any person competent to act on behalf of the person referred to in point no.6.
8. The Assessing Officer, having regard to the nature of the transactions as may be prescribed, may also allot a permanent account number, to any other person (whether any tax is payable by him or not), in the manner and in accordance with the procedure as may be prescribed.
9. Every person entering into such transactions, as may be prescribed by the CBDT.
10. Any person who is willing to take permanent account number.

The department shall allot a 10 digit alphanumeric number on a laminated card, which contains the photograph of the assessee.

**Example**

AAEPG 8996E

The purpose to issue permanent account number is to have better identification of the assessee and to facilitate faster correspondence between the department and the assessee. Permanent account number is being used to detect concealed income and for this purpose the assessee has to mention permanent account number in the following transaction.

1. Sale/Purchase of immovable property exceeding ₹10 lakhs. Properties valued by Stamp Valuation Authority at amount exceeding ₹10 lakhs.
2. Sale/purchase of shares and securities exceeding ₹1 lakh.
4. Opening any account (other than Basic Savings Bank Deposit Account) in a bank (including co-operative bank) not being a time deposit account.
5. Opening time deposit account in a Bank, Co-op Bank, Post office, Nidhi, NBFC companies for an amount aggregating to more than ₹5,00,000 during the year.
6. Making a Cash payment of hotel or restaurant bill exceeding ₹50,000.
7. Deposit in cash exceeding ₹50,000 with a banking company in one day.
8. Payment in cash for purchase of a bank draft or a pay order or banker’s cheque for an amount exceeding ₹50,000 on any one day.
9. Payment in cash in connection with travel to any foreign country or purchase of foreign currency of an amount exceeding ₹50,000 at any one time.
10. Making an application to any banking company (including co-operative banks) or to any other company or institution, for issue of a credit card/debit card.
11. Payment of an amount exceeding ₹50,000 to a Mutual Fund for purchase of its units.
12. Purchase or sales of shares of an unlisted company for an amount exceeding ₹1,00,000 per transaction.
13. Opening a DEMAT account.
14. Payment of an amount exceeding ₹50,000 to a company or an institution for acquiring debentures or bonds issued by it.
15. Payment of an amount exceeding ₹50,000 to the Reserve Bank of India, for acquiring bonds issued by it.
16. Payment of an amount exceeding ₹50,000 in a year as life insurance premium to an insurer.
17. Purchase/sale of any goods or services exceeding ₹2,00,000 per transaction.
18. Cash Payment aggregating to more than ₹50,000 in a year for cash cards/prepaid instruments issued under Payment and settlement Act.

**STRUCTURE OF PAN**

A typical PAN is AFZPK7190K.

First three characters i.e. “AFZ” in the above PAN are alphabetic series running from AAA to ZZZ.


Fifth character i.e. “K” in the above PAN represents first character of the PAN holder’s last name/surname.

Next four characters i.e. “7190” in the above PAN are sequential number running from 0001 to 9999.

Last character i.e. “K” in the above PAN is an alphabetic check digit.

Further wheresoever a person was required to quote PAN, now such person is allowed to mention aadhar number or PAN.

**Question 10 [V. Imp.]: Write a note on Quoting of Aadhaar number.**

**Answer:** Quoting of Aadhaar number. Section 139AA

(1) Every person who is eligible to obtain Aadhaar number shall, on or after the 1st day of July, 2017, quote Aadhaar number—
   (i) in the application form for allotment of permanent account number;
   (ii) in the return of income:

Provided that where the person does not possess the Aadhaar Number, the Enrolment ID of Aadhaar application form issued to him at the time of enrolment shall be quoted in the application for permanent account number or, as the case may be, in the return of income furnished by him.

(2) Every person who has been allotted permanent account number as on the 1st day of July, 2017, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to such authority in such form and manner as may be prescribed, on or before a date to be notified by the Central Government in the Official Gazette:

Provided that in case of failure to intimate the Aadhaar number, the permanent account number allotted to the person shall be made inoperative after the date so notified in such manner as may be prescribed.

(3) The provisions of this section shall not apply to such person or class or classes of persons or any State or part of any State, as may be notified by the Central Government in this behalf, in the Official Gazette.

Accordingly, the Central Government has, vide Notification No. 37/2017 dated 11.05.2017 effective from 01.07.2017, notified that the provisions of section 139AA relating to quoting of Aadhaar Number would not apply to:

