

M.K. GUPTA CA EDUCATION

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INCOME TAX

MULTIPLE CHOICE QUESTIONS

MISCELLANEOUS

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. 2018-19 . 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.2019-20, comprising of his salary income and income from house property. His tax liability for A.Y.2019-20 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 31.03.2019, 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 01.10.2018 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.2019-20 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 ₹2,500 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.(c); 5.(a); 6.(a); 7.(d); 8. (b); 9.(b); 10.(b)

RTP

MAY – 2019

1. Mr. Sumit is an Indian citizen and a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Kochi on 25th April, 2018. From the following details for the P.Y. 2018-19, determine the residential status of Mr. Sumit for A.Y. 2019-20, assuming that his stay in India in the last 4 previous years preceding P.Y. 2018-19 is 365 days and last seven previous years preceding P.Y. 2018-19 is 730 days:

Date entered in the Continuous Discharge Certificate in respect of joining the ship by Mr. Sumit: 25th April, 2018

Date entered in the Continuous Discharge Certificate in respect of signing off the ship by Mr. Sumit: 24th October, 2018

Mr. Sumit has been filing his income tax return in India as a Resident for previous 2 years.

What is his residential status for A.Y. 2019-20:

- (a) Resident and ordinarily resident
- (b) Resident but not-ordinarily resident
- (c) Non-resident
- (d) Non-resident till 24.10.2018 and resident till 31.03.2019

2. Aashish earns the following income during the P.Y. 2018-19:

- Interest on U.K. Development Bonds (1/4th being received in India): ₹4,00,000
- Capital gain on sale of a building in India but received in Holland: ₹ 6,00,000

If Aashish is a resident but not ordinarily resident in India, then what will be amount of income chargeable to tax in India for A.Y. 2019-20?

- (a) ₹ 7,00,000
- (b) ₹ 10,00,000
- (c) ₹ 6,00,000
- (d) ₹ 1,00,000

3. Mr. Anay (aged 25) has agricultural income of ₹ 2,10,000 and business income of ₹ 2,35,000. Which of the following statement is correct?

- (a) Agricultural income always has to be aggregated with business income for rate purposes
- (b) No aggregation is required since business income which constitutes his total income, is less than basic exemption limit
- (c) No aggregation is required since agricultural 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

4. Miss Riya has started working in a reputed company. This is her first job. She earned total income of ₹8 Lakhs in P.Y. 2018-19. While filing her return of income she had a doubt with respect to deduction of transport allowance. Her father advised her that she cannot claim deduction of transport allowance while her friend told that maximum deduction of ₹1600 p.m. in respect of the said allowance can be claimed. According to you, what is the correct treatment for the same?

- (a) Transport allowance upto a maximum ₹1600 per month can be claimed.
- (b) Transport allowance upto a maximum ₹800 per month can be claimed.
- (c) No separate deduction for transport allowance is allowed. However, a standard deduction of ₹ 40,000 is allowed to salaried assessees.
- (d) Deduction of transport allowance is allowed without any monetary limit.

5. 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 the above

6. M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business under section 44AD provides the following details:

♦ Total turnover for the financial year 2018-19 is ₹ 130 lakh

♦ Out of the above:

- ₹ 25 lakh received by A/c payee cheque during the financial year 2018-19;
- ₹ 50 lakh received by cash during the financial year 2018-19;
- ₹ 25 lakh received by A/c payee bank draft before the due date of filing of return;
- ₹ 30 lakh not received till due date of filing of return.

Compute the amount of deemed profits of M/s ABC under section 44AD(1) for A.Y. 2019-20.

(a) ₹ 10.4 lakh

(b) ₹ 7.0 lakh

(c) ₹ 5.5 lakh

(d) ₹ 9.4 lakh

7. Ram owns 500, 15% debentures of Reliance Industries Ltd. of ₹500 each. Annual interest of ₹37,500 was declared on these debentures for P.Y. 2018-19. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for A.Y. 2019-20, Shyam showed ₹37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?

(a) Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income.

(b) No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.

(c) Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending upon their discretion.

(d) No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures.

8. Mr. Rajan incurred loss of ₹5.3 lakh in the P.Y.2018-19 in toy business. Against which of the following income earned during the same year, can he set-off such loss?

(a) profit of ₹ 2 lakh from wholesale cloth business

(b) speculative business income of ₹ 80,000

(c) long-term capital gains of ₹ 1.20 lakhs on sale of land

(d) All of the above

9. Mr. Ajay is a recently qualified doctor. He joined a reputed hospital in Delhi on 01.01.2019. He earned total income of ₹3,40,000 till 31.03.2019. His employer advised him to claim rebate u/s 87A while filing return of income for A.Y. 2019-20. He approached his father to enquire regarding what is rebate u/s 87A of the Act. His father told him:

(i) An individual who is resident in India and whose total income does not exceed ₹3,50,000 is entitled to claim rebate under section 87A.

