INCOME TAX
(Volume – 2)

❖ INCOME UNDER THE HEAD CAPITAL GAINS 9-101

❖ INCOME UNDER THE HEAD BUSINESS/PROFESSION 102-241

❖ INCOME UNDER THE HEAD SALARY 242-394

Including 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.

45th Edition

CA (INTER)
MAY -2020 / NOV-2020

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

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₹700
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
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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
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.

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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.
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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
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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 !
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Muskan Mittal true sir
Riya Kharbanda True siränn
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
Rajani 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😊😊
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M.K. Gupta Love u all. Thank u so much
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Ankee Mittal All ppr from book.... All que covered in class....
Thnkew sir...... 😊😊😊😊😊😊😊
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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 thankuh 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
Äñüj Kùmär 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 exam 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 Thankku so much sir. Ppr was damn easy...
Ravi Kumar Thanks sir
Deepanshu Deol Tod kr diya sir ji
Ritik Singhal Bhaut easy tha mjaa gya sbse acha tax ka hi gya h tym 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....😊😊
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Ikshika Garg The best coaching classes taken.
Ayush Goyal Thank u so much sir, paper was very easy
Vishu Aggarwal Thanku 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 Thanku 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 😊
SäçHiñ 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
Tarun Bansal 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 amazing<<<<
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...😊
## INCOME UNDER THE HEAD CAPITAL GAINS

### SECTION 45 TO 55A

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Question 1: Explain Chargeability of Capital Gains
Answer: Chargeability of capital Gains   Section 45(1)
Any profits or gains arising from the transfer of a capital asset effected in the previous year shall be deemed to be the income of the previous year in which the transfer took place e.g. Mr. X transferred Gold on 25.03.2020 for ₹7,00,000 but payment was received on 10.04.2020, in this case capital gains shall be taxable in the previous year 2019-20 i.e. capital gains are taxable on due basis. No books of accounts are required.

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

(i) Shares Listed in Recognised Stock Exchange shall be considered to be long term after one year but non-listed shares shall be long term after two years. E.g. Mr. X purchased unlisted equity shares on 01.07.2018 and sold the shares on 01.08.2019, in this case shares are short term but if shares are listed, shares shall be long term.

(ii) A unit of the Unit Trust of India
(iii) A unit of an equity oriented mutual fund.
(iv) A zero coupon bond. As per Section 2(48), “Zero coupon bond” means a bond issued by notified company and in respect of which no benefit is received before maturity or redemption and which is notified by the Central Government such bonds are issued for a minimum period of ten years and maximum period of 20 years.

(v) Any other security listed in a recognized stock exchange in India i.e. securities which are listed in recognised stock exchange shall be long term after one year but if securities are not listed, it will be long term after three years. e.g. Mr. X purchased non-listed debentures of ABC Ltd. on 01.10.2017 and sold the debentures on 01.10.2019, in this case debentures shall be considered to be short term but if the debentures are listed in stock exchange, they will be considered to be long term.

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Value of Consideration</td>
<td>xxx</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>- Cost of Acquisition</td>
<td>xxx</td>
</tr>
<tr>
<td>- Cost of Improvement</td>
<td>xxx</td>
</tr>
<tr>
<td>- Selling Expenses</td>
<td>xxx</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>xxx</td>
</tr>
</tbody>
</table>

Example: Mr. X purchased one house 01-07-2017 ₹10,00,000 and constructed its first floor 01-07-2018 by incurring ₹6,00,000 and sold the house on 01-05-2019 ₹70,00,000 and invested ₹2,00,000 in NSC. Compute Income and Tax Liability.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Value of Consideration</td>
<td>₹70,00,000.00</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>- Cost of Acquisition</td>
<td>(10,00,000.00)</td>
</tr>
<tr>
<td>- Cost of Improvement</td>
<td>(6,00,000.00)</td>
</tr>
<tr>
<td>- Selling Expenses</td>
<td>Nil</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>54,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>54,00,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>(1,50,000.00)</td>
</tr>
</tbody>
</table>
Total Income                         52,50,000.00

**Computation of Tax Liability**

Tax on STCG ₹52,50,000 at slab rate  13,87,500.00
Add: Surcharge @ 10%                  1,38,750.00
Tax before health & education cess   15,26,250.00
Add: HEC @ 4%                        61,050.00
Tax liability                        15,87,300.00

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

**Answer:** Computation of Long term Capital Gains  Section 48

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

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

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

\[ \text{Indexed cost of acquisition} = \frac{\text{Cost of acquisition}}{\text{Index of the year in which the asset was purchased}} \times \frac{\text{Index of the year in which the asset was transferred}}{\text{Index of the year in which the asset was purchased}} \]

\[ \text{Indexed cost of any improvement} = \frac{\text{Cost of improvement}}{\text{Index of the year in which cost was incurred}} \times \frac{\text{Index of the year in which the asset was transferred}}{\text{Index of the year in which the asset was purchased}} \]

**Example:** Mr. X purchased one house on 01-07-2015 ₹10,00,000 and constructed its first floor on 01-07-2016 by incurring ₹6,00,000 and sold the house on 01-05-2019 ₹80,00,000 and invested ₹2,00,000 in NSC. Compute Income and Tax Liability.

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

- Full Value of Consideration  ₹80,00,000.00
- Less: Indexed cost of acquisition
  - Cost of acquisition  ₹10,00,000 / Index of 15-16 x Index of 19-20
  - = 10,00,000 / 254 x 289 = ₹11,37,795.28
- Less: Indexed cost of improvement
  - Cost of constructing first floor  ₹6,00,000 / Index of 16-17 x Index of 19-20
  - = 6,00,000 / 264 x 289 = ₹6,56,818.18
- Long Term Capital Gain
- Gross Total Income
- Less: Deduction u/s 80C to 80U
- Total Income
- Rounded off u/s 288A

**Computation of Tax Liability**

Tax on LTCG ₹59,55,390 (₹62,05,390 – ₹2,50,000) @ 20%  11,91,078.00
Illustration 1: Mr. X purchased one house on 01.07.2002 for ₹3,50,000. He constructed its first floor on 01.10.2011 by incurring ₹4,00,000 and constructed its second floor on 01.10.2012 by incurring ₹6,00,000 and third floor on 01.10.2014 by incurring ₹7,00,000. Finally, sold the building on 01.01.2020 for ₹120,00,000 and selling expenses were 2% of the sale price. He has deposited ₹1,00,000 in NSC. Compute tax liability of the assessee for the assessment year 2020-21.

Solution:

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹120,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td></td>
</tr>
<tr>
<td>= 3,50,000 / Index of 02-03 x Index of 19-20</td>
<td>₹9,63,333.33</td>
</tr>
<tr>
<td>= 3,50,000 / 105 x 289</td>
<td>(9,63,333.33)</td>
</tr>
<tr>
<td>Less: Indexed cost of improvement</td>
<td></td>
</tr>
<tr>
<td>Cost of constructing first floor</td>
<td></td>
</tr>
<tr>
<td>= 4,00,000 / Index of 11-12 x Index of 19-20</td>
<td>₹6,28,260.87</td>
</tr>
<tr>
<td>= 4,00,000 / 184 x 289</td>
<td>(6,28,260.87)</td>
</tr>
<tr>
<td>Less: Indexed cost of improvement</td>
<td></td>
</tr>
<tr>
<td>Cost of constructing second floor</td>
<td></td>
</tr>
<tr>
<td>= 6,00,000 / Index of 12-13 x Index of 19-20</td>
<td>₹8,67,000.00</td>
</tr>
<tr>
<td>= 6,00,000 / 200 x 289</td>
<td>(8,67,000.00)</td>
</tr>
<tr>
<td>Less: Indexed cost of improvement</td>
<td></td>
</tr>
<tr>
<td>Cost of constructing third floor</td>
<td></td>
</tr>
<tr>
<td>= 7,00,000 / Index of 14-15 x Index of 19-20</td>
<td>₹8,42,916.67</td>
</tr>
<tr>
<td>= 7,00,000 / 240 x 289</td>
<td>(8,42,916.67)</td>
</tr>
<tr>
<td>Less: Selling Expenses</td>
<td></td>
</tr>
<tr>
<td>= 2% of ₹120,00,000 = ₹2,40,000</td>
<td>(2,40,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>₹84,58,489.13</td>
</tr>
<tr>
<td>Income under the head Capital Gain (LTCG)</td>
<td>₹84,58,489.13</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹84,58,490.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income (Rounded off u/s 288A)</td>
<td>₹84,58,490.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹82,08,490 (₹84,58,490 – ₹2,50,000) @ 20%</td>
<td>₹16,41,698.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>₹1,64,169.80</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹18,05,867.80</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹72,234.71</td>
</tr>
<tr>
<td>Tax liability</td>
<td>₹18,78,102.51</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹18,78,100.00</td>
</tr>
</tbody>
</table>

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

Answer: Asset purchased before 01.04.2001

If any capital asset has been purchased or constructed before 01.04.2001, in that case cost shall be considered to be the cost incurred or fair market value of the asset as on 01.04.2001 whichever is higher and further index of 2001-02 shall be used instead of the index of the earlier year. Any cost of improvement prior to 01-04-2001 shall not be taken into consideration. E.g. Mr. X purchased one house on 01.07.1998 for ₹2,00,000 and incurred ₹3,00,000 on its improvement on 01.10.2000 and its fair market value as on 01.04.2001 is ₹7,00,000, in this case if the asset is sold, its cost of acquisition shall be taken to be ₹7,00,000 and index of 2001-02 shall be applied.
### Cost Inflation Index

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Cost Inflation Index</th>
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</thead>
<tbody>
<tr>
<td>2001-2002</td>
<td>100</td>
</tr>
<tr>
<td>2002-2003</td>
<td>105</td>
</tr>
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<td>2003-2004</td>
<td>109</td>
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<tr>
<td>2004-2005</td>
<td>113</td>
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<tr>
<td>2005-2006</td>
<td>117</td>
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<td>2006-2007</td>
<td>122</td>
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<tr>
<td>2007-2008</td>
<td>129</td>
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<tr>
<td>2008-2009</td>
<td>137</td>
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<td>2009-2010</td>
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<td>2010-2011</td>
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<tr>
<td>2012-2013</td>
<td>200</td>
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<tr>
<td>2013-2014</td>
<td>220</td>
</tr>
<tr>
<td>2014-2015</td>
<td>240</td>
</tr>
<tr>
<td>2015-2016</td>
<td>254</td>
</tr>
<tr>
<td>2016-2017</td>
<td>264</td>
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<tr>
<td>2017-2018</td>
<td>272</td>
</tr>
<tr>
<td>2018-2019</td>
<td>280</td>
</tr>
<tr>
<td>2019-2020</td>
<td>289</td>
</tr>
</tbody>
</table>

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

**Illustration 2:** Compute capital gains and tax liability of Mr. X in the following Individual situations for the assessment year 2020-21:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Gold</th>
<th>Land</th>
<th>Residential House</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of purchase</td>
<td>01.07.1990</td>
<td>01.04.1992</td>
<td>01.07.1994</td>
</tr>
<tr>
<td>Cost price</td>
<td>4,00,000</td>
<td>6,00,000</td>
<td>8,00,000</td>
</tr>
<tr>
<td>Cost of improvement</td>
<td>1,00,000</td>
<td>2,00,000</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Fair market value on 01.04.2001</td>
<td>30,00,000</td>
<td>60,00,000</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Date of Sale</td>
<td>01.01.2020</td>
<td>01.01.2020</td>
<td>01.01.2020</td>
</tr>
<tr>
<td>Full value of consideration</td>
<td>200,00,000</td>
<td>300,00,000</td>
<td>400,00,000</td>
</tr>
</tbody>
</table>

**Solution:**

**Gold**

- Full value of consideration: 200,00,000.00
- Less: Indexed cost of acquisition
  - \(= \frac{30,00,000}{\text{Index of 01-02 x Index of 19-20}}\)
  - \(= \frac{30,00,000}{100 \times 289} = 86,70,000\)
- Long term capital gain: 113,30,000.00

**Computation of Tax Liability**

- Tax on LTCG 110,80,000 (113,30,000 – 2,50,000) @ 20%: 22,16,000.00
- Add: Surcharge @ 15%: 3,24,000.00
- Tax before health & education cess: 25,40,000.00
- Add: HEC @ 4%: 1,01,936.00
- Tax liability: 26,51,936.00
- Rounded off u/s 288B: 26,50,000.00

**Land**

- Full value of consideration: 300,00,000.00
- Less: Indexed cost of acquisition
Income Under The Head Capital Gains

= 60,00,000 / Index of 01-02 x Index of 19-20
= 60,00,000 / 100 x 289 = 173,40,000

Long term capital gain
126,60,000.00

Computation of Tax Liability
Tax on LTCG ₹124,10,000 (₹126,60,000 – ₹2,50,000) @ 20%
Add: Surcharge @ 15%
Tax before health & education cess
Add: HEC @ 4%
Tax liability
Rounded off u/s 288B

Residential House
Full value of consideration
Less: Indexed cost of acquisition
= 8,00,000 / Index of 01-02 x Index of 19-20
= 8,00,000 / 100 x 289 = 23,12,000.00
Less: Indexed cost of improvement
= 4,00,000 / Index of 05-06 x Index of 19-20
= 4,00,000 / 117 x 289 = 9,88,034.19
Long term capital gains
Gross Total Income
Less: Deduction u/s 80C to 80U
Nil
Total Income
Rounded off u/s 288A

Computation of Tax Liability
Tax on LTCG ₹364,49,970 (₹366,99,970 – ₹2,50,000) @ 20%
Add: Surcharge @ 25%
Tax before health & education cess
Add: HEC @ 4%
Tax liability
Rounded off u/s 288B

Illustration 3: Mr. X purchased one house property on 01.07.1992 for ₹3,00,000 and incurred ₹1,00,000 on its improvement in 1995-96 and its market value as on 01.04.2001 was ₹32,00,000 and he incurred ₹5,00,000 on its improvement in 2012-13 and sold the house on 01.11.2019 for ₹200,00,000. He purchased one commercial building on 01.04.2018 for ₹50,00,000 and it was let out @ ₹2,00,000 p.m. to XYZ Ltd. and XYZ Ltd. has deducted tax at source. Mr. X has paid Municipal Tax of ₹20,000 p.m. Compute Income Tax Liability/Payable for Assessment Year 2020-21 and also amount of tax deducted at source by XYZ Ltd. and also tax deducted at source by the person who has purchased the house property.

Solution:
Computation of income from Capital Gain
Full value of consideration
Less: Indexed Cost of acquisition
= 32,00,000/Index of 01-02 x Index of 19-20
= 32,00,000/100 x 289 = ₹92,48,000
Less: Indexed cost of Improvement
= 5,00,000/Index of 12-13 x Index of 19-20
= 5,00,000/200 x 289 = ₹7,22,500.00
Long Term Capital Gain
100,29,500.00

Computation of income under head House Property
Gross Annual Value (2,00,000 x 12)
Less: Municipal Tax (20,000 x 12)
24,00,000.00
(2,40,000.00)
Net Annual Value 21,60,000.00
Less: 30% of NAV u/s 24(a) (6,48,000.00)
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 15,12,000.00

Computation of Gross Total Income
Income under the head House Property 15,12,000.00
Income from Long Term Capital Gain 100,29,500.00
Gross Total Income 115,41,500.00
Less: Deduction u/s 80C to 80U Nil
Total Income 115,41,500.00

Normal Income 15,12,000.00
LTCG 100,29,500.00

Computation of Tax Liability
Tax on LTCG ₹100,29,500 @ 20% 20,05,900.00
Tax on normal income ₹15,12,000 at slab rate 2,66,100.00
Tax before Surcharge 22,72,000.00
Add: Surcharge @ 15% 3,40,800.00
Tax before health & education cess 26,12,800.00
Add: HEC @ 4% 1,04,512.00
Tax liability 27,17,312.00
Less: TDS (10% of 24,00,000) under section 194-I (2,40,000.00)
Less: TDS (1% of 200,00,000) under section 194-IA (2,00,000.00)
Tax Payable 22,77,312.00
Rounded off u/s 288B 22,77,310.00

Cost of Acquisition in case of Capital Gains u/s 112A
As per section 55(2) (ac),
In case of equity shares or units of equity oriented mutual funds or units of business trust which have been sold w.e.f. 01.04.2018 onwards, cost of acquisition shall be higher of

1. Cost of acquisition
2. Lower of
   (a) Fair market value of such asset on 31.01.2018
   (b) Actual sale value

While computing capital gains u/s 112A indexation is not applicable.

Example

Mr. X purchased equity shares on 01.10.2015 for ₹ 1,00,000 and market value on 31.01.2018 is ₹ 5,00,000 and shares have been sold for ₹ 9,00,000 on 10.04.2019, in this case capital gains shall be computed in the manner given below:

Full value of consideration 9,00,000
Cost of acquisition (5,00,000)
Higher of
1. Cost of acquisition 1,00,000
2. Lower of
   (a) Fair market value of such asset on 31.01.2018 5,00,000
   (b) Actual sale value 9,00,000

   LTCG u/s 112A 4,00,000

   Tax Liability shall be
   Tax on LTCG u/s 112A (4,00,000 – 1,00,000 = 3,00,000)
   (3,00,000 – 2,50,000) x 10% 5,000

   Rebate u/s 87A is not allowed
   Add: HEC @ 4% 200

   Tax Liability 5,200

   **The purpose is not to tax capital gains accrued upto 31.01.2018**

   **Presume in the above question the shares have been sold for ₹ 3,00,000, in this case tax treatment shall be**
   
   Full value of consideration 3,00,000
   Cost of acquisition (3,00,000)

   Higher of
   1. Cost of acquisition 1,00,000
   2. Lower of

   (a) Fair market value of such asset on 31.01.2018 5,00,000
   (b) Actual sale value 3,00,000

   LTCG u/s 112A Nil

   Tax Liability shall be Nil

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

   **Presume in the above case shares have been sold for ₹ 40,000, tax treatment shall be**
   
   Full value of consideration 40,000
   Cost of acquisition (1,00,000)

   Higher of
   1. Cost of acquisition 1,00,000
   2. Lower of
Income Under The Head Capital Gains

(a) Fair market value of such asset on 31.01.2018 5,00,000

(b) Actual sale value 40,000

Loss u/s 112A (60,000)

Tax Liability shall be Nil

The purpose is to allow loss with regard to original cost.

Question 6: Write a note on computation of capital gains in case of transfer of shares.

Answer: Capital gains in case of transfer of shares

In case of original shares, cost of acquisition shall be the amount for which the asset was purchased but if it was purchased before 2001, cost of acquisition shall be the amount for which it was purchased or its market value as on 01.04.2001 whichever is higher. In case of bonus shares, cost of acquisition shall be nil but if bonus shares are issued before 01.04.2001, cost of acquisition shall be the market value as on 01.04.2001. In case of right shares, cost of acquisition shall be the amount for which such shares have been purchased. If right to purchase right shares has been renounced, amount received shall be considered to be short term capital gains. Cost of acquisition for the right renouncee shall be the amount paid to the person renouncing the right and amount paid to the company.

In case of long term equity shares or long term units of equity oriented mutual funds or units of business trust, capital gains shall be computed as per section 112A provided securities transaction tax has been paid, such capital gains shall be taxed @ 10% in excess of ₹1,00,000 and while computing capital gains u/s 112A indexation is not applicable.

In case of short term equity shares or the units, capital gains shall be computed but as per section 111A, such capital gains shall be taxed @ 15%.

Illustration 4: Mr. X purchased 100 equity shares in ABC Ltd. on 01.10.1995 @ ₹10 per share. The company has issued 100 bonus shares on 01.10.1998 and market value of the shares on 01.04.2001 was ₹7 per share. The company has again issued 100 bonus shares on 01.10.2012. The company has offered 100 right shares on 01.04.2019 @ ₹140 per share though the market value is ₹250 per share. Mr. X purchased half of the shares and remaining half were renounced by him in favour of his friend Mr. Y. He has charged ₹20 per share from Mr. Y for renouncing the right.

All the shares were sold by Mr. X and Mr. Y @ ₹300 per share on 01.01.2020 and securities transaction tax has been paid. (market value on 31-01-2018 is ₹200 per share)

Mr. X has income under the head house property ₹2,20,000 and has causal income ₹50,000 and has invested ₹1,00,000 in NSC.

Mr. Y has income under the head house property ₹3,50,000 and has invested ₹30,000 in NSC.

Compute tax liability of Mr. X and Mr. Y.

(b) Presume in the above STT is not Paid.

Solution:

Computation of Capital Gains of Mr. X

Original Shares

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>30,000.00</td>
</tr>
<tr>
<td>(100 x 300)</td>
<td></td>
</tr>
<tr>
<td>Less: Cost of Acquisition</td>
<td>(20,000.00)</td>
</tr>
</tbody>
</table>

Higher of
(i) COA = 100 x 10 = 10,000
(ii) lower of
(a) FMV as on 31-01-2018 = 100 x 200 = 20,000
(b) sale value = 100 x 300 = 30,000

COA = 20,000
Long Term Capital Gain u/s 112A

**1st Bonus Shares**
Full value of consideration
(100 x 300)
Less: Cost of Acquisition

<table>
<thead>
<tr>
<th>Higher of</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) COA = Nil</td>
</tr>
<tr>
<td>(ii) lower of</td>
</tr>
<tr>
<td>(a) FMV as on 31-01-2018 = 100 x 200 = 20,000</td>
</tr>
<tr>
<td>(b) sale value = 100 x 300 = 30,000</td>
</tr>
<tr>
<td>COA = 20,000</td>
</tr>
</tbody>
</table>

Long Term Capital Gain u/s 112A

<table>
<thead>
<tr>
<th>2nd Bonus Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
</tr>
<tr>
<td>(100 x 300)</td>
</tr>
<tr>
<td>Less: Cost of Acquisition</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Higher of</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) COA = Nil</td>
</tr>
<tr>
<td>(ii) lower of</td>
</tr>
<tr>
<td>(a) FMV as on 31-01-2018 = 100 x 200 = 20,000</td>
</tr>
<tr>
<td>(b) sale value = 100 x 300 = 30,000</td>
</tr>
<tr>
<td>COA = 20,000</td>
</tr>
</tbody>
</table>

Long Term Capital Gain u/s 112A

<table>
<thead>
<tr>
<th>Right Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
</tr>
<tr>
<td>(50 x 300)</td>
</tr>
<tr>
<td>Less: Cost of Acquisition</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Higher of</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) COA = Nil</td>
</tr>
<tr>
<td>(ii) lower of</td>
</tr>
<tr>
<td>(a) FMV as on 31-01-2018 = 100 x 200 = 20,000</td>
</tr>
<tr>
<td>(b) sale value = 100 x 300 = 30,000</td>
</tr>
<tr>
<td>COA = 20,000</td>
</tr>
</tbody>
</table>

Long Term Capital Gain u/s 112A

<table>
<thead>
<tr>
<th>Renouncing of right to purchase shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
</tr>
</tbody>
</table>

Short Term Capital Gain u/s 111A

**Computation of Total Income**

Income under the head House Property
Income under the head Capital Gains
Long term capital gains 112A
Short term capital gains 111A
Short term capital gains
Income under the head Capital Gains
Income under the head Other Sources
Gross Total Income
Less: Deduction u/s 80C
Total Income

**Computation of Tax Liability**

Tax on casual income ₹50,000 @ 30%
Tax on (30,000 – 30,000) @ 10% u/s 112A
Tax on (8,000 – 8,000) @ 15% u/s 111A
Tax on normal income ₹1,21,000 at slab rate
Less: Rebate u/s 87A
Tax before health & education cess
### Income Under The Head Capital Gains

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add: HEC @ 4%</td>
<td>100</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>2,600</td>
</tr>
</tbody>
</table>

Mr. Y

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
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</tr>
<tr>
<td>Less: Cost of acquisition (50 x 160)</td>
<td>(8,000.00)</td>
</tr>
<tr>
<td>Short Term Capital Gain u/s 111A</td>
<td>7,000.00</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>3,50,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>7,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>3,57,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>(30,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>3,27,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹7,000 @ 15% u/s 111A</td>
<td>1,050.00</td>
</tr>
<tr>
<td>Tax on ₹3,20,000 at slab rate</td>
<td>3,500.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(4,550.00)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Solution (b):**

**Computation of Capital Gains of Mr. X**

**Original Shares**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>30,000.00</td>
</tr>
<tr>
<td>(100 x 300)</td>
<td></td>
</tr>
<tr>
<td>Less: Indexed Cost of Acquisition</td>
<td>(2,890.00)</td>
</tr>
<tr>
<td>(100 x 10)/100 x 289</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>27,110.00</td>
</tr>
</tbody>
</table>

**1st Bonus Shares**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>30,000.00</td>
</tr>
<tr>
<td>(100 x 300)</td>
<td></td>
</tr>
<tr>
<td>Less: Indexed Cost of Acquisition</td>
<td>(2,023.00)</td>
</tr>
<tr>
<td>(100 x 7)/100 x 289</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>27,977.00</td>
</tr>
</tbody>
</table>

**2nd Bonus Shares**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>30,000.00</td>
</tr>
<tr>
<td>(100 x 300)</td>
<td></td>
</tr>
<tr>
<td>Less: Indexed Cost of Acquisition</td>
<td>Nil</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>30,000.00</td>
</tr>
</tbody>
</table>

**Right Shares**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>15,000.00</td>
</tr>
<tr>
<td>(50 x 300)</td>
<td></td>
</tr>
<tr>
<td>Less: Cost of Acquisition</td>
<td>(7,000.00)</td>
</tr>
<tr>
<td>(50 x 140)</td>
<td></td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>8,000.00</td>
</tr>
</tbody>
</table>

**Renouncing of right to purchase shares**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>Nil</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>1,000.00</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>2,20,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>85,087.00</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>9000.00</td>
</tr>
</tbody>
</table>
Income under the head Other Sources .............................. 50,000.00
Gross Total Income .................................................. 3,64,087.00
Less: Deduction u/s 80C .............................................. (1,00,000.00)
Total Income ............................................................ 2,64,087.00
Rounded off u/s 288A ................................................... 2,64,090.00

Computation of Tax Liability
Tax on casual income ₹50,000 @ 30% ............................... 15,000.00
Tax on (85,090 – 85,090) @ 20% u/s 112 ......................... Nil
Tax on ₹1,29,000 at slab rate ........................................ Nil
Less: Rebate u/s 87A ....................................................... (12,500.00)
Tax before health & education cess ................................. 2,500.00
Add: HEC @ 4% ............................................................. 100.00
Tax Liability ............................................................... 2,600.00

Mr. Y

Full value of consideration ........................................... 15,000.00
Less: Cost of acquisition (50 x 160) ............................... (8,000.00)
Short Term Capital Gain ............................................... 7,000.00

Computation of Total Income
Income under the head House Property ......................... 3,50,000.00
Income under the head Capital Gains ............................. 7,000.00
Gross Total Income ..................................................... 3,57,000.00
Less: Deduction u/s 80C ............................................... (30,000.00)
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

Illustration 5: Mr. X holds 500 shares of ABC Ltd. which were allotted to him on 22.04.2001 @ ₹30 per share. On 22.07.2019 ABC Ltd. made right issue to the existing shareholders at the rate of one share for every five shares held @ ₹20 per share. Mr. X instead of exercising his rights to obtain right shares, has exercised his right of renouncement by renouncing the said right entitlement in favour of Mr. Y @ ₹13 per right share entitlement on 04.08.2019.
(a) Determine the nature and amount of capital gain, if any, taxable in the hands of Mr. X.
(b) What will be the cost of acquisition of shares purchased by Mr. Y?

Solution:

Computation of Capital Gains in the hands of Mr. X
Full value of consideration ........................................... 1,300
(100 x 13)
Less: Cost of acquisition ............................................. Nil
Short Term Capital Gain ............................................... 1,300
Cost of acquisition of shares purchased by Mr. Y = ₹33 x 100 = ₹3,300

Illustration 6: Mr. X is a shareholder of ABC Ltd. holding 1,000 shares of the face value of ₹10 each. The company made a right issue in the ratio of 1:1 on 01.01.2020 at a premium of ₹50 per share. He renounced it in favour of Mr. Y at a price of ₹10 per share.
What is the capital gain chargeable in the hands of Mr. X? What will be the cost of the shares in the hands of Mr. Y?

Solution:

Computation of Capital Gains in the hands of Mr. X
Full value of consideration ........................................... 10,000
Income Under The Head Capital Gains

(1,000 x 10)
Less: Cost of acquisition  
Short Term Capital Gain  
Cost of the shares in the hands of Mr. Y is ₹70 per share.

Illustration 7: Mrs. X purchases 1,000 equity shares in X Ltd. at a cost of ₹ 15 per share (brokerage 1%) in January 1998. She gets 100 bonus shares in August 2000. She again gets 1100 bonus shares by virtue of her holding on February 2005. Fair market value of the shares of X Ltd. On April 1, 2001 is ₹ 25. In January 2020, she transfers all her shares @ ₹ 120 per share (brokerage 2%). (market value on 31-01-2018 is ₹70 per share)

Compute the capital gains taxable in the hands of Mrs. X for the A.Y. 2020-21 assuming:
(a) X Ltd. is an unlisted company and securities transaction tax was not applicable at the time of sale.
(b) X Ltd. is a listed company and the shares are sold in a recognised stock exchange and securities transaction tax was paid at the time of sale.

Solution:
(a) Computation of capital gains for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000 Original shares</td>
<td></td>
</tr>
<tr>
<td>Sale proceeds (1000 x ₹ 120)</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Less : Indexed cost of acquisition [₹ 25 x 1000 x 289/100]</td>
<td>(72,250)</td>
</tr>
<tr>
<td>Less : Brokerage paid (2% of ₹1,20,000)</td>
<td>(2,400)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>45,350</td>
</tr>
<tr>
<td>100 Bonus shares</td>
<td></td>
</tr>
<tr>
<td>Sale proceeds (100 x ₹ 120)</td>
<td>12,000</td>
</tr>
<tr>
<td>Less : Indexed cost of acquisition [₹ 25 x 100 x 289/100] [note]</td>
<td>(7,225)</td>
</tr>
<tr>
<td>Less : Brokerage paid (2% of ₹12,000)</td>
<td>(240)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>4,535</td>
</tr>
<tr>
<td>1100 Bonus shares</td>
<td></td>
</tr>
<tr>
<td>Sale proceeds (1100 x ₹ 120)</td>
<td>1,32,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>NIL</td>
</tr>
<tr>
<td>Less: Brokerage paid (2% of ₹1,32,000)</td>
<td>(2,640)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>1,29,360</td>
</tr>
<tr>
<td><strong>Long term capital gain</strong></td>
<td>1,79,245</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000 Original shares</td>
<td></td>
</tr>
<tr>
<td>Sale proceeds (1000 x ₹ 120)</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Less : Cost of acquisition</td>
<td>(70,000)</td>
</tr>
<tr>
<td>Cost of Acquisition</td>
<td></td>
</tr>
<tr>
<td>Higher of</td>
<td></td>
</tr>
<tr>
<td>(i) COA = 1000 x ₹25 = ₹25,000</td>
<td></td>
</tr>
<tr>
<td>(ii) lower of</td>
<td></td>
</tr>
<tr>
<td>(a) FMV as on 31-01-2018 = 1000 x ₹70 = ₹70,000</td>
<td></td>
</tr>
<tr>
<td>(b) sale value = 1000 x ₹120 = ₹1,20,000</td>
<td></td>
</tr>
<tr>
<td>COA = ₹70,000</td>
<td></td>
</tr>
<tr>
<td>Less : Brokerage paid (2% of ₹1,20,000)</td>
<td>(2,400)</td>
</tr>
<tr>
<td>Long term capital gain u/s 112A</td>
<td>47,600</td>
</tr>
</tbody>
</table>
### Income Under The Head Capital Gains

<table>
<thead>
<tr>
<th>100 Bonus shares</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sale proceeds</strong></td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Less : cost of acquisition</strong></td>
<td>(7,000)</td>
</tr>
<tr>
<td><strong>Cost of Acquisition</strong></td>
<td></td>
</tr>
<tr>
<td>Higher of</td>
<td></td>
</tr>
<tr>
<td>(i) COA = 100 x ₹25 = ₹2,500</td>
<td></td>
</tr>
<tr>
<td>(ii) lower of</td>
<td></td>
</tr>
<tr>
<td>(a) FMV as on 31-01-2018 = 100 x ₹70 = ₹7,000</td>
<td></td>
</tr>
<tr>
<td>(b) sale value = 100 x ₹120 = ₹12,000</td>
<td></td>
</tr>
<tr>
<td><strong>COA = ₹7,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Less : Brokerage paid (2% of ₹ 12,000)</strong></td>
<td>(240)</td>
</tr>
<tr>
<td><strong>Long term capital gain u/s 112A</strong></td>
<td>4,760</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1100 Bonus shares</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sale proceeds</strong></td>
<td>1,32,000</td>
</tr>
<tr>
<td><strong>Less: Cost of acquisition</strong></td>
<td>77,000</td>
</tr>
<tr>
<td><strong>Cost of Acquisition</strong></td>
<td></td>
</tr>
<tr>
<td>Higher of</td>
<td></td>
</tr>
<tr>
<td>(i) COA = Nil</td>
<td></td>
</tr>
<tr>
<td>(ii) lower of</td>
<td></td>
</tr>
<tr>
<td>(a) FMV as on 31-01-2018 = 1100 x ₹70 = ₹77,000</td>
<td></td>
</tr>
<tr>
<td>(b) sale value = 1100 x ₹120 = ₹1,32,000</td>
<td></td>
</tr>
<tr>
<td><strong>COA = ₹77,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Less: Brokerage paid (2% of ₹ 1,32,000)</strong></td>
<td>(2,640)</td>
</tr>
<tr>
<td><strong>Long term capital gain u/s 112A</strong></td>
<td>52,360</td>
</tr>
<tr>
<td><strong>Long term capital gain u/s 112A</strong></td>
<td>1,04,720</td>
</tr>
</tbody>
</table>

**Question 7:** write a note on capital gains in case of Depreciable Assets.

**Answer:** Capital gains in case of Depreciable Assets Section 50

If any person has transferred depreciable asset, gain or loss shall always be short term and indexation shall not be applicable and capital gains shall be computed in the manner given below:

- Full value of consideration
- Less:
  - (i) Written down value of the asset in the beginning of the year
  - (ii) Selling expenses

**Short Term Capital Gains**

**Example**

ABC Ltd. has one plant and machinery on 01.04.2019 with w.d.v ₹6,00,000 and it was acquired by the company on 01.04.2007 and the plant was sold on 01.01.2020 for ₹11,00,000 and selling expenses are ₹30,000, in this case, capital gains shall be computed in the manner given below:

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

**Question 8.** [V. Imp.]: Explain the meaning of Capital Asset under Income Tax Act?

**Answer:** Meaning of Capital Asset

**Capital assets Section 2(14)**

capital asset includes all assets but the following shall not be considered to be capital asset

1. any stock-in-trade, consumable stores or raw materials held by an assessee for the purposes of his business or profession shall not be considered to be capital asset.
Example
If Mr. X is engaged in the business of sale purchase of jewellery, Income from such business shall be taxable under the head business / profession.

2. Personal movable effects, i.e. movable items of personal use like household furniture, utensils, TV, fridge, sofa, personal motor car etc. shall not be considered to be Capital Assets, and no gain or loss shall be computed on their sale.

Example
(i) Mr. X purchased one motor car for his personal use and subsequently it was sold by him, in this case it will not be considered to be capital asset.
(ii) Mr. X purchased one fridge for his personal use but subsequently it was sold by him, it will not be considered to be capital asset.

The following shall be capital asset—
(a) jewellery;
(b) archaeological collections;
(c) drawings;
(d) paintings;
(e) sculptures; or
(f) any work of art.

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

Whether capital gain arise on the sale of silver utensils.
In Benarshilal v CIT, during the previous year 1976-77, the assessee sold 49.521 kgs. of silver utensils which were in the form of thalis, katoris, tumblers, etc. The assessee contended that the silver utensils were for personal use and they were not capital assets within the meaning of section 2(14) of the Income Tax Act, 1961 and thus the profit on sale of these utensils was not liable to capital gains tax. The ITO rejected the assessee’s claim that the silver utensils were ‘personal effects’. The high court held that silver utensils constitute personal affects and no capital gains will arise on the sale of silver utensils.

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

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

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

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

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

Example
Mr. X has agricultural land in the rural area which was purchased by him for ₹5,00,000 and it was sold by him for ₹11,00,000, in this case capital gain shall not be computed, but if the land is in Delhi, in this case capital gains shall be computed.
Land in rural area shall be considered to be urban land in the following cases:
1. If rural area is within the distance of 2 kms from the limits of urban area having population more than 10000 but not exceeding 100000
2. If rural area is within the distance of 6 kms from the limits of urban area having population more than 100000 but not exceeding 1000000
3. If rural area is within the distance of 8 kms from the limits of urban area having population more than 1000000.
   ❖ If the agricultural land is in rural area outside India, it will be considered to be capital asset i.e. in other words agricultural land situated outside India is capital asset in all cases.

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

4. Gold Deposit Bonds
Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme 2015 notified by the Central Government.
Gold deposit bond means bond issued by various banks for deposit of gold with them. The assessee can sell the bond in the market and no capital gains shall be computed. Assessee shall earn interest also and it will be exempt from income tax. The Scheme seeks to provide depositors the opportunity to earn interest on their idle gold holdings along with the benefits of safety and security of holding gold without any cost. Individual banks will be free to fix the interest rates.

GOLD MONETIZATION SCHEME, 2015
This scheme will replace the existing Gold Deposit Scheme, 1999. However, the deposits outstanding under the Gold Deposit Scheme will be allowed to run till maturity unless these are withdrawn by the depositors prematurely as per existing instructions.

All designated banks will be eligible to implement the scheme.
Resident Indians (Individuals, HUF, Trusts including Mutual Funds/Exchange Traded Funds registered under SEBI (Mutual Fund) Regulations and Companies) can make deposits under the scheme. The opening of gold deposit accounts will be subject to the same rules with regard to customer identification as are applicable to any other deposit account.

The designated banks will accept gold deposits under the Short Term (1-3 years) Bank Deposit as well as Medium (5-7 years) and Long (12-15 years) Term Government Deposit Schemes.

The designated banks may sell or lend the gold accepted under the short-term bank deposit to MMTC for minting India Gold Coins and to jewellers, or sell it to other designated banks participating in the scheme.

Gold lying in the locker appreciates in value if gold price goes up but it doesn't pay you a regular interest or dividend. On the contrary, you incur carrying costs on it (i.e. bank locker charges).

The scheme will allow you to earn some regular interest on your gold and save your carrying costs as well. It is a gold savings account which will earn interest for the gold that you deposit in it. Your gold can be deposited in any physical form – jewellery, coins or bars. This gold will then earn interest based on gold weight and also the appreciation of the metal value. You get back your gold or Indian rupees as you desire (the option to be exercised at the time of deposit)

Earnings are exempt from income tax. There will be no capital gains tax on the appreciation in the value of gold deposited. Interest on Gold deposited under this scheme has been exempted from income tax u/s 10(15).
Question 9: Write a note on computation of capital gains in case of Insurance Claims.
Answer: Capital Gains in case of Insurance Claims  Section 45(1A)
If any capital asset is destroyed because of fire or natural calamity etc. like flood/earthquake etc. and assessee has received any insurance claim for such asset, in such cases capital gains shall be computed in the normal manner and such capital gains shall be taxable in the year in which insurance claim has been received. Amount of insurance claim received shall be considered to be full value of consideration.

Example
ABC Ltd. has one plant and machinery on 01.04.2019 with written down value ₹20,00,000 the asset is destroyed due to natural calamity and the company has received insurance claim of ₹21,00,000, in this case there will be short term capital gain of ₹1,00,000.

Question 10 [Imp.]: Write a note on computation of capital gains in case of conversion of capital assets into Stock-In-Trade.
Answer: Capital Gains in case of conversion of capital assets into Stock-In-Trade  Section 45(2)
If any person has converted any capital asset into stock-in-trade, it will be considered to be ‘transfer’ and capital gains shall be computed in the year of conversion and, market value shall be considered to be full value of consideration. Capital gains so computed shall be taxable in the year in which stock-in-trade has been sold. (Proportionately)

Illustration 8: Mr. X purchased Gold on 01.10.1991 for ₹2,00,000 and its fair market value on 01.04.2001 is ₹3,00,000 and he converted it into stock-in-trade on 01.10.2008 and market value of the gold on the date of conversion was ₹11,00,000 and subsequently half of the stock-in-trade was sold on 01.10.2019 for ₹6,50,000 and balance half was sold on 01.10.2020 for ₹7,50,000. Compute his total income for various years.

Solution:  
Previous year 2008-09
Computation of Capital Gains under section 45(2)
- Full value of consideration: 11,00,000
- Less: Indexed cost of acquisition
- = 3,00,000 / Index of 01-02 x Index of 08-09
- = 3,00,000 / 100 x 137 = ₹4,11,000
- Long Term Capital Gain: 6,89,000

Previous year 2019-20
- Long Term Capital Gain (1/2 of ₹6,89,000): 3,44,500
- Business Income
- (₹6,50,000-₹5,50,000): 1,00,000
- Total Income: 4,44,500

Previous year 2020-21
- Long Term Capital Gain (1/2 of ₹6,89,000): 3,44,500
- Business Income
- (₹7,50,000-₹5,50,000): 2,00,000
- Total Income: 5,44,500

Illustration 9: X converts his capital asset (acquired on June 10, 2008 for ₹60,000) into stock-in-trade on March 10, 2014. The fair market value on the date of the above conversion was ₹3,00,000. He subsequently sells the stock-in-trade so converted for ₹4,00,000 on June 10, 2019. Discuss the tax implication.

Solution:
In this case capital gains shall be computed in the previous year 2013-14 as given below:
- FVC: 3,00,000.00
- Less: Indexed cost of acquisition
- = 60,000 / Index of 2008-09 x Index of 2013-14
- = 60,000 / 137 x 220
- Long term capital gain: 2,03,649.64
- Income under the head Business/Profession for previous year 2019-20 shall be ₹4,00,000 – ₹3,00,000 = ₹1,00,000
Question 11: Write a note on computation of capital gains in case of transfer of capital asset by a Depository.
Answer: **Capital gains in case of transfer of capital asset by a Depository**  
Section 45(2A)

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

Question 12: Write a note on computation of capital gains in case of transfer of a capital asset by a Person to a Firm, Association of Person or Body of Individual.
Answer: **Capital gains in case of transfer of a capital asset by a Person to a Firm, Association of Person or Body of Individual**  
Section 45(3)

If any person has transferred any capital asset to the partnership firm or body of individual or association of persons as a partner or to become a partner, it will be considered to be transfer and capital gains shall be computed in the year in which capital asset has been transferred and full value of consideration shall be the **amount recorded in the books of account** of the firm etc. Market value shall not be taken into consideration.

**Illustration 10:** Mr. X and Mr. Y are two partners of a firm X & Co. On 01.01.2020, Mr. Z joins the firm and brings shares in a company as his capital contribution. Fair market value of these shares on 01.01.2020 is ₹5,00,000 where as amount credited in Mr. Z’s account in the firm is ₹4,00,000. Assuming that cost of acquisition in 2006-07 of these shares was ₹48,000, find out the amount of chargeable capital gain for the assessment year 2020-21 in the hands of Mr. Z.

**Solution:**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>4,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1,13,704.92)</td>
</tr>
<tr>
<td>Long Term Capital gain</td>
<td>2,86,295.08</td>
</tr>
</tbody>
</table>

Question 13: Write a note on computation of capital gains in case of transfer of a capital asset on dissolution of a firm etc.
Answer: **Capital gains in case of transfer of a capital asset on dissolution of a firm etc.**  
Section 45(4)

In case of dissolution of partnership firm or BOI or AOP, if any capital asset has been distributed, it will be considered to be transfer and capital gains shall be computed in the hands of such firm etc. and full value of consideration shall be the market value of the asset instead of consideration for which asset was transferred.

**Illustration 11:** One partnership firm has purchased gold on 01.10.2005 for ₹5,00,000 and dissolution has taken place on 01.10.2019 and this gold was transferred to one of the partner in settlement of his claim of ₹25,00,000, though the market value was ₹35,00,000.

Compute capital gains for assessment year 2020-21 and also its tax liability.

**Solution:**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>35,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(12,35,042.74)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>22,64,957.26</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>22,64,960.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹22,64,960 @ 20% u/s 112</td>
<td>4,52,992.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>18,119.68</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>4,71,111.68</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>4,71,110.00</td>
</tr>
</tbody>
</table>
Question 14 [V. Imp.]: Write a note on computation of capital gains on compulsory acquisition of a Capital Asset.

Answer:

**Computation of capital gains on compulsory acquisition of a capital asset  Section 45(5)**

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

**Enhanced Compensation**

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

**Illustration 12:** Mr. X (Date of birth 01.10.1946) has purchased one house on 01.04.1995 for ₹4,00,000 and incurred ₹2,00,000 on its improvement on 01.10.1998. Its market value on 01.04.2001 was ₹3,00,000. This house was acquired by the Government on 01.10.2013 and the compensation fixed was ₹50,00,000 and the Government has paid half of the compensation on 01.10.2019 and balance half on 01.10.2020. The assessee has filed an appeal for increasing the compensation and the court has given decision on 31.03.2021 directing the Government to pay additional compensation of ₹5,00,000. The Government has paid half of the amount on 01.04.2022 and balance half on 01.04.2023. He has invested ₹72,000 in NSC in previous year 2019-20. Compute assessee’s tax liability for the assessment year 2020-21 and also capital gains for various years.

**Solution:**

**Computation of Capital Gains under section 45(5)**

Capital gain shall be computed in the year in which the asset was acquired by the Government i.e. in the previous year 2013-14 and shall be taxed in the year in which the first payment has been received by the assessee i.e. in the previous year 2019-20

\[
\begin{align*}
\text{Full value of consideration} & \quad 50,00,000.00 \\
\text{Less: Indexed cost of acquisition} & \\
= 4,00,000 / \text{Index of 01-02 x Index of 13-14} & = 4,00,000 / 100 \times 220 = ₹8,80,000 \\
\text{Long Term Capital Gain} & \quad 41,20,000.00 \\
\text{Income under the head Capital Gain (LTCG)} & \quad 41,20,000.00 \\
\text{Gross Total Income} & \quad 41,20,000.00 \\
\text{Less: Deduction u/s 80C} & \quad \text{Nil} \\
\text{Total Income} & \quad 41,20,000.00 \\
\end{align*}
\]

**Computation of Tax Liability**

\[
\begin{align*}
\text{Since normal income is nil, as per section 112 deficiency of ₹3,00,000 shall be allowed from long term capital gains and balance income shall be taxed at flat rate of 20%} & \\
\text{Tax on ₹38,20,000 (₹41,20,000 – ₹3,00,000) @ 20%} & \quad 7,64,000.00 \\
\text{Add: HEC @ 4%} & \quad 30,560.00 \\
\text{Tax Liability} & \quad 7,94,560.00 \\
\end{align*}
\]

**Computation of Capital Gain for the previous year 2022-23**

Long Term Capital Gain 2,50,000.00

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

Long Term Capital Gain 2,50,000.00

**Illustration 13:** Mrs. X purchased one house on 01.07.1997 for ₹2,00,000 and incurred ₹1,00,000 on its improvement in 1998-99 and its market value as on 01.04.2001 is ₹2,50,000. She incurred ₹2,00,000 on its improvement in 2011-12 and the house was acquired by the Government on 01.07.2014 and compensation fixed is ₹60,00,000 and half of the amount was paid by the Government on 01.01.2020 and balance half on 01.01.2021. She has also received interest of ₹2,00,000 in previous year 2019-20 from the Government for delay in payment of compensation. Income under the head Business/Profession ₹20,03,990.
Compute tax liability of Mrs. X for the Assessment Year 2020-21.

Solution:

Computation of income under the head Capital Gains

Capital gain shall be computed in the year in which the asset was acquired by the Government i.e. in the previous year 2014-15 and shall be taxed in the year in which the first payment has been received by the assessee i.e. in the previous year 2019-20

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>60,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(6,00,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>51,39,130.43</td>
</tr>
</tbody>
</table>

Computation of income under the head Other Sources

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

Computation of income under the head Business/Profession

Income under the head Business Profession                 | 20,03,990.00 |

Computation of Gross Total Income

Income under the head Business Profession                 | 20,03,990.00 |
Income from long term capital gains                       | 51,39,130.43 |
Income under the head Other Sources                       | 1,00,000.00 |
Gross Total Income                                        | 72,43,120.43 |
Less: Deduction u/s 80C to 80U                            | Nil |
Total Income                                              | 72,43,120.43 |
LTCG                                                      | 51,39,130.43 |
Rounded off u/s 288A                                      | 51,39,130.00 |
Normal income                                             | 21,03,990.00 |

Computation of Tax Liability

Tax on LTCG ₹51,39,130 @ 20% u/s 112                      | 10,27,826.00 |
Tax on ₹21,03,990 at slab rate                            | 4,43,697.00 |
Tax before surcharge                                      | 14,71,523.00 |
Add: Surcharge @ 10%                                      | 1,47,152.30 |
Tax before health & education cess                        | 16,18,675.30 |
Add: HEC @ 4%                                             | 64,747.01 |
Tax Liability                                             | 16,83,422.31 |
Rounded off u/s 288B                                      | 16,83,420.00 |

Question 15: Write a note on computation of capital gains on Transfer of Land or Building under specified agreement.

Answer: Computation of capital gains on Transfer of Land or Building under specified agreement

Section 45 (5A)

If any Individual or HUF has transferred Land or Building under a specified agreement, In such cases capital gain shall be computed in the year in which certificate of completion has been issued and full value of consideration shall be the Stamp duty value on the date of issue of certificate. If such individual or HUF has transferred any part of the building before completion to any other person, in that case capital gains shall be computed in the year of transfer for such part.
"specified agreement" means a registered agreement in which a person owning land or building or both, agrees to allow another person to develop a real estate project on such land or building or both, in consideration of a share, being land or building or both in such project, whether with or without payment of part of the consideration in cash.

Question 16: Write a note on capital gains on distribution of assets by a company on Liquidation.

Answer: Capital Gains on distribution of assets by companies in Liquidation Section 46

If any company is in liquidation and the company has distributed its assets to the shareholders in connection with liquidation, it will be exempt from capital gains.

If the same asset has been sold by the shareholder subsequently, its cost of acquisition shall be the amount for which the shareholder has received the asset from the company and capital gains shall be computed accordingly.

The amount received by the shareholder out of accumulated profits of the company shall be considered to be dividend under section 2(22)(c) and excess over it shall be considered to be full value of consideration for computing capital gains.

(Already discussed under the head Other Sources under section 2(22)(c))

Illustration 14: ABC Ltd. has issued one-lakh shares of ₹10 each and the company goes into liquidation on 01.10.2019 and distributable asset of the company are valued at ₹8 lakh. The company’s accumulated profits on the date of liquidation are ₹3.5 lakhs which are included in ₹8 lakhs. Mr. X has purchased 100 shares in this company on 01.10.1998 for ₹10 each and market value of the shares on 01.04.2001 is ₹12 per share. Compute dividends in the hands of Mr. X and also capital gains.

Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of Mr. X in the distributable profits</td>
<td>800</td>
</tr>
<tr>
<td>Accumulated profits</td>
<td>3,50,000</td>
</tr>
<tr>
<td>Proportionate share of Mr. X in accumulated profits</td>
<td>350</td>
</tr>
<tr>
<td>Dividends in the hands of Mr. X as per sec 2(22)(c)</td>
<td>350</td>
</tr>
</tbody>
</table>

Computation of capital gains as per section 46

Full value of consideration 450

Less: Indexed cost of acquisition

\[ \frac{(12 \times 100)}{\text{Index of 01-02} \times \text{Index of 19-20}} \]

\[ = \frac{1,200}{100 \times 289} = 3,468 \]

Long-term capital loss (3,018)

Question 17: Explain capital gains in case of buy back of shares.

Answer: Capital gains in case of buy back of shares Section 46A

If any company has purchased its own shares or other securities, in such cases capital gain shall be computed in the hands of the holders in the normal manner.

As per section 115QA, if the shares are not listed in stock exchange, in such cases no capital gains shall be computed in the hands of its holders rather the company has to pay additional income tax @ 20% plus surcharge 12% plus HEC 4% on the amount of distributed Income.

Distributed Income means the consideration paid by the company on buy-back of shares as reduced by the amount, which was received by the company for issue of such shares.

Question 18 [V. Imp.]: Write a note on transactions not regarded as transfer.

Answer: Transactions not regarded as transfer Section 47

The following transactions will not be considered as transfer and therefore, no capital gains will arise:

1. No capital gain shall be computed in case of transfer of any capital asset through gift or will or inheritance etc. however if gift is given w.e.f 01.10.2009 onwards, it will be taxable under the head other sources as per section 56.

Illustration 15: Mr. X purchased one house on 01.10.1998 for ₹2,00,000 and incurred ₹1,00,000 on its
improvement on 01.10.1999. Its fair market value on 01.04.2001 is ₹4,50,000.

Mr. X expired on 01.05.2005 and the house was inherited by his son Mr. Y and value for the purpose of charging stamp duty was ₹10,00,000.

Mr. Y has sold the house on 01.11.2019 for ₹72,00,000.

Compute tax liability of Mr. Y for the assessment year 2020-21.

**Solution:**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>72,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(13,00,500.00)</td>
</tr>
<tr>
<td>= 4,50,000 / 100 x 289 = ₹13,00,500</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>58,99,500.00</td>
</tr>
<tr>
<td>Income under the head Capital Gain</td>
<td>58,99,500.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>58,99,500.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>58,99,500.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

{Since normal income is nil, as per section 112 deficiency of ₹2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹56,49,500 (₹58,99,500 – ₹2,50,000) @ 20% 11,29,900.00

Add: Surcharge @ 10% 1,12,990.00

Tax before health & education cess 12,42,890.00

Add: HEC @ 4% 49,715.60

Tax Liability 12,92,605.60

Rounded off u/s 288B 12,92,610.00

(2) Any distribution of capital assets on the partition of a Hindu Undivided Family.

**Illustration 16:** Mr. X & sons, HUF, purchased a land for ₹40,000 in 2001-02. In 2005-06, a partition takes place when Mr. A, a coparcener, is allotted this plot valued at ₹2,00,000. In 2006-07, he had incurred expenses of ₹1,85,000 towards fencing of the plot. Mr. A sells this plot of land for ₹15,00,000 in 2019-20 after incurring expenses of ₹20,000. You are required to compute the capital gain for the A.Y. 2020-21.

**Solution:**

**Computation of taxable capital gains for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale consideration</td>
<td>15,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(1,15,600.00)</td>
</tr>
<tr>
<td>= 40,000 / Index of 01-02 x Index of 19-20</td>
<td></td>
</tr>
<tr>
<td>= ₹ 40,000 /100 x 289</td>
<td></td>
</tr>
<tr>
<td>Less: Indexed cost of improvement</td>
<td>(4,38,237.70)</td>
</tr>
<tr>
<td>= 1,85,000 / Index of 06-07 x Index of 19-20</td>
<td></td>
</tr>
<tr>
<td>= ₹ 1,85,000 /122 × 289</td>
<td></td>
</tr>
<tr>
<td>Less: Expenses incurred for transfer</td>
<td>(20,000.00)</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>9,26,162.30</td>
</tr>
</tbody>
</table>

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

(4) Transfer of any capital asset by the amalgamating company to the amalgamated company if the amalgamated company is an Indian company.

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

(6) Receiving of shares from an amalgamated company in lieu of shares held in amalgamating company provided the amalgamated company is an Indian company. E.g. Mr. X purchased 2000 shares in ABC Ltd. on 01.07.2019 @ ₹10 per share and ABC Ltd. was amalgamated with XYZ Ltd. on 01.12.2019 and Mr. X received 1000 shares in XYZ Ltd. and market value is ₹50 per share, in this case no capital gains shall be computed but if Mr. X has sold the shares, capital gains shall be computed and cost will be
Income Under The Head Capital Gains

(7) Transfer or issue of shares by a resulting company in case of demerger.
(8) In case of Conversion of bonds or debentures etc., into shares or conversion of preference shares into equity shares, no capital gains shall be computed.
(9) Redemption by an individual of Sovereign Gold Bonds issued by RBI under the Sovereign Gold Bond Scheme, 2015.

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

(10) Any transfer by way of conversion of preference shares of a company into equity shares of that company.
(11) Any transfer of a capital asset in a transaction of reverse mortgage.
(12) Any other transaction listed under section 47.

Illustration 17: In which of the following situations capital gains tax liability does not arise?
(i) Mr. A purchased gold in 2004 for ₹25,000. In the P.Y. 2019-20, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹1,00,000.
(ii) A house property is purchased by a Hindu undivided family in 1985 for ₹20,000. It is given to one of the family members in the P.Y. 2019-20 at the time of partition of the family. FMV on the day of partition was ₹12,00,000.
(iii) Mr. B purchased 50 convertible debentures for ₹40,000 in 2005 which are converted into 500 shares worth ₹85,000 in November 2019 by the company.

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

Question 19. Write a note on cost with reference to certain modes of Acquisition.

Answer: Cost with reference to certain modes of acquisition Section 49(1)
If any person has received an asset through the transaction section 47 and subsequently asset was sold by him, in such cases cost of acquisition and cost of improvement of previous owner shall be considered to be cost of acquisition/improvement of the assessee and also cost of improvement by assessee shall be taken into consideration. 
As per section 2(42A), time period of previous owner shall also be taken into consideration.
E.g. Mr. X purchased house 01.04.2001 ₹2,00,000 and incurred ₹3,00,000 on improvement on 01.07.2002 and it was received by his son Mr. Y on 01.07.2011 and Mr. Y incurred ₹4,00,000 on improvement 01.07.2013 and house was sold by him on 01.07.2019 ₹100,00,000, in this case tax liability of Mr. Y shall be

| Full value of consideration | 100,00,000.00 |
| Less: Indexed cost of acquisition | (5,78,000.00) |

= 2,00,000 / 100 x 289
Income Under The Head Capital Gains

Less: Indexed Cost of improvement
= 3,00,000 / 105 x 289
(8,25,714.29)
Less: Indexed Cost of improvement
= 4,00,000 / 220 x 289
(5,25,454.55)
Long term capital gains
80,70,831.16
Gross Total Income
80,70,831.16
Less: Deduction u/s 80C to 80U
Nil
Total Income (rounded off u/s 288A)
80,70,830.00

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹78,20,830 (80,70,830 – 2,50,000) @ 20%</td>
<td>15,64,166.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,56,416.60</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>17,20,582.60</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>68,823.30</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>17,89,405.91</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>17,89,410.00</td>
</tr>
</tbody>
</table>

**Cost of acquisition in case of assets received as gift**

Section 49(4) (applicable w.e.f 01.10.2009)

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

**Example**

Mr. X purchased one house property on 01.07.2002 for ₹2,00,000 and it was gifted to Mr. Y on 01.11.2019 and value for the purpose of charging stamp duty was ₹5,00,000 and subsequently the house property was sold by Mr. Y on 01.01.2020 for ₹25,00,000, in this case tax liability of Mr. Y shall be computed in the manner given below:

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

**Income under the head capital gain**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>25,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(5,00,000.00)</td>
</tr>
<tr>
<td>Short term capital gain</td>
<td>20,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>25,00,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>25,00,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹25,00,000 at slab rate</td>
<td>5,62,500.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>22,500.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>5,85,000.00</td>
</tr>
</tbody>
</table>

**Illustration 18:** Mr. X purchased one house on 01.10.2002 for ₹2,00,000 and incurred ₹5,00,000 on its improvement in F.Y. 2009-2010 and Mr. X gifted the house on 01.10.2012 to his friend Mr. Y when its value for the purpose of charging stamp duty was ₹10,00,000.

Mr. Y sold the house on 01.01.2020 for ₹42,00,000.

Compute his tax liability.

**Solution:**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>42,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(14,45,000.00)</td>
</tr>
<tr>
<td>= 10,00,000 / 200 x 289 = ₹14,45,000.00</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>27,55,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gain</td>
<td>27,55,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>27,55,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
</tbody>
</table>
Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹25,05,000 (₹27,55,000 – ₹ 2,50,000) @ 20% u/s 112
Add: HEC @ 4%
Tax Liability

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

Solution:

Computation of Capital Gains

Full value of consideration
Less: Indexed cost of acquisition
Less: Indexed cost of improvement
Long Term Capital Gain
Income under the head Capital Gain
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income (Rounded off u/s 288A)

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹24,23,170 (₹26,73,170 – ₹2,50,000) @ 20%
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B

Question 20: Explain Reverse Mortgage.

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

Under reverse mortgage, an individual can mortgage his house property to the bank and the bank shall grant a loan against the security of house property and such loan shall be given in monthly/quarterly installments and the amount so received shall not be considered to be income of the mortgagor under section 10(43). After the death of the mortgagor the bank shall have right to sell off the property and shall adjust loan and interest and shall compute capital gains for the deceased person and shall pay tax to the government. The purpose of the scheme is to make available regular amount to the persons who do not have regular income but are the owners of the house property. In general, the mortgagor repay the loan in installments but in this case mortgagee i.e. bank is paying installment to the mortgagor and hence it is called reverse mortgage.

Question 21: Write a note on computation of capital gain in case of slump sale covered under section 50B.

Answer: Special provision for computation of capital gains in case of Slump Sale

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

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

If unit is sold within 3 years, a capital gain is Short term otherwise Capital Gain is Long Term. While computing net worth, revaluation of asset shall be ignored. “Net worth” shall be the aggregate value of total assets of the undertaking or division as reduced by the
value of liabilities of such undertaking or division as appearing in its books of account:

**Example**

ABC Ltd. has sold one of its division on 01.10.2019 for ₹35,00,000 and its net worth on 01.10.2019 was ₹20,00,000 and it was setup in 2003, in this case there is long term capital gain of ₹15,00,000.

**Illustration 19:** Mr. A is a proprietor of ABC Enterprises having 2 units started on 01.04.2012. He transferred on 01.04.2019 his unit 1 by way of slump sale for a total consideration of ₹45 Lacs. The expenses is incurred for this transfer were ₹65,000/-. His Balance Sheet as on 31.03.2019 is as under:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Total</th>
<th>Assets</th>
<th>Unit 1</th>
<th>Unit 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Capital</td>
<td>21,00,000</td>
<td>Building</td>
<td>15,00,000</td>
<td>4,00,000</td>
<td>19,00,000</td>
</tr>
<tr>
<td>Revaluation Reserve (for building of unit 1)</td>
<td>6,00,000</td>
<td>Machinery</td>
<td>5,00,000</td>
<td>2,00,000</td>
<td>7,00,000</td>
</tr>
<tr>
<td>Bank Loan (70% for unit 1)</td>
<td>4,00,000</td>
<td>Debtors</td>
<td>3,00,000</td>
<td>70,000</td>
<td>3,70,000</td>
</tr>
<tr>
<td>Trade creditors (25% for unit 1)</td>
<td>3,10,000</td>
<td>Other assets</td>
<td>3,50,000</td>
<td>90,000</td>
<td>4,40,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>34,10,000</td>
<td><strong>Total</strong></td>
<td>26,50,000</td>
<td>7,60,000</td>
<td>34,10,000</td>
</tr>
</tbody>
</table>

Other information:

(i) Revaluation reserve is created by revising upward the value of the building of unit 1.
(ii) No individual value of any asset is considered in the transfer deed.

Compute the capital gain for the assessment year 2020-21.

**Solution:**

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale value</td>
<td>45,00,000</td>
</tr>
<tr>
<td>Less: Expenses on sale</td>
<td>(65,000)</td>
</tr>
<tr>
<td>Less: Net worth (See Note (i) below)</td>
<td>(16,92,500)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>27,42,500</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building (excluding ₹6 lakhs on account of revaluation)</td>
<td>9,00,000</td>
</tr>
<tr>
<td>Machinery</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,50,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>20,50,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Bank Loan</td>
<td>(2,80,000)</td>
</tr>
<tr>
<td>Creditors</td>
<td>(77,500)</td>
</tr>
<tr>
<td><strong>Net worth</strong></td>
<td><strong>16,92,500</strong></td>
</tr>
</tbody>
</table>

**Question 22 [Imp.]: Write a note on full value of consideration in certain cases.**

**Answer:** **Special provision for full value of consideration in certain cases**  **Section 50C**

If any person has transferred land or building and stamp duty value is upto 105% of the FVC claimed by the assessee, in such cases FVC shall be the consideration claimed by the assessee but if stamp duty value is more than 105% of the consideration claimed by the assessee, in that case FVC shall be the Stamp duty value.

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

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

**Example**

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

**Illustration 20:** Mr. X who transferred his land and building on 10.02.2020, furnishes the following information:

(i) Net consideration received ₹35,00,000.
(ii) Value adopted by stamp valuation authority, which was contested by Mr. X ₹50,00,000.
(iii) Value ascertained by Valuation Officer on reference by the Assessing Officer ₹52,00,000.
(iv) This land was distributed to Mr. X on the partial partition of his HUF on 01.04.2001. Fair market value of the land as on 01.04.2001 was ₹1,60,000.
(v) A residential building was constructed on the above land by Mr. X at a cost of ₹3,50,000 (construction completed on 01.12.2012) during the financial year 2012-13.
(vi) Brought forward short-term capital loss (incurred on sale of shares during the financial year 2014-15) ₹80,000.

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

**Solution:**

**Computation of Capital Gains of Mr. X for the Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹50,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td></td>
</tr>
<tr>
<td>Indexed cost of land (1,60,000 / 100 x 289)</td>
<td>(4,62,400.00)</td>
</tr>
<tr>
<td>Indexed cost of building (3,50,000 / 200 x 289)</td>
<td>(5,05,750.00)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>40,31,850.00</td>
</tr>
<tr>
<td>Less: Brought forward short term capital loss set off</td>
<td>(80,000.00)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>39,51,850.00</td>
</tr>
<tr>
<td>Amount to be invested in NHAI / RECL bonds (39,51,850 – 2,50,000)</td>
<td>37,01,850.00</td>
</tr>
</tbody>
</table>

Since income upto ₹2,50,000 is exempt from income tax hence amount can be invested upto ₹37,01,850 instead of ₹39,51,850.

**Illustration 21:** Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 01.08.2019. He has purchased the house property and the land in the year 2019 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 01.08.2019, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Determine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

**Solution:**

<table>
<thead>
<tr>
<th>(i)</th>
<th>Tax implications in the hands of Mr. X</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh), would be taxable as short-term capital gains. Since rural agricultural land is not a capital asset, capital gains shall not be computed.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(ii)</th>
<th>Tax implications in the hands of Mr. Y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable as gift and amount of gift shall be 85 lakh – 60 lakh = 25 lakh. Since agricultural land is not a capital asset, the provisions of section 56(2)(ix) are not attracted in respect of receipt of agricultural land for inadequate consideration. The definition of “property” under section 56(2)(ix) does not include agricultural land.</td>
</tr>
</tbody>
</table>
Since the sale consideration of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 60,000, being 1% of ₹ 60 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

Question 23. Write a note on full value of consideration for transfer of unlisted shares

**Answer: full value of consideration for transfer of unlisted shares. Section 50CA**

In order to ensure the full consideration is not understated in case of transfer of unlisted shares, a new section 50CA has been inserted to provide that where the consideration received or accruing as a result of transfer of a capital asset, being share of a company other than a quoted share, is less than the fair market value of such share determined in such manner as may be prescribed, such fair market value shall be deemed to be the full value of consideration received or accruing as a result of such transfer. For the purpose, “quoted shares” means the share quoted on any recognized stock exchange with regularity from time to time, where the quotation of such share is based on current transaction made in the ordinary course of business.

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

Question 24. Write a note on fair market value deemed to be full value of consideration in certain cases covered under section 50D

**Answer: Fair market value deemed to be full value of consideration in certain cases. Section 50D**

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

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

**Answer: Profit on sale of property used for residence. Section 54**

1. **Assessee:** The assessee should be an **individual** or a Hindu Undivided Family. *(i.e. exemption is not allowed to firm, company, association of person or body of individual etc.)*
2. **Asset:** Capital asset transferred should be buildings or lands appurtenant thereto, being a residential house, the income of which is chargeable under the head “Income from house property”.
3. **Type of capital gain:** Capital gain should be **long term**.
4. **Investment:** The assessee has within a period of **one year before or two years after the date on which the transfer took place purchased**, or has within a period of **three years after that date constructed**, one residential house in India (no exemption for house outside India).

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

5. **Amount of exemption:** Exemption shall be allowed to be the extent of investment.
6. **Withdrawal of exemption:** The house so purchased/constructed **must not be transferred within a period of three years** otherwise exemption given shall be withdrawn and for this purpose while computing capital gains, its cost of acquisition shall be reduced by the amount of the exemption earlier allowed.
7. **Capital gains account Scheme 1988:** The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income. Subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be long term capital gain of the year in which the prescribed period has expired.
8. **Extension of time for acquiring new asset or depositing or investing amount of capital gain section 54H:** If the asset has been acquired compulsorily by the Government, period of investment shall be determined from the date of payment instead of the date of compulsory acquisition.
9. **If any person has purchased a house and has deposited some amount in capital gain account scheme for**
construction on the same house, in that case exemption shall be allowed even for the amount so deposited as decided in **B.B. Sarkar vs Commissioner Of Income-Tax (CALCUTTA HC)**

**Illustration 22:** Mr. X purchased one residential house on 01-07-2001 for ₹2,00,000 and it was sold by him on 01-07-2019 for ₹100 lakhs and he purchased one house in 01-07-2020 for ₹20,00,000. He sold this house on 01-07-2021 for ₹22,00,000. Compute his Tax Liability for A.Y. 2020-21 and also capital gains for various years.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>1,00,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(5,78,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gains</td>
<td>94,22,000.00</td>
</tr>
<tr>
<td>Less: Exemption u/s 54</td>
<td>(20,00,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gains</td>
<td>74,22,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gain (LTCG)</td>
<td>74,22,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>74,22,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>74,22,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

{Since normal income is nil, as per section 112 deficiency of ₹2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

- Tax on ₹71,72,000 (₹74,22,000 – ₹2,50,000) @ 20% = 14,34,400.00
- Add: Surcharge @ 10% = 1,43,440.00
- Tax before health & education cess = 15,77,840.00
- Add: HEC @ 4% = 63,113.60
- Tax Liability = 16,40,953.60
- Rounded off u/s 288B = 16,40,950.00

**Computation of Capital Gain for the assessment year 2022-23**

**Capital gain on sale of House**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>22,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition (₹20,00,000 – ₹20,00,000)</td>
<td>(Nil)</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>22,00,000.00</td>
</tr>
</tbody>
</table>

**Illustration 23:** Mr. X purchased one residential house on 01.04.2002 for ₹5,00,000. This house was acquired compulsorily by the Government on 01.10.2013 and compensation of ₹50,00,000 was fixed by the government but the amount was paid by the Government on 01.03.2020. The assessee has purchased one residential house on 01.01.2020 for ₹2,00,000 and the house was sold by him on 01.01.2021 for ₹4,00,000. Compute his tax liability for the assessment year 2020-21 and also capital gains for the various years.

**Solution:**

**Computation of capital gains under section 45(5)**

Capital gain shall be computed in the year in which the asset was acquired i.e. in the previous year 2013-14 and shall be taxed in the year in which the first payment has been received i.e. in the previous year 2019-20

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>50,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(10,47,619.05)</td>
</tr>
<tr>
<td>Long Term Capital Gains</td>
<td>39,52,380.95</td>
</tr>
<tr>
<td>Less: Exemption u/s 54</td>
<td>(2,00,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gains</td>
<td>37,52,380.95</td>
</tr>
<tr>
<td>Income under the head Capital Gain (LTCG)</td>
<td>37,52,380.95</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>37,52,380.95</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income (rounded off u/s 288A)</td>
<td>37,52,380.00</td>
</tr>
</tbody>
</table>
Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹35,02,380 (₹37,52,380 – ₹2,50,000) @ 20% 7,00,476.00
Add: HEC @ 4% 28,019.04
Tax Liability 7,28,495.04
Rounded off u/s 288B 7,28,500.00

Computation of Capital Gain for the assessment year 2021-22

Capital gain on sale of House

Full value of consideration 4,00,000.00
Less: Cost of acquisition (₹2,00,000 – ₹2,00,000) Nil
Short Term Capital Gain 4,00,000.00
Hence Short Term Capital Gain for assessment year 2021-22 4,00,000.00

(b) Presume the house was purchased on 01.09.2020 instead of 01.01.2020.

Solution:

Computation of capital gains under section 45(5)

Capital gain shall be computed in the year in which the asset was acquired i.e. in the previous year 2013-14 and shall be taxed in the year in which the first payment has been received i.e. in the previous year 2019-20

Full value of consideration 50,00,000.00
Less: Indexed cost of acquisition
= 5,00,000 / 105 x 220 – ₹10,47,619.05 (10,47,619.05)
Long Term Capital Gains 39,52,380.95
Income under the head Capital Gain (LTCG) 39,52,380.95
Gross Total Income 39,52,380.95
Less: Deduction u/s 80C to 80U Nil
Total Income (rounded off u/s 288A) 39,52,380.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹37,02,380 (₹39,52,380 – ₹2,50,000) @ 20% 7,40,476.00
Add: HEC @ 4% 29,619.04
Tax Liability 7,70,095.04
Rounded off u/s 288B 7,70,100.00

Note: Exemption under section 54 is not allowed as the house was purchased after the last date of filing of return of income (i.e. 31st July 2020)

Illustration 24:

Mr. X purchased one house on 01.04.2001 for ₹2,00,000 and sold the house on 01.07.2019 for ₹70,00,000 and purchased one house on 01.09.2019 for ₹12,00,000 and it was sold by him on 01.01.2020 for ₹15,00,000.

He is aged 82 years.

Compute his income and tax liability for assessment year 2020-21.

Solution:

Computation of income under the head Capital Gains

Full value of consideration 70,00,000.00
Less: Indexed cost of acquisition
**Income Under The Head Capital Gains**

= 2,00,000 / Index of 01-02 x Index of 19-20  
= 2,00,000 / 100 x 289 = ₹5,78,000  
Long Term Capital Gains  
64,22,000.00

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

**Option I  Exemption is not availed:**

Long Term Capital Gain  
64,22,000.00

**Sale of house purchased on 01.09.2019**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>15,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(12,00,000.00)</td>
</tr>
<tr>
<td>Short term capital gain</td>
<td>3,00,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>67,22,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>67,22,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>67,22,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

Tax on LTCG ₹62,22,000 (₹64,22,000 – ₹2,00,000) @ 20%  
12,44,400.00

Tax on ₹3,00,000 at slab rate  
Nil

Add: Surcharge @10%  
1,24,440.00

Tax before health & education cess  
13,68,840.00

Add: HEC @ 4%  
54,753.60

Tax Liability  
14,23,593.60

Rounded off u/s 288B  
14,23,590.00

**Option II  Exemption is availed**

Long Term Capital Gain  
64,22,000.00

Less: Exemption u/s 54  
(12,00,000.00)

Long Term Capital Gain  
52,22,000.00

**Sale of house purchased on 01.09.2019**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>15,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>Nil</td>
</tr>
<tr>
<td>Short term capital gain</td>
<td>15,00,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>67,22,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>67,22,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>67,22,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

Tax on LTCG ₹52,22,000 @ 20%  
10,44,400.00

Tax on ₹15,00,000 @ slab rate  
2,50,000.00

Tax before surcharge  
12,94,400.00

Add: Surcharge @10%  
1,29,440.00

Tax before health & education cess  
14,23,840.00

Add: HEC @ 4%  
56,953.60

Tax Liability  
14,80,793.60

Rounded off u/s 288B  
14,80,790.00

Hence assessee should opt Option-I.

**Illustration 25:** Mr. X purchased one residential house on 01.04.2001 for ₹2,00,000 and it was sold by him on 01.07.2019 for ₹50,00,000 and he purchased a new house on 01.09.2019 for ₹55,00,000 and this house was sold by him on 01.07.2022 for ₹56,00,000. Compute his tax liability for A.Y. 2020-21 and also capital gains for all the years.

**Solution:**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>50,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td></td>
</tr>
</tbody>
</table>
Income Under The Head Capital Gains

\[
\begin{align*}
\text{Income } & = \frac{2,00,000}{100} \times 289 = \text{₹5,78,000} \\
\text{Long Term Capital Gain} & = 44,22,000.00 \\
\text{Less: Exemption u/s 54} & = (44,22,000.00) \\
\text{Long Term Capital Gain} & = \text{Nil} \\
\text{Income under the head Capital Gain (LTCG)} & = \text{Nil} \\
\text{Gross Total Income} & = \text{Nil} \\
\text{Less: Deduction u/s 80C} & = \text{Nil} \\
\text{Total Income} & = \text{Nil} \\
\end{align*}
\]

**Tax Liability**

**Previous year 2022-23**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>56,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>55,00,000</td>
</tr>
<tr>
<td>Less: Exemption allowed</td>
<td>(44,22,000)</td>
</tr>
<tr>
<td>Balance</td>
<td>10,78,000</td>
</tr>
<tr>
<td>ICOA = 10,78,000 x index of 2022-23/index of 2019-20</td>
<td></td>
</tr>
</tbody>
</table>

Since index of 2022-23 is not available hence computation is not possible.

**Illustration 26:** Mr. X purchased a residential house on July 20, 2017 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2017. He sold the house property in April 2019 for ₹20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2019.

What is the amount of capital gains taxable in the hands of Mr. X for the A.Y.2020-21?

**Solution:**

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale consideration</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(10,00,000)</td>
</tr>
<tr>
<td>Less: Cost of improvement</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td><strong>Short-term capital gains</strong></td>
<td><strong>8,00,000</strong></td>
</tr>
</tbody>
</table>

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

**Question 26 [V. Imp.]: Write a note on exemption under section 54B.**

**Answer:**

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

1. **Assessee:** The assessee should be individual or a Hindu Undivided Family. (i.e. exemption is not allowed to firm, company, association of person or body of individual etc.)
2. **Asset:** The asset transferred should be land which, in the two years immediately preceding the date on which the transfer took place, was being used by the assessee or a parent of his for agricultural purposes.
3. **Type of capital gain:** It may be short term or long term.
4. **Investment:** The assessee has, within a period of two years after that date, purchased any other land for being used for agricultural purposes.
5. **Amount of exemption:** Exemption allowed shall be equal to the amount invested.
6. **Withdrawal of exemption:** The land so purchased must not be transferred within a period of three years otherwise exemption given shall be withdrawn and for this purpose while computing capital gains on the transfer of new asset, its cost of acquisition shall be reduced by the amount of the exemption earlier allowed.
7. **Capital gains account Scheme 1988:** The amount of capital gain has to be utilised till the last date of furnishing of return of income otherwise amount should be deposited in capital gains account scheme 1988 and proof of such deposit should be enclosed with the return of income and subsequently the amount should be withdrawn from this scheme and should be utilised for the specified purpose otherwise it will be considered to be capital gain of the year in which the prescribed period has expired.
**Capital gains in case of compulsory acquisition of agricultural land**  
**Section 10(37)**

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

**Illustration 27:** Mr. X purchased agricultural land on 01.10.2002 for ₹3,00,000 and it was being used for agricultural purposes by him. It was sold on 01.01.2020 for ₹50,00,000. The assessee has purchased one agricultural land in the rural area on 10.01.2020 for ₹10,00,000 and this land was sold by him on 11.02.2020 for ₹11,00,000 and has invested ₹30,000 in National Saving Certificate. He is aged about 86 years.

Compute his tax liability for assessment year 2020-21.

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

**Solution (a):**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>50,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(8,25,714.29)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>41,74,285.71</td>
</tr>
<tr>
<td>Less: Exemption u/s 54B</td>
<td>(10,00,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>31,74,285.71</td>
</tr>
<tr>
<td>Income under the head Capital Gain (LTCG)</td>
<td>31,74,285.71</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>31,74,285.71</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>31,74,290.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

{Since normal income is nil, as per section 112 deficiency of ₹5,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

- Tax on ₹26,74,290 (₹31,74,290 – ₹5,00,000) @ 20% 5,34,858.00
- Add: HEC @ 4% 21,394.32
- Tax Liability 5,56,252.32
- Rounded off u/s 288B 5,56,250.00

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

**Solution (b):**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>50,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(8,25,714.29)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>41,74,285.71</td>
</tr>
</tbody>
</table>
| The assessee has the option either not to avail exemption under section 54B or to avail exemption under section 54B.

**Option 1   Exemption is not availed:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Capital Gain</td>
<td>41,74,285.71</td>
</tr>
</tbody>
</table>

**Urban agricultural land**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>11,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(10,00,000.00)</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>1,00,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>42,74,285.71</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>42,74,285.71</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C {NSC}</td>
<td>(30,000.00)</td>
</tr>
<tr>
<td>Total Income</td>
<td>42,44,285.71</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>42,44,290.00</td>
</tr>
</tbody>
</table>
Computation of tax liability

Tax on long term capital gain ₹37,44,290 (41,74,290 – 4,30,000) @ 20%  7,48,858.00
Tax on ₹70,000 at slab rate  Nil
Add: HEC @ 4%  29,954.32
Tax Liability  7,78,812.32
Rounded off u/s 288B  7,78,810.00

Option II Exemption is availed:
Long Term Capital Gain  41,74,285.71
Less: Exemption u/s 54B (10,00,000.00)
Long Term Capital Gain  31,74,285.71

Urban agricultural land
Full value of consideration  11,00,000.00
Less: Cost of acquisition (10,00,000 – 10,00,000) Nil
Short Term Capital Gain  11,00,000.00
Income under the head Capital Gains  42,74,285.71
Gross Total Income  42,74,285.71
Less: Deduction u/s 80C {NSC} (3,00,000.00)
Total Income  42,44,285.71
Rounded off u/s 288A  42,44,290.00

Computation of tax liability
Tax on long term capital gain ₹31,74,290 @ 20%  6,34,858.00
Tax on ₹10,70,000 at slab rate  1,21,000.00
Tax before health & education cess  7,55,858.00
Add: HEC @ 4%  30,234.32
Tax Liability  7,86,092.32
Rounded off u/s 288B  7,86,090.00

Hence the assessee should opt for option–I and his tax liability shall be 7,78,810.

Illustration 28: Mr. X has an agricultural land (costing ₹ 6 lakh) in Lucknow and has been using it for agricultural purposes since 01.04.2003 till 01.08.2013 when the Government took over compulsory acquisition of this land. A compensation of ₹ 10 lakh was settled. The compensation was received by Mr. X on 01.07.2019. Compute the amount of capital gains taxable in the hands of Mr. X.

Solution: In the given problem, compulsory acquisition of an urban agricultural land has taken place. This land had also been used for at least 2 years by the assessee himself for agricultural purposes. Thus, as per section 10(37), entire capital gains arising on such compulsory acquisition will be fully exempt and nothing is taxable in the hands of Mr. X in the year of receipt of compensation i.e. A.Y.2020-21.

Illustration 29: Will your answer be any different if Mr. X had by his own will sold this land to his friend Mr. Y? Explain.

Solution: As per section 10(37), exemption is available if compulsory acquisition of urban agricultural land takes place. Since the sale is out of own will and desire, the provisions of this section are not attracted and the capital gains arising on such sale will be taxable in the hands of Mr. X.

Illustration 30: Will your answer be different if Mr. X had not used this land for agricultural activities? Explain.

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

Illustration 31: Will your answer be different if the land belonged to ABC Ltd. and not Mr. X and compensation on compulsory acquisition was received by the company? Explain.

Solution: Section 10(37) exempts capital gains arising to an individual or a HUF from transfer of agricultural land by way of compulsory acquisition. Since the land belongs to ABC Ltd., a company, the provisions of this section are not attracted and the capital gains arising on such compulsory acquisition will be taxable in the hands of ABC Ltd.
Question 27: Write a note on exemption under section 54D.

Answer: Capital gain on compulsory acquisition of lands and buildings not to be charged in certain cases  

Section 54D

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

**Illustration 32:** Mr. X has one industrial undertaking in Wazirpur industrial area and the building which is being used for industrial purposes was purchased on 01.10.2007. Since then it was being used for industrial purpose and was purchased for ₹23,00,000 and its w.d.v. as on 01.04.2014 is ₹10,38,000. This building was acquired by the Government on 01.01.2015 and compensation fixed was ₹25,00,000. Entire payment was released by the Government on 01.07.2019. The assessee has purchased one building for the purpose of industrial undertaking in Bawana Industrial Area on 01.01.2020 for ₹6,00,000. Compute his tax liability for assessment year 2020-21.

**Solution:**

**Computation of Capital Gains under section 45(5)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>25,00,000.00</td>
</tr>
<tr>
<td>Less: W.d.v of the building</td>
<td>(10,38,000.00)</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>14,62,000.00</td>
</tr>
</tbody>
</table>

**Computation of capital gains and tax liability for the assessment year 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Capital Gain</td>
<td>14,62,000.00</td>
</tr>
<tr>
<td>Less: Exemption u/s 54D</td>
<td>(6,00,000.00)</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>8,62,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gain (STCG)</td>
<td>8,62,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>8,62,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>8,62,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹8,62,000 at slab rate</td>
<td>84,900.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,396.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>88,296.00</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>88,300.00</td>
</tr>
</tbody>
</table>
Question 28 [V. Imp.]: Write a note on exemption under section 54EC.

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

Section 54EC

1. Assessee: Exemption is allowed to all the assessees.
2. Asset: The assessees can transfer any land or building.
3. Type of capital gain: It should be only long term capital gain.
4. Investment: The assessees have, at any time within a period of six months after the date of such transfer, invested the whole or any part of capital gains in the long-term specified asset.

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

(i) National Highways Authority of India
(ii) Rural Electrification Corporation Limited
(iii) Power Finance Corporation Limited.
(iv) Indian Railway Finance Corporation Limited.

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

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

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


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

Illustration 33: Mr. X purchased agricultural land in the urban area on 01.04.2001 for ₹2,00,000. It was being used for agricultural purposes since then and was sold by the assessee on 01.07.2019 for ₹123,00,000. He made following investments:

(i) Bonds of National Bank for Agriculture and Rural Development on 01.06.2019 for ₹1,50,000 which are redeemable after 5 years.
(ii) He purchased agricultural land on 01.09.2019 for ₹2,00,000.
(iii) He has invested ₹75,000 on 01.10.2019 in the bonds of National Highway Authority of India redeemable after five years.

He sold the bonds of National Highway Authority of India on 15.04.2020 for ₹3,00,000.

Compute his capital gains for various years and also tax liability for assessment year 2020-21.

Solution:

Previous year 2019-20

Computation of Capital gains

Full value of consideration 123,00,000.00
Less: Indexed cost of acquisition = 2,00,000 / 100 x 289 = ₹5,78,000
Long Term Capital Gain 117,22,000.00
Less: Exemption u/s 54B  (2,00,000.00)
Less: Exemption u/s 54EC (75,000.00)
Long Term Capital Gain 114,47,000.00
Income under the head Capital Gain (LTCG) 114,47,000.00
Gross Total Income 114,47,000.00
Less: Deduction u/s 80C to 80U Nil
Total Income 114,47,000.00

Computation of Tax Liability

{Since normal income is nil, as per section 112 deficiency of ₹2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

Tax on ₹111,97,000 (₹114,47,000 – ₹2,50,000) @ 20% 22,39,400.00
Tax before Surcharge 22,39,400.00
Add: Surcharge @ 15% 3,35,910.00
Tax before health & education cess 25,75,310.00
Add: HEC @ 4%  
Tax Liability  
Rounded off u/s 288B

**Previous year 2020-21**

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

**Illustration 34:** ABC Ltd. purchased one commercial building on 01.07.1995 ₹2,00,000 and paid brokerage ₹20,000 and its market value as on 01.04.2001 ₹2,10,000. The company sold the building on 01.07.2019 for ₹500,00,000 and invested ₹60,00,000 in bond of NHAI redeemable after five years.

Compute tax liability of the company for Assessment Year 2020-21.

(b) Presume building was sold for ₹11,72,00,000.

**Solution:**

### Computation of Capital gains

- Full value of consideration: 500,00,000.00
- Less: Indexed cost of acquisition: (6,35,800.00)
- Long Term Capital Gain: 493,64,200.00
- Less: Exemption u/s 54EC: (50,00,000.00)

**Computation of Tax Liability**

- Tax on ₹443,64,200 @ 20%: 88,72,840.00
- Add: Surcharge @ 7%: 6,21,098.80
- Tax before health & education cess: 94,93,938.80
- Add: HEC @ 4%: 3,79,757.55
- Tax Liability: 98,73,696.35

Rounded off u/s 288B: 98,73,700.00

### Computation of Capital gains

- Full value of consideration: 11,72,00,000.00
- Less: Indexed cost of acquisition: (6,35,800.00)
- Long Term Capital Gain: 11,65,64,200.00
- Less: Exemption u/s 54EC: (50,00,000.00)

**Computation of Tax Liability**

- Tax on ₹11,15,64,200 @ 20%: 223,12,840.00
- Add: Surcharge @ 12%: 26,77,540.80
- Tax before health & education cess: 249,90,380.80
- Add: HEC @ 4%: 9,99,615.23

Rounded off u/s 288B: 26,78,320.00
Question 29: Write a note on exemption under section 54EE.
Answer: Exemption in case of investment in units of mutual fund  

Section 54EE

1. **Assessee:** Exemption is allowed to all the assessee.
2. **Asset:** The assessee can transfer any capital asset.
3. **Type of capital gain:** It should be only long term capital gain.
4. **Investment:** Assessee can make investment within a period of six months after the date of transfer of original asset and investment should be in Long-term specified asset. “Long-term specified asset” means units of such fund as may be notified by the Central Government.
5. **Amount of exemption:** Maximum exemption allowed in a particular previous year shall be `50 lakh.
6. **Withdrawal of exemption:** If the long term specified asset is transferred or converted into cash within a period of 3 years, exemption earlier allowed shall be considered to be long term capital gains of the year in which such asset was transferred or converted into cash.
Converting into cash means taking a loan on the security of the specified asset.
7. **Capital gains account scheme 1988:** Capital gain account scheme shall not apply.

Question 30 [V. Imp.]: Write a note on exemption under Section 54F.
Answer: Exemption from capital gains on transfer of any capital assets other than a Residential House  

Section 54F

1. **Assessee:** The assessee should be individual or Hindu Undivided Family.
2. **Asset:** Capital asset transferred can be any asset but it should not be a residential house.
3. **Type of capital gain:** Capital gain should be long term.
4. **Investment:** The assessee has within a period of one year before or two years after the date on which the transfer took place purchased, or has within a period of three years after that date constructed, one residential house and further the assessee should either purchase or construct only one house and also assessee should not have more than one house in his name at the time of transfer of the asset besides the house which is being purchased or constructed for availing exemption.
5. **Amount of exemption:** Exemption allowed shall be that percentage of the capital gain as the amount invested bears to net consideration. i.e. exemption = capital gain x investment / net consideration. 

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

Illustration 35: Mr. X purchased gold on 01.04.1991 for `3,00,000 and its market value on 01.04.2001 is `2,00,000. This gold was sold by him on 01.01.2020 for `35,00,000 and selling expenses are `37,000. He has purchased one house on 01.05.2020 for `4,00,000 because he did not have any house in his name and he deposited `3,00,000 in capital gain account scheme on 30.09.2020.
Mr. X is also engaged in a business and he has turnover of his business ₹105,00,000 and cost of goods sold ₹100,00,000 and other expenses ₹5,10,000. He has withdrawn ₹2,00,000 from capital gain account scheme on 01.01.2021 and constructed 1st floor of the house which was purchased by him on 01.05.2020. Remaining amount in the capital gain account scheme was unutilized.

Compute assessee’s tax liability for assessment year 2020-21 and capital gains for various years.

**Solution:**

**Previous year 2019-20**

**Computation of capital gain**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>35,00,00,00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(8,67,00,00)</td>
</tr>
<tr>
<td>= 3,00,000 / 100 x 289 = ₹8,67,000</td>
<td>(8,67,00,00)</td>
</tr>
<tr>
<td>Less: Selling expenses</td>
<td>(37,00,00)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>25,96,00,00</td>
</tr>
<tr>
<td>Less: Exemption u/s 54F</td>
<td>(5,24,747.33)</td>
</tr>
<tr>
<td>= 25,96,000 / 34,63,000 x 7,00,000 = ₹5,24,747.33</td>
<td>(5,24,747.33)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>20,71,252.67</td>
</tr>
<tr>
<td>Income under the head Capital Gain (LTCG)</td>
<td>20,71,252.67</td>
</tr>
<tr>
<td>Loss under the head Business/Profession</td>
<td>(10,00,00)</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>20,61,250.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income (rounded off u/s 288A)</td>
<td>20,61,250.00</td>
</tr>
</tbody>
</table>

**Computation of tax liability**

{Since normal income is nil, as per section 112 deficiency of ₹2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%}

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹18,11,250 (20,61,250 – 2,50,000) @ 20%</td>
<td>3,62,250.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>14,490.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>3,76,740.00</td>
</tr>
</tbody>
</table>

**Previous year 2022-23**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount deposited in capital gain a/c scheme</td>
<td>3,00,00,00</td>
</tr>
<tr>
<td>Less: Amount withdrawn</td>
<td>(2,00,00,00)</td>
</tr>
<tr>
<td>Balance amount</td>
<td>1,00,00,00</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>74,963.90</td>
</tr>
<tr>
<td>= 25,96,000 x 1,00,000 = ₹74,963.90</td>
<td>74,963.90</td>
</tr>
<tr>
<td>34,63,000</td>
<td></td>
</tr>
</tbody>
</table>

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

**Illustration 36:** Mr. X sold gold for ₹5,50,000 on 01.10.2019 which had been acquired by him in October, 2004 for ₹55,000. He wants to utilize the said amount of sale consideration for purchase or construction of a new residential house. He already owns one residential house at the time of sale of the gold on 01.10.2019. He has deposited ₹4,00,000 under the capital gains deposit scheme with a specified bank on 30.04.2020. Ascertain the capital gains taxable in Mr. X’s hands for assessment year 2020-21 and advise him as to what further action he has to take to avail the exemption.

**Solution:**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>5,50,00,00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(1,40,663.72)</td>
</tr>
<tr>
<td>= 55,000 / 113 x 289 = ₹1,40,663.72</td>
<td>(1,40,663.72)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>4,09,336.28</td>
</tr>
<tr>
<td>Less: Exemption u/s 54F</td>
<td>(2,97,699.11)</td>
</tr>
<tr>
<td>= 4,09,336.28/5,50,000 x 4,00,000 = ₹2,97,699.11</td>
<td>(2,97,699.11)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>1,11,637.16</td>
</tr>
<tr>
<td>X has to fulfill the following conditions so as to avail exemption of section 54F</td>
<td></td>
</tr>
</tbody>
</table>
- He should acquire a residential house property by withdrawing from the deposit account. The new house can be purchased at any time up to 30.09.2021 or it can be constructed up to 30.09.2022. If the amount utilised is lower than ₹4,00,000 then the following amount will become chargeable to tax as long term capital gain for the assessment year 2023-24
  \[ \frac{[₹4,00,000 – \text{Amount utilised}]}{5,50,000 \times 4,09,336.28} \]
- He should not transfer the new house within 3 years
- He should not purchase another residential house up to 30.09.2021 and he should not complete construction of another residential house property up to 30.09.2022.

**Question 31:** Write a note on computation of capital gains on conversion of debentures etc. into shares.

**Answer:** Capital gains on conversion of debentures etc. into shares

As per section 47, no capital gain shall be computed in case of conversion of debenture etc. into shares, however if subsequently these shares have been sold, capital gains shall be computed in the manner given below:

1. As per section 49(2A), the cost of acquisition of the shares shall be the cost of acquisition of the debentures etc.
2. Period of holding shall start from the date of purchasing the debentures etc.

**Illustration 37:** Mr. X has purchased 100 debentures in ABC Ltd. on 01.10.2002 @ ₹300 per debentures and subsequently these debentures were converted into shares on 01.10.2017 and 3 shares were issued for each debenture.

The assessee has sold all the shares on 01.04.2019 @ ₹750 per share and market value as on 31-01-2018 ₹500 per share. Compute capital gains for the assessment year 2020-21 in the following situations:

(a) STT not paid
(b) STT Paid

**Solution:**

(a) Computation of Capital Gains

| Full value of consideration (300 x 750) | 2,25,000.00 |
| Less: Indexed Cost of acquisition | |
| = (100 x 300) / Index of 02-03 x Index of 19-20 | (82,571.43) |
| = 30,000 / 105 x 289 = ₹82,571.43 | |
| Long Term Capital Gain | 1,42,428.57 |

(b) Computation of Capital Gains

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

**Illustration 38:** Mr. X purchased 100 Debentures of ABC Ltd on 01.07.2005 @ ₹1000 per debenture and company has converted debentures into shares on 01.10.2017 and issued 4 shares for each debenture and market value of shares ₹500 per share. The assessee has sold half of the shares on 01.05.2019 @ ₹700 per share and remaining half on 01.12.2019 @ ₹800 per share. Market value as on 31-01-2018 @ ₹500 per share Compute Capital Gains and Income tax liability in two situations.

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

(ii) Presume in the above question, there is no Conversion rather all the Debentures were sold on 01.07.2019 @ ₹6,000 per Debenture
Solution (i):
No Capital Gain shall be computed at the time of conversion as per Section 47. However Capital Gain shall be computed at the time of sale of shares.

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

**Computation of Capital gains of Mr. X**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration (200 x 700)</td>
<td>₹1,40,000.00</td>
</tr>
<tr>
<td>Less: Indexed Cost of acquisition</td>
<td></td>
</tr>
<tr>
<td>= (50 x 1,000) / Index of 05-06 x Index of 19-20</td>
<td>(1,23,504.27)</td>
</tr>
<tr>
<td>= 50,000 / 117 x 289 = ₹1,23,504.27</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>16,495.73</td>
</tr>
<tr>
<td>Full value of consideration (200 x 800)</td>
<td>₹1,60,000.00</td>
</tr>
<tr>
<td>Less: Indexed Cost of acquisition</td>
<td></td>
</tr>
<tr>
<td>= (50 x 1,000) / Index of 05-06 x Index of 19-20</td>
<td>(1,23,504.27)</td>
</tr>
<tr>
<td>= 50,000 / 117 x 289 = ₹1,23,504.27</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>36,495.73</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹52,991.46</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹52,991.46</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>52,990.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Nil (₹52,990 - ₹52,990) @ 20%</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(b) Securities Transaction Tax (STT) paid

**Computation of Capital gains of Mr. X**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration (200 x 700)</td>
<td>₹1,40,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(1,00,000.00)</td>
</tr>
<tr>
<td>Higher of</td>
<td></td>
</tr>
<tr>
<td>(i) COA = 50 debentures x 1000 = 50,000</td>
<td></td>
</tr>
<tr>
<td>(ii) lower of</td>
<td></td>
</tr>
<tr>
<td>(a) FMV as on 31-01-2018 = 200 shares x 500 = 1,00,000</td>
<td></td>
</tr>
<tr>
<td>(b) sale value = 200 shares x 700 = 1,40,000</td>
<td></td>
</tr>
<tr>
<td>COA = 1,00,000</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain u/s 112A</td>
<td>40,000.00</td>
</tr>
<tr>
<td>Full value of consideration (200 x 800)</td>
<td>₹1,60,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(1,00,000.00)</td>
</tr>
<tr>
<td>Higher of</td>
<td></td>
</tr>
<tr>
<td>(i) COA = 50 debentures x 1000 = 50,000</td>
<td></td>
</tr>
<tr>
<td>(ii) lower of</td>
<td></td>
</tr>
<tr>
<td>(a) FMV as on 31-01-2018 = 200 shares x 500 = 1,00,000</td>
<td></td>
</tr>
<tr>
<td>(b) sale value = 200 shares x 800 = 1,60,000</td>
<td></td>
</tr>
<tr>
<td>COA = 1,00,000</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain u/s 112A</td>
<td>60,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹1,00,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹1,00,000.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Solution (ii):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Value of consideration (100 debentures x ₹6,000)</td>
<td>₹6,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition (100 x ₹1,000)</td>
<td>(1,00,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>₹5,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹5,00,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
</tbody>
</table>
Total Income  5,00,000.00

**Computation of Tax Liability**

- **Tax on LTCG** ₹2,50,000 (₹5,00,000 – ₹2,50,000) @ 10%  25,000.00
- **Less: Rebate u/s 87A** (12,500.00)
- **Tax before HEC**  12,500.00
- **Add: HEC @ 4%**  500.00
- **Tax Liability**  13,000.00

**Question 32:** Explain computation of capital gains on transfer of debentures or bonds.

**Answer:** While computing capital gains on transfer of debenture or bond, indexation shall not be applicable even if it is long term capital asset and LTCG shall be taxable at the rate of 10% instead of 20% e.g. Mr. X purchased listed debentures of ABC Ltd. on 01.07.2002 for ₹5,00,000 and sold it on 01.07.2019 for ₹15,00,000, in this case tax treatment shall be:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Value of consideration</td>
<td>15,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(5,00,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>10,00,000.00</td>
</tr>
<tr>
<td>Total Income</td>
<td>10,00,000.00</td>
</tr>
<tr>
<td>Tax Liability (10,00,000 – 2,50,000) x 10%</td>
<td>75,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>3,000.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>78,000.00</td>
</tr>
</tbody>
</table>

**Question 33 [Imp.]: Write a note on reference to Valuation Officer.**

**Answer:** Reference to Valuation Officer  Section 55A Rule 111AA

If the Assessing Officer is of the view that the fair market value of a capital asset computed by the assessee is not correct, Assessing Officer may refer the valuation to the Valuation Officer in the following circumstances:

(i) If the value in the opinion of the Assessing Officer is exceeding by more than 15% of the value computed by the assessee or it is exceeding by more than ₹25,000 of the value computed by the assessee.

**Example**

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

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

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

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

**Question 34: Write a note on Cost of Improvement.**

**Answer:** Cost of Improvement  Section 55(1)

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

**Example**

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

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

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

3. In case of following intangible assets, cost of improvement shall be nil
   (i) goodwill.
   (ii) right to manufacture, produce or process any article or thing (patent right).
   (iii) right to carry on any business or profession (Franchisee).

Question 35: Write a note on Cost of Acquisition.
Answer: **Cost of Acquisition**  
Section 55(2)

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

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

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

3. In case of original shares/right shares, cost of acquisition shall be the actual amount paid for purchasing the shares.

4. In case of bonus shares, cost of acquisition shall be nil, but if the bonus shares have been issued prior to 01.04.2001, their cost of acquisition shall be the market value on 01.04.2001.

5. If the right to purchase the rights shares has been renounced, cost of acquisition of such right shall be taken to be nil.