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

**Question 11 [V. Imp.]: Write a note on submission of returns through Tax Return Preparers.**

**Answer:** Scheme for submission of returns through Tax Return Preparers Section 139B

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

Question 12: Write a note on verifying of Return of Income.
Answer: Verifying of return of income
Return by whom to be verified  Section 140
1. In the case of an individual, the return should be verified by the individual himself but if for any reason return cannot be verify by the individual, return can be verified by his agent and the agent should enclose copy of power of attorney with the return.
   If any individual is mentally incapacitated from attending to his affairs, return should be verified by his guardian or any other person competent to act on his behalf.
2. In the case of a Hindu Undivided Family, by the karta, and, where the karta is absent from India or is mentally incapacitated from attending to his affairs, by any other adult member (male or female) of such family.
3. In the case of a company, by the managing director and if managing director is not available, return can be signed by any director.
   In case of non-resident company, return can be signed by its agent.
   If company is in liquidation, return can be signed by the official liquidator.
4. In the case of a firm, return can be signed by managing partner and if managing partner is not available, return can be signed by any partner.
5. In the case of a limited liability partnership, return can be signed by the designated partner and if designated partner is not available, return can be signed by any partner.
6. In the case of a local authority, return can be signed by the principal officer.
7. In the case of a political party, return can be signed by Chief Executive Officer.
8. In the case of any other association, return can be signed by the Principal Officer and if Principal Officer is not available, by any member.
9. In the case of any other person, by that person or by some person competent to act on his behalf.

Question 13: Write a note on Self-Assessment.
Answer: Self-Assessment Section 140A
In general a person is required to pay tax in advance and balance amount should be paid in the assessment year (after adjusting the amount of TDS) and it is called Self - Assessment tax. In case of delay, interest shall be charged u/s 234A, 234B & 234C. For default in advance tax interest shall be charged under section 234C and for default in self-assessment tax, interest shall be charged u/s 234B. If tax is paid after the last date of filing of return of income, interest shall be charged u/s 234A.
Tax and interest and fee must be paid before filing of return of income as per section 140A otherwise such person shall be considered to be assessee in default and penalty shall be imposed equal to the amount not paid by him.
Further any amount paid by the assessee shall be first adjusted towards fee and then towards interest and afterwards towards tax.
PRACTICE PROBLEMS

**Question 1.** During the previous year 2019-20, Mr. X has income under the head house property ₹7,00,000. In this case, his last date of filing of return shall be ____________________.

**Question 2.** A partnership firm XY has turnover of his business ₹75,00,000 and income under the head Business/Profession ₹8,00,000 for previous year 2019-20. In this case, the last date of filing of return of income shall be ____________.

**Question 3.** ABC Ltd. has loss under the head Business/Profession ₹3,00,000 for previous year 2019-20. In this case, the company has to file the return latest by ____________.

**Question 4.** A partnership firm XY has turnover of the business ₹205,00,000 and income from business ₹14,00,000 for the previous year 2019-20, the last date for filing of return of income shall be ____________.

**Question 5.** ABC Ltd. do not have any income for the previous year 2019-20. In this case, company is not required to file any return of income. Discuss.

**Question 6.** ABC Ltd. has loss under the head Business/Profession ₹7,00,000 for the previous year 2019-20 and the company has filed the return of loss on 01.11.2020 under section 139(3). Discuss whether set off or carried forward and set off of the loss is allowed or not.

**Question 7.** For the previous year 2019-20, Mr. X an assessee shall be allowed to file belated return of income latest upto ________________.

**Question 8.** For the previous year 2019-20, Mr. X has filed original return of income on 01.07.2020, he can file revised return of income latest upto ________________.

**Question 9.** For the previous year 2019-20, Mr. X has filed original return of income on 01.11.2020, he can file revised return of income latest upto ________________.

**Question 10.** Mr. X has filed original return for previous year 2019-20 on 01.07.2020 and revised return on 01.11.2020 and he further wants to revise the return on 01.01.2021. Discuss whether he is allowed to do so or not.

**Ans 1.** 31.07.2020
**Ans 2.** 31.07.2020
**Ans 3.** 30.09.2020
**Ans 4.** 30.09.2020
**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 2019-20 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. 30.09.2020 in the above case.
**Ans 7.** 31.03.2021
**Ans 8.** 31.03.2021
**Ans 9.** 31.03.2021
**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 01.01.2021.
MULTIPLE CHOICE QUESTIONS

1. Mr. X has income under the head Business/Profession ₹3,00,000 and deduction under section 80C ₹1,00,000, in this case
   (a) he need not file any return of income
   (b) he has to file return of income upto 31st July of assessment year
   (c) he has to file return of income upto 30th Sept of assessment year
   (d) none of these

2. The due date for filing of a return of income for a company for Assessment Year 2020-21 is -
   (a) 31st July, 2020
   (b) 30th September, 2020
   (c) 31st October, 2020
   (d) 31st August, 2020

3. If a minor child has income of ₹ 5,00,000 from his talent, in this case
   (a) it is exempt from income tax
   (b) It is taxable and income shall be clubbed in the income of father
   (c) It is taxable and income shall be clubbed in the income of mother
   (d) It is taxable and return shall be filed by his father as his guardian
   (e) none of these

4. The return of a company has to be verified by -
   (a) the Managing Director or Director
   (b) the General Manager
   (c) the Secretary
   (d) the Manager

5. An assessee can file a revised return of income at any time before the completion of assessment or before expiry of the following period, whichever is earlier -
   (a) one year from the end of the relevant assessment year
   (b) two years from the end of the relevant assessment year
   (c) six months from the end of the relevant assessment year
   (d) end of the relevant assessment year