(ii) An individual who is resident in India and whose total income does not exceed ₹5,00,000 is entitled to claim rebate under section 87A.

(iii) Maximum rebate allowable under section 87A is ₹ 5,000.

(iv) Rebate under section 87A is available in the form of exemption from total income.

(v) Maximum rebate allowable under section 87A is ₹ 2,500.

(vi) Rebate under section 87A is available in the form of deduction from tax liability.

As a tax expert, do you agree with the explanation given by Mr. Ajay's father? Choose the correct option from the following:

(a) (ii), (iii), (vi)

(b) (i), (v), (vi)

(c) (ii), (iii), (iv)

(d) (i), (iv), (v)

10. Mr. P is a professional who is responsible for paying a sum of ₹ 2,00,000 as rent for use of building to Mr. Harshit for the month of February, 2019. The gross receipts of Mr. P are as under:

From 01.04.2017 to 31.03.2018: ₹ 55,00,000

From 01.04.2018 to 28.02.2019: ₹ 45,00,000

Find out whether Mr. P is responsible for deducting any tax at source from the rent of ₹ 2,00,000 payable to Mr. Harshit.

- (a) Tax at source is required to be deducted u/s 194-I at the rate of 10%.
- (b) Tax at source is required to be deducted u/s 194-IB at the rate of 5%.
- (c) Tax at source is required to be deducted u/s 194-IB at the rate of 10%.
- (d) No tax is required to be deducted at source.

Answer

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

ICAI

MOCK TEST PAPER

1. A, a resident individual, is engaged in the business of money lending. For the purpose of lending money to various persons, A borrows money from other persons. As a part of his business, A took a loan from B of an amount of ₹ 10 lacs. B is a non-resident. On the said loan, A paid an amount of ₹ 1 lac as interest during the P.Y. 2018-19 to B in India. A did not deduct tax at source while crediting/paying the interest amount to B. A is of the view that the amount of ₹ 1 lac shall be allowed to him as a deduction under the Income-tax Act, 1961. Whether A's view is correct?

- (a) Correct, interest expenses incurred for business are allowed as deduction u/s 36(1)(iii).
- (b) Incorrect, as tax at source has not been deducted by A on the interest amount, full amount of interest of ₹1 lac shall be disallowed in A.Y. 2019-20.
- (c) Incorrect, as tax at source has not been deducted by A on the interest amount, amount of interest of ₹30,000 shall be disallowed in A.Y. 2019-20.
- (d) Correct, interest expenses incurred for business are allowed as deduction u/s 37(1). (1 Mark)

2. Mrs. Gupta, resident in India, holds many equity shares of reputed domestic companies. During the previous year 2018-19, total dividend earned by her is ₹11,00,000. She is of the belief that dividend income earned by her is tax free. She approaches you to assist her in filing her income tax return. As her tax consultant, will you advise her that any dividend income earned by her is tax free?

- (a) Yes, as dividend earned by her is fully exempt from tax u/s 10(34).
- (b) No, as any dividend income earned by an individual is fully chargeable to tax.
- (c) No, as dividend income earned above ₹10,00,000 is chargeable to tax in her hands.
- (d) Yes, as dividend income above ₹10,00,000 is chargeable to tax only in the hands of the companies and not in her hands. (1 Mark)

3. Mr. X receives the following gifts during the previous year 2018-19:

- On 20.09.2018, he gets a gift of ₹ 7,00,000 from his grandmother.
- On 30.12.2018, he gets by way of gift a commercial flat from the elder brother of his father-in-law (stamp duty value is ₹ 25,00,000).
- On 20.01.2019, he gets a wrist watch by gift from his friend B (Fair market value: ₹ 1,00,000).
- On 10.02.2019, he gets by way of gift a plot of land in Pune from a partnership firm. The partnership firm has only two partners- father of Mr. X and Mrs. X. The stamp duty value of the plot of land is ₹ 19,00,000.

Compute the amount chargeable to tax in the hands of X under the head "Income from other sources" for the A.Y. 2019-20.

- (a) ₹ 25,00,000
- (b) ₹ 44,00,000
- (c) ₹ 45,00,000
- (d) ₹ 52,00,000 (1 Mark)

4. Which of the following statements is true for companies in the context of the Income-tax Act, 1961?

- (a) Residential status of a company has an impact on the tax rate of company
- (b) Tax Rate of a company depends upon the place of incorporation
- (c) Residential status of a company helps to classify the company as domestic company and foreign company
- (d) Residential status of company helps classification of closely held company and widely held company. (1 Mark)

5. Which of the following is not a consequence of late filing of return?

- (a) Levy of interest under section 234A
- (b) Loss (other than loss under the head "Income from house property") cannot be carried forward

- (c) No deduction under Chapter VI-A under the heading 'B' – Deduction in respect of certain payments
 (d) All of the above (1 Mark)

6. 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. (1 Mark)

7. X is an employee of Z Ltd who receives ₹1,25,000 as gratuity (he is covered under the Payment of Gratuity Act, 1972). He retires on 31.01.2019 after service of 29 years and 8 months. At the time of retirement, X drew monthly salary of ₹ 5,200 and monthly bonus of ₹ 2,000. Compute the amount of gratuity exempt from tax in the instant case u/s 10(10) of the Income-tax Act, 1961.