6. In case of rights renouncee, cost shall be the amount paid to the company and to the right holder who has renounced the right.

7. In case of following self acquired intangible assets, “cost of acquisition, will be nil.
   (i) goodwill of a business
   (ii) right to carry on any business or profession
   (iii) right to manufacture, produce or process any article or thing
   (iv) trade mark or brand name associated with a business
   (v) tenancy rights
   (vi) stage carriage permits
   (vii) loom hours

In case there is any other self acquired asset, it will not be chargeable to tax, as per the Supreme Court’s ruling in **CIT v. B.C. Srinivasa (1981) (SC)**, wherein it was pointed out that the income chargeable to capital gains tax is to be computed by deducting from the full value of the consideration “the cost of acquisition of the capital asset and the cost of any improvement thereto”. If it is not possible to ascertain cost of acquisition and or cost of improvement, then transfer of such asset is not taxable under the Act.

**Illustration 39:** Mr. X started business on 01-04-2001 and Mr. Y started profession on 01-04-2001. Each one of them sold goodwill on 01-07-2019 for ₹ 50,00,000, in this case tax treatment shall be as given below:

1. **Capital Gains of Mr. X**
   - Full value of consideration: 50,00,000.00
   - Less: Indexed cost of acquisition: Nil
   - Long Term Capital Gain: 50,00,000.00

   Cost of acquisition of self - generated goodwill of business shall be taken to be Nil.

2. **Capital Gains of Mr. Y**
   As per Supreme Court ruling **CIT vs. B.C. Srinivasa**, no capital gains shall be computed in case of self-generated goodwill of profession.
Question 36: What types of transactions are included in the term ‘transfer’ in relation to a capital asset?

Answer: Meaning of ‘transfer’ in relation to a capital asset

Transfer: Section 2(47)

Capital gains shall be computed in case of transfer of capital asset and term transfer shall include
1. Sale of the asset
2. Compulsory acquisition of land or building
3. Conversion of capital asset into stock-in-trade
4. The relinquishment of the asset e.g. Mr. X has received the right to purchase the right shares but he has relinquished his right to purchase the share in favour of some other person by charging ₹1,00,000, in this case, he has capital gain of ₹1,00,000.
5. The extinguishment of any rights/asset e.g. Mr. X was holding shares in ABC Ltd. The company has gone into liquidation and Mr. X has received ₹2,00,000 being the full value of consideration and the cost of acquisition was ₹1,50,000, in this case there is a capital gain of ₹50,000.
6. The maturity or redemption of a zero coupon bond.
7. If any person has given possession of immovable property and has taken full payment but ownership in documents has not yet been transferred. It will also be considered to be transfer and capital gains shall be computed e.g. Mr. X enters into an agreement for the sale of his house. The purchaser gives the entire sale consideration to Mr. X. Mr. X hands over complete rights of possession to the purchaser since he has realised the entire sales consideration. The above transaction is considered as transfer.

Illustration 40: Mr. X owns a plot of land acquired on 01.06.2002 for a consideration of ₹ 2 lakhs. He enters into an agreement to sell the property on 15.03.2020 for a consideration of ₹ 20 lakhs. In part performance of the contract, he handed over the possession of land on 21.03.2020 on which date he received the full consideration. As on 31st March 2020 the sale was not registered. Discuss the liability to capital gain for the assessment year 2020-21.

Solution:

Computation of Capital Gains

Full value of consideration                             20,00,000.00

Less: Indexed cost of acquisition

= 2,00,000 / Index of 02-03 x Index of 19-20
= 2,00,000 / 105 x 289 = ₹5,50,476.19

Long Term Capital Gain                                  (5,50,476.19)

Illustration 41: Mr. X purchased 2,000 equity shares of ABC Ltd. (a listed company) on 01.04.2014 at ₹20 per share. He sold all the shares on 01.06.2019 at ₹50 per share. He also had to pay securities transaction tax (STT) on the same. Explain the taxability in the hands of Mr. X in the year of transfer i.e. A.Y. 2020-21.

Solution: In the given problem, since the listed equity shares of ABC Ltd. are being sold after 12 months and also STT has been paid, it is exempt up to ₹1,00,000 u/s 112A and excess over ₹1,00,000 is taxable @ 10%.

Illustration 42: Will your answer be different if these shares were preference shares and not equity shares? Explain.

Solution: Since section 112A is not applicable to preference shares, capital gains shall be taxable.

Illustration 43: Will you answer be different if these shares were not listed in a recognised stock exchange? Explain.

Solution: Since the shares are not listed, section 112A is not applicable, capital gains shall be taxable.

Question 37: Write a note on taxability of Long Term Capital Gains.

Answer:

Tax on Long-Term Capital Gains: Section 112(1)

If total income of an assessee includes long term capital gains, such capital gains shall be taxed @ 20%.

Example

If ABC Ltd. has business income of ₹5,00,000 and long term capital gain ₹4,00,000, company tax liability shall be ₹2,39,200.
**Special provision in case of resident individual and resident Hindu Undivided Family**
Where the total income as reduced by such long-term capital gains is below the maximum amount which is not chargeable to income-tax (2,50,000/3,00,000/5,00,000), then, such long-term capital gains shall be reduced by the amount by which the total income as so reduced falls short of the maximum amount which is not chargeable to income-tax and the tax on the balance of such long-term capital gains shall be computed at the rate of 20%.

**Deductions under section 80C to 80U shall not be allowed from long term capital gain**  
Section 112
If any assessee has long term capital gains, no deduction shall be allowed from such long term capital gains under chapter VI-A i.e. deductions under section 80C to 80U are not allowed.

**Example**
Mr. X has long term capital gains of ₹6,00,000. He has donated ₹1,00,000 in Prime Minister’s National Relief Fund eligible for deduction under section 80G, his tax liability shall be (3,50,000 x 20%) + 4% = ₹72,800 (deduction under section 80G is not been allowed but deficiency of the normal income has been allowed.)

**Question 38: Write short note on special provisions for Full Value of Consideration in certain cases, in the context of capital gains liability.**
**Answer:** Special provisions for full value of consideration in certain cases
Full value of consideration means the sale price in connection with a capital asset which has been transferred, however in the following cases, full value of consideration shall be computed on notional basis:

1. As per section 45(1A), in case of destruction of a capital asset, full value of consideration shall be claim received from insurance company.
2. As per section 45(2), in case of conversion of capital asset into stock in trade, market value of the asset on the date of conversion.
3. As per section 45(3), in case of transfer of capital asset by a partner to the partnership firm or association of person or body of individual, credit given in the book of accounts in connection with the asset transferred.
4. As per section 45(4), in case of dissolution of a partnership firm or association of person or body of individual, market value of the asset on the date of transfer.
5. As per section 50C, if the full value of consideration in connection with land or building claimed by an assessee is less than the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority.

**Illustration 44:** Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident. The value of stock lost (total damaged) was ₹6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-4-2019 was ₹10,80,000. During the process of safeguarding machinery and in the firefighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2004 for ₹1,20,000. The market value of these two items as on the date of fire accident was ₹1,80,000.
Mr. A received the following amounts from the insurance company:

(i) Towards loss of stock ₹4,80,000
(ii) Towards damage of machinery ₹6,00,000
(iii) Towards gold chain and diamond ring ₹1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

**Answer:**
(i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹4,80,000 received as insurance claim for loss of stock has to be assessed under the head “Profit and gains of business or profession”.
Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head “Profits and gains of business or profession”.
(ii) Compensation towards damage to machinery: The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹4,80,000 being the excess of written down value (i.e. ₹10,80,000) over the insurance compensation (i.e. ₹6,00,000) will be assessable as a short-term capital loss.

Note – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not “personal effects”, which alone are to be excluded. As per section 45(1A), if any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹1,80,000.
MULTIPLE CHOICE QUESTIONS

1. Which of the following would be regarded as transfer -
   (a) transfer of a capital asset in a scheme of reverse mortgage
   (b) transfer of a capital asset under a gift or will or an irrevocable trust
   (c) transfer by way of conversion of equity shares from preference shares
   (d) Redemption of Zero coupon bond

2. Short-term capital gains arising on transfer of listed shares on which STT is paid at the time of transfer, would be chargeable to tax –
   (a) at the rate of 10%  (b) at the rate of 20%  (c) at the rate of 15%  (d) at the rate of 5%

3. Distribution of assets at the time of liquidation of a company-
   (a) is not a transfer in the hands of the company or the shareholders
   (b) is not a transfer in the hands of the company but capital gains is chargeable to tax on such distribution in the hands of the shareholders
   (c) is not a transfer in the hands of the shareholders but capital gains is chargeable to tax on such distribution in the hands of the company
   (d) is a transfer both in the hands of shareholders and company

4. Land or building would be long term capital asset only if it is
   (a) held for more than 12 months immediately preceding the date of transfer
   (b) held for more than 24 months immediately preceding the date of transfer
   (c) held for more than 30 months immediately preceding the date of transfer
   (d) held for more than 36 months immediately preceding the date of transfer

5. Capital gain on transfer of depreciable asset would be-
   (a) long term capital gain, if held for more than 36 months
   (b) long term capital gain, if held for more than 24 months
   (c) long term capital gain, if held for more than 12 months
   (d) short term capital gain, irrespective of the period of holding

6. For an assessee, who is a salaried employee who invests in equity shares, what is the benefit available in respect of securities transaction tax paid by him on sale and acquisition of 100 listed shares of X Ltd. which has been held by him for 14 months before sale?
   (a) Rebate under section 88E is allowable in respect of securities transaction tax paid
   (b) Securities transaction tax paid is treated as expenses of transfer and deducted from sale consideration.
   (c) Capital gains is taxable at a concessional rate of 10% on such capital gains exceeding ₹1 lakh
   (d) Capital gains is taxable at concessional rate of 15%.

7. Under section 50C, the guideline value (Stamp duty value) for stamp duty is taken as the full value of consideration only if -
   (a) the asset transferred is building and the actual consideration is less than the guideline value
   (b) the asset transferred is either land or building or both and guideline value exceeds the actual consideration
   (c) the asset transferred is either land or building or both and the guideline value exceeds 105% of the actual consideration.
   (d) the asset transferred is land and the actual consideration is less than the guideline value

8. Where there is a transfer of a capital asset by a partner to the firm by way of capital contribution or otherwise, the consideration would be taken as -
   (a) The market value of the capital asset on the date of transfer
   (b) The cost less notional depreciation of the capital asset
   (c) The value of the asset recorded in the books of the firm.
   (d) Any of the above, at the option of the assessee

9. Under section 54F, capital gains are exempted if
   (a) long-term capital gain arising on transfer of residential house is invested in acquisition of one residential house situated in or outside India
   (b) long-term capital gain arising on transfer of a capital asset other than a residential house is invested in
acquisition of one residential house situated in or outside India
(c) net sale consideration on transfer of a capital asset other than a residential house is invested in acquisition of one residential house situated in India
(d) short term or long-term capital gain arising on transfer of a capital asset other than a residential house is invested in acquisition of one residential house situated in India

10. Under section 54EC, capital gains on transfer of land or building or both are exempted if invested in the bonds issued by NHAI & RECL or other notified bond-
(a) within a period of 6 months from the date of transfer of the asset
(b) within a period of 6 months from the end of the relevant previous year
(c) within a period of 6 months from the end of the previous year or the due date for filing the return of income under section 139(1), whichever is earlier
(d) At any time before the end of the relevant previous year.

11. Non listed equity shares shall be long term after
(a) One year   (b) Two year   (c) Three year   (d) None of these

12. Which of the following is not correct for long term capital gains under section 112A
(a) rebate u/s 87A is not allowed
(b) deductions u/s 80C to 80U not allowed
(c) it is taxable in excess of ₹ 2,00,000
(d) while computing capital gains indexation is not applicable
(e) none of these

13. Mr. X purchased one motor car for ₹3,00,000 and it was sold for ₹5,00,000 after one year, in this case
(a) there is short term capital gains of ₹ 2,00,000  (b) there is long term capital gains of ₹ 2,00,000
(c) income under the head other sources ₹ 2,00,000     (d) none of these

14. Mr. X purchased agricultural land in Delhi and it was sold after 2 years and there is a profit of ₹10,00,000, in this case
(a) it will be considered to be short term capital gains
(b) it will be considered to be long term capital gains
(c) it will be exempt from income tax
(d) it will be considered to be income under the head other sources
(e) none of these

15. In case of conversion of capital asset into stock in trade, capital gains shall be computed
(a) in the year of conversion      (b) in the year of sale of stock in trade
(c) subsequent to be year of conversion    (d) none of these

16. In case of compulsory acquisition of land or building by the Govt.,
(a) capital gains shall be taxable in the year of acquisition
(b) capital gains shall be taxable in the year in which Govt. has made full payment
(c) capital gains shall be taxable in the year in which Govt. has made the first payment
(d) none of these

17. If any person has received any capital asset as gift and it was not taxable as gift, in that case
(a) cost of acquisition for such person shall be nil
(b) cost of acquisition for such person shall be the market value on the date on which such gift has been received
(c) cost of acquisition of the previous owner shall be considered to be the cost of acquisition of the assessee
(d) none of these

18. Mr. X sold one house property for ₹ 70,00,000 and its stamp duty value is ₹ 73,00,000, in this case FVC shall be taken to be
(a) ₹ 70,00,000   (b) ₹ 73,00,000   (c) ₹ 73,50,000   (d) none of these

19. Mr. X sold one house property for ₹ 70,00,000 and its stamp duty value is ₹ 74,00,000, in this case FVC shall be taken to be
(a) ₹ 70,00,000   (b) ₹ 74,00,000   (c) ₹ 73,50,000   (d) none of these

20. Exemption under section 54
(a) is allowed to an individual for short term capital gains on transfer of residential house
(b) is allowed to an individual for long term capital gains on transfer of any house property
(c) is allowed to a company for long term capital gains on transfer of residential house
(d) none of these

21. Exemption under section 54B is allowed
(a) to an individual if he has invested within 3 years in agricultural land in rural area
(b) to an individual if he has invested within 1 year in agricultural land in rural area
(c) to an individual if he has invested within 2 year in agricultural land in rural area or urban area
(d) none of these

22. Exemption under section 54D is allowed
(a) only to a company in case of compulsory acquisition of land or building of an industrial undertaking
(b) to any assessee in case of compulsory acquisition of land or building of an industrial undertaking
(c) to any assessee in case of sale of land or building of an industrial undertaking
(d) none of these

23. Exemption under section 54EC is allowed to
(a) any assessee on the transfer of any land or building which is long term
(b) any assessee on the transfer of any asset which is long term
(c) any assessee on the transfer of any asset which is long term or short term
(d) none of these

24. Under section 54EE
(a) exemption allowed to all the assessee but maximum ₹ 50,00,000 in a particular previous year
(b) exemption allowed to an individual only but maximum ₹ 60,00,000 in a particular previous year
(c) exemption allowed to an individual or HUF only but maximum ₹ 70,00,000 in a particular previous year
(d) none of these

25. Under section 54F
(a) investment should be made within 2 years after the date of transfer of original asset
(b) investment should be made within 1 years before and 4 years after the date of transfer of original asset for construction of house
(c) investment should be made within 1 years before and 2 years after the date of transfer of original asset for purchase of house
(d) none of these

Answer
1. (d); 2. (c); 3. (b); 4. (b); 5. (d); 6. (c); 7.(c); 8.(c); 9.(c); 10.(a); 11(b); 12(c); 13. (d); 14. (b); 15. (a); 16(c);
17. (c); 18. (a); 19. (b); 20. (d); 21(c); 22. (b); 23. (a); 24. (a); 25. (c)
**PRACTICE PROBLEMS**

**TOTAL PROBLEMS 18**

**Problem 1.**
Mr. X acquired a residential house in January, 1999 for ₹2,00,000 and its market value on 01.04.2001 is ₹1,80,000 and he constructed its 1st floor in September’ 2007 by incurring ₹3,00,000 and constructed second floor in October’ 2011 by incurring ₹4,00,000 and constructed its third floor in February’ 2013 by incurring ₹5,00,000 and sold the house on 01.01.2020 for ₹100,00,000 and paid brokerage @ 1% and he invested ₹20,000 in equity shares of infrastructure development company notified under section 80C.

Compute his tax liability for assessment year 2020-21.

**Answer =** Tax Liability: ₹16,12,850

**Problem 2.**
Compute capital gains and tax liability of Mr. X in the following Independent situations for the assessment year 2020-21:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Gold</th>
<th>Land</th>
<th>Residential House</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of purchase</td>
<td>01.07.1998</td>
<td>01.04.1996</td>
<td>01.07.1993</td>
</tr>
<tr>
<td>Cost price</td>
<td>3,00,000</td>
<td>5,00,000</td>
<td>7,00,000</td>
</tr>
<tr>
<td>Cost of improvement</td>
<td>20,000</td>
<td>1,00,000</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Year of improvement</td>
<td>1999-00</td>
<td>2000-01</td>
<td>2016-17</td>
</tr>
<tr>
<td>Fair market value on 01.04.2001</td>
<td>35,00,000</td>
<td>45,00,000</td>
<td>55,00,000</td>
</tr>
<tr>
<td>Date of Sale</td>
<td>01.01.2020</td>
<td>01.01.2020</td>
<td>01.01.2020</td>
</tr>
<tr>
<td>Full value of consideration</td>
<td>150,00,000</td>
<td>320,00,000</td>
<td>400,00,000</td>
</tr>
</tbody>
</table>

**Answer =** Tax Liability: Gold: ₹9,64,080; Land: ₹44,83,800; Residential House: ₹61,16,910

**Problem 3.**
Mr. X purchased 100 equity shares in ABC Ltd. (listed) on 01.10.1996 @ ₹10 per share. The company had issued 100 bonus shares on 01.10.2000 and market value of the share as on 01.04.2001 is ₹8 per share. Company has again issued 100 bonus shares on 01.10.2006.
The company has further offered 100 right shares on 01.05.2019 @ ₹150 per share and Mr. X has purchased half of the shares and balance half was renounced in favour of Mr. Y by charging ₹5 per share. Mr. X and Mr. Y both have transferred all the shares on 01.01.2020 @ ₹200 per share and securities transaction tax has been paid. Market value as on 31-01-2018 ₹100 per share Mr. X has income under the head business/profession ₹20,00,000 and he has invested ₹70,000 in public provident fund.
Mr. Y has income under the head business/profession ₹10,00,000 and he has invested ₹50,000 in public provident fund.
Compute tax liability of Mr. X and Mr. Y.

**Answer =** Mr. X: Tax Liability: ₹4,07,630; Mr. Y: Tax Liability: ₹1,06,950

**Problem 4.**
Mr. X purchased one house on 01.10.2002 for ₹5,00,000 and this house was acquired compulsorily by the Government on 01.07.2014. Compensation fixed by the Government was ₹55,00,000. Government has paid half of the amount on 01.10.2019 and balance half on 01.10.2020.
The assessee was not satisfied with the compensation and he has filed an appeal in the High Court. The High Court has given decision on 31.03.2022 directing the Government to pay additional compensation of ₹5,00,000 and the Government has paid ₹3,00,000 on 10.04.2022 and balance ₹2,00,000 on 10.04.2023.
Compute capital gains for the various years and tax liability for assessment year 2020-21.

**Answer =** Assessment Year 2020-21: Long term capital gains: ₹43,57,140; Tax Liability: ₹8,54,290; Assessment Year 2023-24: Long term capital gains: ₹3,00,000; Assessment Year 2024-25: Long term capital gains: ₹2,00,000
Problem 5.
Discuss whether the following are capital assets or not:

(i) Household furniture
(ii) Personal Motor car
(iii) Residential house
(iv) Urban land
(v) Agricultural land in rural area in India
(vi) Agricultural land in rural area in Nepal
(vii) Stock in trade
(viii) Gold ornaments
(ix) Music system for personal use
(x) Music system in business use
(xi) Motor car in business use
(xii) Plant and machinery in business use
(xiii) Silver utensils for personal use
(xiv) Precious stones in personal use

Answer = (i) Not a capital asset; (ii) Not a capital asset; (iii) Capital asset; (iv) Capital asset; (v) Not a capital asset; (vi) Capital asset; (vii) Not a capital asset; (viii) Capital asset; (ix) Not a capital asset; (x) Capital asset; (xi) Capital asset; (xii) Capital asset; (xiii) Not a capital asset; (xiv) Capital asset

Problem 6.
Mr. X (aged 55 years) sold the following assets during the previous year 2019-20:

1. He purchased one house in rural area on 01.10.1991 for ₹2,00,000 and incurred ₹50,000 on its improvement on 01.07.2000. Its market value on 01.04.2001 is ₹2,30,000. It was sold on 01.04.2019 for ₹5,00,000.
2. He purchased agricultural land in the rural area for ₹2,00,000 on 01.07.2002 and sold it on 01.07.2019 for ₹3,00,000.
3. He purchased one T.V. for his personal use on 01.01.2003 for ₹25,000 and sold it on 30.12.2019 for ₹20,000.
4. He purchased gold on 01.07.2016 for ₹3,00,000 and sold it on 01.04.2019 for ₹4,50,000.
5. He has one motor car in his business with written down value as on 01.04.2019 ₹2,00,000 and it was sold by him on 01.07.2019 for ₹2,50,000.
6. He purchased one house on 01.10.2002 for ₹7,00,000 and incurred ₹4,50,000 on 01.10.2012 to construct its first floor and subsequently the house was sold on 01.01.2020 for ₹90,00,000 and selling expenses were 2% of the sale price.

Compute tax liability of Mr. X for the assessment year 2020-21.

Answer = Tax Liability: ₹13,79,280

Problem 7.
Mr. X purchased one residential house on 01.10.2002 for ₹5,00,000 and sold the house on 01.07.2019 for ₹100,00,000 and purchased one house on 01.01.2020 for ₹20,00,000 and this house was sold by him on 01.01.2021 for ₹25,00,000.

Compute his income tax liability for assessment year 2020-21 and also capital gains for all the years.

Answer = Income Tax Liability : ₹14,58,330

Assessment Year 2021-22: Short term capital gains: ₹25,00,000

(b) Presume the house purchased on 01.01.2020 was sold on 31.01.2020

Answer = Income Tax Liability : ₹19,87,430

(c) Presume the house purchased on 01.01.2020 was purchased on 01.10.2020 and was not sold upto 01.09.2023.

Answer = Income Tax Liability : ₹19,15,930

(d) Presume no house was purchased but the amount was deposited in capital gains account scheme on 31.07.2020 and the amount remained unutilized.

Answer = Income Tax Liability : ₹14,58,330

Assessment Year 2023-24: Long term capital gains: ₹20,00,000
**Problem 8.**
Mr. X purchased agricultural land for ₹3,00,000 on 01.10.2005 and this land was transferred by him on 01.07.2019 for ₹32,00,000 (this agricultural land is used for agricultural purpose since its purchase). Mr. X purchased one agricultural land on 30.09.2020 in the urban area for ₹6,00,000. The agricultural land were sold on 01.01.2021 for ₹10,00,000.

He has one business also with turnover ₹105,00,000 and has income from business ₹1,10,000.

Compute capital gains for various years and also tax liability for assessment year 2020-21.

**Answer =**
- Assessment Year 2020-21: Long Term Capital Gains: ₹18,58,974.36; Tax Liability: 3,57,550
- Assessment Year 2021-22: Short Term Capital Gains: ₹10,00,000

**Problem 9.**
Mr. X sells a commercial house property on 15th December 2019 for ₹22,00,000 (cost of acquisition on 23rd April 2001 ₹1,50,000). On 14th March 2020 he purchases a residential house for ₹3,00,000 for availing exemption under section 54F and bonds of NHAI which are redeemable after 5 years for ₹3,80,000 for claiming exemptions under section 54EC. He does not own any other house. He also incurred a short term capital loss amounting to ₹50,00,000 during the previous year 2019-20.

During the previous year his only other income was from business amounting to ₹50,00,000. He deposited ₹20,00,000 in public provident fund.

Compute the total income and tax liability of Mr. X for the assessment year 2020-21.

**Answer =**
- Total Income: ₹60,75,610; Tax Liability: ₹17,45,310

**Problem 10.**
Mr. X purchased agricultural land on 01.05.1991 for ₹3,00,000 in urban area and its market value on 01.04.2001 is ₹2,00,000. This land was gifted by him to his son Mr. Y on 01.01.2013 when its market value was ₹15 lakhs. Mr. Y has transferred this land on 01.01.2020 for ₹40 lakhs (this agricultural land is used for agricultural purposes since its purchase) and he purchased one more agricultural land in rural area on 10th January 2020 for ₹2,50,000 and purchased one residential house on 31.01.2020 because he didn’t have any house in his name, for ₹7,00,000.

He invested ₹1,00,000 in bonds of National Highways Authority of India redeemable after 5 years. The amount was invested on 30.06.2020.

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

**Answer =**
- Tax Liability: ₹4,12,820

**Problem 11.**
On 25.04.2019 Mr. X sold an urban agricultural land for ₹60,00,000 which he had been using for agricultural purposes for several years. He acquired that land in 2000 for ₹2,50,000. The market value of such land as on 01.04.2001 was ₹5,00,000. He purchased rural agricultural land for ₹8,00,000 on 25.06.2019 which was sold for ₹12,50,000 on 18.01.2020. A sum of ₹12,50,000 was also invested by him in purchase of residential property on 25.07.2019. He did not own any house property before this date. The new house property was sold on 28.03.2020 for ₹15,00,000.

Compute tax liability for assessment year 2020-21.

**Answer =**
- Long term capital gain: ₹37,55,500; Short term capital gain: ₹2,50,000; Tax Liability: ₹7,81,040

**Problem 12.**
Mr. X is the owner of the following assets:
1. He purchased gold in 1997-98 for ₹90,000 and its market value as on 01.04.2001 is ₹1,01,000.
2. He purchased equity shares in A Ltd (listed) in 1993-94 for ₹1,92,000 and its market value on 01.04.2001 is ₹2,00,000 and market value as on 31-01-2018 ₹2,83,000.

Mr. X died on 16.08.2008 and as per his will these assets were transferred to his son Y. Mr. Y now sells these assets on 10.06.2019 for ₹20,00,000 and ₹3,00,000 respectively and securities transaction tax has been paid on sale of equity shares.

Find out the amount of capital gains chargeable to tax and also tax liability for the assessment year 2020-21.

**Answer =**
- Income under the head Capital Gains: ₹17,25,110; Tax Liability: ₹3,03,290
Problem 13.
Mr. X purchased a house property for ₹36,000 on 10.05.1993. He gets the first floor of the house constructed in 1997-98 by spending ₹80,000. He dies on 12.09.2003. The property is transferred to Mrs. X by his will. Mrs. X spends ₹40,000 during 2004-05 for renewals/reconstruction of the property. Mrs. X sells the house property for ₹14,50,000 on 15.03.2020 (brokerage paid by Mrs. X is ₹14,500). The fair market value of the house on 01.04.2001 is ₹1,10,000.
Find out the amount of capital gain chargeable to tax for the assessment year 2020-21.
Answer = Long Term Capital Gain: ₹10,15,299.12

Problem 14.
Mr. X a senior citizen (aged 65 years) sold residential building at Alwar for ₹40,00,000 on October 1\textsuperscript{st}, 2019. This building was acquired by his father on 01.01.1999 for ₹1,00,000. On the death of his father on July 5\textsuperscript{th}, 2006, he inherited this building. Fair market value of this property on 01.04.2001 was ₹1,50,000. He paid brokerage @ 1% to the real estate agent at the time of sale of the building. He purchased a residential building at Bangalore on March 7\textsuperscript{th}, 2020 for ₹8,00,000 and deposited ₹3,00,000 on April 20\textsuperscript{th}, 2020 in the bonds of National Highways authority of India redeemable after one year.
His other incomes are ₹ 50,000. He deposited ₹ 10,000 in public provident fund.
Compute total income and tax liability of Mr. X for the assessment year 2020-21.
Answer = Total Income: ₹27,66,500; Tax Liability: ₹5,13,030

Problem 15.
Mr. X purchased 100 debentures in ABC Ltd. on 01.10.2004 @ ₹300 per debenture and subsequently the company has converted the debentures into shares on 01.10.2017 and for each debenture 3 shares were issued and market value of the shares on the date of conversion was ₹250 per share and subsequently assessee has sold all these shares on 01.04.2019 @ ₹500 per share and has paid brokerage @ 1% of the sale price. Compute capital gains in the hands of Mr. X in the following cases:
(a) STT not paid
(b) STT paid
Answer = (a) Long Term Capital Gains: ₹71,774.34 (b) Long Term Capital Gains u/s 112A: ₹58,500

Problem 16.
Mr. X purchased 500 debentures on 01.07.2001 of ABC Ltd. @ ₹390 per debenture and paid brokerage @ 1.5%. The debentures were converted into share @ 3 share for each debenture on 01.07.2011. Market value on the date of conversion was ₹ 170 per share. All the shares were sold on 01.07.2019 @ ₹900 per share and no securities transaction tax has been paid and paid brokerage @ 1.5%.
A sum of ₹1,00,000 was invested in purchasing a house on 28.06.2020 because the assessee did not have any house and ₹1,00,000 was deposited in capital gain account scheme on 30.06.2020 for availing exemption under section 54F and ₹ 50,000 was withdrawn on 02.07.2020 to construct first floor of the house purchased on 28.06.2020.
Compute total income and tax liability for assessment year 2020-21 and capital gains for various years.
Answer = Total Income: ₹6,43,780; Tax Liability: 81,910;
Assessment Year 2023-24: Long Term Capital Gain: ₹28,492.07

Problem 17.
Mr. X has submitted information regarding sale of certain assets as given below:
1. He purchased one house on 01.10.1998 for ₹5,00,000 and paid brokerage ₹25,000. He entered into an agreement to sell this house on 01.04.2001 for ₹5,10,000 but the buyer backed out. He constructed its first floor on 01.01.2014 by incurring ₹4,00,000 and subsequently this house was sold on 01.02.2020 for ₹160,00,000 and selling expenses were ₹85,000.
2. He purchased Preference shares in ABC Ltd. on 01.07.2013 for ₹1,50,000 and sold these shares on 31.03.2020 for ₹1,00,000.
3. He purchased one motor car for personal use on 28.02.2003 for ₹2,00,000 and sold it on 01.04.2019 for ₹2,10,000.
4. He purchased gold ornaments on 01.10.2000 for ₹2,10,000. Its market value on 01.04.2001 is
5. He purchased silver utensils on 01.07.2002 for ₹30,000 and these utensils were sold by her on 01.01.2020 for ₹23,000.

6. He has invested ₹35,000 in the units of UTI.

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

**Answer** = Tax Liability: ₹32,81,430

**Problem 18.**

Mr. X owns several assets but does not own any residential house. He sells the following assets and requests you to compute his tax liability for the assessment year 2020-21.

1. Shares (non-listed) purchased in April 2007 for ₹1,30,000 sold on 19.07.2019 for ₹12,00,000.

2. On 01.04.2001, he had agreed to sell the jewellery to Mr. Y for ₹3,50,000 which was purchased in 1996 for ₹1,80,000. However, the sale could not be effected as Mr. Y backed out. He now sold the jewellery on 15.08.2019 for ₹18,00,000 and incurred ₹30,000 incidental selling expenses on account of brokerage and commission.

   In December 2019, he also purchased a small residential house for ₹2,00,000.

   He has deposited ₹1,60,000 on 20.01.2020 in deposit account with a public sector bank under capital gains deposit scheme for construction on the house which he has purchased in December 2019.

   On 15.01.2020, he invested ₹2,50,000 in the bonds issued by National Highway Authority of India which are redeemable after 5 years.

3. Debentures (unlisted) purchased in April 2017 for ₹80,000 sold on 31.12.2019 for ₹1,40,000.

4. Sold his motor car purchased in August 2007 for ₹1,50,000 on 15.03.2020 for ₹18,000.

5. He purchased equity shares of ABC Limited on 01.11.2018 for ₹2,00,000 and sold all the shares on 01.06.2019 for ₹10,00,000 and has paid STT @ 0.25% of sale price.

Compute his income tax liability.

**Answer** = Tax Liability: ₹3,75,380.
SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:

Computation of income under the head Capital Gain

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹100,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>₹5,78,000.00</td>
</tr>
<tr>
<td>Cost of constructing first floor</td>
<td>₹6,72,093.02</td>
</tr>
<tr>
<td>Less: Indexed cost of improvement</td>
<td>₹6,28,260.87</td>
</tr>
<tr>
<td>Cost of constructing second floor</td>
<td>₹7,22,500.00</td>
</tr>
<tr>
<td>Less: Brokerage @ 1%</td>
<td>₹1,00,000.00</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>₹72,99,146.11</td>
</tr>
</tbody>
</table>

Gross Total Income: ₹48,85,000

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹ 70,49,150 (₹72,99,150 – ₹2,50,000) @ 20%</td>
<td>₹14,09,830.00</td>
</tr>
<tr>
<td>Add: Surcharge @10%</td>
<td>₹1,40,983.00</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹15,50,813.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹62,032.52</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹16,12,845.52</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹16,12,850.00</td>
</tr>
</tbody>
</table>

Solution 2:

Gold

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹150,00,000</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>₹101,15,000</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>₹48,85,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹48,85,000</td>
</tr>
</tbody>
</table>
Income Under The Head Capital Gains

Less: Deduction u/s 80C
Total Income

**Computation of Tax Liability**

- Tax on ₹46,35,000 (₹48,85,000 – 2,50,000) @ 20% u/s 112
- Add: HEC @ 4%
- Tax Liability

---

**Land**

- Full value of consideration
- Less: Indexed cost of acquisition
  - $\frac{45,00,000}{\text{Index of 01-02}} \times \text{Index of 19-20}$
  - $\frac{45,00,000}{100} \times 289 = 130,05,000$
- Long term capital gain
- Gross Total Income
- Less: Deduction u/s 80C
- Total Income

**Computation of Tax Liability**

- Tax on ₹187,45,000 (₹189,95,000 – 2,50,000) @ 20% u/s 112
- Add: Surcharge @ 15%
- Tax before health & education cess
- Add: HEC @ 4%
- Tax Liability

---

**Residential House**

- Full value of consideration
- Less: Indexed cost of acquisition
  - $\frac{55,00,000}{\text{Index of 01-02}} \times \text{Index of 19-20}$
  - $\frac{55,00,000}{100} \times 289 = 158,95,000$
- Less: Indexed cost of improvement
  - $\frac{3,00,000}{\text{Index of 16-17}} \times \text{Index of 19-20}$
  - $\frac{3,00,000}{264} \times 289 = 3,28,409.09$
- Long term capital gain
- Gross Total Income
- Less: Deduction u/s 80C
- Total Income

**Computation of Tax Liability**

- Tax on ₹235,26,590 (₹237,76,590 – 2,50,000) @ 20% u/s 112
- Add: Surcharge @ 25%
- Tax before health & education cess
- Add: HEC @ 4%
- Tax Liability

---

**Solution 3:**

**Computation of Capital Gains in the hands of Mr. X**

**Original shares**

- Full value of consideration
- (100 x 200)
- Less: Cost of acquisition

Higher of

(i) COA = 100 x 10 = 1,000
(ii) lower of
(a) FMV as on 31-01-2018 = 100 shares x 100 = 10,000
(b) sale value = 100 shares x 200 = 20,000
COA = 10,000
Long term capital gain u/s 112A 10,000

1st bonus shares
Full value of consideration 20,000
(100 x 200)
Less: Cost of acquisition (10,000)
Higher of
(i) COA = 100 x 8 = 800
(ii) lower of
(a) FMV as on 31-01-2018 = 100 shares x 100 = 10,000
(b) sale value = 100 shares x 200 = 20,000
COA = 10,000
Long term capital gain u/s 112A 10,000

2nd bonus shares
Full value of consideration 20,000
(100 x 200)
Less: Cost of acquisition (10,000)
Higher of
(i) COA = Nil
(ii) lower of
(a) FMV as on 31-01-2018 = 100 shares x 100 = 10,000
(b) sale value = 100 shares x 200 = 20,000
COA = 10,000
Long term capital gain u/s 112A 10,000

Computation of capital gains in case of right shares ₹
Full value of consideration 10,000
(50 x 200)
Less: Cost of acquisition (7,500)
(50 x 150)
Short term capital gain u/s 111A 2,500

Computation of capital gains in case of shares renounced
Full value of consideration 250
(50 x 5)
Less: Cost of acquisition Nil
Short term capital gain 250
Short term capital gain of Mr. X 2,750

Working Note:
Period of holding in case of renouncing of right to purchase a right shares section 2(42A)
In the case of a capital asset, being the right to subscribe to any financial asset, which is renounced in favour of any person, the period shall be reckoned from the date of the offer of such right by the company or institution, as the case may be, making such offer.

Computation of Total Income
Income under the head Business/Profession 20,00,000.00
Income under the head Capital Gains
Long term capital gains 112A 30,000.00
Short term capital gains 2,750.00
Income Under The Head Capital Gains

Gross Total Income 20,22,750.00
Less: Deduction u/s 80C (70,000.00)
Total Income 19,52,750.00

Computation of Tax Liability
- Tax on ₹2,500 @ 15% u/s 111A 375.00
- Tax on ₹19,30,250 at slab rate 3,91,575.00
- Tax on LTCG 112A (30,000-30,000) Nil
- Tax before health & education cess 3,91,950.00
- Add: HEC @ 4% 15,678.00
- Tax Liability 4,07,628.00
- Rounded off u/s 288B 4,07,630.00

Computation of capital gains in case of Mr. Y
- Full value of consideration 10,000
- (200 x 50)
- Less: Cost of acquisition (7,750)
- (50 x 155)
- Short term capital gain u/s 111A 2,250

Working Note:
Cost of acquisition of right renouncee section 55
In relation to any financial asset purchased by any person in whose favour the right to subscribe to such asset has been renounced, means the aggregate of the amount of the purchase price paid by him to the person renouncing such right and the amount paid by him to the company or institution, as the case may be, for acquiring such financial asset.

Period of holding in case of right renouncee section 2(42A)
In the case of a capital asset, being a share or any other security subscribed to by the assessee on the basis of his right to subscribe to such financial asset or subscribed to by the person in whose favour the assessee has renounced his right to subscribe to such financial asset, the period shall be reckoned from the date of allotment of such financial asset.

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

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

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

Solution 4: Computation of Tax Liability for the previous year 2019-20 under section 45(5)
Since the Government has made the first payment in the previous year 2019-20, Long term capital gain shall be taxed in the previous year 2019-20. However, Long term capital gain shall be computed in the year in which the asset has been acquired i.e. in the year 2014-15.

Computation of capital gains
- Full value consideration 55,00,000.00
- Less: Indexed cost of acquisition = 5,00,000 / Index of 02-03 x Index of 14-15
= 5,00,000/105 x 240 = ₹11,42,857.14  
Long Term Capital Gain  43,57,142.86  
Income under the head Capital Gains (LTCG)  43,57,142.86  
Gross Total Income  43,57,142.86  
Less: Deductions u/s 80C to 80U  Nil  
Total Income \{Rounded off u/s 288A\}  43,57,140.00

**Computation of Tax Liability**

{Since there is no income under any other head so as per section 112 deficiency of ₹2,50,000 shall be allowed from LTCG and the balance income shall be taxed at flat rate of 20%}

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

**Computation of Capital Gains**

Capital gains for the previous year 2022-23 i.e. the year in which additional compensation has been received.

Long term capital gain for 2022-23  3,00,000.00  
Capital gain for the previous year 2023-24 in which balance amount of additional compensation has been received.

Long term capital gain for the year 2023-24  2,00,000.00

**Solution 5:**

(i) Household furniture is not a capital asset.  
(ii) Personal motor car is not a capital asset.  
(iii) Residential house is a capital asset.  
(iv) Urban land is a capital asset.  
(v) Agricultural land in rural area in India is not a capital asset.  
(vi) Agricultural land in rural area in Nepal is a capital asset.  
(vii) Stock in trade is not a capital asset.  
(viii) Gold ornaments are a capital asset.  
(ix) Music system for personal use is not a capital asset.  
(x) Music system for business use is a capital asset.  
(xi) Motor car in business use is a capital asset.  
(xii) Plant and machinery in business use is a capital asset.  
(xiii) Silver utensils for personal use is not a capital asset.  
(xiv) Precious stones in personal use is a capital asset.

**Solution 6:**

**Computation of Capital Gains**

1. **House**
   - Full value of consideration  5,00,000.00  
   - Less: Indexed cost of acquisition (2,30,000 / 100 x 289)  (6,64,700.00)  
   - Long term capital loss  (1,64,700.00)  

2. **Agricultural Land** in rural area not an asset as per section 2(14).

3. **T.V.** is not an asset as per section 2(14).

4. **Gold**
   - Full value of consideration  4,50,000.00  
   - Less: Cost of acquisition  (3,00,000.00)  
   - Short term capital gain  1,50,000.00  

5. **Motor car**
   - Full value of consideration  2,50,000.00  
   - Less: written down value  (2,00,000.00)  
   - Short term capital gain as per section 50  50,000.00
6. House

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>90,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition (7,00,000 / 105 x 289)</td>
<td>(19,26,666.67)</td>
</tr>
<tr>
<td>Less: Indexed cost of improvement (4,50,000 / 200 x 289)</td>
<td>(6,50,250.00)</td>
</tr>
<tr>
<td>Less: Selling expenses @ 2%</td>
<td>(1,80,000.00)</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>62,43,833.33</td>
</tr>
<tr>
<td>Less: Long term capital loss on sale of first house</td>
<td>(1,64,700.00)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>60,78,383.33</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>2,00,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>62,78,383.33</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>62,78,383.33</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>62,78,383.33</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>62,78,380.00</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹2,00,000 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax on LTCG ₹60,28,380 (₹60,78,380 – ₹50,000) @ 20%</td>
<td>12,05,676.00</td>
</tr>
<tr>
<td>Tax before Surcharge</td>
<td>12,05,676.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,20,567.60</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>13,26,243.60</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>53,049.74</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>13,79,293.34</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>13,79,290.00</td>
</tr>
</tbody>
</table>

Solution 7:

Computation of Capital Gains

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>100,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(13,76,190.48)</td>
</tr>
<tr>
<td>= 5,00,000 / Index of 02-03 x Index of 19-20</td>
<td></td>
</tr>
<tr>
<td>= 5,00,000 / 105 x 289 = 13,76,190.48</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gains</td>
<td>86,23,809.52</td>
</tr>
<tr>
<td>Less: Exemption u/s 54</td>
<td>(20,00,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gains</td>
<td>66,23,809.52</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>66,23,809.52</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>66,23,809.52</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>66,23,809.52</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>66,23,810.00</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹63,73,810 (₹66,23,810 – ₹2,50,000) @ 20%</td>
<td>12,74,762.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 10%</td>
<td>1,27,476.20</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>14,02,238.20</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>56,089.53</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>14,58,327.73</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>14,58,330.00</td>
</tr>
</tbody>
</table>

Computation of Capital Gain for the assessment year 2021-22

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>25,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition (20,00,000- 20,00,000)</td>
<td>Nil</td>
</tr>
<tr>
<td>Short Term Capital Gain</td>
<td>25,00,000.00</td>
</tr>
</tbody>
</table>
Solution 7(b):
Computation of Capital Gains

Full value of consideration = 100,00,000.00

\[ = 5,00,000 / \text{Index of 02-03 x Index of 19-20} \]
\[ = 5,00,000 / 105 \times 289 = 13,76,190.47 \]

Long Term Capital Gains = 86,23,809.52

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

Option I  Exemption is not availed:

Long Term Capital Gain = 86,23,809.52

Sale of house purchased on 01.01.2020

Full value of consideration = 25,00,000.00
Less: Cost of acquisition = (20,00,000.00)
Short Term Capital Gain = 5,00,000.00
Income under the head Capital Gains = 91,23,809.52
Gross Total Income = 91,23,809.52
Less: Deduction u/s 80C to 80U = Nil
Total Income = 91,23,809.52
Rounded off u/s 288A = 91,23,810.00

Computation of Tax Liability

Tax on ₹5,00,000 at slab rate = 12,500.00
Tax on LTCG ₹86,23,810 @ 20% = 17,24,762.00
Tax before Surcharge = 17,37,262.00
Add: Surcharge @ 10% = 1,73,726.20
Tax before health & education cess = 19,10,988.20
Add: HEC @ 4% = 76,439.53
Tax Liability = 19,87,427.73
Rounded off u/s 288B = 19,87,430.00

Option II  Exemption is availed

Long Term Capital Gain = 86,23,809.52
Less: Exemption u/s 54 = (20,00,000.00)
Long Term Capital Gains = 66,23,809.52

Sale of house purchased on 01.01.2020

Full value of consideration = 25,00,000.00
Less: Cost of acquisition (20,00,000 – 20,00,000) = Nil
Short Term Capital Gain = 25,00,000.00
Income under the head Capital Gains = 91,23,809.52
Gross Total Income = 91,23,809.52
Less: Deduction u/s 80C to 80U = Nil
Total Income = 91,23,809.52
Rounded off u/s 288A = 91,23,810.00

Computation of Tax Liability

Tax on ₹25,00,000 at slab rate = 5,62,500.00
Tax on LTCG ₹66,23,810 @ 20% = 13,24,762.00
Tax before Surcharge = 18,87,262.00
Add: Surcharge @ 10% = 1,88,726.20
Tax before health & education cess = 20,75,988.20
Add: HEC @ 4% = 83,039.53
Tax Liability = 21,59,027.73
Rounded off u/s 288B = 21,59,030.00

Hence the assessee should opt for option I and his tax liability shall be ₹19,87,430.
**Solution 7(c):**

**Computation of Capital Gains**

Full value of consideration

Less: Indexed cost of acquisition

\[
\text{Indexed cost of acquisition} = \frac{5,00,000}{\text{Index of 02-03} \times \text{Index of 19-20}}
\]

\[
= \frac{5,00,000}{105 \times 289} = 13,76,190.48
\]

Long Term Capital Gains

(Exemption is not allowed because house was purchased after the last date of filing of return of income)

Income under the head Capital Gains

Gross Total Income

Less: Deduction u/s 80C to 80U

Total Income

Rounded off u/s 288A

**Computation of Tax Liability**

Tax on LTCG \(\text{₹}83,73,810 \ (\text{₹}86,23,810 – \text{₹}2,50,000) \times 20\%\)

Add: Surcharge @ 10%

Tax before health & education cess

Add: HEC @ 4%

Tax Liability

Rounded off u/s 288B

**Solution 7(d):**

**Computation of Capital Gains**

Full value of consideration

Less: Indexed cost of acquisition

\[
\text{Indexed cost of acquisition} = \frac{5,00,000}{\text{Index of 02-03} \times \text{Index of 19-20}}
\]

\[
= \frac{5,00,000}{105 \times 289} = 13,76,190.48
\]

Long Term Capital Gains

Less: Exemption u/s 54

Long Term Capital Gains

Income under the head Capital Gains

Gross Total Income

Less: Deduction u/s 80C to 80U

Total Income

Rounded off u/s 288A

**Computation of Tax Liability**

Tax on LTCG \(\text{₹}63,73,810 \ (\text{₹}66,23,810 – \text{₹}2,50,000) \times 20\%\)

Add: Surcharge @ 10%

Tax before health & education cess

Add: HEC @ 4%

Tax Liability

Rounded off u/s 288B

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

Unutilized amount in capital gain account scheme after expiry of three years

Long Term Capital Gain

**Solution 8:**

**Computation of Capital Gains**

**Previous year 2019-20**

Full value of consideration

Less: Indexed cost of acquisition

\[
\text{Indexed cost of acquisition} = \frac{3,00,000}{\text{Index of 05-06} \times \text{Index of 19-20}}
\]

\[
= \frac{3,00,000}{\text{Index of 05-06} \times \text{Index of 19-20}}
\]
= ₹3,00,000 / 117 x 289 = ₹7,41,025.64
Long term capital gain 24,58,974.36
Less: Exemption u/s 54B (6,00,000.00)
Long term capital gain 18,58,974.36
Income under the head Business/Profession 1,10,000.00
Gross Total Income 19,68,974.36
Less: Deduction u/s 80C to 80U Nil
Total Income 19,68,974.36
Rounded off u/s 288A 19,68,970.00

Computation of Tax Liability
Tax on LTCG ₹17,18,970 (₹18,58,970 – ₹1,40,000) @ 20% 3,43,794.00
Tax on ₹1,10,000 at slab rate Nil
Add: HEC @ 4% 13,751.76
Tax Liability 3,57,545.76
Rounded off u/s 288B 3,57,550.00

Previous year 2020-21
Sale of land
Full value of consideration 10,00,000.00
Less: Cost of acquisition = ₹6,00,000
Less: Exemption earlier allowed = ₹6,00,000
So, Cost of acquisition = Nil
Short term capital gain 10,00,000.00

Solution 9:
Computation of Capital Gains
Full value of consideration 22,00,000.00
Less: Indexed cost of acquisition
= 1,50,000 / Index of 01-02 x Index of 19-20
= 1,50,000 / 100 x 289 = ₹4,33,500
Long term capital gain 17,66,500.00
Less: Exemption u/s 54EC (3,80,000.00)
Less: Exemption u/s 54F
= 17,66,500/22,00,000 x 3,00,000 (2,40,886.36)
Long term capital gain 11,45,613.64
Less: Short Term Capital Loss (50,000.00)
Income under the head Capital Gains (LTCG) 10,95,613.64
Income under the head Business/Profession 50,00,000.00
Gross Total Income 60,95,613.64
Less: Deductions u/s 80C
Total Income (20,000.00)
Rounded off u/s 288A 60,75,610.00

Computation of Tax Liability
Tax on ₹49,80,000 at slab rate 13,06,500.00
Tax on ₹10,95,610 @ 20% u/s 112 2,19,122.00
Tax before Surcharge 15,25,622.00
Add: Surcharge @ 10% 1,52,562.20
Tax before health & education cess 16,78,184.20
Add: HEC @ 4% 67,127.37
Tax Liability 17,45,311.57
Rounded off u/s 288B 17,45,310.00
Solution 10:

Computation of Capital Gains

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹ 4,00,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>₹ (8,67,000.00)</td>
</tr>
<tr>
<td>= 3,00,000 / Index of 01-02 x Index of 19-20</td>
<td>₹ (8,67,000.00)</td>
</tr>
<tr>
<td>= 3,00,000 / 100 x 289 = ₹8,67,000</td>
<td>₹ (8,67,000.00)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>₹ 31,33,000.00</td>
</tr>
<tr>
<td>Less: Exemption u/s 54B</td>
<td>₹ (2,50,000.00)</td>
</tr>
<tr>
<td>Purchased on 10.01.2020</td>
<td>₹ (2,50,000.00)</td>
</tr>
<tr>
<td>Less: Exemption u/s 54F</td>
<td>₹ (5,48,275.00)</td>
</tr>
<tr>
<td>= Capital Gains / Net Consideration x Amount of investment</td>
<td>₹ (5,48,275.00)</td>
</tr>
<tr>
<td>= ₹31,33,000/ 40,00,000 x 7,00,000</td>
<td>₹ (5,48,275.00)</td>
</tr>
<tr>
<td>Less: Exemption u/s 54EC</td>
<td>₹ (1,00,000.00)</td>
</tr>
<tr>
<td>Long term capital gain after various deductions</td>
<td>₹ 22,34,725.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains (LTCG)</td>
<td>₹ 22,34,725.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹ 22,34,725.00</td>
</tr>
<tr>
<td>Less: Deductions u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹ 22,34,725.00</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>₹ 22,34,730.00</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

Tax on ₹19,84,730 (₹22,34,730 – ₹2,50,000) @ 20% u/s 112 | ₹3,96,946.00 |
Add: HEC @ 4%                                         | 15,877.84 |
Tax Liability                                         | 4,12,823.84 |
Rounded off u/s 288B                                  | 4,12,820.00 |

Solution 11:

Computation of Capital Gains

1. Sale of Land

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹ 6,00,000.00</td>
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<tr>
<td>Less: Indexed cost of acquisition</td>
<td>₹ (14,45,000)</td>
</tr>
<tr>
<td>= 5,00,000 / Index of 01-02 x Index of 19-20</td>
<td>₹ (14,45,000)</td>
</tr>
<tr>
<td>= 5,00,000 / 100 x 289 = ₹14,45,000</td>
<td>₹ (14,45,000)</td>
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<tr>
<td>Long term capital gain</td>
<td>₹ 45,55,000.00</td>
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<tr>
<td>Less: Exemption u/s 54B</td>
<td>₹ (8,00,000.00)</td>
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<tr>
<td>Long term capital gain</td>
<td>₹ 37,55,000.00</td>
</tr>
</tbody>
</table>

2. House

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹ 15,00,000.00</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>₹ (12,50,000)</td>
</tr>
<tr>
<td>Short term capital gain</td>
<td>₹ 2,50,000.00</td>
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<tr>
<td>Income under the head capital Gain</td>
<td>₹ 40,05,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹ 40,05,000.00</td>
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<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹ 40,05,000.00</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

Tax on ₹2,50,000 at slab rate                       | Nil          |
Tax on LTCG ₹37,55,000 @ 20% u/s 112               | ₹7,51,000.00 |
Add: HEC @ 4%                                      | ₹30,040.00  |
Tax Liability                                      | ₹7,81,040.00 |

Note: Assesssee will be allowed exemption under section 54F but exemption shall be withdrawn because the house has been sold hence exemption allowed and exemption withdrawn will be the same amount and it will give the same tax liability.
**Solution 12:**

**Computation of Capital Gains**

**Gold**

Full value of consideration
Less: Indexed cost of acquisition
\[= \frac{1,01,000}{\text{Index of 01-02}} \times \frac{1}{\text{Index of 19-20}}\]
\[= \frac{1,01,000}{100} \times 289 = \text{₹2,91,890}\]
Long term capital gain

**Shares in A Ltd**

Full value of consideration
Less: cost of acquisition

Higher of
(i) COA = 2,00,000
(ii) lower of
(a) FMV as on 31-01-2018 = 2,83,000
(b) sale value = 3,00,000
COA = 2,83,000

Long term capital gain u/s 112A

Income under the head Capital Gains

Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income

**Computation of Tax Liability**

Tax on LTCG \text{₹14,58,110 (₹17,08,110 – ₹2,50,000)} @ 20%
Tax on LTCG Nil (17,000-17,000) u/s 112A
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B

**Solution 13:**

**Computation of Capital Gains**

Full value of consideration
Less: Indexed cost of acquisition
\[= \frac{1,10,000}{\text{Index of 01-02}} \times \frac{1}{\text{Index of 19-20}}\]
\[= \frac{1,10,000}{113} \times 289 = \text{₹1,02,300.88}\]
Less: Brokerage

Less: Indexed cost of improvement
\[= \frac{40,000}{\text{Index of 04-05}} \times \frac{1}{\text{Index of 19-20}}\]
\[= \frac{40,000}{113} \times 289 = \text{₹1,02,300.88}\]
Less: Brokerage
Long term capital Gain

**Solution 14:**

**Computation of income under the head Capital Gains**

Full value of consideration
Less: Indexed cost of acquisition
\[= \frac{1,50,000}{\text{Index of 01-02}} \times \frac{1}{\text{Index of 19-20}}\]
\[= \frac{1,50,000}{100} \times 289 = \text{₹4,33,500}\]
Less: Brokerage
1% of ₹40,00,000 = ₹40,000
Less: Exemption u/s 54
Long term capital gain
Income under the head Capital Gains (LTCG)
Income Under The Head Capital Gains

- Income under the head Other Sources: 50,000.00
- Gross Total Income: 27,76,500.00
- Less: Deduction u/s 80C: (10,000.00)
- Total Income: 27,66,500.00

**Computation of Tax Liability**

- Tax on LTCG on ₹24,66,500 (₹27,26,500 – ₹2,60,000) @ 20% u/s 112: 4,93,300.00
- Tax on ₹40,000 at slab rate: Nil
- Add: HEC @ 4%: 19,732.00
- Tax Liability: 5,13,032.00
- Rounded off u/s 288B: 5,13,030.00

**Solution 15:**

(a) STT not paid

**Computation of Capital Gains**

- Full value of consideration (300 x 500): 1,50,000.00
- Less: Indexed Cost of acquisition
  
  = (100 x 300) / Index of 04-05 x Index of 19-20
  
  = 30,000 / 113 x 289 = ₹76,725.66
- Less: Brokerage @ 1% on 1,50,000: (1,500.00)
- Long Term Capital Gain: 71,774.34

(b) STT Paid

**Computation of Capital Gains**

- Full value of consideration (300 x 500): 1,50,000.00
- Less: Cost of acquisition
  
  Higher of
  
  (i) COA = 100 debentures x 300 = 30,000
  
  (ii) lower of
  
  (a) FMV as on 31-01-2018 = 300 shares x 300 = 90,000
  
  (b) sale value = 300 shares x 500 = 1,50,000
  
  COA = 90,000
- Less: Brokerage @ 1% on 1,50,000: (1,500.00)
- Long Term Capital Gain u/s 112A: 58,500.00

**Solution 16:**

**Computation of Capital Gains**

**Previous Year 2019-20 Assessment Year 2020-21**

- Full value of consideration: 13,50,000.00
- (1,500 x 900)
- Less: Indexed cost of acquisition
  
  = (500 x 395.85) / Index of 01-02 x Index of 19-20
  
  = 1,97,925 / 100 x 289 = ₹5,72,003.25
- Less: Brokerage @ 1.5%
  
  = 1.5 % of ₹13,50,000 = ₹20,250
- Long Term Capital Gains: 7,57,746.75
- Less: Exemption u/s 54F
  
  = 7,57,746.75 x 2,00,000 = ₹1,13,968.30
  
  = 13,29,750
- Long Term Capital Gain: 6,43,778.45
- Gross Total Income: 6,43,778.45
- Less: Deduction u/s 80C to 80U: Nil
- Total Income: 6,43,778.45
- Rounded off u/s 288A: 6,43,780.00
Income Under The Head Capital Gains

Computation of Tax Liability
Tax on ₹3,93,780 (₹6,43,780 – ₹2,50,000) @ 20%  78,756.00
Add: HEC @ 4%  3,150.24
Tax Liability  81,906.24
Rounded off u/s 288B  81,910.00

Assessment Year 2023-24
Proportionate capital gains for unutilized amount shall be as given below:
= 7,57,746.75 x 50,000 = ₹28,492.07
Long Term Capital Gain  28,492.07
13,29,750

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

Solution 17:
Computation of income under the head Capital Gain

1. House
   Full value of consideration  160,00,000.00
   Less: Indexed cost of acquisition (5,25,000/ 100 x 289)  (15,17,250.00)
   Less: Indexed cost of improvement of First floor (4,00,000/ 220 x 289)  (5,25,454.55)
   Less: Selling Expenses  (85,000.00)
   Long term capital gain  1,38,72,295.45

2. Shares
   Full value of Consideration  1,00,000.00
   Less: Indexed cost of acquisition (1,50,000 / 220 x 289)  (1,97,045.45)
   Long term capital loss  (97,045.45)

3. Motor car for personal use is not an asset as per section 2(14).

4. Gold
   Full value of consideration  8,00,000.00
   Less: Indexed cost of acquisition (2,10,000 / 100 x 289)  (6,06,900.00)
   Long term capital gains  1,93,100.00

5. Silver Utensils not an asset as per section 2(14)
   Long term capital gain  1,38,72,295.45
   Long term capital gains on sale of Gold  1,93,100.00
   Less: Long term capital loss on sale of shares  (97,045.45)

   Long term capital gain after adjusting long term loss  1,39,68,350.00
   Gross Total Income  1,39,68,350.00
   Less: Deduction u/s 80C to 80U  Nil
   Total Income  1,39,68,350.00

Computation of Tax Liability
Tax on ₹1,37,18,350 (₹1,39,68,350 – ₹2,50,000) @ 20%  27,43,670.00
Add: Surcharge @ 15%  4,11,550.50
Tax before health & education cess  31,55,220.50
Add: HEC @ 4%  1,26,208.82
Tax Liability  32,81,429.32
Rounded off u/s 288B  32,81,430.00

Solution 18:
Computation of capital gains
Option 1:Section 54F Exemption taken from Shares

1. Shares
   Full value of consideration  12,00,000.00
   Less: Indexed cost of acquisition
Income Under The Head Capital Gains

Income Under The Head Capital Gains

= 1,30,000 / Index of 07-08 x Index of 19-20
= 1,30,000 / 129 x 289 = ₹2,91,240.31
Long term capital gain
Less: Exemption u/s 54F
= 9,08,759.69 / 12,00,000 x 3,60,000 = 2,72,627.91
Long term capital gain

2. **Jewellery**
   - Full value of consideration
   - Less: Indexed cost of acquisition
   = 3,50,000 / Index of 01-02 x Index of 19-20
   = 3,50,000 / 100 x 289 = ₹10,11,500
   - Less: Selling Expenses
   - Long term capital gain

3. **Debentures**
   - Full value of consideration
   - Less: Cost of acquisition
   Short term capital gain

4. **Motor Car**: is covered under the personal movable effects, hence, no capital gains shall be computed

5. **Equity Shares**
   - Full value of consideration
   - Less: Cost of acquisition
   Short term capital gain u/s section 111A
   Income under the head Capital gain
   Long Term Capital Gains
   Short Term Capital Gains

**Gross Total Income**
22,54,631.78
Less: Deduction u/s 80C to 80U
Total Income
22,54,631.78
Rounded off u/s 288A
22,54,630.00

**Computation of Tax Liability**
Tax on ₹12,04,630 (₹13,94,630 – ₹ 1,90,000) @ 20% u/s 112
240,926.00
Tax on ₹8,00,000 @ 15% u/s 111A
1,20,000.00
Tax on ₹60,000 at slab rate
Nil
Tax before health & education cess
3,60,926.00
Add: HEC @ 4%
14,437.04
Tax Liability
3,75,363.04
Rounded off u/s 288B
3,75,360.00

**Option 2: Section 54F Exemption taken from Jewellery**

1. **Shares**
   - Full value of consideration
   - Less: Indexed cost of acquisition
   = 1,30,000 / Index of 07-08 x Index of 19-20
   = 1,30,000 / 129 x 289 = ₹2,91,240.31
   Long term capital gain
   Less: Exemption u/s 54F

2. **Jewellery**
   - Full value of consideration
   - Less: Indexed cost of acquisition
   = 3,50,000 / Index of 01-02 x Index of 19-20
   = 3,50,000 / 100 x 289 = ₹10,11,500
   Less: Selling Expenses
   Long term capital gain
   Less: Exemption u/s 54F
= 7,58,500.00 / 17,70,000 x 3,60,000 = 1,54,271.19
Long term capital gain = 6,04,228.81

3. **Debentures**
   - Full value of consideration = 1,40,000.00
   - Less: Cost of acquisition = (80,000.00)
   - Short term capital gain = 60,000.00

4. **Motor car**: is covered under the personal movable effects, hence, no capital gains shall be computed

5. **Equity Shares**
   - Full value of consideration = 10,00,000.00
   - Less: Cost of acquisition = (2,00,000.00)
   - Short term capital gain u/s section 111A = 8,00,000.00

**Income under the head Capital gain**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Capital Gains</td>
<td>15,12,988.50</td>
</tr>
<tr>
<td>Short Term Capital Gains</td>
<td>8,60,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>23,72,988.50</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>23,72,988.50</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>23,72,990.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹13,22,990 (₹15,12,990 – ₹1,90,000) @ 20% u/s 112</td>
<td>2,64,598.00</td>
</tr>
<tr>
<td>Tax on ₹8,00,000 @ 15% u/s 111A</td>
<td>1,20,000.00</td>
</tr>
<tr>
<td>Tax on ₹60,000 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>3,84,598.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>15,383.92</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>3,99,981.92</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>3,99,980.00</td>
</tr>
</tbody>
</table>

Option 1 is better.
EXAMINATION QUESTIONS

MAY – 2019 (OLD COURSE)

Question 4(a)  
Mr. Deepak has a residential house property taxable u/s 22. Such property was acquired on 12-08-2005 for ₹ 2,00,000. The property is sold for ₹ 23,00,000. The sub-register refused to register the documents for the said value, as according to him, stamp value valuation, based on State Government guidelines was ₹ 28,00,000. Mr. Deepak preferred an appeal to the revenue divisional officer who fixed the value of the house ₹ 25,00,000. He acquired another residential house on 31-03-2020 for ₹ 17,00,000 for self-occupation. On 01-03-2021, he sold such new residential house for ₹ 30,00,000. Compute his capital gain for the A.Y. 2020-21 and 2021-22. (Cost of indexation : 2001-02; 2005-06 and 2019-20 are, 100; 117 and 289) 

Solution:

Computation of Capital Gains for the A.Y. 2020-2021 & 2021-22

Sale consideration: ₹ 23,00,000

Valuation made by the Sub Register: ₹ 28,00,000

Valuation made by the Divisional Revenue officer on a reference: ₹ 25,00,000

Applying the provisions of section 50C to the present case, ₹ 25,00,000, being, the value adopted by the Divisional Revenue officer for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

A.Y. 2020-2021

Computation of Capital Gains

Full value of consideration (section 50C): 25,00,000.00

Less: Indexed cost of acquisition = 2,00,000 / 117 x 289 = ₹ 4,94,017.09

Long Term Capital Gain: 20,05,982.91

Less: Exemption u/s 54 = (17,00,000) = Nil

Long Term Capital Gain: 3,05,982.91

A.Y. 2021-2022

Since new house is sold within one year which is less than one year hence gain shall be treated as short term

Computation of Capital Gains

Full value of consideration: 30,00,000.00

Less: cost of acquisition = (17,00,000-17,00,000) = Nil

Short Term Capital Gain: 30,00,000.00

MAY – 2019 (NEW COURSE)

Question 3 (b)  
Mr. Roy owned a residential house in Noida. It was acquired on 09.09.2009 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2016.

Mr. Roy utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2017. The said house property was sold on 31.10.2019 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2020. The property at Panchkula was sold for ₹ 3,25,00,000.
Calculate capital gains chargeable to tax for the assessment year 2016-17 and 2020-21. All workings should form part of your answer.

Cost inflation index for various financial years are as under:

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>148</td>
</tr>
<tr>
<td>2015-16</td>
<td>254</td>
</tr>
<tr>
<td>2017-18</td>
<td>272</td>
</tr>
<tr>
<td>2019-20</td>
<td>289</td>
</tr>
</tbody>
</table>

Solution:

Computation of Capital Gains for the A.Y. 2016-2017 & 2020-21

**A.Y. 2016-2017**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>1,57,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(51,48,648.65)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>(1,05,51,351.35)</td>
</tr>
<tr>
<td>Less: Exemption u/s 54</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**A.Y. 2020-2021**

**Computation of Capital Gains**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>3,25,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(105,70,439.19)</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td></td>
</tr>
<tr>
<td>Less: Exemption u/s 54</td>
<td></td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**NOV – 2018 (NEW COURSE)**

**Question 4(a)**

Mr. Subramani sold a house plot to Mrs. Vimala for ₹45 lakhs on 12-5-2019. The valuation determined by the stamp valuation authority was ₹53 lakhs. Discuss the tax consequences of above, in the hands of each one of them, viz, Mr. Subramani & Mrs. Vimala.

Mrs. Vimala has sold this plot to Ms. Padmaja on 21-3-2020 for ₹55 lakhs. The valuation as per stamp valuation authority remains the same at ₹53 lakhs.

Compute the capital gains arising on sale of the house plot by Mrs. Vimala.

Note: None of the parties viz Mr. Subramani, Mrs. Vimala & Ms. Padmaja are related to each other; the transactions are between outsiders.

**Solution:**

As per section 50C, where the consideration received as a result of transfer of capital asset being land or building or both is less than the stamp duty value then stamp duty value shall be full value of consideration.

In the given case Mr. Subramani sold a house for ₹45 lakhs which is less than stamp duty value i.e. ₹53 lakhs hence ₹53 lakhs shall be full value of consideration in the hands of Mr. Subramani.

As per section 56 (2) (x), if any person receives any immovable property for a consideration which is less than the stamp duty value then excess amount shall be considered as gift in the hands of the receiver. In the given case, Mrs. Vimala purchased the house which is less than the stamp duty value hence difference amount of ₹8 lakhs (₹53-₹45) shall be taxable under the head other sources.

Period of holding is less than 2 year hence gains shall be short term.

Computation of capital gains in the hands of Mrs. Vimala

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Value of consideration</td>
<td>55,00,000</td>
</tr>
</tbody>
</table>
Star Enterprises has transferred its unit R to A Ltd. by way of Slump Sale on January 23, 2020. The summarized Balance Sheet of Star Enterprises as on that date is given below:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount (₹ in Lacs)</th>
<th>Assets</th>
<th>Amount (₹ in Lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Own Capital</strong></td>
<td></td>
<td><strong>Fixed Assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Accumulated P &amp; L balance</td>
<td></td>
<td>Unit P</td>
<td>200</td>
</tr>
<tr>
<td>Liabilities :</td>
<td></td>
<td>Unit Q</td>
<td>150</td>
</tr>
<tr>
<td>Unit P</td>
<td>90</td>
<td>Unit R</td>
<td>600</td>
</tr>
<tr>
<td>Unit Q</td>
<td>160</td>
<td>Other Assets:</td>
<td></td>
</tr>
<tr>
<td>Unit R</td>
<td>140</td>
<td>Unit P</td>
<td>570</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unit Q</td>
<td>850</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unit R</td>
<td>440</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2,810</td>
<td><strong>TOTAL</strong></td>
<td>2,810</td>
</tr>
</tbody>
</table>

Using the further information below, compute the Capital Gains arising from slump of unit R for Assessment year 2020-21.

(i) Slump sale consideration on transfer of Unit R was ₹930 lacs.
(ii) Fixed Assets of Unit R includes land which was purchased at ₹110 lacs in the year 2008 and was revalued at ₹140 lacs.
(iii) Other fixed assets are reflected at ₹460 lacs. (i.e. ₹600 lacs less value of land) which represents written down value of those assets as per books. The written down value of these asset is ₹430 lacs.
(iv) Unit R was set up by Star Enterprises in Oct, 2006.

NOTE: Cost of Inflation Indices for the financial year 2006-07 and financial year 2019-20 are 122 and 289 respectively.

**Solution:**

As per section 50B, in case of slump sale capital gains shall be computed for the entire unit instead of individual assets and capital gain shall be equal to full value of consideration less net worth of the unit on the date of transfer. Also expenses in connection with transfer shall be deducted. Indexation is not applicable.

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

While computing net worth, revaluation of asset shall be ignored.

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

Unit R was set up in 2006-07 and unit is sold in 2019-20 which is after 3 years hence there is a long term capital gain.

**Computation of capital gains on slump sale of Unit R**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale value</td>
<td>930,00,000</td>
</tr>
<tr>
<td>Less: Net worth (See Note (i) below)</td>
<td>(840,00,000)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>90,00,000</td>
</tr>
</tbody>
</table>

**Note (i) : Computation of net worth of Unit R of Star Enterprises**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land (excluding ₹30 lakhs on account of revaluation)</td>
<td>110,00,000</td>
</tr>
</tbody>
</table>
Other Fixed Assets 430,00,000
Other assets 440,00,000
Total assets 980,00,000
Less:
Liabilities (140,00,000)
Net worth 840,00,000

Note: For calculating Net worth Book value shall be considered and revaluation shall be ignored.

Question 6 (a) Marks 5
Mr. Madhav made a gift of ₹2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2017, which he deposited in a fixed deposit account in a Nationalised bank at 10% interest p.a. compounded annually. The balance in this account as on 1st April, 2019 was ₹2,75,000 and the bank credited a sum of ₹27,500 as interest on 31st March, 2020.

Madhav’s father gifted equity shares worth ₹50,000 of an Indian company to Master Manan, another son of Mr. Madhav (Date of birth 10th April , 2010 ) in July 2010 which were purchased by him on 8th December , 2004 for ₹80,000 Manan received a dividend of ₹5,000 on these shares in October 2018. He sold these shares on 1st November, 2019 for ₹5,00,000 and deposited ₹3,00,000 in a company at 15% interest per annum.

Cost Inflation Index:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Cost Inflation Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>113</td>
</tr>
<tr>
<td>2010-11</td>
<td>167</td>
</tr>
<tr>
<td>2019-20</td>
<td>289</td>
</tr>
</tbody>
</table>

Mr. Madhav has a taxable income of ₹3,50,000 from his profession during the financial year 2019-20. Compute his Gross Total Income for the A.Y. 2020-21.

Solution: Computation of Gross Total Income for the A.Y. 2020-21

Income from Profession 3,50,000.00

Income under the head other sources

Clubbing of Income of Manan section 64(1A)
Interest Income (3,00,000 x 15% x 5/12) 18,750
Dividend Income exempt u/s 10(34) Nil
Dividend Income (1,500) 17,250.00

Less: Exempt u/s 10 (32)
Income of Tapan (No clubbing since he is handicapped) Nil

Income under the head capital Gains

Full Value of consideration 5,00,000.00
Less: Indexed cost of acquisition (80,000/113 x 289) (2,04,601.77)
Long term capital Gains 2,95,398.23
(Stt is not paid on sale of shares of an Indian company)
Gross Total Income 6,62,648.23
Rounded off u/s 288A 6,62,650.00

Notes:
1. As per section 64(1A), income of minor child shall be clubbed with the income of the parents having higher income but minor child does not include minor child suffering from disability. In the given case master Tapan is handicapped so income of minor child shall not be clubbed.
2. 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.
Question 2 (b)  

Mrs. Mahalakshmi an individual, aged 68 years, mortgaged her Residential Property, purchased for ₹3 lakhs on 01-10-2002, with a bank, under a notified reverse mortgage scheme and was sanctioned a loan of ₹20 lakh. As per the said scheme she was receiving the loan amount in equal monthly installments of ₹30 thousand per month from the bank. Mrs. Mahalakshmi was not able to repay the loan on maturity and in lieu of settlement of the loan surrenders the residential property to the bank. Bank sold the property for ₹25 lakhs on 22-02-2020. She had no other income during the year.

Discuss the Tax consequences and compute tax for the Asst. Year 2020-21.

Cost inflation index
2002-03 - 105
2019-20 - 289

Solution:
As per section 47, reverse mortgage shall not be considered to be transfer for the purpose of capital gain. Under reverse mortgage, an individual can mortgage his house property to the bank and the bank shall grant a loan against the security of house property and such loan shall be given in monthly/quarterly installments and the amount so received shall not be considered to be income of the mortgagor under section 10(43). After the death of the mortgagor the bank shall have right to sell off the property and shall adjust loan and interest and shall compute capital gains for the deceased person and shall pay tax to the government.

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

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

Computation of Capital Gains in the hands of Mrs. Mahalakshmi AY 20-21

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Value of Consideration</td>
<td>₹25,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed Cost of Acquisition</td>
<td>(8,25,714.29)</td>
</tr>
<tr>
<td>Long term Capital Gains</td>
<td>₹16,74,285.71</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹16,74,285.71</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹16,74,285.71</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>₹16,74,290.00</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

Tax on LTCG u/s 112 on 13,74,290 (16,74,290-3,00,000) @ 20%  
Add: HEC @ 4%                                                
Tax Liability                                               
Rounded off u/s 288B                                        

NOV – 2017

Question 4(b)  

Mr. Sunil entered into an agreement with Mr. Dhaval to sell his residential house located at Navi Mumbai on 16.08.2019 for ₹80,00,000. The sale proceeds was to be paid in the following manner;

(i) 20% through account payee bank draft on the date of agreement.
(ii) 60% on the date of the possession of the property.
(iii) Balance after the completion of the registration of the title of the property.

Mr. Dhaval was handed over the possession of the property on 15.12.2019 and the registration process was completed on 14.01.2020. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority on 16.08.2019 was ₹90,00,000 whereas, on 14.01.2020 it was ₹91,50,000.

Mr. Sunil had acquired the property on 01.04.2001 for ₹10,00,000. After recovering the sale proceeds from Dhaval, he purchased another residential house property for ₹35,00,000.
Compute the income under the head “Capital Gains” for the Assessment Year 2020-21 and also compute tax liability.

Cost Inflation Index for Financial Year(s)

- 2001-02 – 100
- 2019-20 – 289

Solution:

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

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

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

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹90,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>₹28,90,000.00</td>
</tr>
<tr>
<td>(10,00,000 / 100 x 289)</td>
<td></td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>₹61,10,000.00</td>
</tr>
<tr>
<td>Less: Investment in house property section 54</td>
<td>₹35,00,000.00</td>
</tr>
<tr>
<td>Long Term Capital Gains</td>
<td>₹26,10,000.00</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>₹26,10,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C-80U</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>₹26,10,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹23,60,000 (26,10,000- 2,50,000) @ 20%</td>
<td>₹4,72,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹18,880.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹4,90,880.00</td>
</tr>
</tbody>
</table>

---

**Question 5(a)**

Mr. Y bought a vacant Land for ₹80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹100 lakhs during the financial year 2006-07.

He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in April 2016. The sale consideration was fixed at ₹700 lakhs and on 23-4-2016, Mr. Y received ₹20 lakhs as advance in cash by executing an agreement.

The sale deed was executed and registered on 14-1-2020 for the agreed consideration. However, the State stamp valuation authority had revised the values; hence the value of property for stamp duty purposes was ₹770 lakhs. Mr. Y, paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Y made following investments:

(i) Acquired a residential house at Delhi for ₹110 lakhs.
(ii) Acquired a residential house at London for ₹190 lakhs.
(iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹45 lakhs on 29-3-2020 and for 50 lakhs on 12-5-2020.

Compute the income chargeable under the head 'Capital Gains'. The choice of exemption must beneficial to the assessee.
Income Under The Head Capital Gains

Cost Inflation Index: F.Y.2004-05 = 113
F.Y.2006-07 = 122
F.Y.2019-20 = 289

Solution:

**Computation of Capital Gains of Mr. Y for the Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹770,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td></td>
</tr>
<tr>
<td>Indexed cost of land (88,00,000 / 113 x 289)</td>
<td>₹225,06,194.69</td>
</tr>
<tr>
<td>Indexed cost of building (100,00,000 / 122 x 289)</td>
<td>₹236,88,524.59</td>
</tr>
<tr>
<td>Less: Brokerage</td>
<td>₹7,00,000.00</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>₹301,05,280.72</td>
</tr>
<tr>
<td>Less: Investment in house property section 54</td>
<td>₹110,00,000.00</td>
</tr>
<tr>
<td>Less: Investment in NHAI section 54EC (assumed redeemable after 5 years)</td>
<td>₹50,00,000.00</td>
</tr>
<tr>
<td>Long Term Capital Gains</td>
<td>₹141,05,280.72</td>
</tr>
</tbody>
</table>

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

**NOV– 2016**

**Question 2(a)** (8 Marks)

Mr. X, a resident individual, aged 55 years, purchased 10 Plots in the financial year 2003-04 for ₹12 Lakh. On 1st April 2004, he started a business of property dealing and converted all 10 plots as stock in trade of his business and recorded the cost at ₹40 Lakh in his books being the Fair market value on 1st April 2004. On 31st March 2011, he sold all 10 Plots for ₹55 Lakh and purchased a residential house property for ₹50 Lakh. He has constructed 2 rooms in this residential house in June 2011 and has spent ₹8 Lakh. He sold the above residential house on 5th Feb 2020, for ₹80 Lakh. The valuation adopted by Stamp valuation authority for the payment of stamp duty was ₹105 Lakh. On the request of Mr. X, A.O. made a reference to the valuation officer. The Valuation Officer determined the value at ₹108 Lakh. Mr. X paid brokerage 1% of sale consideration.

Compute the total Income and total Tax liability of Mr. X for the Assessment year 2020-21.


**Solution:**

**Computation of total income and tax liability of Mr. X for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value declared by Mr. X</td>
<td>₹80,00,000.00</td>
</tr>
<tr>
<td>Value adopted by Stamp Valuation Authority</td>
<td>₹105,00,000.00</td>
</tr>
<tr>
<td>Valuation as per Valuation Officer</td>
<td>₹108,00,000.00</td>
</tr>
<tr>
<td>Full value of consideration</td>
<td></td>
</tr>
<tr>
<td>Less: Brokerage @ 1% of sale consideration</td>
<td>(8,00,000.00)</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition (₹50,00,000 /167× 289)</td>
<td>(86,52,694.61)</td>
</tr>
<tr>
<td>Indexed cost of improvement (₹8,00,000 /184× 289)</td>
<td>(12,56,521.74)</td>
</tr>
<tr>
<td>Long-term capital gain</td>
<td>₹5,10,783.65</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹5,10,783.65</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>₹5,10,780.00</td>
</tr>
<tr>
<td>Computation of Tax Liability</td>
<td></td>
</tr>
<tr>
<td>Tax on LTCG (₹2,60,780 (5,10,780- 2,50,000) @ 20%)</td>
<td>₹52,156.00</td>
</tr>
</tbody>
</table>
**Question 3(a).**

Mr. X sold his residential house property on 08.06.2019 for ₹70 lakhs which was purchased by him for ₹20 lakhs on 05.05.2006.

He paid ₹1 lakh as brokerage for the sale of said property. The stamp duty valuation assessed by sub registrar was ₹80 lakhs.


He deposited ₹8 lakhs on 10.11.2019 in the capital gain bond of National Highway Authority of India (NHAI).

He deposited another ₹10 lakhs on 10.07.2020 in the capital gain deposit scheme with SBI for construction of additional floor of house property.

Compute income under the head “Capital Gains” for A.Y. 2020-21 as per Income Tax Act 1961 and also Income tax payable on the assumption that he has no other income chargeable to tax.

Cost inflation index for Financial Year 2006-07 = 122 and 2019-20 = 289

**Solution:**

**Computation of Capital Gains of Mr. X for the Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹8,00,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td></td>
</tr>
<tr>
<td>Indexed cost of building (20,00,000 / 122 x 289)</td>
<td>(47,37,704.92)</td>
</tr>
<tr>
<td>Less: Brokerage</td>
<td>(1,00,000.00)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>31,62,295.08</td>
</tr>
<tr>
<td>Less: Investment in house property section 54</td>
<td>(11,00,000.00)</td>
</tr>
<tr>
<td>Less: Investment in NHAI section 54EC (assumed redeemable after 5 years)</td>
<td>(8,00,000.00)</td>
</tr>
<tr>
<td>Less: Deposited in Capital Gain Account Scheme</td>
<td>(10,00,000.00)</td>
</tr>
<tr>
<td>Long Term Capital Gains</td>
<td>2,62,295.08</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>2,62,295.08</td>
</tr>
<tr>
<td>Less: Deduction from 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,62,295.08</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>2,62,300.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹12,300 (₹2,62,300 – 2,50,000) @ 20%</td>
<td>2,460.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(2,460.00)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

---

**Question 5(a).**

Mrs. X transferred a house to her friend Mrs. Y for ₹35,00,000 on 01.10.2019. The Sub Registrar valued the land at ₹48,00,000. Mrs. X contested the valuation and the matter was referred to Divisional Revenue Officer, who valued the house at ₹42,00,000. Accepting the said value, differential stamp duty was also paid and the transfer was completed.

The total income of Mrs. X and Mrs. Y for the assessment year 2020-21, before considering the transfer of said house are ₹2,80,000 and ₹3,45,000, respectively. Mrs. X had purchased the house on 15th May 2011 for ₹25,00,000 and registration expenses were ₹1,50,000.

You are required to explain provisions of Income-tax Act, 1961 applicable to present case and also determine the total income of both Mrs. X and Mrs. Y taking into account the above said transactions. Cost inflation indices for :

(i) Financial Year 2011-12: 184 and

(ii) Financial Year 2019-20: 289
**Solution:**

**Computation of Total Income of Mrs. X for A.Y. 2020-21**

**Computation of Long term Capital Gain**

Sale consideration: \(¥ 35,00,000\)

Valuation made by Sub Registrar for stamp duty: \(¥ 48,00,000\)

Valuation made by the Divisional Revenue officer on a reference: \(¥ 42,00,000\)

Applying the provisions of section 50C to the present case, \(¥ 42,00,000\), being, the value adopted by the Divisional Revenue officer for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

Sale consideration as per section 50C of the Act: \(¥ 42,00,000\)

Less: Indexed cost of acquisition = \(26,50,000/184 \times 289\)  \(= ¥ 41,62,228.26\)

Long term capital gain: \(¥ 37,771.74\)

Other Income: \(¥ 2,80,000\)

Gross Total Income: \(¥ 3,17,771.74\)

Less: Deduction u/s 80C to 80U: Nil

Total Income: \(¥ 3,17,771.74\)

Rounded off u/s 288A: \(¥ 3,17,770\)

**Computation of Total Income of Mrs. Y for A.Y. 2020-21**

Income under the head other sources

Gift (\(¥ 42,00,000 – ¥ 35,00,000\)): \(¥ 7,00,000\)

Other Income: \(¥ 3,45,000\)

Gross Total Income: \(¥ 10,45,000\)

Less: Deduction u/s 80C to 80U: Nil

Total Income: \(¥ 10,45,000\)

**MAY – 2014**

**Question 5(a).** (8 Marks)

Mr. X, aged 55 years owned a Residential House in Ghaziabad. It was acquired by Mr. X on 10.10.2006 for \(¥ 6,00,000\). He sold it for \(¥ 53,00,000\) on 04.11.2019. The stamp valuation authority of the state fixed value of the property at \(¥ 70,00,000\). The Assessee paid 2% of the sale consideration as brokerage on the sale of the said property.

Mr. X acquired a Residential House property at Kolkata on 10.12.2019 for \(¥ 10,00,000\) and deposited \(¥ 4,00,000\) on 10.04.2020 and \(¥ 5,00,000\) on 15.06.2020 in the capital gains bonds of Rural Electrification Corporation Ltd. He deposited \(¥ 4,00,000\) on 06.07.2020 and \(¥ 3,00,000\) on 01.11.2020 in the capital gains deposit scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Kolkata.

Compute the Capital Gain chargeable to Tax for the Assessment Year 2020-21 and Income Tax chargeable thereon assuming Mr. X has no other income.

Cost inflation index for Financial Year 2006-07 = 122 and for Financial Year 2019-20 = 289.

**Solution:**

**Computation of Capital Gains chargeable to tax in the hands of Mr. X for the A.Y. 2020-21**

Full value of Consideration: \(¥ 70,00,000\)

\(Less:\) Indexed cost of acquisition \(\left(\frac{¥ 6,00,000}{122} \times 289\right)\): \(¥ 14,21,311.48\)

\(Less:\) Brokerage @ 2%: \(¥ 1,06,000\)

Long-term capital gain: \(¥ 54,72,688.52\)

\(Less:\) Exemption under section 54

- Acquisition of residential house property at Kolkata: \(¥ 10,00,000\)

- Amount deposited in capital gains accounts scheme: \(¥ 4,00,000\)

**Exemption under section 54EC**

Amount deposited in capital gains bonds of RECL on 10.04.2020: \(¥ 4,00,000\)

Long-term capital gain: \(¥ 36,72,688.52\)

Total Income (rounded off u/s 288A): \(¥ 36,72,690\)
**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG</td>
<td>34,22,690 (₹36,72,690 – 2,50,000) @ 20%</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td></td>
</tr>
<tr>
<td>Tax Liability</td>
<td></td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td></td>
</tr>
</tbody>
</table>

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

If we apply the above interpretation in this case, Mr. X would be eligible for exemption under section 54 in respect of ₹ 3,00,000 deposited in Capital Gains Accounts Scheme on 01.11.2020 also, since the said date falls within the time specified under section 139(4). On the basis of this interpretation, the long term capital gain chargeable to tax in the hands of Mr. X would be ₹ 33,72,690 and the consequent tax liability would also be ₹ 6,49,520.

**Question 4(a).** (4 Marks)

Mr. X sold a house, held as a capital asset, to his friend Mr. Y on 1st December, 2019 for a consideration of ₹25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty valuation based on State Government guidelines was ₹45,00,000. Mr. X preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as ₹35,00,000 (₹22,00,000 for land and the balance for building portion). The differential stamp duty was paid, accepting the said value determined. Mr. X had purchased the land on 1st June, 2006 for ₹5,19,000 and completed the construction of the house on January, 2017 for ₹14,00,000.

Cost inflation indices may be taken as 122 for the financial year 2006-07 and 289 for the financial year 2019-20.

Briefly discuss the tax implications in the hands of Mr. X for the assessment year 2020-21 and compute the capital gains chargeable to tax.

**Solution:**

As per section 50C, FVC shall be taken to be ₹22,00,000 for land and ₹13,00,000 for the building and capital gains shall be computed separately for land and building.

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

**Computation of Capital Gains chargeable to tax**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term capital gain on sale of land</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consideration received or accruing as a result of transfer of land</td>
<td>22,00,000.00</td>
<td></td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition ₹ 5,19,000 /122 x 289</td>
<td>(12,29,434.43)</td>
<td>9,70,565.58</td>
</tr>
<tr>
<td>Long-term capital gain (A)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term capital loss on sale of building</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consideration received or accruing from transfer of building</td>
<td>13,00,000</td>
<td></td>
</tr>
<tr>
<td>Less: Cost of construction</td>
<td>(14,00,000)</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Short term capital loss (B)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term capital gain (A-B)</td>
<td>8,70,565.58</td>
<td></td>
</tr>
</tbody>
</table>

**Question 6(a).** (5 Marks)

Compute the total income of Mr. X for the assessment year 2020-21 from the following particulars:

**Particulars** | **Amount (₹)**
---|---
Income from business before adjusting the following items: | 1,75,000
(a) Business loss brought forward from assessment year 2014-15 | 70,000
(b) Current depreciation | 40,000
(c) Unabsorbed depreciation of earlier year | 1,55,000
Income from house property (Gross annual value) 4,32,000
Municipal taxes paid 32,000
Mr. X sold a plot at Noida on 12th Sep., 2019 for a consideration of ₹6,40,000, which had been purchased by him on 20th Dec., 2016 at a cost of ₹4,10,000.
Long-term capital gain on sale of land 60,000
Dividend from domestic company on shares held as stock in trade 22,000
Dividend from a domestic company carrying on agricultural business 10,000
During the previous year 2019-20, Mr. X has repaid ₹1,67,000 towards housing loan from a scheduled bank. Out of ₹1,67,000, ₹97,000 was towards payment of interest and rest towards principal payments. Cost inflation indices are as under:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>264</td>
</tr>
<tr>
<td>2019-20</td>
<td>289</td>
</tr>
</tbody>
</table>

**Solution:**

**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>I. Income from house property</strong></td>
<td></td>
</tr>
<tr>
<td>Gross Annual Value</td>
<td>4,32,000</td>
</tr>
<tr>
<td>Less: Municipal taxes paid</td>
<td>(32,000)</td>
</tr>
<tr>
<td>Net Annual Value (NAV)</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Less: Deductions under section 24</td>
<td></td>
</tr>
<tr>
<td>(a) 30% of NAV u/s 24(a)</td>
<td>(1,20,000)</td>
</tr>
<tr>
<td>(b) Interest on housing loan u/s 24(b)</td>
<td>(97,000)</td>
</tr>
<tr>
<td><strong>Income under the head House Property</strong></td>
<td>1,83,000</td>
</tr>
<tr>
<td><strong>II. Income from business</strong></td>
<td></td>
</tr>
<tr>
<td>Income from business</td>
<td>1,75,000</td>
</tr>
<tr>
<td>Less: Current year depreciation under section 32</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Less: Set-off of brought forward business loss of A.Y.2014-15 under section 72</td>
<td>(70,000)</td>
</tr>
<tr>
<td>Less: Unabsorbed depreciation</td>
<td>(65,000)</td>
</tr>
<tr>
<td><strong>Income under the head Business/Profession</strong></td>
<td>Nil</td>
</tr>
<tr>
<td><strong>III. Capital gains</strong></td>
<td></td>
</tr>
<tr>
<td>Long term capital gain on sale of land</td>
<td>60,000</td>
</tr>
<tr>
<td>Short terms capital gains on sale of land (6,40,000 – 4,10,000)</td>
<td>2,30,000</td>
</tr>
</tbody>
</table>

Assessee has the option to set off remaining depreciation of ₹90,000 (1,55,000 – ₹65,000) from normal income or from LTCG

**Option 1**

Normal income shall be 4,13,000 (₹1,83,000 + 2,30,000)
If depreciation is set off from normal income, balance amount of normal income shall be 3,23,000
Long term capital gain  60,000
**Gross Total Income**  3,83,000
Less : Chapter VI-A deduction section 80C [Principal repayment of housing loan] (70,000)
**Total income**  3,13,000

**Computation of Tax Liability**

Tax on ₹2,53,000 at slab rate  150.00
Tax on LTCG ₹60,000 @ 20%  12,000.00
Tax before rebate  12,150.00
Less: rebate u/s 87A (12,150.00)  Nil
Tax Liability  12,150.00
### Option II
If depreciation ₹60,000 is set off from LTCG and balance from normal income (house property), tax liability shall be

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term capital gains (60,000 – 60,000)</td>
<td>Nil</td>
</tr>
<tr>
<td>Normal income (4,13,000 – 30,000)</td>
<td>3,83,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>3,83,000</strong></td>
</tr>
<tr>
<td>Less : Chapter VI-A deduction section 80C [Principal repayment of housing loan]</td>
<td>(70,000)</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>3,13,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- Tax on ₹3,13,000 at slab rate
- Less: Rebate u/s 87A
- Tax Liability

| Tax liability in both the Option is same. Assessee can choose any 1. | Nil |

---

**Question 6(a)**

Mrs. X had purchased 500 equity shares in A Ltd. At a cost of ₹30 per share (brokerage 1%) in February 1999.

- She got 50 bonus shares in September 2000.
- She again got 550 bonus shares by virtue of her holding on March, 2005. Fair market value of the shares of A Ltd. on April, 2001 is ₹ 50. Market value as on 31-01-2018 ₹200 per share.

In January 2020, she transferred all her shares @ 300 per share (brokerage 2%)

Compute the capital gains taxable in the hands of Mrs. X for the Assessment Year 2020-21 assuming.

(a) A Ltd. is an unlisted company and securities transaction tax was not applicable at the time of sale.

(b) A Ltd. is a listed company and the shares are sold in a recognized stock exchange and securities transaction tax was paid at the time of sale.

**Cost of inflation index.**

- F.Y. 2001-02 100
- F.Y. 2004-05 113
- F.Y. 2019-20 289

**Solution:**

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

**Computation of capital gains of Mrs. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>500 equity shares</strong></td>
<td></td>
</tr>
<tr>
<td>Sale proceeds (500 × ₹ 300)</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Less :Indexed cost of acquisition [₹ 50 × 500/100 × 289]</td>
<td>(72,250)</td>
</tr>
<tr>
<td>Less : Brokerage paid (2% of ₹ 1,50,000)</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Long term capital Gain (A)</td>
<td>74,750</td>
</tr>
</tbody>
</table>

| **50 Bonus shares (Allotted in September, 2000)** | |
| Sale proceeds (50 × ₹ 300) | 15,000 |
| Less : Indexed cost of acquisition [₹ 50 × 50 /100 × 289] [See Note below] | (7,225) |
| Less : Brokerage paid (2% of ₹ 15,000) | (300) |
| Long term capital Gain (B) | 7,475 |

| **550 Bonus shares (Allotted in March, 2005)** | |
| Sale proceeds (550 × ₹ 300) | 1,65,000 |
| Less: Cost of acquisition | NIL |
| Less: Brokerage paid (2% of ₹ 1,65,000) | (3,300) |
| Long term capital gain (C) | 1,61,700 |
**Taxable long term capital Gain (A+B+C)** | 2,43,925
---|---
**Note:** In case of bonus shares allotted before 01.04.2001, the fair market value as on 01.04.2001 is taken as the cost of acquisition. In case of bonus shares allotted after 01.04.2001, the cost of acquisition will be Nil.
(b) In case A Ltd. is a listed company and the shares are sold in a recognized stock exchange and STT was paid at the time of sale.
**Computation of capital gains of Mrs. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>500 equity shares</strong></td>
<td></td>
</tr>
<tr>
<td>Sale proceeds (500 x ₹ 300)</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Less : cost of acquisition</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Higher of</td>
<td></td>
</tr>
<tr>
<td>(i) COA = 500 x 50 = 25,000</td>
<td></td>
</tr>
<tr>
<td>(ii) lower of</td>
<td></td>
</tr>
<tr>
<td>(a) FMV as on 31-01-2018 = 500 shares x 200 = 1,00,000</td>
<td></td>
</tr>
<tr>
<td>(b) sale value = 500 shares x 300 = 1,50,000</td>
<td></td>
</tr>
<tr>
<td>COA = 1,00,000</td>
<td></td>
</tr>
</tbody>
</table>

Less : Brokerage paid (2% of ₹ 1,50,000) | (3,000) |
Long term capital Gain (A) | 47,000 |

| **50 Bonus shares (Allotted in September, 2000)** | |
| Sale proceeds (50 x ₹ 300) | 15,000 |
| Less : cost of acquisition | (10,000) |
| Higher of | |
| (i) COA = 50 x 50 = 2,500 | |
| (ii) lower of | |
| (a) FMV as on 31-01-2018 = 50 shares x 200 = 10,000 | |
| (b) sale value = 50 shares x 300 = 15,000 | |
| COA = 10,000 | |

Less : Brokerage paid (2% of ₹ 15,000) | (300) |
Long term capital Gain (B) | 4,700 |

| **550 Bonus shares (Allotted in March, 2005)** | |
| Sale proceeds (550 x ₹ 300) | 1,65,000 |
| Less: Cost of acquisition | (1,10,000) |
| Higher of | |
| (i) COA = Nil | |
| (ii) lower of | |
| (a) FMV as on 31-01-2018 = 550 shares x 200 = 1,10,000 | |
| (b) sale value = 550 shares x 300 = 1,65,000 | |
| COA = 1,10,000 | |

Less: Brokerage paid (2% of ₹ 1,65,000) | (3,300) |
Long term capital gain (C) | 51,700 |
**Taxable long term capital Gain (A+B+C) u/s 112A** | 1,03,400 |

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

---

**NOV – 2012**

**Question No. 3(a) (4 Marks)**
Mr. X inherited from his father 8 plots of land in 2000. His father had purchased the plots in 1990 for ₹ 5 lakhs. The fair market value of the plots as on 01.04.2001 was ₹8 lakhs. (₹1 lakh for each plot)
On 1st June 2010, Mr. X started a business of dealer in plots and converted the 8 plots as stock in trade of his business. He recorded the plots in his books and ₹30 lakhs being the fair market value of that date. In June 2019, Mr. X sold the 8 plots for ₹70 lakhs.

On 01-07-2019 he acquired a residential house property for ₹15 lakhs. He invested an amount of ₹10 lakhs in construction of one more floor in his house in January 2020. The house was sold by him in March 2020 for ₹63,50,000.

The valuation adopted by the registration authorities for charge of stamp duty was ₹85,50,000. As per the assessee’s request the assessing officer made a reference to a valuation officer. The value determined by the valuation officer was ₹87,20,000. Brokerage of 1% of sale consideration was paid by Mr. X.

The relevant Cost Inflation Indices are

<table>
<thead>
<tr>
<th>F.Y.</th>
<th>2001-02</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>F.Y.</td>
<td>2010-11</td>
<td>167</td>
</tr>
<tr>
<td>F.Y.</td>
<td>2019-20</td>
<td>289</td>
</tr>
</tbody>
</table>

Give the tax computation for the relevant assessment years with reasoning.

### Solution:

#### Computation of total income and tax liability of Mr. X for A.Y. 2020-21

<table>
<thead>
<tr>
<th>Previous year 2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
</tr>
<tr>
<td>= 8,00,000 / Index of 01-02 x Index of 10-11</td>
</tr>
<tr>
<td>= 8,00,000 / 100 x 167 = ₹13,36,000</td>
</tr>
<tr>
<td>Long Term Capital Gain</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Previous year 2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Capital Gain</td>
</tr>
<tr>
<td>Business Income</td>
</tr>
<tr>
<td>(₹70,00,000-₹30,00,000)</td>
</tr>
</tbody>
</table>

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

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

#### Total Income

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

#### Computation of Tax Liability

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

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

**Question No. 7(a) (4 Marks)**
Discuss the tax implication arising consequent to conversion of a Capital Asset into stock-in-trade of business and its subsequent sale.

**Answer: Refer answer given in the Chapter**

**MAY – 2012**

**Question 3 (4 Marks)**
Mr. X transfers land and building on 02.01.2020 and furnishes the following informations.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Net consideration received</td>
<td>30,00,000</td>
</tr>
<tr>
<td>(ii) Value adopted by Stamp Valuation Authority</td>
<td>32,00,000</td>
</tr>
<tr>
<td>(iii) Value ascertained by Valuation Officer on reference by the Assessing Officer</td>
<td>34,00,000</td>
</tr>
<tr>
<td>(iv) This land was acquired by Mr. X on 01.04.2001. Fair Market value of the land as on 01.04.2001 was</td>
<td>1,10,000</td>
</tr>
<tr>
<td>(v) A Residential building was constructed on land by Mr. X at cost of ₹3,20,000 (construction completed on 01.12.2002 during financial year 2002-03.)</td>
<td></td>
</tr>
</tbody>
</table>

Short term capital loss incurred on sale of shares during financial year 2012-13 b/f of ₹50,000

Mr. X seeks your advice to the amount to be invested in NHAI bonds so as to be exempt from capital gain tax under Income Tax Act.