6. As per section 139(1), filing of returns is compulsory irrespective of whether profit is earned or loss is incurred, in case of -
   (a) companies only
   (b) firms only
   (c) both companies and firms
   (d) All assessee

7. Mr. X has a total income of ₹ 7 lakhs for A.Y. 2020-21. He files his return of income for A.Y. 2020-21 on 13th January, 2021. He is liable to pay fee of–
   (a) ₹ 1,000 under section 234F
   (b) ₹ 5,000 under section 234F
   (c) ₹ 10,000 under section 234F
   (d) Not liable to pay any fee

8. Mr. Y has a total income of ₹ 4,50,000 for A.Y. 2020-21. He furnishes his return of income for A.Y. 2020-21 on 2nd December, 2020. He is liable to pay fee of–
   (a) ₹ 1,000 under section 234F
   (b) ₹ 5,000 under section 234F
   (c) ₹ 10,000 under section 234F
   (d) Not liable to pay any fee

9. Mr. Z, a salaried individual, has a total income of ₹ 8 lakhs for A.Y. 2020-21. He furnishes his return of income for A.Y. 2020-21 on 28th August, 2020. He is liable to pay fee of–
   (a) ₹ 1,000 under section 234F
   (b) ₹ 5,000 under section 234F
(c) ₹ 10,000 under section 234F  
(d) Not liable to pay any fee  

10. The due date of filing of return for a company with a business loss of ₹ 1,30,000 for A.Y. 2020-21 is–
(a) 31st July, 2020  
(b) 30th September, 2020  
(c) 31st October, 2020  
(d) 31st August, 2020  

11. Mr. Karan filed his return of income for A.Y.2020-21 showing total income of ₹7 lakhs on 1.1.2021. The fee payable by him under section 234F is –
(a) Nil  
(b) ₹1,000  
(c) ₹5,000  
(d) ₹10,000  

12. Who can verify the return of income of a non-resident company?
(a) Managing Director of the company  
(b) Any director of the company  
(c) A person who holds a valid power of attorney from such company to do so  
(d) Any of the above  

13. Which of the following returns can be revised under section 139(5)?
(a) Only a return of income filed u/s 139(1)  
(b) A return of income filed u/s 139(1) or a belated return filed u/s 139(4)  
(c) A return of income filed u/s 139(1) or a return of loss filed u/s 139(3)  
(d) A return filed u/s 139(1) or u/s 139(3) or u/s 139(4)  

14. An assessee is allowed to file late return of income maximum
(a) Upto 31st Dec of assessment year  
(b) Upto end of assessment year  
(c) Within 3 months from the last date of filing return of income  
(d) None of these  

15. In case of defective return of income, assessee shall be allowed
(a) time period of 15 days from the date of intimation  
(b) 20 days from the date of receiving the intimation  
(c) within one month from the end of assessment year  
(d) none of these  

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

MAY – 2019 (NEW COURSE)

Question 4 (b) (Marks 4)
Discuss the provisions of Section 139A (1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the assessing officer.

Answer: Refer answer given in the book

OR

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

Answer: Refer answer given in the book

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

Answer:
The provisions of section 139AA relating to quoting of Aadhar Number would, however, not apply to such person or class or classes of persons or any State or part of any State as may be notified by the Central Government.

Accordingly, the Central Government has, vide Notification No. 37/2017 dated 11.05.2017 effective from 01.07.2017, notified that the provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

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

NOV – 2018 (NEW COURSE)

Question 3(b) (Marks 3)
Explain the quantum of late fees under section 234F for delay in furnishing return of income within the prescribed time limit under section 139 (1) for A.Y. 2020-21.

Answer: Refer answer given in the book

Question 7 (b) (Marks 4)
Every person is required to file a return of income on or before due date in the prescribed form and manner as per section 139 (1). What is the meaning of due date of filing Income Tax Returns for different categories of assesses as per Section 139 (1) of the Income Tax Act 1961?

Answer: Refer answer given in the book

NOV – 2018 (OLD COURSE)

Question 6(b) (Marks 5)
Mr. Subramaniam, due to inadvertent reasons failed to file his Income Tax return for assessment year 2019-2020.

(i) Can he file the above return in-assessment 2020-2021? If yes, when is the last date to file the above return?

(ii) What are the consequences of non-filing the return within the due date under section 139(1)?

Answer: Refer answer given in the book

MAY – 2018

Question 6(b) (Marks 5)
Briefly mention the provisions of Income Tax Act with regard to Quoting Aadhaar Number u/s 139AA of the Act.

Answer: Refer answer given in the book
Question 6 (b) (Marks 5)

(1) State whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income Tax Act 1961 for A.Y. 2020-21:

(i) Mr. A makes cash payment to a hotel Radisson Blu, Ahmedabad of ₹50,000 against the bill raised by the hotel.