- (a) ₹ 90,000
 (b) ₹ 1,25,000
 (c) ₹ 78,000
 (d) ₹ 87,000 (2 Marks)

8. Mr. Krishna is a philanthropic person. During the P.Y. 2018-19, out of his total receipts, he gave away ₹8,00,000 in cash to Prime Minister's National Relief Fund and was left with only ₹2,00,000 which is just enough money to meet his personal requirements. On these facts, Mr. Krishna is of the view that as ₹2,00,000 is below the maximum amount not chargeable to tax, no income of him is chargeable to tax during the previous year. He approaches you to file his income tax return showing ₹2,00,000 as his gross total income. Do you agree with the view of Mr. Krishna? Also, compute the amount of his total income.

- (a) Yes, as income actually left in Mr. Krishna's hands is ₹2,00,000 only. His total income shall be ₹2,00,000.
 (b) No, as what is done after income is earned by Mr. Krishna will not give him any tax exemption. His total income shall be ₹10,00,000.
 (c) His gross total income and total income are ₹10 lakhs, since this is a case of application of income and donation made in cash will not qualify for deduction under section 80G.
 (e) Yes, as ₹8,00,000 is exempt from tax, the gross total income as well as total income of Mr. Krishna shall be ₹2,00,000 only. (2 Marks)

9. Ms. Jaya acquires 5,000 equity shares on 01.01.2016 at ₹ 500. The Fair Market Value of the said share on 31.01.2018 is ₹ 250 and on 31.03.2018 is ₹ 600. She sells the said shares on 30.04.2018 at ₹700. Calculate the amount of long term capital gain in the hands of Ms. Jaya assuming that Securities Transaction Tax has been paid by her on acquisition and transfer of the said equity share.

CII – F.Y. 2015-16: 254; F.Y. 2018-19: 280

- (a) ₹ 10 lakh, out of which Rs.9 lakh is taxable @ 10%
 (b) ₹ 22.50 lakh, out of which Rs.21.5 lakh is taxable @ 10%
 (c) ₹ 7.45 lakh, out of which Rs.6.45 lakh is taxable @ 10%
 (d) ₹ 5 lakh, out of which Rs.4 lakh is taxable @ 10% (2 Marks)

10. Which of the following persons are compulsorily required to get their accounts audited u/s 44AB of the Income-tax Act, 1961?

- (i) An assessee, who has not opted for presumptive taxation and his turnover during the P.Y. is ₹2 crore.
 (ii) A professional whose gross receipts during the previous year amounts to ₹50 lakh, who declares his profits and gains from profession u/s 44ADA.
 (iii) An assessee having turnover of ₹1.5 crore, who declares his profits and gains from business u/s 44AD.
 (iv) A lawyer having gross receipts of ₹40 lakhs during the P.Y. who claims his profits and gains from the legal profession to be 40% of the gross receipts.
 (v) An individual who opts out of the presumptive taxation scheme u/s 44AD during the P.Y., however, his total income for the said year is ₹2,00,000.
 (a) (i), (iv)
 (b) (i), (iv), (v)

- (c) (i), (ii), (iv)
 (d) (iv), (v)

(2 Marks)

11. The following information is available with respect to Tina:

- Capital Asset acquired on 01.04.2001 for ₹ 85,200
- The capital asset was converted into stock-in-trade on 30.09.2017. On the said date, the fair market value of the said asset was ₹ 6,00,000.
- The stock-in-trade so converted was sold on 15.07.2018 for ₹ 8,50,000.

Determine the tax implications in the hands of Tina for A.Y. 2019-20.

Cost Inflation Index Financial year 2001-02: 100, 2017-18: 272, 2018-19: 280]

- (a) Only business profits of ₹2,50,000 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
 (b) Only long term capital gain of ₹6,11,440 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
 (c) Business profits of ₹2,50,000 and long term capital gain of ₹3,61,440 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
 (d) Business profits of ₹2,50,000 and long term capital gain of ₹3,68,256 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.

(2 Marks)

12. Mr. Happy, a US citizen, came to India for an assignment from 11.01.2015 to 09.10.2015 and went back to his home country on completion of the same. He thereafter, visited India on 05.07.2017 again for an assignment, which ended on 26.05.2018. What is the latest date by which Mr. Happy should depart from India after completing the assignment so as to qualify as non-resident for P.Y. 2018-19?

(Assume that he shall not be visiting India again during the year)

- (a) 29-05-2018
 (b) 30-05-2018
 (c) 31-05-2018
 (d) 28-09-2018

Answer

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