Cost inflation index of FY 2001-2002 = 100
Cost inflation index of FY 2002-2003 = 105
Cost inflation index of FY 2019-2020 = 289

**Solution:**

**Computation of Long term Capital Gain for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale consideration</td>
<td>30,00,000</td>
</tr>
<tr>
<td>Valuation made by registration authority for stamp duty</td>
<td>32,00,000</td>
</tr>
<tr>
<td>Valuation made by the valuation officer on a reference</td>
<td>34,00,000</td>
</tr>
</tbody>
</table>

Applying the provisions of section 50C to the present case, ₹ 32,00,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale consideration as per section 50C of the Act</td>
<td>32,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition = 1,10,000 /100 x 289</td>
<td>(3,17,900.00)</td>
</tr>
<tr>
<td>Indexed cost of improvement = 3,20,000 /105 x 289</td>
<td>(8,80,761.90)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>20,01,338.10</td>
</tr>
<tr>
<td>Less: Short term capital loss 2012-13</td>
<td>(50,000.00)</td>
</tr>
</tbody>
</table>

**Long term capital gains** 19,51,338.10

Since there is general exemption of ₹2,50,000, assessee should invest in the bonds of NHAI ₹19,51,338.10 – 2,50,000 = 17,01,338.10

**Question 6 (5 Marks)**
Mr. X received a vacant site as gift from his friend in November 2008. The site was acquired by his friend for ₹3,00,000 in April 2002. Mr. X constructed a residential building during the year 2009-10 in the said site for ₹15,00,000. He carried out some further extension of a construction in the year 2011-12 for ₹5,00,000.
Mr. X sold the residential building for ₹55,00,000 in January 2020 but the state stamp valuation authority adopted ₹65,00,000 as value for the purpose of stamp duty. Compute his long term capital gain, for the assessment year 2020-21 based on the above information. The cost inflation index are as follows:

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Cost inflation index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>105</td>
</tr>
<tr>
<td>2008-09</td>
<td>137</td>
</tr>
<tr>
<td>2009-10</td>
<td>148</td>
</tr>
<tr>
<td>2011-12</td>
<td>184</td>
</tr>
<tr>
<td>2019-20</td>
<td>289</td>
</tr>
</tbody>
</table>

**Solution:**

**Computation of capital gain for the Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>₹65,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>₹8,25,714.29</td>
</tr>
<tr>
<td>Less: Indexed cost of Improvement</td>
<td>₹29,29,054.05</td>
</tr>
<tr>
<td>Less: Indexed cost of Improvement</td>
<td>₹7,85,326.09</td>
</tr>
<tr>
<td><strong>Long Term Capital Gain</strong></td>
<td>₹19,59,905.57</td>
</tr>
</tbody>
</table>

**Question 6**

Mr. X (62 years old), pledged his residential house to a bank under a notified reverse mortgage scheme. He was getting loan from bank in monthly instalments. Mr. X did not repay the loan on maturity and hence gave possession of the house to the bank to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

**Answer:**

As per section 47, reverse mortgage shall not be considered to be transfer for the purpose of capital gain. Under reverse mortgage, a senior citizen can mortgage his house property to the bank and the bank shall grant a loan against the security of house property and such loan shall be given in monthly installments and the amount so received shall not be considered to be income of the mortgagor under section 10(43). After the death of the mortgagor the bank shall have right to sell off the property and shall adjust loan and interest and shall compute capital gains for the deceased person and shall pay tax to the government. The purpose of the scheme is to make available regular amount to the persons who do not have regular income but are the owners of the house property.

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

**Question 3**

Mr. X, acquired a residential house in January, 2002 for ₹10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of ₹2,00,000 in October, 2004. He sold the house property in October, 2019 for ₹75,00,000. The value of property was adopted as ₹80,00,000 by the State stamp valuation authority for registration purpose. He acquired a residential house in January, 2019 for ₹25,00,000. He deposited ₹20,00,000 in capital gains bonds issued by National Highways Authority of India (NHAI) in June 2020.

Compute the capital gain chargeable to tax for the assessment year 2020-21.

What would be the tax consequence and in which assessment year it would be taxable, if the house property acquired in January, 2019 is sold for ₹40,00,000 in December, 2020?

Cost inflation index: F.Y. 2001-2002 = 100
F.Y. 2004-2005 = 113
F.Y. 2019-2020 = 289

**NOV – 2011**
**Solution:** Computation of capital gains for A.Y. 2020-21

Full value of consideration 80,00,000.00

Less: Indexed cost of acquisition
= 10,00,000 / Index of 2001-2002 x Index of 2019-2020
= 10,00,000 / 100 x 289 = ₹28,90,000

Less: Indexed cost of improvement
= 2,00,000 / Index of 2004-2005 x Index of 2019-2020
= 2,00,000 / 113 x 289 = ₹5,11,504.42

Long term capital gain 45,98,495.58

Less: Exempted u/s 54
-Purchase of new house 25,00,000.00

Long term capital gain 20,98,495.58

Gross Total Income 20,98,495.58

Less: Deduction u/s 80C to 80U Nil

Total Income (rounded off u/s 288A) 20,98,500.00

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

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

**Tax consequences in case the property purchased in January 2019 sold on December 2020**

**Tax consequences shall be for the Assessment Year 2021-22**

Full value of consideration 40,00,000.00

Less: Cost of Acquisition NIL

(25,00,000-25,00,000)

Short term capital gain 40,00,000.00

---

**Question 3**

(4 Marks)

Mr. X purchased 100 shares of ABC Ltd. on 01.04.2005 at rate of ₹1,000 per share in public issue of the company.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2018. He has also received dividend of ₹10 per share on 01.05.2019.

He has sold all the shares on 01.10.2019 at the rate of ₹3,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.1% to celebrate his 55\(^{th}\) birthday. Market value as on 31-01-2018 ₹3,000 per share. The cost inflation Index are as follows:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Cost Inflation Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>117</td>
</tr>
<tr>
<td>2019-20</td>
<td>289</td>
</tr>
</tbody>
</table>

Compute his total income and tax liability for Assessment Year 2020-21 assuming that he is having no income other than given above.

**Solution:**

**Computation of Total Income and Tax Liability for A.Y. 2020-21**

**Bonus shares**

Full value of consideration 3,00,000.00

Less: Cost of Acquisition Nil

Less: Expenses (3,00,000 x 1%) (3,000.00)

Short term capital gain u/s 111A 2,97,000.00

**Original Shares**

Full value of consideration 3,00,000.00

Less: Cost of Acquisition 2,00,000.00

Higher of

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

Less: Expenses (3,00,000 x 1%) (3,000.00)
Long term capital gain u/s 112A 97,000.00
Gross Total Income 3,94,000.00
Less: Deduction u/s 80C to 80U Nil
Total income 3,94,000.00

Computation of Tax Liability
Tax on LTCG Nil (97,000-97,000) @ 10% u/s 112A Nil
Tax on STCG ₹47,000 (2,97,000-2,50,000) @ 15% u/s 111A 7,050.00
(Since normal income is below exemption limit hence will be reduced from STCG u/s 111A)
Less: Rebate u/s 87A (7,050.00)
Tax Liability Nil

MAY – 2011

Question 1 (5 Marks)
Mr. X transferred a vacant site on 28.10.2019 for ₹100 lakhs. The site was acquired for ₹9,99,300 on 30.06.2005. He deposited ₹50 lakhs in eligible bonds issued by Rural Electrification Corporation (REC) on 20.03.2020.
Again, he deposited ₹20 lakhs in eligible bonds issued by National Highways Authority of India (NHAI) on 16.04.2020.
Compute total income and tax liability of Mr. X for the assessment year 2020-21.

Financial year Cost Inflation Index
2005-06 117
2019-20 289

Solution: Computation of chargeable capital gain of Mr. X for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale consideration</td>
<td>100,00,000.00</td>
<td>(24,68,356.41)</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition (9,99,300 /117 x 289)</td>
<td>75,31,643.59</td>
<td></td>
</tr>
<tr>
<td>Less: Deduction under section 54EC</td>
<td>(50,00,000)</td>
<td></td>
</tr>
<tr>
<td>20.03.2020 RECL bonds</td>
<td>20,00,000</td>
<td></td>
</tr>
<tr>
<td>16.04.2020 NHAI bonds</td>
<td>(70,00,000)</td>
<td></td>
</tr>
<tr>
<td>restricted to ₹50,00,000</td>
<td>(50,00,000.00)</td>
<td></td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>25,31,643.59</td>
<td></td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>25,31,643.59</td>
<td></td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Total Income (rounded off u/s 288A)</td>
<td>25,31,640.00</td>
<td></td>
</tr>
</tbody>
</table>

Computation of Tax Liability
Tax on ₹22,81,640 (25,31,640 – 2,50,000) @ 20% 4,56,328.00
Add: HEC @ 4% 18,253.12
Tax Liability 4,74,581.12
Rounded off u/s 288B 4,74,580.00

Question 4 (4 Marks)
Decide the following transactions in the context of Income-tax Act, 1961:
(i) Mrs. X transferred a vacant site to Mrs. Y for ₹4,25,000. The stamp valuation authority fixed the value of vacant site for stamp duty purpose at ₹6,00,000. The total income of Mrs. X and Mrs. Y
before considering the transfer of vacant site are ₹50,000 and ₹2,05,000 respectively. The indexed cost of acquisition for Mrs. X in respect of vacant site is ₹4,00,000 (computed).

Determine the total income of both Mrs. X and Mrs. Y taking into account the above said transaction.

(ii) Mr. X is employed in a company with taxable salary income of ₹5,00,000. He received a cash gift of ₹1,00,000 from ABC Charitable Trust (registered under section 12AA) in December 2019 for meeting his medical expenses. Is the cash gift so received from the trust chargeable to tax in the hands of Mr. X?

Answer.

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

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

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

Question 1

Mr. A is a proprietor of ABC Enterprises having 2 units which were set up on 01.07.2012. He transferred on 01.04.2019 his unit 1 by way of slump sale for a total consideration of ₹25 Lacs. The expenses is incurred for this transfer were ₹28,000/-.. His Balance Sheet as on 31.03.2019 is as under:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Total ₹</th>
<th>Assets</th>
<th>Unit 1 ₹</th>
<th>Unit 2 ₹</th>
<th>Total ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Capital</td>
<td>15,00,000</td>
<td>Building</td>
<td>12,00,000</td>
<td>2,00,000</td>
<td>14,00,000</td>
</tr>
<tr>
<td>Revaluation Reserve</td>
<td>3,00,000</td>
<td>Machinery</td>
<td>3,00,000</td>
<td>1,00,000</td>
<td>4,00,000</td>
</tr>
<tr>
<td>(for building of unit 1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Loan</td>
<td>2,00,000</td>
<td>Debtors</td>
<td>1,00,000</td>
<td>40,000</td>
<td>1,40,000</td>
</tr>
<tr>
<td>(70% for unit 1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade creditors</td>
<td>1,50,000</td>
<td>Other assets</td>
<td>1,50,000</td>
<td>60,000</td>
<td>2,10,000</td>
</tr>
<tr>
<td>(25% for unit 1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21,50,000</strong></td>
<td><strong>Total</strong></td>
<td><strong>17,50,000</strong></td>
<td><strong>4,00,000</strong></td>
<td><strong>21,50,000</strong></td>
</tr>
</tbody>
</table>

Other information:

(i) Revaluation reserve is created by revising upward the value of the building of unit 1.

(ii) No individual value of any asset is considered in the transfer deed.

Compute the capital gain for the assessment year 2020-21.

Solution:

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

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

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

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

Question 4  (7 Marks)
Mr. X (aged 55 years) owned a residential house at Nagpur. It was acquired by Mr. X on 10.10.2004 for ₹4,00,000. It was sold for ₹55,00,000 on 04.11.2019. The State stamp valuation authority fixed the value of the property at ₹70,00,000. The assessee paid 2% of the sale consideration as brokerage for the sale of said property.

Mr. X acquired a residential house at Chennai on 10.12.2019 for ₹13,00,000 and deposited ₹10,00,000 on 10.04.2020 in the capital gain bond or Rural Electrification Corporation Ltd (RECL). He deposited ₹5,00,000 on 06.07.2020 in the Capital Gain Deposit Scheme in a nationalized bank for construction of additional floor on the residential house property acquired at Chennai. Compute the capital gain chargeable to tax in the hands of Mr. X for the assessment year 2020-21. Calculate the Income Tax Payable on the assumption that he has no other income chargeable to tax.

Cost inflation index: Financial year 2004-05 = 113
Financial year 2019-20 = 289

**Solution:**

**Computation of capital gains in the hands of Mr. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deemed sale consideration (under section 50C)</td>
<td>70,00,000.00</td>
<td></td>
</tr>
<tr>
<td>Less: Brokerage @ 2% of ₹55,00,000</td>
<td>(1,10,000.00)</td>
<td></td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition 4,00,000 / 113 x 289</td>
<td>(10,23,008.85)</td>
<td></td>
</tr>
<tr>
<td><strong>Less: Exemption under sections 54 and 54EC</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Under section 54:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Residential house acquired at Chennai on 10.12.2020</td>
<td>(13,00,000)</td>
<td></td>
</tr>
<tr>
<td>(ii) Amount deposited in Capital Gains Accounts Scheme on 06.07.2020 <strong>(before the due date of filing of return)</strong> for construction of additional floor on the residential house property acquired at Chennai</td>
<td>(5,00,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Under section 54EC:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount deposited in RECL bonds on 10.04.2020 <strong>(within six months from the date of transfer)</strong></td>
<td>(10,00,000)</td>
<td></td>
</tr>
<tr>
<td>Taxable long-term capital gain</td>
<td>(28,00,000.00)</td>
<td></td>
</tr>
<tr>
<td>Total Income (Rounded off u/s 288A)</td>
<td>30,66,991.15</td>
<td></td>
</tr>
</tbody>
</table>

**Computed tax liability of Mr. X for A.Y. 2020-21**

Tax on ₹28,16,990 (₹30,66,990 – ₹2,50,000) @ 20% 5,63,398.00
Add: HEC @ 4% 22,535.92
Tax liability 5,85,933.92
Rounded off u/s 288B 5,85,930.00
Question 7
Mr. X received ₹15,00,000 on 23.01.2020 on transfer of his residential building in a transaction of reverse mortgage under a scheme notified by the Central Government. The building was acquired in March 2004 for ₹8,00,000.

Is the amount received on reverse mortgage chargeable to tax in the hands of Mr. X under the head ‘Capital Gains’?

Cost inflation index for the Financial year 2003-04 = 109
Financial year 2019-20 = 289

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

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

MAY – 2010

Question 2
Mr. X sold a house to his friend Mr. Y on 1st November, 2019 for a consideration of ₹25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty had to be paid on ₹45,00,000, which was the Government guideline value. Mr. X preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as ₹32,00,000 (₹22,00,000 for land balance for building portion). The differential stamp duty was paid, accepting the said value determined. Assuming that the fair market value is ₹32,00,000, what are the tax implications in the hands of Mr. X and Mr. Y for the assessment year 2020-21? Mr. X had purchased the land on the 1st June, 2008 for ₹5,19,000 and completed the construction of house on 1st March, 2018 for ₹14,00,000.

Cost inflation indices may be taken as 137 for the financial year 2008-09, 272 for the financial year 2017-18 and 289 for the financial year 2019-20.

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

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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long term capital gain on sale of land</strong></td>
<td></td>
</tr>
<tr>
<td>Full value of consideration</td>
<td>22,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition 5,19,000 /137 x 289</td>
<td>(10,94,824.82)</td>
</tr>
<tr>
<td>Long-term capital gain</td>
<td>11,05,175.18</td>
</tr>
<tr>
<td><strong>Short-term capital loss on sale of building</strong></td>
<td></td>
</tr>
<tr>
<td>Full value of consideration</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(14,00,000)</td>
</tr>
<tr>
<td>Short term capital loss</td>
<td>(4,00,000)</td>
</tr>
</tbody>
</table>

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹7,05,175.18 (i.e., ₹11,05,175.18 – ₹4,00,000).

NOV – 2009

Question 2
Compute the net taxable capital gains and tax liability of Smt. X on the basis of the following information:
A house was purchased on 01.05.2008 for ₹4,50,000 and was used as a residence by the owner. The owner had contracted to sell this property in June, 2019 for ₹15 lacs and had received an advance of ₹70,000...
towards sale. The intending purchaser did not proceed with the transaction and the advance was forfeited by
the owner. The property was sold in December, 2019 for ₹19,00,000. The owner, from out of sale proceeds,
Cost inflation index: Financial year 2008-09 = 137
Financial year 2019-20 = 289

**Solution:**

**Computation of net taxable capital gains of Smt. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>19,00,000.00</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>(9,49,270.07)</td>
</tr>
<tr>
<td></td>
<td>$4,50,000 / 137 x 289 = 9,49,270.07</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>9,50,729.93</td>
</tr>
<tr>
<td>Less: Exemption under section 54</td>
<td>(2,00,000.00)</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>7,50,729.93</td>
</tr>
<tr>
<td>Income under the head other sources</td>
<td>70,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>8,20,729.93</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income (Rounded off u/s 288A)</td>
<td>8,20,730.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- Tax on ₹70,000 at slab rate Nil
- Tax on ₹5,70,730 (₹7,50,730 – 1,80,000) @ 20% 1,14,146.00
- Add: HEC @ 4% 4,565.84
- Tax Liability 1,18,711.84
- Rounded off u/s 288B 1,18,710.00

**Question 4**

Explain the concept of reverse mortgage and discuss its tax implications.

**Answer. Refer answer given in the Chapter**

**Question 4**

What are the circumstances under which the Assessing Officer can make reference to the Valuation Officer u/s 55A of the Income Tax Act, 1961?

**Answer. Refer answer given in the Chapter**

**NOV – 2009**

**Question 4** (4 Marks)

Mr. X, a resident individual had purchased a plot of land at a cost of ₹75,000 in June, 2008. He constructed a
house for his residence on that land at a cost of ₹1,25,000 in August, 2011. He sold that house in May, 2019
at ₹16,00,000 and purchased another residential house in June, 2019 for ₹8,00,000. He furnishes other
income and investment as follows:

<table>
<thead>
<tr>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on fixed deposit with a Bank (after TDS) 45,000</td>
</tr>
<tr>
<td>TDS made by bank 5,000</td>
</tr>
<tr>
<td>Investment in NSC 20,000</td>
</tr>
</tbody>
</table>

You are required to compute total income and tax payable by Mr. X for the assessment year 2020-21.

Cost inflation index: Financial year 2008-09 = 137
Financial year 2011-12 = 184
Financial year 2019-20 = 289

**Solution:**

**Computation of Total Income and tax payable by Mr. X for the A.Y. 2020-21**

<table>
<thead>
<tr>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Income from Capital Gains Full value of consideration 16,00,000.00</td>
</tr>
<tr>
<td>Less : Indexed cost of acquisition of land ₹ 75,000 / 137 x 289 (1,58,211.68)</td>
</tr>
<tr>
<td>Less : Indexed cost of improvement i.e. house</td>
</tr>
</tbody>
</table>
Income Under The Head Capital Gains

\[ \frac{1,25,000}{184} \times 289 \quad (1,96,331.52) \]

\textit{Less:} Exemption under section 54

Cost of new residential house

\[ (8,00,000.00) \]

\textbf{Long term capital gains}

\[ 4,45,456.80 \]

\section*{2. Income from other sources}

Interest on Bank deposit

\[ 45,000 \quad 50,000.00 \]

\textit{Add:} Tax deducted at source

\[ 5,000 \]

\textbf{Gross Total Income}

\[ 4,95,456.80 \]

\textit{Less:} Deduction under Chapter VIA:

\textit{Deduction under section 80C}

\[ (20,000.00) \]

\textbf{Total Income}

\[ 4,75,456.80 \]

\textbf{Rounded off u/s 288A}

\[ 4,75,460.00 \]

\textbf{Computation of Tax Liability}

\begin{align*}
\text{Tax on normal income of } & \text{Rs}30,000 \quad \text{Nil} \\
\text{Tax on LTCG } & \{ \text{Rs}4,45,460 - 2,20,000 \} \times 20\% \text{ u/s 112} \\
\text{Less: Rebate u/s 87A} & \text{(12,500.00)} \\
\text{Tax before HEC} & 32,592.00 \\
\text{Add: HEC } @4\% & 1,303.68 \\
\text{Tax Liability} & 33,895.68 \\
\text{Less: TDS} & (5,000.00) \\
\text{Tax Payable} & 28,895.68 \\
\text{Rounded off u/s 288B} & 28,900.00
\end{align*}

\textbf{JUNE – 2009}

\textbf{Question 3} \hfill (4 Marks)

Mr. X is the owner of a residential house which was purchased in September, 2012 for Rs30,00,000. He sold the said house on 5th August, 2019 for Rs 58,00,000. Valuation as per stamp valuation authority of the said plot of land was Rs 70,00,000. He invested Rs 8,00,000 in NHAI Bonds on 12th January, 2020. He purchased a residential house on 8th September, 2019 for Rs 12,00,000. He gives other particulars as follows:

\begin{itemize}
  \item Interest on fixed Bank Deposit \text{Rs} 32,000
  \item Investment in public provident fund \text{Rs} 12,000
\end{itemize}

You are requested to calculate the total income for the assessment year 2020-2021 and the tax liability, if any.

Cost inflation index for F.Y. 2012-13 and 2019-20 are 200 and 289 respectively.

\textbf{Solution: Computation of total income and tax liability of Mr. X for the A.Y. 2020-21}

\begin{itemize}
  \item **Particul ars**
  \item **Capital Gains:**
  \item Sale price of the residential house \text{Rs} 58,00,000.00
  \item Valuation as per Stamp Valuation authority \text{Rs} 70,00,000.00
  \item (Value to be taken is the higher of actual sale price or valuation adopted for stamp duty purpose as per section 50C)
  \item Therefore, Consideration for the purpose of Capital Gains \text{Rs} 70,00,000.00
  \item Less: Indexed Cost of Acquisition = \text{Rs} 30,00,000 / 200 x 289 \text{Rs} 43,35,000.00
  \item **Long-term Capital gain** \text{Rs} 26,65,000.00
  \item Less: Exemption u/s 54 \text{Rs} 12,00,000.00
  \item Less: Exemption u/s 54EC \text{Rs} 8,00,000.00
  \item **Long-term Capital gain** \text{Rs} 6,65,000.00
  \item **Income from other sources:**
  \item Interest on fixed bank deposits \text{Rs} 32,000.00
  \item **Gross Total Income** \text{Rs} 6,97,000.00
  \item Less: Deduction under Chapter VI-A
Section 80C – Investment in PPF (12,000.00)

Total Income 6,85,000.00

Computation of Tax Liability

Tax on normal income of ₹20,000 Nil

Tax on LTCG

Tax on LTCG \{₹ 6,65,000 – 2,30,000\} x 20% u/s 112 87,000.00

Add : HEC @ 4% 3,480.00

Tax Liability 90,480.00

Question 4 (3 Marks)

Mr. X’s father, who is 62 years old had pledged his residential house to a bank under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. X’s father did not repay the loan on maturity and gave possession of the house to the bank to discharge his loan. How will the treatment of long-term capital gain be made on such reverse mortgage transaction?

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

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

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

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

NOV – 2008

Question 1 (2 Marks)

Capital gain of ₹75 lakh arising from transfer of long term capital assets will be exempt from tax if such capital gain is invested in the bonds redeemable after three years, issued by NHAI under section 54EC of the Act.

Answer. The statement is false.

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

NOV – 2007

Question 4. (4 Marks)

Mr. X inherited a house in Jaipur under will of his father in May, 2003. The house was purchased by his father in January, 2001 for ₹2,50,000. The market value of house as on 01.04.2001 was ₹2,70,000.

He invested an amount of ₹7,00,000 in construction of one more floor in this house in June, 2005. The house was sold by him in November, 2019 for ₹37,50,000. The valuation adopted by the registration authorities for charge of stamp duty was ₹47,25,000, but as per assessee’s request, the Assessing Officer made a reference to Valuation Officer. The value determined by the Valuation Officer was ₹47,50,000.

Brokerage @ 1% of sale consideration was paid by Mr. X to Mr. Y.

You are required to compute the amount of capital gain chargeable to tax for A.Y. 2020-21 with the help of given information 1and by taking CII for the F.Y. 2019-20 as 289, F.Y. 2003-04 as 109 and for F.Y. 2005-06 as 117.

Solution:

Computation of Long term Capital Gain for A.Y. 2020-21

Sale consideration as per section 50C of the Act 47,25,000.00

Less: Indexed cost of acquisition = 2,70,000 /100 x 289 (7,80,300.00)

Less: Indexed cost of improvement = 7,00,000 /117 x 289 (17,29,059.83)

Less: @ 1% of sale consideration of ₹ 37.50 lacs (37,500.00)

Long term capital gain 21,78,140.17
# PROFFITS AND GAINS OF BUSINESS OR PROFESSION “PGBP”

## SECTION 28 TO 44DB

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Block of Assets 2(11)

Question 1 [Imp.]: What are the incomes chargeable to tax under the head Business/Profession?
Answer: **Incomes chargeable to tax under the head Business/Profession Section 28**
As per section 28, income from any business/profession shall be taxable under the head Business/Profession and income shall be computed in the similar manner as in case of general practice of accountancy but incomes and expenditures shall be such as are given under Income Tax Act. The following incomes shall also be taxable under the head Business/Profession.

(i) Income from Speculation Business, shall be taxable under the head business/profession.

(ii) Gift in connection with business/profession
Any gift or perquisite or benefit received in connection with business/profession. If any gift has been received from any client, it will be considered to be income under the head Business/Profession e.g. If a Chartered Accountant has received gift of ₹30,000 from one of his client, it will be considered to be his income under the head business/profession.

*Example*
ABC Ltd. has engaged one Advocate with regard to its legal proceedings. The company has provided him facilities of free travelling, boarding/lodging and has incurred ₹25,000, it will be considered to be professional receipt of the Advocate.

(iii) Payments for not pursuing any business activity or profession/non-compete fee
If any person has received any payment from any other person for not pursuing any business activity or profession i.e. payment has been received for closing down the business or profession, it will also be considered to be income under the head business/profession. Similarly if payment has been received for not using any patent right or technical know-how or other similar right, it will also be considered to be income under the head business/profession.

It is also called non-compete fee. The person making payment should deduct tax at source @ 10% as per section 194J.

*Example*
ABC Ltd. has received ₹30,00,000 for not carrying out a particular business activity, in this case, the amount so received shall be considered to be income of the assessee.

*Example*
ABC Ltd. has received ₹10,00,000 for not sharing a particular patent, in this case, it will be considered to be income under the head business/profession.

(iv) 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.

(v) Export Incentives
If any manufacturer is exporting the goods manufactured by him, in such cases he may be given certain incentives by the Govt. and such incentives are called export incentives and shall be considered to be income of the assessee under the head business/profession and in general there are two types of incentives:
(i) GST paid by the assessee on inputs or other goods shall be refunded to assessee as an incentive and it will be called duty drawback i.e. drawing back the duty paid by the assessee.
(ii) The exporters are issued special licenses for importing goods without payment of custom duty and such licenses are called import entitlement licenses and an exporter is allowed to sell it in the market and profit on sale of import entitlement license shall be considered to be income under the head business/profession.

Example
ABC Ltd. has computed its income to be ₹20,00,000 and some of the entries noted from profit and loss account are as given below:
1. Company has debited the amount of opening stock ₹33,00,000 which is overvalued by 10%.
2. Company has received duty drawbacks of ₹7,00,000 but the amount has not been credited to the profit and loss account.
3. The company has received import entitlement license from the Government and it was sold it at a profit of ₹3,00,000. The amount has not been credited to the profit and loss account.

Solution:
In this case company’s tax liability shall be:
- Net profit as per profit and loss account ₹20,00,000
- Opening stock overvalued (33,00,000 /110 x 10) ₹3,00,000
- Duty drawback received ₹7,00,000
- Sale of import entitlement license ₹3,00,000
- Income under the head business/profession ₹33,00,000
- Total Income ₹33,00,000

Computation of Tax Liability
- Tax on ₹33,00,000 @ 30% ₹9,90,000
- Add: HEC @ 4% ₹39,600
- Tax Liability ₹10,29,600

(vi) If any person has received any amount in connection with termination or modification of terms and conditions of any contracts relating to his business, amount so received shall be considered to be income under the head business/profession.

(vii) If any person has converted any inventory or stock in trade in to a capital asset, in such cases business income shall be computed and for this purpose fair market value of the inventory on the date of conversion shall be taken into consideration, eg. ABC limited is engaged in business of sale/purchase of generators but company has used one generator in its business premises which was purchased for ₹10,00,000 but market value is ₹11,00,000, in this case there will be business income of ₹1,00,000 and for the purpose of charging depreciation, value shall be taken to be ₹11,00,000.

Income from profits and gains of business or profession, how computed Section 29
The income referred to in section 28 shall be computed in accordance with the provisions contained in sections 30 to 43D.

Question 2: Write a note on deductibility of expenditures relating to Buildings.
Answer: Rent, Rates, Taxes, Repairs and Insurance for Buildings Section 30
If any assessee has any building in the use of business/profession, all expenses relating to the building shall be allowed to be debited to the profit and loss account and such expenses may be:
- (i) Repairs expenses
- (ii) Municipal tax or local tax or land revenue (but on payment basis as per section 43B)
- (iii) Premium for insurance of house
(iv) Any other expenditure like depreciation etc.

**If the building is owned by the assessee, he is not allowed to debit rent on notional basis**
(No income shall be computed with regard to this house property under the head house property).

**Question 3: Write a note on deductibility of expenditures relating to Plant and Machinery and Furniture and Fixtures.**
**Answer:** As per section 31 if any assessee has any plant and machinery or furniture/fixture in his business/profession, assessee is allowed to debit all the expenses to the profit and loss account and such expenses may be like repairs or insurance or rent etc. If plant & machinery etc are owned by the assessee, its notional rent is not allowed to be debited.

**Question 4: Write a note on rates of Depreciation.**
**Answer: Depreciation   Section 32**
Depreciation under Income Tax Act is allowed on the basis of written down value method but in case of power generating unit, the assessee has the option to compute depreciation either on the basis of written down value method or on the basis of Straight Line Method. Rate of depreciation shall be as given below:

1. Residential Building 5%
2. Commercial building including roads/bridges etc. 10%
3. Purely temporary erections such as wooden structures 40%
4. Furniture and fittings 10%

In general all assets are plant and machinery except buildings and furniture fixture and rates of depreciation are as given below:

1. Machinery and plant other than those mentioned below (like air-conditioner, generator, fire-extinguisher etc.) 15%
2. Motor cars 15%
3. Computers including computer software 40%
4. Books 40%
5. Pollution control equipment 40%

**Intangible Assets**
Know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature 25%

Goodwill 25%

**Goodwill is an intangible asset and depreciation shall be allowed on goodwill, as decided in, Smifs Securities Ltd vs CIT (SC)**

**Question 5 [V. Imp.]: Write a note on computation of Depreciation.**
**Answer: Computation of Depreciation**
If any particular asset is purchased during the year and it has been put to use for less than 180 days during the year, in that case, depreciation is allowed at half the normal rate. If it is purchased during the year and is not at all put to use, depreciation shall not be allowed. But in the subsequent year whenever the asset is put to use, full depreciation shall be allowed irrespective of period of use.

“Put to use” do not mean putting the asset to actual use rather it means making an asset ready for use.

**Example**
ABC Ltd. has purchased one plant and machinery on 01.07.2019 for ₹30,00,000, it was installed on 01.10.2019, but it was brought into actual use w.e.f. 01.03.2020, in this case, depreciation allowed shall be ₹4,50,000, because the asset was put to use for 180 days or more, but if the asset was installed on 10.10.2019, depreciation allowed shall be ₹2,25,000. If the asset was not at all installed in the year 2019-20, depreciation allowed in 2019-20 shall be nil. If the asset was installed on 31.03.2021, depreciation allowed in 2019-20 shall be nil, but the depreciation allowed in the year 2020-21, shall be ₹4,50,000.

If any asset has been sold at any time during the year, in that case, depreciation is not allowed for that year.

**Example**
ABC Ltd. purchased one plant and machinery on 01.10.2014, its written down value on 01.04.2019 is ₹20,00,000 but it was sold on 31.03.2020, in this case, no depreciation is allowed in the previous year 2019-
20. **Question 6: Write a note on Computation of depreciation on the basis of block of assets.**

**Answer:**
Under section 32, depreciation under income tax is allowed on the basis of written down value method. It is not computed on the basis of individual assets rather on the basis of a group of assets called Block of Assets which means a group of similar type of assets having same rate of depreciation and shall be computed in the manner given below:

1. Take opening written down value of the particular block of asset as on 1st day of April of the relevant year.
2. Add purchases during the year.
3. Deduct sale value in case of sale and amount of insurance claim in case of fire or theft etc. or scrap value in case of discarded assets.
4. Apply depreciation on the balance amount as on the last day of the year.
5. If any asset was put to use for less than 180 days, depreciation shall be allowed at half the normal rate and for this purpose its actual cost shall be separated from the total written down value of the block and if total written down value is less than the actual cost, depreciation shall be applied on the written down value of the block at half the normal rate.
6. If there is a negative balance at the end of the year, it will be considered to be short term capital gain as per section 50 and no depreciation is allowed.
7. If there is no asset at the end of the year but still there is some balance, it will be considered to be short term loss as per section 50 and no depreciation is allowed.

**Computation of depreciation can be illustrated in the manner given below:**

**Situation 1:**

| Written down value of plants A, B, C on 01.04.2019 | ₹ 70,00,000 |
| Add: purchased plant D on 05.05.2019 and put to use on 05.05.2019 | ₹ 20,00,000 |
| Less: sale of plant A | ₹ (18,00,000) |
| Less: depreciation for the year @ 15% | ₹ (10,80,000) |
| Written down value of plant B, C, D as on 01.04.2020 | ₹ 61,20,000 |

**Situation 2:**

| Written down value of plants A, B, C on 01.04.2019 | ₹ 70,00,000 |
| Add: purchased plant D on 05.05.2019 and put to use on 01.12.2019 | ₹ 20,00,000 |
| Less: sale of plant A | ₹ (18,00,000) |
| Less: depreciation [7.5% on 20 Lakhs & 15% on 52 Lakhs] | ₹ (9,30,000) |
| Written down value of plants B, C, D as on 01.04.2020 | ₹ 62,70,000 |

**Situation 3:**

| Written down value of plants A, B, C on 01.04.2019 | ₹ 70,00,000 |
| Add: purchased plant D on 05.05.2019 and put to use on 01.12.2019 | ₹ 20,00,000 |
| Less: sale of plant A | ₹ (75,00,000) |
| Less: depreciation [7.5% on 15 Lakhs] | ₹ (1,12,500) |
| Written down value of plants B, C, D as on 01.04.2020 | ₹ 13,87,500 |

**Situation 4:**

| Written down value of plants A, B, C on 01.04.2019 | ₹ 70,00,000 |
| Less: Sale of plant A | ₹ (75,00,000) |
| Short term capital gain under section 50 | ₹ 5,00,000 |
| Depreciation for the year | Nil |
| Written down value of plants B, C as on 01.04.2020 | Nil |

**Situation 5:**

| Written down value of plants A, B, C on 01.04.2019 | ₹ 70,00,000 |
| Less: Sale of plant A, B, C | ₹ (20,00,000) |
Illustration 1: Mr. X started his business on 01.04.2016 and purchased various plants and machinery as given below:

He has purchased plant P1 on 01.04.2016 which was put to use on 01.06.2016 for ₹20,00,000.
He has purchased plant P2 on 01.05.2016 which was put to use on 01.07.2016 for ₹25,00,000.
He has purchased plant P3 on 01.06.2016 which was put to use on 01.09.2016 for ₹35,00,000.
He has purchased plant P4 on 01.07.2016 which was put to use on 01.09.2016 for ₹35,00,000.
He sold plant P1 on 01.01.2017 for ₹11,00,000.
He purchased plant P5 on 01.05.2017 and was put to use on 01.11.2017 for ₹26,00,000.
He purchased plant P6 on 01.12.2017 and was put to use on 31.03.2018 for ₹20,00,000.
He purchased plant P7 on 01.06.2018 and put to use on 10.12.2018 for ₹10,00,000.
He sold plant P2 on 31.03.2019 for ₹9,00,000.
He purchased plant P8 on 01.07.2019 and was put to use on 01.01.2020 for ₹27,00,000.

Determine depreciation for various years. (Ignore additional depreciation)

Solution:

Plant and Machinery, Depreciation @ 15%

Previous Year 2016-17

| Description | Date of purchase | Date when put to use | Amount
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased P1</td>
<td>01.04.2016</td>
<td>01.06.2016</td>
<td>₹20,00,000.00</td>
</tr>
<tr>
<td>Purchased P2</td>
<td>01.05.2016</td>
<td>01.07.2016</td>
<td>₹25,00,000.00</td>
</tr>
<tr>
<td>Purchased P3</td>
<td>01.06.2016</td>
<td>01.09.2016</td>
<td>₹25,00,000.00</td>
</tr>
<tr>
<td>Purchased P4</td>
<td>01.07.2016</td>
<td>01.09.2016</td>
<td>₹35,00,000.00</td>
</tr>
</tbody>
</table>

Sale P1 on 01.01.2017

| Description | Date of purchase | Date when put to use | Amount
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale P1</td>
<td>01.01.2017</td>
<td></td>
<td>(11,00,000.00)</td>
</tr>
</tbody>
</table>

Written down value P2, P3 and P4 on 31.03.2017

| Description | Date of purchase | Date when put to use | Amount
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value P2, P3 and P4</td>
<td></td>
<td>31.03.2017</td>
<td>₹94,00,000.00</td>
</tr>
</tbody>
</table>

Depreciation @ 15%

| Description | Date of purchase | Date when put to use | Amount
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
<td>₹14,10,000.00</td>
</tr>
</tbody>
</table>

Previous Year 2017-18

| Description | Date of purchase | Date when put to use | Amount
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased P5</td>
<td>01.05.2017</td>
<td>01.11.2017</td>
<td>₹26,00,000.00</td>
</tr>
<tr>
<td>Purchased P6</td>
<td>01.12.2017</td>
<td>31.03.2018</td>
<td>₹20,00,000.00</td>
</tr>
<tr>
<td>Written down value P2, P3, P4, P5 and P6</td>
<td></td>
<td>31.03.2018</td>
<td>₹1,25,90,000.00</td>
</tr>
</tbody>
</table>

Depreciation @ 7.5% | ₹46,00,000 | 3,45,000.00 | 11,98,500.00 |

Depreciation @ 15% | ₹79,90,000 | 14,10,000.00 |

Previous Year 2018-19

| Description | Date of purchase | Date when put to use | Amount
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value P2, P3, P4, P5 and P6</td>
<td></td>
<td>01.04.2018</td>
<td>₹1,10,46,500.00</td>
</tr>
<tr>
<td>Purchased P7</td>
<td>01.06.2018</td>
<td>10.12.2018</td>
<td>₹10,00,000.00</td>
</tr>
<tr>
<td>Sale P2</td>
<td>31.03.2019</td>
<td></td>
<td>(9,00,000.00)</td>
</tr>
<tr>
<td>Written down value P3, P4, P5, P6 and P7</td>
<td></td>
<td>31.03.2019</td>
<td>₹1,11,46,500.00</td>
</tr>
</tbody>
</table>

Depreciation @ 7.5% | ₹10,00,000 | 75,000.00 |

Depreciation @ 15% | ₹1,01,46,500 | 15,21,975.00 |

Previous Year 2019-20

| Description | Date of purchase | Date when put to use | Amount
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value P3, P4, P5, P6 and P7</td>
<td></td>
<td>01.04.2019</td>
<td>₹95,49,525.00</td>
</tr>
<tr>
<td>Purchased P8</td>
<td>01.07.2019</td>
<td>01.01.2020</td>
<td>₹27,00,000.00</td>
</tr>
<tr>
<td>Written down value P3, P4, P5, P6, P7 and P8</td>
<td></td>
<td>31.03.2020</td>
<td>₹1,22,49,525.00</td>
</tr>
</tbody>
</table>

Depreciation @ 7.5% | ₹27,00,000 | 2,02,500.00 |

Depreciation @ 15% | ₹95,49,525 | 14,32,428.75 |

MAY-2007 (4 Marks)

A newly qualified Chartered Accountant Mr. X, commenced practice and has acquired the following assets in his office during F.Y. 2019-20 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y. 2020-21:

| Sl. No. | Description | Date of acquisition | Date when put to use | Amount
|---------|-------------|----------------------|----------------------|--------|
4. Books 1 Apr., 2019 1 Apr., 2019 13,000
5. Office furniture (Acquired from practising C.A.) 1 Apr., 2019 1 Apr., 2019 3,00,000
7. Fire extinguisher 1 Apr., 2019 (No instance arose to use during F.Y. 2019-20)

8. Purchased practising CA’s office in April’ 2019 who had run it for 4 years, for ₹5 lacs which includes ₹2 lacs for goodwill and ₹3 lacs for cost of furniture (included in 5 above)

Note: Depreciation is to be provided at the applicable rates.

Answer: Computation of depreciation allowable for A.Y. 2020-21

Computation of depreciation

Block of Assets ₹

Block 1: Furniture – rate 10%
₹3,00,000 @ 10% 30,000

Block 2: Computer – rate 40%
Computer 35,000
Computer software 8,500
Total 43,500

Block 3: Books – rate 40%
Books 13,000 @ 40% 5,200

Block 4: Plant – Rate 15%
Computer printer 12,500
Fire extinguisher 2,500
Total 15,000 @ 15% 2,250

(Block whether computer printer is computer or plant and machinery is controversial)

Block 5: Intangible Asset – Rate 25%
Goodwill 2,00,000 @ 25% 50,000

As per Smifs Securities Ltd vs CIT (SC) Goodwill is an intangible asset.

MAY-2010 (4 Marks)

Mr. X has the following Assets which are eligible for depreciation at 15% on Written Down Value (WDV) basis:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.04.2016</td>
<td>WDV of plant ‘X’ and Plant ‘Y’</td>
<td>₹2,00,000</td>
</tr>
<tr>
<td>10.12.2019</td>
<td>Acquired a new plant ‘Z’ for</td>
<td>₹2,00,000</td>
</tr>
<tr>
<td>22.01.2020</td>
<td>Sold plant ‘Y’ for</td>
<td>₹4,00,000</td>
</tr>
<tr>
<td></td>
<td>Expenditure incurred in connection</td>
<td>₹10,000</td>
</tr>
<tr>
<td></td>
<td>with transfer</td>
<td></td>
</tr>
</tbody>
</table>

Compute eligible depreciation claim/chargeable capital gain if any, for the Assessment Year 2020-21.

Solution:

Computation of depreciation and capital gains of Mr. X for the A.Y. 2020-21 ₹

W.D.V. of Plant ‘X’ & Plant ‘Y’ as on 01.04.2016 2,00,000
Less: Depreciation @ 15% for the assessment year 2017-18 (30,000)
W.D.V. of Plant ‘X’ & Plant ‘Y’ as on 01.04.2017 1,70,000
Less: Depreciation @ 15% for the assessment year 2018-19 (25,500)
W.D.V. of Plant ‘X’ & Plant ‘Y’ as on 01.04.2018 1,44,500
Less: Depreciation @ 15% for the assessment year 2019-20 (21,675)
W.D.V. of Plant ‘X’ & Plant ‘Y’ as on 01.04.2019 1,22,825
Add : Cost of new Plant ‘Z’ acquired during the previous year ending on 31.03.2020 2,00,000
Less: Sale consideration of Plant ‘Y’ ₹4,00,000 (restricted to) (3,22,825)
W.D.V. of Plant ‘X’ and ‘Z’ as on 01.04.2020 Nil
Depreciation Nil
Sale proceeds of Plant ‘Y’ 4,00,000
Less: Deduction under section 50 (3,22,825)
W.D.V of the block Expenditure incurred in connection with transfer (10,000)
Short term Capital Gains 67,175

**Question 7:** Write a note on Additional Depreciation.

**Answer:** Additional Depreciation Section 32

Additional depreciation shall be allowed @ 20% to all the assessee in connection with plant and machinery for the purpose of manufacturing and also to the assessee engaged in generation, transmission or distribution of electricity. Additional depreciation shall be allowed only in the year in which asset has been put to use. It is allowed only once i.e. it is not allowed every year.

**Additional depreciation is not allowed** in the following cases:

(i) Second hand plant and machinery i.e. plant and machinery should be brand new

(ii) Any machinery or plant installed in any office premises or any residential accommodation, including accommodation in the nature of a guest-house or

(iii) Any office appliances or road transport vehicles or ships and aircraft

(iv) Any machinery or plant, the actual cost of which has been debited to profit and loss account.

If the asset is purchased and put to use for less than 180 days, additional depreciation shall be allowed at 10% and remaining additional depreciation shall be allowed in the subsequent year.

**Illustration 2:** ABC Ltd. is engaged in manufacturing and has submitted information as given below:

1. Factory Building – Written down value on 01.04.2019 was ₹12,00,000.
2. Plant and Machinery (Rate 15%) – Written down value on 01.04.2019 is ₹8,70,000.
3. Purchase of new plant (eligible for additional depreciation) on 30.06.2019 (Put to use on 01.07.2019) ₹1,20,000.
4. Purchase of new plant (eligible for additional depreciation) on 31.12.2019 (Put to use on 01.01.2020) ₹1,10,000.
6. Motor Car (Rate 15%) – Written down value on 01.04.2019 was ₹1,20,000.
7. Sale of Car on 30.09.2019 ₹1,50,000.

Compute depreciation allowed.

**Solution:**

| Factory Building, Depreciation @ 10% |
|-------------------------------|-----------------|
| Written down value on 01.04.2019 | 12,00,000       |
| Depreciation @ 10%              | 1,20,000        |

<table>
<thead>
<tr>
<th>Plant and Machinery, Depreciation @ 15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value on 01.04.2019</td>
</tr>
<tr>
<td>Purchase on 30.06.2019, put to use on 01.07.2019</td>
</tr>
<tr>
<td>Purchase on 31.12.2019, put to use on 01.01.2020</td>
</tr>
<tr>
<td>Sale of old plant on 01.12.2019</td>
</tr>
<tr>
<td>Written down value on 31.03.2020</td>
</tr>
<tr>
<td>Depreciation @ 15% on ₹3,50,000</td>
</tr>
<tr>
<td>Depreciation @ 7.5% on ₹1,10,000</td>
</tr>
</tbody>
</table>
**Income Under The Head Business/Profession**

**Additional depreciation**
- 1,20,000 x 20% = 24,000
- 1,10,000 x 10% = 11,000

**Motor Car, Depreciation @ 15%**
- Written down value on 01.04.2019 = 1,20,000
- Sale on 30.09.2019 = (1,50,000)
- Short term capital gain = 30,000

**Illustration 3:** ABC Ltd. an industrial undertaking has started manufacturing on 01.05.2019 and the company has purchased the following asset:
2. Air-conditioner and generator for ₹2,00,000, purchased on 01.08.2019 and put to use on 10.08.2019 for use in office premises.
4. One T.V. and one fridge for ₹50,000, purchased and put to use on 01.05.2019.
5. Furniture and fixture for use in factory ₹5,00,000, purchased and put to use on 01.06.2019.

Depreciation and additional depreciation shall be allowed in the manner given below:

**Solution:**

**Computation of Depreciation**

**Block – I**

**Plant and machinery, depreciation @ 15%**
- Plant and Machinery purchased on 01.07.2019, put to use on 15.07.2019 = 30,00,000
- Air-conditioner and generator purchased on 01.08.2019, put to use on 10.08.2019 = 2,00,000
- One T.V. and one fridge purchased and put to use on 01.05.2019 = 50,000

- Depreciation @ 15% = 4,87,500
- Additional depreciation on plant and machinery for use in factory [30,00,000 x 20%] = 6,00,000

**Block – II**

**Motor Car, depreciation @ 15%**
- Motor Car purchased on 01.09.2019 and put to use on 10.09.2019 = 10,00,000
- Depreciation @ 15% = 1,50,000

**Block – III**

**Furniture and Fixtures, depreciation @ 10%**
- Furniture and fixture for use in factory, purchased and put to use on 01.06.2019 = 5,00,000
- Depreciation @ 10% = 50,000

**NOV-2013 (4 Marks)**

Mr. X is engaged in the business of generation and distribution of electric power. He always claims depreciation on written down value. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2020-21:

( ₹ in lacs)

(i) Opening WDV of block (15% rate) = 42
(ii) New machinery purchased on 12.10.2019 = 10
(iii) Machinery imported from Colombo on 12.04.2019. This machine had been used only in Colombo earlier and the assessee is the first user in India. = 9
(iv) New computer installed in generation wing of the unit on 15.07.2019 = 2

**Solution:**

**Computation of depreciation under section 32 for A.Y.2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Block 15%</strong></td>
<td></td>
</tr>
<tr>
<td>Opening w.d.v. as on 01.04.2019</td>
<td>42,00,000</td>
</tr>
<tr>
<td>Add: New Machinery purchased and put to use on 12.10.2019</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Add: Machinery imported from Colombo purchased and put to use on 12.04.2019</td>
<td>9,00,000</td>
</tr>
<tr>
<td>Income Under The Head Business/Profession</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>W.d.v. as on 31.03.2020</td>
<td>61,00,000</td>
</tr>
<tr>
<td>Normal Depreciation @ 7.5% on ₹10,00,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Normal Depreciation @ 15% on ₹51,00,000</td>
<td>7,65,000</td>
</tr>
<tr>
<td>Additional depreciation @ 10% on ₹10,00,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td><strong>Block 40%</strong></td>
<td></td>
</tr>
<tr>
<td>New Computer in Generation wing purchased and put to use on 15.07.2019</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Normal Depreciation @ 40% on ₹2,00,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Additional depreciation @ 20% on ₹2,00,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

**Illustration 4:** ABC Ltd. is engaged in manufacturing and company has purchased new plant and machinery during the previous year 2019-20
1. ₹ 20.00 crore (purchased and put to use on 01.07.2019)
2. ₹30.00 crore (purchased and put to use on 01.11.2019)
Compute depreciation / additional depreciation and also w.d.v as on 01.04.2020.

**Solution:**

<table>
<thead>
<tr>
<th>Computation of depreciation / additional depreciation</th>
<th>Crore (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and machinery purchased and put to use on 01.07.2019</td>
<td>20.00</td>
</tr>
<tr>
<td>Plant and machinery purchased and put to use on 01.11.2019</td>
<td>30.00</td>
</tr>
<tr>
<td>Less: depreciation @ 15% on ₹20.00</td>
<td>(3.00)</td>
</tr>
<tr>
<td>Less: depreciation @ 7.5% on ₹30.00</td>
<td>(2.25)</td>
</tr>
<tr>
<td>Less: Additional depreciation @ 20% on ₹20.00</td>
<td>(4.00)</td>
</tr>
<tr>
<td>Less: Additional depreciation @ 10% on ₹30.00</td>
<td>(3.00)</td>
</tr>
<tr>
<td>w.d.v as on 01.04.2020</td>
<td>37.75</td>
</tr>
</tbody>
</table>

**Illustration 5:** ABC Ltd. is engaged in manufacturing and company has purchased plant and machinery during the previous year 2019-20 for ₹26 crores (purchased and put to use on 10.11.2019) and it includes second hand plant and machinery for ₹5 crores.
Compute depreciation / additional depreciation and also w.d.v as on 01.04.2020.

**Solution:**

<table>
<thead>
<tr>
<th>Computation of depreciation / additional depreciation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and machinery purchased and put to use on 10.11.2019</td>
<td>26 crore</td>
</tr>
<tr>
<td>Less: depreciation @ 7.5% on ₹26 crore</td>
<td>(1.95 crore)</td>
</tr>
<tr>
<td>Less: Additional depreciation @ 10% on ₹21 crore</td>
<td>(2.10 crore)</td>
</tr>
<tr>
<td>w.d.v as on 01.04.2020</td>
<td>21.95 crore</td>
</tr>
</tbody>
</table>

**MAY – 2014 (4 Marks)**

JK Ltd., a manufacturing company purchased the following new Plant and Machinery.

<table>
<thead>
<tr>
<th>Date of Acquisition and Installation</th>
<th>Actual Cost (in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25.05.2019</td>
<td>10.00</td>
</tr>
<tr>
<td>31.10.2019</td>
<td>22.00</td>
</tr>
</tbody>
</table>

From the above information compute the amount of depreciation available u/s 32, additional depreciation, if any for the Assessment Years 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Computation of depreciation allowance under section 32 for the A.Y. 2020-21</th>
<th>₹ in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Plant and Machinery acquired and installed during the P.Y.2019-20</td>
<td>32.00</td>
</tr>
<tr>
<td>Depreciation for P.Y.2019-20 @ 15% on ₹10.00 crore</td>
<td>(1.50)</td>
</tr>
<tr>
<td>Depreciation for P.Y.2019-20 @ 7.5% on ₹22.00 crore</td>
<td>(1.65)</td>
</tr>
<tr>
<td>Additional Depreciation @ 20% on ₹10.00 crore</td>
<td>(2.00)</td>
</tr>
<tr>
<td>Additional Depreciation @ 10% on ₹22.00 crore</td>
<td>(2.20)</td>
</tr>
<tr>
<td>WDV as on 01.04.2020</td>
<td>24.65</td>
</tr>
</tbody>
</table>
Question 8: Write a note on depreciation in case of Amalgamation, Demerger, Conversion of Proprietary Concern or Partnership Firm into a Company or Conversion of Private Limited Company or Unlisted Public Company into Limited Liability Partnership Firm.

Answer: As per section 32, depreciation shall be computed considering that no such amalgamation etc. has taken place and the depreciation so computed shall be apportioned between the predecessor and successor in the ratio of number of days the asset was used by each one of them.

Example
M/s XY & Co., a sole proprietary concern is converted into a company, XY Co. Ltd. with effect from December 29, 2019. The written down value of assets as on April 1st, 2019 is as follows:

<table>
<thead>
<tr>
<th>Items</th>
<th>Rate of Dep.</th>
<th>WDV as on 1st April, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>10%</td>
<td>₹3,50,000</td>
</tr>
<tr>
<td>Furniture</td>
<td>10%</td>
<td>₹ 50,000</td>
</tr>
<tr>
<td>Plant and Machinery</td>
<td>15%</td>
<td>₹2,00,000</td>
</tr>
</tbody>
</table>

Further, on October 15, 2019, M/s XY & Co. purchased a plant for ₹1,00,000 (rate of depreciation 15%) and it was put to use on the same date. After conversion, the company added another plant worth ₹50,000 (rate of depreciation 15%) on 01.01.2020 and put to use on the same date.

Compute the depreciation available to (i) M/s XY & Co. and (ii) XY Co. Ltd. for Assessment Year 2020-21.

Solution:
As per section 32, while determining depreciation, if there is change of ownership of assets because of conversion of sole proprietary concern into company, depreciation will be calculated in the manner given below:

**Building**
Depreciated value on April 1st, 2019: 3,50,000
Depreciation @ 10%: 35,000

**Furniture**
Depreciated value on April 1st, 2019: 50,000
Depreciation @ 10%: 5,000

**Plant and Machinery**
Depreciated value on April 1st, 2019: 2,00,000
Add: Cost of new plant and machinery: 1,00,000
Written down value: 3,00,000
Depreciation @ 7.5% on ₹1,00,000: 7,500
Depreciation @ 15% on ₹2,00,000: 30,000
Number of days when assets are used by Sole Proprietors: 272 days
Company: 94 days
Depreciation available to the sole proprietary Concern: 70,000 / 366 x 272 = 52,021.86
7,500 / 169 x 75 = 3,328.40
Depreciation available to the company: 70,000 / 366 x 94 = 17,978.14
7,500 / 169 x 94 = 4,171.60
Depreciation to the company on plant purchased for ₹50,000: 50,000 x 7.5% = 3,750.00
Total depreciation allowed to the company: 25,899.74

**NOV-2014 (4 Marks)**
Mr. X carrying on business as proprietor converted the same into a limited company by name X Pipes (P) Ltd. from 01.07.2019 The details of the assets are given below:

| Block — I WDV of plant & machinery (rate of depreciation @ 15%) | ₹12,00,000 |
| Block - II WDV of building (rate of depreciation @ 10%)           | ₹25,00,000 |
The company X Pipes (P) Ltd. acquired plant and machinery in December 2019 for 10,00,000. It has been doing the business from 01.07.2019.

Compute the quantum of depreciation to be claimed by Mr. X and successor X Pipes (P) Ltd. for the assessment year 2020-21.

Note: Ignore additional depreciation.

**Solution:**

Section 32 is applicable while determining depreciation, if there is change of ownership of assets because of conversion of sole proprietary concern into company. In respect of assets transferred to the company, depreciation will be calculated as under:

| Block — I | Depreciated value on April 1st, 2019 | 12,00,000 |
| Block - II | Depreciation @ 15% | 1,80,000 |

**Plant and Machinery**

| Cost of new plant and machinery | 10,00,000 |
| Depreciation @ 7.5% on 10,00,000 | 75,000 |

Number of days when assets are used by

| Sole Proprietors | 91 days |
| Company | 275 days |

Depreciation available to the sole proprietary Concern (i.e. 91 / 366 of 4,30,000) 1,06,912.57

Depreciation available to the company (i.e. 275 / 366 of 4,30,000) 3,23,087.43

Total depreciation allowed to the company 3,98,087.43

*Note:* The depreciation on the plant which was purchased after conversion shall be allowed to the company and further it is presumed that the plant was put to use on the date of purchase.

**NOV-2010 (4 Marks)**

X Ltd. has a block of assets carrying 15% rate of depreciation, whose written down value on 01.04.2019 was ₹40 lacs. It purchased another asset of the same block on 01.11.2019 for ₹14.40 lacs and put to use on the same day. X Ltd. was amalgamated with Y Ltd. with effect from 01.01.2020.

You are required to compute the depreciation allowable to X Ltd. & Y Ltd. for the previous year ended on 31.03.2020.

**Solution:**

**Statement showing computation of depreciation allowable to X Ltd. & Y Ltd. for P.Y. 2019-20**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value (WDV) as on 01.04.2019</td>
<td>₹40,00,000</td>
</tr>
<tr>
<td>Addition during the year (used for less than 180 days)</td>
<td>₹14,40,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>₹54,40,000</strong></td>
</tr>
<tr>
<td>Depreciation on ₹40,00,000 @ 15%</td>
<td>₹6,00,000</td>
</tr>
<tr>
<td>Depreciation on ₹14,40,000 @ 7.5%</td>
<td>₹1,08,000</td>
</tr>
<tr>
<td><strong>Total depreciation for the year</strong></td>
<td><strong>₹7,08,000</strong></td>
</tr>
</tbody>
</table>

**Apportionment between two companies:**

(a) Amalgamating company, X Ltd.

| ₹6,00,000 / 366 × 275 | 4,50,819.67 |
| ₹1,08,000 / 152 × 61 | 43,342.11 |
| 4,94,161.78 |

(b) Amalgamated company, Y Ltd.

| ₹6,00,000 / 366 × 91 | 1,49,180.33 |
Question 9: Special deduction (Investment Allowance) in case of new plant or machinery in notified backward areas in certain States  Section 32AD.

**Answer:**
Deduction shall be allowed to an assessee having manufacturing unit in the backward area of the states of Andhra Pradesh, Bihar, Telangana or West Bengal. Deduction shall be allowed @ 15% of the actual cost of new plant and machinery which is installed during the previous year.

Additional depreciation shall be allowed @ 35% instead of 20%.

If the plant and machinery has been sold within a period of 5 years from the date of installation, investment allowance allowed shall be considered to be income under the head business/profession of the year in which the asset has been sold.

Plant and machinery shall be the same as in case of additional depreciation.

**Illustration 6 (From supplementary):** X Ltd. set up a manufacturing unit in notified backward area in the state of Telangana on 01.06.2019. It invested ₹30 crore in new plant and machinery on 01.06.2019. Further, it invested ₹25 crore in the plant and machinery on 01.11.2019, out of which ₹5 crore was second hand plant and machinery. Compute the depreciation allowable under section 32. Is X Ltd. entitled for any other benefit in respect of such investment? If so, what is the benefit available?

**Solution:**

**Computation of depreciation under section 32 for X Ltd. for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and machinery acquired on 01.06.2019</td>
<td>30.000</td>
</tr>
<tr>
<td>Plant and machinery acquired on 01.11.2019</td>
<td>25.000</td>
</tr>
<tr>
<td>WDV as on 31.03.2020</td>
<td>55.000</td>
</tr>
<tr>
<td>Less: Depreciation @ 15% on ₹30 crore</td>
<td>4.500</td>
</tr>
<tr>
<td>Depreciation @ 7.5% (50% of 15%) on ₹25 crore</td>
<td>1.875</td>
</tr>
<tr>
<td>Additional Depreciation @ 35% on ₹30 crore</td>
<td>10.500</td>
</tr>
<tr>
<td>Additional Depreciation @ 17.5% (50% of 35%) on ₹20 crore</td>
<td>3.500</td>
</tr>
<tr>
<td>WDV as on 01.04.2020</td>
<td>34.625</td>
</tr>
</tbody>
</table>

**Computation of deduction under section 32AD for X Ltd. for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduction under section 32AD @ 15% on ₹50 crore</td>
<td>7.50</td>
</tr>
</tbody>
</table>

Question 10: Write a note on depreciation in case of Power Generating Units.

**Answer: Depreciation in case of Power Generating Units**

A power generating unit shall have the option to claim depreciation either on the basis of SLM or WDV and any option taken cannot be changed subsequently.

If the assessee has claimed depreciation on the basis of WDV, depreciation shall be allowed on the basis of block of the assets and if depreciation is claimed on SLM, depreciation shall be computed on the basis of individual asset however concept of 180 days shall be applicable. Rate of depreciation for SLM shall be as prescribed under Income Tax Act.

In case of sale of asset, tax treatment shall be as given below:

**Sale of asset**

**Terminal depreciation**

If the asset is sold, any loss on their sale shall be considered to be terminal depreciation and shall be allowed to be debited to the profit and loss account.

**Balancing Charge   Section 41(2)**

If any asset has been sold or destroyed etc. and depreciation was claimed on SLM basis, any profit on sale shall be considered to be income under the head business/profession and shall be called balancing charge but only to the extent depreciation was debited to the profit and loss account.

If the amount is received after closing down of the business, still it will be considered to be income under
the head business/profession i.e. it will be a case of having income under the head business/profession but without any business/ profession.
The excess over it shall be taxable as capital gains under section 50A.

Example
ABC Ltd. is a power generating unit and the company has purchased one plant and machinery on 01.07.2016 for ₹20 lakhs (not eligible for additional depreciation) and it was put to use on 01.11.2016 and rate of depreciation is 7.8%, in this case depreciation allowed shall be

\[
\begin{align*}
2016-17 & \quad 20,00,000 \times 7.8\% \times \frac{1}{2} = ₹ 78,000 \\
2017-18 & \quad 20,00,000 \times 7.8\% = ₹1,56,000 \\
2018-19 & \quad 20,00,000 \times 7.8\% = ₹1,56,000.
\end{align*}
\]

If this plant is sold on 01.10.2019
1. For ₹ 7,00,000
2. For ₹19,00,000
3. For ₹23,00,000

The tax treatment shall be as given below:

1. Written down value of the asset as on 01.04.2019 is ₹16,10,000 but it was sold for ₹7,00,000, in this case terminal depreciation is 7,00,000 – 16,10,000 = ₹9,10,000 and it will be allowed to be debited to profit and loss account.
2. If the asset is sold for ₹19,00,000, there will be profit of 19,00,000 – 16,10,000 = ₹2,90,000 and it will be called ‘balancing charge’ under section 41(2) and shall be considered to be deemed income under the head business/profession.
3. There will be gain of 23,00,000 – 16,10,000 = ₹6,90,000. There will be balancing charge to the extent depreciation has been debited i.e. 3,90,000 and balance amount i.e. ₹3,00,000 shall be short term capital gain as per section 50A.

Illustration 7: Lights and Power Ltd. engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 2019-20. Compute the depreciation allowable under section 32 for A.Y.2020-21. The company has opted for the depreciation allowance on the basis of written down value.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Plant and Machinery (15%)</th>
<th>Plant and Machinery (40%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening WDV as on 01.04.2019</td>
<td>₹5,78,000</td>
<td></td>
</tr>
<tr>
<td>Add: Plant and Machinery acquired during the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Second hand machinery</td>
<td>₹2,00,000</td>
<td></td>
</tr>
<tr>
<td>- Machinery Y</td>
<td>₹8,00,000</td>
<td></td>
</tr>
<tr>
<td>- Air conditioner for office</td>
<td>₹3,00,000</td>
<td></td>
</tr>
<tr>
<td>- Machinery Z</td>
<td>₹3,25,000</td>
<td></td>
</tr>
<tr>
<td>- Air pollution control equipment</td>
<td>-</td>
<td>₹2,50,000</td>
</tr>
<tr>
<td>Less: Asset sold during the year</td>
<td>(₹3,10,000)</td>
<td>Nil</td>
</tr>
<tr>
<td>Written down value before charging depreciation</td>
<td>₹18,93,000</td>
<td>₹2,50,000</td>
</tr>
</tbody>
</table>

Normal depreciation

40% on air pollution control equipment

- ₹1,00,000
Depreciation on plant and machinery put to use for less than 180 days@ 7.5% (2,00,000 + 3,25,000) 39,375
15% on ₹ 13,68,000 2,05,200

**Additional depreciation**
- Machinery Y (₹ 8,00,000 × 20%) 1,60,000
- Machinery Z (₹ 3,25,000 × 10%) 32,500

**Total depreciation** 4,37,075 1,00,000

**Question 11: Is it Mandatory to Claim Depreciation?**
**Answer:** As per section 32, set off of depreciation or loss is compulsory and not voluntary i.e. if depreciation or loss can be adjusted, it has to be adjusted.

**Question 12 [V. Imp.]: Write a note on expenditure on Scientific Research.**
**Answer: Expenditure on Scientific Research  Section 35**
If any person has incurred expenditure whether revenue or capital in connection with scientific research relating to business, such expenditure is allowed to be debited without any restriction however expenditure incurred on land is not allowed. If the assessee has incurred expenditure on purchase/construction of building, expenditure is allowed excluding the value of land.

**Example**
ABC Ltd. engaged in manufacturing of cement has incurred ₹3 lakhs on scientific research, in this case, expenditure is allowed, but if the research is not related to the business of the assessee, expenditure is not allowed.

**Example**
ABC Ltd. has purchased one plant and machinery on 01.07.2019 for the purpose of scientific research for ₹30 lakhs, in this case, entire amount is allowed to be debited to the profit and loss account in the year 2019-20. But if the company has purchased land for the purpose of scientific research, expenditure is not allowed. Similarly if a building has been purchased for ₹40,00,000 and cost of land is ₹25,00,000, expenditure allowed shall be ₹15,00,000.

**Expenditure before commencement of business**
If expenditure is incurred before commencement of business but within 3 years prior to commencement, capital expenditure is allowed without any limit in the year of commencement of business but revenue expenditure is allowed only to the extent permitted by prescribed authority. Similarly payment of salary except perquisite (facilities) are allowed only to the extent permitted by the prescribed authority.

**Example**
ABC Ltd. has commenced its business on 01.07.2019, but before commencement, the company has incurred revenue expenditure of ₹2 lakhs on scientific research from 01.07.2016 onwards and the prescribed authority has certified expenditure of ₹1.5 lakhs, in this case ₹1.5 lakhs shall be allowed in the previous year 2019-20, but if any expenditure has been incurred prior to 01.07.2016, expenditure is not allowed.

**Donation/contribution to research association**
If any assessee has given donation to the notified research association, assessee shall be allowed to debit the amount to the profit and loss account in the manner given below:
(i) **As per section 35(1)(ii)/35 (2AA)**, an amount equal to 1.50 times of donation given to an approved scientific research association like National Laboratory, Indian Institute of Technology or approved university, college etc, shall be allowed to be debited to profit and loss account. E.g. ABC Ltd. has donated ₹10,00,000 to an approved research association for scientific research, company is allowed to debit ₹15,00,000 to profit and loss account.
(ii) **As per section 35(1)(iia)**, if donation is given to an Indian company approved by prescribed authority for the purpose of scientific research, deduction allowed shall be equal to the donation.
(iii) **As per section 35(1)(iii)**, deduction allowed shall be equal to the donation if donation is given to any approved institution for the purpose of research in social science or statistical research.
Further there is no condition that the research should be related to the business or profession of the assessee.
(If any assessee do not have business/profession, such assessee can claim deduction under section 80GGA.)

MAY – 2011 (4 Marks)

Mr. X has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2020:

(i) Payments made to K Research Ltd. .......................................................... ₹ 20
(ii) Payment made to LMN College ................................................................. ₹ 15
(iii) Payment made to OPQ College ................................................................. ₹ 10
Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.
(iv) Payment made to National Laboratory ......................................................... ₹ 8
(v) Machinery purchased for in-house scientific research ........................................ ₹ 25
(vi) Salaries to research staff engaged in in-house scientific research ..................... ₹ 12

Compute the amount of deduction available under section 35 of the Income-tax Act, 1961 while arriving at the business income of the assessee.

Answer.

Computation of deduction allowable under section 35

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹ in lacs)</th>
<th>% of weighted deduction</th>
<th>Amount of deduction (₹ in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment for scientific research</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>K Research Ltd.</td>
<td>20</td>
<td>100%</td>
<td>20.00</td>
</tr>
<tr>
<td>LMN College</td>
<td>15</td>
<td>150%</td>
<td>22.50</td>
</tr>
<tr>
<td>OPQ College</td>
<td>10</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>National Laboratory</td>
<td>8</td>
<td>150%</td>
<td>12.00</td>
</tr>
<tr>
<td><strong>In-house research</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>25</td>
<td>100%</td>
<td>25.00</td>
</tr>
<tr>
<td>Revenue expenditure</td>
<td>12</td>
<td>100%</td>
<td>12.00</td>
</tr>
<tr>
<td><strong>Deduction allowable under section 35</strong></td>
<td></td>
<td></td>
<td><strong>91.50</strong></td>
</tr>
<tr>
<td><strong>Special provision with regard to companies</strong></td>
<td><strong>Section 35(2AB)</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| If any company is engaged in the business of bio-technology or in manufacturing of any product except the goods mentioned in eleventh schedule of Income Tax Act and company is engaged in research which is approved by the prescribed authority, in such cases the assessee shall be allowed to debit **1.50 times** of the amount of expenditure incurred on scientific research but expenditure for building shall be allowed to the extent of 100% and not **1.50 times**. Expenditure incurred on land shall not be allowed. In case of expenditure incurred before commencement of business, assessee shall be allowed to debit equal to the expenditure incurred i.e. deduction @ **1.50 times** is not allowed.

**Example**

ABC Ltd. is engaged in manufacturing chemicals and the company has incurred ₹ 30 lakhs on purchasing raw materials for the purpose of research and the company has incurred ₹ 20 lakhs on purchasing land and ₹ 12 lakhs on purchasing the plant and machinery for the purpose of scientific research and the research programme is approved by the prescribed authority, in this case, expenditure allowed shall be ₹ 63 lakhs. (42 lakhs x 1.50)

**Sale of assets used for scientific research** | **Section 41(3)**

If any assessee has acquired any capital asset for scientific research and amount was debited to profit and loss account and subsequently the asset was sold, amount received shall be considered to be income under the head business/profession but only to the extent amount was debited to profit and loss account. If the assessee has closed down his business/profession at that time, still it is income under the head business/profession.
**Example**

ABC Ltd. purchased one plant and machinery for ₹ 20 lakhs on 01.10.2018 for scientific research and entire amount was debited to the Profit and loss account, subsequently the asset was sold for ₹ 23 lakhs in the year 2019-20, in this case deemed income under section 41(3), shall be ₹20 lakhs i.e. the amount recovered on sale maximum to the extent of the amount debited and excess over it shall be capital gain.

**Transfer of asset to the normal business**

If any asset was used for scientific research and subsequently it was transferred to the normal business, in such cases, it will be entered in the respective block of assets and its w.d.v shall be taken to be nil.

---

### NOV – 2007 (4 Marks)

XY Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Item</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.03.2017</td>
<td>Land</td>
<td>10,00,000</td>
</tr>
<tr>
<td>(Incurred after 01.09.2016)</td>
<td>Building</td>
<td>25,00,000</td>
</tr>
<tr>
<td>31.03.2018</td>
<td>Plant and machinery</td>
<td>5,00,000</td>
</tr>
<tr>
<td>31.03.2019</td>
<td>Raw materials</td>
<td>2,20,000</td>
</tr>
</tbody>
</table>

The business was commenced on 01.09.2019 and expenditure incurred on raw materials and salaries is ₹1,80,000.

In view of availability of better model of plant and machinery, the existing plant and machinery were sold for ₹ 8,00,000 on 01.03.2020.

Discuss the implications of the above for the Assessment Year 2020-21 along with brief computation of deduction permissible under section 35 assuming that necessary conditions have been fulfilled. You are informed that the assessee’s line of business is eligible for claiming deduction under Section 35 at 150% on eligible items.

**Answer.**

1. As per section 35, where a company engaged in manufacture of bio-medical items incurs any expenditure on scientific research during the current year, it is eligible for claiming weighted deduction of a sum equal to 150% of the eligible expenditure.

The eligible expenditure and quantum of deduction will be:

- (a) Current year capital or revenue expenditure incurred for scientific research (weighted deduction @ 150%).
- (b) Any expenditure incurred during earlier 3 years immediately preceding the date of commencement of business on payment of salary or purchase of materials, or capital expenditure incurred other than expenditure on acquisition of land (actual expenditure qualifies for deduction).

The deduction available under section 35 for scientific research will, therefore, be:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Land</td>
<td>Nil</td>
</tr>
<tr>
<td>(b) Building</td>
<td>25,00,000</td>
</tr>
<tr>
<td>(c) Revenue expenses of last 3 years</td>
<td>2,20,000</td>
</tr>
<tr>
<td>(d) Capital expenditure of last 3 years: Plant and machinery</td>
<td>5,00,000</td>
</tr>
<tr>
<td>(e) Current year revenue expenditure ₹ 1,80,000 (150% of ₹ 1,80,000)</td>
<td>2,70,000</td>
</tr>
<tr>
<td>Deduction under section 35</td>
<td>34,90,000</td>
</tr>
</tbody>
</table>

**Tax treatment on sale of Plant and Machinery**

Section 41(3) provides that where a capital asset used for scientific research is sold, without having been used for other purposes, the sale proceeds shall be considered to be income under the head business/profession but only to the extent amount was debited to the profit and loss account hence there will income under the head business/profession ₹5,00,000 and balance amount of ₹3,00,000 shall be considered to be short term capital gain.

**Carried forward of unadjusted capital expenditure of scientific research**

Un-adjusted capital expenditure of scientific research shall be allowed to be carried forward just like unabsorbed depreciation i.e. carry forward shall be allowed for unlimited period and brought forward expenditure can be adjusted from any income under any head except casual income.
Illustration 8: X Ltd. was incorporated on 01.01.2019 for manufacture of tyres and tubes for motor vehicles. The manufacturing unit was set up on 01.05.2019. The company commenced its manufacturing operations on 01.06.2019. The total cost of the plant and machinery installed in the unit is ₹55 crore. The said plant and machinery included second hand plant and machinery bought for ₹20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2020-21.

Solution: Computation of depreciation allowable for the A.Y. 2020-21 in the hands of X Ltd.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ in crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of plant and machinery</td>
<td>55.00</td>
</tr>
<tr>
<td>Less: Used for Scientific Research</td>
<td>(15.00)</td>
</tr>
<tr>
<td>Normal Depreciation at 15% on ₹ 40 crore</td>
<td>40.00</td>
</tr>
<tr>
<td>Additional Depreciation: 20.00 x 20%</td>
<td>6.00</td>
</tr>
<tr>
<td>No additional depreciation allowed on second hand machinery and also machinery used for scientific research.</td>
<td>4.00</td>
</tr>
</tbody>
</table>

Illustration 9: On 01.04.2019 ABC Ltd. owns plants A, B, C and D (rate of depreciation 15%) depreciated value of the block as on 01.04.2019 is ₹5,40,000. On 14.06.2019 plant E which was initially purchased for ₹96,000 for conducting scientific research is transferred from laboratory to the factory. No other asset is purchased or sold. Find out depreciation allowed for the previous year 2019-20.

Solution:

Computation of written down value as on 31st March 2020

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value as on April 1st, 2019</td>
<td>5,40,000</td>
</tr>
<tr>
<td>Add: Cost of plant E transferred from laboratory to factory on June 14th, 2019</td>
<td>Nil</td>
</tr>
<tr>
<td>[i.e. ₹ 96,000–Deduction of ₹ 96,000 claimed under section 35]</td>
<td></td>
</tr>
<tr>
<td>Written down value as on 31.03.2020 before charging depreciation</td>
<td>5,40,000</td>
</tr>
<tr>
<td>Depreciation @ 15%</td>
<td>81,000</td>
</tr>
</tbody>
</table>

Example

(i) ABC Ltd. has incurred ₹2,00,000 on purchase of plant and machinery for the purpose of scientific research relating to his business, in this case entire expenditure can be debited to the profit and loss account instead of permitting depreciation but if the research is not related to the business of the assessee, expenditure is not allowed.

(ii) ABC Ltd. has purchased one building for ₹50,00,000 out of which value of land is ₹40,00,000. The building shall be used for the purpose of setting up a laboratory for the purpose of scientific research relating to the business of the assessee, in this case company can debit ₹10,00,000 to the profit and loss account being the cost of building. (Cost of land is not allowed)

(iii) ABC Ltd. has commenced its business on 01.06.2019 and the company has incurred expenses before commencement of business as given below:
(a) ₹5,00,000 during May 2016, being capital expenditure in connection with scientific research.
(b) ₹3,00,000 during May 2018, being capital expenditure in connection with scientific research.
(c) ₹1,00,000 during April 2016 on raw materials for scientific research.
(d) ₹1,00,000 during June 2016 on raw materials for scientific research. (amount permitted by the prescribed authority ₹75,000)
(e) ₹40,000 in connection with perquisites given to the staff engaged in the scientific research.

In this case, amount allowed to be debited shall be ₹3,75,000 (₹3,00,000 + ₹75,000) Expenditure incurred before the period of 3 years is not allowed.

(iv) ABC Ltd. has donated ₹1,00,000 to an approved scientific research association which is conducting research not connecting to the business of the company, in this case, amount allowed to be debited shall be ₹1,50,000.

(v) ABC Ltd. has income under the head Business/Profession ₹3,00,000 before debiting capital expenditure of ₹5,00,000 relating to scientific research, in this case, amount allowed to be debited shall be ₹3,00,000 and unadjusted capital expenditure on scientific research shall be allowed to be set off and carried forward just
like unabsorbed depreciation.

(vi) ABC Ltd. is engaged in manufacturing chemicals and its research programme has been approved by the prescribed authority and the company has incurred the following expenses in connection with scientific research.

(a) Expenditure on purchasing a land ₹10,00,000.
(b) Expenditure on construction of building on land ₹5,00,000.
(c) Plant and machinery ₹10,00,000.
(d) Raw materials ₹2,00,000.

In this case, company shall be allowed weighted deduction of 1.50 times of 12,00,000 i.e. ₹18,00,000 Plus ₹5,00,000 in connection with building.

Illustration 10: A Ltd. which is engaged in manufacturing, furnishes the following particulars for the P.Y.2019-20. Compute the deduction allowable under section 35 for A.Y.2020-21, while computing its income under the head “Profits and gains of business or profession”.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Amount paid to Indian Institute of Science, Bangalore, a notified research organisation for scientific research</td>
<td>1,00,000</td>
</tr>
<tr>
<td>2. Amount paid to IIT, Delhi for an approved scientific research programme</td>
<td>2,50,000</td>
</tr>
<tr>
<td>3. Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority</td>
<td>4,00,000</td>
</tr>
<tr>
<td>4. Expenditure incurred on in-house research and development facility as approved by the prescribed authority</td>
<td></td>
</tr>
<tr>
<td>(a) Revenue expenditure on scientific research</td>
<td>3,00,000</td>
</tr>
<tr>
<td>(b) Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research</td>
<td>7,50,000</td>
</tr>
</tbody>
</table>

Solution: Computation of deduction under section 35 for the A.Y.2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>Section</th>
<th>% of weighted deduction</th>
<th>Amount of deduction (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment for scientific research</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian Institute of Science</td>
<td>1,00,000</td>
<td>35(1)(i)</td>
<td>150%</td>
<td>1,50,000</td>
</tr>
<tr>
<td>IIT, Delhi</td>
<td>2,50,000</td>
<td>35(2A)</td>
<td>150%</td>
<td>3,75,000</td>
</tr>
<tr>
<td>X Ltd.</td>
<td>4,00,000</td>
<td>35(1)(ii)</td>
<td>100%</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Expenditure incurred on in-house research and development facility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue expenditure</td>
<td>3,00,000</td>
<td>35(2A)</td>
<td>150%</td>
<td>4,50,000</td>
</tr>
<tr>
<td>Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)</td>
<td>2,50,000</td>
<td>35(2A)</td>
<td>150%</td>
<td>3,75,000</td>
</tr>
<tr>
<td>Deduction allowable under section 35</td>
<td></td>
<td></td>
<td></td>
<td>17,50,000</td>
</tr>
</tbody>
</table>

Question 13: Write a note on specified business.

Answer: Deduction in respect of expenditure on Specified Business Section 35AD

In case of certain business, the assessee shall be allowed to debit even the capital expenditure to the profit and loss account and such business shall be called specified business and further amount allowed to be debited shall be equal to the capital expenditure incurred and such business are as given below:

01. Cold chain facility for storing agricultural produce, meat and meat products, poultry and dairy products etc.
02. Warehousing facility for storage of agricultural produce.
03. Hospitals with at least one hundred beds for patients.
04. Housing project under a scheme for affordable housing.
05. Production of fertilizer including increase in installed capacity of an existing plant.
06. Pipeline network for distribution of natural gas or petroleum products.
07. Pipeline network for the transportation of iron ore.
08. **Hotel of two star or above category.**
09. **Housing project for slum development.**
10. **Inland container depot or a container freight station.**
11. **Bee-keeping and production of honey.**
12. **Warehousing facility for storage of sugar.**
13. **Semi-conductor wafer fabrication manufacturing unit.**
14. **Developing or maintaining or operating a new infrastructure facility.**

The capital expenditure incurred before commencement of business shall also be allowed to be debited in the year in which the business has commenced.

The following capital expenditure shall not be allowed:
- **Acquisition of any land; or**
- **Goodwill; or**
- **Financial instrument**

If any capital asset which was debited to profit and loss account, has been sold, amount received on sale shall be considered to be income under the head business/profession as per section 28.

If any capital asset was acquired for the said business and amount was debited to profit and loss account, it must be used for the said business for a period of at least 8 years otherwise the amount debited shall be considered to be income of the assessee of the year in which the asset has been used for other purpose, however normal depreciation shall be deducted and only balance amount shall be considered to be income. **As per section 73A,** loss of specified business can be set off only from profits and gains of any other specified business and carried forward is allowed for unlimited periods and in the subsequent years also, the loss can be set off only from income of specified business.

**Capital Expenditure shall not include any expenditure in respect of which the payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account, exceeds ₹10,000.**

**Illustration 11:** An Assessee starts business of setting up and operating a warehousing facility for agricultural produce on 01.06.2019. Following information is given to you:

(i) Profits from operating warehousing facility ₹50,00,000

The following assets have been purchased for warehousing facility and the profit of ₹50,00,000 is computed without giving effect to the following:

(i) Machinery purchased on 30.06.2018 ₹ 9,00,000
(ii) Land purchased on 30.06.2018 ₹15,00,000
(iii) Machinery purchased on 31.12.2019 ₹12,00,000
(iv) Building purchased on 31.12.2018 ₹10,00,000
(v) Building Constructed on 31.05.2019 ₹29,00,000

Compute income or loss for the assessment year 2020-21.

**Solution:**

**Profit of specified business** 50,00,000

**Less: Deduction allowable under section 35AD**

- **Machinery purchased on 30.06.2018** (9,00,000)
- **Machinery purchased on 31.12.2019** (12,00,000)
- **Building purchased on 31.12.2018** (10,00,000)
- **Building constructed on 31.05.2019** (29,00,000)
- **Loss** (10,00,000)

The loss of ₹10,00,000 can be set-off only against the profits of specified business in current year and next years. Such loss can be carried forward indefinitely.

**Illustration 12:** Mr. X commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 01.04.2019. He incurred capital expenditure of ₹80 lakh, ₹60 lakh and ₹50 lakh, respectively, on purchase of land and building during the period January, 2019 to March, 2019 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April,
2019. The cost of land included in the above figures are ₹50 lakh, ₹40 lakh and ₹30 lakh, respectively. Further, during the P.Y.2019-20, it incurred capital expenditure of ₹20 lakh, ₹15 lakh & ₹10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head “Profits and gains of business or profession” for the A.Y.2020-21 and the loss to be carried forward, assuming that Mr. X has fulfilled all the conditions specified for claim of deduction under section 35AD. The profits from the business of setting up a warehousing facility (before claiming deduction under section 35AD and section 32) for the A.Y. 2020-21 is ₹16 lakhs, ₹14 lakhs and ₹31 lakhs, respectively.

**Solution:**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ (in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Profit from business of setting up of warehouse for storage of food grains</td>
<td>16</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>80 lakhs – 50 lakhs + 20 lakhs = 50 lakhs</td>
<td>(50)</td>
</tr>
<tr>
<td>Loss from business</td>
<td>(34)</td>
</tr>
<tr>
<td>2. Profit from business of setting up of warehouse for storage of sugar</td>
<td>14</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>60 lakhs – 40 lakhs + 15 lakhs = 35 lakhs</td>
<td>(35)</td>
</tr>
<tr>
<td>Loss from business</td>
<td>(21)</td>
</tr>
<tr>
<td>3. Profit from business of setting up of warehouse for storage of edible oil</td>
<td>31</td>
</tr>
<tr>
<td>Less: Depreciation under section 32</td>
<td></td>
</tr>
<tr>
<td>10% of ₹30 lakh, being (₹50 lakh – ₹30 lakh + ₹10 lakh)</td>
<td>(3)</td>
</tr>
<tr>
<td>Income from business</td>
<td>28</td>
</tr>
</tbody>
</table>

Loss from specified business shall not be allowed to set off from incomes of other business.

**Illustration 13:** XYZ Ltd. commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 01.04.2019. The company incurred capital expenditure of ₹50 lakh during the period January, 2019 to March, 2019 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2019. Further, during the P.Y.2019-20, it incurred capital expenditure of ₹2 crore (out of which ₹1.50 crore was for acquisition of land) exclusively for the above business. Compute the income under the head “Profits and gains of business or profession” for the A.Y.2020-21, assuming that XYZ Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2020-21 is ₹25 lakhs.

Assume that the company also has another existing business (specified business) of running a four-star hotel in Coimbatore, which commenced operations 2 years back, the profits from which are ₹120 lakhs for the A.Y.2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits from the specified business of new hotel in Madurai</td>
<td>25 lakh</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>1. Capital expenditure incurred during the P.Y.2019-20 (excluding the expenditure incurred on acquisition of land) = ₹200 lakh – ₹150 lakh</td>
<td>(50 lakh)</td>
</tr>
<tr>
<td>2. Capital expenditure incurred prior to 01.04.2019</td>
<td>(50 lakh)</td>
</tr>
<tr>
<td>Loss from the specified business of new hotel in Madurai</td>
<td>(75 lakh)</td>
</tr>
<tr>
<td>Profit from the existing business of running a hotel in Coimbatore</td>
<td>120 lakh</td>
</tr>
<tr>
<td>Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A</td>
<td>45 lakh</td>
</tr>
</tbody>
</table>

**ABC Limited** commenced the business of operating a three star hotel in Tirupati on 01.04.2019. It furnishes you the following information:

(i) Cost of land (acquired in June 2017) ₹60 lakhs
(ii) Cost of construction of hotel building
   - Financial year 2017-18 ₹30 lakhs
   - Financial year 2018-19 ₹150 lakhs
(iii) Plant and machineries (all new)
   - Acquired during financial year 2018-19 ₹30 lakhs
Net profit before depreciation for the financial year 2019-20 ₹80 lakhs

Determine the amount eligible for the deduction under section 35AD of the Income-tax Act, 1961, for the Assessment Year 2020-21.

**Solution:**

In this case business of operating of three star hotel is a specified business and 100% of capital expenditure shall be allowed to be debited to the profit and loss account including expenditure incurred before commencement of business but expenditure on land is not allowed and computation of income shall be as given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits before debiting the expenses</td>
<td>₹80,00,000</td>
</tr>
<tr>
<td>Cost of land (not eligible for deduction under section 35AD)</td>
<td>Nil</td>
</tr>
<tr>
<td>Cost of construction of hotel building (₹30 lakhs + ₹150 lakhs)</td>
<td>(180,00,000)</td>
</tr>
<tr>
<td>Cost of plant and machinery</td>
<td>(30,00,000)</td>
</tr>
<tr>
<td><strong>Loss from specified business</strong></td>
<td>(130,00,000)</td>
</tr>
</tbody>
</table>

As per section 73A such loss can be set off from income of any other specified business and its carry forward is allowed for unlimited period and even in the subsequent years it can be set off from income of specified business.

**NOV – 2011 (4 Marks)**


**Solution:** Refer answer given in the chapter

**MAY – 2012 (4 Marks)**

MNP Ltd. Commenced operations of the business of a new four-star hotel in Chennai on 01.04.2019. The company incurred capital expenditure of ₹40 lakh during the period January, 2019 to March, 2019 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2019. Further, during the Previous Year 2019-20, it incurred capital expenditure of ₹2.5 crore (out of which ₹1 crore was for acquisition of land) exclusively for the above business. Compute the income under the heading “profit and gains of business or profession” for the assessment year 2020-21, assuming that MNP Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the assessment year 2020-21 is ₹80 lakhs.

Assume that the company also has another existing business (specified business) of running a four-star hotel in Kanpur, which commenced operations 2 years back, the profits from which was ₹130 lakhs for Assessment Year 2020-21.

**Answer:**

<table>
<thead>
<tr>
<th>Deduction allowable under section 35AD</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit of specified business</strong></td>
<td>80,00,000</td>
</tr>
<tr>
<td>Less: Capital Expenditure before commencement</td>
<td>(40,00,000)</td>
</tr>
<tr>
<td>Less: Capital Expenditure during the year (250 lakhs – 100 lakhs)</td>
<td>(150,00,000)</td>
</tr>
<tr>
<td>Loss from specified business of new hotel in Chennai</td>
<td>(110,00,000)</td>
</tr>
<tr>
<td>Loss can be set off from income of other specified business and net income shall be 130 lakhs – 110 lakhs</td>
<td>20,00,000</td>
</tr>
</tbody>
</table>

**NOV – 2014 (4 Marks)**

Name any four specified businesses covered under section 35AD and state the fiscal incentives available to such businesses.

Refer answer given in the Chapter

**Question 14:** Write a note on contribution for the purpose of Rural Development.

**Answer:** *Expenditure by way of payment to associations and institutions for carrying out Rural Development Programmes Section 35CCA*

If any assessee has given donation to any notified organisation for the purpose of rural development, assessee shall be allowed to debit the amount to profit and loss account. Similarly donation given to **Rural Development Fund** set up Central Government and **National Urban Poverty Eradication Fund** set up by
the Central Government shall be allowed to be debited to profit and loss account (if the assessee do not have any business or profession, he can claim deduction under section 80GGA)

Question 15: Write a note on expenditure on agricultural extension project. Section 35CCC Rule 6AAD / Rule 6AAE
Answer: Expenditure on agricultural extension project Section 35CCC Rule 6AAD/Rule 6AAE
If any assessee has incurred any expenditure on agricultural extension project, the assessee shall be allowed to debit 1.5 times of the expenditure incurred. Expenditure on land and building is not allowed.

Question 16: Write a note on expenditure on skill development project.
Answer: Expenditure on skill development project Section 35CCD
If any company has incurred expenditure on skill development project, company shall be allowed to debit 1.5 times of expenditure incurred but expenditure incurred on land or building is not allowed.

Question 17 [Imp.]: Explain briefly the provisions of amortisation of Preliminary Expenses.
Answer: Amortisation of certain Preliminary Expenses Section 35D
Expenditure incurred before commencement of business shall be called preliminary expenses and shall be allowed to be debited in 5 annual equal installments after commencement of business and such expenses are allowed to an Indian company and also to resident assessee i.e. it is not allowed to non-residents and to foreign company.

Only the notified expenditure incurred before commencement of business shall be allowed and such expenses may be
1. Expenditure in connection with—
   (i) preparation of feasibility report.
   (ii) preparation of project report.
   (iii) conducting market survey or any other survey necessary for the business of the assessee.
   (iv) engineering services relating to the business of the assessee.

Provided that the work in connection with the above is carried out by the assessee himself or by a concern which is approved by the Central Board of Direct Taxes.

2. Legal charges for drafting any agreement between the assessee and any other person for purpose of the business of the assessee.
3. Where the assessee is a company, also expenditure—
   (i) by way of legal charges for drafting the Memorandum and Articles of Association of the company.
   (ii) on printing of the Memorandum and Articles of Association.
   (iii) by way of fees for registering the company under the provisions of the Companies Act.
   (iv) in connection with the issue of shares or debentures of the company, being underwriting commission, brokerage and charges for drafting, typing, printing and advertisement of the prospectus.

Maximum expenditure allowed shall be upto \(5\%\) of the project cost but an Indian company has the option to take \(5\%\) of the capital employed.

Example
ABC Ltd. has incurred expenditure of ₹30,00,000 and its project cost is ₹100,00,000 and capital employed is ₹120,00,000, instalment allowed to the company shall be ₹30,00,000 but subject to a maximum of \((120,00,000 \times 5\%)\) i.e. ₹6,00,000
Instalment allowed shall be = 6,00,000 / 5 = ₹1,20,000

“Cost of the project” means
in a case of new business, the actual cost of the fixed assets, being land, buildings, plant, machinery, furniture, fittings etc. as on the last day of the year in which the assessee has commenced the business.

“Capital employed” means
in a case of new business, the aggregate of the issued share capital, debentures and long-term borrowings as on the last day of the previous year in which the business of the company commences.
In case of an existing business if there is extension of such business, expenses incurred in connection with such extension shall also be allowed in the similar manner as in case of new business and project cost and capital employed shall be taken into consideration relating to extension of business.
Illustration 14: ABC Ltd. an Indian company has incurred expenditure before the commencement of business as under:
1. Expenditure on advertisements ₹3 lakhs.
2. Expenditure on preparation of project report and the report was prepared by a concern which is approved by the Board ₹85,000.
3. Expenditure in connection with travelling and stay in hotels ₹45,000.
4. Expenditure on drafting and printing of memorandum and articles of associations ₹4 lakhs.
All the above expenditures have been debited to the profit and loss account and the company has computed income to be ₹7 lakh.
The company has commenced its business on 01.06.2019.
Company’s project cost is ₹50 lakhs and capital employed is 57 lakhs.
Compute company’s Tax Liability for Assessment Year 2020-21.

Solution:
- Net profit as per profit and loss account ₹7,00,000
- Add:
  - Expenditure on advertisement ₹3,00,000
  - Expenditure in connection with travelling and stay in hotels ₹45,000
  - Excessive expenditure under section 35D ₹4,28,000

Working Note:
- Eligible expenditure under section 35D ₹85,000
- Expenditure on drafting and printing of memorandum and articles of associations ₹4,00,000
- Total ₹4,85,000
- Expenditure allowed under section 35D can not exceed 5% of the capital employed
  - 57,00,000 x 5% = 2,85,000
- Instalment allowed 2,85,000/5 = 57,000
- Expenditure disallowed = 4,85,000 – 57,000 = 4,28,000

Income under the head Business/Profession ₹14,73,000
Gross Total Income ₹14,73,000
Less: Deduction u/s 80C to 80U Nil
Total Income ₹14,73,000

Computation of Tax Liability
- Tax on ₹14,73,000 @ 30% ₹4,41,900
- Add: HEC @ 4% ₹17,636
- Tax Liability ₹4,59,576
- Rounded off u/s 288B ₹4,59,580

Question 18: Write a note on amortization of expenditure under Voluntary Retirement Scheme.
Answer: Amortisation of expenditure incurred under Voluntary Retirement Scheme Section 35DDA
If any employer has given voluntary retirement to the employees and has paid any amount in connection with such voluntary retirement, it will be allowed to be debited in 5 annual equal installments e.g. ABC Ltd. has given voluntary retirement to 500 employees and has paid ₹4,00,000 to each of the employee and total payment made is ₹2000 lakhs, in this case expenditure is allowed in 5 annual equal installments.

MAY – 2011 (4 Marks)
X Co. Ltd. paid ₹120 lakhs as compensation as per approved Voluntary Retirement Scheme (VRS) during the financial year 2019-20.
How much is deductible under section 35DDA for the assessment year 2020-21?
Answer.
It is deductible in 5 equal annual instalments commencing from the previous year of payment. ₹24 lakhs, being 1/5th of ₹120 lakhs, is deductible under section 35DDA for the A.Y.2020-21.
Question 19: Explain deductibility of Insurance Premium.
Answer: Deductibility of insurance premium

Payment of premium for the insurance of stocks Section 36(1)(i)
If any assessee has paid premium for insurance of raw material or finished goods etc., such premium is allowed to be debited to profit and loss account.

Payment of premium in connection with medi claim policy Section 36(1)(ib)
If any assessee has paid premium for medi claim policy taken in the name of employees, such premium is allowed to be debited to profit and loss account provided premium was paid otherwise than in cash.

Question 20 [Imp.]: Write a note on payment of interest.
Answer: Payment of Interest Section 36(1)(iii)
If any assessee has taken a loan for the purpose of business/profession, interest on such loan is allowed. No interest is allowed to the proprietor on his capital (similarly no salary or any other payment is allowed to the proprietor).

Question 21: Explain deductibility of employer’s contribution towards Recognised Provident Fund etc.
Answer: Employer’s contribution to Recognised Provident Fund or Approved Superannuation Fund Section 36(1)(iv)
Employer contribution to Recognised Provident Fund and Approved Superannuation Fund shall be allowed to be debited only to the extent it has been permitted in the relevant Act / Rule. E.g. Employer contribution to recognized provident fund is allowed maximum @ 12% of employees salary.

Employer's contribution towards a Pension Scheme Section 36(1)(iva)
Employer contribution to notified pension scheme as per section 80CCD shall be allowed maximum to the extent of 10% of salary of employee. E.g. If salary of employee is ₹2,00,000, employer can contribute maximum ₹20,000.

(said be discussed under the head Salary)

Employer’s contribution towards approved Gratuity Fund Section 36(1)(v)
Employer contribution to approved gratuity fund shall be allowed to be debited to the extent allowed in the relevant Act / Rule.

Question 22: Explain deductibility of employee’s contribution received by the employer.
Answer: As per section 36(1)(va), employees contribution shall be allowed to be debited only if employer has deposited the amount in the relevant account upto the time allowed in the relevant Act.

As per paragraph 38 of The Employees’ Provident Funds Scheme, 1952, the employer should pay within 15 days of the subsequent month.
As per section 31 of Employees' State Insurance (General) Regulations, 1950, ESI contribution should be deposited maximum upto 15th of subsequent month.

Question 23 [Imp.]: Write note on deduction of Bad Debts of a Business.
Answer: Deduction for Bad Debts of a Business Section 36(1)(vii)
If any assessee has written off bad debts as irrecoverable in the books of accounts, he will be allowed to debit such bad debts to the profit and loss account. However provision for bad debts is not allowed (in general provision or reserve for any purpose is not allowed.)

Recovery of bad debts Section 41(4)
If any amount was debited as bad debts and subsequently it was recovered by the assessee, it will be considered to the income of the assessee under the head business /profession of the year in which it has been recovered and if the assessee do not have business or profession in that particular year, even than it will be considered to be income under the head business/profession. If debt was incurred by a person but it was recovered by his successor, in that case it will not be considered to be income of successor.

Example
Mr. X debited bad debts ₹ 4,00,000 in previous year 15-16 but recovered ₹ 1,00,000 in previous year 19-20,
in this case as per section 41(4) it will be considered to be income under the head business profession of previous year 19-20. If amount was debited by his father and after his death, his son has inherited the business and has recovered ₹ 1,00,000, it will not be considered to be income of son i.e. successor.


**Answer:** If any company has incurred expenditure in connection with promotion of family planning norms among the employees, the assessee shall be allowed to debit the expenditure to profit and loss account. Revenue expenditure can be debited in the same year and capital expenditure shall be allowed in 5 annual equal installment. Any other assessee is not allowed to debit any expenditure in connection with promotion of family planning. Expenditure are allowed to debited only to the extent income is available under the head business/profession and unadjusted expenditure shall be allowed to be set off and carried forward just like unabsorbed depreciation.

**Question 25: Write a note on Securities Transaction Tax.**

**Answer:** Securities Transaction Tax Section 36(1)(xv)

If the assessee has paid securities transaction tax in connection with taxable securities transaction which are part of his business, STT shall be allowed to be debited to the profit and loss account.

**Question 26: Write a note on Commodities Transaction Tax.**

**Answer:** Commodities Transaction Tax Section 36(1)(xvi)

If the assessee has paid commodities transaction tax in connection with taxable commodities transaction which are part of his business, CTT shall be allowed to be debited to the profit and loss account.

**Question 27 [V. Imp.]:** State the conditions to be satisfied for claiming deduction under section 37(1) of the Act.

**Answer:** As per section 37(1), if any expenditure is neither allowed nor disallowed specifically under any particular section, such expenditure is allowed to be debited if it is related to business or profession and is revenue in nature. If it is capital expenditure, depreciation is allowed. Personal expenditure is never allowed. Illegal expense is not allowed. Any fine or penalty for an offence is not allowed.

**Various expenditure which may be allowed under section 37(1) are as given below:**

1. Expenditure in connection with advertisement e.g. ABC Ltd. has incurred ₹20,000 on printing of diaries and calendars, the expenditure is allowed. Similarly if expenditure has been incurred on advertisement in newspaper/magazine/ radio / TV / Internet etc., it will be allowed. If the expenditure incurred is capital nature, depreciation is allowed.
2. Expenditure on travelling including the expenses of boarding and lodging in connection with business/profession.
3. Salary paid to the employees.
4. Expenditure in connection with entertainment/amusement of the employees or the customers.
5. Expenditure in connection with opening ceremony (Mahurat) of the business/profession. E.g. ABC Ltd. has incurred ₹50,000 in connection with ‘shamiana’ and refreshments on occasion of opening ceremony.
6. Expenditure on the occasion of various festivals like Diwali etc. for employees or customers.
7. Incentives given to the articled assistant by a Chartered Accountant.
8. Interest on late payment of GST.
10. Professional tax paid by a person carrying on business or profession.
11. Expenditure on the filing of return of income, filing of appeal or audit fee etc. is allowed.
12. Any other expenditure which is revenue in nature and it is related to business or profession.

**Any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession.**
Mr. X, a hotelier, claimed expenditure on replacement of Linen and carpets in his hotel as revenue expenditure.

**Answer:** The expenditure on replacement of linen and carpets in a hotel are in the nature of expenses incurred for the business and are allowable as revenue expenses under section 37(1).

**Question 28:** Write a note on deductibility of expenditures in connection with advertisement in the newspaper etc. of a Political Party.

**Answer:** Expenditure in connection with advertisement in the newspaper etc. of a Political Party  
Section 37(2B)

No allowance shall be made in respect of expenditure incurred by an assessee on advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party.

**Illustration 15:** ABC limited is a company engaged in the business of biotechnology. The net profit of the company for the financial year ended 31.03.2020 is ₹15,25,890 after debiting the following items:
1. Purchase price of raw material used for the purpose of in-house research and development 1,80,000
2. Purchase price of asset used for in-house research and development
   (1) Land 5,00,000
   (2) Building 3,00,000
3. Expenditure incurred on notified agricultural extension project 1,50,000
4. Expenditure on notified skill development project:
   (1) Purchase of land 2,00,000
   (2) Expenditure on training for skill development 2,50,000
5. Expenditure incurred on advertisement in the souvenir published by a political party 75,000

Compute the income under the head “Profits and gains of business or profession” for the A.Y. 2020-21 of ABC Ltd.