(ii) Mr. Abhishek, in a single transaction, makes contract of ₹1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.

(iii) Payment to Mutual Funds of ₹70,000 for purchase of its units.

Your answers must be supported with reasons.

Answer:

(i) As per section 139A, quoting of PAN is mandatory in case of making cash payment of hotel or restaurant bill exceeding ₹50,000. In the given case amount is not exceeding ₹50,000 hence quoting of PAN is not mandatory.

(ii) As per section 139A, quoting of PAN is mandatory in case of sale/purchase of shares and securities exceeding ₹1 lakh. In the given case amount is exceeding ₹1 lakh hence quoting of PAN is mandatory.

(iii) As per section 139A, quoting of PAN is mandatory in case of payment of an amount exceeding ₹50,000 to a Mutual Fund for purchase of its units. In the given case amount is exceeding ₹50,000 hence quoting of PAN is mandatory.

(2) Briefly mention the concept of Self – Assessment tax u/s 140A of the IT Act and its components.

Answer:

In general a person is required to pay tax in advance and balance amount should be paid in the assessment year (after adjusting the amount of TDS) and it is called Self - Assessment tax. In case of delay, interest shall be charged u/s 234A, 234B & 234C. For default in advance tax interest shall be charged under section 234C and for default in self-assessment tax, interest shall be charged u/s 234B. If tax is paid after the last date of filing of return of income, interest shall be charged u/s 234A.

Tax and Interest must be paid before filing of return of income as per section 140A otherwise such person shall be considered to be assessee in default and penalty shall be imposed equal to the amount not paid by him.

Question 7 (a) (Marks 6)

Indicate the three situations where the Return of Income has to be compulsorily filed u/s 139 (1) of the Income Tax Act, 1961.

Answer: Refer answer given in the book

Question 5 (b) (ii) (Marks 2)

Explain the amount of fees to be paid for default in furnishing return of income under section 234F of the Income Tax Act, 1961.

Answer: Refer answer given in the book

Question 6 (c) (Marks 5)

Pertaining to the following transactions, what is the minimum amount above which quoting of permanent account number is mandatory?

(i) Sale or purchase of car.
(ii) Payment to a hotel or restaurant against a bill or bills at any one time.
(iii) Payment in connection with travel to any foreign country.
(iv) Payment to the Reserve bank of India for acquiring bonds issued by it.
(v) A Time Deposit with a Post Office.
(vi) Payment as Life Insurance Premium to an insurer.
(vii) Sale or purchase of shares of a company not listed in a recognized stock exchange
(viii) Sale or purchase of any immovable property.

Answer:

(i) As per section 139A, Quoting of PAN is mandatory in case of sale or purchase of motor vehicle without any limit.
(ii) As per section 139A, Quoting of PAN is mandatory in case of making a Cash payment of hotel or restaurant bill exceeding ₹ 50,000
(iii) As per section 139A, Quoting of PAN is mandatory in case of Payment in cash in connection with travel to any foreign country or purchase of foreign currency of an amount exceeding ₹50,000 at any one time.
(iv) As per section 139A, Quoting of PAN is mandatory in case of Payment of an amount exceeding ₹50,000 to the Reserve Bank of India, for acquiring bonds issued by it.
(v) As per section 139A, Quoting of PAN is mandatory in case of Opening time deposit account in a Bank, Co-op Bank, Post office, Nidhi, NBFC companies for an amount aggregating to more than ₹5,00,000 during the year.
(vi) As per section 139A, Quoting of PAN is mandatory in case of Payment of an amount exceeding ₹50,000 in a year as life insurance premium to an insurer.
(vii) As per section 139A, Quoting of PAN is mandatory in case of Purchase or sales of shares of an unlisted company for an amount exceeding ₹1,00,000 per transaction
(viii) As per section 139A, Quoting of PAN is mandatory in case of Sale/Purchase of immovable property exceeding ₹10 lakhs. Properties valued by Stamp Valuation Authority at amount exceeding ₹10 lakhs.

**NOV – 2017**

**Question 5(b) (Marks 5)**

Mr. Sachin filed return on 30\textsuperscript{th} September, 2020 related to Assessment Year 2020-21. In the month of October 2020, his tax consultant found that the interest on fixed deposit was omitted in the tax return.

(i) What is the time limit for filing a belated return?

(ii) Can Mr. Sachin file a revised return?

Justify the above with the relevant provisions under section 139. Assume that the due date for furnishing return of income was 31\textsuperscript{st} July, 2020 and the assessment was not completed till the month of October 2020.

**Answer:**

(i) As per section 139(4), Any person who has not furnished a return within the time allowed to him under section 139(1) may furnish the return for any previous year at any time before the end of the relevant assessment year or before the completion of the assessment whichever is earlier. Therefore, in the given question, Mr. Sachin can file his belated return on or before 31st March, 2021.