The company is eligible to claim 150% of expenditure incurred under section 35(2AB).

**Solution:** Computation of income under the head “Profits and gains of business or profession” for the A.Y. 2020-21

Net profit as per profit and loss account 15,25,890
Less: Purchase price of raw material (balance amount under section 35(2AB) (90,000)
Add: Purchase price of Land used in in-house research and development 5,00,000
Less: Expenditure incurred on notified agricultural extension project (balance amount under section 35CCC 1,50,000 x 0.5) (75,000)
Add: Expenditure incurred on notified skill development project - Purchase of land - being capital expenditure not qualifying for deduction under section 35CCD 2,00,000
Less: Expenditure incurred on notified skill development project (balance amount under section 35CCD 2,50,000 x 0.5) (1,25,000)
Add: Expenditure incurred on advertisement in the souvenir published by a political party not allowed as deduction as per section 37(2B) 75,000

**Profits and gains of business/profession** 20,10,890

**Note:** The expenditure incurred on advertisement in the souvenir published by a political party is disallowed as per section 37(2B) while computing income under the head “Profit and Gains of Business or Profession”.

**Question 29 [Imp.]:** Explain deductibility of expenditure in connection with assets which are partly in business use and partly in personal use section 38.

**Answer:** Expenditure in connection with assets which are partly in business use and partly in personal use section 38

If any person has any asset in business or profession as well as in personal use, expenditure is allowed only to the extent the asset is in the use of the business or profession.

**Example**
If Mr. X has one motor car which is used to the extent of 60% in business and 40% for personal use, all expenditures shall be allowed to be debited to the extent of 60%.
Question 30 [V. Imp.]: Write a note on deductibility of expenditure on which tax has not been deducted at source.

Answer: Tax deduction at source for payment of interest, royalty etc. outside India  
Section 40(a)(i)
If any person has paid any interest, royalty or technical fee or other sum chargeable to income tax and the amount is being paid outside India or it has been paid in India to a non-resident or to any foreign company, amount shall be allowed to be debited only if tax has been deducted at source up to the last date of filing of return of income otherwise expenditure is disallowed however it is allowed in the year in which tax has been paid to the government.

(As per section 195, every person has to deduct tax at source on every payment made outside India)
Example: ABC Ltd. has paid ₹20 lakhs as interest outside India on 03.01.2020 and tax was deducted at source on 10.03.2020 and it was paid to the Government on 30.09.2020, expenditure is allowed in previous year 2019-20 but if tax was deducted at source on 01.04.2020, expenditure is not allowed in previous year 2019-20 but it is allowed in previous year 2020-21. If tax was deducted at source on 10.03.2020 but it was paid to the Government on 01.10.2020, expenditure is not allowed in previous year 2019-20 however it is allowed in previous year 2020-21.

Tax deduction at source for payment of interest, commission, brokerage etc. in India  
Section 40(a)(ia)
If any person has to pay any sum to a resident on which tax is to be deducted at source, in that case such person must deduct tax at source up to the end of the relevant previous year and also payment should be made up to the last date of ROI otherwise 30% of such expenditure is disallowed however it is allowed in the year in which tax has been paid to the Government.

Example: ABC Ltd. has paid rent of ₹10 lakhs to XYZ Ltd. in India on 31.12.2019 and tax was deducted at source on 31.03.2020 and was paid to the Government on 30.09.2020, expenditure is allowed in previous year 2019-20 but if tax is deducted at source after 31.03.2020 or payment is made to the Government after 30.09.2020, expenditure allowed in previous year 2019-20 shall be ₹10,00,000 x 70% = ₹7,00,000 and balance ₹3,00,000 is disallowed however it will be allowed in the year in which tax has been paid to the Government.

If any person has not deducted tax at source but person who received the payment has paid tax and filed return and it is confirmed by the Chartered Accountant, in that case it will be presumed that such person has deducted and paid tax on the date of filing of ROI by the person receiving payment. (applicable in section 40(a)(ia) & 40(a)(ia))
Example: ABC Ltd. has paid rent of ₹10 lakhs to XYZ Ltd. in India on 31.12.2019 and company has not deducted tax at source but XYZ Ltd. has deposited the tax and filed return on 30.09.2020, in this case it will be presumed that tax has been deducted on 30.09.2020 and paid to the Government on 30.09.2020 and 70% expenditure shall be allowed to ABC Ltd. in previous year 2019-20 and balance 30% in previous year 2020-21.

e.g. ABC Ltd. has paid ₹1,00,000 to XYZ Ltd. being the amount of rent and no tax has been deducted at source, in this case expenditure is allowed because as per section 194-I, TDS is not applicable if rent payable is upto ₹1,80,000.

MAY – 2011 (4 Marks)

During the financial year 2019-20, the following payments/expenditure were made/incurred by Mr. X, a resident individual (whose turnover during the year ended 31.03.2019 was ₹99 lacs):
(i) Interest of ₹12,000 was paid to ABC & Co., a resident partnership firm, without deduction of tax at source;
(ii) Interest of ₹4,000 was paid as interest to Mr. Y, a non-resident, without deduction of tax at source;
(iii) ₹3,00,000 was paid as salary to a resident individual without deduction of tax at source;
(iv) He had sold goods worth ₹5 lacs to Mr. D. He paid Commission of ₹15,000 to Mr. Z on 02.07.2019.

In none of these transactions, tax was deducted at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a) of the Income tax Act, 1961.
Answer.
(i) Since Mr. X was not liable to tax audit in the preceding year hence expenditure is allowed even if tax has not been deducted at source.
(ii) In the case of interest paid to a non-resident, there is obligation to deduct tax at source under section 195, hence non-deduction of tax at source will attract disallowance.
(iii) Disallowance under section 40(a) is attracted for failure to deduct tax at source from salaries. 70% of salary i.e. ₹3,00,000 x 70% = ₹2,10,000 shall be allowed in previous year 2019-20 and balance i.e. ₹90,000 is disallowed.
(iv) Since Mr. X was not liable to tax audit in the preceding year hence expenditure is allowed even if tax has not been deducted at source.

**NOV – 2010 (5 Marks)**

M/s ABC Ltd., submits the following details of expenditures pertaining to the financial year 2019-20:
(i) Payment of professional fees to Mr. M ₹50,000. Tax not deducted at source.
(ii) Interior works done by Mr. H for ₹2,00,000 on a contract basis. Payment made in the month of March 2020. Tax deducted in March 2020, was paid on 30.06.2020.
(iii) Factory Rent paid to Mrs. R ₹15,00,000. Tax deducted at source and paid on 01.10.2020.
(v) Payment made to M/s G & Co. towards import of Raw Materials ₹25,00,000. No tax was deducted at source. The supplier G & Co. is located in London.

Examine the above with reference to allowability of the same in the Assessment Year 2020-21 under the Income Tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant tax deduction at source provisions.

**Solution:**

Allowability of expenses of M/s. ABC Ltd for the A.Y. 2020-21
(i) Payment of professional fees is subject to TDS under section 194J. Since no tax is deducted at source, the expenditure of ₹15,000 (i.e. 30% of ₹50,000) is disallowed under section 40(a) and balance 70% is allowed.
(ii) Since the tax was deducted in March, 2020 and paid on or before the due date of filing the return (i.e., on or before September 30th, 2020), the expenditure on interior works will be allowed as deduction.
(iii) The maximum time allowable for deposit of tax deducted at source is upto the due date of filing of return i.e., 30th September, 2020. In this case, since tax deducted under section 194-I was paid after the due date of filing the return, the expenditure of ₹4,50,000 (30% of ₹15,00,000) is disallowed in previous year 2019-20 and balance 70% is allowed in previous year 2019-20.
(iv) Since the tax was deducted in December, 2019 and paid on or before the due date of filing the return (i.e., on or before September 30th, 2020), the interest paid on fixed deposits will be allowed as deduction.
(v) Since payment towards import of raw materials does not attract the provisions of deduction of tax at source, the expenditure will be allowed as deduction.

**Question 31 [V. Imp.]: Explain deductibility of Income Tax or Securities Transaction Tax.**

**Answer: Deductibility of Income Tax or Securities Transaction Tax**

Under section 40(a)(ii) and (iia), payment of income tax and additional income tax is not allowed because these are not considered to be liability of business/profession, however as per section 43B, GST, composition tax under GST, Municipal tax, professional tax, licence fee, etc. is allowed.
If interest has been paid for late payment of income tax or additional income tax, such interest is not allowed but if interest has been paid for late payment of GST etc., interest is allowed.
If any interest has been paid for the loan taken for payment of income tax, interest is not allowed.
If interest has been paid for the loan taken for the payment of GST etc., interest is allowed under section 36(1)(iii).
If there is any income tax refund, it will not to be considered income but if there is refund of GST etc., it will be considered to be income as per section 41(1).
If any interest has been received in connection with income tax refund or GST refund etc., it will be considered to be income. Interest on Income Tax Refund shall be taxable under the head other sources but interest on refund of GST etc. shall be taxable under the head business/profession.
If any person has paid any fine or penalty in connection with income tax, GST etc., it will not be allowed. **Under section 36(1)(xv), securities transaction tax shall be allowed to be debited.**

If any person has sold equity shares or units of equity oriented mutual fund and has paid STT and the asset is long term, capital gain shall be taxable in excess of ₹1,00,000 u/s 112A and if it is short term, capital gains shall be taxable @ 15% under section 111A and assessee shall not be allowed to deduct STT paid by him as selling expense. If any person has business of sale purchase of shares or units and has paid STT, while computing income under the head Business/Profession, assessee shall be allowed to debit STT while computing income and such income shall be taxable at the normal rate.

**Under section 36(1)(xvi), commodities transaction tax shall be allowed to be debited.**

If any assessee has income from commodities transaction, assessee shall be allowed to debit such amount to profit and loss account and income shall be taxable at the normal rate.

If employer has paid income tax on behalf of the employee, employer is allowed to debit such amount to profit and loss account and it will also be considered to be income of the employee.

e.g. Mr. X is employed in ABC Ltd. and is getting salary of ₹10,00,000 p.a. and employer has paid income tax of ₹1,00,000 on behalf of the employee besides salary of ₹10,00,000, in this case employer is allowed to debit ₹11,00,000 to profit and loss account and tax liability of the employee shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Income from salary</th>
<th>11,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Standard deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Income under the head salary</td>
<td>10,50,000</td>
</tr>
<tr>
<td>Tax at slab rate on ₹10,50,000</td>
<td>1,27,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>5,100</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,32,600</td>
</tr>
<tr>
<td>Less: Tax paid by employer</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Tax Payable</td>
<td>32,600</td>
</tr>
</tbody>
</table>

**If income tax has been paid by the employer on behalf of the employee in connection with non-monetary perquisites, employer shall not be allowed to debit such amount to profit and loss account and also it will not be considered to be income of employee under the head salary under section 10(10CC).**

**Question 32: Write a note on payment of salary or interest to the partners.**

**Answer:**

As per section 40(b), interest to the partner is allowed but maximum @ 12% p.a. simple interest.

Payment of salary, bonus, commission or any other remuneration is allowed but only to the working partner.

Maximum amount of salary, bonus, commission etc. allowed to a partner shall be computed in the manner given below:

**Maximum amount of remuneration allowed shall be as given below:**

* First ₹3,00,000 of the book profits 90% of the book profit or ₹1,50,000 whichever is more
* On balance amount of book profit 60% of book profit

**Example**

A partnership firm has book profits of ₹ 5 lakhs, in this case maximum amount of salary etc. allowed to all the partners shall be

| Upto ₹3,00,000 | 90% of 3,00,000 or ₹1,50,000 whichever is more | 2,70,000 |
| Next ₹2,00,000 | 60% of 2,00,000 | 1,20,000 |
|                |                        | 3,90,000 |

**Example**

There is a partnership firm engaged in business and its book profits are ₹1,35,000, in this case maximum amount of remuneration allowed to all the partners shall be ₹1,50,000.

**Meaning of Book Profits**

Book profit means profit and gains of business profession but before charging any salary, bonus, commission etc. to the partners and further if the assessee has any brought forward depreciation, it will be adjusted while computing the book profits but if there are brought forward business loss, such business loss shall not be adjusted.
Share received by a partner from income of Partnership Firm  Section 10(2A)
If any partner has received share out of the profits of the partnership firm, such share shall be exempt from income tax.

As per section 28, interest or salary received by a partner shall be taxable under the head business/profession.

Example
XY Partnership firm has computed net profit of ₹ 5,00,000 and some of the amount debited & credited given below:
- Debited ₹1,00,000 being salary paid to one of the employees by crossed cheque
- Debited ₹ 4,00,000 being the cost of motor car purchased and put to use 31.03.2020
- Debited ₹3,00,000 being interest paid to Mr. X @ 15% p.a.
- Debited ₹ 4,50,000 being interest paid to Mr. Y @ 15% p.a.
- Debited salary of ₹10,00,000 Paid to Mr. X
- Debited salary of ₹ 500,000 Paid to Mr. Y
- Debited ₹80,000 being advance income tax
- Credited ₹ 6,00,000 being long term capital gain (LTCG)
The firm has b/f business loss of ₹30,000
The firm has donated ₹40,000 by cheque to charitable institution notified u/s 80G

Compute tax liability of partners & partnership firm A.Y. 2020-21.

Solution:
- Net profit as per profit and loss account 5,00,000
- Add: Salary paid by crossed cheque to employee 1,00,000
- Add: Capital exp. Debited to P/L a/c 4,00,000
- Less: Depreciation on motor car 400,000 x 7.5% (30,000)
- Add: Interest in excess to Mr. X 3,00,000 x 3%/15% 60,000
- Add: Interest to Mr. Y 4,50,000 x 3% /15% 90,000
- Add: Salary to Mr. X 10,00,000
- Add: Salary to Mr. Y 500,000
- Add: Advance income tax 80,000
- Less: LTCG credited to P/L a/c (6,00,000)
- Books Profits 21,00,000
- Salary allowed
  - First 3,00,000 x 90% = 2,70,000
  - Bal. 18,00,000 x 60% = 10,80,000
- Total Salary allowed = 13,50,000
- Salary to X (13,50,000 / 3 x 2) (9,00,000)
- Salary to Y (13,50,000 / 3 x 1) (4,50,000)
- Income under the head Business/Profession 7,50,000
- Less: B/F business Loss 30,000
- LTCG 6,00,000
- Gross Total Income 13,20,000
- Less: Deduction u/s 80G (20,000)
- Adjusted GTI = GTI -LTCG –STCG 111A- ALL deduction u/s 80C to 80U (except 80G)
  = 13,20,000 - 6,00,000 = 7,20,000
- 10% of ₹7,20,000 or 40,000 whichever is less
- Qualifying amount 50% of ₹40,000
- Total Income 13,00,000

Computation of Tax Liability
- Tax on normal income ₹7,00,000 @ 30% 2,10,000
- Tax on LTCG ₹6,00,000 @ 20% 1,20,000
- Tax before health & education cess 3,30,000
- Add: HEC @ 4% 13,200
- Tax Liability 3,43,200
Mr. X
Business/Profession – Interest  2,40,000
Business/Profession – Salary   9,00,000
Gross Total Income/ Total Income 11,40,000

**Computation of Tax Liability**
Tax on normal income ₹11,40,000 @ slab rate  1,54,500
Add: HEC @ 4%  6,180
Tax Liability  1,60,680

Mr. Y
Business/Profession – Interest  3,60,000
Business/Profession – Salary   4,50,000
Gross Total Income/Total Income  8,10,000

**Computation of Tax Liability**
Tax on normal income ₹8,10,000 @ slab rate  74,500
Add: HEC @ 4%  2,980
Tax Liability  77,480

**Illustration 16:** XYZ are the partners in a firm with profit sharing ratio 5:3:2 and profit and loss account of the partnership firm is as given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount ₹</th>
<th>Particulars</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>90,00,000</td>
<td>Sales</td>
<td>102,00,000</td>
</tr>
<tr>
<td>Salary and bonus to partners</td>
<td></td>
<td>Discount</td>
<td>10,000</td>
</tr>
<tr>
<td>X</td>
<td>3,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td>2,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Z</td>
<td>1,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal tax payable</td>
<td>30,000</td>
<td>Interest from Indian company</td>
<td>60,000</td>
</tr>
<tr>
<td>General expenses</td>
<td>1,00,000</td>
<td>Interest on drawings</td>
<td>10,000</td>
</tr>
<tr>
<td>Expenditure on technical know-how</td>
<td>40,000</td>
<td>Income tax refund</td>
<td>5,000</td>
</tr>
<tr>
<td>(purchased and put to use on 01.01.2020)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advance Income Tax</td>
<td>70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses on GST proceedings</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses on income tax proceedings</td>
<td>8,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertisements</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on capital to partners @ 13% p.a.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>65,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td>39,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Z</td>
<td>26,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent of building owned by partnership firm</td>
<td>1,20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>27,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102,85,000</td>
<td></td>
<td>102,85,000</td>
</tr>
</tbody>
</table>

**Additional information:**
1. Capital contributed by Mr. X is ₹5,00,000 and by Mr. Y ₹3,00,000 and by Mr. Z ₹2,00,000.
2. Salary paid to Mr. X is ₹3,00,000 and to Mr. Y ₹2,50,000 and to Mr. Z ₹1,50,000.
3. The partnership firm has brought forward business loss for assessment year 2017-18 amounting to ₹1,00,000.
4. Municipal tax was paid on 01.11.2020.
**Personal incomes of partners:**

(i) Mr. X has income from house property ₹5,00,000 and amount invested in National Saving Certificate ₹80,000.

(ii) Mr. Y has income from house property ₹2,00,000 and amount invested in National Saving Certificate ₹1,00,000.

(iii) Mr. Z has loss from house property ₹2,00,000.

Compute Tax Liability of the partnership firm and also that of its partners for the Assessment Year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit as per profit and loss account</td>
<td>₹27,000.00</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>• Salary and bonus to partners</td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>₹3,00,000</td>
</tr>
<tr>
<td>Y</td>
<td>₹2,50,000</td>
</tr>
<tr>
<td>Z</td>
<td>₹1,50,000</td>
</tr>
<tr>
<td>• Municipal tax payable (Sec 43B)</td>
<td>₹30,000.00</td>
</tr>
<tr>
<td>• Interest on capital</td>
<td></td>
</tr>
<tr>
<td>X (65,000 x 1/13)</td>
<td>₹5,000.00</td>
</tr>
<tr>
<td>Y (39,000 x 1/13)</td>
<td>₹3,000.00</td>
</tr>
<tr>
<td>Z (26,000 x 1/13)</td>
<td>₹2,000.00</td>
</tr>
<tr>
<td>• Rent of own building (Sec 30)</td>
<td>₹1,20,000.00</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>• Depreciation on technical know-how</td>
<td>(₹5,000.00)</td>
</tr>
<tr>
<td>(40,000 x 25% x ½)</td>
<td></td>
</tr>
<tr>
<td>• Interest from Indian company</td>
<td>(₹60,000.00)</td>
</tr>
<tr>
<td>• Income tax refund</td>
<td>(₹5,000.00)</td>
</tr>
<tr>
<td>Book Profit</td>
<td>₹9,27,000.00</td>
</tr>
<tr>
<td>• Salary and bonus allowed to partners</td>
<td></td>
</tr>
<tr>
<td>X (6,46,200 x 3/7)</td>
<td>(₹2,76,942.86)</td>
</tr>
<tr>
<td>Y (6,46,200 x 2.5/7)</td>
<td>(₹2,30,785.71)</td>
</tr>
<tr>
<td>Z (6,46,200 x 1.5/7)</td>
<td>(₹1,38,471.43)</td>
</tr>
</tbody>
</table>

**Working note:**

<table>
<thead>
<tr>
<th>Computation of remuneration allowed to partners</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3,00,000 x 90%</td>
<td>₹2,70,000</td>
</tr>
<tr>
<td>6,27,000 x 60%</td>
<td>₹3,76,200</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>₹6,46,200</td>
</tr>
<tr>
<td>Salary allowed to partners maximum to ₹6,46,200</td>
<td></td>
</tr>
</tbody>
</table>

Income under the head Business/Profession 2,80,800.00
Less: Brought forward business loss (1,00,000.00)
Income under the head Business/Profession 1,80,800.00

**Income under the head Other Sources**

- Interest from Indian company 60,000.00
- Income under the head Other Sources 60,000.00
- Gross Total Income 2,40,800.00
- Less: Deductions u/s 80C to 80U Nil
- Total Income 2,40,800.00

**Computation of Tax Payable**

- Tax on ₹2,40,800 @ 30% 72,240.00
- Add: HEC @ 4% 2,889.60
- Tax Liability 75,129.60
Income Under The Head Business/Profession

Less: Income tax paid  (70,000.00)
Tax Payable
Rounded off u/s 288B

**Computation of Total Income and Tax Liability of Mr. X**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary from partnership firm</td>
<td>2,76,942.86</td>
</tr>
<tr>
<td>Interest from partnership firm</td>
<td>60,000.00</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>3,36,942.86</td>
</tr>
<tr>
<td>Income from house property</td>
<td>5,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>8,36,942.86</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C {National Saving Certificate}</td>
<td>(80,000.00)</td>
</tr>
<tr>
<td>Total Income (rounded off u/s 288A)</td>
<td>7,56,940.00</td>
</tr>
<tr>
<td>Tax on र 7,56,940 at slab rate</td>
<td>63,888.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>2,555.52</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>66,443.52</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>66,440.00</td>
</tr>
</tbody>
</table>

**Computation of Total Income and Tax Liability of Mr. Y**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary from partnership firm</td>
<td>2,30,785.71</td>
</tr>
<tr>
<td>Interest from partnership firm</td>
<td>36,000.00</td>
</tr>
<tr>
<td>Income under the head business/Profession</td>
<td>2,66,785.71</td>
</tr>
<tr>
<td>Income from house property</td>
<td>2,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>4,66,785.71</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C {National Saving Certificate}</td>
<td>(1,00,000.00)</td>
</tr>
<tr>
<td>Total Income (Rounded off u/s 288A)</td>
<td>3,66,790.00</td>
</tr>
<tr>
<td>Tax on र 3,66,790 at slab rate</td>
<td>5,839.50</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(5,839.50)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Computation of Total Income and Tax Liability of Mr. Z**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary from partnership firm</td>
<td>1,38,471.43</td>
</tr>
<tr>
<td>Interest from partnership firm</td>
<td>24,000.00</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>1,62,471.43</td>
</tr>
<tr>
<td>Loss from house property</td>
<td>(2,00,000.00)</td>
</tr>
<tr>
<td>Carry forward house property loss</td>
<td>(37,528.57)</td>
</tr>
</tbody>
</table>

**Illustration 17:** If a firm has paid र 7,50,000 as remuneration to its partners for the P.Y.2019-20, in accordance with its partnership deed, and it has a book profit of र 10 lakh, then, the allowable remuneration calculated as per the limits specified in section 40(b) would be –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>On first र 3 lakh of book profit [र 3,00,000 × 90%]</td>
<td>2,70,000</td>
</tr>
<tr>
<td>On balance र 7 lakh of book profit [र 7,00,000 × 60%]</td>
<td>4,20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,90,000</strong></td>
</tr>
</tbody>
</table>

The excess amount of र 60,000 (i.e., र 7,50,000 – र 6,90,000) would be disallowed as per section 40(b)(v).

**NOV-2011 (4 Marks)**

X & Y, a partnership firm consisting of two partners, reports a net profit of र 7,00,000 before deduction of the following items:

1. Salary of र 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
2. Depreciation on plant and machinery under section 32 (computed) र 1,50,000.
3. Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest र 5,00,000

Compute:

ii. Allowable working partner salary for the Assessment Year 2020-21 as per section 40(b) of the Income-tax Act, 1961.
Answer:
(i) Computation of Book- Profits under section 40(b) of Income Tax Act 1961

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>₹7,00,000.00</td>
</tr>
<tr>
<td>Less: Depreciation u/s 32</td>
<td>(₹1,50,000.00)</td>
</tr>
<tr>
<td>Less: Interest on capital</td>
<td>(₹60,000.00)</td>
</tr>
<tr>
<td>(5,00,000 x 12%)</td>
<td></td>
</tr>
<tr>
<td>Book Profit as per section 40(b)</td>
<td>₹4,90,000.00</td>
</tr>
</tbody>
</table>

(ii) Calculation of allowable salary to partners

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book Profit</td>
<td>₹4,90,000.00</td>
</tr>
<tr>
<td>Allowable Salary</td>
<td></td>
</tr>
<tr>
<td>On first 3,00,000 of book profit</td>
<td>₹2,70,000.00</td>
</tr>
<tr>
<td>90% of book profits or 1,50,000 whichever is higher</td>
<td>₹2,70,000.00</td>
</tr>
<tr>
<td>On balance book profit</td>
<td></td>
</tr>
<tr>
<td>60% on balance book profit (1,90,000 x 60/100)</td>
<td>₹1,14,000.00</td>
</tr>
<tr>
<td>Hence, salary as per section 40(b) would be</td>
<td>₹3,84,000.00</td>
</tr>
</tbody>
</table>

Question 33 [V. Imp.]: Write a note on payment to Relative/Related person.

Answer: Payment to Relative/Related Person Section 40A(2)

If the assessee incurs any expenditure and payment has been given to any person mentioned below and such expenditure is excessive or unreasonable having regard to the fair market value of the goods, services or facilities, so much of the expenditure as is so considered to be excessive or unreasonable shall not be allowed as a deduction. E.g. Mr. X has purchased raw material for his business from his brother and has paid ₹5,00,000 but market value is ₹3,00,000, in this case expenditure disallowed shall be ₹2,00,000.

The persons covered in this category are –
1. If any individual has made any payment to his relative. As per section 2(41) Relative, in relation to an individual, means the husband, wife, brother or sister or any lineal ascendant or descendant of that individual.
2. If the assessee is a company, firm, association of persons or Hindu Undivided Family etc. and it has made payment to any director of the company, partner of the firm, or member of the association or family, or any relative of such director, partner or member etc.
3. If any person made payment to any other person who has substantial interest in the business of the assessee e.g. ABC Ltd. has paid ₹5,00,000 to XYZ Ltd. and XYZ Ltd. is holding 20% shares of ABC Ltd., in this case excessive payment is disallowed.
4. Any other person covered under section 40A(2).

Question 34 [V. Imp.]. Discuss provisions relating to payments in excess of ₹10,000.

Answer: Payment in excess of ₹10,000 Section 40A(3) Rule 6DD

If an assessee has incurred any revenue expenditure or capital expenditure and the payment or the aggregate of the payments made to a person with regard to such expenditure on any single day exceeds ₹10,000 and payment was made otherwise than through account payee cheque or account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed, in such cases entire expenditure is disallowed.

In case of payment made for plying, hiring or leasing goods carriages, the ceiling of ten thousand rupees shall be enhanced to thirty-five thousand rupees.

Example
Mr. X has incurred an expenditure of ₹29,000. Mr. X makes separate payments of ₹9,000, ₹8,000 and ₹12,000 all by cash, to the person concerned in a single day. The aggregate amount of payment made to a person in a day, in this case, is ₹29,000. Since, the aggregate payment by cash exceeds ₹10,000, ₹29,000 will not be allowed as a deduction in computing the total income of Mr. X.

Example
(i) If ABC Ltd. has paid ₹65,000 in cash, expenditure disallowed shall be ₹65,000.
(ii) If Mr. X has paid ₹11,000 by a bearer cheque, amount disallowed shall be ₹11,000.
(iii) If ABC Ltd. has paid ₹10,050 by a crossed cheque, amount disallowed shall be ₹10,050.
(iv) ABC Ltd. has paid ₹35,000 by an account payee cheque, entire amount is allowed.
(v) Mr. X pays a salary to his employee ₹15,000 by crossed cheque, in this case entire expenditure is
(vi) ABC Ltd. has paid ₹32,000 in cash to a goods transport agency for transportation of goods, expenditure is allowed.

(vii) Mr. X purchases goods worth ₹75,000 on 01.01.2020 and payment was made ₹60,000 on 03.01.2020 by account payee cheque and ₹8,000 in cash on 03.01.2020 and ₹7,000 in cash on 05.01.2020, in this case expenditure is allowed.

(viii) Mr. X purchases goods worth ₹8,000 and ₹5,000 against two bills from Mr. Y and makes the payment ₹13,000 in cash in a single day, in that case entire expenditure is allowed.

(ix) Mr. X purchases goods worth ₹15,000 from Mr. Y against one bill but makes payment of ₹7,500 and ₹7,500 at different times on the same date, in that case entire expenditure is disallowed.

**Exceptions under rule 6DD**

As per rule 6DD the above provisions are not applicable with regard to following payments:

1. Payment made to Reserve Bank of India, State Bank of India or other banking institutions, LIC, UTI / Central/State Government etc.

2. If the payment is made in a village or town and there is no bank at such place on the date of making the payment and payment is being given to any person who ordinarily resides at that place or has his business or profession at that place.

3. Where the payment is made for the purchase of
   (i) agricultural or forest produce; or
   (ii) the produce of animal husbandry or dairy or poultry farming; or
   (iii) fish or fish products; or
   (iv) the products of horticulture or apiculture, to the cultivator, grower or producer of such articles, produce or products.

4. Where the payment is made for the purchase of the products manufactured in a cottage industry, to the producer of such products.

5. Where the payment is made by transferring funds from one bank account to the other or payment is being made by any credit card/ debit card/ letter of credit etc., payment is allowed.

6. If payment is being made to an employee after retirement or to his family member after the death of the employee and payment is in connection with gratuity etc. and payment is not exceeding ₹50,000.

7. If payment is to be made on a particular day but banks are closed on that day because of holiday or strike.

8. Any other situation given under Rule 6DD.

**Question 35:** Write a note on deductibility in respect of provision for Gratuity Fund.

**Answer:** Deductibility in respect of provision for Gratuity Fund

In general no provision is allowed under Income Tax Act however as a special case, provision for gratuity is allowed. The assessee can make provision for contribution towards approved gratuity fund but such provision should be actuarial provision i.e. it should not be hypothetical.

**Question 36:** Write a note on employer’s contribution to various funds.

**Answer:** Employer’s contribution to various funds

Employer’s contribution to various funds is allowed only if such funds are notified under any Act. If the employer has contributed to the recognised provident fund, approved superannuation fund, approved gratuity fund or any other similar fund required under any other Act, such contribution is allowed, but payment has to be made up to the last date of filing of return of income as per section 43B.

If the employer has contributed to any other fund like unrecognised provident fund, unapproved gratuity fund, unapproved superannuation fund etc., expenditure shall not be allowed.

**Question 37:** Explain incomes under section 41.

**Answer:** In general a person cannot have income under the head business/profession without business/profession but as per section 41(1), 41(2), 41(3) and 41(4), such incomes shall be taxable under the head business/profession even if the assessee do not have any business/profession and are as under below:

*As per section 41(1)*, if any assessee has debited any amount to the profit and loss account and subsequently it was recovered by him, it will be considered to be his income under the head business/profession of the year in which it has been recovered even if the assessee do not have any business or profession in that year. e.g. Mr. X has debited ₹20,000 to profit and loss account being the municipal tax paid but in the subsequent
year there was refund of ₹3,000, in this case it will be considered to be income under the head business/profession in the year of recovery. If amount has been recovered by the successor of business, in that case, it will be considered to be income of such successor.

“Successor in business” means, the amalgamated company / the resulting company / where a firm is succeeded by another firm, the other firm etc.

(Section 41(2), 41(3) and 41(4) have been discussed in the relevant questions.)

Question 38 [Imp.]: Write a note on actual cost. Sec 43(1)

Answer: Actual Cost  

In case of depreciable assets, depreciation is allowed on actual cost and as per section 43(1), actual cost means total expenses incurred upto the date of putting the asset to use.

If ABC Ltd. has taken a loan of ₹ 40 lakhs @ 10% p.a. on 01.04.2019 for purchasing a particular plant and machinery and the company has made additional payment asunder:

1. Transportation charges ₹2 lakh.
2. Loading and unloading expenses ₹25,000
3. Payments for the expert staff to install the plant and machinery ₹3 lakh.
4. Company has incurred ₹ 4 lakh for construction of a platform for installing the plant and machinery.

The asset was put to use on 01.01.2020, in this case actual cost of the asset shall be ₹52,25,000 (40,00,000 + interest 3,00,000 (40,00,000 x 10% x 9/12) + 2,00,000 + 25,000 + 3,00,000 + 4,00,000)

If the assessee has received any subsidy from the Government or other similar agency, the subsidy so received shall be deducted and only the balance amount shall be considered to be the actual cost.

Example

If in the above case, the assessee has received a subsidy of ₹ 2 lakh in connection with plant and machinery because it was a non-polluting plant, in this case, actual cost of asset shall be ₹50,25,000.

Treatment of interest subsequent to putting the asset to use

Any interest in connection with the acquisition of an asset relating to any period after such asset is first put to use shall not be included, in the actual cost of such asset, rather it is revenue expenditure and is allowed to be debited to profit and loss account but interest prior to putting the asset to use shall be added in the actual cost.

Buildings in personal use subsequently used in business/profession

Where a building previously the property of the assessee is brought into use for the purpose of the business or profession, the actual cost to the assessee shall be the actual cost of the building to the assessee, as reduced by an amount equal to the depreciation that would have been allowable had the building been used for the business/profession since the date of its acquisition.

Where the assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed, exceeds ten thousand rupees, such expenditure shall be ignored for the purposes of determination of actual cost.

Where a stock in trade is converted into capital assets then fair market value of the stock shall be treated as actual cost of the asset.

Illustration 18: Dr. Sagar purchased a residential building on 01.12.2017 for ₹12,00,000 and it was put to use on the same date. Till 01.12.2019 the same was self-occupied as residence. On this date, the building was brought into use for the purpose of his medical profession (it was used as residential building). What would be the depreciation allowable for the Assessment Year 2020-21?

Solution:

Computation of depreciation for the Assessment Year 2020-21

In this case notional depreciation shall be allowed as per section 43(1) and depreciation allowable for the Assessment Year 2020-21 shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of building as on December 1st, 2017</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Less: depreciation for the previous year 2017-18</td>
<td>(30,000)</td>
</tr>
</tbody>
</table>


Income Under The Head Business/Profession

(2.5% of ₹ 12,00,000)
(As building purchased during the year 2017-18 is put to use for
less than 180 days during the year)
Written down value as on 01.04.2018 11,70,000
Less: depreciation for previous year 2018-19 @ 5% (58,500)
Written down value as on 01.04.2019 11,11,500
Depreciation for the previous year 2019-20 @ 5% 55,575

MAY – 2012 (4 Marks)
A car purchased by Dr. Ramesh on 10.08.2017 for ₹5,25,000 for the personal use is brought into professional use on 01.07.2019 by him, when its market value was ₹2,50,000.
Compute the actual cost of the car and amount of depreciation for the assessment year 2020-21 assuming the rate of depreciation to be 15%.

Answer:
**Computation of Actual Cost of the Car and Depreciation for the A.Y.2020-21**

- Actual cost of the car = ₹5,25,000
- Depreciation [₹5,25,000 x 15%] = ₹78,750

Question 39: Write a note on the Method of Accounting as per Section 145.

**Answer:** Method of Accounting Section 145
Income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” shall, be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee however any system of accounting once adopted has to be followed consistently but it can be changed with the permission of assessing officer.

Question 40 [V. Imp.]: Write a note on Section 43B.

**Answer:** Certain deductions to be only on actual payment Section 43B
If any assessee has maintained books of accounts on the basis of mercantile system of accounting, all the expenditures are allowed on due basis. But the expenditures listed under section 43B are allowed only on actual payment basis.
These expenditures are:
(a) any sum payable by the assessee by way of tax, duty, cess or fee, by whatever name called, under any law like Municipal Tax, Professional Tax, Composition Tax etc.
(b) Employer’s contribution to any provident fund or superannuation fund or gratuity fund, Employees State Insurance (ESI) or any other fund for the welfare of employees.
(c) Bonus or commission or leave salary to the employee.
(d) Interest on any loan or borrowing from any Public Financial Institution or a State Financial Corporation or a State Industrial Investment Corporation or scheduled bank.
(e) Any sum payable by the assessee to the Indian Railways for the use of railway assets,
The assessee is allowed to make the payment till the last date of filing of return of income relating to the previous year in which the expenditure was incurred.
(f) any sum payable by the assessee as interest on any loan or borrowing from a deposit taking non-banking financial company or systemically important non-deposit taking non-banking financial company, in accordance with the terms and conditions of the agreement governing such loan or borrowing,
If the payment is made after the last date of filing of return of income, expenditure is allowed in the year in which the assessee has made the payment.

**Example**
ABC Ltd has debited bonus of ₹3,00,000 to the Profit/Loss A/c for the previous year 2019-20 and the company paid the bonus on 07.12.2020, in this case expenditure is not allowed in the previous year 2019-20. Rather expenditure is allowed in the previous year 2020-21. Similarly if the payment is made by the company on 07.05.2021, expenditure shall be allowed in the previous year 2021 - 22.
Illustration 19: Mr. X (age 82 years) has one house which is 50% in business/profession and 50% is let out @ 10,000 p.m. and municipal taxes for the entire house are ₹7,000 which were paid on 10.04.2020 and business income of Mr. X before debiting any expense of house property is ₹7,80,000. Compute tax liability for the Assessment Year 2020-21.

Solution:

Income under the head business/profession shall be
₹7,80,000 – ₹3,500
7,76,500.00

Income under the head House Property
Gross annual value 1,20,000.00
Less: Municipal taxes (allowed only on actual payment basis) Nil
Net annual value 1,20,000.00
Less: 30% of NAV u/s 24(a) (36,000.00)
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 84,000.00
Gross Total Income 8,60,500.00
Less: Deduction u/s 80C to 80U Nil
Total Income 8,60,500.00

Computation of Tax Liability
Tax on ₹8,60,500 at slab rate 72,100.00
Add: HEC @ 4% 2,884.00
Tax Liability 74,984.00
Rounded off u/s 288B 74,980.00

Illustration 20: Mr. X has computed his income ₹3,50,000 and some of the amounts debited to the profit and loss account are as given below:

1. Household expense ₹5,000
2. Rent for own building ₹1,20,000 (half of the building is in personal use and balance half in business use).
3. Municipal tax of the building ₹3,000 (amount was paid on 01.04.2020)
4. Expenditure on repairs of the building ₹4,000.
5. Premium paid for insurance of the building ₹2,000.
6. Mr. X has purchased one motor car for ₹3,00,000 on 01.01.2020 and it was put to use on the same date. The car was use for personal purpose as well as official use (50% official and 50% personal). Assessee has also debited petrol expenses of ₹5,000.
7. He has debited ₹20,000 being the amount invested in public provident fund.

His tax liability for the Assessment Year 2020-21 shall be computed in the manner given below:

Solution:

Net income as per profit and loss account ₹3,50,000.00
Add:
1. Household expenses ₹5,000.00
2. Rent of the own building ₹1,20,000.00
3. Municipal tax ₹1,500.00
4. Repairs ₹2,000.00
5. Insurance ₹1,000.00
6. Capital expenditure on motor car ₹3,00,000.00
7. Petrol ₹2,500.00
8. Public Provident Fund ₹20,000.00
Less:
Depreciation of motor car ₹3,00,000 x 15% x ½ x ½ (11,250.00)
Income under the head Business/Profession ₹7,90,750.00
Gross Total Income ₹7,90,750.00
Less: Deduction u/s 80C ₹(20,000.00)
Question 41: Write a note on full value of consideration for transfer of assets other than capital asset in certain cases.

Answer: Special provision for full value of consideration for transfer of assets other than capital assets in certain cases Section 43CA

If any person has sold land or building which was held as stock-in-trade and it was sold at a value less than the stamp duty value, in such cases sale value shall be considered to be stamp duty value but if the seller has entered into an agreement to sell the property at an earlier date and some advance was taken through account payee cheque or account payee draft or through electronic clearing system through a bank account or through such other electronic mode as may be prescribed, in such cases stamp duty value on the date of agreement shall be taken into consideration.

Provided that where the value adopted or assessed or assessable by the authority for the purpose of payment of stamp duty does not exceed one hundred and five per cent of the consideration received or accruing as a result of the transfer, the consideration so received or accruing as a result of the transfer shall, for the purposes of computing profits and gains from transfer of such asset, be deemed to be the full value of the consideration.

it can be shown in the manner given below:

<table>
<thead>
<tr>
<th>Case</th>
<th>Actual Consideration</th>
<th>Stamp duty value on the date of agreement</th>
<th>Stamp duty value on the date of registration</th>
<th>Consideration which will be applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td>120 (31/8/2018) (₹10 lakhs received by cheque on 31/8/2018)</td>
<td>210 (1/5/2019)</td>
<td>120</td>
</tr>
<tr>
<td>2</td>
<td>100</td>
<td>120 (31/8/2018) (₹10 lakhs received by cash on 31/8/2018)</td>
<td>210 (1/5/2019)</td>
<td>210</td>
</tr>
<tr>
<td>3</td>
<td>100</td>
<td>120 (1/5/2019)</td>
<td>210 (31/3/2020) (Full amount received on the date of registration)</td>
<td>210</td>
</tr>
</tbody>
</table>

Question 42 [V. Imp.]: Discuss the provisions of the Income Tax Act 1961, regarding compulsory maintenance of accounts.

Answer: Compulsory maintenance of accounts Section 44AA Rule 6F

Provisions regarding maintaining of books of accounts shall be as given below:

1. Persons having specified profession

The person having specified profession have to maintain any books of accounts as may enable the Assessing Officer to compute his total income, however they have to maintain prescribed books of accounts if gross receipt exceeds ₹1,50,000 in all the three years immediately preceding the previous year.

Example

Mr. X is engaged in medical profession and his gross receipt during the various years is asunder:

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Receipt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 2018-19</td>
<td>1,40,000</td>
</tr>
</tbody>
</table>
2. 2017-18  1,70,000  
3. 2016-17  1,25,000  

In this case, during the previous year 2019-20, Mr. X is not required to maintain prescribed books of accounts because gross receipt has not exceeded ₹1,50,000 during all the three years immediately preceding the relevant previous year. But if receipt during 2018-19 is ₹1,75,000 and during 2016-17 it is ₹1,55,000, he has to maintain prescribed books of accounts during 2019-20.

If profession has been newly setup in the previous year and gross receipt are likely to exceed ₹1,50,000, he should maintain prescribed books of accounts.

**Specified Profession** shall include
1. Legal profession  
2. Medical profession  
3. Engineering profession  
4. Architectural profession  
5. Profession of accountancy  
6. Technical consultancy  
7. Interior decoration  
8. Authorised representatives  
9. Film artists  
10. Company Secretary  
11. Information Technology.

**Preservation of the books of accounts**
The books of accounts are to be kept and maintained for the period of at least 6 years from the end of the relevant assessment year.

2. **Persons carrying on business or any profession, not specified above**
   Such persons are not required to maintain accounts in general, however if their income from business or profession exceeds one lakh twenty thousand rupees or their total sales turnover or gross receipts as the case may be, in business or profession exceeds ₹ 10 lakhs in any one of the three years immediately preceding the previous year, they will be required to maintain any books of accounts.

   In case of business or profession newly set up in any previous year, obligation to maintain accounts will arise if the income is likely to exceed ₹1,20,000 or total sales turnover or gross receipts as the case may be in business or profession are likely to exceed ₹ 10 lakhs during such previous year.

   **For Individual and HUF** Limit of ₹2,50,000 instead of ₹1,20,000 and Limit of ₹25,00,000 instead of ₹10,00,000 shall be applicable.

3. **Persons whose business income is to be computed on presumptive basis under section 44AD/44ADA/44AE**
   
   If income of any person is to be computed under section 44AD or 44ADA or 44AE on presumptive basis but such person has rejected presumptive income and his income is exceeding the maximum amount which is exempt from income tax, in such cases such person shall be required to maintain any books of accounts (also audit is required as per section 44AB), eg. Mr. X has turnover of his business ₹ 20,00,000 but he has rejected presumptive income, books/ audit not required but if turnover is ₹ 50,00,000 and person has rejected presumptive income, books as well as audit is required.

**Question 43 [V. Imp.]: Write short note on Compulsory Tax Audit.**

**Answer: Compulsory Tax Audit**

**Audit of accounts of certain persons carrying on business or profession**  
Section 44AB

The following persons have to get their accounts audited.

1. Every person carrying on business, if his total sales turnover or gross receipts, in business exceeds ₹100 lakh during the previous year.
2. Every person carrying on profession if his gross receipts in profession exceed ₹50 lakh during the previous year.
3. If income of any person is to be computed under section 44AD or 44ADA or 44AE on presumptive basis but such person has rejected presumptive income, in such cases such person shall be required to get the accounts audited.

The accounts should be audited by a Chartered Accountant and audit report should be submitted latest by the last date of filing of return of income.

This section shall not apply to the person, who declares profits and gains for the previous year in accordance with the provisions of section 44AD and his total sales, turnover or gross receipts, as the case may be, in business does not exceed two crore rupees in such previous year.
Penalty for violating provisions of Section 44AB  Section 271B
If any person fails to get his accounts audited or fails to submit audit report in time, penalties may be imposed under section 271B equal to ½% of total turnover or gross receipt subject to a maximum of ₹1,50,000.

Example
Mr. X has turnover of his business ₹105 lakhs but he has failed to get his accounts audited, in this case penalties may be imposed amounting to ₹52,500 but if his turnover was ₹400 lakhs, penalties imposable shall be ₹2,00,000 but maximum ₹1,50,000.

Question 44 [V. Imp.]. Briefly describe provisions of income tax act for computing profit and gains of business on Presumptive Basis.
Answer: Special provision for computing profits and gains of business on presumptive basis.  Section 44AD
1. If any assessee has turnover of his business upto ₹200 lakhs, such assessee is allowed to compute income on presumptive basis and income under the head business/profession shall be presumed to be 8% of the turnover and no further deduction is allowed under section 30 to 38.
2. Such option is allowed only to an Individual/ HUF / Firm who are resident but not to LLP or Company.
3. Section 44AD is applicable only to business and not to specified profession and also it is not applicable for the persons having earning as commission or brokerage.
4. Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year otherwise interest shall be charged @ 1% for one month on the amount of deposit default.
5. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.
6. The assessee shall be exempt from maintaining books of accounts or audit.
7. If an assessee has opted for presumptive income under section 44AD and in the subsequent 5 years he has rejected presumptive income, in that case he will not be allowed to opt for presumptive income for next 5 years. If assessee has rejected the presumptive income, he will be required to maintain any books of accounts and also audit is required. e.g. Mr. X has opted for presumptive income under section 44AD in the previous year 2019-20, in this case he cannot reject 44AD during the subsequent 5 previous years i.e. previous year 2020-21, 2021-22, 2022-23, 2023-24, 2024-25. If he has rejected 44AD in any of these 5 years, he will not be allowed to opt for 44AD in next 5 years. If he has rejected 44AD in previous year 2021-22, he cannot opt for 44AD during the previous year 2022-23, 2023-24, 2024-25, 2025-26,2026-27.

Rate of 6% shall be applied instead of 8% if the amount of total turnover or gross receipts which is received by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed during the previous year or before the due date specified in subsection (1) of section 139 in respect of that previous year.

Illustration 21: Mr. X is engaged in a business with turnover ₹170,00,000 (all payments received by account payee cheque, bank draft or through electronic clearing) and expenses incurred in connection with earning of income are ₹160,00,000. He has LTCG ₹5,00,000. He has donated ₹4,00,000 to Rajiv Gandhi Foundation by cheque. He has brought forward loss of business ₹1,00,000 of previous year 2015-16. Compute his Income and Tax Liability for previous year 2019-20, in two situations -

(i) He has opted for section 44AD.
(ii) He has not opted for section 44AD.

Solution:
(i) As per section 44AD, Presumptive Income shall be

\[ 170,00,000 \times 6\% = 10,20,000 \]

Less: Brought forward loss of P.Y. 2015-16

\[ (1,00,000) \]

Income under the head Business or Profession

\[ 9,20,000 \]

Income under the head Capital Gains
Long Term Capital Gains                          5,00,000
Gross Total Income                              14,20,000
Less: Deduction u/s 80G (50% of ₹4,00,000)       (2,00,000)
Total Income                                     12,20,000

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹7,20,000 at slab rate</td>
<td>56,500.00</td>
</tr>
<tr>
<td>Tax on LTCG ₹5,00,000 @ 20% u/s 112</td>
<td>1,00,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>6,260.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,62,760.00</td>
</tr>
</tbody>
</table>

Note:
1. The Assessee shall be exempt from maintaining books of accounts and also from Audit.

**Income under the head Business or Profession**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Receipts</td>
<td>170,00,000</td>
</tr>
<tr>
<td>Less: Expenses Incurred</td>
<td>(160,00,000)</td>
</tr>
<tr>
<td>Less: Brought forward loss of P.Y. 2015-16</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Income under the head Business or Profession</td>
<td>9,00,000</td>
</tr>
</tbody>
</table>

Income under the head Capital Gains

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Capital Gains</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>14,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80G (50% of 4,00,000)</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>12,00,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹7,00,000 at slab rate</td>
<td>52,500.00</td>
</tr>
<tr>
<td>Tax on LTCG ₹5,00,000 @ 20% u/s 112</td>
<td>1,00,000.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>6,100.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,58,600.00</td>
</tr>
</tbody>
</table>

Note: The Assessee shall be liable to maintain books of accounts and also liable to Audit.

---

**MAY – 2011 (5 Marks)**

Mr. X engaged in Retail Trade, reports a turnover of ₹58,50,000 (all payments received in account payee cheque) for the financial year 2019-20. His income from the said business as per books of account is computed at ₹2,90,000. Retail trade is the only source of income for Mr. X.

(i) Is Mr. X eligible to opt for presumptive determination of his income chargeable to tax for the Assessment Year 2020-21?

(ii) Is so, determine his income from retail trade as per the applicable presumptive provision.

(iii) In case, Mr. X has not opted for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?

(iv) What is the ‘due date’ for filing his return of income, under both the options?

**Solution:**

(i) Yes. Since his total turnover for the F.Y.2019-20 is below ₹200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹3,51,000, being 6% of ₹ 58.50,000.

(iii) In case he has not opted for the presumptive taxation scheme under section 44AD, and claims that his income is ₹2,90,000 (which is lower than the presumptive business income of ₹3,51,000), he has to maintain books of account as required under section 44AA and also get them audited and furnish a report of such
audit under section 44AB, since his total income exceeds the basic exemption limit of ₹2,50,000. And he is not eligible to claim the benefit of presumptive taxation for the five assessment year.

(iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2020.

In case he has not opted for the presumptive taxation scheme and claims that his income is ₹2,90,000 as per books of account, then he has to get his books of account audited under section 44AB, in that case the due date for filing of return would be 30th September, 2020.

**Question 45. Explain Special provision for computing profits and gains of profession on presumptive basis. Section 44ADA**

Answer: Special provision for computing profits and gains of profession on presumptive basis Section 44ADA

1. An Assessee having specified profession shall be allowed to have option to compute income on presumptive basis provided gross receipt is not exceeding ₹ 50 lakh during that year and income under the head Business/Profession shall be presumed to be 50% of gross receipt and no further deduction shall be allowed under the head Business/Profession.

2. The assessee shall be exempt from maintaining books of accounts.

3. Such Assessee has the option to reject presumptive income but in that case the assessee shall be required to maintain any books of accounts and also audit is required.

4. Assessee can change the option on year to year basis.

5. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.

6. Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year otherwise interest shall be charged @ 1% for one month on the amount of deposit default.

**Illustration 22:** Mr. X is engaged in specified profession and has gross receipt ₹42,00,000. He has Long term Capital Gain ₹7,00,000 and brought forward business loss ₹30,000 of A.Y. 2016-17. He donated ₹ 20,000 to Prime Minister National Relief Fund (PMNRF) by cheque. Compute his Tax Liability for the Assessment Year 2020-21. He has opted for Section 44ADA.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Receipt</td>
<td>₹42,00,000</td>
</tr>
<tr>
<td>Presumptive Income u/s 44ADA (50% of 42,00,000)</td>
<td>₹21,00,000</td>
</tr>
<tr>
<td>Income under the head Business Profession</td>
<td>₹21,00,000</td>
</tr>
<tr>
<td>Less: B/F business loss</td>
<td>₹30,000</td>
</tr>
<tr>
<td>Income under the head Business Profession</td>
<td>₹20,70,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains</td>
<td>₹7,00,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹27,70,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80G</td>
<td>₹20,000</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹27,50,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹20,50,000 at slab rate</td>
<td>₹4,27,500</td>
</tr>
<tr>
<td>Tax on LTCG ₹7,00,000 @ 20%</td>
<td>₹1,40,000</td>
</tr>
<tr>
<td>Tax before health &amp; education cess</td>
<td>₹5,67,500</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹22,700</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹5,90,200</td>
</tr>
</tbody>
</table>

**Question 46 [V. Imp.]. Describe the provisions for computing profit and gains of business of Plying, Hiring or Leasing Goods Carriages.**

Answer: Special provision for computing profits and gains of business of plying, hiring or leasing goods carriages Section 44AE

1. If any person is engaged in the business of plying, hiring or leasing goods carriages, he will have the option to compute income under the head business/profession on presumptive basis and it will be ₹7,500 per month or part of the month per goods carriage provided it is not a heavy goods vehicle. Heavy goods vehicle means goods vehicle having gross weight more than 12 ton (12000 kg.) If it is a heavy goods vehicle
Income shall be presume to be ₹1000 per ton of gross weight, eg. if weight of vehicle is 14 ton (14000 kg), income shall be ₹ 14,000 per month.

If actual income is more than the presumptive income, actual income shall be taken into consideration.

Assessee should not have more than 10 goods carriages at any time during the year otherwise such option is not allowed.

2. No further deduction is allowed under section 30 to 38 but in case of a firm interest and salary to partners is allowed as per section 40(b).

3. The assessee shall be exempt from maintaining books of accounts or audit.

4. The assessee has the option to reject presumptive income but in that case assessee should maintain any books of accounts and also audit is required.

5. An assessee, who is in possession of a goods carriage, whether taken on hire purchase or on instalments, shall be deemed to be the owner of such goods carriage.

6. Assessee can change the option on year to year basis.

7. Brought forward depreciation shall not be allowed to be adjusted but brought forward business loss shall be allowed to be adjusted.

Illustration 23: Mr. X retired from Govt. service in March 2019. He got ₹20,00,000 on account of retirement benefits. Out of the aforesaid sum, he purchased on 23rd April 2019 a few motor vehicles and got their delivery on that date.

The particulars of the vehicles are given below–

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Number</th>
<th>Cost of the vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy goods vehicle (15 ton)</td>
<td>2</td>
<td>₹9,00,000</td>
</tr>
<tr>
<td>Medium goods vehicle (8 ton)</td>
<td>4</td>
<td>₹4,50,000</td>
</tr>
<tr>
<td>Light commercial Vehicle (4 ton)</td>
<td>3</td>
<td>₹3,20,000</td>
</tr>
</tbody>
</table>

He started plying the vehicles from 04.06.2019. On an average every vehicle remains off the road for about a week for repairs and maintenance. He maintains a rough record of the receipts and outgoings which is given below –

Receipts ₹3,70,000
Less: Expenses (Excluding depreciation and salaries to Mr. Y) ₹60,000

₹3,10,000

You are required to compute the Total Income of Mr. X from the business of goods carriage for the previous year 2019-20.

Solution:

Computation of Business Income

As per section 44AE
Goods vehicle
(₹7,500 x 7 x 12) 6,30,000
Heavy goods vehicle
(₹1,000 x 15 x 12 x 2) 3,60,000

Business Income 9,90,000
Gross Total Income 9,90,000
Less: Deduction u/s 80C to 80U nil
Total Income 9,90,000

Illustration 24: An assessee owns a heavy commercial vehicle having gross vehicle weight of 15 ton each for 9 months 15 days, a medium goods vehicle having gross vehicle weight of 8 ton for 9 months and a light goods vehicle having gross vehicle weight of 5 ton for 12 months during the previous year. Compute his income applying the provisions of section 44AE.

Solution:

His profits and gains from the 3 trucks shall be deemed to be (15 x 1,000 x 10) + (₹7,500 x 9) + (₹7,500 x 12) = ₹3,07,500
MAY-2011 (4 Marks)

Mr. X had 4 heavy goods vehicles having gross vehicle weight of 15 ton each as on 01.04.2019. He acquired 7 heavy goods vehicles having gross vehicle weight of 14 ton each on 27.06.2019. He sold 2 heavy goods vehicles having gross vehicle weight of 15 ton each on 31.05.2019.

He has brought forward business loss of ₹ 50,000 relating to Assessment Year 2016-17 of a discontinued business. Assuming that he opts for presumptive taxation of income as per section 44AE, compute his Total Income chargeable to tax for the Assessment Year 2020-21.

**Solution:**

**Computation of Total Income of Mr. X for A.Y.2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Presumptive business income under section 44AE</strong></td>
<td></td>
</tr>
<tr>
<td>2 heavy goods vehicles for 2 months (2 x 15 x ₹1,000 x 2)</td>
<td>60,000</td>
</tr>
<tr>
<td>Balance 2 heavy goods vehicles for 12 months (2 x 15 x ₹1,000 x 12)</td>
<td>3,60,000</td>
</tr>
<tr>
<td>7 heavy goods vehicles for 10 months (7 x 14 x 1,000 x10)</td>
<td>9,80,000</td>
</tr>
<tr>
<td><strong>Business Income</strong></td>
<td></td>
</tr>
<tr>
<td>Less: Brought forward business loss of discontinued business</td>
<td>(50,000)</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>13,50,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>13,50,000</td>
</tr>
</tbody>
</table>

NOV-2011 (4 Marks)

Mr. X (aged 38) owned 6 heavy goods vehicles having gross vehicle weight of 16 ton (16000 Kg) each as on 01.04.2019. He acquired 2 more light goods vehicles having gross vehicle weight of 8 ton (8000 Kg) each on 01.07.2019. He is solely engaged in the business of plying goods vehicles on hire since financial year 2015-16.

He did not opt for presumptive provision contained in section 44AE for the financial year 2018-19. His books were audited under section 44AB and the return of income was filed on 05.08.2019. He has unabsorbed depreciation of ₹70,000 and Business loss of ₹1,00,000 for the financial year 2018-19.

Following further information is provided to you:

(i) Paid medical insurance premium of ₹23,000 for his parents (both aged above 70) by means of bank demand draft.

(ii) Paid premium on life insurance policy of his married daughter ₹25,000.

(iii) Repaid principal of ₹40,000 and interest of ₹15,000 to Canara Bank towards education loan of his daughter, who completed B.E. two years ago. She is employed after completion of her studies.

Assuming that Mr. X has opted for presumptive provision contained in section 44AE of the Income-tax Act, 1961, compute the Total Income of Mr. X for the Assessment Year 2020-21.

**Solution:**

**Computation of total income Mr. X**

<table>
<thead>
<tr>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presumptive income u/s 44 AE</td>
</tr>
<tr>
<td>Heavy Goods Vehicle (6 x 16 x 1,000 x 12)</td>
</tr>
<tr>
<td>Light Goods Vehicle (7,500 x 2 x 9)</td>
</tr>
<tr>
<td>Less: Business loss to be adjusted</td>
</tr>
<tr>
<td>Less: Unabsorbed Depreciation</td>
</tr>
<tr>
<td>(Not allowed) (since covered u/s 32 (2))</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
</tr>
<tr>
<td>Less: Deduction u/s 80D</td>
</tr>
<tr>
<td>Less: Deduction u/s 80E</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
</tr>
</tbody>
</table>
ALTERNATE MINIMUM TAX
Section 115JC to 115JF

Alternate Minimum Tax provisions shall be applicable in case of all the assesses except a company (in case of company minimum alternate tax is applicable).

Further such provisions shall not be applicable for individual, HUF, AOP, BOI and Artificial Juridical persons if adjusted total income does not exceed 20 lakhs.

"Alternate minimum tax" means the amount of tax computed on adjusted total income at a rate of eighteen and one-half per cent;

"Regular income-tax" means the income-tax payable for a previous year by [a person on his total income] computed in the normal manner.

Adjusted total income shall be the total income as increased by—

(i) deductions claimed, if any, under any section (other than section 80P) included in Chapter VI-A under the heading "C.—Deductions in respect of certain incomes" i.e. 80JJAA, 80QBB, 80RRB etc.

(ii) deduction claimed, if any, under section 10AA [and]

(iii) deduction claimed, if any, under section 35AD as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed.

For eg, if total income is ₹30,00,000 after claiming deductions under chapter VI-A under the heading C ₹2,00,000 and deduction u/s 10AA ₹3,00,000 and deduction u/s 35AD ₹3,50,000 (depreciation ₹1,00,000 has not been claimed u/s 32), in this case adjusted total income shall be ₹30,00,000 + ₹2,00,000 + ₹3,00,000 + ₹3,50,000-₹1,00,000 = ₹37,50,000.

In order to apply provisions of AMT, income tax shall be computed on the total income of ₹30,00,000 at the normal rates and also tax shall be computed on ₹37,50,000 at a rate of 18.5% and if regular tax is less than AMT, AMT is payable. Tax will include surcharge plus HEC, wherever applicable.

If AMT is payable, tax credit is allowed which is AMT- regular tax and it can be adjusted in the subsequent years whenever regular tax is more than AMT and carry forward is allowed for maximum 15 years starting from the year subsequent to the year to which tax credit relates.

Example: XY partnership firm has total income of ₹18,00,000 after claiming deductions under chapter VI-A under the heading C ₹4,00,000 and deduction u/s 10AA ₹5,00,000 and deduction u/s 35AD ₹6,00,000 (instead of depreciation u/s 32 ₹2,00,000), in this case tax treatment shall be as given below:

| Regular income tax (₹18,00,000 x 30%) | 5,40,000 |
| Add: HEC @ 4% | 21,600 |
| Tax Payable | 5,61,600 |

| Alternate minimum tax (₹18,00,000+₹4,00,000+₹5,00,000+₹6,00,000-₹2,00,000) x 18.5% | 5,73,500 |
| Add: HEC @ 4% | 22,940 |
| Tax payable | 5,96,440 |

In the given case regular income tax payable is lower than alternate minimum tax payable hence tax shall be payable based on alternate minimum tax.
Alternate minimum tax
\( (18,00,000+4,00,000+5,00,000+6,00,000-2,00,000) \times 18.5\% \)
Add: HEC @ 4%
Tax payable

Tax credit allowed \( 5,96,440-5,61,600 = 34,840 \)

**Illustration 25:** Mr. X, aged 75 years, has submitted his profit and loss account for the year ending 31.03.2020 as given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Stock</td>
<td>13,50,000</td>
<td>Sales</td>
<td>105,00,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>75,00,000</td>
<td>Gift from friend</td>
<td>1,200</td>
</tr>
<tr>
<td>Franchises</td>
<td>1,00,000</td>
<td>Bad debts recovered</td>
<td>2,900</td>
</tr>
<tr>
<td>Advertisement</td>
<td>9,000</td>
<td>Rental income from House Property</td>
<td>1,40,000</td>
</tr>
<tr>
<td>Income Tax of previous year 2018-19</td>
<td>7,000</td>
<td>Income tax refund</td>
<td>700</td>
</tr>
<tr>
<td>Income tax (advance)</td>
<td>1,200</td>
<td>Dividends from a foreign company</td>
<td>3,000</td>
</tr>
<tr>
<td>Addition to the office building</td>
<td>45,000</td>
<td>Closing stock</td>
<td>1,80,000</td>
</tr>
<tr>
<td>Investment in public provident fund</td>
<td>70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>17,45,600</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Additional information:**
1. Opening and closing stocks are undervalued by 10%.
2. Franchises were purchased on 01.07.2019 and were put to use on 03.10.2019.
3. Advertisement expenditure relates to a neon sign board which was purchased and put to use on 01.08.2019.
4. Office building has written down value of ₹56,00,000 as on 01.04.2019 and addition was made to the building by constructing additional room on the roof. Construction was completed on 01.11.2019 and it was put to use on the same date. The expenditure of ₹45,000 includes cost of wiring and switches of ₹4,500. No depreciation has been debited with regard to the building.
5. Sale includes sale of ₹1,20,000 to the proprietor and the cost of these goods was ₹1,00,000 and market price ₹1,25,000.
6. Bad debts recovered were allowed earlier.

Mr. X has not opted for presumptive taxation of Income u/s 44AD. Compute his Tax Liability for the Assessment Year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit as per profit &amp; loss account</td>
<td>17,45,600.00</td>
</tr>
</tbody>
</table>

**Add: inadmissible expenses**
1. Franchises, being capital expenditure | 1,00,000.00 |
2. Advertisement, being capital expenditure | 9,000.00 |
3. Income tax (income tax is not allowed as per sec 40(a)) | 8,200.00 |
4. Addition to office building, being capital expenditure | 45,000.00 |
5. Investment in public provident fund (not a revenue expenditure) | 70,000.00 |

**Add: incomes not credited to profit & loss account**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing stock undervalued by 10% (1,80,000 x 10/90)</td>
<td>20,000.00</td>
</tr>
</tbody>
</table>

**Deduct expenditures not debited to profit & loss account**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock undervalued by 10% (13,50,000 x 10/90)</td>
<td>(1,50,000.00)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(5,88,150.00)</td>
</tr>
</tbody>
</table>

**Working Note:**
1. Franchises 1,00,000 x 25% | 25,000 |
2. Furniture/fixture @ 10%
Income Under The Head Business/Profession

- Neon sign board 9,000 x 10%  
- Wirings etc. in the building 4,500 x 5%  
3. Office building 56,00,000 x 10%  
   Addition 40,500 x 5%  
Total Depreciation 5,88,150

**Deduct amounts credited to profit & loss, but not considered to be incomes**

1. Gift from friend (any gift is not considered to be income except gift received from client or gift received from any person in excess of ₹50,000)  
   (1,200.00)
2. Rental income from House Property  
   (1,40,000.00)
3. Income tax refund  
   (700.00)
4. Dividends from a foreign company (to be taxed under the head other sources)  
   (3,000.00)
5. Sale to the proprietor should be at cost price  
   (20,000.00)
Income under the head business/profession  
Income under the head other sources  

**Income under the head house property**

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

**Computation of Tax liability**

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

**Illustration 26:** Mr. X is an Advocate in the Supreme Court and he keeps his books of accounts on cash basis and his receipts and payments a/c for the year 2019-20 is as given below:

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount</th>
<th>Payments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/f</td>
<td>4,50,000</td>
<td>Rent of building in the use of profession</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Legal consultancy fee</td>
<td>9,20,000</td>
<td>Office expenses</td>
<td>30,000</td>
</tr>
<tr>
<td>Interest on units of UTI</td>
<td>12,000</td>
<td>New computer purchased by account payee cheque on 01.11.2019 and put to use on the same date</td>
<td>35,000</td>
</tr>
<tr>
<td>Remuneration from Delhi University for setting one paper for LLB exams</td>
<td>4,000</td>
<td>Computer purchased by account payee cheque on 10.11.2019 and put to use on the same date</td>
<td>25,000</td>
</tr>
<tr>
<td>Honorarium for delivering lectures as guest speaker</td>
<td>3,000</td>
<td>Motor car purchased by account payee cheque on 01.12.2019 and put to use on the same date</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Sales proceeds of an old computer with w.d.v as on 01.04.2019 ₹2,300</td>
<td>7,000</td>
<td>Legal books purchased on 01.01.2020 and put to use on the same date</td>
<td>9,000</td>
</tr>
<tr>
<td>Sale proceeds of one house which was purchased on 01.04.2018 for ₹6,70,000</td>
<td>9,80,000</td>
<td>Income tax paid being advance tax under section 207 to 219</td>
<td>12,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subscription to Bar Association</td>
<td>3,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Deposit in public provident fund in the</td>
<td>12,000</td>
</tr>
</tbody>
</table>
Mr. X has not opted for presumptive taxation of Income u/s 44ADA. Compute Tax Liability/Tax Payable for the Assessment Year 2020-21.

**Solution:**

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

Legal consultancy fees 9,20,000.00

Less:
- Rent of building (2,20,000.00)
- Office expenses (30,000.00)
- Depreciation on computer (11,060.00)

**Working Note:**
- Computer – w.d.v 2,300
  - Less: Sale of computer (7,000)
  - Add: New computer purchased and put to use on 01.11.2019 35,000
  - Add: Computer purchased and put to use on 10.11.2019 25,000
  - Balance 55,300
  - Depreciation @ 20% 11,060

- Depreciation on car (30,000.00)

- Depreciation on books (1,800.00)

**Computation of income under the head Capital Gains on sale of house**

Full Value of Consideration 9,80,000.00

Less: Cost of acquisition (6,70,000.00)

Income under the head Capital Gains (STCG) 3,10,000.00

**Computation of income under the head Other Sources**

Remuneration from Delhi University 4,000.00

Honorarium for delivering lectures 3,000.00

Interest from UTI [exempt u/s 10(35)] Nil

Income under the head Other Sources 7,000.00

**Computation of Total Income**

Income under the head Business/Profession 6,24,140.00

Income under the head Capital Gains (STCG) 3,10,000.00

Income under the head Other Sources 7,000.00

Gross Total Income 9,41,140.00

Less: Deduction u/s 80C (12,000.00)

Total Income 9,29,140.00

**Computation of Tax Liability**

- Tax on ₹9,29,140 at slab rate 98,328.00
- Add: HEC @ 4% 3,933.12
- Tax Liability 1,02,261.12
- Less: Advance Tax Paid (12,000.00)
- Tax Payable 90,261.12
Illustration 27: Mr. X submits the profit and loss account for the year ending 31.03.2020 asunder—

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount ₹</th>
<th>Particulars (Credits)</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household expense</td>
<td>20,000</td>
<td>Gross Profit</td>
<td>5,28,500</td>
</tr>
<tr>
<td>Interest on loan taken from Mrs. X</td>
<td>2,000</td>
<td>Income tax refund</td>
<td>3,000</td>
</tr>
<tr>
<td>Income tax</td>
<td>12,000</td>
<td>Interest on income tax refund</td>
<td>300</td>
</tr>
<tr>
<td>Interest on loan for payment of income tax</td>
<td>1,200</td>
<td>GST refund</td>
<td>1,000</td>
</tr>
<tr>
<td>Contribution to Unrecognised Provident Fund</td>
<td>4,000</td>
<td>Interest on GST refund</td>
<td>400</td>
</tr>
<tr>
<td>Expenditure on advertisement (revenue)</td>
<td>25,000</td>
<td>Bad debts recovered</td>
<td>5,000</td>
</tr>
<tr>
<td>Public provident fund contribution</td>
<td>7,000</td>
<td>Dividends from foreign company</td>
<td>3,000</td>
</tr>
<tr>
<td>Investment in post-office saving bank account</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of car (paid by account payee cheque)</td>
<td>2,45,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of computer (paid by account payee cheque)</td>
<td>35,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of plant (paid by account payee cheque)</td>
<td>23,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>1,55,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Add:                                                                                           ₹
- Household expenses                       20,000
- Income tax                                12,000
- Interest on loan for payment of income tax 1,200
- Contribution to Unrecognised provident fund 4,000
- Contribution to public provident fund    7,000
- Investment in post office saving bank account 12,000
- Purchase of car                           2,45,000
- Purchase of computer                     35,000
- Purchase of plant                         23,000

Less:                                                                                           ₹
- Income tax refund                        (3,000)
- Interest on refund                       (300)
- Dividends                                (3,000)
- Depreciation @ 15% on car (2,45,000 x 15%) (36,750)
- Depreciation @ 40% on computer (35,000 x 40%) (14,000)
- Depreciation @ 15% on plant (23,000 x 15%) (3,450)

Income under the head Business/Profession 4,53,700

Computation of income under the head Other Sources
- Interest on income tax refund 300
- Dividends from foreign company 3,000

Solution:

Computation of income under the head Business/Profession
Net Profit as per profit and loss account 1,55,000

Add:
- Household expenses 20,000
- Income tax 12,000
- Interest on loan for payment of income tax 1,200
- Contribution to Unrecognised provident fund 4,000
- Contribution to public provident fund 7,000
- Investment in post office saving bank account 12,000
- Purchase of car 2,45,000
- Purchase of computer 35,000
- Purchase of plant 23,000

Less:
- Income tax refund (3,000)
- Interest on refund (300)
- Dividends (3,000)
- Depreciation @ 15% on car (2,45,000 x 15%) (36,750)
- Depreciation @ 40% on computer (35,000 x 40%) (14,000)
- Depreciation @ 15% on plant (23,000 x 15%) (3,450)

Income under the head Business/Profession 4,53,700

Addition Information:
Car, computer and plant and machinery were purchased on 01.10.2019 and were put to use on the same date. Compute Tax Liability of Mr. X for Assessment Year 2020-21.
Income Under The Head Business/Profession

Income under the head Other Sources  
Income under the head Business/Profession  
Gross Total Income  
Less: Deductions u/s 80C  
Total Income  

**Computation of Tax Liability**

- Tax on ₹4,50,000 at slab rate  
- Less: Rebate u/s 87A  
- Tax Liability

**Illustration 28:** Mr. X submits his profit & loss account for year ending 31st March 2020.

- Computed net profit after debiting the following amounts to  
  1. Provisions for doubtful debts  
  2. Depreciation reserve  
  3. Household expenses  
  4. Donations to poor persons and  
  5. Other charitable donations  
  6. Cash payment for purchases  
  7. Advertisement expenses ₹5,000 spent on a neon sign board purchased and put to use on 01.07.2019 and advertisement gifts to 50 customers at a cost of ₹100 each.  
  8. Audit fee charged ₹5,000, including expenses on income-tax proceedings ₹3,000.  
  9. Patents purchased for ₹70,000 (paid by account payee cheque) on 01.10.2019 and put to use on 07.10.2019.  
  10. Preliminary expenses covered under section 35D: Market survey expenses ₹5,000; feasibility report expenses ₹10,000. Project cost ₹10,00,000.

Incomes credited to profit and loss account were:

(i) Interest on company deposit ₹50,000.
(ii) Opening stock is valued at cost plus 15% basis, whereas closing stock was valued at cost minus 15% basis. Opening stock valued was ₹1,15,000; closing stock valued was ₹1,70,000.

Compute his Tax Liability for the Assessment Year 2020-21.

**Solution:**

- **Computation of Business Income**
  - Net Profit as per profit and loss account  
  - Add: inadmissible expenses
    - Provision for doubtful debts  
    - Depreciation Reserve  
    - Household Expenses  
    - Donations to poor persons  
    - Other charitable donations  
    - Cash purchases in excess ₹10,000  
    - Cost of neon sign board (capital expenditure)  
    - Patents purchased  
    - Installment for preliminary expenses under section 35D
  -  
  - (15,000 – 3,000)

**Working Note:**

- ₹15,000 but subject to a maximum of ₹10,00,000 x 5% = ₹50,000, installment allowed ₹15,000/5 = ₹3,000
- Opening stock overvalued 1,15,000 x 15/115  
- Closing stock undervalued 1,70,000 x 15/85
- Less: Interest on company deposit

- 15,000.00
- 30,000.00
- (50,000.00)
• Depreciation on neon sign @ 10% on ₹5,000 (500.00)
• Depreciation on patents @ 12.5% on ₹70,000 (8,750.00)
Income under the head Business/Profession 3,26,750.00
Income under the head Other Sources 50,000.00
{Interest on company deposit}
Gross Total Income 3,76,750.00
Less: Deduction u/s 80C to 80U Nil
Total Income 3,76,750.00

**Computation of Tax Liability**
Tax on ₹ 3,76,750 at slab rate 6,337.50
Less: Rebate u/s87A (6,337.50)
Tax Liability Nil

**Illustration 29:** The profit and loss account of Mr. X for the previous year ending 31st March, 2020 is as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>105,45,000</td>
<td>Sales</td>
<td>109,70,000</td>
</tr>
<tr>
<td>Remuneration to Prop.</td>
<td>3,00,000</td>
<td>Dividend from Indian Company</td>
<td>30,000</td>
</tr>
<tr>
<td>Remuneration to Employees</td>
<td>1,70,000</td>
<td>Long term capital gain</td>
<td>1,90,000</td>
</tr>
<tr>
<td>Interest to proprietary</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Expenses</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax Paid</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>111,90,000</strong></td>
<td></td>
<td><strong>111,90,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Additional information is given below:**
(1) Other expenses include the following:
   (i) Entertainment expenses incurred for business purpose ₹20,000
   (ii) V.I.P bags, Costing ₹1,500 each, given to ten dealers who exceeded the sales target under the sales promotion scheme.
   (iii) Employer’s contribution to recognized provident fund amounting to ₹10,000 was paid on 20.04.2019.
   (iv) ₹30,000 paid in cash to a supplier who refused to accept payment by a cheque.
(2) Other income of Mr. X is under the head house property of ₹90,000.
Mr. X has not opted for presumptive taxation of Income u/s 44AD. You are required to compute Tax Liability for the Assessment Year 2020-21.

**Solution:**

**Computation of total income of Mr. X**
Net profits as per profit and loss account 25,000
Add: Inadmissible Expenses
   • Remuneration given to proprietor, not allowed 3,00,000
   • Interest given to proprietor, not allowed 40,000
   • Cash payment to a supplier 30,000
   • Income Tax Paid 10,000
Total 4,05,000
Less:
   • Dividend from Indian company (30,000)
   • Long Term Capital Gains (1,90,000)
Income under the head Business/Profession 1,85,000
Income under the head House Property 90,000
Income from Capital Gains (Long Term Capital Gains) 1,90,000
Income from Other Sources Nil
{Dividend from Indian company is exempt u/s 10(34)}

Gross Total Income 4,65,000
Less: Deduction u/s 80C to 80U Nil
Total Income 4,65,000

Computation of Tax Liability
- Tax on Long term capital gain ₹1,90,000 @ 20% 38,000.00
- Tax on normal income ₹2,75,000 at slab rate 1,250.00
Less: Rebate u/s 87A (12,500.00)
- Tax before health & education cess 26,750.00
Add: HEC @ 4% 1,070.00
Tax Liability 27,820.00

Illustration 30: ABC Ltd. has net profits of ₹7,00,000 after debiting municipal taxes of ₹12,000 relating to the previous year 2019-20, which were paid on 20.09.2020. Municipal taxes are related to a building which is owned by the company, the ground floor and first floor (which is 2/3rd of the complete building) was being used by company. The company has debited market rent of ₹ 20,000 p.m. to the profit & loss account for using the building and credited rent of ₹10,000 p.m. to the profit & loss account for the second floor of the building which has been let out to some person during the previous year 2019-20.

Compute Tax Liability of the company for the Assessment Year 2020-21.

Solution:

Computation of Business Income
- Net Profit 7,00,000.00
Add: Inadmissible Expenses
  - Municipal Taxes (12,000 x 1/3) 4,000.00
  - Market Rent 2,40,000.00
Total 9,44,000.00
Less:
  - Rent Received (1,20,000.00)
Business Income 8,24,000.00

Computation of Income under the head House Property
- Gross Annual Value 1,20,000.00
  (10,000 x 12)
- Less: Municipal Taxes Nil
(Not paid during the year)
- Net Annual Value 1,20,000.00
- Less: 30% of NAV u/s 24(a) (36,000.00)
- Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 84,000.00

Computation of Total Income
- Income under the head Business 8,24,000.00
- Income under the head House Property 84,000.00
- Gross Total Income 9,08,000.00
- Less: Deduction u/s 80C to 80U Nil
- Total Income 9,08,000.00

Computation of Tax Liability
- Tax on ₹9,08,000 @ 30% 2,72,400.00
- Add: HEC @ 4% 10,896.00
- Tax Liability 2,83,296.00
- Rounded off u/s 288B 2,83,300.00

Illustration 31: Dr. Sagar furnishes you the following information:
Income and Expenditure account for the year ended 31st March, 2020.
<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Medicines Consumed</td>
<td>₹2,52,000</td>
<td>By Fee Receipts</td>
<td>₹8,49,500</td>
</tr>
<tr>
<td>To Staff Salary</td>
<td>₹1,55,000</td>
<td>By Rental income from house property</td>
<td>₹29,000</td>
</tr>
<tr>
<td>To Hospital Consumables</td>
<td>₹48,500</td>
<td>By Dividend from Indian companies</td>
<td>₹15,000</td>
</tr>
<tr>
<td>To Rent Paid</td>
<td>₹60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Administrative Expenses</td>
<td>₹1,28,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>To Net Income</strong></td>
<td>₹2,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,93,500</strong></td>
<td></td>
<td><strong>8,93,500</strong></td>
</tr>
</tbody>
</table>

(i) Rent paid includes rent for his residential accommodation of ₹ 38,000 (paid in cash).

(ii) Hospital equipments (eligible for depreciation @ 15%)
   01.04.2019 opening written down value ₹5,50,000
   07.12.2019 acquired paid by account payee cheque (cost), put to use on the same date ₹2,50,000

(iii) Medicines consumed include medicines (cost) ₹12,000 used for Dr. Sagar’s family.

(iv) Rent received—relates to a property situated at Mysore. The municipal tax of ₹ 3,500 paid in December, 2018 has been included in the “administrative expenses.”

(v) He received ₹10,000 per month as salary from ‘Full Cure Hospital’. This has not been included in the “Fee Receipts” credited to income and expenditure account.

Dr. Sagar has not opted for presumptive taxation of Income u/s 44ADA. Compute Dr. Sagar’s Taxable Income for the year ended 31.03.2020 and also his Tax Liability.

**Solution:**

*Computation of Income of Dr. Sagar*

Net profit as per profit and loss account 2,50,000.00

Add: Inadmissible expenses
   - Rent for residential accommodation 38,000.00
   - Medicines for personal use 12,000.00
   - Municipal taxes 3,500.00

Less:
   - Depreciation on hospital equipment (1,01,250.00)

**Working Note:**

<table>
<thead>
<tr>
<th>Depreciation on ₹5,50,000 @ 15%</th>
<th>₹82,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation on ₹2,50,000 @ 7.5%</td>
<td>₹18,750</td>
</tr>
</tbody>
</table>

- Rental income from house property (29,000.00)
- Dividend from Indian companies (15,000.00)

Income under the head Business/Profession 1,58,250.00

**Income from Salary**

Salary 1,20,000.00

(10,000 x 12)

Gross Salary 1,20,000.00

Less: Standard deduction u/s 16(ia) (50,000.00)

Income under the head Salary 70,000.00

**Income from House Property**

Gross Annual Value 29,000.00

Less: Municipal Taxes (3,500.00)

Net Annual Value 25,500.00

Less: 30% of NAV u/s 24(a) (7,650.00)

Less: Interest on capital borrowed u/s 24(b) Nil

Income under the head House Property 17,850.00

Income under the head Other Sources

Dividend from Indian company {Exempt u/s 10(34)} Nil

Gross Total Income 2,46,100.00
Less: Deduction u/s 80C to 80U  Nil
Total Income  2,46,100.00

Computation of Tax Liability

Tax Liability  Nil

Illustration 32: ABC Ltd. presents the following information to you pertaining to the year ending March 31st, 2020:
1. Having regard to the vast purchase of a particular chemical by the company, the supplier of the chemical presents a car worth ₹ 2,50,000, which is used for business purposes by the company.
2. Expenditure towards acquisition of technical know-how paid to a foreign company in a lump sum ₹6 lakhs by account payee cheque.
3. The company has paid income–tax of ₹ 60,000 being the tax in respect to non–monetary perquisites of an employee.
4. The company wanted to start a new plant for manufacturing of a new product. Y Ltd., paid to the company ₹ 10 lakh in order not to start the same and not to compete with it.
5. The company has paid ₹ 20 lakh to four employees at the time of their voluntary retirement, in accordance with the approved scheme of voluntary retirement.
6. The company has borrowed ₹ 15 lakh for acquiring a machinery. Interest paid is ₹90,000. The machinery is not put to use during the year.
7. Payment of ₹ 40,000 is made to a Don for ensuring that the employees will not indulge in strike.
8. The company has incurred expenditure of ₹ 34,000 in respect of exempt income. This forms part of administrative expenses.

You are requested to briefly state with reasons as to how the above are to be dealt with in computing the total income of the company for the assessment year 2020-21. The total income need not be computed.

Solution:
1. As per section 28, Any gift received in connection with business/profession shall be considered to be income under the head business/ profession hence ₹ 2,50,000 being value of the motor car shall be considered to be income under the head business/profession. Since car is being used for the purpose of business, depreciation shall be allowed as per section 32.
2. As per section 32, depreciation shall be allowed even for intangible assets, hence ₹ 6 lakh qualifies for depreciation @ 25%.
3. As per section 40(a), while calculating income of the employer, the tax paid by the employer on non-monetary perquisites to employees is not deductible.
4. As per section 28, any sum received for not carrying out any activity in relation to any business is chargeable to tax as business income. Thus, ₹ 10 lakh is taxable as business income being non-compete fee.
5. Section 35DDA provides that where an assessee incurs any expenditure in any previous year by way of payment of any sum to an employee at the time of his voluntary retirement under any scheme of voluntary retirement, one fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal instalments for each of the four immediately succeeding previous years. In view of the aforesaid provisions, ₹ 4 lakh shall be allowable as deduction in the assessment year 2020-21.
6. As per section 43(1), all expenses upto the date of putting the asset to use shall be capitalized i.e. it will be added to the actual cost but in the given case asset has not been put to use till the end of the year hence neither the amount can be debited to profit and loss account nor depreciation is allowed.
7. As per section 37(1), in order to claim deduction the expenditure should not have been incurred for any purpose, which is an offence or is prohibited by any law. Since the payment of ₹40,000 to Don is unlawful, it is not allowable as deduction.
8. As per section 14A, no deduction shall be made in respect of expenditure incurred by the assessee in relation to income which does not form part of the total income. ₹34,000 is, therefore, not allowable as deduction.

Illustration 33: State with reasons, the deductibility or otherwise of the following expenses/payments under the Income-tax Act, 1961, while computing income under the head “Profits and gains of business or profession” for the Assessment Year 2020-21:
(i) Mr. M paid ₹ 75,000 as commodity transaction tax in respect of sale of commodity during the previous year 2019-20.
(ii) D & Co. has set up a warehousing facility for storage of food grains. It commenced operations on 01.04.2019. For this purpose, D & Co. incurred capital expenditure of ₹ 50 lakhs on purchase of building in March 2018. (Through an account payee cheque.)
(iii) ABC (P) Ltd. incurred an amount of ₹ 2,50,000 on a notified project to enhance skill development of its employees.

Solution:
(i) An amount equal to commodity transaction tax paid by the assessee shall be allowable as deduction, under section 36(1)(xvi), if the income arising from taxable commodities transactions is included in the income computed under the head “Profits and gains of business or profession”. In the given case, Mr. M, is entitled to claim deduction in respect of commodity transaction tax of ₹ 75000 paid by him.
(ii) As per section 35AD, assessee shall be allowed to debit 100% of the expenditure incurred in connection with warehousing facility for agricultural produce hence assessee shall be allowed to debit 50 lakhs x 100% = 50 lakh.
(iii) ABC (P) Ltd. is entitled to a weighted deduction of a sum equal to 150% of the expenditure incurred by it on notified skill development project, under section 35CCD. Therefore, it can claim ₹ 3,75,000 (i.e., 150% of ₹ 2,50,000) as deduction under section 35CCD for the P.Y.2019-20.
MULTIPLE CHOICE QUESTIONS

1. An assessee uses plant and machinery for the purpose of carrying on his business. Under section 31, he shall be eligible for deduction on account of-
   (a) both capital and revenue expenditure on repairs  
   (b) current repairs  
   (c) current repairs plus 1/5th of capital expenditure on repairs.  
   (d) both (a) & (b)  

2. An electricity company charging depreciation on straight line method on each asset separately, sells one of its machinery in April, 2019 at ₹1,20,000. The WDV of the machinery at the beginning of the year i.e. on 1st April, 2019 is ₹1,35,000. No new machinery was purchased during the year. The shortfall of ₹15,000 is treated as -  
   (a) Terminal depreciation  
   (b) Short-term capital loss  
   (c) Normal depreciation.  
   (d) Any of the above, at the option of the assessee  

3. Mr. X, acquires an asset which was previously used for scientific research for ₹2,75,000. Deduction under section 35(1)(iv) was claimed in the previous year 2014-15. The asset was brought into use for the business of Mr. X, after the research was completed. The actual cost of the asset to be included in the block of assets is -  
   (a) Nil  
   (b) Market value of the asset on the date of transfer to business  
   (c) ₹2,75,000 less notional depreciation under section 32 upto the date of transfer.  
   (d) Actual cost of the asset i.e., ₹2,75,000  

4. A Ltd. has unabsorbed depreciation of ₹4,50,000 for the P.Y.2019-20. This can be carried forward-
   (a) for a maximum period of 8 years and set-off against business income.  
   (b) Indefinitely and set-off against business income.  
   (c) Indefinitely and set-off against any head of income  
   (d) Indefinitely and set-off against any head of income except salary.  

5. Mr. X, a retailer acquired furniture on 10th May 2019 for ₹10,000 in cash and on 15th May 2019, for ₹15,000 and ₹20,000 by a bearer cheque and account payee cheque, respectively. Depreciation allowable for A.Y. 2020-21 would be –  
   (a) ₹2,000  
   (b) ₹3,000  
   (c) ₹3,500  
   (d) ₹4,500  

6. XYZ Ltd. incurred capital expenditure of ₹1,50,000 on 1.4.2019 for acquisition of patents and copyrights. Such expenditure is -  
   (a) Eligible for deduction in 14 years from A.Y.2020-21  
   (b) Eligible for deduction in 5 years from A.Y. 2020-21  
   (c) Subject to depreciation @ 25% under section 32  
   (d) Subject to depreciation @ 15% under section 32  

7. Under section 44AE, presumptive taxation is applicable at a particular rate provided the assessee is the owner of a maximum of certain number of goods carriages. The rate per month or part of the month relevant for A.Y.2020-21 and the maximum number specified under the section are -  
   (a) ₹7,500 for each goods carriage in the case of an assessee owning not more than 10 goods carriages at any time during the year  
   (b) ₹7,500 for each goods carriage in the case of an assessee owning less than 10 goods carriages at any time during the year  
   (c) ₹1,000 per ton of gross vehicle weight for per month or part of a month for a goods carriage for an assessee owning not more than 10 goods carriages at the end of the previous year
(d) ₹1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for per month or part of a month for a heavy goods carriage and ₹7,500 per month or part of a month for other goods carriages in the case of an assessee owning not more than 10 goods carriages at any time during the previous year.

8. Where the total turnover of an assessee, eligible for presumptive taxation u/s 44AD, is received entirely by account payee cheque during the previous year 2019-20, the specified rate of presumptive business income is -
   (a) 5% of total turnover
   (b) 6% of total turnover
   (c) 7% of total turnover
   (d) 8% of total turnover

9. The W.D.V. of a block (Plant and Machinery, rate of depreciation 15%) as on 1.4.2019 is ₹3,20,000. A second hand ‘machinery costing ₹50,000 was acquired on 1.9.2019 but put to use on 1.11.2019. During Jan 2020, part of this block was sold for ₹2,00,000. The depreciation for A.Y.2020-21 would be -
   (a) ₹21,750
   (b) ₹25,500
   (c) ₹21,125
   (d) ₹12,750

10. Employer’s contribution to provident fund/superannuation fund/gratuity fund is allowed as deduction in computing income under the head “Profits and gains of business or profession”, provided it has been paid -
   (a) before the end of the previous year
   (b) on or before the due date by which the employer is required to credit an employee’s contribution to the employee’s account in the relevant fund.
   (c) on or before the due date for filing the return of income under section 139(1).
   (d) before the end of the relevant assessment year

11. The benefit of payment of advance tax in one installment on or before 15th March is available to assesses computing profits on presumptive basis –
   (a) under section 44AD
   (b) under section 44AD and 44ADA
   (c) under section 44AD and 44AE
   (d) under section 44AD, 44ADA and 44AE

12. M/S Thakural & Sons, paid ₹11,00,000 as remuneration to its partner. The same was in accordance with partnership deed. Partners are also entitled to interest on capital @ 11% as per partnership deed. Total interest paid during the year is ₹1,30,000. The book profit before interest on capital and remuneration is ₹37,00,000. The salary allowable as deduction to M/S Thakural & Sons is:
   (a) ₹22,62,000
   (b) ₹11,00,000
   (c) ₹23,10,000
   (d) ₹22,32,000

13. An interior decorator has opted for presumptive taxation scheme under section 44ADA for A.Y. 2020-21. He is liable to pay advance tax -
   (a) In one instalment
   (b) In two instalments
   (c) In three instalments
   (d) In four instalments

14. Any loss from the specified business referred to in section 35AD can be set off against -
   (a) only profit and gains of same specified business of the assessee
   (b) profits and gains of any business of the assessee
   (c) profit and gains of any other specified business of the assessee
   (d) income from any other head

15. According to section 80, no loss which has not been determined in pursuance of a return filed in accordance with the provisions of section 139(3), shall be carried forward. The exceptions to this are -
(a) Loss from specified business under section 73A  
(b) Loss under the head “Capital Gains” and unabsorbed depreciation carried forward under section 32(2)  
(c) Loss from house property and unabsorbed depreciation carried forward under section 32(2)  
(d) Loss from speculation business under section 73  

16. Section 70 enables set off of losses under one source of income against income from any other source under the same head. The exceptions to this section are -  
(a) Loss under the head “Capital Gains”, Loss from speculative business, Loss from house property and loss from the activity of owning and maintaining race horses  
(b) Long-term capital loss, Loss from speculative business, Loss from specified business and loss from the activity of owning and maintaining race horses  
(c) Short-term capital loss and loss from speculative business  
(d) Loss from specified business and short-term capital loss  

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

18. Which of the following is not taxable under the head business profession-  
(i) Income from Speculation Business  
(ii) Payments for not pursuing any business activity or profession/non-compete fee  
(iii) Gift in connection with business/profession  
(iv) Gift received by member of HUF from HUF  
(a) all the above  
(b) only (iii) & (iv)  
(c) only (iii)  
(d) None of the above  
(e) only (ii), (iii) & (iv)  
(f) only (iv)  

19. Additional depreciation shall be allowed @ _______% to all the assessee in connection with plant and machinery for the purpose of manufacturing and also to the assessee engaged in generation, transmission or distribution of electricity.  
(a) 15%  
(b) 10%  
(c) 30%  
(d) 20%  

20. If the asset is purchased and put to use for less than _______ days, additional depreciation shall be allowed at ______% and remaining additional depreciation shall be allowed in the subsequent year.  
(a) 180,15%  
(b) 180,10%  
(c) 182,10%  
(d) 180,20%  

21. Additional depreciation is not allowed in the following cases:  
(i) Second hand plant and machinery i.e. plant and machinery should be brand new  
(ii) Any machinery or plant installed in any office premises or any residential accommodation, including accommodation in the nature of a guest-house or  
(iii) Any office appliances or road transport vehicles or ships and aircraft  
(iv) Any machinery or plant, the actual cost of which has not been debited to profit and loss account.  
(a) all the above  
(b) only (i), (ii) & (iv)  
(c) only (i), (ii) & (iii)  
(d) None of the above  
(e) only (ii), (iii) & (iv)  
(f) only (i), (iii) & (iv)  
(g) only (iv)
22. Which of the following is correct
(a) As per section 32, set off of depreciation or loss is compulsory and not voluntary.
(b) As per section 32, set off of depreciation or loss is not compulsory but voluntary.
(c) As per section 32, set off of depreciation or loss is compulsory and voluntary.
(d) As per section 32, set off of depreciation or loss is not compulsory.
(e) None of the above is correct

23. Which of the following is not covered under section 35AD
(i) Cold chain facility for storing agricultural produce, meat and meat products, poultry and dairy products etc.
(ii) Warehousing facility for storage of agricultural produce.
(iii) Hospitals with at least one hundred beds for patients.
(iv) Housing project under a scheme for affordable housing.
(v) Warehousing facility for storage of non-agricultural produce.
(vi) Hospitals with at least fifty beds for patients.
(a) all the above
(b) only (i), (ii) & (iv)
(c) only (i), (ii) & (iii)
(d) None of the above
(e) only (ii), (iii) & (iv)
(f) only (v) & (vi)
(g) only (v)
(h) only (vi)

24. Which Statement from the following is correct-
(a) As per section 40(b), interest to the partner is allowed but maximum @ 12% p.a. simple interest.
(b) As per section 40(b), interest to the partner is allowed but maximum @ 18% p.a. simple interest.
(c) As per section 40(b), interest to the partner is allowed but maximum @ 12% per month simple interest.
(d) As per section 40(b), interest to the partner is allowed but maximum @ 15% p.a. simple interest.

25. A partnership firm has book profits of ₹5 lakhs, in this case maximum amount of salary etc. allowed to all the partners shall be
(a) 5,00,000
(b) 3,00,000
(c) 3,90,000
(d) 4,50,000

26. Which Statement from the following is correct-
(a) If any partner has received share out of the profits of the partnership firm, such share shall be exempt from income tax.
(b) If any partner has received share out of the profits of the partnership firm, such share shall not be exempt from income tax.
(c) interest or salary received by a partner shall be taxable under the head salary
(d) There is a partnership firm engaged in business and its book profits are ₹1,35,000, in this case maximum amount of remuneration allowed to all the partners shall be ₹1,35,000.

27. Mr. X purchases goods worth ₹75,000 on 01.01.2020 and payment was made ₹60,000 on 03.01.2020 by account payee cheque and ₹8,000 in cash on 03.01.2020 and ₹7,000 in cash on 05.01.2020, in this case expenditure allowed shall be.
(a) ₹75,000
(b) ₹60,000
(c) ₹68,000
(d) Nil

28. Which Statement from the following is correct-
(a) Where a stock in trade is converted into capital assets then fair market value of the stock shall be treated as actual cost of the asset.
(b) Where a stock in trade is converted into capital assets then actual purchase cost of the stock shall be treated as actual cost of the asset.
(c) Where a stock in trade is converted into capital assets then written down value of the stock shall be treated as actual cost of the asset on the date of conversion.

(d) None of the above.

29. A car purchased by Dr. Ramesh on 10.08.2017 for ₹5,25,000 for the personal use is brought into professional use on 01.07.2019 by him, when its market value was ₹2,50,000. Depreciation for the assessment year 2020-21 shall be
(a) ₹37,500
(b) ₹78,750
(c) Nil
(d) 52,500

30. Mr. X is engaged in a business with turnover ₹150,00,000 (all payments received by account payee cheque, bank draft or through electronic clearing) and expenses incurred shall be ₹1,40,00,000, presumptive income shall be
(a) ₹10,00,000
(b) ₹9,00,000
(c) ₹12,00,000
(d) ₹11,00,000

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

Problem 1.
G Ltd. furnishes you the following information:

**Block I:** Plant and machinery (consisting of 3 plants), rate of depreciation 15%.
- w.d.v. on April 1\(^{st}\), 2019: ₹2,70,000.

**Block II:** Buildings (two buildings), rate of depreciation 10%
- w.d.v. on April 1\(^{st}\), 2019 ₹6,50,000.
  - Acquired on June 2\(^{nd}\), 2019, 2 plants for ₹2,10,000 and put to use on the same date.
  - Sold on November 30\(^{th}\), 2019 all the five plants for ₹5,00,000.
  - Acquired on December 15\(^{th}\), 2019 two plants for ₹1,60,000 and put to use on the same date.

Admissible rate of depreciation in relation to all acquired plants is 15%.

Compute the amount of depreciation admissible to G Ltd. for the Assessment Year 2020-21.

**Answer = ₹75,500**

Problem 2.
X Ltd. is a manufacturing company. On April 1\(^{st}\), 2019, it owns plant A and plant B (depreciation rate: 15 per cent; depreciated value of block being ₹2,40,000). Plant C (depreciation rate: 15 per cent) is purchased by the company on June 10\(^{th}\), 2019 for ₹60,000 and it was used in the office premises. It is put to use on the same day.

Find out the tax consequences in the following different situations:
1. Plant B is destroyed by fire on January 25\(^{th}\), 2020. ₹10,000, being the compensation, is paid by the insurance company on February 10\(^{th}\), 2020;
2. If the insurance compensation in situation (1) is ₹3,70,000;
3. Plant A, B And C is destroyed by fire on January 25\(^{th}\), 2020. Compensation paid by insurance company on February 10\(^{th}\), 2020 is ₹20,000;
4. If the insurance compensation in situation (3) is ₹4 lakhs.

**Answer =**

- Situation 1: Depreciation: ₹43,500 and Short term capital gain/loss: Nil;
- Situation 2: Depreciation: Nil and Short term capital gain: ₹70,000;
- Situation 3: Depreciation: Nil and Short term capital Loss: ₹2,80,000;
- Situation 4: Depreciation: Nil and Short term capital gain: ₹1,00,000

Problem 3.
The following is the receipts and payments account of a medical practitioner for the year ending 31.03.2020.

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount ₹</th>
<th>Payments</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>1,30,000</td>
<td>Clinic expenses</td>
<td>1,24,000</td>
</tr>
<tr>
<td>Visiting fees</td>
<td>45,75,000</td>
<td>Medical books purchased and put to use on 01.07.2019</td>
<td>15,000</td>
</tr>
<tr>
<td>Consultation fees</td>
<td>9,15,000</td>
<td>Surgical equipment</td>
<td>90,000</td>
</tr>
<tr>
<td>Sale of medicines</td>
<td>28,000</td>
<td>Motor car expenses</td>
<td>36,000</td>
</tr>
<tr>
<td>Payment received for using Operation Theatre</td>
<td>18,000</td>
<td>Indian Medical Association membership fees</td>
<td>7,000</td>
</tr>
<tr>
<td>Dividend from domestic company</td>
<td>22,000</td>
<td>Payment to C.A. firm for filing return of income</td>
<td>4,000</td>
</tr>
<tr>
<td>Bank loan for purchasing a flat</td>
<td>2,00,000</td>
<td>Entertainment expenses</td>
<td>24,000</td>
</tr>
<tr>
<td>Life insurance policy (maturity proceeds)</td>
<td>1,00,000</td>
<td>Medical purchases</td>
<td>33,000</td>
</tr>
<tr>
<td>Rental income from flat</td>
<td>60,500</td>
<td>Purchase of flats</td>
<td>2,80,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank interest on loan</td>
<td>30,000</td>
</tr>
</tbody>
</table>
Additional information:
1. A cash payment of ₹75,000 was given to him by a patient in appreciation of his medical services but was not recorded in books.
2. Flat was purchased on 01.04.2019 and was self occupied for residence for a month from the date of its purchase. Thereafter it was let out @ ₹5,500 p.m., the municipal value of the flats is ₹66,000 p.a. and municipal taxes assessed, though not paid, is ₹4,500.
3. One–third of motor car expenses relate to his personal use. Depreciation on car allowable under Income Tax Act for professional use is ₹12,000.
4. The rate of depreciation on surgical equipment is 15%. The written down value of equipment on 01.04.2019 is ₹60,000. He sold some of the equipment for ₹30,000 during the year. New equipment was purchased on 01.11.2019 for ₹90,000 and was put to use on the same date.