(iii) As per section 139(5), If any person having furnished a return u/s 139(1) or belated return u/s 139(4), discover any omission or any wrong statement therein, he may furnish a revised return at any time before the end of the relevant assessment year or before completion of assessment, whichever is earlier hence, in the given case Mr. Sachin filed belated return as per Section 139(4) and he omitted his Interest Income in the return hence he can revised his return on or before 31st March, 2021.

**MAY – 2017**

**Question 7 (b) (4 Marks)**

By whom should the return of income be signed in the case of following persons:

(i) Political Party;

(ii) Company which is being wound up;

(iii) Hindu Undivided Family, when karta is unable to sign, and

(iv) Scientific research association.

**Answer:**

As per section 140, Return should be signed by the authorised person, as given below:

(i) **Political Party:** In the case of a political party, Return can be signed by Chief Executive Officer.

(ii) **Company which is being wound up:** If company is in liquidation, Return can be signed by the Official liquidator.
(iii) **Hindu Undivided Family, when karta is unable to sign:** In the case of a Hindu Undivided Family, when karta is unable to sign then by any other adult member (male or female) of such family can verify the return of Income.

(iv) **Scientific research association:** Return can be signed by the Principal Officer and if Principal Officer is not available, by any member.

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**NOV – 2016**

**Question 6(b)**
(2 Marks)
Specify the persons who are authorized to verify u/s 140, the return of income filed u/s 139 of the Income Tax Act, 1961 in case of a company.

**Answer:** Refer answer given in the book.

**Question 7(a)**
(2 + 2 = 4 Marks)
(1) Mr. Kamal filed his Return of Income for the Assessment Year 2020-21 on 30-03-2021. Can he revise such return of income? If so Why?

**Answer:** As per Section 139(5), Return filed under section 139(1) or Return filed u/s 139(4) can be revised hence a belated return filed under section 139(4) can be revised and further return can be revised maximum within one year from the end of relevant assessment year i.e. return can be revised upto 31.03.2021.

(2) Mr. Atal, a super senior citizen, has reported a Gross Total Income ₹5,60,000 and the deductions eligible under Chapter VI-A amounting to ₹70,000 for the previous year 2019-20. Is he liable to file his return of income u/s 139(1) for the Assessment year 2020-21? If so Why?

**Answer:** Individual shall be required to file return of income if Gross total income, **before claiming the exemption under section 54, 54B, 54D, 54EC, 54F, 54G, 54GA, and 54GB,** is exceeding exemption limit. In the given case assessee is a super senior citizen and exemption applicable is ₹5,00,000 and Gross Total Income, **before claiming the exemption under section 54, 54B, 54D, 54EC, 54F, 54G, 54GA, and 54GB,** is exceeding ₹5,00,000 So, Mr. Atal is required to file his Return of Income.

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**NOV – 2015**

**Question 7(a).**
(2 Marks)
Who are the persons authorized to verify return of income in the case of individual under section 140 of the Income Tax Act, 1961?

**Solution:**
As per section 140 the return shall be verified—
In the case of an individual, the return should be verified by the individual himself but if for any reason return cannot be verify by the individual, return can be verified by his agent and the agent should enclose copy of power of attorney with the return.
If any individual is mentally incapacitated from attending to his affairs, return should be verified by his guardian or any other person competent to act on his behalf.

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**MAY – 2015**

**Question 7(a)(i).**
(2 Marks)
Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

**Answer:** Refer answer given in the Chapter.

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**NOV – 2014**

**Question 7(a)**
(i) “Filing of Return of Income on or before due date is necessary for carry forward of losses.” Discuss the correctness of this statement.

(4 Marks)
Answer: Refer answer given in the book

MAY – 2014

Question .

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

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

Solution:

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

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

(B) The statement is false.

As per section 140, where the karta of a HUF is absent from India, any other adult member of the HUF, can sign the return of income. Thus, a male member who is not an adult cannot sign the return of income. An adult member, whether male or female, can sign the return of income.

NOV – 2012

Question No. 7(a)

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

Answer: Refer answer given in the Chapter

NOV – 2011

Question 7

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

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

Answer:

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

Question 7

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

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

Answer:

(i) Refer answer given in the chapter

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

= 09.10.2019 + 15 days = 24.10.2019

MAY – 2011

Question 7

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

(i) Political party;
(ii) Local authority;
(iii) Association of persons, and
(iv) Limited Liability Partnership (LLP)
Answer: Refer answer given in the Chapter

MAY – 2010

Question 4
What are the particulars required to be furnished with the return of income, as per section 139(6)?
Answer: Refer answer given in the book

NOV – 2008

Question 5
Explain with brief reason whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:
(i) Defective or incomplete return filed under section 139(9).
(ii) Belated return filed under section 139(4).
(iii) Return already revised once under section 139(5).
(iv) Return of loss filed under section 139(3).
Answer.
Any person who has furnished a return under section 139(1) or under section 139(4) can file a revised return if he discovers any omission or any wrong statement in the return filed earlier. Accordingly:-
(i) A defective or incomplete return filed under section 139(9) cannot be revised. However, the defect can be removed.
(ii) A belated return filed under section 139(4) can be revised.
(iii) An assessee is allowed to revise the return any number of times but if earlier return has already been assessed, further revision is not allowed.
(iv) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

NOV – 2007

Question 5
Enumerate eight transactions for which quoting of Permanent Account Number is mandatory.
Answer: Refer answer given in the book

MAY – 2007

Question 1
The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable. Discuss.
Answer: True: As per section 139A, The Assessing Officer may having regard to the nature of transactions as may be prescribed also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

Question 1
Where the Karta of an HUF is absent from India, the return of income can be verify by any male member of the family.
Answer: False: Section 140 provides that where the Karta of a HUF is absent from India, the return of income can be verify by any other adult member of the family; such member can be a male or female member.

Question 5
Discuss briefly about the scheme to facilitate submission of return of income through Tax Return Preparers.
Answer: Refer answer given in the book
Assessee Section 2(7)

“Assessee” means

- Any person who is liable to pay income tax or interest or penalty or any other sum under Income Tax Act
- Any person with regard to whom any proceedings are pending under Income Tax Act for assessment of income or loss or refund or any other proceeding
- Any person who is assessable on behalf of any other assessee i.e. deemed assessee and any proceeding is pending with regard to such other person like assessment of income or loss or refund or any other proceeding e.g. Minor son of Mr. X has income from talent ₹5,00,000, in this case Mr. X shall be deemed to be an assessee.

MAY – 2018

Question 7(b) (4 Marks)

Briefly explain the purpose for which the words “PROVISO” and “EXPLANATION” are incorporated under various sections of the Income Tax Act, 1961.

Answer:
The Proviso to a section/sub-section/clause refers to sometimes additional provision, sometimes a special condition and sometimes exceptions to the main provision, eg. Proviso to section 23(1) refers to deduction of municipal tax but section 23(1) refers to computation of gross annual value i.e. it is an additional provision. Similarly proviso to section 17(2) refers to medical facility but section 17(2) refers to different facilities.
The Explanation to a section/sub-section/clause gives a clarification relating to the provision contained in the respective section/sub-section/clause, eg. Explanation to section 23(1) covers unrealised rent i.e. an explanation to section 23(1) which refers to gross annual value.

MAY – 2016

Question 2(a)(ii) (4 Marks)

How is the term “Assessee” defined under the Provisions of the Income - Tax Act, 1961?

Answer: Refer answer given above

Assessment year

As per section 2(9), assessment year means a period of 12 months starting from 01st April of every year ending with 31st March i.e. every financial year is a assessment year e.g. Financial year 2020-21 is one assessment year.

Previous year

As per section 3, previous year means financial year preceding the assessment year e.g. If financial year 2020-21 is one assessment year, financial year 2019-20 is the previous year for such assessment year. Income of previous year is taxable in its assessment year i.e. exact tax liability for previous year 2019-20 shall be determined in assessment year 2020-21 (however the person has to pay advance tax on estimated basis in previous year 2019-20.)

In general previous year shall be of full year but in case of a newly setup business or profession, first previous year will start from the date of commencement of business / profession e.g. If Mr. X started business on 01.07.2019, first previous year shall be from 01.07.2019 to 31.03.2020.

Income Section 2(24)

Every person shall be required to pay tax on his income as per section 4 and the term income is divided into 5 different categories which are called heads of income and such incomes shall include

1. Payment by employer to employee.
2. Rent received or receivable in connection with house property
3. Payments in connection with business/profession as per section 28
4. Profit and gains on the transfer of capital asset as per section 45(1)
5. Incomes under section 56 like, dividend, interest, casual income, gift etc.
6. Any other income given under section 2(24).

**Charging section of Income-Tax Section 4**

Every person shall be liable to pay income tax on his income. Normal income of every person shall be taxable at the rates given in the relevant Finance Act. Special incomes like Long term capital gains or Short term capital gains under section 111A or casual income shall be taxable at the rates given in the Income Tax Act. Tax shall be deducted at source as per the relevant provision also advance tax is to be paid as per the relevant provision.

**Expenditure incurred in relation to income not includible in Total Income Section 14A**

If any income is exempt from income tax, expenditure incurred in connection with such income shall not be allowed to be deducted either from same income or from some other income. If expenditure is incurred for taxable income as well as exempt income, only expenditure relating to taxable income shall be allowed to be deducted.

**Question 1 [V. Imp.]: Discuss exceptions to the General Rule that the income of the Previous Year is taxed in the Assessment Year.**

**Answer:** Exceptions to the General Rule that the income of the Previous Year is taxed in the Assessment Year

Generally the income of the Previous Year is taxable in the immediately succeeding year called the assessment year. But, in the following cases, the income of the current year may be brought to tax in the same year–being exception to the general rule that incomes earned in the previous year are taxed in its assessment year following:

1. **Profits of non-resident from Shipping Business Section 172:** If any ship owned by a non-resident has entered in India, the ship shall not be allowed to leave India unless tax has been paid and return has been filed.