Compute his Total Income and Tax Liability for the Assessment Year 2020-21.
Answer = Total Income: ₹53,81,950; Tax Liability: ₹16,32,590

Problem 4.
Mr. X is an advocate in Delhi High Court. He keeps his books on cash basis. His receipts and payments account for the financial year 2019-20 is given below:

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount ₹</th>
<th>Payments</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>44,000</td>
<td>Rent Paid for office</td>
<td>1,44,000</td>
</tr>
<tr>
<td>Consultancy fee</td>
<td>55,35,500</td>
<td>Office expenses</td>
<td>46,000</td>
</tr>
<tr>
<td>Remuneration from university as evaluator of LLB exams</td>
<td>7,000</td>
<td>New car purchased and put to use on 01.05.2019</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Sale proceeds of residential house (it was purchased on 01.07.2018 for ₹3,00,000)</td>
<td>5,00,000</td>
<td>Computer purchased and put to use on 01.04.2019</td>
<td>50,000</td>
</tr>
<tr>
<td>Salary from law faculty for working as part time lecturer</td>
<td>45,000</td>
<td>Legal books purchased</td>
<td>30,000</td>
</tr>
<tr>
<td>Dividend from UTI</td>
<td>5,200</td>
<td>Car expenses</td>
<td>42,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Advance Income tax paid</td>
<td>22,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electricity and water charges for the entire house</td>
<td>16,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Son’s college tuition fee paid</td>
<td>54,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gift to daughter</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Life insurance premium paid on own life (sum assured ₹50,000)</td>
<td>12,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance c/f</td>
<td>53,95,700</td>
</tr>
</tbody>
</table>

61,36,700

Additional information:
1. On 31.03.2020 legal fees outstanding amounted to ₹22,000
2. Rent is payable @ ₹12,000 p.m.
3. 70% of the use of the car is for official purpose and 30% for personal purpose.
4. Legal books for ₹12,000 was purchased on 01.05.2019 and put to use on the same date and for ₹18,000 on 01.11.2019 and put to use on the same date.
5. Half of the house taken on rent is being used for residential purposes.

Compute the Total Income and Tax Payable of Mr. X for the Assessment Year 2020-21.
Answer = Total Income: ₹54,68,200; Tax payable: ₹16,40,190;
Problem 5.
Mr. X is a Chartered Accountant and has prepared the following income and expenditure account as on 31.03.2020.

### Income and Expenditure Account

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office expenses</td>
<td>12,000</td>
<td>Professional fee</td>
<td>65,00,000</td>
</tr>
<tr>
<td>Employee's salary</td>
<td>20,000</td>
<td>Consultancy Fee</td>
<td>55,000</td>
</tr>
<tr>
<td>Magazines and newspapers</td>
<td>800</td>
<td>Dividend from Indian co.</td>
<td>8,500</td>
</tr>
<tr>
<td>Entertainment Expenses (Personal)</td>
<td>17,500</td>
<td>Profit on sale of debentures (STCG)</td>
<td>8,450</td>
</tr>
<tr>
<td>Donation for a charity show</td>
<td>600</td>
<td>Gift from father in-law</td>
<td>6,050</td>
</tr>
<tr>
<td>Interest on loan for professional purpose</td>
<td>800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax (advance tax)</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car Expenses</td>
<td>2,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of books</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stationery</td>
<td>21,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diwali gift to employees</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent of own building</td>
<td>60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal tax</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>White washing and Painting of building</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses incurred on the Opening ceremony (refreshments)</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td>64,28,800</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

You are required to compute his Total Income and Tax Liability for the Assessment Year 2020-21 considering the following points –
1. The car is used equally for official and personal purposes.
2. ₹1,500 for domestic servant's salary is included in employee’s salary.
3. Books were purchased on 01.09.2019 and were put to use on the same date.
4. Payment of stationery ₹20,500 was made by a bearer cheque and ₹500 was paid in cash.
5. Mr. X is owner of a building. Its written down value is ₹90,000 on 01.04.2019. The building is used for official purposes. No depreciation is claimed.
6. Furniture having written down value of ₹30,000 as on 01.04.2019 is also used for profession. Office chairs and tables were purchased and put to use on 30.03.2020 for the purpose of a new office which has been inaugurated on 31.03.2020. No depreciation has been debited to the profit and loss account. Actual cost ₹20,000
7. Employee’s salary includes bonus of ₹5,000 which was paid to one of the employees on 01.07.2020.

**Answer** = Total Income: ₹65,09,300; Tax Liability: ₹20,19,490

Problem 6.
The following is the profit and loss account of Mr. X for the Assessment Year 2020-21.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount</th>
<th>Particulars (Credits)</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>25,000</td>
<td>Sales</td>
<td>104,96,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>100,60,000</td>
<td>Closing Stock</td>
<td>30,000</td>
</tr>
<tr>
<td>Wages</td>
<td>12,000</td>
<td>Gift from brother</td>
<td>10,000</td>
</tr>
<tr>
<td>Rent</td>
<td>7,000</td>
<td>Income tax refund</td>
<td>3,000</td>
</tr>
<tr>
<td>Repairs of car</td>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax paid</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical expenses</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Depreciation of car</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>4,26,000</td>
</tr>
<tr>
<td></td>
<td><strong>105,39,000</strong></td>
</tr>
</tbody>
</table>

Following further information is given:
1. Mr. X bought one air conditioner for ₹ 25,000 on 01.05.2019 and it was put to use on the same date and no depreciation was claimed by him.
2. Medical expenses were incurred for treatment of Mrs. X and also it includes premium of ₹ 300 of medical claim policy taken in the name of one of employees and the payment was made by a cheque.
3. Wages include ₹ 2,500 on account of Mr. X’s salary.
4. Opening and closing stock are overvalued by 5%.
5. Sales include a sale of ₹ 50,000 being goods withdrawn by Mr. X (Cost price ₹ 45,000, market price ₹ 47,000).

Mr. X was employed in a private firm up to 30.06.2019 and was getting a salary of ₹ 6,000 p.m. and his employer has not yet paid salary for the month of June 2019.
He has paid tuition fees of ₹ 200 p.m. per child for his two children to a public school.
Mr. X has not opted for presumptive taxation of Income u/s 44AD. Compute his Total Income and also his Tax Liability for Assessment Year 2020-21.

**Answer** = Total Income: ₹ 4,06,910; Tax Liability: Nil

**Problem 7.**
Mr. X (age 79 years) is running a shop at Chandni Chowk and has submitted the following profit and loss account for the Assessment Year 2020-21.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount ₹</th>
<th>Particulars (Credits)</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>10,00,000</td>
<td>Sales</td>
<td>110,00,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>95,70,000</td>
<td>Closing stock</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>1,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market rent (building is owned by the assesssee himself)</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal taxes of the building (due)</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss by theft</td>
<td>19,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation for Ram Lila celebration</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>11,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gifts to relatives</td>
<td>400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Presents to clients for advertisements</td>
<td>300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public provident fund</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on loan for business</td>
<td>13,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on capital</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Addition to business premises</td>
<td>2,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs of business premises</td>
<td>600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fine for violation of traffic rules</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>3,11,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>114,00,000</strong></td>
<td><strong>114,00,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Additional information:**
1. Purchases includes purchase of ₹ 1,00,000 from a relative and it is excessive by ₹ 20,000 and payment was made in cash.
2. Salary includes ₹ 14,000 paid outside India without deducting tax at source and ₹ 7,000 were paid to one of the relatives which is more than the market rate by ₹ 1,000.
3. Business is being run in a commercial building which is owned by the assessee and its written down
value on 01.04.2019 is ₹10 lakhs and addition was made to the building on 01.01.2020 and brought into immediate use and no depreciation has been debited to profit and loss account.

Mr. X has not opted for presumptive taxation of Income u/s 44AD. Compute his Total Income and Tax Liability for the Assessment Year 2020-21.

Answer = Total Income: ₹6,40,100; Tax Liability: ₹39,540

Problem 8.
Mrs. X submitted the following profit & loss account for the Assessment Year 2020-21.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount (₹)</th>
<th>Particulars (Credits)</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary (including proprietor’s salary of ₹15,000)</td>
<td>46,000</td>
<td>Gross Profit</td>
<td>1,22,000</td>
</tr>
<tr>
<td>General Expenses</td>
<td>6,000</td>
<td>Bad debts recovered (not allowed earlier due to lack of evidence)</td>
<td>2,000</td>
</tr>
<tr>
<td>Advertisements</td>
<td>39,000</td>
<td>Interest on company deposit</td>
<td>5,000</td>
</tr>
<tr>
<td>Interest on proprietor’s capital</td>
<td>2,000</td>
<td>Long term capital gains</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve for GST</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advance income tax</td>
<td>9,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation to scientific research institution</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor car expenses</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stationery</td>
<td>1,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>5,06,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>6,29,000</td>
</tr>
</tbody>
</table>

Other information:
1. General expenses include ₹300 given to a poor student to enable him to pursue his studies.
2. Motor car expenses include ₹300 for personal purposes.
3. Scientific institution is an approved institution.

Compute her Tax Liability and Tax Payable for the Assessment Year 2020-21.

Answer = Tax Liability: ₹60,985.60 Tax Payable: ₹51,490

Problem 9.
Mr. X a Chartered Accountant submits his receipt and payment account for assessment year 2020-21.

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount (₹)</th>
<th>Payments</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>1,00,000</td>
<td>Stipend to articled clerks</td>
<td>12,000</td>
</tr>
<tr>
<td>Audit Fees</td>
<td>4,40,000</td>
<td>Office Expenses</td>
<td>24,000</td>
</tr>
<tr>
<td>Payment received for appearing before Income Tax Appellate Tribunal</td>
<td>25,000</td>
<td>Office Rent</td>
<td>18,000</td>
</tr>
<tr>
<td>Misc. receipts</td>
<td>20,000</td>
<td>Salaries and Wages</td>
<td>20,500</td>
</tr>
<tr>
<td>Rent received for house property</td>
<td>24,000</td>
<td>Printing and Stationery</td>
<td>4,000</td>
</tr>
<tr>
<td>Present from clients</td>
<td>10,000</td>
<td>Subscription to ICAI</td>
<td>1,500</td>
</tr>
<tr>
<td>Purchased books for professional purposes on 01.07.2019 and put to use on the same date</td>
<td></td>
<td></td>
<td>15,000</td>
</tr>
<tr>
<td>Travelling Expenses</td>
<td></td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td>Interest on loan for payment of income tax</td>
<td></td>
<td></td>
<td>12,000</td>
</tr>
</tbody>
</table>
Mr. X has not opted for presumptive taxation of Income u/s 44ADA. Compute his Tax Liability for the Assessment Year 2020-21.

**Answer** = Tax Liability: Nil

### Problem 10.

ABC Ltd. submits the profit & loss account for the year ending 31st March 2020.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount (₹)</th>
<th>Particulars (Credits)</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary to staff</td>
<td>3,00,000</td>
<td>Gross Profit</td>
<td>5,27,000</td>
</tr>
<tr>
<td>Capital expenditure for promotion of family planning amongst employee</td>
<td>14,000</td>
<td>Rent of flats given to staff</td>
<td>24,000</td>
</tr>
<tr>
<td>GST (paid on 01.11.2020)</td>
<td>24,000</td>
<td>Sundry receipts</td>
<td>7,000</td>
</tr>
<tr>
<td>Gratuity paid to staff</td>
<td>24,000</td>
<td>Capital gains on sale of land which was purchased two years ago</td>
<td>60,000</td>
</tr>
<tr>
<td>Reserve for future losses</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve for bad debts</td>
<td>14,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of advance income-tax</td>
<td>17,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car expenses</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office expenses</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repair of flats given to staff</td>
<td>24,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sundry expenses</td>
<td>46,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>63,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>6,18,000</strong></td>
<td></td>
<td><strong>6,18,000</strong></td>
</tr>
</tbody>
</table>

Determine the Total Income and Tax Liability of company for the Assessment year 2020-21.

**Answer** = Total Income: ₹1,59,200; Tax Liability ₹49,670

### Problem 11.

From the following profit and loss account of Mr. X for the year ending March 31st, 2020, compute his Total Income and Tax Liability for the Assessment Year 2020-21.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount (₹)</th>
<th>Particulars (Credits)</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>4,62,000</td>
<td>Sales</td>
<td>103,00,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>90,35,000</td>
<td>Closing stock</td>
<td>4,97,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>8,50,000</td>
<td>Rental income from house property</td>
<td>84,000</td>
</tr>
<tr>
<td>Rent rate &amp; taxes</td>
<td>1,25,000</td>
<td>Dividends from an Indian company</td>
<td>12,000</td>
</tr>
<tr>
<td>Legal charges</td>
<td>45,000</td>
<td>Income from owning and maintaining of race camels</td>
<td>20,000</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>22,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for gratuity</td>
<td>22,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for Income Tax</td>
<td>53,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary to Mrs. X</td>
<td>36,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>2,23,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>109,13,000</strong></td>
<td></td>
<td><strong>109,13,000</strong></td>
</tr>
</tbody>
</table>
Additional information:
(i) Purchases include ₹1,10,000 paid in cash to a cultivator for purchase of an agricultural produce.
(ii) Purchases also include ₹15,000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finance.
(iii) Opening stock was overvalued by 25% and closing stock was undervalued by 25%.
(iv) Salary includes ₹25,000 paid as customary bonus on the occasion of Diwali over and above the bonus payable under the Payment of Bonus Act 1965.
(v) Rent, rates and taxes include
   (a) ₹3,000 on account of municipal taxes for property let out and payment was made on 31.03.2020.
   (b) Penalty imposed by GST department ₹25,000.
(vi) Provision for Gratuity is on actuarial basis.
(vii) Mrs. X is a law graduate and actively working in the assessee firm and salary paid is reasonable.
(viii) He has invested ₹1,00,000 in equity shares of infrastructure development companies notified u/s 80C.
(ix) He has loss from owning and maintaining of race horses ₹20,000.
Mr. X has not opted for presumptive taxation of Income u/s 44AD.
Answer = Total Income: ₹4,22,770; Tax Liability: ₹8,980

Problem 12.
Net profit as per the profit and loss account of Mr. X is ₹7,70,000 for the year ending 31st March, 2020.
The following information is noted from the accounts:
(a) Advertisement expenditure debited to profit and loss account includes the following:
   (i) Expenditure incurred outside India: ₹56,000 (Tax has been deducted at source and paid during the year)
   (ii) Articles presented by way of advertisement (60 articles cost of each being ₹700, and 36 articles cost of each being ₹1,500);
   (iii) ₹20,000 being the cost of advertisement which appeared in a newspaper owned by a political party;
   (iv) ₹14,400 being capital expenditure on advertisement; (eligible for dep. @ 25%)
   (v) ₹9,000 paid in cash
   (vi) ₹9,000 paid to a concern in which X has substantial interest (amount is excessive to the extent of ₹1,800)
(b) Out of salary to the employees debited to the profit and loss account:
   (i) ₹60,000 is employee’s contribution to the recognized provident fund, ₹47,500 of which is credited in the employee’s account in the relevant fund before the due date for provident fund;
   (ii) ₹58,000 is bonus which is paid on 13th November, 2020;
   (iii) ₹44,000 is commission which is paid on 1st December, 2020;
   (iv) ₹25,000 is incentive to workers, which is paid on 10th December, 2020.
   (v) ₹46,000 is paid outside India in respect of which tax is not deducted at source;
   (vi) ₹6,000 being capital expenditure for promoting family planning amongst employees; and
   (vii) ₹55,000 being entertainment allowance given to employees.
(c) Entertainment expenses debited to profit and loss account is ₹12,000.
Determine the Total Income and Tax Liability of Mr. X for the Assessment Year 2020-21.
Answer = Total Income: ₹9,69,100; Tax Liability ₹1,10,570

Problem 13.
The profit and loss account of Mr. X for the year ending 31st March, 2020 discloses net profit of ₹3,90,000.
Travelling expenses debited to the profit and loss account include the following:
(i) ₹1,80,000 being expenditure incurred on a foreign tour, out of which ₹15,000 is incurred in Indian currency and ₹1,65,000 in foreign currency for a visit of 8 days to Germany; out of 8 days, 2 days are utilized by Mr. X for attending personal work.
(ii) ₹45,000 being expenditure on air–fare in India by a sales manager.
(iii) ₹6,500 incurred for purchasing a machine for factory. (Put to use for more than 180 days)
(iv) ₹66,000 being hotel expenses as follows:
   (a) 4 days visit to Madras : ₹18,000
(b) 3 days visit to Bombay  :  ₹ 8,000
(c) 17 days visit to Bangalore  :  ₹ 40,000

Salary to employees include the following:
(1) Own salary of Mr. X  :  ₹ 26,000
(2) Commission on purchases to employees
(which is actually paid on 1\textsuperscript{st} November, 2020):  ₹42,000

Find out the Total Income and Tax Liability of Mr. X for the Assessment Year 2020-21.
\textbf{Answer} = Total Income: ₹5,08,530; Tax Liability: ₹14,770

**Problem 14.**
From the following profit and loss account of Mr. X for the year ended 31\textsuperscript{st} March, 2020, compute his Total Income and Tax Liability for the Assessment Year 2020-21:

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount  ₹</th>
<th>Particulars (Credits)</th>
<th>Amount  ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Stock</td>
<td>9,50,000</td>
<td>Sales</td>
<td>101,06,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>80,50,000</td>
<td>Closing Stock</td>
<td>3,60,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>7,00,000</td>
<td>Long term capital gain on sale of house property</td>
<td>36,000</td>
</tr>
<tr>
<td>Rent, rates and taxes</td>
<td>1,25,000</td>
<td>Dividends from foreign company</td>
<td>12,000</td>
</tr>
<tr>
<td>Deposit in National Saving Certificate</td>
<td>42,000</td>
<td>Winnings of a lottery (gross)</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Miscellaneous Expenses</td>
<td>21,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for Income Tax</td>
<td>31,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for gratuity</td>
<td>24,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for GST</td>
<td>45,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary to Mrs. X</td>
<td>48,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased one computer on 01.11.2019 and put to use on the same date</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>9,38,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>110,14,000</td>
<td></td>
<td>110,14,000</td>
</tr>
</tbody>
</table>

**Additional information:**
(i) Purchases include
(a) Purchase of ₹ 1,00,000 from a relative (market price ₹80,000) and payment was made in cash.
(b) Purchase of ₹25,000 being the products manufactured without aid of power in a cottage industry and the payment was made to its producer and payment was made in cash.
(c) Purchases of ₹35,000 from a person who is residing in a village having no bank and payment was made in cash.

(ii) Opening and closing stock were overvalued by 10%.
(iii) Salary includes ₹ 25,000 being bonus paid to the staff on 01.11.2020 on the occasion of Diwali.
(iv) Rent, rates and taxes include Municipal tax paid on 01.11.2020 ₹30,000
(v) Provision for Gratuity is on actuarial basis.
(vi) Mrs. X is a housewife and payment is excessive by ₹48,000.

Mr. X has not opted for presumptive taxation of Income u/s 44AD.
\textbf{Answer} = Total Income: ₹13,02,640; Tax Liability ₹2,31,950

**Problem 15.**
The profit and loss account of ABC Ltd. for the year ended 31\textsuperscript{st} March, 2020 showed a net profit of ₹8,00,000 and some of the debits and credits are as given below:

(A) Debit side of profit and loss account included the following:
(i) The depreciation provided in the books ₹60,000, however the amount computed under the Income Tax Act ₹1,20,000.
(ii) ₹30,000 was paid to the company’s lawyer for arguing appeals of the company before the Income Tax
Appellate Tribunal against levy of penalty for some earlier cases where appeals have been dismissed by the tribunal.

(iii) ₹2,000 being fine imposed by the municipality for violating their regulations.
(iv) Provision for Income Tax ₹35,000.

(B) The credit side of the profit and loss account included the following:
(i) Income from units of UTI ₹35,000
(ii) Dividend from Indian company ₹20,000

(C) It is also observed that both the opening stock of ₹90,000 and closing stock of ₹1,08,000 are undervalued by 10% on cost.

Compute the Total Income and Tax Liability of the company for the Assessment Year 2020-21.

**Answer** = Total Income: ₹7,24,000; Tax Liability: ₹2,25,890

**Problem 16.**

Mr. X is a leading lawyer of Mumbai. He deposits in the bank all the receipts and always pays all the expenses by cheque. The analysis of his bank account for the year ended 31st March, 2020 is asunder:

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount</th>
<th>Payments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/f</td>
<td>15,000</td>
<td>Salaries</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>16,75,000</td>
<td>Rent of chamber</td>
<td>2,55,000</td>
</tr>
<tr>
<td>Dividend from Indian Co.</td>
<td>8,000</td>
<td>Telephone Expenses</td>
<td>26,000</td>
</tr>
<tr>
<td>Rent from house property which is let out</td>
<td>60,000</td>
<td>Magazine Subscription</td>
<td>3,000</td>
</tr>
<tr>
<td>Dividend from UTI</td>
<td>10,000</td>
<td>Motor car expenses</td>
<td>10,000</td>
</tr>
<tr>
<td>Interest from a company (gross)</td>
<td>8,000</td>
<td>Motor car (purchased and put to use on 01.12.2019)</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Gift from his son from outside India</td>
<td>6,000</td>
<td>Misc. office expenses</td>
<td>5,500</td>
</tr>
<tr>
<td>Honorarium for delivering lectures in C.A. institute</td>
<td>5,000</td>
<td>Advance payment of income-tax</td>
<td>38,000</td>
</tr>
<tr>
<td>Honorarium for writing articles in Hindustan Times</td>
<td>1,000</td>
<td>Personal expenses</td>
<td>48,500</td>
</tr>
<tr>
<td>House property expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal taxes</td>
<td>6,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collection Charges</td>
<td>1,000</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Subscription to Bar Association</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance c/f</td>
<td></td>
<td></td>
<td>5,90,500</td>
</tr>
<tr>
<td></td>
<td>17,88,000</td>
<td></td>
<td>17,88,000</td>
</tr>
</tbody>
</table>

Mr. X has not opted for presumptive taxation of Income u/s 44ADA. Compute his Total Income, Tax Liability and Tax Payable after taking into account the following information:

(i) 10% of the motor car expenses relate to personal use.

(ii) Salaries include employer’s contribution to Recognised Provident Fund of ₹18,000 which was credited on 01.07.2020.

(iii) Mr. X stays in his house, the gross annual value of which is ₹16,800.

Following are the expenses which have been included in the above account in respect of this house:

(a) Municipal taxes: ₹2,000.
(b) Repairs: ₹500
(c) Insurance premium: ₹500

(iv) He has loss under the head house property ₹31,200 and the loss can be set off as per section 71B.

**Answer** = Total Income: ₹8,76,750; Tax Liability: ₹91,364.00; Tax Payable: ₹53,360
Problem 17.
ABC Ltd., a manufacturing company, which maintains accounts under mercantile system has disclosed a net profit of ₹12.50 lakhs for the year ending 31st March, 2020. You are required to compute the total Income and Tax Liability of the company for the Assessment Year 2020-21, after considering the following information, duly explaining the reasons for each item of adjustment:
(i) Advertisement expenditure includes the sum of ₹60,000 paid in cash to the sister concern of a director, the market value of which is ₹52,000.
(ii) Repairs of plant and machinery includes ₹1.80 lakhs towards replacement of worn out parts of machineries.
(iii) A sum of ₹6,000 on account of liability foregone by a creditor has been taken to general reserve. The same was charged to the revenue account in the Assessment Year 2017-18.
(iv) Sale proceeds of import entitlements amounting to ₹1 lakh has been credited to profit and loss account, which the company claims as capital receipt not chargeable to income tax.
(v) The company has donated ₹2,00,000 to National Urban Poverty Eradication Fund. The amount has been debited to the profit and loss account.
(vi) Being also engaged in the biotechnology business, the company incurred the following expenditure on in-house research and development as approved by the prescribed authority:
   (a) Research equipment purchased ₹1,50,000.
   (b) Remuneration paid to scientists ₹50,000.
The total amount of ₹2,00,000 is debited to the profit and loss account.
Answer = Total Income: ₹12,16,000; Tax Liability: ₹3,79,390

Problem 18.
(i) Gross total income of Mrs. X, aged 60, a resident of Delhi for the financial year 2019-20 is ₹4,00,000. It includes an income of ₹20,000 from the business of dealing in shares on which she has paid securities transaction tax of ₹1,800 and it has not been debited to the profit and loss account. She has also deposited ₹10,000 in her public provident fund account with the State Bank of India.
Compute her Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: Nil

(ii) ABC Ltd. is engaged in the business of sale/purchase of shares and the company has computed its income ₹11,00,000 after debiting securities transaction tax of ₹1,85,000.
Compute Tax Payable by the company for the Assessment Year 2020-21.
Answer = ₹3,43,200

(iii) Mr. X is engaged in the business of sale/purchase of shares and he has computed its income ₹18,00,000 after debiting securities transaction tax of ₹2,10,000.
Compute Tax Payable by Mr. X.
Answer = ₹3,66,600

Problem 19.
Determine the previous year in which the expenditure is allowable in the following cases (TDS is supposed to be deducted with regard to all the payments and all the payments are in India):
(i) ABC Ltd. has made payment of interest on 10th, June 2019 and has deducted tax at source on the same date and has deposited the amount on 08.07.2019.
(ii) The company has paid commission on 10.03.2020 and has deducted tax on the same date but it was paid on 05.04.2020.
(iii) The company has paid fees for professional services on 31.03.2020 and deducted tax at source on the same date but the tax was paid on 07.04.2020.
(iv) The company has paid to a contractor on 31.03.2020 and tax was deducted on the same date but it was paid on 01.06.2020.
(v) The company has paid technical fees on 01.01.2020 and no tax has been deducted at source.
(vi) The company has paid brokerage on 01.04.2020 and has deducted the tax on the same date and has paid it on 07.04.2020.
**Problem 20.**
Following is the profit & Loss account of Mr. A, a dealer in shares and securities for the year ended on 31<sup>st</sup> March, 2020:

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount ₹</th>
<th>Particulars (Credits)</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Trading Expenses</td>
<td>103,60,000</td>
<td>By Sales</td>
<td>113,54,000</td>
</tr>
<tr>
<td>To Administrative Expenses</td>
<td>1,15,000</td>
<td>By Interest on fixed deposit with bank</td>
<td>18,500</td>
</tr>
<tr>
<td>To Financial Expenses</td>
<td>50,265</td>
<td>By Dividend from Indian company</td>
<td>66,360</td>
</tr>
<tr>
<td>To Demat and Delivery charges</td>
<td>5,350</td>
<td>By Interest on GST refund (Assessment Year 2018-19)</td>
<td>330</td>
</tr>
<tr>
<td>To Securities Transaction Tax</td>
<td>6,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net profit before depreciation</td>
<td>9,02,075</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>114,39,190</strong></td>
<td></td>
<td><strong>114,39,190</strong></td>
</tr>
</tbody>
</table>

Compute Total Income and Tax Liability of Mr. A for Assessment Year 2020-21.
**Answer** = Total Income: ₹8,35,720; Tax Liability: ₹82,830

**Problem 21.**
Mr. X is engaged in the business of plying goods carriages. On 1<sup>st</sup> April, 2019, he owns 10 trucks (out of which 6 are heavy goods vehicles having capacity of 18 ton and balance 4 trucks having capacity of 8 ton). On 2<sup>nd</sup> May, 2019, he sold two of the heavy goods vehicle and purchased two light goods vehicles having capacity of 8 ton on 6<sup>th</sup> May, 2019. Those new vehicles could however be put to use only on 15<sup>th</sup> June, 2019.

Compute the Total Income and Tax Liability of Mr. X for the Assessment Year 2020-21, taking note of the following data in two situations i.e. presumptive basis and normal basis.

**Freight charges collected** 9,90,000
Less: operational expenses 5,25,000
Depreciation as per sec 32 1,85,000
Other office expenses 15,000 (7,25,000)
Net Profit 2,65,000
Other business and non-business income 1,00,000

**Answer** = Presumptive Basis: Total Income: ₹15,61,000; Tax Liability: ₹2,92,030
Non-presumptive Basis: Total Income: ₹3,65,000; Tax Liability: Nil

**Problem 22.**
Profit and loss account of Mr. A for the previous year 2019-20 is asunder:

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount ₹</th>
<th>Particulars (Credits)</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>6,00,000</td>
<td>Gross Profit</td>
<td>14,50,000</td>
</tr>
<tr>
<td>Advertisement</td>
<td>1,00,000</td>
<td>Long term capital gains</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Travelling Expenses</td>
<td>2,00,000</td>
<td>Recovery of bad debts (earlier it was allowed)</td>
<td>50,000</td>
</tr>
<tr>
<td>Depreciation on business assets</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation to an approved institution for rural development</td>
<td>70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>2,30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Expenses</td>
<td>3,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>3,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>19,00,000</strong></td>
<td></td>
<td><strong>19,00,000</strong></td>
</tr>
</tbody>
</table>

**Additional informations:**
(i) Salaries and wages include the sum of ₹1,60,000 paid to Mr. A
(ii) Payment of interest includes:
(a) Interest to his major son ‘X’ amounting to ₹30,000 @ 15% on a deposit of ₹2,00,000
(b) Interest to Mr. A amounting to ₹30,000 @ 12% p.a.
(c) Interest of ₹20,000 paid on loan taken for the payment of income tax liability.
(iii) The amount of depreciation allowable is ₹40,000.
(iv) Mr. A has purchased National Saving Certificate VIII issue on 31.03.2020 for ₹40,000 and has deposited ₹60,000 in public provident fund account during the year 2019-20.
Compute Tax Liability of Mr. A for the Assessment Year 2020-21.
Answer = Tax Liability: ₹22,360

Problem 23.
Profit and loss account of Mr. A for the Previous Year 2019-20 is as given below:

<table>
<thead>
<tr>
<th>Profit and Loss Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Particulars (Debits)</td>
</tr>
<tr>
<td>To Purchases</td>
</tr>
<tr>
<td>To Salaries and bonus</td>
</tr>
<tr>
<td>To GST payable</td>
</tr>
<tr>
<td>To General expenses</td>
</tr>
<tr>
<td>To Expenditure on technical know-how</td>
</tr>
<tr>
<td>To Expenses on GST proceedings</td>
</tr>
<tr>
<td>To Advertisements</td>
</tr>
<tr>
<td>To Interest on capital</td>
</tr>
<tr>
<td>To Rent of buildings owned by Mr. A</td>
</tr>
<tr>
<td>To Net profit</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Additional information is given below:
1. Purchases include a cash purchase of ₹20,000 from a farmer who lives in a village which is not served by any bank.
2. Advertisements include presentation of 50 VIP bags in Jan 2020 costing ₹350 each.
3. Salaries and bonus includes the following payments.
   - Salary paid to Mr. A ₹52,000
   - Bonus paid to Mr. A ₹30,000
   - Commission paid to Mr. A ₹23,000
4. The proprietor has carried forward business loss from the assessment year 2018-19 amounting to ₹1,00,000.
5. The written down value of buildings on 01.04.2019 was ₹2,50,000.
6. Technical know-how was purchased and put to use on 01.07.2019.
Compute the Total Income and Tax Liability of Mr. A for the Assessment Year 2020-21.
Answer = Total Income: ₹3,87,000; Tax Liability: Nil

Problem 24.
The Profit & Loss account of Mr. X for the previous year ending 31.03.2020 is as given below:

<table>
<thead>
<tr>
<th>Profit &amp; Loss Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Particulars (Debits)</td>
</tr>
<tr>
<td>To Purchases</td>
</tr>
<tr>
<td>To Business expenses</td>
</tr>
<tr>
<td>To Depreciation</td>
</tr>
<tr>
<td>To Salary to Mr. X</td>
</tr>
<tr>
<td>To Interest on capital</td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>To Sundry expenses</th>
<th>1,01,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Net profit</td>
<td>2,00,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>105,00,000</strong></td>
</tr>
</tbody>
</table>

You are further informed that –
1. Purchases include cash purchases of ₹1,00,000 (payment made on a particular date to a particular person)
2. Bonus of ₹1,07,000 for the previous year 2018-19 was paid on 31.12.2019 but not included in the profit and loss account.
3. Recovery of bad debts during the year from a discontinued business of ₹1,00,000 but not included in the profit and loss account. Deduction was allowed in respect of bad debts.
4. Written down value of machinery as on 01.04.2019 was ₹5,00,000. Rate of depreciation being 15%.
   a. Machinery sold during the year for ₹1,00,000
   b. Machinery acquired and put to use in December 2019 for ₹4,00,000
5. Loss and allowances carried forward
   • Business loss – Assessment Year 2016-17 = ₹3,00,000
   • Depreciation – Assessment Year 2017-18 = ₹2,00,000

Mr. X has not opted for presumptive taxation of Income u/s 44AD. Compute Total Income and Tax Liability for the Assessment Year 2020-21.

Answer = Total Income: ₹3,02,000; Tax Liability: Nil

Problem 25.
Mr. X is exporting computer software outside India. The profit & loss account for the previous year ending 31.03.2020.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount ₹</th>
<th>Particulars (Credits)</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Purchases</td>
<td>80,00,000</td>
<td>By Total sales</td>
<td>101,60,000</td>
</tr>
<tr>
<td>To Salaries</td>
<td>4,10,000</td>
<td>By Profit on sale of land held for the last 1½ years</td>
<td>6,00,000</td>
</tr>
<tr>
<td>To Interest to Mr. X</td>
<td>1,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Salary to Mr. X</td>
<td>6,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Depreciation on plant and machinery</td>
<td>2,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Purchase of trade marks</td>
<td>2,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>To Net profit</strong></td>
<td>12,00,000</td>
<td><strong>107,60,000</strong></td>
<td><strong>107,60,000</strong></td>
</tr>
</tbody>
</table>

You are further informed that –
1. Trade marks purchased and put to use on 01.07.2019.
2. Written down value of plant and machinery as on 01.04.2019 is ₹12,00,000. Rate of depreciation being 15%.
3. Employer contribution to recognized provident fund of ₹4,00,000 for the previous year 2018-19 was paid on 31.12.2019 but not included in the above profit and loss account.
4. The proprietor has brought forward depreciation and long term capital loss amounting ₹2,36,000 and ₹2,00,000 from the Assessment Year 2017-18 respectively.

Mr. X has not opted for presumptive taxation of Income u/s 44AD. You are required to compute the Total Income and Tax Liability for the Assessment Year 2020-21.

Answer = Total Income: ₹14,84,000; Tax Liability: ₹2,68,010

Problem 26.
Mr. X is engaged in the business of civil construction including repairs of dams and supply of labour for civil construction. The Profit and Loss account of Mr. X for the year ending 31.03.2020 is as follows:

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount ₹</th>
<th>Particulars (Credits)</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock of raw material</td>
<td>21,700</td>
<td>Receipt from business of civil</td>
<td>63,70,700</td>
</tr>
</tbody>
</table>
**Income Under The Head Business/Profession**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>2,39,430</td>
<td>Rental income from Godown</td>
<td>48,000</td>
</tr>
<tr>
<td>Salary to employees</td>
<td>1,30,000</td>
<td>Interest on company deposits (gross)</td>
<td>2,60,000</td>
</tr>
<tr>
<td>Purchase of raw material</td>
<td>44,10,210</td>
<td>Closing Stock of raw material</td>
<td>1,31,600</td>
</tr>
<tr>
<td>Interest on loan taken to make deposit in companies</td>
<td>13,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on loan taken for business purposes</td>
<td>74,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travelling, entertainment and advertisement expenses</td>
<td>57,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td>7,42,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal tax (6,000) and insurance (1,200) of Godown</td>
<td>7,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary to Mr. X</td>
<td>1,80,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest to Mr. X</td>
<td>69,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td>8,64,760</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>68,10,300</td>
<td><strong>Total</strong></td>
<td>68,10,300</td>
</tr>
</tbody>
</table>

**Other information:**

(i) Out of other expenses debited to profit and loss account ₹ 20,000 is not deductible under section 37(1).

(ii) Out of travelling, advertisement and entertainment expenses ₹ 25,000 is not deductible under section 37(1).

(iii) On 01.04.2019, Mr. X owns the following depreciable assets:

- Plants A, B and C, depreciated value: ₹ 3,70,000, rate of depreciation 15%.
- Plants D and E, depreciated value: ₹ 1,98,000, rate of depreciation 40%.

On 01.01.2020 Mr. X sells plant D for ₹ 9,10,000 and purchases plant F and put to use on the same date (rate of depreciation 15%) for ₹ 4,86,000.

(iv) Mr. X wants to set-off the following losses brought forward from earlier years:

<table>
<thead>
<tr>
<th>Assessment Year</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business loss</td>
<td>20,000</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Capital loss</td>
<td>2,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Find out Total Income and Tax Liability of Mr. X for the Assessment Year 2020-21.

**Answer** = Total Income: ₹ 19,83,840; Tax Liability: ₹ 4,23,960

**Problem 27.**

Mr. X furnishes the following information relevant for the Assessment Year 2020-21.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount</th>
<th>Particulars (Credits)</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General expenses</td>
<td>23,400</td>
<td>Gross profit</td>
<td>8,21,300</td>
</tr>
<tr>
<td>Bad debts</td>
<td>8,000</td>
<td>Commission</td>
<td>9,500</td>
</tr>
<tr>
<td>Provision for GST</td>
<td>10,000</td>
<td>Brokerage</td>
<td>1,200</td>
</tr>
<tr>
<td>Advance tax</td>
<td>11,000</td>
<td>Sundry receipts</td>
<td>2,500</td>
</tr>
<tr>
<td>Legal expenses (paid to a Chartered Accountant for preparation of income tax return)</td>
<td>4,000</td>
<td>Dividend from Indian companies</td>
<td>12,500</td>
</tr>
<tr>
<td>Insurance of stocks</td>
<td>1,600</td>
<td>Income from Unit Trust of India</td>
<td>6,500</td>
</tr>
<tr>
<td>Salary to staff</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leave encashment to staff (paid during the year)</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary to Mr. X</td>
<td>24,000</td>
</tr>
<tr>
<td>Interest on overdraft</td>
<td>6,000</td>
</tr>
<tr>
<td>Interest on loan to Mrs. X</td>
<td>32,000</td>
</tr>
<tr>
<td>Interest on capital to Mr. X</td>
<td>22,000</td>
</tr>
<tr>
<td>Expenditure on account of Deepawali (being gift given to customers)</td>
<td>8,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>45,000</td>
</tr>
<tr>
<td>Advertisement expenses</td>
<td>7,000</td>
</tr>
<tr>
<td>Contribution to employees recognised provident fund (credited within due date)</td>
<td>12,000</td>
</tr>
<tr>
<td>Net profit</td>
<td>6,09,500</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>8,53,500</strong></td>
</tr>
</tbody>
</table>

1. The amount of depreciation allowable is ₹52,500 as per the Income Tax Act, 1961.
2. Income of ₹25,000 received on January 20th, 2020 on units of mutual fund specified under section 10(23D) is not recorded in profit and loss account.
3. Loan from Mrs. X was taken for payment of arrears of income tax.
4. Salary to staff includes payment of ₹9,000 to a relative, which is unreasonable to the extent of ₹4,000.
5. General expenses include ₹5,000 incurred for payment of school fees of Mr. X’s son.
6. Mr. X has paid insurance premium of ₹70,000 on the life policy (sum assured ₹3,40,000) of his major son on March 25th, 2020 and he invested ₹20,000 in Industrial Development Bank of India (IDBI) Infrastructure Bonds notified under section 80C on March 30th, 2020.

Determine the Total Income and Tax Liability of Mr. X for the Assessment Year 2020-21.

**Answer** = Total Income: ₹ 6,32,000; Tax Liability: 40,460

### Problem 28.

Mrs. X is a company secretary in practice. She was born on 01.02.1957 in India. Her income and expenditure account for the year ended 31.03.2020 is as follows:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries paid to staff</td>
<td>17,10,000</td>
</tr>
<tr>
<td>Fees earned:</td>
<td></td>
</tr>
<tr>
<td>Secretarial audit</td>
<td>6,30,800</td>
</tr>
<tr>
<td>Taxation services</td>
<td>6,20,000</td>
</tr>
<tr>
<td>Consultancy Services</td>
<td>17,50,000</td>
</tr>
<tr>
<td>Stipends to apprenticeship trainees</td>
<td>22,500</td>
</tr>
<tr>
<td>Dividend on shares of Indian companies</td>
<td>10,500</td>
</tr>
<tr>
<td>Incentives to apprenticeship trainees</td>
<td>10,000</td>
</tr>
<tr>
<td>Income from Unit Trust of India</td>
<td>6,500</td>
</tr>
<tr>
<td>Rent for the building in the use of profession</td>
<td>20,000</td>
</tr>
<tr>
<td>Profit on sale of equity shares on which STT has been paid (short term)</td>
<td>20,800</td>
</tr>
<tr>
<td>Printing and stationery</td>
<td>9,600</td>
</tr>
<tr>
<td>Honorarium received from various institutions for evaluation work</td>
<td>6,600</td>
</tr>
<tr>
<td>Contribution to recognised provident fund</td>
<td>35,000</td>
</tr>
<tr>
<td>Rent received from residential flat let out</td>
<td>62,000</td>
</tr>
<tr>
<td>Meeting, seminar and conference expenses</td>
<td>40,000</td>
</tr>
<tr>
<td>Interest on loan</td>
<td>60,000</td>
</tr>
<tr>
<td>Journals, magazines, newspaper, income tax report</td>
<td>15,000</td>
</tr>
<tr>
<td>Courier, telephone and fax</td>
<td>2,90,400</td>
</tr>
<tr>
<td>Repairs, maintenance and petrol for car</td>
<td>16,500</td>
</tr>
<tr>
<td>Depreciation:</td>
<td></td>
</tr>
<tr>
<td>Car</td>
<td>8,500</td>
</tr>
</tbody>
</table>
Other information:
(i) A sum of ₹15,000 incurred for entertaining various clients in hotels and clubs is already included in the meeting, seminar and conference expenses.
(ii) Incentives to apprentices represent amount paid to two apprentices for passing the company secretaries intermediate examination at first attempt.
(iii) One fifth of use of car is attributable to personal purposes.
(iv) 50% of loan was used for the purpose of construction of house property and 50% of loan was used for other business purpose.
(v) Mrs. X follows accrual basis of accounting
  (a) cost of stationery items for ₹3,000 purchased in accounting year 2018-19 which was not provided for in that year due to oversight, has been included in printing and stationery for the year 2019-20; and
  (b) amount of ₹5,000 for the month of March, 2020 of provident fund contribution could not be paid upto 05.11.2020.
(vi) The written down value of various assets as on 01.04.2019 as follows:
  (a) Car (Acquired on 01.04.2015) ₹85,840
  (b) Typewriter (Acquired on 01.04.2015) ₹15,000
  (c) Furniture (Acquired on 01.04.2015) ₹25,000
  (d) Computer (Acquired on 15.12.2019 at cost of ₹1,50,000 and put to use on the same date)
(vii) Salaries include ₹30,000 paid to a computer specialist in cash for assisting Mrs. X in one professional assignment.
(viii) Mrs. X has deposited ₹60,000 in her public provident account and invested ₹20,000 in infrastructure bonds of the ICICI Ltd. notified under section 80C.

Mrs. X not opted for presumptive taxation of Income u/s 44ADA. Compute Total Income and Tax Liability of Mrs. X for the Assessment Year 2020-21.
Answer = Total income: ₹ 7,00,450; Tax Liability: ₹51,010

Problem 29.
Mr. X has computed his income under the head business/profession ₹10,00,000 and he has debited the following amount.
(1) Cost of goods sold ₹ 7,00,000, out of which ₹ 4,00,000 paid to a relative for purchasing stock and its market value is ₹ 3,00,000 and Mr. X has paid ₹ 2,00,000 by account payee cheque and ₹ 2,00,000 in cash.
(2) He has debited ₹45,000 in connection with purchase of a computer which was purchased on 27.10.2019 and was put to use on the same date and payment was made in cash.
(3) He has purchased one generator from his relative for ₹ 45,000 and payment was made in cash and market value was ₹ 40,000 and it was purchased on 01.10.2019 and was put to use on 07.10.2019.
(4) He has paid advance tax being income tax ₹ 45,000 on 01.10.2019.
(5) He has paid ₹ 21,000 to a Chartered Accountant for filing a return of income, out of which ₹9,500 was paid in cash and balance by an account payee cheque.
(6) He has donated ₹ 20,000 to an approved research association and research work taken up by such association is not related to the business/profession of assessee.
(7) He has purchased household furniture for ₹12,000 for personal use.
(8) He has paid ₹ 20,000 in cash in connection with his medical treatment.
(9) Salary paid to the proprietor is ₹ 36,000.
(10) Interest on capital ₹ 9,000.
(11) He has invested ₹ 25,000 in National Saving Certificate.
(12) He has invested ₹ 10,000 in public provident fund in the name of his minor child.
(13) He has debited rent of ₹ 35,000 in connection with his own building which is being used in his business/profession.
(14) Opening stock debited is ₹ 4,50,000 which is overvalued by 10%.
(15) He has incurred ₹ 7,000 on printing and distribution of diaries and calendars.
Compute his Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: ₹2,66,110

**Problem 30.**
Mr. X furnishes the following trading, profit and loss account for the previous year ending on 31.03.2020.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount ₹</th>
<th>Particulars (Credits)</th>
<th>Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Stocks</td>
<td>14,000</td>
<td>By Sales</td>
<td>100,84,500</td>
</tr>
<tr>
<td>To Purchases</td>
<td>94,80,000</td>
<td>By Maturity proceeds of National Saving Certificate</td>
<td>19,500</td>
</tr>
<tr>
<td>To Freight and duty</td>
<td>5,000</td>
<td>By Maturity proceeds of Bank Fixed Deposit</td>
<td>24,000</td>
</tr>
<tr>
<td>To Manufacturing wages</td>
<td>25,000</td>
<td>By Maturity proceeds of Public provident fund</td>
<td>13,000</td>
</tr>
<tr>
<td>To Factory, rent, rates and taxes</td>
<td>30,000</td>
<td>By Rent of staff quarters built in 2014</td>
<td>19,000</td>
</tr>
<tr>
<td>To Office salaries</td>
<td>27,000</td>
<td>By Refund of income tax penalty</td>
<td>1,100</td>
</tr>
<tr>
<td>To Establishment expenses</td>
<td>6,100</td>
<td>By Sale of an old machinery</td>
<td>25,000</td>
</tr>
<tr>
<td>To Cost of computer</td>
<td>24,000</td>
<td>By Recovery of bad debts (Not allowed earlier)</td>
<td>6,000</td>
</tr>
<tr>
<td>To Interest on capital</td>
<td>3,300</td>
<td>By Income tax refund (it includes interest- ₹400)</td>
<td>2,400</td>
</tr>
<tr>
<td>To Donation to an orphan</td>
<td>1,000</td>
<td>By Gift from friends and relatives</td>
<td>3,600</td>
</tr>
<tr>
<td>To Fire insurance</td>
<td>200</td>
<td>By Sundry receipts</td>
<td>5,000</td>
</tr>
<tr>
<td>To Bad debts</td>
<td>6,000</td>
<td>By Maturity proceeds of LIC policy</td>
<td>24,000</td>
</tr>
<tr>
<td>To Income Tax</td>
<td>6,000</td>
<td>By Refund of deposit from a supplier who could not supply the machine in time</td>
<td>1,00,000</td>
</tr>
<tr>
<td>To National Urban Poverty Eradication Fund</td>
<td>2,000</td>
<td>By Closing stocks</td>
<td>26,400</td>
</tr>
<tr>
<td>To Employer’s contribution to Recognised provident fund</td>
<td>8,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Service charge for air-conditioner</td>
<td>11,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Expenses on GST proceedings</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Expenses on income tax proceedings</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Diwali expenses</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Legal Expenses</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Medical expenses of proprietor</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Staff welfare fund</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Repairs of staff quarters</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Bonus payable to employees</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Provision for GST</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Mr. X has not opted for presumptive taxation of Income u/s 44AD. You are required to compute Tax Liability after taking the following into consideration:
1. Purchases include a purchase of ₹20,100. Its payment was made by a bearer cheque and also includes a purchase from a relative of ₹23,000 and the payment was made in cash and market price of the purchases is ₹22,000.
2. Factory rent, rates and taxes includes municipal tax of the factory building, which was paid on 31.07.2020.
3. Assessee has always valued the stocks at cost price but since 2019-20 he has valued it at market price, which was in excess of the cost price by 10%.
4. Office salaries paid include ₹12,400 to the proprietor of the business.
5. Diwali expenses include gifts of ₹1,000 made to the relatives.
6. The written down value of the block consisting of machinery as on 01.04.2019 is ₹59,000
7. The written down value of the block consisting of factory building as on 01.04.2019 is ₹85,000. An addition was made to building on 01.08.2019 at a cost of ₹12,000.
8. Service charge for air-conditioner were paid in three instalment of ₹10,000 and ₹1,000 on 10.01.2020 and 11.01.2020 in cash.
9. Employer’s contribution was made through an account payee cheque on 10.04.2020 and the cheque realised on 20.04.2020 and the due date for the purpose of provident fund was 15.04.2020.
10. Computer was purchased on 31.03.2019 and it was put to use on 31.03.2020.

**Answer** = Tax Liability: ₹15,850
SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:

Block I

Plant and machinery, depreciation @ 15%

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value as on 1st, April 2019</td>
<td>2,70,000</td>
</tr>
<tr>
<td>Add: Purchases of 2 Plants on June 2nd, 2019 and put to use on the same date</td>
<td>2,10,000</td>
</tr>
<tr>
<td>Less: Sale of Plants on 30.11.2019</td>
<td>(5,00,000)</td>
</tr>
<tr>
<td>Add: Purchase of 2 Plants on Dec 15th, 2019</td>
<td>1,60,000</td>
</tr>
<tr>
<td>Written down value as on 31.03.2020</td>
<td>1,40,000</td>
</tr>
<tr>
<td>Dep. @ 7.5% on ₹1,40,000</td>
<td>10,500</td>
</tr>
</tbody>
</table>

Block II

Building, depreciation @ 10%

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value as on 1st, April 2019</td>
<td>6,50,000</td>
</tr>
<tr>
<td>Dep. @ 10% on ₹6,50,000</td>
<td>65,000</td>
</tr>
<tr>
<td>Total depreciation for Assessment Year 2020-21</td>
<td>75,500</td>
</tr>
</tbody>
</table>

Solution 2:

Situation 1

Written down value of Plant A and Plant B as on 01.04.2019                   | 2,40,000 |
Add: Plant C purchased on 10.06.2019 and put to use on the same date       | 60,000   |
Less: Insurance claim of plant B                                            | (10,000) |
Written down value as on 31.03.2020                                       | 2,90,000 |
Depreciation @ 15% on ₹2,90,000                                            | 43,500   |

Situation 2

Written down value of Plant A and Plant B as on 01.04.2019                   | 2,40,000 |
Add: Plant C purchased on 10.06.2019 and put to use on the same date       | 60,000   |
Less: Insurance claim of Plant B                                             | (3,70,000) |
Short term capital gain as per section 50                                    | 70,000   |
No depreciation is allowed

Situation 3

Written down value of plant A and Plant B as on 01.04.2019                   | 2,40,000 |
Add: Plant C purchased on 10.06.2019 and put to use on the same date       | 60,000   |
Less: Insurance claim of Plant A, B and C                                    | (20,000) |
Short term loss as per section 50                                            | (2,80,000) |
No depreciation is allowed

Situation 4

Written down value of plant A and Plant B as on 01.04.2019                   | 2,40,000 |
Add: Plant C purchased on 10.06.2019 and put to use on the same date       | 60,000   |
Less: Insurance claim of plant A, B and C                                    | (4,00,000) |
Short term capital gain as per section 50                                    | 1,00,000 |
No depreciation is allowed
**Solution 3:**

**Computation of Total Income**

- Visiting fees: ₹ 4,75,000.00
- Consultation fees: ₹ 9,15,000.00
- Sale of medicines: ₹ 28,000.00
- Operation theatre rent: ₹ 18,000.00
- Cash payment not recorded in books: ₹ 75,000.00

Less:
- Clinic expenses: (₹ 1,24,000.00)
- Depreciation on medical books @ 40%: (₹ 6,000.00)
- Depreciation on surgical equipment: (₹ 11,250.00)

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>w.d.v as on 01.04.2019</td>
<td>60,000</td>
</tr>
<tr>
<td>Sale of surgical instruments</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Purchase on 01.11.2019</td>
<td>90,000</td>
</tr>
<tr>
<td>Balance</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Depreciation @ 7.5% on 90,000</td>
<td>6,750</td>
</tr>
<tr>
<td>Depreciation @ 15% on 30,000</td>
<td>4,500</td>
</tr>
</tbody>
</table>

- Motor car expenses (2/3\(^{rd}\) of ₹ 36,000): (₹ 24,000.00)
- Depreciation on car: (₹ 12,000.00)
- Indian Medical Association membership fees: (₹ 7,000.00)
- Payment to C.A. for filing return of income: (₹ 4,000.00)
- Entertainment expenses: (₹ 24,000.00)
- Medical purchases: (₹ 33,000.00)

**Income under the head Business/Profession:** ₹ 53,65,750.00

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Municipal valuation</td>
<td>66,000</td>
</tr>
<tr>
<td>(b) Expected Rent</td>
<td>66,000</td>
</tr>
<tr>
<td>(c) Rent received/receivable = 5,500 x 11 =</td>
<td>60,500</td>
</tr>
<tr>
<td>GAV = Higher of (b) or (c)</td>
<td>66,000</td>
</tr>
</tbody>
</table>

Less: municipal tax Nil
Net Annual Value ₹ 66,000.00
Less: 30% of NAV u/s 24(a) (₹ 19,800.00)
Less: Interest on capital borrowed u/s 24(b) (₹ 30,000.00)
Income under the head House Property ₹ 16,200.00
Income under the head Business/Profession ₹ 53,65,750.00
Income under the head Other Sources Nil
{Dividend exempt u/s 10(34)}
Gross Total Income ₹ 53,81,950.00
Less: Deduction u/s 80C to 80U Nil
Total Income ₹ 53,81,950.00

**Computation of Tax Liability**

Tax on ₹ 53,81,950 at slab rate ₹ 14,27,085.00
Add: Surcharge @ 10% ₹ 1,42,708.50
Tax Before health & education cess ₹ 15,69,793.50
Add: HEC @ 4% ₹ 62,791.74
Tax Liability ₹ 16,32,585.24
Rounded off u/s 288B ₹ 16,32,590.00
Note:
1. Maturity proceeds of life policy is exempt from tax under section 10(10D).
2. Membership fees given to the professional bodies is allowed u/s 37(1).

Solution 4:

Computation of income under the head Business/Profession

Consultancy fee  55,35,500

Less:
  Rent (50%)  (72,000)
  Office expenses  (46,000)
  Depreciation on car  (31,500)
    {3,00,000 x 15% x 70% = 31,500}
  Depreciation on computer @ 40% (50,000 x 40%)  (20,000)
  Depreciation on legal books  (8,400)
    {((12,000 x 40%) + (18,000 x 20%)}
  Car expenses {70% x 42,000}  (29,400)
  Electricity and water charges (50%)  (8,000)

Income under the head Business/Profession  53,20,200

Computation of income under the head Other Sources

Dividend from UTI [exempt u/s 10(35)]  Nil
Payment from university as an evaluator  7,000
Income under the head other sources  7,000

Computation of income under the head salary

Gross Salary  45,000
Less: Standard deduction u/s 16(ia)  (45,000)
Income under the head salary  Nil

Computation of Total Income

Income under the head Salary  Nil
Income under the head Business/Profession  53,20,200
Income under the head Capital Gains (STCG)  2,00,000
Income under the head Other Sources  7,000
Gross Total Income  55,27,200
Less: Deduction u/s 80C (54,000 + 5,000)  (59,000)
Total Income  54,68,200

Computation of Tax Payable

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

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

Solution 5:

Computation of professional income as per income & expenditure account

Net profit as per profit and loss account  64,28,800.00
Add: inadmissible expenses
  Domestic servant salary  1,500.00
  Entertainment expenses  17,500.00
  Donation for charity show  600.00
  Income tax  5,000.00
Income Under The Head Business/Profession

Car expenses 1,250.00
Books purchased 2,000.00
Stationery 21,000.00
Rent of own building 60,000.00

Less:
  Dividend {Exempt u/s 10(34)} (8,500.00)
  Profit on sale of debentures (8,450.00)
  Gift from father in law (6,050.00)
  Depreciation on building (₹90,000 @ 10%) (9,000.00)
  Depreciation on books (2,000 @ 40%) (800.00)

Income under the head Business/profession 65,00,850.00

Income under the head Capital Gains (STCG) 8,450.00

Gross Total Income 65,09,300.00

Less: Deduction u/s 80C to 80U Nil

Total Income 65,09,300.00

Computation of Tax Liability
Tax on ₹65,09,300 at slab rate 17,65,290.00
Add: Surcharge @ 10% 1,76,529.00
Tax before health & education cess 19,41,819.00
Add: HEC @ 4% 77,672.76
Tax Liability 20,19,491.76
Rounded off u/s 288B 20,19,490.00

Note:
Expenses on opening ceremony are allowed under section 37(1).

Solution 6:

Computation of income under the head business/profession

Net Profit as per profit & loss account 4,26,000.00

Add: inadmissible expenses
  Income tax paid 4,000.00
  Medical expenses 1,200.00
  (Payment of medi claim insurance is allowed u/s 36(1)(ib))
  Opening stock adjustment (25,000 x 5/105) 1,190.48
  Mr. X’s salary 2,500.00

Total 4,34,890.48

Less:
  Gift from brother (10,000.00)
  Income tax refund (3,000.00)
  Depreciation on Air conditioner @ 15% (3,750.00)
  Adjustment for sales (50,000 – 45,000) (5,000.00)
  Closing stock adjustment (30,000 x 5/105) (1,428.57)

Business income 4,11,711.91

Computation of income under the head Salary

Basic Salary 18,000.00
(6,000 x 3)

Gross Salary 18,000.00

Less: Standard deduction u/s 16(ia) (18,000.00)

Income under the head Salary Nil

Gross Total Income 4,11,711.91

Less: Deduction u/s 80C (4,800.00)
Total Income (Rounded off u/s 288A) 4,06,910.00

**Computation of Tax Liability**

- Tax on ₹4,06,910 at slab rate 7,845.50
- Less: Rebate u/s 87A (7,845.50)
- Tax Liability Nil

**Solution 7:**

**Computation of Total Income**

Income from business

- Net Profit as per profit and loss account 3,11,100.00
- Add: inadmissible expenses
  - Excessive payment to relatives {Sec. 40A(2)} 20,000.00
  - Payment disallowed {Sec. 40A(3)} 80,000.00
  - Salary paid outside India without TDS {Sec. 40(a)} 14,000.00
  - Salary paid to relatives {Sec. 40A(2)} 1,000.00
  - Market rent (rent for own building is not allowed) Sec. 30 1,00,000.00
  - Municipal taxes of building (due) 5,000.00
  - Donation for Ram Lila 1,500.00
  - Provision for bad debts 11,000.00
  - Gift to relatives 400.00
  - Public provident fund 12,000.00
  - Interest on capital 4,000.00
  - Addition to business premises 2,00,000.00
  - Income tax 2,000.00
  - Fine for violation of traffic rules 100.00

- Less:
  - Depreciation for building @ 10% (1,10,000.00)
  - 10,00,000 x 10% = 1,00,000
  - 2,00,000 x 5% = 10,000

Income from business 6,52,100.00

Gross Total Income 6,52,100.00

Less: Deduction u/s 80C {Public Provident Fund} (12,000.00)

Total Income 6,40,100.00

**Computation of Tax Liability**

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

**Solution 8:**

**Computation of Total Income**

Income under the head Business/Profession

- Profit as per profit and loss account 5,06,600.00
- Add: Inadmissible expenses
  - Proprietor’s salary 15,000.00
  - Charity to poor student 300.00
  - Interest on proprietor capital 2,000.00
  - Provision for bad debts 2,000.00
  - Reserve for GST 10,000.00
  - Advance income-tax 9,500.00
  - Out of motor car expenses 300.00

Total 5,45,700.00
Less:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad debts recovered</td>
<td>(2,000.00)</td>
</tr>
<tr>
<td>Interest on company’s deposit</td>
<td>(5,000.00)</td>
</tr>
<tr>
<td>Donation to scientific institution</td>
<td>(500.00)</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>(5,00,000.00)</td>
</tr>
<tr>
<td>Income from business</td>
<td>38,200.00</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>5,000.00</td>
</tr>
<tr>
<td>Income under the head Capital Gains (LTCG)</td>
<td>5,00,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,43,200.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>5,43,200.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Payable**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG ₹2,93,200 (₹5,00,000 – 2,06,800) @ 20% u/s 112</td>
<td>58,640.00</td>
</tr>
<tr>
<td>Tax on ₹ 43,200 at slab rate</td>
<td>Nil</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>2,345.60</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>60,985.60</td>
</tr>
<tr>
<td>Less: Income tax paid</td>
<td>(9,500.00)</td>
</tr>
<tr>
<td>Tax Payable</td>
<td>51,485.60</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>51,490.00</td>
</tr>
</tbody>
</table>

**Solution 9:**

**Computation of income from profession**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross receipts:</td>
<td></td>
</tr>
<tr>
<td>Audit fee</td>
<td>4,40,000.00</td>
</tr>
<tr>
<td>Appellate tribunal appearance</td>
<td>25,000.00</td>
</tr>
<tr>
<td>Misc. Receipt</td>
<td>20,000.00</td>
</tr>
<tr>
<td>Presents from client</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Total</td>
<td>4,95,000.00</td>
</tr>
<tr>
<td>Payments:</td>
<td></td>
</tr>
<tr>
<td>Stipend</td>
<td>(12,000.00)</td>
</tr>
<tr>
<td>Office expenses</td>
<td>(24,000.00)</td>
</tr>
<tr>
<td>Office rent</td>
<td>(18,000.00)</td>
</tr>
<tr>
<td>Salary and wages</td>
<td>(20,500.00)</td>
</tr>
<tr>
<td>Printing and stationery</td>
<td>(4,000.00)</td>
</tr>
<tr>
<td>Subscription to C.A. institute</td>
<td>(1,500.00)</td>
</tr>
<tr>
<td>Depreciation on books @ 40%</td>
<td>(6,000.00)</td>
</tr>
<tr>
<td>Travelling expenses</td>
<td>(5,000.00)</td>
</tr>
<tr>
<td>Income from profession</td>
<td>4,04,000.00</td>
</tr>
</tbody>
</table>

**Computation of income from house property**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value</td>
<td>24,000.00</td>
</tr>
<tr>
<td>Less: Municipal Tax</td>
<td>Nil</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>24,000.00</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(7,200.00)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>Nil</td>
</tr>
<tr>
<td>Income from house property</td>
<td>16,800.00</td>
</tr>
</tbody>
</table>

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from profession</td>
<td>4,04,000.00</td>
</tr>
<tr>
<td>Income from house property</td>
<td>16,800.00</td>
</tr>
<tr>
<td>Gross total income</td>
<td>4,20,800.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,20,800.00</td>
</tr>
</tbody>
</table>
Computation of Tax Liability
Tax on ₹4,20,800 at slab rate 8,540.00
Less: Rebate u/s 87A (8,540.00)
Tax Liability Nil

Solution 10:
Computation of Total Income
Income under the head Business/Profession
Net profit as per profit and loss account 63,000.00
Add: inadmissible expenses
Out of capital expenditure on promotion of family planning amounting to ₹14,000 one fifth is allowed 11,200.00
GST 24,000.00
Reserve for future losses 30,000.00
Reserve for bad debts 14,000.00
Payment of advance Income tax 17,000.00
1,59,200.00
Less:
Capital gain (60,000.00)
Income under the head Business/Profession 99,200.00
Income under the head Capital Gains (STCG) 60,000.00
Gross Total Income 1,59,200.00
Less: Deduction u/s 80C to 80U Nil
Total Income 1,59,200.00

Computation of Tax Liability
Tax on ₹1,59,200 @ 30% 47,760.00
Add: HEC @ 4% 1,910.40
Tax Liability 49,670.40
Rounded off u/s 288B 49,670.00

Solution 11:
Computation of Total Income
Income from Business
Net profit as per profit & loss account 2,23,000.00
Add: Inadmissible expenses
Provision for income tax 53,000.00
Under valuation of closing stock [25/75 of ₹ 4,97,000] 1,65,666.67
Overvaluation of opening stock [25/125 of ₹ 4,62,000] 92,400.00
Municipal tax 3,000.00
Penalty 25,000.00
Total 5,62,066.67
Less:
Rental income from house property (84,000.00)
Dividends received from companies (12,000.00)
Income from Business 4,66,066.67

Income from house property
Gross Annual Value 84,000.00
Less: municipal taxes (3,000.00)
Net Annual Value 81,000.00
Less: 30% of NAV u/s 24(a) (24,300.00)
Less: Interest on capital borrowed u/s 24(b) Nil
Income from house property 56,700.00
Gross Total Income 5,22,766.67
Less: Deduction u/s 80C (1,00,000.00)
Total Income (rounded off u/s 288A) 4,22,770.00

**Computation of Tax Liability**
- Tax on ₹4,22,770 at slab rate 8,638.50
- Less: Rebate u/s 87A (8,638.50)
- Tax Liability Nil

**Solution 12:**

**Computation of Total Income**
- Net profit as per profit and loss account 7,70,000.00
- Add: inadmissible items
  - Advertisement in a newspaper owned by a political party (Sec 37(2B)) 20,000.00
  - Capital expenditure on advertisement 14,400.00
  - Excess amount paid to a concern in which ‘X’ has substantial interest 1,800.00
  - Employee contribution to recognised provident fund (to the extent not deposited before the due date) 12,500.00
  - Bonus being paid to employee after the due date of filing the return 58,000.00
  - Commission to employee after the due date of filing the return 44,000.00
  - Salary paid outside India in respect of which tax is not deducted at source 46,000.00
  - Capital expenditure for promoting family planning amongst employees (allowed only to a company assessee) 6,000.00
- Total 9,72,700.00
- Less:
  - Depreciation on capital expenditure on advertisement @ 25% of ₹14,400 (assuming put to use for 180 days or more) (3,600.00)
  - Income under the head Business/Profession 9,69,100.00
  - Gross Total Income 9,69,100.00
  - Less: Deduction u/s 80C to 80U Nil
  - Total Income 9,69,100.00

**Computation of Tax Liability**
- Tax on ₹9,69,100 at slab rate 1,06,320.00
- Add: HEC @ 4% 4,252.80
- Tax Liability 1,10,572.80
- Rounded off u/s 288B 1,10,570.00

**Solution 13:**

**Computation of Total Income**
- Net profit as per profit & loss account 3,90,000.00
- Add: inadmissible items
  - Travelling expenses incurred on foreign tour to the extent not admissible
    - [1,80,000 – (6/8 of ₹ 1,80,000)] 45,000.00
  - Travelling expenses incurred for purchasing a machine for factory 6,500.00
  - Own salary of Mr. X 26,000.00
  - Commission to employee’s paid after the due date of furnishing return of income under section 139(1) of the Act; hence not allowed u/s 43B 42,000.00
- Less:
  - Depreciation on machinery @ 15% (975.00)
  - Income under the head Business/Profession 5,08,525.00
  - Gross Total Income 5,08,525.00
  - Less: Deduction u/s 80C to 80U Nil
  - Total Income (rounded off u/s 288A) 5,08,530.00
**Computation of Tax Liability**

- Tax on ₹5,08,530 at slab rate: 14,206.00
- Add: HEC @ 4%: 568.24
- Tax Liability: 14,774.24
- Rounded off u/s 288B: 14,770.00

**Note:** It is assumed that machinery is not used for manufacturing purpose, so additional depreciation is not allowed.

**Solution 14:**

- Net profit as per profit & loss account: ₹9,38,000.00
- Add: expenses debited to profit & loss account but not allowable:
  - Deposit in NSC (not an expenditure): 42,000.00
  - Provision for income tax: 31,000.00
  - Provision for GST: 45,000.00
  - Salary to Mrs. X (Sec 40A(2)): 48,000.00
  - Purchase of computer (capital expenditure): 40,000.00
  - Purchase from relative (Sec 40A(2)): 20,000.00
  - Payment in cash (Sec 40A(3)): 80,000.00
- Total: 13,85,363.64
- Less:
  - Depreciation on computer (40,000 x 40% x ½): (8,000.00)
  - Closing stock overvalued (3,60,000 x 10/110): (32,727.27)
  - Long term capital gain: (36,000.00)
  - Dividend from foreign company: (5,00,000.00)
  - Winnings of lottery: (25,00,000.00)
  - Municipal tax paid after due date (Sec 43B): 30,000.00
- Business income: 7,96,636.37

**Income from Other Sources**

- Dividend from foreign company: 12,00,000.00
- Winnings from lottery: 5,00,000.00
- Income from Other Sources: 5,12,000.00
- Income under the head Capital Gains (LTCG): 36,000.00
- Gross Total Income: 13,44,636.37
- Less: Deduction u/s 80C: (42,000.00)
- Total Income (rounded off u/s 288A): 13,02,640.00

**Computation of Tax Liability**

- Tax on Long term capital gain: ₹36,000 @ 20% u/s 112: 7,200.00
- Tax on ₹5,00,000 @ 30% u/s 115BB: 1,50,000.00
- Tax on ₹7,66,640 at slab rate: 65,828.00
- Tax before health & education cess: 2,23,028.00
- Add: HEC @ 4%: 8,921.12
- Tax Liability: 2,31,949.12
- Rounded off u/s 288B: 2,31,950.00

**Solution 15:**

**Computation of Total Income of ABC Ltd. for the Assessment Year 2020-21**

**Income under the head Business/Profession**

- Net profit as per profit and loss account: 8,00,000.00
- Add: inadmissible expenses
  - Fine imposed by the municipality for violation of regulation: 2,000.00
• Provision for Income Tax 35,000
• Under valuation of closing stock (1,08,000 x 1/9) 12,000
Total 8,49,000

Less:
• Income from units of UTI (35,000)
• Dividend from Indian company (20,000)
• Under valuation of opening stock (10,000)
• Depreciation (1,20,000 – 60,000) (60,000)
Business income 7,24,000

Income under the head Other Sources
Dividend from Indian company {exempt u/s 10(34)} Nil
Income from UTI {exempt u/s 10(35)} Nil
Income under the head Other Sources Nil
Gross Total Income 7,24,000
Less: Deduction u/s 80C to 80U Nil
Total Income 7,24,000

Computation of Tax Liability
Tax on ₹7,24,000 @ 30% 2,17,200
Add: HEC @ 4% 8,688
Tax Liability 2,25,888
Rounded off u/s 288B 2,25,890

Note: Amount paid to the lawyer of ₹30,000 for arguing appeals before the Tribunal is an allowable expense.

Solution 16:
Computation of income from profession of Mr. X for the Assessment Year 2020-21

Professional incomes
Professional fees 16,75,000.00
Less:
Salaries (5,00,000.00)
Rent of chamber (2,55,000.00)
Telephone expenses (26,000.00)
Magazines subscription (3,000.00)
9/10 of motor car expenses (9,000.00)
Dep. on motor car (3,00,000 x 7.5% x 90%) (20,250.00)
Misc. office expenses (5,500.00)
Subscription to Bar Association (1,500.00)
Income from profession 8,54,750.00

Computation of income from house property
Let out house
Gross Annual Value 60,000.00
Less: municipal taxes (6,000 – 2,000) (4,000.00)
Net annual value 56,000.00
Less: 30% of NAV u/s 24(a) (16,800.00)
Less: Interest on capital borrowed u/s 24(b) Nil
Income from house property 39,200.00

Self occupied house
Annual value Nil
Income from house property 39,200.00
Loss under the head House Property (31,200.00)
Income under the head House Property 8,000.00
**Computation of income under the head Other Sources**

- Honorarium for delivering lectures in C.A. Institute: 5,000.00
- Honorarium for writing articles in Hindustan Times: 1,000.00
- Dividend from Indian company {exempt u/s 10(34)}: Nil
- Dividend from UTI {exempt u/s 10(35)}: Nil
- Interest from a company: 8,000.00
- Income under the head Other Sources: 14,000.00

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

- Income under the head House Property: 8,000.00
- Income under the head Business/Profession: 8,54,750.00
- Income under the head Other Sources: 14,000.00
- Gross Total Income: 8,76,750.00
- Less: Deduction u/s 80C to 80U: Nil
- Total Income: 8,76,750.00

**Computation of Tax Payable**

- Tax on ₹8,76,750 at slab rate: 87,850.00
- Add: HEC @ 4%: 3,514.00
- Tax Liability: 91,364.00
- Less: Advance Income Tax Paid: (38,000.00)
- Tax Payable: 53,364.00
- Rounded off u/s 288B: 53,360.00

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

---

**Solution 17:**

**Computation of Total Income of ABC Ltd.**

- Net profit as per profit and loss account: 12,50,000

Add:

(i) Payment of advertisement expenditure of ₹ 60,000
   (a) ₹8,000, being the excess payment to a related disallowed under section 40A(2)
   (b) As the payment is made in cash and since the remaining amount of ₹52,000 exceeds ₹10,000, shall be disallowed under section 40A(3)
   ₹60,000

(ii) Under Section 31, expenditure relatable to repairs of plant, machinery or furniture is allowed.----------

(iii)Liability foregone by creditor [Taxable under section 41(1)]
   ₹6,000

(iv) Sale proceeds of import entitlement licence. The sale of the rights gives rise to profits or gains taxable under section 28. As the amount has already been credited to profit and loss a/c, no further adjustment is necessary.
   ----------

(v) Donation to National Urban Poverty Eradication Fund is allowed u/s 35CCA
   ----------

Less:

(vi) Expenditure on in house research and development is entitled to a weighted deduction of 1.5 times of the expenditure (both capital and revenue) under section 35 = 2,00,000 x 1.5 = 3,00,000
   Expenditure ₹2,00,000 already debited to profit and loss account, additional deduction of ₹1 lakh is further allowed
   (1,00,000)

- Income under the head business/profession: 12,16,000
- Gross Total Income: 12,16,000
- Less: Deduction u/s 80C to 80U: Nil
- Total Income: 12,16,000

**Computation of Tax Liability**

- Tax on ₹12,16,000 @ 30%: 3,64,800
- Add: HEC @ 4%: 14,592
- Tax Liability: 3,79,392
- Rounded off u/s 288B: 3,79,390
**Solution 18:**  
(i)  
Income under the head Business/Profession  \(\text{रु} 4,00,000.00\)  
Less: Securities transaction tax  \(\text{रु} (1,800.00)\)  
Income under the head Business/Profession  \(\text{रु} 3,98,200.00\)  
Gross Total Income  \(\text{रु} 3,98,200.00\)  
Less: Deduction u/s 80C  \(\text{रु} (10,000.00)\)  
Total Income  \(\text{रु} 3,88,200.00\)  
Tax on ₹3,88,200 at slab rate  \(\text{रु} 4,410.00\)  
Less: Rebate u/s 87A  \(\text{रु} (4,410.00)\)  
Tax Liability  Nil

(ii)  
Income under the head Business/Profession  \(\text{रु} 11,00,000\)  
Gross Total Income  \(\text{रु} 11,00,000\)  
Less: Deduction u/s 80C to 80U  Nil  
Total Income  \(\text{रु} 11,00,000\)  
Tax on ₹11,00,000 @ 30%  \(\text{रु} 3,30,000\)  
Add: HEC @ 4%  \(\text{रु} 13,200\)  
Tax Liability  \(\text{रु} 3,43,200\)

(iii)  
Income under the head Business/Profession  \(\text{रु} 18,00,000\)  
Total Income  \(\text{रु} 18,00,000\)  
Tax on ₹18,00,000 at slab rate  \(\text{रु} 3,52,500\)  
Add: HEC @ 4%  \(\text{रु} 14,100\)  
Tax Liability  \(\text{रु} 3,66,600\)

**Solution 19:**  
(i) Previous year 2019-20;  
(ii) Previous year 2019-20;  
(iii) Previous year 2019-20;  
(iv) Previous year 2019-20;  
(v) 30% of the amount disallowed in P.Y. 2019-20  
(vi) Previous year 2020-21

**Solution 20:**  
\(\text{रु} 9,02,075.00\)  
Income under the head business/profession  
Net Profit as per profit and loss account  \(\text{रु} 9,02,075.00\)  
Less:  
- Interest on Fixed deposit with bank  \(\text{रु} (18,500.00)\)  
- Dividend from Indian company  \(\text{रु} (66,360.00)\)  
Income under the head business/profession  \(\text{रु} 8,17,215.00\)  
Income under the head other sources  
Interest on Fixed deposit  \(\text{रु} 18,500.00\)  
Dividend from Indian company {exempt u/s 10(34)} Nil  
Income under the head Other Sources  \(\text{रु} 18,500.00\)  
Gross Total Income  \(\text{रु} 8,35,715.00\)  
Less: Deduction u/s 80C to 80U  Nil  
Total Income (rounded off u/s 288A)  \(\text{रु} 8,35,720.00\)

**Computation of Tax Liability**  
Tax on ₹8,35,720 at slab rate  \(\text{रु} 79,644.00\)  
Add: HEC @ 4%  \(\text{रु} 3,185.76\)  
Tax Liability  \(\text{रु} 82,829.76\)  
Rounded off u/s 288B  \(\text{रु} 82,830.00\)
**Solution 21:**

**Computation of Total Income**

As per section 44AE

<table>
<thead>
<tr>
<th>Type of Vehicle</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy goods vehicle</td>
<td>₹9,36,000.00</td>
</tr>
<tr>
<td>Light goods vehicle</td>
<td>₹5,25,000.00</td>
</tr>
<tr>
<td>Other business and non business income</td>
<td>₹1,00,000.00</td>
</tr>
</tbody>
</table>

Income under the head Business/Profession | ₹15,61,000.00 |

Gross Total Income | ₹15,61,000.00 |

Less: Deduction u/s 80C to 80U | Nil |

Total Income | ₹15,61,000.00 |

**Computation of Tax Liability**

Tax on ₹15,61,000 at slab rate | ₹2,80,800.00 |

Add: HEC @ 4% | ₹11,232.00 |

Tax Liability | ₹2,92,032.00 |

Rounded off u/s 288B | ₹2,92,030.00 |

The assessee has the option to reject the presumptive taxation and can compute the income in the normal manner but the assessee has to maintain books of accounts and also he should get his accounts audited as per section 44AB. In such case tax liability of the assessee shall be as given below:

Gross Receipt | ₹9,90,000 |

Less: Operational expenses | (₹5,25,000) |

Less: Depreciation as per section 32 | (₹1,85,000) |

Less: Other office expenses | (₹15,000) |

Add: Other business and non-business income | ₹1,00,000 |

Total Income | ₹3,65,000 |

**Computation of Tax Liability**

Tax on ₹3,65,000 at slab rate | ₹5,750.00 |

Less: Rebate u/s 87A | (₹5,750.00) |

Tax Liability | Nil |

**Solution 22:**

**Computation of Income under the head Business/profession**

Net Profit as per profit and loss account | ₹3,00,000 |

Add:

- Salary to the proprietor | ₹1,60,000 |
- Interest to Mr. A | ₹30,000 |
- Interest for income tax liability | ₹20,000 |
- Depreciation | ₹10,000 |

Less:

- Long term capital gains | (₹4,00,000) |

Income under the head Business/Profession | ₹1,20,000 |

Income under the head Capital Gains (LTCG) | ₹4,00,000 |

Gross Total Income | ₹5,20,000 |

Less: Deduction u/s 80C | (₹1,00,000) |

National Saving Certificate | ₹40,000 |

Public provident fund | ₹60,000 |

Total Income | ₹4,20,000 |

**Computation of Tax Liability**

Tax on ₹1,70,000 (₹4,00,000 – ₹2,30,000) @ 20% u/s 112 | ₹34,000 |

Tax on ₹20,000 at slab rate | (₹12,500) |
Tax before HEC 21,500
Add: HEC @ 4% 860
Tax Liability 22,360

Solution 23:

**Computation of Income under the head Business/profession**

- Net Profit as per profit and loss account 3,00,000

Add:
- Salaries and bonus 1,05,000
- GST payable 30,000
- Expenditure on technical know-how 36,000
- Interest on capital 20,000
- Rent of own building 30,000

Less:
- Depreciation on technical know-how {u/s 32} (9,000) (36,000 x 25%)
- Depreciation on building (25,000) (2,50,000 x 10%)
- Interest from Indian companies (70,000)

Income under the head Business/Profession 4,17,000
Less: Brought forward business loss of assessment year 2019-20 1,00,000
Income under the head Business/Profession 3,17,000
Income under the head Other Sources 70,000

Gross Total Income 3,87,000
Less: Deductions u/s 80C to 80U Nil
Total Income 3,87,000

**Computation of Tax Liability**

- Tax on ₹3,87,000 at slab rate 6,850.00
- Less: Rebate u/s 87A 6,850.00
- Tax Liability Nil

Solution 24:

**Computation of Income under the head Business/profession**

- Net Profit as per profit and loss account 2,00,000

Add:
- Cash purchases {u/s 40A(3)} 1,00,000
- Recovery of bad debts {as per sec 41(4)} 1,00,000
- Salary of Mr. X 3,60,000
- Interest on capital 1,89,000

Less:
- Bonus paid 1,07,000
- Depreciation on machinery 40,000

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Less: Sale</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Add: Purchase</td>
<td>4,00,000</td>
</tr>
<tr>
<td></td>
<td>8,00,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
</tr>
<tr>
<td>7.5% on ₹4,00,000 =</td>
<td>30,000</td>
</tr>
<tr>
<td>15% on ₹4,00,000 =</td>
<td>60,000</td>
</tr>
<tr>
<td>Total</td>
<td>90,000</td>
</tr>
<tr>
<td>Already provided in profit &amp; loss A/c</td>
<td>50,000</td>
</tr>
</tbody>
</table>
Balance

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend from foreign company</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>6,72,000</td>
</tr>
<tr>
<td>Less: b/f Business Loss</td>
<td>(3,00,000)</td>
</tr>
<tr>
<td>Less: Unabsorbed depreciation</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>1,72,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains (LTCG)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>30,000</td>
</tr>
<tr>
<td>{Dividend from foreign company}</td>
<td></td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>3,02,000</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</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

- Tax on LTCG ₹52,000 (₹1,00,000 – ₹48,000) @ 20% u/s 112: 10,400
- Tax on ₹2,02,000 at slab rate: Nil
- Less: Rebate u/s 87A: (10,400)
- Tax Liability: Nil

Solution 25:

Computation of Income under the head Business/profession

- Net Profit as per profit and loss account: ₹12,00,000.00
- Add:
  - Interest to Proprietor: ₹1,50,000.00
  - Salary to Proprietor: ₹6,00,000.00
  - Purchase of trademark: ₹2,00,000.00
  - Depreciation on plant and machinery: ₹20,000.00
- Less:
  - Short term capital gains: (₹6,00,000.00)
  - Depreciation on trade mark: (₹50,000.00)
  - Employer contribution to recognized provident fund: (₹4,00,000.00)
- Income under the head Business/Profession: ₹11,20,000.00
- Less: Brought forward depreciation: ₹2,36,000.00
- Income under the head Business/Profession: ₹8,84,000.00
- Income under the head Capital Gains (STCG): ₹6,00,000.00
- Gross Total Income: ₹14,84,000.00
- Less: Deduction u/s 80C to 80U: Nil
- Total Income: ₹14,84,000.00

Computation of Tax Liability

- Tax on ₹14,84,000 at slab rate: ₹2,57,700.00
- Add: HEC @ 4%: ₹10,308.00
- Tax Liability: ₹2,68,008.00
- Rounded off u/s 288B: ₹2,68,010.00

Solution 26:

- Net profit as per profit and loss account: ₹8,64,760.00
- Add:
  - Other expenses: ₹20,000.00
  - Travelling, advertisement and entertainment expenses: ₹25,000.00
  - Depreciation: ₹1,47,480.00

Working Note:

- Written down value as on 01.04.2019: ₹3,70,000
- Add: Purchased of plant F on 01.01.2020: ₹4,86,000
<table>
<thead>
<tr>
<th>Depreciation @ 15% on ₹3,70,000</th>
<th>55,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation @ 7.5% on ₹4,86,000</td>
<td>36,450</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>91,950</strong></td>
</tr>
</tbody>
</table>

**Excessive depreciation (2,39,430 – 91,950)**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on loan taken to make deposit in companies</td>
<td>13,800.00</td>
</tr>
<tr>
<td>Municipal tax and insurance of godown</td>
<td>7,200.00</td>
</tr>
<tr>
<td>Salary to Proprietor</td>
<td>1,80,000.00</td>
</tr>
<tr>
<td>Interest to Proprietor</td>
<td>69,000.00</td>
</tr>
</tbody>
</table>

**Less:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental income from Godown</td>
<td>(48,000.00)</td>
</tr>
<tr>
<td>Interest on company deposits</td>
<td>(2,60,000.00)</td>
</tr>
</tbody>
</table>

**Income under the head Business/Profession**

| Amount                                | 10,19,240.00 |

**Less:**

| Amount                                | 20,000.00 |

**Income under the head Business/Profession**

| Amount                                | 9,99,240.00 |

**Computation of Income under the head House Property**

| Gross Annual Value                     | 48,000.00 |
| Less: Municipal Taxes                  | (6,000.00) |
| Net Annual Value                       | 42,000.00 |
| Less: 30% of NAV u/s 24(a)             | (12,600.00) |
| Less: Interest on capital borrowed u/s 24(b) | Nil |

**Income under the head House Property**

| Amount                                | 29,400.00 |

**Income under the head Other Sources**

| (2,60,000 – 13,800)                   | 2,46,200.00 |

**Computation of Income under the head Capital Gains**

| Income under the head Capital Gains (STCG) | 7,12,000.00 |
| (9,10,000 – 1,98,000)                   |             |
| Less: Brought forward short term capital loss for the assessment year 2018-19 | (2,000.00) |
| Less: Brought forward short term capital loss for the assessment year 2019-20 | (1,000.00) |

**Income under the head Capital Gains (STCG)**

| Amount                                | 7,09,000.00 |

**Computation of Total Income**

| Gross Total Income                    | 19,83,840.00 |
| Less: Deduction u/s 80C to 80U        | Nil         |
| **Total Income**                      | 19,83,840.00 |

**Computation of Tax Liability**

| Tax on ₹19,83,840 at slab rate        | 4,07,652.00  |
| Add: HEC @ 4%                         | 16,306.08    |
| Tax Liability                         | 4,23,958.08  |
| Rounded off u/s 288B                  | 4,23,960.00  |

**Solution 27:**

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

<table>
<thead>
<tr>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit as per profit and loss account</td>
<td>6,09,500</td>
</tr>
<tr>
<td>Add: inadmissible expenses</td>
<td></td>
</tr>
<tr>
<td>Provision for GST</td>
<td>10,000</td>
</tr>
<tr>
<td>Advance tax</td>
<td>11,000</td>
</tr>
<tr>
<td>Salary to Mr. X</td>
<td>24,000</td>
</tr>
<tr>
<td>Interest to Mr. X</td>
<td>22,000</td>
</tr>
<tr>
<td>Interest to Mrs. X</td>
<td>32,000</td>
</tr>
<tr>
<td>Salary to relative {Sec 40A(2)}</td>
<td>4,000</td>
</tr>
<tr>
<td>School fees for Mr. X’s son</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,17,500</td>
</tr>
<tr>
<td>Less: Dividend from Indian companies</td>
<td>(12,500)</td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

Income from UTI  
Depreciation [52,500-45,000]  
Income under the head Business/Profession  

Income under the head Other Sources  
Dividend from Indian company {exempt u/s 10(34)}  
Income from mutual fund {exempt u/s 10(35)}  
Gross Total Income  
Less: deduction u/s 80C  
Life insurance premium  
(Maximum 10% of sum assured)  
Tuition fees of Mr. X’s son  
Investment in infrastructure bonds  
Total Income  

Computation of Tax Liability  
Tax on ₹6,32,000 at slab rate  
Add: HEC @ 4%  
Tax Liability  
Rounded off u/s 288B  

Solution 28:  

Computation of Total Income of Mrs. X  
Income under the head Business/Profession  
Net profit as per profit and loss account  
Add: inadmissible items  
• One fifth of car maintenance  
• Interest on loan (50%)  
• Municipal tax  
• Depreciation as per books  
• (8,500 + 14,000 + 5,000 + 3,000)  
• Printing bill for 2017-18  
• Provident fund (Section 43B)  
• Payment made in cash in excess of ₹10,000 {Sec 40A(3)}  
Less:  
• Honorarium received from various institutions  
• Dividend on shares  
• Income from Unit Trust of India  
• Profit on sale of equity shares  
• Rent received  
• Depreciation as per Income Tax Act  
• Car (85,840 x 15% x 4/5)  
• Computer (1,50,000 x 40% x 1/2)  
• Typewriter (15,000 x 15%)  
• Furniture (25,000 x 10%)  
Income under the head business/profession  

Income under the head House Property  
Gross annual value  
Less: Municipal Taxes  
Net annual value  
Less: 30% of NAV u/s 24(a)  
Less: Interest on capital borrowed u/s 24(b)  
Income from house property  
Income from capital gain (STCG)
**Income under the head Other Sources**

- Honorarium received from various institutions: 6,600.00
- Dividend from Indian company (exempt u/s 10(34)): Nil
- Income from UTI (exempt u/s 10(35)): Nil
- Income under the head Other Sources: 6,600.00

**Gross Total Income**: 7,80,449.20

Less: Deduction u/s 80C
- Public provident fund contribution: (80,000.00)
- Infrastructure bonds of ICICI: 20,000

**Total Income (rounded off u/s 288A)**: 7,00,450.00

**Computation of Tax Liability**

- Tax on STCG ₹20,800 @ 15% u/s 111A: 3,120.00
- Tax on ₹6,79,650 at slab rate: 45,930.00
- Tax before health & education cess: 49,050.00
- Add: HEC @ 4%: 1,962.00
- Tax Liability: 51,012.00

Rounded off u/s 288B: 51,010.00

---

**Solution 29:**

**Computation of Total Income**

- Net profit as per profit & loss account: 10,00,000.00
- Add: inadmissible expenses
  - Excess payment to relative u/s 40A(1) & (2): 1,00,000.00
  - Excess payment in cash u/s 40A(3): 1,00,000.00
  - Capital expenditure debited in the profit and loss account (computer): 45,000.00
  - Capital expenditure debited in the profit and loss account (generator): 45,000.00
  - Income tax u/s 40(a): 45,000.00
  - Household furniture: 12,000.00
  - Medical treatment: 20,000.00
  - Salary paid to proprietor: 36,000.00
  - Interest on capital: 9,000.00
  - Amount invested in National Saving Certificate: 25,000.00
  - Amount invested in public provident fund: 10,000.00
  - Rent paid: 35,000.00
  - Opening balance (45,0000 x 10/110): 40,909.09

Total: 15,22,909.09

Less:
- Donation given for scientific research u/s 35: (10,000.00)
- (20,000 x 0.5)
- Business Income: 15,12,909.09

Gross Total Income: 15,12,909.09

Less: Deduction u/s 80C: (35,000.00)

**Total Income (rounded off u/s 288A)**: 14,77,910.00

**Computation of Tax Liability**

- Tax on ₹14,77,910 at slab rate: 2,55,873.00
- Add: HEC @ 4%: 10,234.92
- Tax Liability: 2,66,107.92

Rounded off u/s 288B: 2,66,110.00

---

**Solution 30:**

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

- Net profit as per profit & loss account: 6,27,900.00
- Add: inadmissible expenses
Payment of purchases in excess of ₹10,000 {Sec 40A(3)} 20,100.00
Payment of purchases in excess of ₹10,000 {Sec 40A(3)} 22,000.00
Payment of purchases {Sec 40A(2)} 1,000.00
Salary to proprietor 12,400.00
Cost of computer 24,000.00
Interest on capital 3,300.00
Donation to orphan 1,000.00
Income tax 6,000.00
Gift to relative 1,000.00
Medical expenses of proprietor 3,000.00
Staff welfare fund 2,000.00
Bonus payable {Sec 43B} 5,000.00
Provision for GST 25,000.00
General reserve 5,000.00
Less:
Maturity proceeds of National Saving Certificate (19,500.00)
Maturity proceeds of bank Fixed Deposit (24,000.00)
Maturity proceeds of public provident fund (13,000.00)
Income tax penalty refund (1,100.00)
Sale of machinery (25,000.00)
Recovery of bad debts (6,000.00)
Income tax refund (2,400.00)
Gift from relatives (3,600.00)
Maturity proceeds of LIC (24,000.00)
Closing Stock {₹26,400 x 10 / 110} (2,400.00)
Refund of deposit from supplier (1,00,000.00)
Depreciation:
Computer = 40% on ₹24,000 (9,600.00)
Machinery - w.d.v = ₹59,000
Less: sale = (₹25,000)
Written down value ₹34,000
Dep. @ 15% (5,100.00)
Factory building – w.d.v = ₹85,000
Add: purchase = ₹12,000
Dep. @ 10% on ₹97,000 (9,700.00)
Income under the head business/profession 5,13,300.00

Computation of income under the head Other Sources
Interest on income tax refund 400.00
Income under the head other sources 400.00
Income under the head business/profession 5,13,300.00
Gross Total Income 5,13,700.00
Deductions u/s 80C to 80U Nil
Total Income 5,13,700.00

Computation of Tax Liability
Tax on ₹5,13,700 at slab rates 15,240.00
Add: HEC @ 4% 609.60
Tax liability 15,849.60
Rounded off u/s 288B 15,850.00
M/s. Keshav Enterprises, a sole proprietorship own four machines, put in use for business in March, 2018. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2019 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2019 for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 2019. You are required to:

(i) Determine the claim of depreciation for Assessment Year 2020-21.
(ii) Compute the capital gains liable to tax for Assessment Year 2020-21.
(iii) If Keshav Enterprises has sold the two machines in July, 2019 for ₹ 15,00,000, explain, will there be any difference in your above workings?

Solution:

(i) Computation of Depreciation for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>WDV of Machines as on 01st April 2019</td>
<td>₹ 7,70,000</td>
</tr>
<tr>
<td>Add: Addition during the year (on 30th December 2019)</td>
<td>₹ 6,10,000</td>
</tr>
<tr>
<td>Less: Sold during the year (on 15th July 2019)</td>
<td>(₹ 10,00,000)</td>
</tr>
<tr>
<td>WDV as on 31st March 2020</td>
<td>₹ 3,80,000</td>
</tr>
<tr>
<td>Depreciation during the year (3,80,000 x 7.5%)</td>
<td>₹ 28,500</td>
</tr>
</tbody>
</table>

(ii) Computation of Capital Gains for the A.Y. 2020-21

Since block of asset exists at the end of the year and WDV is also there at the end of the year hence no capital gains shall be computed.

(iii) If asset sold for 15,00,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>WDV of Machines as on 01st April 2019</td>
<td>₹ 7,70,000</td>
</tr>
<tr>
<td>Add: Addition during the year (on 30th December 2019)</td>
<td>₹ 6,10,000</td>
</tr>
<tr>
<td>Less: Sold during the year (on 15th July 2019)</td>
<td>(₹ 15,00,000)</td>
</tr>
<tr>
<td>WDV as on 31st March 2020</td>
<td>Nil</td>
</tr>
<tr>
<td>Depreciation during the year</td>
<td>Nil</td>
</tr>
</tbody>
</table>

If there is a negative balance at the end of the year, it will be considered to be short term capital gains as per section 50.

Short term Capital Gains

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale Consideration</td>
<td>₹ 15,00,000</td>
</tr>
<tr>
<td>Less: Cost of Asset</td>
<td>(₹ 13,80,000)</td>
</tr>
<tr>
<td>Short term capital gains</td>
<td>₹ 1,20,000</td>
</tr>
</tbody>
</table>
(vii) Amount received under KeyMan Insurance Policy 2,20,000
(viii) Amount forfeited by a buyer of her vacant plot, since 3,10,000
the buyer could not finalize the deal as per agreement.

(b) Donation given in cash to a charitable trust registered u/s 12AA 12,000
(c) She owns agricultural lands at Colombo, Sri Lanka. She has derived 1,80,000
agricultural income therefrom
(d) (i) Public Provident Fund paid in the name of her minor daughter 75,000
(ii) Interest credited in the said PPF account during the year 8,900
(e) Share of profits received from Vidyut & Co., 1,90,000

You are required to compute the total income of the assessee and the tax payable for the assessment year 2020-21.

Computation should be made under proper heads of income.

Solution: Computation of Total Income and Tax Payable

Income under the head other sources
Winnings from a TV Game show (70,000/70%) (section 56) 1,00,000
Gift received from mother's father (section 56 - received from relative so not taxable) Nil
Gift received from Ramya, her close friend (section 56 - received from friend so taxable) 60,000
Rent received for a vacant plot of land (section 56) 2,00,000
Amount received under KeyMan Insurance policy (section 56) 2,20,000
Forfeiture of advance money on sale of vacant plot (section 56) 3,10,000
Agriculture Income from outside India is taxable u/s 56 1,80,000
Interest from PPF account exempt u/s 10(11) Nil
Share of Profits from Vidyut & co. exempt u/s 10(2A) Nil

Income under the head other sources 10,70,000

Income under the head House Property
Arrears of rent u/s 25A 1,50,000
Less: Deduction @ 30% (45,000) 1,05,000

Income under the head business profession
Interest Income from partnership Firm (3,00,000/15% x 12%) (section 28) 2,40,000

Gross Total Income 14,15,000
Less: Deduction u/s 80C- PPF (75,000) Total Income 13,40,000

Computation of Tax Payable
Tax on 12,40,000 at slab rate 1,84,500
Tax on winning from TV show @ 30% on 1,00,000 u/s 115BB 30,000
Tax before HEC 2,14,500
Add: HEC @ 4% 8,580
Tax Liability 2,23,080
Less: TDS (30,000) Tax Payable 1,93,080

Note:
1. Deduction under section 80G is not allowed because payment is made by cash.
2. Income from agricultural land in India is exempt but income from agricultural land outside India shall be taxable under head other sources.
3. Winning from a TV game show is liable to TDS @ 30% and net amount is given in question and gross amount is taxable so for gross income amount will be divided by 70%.
4. Interest on capital received from partnership firm shall be taxable upto 12%. 
5. Amount received from Keyman is taxable under income from other sources alternatively it can be taxed under the head PGBP.

Alternate Solution:
Maternal grandparents are covered under lineal ascendant or not is controversial. Student can take any view. In the above solution gift from mother’s father is assumed to be covered under the definition of relative under lineal ascendant and it is exempt u/s 56 but if it is assumed that maternal grandparents is not covered under relative then such amount shall be taxable and treatment shall be

Solution: Computation of Total Income and Tax Payable

Income under the head other sources
Winnings from a TV Game show (70,000/70%) (section 56) 1,00,000
Gift received from mother's father (section 56) 80,000
Gift received from Ramya, her close friend (section 56 - received from friend so taxable) 60,000
Rent received for a vacant plot of land (section 56) 2,00,000
Amount received under KeyMan Insurance policy (section 56) 2,20,000
Forfeiture of advance money on sale of vacant plot (section 56) 3,10,000
Agriculture Income from outside India is taxable u/s 56 1,80,000
Interest from PPF account exempt u/s 10(11) Nil
Share of Profits from Vidyut & co. exempt u/s 10(2A) Nil

Income under the head other sources 11,50,000

Income under the head House Property
Arrears of rent u/s 25A 1,50,000
Less: Deduction @ 30% (45,000)

Income under the head business profession
Interest Income from partnership Firm (3,00,000/15% x 12%) (section 28) 2,40,000

Gross Total Income 14,95,000
Less: Deduction u/s 80C- PPF (75,000)
Total Income 14,20,000

Computation of Tax Payable
Tax on ₹13,20,000 at slab rate 2,08,500
Tax on winning from TV show @ 30% on 1,00,000 u/s 115BB 30,000
Tax before HEC 2,38,500
Add: HEC @ 4% 9,540
Tax Liability 2,48,040
Less: TDS (30,000)
Tax Payable 2,18,040

Note:
1. Deduction under section 80G is not allowed because payment is made by cash.
2. Income from agricultural land in India is exempt but income from agricultural land outside India shall be taxable under head other sources.
3. Winning from a TV game show is liable to TDS @ 30% and net amount is given in question and gross amount is taxable so for gross income amount will be divided by 70%.
4. Interest on capital received from partnership firm shall be taxable upto 12%.

Amount received from Keyman is taxable under income from other sources alternatively it can be taxed under the head PGBP.

Question 4(b) Marks 4
Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days.
He has purchased a car on 21-09-2019, for the purpose of his business as per following details:
Cost of car (excluding GST) 12,00,000
Add: Delhi GST at 14% 1,68,000
Add: Central GST at 14% 1,68,000
Total price of car 15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed.
He has started using the car immediately after purchase.
Determine the depreciation allowable on car for the AY 2020-21, if this is the only asset in the block.
Rate of depreciation may be taken at 15%
If this car were to be used in the subsequent Assessment Year 2021-22 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-Tax Act, 1961.

**Solution:**

**Computation of Depreciation Allowable**

As per section 32, if asset has been put to use for 180 days or more, depreciation shall be allowed at full rate and actual use shall not be taken into consideration, hence in the given case depreciation shall be allowed at full rate and is as given below:

**Block of Assets**

**Block 1: Plant and machinery – rate 15%**

₹15,36,000 @ 15% (D.O.P – 21-09-2019) 2,30,400
Depreciation allowed for FY 17-18 (75% for official use) (2,30,400 x 75%) 1,72,800
WDV as on 31.03.2020 (15,36,000 – 2,30,400) 13,05,600
₹13,05,600 @ 15% 1,95,840
Depreciation allowed for FY 20-21 (75% for official use) (1,95,840 x 75%) 1,46,880
WDV as on 31.03.2021 (13,05,600 – 1,95,840) 11,09,760

Note: Since ITC for Motor car is not allowed under GST, GST paid shall be considered to be part of the cost.

**Alternative Solution:** In the above solution WDV is calculated deducting full depreciation (including personal use) alternatively student can solve the solution by deducting only allowed depreciation (i.e. official use depreciation allowed under income tax)

**Block of Assets**

**Block 1: Plant and machinery – rate 15%**

₹15,36,000 @ 15% (D.O.P – 21-09-2019) 2,30,400
Depreciation allowed for FY 18-19 (75% for official use) (2,30,400 x 75%) 1,72,800
WDV as on 31.03.2020 (15,36,000 – 1,72,800) 13,63,200
₹13,63,200 @ 15% 2,04,480
Depreciation allowed for FY 20-21 (75% for official use) (2,04,480 x 75%) 1,53,360
WDV as on 31.03.2021 (13,63,200 – 1,53,360) 12,09,840

Note: Since ITC for Motor car is not allowed under GST, GST paid shall be considered to be part of the cost.

**Question 6**

Answer any two of the following three sub-parts.

(a) Mr. Rakesh Gupta has derived the following income/loss, as computed below, for the previous year 2019-20:

- Loss from let out house property 2,50,000
- Loss from non-speculation business 3,20,000
- Income from speculation business 12,45,000
- Loss from specified business covered u/s 35AD 4,10,000
- Winnings from lotteries (Gross) 1,50,000
- Winnings from bettings 90,000
You are required to compute the total income of the assessee for the assessment year 2020-21, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2020.

**Solution:**

**Computation of Gross Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from speculation business</td>
<td>12,45,000</td>
</tr>
<tr>
<td>Less: loss from non - speculation business (section 70)</td>
<td>(3,20,000)</td>
</tr>
<tr>
<td>Less: Loss from house property (section 71)</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Income from Speculation business</td>
<td>7,25,000</td>
</tr>
<tr>
<td>Income under the head other sources</td>
<td></td>
</tr>
<tr>
<td>Income from lotteries</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Income from bettings</td>
<td>90,000</td>
</tr>
<tr>
<td>Income under the head other sources</td>
<td>2,40,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>9,65,000</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>9,65,000</strong></td>
</tr>
</tbody>
</table>

**Note:**

1. As per Section 71, loss from house property shall be allowed to be adjusted from other head income maximum upto ₹2,00,000 and balance amount i.e ₹50,000 shall be carried forward (section 71B) for a maximum period of 8 years and shall be set off from the income under the head house property only.
2. Loss from card games shall not be treated as loss and have no treatment.
3. Income from betting and lotteries 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 any loss be set-off against such income.

**As per section 73A,** loss of specified business can be set off only from profits and gains of any other specified business and carried forward is allowed for unlimited periods and in the subsequent years also, the loss can be set off only from income of specified business.

---

**Question 1**

Mr. Murari, a resident individual, age 48 years provides consultancy services in the field of accountancy. His Income and Expenditure account for the year ended 31st March, 2020 is as follows:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount (₹)</th>
<th>Income</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Salary</td>
<td>3,00,000</td>
<td>By Consulting fees</td>
<td>8,00,000</td>
</tr>
<tr>
<td>To Motor car expenses</td>
<td>58,000</td>
<td>By Share of Profit from HUF</td>
<td>25,000</td>
</tr>
<tr>
<td>To Depreciation</td>
<td>47,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Medical expenses</td>
<td>70,000</td>
<td>By Interest on saving</td>
<td>15,000</td>
</tr>
<tr>
<td>To Purchase of computer</td>
<td>80,000</td>
<td>bank deposits</td>
<td></td>
</tr>
<tr>
<td>To Bonus</td>
<td>10,000</td>
<td>By Interest on income</td>
<td>8,000</td>
</tr>
<tr>
<td>To General expenses</td>
<td>55,000</td>
<td>tax refund</td>
<td></td>
</tr>
<tr>
<td>To Office &amp; administrative</td>
<td>75,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Excess of income over expenditure</td>
<td>1,52,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>8,48,000</strong></td>
<td></td>
<td><strong>8,48,000</strong></td>
</tr>
</tbody>
</table>

The following other information relates to the financial year 2019-2020:
(1) Salary includes a payment of ₹12,000 per month to his brother-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹10,000 per month.

(2) Interest on saving bank deposit belongs to his wife who has deposited the money out of the pocket money given to her every month.

(3) Written down value of the assets as on 1st April, 2019 are as follows:
   - Motor Car (40% used for personal use) ₹2,00,000
   - Furniture and Fittings ₹50,000

(4) Medical expenses includes:
   - Family planning expenditure ₹15,000 incurred for the employees which was revenue in nature.
   - Medical expenses for his father ₹35,000. (Father's age is 65 years)

(5) The computer was purchased on 5th June, 2019 on credit. The total invoice was paid in the following manner:
   - ₹18,000 paid in cash as down payment on the date of purchase.
   - Remaining amount was paid through account payee cheque on 10th August, 2019.

(6) Bonus was paid on 30th September, 2020.

(7) General expenses include commission payment of ₹22,000 to Mr. Sridhar for the promotion of business on 17th September, 2019 without deduction of tax at source.

(8) He also received gold coins from a family friend on the occasion of marriage anniversary on 5th December, 2019. The market value of the coins on the said date was ₹55,000.

Compute the total income and the tax liability of Mr. Murari for the assessment year 2020-2021

**Solution: Computation of Total Income and Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess of Income over expenditure</td>
<td>1,52,500.00</td>
</tr>
<tr>
<td>Add: inadmissible expenses</td>
<td></td>
</tr>
<tr>
<td>Purchase of computer</td>
<td>80,000.00</td>
</tr>
<tr>
<td>Salary to relative in excess of market value section 40A (2) (2,000 x 12)</td>
<td>24,000.00</td>
</tr>
<tr>
<td>Depreciation as per books</td>
<td>47,500.00</td>
</tr>
<tr>
<td>Family planning expenditure on employees</td>
<td>15,000.00</td>
</tr>
<tr>
<td>Medical expense for his father is a personal expenditure</td>
<td>35,000.00</td>
</tr>
<tr>
<td>Bonus being paid to employee after the due date of filing the return (section 43B)</td>
<td>10,000.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Share of Profit from HUF</td>
<td>(25,000.00)</td>
</tr>
<tr>
<td>Interest on saving bank deposits</td>
<td>(15,000.00)</td>
</tr>
<tr>
<td>Interest on Income-tax refund</td>
<td>(8,000.00)</td>
</tr>
<tr>
<td>Depreciation on motor car (₹2,00,000 @ 15% x 60%) (section 32)</td>
<td>(18,000.00)</td>
</tr>
<tr>
<td>Depreciation on computer (₹62,000 @ 40%) (section 32)</td>
<td>(24,800.00)</td>
</tr>
<tr>
<td>Depreciation on furniture (₹50,000 @ 10%) (section 32)</td>
<td>(5,000.00)</td>
</tr>
<tr>
<td>Income under the head Business/profession</td>
<td>2,68,200.00</td>
</tr>
</tbody>
</table>

**Income under the head other sources**

- Gift from friend on anniversary is taxable (section 56) 55,000.00
- Share of profit from HUF is exempt (section 10 (2)) Nil
- Interest from saving bank account (clubbed u/s 64) 15,000.00
- Interest on income tax refund 8,000.00
- Income under the head other sources 78,000.00

Gross Total Income 3,46,200.00

Less: Deduction u/s 80D (Medical expenditure on his father) (35,000.00)
Less: Deduction u/s 80TTA (10,000.00)

Total Income 3,01,200.00
Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹3,01,200 at slab rate</td>
<td>2,560.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>-(2,560.00)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Notes:
1. As per section 36(1)(ix), family planning expenditure is allowed to companies in 5 annual equal instalments. In the given case assessee is an individual hence it is not allowed.
2. As per section 43 payment of capital expenditure made in cash in excess of ₹10,000 shall not be included in cost of the asset.

Question 4(a) Marks 5

Mr. Dheeraj, a resident individual, is a dealer of food grains. During the previous year 2019-2020, total turnover of his business was ₹80 lakhs. (out of which ₹15 lakhs was received in account payee cheques and balance in cash). He estimates similar turnover in the previous year 2020-2021. As suggested by his tax consultant, Mr. Dheeraj wants to opt for computation of profit and gains of business on presumption basis under section 44AD for the previous year 2020-2021.

Guide Mr. Dheeraj relating to the provisions of advance tax with its due date along with the amount payable, if he opts for the above mentioned presumptive taxation.

Solution:

Special provision for computing profits and gains of business on presumptive basis. Section 44AD

1. If any assessee has turnover of his business upto ₹200 lakhs, such assessee is allowed to compute income on presumptive basis and income under the head business/profession shall be presumed to be 8% of the turnover and no further deduction is allowed under section 30 to 38.
2. Such option is allowed only to an Individual/ HUF/ Firm who are resident but not to LLP or Company.
3. Section 44AD is applicable only to business and not to specified profession and also it is not applicable for the persons having earning as commission or brokerage.
4. Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year otherwise interest shall be charged @ 1% for one month on the amount of deposit default.
5. The assessee shall be exempt from maintaining books of accounts or audit.

Rate of 6% shall be applied instead of 8% if the amount of total turnover or gross receipts which is received by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account during the previous year or before the due date specified in subsection (1) of section 139 in respect of that previous year.

As per the above provision, Mr. Dheeraj can opt for presumptive taxation u/s 44AD and 100% of his tax liability shall be payable as advance tax on or before 15th March of the relevant previous year otherwise 1% interest shall be charged for one month on the amount of default.

As per above provision, 8% of turnover shall be considered as business income if payment is received in cash and 6% of turnover is payable in case payment is received in account payee cheque.

Income under the head business/profession

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>8% of 65,00,000</td>
<td>5,20,000</td>
</tr>
<tr>
<td>6% of 15,00,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Income under the head business/profession</td>
<td>6,10,000</td>
</tr>
</tbody>
</table>

Question 4(b) Marks 5

Mr. Sharad, set up a manufacturing unit of detergent powder in notified backward area on 20th April, 2019. He purchased the following machineries (falling under 15% block) during the previous year 2018-2020.

Amount (₹ lakhs)

(i) Machinery A, Machinery B and Machinery C from XYZ Limited on credit. (installed on 20th June, 2019)
(ii) Machinery D from Suyog Limited (installed on 5th September, 2019).
The Invoice was paid through a cash payment on the same day.
(iii) Machinery E from Den Limited (a second hand Machine dealer) in 15th December, 2019
(The payment for the purchase invoice was made through NEFT on 2nd January, 2020)

Solution: Computation of depreciation allowance under section 32

Previous Year 2019-20

Purchased Machinery A, B & C on 20.06.2019                        45,00,000.00
Purchased Machinery E on 16.12.2019                                5,00,000.00
Depreciation @ 7.5% on ₹5,00,000                                    37,500.00
Depreciation @ 15% on ₹45,00,000                                    6,75,000.00
Additional depreciation @ 35% on 45,00,000                          15,75,000.00
Total depreciation allowed u/s 32                                    22,87,500.00

Note:
1. As per section 43, if asset is purchased and payment is made in cash in excess of ₹10,000 then such amount shall not be part of the cost and depreciation shall not be allowed u/s 32.
2. If Asset is put to use for less than 180 days then depreciation shall be allowed at half rate.
3. Additional depreciation shall not be allowed on second hand machinery purchased.
4. As per proviso to section 32(1) (iia), additional depreciation shall be allowed @ 35% if manufacturing unit is setup in backward area.

MAY – 2018 (NEW COURSE)

Question 1  
Mr. Hari, aged 55 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2019-20.

Receipts and Payments Account

<table>
<thead>
<tr>
<th>Receipts</th>
<th>₹</th>
<th>Payments</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balances (01-04-2019)</td>
<td>20,000</td>
<td>Staff salary, bonus and stipend to articled</td>
<td>20,50,000</td>
</tr>
<tr>
<td>Cash &amp; Bank</td>
<td></td>
<td>Clerks</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Fee from professional Services</td>
<td>39,60,000</td>
<td>Office rent</td>
<td>48,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Life insurance premium</td>
<td>23,000</td>
</tr>
<tr>
<td>Motor car loan from SBI @10% interest per annum</td>
<td>2,00,000</td>
<td>Motor car</td>
<td>4,00,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Acquired in January 2020 by way of online</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>payment)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Books bought (annual publication by credit</td>
<td>22,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>card)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Computer acquired on 1-11-2019 for professional</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>use</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Domestic drawings</td>
<td>2,50,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Motor car maintenance</td>
<td>12,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public Provident fund subscription</td>
<td>1,40,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Closing balances (31-03-2020)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash &amp; Bank</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>41,80,000</td>
<td></td>
<td>41,80,000</td>
</tr>
</tbody>
</table>

Other information:
(i) Motor car was put to use for both official and personal purposes. 1/4th of the motor car is for personal. No interest on car loan was paid during the year.
(ii) Mr. Hari purchased a flat in Jaipur for ₹15,00,000 in July 2013 cost of which was partly financed by a loan from State Bank of India of ₹10,00,000 @ 10% interest, his own savings ₹1,00,000
and a deposit from Bank of Baroda for ₹4,00,000 on lease for 10 years @ ₹40,000 per month.

The following particulars are relevant:

(a) Municipal taxes paid by Mr. Hari ₹4,200 per annum
(b) House insurance ₹1,000

(iii) He earned ₹1,00,000 in share speculation business and lost ₹1,50,000 in commodity speculation business.

(iv) Mr. Hari received a gift of ₹15,000 each from four of his family friends.

(v) He contributed ₹1,11,000 to Prime Minister’s Draught Relief Fund by way of bank draft.

(vi) He donated to a registered political party ₹3,00,000 by way of cheque.

Compute the total income of Mr. Hari and the tax payable for the assessment year 2020-21.

Solution:

Computation of income from profession

Gross receipts:

Fee from Professional Service 39,60,000.00

Payments:

Salary, bonus and Stipend (20,50,000.00)
Other general and administrative expenses (12,00,000.00)
Office rent (48,000.00)
Depreciation on Books @ 40% (22,000 x 40%) (8,800.00)
Motor car maintenance (12,000 x ¾) (9,000.00)
Depreciation on car @ 15% (4,00,000 x 15%/2 x ¾) (22,500.00)
Depreciation on computer @ 40% (25,000 x 40%/2 ) (5,000.00)
Income from profession 6,16,700.00

Computation of income from house property

Gross Annual Value 4,80,000.00
Less: Municipal Tax (4,200.00)
Net Annual Value 4,75,800.00
Less: 30% of NAV u/s 24(a) (1,42,740.00)
Less: Interest on capital borrowed u/s 24(b) (10,00,000 x 10%) (1,00,000.00)
Income from house property 2,33,060.00

Income from Other Sources
Gift received from friends (15,000 x 4) u/s 56(2) 60,000.00

Computation of Total Income

Income from profession 6,16,700.00
Income from house property 2,33,060.00
Income from other sources 60,000.00
Gross total income 9,09,760.00
Less: Deduction u/s 80C – LIC 23,000
PPF 1,40,000 1,63,000 restricted to 1,50,000 (1,50,000.00)
Less: Deduction u/s 80G – PMDRF @ 50% (1,11,000 x 50%) (55,500.00)
Less: Deduction u/s 80GGC (3,00,000.00)
Total Income 4,04,260.00

Computation of Tax Liability
Tax on ₹4,04,260 at slab rate 7,713.00
Less: Rebate u/s 87A (7,713.00)
Tax Liability Nil
Note:
1. Date of Purchase of books is not mentioned in question hence full year depreciation is allowed.
2. Speculation loss of 50,000 (1,50,000 – 1,00,000) shall be carried forward for next year.

**MAY – 2018 (OLD COURSE)**

Mr. Querashi is a business man. During the year ended 31-03-2020 he was engaged in the business of Hypermarket and Super Market. He maintains proper books of accounts for both businesses in mercantile system. Sales from Hypermarket achieved a turnover of `75 lakhs and all receipts were in cash. However, Supermarket business is through online and entire receipts of `50 lakhs during the year were received through online in his bank account. The expenses were incurred in ratio 65:35.

Following additional information is furnished

<table>
<thead>
<tr>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>To salary                                      10,00,000</td>
</tr>
<tr>
<td>To repairs on building                         1,81,000</td>
</tr>
<tr>
<td>To Interest                                     1,10,000</td>
</tr>
<tr>
<td>To Travelling                                   1,30,550</td>
</tr>
<tr>
<td>To depreciation                                 8,12,000</td>
</tr>
<tr>
<td>Net profit                                      3,93,950</td>
</tr>
</tbody>
</table>

(a) In addition to the above, repairs of `1,00,000 was incurred for building anew room which was debited to P & L a/c.
(b) Depreciation as per income tax Act is `7,17,000.
(c) `75,000 was paid in cash on 30-09-19 to Mrs. Ann, accountant for preparation of the accounts for the year ended 31-03-2019 and adjusted under the head “expenses payable” account.
(d) He was forced to shutdown his furniture business in the year 2016 as his accountant absconded business loss of furniture business is `3 lakhs. `4 lakhs was received as insurance compensation on 31-03-2020 for the cash theft.

Mr. Querashi wants to declare income under “Presumptive income” basis.

Compute the income chargeable under the head profits and gains of business or profession of Mr. Querashi under Presumptive Income scheme under section 44AD and his Total Income for the year ended 31-03-2020.

**Solution:**

As per section 44AD, If any assessee has turnover of his business **upto ₹200 lakhs**, such assessee is allowed to compute income on presumptive basis and income under the head business/profession shall be presumed to be **8% of the turnover** and no further deduction is allowed under section 30 to 38. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.

Rate of 6% shall be applied instead of 8% if the amount of total turnover or gross receipts which is received by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account during the previous year.

**Computation of Total Income**

<table>
<thead>
<tr>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales from Hyper Market in cash                   75,00,000</td>
</tr>
<tr>
<td>Presumptive Income u/s 44AD (8% of 75,00,000)     6,00,000</td>
</tr>
<tr>
<td>Sales from Super Market online                    50,00,000</td>
</tr>
<tr>
<td>Presumptive Income u/s 44AD (6% of 50,00,000)     3,00,000</td>
</tr>
<tr>
<td>Income under the head Business Profession         9,00,000</td>
</tr>
<tr>
<td>Insurance compensation received section 41(1)     4,00,000</td>
</tr>
<tr>
<td>Less: B/F business loss section 72                (3,00,000)</td>
</tr>
<tr>
<td>Income under the head Business Profession         10,00,000</td>
</tr>
<tr>
<td>Gross Total Income                                10,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U                    Nil</td>
</tr>
<tr>
<td>Total Income                                      10,00,000</td>
</tr>
</tbody>
</table>
Question 1 (10 Marks)
Mr. Pandey, a resident individual, aged 45 years, is a Chartered Accountant in practice. He maintains his accounts on cash basis. His profit & Loss Account for the year ended 31\textsuperscript{st} March, 2020 is as follows:

### Profit & Loss Account for the year ending March 31, 2020

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount (₹)</th>
<th>Income</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff salary</td>
<td>18,25,000</td>
<td>Fees earned</td>
<td>43,00,000</td>
</tr>
<tr>
<td>Rent of the office</td>
<td>6,00,000</td>
<td>Audit</td>
<td>34,50,000</td>
</tr>
<tr>
<td>Premises</td>
<td>5,75,000</td>
<td>Consultancy services</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>1,85,000</td>
<td>relating to syndication of</td>
<td></td>
</tr>
<tr>
<td>Stipend to Articled clerks</td>
<td>36,500</td>
<td>loan from financial</td>
<td></td>
</tr>
<tr>
<td>Meetings, seminars and conferences</td>
<td>55,000</td>
<td>institution</td>
<td>87,50,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>8,75,000</td>
<td>Gifts</td>
<td></td>
</tr>
<tr>
<td>Printing and Stationery</td>
<td>59,13,500</td>
<td>Dividends from Indian companies</td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>1,00,65,000</td>
<td>Interest on deposit</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>certificates issued under</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gold Monetization Scheme, 2015</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Other Information:                |            |                                  |            |
| (1) Depreciation allowable under Income-Tax Act ₹1,25,000. |
| (2) Administrative expenses include ₹55,000 paid to a tax consultant in cash for assisting Mr. Pandey in one of the professional assignments. |
| (3) Gifts represent fair market value of a LED TV which was given by one of the clients for successful presentation of case in the Income Tax Appellate Tribunal. |
| (4) Last month’s rent of ₹50,000 was paid without deduction of tax at source. |
| (5) Mr. Pandey had taken a loan of ₹32,00,000 for the purchase of a house property valuing ₹45,00,000 from a recognized financial institution on 1\textsuperscript{st} May, 2019. He repaid ₹1,50,000 on 31\textsuperscript{st} March, 2020 out of which ₹1,00,000 is towards principal payment and the balance is for interest on loan. The possession of the property will be handed over to him in October 2020. |
| (6) Mr. Pandey paid medical insurance premium of his parents (senior citizens and not dependent on him) by cheque amounting to ₹27,000. He also paid ₹8,500 by cash towards preventive health checkup for himself and his spouse. |

Compute the total income of Mr. Pandey and tax payable by him for Assessment Year 2020-21.

### Solution:
Income under the head Business/Profession
Net Profit as per profit and loss account 59,13,500
Add: Expenses disallowable
Depreciation as per books of accounts 55,000
Administrative expense paid in cash in excess of ₹ 10,000 section 40A (3) 55,000
Rent Paid without deduction of TDS Section 40(a)(ia) (Disallowed 30%) 15,000
(assumed Mr. Pandey is liable to deduct TDS)

Less: Expenses allowable/ Income considered in separate head etc.
Dividends 12,00,000
Interest on deposit certificate issued under Gold Monetization scheme 15,000
Income Under The Head Business/Profession

Depreciation as per Income Tax Act  
Income under the head Business/Profession  
Income under the head other sources  
Dividend Income (12,00,000 -10,00,000) as per section 115BBDA  
Interest on deposit certificate issued under Gold Monetization scheme  
Income under the head other sources  

Total Income  
Income under the head Business/Profession  
Income under the head other sources  
Gross Total Income  
Less: Deduction u/s 80D  
Medical Insurance of Parents  
PHC of himself limited to ₹ 5,000  
Total Income  

Computation of Tax Liability  
₹ 2,00,000 @ 10% u/s 115BBDA  
Tax on ₹ 46,66,500 at slab rate  
Tax before health & education cess  
Add: HEC @ 4%  
Tax Liability/Tax Payable  
Rounded off u/s 288B  

Notes:  
1. Deduction u/s 80C is not allowed for repayment of loan as the possession of property will be handed over in next year.  
2. Deduction of payment made in cash for PHC is allowed u/s 80D.  
3. Gift received from Client shall be considered as Professional Income as per section 28.  
4. Interest income from certificate issued under Gold Monetization scheme is exempt u/s 10(15).  
5. Dividend from Indian Company is exempt u/s 10(34) but to the extent of ₹10,00,000.

Question 5(a)(ii)  
Mr. S is engaged in the business of producing and selling toys. During the previous year 2019-2 his turnover was ₹1.80 crores. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during the previous year. Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax?  

Answer:  
As per section 211, An assessee who declares income under section 44AD, 100% Advance tax shall be paid on or before 15th March of the financial year.  
Yes Mr. Subramany is liable to pay 100% advance tax and should be paid upto 15th March 2020.

Income under the head business/profession  
As per section 44AD, 8% of Turnover shall be considered to be business income.  
8% x 1,80,00,000  

Computation of Tax Liability  
Tax on ₹ 14,40,000 at slab rate  
Add: HEC @ 4%  
Tax Liability/Tax Payable  
Advance Tax Payable before 15th March 2020
Question 6.(a)  
Mr. Prakash furnishes you the following details in respect of the Financial Year 2019-20.
(i) Loss from the business carried on by him as a proprietor: ₹11,20,000
(ii) Unabsorbed Depreciation: ₹4,80,000
(iii) Loss from House Property: ₹2,50,000
The due date for filing the return for Mr. Prakash was 31st July, 2020 under section 139(1). However, he filed the return on 29.9.2020. Discuss with reference to the relevant provisions of Income-Tax Act, 1961 if the losses could be carried forward by Mr. Prakash.

Answer:
In general unadjusted losses are allowed to be carried forward but as per section 139(3), the return of loss has to be filed further as per section 80 it should be filed in time otherwise carry forward is not allowed. In the given case return is filed after the due date hence carry forward of losses is not allowed. Section 139(3) do not cover loss from house property and also unabsorbed depreciation, hence carry forward of HP loss and Depreciation is allowed. As per section 71B, Loss of House property is allowed to be carried forward for a period of 8 years. As per section 32(2), Carry forward of unabsorbed depreciation shall be allowed for unlimited period.

Losses/Depreciation could be carried forward shall be as given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss from House Property</td>
<td>₹2,50,000</td>
</tr>
<tr>
<td>Unabsorbed Depreciation</td>
<td>₹4,80,000</td>
</tr>
</tbody>
</table>

MAY – 2017

Question 1(a)  
Ms. Rekha a resident individual aged 50, provides the following information for the financial year 2019-20:
(i) She is a partner in AK & CO. and received the following amounts from the firm:
   - Share of profit from the firm: ₹35,000
   - Interest on capital @ 15% p.a.: ₹3,00,000
   - Salary as working partner: ₹1,00,000
   (fully allowed in the hands of the firm)
(ii) She is running a rice mill as proprietor. The Net profit as per Profit & Loss Account is 4,50,000.
   - The following items are debited to Profit and Loss account:
     - Advance Income-tax paid: ₹1,00,000
     - Personal drawings: ₹50,000
   - The following items are credited to Profit & Loss Account:
     - Interest on savings bank account with SBI: ₹12,000
     - Interest on savings account with post office: ₹5,000
     - Dividend from listed Indian Company (DDT): ₹80,000
(iii) She owned a house property in Mumbai which was sold in January, 2018. She received ₹90,000 by way of arrear rent in respect of the said property in October, 2019.
(iv) She made the following investments:
   - Life insurance premium on a policy in the name of her daughter: ₹60,000. (The policy was taken on 1-10-2014 sum assured being ₹5,00,000).
   - Health insurance premium on a policy covering her mother aged 75. She is not dependant on Ms. Rekha. Premium paid by cheque ₹35,000.

Compute the Total Income and the tax liability of Ms. Rekha for the Assessment year 2020-21.

Solution:

**Computation of Total Income of Ms. Rekha for the A.Y.2020-21**

**Income under the head Business Profession**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of Profit from Partnership Firm (Exempt u/s 10(2A))</td>
<td>Nil</td>
</tr>
<tr>
<td>Interest on capital (3,00,000 x 12%/15%)</td>
<td>2,40,000</td>
</tr>
<tr>
<td>Salary from Partnership firm</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Net Profit as per Profit and loss Account</td>
<td>4,50,000</td>
</tr>
<tr>
<td>Add: Income Tax Paid</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Add: Personal Drawings</td>
<td>50,000</td>
</tr>
</tbody>
</table>
Less: Interest on saving bank account with SBI (12,000)
Less: Interest on saving bank account with Post Office (5,000)
Less: Dividend from Indian Company (80,000)
Income from Rice Mill 5,03,000
**Income under the head Business Profession** 8,43,000

**Income under the head other Sources**
- Interest on saving bank account with SBI 12,000
- Interest on saving bank account with Post Office 5,000
- Less: Exempt u/s 10(15) (3,500)
- Interest on saving bank account with Post Office 1,500
- Dividend from Indian Company (Exempt u/s 10(34)) Nil
**Income under the head other Sources** 13,500

Income under the head House Property
- Arrear of Rent Section 25A 90,000
- Less: 30% (27,000)
**Income under the head House Property** 63,000

Gross Total Income 9,19,500
Less: Deduction u/s 80C
- For life Insurance of married daughter (10% of 5,00,000) (50,000)
- Less: Deduction u/s 80D
- For health Insurance of mother (35,000)
- Less: Deduction u/s 80TTA
- For Interest on saving account (10,000)
Total Income 8,24,500

**Computation of Tax Liability**
Total Income 8,24,500
Tax on ₹8,24,500 at slab rate 77,400
Add: HEC @ 4% 3,096
Tax Liability 80,496
Rounded off u/s 288B 81,500

Notes:
1. As per section 40(b) Interest is allowed to the partner’s maximum at a rate of 12% p.a.
2. Interest from post office savings bank account is exempt upto ₹3500.
3. Arrears of rent shall be taxable under the head house property even if the assessee donot have any house property in his name.
4. If life policy is taken w.e.f. 1st April 2012 onwards, deduction is allowed maximum @ 10% of sum assured.
5. As per section 80D, maximum deduction allowed for senior citizen shall be ₹ 30,000.

**Question 1(a)**
Mr. X, a resident individual aged 35 years, furnished the following information from his Profit and Loss Account for the year ended 31st March 2020:
(i) The net profit was ₹6,50,000.
(ii) The following incomes were credited in the Profit & Loss Account:
   (a) Interest on government securities ₹25,000
   (b) Dividend from a foreign company ₹18,000
   (c) Gold coins worth ₹55,000 received as gift from his father.
(iii) Depreciation debited in the books of account was ₹85,000. Depreciation allowed as per Income-tax Act, 1961 was ₹96,000.

(iv) Interest on loan amounting to ₹68,000 was paid in respect of capital borrowed for the purchase of the new asset which has not been put to use till 31st March 2020.

(v) General expenses included:
   (a) An expenditure of ₹20,500 which was paid by a bearer cheque.
   (b) Compensation of ₹4,500 paid to an employee while terminating his services in business unit.

He contributed the following amounts by cheque:
   (a) ₹45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.
   (b) ₹20,000 to the Swachh Bharat Kosh set up by the Central Government.
   (c) ₹28,000 towards premium for health insurance and ₹2,500 on account of preventive health check up for self and his wife.
   (d) ₹30,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

You are required to compute the total income of Mr. X for the Assessment Year 2020-21.

Solution:

<table>
<thead>
<tr>
<th>Income under the head business/profession</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit as per profit and loss account</td>
<td>6,50,000</td>
</tr>
</tbody>
</table>

Less:
- Interest on Govt. Securities            (25,000.00)
- Dividend from foreign company           (18,000.00)
- Gold received as gift                   (55,000.00)
- Depreciation allowed as per income tax  (96,000.00)

Add:
- Depreciation allowed as per income tax  85,000.00
- Interest on Loan to be capitalised      68,000.00
- Expenditure paid in bearer cheque exceeding ₹10,000  Section 40A(3)  (20,500.00)

Income under the head business/profession  6,29,500.00

Income under the head other sources
- Interest on Govt. Securities             25,000.00
- Dividend from foreign company           18,000.00
- Gold received as gift exempt (Received from Relative) Nil
- Income under the head Other Sources     43,000.00

Gross Total Income  6,72,500.00

Less: Deduction u/s 80C - Sukanya Samridhi Scheme  (45,000.00)
Less: Deduction u/s 80D (₹25,000+30,000)        (55,000.00)
Less: Deduction u/s 80G - Swachh Bharat Kosh    (20,000.00)

Total Income  5,52,500.00

Note:
1. Dividend received from domestic company is exempt from Income tax but dividend received from foreign company is taxable.
2. Payment of Interest on loan taken for purchase of new asset from the date of purchase till the date of put to use shall not be allowed as deduction rather it shall be capitalized.

MAY – 2016

Question 5(a) (8 Marks)

Venus Ltd., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai (for the year ending 31.03.2020):

<table>
<thead>
<tr>
<th>₹ in lacs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening WDV of Plant and Machinery 20</td>
</tr>
<tr>
<td>New machinery purchased on 01.09.2019 10</td>
</tr>
<tr>
<td>New car purchased on 01.12.2019 8</td>
</tr>
</tbody>
</table>
Computer purchased on 03.01.2020

Additional information:
- All assets were put to use immediately.
- Computer has been installed in the office.
- During the year ended 31.03.2019, a new machinery had been purchased on 05.10.2018, for ₹10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31.03.2020.

Solution: Computation of depreciation allowable for A.Y. 2020-21

<table>
<thead>
<tr>
<th>Block of Assets</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block 1: Plant – rate 40%</td>
<td></td>
</tr>
<tr>
<td>Computer</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Less: depreciation 4,00,000 @ 40% x 1/2</td>
<td>(80,000)</td>
</tr>
<tr>
<td>Wdv as on 31.03.2020</td>
<td>3,20,000</td>
</tr>
</tbody>
</table>

| Block 2: Plant & Machinery – rate 15% | |
| Opening WDV of the block | 20,00,000 |
| Add: Machinery purchased on 01.09.2019 | 10,00,000 |
| Less: depreciation 30,00,000 @ 15% | (4,50,000) |
| Less: additional depreciation 10,00,000 @ 20% | (2,00,000) |
| Less: additional depreciation 10,00,000 @ 10% | (1,00,000) |
| Wdv as on 31.03.2020 | 22,50,000 |

| Block 3: Motor Car – rate 15% | |
| Opening WDV of the block | Nil |
| Add: Car purchased on 01.12.2019 | 8,00,000 |
| Less: depreciation 8,00,000 @ 15% x 1/2 | (60,000) |
| Wdv as on 31.03.2020 | 7,40,000 |

Note:
1. If asset is used for less than 180 days then depreciation shall be allowed at half of the normal rate
2. If asset is put to use for less than 180 days then additional depreciation is allowed at half of the normal rate in the year of purchase and balance shall be allowed in the subsequent year.
3. Additional depreciation shall not be allowed on any machinery installed in office and road transport vehicles.

Question 6(a) (8 Marks)
Mr. Aditya furnishes the following details for year ended 31.03.2020.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss from speculative business A</td>
<td>25,000</td>
</tr>
<tr>
<td>Income from speculative business B</td>
<td>5,000</td>
</tr>
<tr>
<td>Loss from specified business covered under section 35AD</td>
<td>20,000</td>
</tr>
<tr>
<td>Net Income from salary</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Loss from house property</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Income from Trading Business</td>
<td>45,000</td>
</tr>
<tr>
<td>Long term capital gain on sale of urban land</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Long term capital loss on sale of shares (STT not paid)</td>
<td>(75,000)</td>
</tr>
</tbody>
</table>

Following are the brought forward losses:
1. (1) Losses from owning and maintaining race horses pertaining to A.Y. 2019-20 ₹2,000.
2. (2) Brought forward loss from trading business ₹5,000 relating to A.Y. 2016-17.

Compute the total income of Mr. Aditya and show the items eligible for carry forward.

Solution: Calculation of Total Income of Mr. Aditya for the Assessment Year 2020-21

Income under the head Business/Profession

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from Business</td>
<td>45,000</td>
</tr>
<tr>
<td>Less: Loss Brought forward from business</td>
<td>(5,000)</td>
</tr>
</tbody>
</table>
Questions 5(a)

(i) Construction of school building in compliance with CSR activities amounting to ₹5,60,000.
(ii) Purchase of building for setting up a warehousing facility for storage of food grains amounting to ₹4,50,000.
(iii) Interest on loan paid to Mr. X (a resident) ₹50,000 on which tax has not been deducted.
(iv) Commodity transaction tax paid ₹20,000 on sale of bullion.

Solution 5(a):

(i) Any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession.

(ii) As per section 35AD, assessee shall be allowed to debit 100% of the expenditure incurred in connection with warehousing facility or agricultural produce hence assessee shall be allowed to debit 4.5 lakhs x 100% = 4.5 lakh.

(iii) Payment of Interest is subject to TDS. Since no tax is deducted at source, the expenditure of ₹15,000 (i.e. 30% of ₹50,000) is disallowed under section 40(a) and balance 70% is allowed.

(iv) An amount equal to commodity transaction tax paid by the assessee shall be allowable as deduction, under section 36(1)(xvi), if the income arising from taxable commodities transactions is included in the income computed under the head “Profits and gains of business or profession”. In the given case, MN Limited, is entitled to claim deduction in respect of commodity transaction tax of ₹ 20,000 paid by him.

Question 1(a)

Dr. Shashank is a noted child specialist of Mumbai. His Income and Expenditure account for the financial year ended 31.03.2020 is given below:

| Income from Business | 40,000 |
| Income from speculative business B | 5,000 |
| Less: Loss from speculative business A | (5,000) |
| Income from speculative business | Nil |
| Income under the head Business/Profession | 40,000 |

| Income under the head Salary |
| Salary | 2,50,000 |
| Less: Loss from house property | (1,50,000) |
| Income under the head Salary after set off | 1,00,000 |

| Income under the head Capital Gains |
| Long Term Capital Gains | 2,00,000 |
| Less: Long term loss | (75,000) |
| Income under the head Capital Gains | 1,25,000 |

Gross Total Income | 2,65,000 |

Less: Deduction u/s 80C to 80U | Nil |

Total Income | 2,65,000 |

Items eligible for carry forward

- Loss from speculative business A of A.Y. 2020-21 ₹20,000 to be carried forward for 4 years starting from assessment year 2021-22.
- Loss from specified business covered u/s 35AD of A.Y. 2020-21 ₹20,000 to be carried forward starting from assessment year 2021-22.
- Losses from owning and maintaining race horses pertaining to A.Y. 2019-20 ₹2,000 shall be carried forward.
Expenditure | Amount (₹) | Income | Amount (₹)  
---|---|---|---
To Staff salary | 2,78,000 | By Fee receipts | 16,76,000  
To Administrative expenses | 1,64,000 | By Winning at TV game show (Net of TDS) | 35,000  
To Medicine consumed | 3,95,800 | By LIC policy matured | 1,15,000  
To Consumables | 57,500 | By Honorarium for giving lectures at seminars | 24,000  
To Depreciation | 1,25,000 | |  
To Rent of clinic | 1,20,000 | |  
To Donation to National Children's Fund | 51,000 | |  
To Net Profit | 6,58,700 | |  
Total | 18,50,000 | Total | 18,50,000  

(1) Depreciation computed as per Income Tax Rules, 1962 has been ascertained at ₹75,000.
(2) Medicines consumed include cost of medicine for self and family of ₹18,000 and for treating poor patients of ₹24,000 from whom he did not charged any fee either.
(3) Salary includes ₹30,000 paid in cash to a computer specialist who computerized his patient’s data on 30th September, 2019 at 3 p.m.
(4) Donation to National Children’s Fund has been made by way of an account payee cheque.
(5) He has paid a sum of ₹25,000 for a life insurance policy (sum assured ₹2,00,000) of himself, which was taken on 01.07.2019.
(6) He also contributed ₹1,20,000 towards Public Provident Fund.
(7) Dr. Shashank also paid interest of ₹10,000 on loan taken for higher education of his daughter.
(8) Dr. Shashank paid Medical Insurance Premium by cheque of ₹25,000.
(9) Dr. Shashank also made donation of ₹1,00,000 by cheque to a charitable trust registered & eligible for deduction under Income Tax Act, 1961.
Dr. Shashank has not opted for presumptive taxation of Income u/s 44ADA. You are required to compute the total income and tax payable by Dr. Shashank for the assessment year 2020-21.

**Solution: Computation of Total Income of Dr. Shashank for A.Y. 2020-21**

**Income from profession**

Net profit as per Income and Expenditure account | 6,58,700  
Less : 
LIC policy matured | (1,15,000)  
Honorarium for giving lectures at seminars | (24,000)  
Winning at TV game show (net of TDS) | (35,000)  
Depreciation as per income tax rules | (75,000)  
Add: 
Donation to National Children's Fund | 51,000  
Depreciation | 1,25,000  
Medicine Consumed for self & Family | 18,000  
Salary Paid in cash disallowed u/s 40A(3) | 30,000  
Income under the head Business/Profession | 6,33,700  

**Income from other sources**

LIC policy matured Exempt u/s 10(10D) | Nil  
Honorarium for giving lectures at seminars | 24,000  
Winning at TV game show (₹35,000 + ₹15,000) | 50,000  
Income under the head Other Sources | 74,000  

**Gross Total Income** | 7,07,700  
Less: Deductions under Chapter VI A 
Deduction under section 80C |  
Premium of Life Insurance Policy (10% of sum assured i.e. 10% x 2,00,000) | (20,000)  
Contribution towards PPF | (1,20,000)  

**To Net Profit** | 6,58,700  
 **Total** | 18,50,000  

---

To Staff salary 2,78,000
To Administrative expenses 1,64,000
To Medicine consumed 3,95,800
To Consumables 57,500
To Depreciation 1,25,000
To Rent of clinic 1,20,000
To Donation to National Children's Fund 51,000
To Net Profit 6,58,700

Total 18,50,000

Total 18,50,000
Deduction under section 80D (25,000)
Deduction under section 80E (10,000)
Interest on loan taken for higher education is deductible
Less: Deduction u/s 80G (51,000)
(ii) Charitable trust (26,635)

Working Note:
Charitable trust 1,00,000
AGTI = GTI – Deduction u/s 80C to 80U (except 80G)
= 7,07,700 – 1,40,000 – 25,000 – 10,000
= 5,32,700
Qualifying amount = 10% of AGTI or donation whichever is less
= 53,270 or 1,00,000 whichever is less
= 53,270
50% of the qualifying amount = 26,635

Total Income 4,55,065
Rounded off u/s 288A 4,55,070

Computation of Tax Liability
Tax on ₹50,000 @ 30% u/s 115BB 15,000.00
Tax on normal income ₹4,05,070 7,753.50
Less: Rebate u/s 87A (12,500.00)
Tax before health & education cess 10,253.50
Add: HEC @ 4% 410.14
Tax Liability 10,663.64
Less: TDS (15,000.00)
Tax Refund (4,336.36)
Rounded off u/s 288B (4,340.00)

Note: Winnings from Lottery should be grossed up for the chargeability under the head “Income from other sources” (₹35,000 + ₹15,000). Thereafter, while computing tax liability, TDS of ₹15,000 should be deducted to arrive at the tax payable. Winnings from lottery are subject to tax @ 30% as per section 115BB.

Question 1(a). (10 Marks)
Mr. X an Indian Resident aged 38 years carries on his own business. He has prepared following Profit & Loss A/c for the year ending 31.03.2020:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>48,000</td>
<td>Gross Profit</td>
<td>4,30,400</td>
</tr>
<tr>
<td>Advertisement</td>
<td>24,000</td>
<td>Cash Gift (on the occasion of Marriage)</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Sundry Expenses</td>
<td>54,500</td>
<td>Interest on Debentures (Listed in recognised stock Exchange) Net of Taxes</td>
<td>5,400</td>
</tr>
<tr>
<td>Fire Insurance (₹10,000 relates to House Property)</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax</td>
<td>27,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household expenses</td>
<td>42,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation (Allowable)</td>
<td>23,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to a University approved and notified U/s. 35(1)(ii)</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal taxes paid for House property</td>
<td>36,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing &amp; Stationary</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Repairs &amp; Maintenance</th>
<th>24,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>1,34,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,55,800</strong></td>
</tr>
</tbody>
</table>

Other information:
(i) Mr. X owns a House Property which is being used by him for the following purposes:
- 25% of the property for own business
- 25% of the property for self-residence
- 50% let out for Residential purpose
(ii) Rent received from 50% let out portion during the year was ₹1,65,000.
(iii) On 01.12.2019 he acquired a vacant site from his friend for ₹1,05,000. The State Stamp Valuation Authority fixed the value of the site at ₹2,80,000 for stamp duty purpose.
(iv) He received interest on Post office Savings bank Account amounting to ₹500
(v) Cash gift on the occasion of marriage includes gift of ₹20,000 from Non-relatives.
(vi) LIC premium paid (Policy value ₹3,00,000 taken on 01.06.2019) ₹60,000 for his handicapped son who is not dependant on Mr. X.
(vii) He purchased 10000 shares of X Company Ltd on 01.01.2015 for ₹1,00,000 and received a 1 : 1 bonus on 01.01.2015. He sold 5000 bonus shares in September 2019 for ₹2,20,000. (Shares are not listed and STT not Paid).

Compute Total Income and Net Tax payable by Mr. X for the Assessment Year 2020-21.

**Solution:**

**Computation of total income of Mr. X**

₹

- Net profits as per profit and loss account: 1,34,000

**Add: Inadmissible Expenses**

- Fire Insurance: 7,500
- Income Tax: 27,000
- Household expenses: 42,500
- Municipal taxes paid for House property: 27,000

**Less:**

- Cash Gift (on the occasion of Marriage): (1,20,000)
- Interest on Debentures (Listed in recognised stock Exchange): (5,400)
- Contribution to a University approved and notified u/s. 35(1)(ii) (allowed 1.50 times): (50,000)

Income under the head Business/Profession: 62,600

**Income under the head House Property**

- Gross annual value: 1,65,000
- Less: municipal taxes: (18,000)
- Net annual value: 1,47,000
- Less: Deduction u/s 24(a) @ 30% of NAV: (44,100)
- Less: Interest on capital borrowed u/s 24(b): Nil
- Income from house property: 1,02,900

**Income from Capital Gains** (Long Term Capital Gains on shares): 2,20,000

**Income under the head Other Sources**

- Cash Gift (on the occasion of Marriage): Nil
- Interest on Debentures (Listed in recognised stock Exchange): 6,000
- Interest on post office saving account (exempt u/s 10(15)): Nil
- Acquired vacant site (2,80,000-1,05,000): 1,75,000
- Income under the head Other Sources: 1,81,000
- Gross Total Income: 5,66,500
- Less: Deduction u/s 80C (15% of 3,00,000): (45,000)
- Total Income: 5,21,500

**Computation of Tax Liability**

- Tax on Long term capital gain ₹2,20,000 @ 20%: 44,000.00
- Tax on normal income ₹3,01,500 at slab rate: 2,575.00
- Tax before health & education cess: 46,575.00
- Add: HEC @ 4%: 1,863.00
Question 1(a). (10 Marks)
The following is the Profit and Loss Account of Mr. X, aged 58 years, a resident, for the year ended 31.03.2020:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>60,000</td>
<td>Gross Profit</td>
<td>5,85,000</td>
</tr>
<tr>
<td>Repair of car</td>
<td>3,000</td>
<td>Gift of cash from a friend (received on 15.09.2019)</td>
<td>25,000</td>
</tr>
<tr>
<td>Medical expenses</td>
<td>4,500</td>
<td>Sale of car</td>
<td>17,000</td>
</tr>
<tr>
<td>Salary</td>
<td>18,000</td>
<td>Interest on income-tax refund</td>
<td>3,000</td>
</tr>
<tr>
<td>Depreciation on car</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advance income-tax</td>
<td>6,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>5,35,000</td>
<td></td>
<td>6,30,000</td>
</tr>
</tbody>
</table>

Other information:
1. Mr. X bought a car during the year for ₹ 20,000. He charged depreciation @ 15% on the value of the car. The above car was sold during the year for ₹ 17,000. The use of the car was 3/4th for business and 1/4th for personal use.
2. Medical expenses were incurred for the treatment of Mrs. X.
3. Salary had been paid on account of car driver.
4. Mr. X had also let out a house property at a monthly rent of ₹ 25,000. The expected rent is considered to be ₹2,50,000. The municipal taxes are ₹6,000, out of which ₹3,000 are paid by the tenant and ₹3,000 are yet to be paid by Mr. X. Interest on loan taken for the house property is ₹20,000.
5. Mr. X’s minor daughter received ₹75,000 from stage acting. Interest on company deposits of Mr. X’s daughter (deposit was made out of income from stage acting) was ₹10,000.
6. Mr. X incurred an expense of ₹50,000 on the medical treatment of his dependant son, who is suffering from severe disability.
7. Mr. X had taken a loan during the year 2019-20 for the education of his son, from a notified organization and his son is pursuing B.Com. in Delhi University. Interest paid on the same during the year was ₹10,000.

Compute the total income and tax liability of Mr. X for the assessment year 2020-21.

Solution:
Income from house property

<table>
<thead>
<tr>
<th>Gross Annual Value (Higher of Actual Rent and expected rent)</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Rent (₹ 25,000 × 12)</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Expected rent</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Less: Municipal taxes</td>
<td>Nil</td>
</tr>
<tr>
<td>Net Annual Value (NAV)</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Less: Deductions under section 24</td>
<td></td>
</tr>
<tr>
<td>(a) 30% of NAV</td>
<td>90,000</td>
</tr>
<tr>
<td>(b) Interest on loan</td>
<td>20,000</td>
</tr>
<tr>
<td>Income from house property</td>
<td>1,90,000</td>
</tr>
</tbody>
</table>

Profits and gains of business or profession

Net Profit as per profit and loss account                   | 5,35,000 |
Add: Expenses disallowed:
Advance income-tax                                           | 6,500 |
Depreciation on car
Medical expenses of wife
Driver’s salary (¼th being for personal use)
Repair of car (¼th being for personal use)

Less:
Cash gift from friend
Sale of car
Interest on income-tax refund
Profits and gains of business or profession

The transaction of purchase and sale of motor car during the year would result in a short-term capital loss to be carried forward for set-off against capital gains of the subsequent year.

Income from other sources
Interest on income-tax refund
Interest on company deposits accruing to Mr. X’s minor daughter
Less: Exempt under section 10(32)
Income from other sources

Gross Total Income
Under section 80DD
Under section 80E - Interest on loan for higher education of son

Total Income

Computation of Tax Liability
Tax on ₹7,10,750 at slab rate
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B

Note: Income received by Mr. X’s minor daughter from stage acting is not includible in the income of Mr. X, since the income has been earned by her on account of her special talent. However, interest on company deposits is includible in Mr. X’s income as per section 64(1A), even though the deposit was made out of income derived from special talent.

MAY – 2013

Question 1(a). (10 Marks)
Mrs. X, a resident aged 50 years, is running an acupuncture clinic. Her Income and Expenditure Account and other relevant information for the year ending 31st March, 2020 are given below:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Staff Salary</td>
<td>2,40,000</td>
<td>By Fees receipts</td>
<td>10,00,000</td>
</tr>
<tr>
<td>To Clinic rent</td>
<td>1,20,000</td>
<td>By Dividend from Indian Companies</td>
<td>10,500</td>
</tr>
<tr>
<td>To Medicines and needles</td>
<td>1,05,000</td>
<td>By Winning from Lotteries</td>
<td>7,000</td>
</tr>
<tr>
<td>To Depreciation</td>
<td>81,000</td>
<td>By Income-tax Refund</td>
<td>1,750</td>
</tr>
<tr>
<td>To Administrative expenses</td>
<td>1,52,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Donation to Prime Minister’s</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Relief Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Excess of Income over Expenditure</td>
<td>3,01,250</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10,19,250                             | 10,19,250|

(i) Depreciation in respect of all assets has been ascertained at ₹60,000 as per Income-tax rules.
(ii) Medicines & needles of ₹22,000 have been used for her family.
(iii) Fees Receipts include ₹24,000 being honorarium for valuing acupuncture examination answer books.
Mrs. X has not opted for presumptive taxation of Income u/s 44ADA. From the above compute the total Income and tax payable thereon of Mrs. X for the Assessment year 2020-21.

**Solution:** Computation of total income and tax liability of Mrs. X for the A.Y. 2020-21

**Income under the head “Profits and gains of business or profession”**

- Net Income as per Income and Expenditure Account: ₹3,01,250
- Add: Expenses disallowed:
  - Depreciation (81,000 - 60,000): ₹21,000
  - Cost of medicines etc. for personal use: ₹22,000
  - Donation to Prime Minister’s Relief Fund: ₹20,000

**Total Income under the head “Profits and gains of business or profession”**: ₹3,21,000

**Computation of income under the head “Income from other sources”**

- Dividend from Indian Companies [Exempt u/s 10(34)]: ₹0
- Honorarium for valuing answer books: ₹24,000
- Winning from Lotteries (Net): ₹7,000
- Add: TDS: ₹3,000

**Income from other sources**: ₹34,000

**Gross Total Income**: ₹3,55,000

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

- U/s 80C Life Insurance Premium (maximum 10% of sum assured): ₹5,000
- U/s 80G Donation to Prime Minister’s Relief Fund [100% deduction without qualifying limit]: ₹20,000

**Total Income**: ₹3,30,000

**Computation of tax on total income**

- Tax on winnings from lotteries [₹10,000 @ 30%]: ₹3,000
- Tax on balance income of ₹3,20,000 [5% of (₹3,20,000 - ₹2,50,000, representing the basic exemption limit)]: ₹3,500

**Tax on total income**: ₹6,500

**Less: Rebate u/s 87A**: ₹6,500

**Total tax liability**: Nil

**Less: Tax deducted at source (TDS)**: ₹3,000

**Tax Refundable**: ₹3,000

**Note – 1.** As per section 58(4), no deduction in respect of any expenditure or allowance is allowable in respect of winnings from lotteries. Hence, ₹2,500 paid for purchase of lottery tickets is not allowable as deduction.

**2. Maturity proceeds of life insurance policy**

Any sum received under a life insurance policy is wholly exempt from tax under section 10(10D).

**3. The maturity proceeds of LIC have been taken as exempt under section 10(10D) presuming that the premium paid during any of the years of the policy does not exceed the specified percentage of the actual capital sum assured.**
**Question 4(a)**

From the following information of Mr. X for the financial year 2019-20 you are required to compute his total income for the financial year 2019-20 and ascertain the amount of losses which will be carried forward to next year.

(i) He owns two houses:

- House No. 1 – Income after all statutory deductions 80,000
- House No. 2 – Current year loss (38,000)

(ii) He has three proprietary business concerns:

(a) **Textile Business**:

(i) Discontinued from 30th September 2018 – Current year’s loss 40,000
(ii) Brought forward loss of Asst. year 2016-17 95,000

(b) **Chemical Business** – since discontinued:

(ii) Bad debts allowed in earlier years recovered during the year 35,000
(iii) Brought forwarded business loss of Asst. year 2018-19 50,000

(c) **Leather Business** – Profit for the current year 1,00,000

(d) Share of Profit in a firm in which he is partner since 2014 16,550

(iii) 

(a) Short Term Capital Gain 60,000
(b) Long Term Capital Loss 35,000

(iv) Contribution to L.I.C. towards premium 10,000

**Solution: 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>1. Income from house property</td>
<td></td>
<td></td>
</tr>
<tr>
<td>House No.1</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td>House No.2</td>
<td>(-) 38,000</td>
<td>42,000</td>
</tr>
<tr>
<td>2. Profits and gains of business or profession</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit from leather business</td>
<td>1,00,000</td>
<td></td>
</tr>
<tr>
<td>Less: Current year loss of textile business</td>
<td>(40,000)</td>
<td></td>
</tr>
<tr>
<td>Bad debts (allowed as deduction in earlier year) recovered during the year</td>
<td>60,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Less: Brought forward business loss of textile business for A.Y.2016-17 set off against the business income of current year</td>
<td>(95,000)</td>
<td>Nil</td>
</tr>
<tr>
<td>3. Capital Gains</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term capital gains</td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td></td>
<td>1,02,000</td>
</tr>
<tr>
<td>Less: Deduction under Chapter VI-A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under section 80C – LIC premium paid</td>
<td>(10,000)</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td></td>
<td>92,000</td>
</tr>
</tbody>
</table>

**Losses to be carried forward to A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business loss of discontinued chemical business of A.Y. 2018-19 to be carried forward under section 72</td>
<td>50,000</td>
</tr>
<tr>
<td>Long term capital loss of A.Y. 2020-21 to be carried forward under section 74 <strong>(Note 2)</strong></td>
<td>35,000</td>
</tr>
</tbody>
</table>

**Notes:**

1. Share of profit from firm of ₹ 16,550 is exempt under section 10(2A) in the hands of the partner, Mr. X.
2. Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year. It can be carried forward for a maximum of 8 assessment years.
**Note:** The above solution has been worked out on the basis of the following assumptions:

1. The current year loss of ₹38,000 is respect of House No. 2 is the computed loss after deduction of municipal tax, interest and 30% of Net Annual Value.
2. Life insurance premium paid is fully allowable as deduction under section 80C on the assumption that the same is within the limit of 10% or 20% of actual capital sum assured, as the case may be (20% if the policy is issued before 01.04.2012 and 10% if the policy is issued on or after 01.04.2012).

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

(i) Explain the provision regarding the taxability of limited liability partnership under the Income-Tax Act, 1961.

**Answer:** Taxability of limited liability partnerships (LLPs) under the Income-tax Act, 1961

(i) The taxation scheme of LLPs in the Income-tax Act, 1961 is on the same lines as applicable for general partnerships, i.e. tax liability would be attracted in the hands of the LLP and tax exemption would be available to the partners. Therefore, the same tax treatment would be applicable for both general partnerships and LLPs.

(ii) The rate of income-tax applicable to LLPs is the same as the rate applicable for firms i.e. 30% of total income.

(iii) The provisions of section 40(b) requiring payment of remuneration only to working partner in accordance with the terms of the partnership deed for a period commencing on or after the date of the partnership deed, would apply to LLPs as well. Further, disallowance of interest in excess of 12% per annum and salary exceeding the prescribed limits would also be applicable in the case of LLPs.

(iv) However, whereas a partnership firm can opt for presumptive taxation scheme under section 44AD, an LLP cannot opt for such scheme.

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

(ii) State the head of income in the following cases under which the receipt is to be assessed and comment.

(A) A uses his property for his own business. Can he claim depreciation?

(B) B lets out his property to X. X sublets it. How is sub-letting to be assessed in the hands of X?

(C) C has built a house on a leasehold land. He has let out the property and claims the rent as income from house property and deducted expenses on repairs, security charges, insurance and collection charges totaling to 40% of receipts.

**Answer:**

(A) Yes, Mr. A can claim depreciation, since the property is an asset used for business purposes. Section 22, which is the charging section for “Income from house property” specifically excludes from its scope, property which an assessee, as an owner, occupies for the purpose of any business or profession carried on by him.

(B) In the hands of Mr. B, income from letting out of property to Mr. X is chargeable under the head “Income from house property”, since Mr. B is the owner of the property. However, since Mr. X is not the owner of the house property, the income from sub-letting will not be chargeable under the head “Income from house property”. It will be assessed as “Income from other sources” in the hands of Mr. X.

In the alternative, it would be assessed as “Profits and gains of business or profession”, if X is engaged in the business of sub-letting.

(C) Income from letting out of a house built on leasehold land is taxable under the head “Income from house property” in the hands of Mr. C. Ownership of land is not a pre-requisite for charge of income under the head “Income from house property”.

The annual letting value (higher of municipal value and fair rent, but restricted to standard rent) or actual rent, whichever is higher, would be the gross annual value of the house property. The municipal taxes paid by Mr. C during the year is to be deducted from gross annual value to arrive at the net annual value. Deduction of 30% of net annual value is allowable under section 24 to arrive at the income chargeable under the head “Income from house property”. No other deduction is allowable in respect of repairs, insurance, security and collection charges.

**Note** – Interest on loan borrowed for construction of house is deductible under section 24(b) from Net Annual Value to arrive at the Income from house property, in addition to the statutory deduction of 30%.
Question No. 1 (a)  

Mr. X provides the following information for the year ending 31.03.2020:

(i) Rent from vacant site let on lease  
   ₹1,12,000

(ii) Rent from house property at Delhi  
   ₹20,000 p.m.

(iii) Turnover from retail trade in grains (No books of account maintained)  
   ₹24,37,500

(iv) Arrears of salary received from ex-employer  
   ₹40,000

(v) Purchase of 10,000 shares (non listed) of X Co. Ltd., on 01.01.2017  
   ₹1,00,000

He received a 1:1 bonus on 01.01.2019. Sale of 5,000 bonus shares in September, 2019  
   ₹2,20,000

(vi) Received ₹1,50,000 on 12.02.2020 being amount due from Mr. A relating to goods supplied by Mr. X’s father, which was written off as bad debt by his father in Assessment Year 2018-19 and allowed as deduction. Mr. X’s father died in July 2018.

(vii) Brought forward business loss relating to discontinued textile business of Mr. X relating to the Assessment Year 2018-19.  
   ₹1,97,500

(viii) Brought forward depreciation relating to discontinued textile business of Mr. X.  
   ₹1,50,000

(ix) Mr. X contributed ₹30,000 to Prime Minister’s National Relief Fund and ₹40,000 to Charitable Trust enjoying exemption u/s 80G by cheque.

Compute the Total Income and the Tax thereon of Mr. X for the Assessment Year 2020-21.

Answer: Computation of total income and tax liability of Mr. X for the A.Y. 2020-21  

Income from Salaries
Arrears of salary received from ex-employer  
   ₹40,000.00

Income from house property
Income from House Property at Delhi
Gross Annual Value (GAV)  
   ₹2,40,000.00
Less: Municipal taxes paid  
   Nil
Net Annual Value (NAV)  
   ₹2,40,000.00
Less: Deduction under section 24 @ 30% of NAV  
   (₹72,000.00)
Income from house property  
   ₹1,68,000.00

Profit and gains of business or profession
Income from business of retail trade in grains (24,37,500 x 8%)  
   ₹1,95,000.00
Less: Set-off of brought forward business loss relating to A.Y.2018-19 of discontinued textile business  
   (₹1,95,000.00)
(Balance loss of 2,500 shall be carried forward)
Income from business  
   Nil

Capital gains
Full value of consideration  
   ₹2,20,000.00
Less: Cost of acquisition  
   Nil
Short term capital gains  
   ₹2,20,000.00
Less: Depreciation for textile business  
   (₹1,50,000.00)
Balance short term capital gain  
   ₹70,000.00

Income from other sources
Rent from vacant site let on lease  
   ₹1,12,000.00

Gross Total Income (40,000 + 1,68,000 + 70,000 + 1,12,000)  
   ₹3,90,000.00

Less: Contribution to Prime Minister National Relief Fund section 80G  
   (₹30,000.00)
Less: Contribution to Charitable trust notified u/s 80G ₹40,000  
   (₹19,500.00)
Adjusted GTI = 3,90,000

Q.A = 10% of ₹3,90,000 or ₹40,000 whichever is less  
   = ₹39,000

Deduction 50% of ₹39,000 = 19,500
Total Income  
   ₹3,40,500.00

Tax on ₹3,40,500 at slab rate  
   ₹4,525.00
Less: Rebate u/s 87A  
   ₹4,525.00
Tax Liability  
   Nil
Note:
(1) ₹ 1,50,000 represents the amount due from Mr. A relating to goods supplied by Mr. X’s father, which was written off as a bad debt by his father in the A.Y.2018-19 and allowed as deduction to him. The said sum recovered by Mr. X, in the A.Y.2020-21, would not be treated as his income since there is no such provision under section 41(4) to treat the sum recovered by the successor in business as his income.

Question No. 4(a) (4 Marks)

Following is the profit and loss account of Mr. X for the year ended 31.03.2020:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Repair on Building</td>
<td>1,81,000</td>
<td>By Gross Profit</td>
<td>6,01,000</td>
</tr>
<tr>
<td>To Amount paid to IIT Mumbai for an approved Scientific research programme u/s 35(2AA)</td>
<td>1,00,000</td>
<td>By Income Tax Refund</td>
<td>8,100</td>
</tr>
<tr>
<td>To Interest</td>
<td>1,10,000</td>
<td>By Interest on Company Deposits</td>
<td>6,400</td>
</tr>
<tr>
<td>To Travelling</td>
<td>1,30,550</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net Profit</td>
<td>93,950</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,15,500</td>
<td></td>
<td>6,15,500</td>
</tr>
</tbody>
</table>

Following additional informations are furnished:

1. Repairs on building includes ₹1,00,000 being cost of laying a toilet roof.
2. Interest payment include ₹50,000 on which TDS has not been deducted and penalty for contravention of GST Act of ₹24,000.

Mr. X is required to gets his accounts audited in the preceding year 2018-19.

Compute the income chargeable under the head “Profits and gains of Business or Profession” of Mr. X for the year ended 31.03.2020 ignoring depreciation.

Answer: Computation of Income under the head Business/Profession for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Net profit as per P &amp; L A/c</th>
<th>₹ 93,950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add: Expenses Disallowed</td>
<td></td>
</tr>
<tr>
<td>(i) Repair of building(capital expenditure)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>(ii) Interest paid without TDS (50,000 x 30%)</td>
<td>15,000</td>
</tr>
<tr>
<td>(iii)GST Penalty</td>
<td>24,000</td>
</tr>
<tr>
<td></td>
<td>1,39,000</td>
</tr>
<tr>
<td>Less: Incomes not taxable</td>
<td></td>
</tr>
<tr>
<td>(i) IT Refund ( not an income)</td>
<td>8,100</td>
</tr>
<tr>
<td>(ii) Interest on deposit (taxable u/h other sources)</td>
<td>6,400</td>
</tr>
<tr>
<td></td>
<td>(14,500)</td>
</tr>
<tr>
<td>Less: Deduction u/s 35(2AA) (amount paid to IIT)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>1,68,450</td>
</tr>
</tbody>
</table>

MAY – 2012

Question 1. (10 Marks)

Mrs. X is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her income and Expenditure account for the year ended March 31, 2020 reads as follows:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>₹</th>
<th>Income</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary to Staff</td>
<td>5,50,000</td>
<td>Fees earned:</td>
<td></td>
</tr>
<tr>
<td>Stipend to articled Assistants</td>
<td>37,000</td>
<td>Audit</td>
<td>7,88,000</td>
</tr>
<tr>
<td>Incentive to Articled Assistants</td>
<td>3,000</td>
<td>Taxation Services</td>
<td>5,40,300</td>
</tr>
<tr>
<td>Office rent</td>
<td>24,000</td>
<td>Consultancy</td>
<td>2,70,000</td>
</tr>
<tr>
<td>Printing and Stationery</td>
<td>22,000</td>
<td>Dividend on shares of Indian Companies(Gross)</td>
<td>15,98,300</td>
</tr>
<tr>
<td>Meeting, Seminar and Conference</td>
<td>31,600</td>
<td>Income from unit Trust of India</td>
<td>7,600</td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

| Purchase of car | 80,000 | Honorarium received from Various Institutions for valuation of answer papers | 15,800 |
| Repair, Maintenance And petrol of car | 4,000 | Rent Received from Residential flat let out | 85,600 |
| Travelling expenses | 35,000 | | |
| Municipal Tax paid in respect of house Property | 3,000 | | |
| Net profit | 9,28,224 | | |
| | | | 17,17,824 |

Other information:
(i) Allowable rate of depreciation on motor car is 15%
(ii) Value of benefits received from clients during the course of profession is ₹10,500.
(iii) Incentives to articled assistants represent amount paid to two articled assistants for the passing IPCC Examination at first attempt.
(iv) Repairs and maintenances of car include ₹2,000 for the period from 01.10.2019 to 30.09.2020. (payment was made on 31.03.2020)
(v) Salary include ₹30,000 to a computer specialist in cash for assisting Mrs. X in one professional assignment.
(vi) The total travelling expenses incurred on foreign tour was ₹32,000 which was within the RBI norms.
(vii) Medical Insurance premium on the health of dependent brother and major son dependent on her amounts to ₹5,000 and ₹10,000 respectively paid in cash.
(viii) She invested an amount of ₹10,000 in National Saving Certificate.

Mrs. X has not opted for presumptive taxation of Income u/s 44ADA. Compute the Total Income and Tax Payable of Mrs. X for the Assessment Year 2020-2021.

Answer: Computation of Total Income of Mrs. X

Income under the head business/profession
Net profit as per profit and loss account 9,28,224.00
Add: Value of benefit received 10,500.00
Add: inadmissible items
- Purchase of car 80,000.00
- Municipal tax 3,000.00
- Payment made in cash in excess of ₹10,000 {Sec 40A(3)} 30,000.00
Less:
- Dividend on shares (10,524.00)
- Income from Unit Trust of India (7,600.00)
- Honorarium received (15,800.00)
- Rent received (85,600.00)
- Depreciation on Car (80,000 x 15%) (12,000.00)
Income under the head business/profession 9,20,200.00

Income under the head House Property
Gross annual value 85,600.00
Less: Municipal Taxes (3,000.00)
Net annual value 82,600.00
Less: 30% of NAV u/s 24(a) (24,780.00)
Less: Interest on capital borrowed u/s 24(b) Nil
Income from house property 57,820.00
Income under the head Other Sources
Dividend from Indian company {exempt u/s 10(34)}  Nil
Income from UTI {exempt u/s 10(35)}   Nil
Honorarium received                        15,800.00
Gross Total Income                       9,93,820.00
Less: Deduction u/s 80C NSC             (10,000.00)
Total Income                             9,83,820.00

Computation of Tax Payable
Tax on ₹9,83,820 at slab rate            1,09,264.00
Add: HEC @ 4%                            4,370.56
Tax Liability                           1,13,634.56
Less: TDS                                Nil
Tax Payable                             1,13,634.56
Rounded off u/s 288B                     1,13,630.00

Question 4 (8 Marks)
Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31.03.2020 revealed the following information:

1. The net profit was ₹11,20,000.
2. The following incomes were credited in the profit and loss account:
   a. Dividend from UTI ₹ 22,000.
   b. Interest on debentures ₹17,500
   c. Winnings from races ₹15,000.
3. It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
   Opening stock ₹8,000.
   Closing stock ₹12,000
4. ₹1,00,000 was debited in the profit and loss account being contribution to a University approved and notified under section 35(1)(ii).
5. Salary includes ₹20,000 paid to his brother which is unreasonable to the extent of ₹2,500.
6. Advertisement expenses include 15 gift packets of dry fruits costing ₹1,000 per packet presented to important customers.
7. Total expenses on car was ₹78,000. The car was used both for business and personal purposes. 3/4th is for business purposes.
8. Miscellaneous expenses included ₹30,000 paid to A & Co., a good transport operator in cash on 31.01.2019 for distribution of the company’s product to the warehouses.
9. Depreciation debited in the books was ₹55,000. Depreciation allowed as per IT rules was ₹50,000.
10. Drawing ₹10,000
11. Investment in NSC ₹15,000.

Compute the Total Income of Mr. Y for the Assessment Year 2020-21.

Solution: Computation of Total Income of Mr. Y for the Assessment Year 2020-21

Income under the head Business/Profession
Net profit as per profit and loss account ₹11,20,000
Add: inadmissible expenses
   • Car used for personal purpose (78,000 x 1/4 ) ₹19,500
   • Under valuation of closing stock ₹12,000
   • Salary disallowed u/s 40A(2) ₹2,500
   • Depreciation (55,000 – 50,000) ₹5,000
   • Drawing ₹10,000
   • Investment in NSC ₹15,000
   • Total ₹11,84,000

Less:
   • Dividend from units of UTI (22,000)
• Interest on debentures 
  (17,500)
• Winning From Races 
  (15,000)
• Under valuation of opening stock 
  (8,000)
• Contribution to approved university section 35(1)(ii) 
  (50,000)

Business income  
10,71,500

**Income under the head Other Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend from units of UTI exempt u/s 10(35)</td>
<td>Nil</td>
</tr>
<tr>
<td>Interest on debentures</td>
<td>17,500</td>
</tr>
<tr>
<td>Winning From Races</td>
<td>15,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>32,500</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>11,04,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>10,89,000</td>
</tr>
</tbody>
</table>

**Gross Total Income**  
11,04,000

Less: Deduction u/s 80C  
(15,000)

**Total Income**  
10,89,000

**Question 5**  
(10 Marks)

Dr. Sagar, a resident individual at Madurai, aged 50 years is running a clinic. His Income and Expenditure Account for the year ending March 31**th** 2020 is as under:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Medicine consumed</td>
<td>8,40,000</td>
</tr>
<tr>
<td>To Staff salary</td>
<td>4,25,000</td>
</tr>
<tr>
<td>To Clinic consumables</td>
<td>1,55,000</td>
</tr>
<tr>
<td>To Rent paid</td>
<td>1,20,000</td>
</tr>
<tr>
<td>To Administrative expenses</td>
<td>3,00,000</td>
</tr>
<tr>
<td>To Donation (to IIT, Delhi for Research approved under section 35(2AA))</td>
<td>1,00,000</td>
</tr>
<tr>
<td>To Net profit</td>
<td>2,92,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>By Consultation and Medical charges</td>
<td>21,00,000</td>
</tr>
<tr>
<td>By Income tax refund (Principal ₹15,000, interest ₹1,500)</td>
<td>16,500</td>
</tr>
<tr>
<td>By Dividend from Indian companies</td>
<td>27,000</td>
</tr>
<tr>
<td>By Wining from lottery Net of TDS</td>
<td>35,000</td>
</tr>
<tr>
<td>By Rent</td>
<td>54,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>22,32,500</td>
<td></td>
</tr>
</tbody>
</table>

(i) Rent paid includes ₹ 36,000 paid by cheque towards rent for his residence.

(ii) Clinic equipments are:

- 01.04.2019 Opening WDV  
  4,50,000
- 07.02.2020 Acquired (cost- put to use on the same date)  
  1,00,000

(iii) Rent received relates to property let out at Madurai. Gross annual value ₹54,000. The municipal tax of ₹9,000, paid in January 2020 has been included in “administrative expenses”.

(iv) Dr. Sagar availed loan of ₹5,50,000 from a bank for higher education of his daughter. He repaid principal of ₹50,000, and interest thereon ₹65,000 during the year 2019-20.

(v) He paid ₹60,000 as tuition fee to the university for full time education of his son.

Dr. Sagar has not opted for presumptive taxation of Income u/s 44ADA. From the above, compute the Total Income and Tax Liability of Dr. Sagar for the Assessment Year 2020-2021.

**Solution: Computation of Total Income of Dr. Sagar for A.Y. 2020-21**  
₹

**Income from house property**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value (GAV)</td>
<td>54,000</td>
</tr>
<tr>
<td>Less : Municipal taxes paid</td>
<td>(9,000)</td>
</tr>
</tbody>
</table>

**Net Annual Value (NAV)**  
45,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less : Deduction under section 24(a) (30% of ₹ 45,000)</td>
<td>(13,500)</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>31,500</td>
</tr>
</tbody>
</table>

**Income from profession**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit as per Income and Expenditure account</td>
<td>2,92,500</td>
</tr>
<tr>
<td>Less : Rent received</td>
<td>(54,000)</td>
</tr>
<tr>
<td>Dividend from Indian Companies</td>
<td>(27,000)</td>
</tr>
</tbody>
</table>
Winning from lottery (net of TDS) (35,000)
Income tax refund (16,500)
Depreciation on Clinic equipments on ₹4,50,000 @ 15% (67,500)
on ₹1,00,000 @ 7.5% (7,500)
Additional deduction of 50% for amount paid to IIT, Delhi (50,000)

Add:
Rent for his residential accommodation included in Income and Expenditure A/c 36,000
Municipal tax paid relating to residential house at Surat included in administrative expenses 9,000
Income under the head Business/Profession 80,000

Income from other sources
Interest on income-tax refund 1,500
Dividend from Indian Company (Exempt u/s 10(34)) Nil
Winnings from lottery (₹35,000 + ₹15,000) 50,000
Income under the head Other Sources 51,500

Gross Total Income 1,63,000
Less: Deductions under Chapter VI A
Tuition fee paid to university for full time education of his daughter (60,000)
Interest on loan taken for higher education is deductible (53,000)

Total Income 50,000

Computation of Tax Liability

Tax on normal income Nil
Tax on ₹50,000 @ 30% u/s 115BB 15,000
Less: Rebate u/s 87A (12,500)
Tax before health & education cess 2,500
Add: HEC @ 4% 100
Tax Liability 2,600

Notes:
(i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head “Income from other sources”.
(ii) Winnings from Lottery should be grossed up for the chargeability under the head “Income from other sources” (₹35,000 + ₹15,000). Thereafter, while computing tax liability, TDS of ₹15,000 should be deducted to arrive at the tax payable. Winnings from lottery are subject to tax @ 30% as per section 115BB.
(iii) As per section 58(4) deduction under Chapter VIA is not allowed from casual income, Therefore Deduction u/s 80E is allowed upto ₹53,000.

Question 7 (4 Marks)
Mr. X engaged in various types of activities gives the following information for the year ended 31.03.2020.

Loss from automobile business (Total turnover ₹6,00,000) 1,10,000
Profit from wholesale trade in furniture items at the prescribed percentage of turnover as per section 44AD 4,00,000
Brought forward loss relating to discontinued textile business (discontinued w.e.f. 01.06.2012) 2,00,000
Short term capital loss on sale of vacant site during the year 70,000
Profit from speculation business related to oil seeds 1,10,000
Loss from speculation business brought forward and related to cotton (brought forward from assessment year 2019-20) 50,000
Brought forward unabsorbed depreciation of trade in furniture items related to
Compute the Total Income of Mr. X for the Assessment Year 2020-21.

**Solution: Computation of Total Income of Mr. X for the assessment year 2020-21**

<table>
<thead>
<tr>
<th>Income under the head Business/Profession</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from wholesale trade in furniture</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Less: Loss from automobile business (current year)</td>
<td>(1,10,000)</td>
</tr>
<tr>
<td>Less: Brought forward loss relating to discontinued textile business (P.Y. 2012-13)</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Income from wholesale trade in furniture</td>
<td>90,000</td>
</tr>
<tr>
<td><strong>Income from Speculation Business</strong></td>
<td>1,10,000</td>
</tr>
<tr>
<td>Less: Loss from speculation business brought forward and related to cotton</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Income from Speculation Business</td>
<td>60,000</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>1,50,000</td>
</tr>
</tbody>
</table>

**Note:**
(i) Brought forward unabsorbed depreciation of trade in furniture items related to Assessment Year 2019-20 is not allowed to be adjusted.
(ii) Short Term Capital Loss on sale of vacant site A.Y. 2020-21 ₹70,000 to be carried forward for 8 years starting from Assessment Year 2021-22.

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**Question 4**

ABC Ltd., engaged in manufacture of medicines (pharmaceuticals) furnishes the following information for the year ended 31.03.2020:

(i) Municipal tax relating to office building ₹51,000 not paid till 30.09.2020.
(ii) Patent acquired for ₹20,00,000 on 01.09.2019 and used from the same month.
(iii) Capital expenditure on scientific research ₹10,00,000 which includes cost of land ₹2,00,000.
(iv) Amount due from customer X outstanding for more than 3 years written off as bad debt in the books ₹5,00,000.
(v) Income tax paid ₹90,000 by the company in respect of non-monetary perquisites provided to its employees.
(vi) Provident fund contribution of employees ₹5,50,000 relating to salary of July 2019 was deposited on 27th August 2019.
(vii) Expenditure towards advertisement in souvenir of a political party ₹1,50,000.
(viii) Refund of GST ₹75,000 received during the year, which was claimed as expenditure in an earlier year.

**Solution:**

(i) Municipal taxes relating to office building not paid till the last date of filing of the return is not allowed as deduction as per sec 43B.
(ii) Patent acquired for 20,00,000
    Depreciation shall be allowed @ 25% of 20,00,000 = ₹5,00,000.00
(iii) Capital expenditure on scientific research shall be allowed ₹8,00,000 u/s 35.
    Further deduction allowed shall be 150%. No deduction shall be allowed for land.
(iv) Amount written off as bad debts shall be allowed as deduction as per section 36(1).
(v) Income Tax paid ₹90,000 shall not be allowed as deduction u/s 40(a).
(vi) Provident fund paid on 27th August 2019 is not allowed because as per paragraph 38 of The Employees’ Provident Funds Scheme, 1952, the employer should pay such contribution within 15 days of the subsequent month. In this case, amount is being remitted on 27th August 2019, hence expenditure is not allowed.
(vii) Expenditure towards advertisement in souvenir of political party shall not be allowed as deduction as per section u/s 37(2B).
(viii) As per section 41(1), refund of GST shall be treated as income since it was claimed as an expenditure in an earlier year.

**Question 5**

State with reasons the allowability of the following expenses under Income-Tax Act, 1961 while computing income from business or profession for the Assessment Year 2020-21:

(i) Provision made on the basis of actuarial valuation for payment of gratuity ₹5,00,000. However, no payment on account of gratuity was made before due date of filing return.

(ii) Purchase of oil seeds of ₹50,000 in cash from a farmer on a banking day.

(iii) Tax on non monetary perquisite provided to an employee ₹20,000.

(iv) Payment of ₹50,000 by using credit card for fire insurance.

(v) Salary payment of ₹2,00,000 by a company outside India without deduction of tax.

(vi) GST deposited in cash ₹50,000 with State Bank of India.

(vii) Payment made in cash ₹30,000 to a transporter in a day for carriage of goods.

**Solution:**

(i) Allowed, provision made on the basis of actuarial valuation is allowed as business expense.

(ii) Allowed, cash payment of ₹50,000 for purchase of oil seeds is allowed as business expense.

(iii) Not allowed, tax on non-monetary perquisite is not deductible u/s 40(a)

(iv) Allowed, payment through credit card is allowed.

(v) If tax is neither deducted nor paid, it is not allowed. In the given question it is not mentioned that tax is paid hence it is presumed that tax is not paid and in that case it is disallowed.

(vi) Allowed, payment of GST in cash shall be allowed and deductible as per Rule 6DD.

(vii) Allowed, as per section 40A(3), payment in cash to a transporter upto ₹35,000 is allowed

**Question 6**

Mr. X is having a trading business and his Trading and Profit & Loss Account for the financial year 2019-20 is asunder:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Opening stock</td>
<td>1,00,000</td>
<td>By Sales</td>
<td>110,00,000</td>
</tr>
<tr>
<td>To Purchases</td>
<td>89,00,000</td>
<td>By Closing stock</td>
<td>50,000</td>
</tr>
<tr>
<td>To Gross profit</td>
<td>20,50,000</td>
<td>Total</td>
<td>110,50,000</td>
</tr>
<tr>
<td>Total</td>
<td>110,50,000</td>
<td>Total</td>
<td>110,50,000</td>
</tr>
<tr>
<td>Salary to employees (Including</td>
<td>5,00,000</td>
<td>By Gross Profit b/d</td>
<td>20,50,000</td>
</tr>
<tr>
<td>Contribution to PF)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation to Prime Minister Relief</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund by cheque</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonus to employees</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest of bank loan</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family planning expenditure incurred</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>on employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net profit</td>
<td>11,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>20,50,000</td>
<td>Total</td>
<td>20,50,000</td>
</tr>
</tbody>
</table>

**Other information:**

(i) Depreciation allowable ₹40,000 as per Income Tax Rules.

(ii) Payment of Interest on bank loan has been made in August 2020.

(iii) Payment of bonus to workers made in September 2020.

(iv) Out of salary, ₹25,000 pertains to his contributions to recognized provident fund which was deposited after the due date. Further, employees contribution of ₹25,000 was also deposited after the due date

Mr. X has not opted for presumptive taxation of Income u/s 44AD. Computation Total Income and Tax Liability of Mr. X for the Assessment Year 2020-21.
**Solution: Computation of Total Income of Mr. X**

Net profit as per profit and loss account  
11,50,000

Add: inadmissible expenses

- Employees’ contribution deposited after due date of provident fund  
  25,000
- Employer’s contribution deposited after due date of filing of return of income  
  25,000
- Donation to Prime Minister Relief Fund  
  1,00,000
- Provision for bad debt  
  50,000
- Family planning expenses  
  20,000
- Depreciation as per books  
  30,000
- Income-tax  
  1,00,000

Less:

- Depreciation as per Income Tax Act  
  (40,000)

Gross Total Income  
14,60,000

Less: Deduction u/s 80G  
(1,00,000)

Total Income  
13,60,000

**Computation of Tax Liability**

Tax on  
13,60,000 at slab rate  
2,20,500

Add: HEC @ 4%  
8,820

Tax Liability  
2,29,320

**Question 7**

M/s ABC Ltd. a manufacturing concern furnishes the following particulars:

(i) Opening writing down value under Income Tax of block plant and machinery  
  5,00,000
(ii) Purchase of plant and machinery  
  (put to use before 01.10.2019)  
  2,00,000
(iii) Sale proceeds of plant and machinery which became obsolete - the plant and machinery was purchased on 01.04.2017 for ₹5,00,000.

Further, out of purchase of plant and machinery:

(a) Plant and machinery of ₹20,000 has been installed in office.
(b) Plant and machinery of ₹20,000 was used previously for the purpose of business by the seller.

Compute depreciation and additional depreciation as per Income-Tax Act for the Assessment Year 2020-21.

**Solution:**

**Block – Plant and Machinery**

Opening writing down value  
5,00,000

Add: Purchases  
2,00,000

Less: Sales  
(5,000)

W.d.v  
6,95,000

Depreciation @ 15%  
1,04,250

Additional depreciation (2,00,000 – 20,000 – 20,000) x 20%  
(32,000)

**Question 3**

Mr. X, resident individual aged 64, is a partner in XYZ & Co., a partnership firm. He also runs a wholesale business in medical products. The following details are made available for the year ended 31.03.2020:

(i) Interest on capital received from XYZ & Co., at 15%  
  1,50,000
(ii) Interest from bank on fixed deposit (Net of TDS ₹1,500)  
  13,500
(iii) I.T. refund received relating to asst. year 2018-19 including interest of ₹2,300  
  34,500
(iv) Net profit from wholesale business  
  5,60,000

Amounts debited include the following:

- Depreciation as per books  
  34,000
- Motor car expenses  
  40,000
- Municipal taxes for the shop  
  7,000
(For two half years; payment for one half year made on 12.06.2020 and for the other on 14.11.2020)
Salary to manager for whom single cash payment was made for 21,000
(v) The WDV of the assets (as on 01.04.2019) used in above wholesale business is as under:
Computers 1,20,000
Motor car 3,20,000
(20% used for personal use)
(vi) LIP paid for major son 60,000
PPF of his wife 70,000

Compute the Total Income of the assessee for the Assessment Year 2020-21. The computation should show the proper heads of income. Also compute the WDV of the different blocks of assets as on 31.03.2020.

**Solution: 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><strong>Profits and gains of business or profession</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income from own business</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit as per books</td>
<td>5,60,000</td>
<td></td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation as per books</td>
<td>34,000</td>
<td></td>
</tr>
<tr>
<td>Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return (₹ 7,000/2)</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹10,000</td>
<td>21,000</td>
<td></td>
</tr>
<tr>
<td>20% of car expenses for personal use</td>
<td>8,000</td>
<td>66,500</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td>6,26,500</td>
</tr>
<tr>
<td>Depreciation allowable (Note 1)</td>
<td>(86,400)</td>
<td>5,40,100</td>
</tr>
<tr>
<td><strong>Income from firm</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on capital from partnership firm (Note 2)</td>
<td>1,20,000</td>
<td>6,60,100</td>
</tr>
<tr>
<td><strong>Income from other sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on bank fixed deposit (Gross)</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Interest on income-tax refund</td>
<td>2,300</td>
<td>17,300</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>6,77,400</td>
<td></td>
</tr>
<tr>
<td>Less: Deductions under 80C (Note 3)</td>
<td>(1,30,000)</td>
<td></td>
</tr>
<tr>
<td>Less: Deduction under 80TTB</td>
<td>(15,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>5,32,400</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

(1) **Depreciation allowable under the Income-Tax Act, 1961**

<table>
<thead>
<tr>
<th>Block 1</th>
<th>Computers</th>
<th>Opening WDV</th>
<th>Rate</th>
<th>Depreciation</th>
<th>Closing WDV</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,20,000</td>
<td>40%</td>
<td>48,000</td>
<td>72,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,20,000</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Block 2</td>
<td>Motor Car</td>
<td></td>
<td>9,600</td>
<td>38,400</td>
<td>2,81,600</td>
</tr>
</tbody>
</table>

Less: 20% Disallowance for personal use

(2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to ₹1,20,000 would be treated as the business income of Mr. X.
(3) Deduction u/s 80C

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Under section 80C</strong></td>
<td></td>
</tr>
<tr>
<td>LIP for major son</td>
<td>60,000</td>
</tr>
<tr>
<td>PPF paid in wife’s name</td>
<td>70,000</td>
</tr>
<tr>
<td><strong>Total deduction</strong></td>
<td>1,30,000</td>
</tr>
</tbody>
</table>

**Question 2**
Mr. X a resident individual and practicing Chartered Accountant furnishes you the receipts and payments account for the Financial Year 2019-20.

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance (01.04.2019)</td>
<td>2,000</td>
</tr>
<tr>
<td>Cash on hand and at Bank</td>
<td></td>
</tr>
<tr>
<td>Fee from professional services</td>
<td>9,38,000</td>
</tr>
<tr>
<td>Rent</td>
<td>60,000</td>
</tr>
<tr>
<td>Motor car loan from Canara Bank (@9% per annum)</td>
<td>2,50,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12,50,000</td>
</tr>
</tbody>
</table>

Following further information is given to you:
(1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹5,000. The building was constructed during the year 1998-99.
(2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
(3) The written down value of assets as on 01.04.2019 are given below:
- Furniture & fittings = ₹60,000
- Plant & Machinery = ₹80,000
- (Air-conditioners, Photocopiars, etc.) = ₹50,000

Note: Mr. X follows regularly the cash system of accounting.
Mr. X has not opted for presumptive taxation of Income u/s 44ADA. Compute the Total Income and Tax Liability of Mr. X for the Assessment Year 2020-21.

**Solution:**

**Computation of Total Income of Mr. X for the Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Income from house property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-occupied</td>
</tr>
<tr>
<td>Annual value</td>
</tr>
<tr>
<td>Less: Deduction under section 24(b)</td>
</tr>
<tr>
<td>Interest on housing loan</td>
</tr>
<tr>
<td>50% of ₹88,000 = 44,000 but limited to</td>
</tr>
<tr>
<td>Loss from self occupied property</td>
</tr>
</tbody>
</table>
Let out property
Gross Annual value 60,000.00
Less: Municipal Tax Nil
Net Annual Value 60,000.00
Less: Deductions under section 24
(a) 30% of Net Annual Value (18,000.00)
(b) Interest on housing loan (44,000.00)
(50% of ₹ 88,000)
Loss from let out house property (2,000.00)
Total loss under the head House Property (32,000.00)
Profits and gains of business or profession
Fees from professional services 9,38,000.00
Less: Expenses
Staff salary, bonus and stipend (1,50,000.00)
Other administrative expenses (48,000.00)
Office rent (30,000.00)
Motor car maintenance (10,000 x 4/5) (8,000.00)
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)
Depreciation on Motor car ₹ 4,25,000 x 7.5% x 4/5 (25,500.00)
Depreciation on Books @ 40% on ₹ 20,000 (8,000.00)
Depreciation on Furniture and fittings @ 10% of ₹ 60,000 (6,000.00)
Depreciation on Plant and machinery @ 15% of ₹ 80,000 (12,000.00)
Depreciation on Computer @ 40% of ₹ 50,000 (20,000.00)
Depreciation on Computer (New) ₹ 30,000 @ 40% x ½ thereon (6,000.00)
Income under the head Business/Profession 6,24,500.00
Gross Total Income 5,92,500.00
Less: Deduction under Chapter VI-A
Section 80C
Housing loan principal repayment (1,00,000.00)
PPF subscription (20,000.00)
Life insurance premium (24,000.00)
Section 80D
Medical insurance premium paid (18,000.00)
Total Income 4,30,500.00
Computation of Tax Liability
Tax on ₹4,30,500 at slab rate 9,025.00
Less: Rebate u/s 87A (9,025.00)
Tax Liability Nil

NOV – 2010

Question 3 (8 Marks)
Dr. Mrs. X is medical practitioner. Her age is 64 as on 1st Jan 2020. Her Receipts and Payments account of 2019-20 is asunder:

<table>
<thead>
<tr>
<th>Receipt</th>
<th>₹</th>
<th>Payment</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance B/f:</td>
<td>10,000</td>
<td>Purchase of motor car on 01.07.2019</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Receipts from sale of Medicine</td>
<td>2,50,000</td>
<td>Drawing</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Consultation fee</td>
<td>50,000</td>
<td>Deposit in bank for 5 years</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Visiting fee</td>
<td>2,00,000</td>
<td>Surgical instrument purchased before 30 Sep. 2019</td>
<td>50,000</td>
</tr>
<tr>
<td>Lecture Fees</td>
<td>5,000</td>
<td>Instalment of motor car loan paid (including interest ₹18,000)</td>
<td>1,18,000</td>
</tr>
<tr>
<td>Income Under The Head Business/Profession</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>--</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Family pension</strong></td>
<td>2,80,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Saving bank interest</strong></td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Medical insurance premium</strong></td>
<td>32,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Instalment of housing loan</strong></td>
<td>1,08,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Principal component ₹48,000 and interest ₹60,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Loan from bank for purchase of motor car @ 8% p.a.</strong></td>
<td>3,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Advance tax paid</strong></td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Share from HUF</strong></td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Purchase of medicine</strong></td>
<td>47,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Agricultural income</strong></td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Payment for medical journal</strong></td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income from lottery (net after deduction of TDS @ 30%)</strong></td>
<td>35,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Motor car expenses</strong></td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance C/f:</strong></td>
<td>51,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Total** | 12,81,000 |
| **Total** | 12,81,000 |

Other relevant information is as under:

(i) She resides in her own house which was constructed in 1998 with a loan from LIC Housing of ₹10,00,000 out of which 6,00,000 was still due. She got a loan from SBI of ₹6,00,000 on 01.04.2019 at the rate of 10% and repaid the original loan. One fourth portion of the house is used for clinic purposes.

(ii) She invested in term deposit ₹1,50,000 in Bank of Baroda on 01.07.2019 for a period of 5 years in the name of her minor daughter at 9% interest p.a.

(iii) She purchased a motor car on 1st July 2019 and put to use on the same date at ₹4,00,000. A loan of ₹3,00,000 was taken to buy the motor car at 8% p.a. interest. One fourth use of vehicle is estimated to be personal.

(iv) She paid medical insurance premium for herself of ₹16,000 and for mother ₹16,000. Her mother is dependent on her.

(v) She got her share from HUF’s income of ₹50,000.

Mrs. X has not opted for presumptive taxation of Income u/s 44ADA. Compute her Total Income and Tax Liability for Assessment Year 2020-21.

**Solution:**

**Computation of total income of Dr. X for A.Y. 2020-21**

| **Income from house property:** |  |
| Net Annual value of self-occupied house | Nil |
| **Less:** Interest on loan [₹45,000, being 3/4th of ₹60,000] |  |
| (Restricted to ₹30,000) | (30,000.00) |
| Loss under the head House Property | (30,000.00) |

**Income from profession:**

| Sale of medicine | 2,50,000.00 |
| Consultation fees | 50,000.00 |
| Visiting fee | 2,00,000.00 |

**Less: Expenses**

| Medicine purchases | (47,000.00) |
| Medical journal | (5,000.00) |
| Depreciation on Surgical instrument(15% of ₹50,000) | (7,500.00) |
| Depreciation on Vehicle (15% of ₹4,00,000) x ¾ | (45,000.00) |
| Vehicle expenses (3/4th) | (37,500.00) |
| Interest on loan (18,000 x 3/4) | (13,500.00) |
| Interest on housing loan (60,000 x 1/4) | (15,000.00) |
| Income under the head Business/Profession | 3,29,500.00 |

**Income from other sources**

| Family Pension | 2,80,000 |
| Less : 33⅓% or ₹15,000, whichever is lower | (15,000) |
| Lecture fees | 5,000.00 |
| Savings bank interest | 1,000.00 |
Interest on bank FD in the name of minor daughter $[1,50,000 \times 9\% \times 9/12]$ \hspace{1cm} 10,125

Less: Exempt u/s 10(32) \hspace{1cm} (1,500) \hspace{1cm} 8,625.00

Winnings from lottery \hspace{1cm} 50,000.00

Income under the head Other Sources \hspace{1cm} 3,29,625.00

Gross Total Income \hspace{1cm} 6,29,125.00

Less: Deductions under Chapter VI-A

Section 80C
Repayment of housing loan (48,000 × ¾) \hspace{1cm} (36,000.00)

Section 80D Medical Insurance Premium
Own \hspace{1cm} (16,000.00)

Mother \hspace{1cm} (16,000.00)

Section 80TTA
Total income \hspace{1cm} (1,000.00)

Rounded off u/s 288A \hspace{1cm} 5,60,130.00

Agricultural Income \hspace{1cm} 1,00,000.00

Computation of Tax Liability
Tax on agricultural income + non-agricultural income
Tax on ₹1,00,000 + 5,10,130 at slab rate \hspace{1cm} 32,026.00

Tax on agricultural income + ₹3,00,000 \hspace{1cm}

Tax on ₹1,00,000 + ₹3,00,000 at slab rate \hspace{1cm} (5,000.00)

Tax on normal income (32,026 – 5,000) \hspace{1cm} 27,026.00

Tax on ₹50,000 @ 30% \hspace{1cm} 15,000.00

Tax before health & education cess \hspace{1cm} 42,026.00

Add: HEC @ 4% \hspace{1cm} 1,681.04

Tax Liability \hspace{1cm} 43,707.04

Less: TDS \hspace{1cm} (15,000.00)

Less: Advance Tax \hspace{1cm} (20,000.00)

Tax Payable \hspace{1cm} 8,707.04

Rounded off u/s 288B \hspace{1cm} 8,710.00

Notes:
(i) Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to ₹30,000.

(ii) Since ¼th portion of house is used for business purposes, therefore, ¼th share of interest paid is deductible while computing business income.

(iii) Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).

(iv) Term deposit of ₹1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (3/4th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be ₹36,000 (i.e. 3/4th of ₹48,000).

(v) Depreciation @15% has been provided on surgical instruments.

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
(viii) In case of retirement, interest on employee’s contribution if provident fund is unrecognized.
### Solution:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Head of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Rental income in case of dealer in property</td>
<td>Income from house property</td>
</tr>
<tr>
<td>(ii) Dividend on shares in case of a dealer in shares</td>
<td>Income from other sources</td>
</tr>
<tr>
<td>(iii) Salary by partner from his partnership firm</td>
<td>Profit and gains of business or profession</td>
</tr>
<tr>
<td>(iv) Rental income of machinery (See Note below)</td>
<td>Income from other sources/ Profits and gains of business or profession</td>
</tr>
<tr>
<td>(v) Winnings from lotteries by a person having the same as business activity</td>
<td>Income from other sources</td>
</tr>
<tr>
<td>(vi) Salaries payable to a Member of Parliament</td>
<td>Income from other sources</td>
</tr>
<tr>
<td>(vii) Receipts without consideration</td>
<td>Income from other sources</td>
</tr>
<tr>
<td>(viii) In case of retirement, interest on employee’s contribution if provident fund is unrecognized</td>
<td>Income from other sources</td>
</tr>
</tbody>
</table>

**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”.

### Question 2  

(12 Marks)

Mr. X, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2020.

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Opening Stock</td>
<td>71,000</td>
<td>By Sales</td>
<td>32,00,000</td>
</tr>
<tr>
<td>To Purchase of Raw materials</td>
<td>16,99,000</td>
<td>By Closing Stock</td>
<td>2,00,000</td>
</tr>
<tr>
<td>To Manufacturing Wages &amp; Expenses</td>
<td>5,70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Gross profit</td>
<td>10,60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>34,00,000</strong></td>
<td></td>
<td><strong>34,00,000</strong></td>
</tr>
<tr>
<td>To Administrative charges</td>
<td>3,26,000</td>
<td>By Gross profit</td>
<td>10,60,000</td>
</tr>
<tr>
<td>To GST penalty paid</td>
<td>5,000</td>
<td>By Dividend from domestic companies</td>
<td>15,000</td>
</tr>
<tr>
<td>To General Expenses</td>
<td>1,64,000</td>
<td>By Income from agriculture (net)</td>
<td>1,80,000</td>
</tr>
<tr>
<td>To Interest to Bank (On machinery term loan)</td>
<td>60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Depreciation</td>
<td>2,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net Profit</td>
<td>5,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>12,55,000</strong></td>
<td></td>
<td><strong>12,55,000</strong></td>
</tr>
</tbody>
</table>

Following are the further information relating to the financial year 2019-20:

(i) Administrative charges include ₹46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹36,000.

(ii) The assessee paid ₹33,000 in cash to a transport carrier on 29.12.2019. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment.)

(iii) A sum of ₹4,000 per month was paid as salary to a staff throughout the year and this has not been debited in the books of account.

(iv) Bank term loan interest actually paid upto 31.03.2020 was ₹20,000 and the balance was paid in October 2020.

(v) Housing loan principal repaid during the year was ₹50,000 and it relates to residential property occupied by him. Interest on housing loan was ₹23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.

(vi) Depreciation allowable under the Act is to be computed on the basis of following information:

<table>
<thead>
<tr>
<th>Plant &amp; Machinery (Depreciation rate @ 15%)</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening WDV (as on 01.04.2019)</td>
<td>12,00,000</td>
</tr>
</tbody>
</table>
Additions during the year (put to use for more than 180 days)                        2,00,000
Total additions during the year                                                   4,00,000
Note : Ignore additional depreciation
Compute the Total Income of Mr. X for the Assessment Year 2020-21.
He has rejected presumptive income under section 44AD and his accounts were audited.