2. **Assessment of persons Leaving India Section 174:** If any person is leaving India with no present intention of returning to India, the total income of such individual up to the probable date of his departure from India shall be chargeable to tax in the previous year itself.

3. **Assessment of association of persons or Body of Individuals or Artificial Juridical Person formed for a particular event or purpose Section 174A:** If any association of persons or a body of individuals etc. has been incorporated for a particular event or purpose and it is likely to be dissolved in the same year in which it was formed, the total income of such association or body or juridical person for the period up to the date of its dissolution shall be chargeable to tax in that year itself.

4. **Assessment of persons likely to transfer property to avoid tax Section 175:** If it appears to the Assessing Officer that any person is likely to sell, transfer or otherwise part with any of his assets with a view to avoid payment of any liability under the provisions of this Act, the total income of such person shall be taxable in the same previous year.

5. **Discontinued Business Section 176:** If any person has closed down his business/profession, such person should inform Income Tax Department within 15 days of closing down such business/profession and the Department may direct such a person to pay tax and file return in the previous year itself.

10(2) **Share received by a member of Hindu undivided family from income of Hindu Undivided Family**

If any Hindu Undivided Family has paid income tax on the income of the family, such income shall not be taxable in the hands of its members. E.g. Mr. X is a member of one HUF and has received ₹3,00,000 from HUF as his share, it will be exempt from income tax under section 10(2).

10(10BC) **Compensation received or receivable on account of any disaster**

As per section 10(10BC), if any person has received any payment from government or other similar authority as compensation for loss or damage caused by any disaster whether natural calamity or any accident etc., such compensation shall be exempt from income tax.

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**Question 4(a) NOV – 2016**

(2 Marks)

State with reasons whether the following receipts are taxable or not under the provisions of Income-tax Act, 1961?
Mr. Suri received a sum of ₹5,00,000 as compensation, from ‘Yatra Foundation’, towards the loss of property on account of Flood Disaster at Chennai during December 2019.

**Answer:**

As per section 10(10BC), if any person has received any payment from government or other similar authority as compensation for loss or damage caused by any disaster whether natural calamity or any accident etc., such compensation shall be exempt from income tax. In the given case compensation is not received from Government hence the compensation received is taxable.

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**MAY – 2016**

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

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

Any amount received by an individual or his legal heir as compensation for natural disaster from the Government, is taxable.

**Answer:**

False: As per section 10(10BC), if any person has received any payment from government or other similar authority as compensation for loss or damage caused by any disaster whether natural calamity or any accident etc., such compensation shall be exempt from income tax.

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**10(26AAA) Exemption in case of Income of an Individual being Sikkimese**

As per section 10(26AAA), income of an individual of Sikkim shall be exempt from income tax if such income is from Sikkim. If he has received dividend or interest on securities from anywhere, it will also be exempt from income tax. If any woman from Sikkim has married an individual who is not a Sikkimese, in that case such woman shall not be eligible for exemption.

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**Question 2: Explained Treatment of Unexplained money, investments etc.**

**Answer:** *Unexplained money, investments etc. to attract tax @60% [Section 115BBE]*

(i) In order to control laundering of unaccounted money by availing the benefit of basic exemption limit, the unexplained money, investment, expenditure, etc. deemed as income under section 68 or section 69 or section 69A or section 69B or section 69C or section 69D would be taxed at the rate of 60% plus surcharge @25% of tax. Thus, the effective rate of tax (including surcharge @25% of tax and HEC @4% of tax and surcharge) is 78%.

(ii) No basic exemption or allowance or expenditure shall be allowed to the assessee under any provision of the Income-tax Act, 1961 in computing such deemed income.

(iii) Further, no set off of any loss shall be allowable against income brought to tax under sections 68 or section 69 or section 69A or section 69B or section 69C or section 69D.

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**Question 3: Describe average rate of tax and maximum marginal rate under section 2(10) and 2(29C) of the Income-tax Act, 1961.**

**Answer:**

As per section 2(10), “Average Rate of tax” means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income.

**Section 2(29C) defines “Maximum marginal rate” to mean the rate of income-tax (including surcharge on the income-tax, if any) applicable in relation to the highest slab of income in the case of an individual, AOP or BOI, as the case may be, as specified in Finance Act of the relevant year.

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**Question 4: Explain Interest on notified securities and bonds issued to non-residents.**

**Answer:** *Interest on notified securities and bonds issued to non-residents [Section 10(4)]*

As per section 10(4), in the case of an individual, any income by way of interest on moneys standing to his credit in a Non-resident (External) Account (NRE A/c) in any bank in India, would be exempt.

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**Question 5: Explain Treatment of Payments received to MPs & MLAs**

**Answer:** *Payments to MPs & MLAs [Section 10(17)]*

The following incomes of Members of Parliament or State Legislatures will be exempt:
(i) **Daily Allowance** - Daily allowance received by any Member of Parliament or of State Legislatures or any Committee thereof.