Solution: 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>Profits and gains of business or profession</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Net profit as per profit and loss account</td>
<td></td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>• Excess commission paid to brother disallowed under section 40A(2)</td>
<td>10,000</td>
</tr>
<tr>
<td>• Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B</td>
<td>40,000</td>
</tr>
<tr>
<td>• GST penalty paid disallowed</td>
<td>5,000</td>
</tr>
<tr>
<td>• Depreciation debited to profit and loss account</td>
<td>2,00,000</td>
</tr>
<tr>
<td></td>
<td>7,55,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>• Salary paid to the staff not debited to profit and loss account</td>
<td>(48,000)</td>
</tr>
<tr>
<td>• Dividend from domestic companies [Exempt under section 10(34)]</td>
<td>(15,000)</td>
</tr>
<tr>
<td>• Income from agriculture [Exempt under section 10(1)]</td>
<td>(1,80,000)</td>
</tr>
<tr>
<td>• Depreciation under the Income-tax Act, 1961 (As per working note)</td>
<td>(2,25,000)</td>
</tr>
<tr>
<td></td>
<td>2,87,000</td>
</tr>
<tr>
<td>Income from house property</td>
<td></td>
</tr>
<tr>
<td>Net Annual value of self-occupied property</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Deduction under section 24(b) – interest on housing loan</td>
<td>23,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>2,64,000</td>
</tr>
<tr>
<td>Less: Deduction under section 80C in respect of Principal repayment of housing loan</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,14,000</td>
</tr>
<tr>
<td>Working Note:</td>
<td></td>
</tr>
</tbody>
</table>

Computation of depreciation under the Income-tax Act, 1961
Depreciation @15% on ₹14 lakh (Opening WDV of ₹12 lakh plus assets purchased during the year and put to use for more than 180 days ₹2 lakh) | 2,10,000 |
Depreciation @7.5% on ₹2 lakh (Cost of assets put to use for less than 180 days) | 15,000   |
## INCOME UNDER THE HEAD

### SALARY

#### SECTION 15 TO 17

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>SECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning of salary</td>
<td>17(1)</td>
</tr>
<tr>
<td>Basis of charge/chargeability of salaries</td>
<td>15</td>
</tr>
<tr>
<td>House rent allowance</td>
<td>10(13A) Rule 2A</td>
</tr>
<tr>
<td>Special allowances</td>
<td>10(14) Rule 2BB</td>
</tr>
<tr>
<td>Foreign allowances</td>
<td>10(7)</td>
</tr>
<tr>
<td>Standard Deduction</td>
<td>16(ia)</td>
</tr>
<tr>
<td>Deduction on account of tax on employment/ professional tax</td>
<td>16(iii)</td>
</tr>
<tr>
<td>‘Salary’, ‘Perquisite’ and ‘Profits in lieu of salary’</td>
<td>17</td>
</tr>
<tr>
<td>Rent free accommodation</td>
<td>17(2)(i) Rule 3(1)</td>
</tr>
<tr>
<td>Accommodation at concessional rent</td>
<td>17(2)(ii) Rule 3(1)</td>
</tr>
<tr>
<td>Motor Car Facility</td>
<td>17(2)(iii) Rule 3(2)</td>
</tr>
<tr>
<td>Gardener/Watchmen/Sweeper or any other servant</td>
<td>17(2)(iii) Rule 3(3)</td>
</tr>
<tr>
<td>Gas/Electricity/Water</td>
<td>17(2)(iii) Rule 3(4)</td>
</tr>
<tr>
<td>Education facility</td>
<td>17(2)(iii) Rule 3(5)</td>
</tr>
<tr>
<td>Transport facility</td>
<td>17(2)(iii) Rule 3(6)</td>
</tr>
<tr>
<td>Obligation of the employee met by employer</td>
<td>17(2)(iv)</td>
</tr>
<tr>
<td>Payment of insurance premium on behalf of the employee</td>
<td>17(2)(v)</td>
</tr>
<tr>
<td>Specified securities or Sweat equity allotted/transferred to employees by an employer</td>
<td>17(2)(vi)</td>
</tr>
<tr>
<td>Any contribution to an approved superannuation fund by the employer in respect of an employee</td>
<td>17(2)(vii)</td>
</tr>
<tr>
<td>Any other fringe benefit –</td>
<td>17(2)(viii)Rule 3(7)(i)</td>
</tr>
<tr>
<td>Loan to the employee either at concessional rate or free of interest</td>
<td>17(2)(viii)Rule 3(7)(ii)</td>
</tr>
<tr>
<td>Expenditure in connection with travelling, touring or accommodation to the employee</td>
<td>17(2)(viii)Rule 3(7)(iii)</td>
</tr>
<tr>
<td>Free refreshment or foods to the employees</td>
<td>17(2)(viii)Rule 3(7)(iv)</td>
</tr>
<tr>
<td>Any gift, voucher or token</td>
<td>17(2)(viii)Rule 3(7)(v)</td>
</tr>
<tr>
<td>Expenses on credit cards</td>
<td>17(2)(viii)Rule 3(7)(vi)</td>
</tr>
<tr>
<td>Club Membership and expenses incurred in a club</td>
<td>17(2)(viii)Rule 3(7)(vii)</td>
</tr>
<tr>
<td>Use of moveable assets</td>
<td>17(2)(viii)Rule 3(7)(viii)</td>
</tr>
<tr>
<td>Transfer of any moveable assets</td>
<td>17(2)(viii)Rule 3(7)(ix)</td>
</tr>
<tr>
<td>Any other benefit</td>
<td>10(5) Rule 2B</td>
</tr>
<tr>
<td>Leave travel concession</td>
<td>10(10)</td>
</tr>
<tr>
<td>Death–cum–retirement gratuity</td>
<td>10(10A)</td>
</tr>
<tr>
<td>Treatment of commuted pension</td>
<td>80CCD</td>
</tr>
<tr>
<td>Deduction in respect of contribution to New Pension System</td>
<td>10(10AA)</td>
</tr>
<tr>
<td>Treatment of leave salary</td>
<td>10(11), 10(12), 10(13)</td>
</tr>
<tr>
<td>Provident Fund</td>
<td>10(10B)</td>
</tr>
<tr>
<td>Retrenchment compensation</td>
<td>10(10C) Rule 2BA</td>
</tr>
<tr>
<td>Compensation received on voluntary retirement</td>
<td>17(3)</td>
</tr>
</tbody>
</table>
COMPONENTS OF SALARY

Part – A
(i) Basic pay
(ii) Dearness allowance
(iii) Bonus
(iv) Commission/Fees etc.

Part – B Allowances
Allowance means a fixed sum paid to an employee for a specific purpose without confirming the end utilization and allowance can be divided into four categories.

1. House Rent Allowance Sec. 10(13A) Rule 2A
2. Special Allowance Sec. 10(14) Rule 2BB

Special allowances can be divided into two categories

(i) Personal Allowance
(a) Children Education Allowance
(b) Hostel Allowance
(c) Transport Allowance
(d) Outstation Allowance
(e) Tribal Area Allowance
(f) Underground Allowance
(g) Composite Hill and fuel Allowance/High Altitude Allowance/Uncongenial climate Allowance/Snow Bound Area Allowance
(h) Border Area Allowance/Remote Area Allowance/Difficult Area Allowance/Disturbed Area Allowance.
(i) Other allowance like Compensatory Field Area Allowance, Compensatory Highly Active Field Area Allowance etc.

(ii) Allowance for official Duty
(a) Any allowance granted to meet the cost of travel on tour or on transfer.
(b) Daily allowance
(c) Conveyance allowance
(d) Helper allowance
(e) Academic allowance/research allowance
(f) Uniform allowance

3. Foreign Allowance Sec. 10(7)

4. Any other Allowance
- City Compensatory Allowance.
- Cash Allowance.
- Split Duty Allowance.
- Overtime Allowance.
- Medical Allowance.
- Servant Allowance.
- Tiffin Allowance.
- Entertainment Allowance (Subject to deduction u/s 16(ii)).
- Similarly there may be any number of other personal allowances.

Part – C Perquisites (Facilities)
- Rent Free Accommodation Sec. 17(2)(i) Rule 3(1)
- Accommodation at concessional rent Sec. 17(2)(ii) Rule 3(1)
- Motor Car Facility Sec. 17(2)(iii) Rule 3(2)
- Gardener/Watchmen/Sweeper or any other servant Sec.17(2)(iii) Rule 3(3)
- Gas/Electricity/Water Sec. 17(2)(iii) Rule 3(4)
- Education Facility Sec. 17(2)(iii) Rule 3(5)
- Free transport Sec. 17(2)(iii) Rule 3(6)
- Payment by the employer on behalf of the employee Sec. 17(2)(iv)
- Payment of insurance premium on behalf of the employee Sec. 17(2)(v)
- Specified securities or Sweat equity allotted/transferred to employees by an employer Sec. 17(2)(vi)
- Any contribution to an approved superannuation fund by the employer in respect of an employee Sec. 17(2)(vii)
- Any other fringe benefit Sec. 17(2)(viii)
  - Loan to the employee either at concessional rate or free of interest Rule 3(7)(i)
  - Expenditure in connection with travelling, touring or accommodation to the employee Rule 3(7)(ii)
  - Free refreshment or foods to the employees Rule 3(7)(iii)
  - Any gift, voucher or token Rule 3(7)(iv)
  - Expenses on credit cards Rule 3(7)(v)
  - Club Membership and expenses incurred in a club Rule 3(7)(vi)
  - Use of moveable assets Rule 3(7)(vii)
  - Transfer of any moveable asset Rule 3(7)(viii)
  - Any other benefit Rule 3(7)(ix)
- Leave travel Concession Sec. 10(5) Rule 2B

### Part – D Superannuation Benefits

- Gratuity Sec. 10(10)
- Pension Sec. 10(10A)
- Leave Salary Sec. 10(10AA)
- Provident Fund Sec. 10(11), 10(12), 10(13), Part A of Fourth Schedule to Income Tax Act
- Retrenchment Compensation Sec. 10(10B)
- Voluntary Retirement Sec. 10(10C) Rule 2BA

### Part – E Any Other Payment

Profits in lieu of salary Sec. 17(3)

#### Question 1: Explain Basic Pay/Dearness Allowance/ Bonus/Commission/Fees.

**Answer:** Basic Pay/Dearness Allowance/Bonus/Commission/Fees

**Basic Pay:** Basic Pay is the essential component of salary. It is given by employer to employee for his basic qualities like qualification, experience and expertise in particular field and it is generally given in the form of a pay scale $2,000 – 100 – 2,500 – 200 – 3,500 – 300 – 5,000 – 400 – 7,000$. The pay scale has in general 20 increments. Basic pay is always fully taxable.

**Dearness Allowance:** Dearness Allowance is given to an employee to compensate him for increase in prices and it is generally allowed as certain percentage of basic pay and it is linked to consumer price index and it is revised on quarterly basis. Dearness allowance of an employee is always fully chargeable to tax.

*As per Section 16 (ia), Standard Deduction of ₹50,000 or salary whichever is lower shall be allowed from the salary.*

**Illustration 1:** Mr. X is employed in ABC Ltd. since 01.07.2007 in the pay scale of $11,000 – 500 – 14,500 – 1200 – 20,500 – 1,500 – 28,000$. The employer has paid dearness allowance @ 20% of his basic pay from 01.04.2019 to 30.09.2019 and thereafter dearness allowance was allowed @ 25% of basic pay.

Compute employee’s Tax Liability for Assessment Year 2020-21.

**Solution:**

\[
\text{Basic Pay} = (19,300 \times 3) + (20,500 \times 9) = 2,42,400.00
\]

**Working Note:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Pay Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2007 – 30.06.2008 = 11,000 p.m.</td>
<td>11,000 p.m.</td>
</tr>
<tr>
<td>01.07.2007 – 30.06.2008 = 11,000 p.m.</td>
<td>11,500 p.m.</td>
</tr>
<tr>
<td>01.07.2009 – 30.06.2010 = 12,000 p.m.</td>
<td>12,000 p.m.</td>
</tr>
<tr>
<td>01.07.2010 – 30.06.2011 = 12,500 p.m.</td>
<td>12,500 p.m.</td>
</tr>
<tr>
<td>01.07.2011 – 30.06.2012 = 13,000 p.m.</td>
<td>13,000 p.m.</td>
</tr>
<tr>
<td>01.07.2012 – 30.06.2013 = 13,500 p.m.</td>
<td>13,500 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014 = 14,000 p.m.</td>
<td>14,000 p.m.</td>
</tr>
<tr>
<td>01.07.2014 – 30.06.2015 = 14,500 p.m.</td>
<td>14,500 p.m.</td>
</tr>
<tr>
<td>01.07.2015 – 30.06.2016 = 15,700 p.m.</td>
<td>15,700 p.m.</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2016 – 30.06.2017</td>
<td>16,900 p.m.</td>
</tr>
<tr>
<td>01.07.2017 – 30.06.2018</td>
<td>18,100 p.m.</td>
</tr>
<tr>
<td>01.07.2018 – 30.06.2019</td>
<td>19,300 p.m.</td>
</tr>
<tr>
<td>01.07.2019 – 30.06.2020</td>
<td>20,500 p.m.</td>
</tr>
</tbody>
</table>

Dearness Allowance: 54,630.00

Working Note:

- **From April to September**
  \[(19,300 \times 3) \times 20\% = 11,580\]
  \[(20,500 \times 3) \times 20\% = 12,300\]

- **From October to March**
  \[(20,500 \times 6) \times 25\% = 30,750\]

Gross Salary: 2,97,030.00

Income under the head Salary: 2,47,030.00

Gross Total Income: 2,47,030.00

Less: Deduction u/s 80C to 80U: Nil

Total Income: 2,47,030.00

Computation of Tax Liability

Tax on 2,47,030 at slab rate: Nil

Tax Liability: Nil

**Illustration 2:** Mr. X joins ABC Ltd. on 1st July’ 2010 in the pay scale of 20,000 – 500 – 25,000 – 700 – 30,600 – 1,000 – 37,600. The company has allowed him dearness allowance @ 5% of the basic pay from 01.04.2019 upto 30.06.2019 and thereafter dearness allowance was allowed @ 11% of the basic pay but upto 31.12.2019 and after that dearness allowance was allowed @ 18% of the basic pay.

Compute employee’s Tax Liability for the Assessment Year 2020-21.

Solution:

Basic Pay [(24,000 x 3) + (24,500 x 9)] = 2,92,500.00

Working Note:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2010 – 30.06.2011</td>
<td>20,000 p.m.</td>
</tr>
<tr>
<td>01.07.2011 – 30.06.2012</td>
<td>20,500 p.m.</td>
</tr>
<tr>
<td>01.07.2012 – 30.06.2013</td>
<td>21,000 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014</td>
<td>21,500 p.m.</td>
</tr>
<tr>
<td>01.07.2014 – 30.06.2015</td>
<td>22,000 p.m.</td>
</tr>
<tr>
<td>01.07.2015 – 30.06.2016</td>
<td>22,500 p.m.</td>
</tr>
<tr>
<td>01.07.2016 – 30.06.2017</td>
<td>23,000 p.m.</td>
</tr>
<tr>
<td>01.07.2017 – 30.06.2018</td>
<td>23,500 p.m.</td>
</tr>
<tr>
<td>01.07.2018 – 30.06.2019</td>
<td>24,000 p.m.</td>
</tr>
<tr>
<td>01.07.2019 – 30.06.2020</td>
<td>24,500 p.m.</td>
</tr>
</tbody>
</table>

Dearness Allowance: 33,000.00

Working Note:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>From April to June</td>
<td>3,600</td>
</tr>
<tr>
<td>(24,000 x 3) x 5%</td>
<td></td>
</tr>
<tr>
<td>From July to December</td>
<td>16,170</td>
</tr>
<tr>
<td>(24,500 x 6) x 11%</td>
<td></td>
</tr>
<tr>
<td>From January to March</td>
<td>13,230</td>
</tr>
<tr>
<td>(24,500 x 3) x 18%</td>
<td></td>
</tr>
</tbody>
</table>

Gross Salary: 3,25,500.00

Less: Standard Deduction u/s 16 (ia) (50,000.00)

Income under the head Salary: 2,75,500.00

Gross Total Income: 2,75,500.00

Less: Deduction u/s 80C to 80U: Nil
**Income Under The Head Salary**

Total Income 2,75,500.00

**Computation of Tax Liability**

Tax on ₹2,75,500 at slab rate 1,275.00
Less: Rebate u/s 87A (1,275.00)
Tax Liability Nil

**Bonus:** It is the part of the profits of the employer, which is given to an employee and it is fully taxable.

**Fees/Commission:** Extra payment for extra work is called commission or fees and it is always fully taxable.

**Question 2 [V. Imp.]: Discuss the provisions relating to taxability of recognised Provident Funds?**

**Answer:** Recognised provident fund Part A of fourth schedule/ Section 10(12)

Employer’s contribution **upto 12% of the employee’s retirement benefit salary** shall be exempt from income tax.

Interest credited to the provident fund account **upto 9.5% p.a. shall be exempt from income tax.**

Deduction shall be allowed under section 80C for employee contribution.

**Meaning of Retirement Benefit Salary**

Retirement Benefit Salary shall include:
(i) Basic pay
(ii) Dearness allowance if the terms of employment so provided
(iii) Commission if it is paid as a fixed percentage of the turnover as decided in **Gestetner Duplicators Pvt. Ltd v CIT, (1979)(SC).**

**Illustration 3:** Mr. X is employed in ABC Ltd. getting basic pay ₹60,000 p.m. and dearness allowance ₹10,000 p.m. (forming part of salary). Employer has paid bonus ₹20,000 during the year. Commission was allowed @ 2% of sales turnover of ₹50,00,000. The employer and employee both are contributing ₹11,000 p.m. (each) to the recognised provident fund. During the year interest of ₹1,00,000 was credited to the RPF @ 10% p.a. Compute tax liability of Mr. X for A.Y. 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (60,000 x 12)</td>
<td>7,20,000</td>
</tr>
<tr>
<td>Dearness allowance (10,000 x 12)</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>20,000</td>
</tr>
<tr>
<td>Commission (50,00,000 x 2%)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Employer’s contribution to recognised provident fund in excess of 12% of retirement benefit salary</td>
<td>19,200</td>
</tr>
</tbody>
</table>

**Working Note:**

RBS = 7,20,000 + 1,20,000 + 1,00,000

= 9,40,000

12% of RBS = 1,12,800

Employer’s contribution = 11,000 x 12 = 1,32,000

1,32,000 – 1,12,800 = 19,200

Interest credited in excess of 9.5% p.a.

(1,00,000 / 10% x 0.5%) x 2 = 2,500

Gross Salary 9,81,700

Less: Standard Deduction u/s 16 (ia) (50,000)

**Income under the head Salary** 9,31,700

**Income under the head other sources**

Interest credited in excess of 9.5% p.a.

(1,00,000 / 10% x 0.5%) x 2 = 2,500

Gross Total Income 9,34,200

Less: Deduction u/s 80C (1,32,000)

Total Income 8,02,200

**Computation of Tax Liability**

Tax on ₹8,02,200 at slab rate 72,940.00
Add: HEC @ 4% 2,917.60
Tax Liability 75,857.60
Payments From Recognised Provident Funds

Payments received from recognised provident fund shall be exempt from income tax if the employee has complied with any of the conditions given below:

(i) If the employee has rendered continuous service for a period of 5 years or more, or
(ii) If he has not rendered such continuous service, the service has been terminated by reason of the employee’s ill-health, or by the contraction or discontinuance of the employer’s business or other cause beyond the control of the employee, or
(iii) If the employee obtains employment with any other employer and the provident fund has been transferred to such employer and the total service with the former employer and the current employer is of 5 years or more.

If the employee has not complied with even a single condition, in that case amount received shall be taxable but only that part which was exempt earlier. Employer contribution and interest on employer contribution shall be taxable under the head Salary. Interest on employee contribution shall be taxable under the head Other Sources.

Example

Mr. X retired from ABC Ltd. and received RPF balance as given below-

Employer Contribution 5,00,000 - 15%
Employee contribution 5,00,000 - 15%
Interest employer contribution 1,00,000 - 10% p.a.
Interest employee contribution 1,00,000 - 10% p.a.

The employee has not complied with even a single condition prescribed for this purpose, taxable amount shall be.

Employer contribution = 5,00,000 / 15% x 12% = 4,00,000 (Taxable under the head Salary)
Interest on employer contribution = 1,00,000 /10% x 9.5% = 95,000 (Taxable under the head Salary)
Interest on employee contribution= 1,00,000 / 10% x 9.5% = 95,000 (Taxable under the head Other Sources)
Employee contribution 5,00,000 Exempt.

Question 3: Explain provisions relating to Unrecognised Provident Fund.

Answer: Employer contribution and interest on employee and employer contribution shall be exempt from income tax so long as the employee is in employment but at the time of leaving the job, employer contribution and interest on employer and employee contribution shall be taxable, however amount of employee contribution shall not be taxed at the time of receipt because it has already been taxed when the employee was in employment.

The employer’s contribution and interest thereon is taxable under the head salary but interest on employee contribution shall be taxable under the head Other Sources.

No deduction is allowed under section 80C for employee contribution.

Illustration 4: Mr. X is employed in ABC limited basic pay ₹70,000 per month, D.A. ₹30,000 per month, Bonus ₹50,000 and commission @ 1% on sales turnover of ₹100 Lakh. Employer has contributed ₹18,000 per month to Unrecognized provident fund and employee has also contributed an equal amount. During the year Interest of ₹2,00,000 was credited on employee plus employer contribution @ 10% per annum. Compute his Income and Tax Liability.

Solution:

Basic Pay (70,000 x 12) 8,40,000
Dearness allowance (30,000 x 12) 3,60,000
Bonus 50,000
Commission (100,00,000 x 1%) 1,00,000
Employer’s contribution to unrecognised provident fund Nil
Interest credited in unrecognised provident fund Nil
Gross Salary 13,50,000
Less: Standard Deduction u/s 16 (ia) (50,000)
Income under the head Salary 13,00,000
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Total Income</td>
<td>13,00,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>13,00,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- Tax on ₹13,00,000 at slab rate: 2,02,500
- Add: HEC @ 4%: 8,100
- Tax Liability: 2,10,600

**Illustration 5:** Mr. X retires from service on December 31, 2019, after 25 years of service. Following are the particulars of his income/investments for the previous year 2019-20:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic pay @ ₹ 16,000 per month for 9 months</td>
<td>1,44,000</td>
</tr>
<tr>
<td>Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months</td>
<td>72,000</td>
</tr>
<tr>
<td>Lumpsum payment received from the Unrecognised Provident Fund</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Deposits in the PPF account</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Out of the amount received from the provident fund, the employer’s share was ₹ 2,20,000 and the interest thereon ₹50,000. The employee’s share was ₹2,70,000 and the interest thereon ₹60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2020-21?

**Solution:**

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2020-21 is computed hereunder:

- **Amount taxable under the head “Salaries”:**
  - Employer’s share in the payment received from the URPF: 2,20,000
  - Interest on the employer’s share: 50,000
  - Total: 2,70,000

- **Amount taxable under the head “Income from Other Sources” :**
  - Interest on the employee’s share: 60,000
  - Total amount taxable from the amount received from the fund: 3,30,000

**Illustration 6:** Will your answer be any different if the fund mentioned above was a recognised provident fund?

**Solution:** Since the fund is a recognised one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

**Question 4: Explain taxability of Statutory provident fund. Section 10(11) (Provident Fund Act 1925)**

**Answer:** Statutory provident fund (also called Government Provident Fund) is applicable in case of Government employees and is regulated through Provident Fund Act, 1925. The Employer donot contribute to this fund hence there is no tax treatment for employer contribution and interest on employer contribution. Interest on employee contribution is exempt from Income Tax. Further, the lump sum payment from such provident fund at the time of retirement or termination of service is also exempt from tax. Deduction shall be allowed under section 80C for employee contribution.

**Question 5 [V. Imp.]: Write a note on Taxability of Gratuity.**

**Answer: Taxability of Gratuity**

Gratuity means a *gratuitous payment* made by the employer to the employee at the time of his leaving the job in recognition of the meritorious services and the association of the employee with the institution. With the enactment of *Payment of Gratuity Act 1972*, gratuity has become a statutory obligation on the part of the employer.

Gratuity is fully chargeable to tax if it is given during continuity of the job.

**Death cum retirement gratuity Section 10(10)**

Tax treatment of gratuity is asunder:

- A – Employees of State Government/Central Government/Local Authority
B – Employees covered under payment of Gratuity Act 1972
C – Any other employee.

**A – Employees of State Government/Central Government/Local Authority:**
Any death cum retirement gratuity received by Central or State Government employees including employees of a local authority is fully exempt from tax.

**B – Employees covered under payment of Gratuity Act 1972:**
Any gratuity received by the employees covered under payment of Gratuity Act 1972, shall be exempt to the extent of the least of the following:

(i) Gratuity received
(ii) ₹ 20,00,000
(iii) 15 days salary for each completed year of service or part thereof in excess of six month.

In case of employees of a seasonal establishment, in place of 15 days, only 7 days salary will be taken.

15 days or 7 days wages shall be calculated by considering number of days in a month to be 26.

**Salary here means last drawn salary and includes only Basic Pay and Dearness Allowance**
However, in case of piece rated employees, salary shall be computed on the basis of average of the total wages received by them for a period of three months immediately preceding the termination of their employment.

**Example**
Mr. X is the piece rated employee who is retired on 10.03.2020 and wages received by him from 11.12.2019 to 10.03.2020 are ₹33,000. In this case, one month salary shall be ₹33,000/3 = ₹11,000 and 15 days salary shall be = 11,000/26 x 15 = ₹6,346.15

**C – Any other employee:**
The least of the following will be exempt
(i) Gratuity received
(ii) ₹ 20,00,000
(iii) Half month’s salary for each completed year of service.

Salary here means **average salary for ten months immediately preceding the month of retirement** and will consist of Basis pay + Dearness allowance (if provided) + Commission on sales turnover achieved by the employee and paid at fixed rate.

If an employee was retired earlier and has received gratuity and some exemption was allowed and same employee has taken up some other employment and is retired from the other employer also, in this case exemption shall be allowed again but maximum exemption allowed from all the employers cannot exceed ₹20 lakh.

If any employee is expired and gratuity has been received by the family members, exemption shall be allowed in the normal manner and balance amount shall be taxable as income of such member under the head other sources.

No exemption from gratuity is allowed if the relationship of employer and employee does not exist. e.g. Gratuity paid by LIC to its insurance agents is chargeable to tax.

**Illustration 7:** Mr. X was employed in ABC Ltd. getting basic pay ₹18,000 p.m. but it was increased to ₹24,000 p.m. w.e.f. 01-07-2019, dearness allowance ₹6,000 p.m. but it was increased to ₹9,000 p.m. w.e.f. 01-07-2019 (50% of DA forms part of salary). The employee was retired on 10.01.2020 after serving the employer for 20 years and 10 months. The employer has paid him gratuity of ₹9,10,000 and the employee was covered under Payment of Gratuity Act, 1972.

Compute taxable portion of gratuity and also Tax Liability.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>₹[(18,000 x 3) + (24,000 x 6) + (24,000 x 10/30)]</td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>₹[(6,000 x 3) + (9,000 x 6) + (9,000 x 10/30)]</td>
</tr>
<tr>
<td>Gratuity</td>
<td>₹Sec 10(10)]</td>
</tr>
</tbody>
</table>

**Working Note:**
**Least of the following is exempt:**
1. ₹9,10,000
2. ₹20,00,000
3. 15/26 x 33,000 x 21 = ₹3,99,807.69
Received = ₹9,10,000.00
Exempt = ₹(3,99,807.69)
Taxable = ₹5,10,192.31

Gross Salary 7,91,192.31
Less: Standard Deduction u/s 16 (ia) (50,000.00)
Income under the head Salary 7,41,192.31
Gross Total Income 7,41,192.31
Less: Deduction u/s 80C to 80U Nil
Total Income 7,41,192.31
Rounded off u/s 288A 7,41,190.00

Computation of Tax Liability
Tax on ₹7,41,190 at slab rate 60,738.00
Add: HEC @ 4% 2,429.52
Tax Liability 63,167.52
Rounded off u/s 288B 63,170.00

(b) Presume Mr. X is not covered in Payment of Gratuity Act 1972.

Solution: ₹
Basic Pay [(18,000 x 3) + (24,000 x 6) + (24,000 x 10/30)] 2,06,000.00
Dearness Allowance [(6,000 x 3) + (9,000 x 6) + (9,000 x 10/30)] 75,000.00
Gratuity {Sec 10(10)} 6,55,000.00

Working Note:
Least of the following is exempt:
1. ₹9,10,000
2. ₹20,00,000
3. 1/2 x (21,000 x 4 + 28,500 x 6)/10 x 20 = ₹2,55,000
Received = ₹9,10,000
Exempt = ₹(2,55,000)
Taxable = ₹6,55,000

Illustration 8: Mr. X is retired from ABC Ltd. w.e.f. 11.11.2019 after serving the employer for 20 years and 11 months. The employer has paid him gratuity of ₹5,75,000. At the time of retirement, employee’s basic pay was ₹18,000 p.m. However up to 31.07.2019 it was ₹11,000 p.m. and the employee was getting dearness allowance ₹5,000 p.m. but it was ₹3000 p.m. upto 31.07.2019. 30% of dearness allowance forms part of salary.
Compute taxable part of gratuity and employee’s Tax Liability.

Solution: ₹
Basic Pay [(11,000 x 4) + (18,000 x 3) + (18,000 x 10/30)] 1,04,000.00
Dearness Allowance [(3,000 x 4) + (5,000 x 3) + (5,000 x 10/30)] 28,666.67
Gratuity {Sec 10(10)} 4,33,200.00
**Working Note:**

**Least of the following is exempt:**

1. ₹5,75,000
2. ₹20,00,000
3. ½ x 14,180 x 20 = ₹1,41,800

Received = ₹5,75,000
Exempt = (₹1,41,800)
Taxable = ₹4,33,200

**Calculation of Average Salary**

**Basic Pay**
- From January to July: ₹11,000 x 7 = ₹77,000
- From August to October: ₹18,000 x 3 = ₹54,000

**Dearness Allowance**
- From January to July: ₹900 x 7 = ₹6,300
- From August to October: ₹1,500 x 3 = ₹4,500
- Total = 1,41,800

Average Salary = 1,41,800 ÷ 10 = ₹14,180

<table>
<thead>
<tr>
<th>Gross Salary</th>
<th>5,65,866.67</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>5,15,866.67</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,15,866.67</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>5,15,866.67</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>5,15,870.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

Tax on ₹5,15,870 at slab rate
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B
(b) Presume employee is covered under Payment of Gratuity Act 1972.

**Solution:**

Basic Pay

\[
\left[(11,000 \times 4) + (18,000 \times 3) + (18,000 \times 10/30)\right]
\]
Dearness Allowance

\[
\left[(3,000 \times 4) + (5,000 \times 3) + (5,000 \times 10/30)\right]
\]
Gratuity {Sec 10(10)}

| Working Note: Least of the following is exempt: |
|-----------------|-----------------|
| 1. ₹5,75,000    |                 |
| 2. ₹20,00,000   |                 |
| 3. 15/26 x 23,000 x 21 = ₹2,78,653.85 |                 |
| Received = ₹5,75,000.00 |                 |
| Exempt = (₹2,78,653.85) |                 |
| Taxable = ₹2,96,346.15 |                 |

Gross Salary
Less: Standard Deduction u/s 16 (ia)
Income under the head Salary
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income
Rounded off u/s 288A

**Computation of Tax Liability**

Tax on ₹3,79,010 at slab rate

<table>
<thead>
<tr>
<th>Solution:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
</tr>
<tr>
<td>[(11,000 x 4) + (18,000 x 3) + (18,000 x 10/30)]</td>
</tr>
<tr>
<td>Dearness Allowance [(3,000 x 4) + (5,000 x 3) + (5,000 x 10/30)]</td>
</tr>
</tbody>
</table>

| Working Note: Least of the following is exempt: |
|-----------------|-----------------|
| 1. ₹5,75,000    |                 |
| 2. ₹20,00,000   |                 |
| 3. 15/26 x 23,000 x 21 = ₹2,78,653.85 |                 |
| Received = ₹5,75,000.00 |                 |
| Exempt = (₹2,78,653.85) |                 |
| Taxable = ₹2,96,346.15 |                 |

Gross Salary
Less: Standard Deduction u/s 16 (ia)
Income under the head Salary
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income
Rounded off u/s 288A

**Computation of Tax Liability**

Tax on ₹3,79,010 at slab rate | 6,450.50 |
Illustration 9: Mr. X retired on 15.06.2019 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

Basic Salary : ₹ 5,000 p.m.
Dearness Allowance : ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission : 1% of turnover (turnover in the last 12 months was ₹ 12,00,000)
Bonus : ₹ 12,000 p.a.

Compute his taxable gratuity assuming:
(a) He is non-government employee and covered by the Payment of Gratuity Act 1972.
(b) He is non-government employee and not covered by Payment of Gratuity Act 1972.
(c) He is a Government employee.

Solution:
(a) He is covered by the Payment of Gratuity Act 1972.

Least of the following shall be exempt:

i. Gratuity received: ₹ 6,00,000
ii. Statutory limit : ₹ 20,00,000
iii. 15 days salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months

\[
\frac{15}{26} \times (₹5,000 + ₹3,000) \times 27 = ₹1,24,615
\]

Taxable Gratuity (6,00,000 – 1,24,615) = ₹ 4,75,385

(b) He is not covered by the Payment of Gratuity Act 1972.

Least of the following is exempt:

i. Gratuity received: ₹ 6,00,000
ii. Statutory limit : ₹ 20,00,000
iii. 

\[
= \frac{1}{2} \left[ (5,000 \times 10) + (3,000 \times 60\% \times 10) + \left( \frac{1\% \times 12,00,000 \times 10}{12} \right) \right] \times 26
\]

\[
= ₹1,01,400
\]

Taxable Gratuity (6,00,000 – 1,01,400) = ₹ 4,98,600

(c) He is a government employee

Entire amount of gratuity is exempt

Question 6 [V. Imp.]: Write a note on taxability of pension.

Answer: Taxability of Pension

Uncommuted pension

Pension is a periodical payment received by an employee after his retirement and is taxable as salary in case of all categories of employees.

Family pension Section 56

If any employee is expired and pension is being received by his family members, such pension shall be called family pension and as per section 56, it is taxable under the head other sources and the assessee shall be allowed deduction under section 57 equal to 1/3 of gross pension or ₹15,000, whichever is less.

Example

Mrs. X is getting family pension of ₹4,000 p.m. after the death of Mr. X. In this case, her taxable income shall be ₹33,000.

Commuted pension Section 10(10A)

1. Commuted Pension received by employees of Central Government, State Government, Local Authority or Statutory Corporation.

It is wholly exempt from tax under section 10(10A).
2. Commuted pension received by any other employee
(a) In case where any other employee receives gratuity, the commuted value of 1/3rd of the pension is exempt from tax.
(b) If the employee has not received gratuity, the commuted value of ½ of such pension is exempt from tax.

Illustration 10: Mr. X is employed in ABC Ltd. getting basic pay ₹22,000 p.m., dearness allowance ₹5,000 p.m. He was retired on 21.12.2019. The employer has allowed him pension of ₹9,000 p.m. and the employee has requested for commutation of 52% of his pension. The employer has allowed him such commutation on 01.02.2020 and has paid ₹5,61,600. The employer has paid him gratuity of ₹6,95,000 and employee has completed service of 20 years and 11 months.
Compute Tax Liability for the Assessment Year 2020-21.

Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay [(22,000 x 8) + (22,000 x 21/30)]</td>
<td>1,91,400.00</td>
</tr>
<tr>
<td>Dearness Allowance [(5,000 x 8) + (5,000 x 21/30)]</td>
<td>43,500.00</td>
</tr>
<tr>
<td>Gratuity {Sec 10(10)}</td>
<td>4,75,000.00</td>
</tr>
</tbody>
</table>

Working Note:
Least of the following is exempt:
1. Gratuity received ₹6,95,000
2. ₹20,00,000
3. ½ x 22,000 x 20 = ₹2,20,000
Received = ₹6,95,000
Exempt = ₹2,20,000
Taxable = ₹4,75,000

Uncommuted Pension {Sec 17(1)(ii)} 20,340.00

Working Note:

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>For December’ 2019</td>
<td>2,700</td>
</tr>
<tr>
<td>For January’ 2020</td>
<td>9,000</td>
</tr>
<tr>
<td>From February to March’ 2020</td>
<td>8,640</td>
</tr>
<tr>
<td>Total = ₹2,700 + ₹9,000 + ₹8,640 = 20,340</td>
<td></td>
</tr>
</tbody>
</table>

Commuted Pension {Sec 10(10A)} 2,01,600.00

Working Note:

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received</td>
<td>5,61,600.00</td>
</tr>
<tr>
<td>Exempt = 5,61,600 / 52% x 1/3</td>
<td>(3,60,000.00)</td>
</tr>
<tr>
<td>Taxable =</td>
<td>2,01,600.00</td>
</tr>
</tbody>
</table>

Gross Salary 9,31,840.00
Less: Standard Deduction u/s 16 (ia)  (50,000.00)
Income under the head Salary 8,81,840.00
Gross Total Income 8,81,840.00
Less: Deduction u/s 80C to 80U Nil
Total Income 8,81,840.00

Computation of Tax Liability
Tax on ₹8,81,840 at slab rate 88,868.00
Add: HEC @ 4% 3,554.72
Tax Liability 92,422.72
Rounded off u/s 288B 92,420.00
Illustration 11: Mr. X retired w.e.f 01.10.2019 receiving ₹5,000 p.m. as pension. On 01.02.2020, he commuted 60% of his pension and received ₹3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

a. He is a government employee.
b. He is a non-government employee, receiving gratuity of ₹ 5,00,000 at the time of retirement.
c. He is a non-government employee and is in receipt of no gratuity at the time of retirement.

Solution:

(a) He is a government employee.
Uncommuted pension received (October – March)
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]
Commuted pension received ₹ 3,00,000
Less : Exempt u/s 10(10A) ₹(3,00,000) NIL
Taxable pension ₹ 24,000

(b) He is a non-government employee, receiving gratuity ₹ 5,00,000 at the time of retirement.
Uncommuted pension received (October – March)
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]
Commuted pension received ₹ 3,00,000
Less:  Exempt u/s 10(10A)
\[
\left(\frac{1}{3} \times \frac{3,00,000}{60%} \times 100\%\right) = ₹(1,66,667)
\]

₹ 1,33,333

Taxable pension ₹ 1,57,333

(c) He is a non-government employee and is not in receipt of gratuity at the time of retirement.
Uncommuted pension received (October – March)
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]
Commuted pension received ₹ 3,00,000
Less : Exempt u/s 10(10A)
\[
\left(\frac{1}{2} \times \frac{3,00,000}{60%} \times 100\%\right) = ₹ (2,50,000)
\]

₹ 50,000

Taxable pension ₹ 74,000

Pension by winners of gallantry award Section 10(18)
Pension received by individuals who are winners of Param Vir Chakra, Maha Vir Chakra or Vir Chakra or such other gallantry awards shall be fully exempt from income tax.
Similarly, pension received by the family members of an individual mentioned above shall be exempt from income tax.

Family pension received by family members of the persons who died in the course of operational duties Section 10(19)
Any family pension received by the widow or children etc. of the members of armed forces including paramilitary forces of the union shall be exempt from income tax provided death of such member has occurred in the course of operational duties.

Question 7: Write a note on deduction in case of contribution to Pension Scheme of Central Government.

Answer: Deduction in respect of contribution to Pension Scheme of Central Government Section 80CCD

1. Deduction is allowed to an INDIVIDUAL.
2. In case of an employee deduction shall be allowed equal to the amount contributed by the employee towards the Pension Scheme (also called New Pension System) but maximum to the extent of 10% of retirement benefit salary. If the employer has contributed any amount towards Pension Scheme, it will be added to the gross salary of the employee and also deduction shall be allowed for such contribution but maximum to the extent of:

(a) fourteen per cent, where such contribution is made by the Central Government;

(b) ten per cent, where such contribution is made by any other employer,
of his salary in the previous year.
3. If the individual is not an employee and he has contributed to the Pension Scheme, deduction shall be allowed for such contribution but maximum to the extent of 20% of gross total income. Maximum deduction allowed under section 80C + 80CCC + 80CCD shall be ₹1,50,000. It can exceed upto ₹50,000 because of contribution to NPS by an individual. Limit of ₹1,50,000 can exceed to any extent because of employer contribution.
4. Any pension received under this scheme shall be taxable.
5. Lumpsum payment received upto 60% of total amount payable shall be exempt from income tax.
6. Amount received by the nominee on the death of the assessee shall be exempt from income tax.

As per Section 10 (12A) any payment from the National Pension System Trust to an employee on closure of his account or on his opting out of the pension scheme referred to in section 80CCD, to the extent it does not exceed Sixty per cent of the total amount payable to him at the time of such closure or his opting out of the scheme shall be exempt from Income Tax.

As per Section 10 (12B), any payment from the National Pension System Trust to an employee under the pension scheme referred to in section 80CCD, on partial withdrawal made out of his account in accordance with the terms and conditions, specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made thereunder, to the extent it does not exceed twenty-five per cent of the amount of contributions made by him shall be exempt from Income Tax.

**ATAL PENSION YOJANA**

Atal Pension Yojana or APY is the Government Of India’s social benefit pension program. Earlier when it was launched, there were no tax benefits. However, now APY is treated like NPS for tax benefits and eligible for deduction u/s 80CCD. Features of the scheme is as follows:

1. Any citizen of India whose age is between 18 years to 40 years can join this scheme.
2. You will start to receive the pension when you turn 60 years of age.
3. If the subscriber dies before the age of 60 years, his/her spouse would be given an option to continue contributing as usual, for the remaining period, till the original subscriber would have attained the age of 60 years.
4. If the spouse of the deceased not interested to continue the APY account, then he or she can close the account there itself and can claim the amount.
5. In case of death of subscriber, the same pension would be available to the spouse and on the death of both of them (subscriber and spouse), the pension wealth accumulated till age 60 of the subscriber would be returned to the nominee.
6. Exit before age 60 would be permitted only in exceptional circumstances, i.e., in the event of the death of the beneficiary or terminal disease.

**Illustration 12:** Mrs. X is employed in Central Government since 01.01.2019 and is getting basic pay of ₹1,00,000 p.m. She has contributed ₹10,000 p.m. to the notified pension scheme of Central Government and employer has also contributed an equal amount. She has paid premium of Jeevan Suraksha Policy ₹3,000 and invested ₹1,00,000 in NSC.

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

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>₹12,00,000.00</td>
</tr>
<tr>
<td>Contribution to the pension fund by Central Government</td>
<td>₹1,20,000.00</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>₹13,20,000.00</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>₹12,70,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹12,70,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>₹1,00,000.00</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

Less: Deduction u/s 80CCC 3,000.00
Less: Deduction u/s 80CCD 1,20,000.00
(employee contribution ₹1,20,000)
Deduction under section 80C + 80CCC + 80CCD 1,50,000.00
Additional Deduction u/s 80CCD 50,000.00
(additional deduction can exceed maximum ₹50,000)
Employer contribution 1,20,000.00

Total Income 9,50,000.00

Computation of Tax Liability

Tax on ₹9,50,000 at slab rate 1,02,500.00
Add: HEC @ 4% 4,100.00
Tax Liability 1,06,600.00

(b) Presume investment in NSC is ₹30,000.
In this case deduction allowed shall be
30,000 + 3,000 + 1,20,000 = 1,53,000, deduction allowed shall be ₹1,53,000 + 1,20,000 = ₹2,73,000 and
total income shall be ₹9,97,000 and tax liability shall be ₹1,16,380

Illustration 13: Mr. X has income under the head Business/Profession ₹20,00,000 and income under the
head house property ₹2,00,000 and he has deposited ₹2,20,000 in notified pension scheme, in this case his
income and tax liability shall be
Income under the head Business/Profession 20,00,000
Income under the head House Property 2,00,000
Gross Total Income 22,00,000
Less: Deduction u/s 80CCD (2,00,000)
Total Income 20,00,000

Computation of Tax Liability

Tax on ₹20,00,000 at slab rate 4,12,500
Add: HEC @ 4% 16,500
Tax Liability 4,29,000

Illustration 14: The basic salary of Mr. X is ₹ 80,000 p.m. Both Mr. A and his employer contribute 10% of
basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such
contribution in the hands of Mr. X.

Solution:
Basic Pay 9,60,000
(80,000 x 12)
Employer’s contribution to NPS 96,000
Gross Salary 10,56,000
Less: Standard Deduction u/s 16 (ia) (50,000)
Income under the head Salary 10,06,000

Gross Total Income 10,06,000
Less: Deduction u/s 80CCD
Employer’s contribution (9,60,000 x 10%) (96,000)
Employee contribution (9,60,000 x 10%) (96,000)
Total Income 8,14,000

Computation of Tax Liability

Tax on ₹8,14,000 at slab rate 75,300
Add: HEC @ 4% 3,012
Tax Liability 78,312
Rounded off u/s 288B 78,310
Question 8 [V. Imp.]: Write a note on taxability of Leave Salary/Encashment of Leave.

Answer: Taxability of Leave Salary/Encashment of Leave

Sometimes an employee may surrender his leave and may get equivalent payment in cash, it is called leave salary.

**Exemption in respect of encashment of leave salary** Section 10(10AA)

(1) Any leave salary received by an employee while he is in service is fully taxable under section 17(1).
(2) If he gets encashment at the time of leaving the service (including resignation) he can avail the exemption under section 10(10AA).

**The provisions of the exemption are as follows: -**

(i) **In the case of Government employees**: Any amount received as leave salary at the time of retirement whether on superannuation or otherwise, is exempt from tax, in case of employees of State Government/Central Government. E.g. Mr. X is retired from Central Govt. and has received leave salary of ₹2,00,000, in this case it will be exempt from income tax.

(ii) **In case of other employees** including the employees of local authority and public sector undertakings:

   Leave salary is exempt from tax to the extent of the least of the following:
   
   (a) Leave salary received
   (b) ₹ 3,00,000
   (c) 10 months x average salary
   (d) average salary x Leave at the credit

   Leave at the credit = Leave entitlement
   
   Less: (i) Leave availed during entire service
   Less: (ii) Leave encashed during entire service

   While computing leave entitlement, **maximum leave allowed shall be 30 days for each completed year of service (part of the year shall not be taken into consideration)**

   **Salary** includes basic salary plus dearness allowance to the extent the terms of employment so provide plus fixed percentage of commission on the turnover achieved by the assessee.

   **Average salary** is to be calculated on the basis of the average salary drawn by the employee during the period of 10 months immediately preceding his retirement.

   If any employee has received leave salary from two or more employers, exemption for each of the employers shall be computed separately, however, total exemption allowed can not exceed ₹3,00,000.

   **Salary paid to legal heirs of the deceased employee in respect of privilege leave standing to the credit of such employee at the time of his/her death is not taxable.**

**Illustration 15:** Mr. X is retired from ABC Ltd. on 10.11.2019 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of ₹5,00,000. The employee was entitled for 2 month leave per year of service. During entire service, he has availed 6 month leave and has encashed 7 month leave. The employee was getting basic pay ₹27,000 p.m. but it was increased to ₹33,000 p.m. w.e.f. 01-07-2019. He was getting DA ₹ 9,000 per month but it was increased to 12,000 per month w.e.f. 01-07-2019. 50% of DA forms part of salary.

Compute his Tax Liability for the Assessment Year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Calculation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>₹2,24,000.00</td>
</tr>
<tr>
<td>DA</td>
<td>₹79,000.00</td>
</tr>
<tr>
<td>Leave Salary</td>
<td>₹2,56,750.00</td>
</tr>
</tbody>
</table>

**Working Note:**

**Least of the following is exempt:**

1. ₹5,00,000
2. 10 x 34,750 = ₹3,47,500
3. ₹3,00,000
4. 7 x 34,750 = ₹2,43,250

Received = ₹5,00,000

Exempt = ₹2,43,250

Taxable = ₹2,56,750
**Computation of leave at the credit**

Leave Entitlement = 1 month x 20 = 20 month
Less: Leave availed = (6) month
Less: Leave Encashed = (7) month
Leave at the credit = 7 month

**Calculation of average salary 11-01-2019 to 10-11-2019**

<table>
<thead>
<tr>
<th>Basic Pay</th>
<th>[(27000/30 x 20) + (27000 x 5) + (33000 x 4) + (33000/30x10)] = 2,96,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dearness Allowance</td>
<td>[(4500/30 x 20) + (4500 x 5) + (6000 x 4) + (6000/30x10)] = 51,500</td>
</tr>
<tr>
<td>Total</td>
<td>3,47,500</td>
</tr>
<tr>
<td>Average Salary</td>
<td>= 3,47,500/10 = 34,750</td>
</tr>
</tbody>
</table>

Gross Salary 5,59,750.00
Less: Standard Deduction u/s 16 (ia) (50,000.00)
Income under the head Salary 5,09,750.00
Gross Total Income 5,09,750.00
Less: Deduction u/s 80C to 80U Nil
Total Income 5,09,750.00

**Computation of Tax Liability**

Tax on ₹5,09,750 at slab rate 14,450.00
Add: HEC @ 4% 578.00
Tax Liability 15,028.00
Rounded off u/s 288B 15,030.00

**Illustration 16:** Mr. X is retired from ABC Ltd. w.e.f. 01.12.2019 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of ₹3,75,000. The employee was entitled for 20 days leave per year of service. During entire service, he has availed 35 days of leave and has encashed 10 days of leave. The employee was getting basic pay ₹27,000 p.m. but it was increased to ₹30,000 p.m. w.e.f. 01-07-2019. The employer has allowed him pension of ₹6,000 p.m. and employee was allowed commutation of 1/3rd of his pension on 01.03.2020 amounting to ₹2,40,000.

Compute his Tax Liability for the Assessment Year 2020-21.

**Solution:**

Basic Pay [(27,000 x 3)+(30,000 x 5)] 2,31,000.00
Uncommuted Pension {Sec 17(1)(ii)} 22,000.00

**Working Note:**

<table>
<thead>
<tr>
<th>From December to February</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,000 x 3 =</td>
<td>18,000</td>
</tr>
<tr>
<td>For March</td>
<td></td>
</tr>
<tr>
<td>6,000 x 2/3 =</td>
<td>4,000</td>
</tr>
<tr>
<td>Total = 18,000 + 4,000 =</td>
<td>22,000</td>
</tr>
</tbody>
</table>

Commuted Pension {Sec 10(10A)} Nil
Leave Salary {Sec 10(10AA)} 90,000.00

**Working Note:**

Least of the following is exempt:
1. ₹3,75,000
2. 10 x 28,500 = ₹2,85,000
3. ₹3,00,000
4. 355/30 x 28,500 = ₹3,37,250
Received = ₹3,75,000
Exempt = ₹2,85,000
Taxable = ₹90,000

**Computation of leave at the credit**

Leave Entitlement = 20 x 20 = 400 days
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Description</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Leave availed</td>
<td>(35 days)</td>
</tr>
<tr>
<td>Less: Leave Encashed</td>
<td>(10 days)</td>
</tr>
<tr>
<td>Leave at the credit</td>
<td>355 days</td>
</tr>
</tbody>
</table>

**Calculation of average salary 01-02-2019 to 30-11-2019**

**Basic Pay**

\[
[(27,000 \times 5) + (30,000 \times 5)] = 2,85,000
\]

Average Salary = \(\frac{2,85,000}{10} = 28,500\)

**Computation of Tax Liability**

Tax on ₹2,93,000 at slab rate

Less: Rebate u/s 87A

Tax Liability

Nil

**Illustration 17:** Mr. X retired w.e.f 01.12.2019 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

- **Basic Salary**: ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 01.04.2019)
- **Dearness Allowance**: ₹ 3,000 p.m. (60% of which is for retirement benefits)
- **Commission**: ₹ 500 p.m.
- **Bonus**: ₹ 1,000 p.m.
- **Leave availed during service**: 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee.
(b) He is a non government employee.

**Solution:**

(a) **He is a government employee.**

- Leave Salary received at the time of retirement
  - ₹ 5,00,000
- Less: Exemption under section 10(10AA)
  - (₹ 5,00,000)
- Taxable Leave salary
  - Nil

(b) **He is a non-government employee**

- Leave Salary received at the time of retirement
  - ₹ 5,00,000
- Less: Exempt under section 10(10AA) [note 1]
  - ₹ (26,400)
- Taxable Leave Salary
  - ₹ 4,73,600

**Note 1:** Exemption under section 10(10AA) is least of the following:

(i) Leave salary received
  - ₹ 5,00,000
(ii) Statutory limit
  - ₹ 3,00,000
(iii) 10 months salary based on average salary of last 10 months
  - ₹ 66,000
  
  i.e. \[
  \left[10 \times \frac{\text{Salary of last 10 months i.e. Feb - Nov}}{10 \text{ months}}\right]
  \]
  
  \[
  = \left[10 \times \left(5000 \times 8\right) + (4000 \times 2) + (60\% \times 3000 \times 10)\right] \div 10 \text{ months}
  \]

(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months (max. 30 days per year of service)

  Leave Due  
  = Leave allowed – Leave taken
  
  = (30 days per year \times 20 years) – 480 days
  
  = 120 days
Question 9: Are receipts in the nature of retrenchment compensation received by a person at the time of retrenchment of his service taxable? Discuss.

Answer: Retrenchment Compensation Section 10(10B)
Retrenchment in general means termination of employees because the employer is closing down his business or profession or there is substantial decline in business of employer and in such cases the employer has to pay compensation to the employees and it is called retrenchment compensation and it will be exempt to the extent of the least of the following:
(a) Retrenchment compensation received
(b) An amount calculated in accordance with the provisions of section 25F(b) of the Industrial Disputes Act, 1947 or
(c) The amount as specified by the Government (i.e. ₹5,00,000).

Section 25F(b) of the Industrial Disputes Act provides for payment of retrenchment compensation equivalent to 15 days’ average pay for every year of continuous service or any part thereof in excess of six months. Average shall be taken for 3 months and salary shall include only basic pay and dearness allowance.

MAY – 2013 (4 Marks)
Mr. X received retrenchment compensation of ₹10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of ₹20,000 p.m.; dearness allowance of ₹5,000 p.m. Compute his taxable retrenchment compensation.

Solution:
As per section 10(10B), exemption available to Mr. X in respect of retrenchment compensation, in this case, will be the least of the following limits:
Compensation actually received = ₹10,00,000
Statutory limit = ₹5,00,000
Amount calculated in accordance with the provisions of section 25F of the Industrial Disputes Act, 1947
15/26 x (20,000+5,000) x 30 = ₹4,32,692
Therefore, ₹4,32,692, being the least of the above limits, would be exempt under section 10(10B).
The taxable retrenchment compensation will be:
Retrenchment compensation received ₹10,00,000
Less: Exemption under section 10(10B) ₹(4,32,692)
Taxable Retrenchment Compensation ₹5,67,308

Question 10: Write a note on voluntary retirement scheme.

Answer: Voluntary Retirement Scheme Section 10(10C) Rule 2BA
Sometimes the employer may offer some amount to the employee so that the employee himself submits his resignation and it is called voluntary retirement and in such cases amount paid by employer shall be exempt from income tax to the extent of the least of the following
(i) The amount receivable on voluntary retirement
(ii) ₹5,00,000
(iii) three months’ retirement benefit salary for each completed year of service, (part of the year shall be ignored)
(iv) retirement benefit salary at the time of retirement x the balance months of service left before the date of his retirement on superannuation.
(As per section 35DDA, employer shall be allowed to debit the amount to the profit and loss account in five annual equal installments)
e.g. Mr. X has taken voluntary retirement after completion of 18 years of service and at that time remaining service was 7 years and employer paid ₹6,00,000 on voluntary retirement and his retirement benefit salary at
the time of voluntary retirement was ₹5,000 p.m., in this case taxable amount shall be
(i) ₹6,00,000
(ii) ₹5,00,000
(iii) 5,000 x 3 x 18 = 2,70,000
(iv) 5,000 x 12 x 7 = 4,20,000
Received = ₹6,00,000
Exempt = (₹2,70,000)
Taxable = ₹3,30,000
If in the above case employee has taken voluntary retirement after completion of 22 years of service, taxable amount shall be
(i) ₹6,00,000
(ii) ₹5,00,000
(iii) 5,000 x 3 x 22 = 3,30,000
(iv) 5,000 x 12 x 3 = 1,80,000
Received = ₹6,00,000
Exempt = (₹1,80,000)
Taxable = ₹4,20,000

Illustration 18: Mr. X received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation.

Solution:
Voluntary retirement compensation received ₹ 7,00,000
Less: Exemption under section 10(10C) [Note 1] (₹5,00,000)
Taxable voluntary retirement compensation ₹ 2,00,000

Note 1: Exemption is to the extent of the least of the following:
(i) Compensation actually received = ₹ 7,00,000
(ii) Statutory limit = ₹ 5,00,000
(iii) Last drawn salary × 3 × completed years of service = (20,000 + 5,000) × 3 × 30 years = ₹ 22,50,000
(iv) Last drawn salary × remaining months of service = (20,000 + 5,000) × 6 × 12 months = ₹ 18,00,000

Question 11 [V. Imp.]: Discuss the taxability of house rent allowance given by the employer to his employee?

Answer: House Rent Allowance Section 10(13A) Rule 2A
Payment in cash by the employer to the employee for a specific purpose is called allowance e.g. If Mr. X is employed in ABC Ltd. and the employer has paid him ₹5,000 p.m. for taking a house on rent, it will be called house rent allowance.
House rent allowance is exempt to the extent of the least of the following:
(i) Rent paid over 10% of retirement benefits salary due to the assessee for the relevant period.
(ii) 50% of retirement benefit salary in case of Bombay, Calcutta, Madras or Delhi.
   40% of retirement benefit salary in case of any other place.
(iii) House rent allowance received.

If there is any change in house rent allowance, rent paid, retirement benefits salary or the place of posting during the year, there will be separate calculation for each of such change.

Illustration 19: Mr. X is employed in ABC Ltd. getting basic pay ₹20,000 p.m., dearness allowance ₹7,000 p.m. and half of the dearness allowance forms the part of salary for the purpose of retirement benefits. The employer has paid bonus @ ₹500 p.m., commission @ 1% on the sales turnover of ₹20 lakhs. The employer paid him house rent allowance ₹6,000 p.m. Employee has paid rent ₹7,000 p.m. and was posted at Agra. Compute his Tax Liability for the Assessment Year 2020-21.
Solution:

**Computation of Gross Salary**

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (20,000 x 12)</td>
<td>2,40,000.00</td>
</tr>
<tr>
<td>Dearness Allowance (7,000 x 12)</td>
<td>84,000.00</td>
</tr>
<tr>
<td>Bonus (500 x 12)</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Commission (1% of ₹20,00,000)</td>
<td>20,000.00</td>
</tr>
<tr>
<td>House rent allowance {Sec 10(13A) Rule 2A}</td>
<td>18,200.00</td>
</tr>
</tbody>
</table>

**Working Note:**

**Least of the following is exempt:**

1. ₹84,000 – ₹30,200 = 53,800
2. 40% of retirement benefit salary = ₹1,20,800
   (Retirement benefit salary = 2,40,000 + 42,000 + 20,000 = 3,02,000)
3. ₹72,000

Received = ₹72,000
Exempt = (₹53,800)
Taxable = ₹18,200

Gross Salary 3,68,200.00
Less: Standard Deduction u/s 16 (ia) (50,000.00)
Income under the head Salary 3,18,200.00
Gross Total Income 3,18,200.00
Less: Deduction u/s 80C to 80U Nil
Total Income 3,18,200.00

**Computation of Tax Liability**

Tax on ₹3,18,200 at slab rate 3,410.00
Less: Rebate u/s 87A (3,410.00)
Tax Liability Nil

Illustration 20: Compute taxable amount of house rent allowance in the following cases:

<table>
<thead>
<tr>
<th>Name of the employee</th>
<th>Mr. A</th>
<th>Mr. B</th>
<th>Mr. C</th>
<th>Mr. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>20,000 p.m.</td>
<td>20,000 p.m.</td>
<td>20,000 p.m.</td>
<td>20,000 p.m.</td>
</tr>
<tr>
<td>House rent allowance</td>
<td>5,000 p.m.</td>
<td>5,000 p.m.</td>
<td>5,000 p.m.</td>
<td>5,000 p.m.</td>
</tr>
<tr>
<td>Rent paid</td>
<td>1,500 p.m.</td>
<td>12,000 p.m.</td>
<td>14,000 p.m.</td>
<td>Nil</td>
</tr>
<tr>
<td>Place of residence</td>
<td>Delhi</td>
<td>Delhi</td>
<td>Delhi</td>
<td>Delhi</td>
</tr>
</tbody>
</table>

Solution:

**Situation 1: (Mr. A)**

**Computation of taxable amount of House rent allowance**

1. Rent paid over 10% of retirement benefit salary ( ₹18,000 – ₹24,000) Nil
2. 50% of retirement benefit salary 1,20,000
   (Retirement benefit salary = 2,40,000)
3. House Rent allowance received (5,000 x 12) 60,000
   Received 60,000
   Exempt 60,000
   Taxable 60,000

**Situation 2: (Mr. B)**

1. Rent paid over 10% of retirement benefit salary ( ₹1,44,000 – ₹24,000) 1,20,000
2. 50% of retirement benefit salary 1,20,000
   (Retirement benefit salary = 2,40,000)
3. House Rent allowance received (5,000 x 12) 60,000
   Received 60,000
   Exempt (60,000)
   Taxable Nil

**Situation 3: (Mr. C)**

1. Rent paid over 10% of retirement benefit salary ( ₹1,68,000 – ₹24,000) 1,44,000
2. 50% of retirement benefit salary 1,20,000
(Retirement benefit salary = 2,40,000)
3. House Rent allowance received (5,000 x 12) 60,000
Received 60,000
Exempt (60,000)
Taxable Nil

Situation 4: (Mr. D)
1. Rent paid over 10% of retirement benefit salary Nil
2. 50% of retirement benefit salary 1,20,000
(Retirement benefit salary = 2,40,000)
3. House Rent allowance received (5,000 x 12) 60,000
Received 60,000
Exempt Nil
Taxable 60,000

Illustration 21: Mr. X is employed in ABC Ltd. getting basic pay ₹20,000 p.m. but it was increased to ₹30,000 p.m. w.e.f. 01.09.2019. The employer was paying him house rent allowance ₹6,000 p.m. but it was decreased to ₹3,000 p.m. w.e.f. 01.11.2019. The employee was paying rent ₹4,000 p.m. but it was increased to ₹7,000 p.m. w.e.f. 01.12.2019. The employee was posted at Amritsar but was transferred to Calcutta w.e.f. 01.02.2020. The employee has resigned w.e.f. 01.03.2020. Compute his Tax Liability for the Assessment Year 2020-21.

Solution:
Basic Pay [(20,000 x 5) + (30,000 x 6)] 2,80,000
House rent allowance {Sec 10(13A) Rule 2A} 32,000

Working Note:
From April to August
Least of the following is exempt:
1. ₹20,000 – ₹10,000 = ₹10,000
2. 40% of retirement benefit salary = ₹40,000
   (Retirement benefit salary = ₹1,00,000)
3. ₹30,000
   Received = ₹30,000
   Exempt = (₹10,000)
   Taxable = ₹20,000

From September to October
Least of the following is exempt:
1. ₹8,000 – ₹6,000 = ₹2,000
2. 40% of retirement benefit salary = ₹24,000
   (Retirement benefit salary = ₹60,000)
3. ₹12,000
   Received = ₹12,000
   Exempt = ₹ (2,000)
   Taxable = ₹ 10,000

For November
Least of the following is exempt:
1. ₹4,000 – ₹3,000 = ₹1,000
2. 40% of retirement benefit salary = ₹12,000
   (Retirement benefit salary = ₹30,000)
3. ₹3,000
   Received = ₹3,000
   Exempt = (₹1,000)
   Taxable = ₹2,000
Income Under The Head Salary

From December to January
Least of the following is exempt:
1. ₹14,000 – ₹6,000 = ₹8,000
2. 40% of retirement benefit salary = ₹24,000
   (Retirement benefit salary = ₹60,000)
3. ₹6,000
Received = ₹6,000
Exempt = (₹6,000)
Taxable = Nil

For February
Least of the following is exempt:
1. ₹7,000 – ₹3,000 = ₹4,000
2. 50% of retirement benefit salary = ₹15,000
   (Retirement benefit salary = ₹30,000)
3. ₹3,000
Received = ₹3,000
Exempt = (₹3,000)
Taxable = Nil
Total = ₹20,000 + ₹10,000 + ₹2,000 + Nil + Nil = ₹32,000

Gross Salary 3,12,000
Less: Standard Deduction u/s 16 (ia) (50,000)
Income under the head Salary 2,62,000
Gross Total Income 2,62,000
Less: Deduction u/s 80C to 80U Nil
Total Income 2,62,000

Computation of Tax Liability
Tax on ₹2,62,000 at slab rate 600.00
Less: Rebate u/s 87A (600.00)
Tax Liability Nil

MAY-2012 (8 Marks)

Mr. X is employed with XY Ltd. on a basic salary of ₹10,000 p.m. He is also entitled to Dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹6,000 p.m. which was increased to ₹7,000 p.m. with effect from 01.01.2020. He also got an increment of ₹1,000 p.m. in his basic salary with effect from 01.02.2020. Rent paid by him during the previous year 2019-20 is as under:
April and May, 2019 - Nil, as he stayed with his parents.
June to October, 2019 - ₹6,000 p.m. for an accommodation in Ghaziabad.
November, 2019 to March, 2020 - ₹8,000 p.m. for an accommodation in Delhi.
Compute the gross salary for Assessment Year 2020-21.

Answer:

Computation of gross salary of Mr. X for A.Y. 2020-21

Particulars
Basic salary [(₹ 10,000 x 10) + (₹ 11,000 x 2)] 1,22,000
Dearness Allowance (100% of basic salary) 1,22,000
House Rent Allowance (See Note below) 21,300
Gross Salary 2,65,300

Note: Computation of Taxable House Rent Allowance (HRA)

1. April to May
Least of the following is exempt:
1. Nil – ₹3,000 = Nil
2. 40% of retirement benefit salary = ₹12,000
   (Retirement benefit salary = ₹10,000 + 5,000) x 2
= 30,000
3. (6,000 x 2)= ₹12,000
Received = ₹12,000
Exempt = Nil
Taxable = ₹12,000

2. June to October
Least of the following is exempt:
1. (6,000 x 5) = 30,000 – ₹7,500 = 22,500
2. 40% of retirement benefit salary = ₹30,000
(Retirement benefit salary = (₹10,000 + 5,000) x 5 = 75,000
3. (6,000 x 5) = ₹30,000
Received = ₹30,000
Exempt = ₹22,500
Taxable = ₹7,500

3. November to December
Least of the following is exempt:
1. (8,000 x 2) = 16,000 – ₹3,000 = 13,000
2. 50% of retirement benefit salary = ₹15,000
(Retirement benefit salary = (₹10,000 + 5,000) x 2 = 30,000
3. (6,000 x 2) = ₹12,000
Received = ₹12,000
Exempt = ₹12,000
Taxable = Nil

4. January
Least of the following is exempt:
1. (8,000 x 1) = 8,000 – ₹1,500 = 6,500
2. 50% of retirement benefit salary = ₹7,500
(Retirement benefit salary = (₹10,000 + 5,000) x 1 = 15,000
3. (7,000 x 1) = ₹7,000
Received = ₹7,000
Exempt = ₹6,500
Taxable = ₹500

5. February to March
Least of the following is exempt:
1. (8,000 x 2) = 16,000 – ₹3,300 = 12,700
2. 50% of retirement benefit salary = ₹16,500
(Retirement benefit salary = (₹11,000 + 5,500) x 2 = 33,000
3. (7,000 x 2) = ₹14,000
Received = ₹14,000
Exempt = ₹12,700
Taxable = ₹1,300

Question 12 [V. Imp.]: Write a note on special allowances Section 10(14) Rule 2BB.
Answer: Special Allowance Section 10(14) Rule 2BB
Special allowances are divided into 2 parts:
(A) Personal allowance Section 10(14)
(B) Official allowance Section 10(14)
Personal allowance Section 10(14) Rule 2BB
Personal allowances are as given below:
(1) **Children Education Allowance**

Children education allowance is **exempt upto ₹100 p.m. per child upto two child.**

**Example**

Mr. X is employed in ABC Ltd. and the employer has paid him children education allowance of ₹175 p.m. per child for three children. In this case, taxable amount shall be

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>175</td>
<td>175</td>
<td>175</td>
</tr>
<tr>
<td>2</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>75</td>
<td>75</td>
<td>175</td>
</tr>
</tbody>
</table>

\[175 + 175 + 175 = 325 \times 12 = 3,900\]

Similarly, if the employer has paid children education allowance of ₹45 p.m. per child for three children, taxable amount shall be

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>45</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>2</td>
<td>45</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Nil</td>
<td></td>
<td>45</td>
</tr>
</tbody>
</table>

\[45 + 45 + 45 = 45 \times 12 = 540\]

- **Exemption is allowed irrespective of the expenditure incurred.**

**Example**

Mr. X is employed in ABC Ltd. and is getting children education allowance of ₹400 p.m. per child for three children and Mr. X has incurred ₹500 p.m. on the education of each of the child, in this case taxable amount shall be

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>2</td>
<td>100</td>
<td>100</td>
<td>Nil</td>
</tr>
<tr>
<td>3</td>
<td>300</td>
<td>300</td>
<td>400</td>
</tr>
</tbody>
</table>

\[400 + 400 + 400 = 1000 \times 12 = 12,000\]

(2) **Hostel Allowance**

Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto ₹300 p.m. **per child upto two children.** Remaining provisions are similar to children education allowance.

(3) **Transport Allowance**

Allowance given to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty is called transport allowance. Transport allowance granted to an employee, who is blind or orthopaedically handicapped with disability of lower extremities, to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty is exempt upto ₹3,200 p.m.

(4) **Outstation Allowance**

Any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place is called outstation allowance. Such allowance is given in lieu of daily allowance. It is exempt to the extent of least of the following:

(i) **70% of the allowance**

(ii) ₹10,000 p.m.

**Example**

Mr. X is employed in Indian Airlines and is getting outstation allowance of ₹10,000 p.m. In this case, exemption allowed shall be \((10,000 \times 12 \times 70\%)\) or \((10,000 \times 12)\) whichever is less i.e. ₹84,000 and taxable amount shall be ₹36,000

If the transport system has provided daily allowance as well as outstation allowance, in such cases, daily allowance is fully exempt and outstation allowance is fully taxable.

Transport system shall include Railways, Roadways, Shipping company etc. It will also include any other private transporter.

(5) **Underground Allowance**

Sometimes the employer may pay some allowance to the employees who are working in the mines and such allowance is called underground allowance and it is exempt upto ₹800 p.m.
(6) **Tribal Area Allowance**
Sometimes an employee may be posted in the tribal area and employer may pay him some allowance, it is called tribal area allowance and it is exempt up to ₹200 p.m.

**Official allowance  Section 10(14) Rule 2BB**
The allowances given by the employer for official purpose are called official allowance and are exempt from income tax however saving is taxable and are as given below:

(1) **Travelling Allowance** means allowance given by the employer to meet the cost of traveling when the employee is on official tour.

(2) **Daily Allowance** means allowance given by the employer to meet the cost of boarding and lodging when the employee is on official tour. Since it is given on per day basis, it is called daily allowance.

(3) **Conveyance Allowance:** Any allowance granted to meet the expenditure incurred on conveyance is called conveyance allowance.

(4) **Helper Allowance:** Any allowance granted to meet the expenditure incurred on a helper where such a helper is engaged for the performance of duties of office or employment.

(5) **Academic Allowance:** Any allowance granted for encouraging academic research and training pursuits in educational and research institutions.

(6) **Uniform Allowance:** Any allowance granted to meet the expenditure incurred on the purchase or maintenance of uniforms for wear during the performance of the duties of an office or employment.

If the above allowances are given for personal purpose, it will be taxable e.g. If travelling allowance or conveyance allowance is given for personal purpose, it will be taxable.

**Illustration 22:** Mr. X is employed in Central Government getting basic pay ₹18,000 p.m., dearness allowance ₹6,000 p.m. Employer has paid children education allowance ₹700 p.m. per child w.e.f. 01.09.2019 and hostel allowance of ₹1,000 p.m. for one child w.e.f. 01.10.2019. Employer has paid transport allowance ₹1,700 p.m. w.e.f. 01.11.2019. Employer has paid house rent allowance ₹5,000 p.m. w.e.f 01.01.2020.
The employee has resigned from 01.02.2020 and has taken up a new job w.e.f. 01.03.2020. He is getting basic pay ₹27,000 p.m. and house rent allowance ₹4,000 p.m.

Compute his Tax Liability for the Assessment Year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>2,07,000.00</td>
</tr>
<tr>
<td>[(18,000 x 10) + (27,000 x 1)]</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>60,000.00</td>
</tr>
<tr>
<td>(6,000 x 10)</td>
<td></td>
</tr>
<tr>
<td>House rent allowance</td>
<td>9,000.00</td>
</tr>
<tr>
<td>(Sec 10(13A) Rule 2A)</td>
<td></td>
</tr>
</tbody>
</table>

**Working Note:**

For January

Least of the following is exempt:

1. Nil
2. 40% of retirement benefit salary = ₹7,200
   (Retirement benefit salary = ₹18,000)
3. ₹5,000
   Received = ₹5,000
   Exempt = Nil
   Taxable = ₹5,000

For March

Least of the following is exempt:

1. Nil
2. 40% of retirement benefit salary = ₹10,800
   (Retirement benefit salary = ₹27,000)
3. ₹4,000
   Received = ₹4,000
   Exempt = Nil
   Taxable = ₹4,000
Total = ₹5,000 + ₹4,000 = ₹9,000

Children Education Allowance \{Sec 10(14) Rule 2BB\} 3,000.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = ₹700 x 5 x 1 =</td>
<td>3,500</td>
</tr>
<tr>
<td>Exempt = ₹100 x 5 x 1 =</td>
<td>(500)</td>
</tr>
<tr>
<td>Taxable =</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Hostel Allowance \{Sec 10(14) Rule 2BB\} 2,800.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = ₹1,000 x 4 x 1 =</td>
<td>4,000</td>
</tr>
<tr>
<td>Exempt = ₹ 300 x 4 x 1 =</td>
<td>(1,200)</td>
</tr>
<tr>
<td>Taxable =</td>
<td>2,800</td>
</tr>
</tbody>
</table>

Transport Allowance 5,100.00

Gross Salary 2,86,900.00

Less: Standard Deduction u/s 16(ia) (50,000.00)

Income under the head salary 2,36,900.00

Gross Total Income 2,36,900.00

Less: Deduction u/s 80C to 80U Nil

Total Income 2,36,900.00

**Computation of Tax Liability**

Tax on ₹2,36,900 at slab rate Nil

Tax Liability Nil

**Illustration 23:** Mr. X has two sons. He is in receipt of children education allowance of ₹ 150 p.m. for his elder son and ₹ 70 p.m. for his younger son. He also receives the following allowances:

Tribal area allowance: ₹ 500 p.m.

Compute his taxable allowances.

**Solution:**

Taxable allowance in the hands of Mr. X is computed as under -

Children Education Allowance:

Elder son [(₹ 150 – ₹ 100) p.m. × 12 months] = ₹ 600

Younger son [(₹ 70 – ₹ 70) p.m. × 12 months] = Nil

Tribal area allowance [(₹ 500 – ₹ 200)p.m. × 12 months] = ₹ 3,600

Taxable allowances ₹ 4,200

**Question 13:** What is tax incidence on allowance and perquisites provided by the Govt. to its employees posted abroad?

**Answer:** Allowances and perquisites provided by the government to its employees posted abroad

Section 10(7)

Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India are exempt from income tax.

**Example**

Mr. X is an I.F.S. and is a Citizen of India and is getting Medical Allowance, Servant Allowance, Education Allowance and some other allowance outside India, and is posted in U.S.A in Indian Embassy. All these allowances are fully exempt from income tax under section 10(7).

Similarly, any perquisite allowed to such employees shall be fully exempt from tax.

**Question 14:** Explain other allowances.

**Answer:** Other Allowances Section 17(1)

Any other allowance is fully chargeable to tax and such allowances may be:

- City Compensatory Allowance.
- Cash Allowance
- Overtime Allowance.
- Medical Allowance.
- Servant Allowance.
- Tiffin Allowance.
- Entertainment Allowance (Subject to deduction under section 16(ii))
- Similarly there may be any number of other personal allowances.

**Illustration 24:** Mr. X is employed in ABC Ltd. getting basic pay ₹30,000 p.m. and employer has paid him following allowances.

1. Servant allowance ₹500 p.m. but the employee has saved ₹100 p.m.
2. Lunch allowance ₹300 p.m.
3. Cash allowance ₹500 p.m.
4. Overtime allowance ₹400 p.m.
5. Outstation allowance ₹700 p.m.
6. Special allowance ₹1,700 p.m.
7. Conveyance allowance (personal use) ₹200 p.m.

Compute employee’s Gross Salary and Tax Liability for the Assessment Year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (30,000 x 12)</td>
<td>3,60,000</td>
</tr>
<tr>
<td>Servant Allowance (500 x 12)</td>
<td>6,000</td>
</tr>
<tr>
<td>Lunch Allowance (300 x 12)</td>
<td>3,600</td>
</tr>
<tr>
<td>Cash Allowance (500 x 12)</td>
<td>6,000</td>
</tr>
<tr>
<td>Overtime Allowance (400 x 12)</td>
<td>4,800</td>
</tr>
<tr>
<td>Outstation Allowance (700 x 12)</td>
<td>8,400</td>
</tr>
<tr>
<td>Special Allowance [1,700 x 12]</td>
<td>20,400</td>
</tr>
<tr>
<td>Conveyance Allowance (200 x 12)</td>
<td>2,400</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>4,11,600</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>3,61,600</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>3,61,600</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>3,61,600</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹3,61,600 at slab rate</td>
<td>5,580.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(5,580.00)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Question 15:** Write a note on Standard Deduction.

**Answer:** As per Section 16 (ia) a deduction of **fifty thousand rupees** or the amount of the salary, whichever is less.

**Question 16:** Write a note on entertainment allowance.

**Answer:** Entertainment allowance Section 16(ii) – Sometimes the employer may pay some amount to the employee to entertain the customers of the employer and it is called entertainment allowance and entire amount shall be added to the gross salary of the employee however deduction shall be allowed in case of government employees under section 16(ii) to the extent of the least of the following:

1. **20% of basic salary**
2. ₹5,000
3. The actual allowance received by the employee

Deduction is allowed only if the employee is State Government or Central Government employee i.e. in case of employees of Local Authority, Statutory Corporation, Public Sector Undertaking etc, deduction is not allowed.

If the employee has saved any amount, it will not be taken into consideration.

**Illustration 25:** Mr. X is employed in central Government getting basic pay ₹30,000 p.m., dearness
Income Under The Head Salary

allowance ₹7,000 p.m., servant allowance ₹2,000 p.m., entertainment allowance ₹1,000 p.m., city compensatory allowance ₹600 p.m. In this case tax liability of Mr. X shall be

Basic Salary (30,000 x 12) = 3,60,000
Dearness Allowance (7,000 x 12) = 84,000
Servant Allowance (2,000 x 12) = 24,000
Entertainment Allowance (1,000 x 12) = 12,000
City Compensatory Allowance (600 x 12) = 7,200
Gross Salary = 4,87,200
Less: Entertainment Allowance = (5,000)

Working Note:
Least of the following:
(i) 20% of basic salary (3,60,000 x 20% = 72,000)
(ii) ₹ 5,000
(iii) The actual allowance received by the employee ₹12,000
Less: Standard Deduction u/s 16(ia) = (50,000)
Income under the head salary = 4,32,200
Gross Total Income = 4,32,200
Less: Deduction u/s 80C to 80U = Nil
Total Income = 4,32,200

Computation of Tax Liability
Tax on ₹4,32,200 at slab rate = 9,110.00
Less: Rebate u/s 87A = (9,110.00)
Tax Liability = Nil

Question 17: Write a note on Professional Tax/Employment Tax.
Answer: Professional Tax/Employment Tax  Section 16(iii)
As per article 276 of Indian constitution, state government is empowered to levy a tax on profession, business or employment and such tax shall be called professional tax or employment tax. If the person has business or profession, such tax can be debited to profit and loss account on actual payment basis and if the assessee is the employee he will be allowed to claim deduction from gross salary under section 16(iii) to compute income under the head salary. If the amount has been paid by the employer on behalf of the employee, it will be first included in gross salary under section 17(2)(iv) and subsequently deduction is allowed under section 16(iii). If the amount is due but not paid, deduction is not allowed.

Illustration 26: Mr. X is employed in Central Government getting basic pay ₹14,000 p.m., dearness allowance ₹5,000 p.m., House rent allowance ₹4,000 p.m. w.e.f. 01.07.2019. However, employee is residing in the house of his parents. Employer has paid cash allowance ₹300 p.m., medical allowance ₹250 p.m. and entertainment allowance ₹400 p.m. Employer has paid professional tax ₹75 p.m. on behalf of the employee. Employee has saved ₹35 p.m. out of entertainment allowance.

Compute employee’s income under the head Salary and Tax Liability for the Assessment Year 2020-21.

Solution:

Basic Pay (14,000 x 12) = 1,68,000.00
Dearness allowance (5,000 x 12) = 60,000.00
House rent allowance {Sec 10(13A) Rule 2A} = 36,000.00

Working Note:
Least of the following is exempt:
1. Nil
2. 40% of retirement benefit salary = ₹50,400
   (Retirement benefit salary = ₹1,26,000)
3. ₹36,000
   Received = ₹36,000
   Exempt = Nil
   Taxable = ₹36,000
Cash Allowance (300 x 12) 3,600.00
Medical Allowance (250 x 12) 3,000.00
Entertainment Allowance (400 x 12) 4,800.00
Professional tax paid by employer (75 x 12) 900.00
Gross Salary 2,76,300.00
Less: 16(ii) Entertainment Allowance (4,800.00)

Working Note:

Least of the following is deductible:
1. Entertainment allowance received 4,800
2. ₹5,000
3. 20% of ₹1,68,000 = ₹33,600

Less: 16(iii) Professional Tax (900.00)
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head salary 2,20,600.00
Gross Total Income 2,20,600.00
Less: Deduction u/s 80C to 80U Nil
Total Income 2,20,600.00

Computation of Tax Liability
Tax on ₹2,20,600 at slab rate Nil
Tax Liability Nil

Illustration 27: Mr. X receives the following emoluments during the previous year ending 31.03.2020.
Basic pay ₹ 40,000
Dearness Allowance ₹ 15,000
Commission ₹ 10,000
Entertainment allowance ₹ 4,000
Medical allowance ₹ 10,000
Professional tax paid ₹ 3,000 (₹ 2,000 was paid by his employer)
He has no other income. Determine the income from salary for A.Y. 2020-21, if Mr. X is a State Government employee.

Solution:

Computation of Salary of Mr. X for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>40,000</td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>15,000</td>
</tr>
<tr>
<td>Commission</td>
<td>10,000</td>
</tr>
<tr>
<td>Entertainment Allowance received</td>
<td>4,000</td>
</tr>
<tr>
<td>Medical allowance</td>
<td>10,000</td>
</tr>
<tr>
<td>Professional tax paid by the employer</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Gross Salary</strong></td>
<td><strong>81,000</strong></td>
</tr>
<tr>
<td>- Standard Deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Less: Deductions</td>
<td></td>
</tr>
<tr>
<td>under section 16(ii) Entertainment allowance being lower of :</td>
<td></td>
</tr>
<tr>
<td>(a) Allowance received</td>
<td>4,000</td>
</tr>
<tr>
<td>(b) One fifth of basic salary [1/5 × 40,000]</td>
<td>8,000</td>
</tr>
<tr>
<td>(c) Statutory amount</td>
<td>5,000</td>
</tr>
<tr>
<td>- under section 16(iii) Professional tax paid</td>
<td>(3,000)</td>
</tr>
<tr>
<td><strong>Income from Salary</strong></td>
<td><strong>24,000</strong></td>
</tr>
</tbody>
</table>

Question 18 [V. Imp.]: Write a note on chargeability of Salary.
Answer: Chargeability of Salary Section 15
Salary is taxable on due basis or receipt basis whichever is earlier i.e. if salary is due but not received, it is taxable in the year in which it is due. Similarly if salary has been received in advance, it is taxable in the
year in which it has been received.

**Example**
Mr. X is employed in ABC Ltd. and is getting basic pay of ₹50,000 p.m. during the previous year 2019-20 and the employer has made the payment in time up to February 2020 but salary for the month of March 2020 was paid in April 2020, in this case his salary taxable in previous year 2019-20 shall be ₹6,00,000.

**Example**
Mr. X is employed in ABC Ltd. and is getting basic pay of ₹50,000 p.m. during the previous year 2019-20 and he has taken salary in advance for the month of April and May 2020 in the month of March 2020, in this case his salary taxable in previous year 2019-20 shall be ₹7,00,000.

**Arrears of Salary**
Sometimes salary of employee may be increased from retrospective effect i.e. from back date and employee may receive arrear of salary, such arrears are taxable in the year in which arrears have been received however relief shall be allowed under section 89.

**Example**
Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. but the employer has increased his basic pay to ₹60,000 p.m. on 01.07.2019 but the increase is w.e.f 01.01.2019, in this case arrears of salary amounting to ₹30,000 shall be taxable in the year 2019-20 and accordingly his gross salary shall be considered to be ₹7,50,000.

**Question 19: Write a note on relief under section 89.**
**Answer: Relief under Section 89**
If any person has received arrears of salary or advance of salary and because of this reason his tax liability has increased, he may claim relief under section 89 in the manner given below:

1. Compute tax liability for the previous year in which the arrear or advance of salary has been received including the amount of such arrear or advance.
2. Compute tax liability for the previous year in which the arrear or advance has been received excluding such arrear or advance.
3. Tax at step no. 1 minus tax at step no. 2 shall be the tax on such arrear or advance.
4. Compute tax liability of the previous year to which the arrear or advance relates including such arrear or advance.
5. Compute tax liability of the previous year to which arrear or advance relates excluding such arrear or advance.
6. Tax at step no. 4 minus tax at step no. 5 shall be tax on the arrears or advance in the year to which such arrear or advance relates.
7. Tax at step no. 3 minus tax at step no. 6 shall be the relief under section 89.

If there is no excess, no relief is admissible.

---

**JUNE – 2009 (5 Marks)**

Mr. X, an employee of a PSU, furnishes the following particulars for the previous year ending 31.03.2020:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Salary for the year</td>
<td>₹8,00,000</td>
</tr>
<tr>
<td>ii. Arrears of Salary for Previous Year 2018-19</td>
<td>₹2,00,000</td>
</tr>
<tr>
<td>iii. Salary for the Previous Year 2018-19</td>
<td>₹6,00,000</td>
</tr>
</tbody>
</table>

You are requested by the assessee to compute relief under section 89 of the Income-tax Act, 1961, in terms of tax payable for previous year 2019-20.

The rates of Income-tax for the Previous Year 2018-19 are:

<table>
<thead>
<tr>
<th>Description</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On ₹ 2,50,000</td>
<td>Nil</td>
</tr>
<tr>
<td>On ₹ 2,50,000 - ₹ 5,00,000</td>
<td>5</td>
</tr>
<tr>
<td>On ₹ 5,00,000 - ₹ 10,00,000</td>
<td>20</td>
</tr>
<tr>
<td>Above ₹ 10,00,000</td>
<td>30</td>
</tr>
</tbody>
</table>

Health & Education cess @ 4%
Income Under The Head Salary

Standard deduction u/s 16(ia) was ₹ 40,000 in year 2018-19

Answer. Computation of Relief under section 89 for the Previous Year 2019-20

Step 1. Previous Year 2019-20
Salary for the year excluding the arrears 6,00,000
Add: Arrears relating to Previous Year 2018-19 2,00,000
Gross Salary 8,00,000
Less: Standard deduction u/s 16(ia) (50,000)
Income under the head salary 7,50,000
Tax before health & education cess 62,500
Add: HEC @ 4% 2,500
Tax Liability 65,000

Step 2. Previous Year 2019–20
Salary 6,00,000
Gross Salary 6,00,000
Less: Standard deduction u/s 16(ia) (50,000)
Income under the head Salary 5,50,000
Tax before HEC 22,500
Add: HEC @ 4% 900
Tax Liability 23,400

Step 3. Difference between Step 1 and Step 2 (65,000 – 23,400) 41,600

Step 4. Previous Year 2018–19
Salary 6,00,000
Add: Arrears 2,00,000
Gross Salary 8,00,000
Less: Standard deduction u/s 16(ia) (40,000)
Income under the head Salary 7,60,000
Tax before HEC 64,500
Add: HEC @ 4% 2,580
Tax Liability 67,080

Step 5. Previous Year 2018–19
Salary 6,00,000
Gross Salary 6,00,000
Less: Standard deduction u/s 16(ia) (40,000)
Income under the head Salary 5,60,000
Tax before HEC 24,500
Add: HEC @ 4% 980
Tax Liability 25,480

Step 6. Difference between Step 4 and Step 5 (67,080 – 25,480) 41,600

Step 7. Relief under section 89 Step 3 – Step 6 (41,600 – 41,600) Nil
Tax after adjusting relief u/s 89 [65,000 – Nil] 65,000

MAY-2012 (4 Marks)

Mr. X, an employee of a PSU, furnishes the following particulars for the previous year ending 31.03.2020

(i) Salary for the year 10,00,000
(ii) Arrear of Salary for previous year 2018-19 received during the year 2,00,000
(iii) Salary for the previous year 2018-19 8,00,000

You are requested by the assessee to compute relief under section 89 of the Income-tax Act, 1961 in terms of tax payable for assessment year 2020-21:

The rates of income tax for the previous year 2018-19 are

<table>
<thead>
<tr>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
</tr>
</tbody>
</table>

On first ₹2,50,000
Income Under The Head Salary

On ₹2,50,000- ₹5,00,000 5
On ₹5,00,000-₹10,00,000 20
Above ₹10,00,000 30
Health & Education cess @ 4%
Standard deduction u/s 16(ia) was ₹ 40,000 in year 2018-19

Answer. Computation of Relief under section 89 for the Previous Year 2019-20 ₹

Step 1. Previous Year 2019-20
Salary for the year excluding the arrears 10,00,000
Add: Arrears relating to Previous Year 2018-19 2,00,000
Gross Salary 12,00,000
Less: Standard deduction u/s 16(ia) (50,000)
Income under the head salary 11,50,000
Tax before health & education cess 1,57,500
Add: HEC @ 4% 6,300
Tax Liability 1,63,800

Step 2. Previous Year 2019–20
Salary for the year excluding the arrears 10,00,000
Gross Salary 10,00,000
Less: Standard deduction u/s 16(ia) (50,000)
Income under the head salary 9,50,000
Tax before health & education cess 1,02,500
Add: HEC @ 4% 4,100
Tax Liability 1,06,600

Step 3. Difference between Step 1 and Step 2 (1,63,800 – 1,06,600) 57,200

Step 4. Previous Year 2018–19
Salary 8,00,000
Add: Arrears 2,00,000
Gross Salary 10,00,000
Less: Standard deduction u/s 16(ia) (40,000)
Income under the head Salary 6,60,000
Tax before health & education cess 1,04,500
Add: HEC @ 4% 4,180
Tax Liability 1,08,680

Step 5. Previous Year 2018–19
Salary 8,00,000
Gross Salary 8,00,000
Less: Standard deduction u/s 16(ia) (40,000)
Income under the head Salary 7,60,000
Tax before health & education cess 64,500
Add: HEC @ 4% 2,580
Tax Liability 67,080

Step 6. Difference between Step 4 and Step 5 (1,08,680 – 67,080) 41,600

Step 7. Relief under section 89 Step 3 – Step 6 (57,200 – 41,600) 15,600
Tax after adjusting relief u/s 89 [1,63,800– 15,600] 1,48,200

Question 20: Explain when the salary becomes due.
Answer: When is salary due:
Last day of the month/first of the next month
Salary is due on the last day of the month or on the first day of the next month depending upon the agreement between the employee and the employer.
If salary is due on the last day of the month, salary from April to March shall be due during the particular year but if salary is due on the first of next month, salary from March to February shall be due during the relevant previous year.
e.g. Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. but it was increased to ₹70,000 p.m.
Income Under The Head Salary

w.e.f. 1st July 2019. Compute his total income and tax liability in two situations
(i) Salary is due on last day of the month
(ii) Salary is due on first of next month

**Solution:**

(i) Salary is due on last day of the month
In this case salary shall be taxable from April to March and shall be as given below:

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>April to June 2019</td>
<td>1,50,000</td>
</tr>
<tr>
<td>July to March 2020</td>
<td>6,30,000</td>
</tr>
<tr>
<td><strong>Gross Salary</strong></td>
<td><strong>7,80,000</strong></td>
</tr>
<tr>
<td>Less: Standard Deduction</td>
<td>(50,000)</td>
</tr>
<tr>
<td><strong>Income under the head salary</strong></td>
<td><strong>7,30,000</strong></td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>7,30,000</strong></td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**
Tax on ₹7,30,000 at slab rate
Add: HEC @ 4%
Tax Liability
58,500
2,340
60,840

(ii) Salary is due on first of next month
In this case salary shall be taxable from March to February and shall be as given below:

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>March to June 2019</td>
<td>2,00,000</td>
</tr>
<tr>
<td>July to February 2020</td>
<td>5,60,000</td>
</tr>
<tr>
<td><strong>Gross Salary</strong></td>
<td><strong>7,60,000</strong></td>
</tr>
<tr>
<td>Less: Standard Deduction</td>
<td>(50,000)</td>
</tr>
<tr>
<td><strong>Income under the head salary</strong></td>
<td><strong>7,10,000</strong></td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>7,10,000</strong></td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**
Tax on ₹7,10,000 at slab rate
Add: HEC @ 4%
Tax Liability
54,500
2,180
56,680

**Illustration 28:** Mr. X joined ABC Ltd. on 01.07.2012 in the pay scale of 21,000 – 1,200 – 28,200 – 1,400 – 39,400 – 1,600 – 49,000. The employer has allowed him 3 increments in advance at the time of joining. The employee’s salary is due on the 1st of next month.
Employee was allowed dearness allowance @ ₹7,000 p.m., during the previous year 2018-19 and @ ₹9,000 p.m. in 2019-20.
Compute Tax Liability for the Assessment Year 2020-21.

**Solution:**

**Computation of income under the head Salary**
Basic Pay [(32,400 x 4) + (33,800 x 8)]
4,00,000

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2012 – 30.06.2013</td>
<td>24,600 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014</td>
<td>25,800 p.m.</td>
</tr>
<tr>
<td>01.07.2014 – 30.06.2015</td>
<td>27,000 p.m.</td>
</tr>
<tr>
<td>01.07.2015 – 30.06.2016</td>
<td>28,200 p.m.</td>
</tr>
<tr>
<td>01.07.2016 – 30.06.2017</td>
<td>29,600 p.m.</td>
</tr>
<tr>
<td>01.07.2017 – 30.06.2018</td>
<td>31,000 p.m.</td>
</tr>
<tr>
<td>01.07.2018 – 30.06.2019</td>
<td>32,400 p.m.</td>
</tr>
<tr>
<td>01.07.2019 – 30.06.2020</td>
<td>33,800 p.m.</td>
</tr>
</tbody>
</table>

---

Dearness allowance [(7,000 x 1) + (9,000 x 11)]
1,06,000
Gross Salary
5,06,000
Less: Standard Deduction u/s 16 (ia)
(50,000)
Income under the head Salary
4,56,000
Gross Total Income
4,56,000
Income Under The Head Salary

Less: Deduction u/s 80C to 80U
Total Income 4,56,000

Computation of Tax Liability
Tax on ₹4,56,000 at slab rate 10,300
Less: Rebate u/s 87A (10,300)
Tax Liability Nil

Taxability of Perquisites

- Rent Free Accommodation Sec. 17(2)(i) Rule 3(1)
- Accommodation at concessional rent Sec. 17(2)(ii) Rule 3(1)
- Motor Car facility Sec. 17(2)(iii) Rule 3(2)
- Gardener/Watchmen/Sweeper or any other servant Sec. 17(2)(iii) Rule 3(3)
- Gas/Electricity/Water Sec. 17(2)(iii) Rule 3(4)
- Education Facility Sec. 17(2)(ii) Rule 3(5)
- Transport facility Sec. 17(2)(ii) Rule 3(6)
- Payment by the employer on behalf of the employee Sec. 17(2)(iv)
- Payment of insurance premium on behalf of the employee Sec. 17(2)(v)
- Specified securities or sweat equity shares allotted/ transferred to employees by an employer Sec. 17(2)(vi)
- Any contribution to an approved superannuation fund by the employer in respect of an employee Sec. 17(2)(vii)
- Any other fringe benefit Sec. 17(2)(viii)
- Loan to the employee either at concessional rate or free of interest Rule 3(7)(i)
- Expenditure in connection with travelling, touring or accommodation to the employee Rule 3(7)(ii)
- Free refreshment or foods to the employees Rule 3(7)(iii)
- Any gift, voucher or token Rule 3(7)(iv)
- Expenses on credit cards Rule 3(7)(v)
- Club Membership and expenses incurred in a club Rule 3(7)(vi)
- Use of moveable assets Rule 3(7)(vii)
- Transfer of any moveable asset Rule 3(7)(viii)
- Any other benefit Rule 3(7)(ix)
- Medical Facility Proviso to Sec. 17(2)
- Leave travel Concession Sec. 10(5) Rule 2B

Meaning of Perquisite
Perquisite means facilities or perks given by employer and are as given below:

Question 21 [V. Imp.]: Discuss the taxability of rent free accommodation given to an employee by his employer?
Answer: Taxability of rent free accommodation given to an employee by his employer Section 17(2)(i)

Rule 3(1)
If the employer has taken the accommodation on rent and given it to the employee free of rent, taxable amount shall be 15% of salary or rent paid or payable by the employer whichever is less e.g. If salary is ₹5,00,000 and rent paid by employer is ₹60,000, taxable amount shall be ₹60,000 but if rent paid by employer is ₹1,00,000, taxable amount shall be ₹75,000 i.e. 15% of ₹5,00,000

If furniture is also provided alongwith house
If employer has also provided furniture (including T.V., refrigerators, other household appliances, air conditioning plant or equipment), Perquisite value shall be 10% p.a. of original cost of furniture and not WDV. If the employer has taken furniture on rent, rent paid by employer shall be considered to be perquisite value e.g. Mr. X is employed in Central Govt. and the employer has provided him facility of air-conditioner for 3 months and rent paid by employer is ₹3,000, in this case taxable amount shall be ₹3,000.

If the accommodation is owned by the employer, taxable amount shall be as given below:
(i) If the population is upto 10 lakhs 7.5% of rent free accommodation salary
(ii) If the population is more than 10 lakhs but upto 25 lakhs 10% of rent free accommodation salary
(iii) If the population is more than 25 lakhs  
Salary shall have the same meaning as given above

**Example**

Compute perquisite value in the following situations:

(i) Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 2,00,000.

(ii) Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 10,00,000.

(iii) Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 22,00,000.

(iv) Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 32,00,000 (accommodation was provided only for three months).

**Solution:**

(i) **Computation of Perquisite value**
7.5% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 12 = 6,00,000
7.5% of ₹6,00,000 = 45,000
Perquisite value of rent free accommodation = ₹45,000

(ii) **Computation of Perquisite value**
7.5% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 12 = 6,00,000
7.5% of ₹6,00,000 = 45,000
Perquisite value of rent free accommodation = ₹45,000

(iii) **Computation of Perquisite value**
10% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 12 = 6,00,000
10% of ₹6,00,000 = 60,000
Perquisite value of rent free accommodation = ₹60,000

(iv) **Computation of Perquisite value**
15% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 3 = 1,50,000
15% of ₹1,50,000 = 22,500
Perquisite value of rent free accommodation = ₹22,500

**Meaning of Salary**

Rent free accommodation salary shall include:

(i) Basic pay
(ii) Dearness Allowance/Dearness Pay. If it forms part of salary for retirement benefits as per service agreement.
(iii) Taxable portion of all allowances.
(iv) Bonus /Commission /Fees etc.
(v) Leave salary (when the employee is in employment)

It will not include:

(i) Taxable portion of perquisites whether monetary or non-monetary
(ii) Taxable portion of provident fund
(iii) Any payment after retirement like gratuity/ commuted pension or provident fund etc.
(iv) Arrear of salary or advance salary

Salary only for the period for which rent free accommodation is provided shall be taken into consideration.

**Example**

If rent free accommodation is provided from 01.05.2019 to 31.12.2019, Salary only for this period shall taken into consideration.

**Meaning of Monetary and Non-Monetary Perquisites**

If any facility has been arranged by the employer for the employee and payments are also made by the employer, it will be called Non - monetary perquisite, eg. If employer has made arrangements of one servant...
for the employee and also payment is being made by the employer, it will be called non-monetary perquisite. If facility has been taken by the employee himself and employer has made the payments or employer has given reimbursement to the employee, it will be called monetary perquisite u/s 17(2)(iv). Similarly if employer has paid any amount on behalf of the employee, it will be called monetary perquisite, eg. Employer paid professional tax on behalf of the employee, it will be called monetary perquisite and is covered u/s 17 (2) (iv).

**Illustration 29:** Mr. X employed in ABC Ltd. and getting basic pay ₹20,000 p.m., dearness allowance ₹10,000 p.m. and 50% of DA forms part of salary. Employer has paid bonus ₹1,000 p.m. commission ₹2,000 p.m. children education allowance ₹150 p.m. per child for 3 children and hostel allowance ₹500 p.m. for one child and entertainment allowance ₹500 p.m., transport allowance ₹1,800 p.m. Employer has paid professional tax ₹200 p.m. on behalf of the employee. Employer has provided him club facility and has paid membership fee ₹1,000 p.m.

Employer has provided him rent free accommodation for which rent paid by employer is ₹11,000 p.m. Compute his income and tax liability A.Y. 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (20,000 x 12)</td>
<td>2,40,000.00</td>
</tr>
<tr>
<td>Dearness Allowance (10,000 x 12)</td>
<td>1,20,000.00</td>
</tr>
<tr>
<td>Bonus (1,000 x 12)</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Commission (2,000 x 12)</td>
<td>24,000.00</td>
</tr>
<tr>
<td>Children Education Allowance {Sec 10(14), Rule 2BB}</td>
<td>3,000.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = ₹150 x 3 x 12</td>
<td>5,400</td>
</tr>
<tr>
<td>Exempt = ₹100 x 2 x 12</td>
<td>(2,400)</td>
</tr>
<tr>
<td>Taxable</td>
<td>3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hostel Allowance {Sec 10(14), Rule 2BB}</td>
<td>2,400.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = 500 x 1 x 12</td>
<td>6,000</td>
</tr>
<tr>
<td>Exempt = 300 x 1 x 12</td>
<td>(3,600)</td>
</tr>
<tr>
<td>Taxable</td>
<td>2,400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment Allowance (500 x 12)</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Transport Allowance</td>
<td>21,600.00</td>
</tr>
<tr>
<td>Professional Tax (200 x 12)</td>
<td>2,400.00</td>
</tr>
<tr>
<td>Club Facility {Sec 17(2)(viii) Rule 3(7)(vi)}</td>
<td>12,000.00</td>
</tr>
<tr>
<td>(1,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Rent free Accommodation {Sec 17(2)(i), Rule 3(1)}</td>
<td>55,350.00</td>
</tr>
</tbody>
</table>

**Working Note:**

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

Rent free accommodation Salary

= Basic Pay + Dearness Allowance (forming part of salary) + Bonus + Commission + Children Education allowance + Hostel Allowance + Entertainment Allowance + Transport Allowance

= 2,40,000 + 60,000 + 12,000 + 24,000 + 3,000 + 2,400 + 6,000 + 21,600

= ₹3,69,000

15% of rent free accommodation Salary = ₹55,350

Rent Paid = ₹11,000 x 12 = ₹1,32,000

Perquisite value of unfurnished house = ₹55,350

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>4,98,750.00</td>
</tr>
<tr>
<td>Less: 16(iii) Professional Tax</td>
<td>(2,400.00)</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000.00)</td>
</tr>
</tbody>
</table>
Income under the head Salary 4,46,350.00
Gross Total Income 4,46,350.00
Less: Deduction u/s 80C to 80U Nil
Total Income 4,46,350.00

**Computation of Tax Liability**
Tax on ₹4,46,350 at slab rate 9,817.50
Less: Rebate u/s 87A (9,817.50)
Tax Liability Nil

**Government Employees:** In case Central or State Government provides the accommodation to their employees, perquisite value shall be the licence fee determined as per Government rules.

**If furniture is also provided alongwith house**
If employer has also provided furniture (including T.V., refrigerators, other household appliances, air conditioning plant or equipment), Perquisite value shall be **10% p.a. of original cost of furniture** and not WDV. If the employer has taken furniture on rent, rent paid by employer shall be considered to be perquisite value e.g. Mr. X is employed in Central Govt. and the employer has provided him facility of air-conditioner for 3 months and rent paid by employer is ₹3,000, in this case taxable amount shall be ₹3,000. (taxability of furniture in case of other employee is also the same).