(ii) **Constituency Allowance of MPs** - In the case of a Member of Parliament or of any Committee thereof, any allowance received under Members of Parliament (Constituency Allowance) Rules, 1986; and

(iii) **Constituency allowance of MLAs** - Any constituency allowance received by any person by reason of his membership of any State Legislature under any Act or rules made by that State Legislature.

**Question 6:** Briefly explain the purpose for which the words “PROVISO” and “EXPLANATION” are incorporated under various sections of the Income Tax Act, 1961.

**Answer:** The Proviso to a section/sub-section/clause refers to sometimes additional provision, sometimes a special condition and sometimes exceptions to the main provision, eg. Proviso to section 23(1) refers to deduction of municipal tax but section 23(1) refers to computation of gross annual value i.e. it is an additional provision. Similarly proviso to section 17(2) refers to medical facility but section 17(2) refers to different facilities.

The Explanation to a section/sub-section/clause gives a clarification relating to the provision contained in the respective section/sub-section/clause, eg. Explanation to section 23(1) covers unrealised rent i.e. an explanation to section 23(1) which refers to gross annual value.
**MULTIPLE CHOICE QUESTIONS**

1. Which of the following income would be exempt in the hands of a Sikkimese Individual?
   (a) only income from any source in the State of Sikkim
   (b) only income by way of dividend
   (c) only income from interest on securities
   (d) All the above

2. In case of a Member of Parliament –
   (a) Daily allowance is exempt but constituency allowance received as per applicable Rules is taxable.
   (b) Constituency allowance received as per applicable Rules is exempt but daily allowance is taxable.
   (c) Both daily allowance and constituency allowance received as per applicable Rules are taxable.
   (d) Both daily allowance and constituency allowance received as per applicable Rules are exempt.

3. The quantum of deduction available under section 10AA in respect of profits and gains derived by a SEZ unit from export of articles is –
   (a) 100% of export profits for first 10 consecutive AYs and 50% for next 5 consecutive AYs
   (b) 100% of export profits for first 5 consecutive AYs and 50% for next 10 consecutive AYs
   (c) 100% of export profits for first 15 consecutive AYs
   (d) 100% of export profits for first 5 consecutive AYs, 50% for export profits for next 5 consecutive AYs and upto 50% of export profits for next 5 consecutive AYs, as is credited to Special Reserve Account

4. Which of the following income is not exempt under section 10?
   (a) Share income of a member from a HUF
   (b) Share income of a partner from a firm
   (c) Salary received by a partner from a firm
   (d) Both (b) and (c)

5. Income under the Income-tax Act, 1961, is to be computed under -
   (a) five heads
   (b) six heads
   (c) four heads
   (d) seven heads

6. Share of profit of Mr. P, who is a partner in M/s PQR, a firm resident in India, is –
   (a) exempt from tax
   (b) taxable as his business income
   (c) taxable as his salary
   (d) taxable as other sources

7. Mr. A, whose total sales is ₹201 lakhs, declare profit of ₹10 lakhs for the F.Y. 2019-20. He is liable to pay advance tax-
   (a) in one instalment
   (b) in two instalments
   (c) in three instalments
   (d) in four instalments

8. Mr. Ramanan, a resident aged 40 years, has a total income of ₹3,25,000 for A.Y.2020-21, comprising of his salary income and income from house property. His tax liability for A.Y.2020-21 would be –
   (a) ₹3,900
   (b) ₹1,300
   (c) ₹2,600
   (d) Nil

9. Mr. X, a resident, is due to receive ₹4.50 lakhs on 31.03.2020, towards maturity proceeds of LIC policy taken on 01.04.2016, for which the sum assured is ₹4 lakhs and the annual premium is ₹1,25,000. Mr. Z, a resident, is due to receive ₹95,000 on 01.10.2019 towards maturity proceeds of LIC policy taken on 01.10.2012 for which the sum assured is ₹90,000 and the annual premium is ₹10,000.
   (a) Tax is required to be deducted on maturity proceeds payable to Mr. X and Mr. Z
   (b) Tax is required to be deducted on maturity proceeds payable to Mr. X
(c) Tax is required to be deducted on maturity proceeds payable to Mr. Z
(d) No tax is required to be deducted on maturity proceeds payable to either Mr. X or Mr. Z

10. Which of the following benefits are not allowable to Ms. Geetha, a non-resident, while computing her total income and tax liability for A.Y.2020-21 under the Income-tax Act, 1961?
(a) Deduction of 30% of gross annual value while computing her income from house property in Bangalore, India
(b) Tax rebate of ₹12,500 from tax payable on her total income of ₹3,40,000
(c) Deduction for donation made by her to Prime Minister’s National Relief Fund
(d) Deduction for interest earned by her on NRO savings account.

Answer
1. (d); 2. (d); 3. (d); 4. (a); 5. (a); 6. (a); 7. (d); 8. (d); 9. (b); 10. (b)