**Illustration 30:** Mr. X is employed in Central Government getting basic pay ₹73,000 p.m. Employer has provided him rent free accommodation and the rent determined as per Government rules is ₹6,000 p.m. The employer has provided him furniture with actual cost ₹1,00,000 and written down value ₹65,000. The employer has provided one air-conditioner also during April and May’ 2019. Rent paid by the employer for the air-conditioner is ₹1,000 p.m.
Compute employee’s Tax Liability for the Assessment Year 2020-21.

**Solution:**
Basic Pay (73,000 x 12) ₹8,76,000
Rent free accommodation {Sec 17(2)(i) Rule 3(1)} ₹84,000

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perquisite value of unfurnished house (6,000 x 12)</td>
<td>72,000</td>
</tr>
<tr>
<td>Add: 10% of cost of furniture (1,00,000 x 10%)</td>
<td>10,000</td>
</tr>
<tr>
<td>Add: Rent of air-conditioner (1,000 x 2)</td>
<td>2,000</td>
</tr>
<tr>
<td>Perquisite value of furnished house</td>
<td>84,000</td>
</tr>
</tbody>
</table>

Gross Salary 9,60,000
Less: Standard Deduction u/s 16(ia) (50,000)
Income under the head Salary 9,10,000
Gross Total Income 9,10,000
Less: Deduction u/s 80C to 80U Nil
Total Income 9,10,000

**Computation of Tax Liability**
Tax on ₹9,10,000 at slab rate 94,500
Add: HEC @ 4% 3,780
Tax Liability 98,280

If accommodation has been given to the employees from a particular date but it is occupied by the employee from some other date, in such cases perquisite value shall be computed from the date when accommodation was occupied by the employee.

**Accommodation provided at two places**
If any employee has been transferred and employer has provided him accommodation at the new place also, in such cases only one of the accommodation shall be taxable having lower perquisite value but only for a period of 90 days (three months) and thereafter both of the accommodations shall be taxable.

**Example**
Mr. X is employed in ABC Ltd. and is getting a basic pay of ₹30,000 p.m., dearness allowance ₹10,000 p.m. Employer has provided him a rent free accommodation at a place with population of 4,00,000 which is owned by the employer himself. The employee was transferred to some other place having population 13,00,000 w.e.f. 01.11.2019 and the employer has provided him accommodation at the new place also and for which rent paid by the employer is ₹2,000 p.m. Compute his Tax Liability for Assessment Year 2020-21.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (30,000 x 12)</td>
<td>3,60,000.00</td>
</tr>
<tr>
<td>Dearness Allowance (10,000 x 12)</td>
<td>1,20,000.00</td>
</tr>
<tr>
<td>Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}</td>
<td>30,250.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>From 01.04.2019 to 31.10.2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.5% of rent free accommodation salary</td>
</tr>
<tr>
<td>Rent free accommodation salary</td>
</tr>
<tr>
<td>7.5% of rent free accommodation salary</td>
</tr>
<tr>
<td>Perquisite value of rent free accommodation</td>
</tr>
</tbody>
</table>

**Computation of perquisite value for rent free accommodation in old place**

<table>
<thead>
<tr>
<th>From 01.11.2019 to 31.01.2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.5% of rent free accommodation salary</td>
</tr>
<tr>
<td>Rent free accommodation salary</td>
</tr>
<tr>
<td>7.5% of rent free accommodation salary</td>
</tr>
<tr>
<td>(a) Perquisite value of rent free accommodation</td>
</tr>
</tbody>
</table>

**Computation of perquisite value for rent free accommodation in new place**

<table>
<thead>
<tr>
<th>From 01.02.2020 to 31.03.2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.5% of rent free accommodation salary</td>
</tr>
<tr>
<td>Rent free accommodation salary</td>
</tr>
<tr>
<td>7.5% of rent free accommodation salary</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>From 01.04.2019 to 31.10.2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% of rent free accommodation salary or rent paid whichever is less</td>
</tr>
<tr>
<td>Rent free accommodation salary</td>
</tr>
<tr>
<td>15% of rent free accommodation salary</td>
</tr>
<tr>
<td>Rent paid (2,000 x 3)</td>
</tr>
<tr>
<td>(b) Perquisite value of rent free accommodation</td>
</tr>
</tbody>
</table>

Perquisite value of rent free accommodation from 01.11.2019 to 31.01.2020

= Least of (a) or (b)

6,000

**Computation of perquisite value for rent free accommodation in old place**

<table>
<thead>
<tr>
<th>From 01.02.2020 to 31.03.2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% of rent free accommodation salary or rent paid whichever is less</td>
</tr>
<tr>
<td>Rent free accommodation salary</td>
</tr>
<tr>
<td>15% of rent free accommodation salary</td>
</tr>
<tr>
<td>Rent paid (2,000 x 2)</td>
</tr>
<tr>
<td>Perquisite value of rent free accommodation</td>
</tr>
</tbody>
</table>

Total taxable amount = 15,750 + 6,000 + 4,500 + 4,000 = 30,250

Gross Salary                                                                 5,10,250.00
Less: Standard Deduction u/s 16(ia)                                          (50,000.00)
Income under the head Salary                                               4,60,250.00
Gross Total Income                                                          4,60,250.00
Income Under The Head Salary

Less: Deduction u/s 80C to 80U  Nil
Total Income  4,60,250.00

Computation of Tax Liability
Tax on ₹4,60,250 at slab rate  10,512.50
Less: Rebate u/s 87A  (10,512.50)
Tax Liability  Nil

Accommodation provided in a hotel
Where accommodation is provided by the employer in a hotel except where the employee is provided such accommodation for a period not exceeding in aggregate 15 days on the transfer from one place to another, in such a case perquisite value shall be 24% of salary or actual expenditure incurred whichever is less.

Example
Mr. X is employed in ABC Ltd. and is getting basic pay of ₹50,000 p.m. and the employer has provided him accommodation in a hotel and expenditure incurred during the year is ₹1,60,000, in this case taxable amount shall be ₹1,14,400.

Illustration 31:
Mr. X is employed in ABC Ltd. getting basic pay ₹37,000 p.m., dearness allowance ₹32,000 p.m. The employer has provided him rent free accommodation at a place with population of 13 lakhs and the rent paid by the employer is ₹10,000 p.m. The employer has provided him furniture with original cost ₹1,50,000. However, the employer has discontinued the facility of rent free accommodation and furniture both w.e.f. 1st March, 2020. He has paid him house rent allowance ₹7,000 p.m. The employee has shifted in his own house w.e.f. 01.03.2020.

Compute Tax Liability for the Assessment Year 2020-21.
(b) Presume in the above illustration the accommodation is owned by the employer.

Solution:
Basic Pay (37,000 x 12)  4,44,000.00
Dearness allowance (32,000 x 12)  3,84,000.00
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}  74,800.00

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% of rent free accommodation salary or rent paid whichever is less.</td>
</tr>
<tr>
<td>Rent free accommodation Salary (37,000 x 11) 4,07,000</td>
</tr>
<tr>
<td>15% of rent free accommodation salary  61,050</td>
</tr>
<tr>
<td>Rent Paid = 10,000 x 11  1,10,000</td>
</tr>
<tr>
<td>Value of unfurnished house  61,050</td>
</tr>
<tr>
<td>Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)  13,750</td>
</tr>
<tr>
<td>Perquisite value of furnished house  74,800</td>
</tr>
</tbody>
</table>

House rent allowance {Sec 10(13A) Rule 2A}  7,000.00

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least of the following is exempt:</td>
</tr>
<tr>
<td>1. Nil</td>
</tr>
<tr>
<td>2. 40% of retirement benefit salary = ₹14,800</td>
</tr>
<tr>
<td>(Retirement benefit salary = ₹37,000)</td>
</tr>
<tr>
<td>3. ₹7,000</td>
</tr>
<tr>
<td>Received = ₹7,000</td>
</tr>
<tr>
<td>Exempt = Nil</td>
</tr>
<tr>
<td>Taxable = ₹7,000</td>
</tr>
</tbody>
</table>

Gross Salary  9,09,800.00
Less: Standard Deduction u/s 16(ia)  (50,000.00)
Income under the head Salary  8,59,800.00
Gross Total Income  8,59,800.00
Less: Deduction u/s 80C to 80U  Nil
Total Income  8,59,800.00
### Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹8,59,800 at slab rate</td>
<td>₹84,460.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹3,378.40</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹87,838.40</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹87,840.00</td>
</tr>
</tbody>
</table>

**Solution (b):**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (37,000 x 12)</td>
<td>₹4,44,000.00</td>
</tr>
<tr>
<td>Dearness allowance (32,000 x 12)</td>
<td>₹3,84,000.00</td>
</tr>
<tr>
<td>Rent free accommodation {Sec 17(2)(i) Rule 3(1)}</td>
<td>₹54,450.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% of rent free accommodation salary</td>
<td>₹4,07,000</td>
</tr>
<tr>
<td>10% of rent free accommodation salary</td>
<td>₹40,700</td>
</tr>
<tr>
<td>Value of unfurnished house</td>
<td>₹40,700</td>
</tr>
<tr>
<td>Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)</td>
<td>₹13,750</td>
</tr>
<tr>
<td>Perquisite value of furnished house</td>
<td>₹54,450</td>
</tr>
</tbody>
</table>

**Working Note:**

**Least of the following is exempt:**

1. Nil
2. 40% of retirement benefit salary = ₹14,800
   (Retirement benefit salary = ₹37,000)
3. ₹7,000
   Received = ₹7,000
   Exempt = Nil
   Taxable = ₹7,000

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹8,39,450 at slab rate</td>
<td>₹80,390.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹3,215.60</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹83,605.60</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹83,610.00</td>
</tr>
</tbody>
</table>

**Question 22:** Explain taxability of accommodation at concessional rent.

**Answer: Accommodation at concessional rent Section 17(2)(ii) Rule 3(1)**

If the employer has provided accommodation to the employee and has recovered some amount from the employee for the accommodation, in such cases perquisite value shall be computed in the similar manner as in case of rent free accommodation however amount recovered from the employee shall be deducted and only balance amount shall be taxable.

**Illustration 32:** Compute tax liability in the following situations:

<table>
<thead>
<tr>
<th>Name of the Employee</th>
<th>Mr. A</th>
<th>Mr. B</th>
<th>Mr. C</th>
<th>Mr. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>25,000 p.m.</td>
<td>25,000 p.m.</td>
<td>25,000 p.m.</td>
<td>25,000 p.m.</td>
</tr>
<tr>
<td>Accommodation provided by the employer</td>
<td>Owned by the employee</td>
<td>Owned by the employee</td>
<td>Owned by the employer</td>
<td>Hired by the employer</td>
</tr>
<tr>
<td>Rent paid by the employer</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>4,000 p.m.</td>
</tr>
<tr>
<td>Population of the place</td>
<td>10 lakhs</td>
<td>25 lakhs</td>
<td>35 lakhs</td>
<td>10 lakhs</td>
</tr>
<tr>
<td>Rent recovered from the</td>
<td>500 p.m.</td>
<td>500 p.m.</td>
<td>500 p.m.</td>
<td>500 p.m.</td>
</tr>
</tbody>
</table>
**Solution:**

**Computation of Tax Liability**

**Situation 1 (Mr. A):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (25,000 x 12)</td>
<td>3,00,000.00</td>
</tr>
<tr>
<td>Accommodation at concessional rent</td>
<td>16,500.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent free accommodation Salary</td>
<td>3,00,000</td>
</tr>
<tr>
<td>7.5% of rent free accommodation salary</td>
<td>22,500</td>
</tr>
<tr>
<td>Value of unfurnished house</td>
<td>22,500</td>
</tr>
<tr>
<td>Less: Amount recovered from the employee (500 x 12)</td>
<td>6,000</td>
</tr>
<tr>
<td>Perquisite value of accommodation at concessional rent</td>
<td>16,500</td>
</tr>
</tbody>
</table>

| Gross Salary | 3,16,500.00 |
| Less: Standard Deduction u/s 16(ia) | (50,000.00) |
| Income under the head Salary | 2,66,500.00 |
| Tax on ₹2,66,500 at slab rate | 825.00 |
| Less: Rebate u/s 87A | (825.00) |
| Tax Liability | Nil |

**Situation 2 (Mr. B):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (25,000 x 12)</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Accommodation at concessional rent</td>
<td>24,000</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent free accommodation Salary</td>
<td>3,00,000</td>
</tr>
<tr>
<td>10% of rent free accommodation salary</td>
<td>30,000</td>
</tr>
<tr>
<td>Value of unfurnished house</td>
<td>30,000</td>
</tr>
<tr>
<td>Less: Amount recovered from the employee (500 x 12)</td>
<td>6,000</td>
</tr>
<tr>
<td>Perquisite value of accommodation at concessional rent</td>
<td>24,000</td>
</tr>
</tbody>
</table>

| Gross Salary | 3,24,000 |
| Less: Standard Deduction u/s 16(ia) | (50,000) |
| Income under the head Salary | 2,74,000 |
| Tax on ₹2,74,000 at slab rate | 1,200 |
| Less: Rebate u/s 87A | (1,200) |
| Tax Liability | Nil |

**Situation 3 (Mr. C):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (25,000 x 12)</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Accommodation at concessional rent</td>
<td>39,000</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent free accommodation Salary</td>
<td>3,00,000</td>
</tr>
<tr>
<td>15% of rent free accommodation salary</td>
<td>45,000</td>
</tr>
<tr>
<td>Value of unfurnished house</td>
<td>45,000</td>
</tr>
<tr>
<td>Less: Amount recovered from the employee (500 x 12)</td>
<td>6,000</td>
</tr>
<tr>
<td>Perquisite value of accommodation at concessional rent</td>
<td>39,000</td>
</tr>
</tbody>
</table>

| Gross Salary | 3,39,000 |
| Less: Standard Deduction u/s 16(ia) | (50,000) |
| Income under the head Salary | 2,89,000 |
| Tax on ₹2,89,000 at slab rate | 1,950.00 |
| Less: Rebate u/s 87A | (1,950.00) |
| Tax Liability | Nil |

**Situation 4 (Mr. D):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (25,000 x 12)</td>
<td>3,00,000</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent paid or 15% of rent free accommodation salary whichever is less</td>
<td>39,000</td>
</tr>
<tr>
<td>Rent free accommodation Salary</td>
<td>3,00,000</td>
</tr>
<tr>
<td>15% of rent free accommodation salary</td>
<td>45,000</td>
</tr>
<tr>
<td>Rent paid (4,000 x 12)</td>
<td>48,000</td>
</tr>
<tr>
<td>Value of unfurnished house</td>
<td>45,000</td>
</tr>
<tr>
<td>Less: Amount recovered from the employee (500 x 12)</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Perquisite value of accommodation at concessional rent</td>
<td>39,000</td>
</tr>
</tbody>
</table>

Gross Salary 3,39,000
Less: Standard Deduction u/s 16(ia) (50,000)
Income under the head Salary 2,89,000
Tax on ₹2,89,000 at slab rate 1,950.00
Less: Rebate u/s 87A (1,950.00)
Tax Liability Nil

Illustration 33: Mr. X is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation in Mumbai which is owned by the company. He gives you the following particulars:

- Basic salary ₹ 6,000 p.m.
- Advance salary for April 2020 ₹ 5,000
- Dearness Allowance ₹ 2,000 p.m.
- Bonus ₹ 1,500 p.m.

Even though the company allotted the house to him on 01.04.2019, he occupied the same only from 01.11.2019. Calculate the taxable value of the perquisite for A.Y. 2020-21.

Solution:

Value of the rent free unfurnished accommodation
= 15% of salary for the relevant period i.e. 01.11.2019 to 31.03.2020
= 15% of [(₹ 6,000 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)]
= 15% of ₹ 40,500 = ₹ 6,075.

Illustration 34: Presume in the above question the employer has recovered ₹1,000 p.m. from the employee in connection with the accommodation provided.

Solution:

In this case, it will be called accommodation at concessional rent under section 17(2)(ii) Rule 3(1) and amount recovered from the employee shall be deducted and balance amount shall be taxable.

Value of the rent free unfurnished accommodation = ₹ 6,075
Less: Rent paid by the employee (₹ 1,000 × 5) = ₹ (5,000)
Perquisite value of unfurnished accommodation given at concessional rent = ₹ 1,075

Question 23: Write a short note on perquisites in case of Specified Employee.

Answer: Perquisite in case of Specified Employee Section 17(2)(iii)

The perquisites covered under section 17(2)(iii) shall be taxable only in case of specified employees and such perquisites are

1. Motor car facility 17(2)(iii) Rule 3(2)
2. Gardener, Watchmen, Sweeper or Any other personal attendant [Sec. 17(2)(iii) Rule 3(3)].
3. Gas, Electricity or Water facility [Sec. 17(2)(iii) Rule3(4)].
4. Educational facility [Sec. 17(2)(iii) Rule 3(5)].
5. Transport facility [Sec. 17(2)(iii) Rule 3(6)].

Specified employee means any employee who has complied with at least one of the conditions given below:

(i) Any employee who is a director in a company whether full time or part time
(ii) Any employee who has a substantial interest in the company i.e. he is holding 20% or more of the voting
power of the company.

(iii) Any employee whose monetary income under the head ‘Salaries’ exceeds ₹50,000.

If any employee is not a specified employee, he will be considered to be non-specified employee and the above perquisites shall be exempt from income tax.

**Monetary income means income under the head salary but it will not include perquisite value of non-monetary perquisites i.e. it will include:**

(i) Basic Pay  
(ii) Dearness Allowance/Dependence Pay  
(iii) Bonus/commission/fees etc.  
(iv) Taxable portion of all allowances  
(v) Monetary perquisites  
(vi) Any other payment in cash like gratuity, pension, leave salary etc. but it will not include contribution of employer or employee to provident fund or interest of provident fund.

- Any arrears of salary or advance salary shall also be taken into consideration.
- Where salary is received from more than one employer during the relevant previous year, the aggregate salary from these employers is to be taken into account in determining the above ceiling limit of ₹50,000.
- Deduction under section 16(ia), 16(ii) and 16(iii) shall also be allowed.

**Example**

Mr. X is employed in ABC Ltd. getting basic pay ₹4,500 p.m., dearness allowance ₹500 p.m. Employer has paid children education allowance ₹300 p.m. for one child, entertainment allowance ₹35 p.m. Employer has also paid professional tax of ₹100 p.m. on behalf of the employee. Employer has provided him rent free accommodation with perquisite value ₹35,000 p.a.

The employee has received arrears of salary ₹4,000 and advance salary ₹3,000.

Compute employee’s monetary income to determine whether he is the specified employee or non-specified employee.

**Solution:**

\[
\text{Computation of Monetary Income} \\
\begin{align*}
\text{Basic Pay} & \quad 54,000 \\
\text{(4,500 x 12)} & \\
\text{Dearness Allowance} & \quad 6,000 \\
(500 x 12) & \\
\text{Children Education Allowance} & \quad 2,400 \\
\{\text{Sec 10(14), Rule 2BB}\} & \\
\end{align*}
\]

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = ₹300 x 12 =</td>
<td>3,600</td>
</tr>
<tr>
<td>Exempt = ₹100 x 12 =</td>
<td>(1,200)</td>
</tr>
<tr>
<td>Taxable =</td>
<td>2,400</td>
</tr>
<tr>
<td>Entertainment Allowance</td>
<td>420</td>
</tr>
<tr>
<td>(35 x 12)</td>
<td></td>
</tr>
<tr>
<td>Professional Tax</td>
<td>1,200</td>
</tr>
<tr>
<td>(100 x 12)</td>
<td></td>
</tr>
<tr>
<td>Arrears of Salary {Sec 15}</td>
<td>4,000</td>
</tr>
<tr>
<td>Advance Salary {Sec 15}</td>
<td>3,000</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>71,020</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Less: 16(iii) Professional Tax</td>
<td>(1,200)</td>
</tr>
<tr>
<td>Monetary Income</td>
<td>19,820</td>
</tr>
</tbody>
</table>

So, he is non-specified employee.

**Question 24:** Discuss the taxability of motor car facility given to an employee by his employer?

**Answer:**

As per  Section 17(2)(iii), Rule 3(2), if the employer has provided motor car facility for personal use, it will be taxable and perquisite value shall be 10% per annum of actual cost plus expenses incurred by employer but facility shall be taxable only in case of specified employees and if employer has recovered any amount
from the employee, it will be deducted and only balance amount shall be taxable. e.g. Mr. X is employed in ABC Ltd. and getting basic pay ₹50,000 p.m., dearness allowance ₹10,000 p.m. and employer has provided him one motor car for personal use with original cost ₹6,00,000 and expenditure on petrol ₹20,000, repairs ₹11,000, driver salary ₹10,000 p.m.

Employer has provided him rent free accommodation for which rent paid by employer is ₹15,000 p.m., in this case his income and tax liability shall be:

Basic Pay (50,000 x 12) = ₹6,00,000
Dearness Allowance (10,000 x 12) = ₹1,20,000
RFA (Sec 17(2)(i) Rule 3(1)) = ₹90,000
Motor car (Sec 17(2)(iii) Rule 3(2)) = ₹2,11,000
Gross Salary = ₹10,21,000
Less: Standard Deduction u/s 16(ia) = ₹50,000
Income under the head salary = ₹9,71,000
Total Income = ₹9,71,000
Tax on ₹9,71,000 at slab rate = ₹1,06,700
Add: HEC @ 4% = ₹4,268
Tax Liability = ₹1,10,968
Rounded off u/s 288B = ₹1,10,970

If in the above case employer has recovered ₹2,000 p.m. from the employee for use of motor car, taxable amount shall be 2,11,000 – 24,000 = 1,87,000

**Car used partly for official and partly for personal purposes**

If the employer has provided motor car facility for official as well as personal use, perquisite value shall be 600 p.m. if engine capacity of motor car is upto 1.6 litres otherwise it is ₹900 p.m.

If employer is incurring other expenses also except driver, taxable amount shall be 1,800 p.m. and 2,400 p.m. respectively. If employer has provided chauffeur (driver) also, there will be additional perquisite value of ₹900 p.m. Part of the month shall be ignored while computing perquisite value. E.g. Mr. X is employed in ABC Ltd. and employer has provided him one motor car for official/personal purpose with engine capacity 1.6 litres and all expenses are met by employer himself.

**Illustration 35**: Mr. X is employed in ABC Ltd. getting basic pay ₹24,000 p.m. and the employee has paid professional tax ₹200 p.m. and the employer has provided him motor car for official as well as personal use and its engine capacity is 1.2 litres and it is a chauffeur driven car and all expenses are met by the employer himself.

Compute Tax Liability for the Assessment Year 2020-21.

**Solution:**

Basic Pay (24,000 x 12) = ₹2,88,000
Motor Car {Sec 17(2)(iii) Rule 3(2)} = [(1,800 + 900) x 12] = ₹32,400
Gross Salary = ₹3,20,400
Less: Standard Deduction u/s 16(ia) = ₹50,000
Less: 16(iii) Professional Tax = ₹2,400
Income under the head Salary = ₹2,68,000

**Computation of Tax Liability**

Tax on ₹2,68,000 at slab rate = ₹900
Less: Rebate u/s 87A = ₹900
Tax Liability = Nil

**More than one motor car is provided to the employee for official/personal use**

If the employer has provided more than one motor car for official/personal use, in that case only one of the motor cars shall be considered to be for official/personal use and all other motor cars shall be considered to be for personal use and perquisite value shall be computed accordingly.

**Motor car for going to office and coming back to residence is exempt from income tax.**
Illustration 36: Mr. X is employed in ABC Ltd. getting basic pay ₹22,000 p.m. Employer has paid professional tax of ₹75 p.m. on behalf of the employee and employee himself has paid professional tax of ₹25 p.m. The employer has provided him rent free accommodation which is owned by the employer himself and it is provided at a place with population of 5,00,000.

The employer has provided him three motor cars for official as well as personal use with particulars as given below:

<table>
<thead>
<tr>
<th></th>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual cost</td>
<td>4,00,000</td>
<td>3,00,000</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Engine capacity</td>
<td>1.8 litres</td>
<td>1.6 litres</td>
<td>1.4 litres</td>
</tr>
<tr>
<td>Repairs</td>
<td>5,000</td>
<td>4,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Driver</td>
<td>4,000 p.m.</td>
<td>3,000 p.m.</td>
<td>no driver</td>
</tr>
</tbody>
</table>

All the expenses met by the employer. Employee has income from gambling activities ₹11,000 and also he has long-term capital gains ₹5,000. Compute his Tax Liability for the Assessment Year 2020-21.

Solution:

Basic Pay (22,000 x 12) = ₹2,64,000.00
Professional Tax paid by employer (75 x 12) = ₹900.00
Rent free accommodation {Sec 17(2)(i) Rule 3(1)} = ₹19,800.00

Working Note:

7.5% of rent free accommodation salary = ₹2,64,000
7.5% of rent free accommodation salary = ₹19,800
Perquisite value of rent free accommodation = ₹19,800

Motor Car {Sec 17(2)(iii) Rule 3(2)} = ₹1,62,600.00

Working Note:

Option I

{Presuming Car I is for official and personal purposes and Car II and Car III for personal purposes, perquisite value shall be:}

Car I = ₹2,400 + ₹900 x 12 = ₹39,600
Car II = ₹30,000 + ₹10,000 + ₹4,000 + ₹36,000 = ₹80,000
Car III = ₹25,000 + ₹15,000 + ₹3,000 = ₹43,000
Perquisite value = ₹1,62,600

Option II

Presuming Car II is for official and personal purpose and Car I and Car III is for personal use, perquisite value shall be:

Car I = ₹40,000 + ₹3,000 + ₹5,000 + ₹48,000 = ₹96,000
Car II = ₹1,800 + ₹900 x 12 = ₹32,400
Car III = ₹43,000
Perquisite Value = ₹1,71,400

Option III

Presuming Car III is for official and personal purpose and Car I and Car II is for personal use, perquisite value shall be:

Car I = ₹96,000
Car II = ₹80,000
Car III = ₹1,800 x 12 = ₹21,600
Perquisite Value = ₹1,97,600

So, 1st Option is better.
Perquisite value of motor car = ₹1,62,600

Gross Salary = ₹4,47,300.00
Less: Standard Deduction u/s 16(ia) = (50,000.00)
Less: 16(iii) Professional Tax = (1,200.00)
Income under the head Salary = 3,96,100.00
Income under the head Capital Gains (LTCG) = 5,000.00
Income under the head Other Sources (Gambling activities) 11,000.00
Gross Total Income 4,12,100.00
Less: Deduction u/s 80C to 80U Nil
Total Income 4,12,100.00

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on LTCG @ 20%</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Tax on Gambling activities income of @ 30%</td>
<td>3,300.00</td>
</tr>
<tr>
<td>Tax on normal income @ 3%</td>
<td>7,305.00</td>
</tr>
<tr>
<td>Tax before rebate</td>
<td>11,605.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(11,605.00)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Motor car owned by the employee and expenses are met or reimbursed by the employer Section 17(2)(iii) Rule 3(2)**

**Car used partly for official and partly for personal purposes** – Value shall be amount paid by employer less ₹1,800 p.m. where cubic capacity of engine does not exceed 1.6 litres or ₹2,400 p.m. where cubic capacity of the engine exceeds 1.6 litres. It will be further reduced by ₹900 p.m. if the employee has provided driver also. E.g. Mr. X is employed in ABC Ltd. and is getting basic pay ₹20,000 p.m. and he has one motor car with engine capacity 1.8 litres and it is being used for official purpose also and employee is getting ₹6,000 p.m. from the employer, in this case taxable amount shall be 6,000 – 2,400 = 3,600 p.m.

If the assessee has maintained records, deduction shall be allowed on the basis of such records.

If employee has any other automotive conveyance (two wheeler), amount to be deducted shall be ₹900 p.m.

If the assessee has maintained records, deduction shall be allowed on the basis of such records.

Personal purpose includes the benefit of employee’s household, which means spouse(s), children and their spouses, parents, servants and dependants.

**Obligation of the employee met by the employer Section 17(2)(iv)**

If motor car is owned by employee and it is used for his personal purpose and payment or reimbursement is given by employer, it is covered u/s 17(2)(iv) and entire amount paid or reimbursed is taxable in case of specified as well as non-specified employees.

**Question 25:** Discuss the taxability of Gardener/Watchman/Sweeper or Any Other Servant.

**Answer:** Taxability of gardener/watchman/sweeper or any other servant Section 17(2)(iii) Rule 3(3)

If the employer has provided facilities of gardener/watchman / sweeper or any other servant, entire amount shall be taxable but only in case of specified employees. Any amount recovered from the employee shall be deducted and only balance amount shall be taxable.

**Obligation of the employee met by the employer Section 17(2)(iv)**

If the facility has been availed by the employee himself and payment or reimbursement has been given by the employer, entire amount paid or reimbursed shall be taxable in case of specified as well as non-specified employees, as per section 17(2)(iv).

**Question 26:** Write a note on taxability of Gas/Electricity or Water Facility.

**Answer:** Taxability of Gas/Electricity or Water Facility Section 17(2)(iii) Rule 3(4)

If the employer has provided facilities of gas, electricity or water, it will be taxable but only in case of specified employee and if the employer has his own business, perquisite value shall be the manufacturing cost to the employer. E.g. Mr. X is employed in Bisleri and the company has provided him free water facility for which manufacturing cost of the company is ₹1,000 and its market value is ₹1,100, in this case, perquisite value shall be ₹1,000.

If any amount has been recovered from the employee, it will be deducted and only balance amount shall be taxable.

**Obligation of the employee met by the employer Section 17(2)(iv)**

If the facility has been availed by the employee himself and payment or reimbursement has been given by the employer, entire amount paid or reimbursed shall be taxable in case of specified as well as non-specified employees, as per section 17(2)(iv).
Question 27: [V. Imp.] Write a note on taxability of educational facility.
Answer: Taxability of Educational Facility Section 17(2)(iii) Rule 3(5)
- If the employer has provided free education or training facility to the employee, there is no perquisite value.
- If education facility is provided to the children of the employee, it is exempt to the extent of ₹1,000 p.m. per child, irrespective of the number of children.
- If education facility is provided in employer’s own institution, it is still taxable however normal exemption of ₹1,000 p.m. per child shall be allowed. Value for this purpose shall be the cost of similar type of education in a similar type of institution in the same locality.
- If any amount has been recovered from the employee, it will be deducted and only the balance amount shall be taxed.
- Since the facility is covered under section 17(2)(iii), it is taxable only in case of specified employees.

Obligation of the employer met by the employer Section 17(2)(iv)
If the facility has been availed by the employee for education of members of his household and payment or reimbursement has been given by the employer, entire amount paid or reimbursed shall be taxable in case of specified as well as non-specified employees as per section 17(2)(iv).
- If the employer has given children education allowance, it is exempt up to ₹100 p.m. per child for two children.

Example
Mr. X is employed in ABC Ltd. and is a specified employee. Compute perquisite value of educational facilities in the following situations:
(i) The employer has deputed him on one day seminar on Industrial Finance and Corporate Taxation and has paid participation fees of ₹3,000.
(ii) The employer has made arrangements for the education of his three childrens in his own school and has incurred ₹1,500 per month per child and has recovered ₹300 per month per child from the employee.
(iii) If the employee himself has made arrangements of the education of his three children in a public school and the employer has reimbursed ₹1,500 per month per child.

Solution:
(i) There is no perquisite value.
(ii) Perquisite value shall be ₹7,200.
(iii) Perquisite value shall be ₹54,000.

Example
Compute perquisite value in the following situations:
1. Mr. X is employed in ABC Ltd. and is getting salary of ₹4,000 p.m. The employer has incurred ₹1,500 p.m. on the education of his one son, perquisite value shall be __________.
2. Mr. X is employed in ABC Ltd. and is getting a salary of ₹7,600 p.m. and the employer has incurred ₹1,500 p.m. on the education of his one adopted son, perquisite value shall be __________.
3. Mr. X is employed in ABC Ltd. and is getting a salary of ₹8,000 p.m. and employer has spent ₹500 p.m. on the education of his daughter in law, perquisite value shall be __________.
4. Mr. X is employed in ABC Ltd. and is getting a salary of ₹4,000 p.m. and he has incurred ₹700 p.m. on the education of his one son, in this case perquisite value shall be __________.

Solution:
1. Nil
2. ₹6,000
3. ₹6,000
4. Nil

Question 28: Write a note on taxability of Transport Facility.
Answer: Transport Facilities Section 17(2)(iii), Rule 3(6)
If the employer is engaged in the business of carriage of goods or passengers and the employer has provided facilities of free transport to the employee or to the members of his household, perquisite value shall be the amount charged by the employer from other person for similar facility.
If the employer has recovered any amount from the employee for such facility, it will be deducted and only
balance amount shall be taxable.

**The facility is exempt in case of employees of Airlines and Railways.**

Since the facility is covered u/s 17(2)(iii), it is taxable only in case of specified employees.

**Question 29: Write a note on obligation of the employee met by employer.**

**Answer: Obligation of the employee met by employer**  
Section 17(2)(iv)

Any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee shall be taxable in the hands of the employee and shall be called monetary perquisite.

If the employer has paid any amount on behalf of the employee or has given any reimbursement to the employee i.e. obligation of the employee has been met by the employer, it will also be called monetary perquisites as per section 17(2)(iv) and entire amount paid or reimbursed by the employer shall be chargeable to tax.

**Example**

Mr. X is employed in ABC Ltd. and he has taken one electricity connection in his name and the electricity bill amounting to ₹ 5,000 has been paid by the employer on behalf of the employee, it will be called monetary perquisite and the amount so paid shall be added to the gross salary of the employee.

Similarly, if the employee has paid the bill but subsequently the employer has reimbursed the amount to him, it will also be called monetary perquisite.

**Question 30: Explain taxability of payments of insurance premium by the employer on behalf of the employee.**

**Answer: Taxability of payments of insurance premium by the employer on behalf of the employee**  
Section 17(2)(v)

If any employee has taken any policy in his name but premium has been paid by employer, the premium so paid shall be taxable however premium paid for personal accident policy, staff group insurance scheme shall be exempt.

**Question 31: Explain taxability of issue of shares or securities by employer to employee.**

**Answer:** As per section 17(2)(vi), if the employer has issued shares or securities to the employees, perquisite value shall be market value of such shares or securities and if employer has recovered some amount from the employee, it will be deducted and only difference amount shall be taxed. E.g. Mr. X is employed in ABC Ltd. and employer has issued 100 equity shares to the employee free of cost on 01.07.2019 and market value is ₹150 per share, in this case, taxable amount shall be 100 x 150 = ₹15,000 and if the shares have been sold by the employee, as per section 49(2AA), cost of acquisition shall be the market value which was taken into consideration under the head salary i.e. ₹15,000.

If the employee sold the above shares on 01.11.2019 for ₹270 per share, capital gains shall be computed in the manner given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>27,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Short term capital gain</td>
<td>12,000</td>
</tr>
</tbody>
</table>

If shares were issued by the employer @ ₹40 per share, perquisite value under the head salary shall be (150 - 40 = 110) x 100 = 11,000 and capital gains shall be

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full value of consideration</td>
<td>27,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Short term capital gain</td>
<td>12,000</td>
</tr>
</tbody>
</table>

**Question 32: Explain contribution to an approved superannuation fund by the employer in respect of an employee.**

**Any contribution to an approved superannuation fund by the employer in respect of an employee**  
Section 17(2)(vii)

If the employer has to give pension to the employee, employer may create superannuation fund and can contribute to such fund but maximum upto ₹1,50,000 p.a. otherwise excess over ₹1,50,000 shall be considered to be income of the employee.
Franchise Benefits covered under Section 17(2)(viii) are as under:

1. Interest free or concessional loans  Rule 3(7)(i)

If the employer has given any loan to the employee or to the members of his household, it will be taxable and perquisite value shall be computed on the basis of interest rate charged by State Bank and interest rate taken by employer e.g. If employer has given a loan of ₹10 lakh to an employee on 01.04.2019 @ 4% p.a. and interest rate charged by State Bank is 10% p.a., perquisite value shall be 10,00,000 x (10% – 4%) = 60,000. Further while computing perquisite value, balance outstanding at the end of each month shall be taken into consideration i.e. there is no calculation for part of the month.

**Example**

Mr. X is employed in ABC Ltd. and he has taken a loan of ₹10 lakh from employer on 20.04.2019 at a rate of 4% p.a. but SBI rate is 10% p.a. and loan was repaid in monthly installment of ₹2 lakh each starting from 10.07.2019, in this case, taxable amount shall be:

<table>
<thead>
<tr>
<th>Months</th>
<th>Outstanding balance at the end (in ₹)</th>
<th>Amount of interest (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>10,00,000 x 6% x 1/12 = 5,000</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>10,00,000 x 6% x 1/12 = 5,000</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>10,00,000 x 6% x 1/12 = 5,000</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>8,00,000 x 6% x 1/12 = 4,000</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>6,00,000 x 6% x 1/12 = 3,000</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>4,00,000 x 6% x 1/12 = 2,000</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>2,00,000 x 6% x 1/12 = 1,000</td>
<td></td>
</tr>
</tbody>
</table>

Taxable amount = 25,000

If employer has given a petty loan, there is no perquisite value. Petty loan means one or more loan given by the employer where aggregate amount of all such loan during a particular year is upto ₹20,000.

**Example**

Mr. ‘X’ is employed in ABC Ltd. and employer has given following interest free loan as given below: (SBI rate 10% p.a.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount of interest (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.04.2019</td>
<td>1,000.00</td>
</tr>
<tr>
<td>01.12.2019</td>
<td>266.67</td>
</tr>
<tr>
<td>01.03.2020</td>
<td>1291.67</td>
</tr>
</tbody>
</table>

Since original amount of all the 3 loans is exceeding ₹20,000 hence it is taxable but if employer has not given loan of 01.03.2020, it would have been exempt from income tax.

If employer has given loan for treatment of specified disease given under rule 3A, there is no perquisite value.

**Example**

Mr. X is employed in ABC Ltd. and he has taken a loan of ₹5 Lakh on 01.07.2019 interest free from employer SBI rate 10% p.a. for treatment of specified disease. in this case, perquisite value shall be nil.

If any employee has taken advance salary, it will not be considered to be loan or advance and no perquisite value shall be computed with regard to such advance salary.

**Example**

(i) Mr. X is employed in ABC Ltd. and he has taken interest free loan of ₹3,00,000 on 10.07.2019 for personal purpose for a period of 3 years and the loan is to be repaid in monthly instalments of ₹10,000 and repayment shall start with effect from 21.09.2019, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate 12%):
<table>
<thead>
<tr>
<th>Months</th>
<th>Outstanding balance at the end (in ₹)</th>
<th>Amount of interest (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>3,00,000</td>
<td>3,00,000 x 10% x 1/12 = 2,500.00</td>
</tr>
<tr>
<td>August</td>
<td>3,00,000</td>
<td>3,00,000 x 10% x 1/12 = 2,500.00</td>
</tr>
<tr>
<td>September</td>
<td>2,90,000</td>
<td>2,90,000 x 10% x 1/12 = 2,416.67</td>
</tr>
<tr>
<td>October</td>
<td>2,80,000</td>
<td>2,80,000 x 10% x 1/12 = 2,333.33</td>
</tr>
<tr>
<td>November</td>
<td>2,70,000</td>
<td>2,70,000 x 10% x 1/12 = 2,250.00</td>
</tr>
<tr>
<td>December</td>
<td>2,60,000</td>
<td>2,60,000 x 10% x 1/12 = 2,166.67</td>
</tr>
<tr>
<td>January</td>
<td>2,50,000</td>
<td>2,50,000 x 10% x 1/12 = 2,083.33</td>
</tr>
<tr>
<td>February</td>
<td>2,40,000</td>
<td>2,40,000 x 10% x 1/12 = 2,000.00</td>
</tr>
<tr>
<td>March</td>
<td>2,30,000</td>
<td>2,30,000 x 10% x 1/12 = 1,916.67</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>20,166.67</td>
</tr>
</tbody>
</table>

So, perquisite value of interest free loan = ₹20,166.67

(ii) Mr. X is employed in ABC Ltd. and he has taken interest free loan of ₹3,00,000 on 10.07.2019 for purchasing a new motor car in Delhi and the loan is to be repaid in monthly instalments of ₹10,000 and repayment shall start with effect from 21.09.2019, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate 10%):

<table>
<thead>
<tr>
<th>Months</th>
<th>Outstanding balance at the end (in ₹)</th>
<th>Amount of interest (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December</td>
<td>2,60,000</td>
<td>2,60,000 x 12% x 1/12 = 2,600</td>
</tr>
<tr>
<td>January</td>
<td>2,50,000</td>
<td>2,50,000 x 12% x 1/12 = 2,500</td>
</tr>
<tr>
<td>February</td>
<td>2,40,000</td>
<td>2,40,000 x 12% x 1/12 = 2,400</td>
</tr>
<tr>
<td>March</td>
<td>2,30,000</td>
<td>2,30,000 x 12% x 1/12 = 2,300</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>24,200</td>
</tr>
</tbody>
</table>

So, perquisite value of interest free loan = ₹24,200

(iii) Mr. X is employed in ABC Ltd. and he has taken interest free loan of ₹13,000 on 10.07.2019 for personal purpose and the loan is to be repaid in monthly instalments of ₹1,300 and repayment shall start with effect from 21.09.2019, in this case perquisite value for the loan shall be computed in the manner given below:

Perquisite value of interest free loan = Nil (because it is a petty loan)

(2) **Facility of travelling, touring, accommodation (holiday home) etc.** Rule 3(7)(ii)

If the employer has provided facilities of travelling, touring or accommodation, it is taxable but it will not include leave travel concession under section 10(5)Rule 2B.

Perquisite value shall be actual expenditure incurred by the employer less amount recovered from the employee.

If the facility is maintained by the employer, perquisite value shall be the market value of the such facility.

If the employee is on official tour and any member of his household has accompanied him and the employer has incurred expenditure for such member, the amount so incurred shall be taxable.

If the employee is on official tour and the tour was extended for personal purpose, expenditure for the extended part of the tour shall be taxable.

(3) **Free food or refreshment** Rule 3(7)(iii)

If the employer has provided free refreshments to the employees at the place of work during office hours, it will be exempt.

If the employer has provided free meals to the employees at the place of work during office hours, it will be exempt if the value per meal is upto ₹50. Excess over ₹50 shall be taxable e.g. Mr. X is employed in the office of Chartered Accountant and during the year he was given free lunch on many occasions and value per lunch is ₹125, in this case ₹75 per lunch is taxable.

(4) **Gifts to the employees** Rule 3(7)(iv)

Gift given by the employer in kind upto ₹5,000 in aggregate during a particular year is exempt and excess over it is taxable. If the employer has given any voucher or token in lieu of which such gift may be received, it will also be exempt in the similar manner.

**Gifts in cash or gifts convertible into cash i.e. gift cheques etc. shall be fully chargeable to tax.**

E.g. Mr. X is employed in ABC Ltd. and employer has gifted him one mobile phone of value ₹26,000, in this case, taxable amount shall be ₹21,000 but if employer has given gift of ₹26,000 in cash, entire amount
shall be taxable under the head salary.

(5) **Credit card facility**  Rule 3(7)(v)
If the employer has provided facilities of credit card for personal purpose, it is taxable.
If the credit card is exclusively for official purpose, it is exempt provided employer has maintained complete records of the expenditure.

(6) **Club facilities**  Rule 3(7)(vi)
If the employer has provided club facilities to the employee or to the members of his household. It will be taxable e.g. Mr. X is employed in ABC Ltd. and employer has paid membership fee of ₹3,000 on behalf of Mr. X, in this case it is taxable.

**Facilities of health club, sports and similar facilities shall be exempt.**

**Example**
Mr. X is an employee of Mr. Y and is getting basic pay of ₹25,000 p.m. and the employer has made arrangements for membership of health club of the employee and has incurred ₹1,000 p.m., in this case facility shall be exempt from Income Tax. Similarly if the membership is of sports club, the facility shall be exempt from Income Tax.

(7) **Use of employer’s assets by the employees**  Rule 3(7)(vii)
If the employer has given any movable asset to the employee or to the members of his household for personal use, in such cases it will be taxable and perquisite value shall be 10% p.a. of actual cost of such asset less any amount recovered from the employee e.g. Mr. X is employed in ABC Ltd. and employer has given him one video camera with original cost ₹2,00,000 for 25 days, in this case taxable amount shall be 2,00,000 x 10% x 25/365 = 1,369.86. If employer has recovered ₹1,000 for such use, taxable amount shall be 1,369.86 – 1,000 = 369.86
If the employer has given any laptop or computer to the employee for personal use, it will not be taxable.

(8) **Sale of assets by employer to the employee**  Rule 3(7)(viii)
If employer has sold any movable asset to the employee, taxable amount shall be actual cost of such asset less 10% of actual cost per completed year of use of asset by the employer less amount paid by employee. In case of motor car, amount to be deducted shall be 20% of w.d.v. instead of 10% of actual cost and in case of computers, laptops, data storage devices, digital diaries and printers, it will be 50% of w.d.v.

**Example**

<table>
<thead>
<tr>
<th>Asset</th>
<th>Furniture</th>
<th>Microwave oven</th>
<th>Motor car</th>
<th>Washing machine</th>
<th>Computer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original cost</td>
<td>75,000</td>
<td>25,000</td>
<td>2,40,000</td>
<td>20,000</td>
<td>55,000</td>
</tr>
<tr>
<td>Date of purchase by the employer</td>
<td>07.03.2015</td>
<td>01.06.2017</td>
<td>10.07.2016</td>
<td>01.10.2009</td>
<td>01.01.2017</td>
</tr>
<tr>
<td>Date of putting to use</td>
<td>31.03.2015</td>
<td>01.06.2017</td>
<td>11.07.2016</td>
<td>01.11.2009</td>
<td>10.01.2017</td>
</tr>
<tr>
<td>Date of sale of asset to the employee</td>
<td>01.07.2019</td>
<td>01.04.2019</td>
<td>01.07.2019</td>
<td>31.12.2019</td>
<td>09.01.2020</td>
</tr>
<tr>
<td>Payment made by the employee</td>
<td>25,000</td>
<td>Gift to the employee</td>
<td>95,000</td>
<td>1,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

**Solution:**

**Computation of perquisite value of Furniture**

Cost of the furniture 75,000
Less: Depreciation on straight line method @ 10% from 31.03.2015 to 30.03.2016 (7,500)
Less: Depreciation on straight line method @ 10% from 31.03.2016 to 30.03.2017 (7,500)
Less: Depreciation on straight line method @ 10% from 31.03.2017 to 30.03.2018 (7,500)
Less: Depreciation on straight line method @ 10% from 31.03.2018 to 30.03.2019 (7,500)
Written down value 45,000
Less: Amount paid by the assessee (25,000)
Perquisite value of Furniture 20,000

**Computation of perquisite value of Microwave oven**

Cost of Microwave oven 25,000
Less: Depreciation on straight line method @ 10% from 01.06.2017 to 31.05.2018 (2,500)
Written down value 22,500
Less: Gift to the employee (5,000)
### Income Under The Head Salary

**Perquisite value of microwave oven**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perquisite value of microwave oven</td>
<td>17,500</td>
</tr>
</tbody>
</table>

**Computation of perquisite value of Motor car**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of the motor</td>
<td>2,40,000</td>
</tr>
<tr>
<td>Less: Depreciation on reducing balance method @ 20% from 11.07.2016 to 10.07.2017</td>
<td>(48,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>1,92,000</td>
</tr>
<tr>
<td>Less: Depreciation on reducing balance method @ 20% from 11.07.2017 to 10.07.2018</td>
<td>(38,400)</td>
</tr>
<tr>
<td>Written down value</td>
<td>1,53,600</td>
</tr>
<tr>
<td>Less: Amount paid by the assessee</td>
<td>(95,000)</td>
</tr>
<tr>
<td>Perquisite value of motor car</td>
<td>58,600</td>
</tr>
</tbody>
</table>

**Computation of perquisite value of Washing Machine**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of the washing machine</td>
<td>20,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2009 to 31.10.2010</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>18,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2010 to 31.10.2011</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>16,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2011 to 31.10.2012</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>14,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2012 to 31.10.2013</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>12,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2013 to 31.10.2014</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>10,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2014 to 31.10.2015</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>8,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2015 to 31.10.2016</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>6,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2016 to 31.10.2017</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>4,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2017 to 31.10.2018</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>2,000</td>
</tr>
<tr>
<td>Less: Depreciation on straight line method @ 10% from 01.11.2018 to 31.10.2019</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Written down value</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Amount paid by the assessee</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Perquisite value of washing machine</td>
<td>Nil</td>
</tr>
</tbody>
</table>

**Computation of perquisite value of Computer**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of the Computer</td>
<td>55,000</td>
</tr>
<tr>
<td>Less: Depreciation on reducing balance method @ 50% from 10.01.2017 to 09.01.2018</td>
<td>(27,500)</td>
</tr>
<tr>
<td>Written down value</td>
<td>27,500</td>
</tr>
<tr>
<td>Less: Depreciation on reducing balance method @ 50% from 10.01.2018 to 09.01.2019</td>
<td>(13,750)</td>
</tr>
<tr>
<td>Written down value</td>
<td>13,750</td>
</tr>
<tr>
<td>Less: Depreciation on reducing balance method @ 50% from 10.01.2019 to 09.01.2020</td>
<td>(6,875)</td>
</tr>
<tr>
<td>Written down value</td>
<td>6,875</td>
</tr>
<tr>
<td>Less: Amount paid by the assessee</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Perquisite value of computer</td>
<td>Nil</td>
</tr>
</tbody>
</table>

(9) **Any other benefit**  Rule 3(7)(ix)

The value of any other benefit provided by the employer to the employee is chargeable to tax and its value shall be determined on the basis of cost to the employer.

If the employer has provided telephone facility including the mobile phone, it will be exempt. If the facility has been taken by the employee himself and the employer has made payment or reimbursement, still it is exempt from tax.

If the employer has given telephone allowance, it will be chargeable to tax.

**Illustration 37:** X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y.2019-20 –

1. Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.
(2) Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.

(3) A Santro Car which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.

(4) A gift voucher of ₹ 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the A.Y.2020-21, assuming his salary for perquisite valuation to be ₹ 10 lakh.

**Solution:**

**Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount in ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Value of concessional accommodation</td>
<td></td>
</tr>
<tr>
<td>Actual amount of lease rental paid by X Ltd.</td>
<td>1,80,000</td>
</tr>
<tr>
<td>15% of salary i.e., 15% of ₹ 10,00,000</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Lower of the above</td>
<td>1,50,000</td>
</tr>
<tr>
<td>Less: Rent paid by Mr. Y (₹ 5,000 × 12)</td>
<td>(60,000)</td>
</tr>
<tr>
<td>Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y</td>
<td>36,000</td>
</tr>
<tr>
<td></td>
<td>1,26,000</td>
</tr>
<tr>
<td>(2) Perquisite value of Santro car owned by X Ltd. And provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]</td>
<td>32,400</td>
</tr>
<tr>
<td>(3) Value of gift voucher (10,000 – 5,000)</td>
<td>5,000</td>
</tr>
</tbody>
</table>

**Value of perquisites chargeable to tax**

| Value of perquisites chargeable to tax | 1,63,400 |

**Illustration 38:** Mr. X is employed with ABC Ltd. on a monthly salary of ₹ 25,000 per month and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:

1. A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 01.08.2019.
2. A personal loan of ₹ 5,00,000 on 01.07.2019 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest to be 12.75% p.a.)
3. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 01.05.2016. The motor cycle was finally sold to him on 01.08.2019 for ₹30,000.
4. Professional tax paid by Mr. X is ₹ 2,000.

Compute Total income and tax liability of Mr. X for the A.Y.2020-21.

**Solution:**

**Computation of Income from Salary of Mr. X for the A.Y.2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary [₹ 25,000 × 12]</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Commission [₹ 1,000 × 12]</td>
<td>12,000</td>
</tr>
<tr>
<td>Entertainment allowance [₹ 1,000 × 12]</td>
<td>12,000</td>
</tr>
</tbody>
</table>

Rent free accommodation Sec 17(2)(i) Rule 3(1)

**Working Note:**

= 15% of salary for the relevant period
= 15% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 48,600

Add : Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months] 16,000 64,600

Interest on personal loan Sec 17(2)(viii) Rule 3(7)(i)

**Working Note:**

= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500

Use of motor cycle Sec 17(2)(viii) Rule 3(7)(vii)

[₹ 60,000 × 10% p.a. for 4 months] 2,000

Transfer of motor cycle Sec 17(2)(viii) Rule 3(7)(viii)
Working Note:
Depreciated value of the motor cycle
= Original cost – Depreciation @ 10% p.a. for 3 completed years
= ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.

Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

Gross Salary

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>4,25,100</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Less: Deduction under section 16(iii)</td>
<td>(2,000)</td>
</tr>
</tbody>
</table>

Income from Salary

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from Salary</td>
<td>3,73,100</td>
</tr>
<tr>
<td>Tax on ₹3,73,100 at slab rate</td>
<td>6,155.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(6,155.00)</td>
</tr>
</tbody>
</table>

Tax Liability

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Question 34. Write a note on Medical Facility.

Answer: Medical Facility Proviso to Section 17(2)

If the employer has provided medical facility to the employee or to his family members it will be exempt provided facility is given in any hospital owned by the Government / local authority / employer himself or it is any other private hospital approved by the Income Tax Department. E.g. Mr. X is employed in ABC Ltd. and employer has incurred ₹3,00,000 on his treatment in a private hospital approved by Income Tax Department, in this case it will be exempt from income tax. If treatment was taken by the employee himself and employer has given reimbursement, in that case also it will be exempt from income tax.

If the employer has paid premium for medi-claim policy taken in the name of employee or his family, it will also be exempt from income tax.

If employer has paid medical allowance, it is taxable.

“Family”, shall include

(i) The spouse and children of the individual and
(ii) The parents, brothers and sisters of the individual provided they are dependent on the individual.

❖ If expenditure has been incurred by the employer on the treatment of any other person like mother in law, father in law, independent father etc., facility is taxable.

Medical facilities outside India

(i) If the employer has incurred expenditure on the treatment of the employee or any member of his family outside India, it is exempt to the extent permitted by Reserve Bank of India.
(ii) If the employer has incurred expenditure on the stay abroad of the patient including one attendant, it is exempt to the extent permitted by Reserve Bank of India.
(iii) If the employer has incurred expenditure on the travelling of the patient including one attendant, it is exempt provided gross total income of the employee do not exceed ₹2,00,000 before taking into consideration the expenditure incurred on travelling.

Illustration 39: Mr. X is employed in ABC Ltd. getting basic pay ₹12,000 p.m. dearness allowance ₹2,000 p.m. medical allowance ₹200 p.m. entertainment allowance ₹300 p.m. Employer has paid professional tax of ₹100 p.m. on behalf of the employee. Employer incurred ₹3,00,000 on his treatment outside India but RBI permitted ₹2,80,000. Amount incurred on stay is ₹1,00,000 but permitted by RBI is ₹90,000. Expenditure incurred on travelling is ₹1,10,000. He has income under the head house property ₹50,000 and deduction allowed under section 80C to 80U is ₹10,000. In this case his total income shall be computed in the manner given below:

Solution:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (12,000 x 12)</td>
<td>1,44,000</td>
</tr>
<tr>
<td>Dearness Allowance (2,000 x 12)</td>
<td>24,000</td>
</tr>
<tr>
<td>Medical Allowance (200 x 12)</td>
<td>2,400</td>
</tr>
<tr>
<td>Entertainment Allowance (300 x 12)</td>
<td>3,600</td>
</tr>
<tr>
<td>Professional Tax (100 x 12)</td>
<td>1,200</td>
</tr>
<tr>
<td>Treatment outside India (3,00,000 – 2,80,000)</td>
<td>20,000</td>
</tr>
<tr>
<td>Stay aboard (1,00,000 – 90,000)</td>
<td>10,000</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>2,05,200</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

Less: Deduction u/s 16(ii) Nil
Less: Deduction u/s 16(iii) (1,200)
Income under the head Salary 1,54,000
Income under the head house property 50,000
Gross Total Income 2,04,000

Since gross total income is exceeding ₹2,00,000 hence expenditure on travelling shall be taxable and shall be as given below:

Basic Pay (12,000 x 12) 1,44,000
Dearness Allowance (2,000 x 12) 24,000
Medical Allowance (200 x 12) 2,400
Entertainment Allowance (300 x 12) 3,600
Professional Tax (100 x 12) 1,200
Treatment outside India (3,00,000 – 2,80,000) 20,000
Stay aboard (1,00,000 – 90,000) 10,000
Travelling 1,10,000
Gross Salary 3,15,200
Less: Standard Deduction u/s 16(ia) (50,000)
Less: Deduction u/s 16(ii) Nil
Less: Deduction u/s 16(iii) (1,200)
Income under the head Salary 2,64,000
Income under the head house property 50,000
Gross Total Income 3,14,000
Less: Deduction u/s 80C to 80U (10,000)
Total Income 3,04,000

Computation of Tax Liability
Tax on ₹3,04,000 at slab rate 2,700
Less: Rebate u/s 87A (2,700)
Tax Liability Nil

Question 35 [V. Imp.]: Write a note on Leave Travel Concession.
Answer:
Leave Travel Concession Section 10(5) Rule 2B
Sometimes the employer may permit the employee or his family member to go to any place in India and travelling expenditure are incurred by the employer, such facility is called leave travel concession or leave fare concession.

Example
Mr. X is employed in ABC Ltd. and is posted in Delhi and the employer has allowed him to travel from Delhi to Goa and travelling expenditure has been incurred by the employer, in this case it will be called leave travel concession.

Taxability shall be as given below:
1. If the employee has travelled by air, exemption shall be allowed upto air economy fare of the national carrier. E.g. Mr. X travelled from place A to place B by air business class and employer paid ₹12,000 per ticket but economy class air fare is ₹7,000 per ticket, in this case taxable amount shall be ₹5,000.
2. If employee has not travelled by air, exemption shall be allowed upto first class AC fare of railways e.g. Mr. X travelled from place A to place B by railway first class AC and employer paid ₹6,000 per ticket, in this case entire amount is exempt but if employee has travelled by private tourist bus and employer paid ₹7,000 per ticket, taxable amount shall be ₹1,000 per ticket.
3. If the places are not connected by rail but there is some recognised transport system, exemption shall be allowed upto first class or deluxe class of such recognised transport system. Recognised transport system means govt. transport or private transport recognised by Govt.
4. If there is no rail connection and also there is no recognised transport system, exemption shall be allowed upto first class AC fare of railways (fare shall be determined on the basis of distance between the place travelled) E.g. Mr. X has travelled from place A to place B by a private bus (distance 50 kms) and employer has paid ₹ 600. There is no rail connection and also no recognised transport. First class AC fare of
railway is ₹500, taxable amount shall be ₹100.

**Ceiling on number of journeys**
The exemption shall be available to an individual two times **in each block of four calendar years.**

**Carry forward of leave travel concession**
If the employee has not availed any leave travel concession or has availed only one leave travel concession during a particular block, carry forward shall be allowed but only for one leave travel concession and such LTC must be availed during very first year of the next block otherwise the LTC shall lapse.

**Example:** An employee does not avail any LTC for the block 2014-17. He avails one LTC during 2018. In this case, he will be eligible for exemption and two more journeys can be further availed.

**“Family”, shall include—**
(i) the **spouse** and **children** of the individual however exemption shall be allowed maximum 2 children but in case of multiple birth after the birth of one child, exemption is allowed for all the children e.g. Mr. X has one son aged 10 years and twin daughters aged 5 years, in this case exemption is allowed for all the 3 children.

(ii) the **parents**, **brothers** and **sisters** of the individual or any of them, wholly or mainly **dependent** on the individual.

- If the employer has paid leave travel allowance and employee has not travelled to any place, entire amount paid by the employer is taxable.
- The exemption is allowed only in respect of fare i.e. expenses incurred on conveyance from residence to the railway station/airport/ bus stand etc. and back shall be taxable.

**Example**
(i) Mr. X is employed in ABC Ltd. and the employer has allowed him to travel from Delhi to Bombay by air (business class) and has reimbursed ₹12,000 per ticket but economy class air fare is ₹7,000 per ticket, in this case taxable amount per ticket shall be ₹5,000.

If in the above case the employee has travelled alongwith Mrs. X, two children and one independent brother and the employer has reimbursed five tickets, taxable amount shall be ₹32,000.

(ii) Mr. Y is employed in ABC Ltd. and he has travelled from place ‘A’ to place ‘B’ by a private bus because there is no rail link and also there is no recognised transport and the employer has reimbursed him ₹3,000 per ticket but first class A/C fare of the railways is ₹2,800 per ticket, in this case taxable amount shall be ₹200 per ticket.

(iii) Mr. X has travelled from Delhi to Bombay by second class railways and the employer has paid him ₹5,000 per ticket being first class A/C fare. The employee has incurred ₹1,000 per ticket, in this case taxable amount shall be ₹4,000 per ticket.

**Illustration 40:** Mr. D went on a holiday on 25.12.2019 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 2 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt.

**Solution:** Since the son’s age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.

**Illustration 41:** In the above illustration, will be there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

**Solution:** Since the twins’ age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children.

Taxable LTC =15,000 × 1/3 = ₹ 5,000.

LTC exempt is only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

**Illustration 42:** Mrs. X, an employee of XYZ Ltd., submits the following information for the assessment year 2020-21:

Salary: ₹2,56,000; City compensatory allowance: ₹8,000; Bonus: ₹10,200; Education allowance: ₹4,000 (for her grand children); Income tax penalty paid by the employer: ₹2,000; Leave travel concession: ₹1,000 (expenditure incurred by the employee nil); Free residential telephone: ₹4,000; Free refreshment during office hours ₹4,000; reimbursement of electricity bill by the employer: ₹1,060; reimbursement of gas bills: ₹1,000; Professional tax paid by the employer: ₹300 on behalf of Mrs. X; Professional tax paid by Mrs. X:
Determine the Total Income and Tax Liability of Mrs. X for the Assessment Year 2020-21.

**Solution:**

**Computation of Income under the head Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>2,56,000.00</td>
</tr>
<tr>
<td>City Compensatory Allowance</td>
<td>8,000.00</td>
</tr>
<tr>
<td>Bonus</td>
<td>10,200.00</td>
</tr>
<tr>
<td>Education Allowance {Sec 10(14) Rule 2BB}</td>
<td>4,000.00</td>
</tr>
<tr>
<td>Income tax penalty paid by employer {Sec 17(2)(iv)}</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Leave Travel Concession {Sec 10(5) Rule 2B}</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Free Refreshment</td>
<td>Nil</td>
</tr>
<tr>
<td>Free Residential Telephone</td>
<td>Nil</td>
</tr>
<tr>
<td>Payment of electricity bills by employer {Sec 17(2)(iv)}</td>
<td>1,060.00</td>
</tr>
<tr>
<td>Reimbursement of gas bills {Sec 17(2)(iv)}</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Professional tax paid by employer {Sec 17(2)(iv)}</td>
<td>300.00</td>
</tr>
<tr>
<td><strong>Gross Salary</strong></td>
<td>2,83,560.00</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Less: Entertainment Allowance u/s 16(ii)</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Professional Tax u/s 16(iii)</td>
<td>(450.00)</td>
</tr>
<tr>
<td><strong>Income under the head Salary</strong></td>
<td>2,33,110.00</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>2,33,110.00</td>
</tr>
<tr>
<td>Less: Deductions u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>2,33,110.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

Tax on ₹2,33,110 at slab rate: Nil  
Tax Liability: Nil

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MAY-2013 (4 Marks)

Mr. X went to Shrinagar on a holiday on 15.11.2019 with his wife and three children (one son – age 6 years; twin daughters – age 3 years). They went by aeroplane (economy class) and the total cost of tickets by his employer was ₹58,000 (₹43,000 for adults and ₹15,000 for the three minor children). Compute the amount of Leave Travel Concession exempt.

Will the answer be different if among his three children the twins are 6 years old and son 3 years old? Discuss.

**Solution:** Section 10(5) exempts the leave travel concession received by an employee from his employer for himself and his family which includes, *inter alia*, his spouse and children, in connection with proceeding on leave to any place in India. The exemption is not available to more than two surviving children of an individual. However, this restriction shall not apply in case of multiple births on the second occasion (i.e., after the first child).

In the present case, Mr. X can avail exemption for all his three children since the son’s age is more than the age of his twin daughters. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement of ₹58,000 towards leave travel concession met by the employer is fully exempt under section 10(5).

However, if the twins’ age is more than the age of the son, Mr. X cannot avail exemption for all his three children. The exemption in respect of leave travel concession under section 10(5) can be availed in respect of only two children.

The taxable leave travel concession, in this case, will be ₹5,000, being one-third of ₹15,000.

The leave travel concession exempt under section 10(5), in such a case, would be ₹53,000 (₹58,000 – ₹5,000)

**Question 36:** Define ‘Members of Employee’s Household’ and ‘Family’.

**Answer:** ‘Members of employee’s Household’ and ‘Family’

“Member of household” shall include—

(a) spouse(s)
Question 37: Explain the taxability of income tax paid by the employer on behalf of the employee in connection with non-monetary perquisites.

Answer:

**Payment of income tax in connection with non-monetary perquisites**  
**Section 10(10CC)**

If employer has paid income tax on behalf of the employee in connection with non-monetary perquisites, employer shall not be allowed to debit the amount so paid to the profit and loss account and also it will not be considered to be income of the employee as per section 10(10CC).

If income tax so paid is not in connection with non-monetary perquisites, employer shall be allowed to debit the amount to the profit and loss account and as per section 17(2)(iv), it will be considered to be income of the employee under the head salary.

**Illustration 43:** During the previous year 2019-20, ABC Ltd. pays ₹60,000 p.m. as salary to Mr. X and provides a rent free unfurnished house (lease rent being ₹15,000 p.m.). ABC Ltd. has also paid income tax of ₹9,000 on behalf of Mr. X in connection with rent free accommodation provided to Mr. X.

Compute Tax Liability of Mr. X for the Assessment Year 2020-21. Also discuss whether income tax paid by the company shall be considered to be income of Mr. X.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>7,20,000</td>
</tr>
<tr>
<td>Rent free accommodation {Sec 17 (2)(i) Rule 3(1)}</td>
<td>1,08,000</td>
</tr>
</tbody>
</table>

**Working Note:**

- 15% of rent free accommodation salary or rent paid whichever is less
- Rent free accommodation salary = 7,20,000
- 15% of rent free accommodation salary = 1,08,000
- Rent paid = 15,000 x 12 = 1,80,000
- Perquisite value of rent free accommodation = 1,08,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross salary</td>
<td>8,28,000</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>7,78,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>7,78,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>7,78,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- Tax on ₹7,78,000 at slab rate                   | 68,100     |
- Add: HEC @ 4%                                   | 2,724      |
- Tax Liability                                   | 70,824     |
- Less: Tax Paid by the company                   | (9,000)    |
- Tax Payable                                     | 61,824     |
- Rounded off u/s 288B                             | 61,820     |

Since tax has been paid by the company in connection with non-monetary perquisite, it will not be considered to be income of Mr. X. If the company has paid income tax upto ₹9,832 it will not be considered to be income of Mr. X but any excess over it shall be considered to be income of Mr. X. The tax liability with regard to rent free accommodation shall be ₹9,832, as shown below:

\[
70,824 / 7,78,000 \times 1,08,000 = 9,831.61 = 9,832
\]
(b) Presume in the above question ABC Ltd. has paid income tax of ₹20,000 instead of ₹9,000. Tax Liability and Tax Payable shall be computed in the manner given below:

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>₹7,20,000.00</td>
</tr>
<tr>
<td>(60,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Rent free accommodation {Sec 17 (2)(i) Rule 3(1)}</td>
<td>₹1,08,000.00</td>
</tr>
</tbody>
</table>

**Working Note:**

- 15% of rent free accommodation salary or rent paid whichever is less
- Rent free accommodation salary = ₹7,20,000
- 15% of rent free accommodation salary = ₹1,08,000
- Rent paid = 15,000 x 12 = ₹1,80,000
- Perquisite value of rent free accommodation = ₹1,08,000

Payment of income tax on behalf of employee {Sec 17(2)(iv)} (20,000 – 9,832) = ₹10,168.00

Gross salary = ₹8,38,168.00

Less: Standard Deduction u/s 16(ia) = ₹50,000.00

Income under the head Salary = ₹7,88,168.00

Gross Total Income = ₹7,88,168.00

Less: Deduction u/s 80C to 80U = Nil

Total Income = ₹7,88,168.00

Rounded off u/s 288A = ₹7,88,170.00

**Computation of Tax Liability**

- Tax on ₹7,88,170 at slab rate = ₹70,134.00
- Add: HEC @ 4% = ₹2,805.36
- Tax Liability = ₹72,939.36
- Less: Tax Paid by the company = (20,000.00)
- Tax Payable = ₹52,939.36
- Rounded off u/s 288B = ₹52,940.00

**Illustration 44:** Mr. X, finance manager of KLM Ltd. Mumbai, furnishes the following particulars for the financial year 2019-20:

(i) Salary ₹46,000 per month
(ii) Rent free accommodation owned by the company
(iii) Housing loan of ₹6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) (Presume SBI Rate 10.5% p.a.)
(iv) Gifts made by the company in kind on the occasion of wedding anniversary of Mr. X ₹4,750
(v) A wooden table and 4 chairs were provided to Mr. X at his residence. These were purchased on 01.05.2016 for ₹60,000 and put to use on 01.06.2016 and sold to Mr. X on 01.08.2019 for ₹30,000
(vi) Personal purchases through credit card provided by the company amounting to ₹10,000 was paid by the company. No part of the amount was recovered from Mr. X.
(vii) An ambassador car which was purchased by the company on 16.07.2016 for ₹2,50,000 and put to use on the same date. It was sold to the assessee on 14.07.2019 for ₹80,000.

Compute the Total Income of Mr. X and the tax thereon for the Assessment Year 2020-21.

**Solution:**

**Computation of Taxable Income of Mr. X for the Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary (46,000 x 12)</td>
<td>₹5,52,000.00</td>
</tr>
<tr>
<td>Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}</td>
<td>₹84,800.00</td>
</tr>
</tbody>
</table>

**Working Note:**

- 15% of rent free accommodation salary
- Rent Free Accommodation salary = ₹5,52,000
- Value of unfurnished house = ₹82,800
- Add: 10% of cost of furniture (60,000 x 10% x 4/12) = ₹2,000
- Perquisite value of furnished house = ₹84,800
- Perquisite of interest on loan {Sec 17(2)(viii) Rule 3(7)(i)} = ₹33,000.00
Working Note:
10.5% is taxable which is to be reduced by actual rate of interest charged
i.e. [10.5%-5% = 5.5%]
(6,00,000 x 5.5%) = ₹33,000

Gift given on the occasion of wedding anniversary Nil
Sale of Table and Chairs {Sec 17(2)(viii) Rule 3(7)(viii)} 12,000.00

Working Note:
Perquisite on sale of table and chairs
Cost 60,000
Less: Dep. on straight line method @ 10% for 3 years (18,000)
Written down value 42,000
Less: Amount paid by the assessee (30,000)
Perquisite value of Table and chairs 12,000

Credit Card Facility 10,000.00
Sale of Ambassador Car {Sec 17(2)(viii) Rule 3(7)(viii)} 80,000.00

Working Note:
Original cost of Car 2,50,000
Less: Dep. from 16.07.2016 to 15.07.2017 (50,000)
Less: Dep. from 16.07.2017 to 15.07.2018 (40,000)
Written down value 1,60,000
Less: amount received from the assessee (80,000)
Perquisite value of Ambassador car 80,000

Gross Salary 7,71,800.00
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 7,21,800.00
Gross Total Income 7,21,800.00
Less: Deduction u/s 80C to 80U Nil
Total Income 7,21,800.00

Computation of tax liability
Tax on ₹7,21,800 at slab rate 56,860.00
Add: HEC @ 4% 2,274.40
Tax Liability 59,134.40
Rounded off u/s 288B 59,130.00

Note: It is assumed that furniture (wooden table and 4 chairs) were provided to Mr. X at his residence on April 1st, 2019 or earlier.

Illustration 45: Mr. X, a resident individual, retires from C Ltd. Delhi w.e.f. 1st February, 2020 after 25 years of service. He joined T Ltd. on the same day i.e. 1st February, 2020.
The following information is provided by him about his incomes/outgoing during the Previous Year 2019-20:
(a) Salary/allowances/perquisites/other payment from 01.04.2019 to 31.01.2020 from C Ltd. ₹
(i) Basic salary 12,000 p.m.
(ii) Dearness allowance (One-half includible for superannuation benefits) 3,000 p.m.
(iii) Commission, 5% on turnover achieved by him 6,000
(iv) House accommodation, rent paid by company 5,000 p.m.
(v) Best suggestion award for total quality management scheme (in kind) 12,000
(vi) Lunch Facility (cost per meal is upto ₹50) 500 p.m.
(vii) Gratuity under Gratuity Act, 1972 3,35,000
(viii) Pension 3,000 p.m.
(ix) Commuted value of one-half pension w.e.f. 01.02.2020 2,25,000
(x) Refund of employer contribution from unrecognised provident fund (Including interest of ₹1,00,000) 2,50,000
(xi) Refund of employee contribution from unrecognised provident fund
Income Under The Head Salary

( Including interest of ₹1,00,000 ) 2,50,000

(b) Salary/allowances/perquisites etc. from 01.02.2020 to 31.03.2020 from T Ltd.

(i) Salary 8,000 p.m.
(ii) House rent allowance 1,500 p.m.
(iii) Free use of motorcar (exceeding 1.6 litres engine capacity) (expenses met by employer)
(iv) Rent paid by assessee 2,000 p.m.

You are required to compute his income under the head Salary and Tax Liability for the Assessment Year 2020-21.

Solution:

Computation of income under the head Salary in C Ltd.

Basic Pay (12,000 x 10) 1,20,000.00
Dearness Allowance (3,000 x 10) 30,000.00
Commission 6,000.00
Rent free accommodation {Sec 17(2)(i), Rule 3(1)} 21,150.00

Working Note:

15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary
= Basic Pay + Dearness Allowance + Commission
= 1,20,000 + 15,000 + 6,000 = 1,41,000
15% of rent free accommodation salary 21,150
Rent paid = 5,000 x 10 50,000
Perquisite value of rent free accommodation 21,150

Best suggestion award (Gift) (12,000 – 5,000) 7,000.00
Lunch Facility Nil
Gratuity {Sec 10(10)} 1,18,653.85

Working Note:
Least of the following is exempt:
1. ₹3,35,000
2. ₹20,00,000
3. 15/26 x 25 x 15,000 = ₹2,16,346.15
Received = ₹3,35,000.00
Exempt = (₹2,16,346.15)
Taxable = ₹1,18,653.85

Uncommuted Pension {Sec 17(1)(ii)} {3,000 x 50% x 2} 3,000.00
Commuted Pension {Sec 10(10A)} 75,000.00

Working Note:

Received = 2,25,000
Exempt = 1/3 x 4,50,000 = (1,50,000)
Taxable = 75,000

Refund of employer’s contribution (including interest) 2,50,000.00

In T Ltd.

Basic Pay (8,000 x 2) 16,000.00
House Rent Allowance {Sec 10(13A) Rule 2A} 600.00

Working Note:
Least of the following is exempt:
1. ₹4,000 – ₹1,600 = ₹2,400
2. 40% of retirement benefit salary = ₹6,400
(Retirement benefit salary = ₹16,000)
3. ₹3,000
Received = ₹3,000
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Exempt</th>
<th>₹2,400</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable</td>
<td>₹600</td>
</tr>
</tbody>
</table>

Motor Car (2,400 x 2) 4,800.00
Gross Salary 6,52,203.85
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 6,02,203.85
Income under the head Other Sources 1,00,000.00
{interest on employee’s contribution to unrecognised provident fund} Gross Total Income 7,02,203.85
Less: Deduction u/s 80C to 80U Nil
Total Income {Rounded off u/s 288A} 7,02,200.00

**Computation of Tax Liability**

Tax on ₹7,02,200 at slab rate 52,940.00
Add: HEC @ 4% 2,117.60
Tax Liability 55,057.60
Rounded off u/s 288B 55,060.00

**Illustration 46:** Mr. X has taken voluntary retirement from ABC Ltd. on 31.10.2019 after serving the employer for 23 years and 2 months. The employer has paid him ₹2,10,000 in connection with voluntary retirement, a gratuity of ₹1,80,000 and leave salary of ₹1,50,000.

The employee was getting the basic pay ₹15,000 p.m. at the time of retirement. The employer has unrecognised provident fund.

After retirement the employer has paid him provident fund balance of ₹5,00,000, out of which employee’s contribution is ₹2,00,000. The employer’s contribution is also ₹2,00,000 and balance is the interest on employee’s and employer’s contribution.

The employee has taken voluntary retirement after completion of the age 50 years though he was to be retired at the age of 58.

The employer has allowed him one month leave per year of service. The employee has availed seven months leave throughout his service and has encashed six months leave.

Compute employee’s Tax Liability for the Assessment Year 2020-21.

**Solution:**

Basic Pay (15,000 x 7) 1,05,000.00
Employer’s contribution to unrecognised provident fund 2,00,000.00
Interest on employer’s contribution to unrecognised provident fund 50,000.00
Gratuity {Sec 10(10)} 7,500.00

**Working Note:**

**Least of the following is exempt:**

1. ₹1,80,000
2. ₹20,00,000
3. ½ x 15,000 x 23 = ₹1,72,500
Received = ₹1,80,000
Exempt = ₹1,72,500
Taxable = ₹7,500

Leave Salary {Sec 10(10AA)} Nil

**Working Note:**

**Least of the following is exempt:**

1. ₹1,50,000
2. ₹3,00,000
3. 10 x 15,000 = ₹1,50,000
4. 10 x 15,000 = ₹1,50,000
Received = ₹1,50,000
Exempt = ₹1,50,000
Taxable = Nil
**Computation of leave at the credit**
- Leave Entitlement = 23 months
- Less: Leave availed = (7 months)
- Less: Leave Encashed = (6 months)
- Leave at the credit = 10 months

Voluntary Retirement {Sec 10(10C) Rule 2BA} Nil

**Working Note:**

**Least of the following is exempt:**
1. $15,000 \times 3 \times 23 = ₹10,35,000$
2. $15,000 \times 12 \times 8 = ₹14,40,000$
3. ₹2,10,000
   - Received = ₹2,10,000
   - Exempt = (₹2,10,000)
   - Taxable = Nil

Gross Salary 3,62,500.00
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 3,12,500.00
Income under the head Other Sources 50,000.00
{Interest on employee’s contribution to unrecognised provident fund}
Gross Total Income 3,62,500.00
Less: Deduction u/s 80C to 80U Nil
Total Income 3,62,500.00

**Computation of Tax Liability**
- Tax on ₹3,62,500 at slab rate 5,625.00
- Less: Rebate u/s 87A (5,625.00)
- Tax Liability Nil

**Illustration 47:** Mr. X is employed in ABC Ltd. and is getting Basic Pay (BP) ₹80,000 p.m. Employer Contribution ₹10,000 p.m. to Unrecognised Provident Fund (URPF) and employee also contributed equal amount and interest of ₹ 80,000 was credited to URPF in P.Y. 2019-20 at a rate of 10% p.a. He has taken a medi claim insurance in his name and paid ₹ 25,000 by cheque. He has taken a loan of ₹ 20 lakh from SBI on 01.07.2019 at a rate of 15% p.a. for purchase of one house and at the time of taking the loan, the assessee do not have any house in his name. Value of house is ₹30 lakh.

He has submitted a certificate confirming the amount of interest and house is self-occupied. He has repaid ₹1,50,000 on 01.03.2020.

Compute his tax liability for A.Y. 2020-2021.

**Solution:**

**Income under the head Salary**
- Basic Pay (80,000 x 12) 9,60,000.00
- Less: Standard Deduction u/s 16(ia) (50,000.00)
- Income under the head Salary 9,10,000.00

**Income under the head House property**
- Gross Annual Value Nil
- Less: Municipal Tax Nil
- Net Annual Value Nil
- Less: Deduction of 30% u/s 24 (a) Nil
- Less: Interest on capital borrowed u/s 24(b) (2,00,000.00)

**Working Note:**

Current period interest

**From 01.07.2019 to 28.02.2020**
- $20,00,000 \times 15% \times 8/12 = ₹2,00,000$
From 01.03.2020 to 31.03.2020

18,50,000 x 15% x 1/12 = `23,125
Total interest = `2,23,125 but limited to `2,00,000

Income from house property
Gross Total Income
Less: Deductions u/s 80C
Less: Deductions u/s 80D
Less: Deductions u/s 80EEA (2,23,125-2,00,000)
Total Income
Rounded off u/s 288A

Computation of Tax Liability
Tax on `5,11,880 at slab rate
Add: HEC @ 4%
Tax Liability
Rounded off u/s 288B

Illustration 48: Mr. X is employed in ABC Ltd. getting basic pay `12,000 p.m. and dearness allowance `5,000 p.m. forming part of salary. He has contributed `3,000 p.m. to the recognised provident fund and employer has also contributed an equal amount. During the year interest of `25,000 was credited @ 8.5% p.a.
Employer has provided rent free accommodation to the employee for which rent paid by the employer is `5,000 p.m.
The employee has encashed one month leave and was allowed leave salary of `17,000.
Compute his income under the head salary for the previous year 2019-20.
Solution:
Basic Pay (12,000 x 12) 1,44,000
Dearness Allowance (5,000 x 12) 60,000
Leave Salary 17,000
Rent free accommodation {Sec 17(2)(i) Rule 3(1)} 33,150

Working Note:
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary
= Basic Pay + Dearness Allowance + Leave Salary
= 1,44,000 + 60,000 + 17,000 = 2,21,000
15% of rent free accommodation salary 33,150
Rent paid = 5,000 x 12 60,000
Perquisite value of rent free accommodation 33,150

Employer’s contribution to recognised provident fund in excess of
12% of retirement benefit salary {Rule 6 of Part A of schedule IV} 11,520
(36,000 – 24,480)
Gross Salary 2,65,670
Less: Standard Deduction u/s 16(ia) (50,000)
Income under the head Salary 2,15,670

Illustration 49: Mr. X is working in XYZ Ltd. and has given the details of his income for the P.Y. 2019-20.
You are required to compute his tax liability from the details given below:
Basic Salary ` 30,000 p.m.
D.A. (50% is for retirement benefits) ` 8,000 p.m.
Commission as a percentage of turnover 1%
Turnover during the year ` 5,00,000
Bonus ` 40,000
Gratuity ` 25,000
His own contribution in the RPF ` 20,000
Employer’s contribution to RPF 20% of his basic salary
Interest accrued in the RPF @ 9.5% p.a. (on employer’s contribution) ₹ 13,000

**Solution:**

**Computation of Tax Liability of Mr. X for the A.Y.2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary [ ₹ 30,000 × 12]</td>
<td>3,60,000</td>
</tr>
<tr>
<td>Dearness Allowance [₹ 8,000 × 12]</td>
<td>96,000</td>
</tr>
<tr>
<td>Commission on turnover [1% × ₹ 5,00,000]</td>
<td>5,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>40,000</td>
</tr>
<tr>
<td>Gratuity</td>
<td>25,000</td>
</tr>
<tr>
<td>Employers contribution to RPF [20% of ₹ 3,60,000]</td>
<td>72,000</td>
</tr>
<tr>
<td>Less : Exempt</td>
<td>(49,560)</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>5,48,440</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>4,98,440</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,78,440</td>
</tr>
<tr>
<td>Tax</td>
<td>11,422.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>(11,422.00)</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Note:
- Gratuity received during service is fully taxable.
- Employers contribution in the RPF is exempt up to 12% of the salary.
- i.e. 12% of [B.S + D.A. for retirement benefits + Commission based on turnover]
  = 12% of [₹ 3,60,000 + (50% × ₹ 96,000) + ₹ 5,000] = 12% of ₹ 4,13,000 = ₹ 49,560

**Question 38:** What is profit in lieu of salary and under what head it is chargeable to tax?

**Answer:**

**Profit in lieu of Salary**

As per section 17(3), certain payments given by the employer to the employee are called profit in lieu of salary because it is not appropriate to call such payments as salary and are as given below:
1. Taxable portion of Retrenchment Compensation or Voluntary Retirement.
2. Taxable portion of Gratuity, Commuted Pension and Provident Fund.
3. Amount received by the employee under Keymen Insurance Policy.
4. Amount received before taking up the employment or after termination of the employment.
5. Any other payment notified for this purpose.

**Question 39:** Define salary under section 17(1).

**Answer:**

**Meaning of Salary Section 17(1)**

“Salary” includes— (i) wages; (ii) Bonus; (iii) Commission; (iv) Perquisites; (v) gratuity; (vi) pension; (vii) Profits in lieu of salary; (viii) leave salary; (ix) employer contribution to recognised provident fund in excess of 12% of salary of the employee; (x) amount contributed by employer to new pension system covered under section 80CCD.

**Question 40:** Distinguish between Foregoing of Salary and Surrender of Salary?

**Answer:**

**Foregoing of Salary / Surrender of Salary**

**Foregoing of Salary**

If any salary has accrued to an employee, it is chargeable to tax even if he foregoes his salary. Waiver by an employee of his salary is foregoing of salary. Once salary accrues, subsequent waiver does not absolve him from liability to income tax.

**Surrender of Salary**

If any employee surrenders his salary to the **Central Government under the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961**, the surrendered salary would not be included in computing his taxable income, whether he is a private sector/public sector or Government employee.
Question 41: The question whether a particular income is “Income from Salary” or is “Income from Business” depends upon whether the contracts is a ‘Contract of Service’ or is a ‘Contract for Service’. Discuss.
Answer: Contract of Service / Contract for Service

**Contract of service**
Income is taxable under the head salary, if there is a ‘contract of service’ i.e. the relationship is that of employer–employee. In other words, the employee does the work for his master. Control and supervision vests in the master.

**Contract for service**
A ‘contract for service’, on the other hand, is one, in which a person offers his services to any person who is willing to pay the prescribed charges. He has discretion to do the work in his own way. He is entitled to the fruits of his labour and liable for its losses. Such receipts constitute income from business in his hands.

Question 42: What are the incomes taxable under the head Salary?
Answer: Incomes chargeable under the head Salary

**Payments must be out of employer/employee relationship**
The amount received by an individual shall be treated as salary only if the relationship between payer and payee is that of an employer and employee or master and servant. The employee may be a full time employee or part-time employee.
The important point is that payment received by an individual from a person other than his employer cannot be termed as salary. e.g. Commission received by a director from a company is salary if the director is an employee of the company and if the director is not an employee of the company, commission will be taxable under the head “Profits and gains of business or profession” or “Income from other sources.”

**Payments received by a college lecturer from a university**
Emoluments received by a college lecturer from his college are salary, irrespective of the fact whether it is received for academic work or otherwise. If lecturer is paid for setting question paper by university, the remuneration is not salary, as it is not received from the employer and is taxable under the head “Income from other sources”. The deciding factor is that what is not received from employer cannot be treated as salary.
A Member of Parliament or State Legislature is not treated as an employee of the Government, hence salary and allowances received by him are, not chargeable to tax under the head “Salaries” but are chargeable to tax under head “Income from other sources”.


MULTIPLE CHOICE QUESTIONS

1. The maximum ceiling limit for exemption under section 10(10) in respect of gratuity for employees covered by the Payment of Gratuity Act, 1972 is -
   (a) ₹1,00,000
   (b) ₹5,00,000
   (c) ₹3,50,000
   (d) ₹20,00,000

2. The maximum ceiling limit for exemption under section 10(10C) with respect to compensation received on voluntary retirement is -
   (a) ₹2,50,000
   (b) ₹3,00,000
   (c) ₹3,50,000
   (d) ₹5,00,000

3. The HRA paid to an employee residing in Patna is exempt up to the lower of actual HRA, excess of rent paid over 10% of salary and -
   (a) 30% of salary
   (b) 40% of salary
   (c) 50% of salary
   (d) 60% of salary

4. Anirudh stays in New Delhi. His basic salary is ₹10,000 p.m., D.A. (60% of which forms part of pay) is ₹6,000 p.m., HRA is ₹5,000 p.m. and he is entitled to a commission of 1% on the turnover achieved by him. Anirudh pays a rent of ₹5,500 p.m. The turnover achieved by him during the current year is ₹12 lakhs. The amount of HRA exempt under section 10(13A) is –
   (a) ₹48,480
   (b) ₹45,600
   (c) ₹49,680
   (d) ₹46,800

5. Where there is a decision to increase the D.A. in March, 2020 with retrospective effect from 1.4.2018, and the increased D.A. is received in April, 2020, the increase is taxable -
   (a) in the previous year 2018-19
   (b) in the previous year 2019-20
   (c) in the previous year 2020-21
   (d) in the respective years to which they relate

6. Rajesh is provided with a rent free unfurnished accommodation, which is owned by his employer, XY Pvt. Ltd., in New Delhi. The value of perquisite in the hands of Rajesh is -
   (a) 20% of salary
   (b) 15% of salary
   (c) 10% of salary
   (d) 7.5% of salary

7. Anand is provided with furniture to the value of ₹70,000 along with house from February, 2019. The actual hire charges paid by his employer for hire of furniture is ₹5,000 p.a.. The value of furniture to be included along with value of unfurnished house for A.Y.2020-21 is -
   (a) ₹5,000
   (b) ₹7,000
   (c) ₹10,500
   (d) ₹14,000

8. For the purpose of determining the perquisite value of loan at concessional rate given to the employee, the lending rate of State Bank of India as on _________ is required;
   (a) 1st day of the relevant previous year
   (b) Last day of the relevant previous year
   (c) the day the loan is given
   (d) 1st day of the relevant assessment year
9. Mr. Kashyap received basic salary of ₹20,000 p.m. from his employer. He also received children education allowance of ₹3,000 for three children and transport allowance of ₹1,800 p.m. The amount of salary chargeable to tax for P.Y. 2019-20 is -
(a) ₹2,62,600
(b) ₹2,12,600
(c) ₹2,22,200
(d) ₹2,07,800

10. The entertainment allowance received by a Government employee is exempt up to the lower of the actual entertainment allowance received, 1/5th of basic salary and-
(a) ₹4,000
(b) ₹6,000
(c) ₹5,000
(d) ₹10,000.

11. For the purposes of computing exemption under section 10(10), in case of Mr. Anand, an employee of ABC Ltd., who is covered by the Payment of Gratuity Act, 1972, "salary" includes –
(a) only basic pay
(b) basic pay and dearness allowance, if provided in the terms of employment
(c) basic pay and dearness allowance
(d) basic pay, dearness allowance and commission as a fixed percentage of turnover

12. Provision of rent free accommodation and motor car owned by Beta Ltd. to its employee Mr. Anand, where motor car is allowed to be used by Mr. Anand both for official and personal purposes, is a –
(a) perquisite taxable in case of all employees
(b) perquisite taxable only in case of specified employees
(c) perquisite of rent free accommodation is taxable in case of all employees whereas perquisite of motor car is taxable only in case of specified employees
(d) perquisite of rent free accommodation is taxable only in case of specified employees whereas perquisite of motor car is taxable in case of all employees

13. Retirement Benefit Salary shall include:
(a) Basic pay plus commission
(b) Basic pay plus Dearness allowance
(c) Basic pay plus Dearness allowance (forming part of salary) plus commission (fixed on turnover)
(d) Basic pay plus Dearness allowance plus any commission
(e) taxable salary

14. Payments received from recognised provident fund shall be exempt from income tax if the
(a) If the employee has rendered continuous service for a period of 10 years or more
(b) If the employee has rendered service for a period of 5 years or more
(c) If the employee has rendered continuous service for a period of 5 years or more
(d) If the employee has rendered service for a period of 10 years or more

15. Any gratuity received by the employees covered under payment of Gratuity Act 1972, shall be exempt
(a) Lower of Gratuity received or ₹ 20,00,000 or 15 days salary for each completed year of service or part thereof in excess of six month.
(b) Lower of Gratuity received or ₹ 10,00,000 or 15 days salary for each completed year of service or part thereof in excess of six month.
(c) Lower of Gratuity received or ₹ 5,00,000 or 30 days salary for each completed year of service or part thereof in excess of six month.
(d) Lower of Gratuity received or ₹ 20,00,000 or 30 days salary for each completed year of service or part thereof in excess of six month.

16. Salary for the purpose of Gratuity (employees not covered under gratuity act) means
(a) Basic pay plus commission
(b) Basic pay plus Dearness allowance
(c) Basic pay plus Dearness allowance (forming part of salary) plus commission (fixed on turnover)
(d) Basic pay plus any Dearness allowance plus any commission
17. Mr. X retired on 15.06.2019 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

Basic Salary : ₹ 5,000 p.m.
Dearness Allowance : ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission : 1% of turnover (turnover in the last 12 months was ₹12,00,000)
Bonus : ₹ 12,000 p.a.

Taxable Gratuity shall be if he is non-government employee and covered by the Payment of Gratuity Act 1972.

(a) 6,00,000
(b) 3,75,385
(c) 4,75,385
(d) 4,55,385

18. Mr. X retired on 15.06.2019 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

Basic Salary : ₹ 5,000 p.m.
Dearness Allowance : ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission : 1% of turnover (turnover in the last 12 months was ₹12,00,000)
Bonus : ₹ 12,000 p.a.

Taxable Gratuity shall be if he is non-government employee and not covered by the Payment of Gratuity Act 1972.

(a) 6,00,000
(b) 4,98,600
(c) 4,75,600
(d) 4,55,600

19. Which of the statements is correct

(a) If the employee has not received gratuity, the commuted value of 1/2 of such pension is exempt from tax.
(b) If the employee has not received gratuity, the commuted value of 1/3 of such pension is exempt from tax.
(c) If the employee has not received gratuity, the commuted value of 2/3 of such pension is exempt from tax.
(d) If the employee has not received gratuity, the commuted value of 1/4 of such pension is exempt from tax.

20. Which of the statements is correct

(a) If the employee has received gratuity, the commuted value of 1/2 of such pension is exempt from tax.
(b) If the employee has received gratuity, the commuted value of 1/3 of such pension is exempt from tax.
(c) If the employee has received gratuity, the commuted value of 2/3 of such pension is exempt from tax.
(d) If the employee has received gratuity, the commuted value of 1/4 of such pension is exempt from tax.

21. Which of the statements is correct

(a) If the employee has received pension from Local Authority, the commuted value of 100% of such pension is exempt from tax.
(b) If the employee has received pension from Local Authority, the commuted value of 50% of such pension is exempt from tax.
(a) If the employee has received pension from Local Authority, the commuted value of 33.33% of such pension is exempt from tax.
(a) If the employee has received pension from Local Authority, the commuted value of 60% of such pension is exempt from tax.

22. Which of the statements is correct

(a) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of retirement benefit salary
(b) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of taxable salary
(c) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of retirement benefit salary
(d) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of salary.
23. Which of the statements is correct
(a) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of contribution
(b) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of gross total income
(c) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of contribution
(d) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of gross total income.

24. Mr. X (Non-Govt. Employee) retired w.e.f 01.12.2019 after 20 years 10 months of service, receiving leave salary of `5,00,000. Other details of his salary income are:

Basic Salary : `5,000 p.m. (`1,000 was increased w.e.f. 01.04.2019)
Dearness Allowance : `3,000 p.m. (60% of which is for retirement benefits)
Commission : `500 p.m.
Bonus : `1,000 p.m.
Leave availed during service : 480 days

He was entitled to 30 days leave every year. Taxable leave salary shall be
(a) 5,00,000
(b) Nil
(c) 4,73,600
(d) 4,55,600

25. Mr. X received retrenchment compensation of `10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of `20,000 p.m.; dearness allowance of `5,000 p.m., taxable retrenchment compensation shall be
(a) 5,67,308
(b) Nil
(c) 6,25,000
(d) 7,00,000
(e) 10,00,000

26. Standard deduction u/s section 16(ia) from gross salary shall be allowed maximum
(a) 50,000
(b) 50% of gross salary
(c) 40,000
(d) 1,00,000
(e) no deduction shall be allowed

27. Which of the statement is correct from the following
(a) Children education allowance is exempt upto `100 p.m. per child upto two child.
(b) Children education allowance is exempt upto `100 p.m. per child upto three child.
(c) Children education allowance is exempt upto `100 per child upto two child.
(d) Children education allowance is exempt upto `100 per child for many child.

28. Which of the statement is correct from the following
(a) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto `300 p.m. per child upto two children.
(b) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto `300 per child upto two children.
(c) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto `100 p.m. per child two children.
(d) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto `400 p.m. per child two children.

29. Mr. X is employed in central Government getting basic pay `30,000 p.m., dearness allowance `7,000 p.m., servant allowance `2,000 p.m., entertainment allowance `1,000 p.m., In this case entertainment allowance exempt u/s 16(ii) for the F.Y. 2019-20 shall be
(a) Nil
(b) 5,000
30. Which of the statement is not correct from the following

(a) If the population is upto 10 lakhs, taxable amount shall be 7.5% of rent free accommodation salary
(b) If the population is more than 10 lakhs but upto 25 lakhs, taxable amount shall be 10% of rent free accommodation salary
(c) If the population is more than 25 lakhs, taxable amount shall be 15% of rent free accommodation salary
(d) If the population is more than 10 lakhs, taxable amount shall be 15% of rent free accommodation salary

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

TOTAL PROBLEMS 28

**Problem 1.**
Mr. X has joined ABC Ltd. on 01.07.2009 in the pay scale of 40,000 – 500 – 50,000 – 1,000 – 60,000 – 2,000 – 80,000. The employer has allowed him dearness allowance @ 7% of his basic pay from 01.04.2019 to 30.06.2019 and thereafter dearness allowance was allowed @ 10% of the basic pay.
Compute employee’s Salary, Total Income and Tax Liability for the Assessment Year 2020-21.
Answer = Salary: ₹5,38,345; Total Income: ₹5,38,350; Tax Liability: ₹20,980

**Problem 2.**
Mr. X has joined ABC Ltd. on 01.10.2006 in the pay scale of 25,000 – 900 – 30,400 – 1,100 – 38,100 – 1,500 – 50,100. The employer has allowed him dearness allowance @ 4.35% of the basic pay from 01.04.2019 to 30.09.2019, @ 7.5% upto 31.12.2019. Thereafter it was allowed @ 10.5% of the basic pay.
Compute employee’s Gross Salary, Total Income and Tax Liability for the Assessment Year 2020-21.
Answer = Gross Salary: ₹4,30,831; Total Income: ₹4,30,830; Tax Liability: Nil

**Problem 3.**
Mr. X is employed in ABC Ltd. getting basic pay ₹40,000 p.m. and dearness allowance ₹10,000 p.m. (40% of DA forming part of salary for retirement benefit). Employer has paid Bonus ₹1,000 p.m., Commission @ 2% on sales turnover of ₹60,00,000. Employer and employee each has contributed ₹8,000 p.m. to recognized provident fund. During the year interest of ₹ 1,00,000 was credited to recognized provident fund @ 10% p.a. on employer plus employee contribution. Compute his Income and Tax Liability for the Assessment Year 2020-21.
Answer = Total Income: ₹6,09,240; Tax Liability: ₹35,720

**Problem 4.**
Mr. X is employed in ABC Ltd. getting basic pay ₹80,000 p.m. and dearness allowance ₹20,000 p.m. Employer has paid Bonus ₹2,000 p.m., Commission @ 2% on sales turnover of ₹80,00,000. Employer and employee each has contributed ₹14,000 p.m. to recognized provident fund. During the year interest of ₹2,00,000 was credited to recognized provident fund @ 9% p.a. on employer plus employee contribution. Income under the head House Property ₹ 3,00,000
Compute his Income and Tax Liability for the Assessment Year 2020-21.
Answer = Total Income: ₹15,17,600; Tax Liability: ₹2,78,490

**Problem 5.**
Mr. X is retired from ABC Ltd. on 11.09.2019 after serving the employer for 11 years 10 months and 20 days. At the time of retirement his basic pay was ₹37,000 p.m. but it was ₹33,000 p.m. upto 31.05.2019. The employee was getting dearness allowance ₹ 4,000 p.m. but upto 31.05.2019 it was ₹3,000 p.m. The employer has paid him gratuity of ₹5,10,000. Half of the dearness allowance forms part of the salary for retirement benefits.
Compute his tax liability in two situations –
(a) He is covered under Payment of Gratuity Act 1972;
(b) He is not covered under Payment of Gratuity Act 1972.
Answer = Tax Liability: (a) Nil; (b) Nil

**Problem 6.**
Mr. X is retired from ABC Ltd. with effect from 18.09.2019 after serving the employer for 20 years and 6 months. At the time of his retirement his basic pay was ₹39,000 p.m. and dearness allowance ₹3,000 p.m. The employee was covered under Payment of Gratuity Act 1972. The employer has paid him gratuity of ₹5,70,000 and has allowed him pension of ₹5,000 p.m. The employer has also allowed him commutation of pension on 01.01.2020 for 48% of the pension and has paid ₹2,88,000.
Compute employee’s Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: Nil
Problem 7.
Mr. X is retired from ABC Ltd. on 27.11.2019 after serving the employer for 11 years 11 months and 11 days. The employer has paid him gratuity of ₹2,50,000. At the time of his retirement his basic pay was ₹12,500 p.m.
The employer has allowed him pension of ₹6,200 p.m., the employee has requested for commutation of pension on 01.02.2020 and employer has allowed him commutation @ 52% of his pension and has paid ₹3,86,880.
Compute his Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: Nil

Problem 8.
Mr. X joined ABC Ltd. in the pay scale of ₹ 10,800 – 400 – 16,400 – 500 – 19,400 on 01.07.2001 and he resigned on 15.09.2019. He was allowed dearness allowance @ 50% of his basic pay, forming part of salary for retirement benefits.
On retirement, he received gratuity of ₹ 2,60,000. He was allowed pension of ₹6,000 per month with effect from 16.09.2019. He was allowed commutation of 75% of his pension on 01.01.2020 and received a sum of ₹6,00,000 as commuted pension.
Compute his Tax Liability for Assessment Year 2020-21.
Answer = Tax Liability: Nil

Problem 9.
Mr. X is retired from ABC Ltd. on 31.03.2020 after serving the employer for 30 years and 11 months and the employer has paid him leave salary of ₹5,00,000. At the time of retirement, he was getting basic pay ₹25,000 p.m. but it was ₹22,000 p.m. upto 31.07.2019. Further, the employee was getting dearness allowance ₹6,000 but it was ₹4,000 p.m. upto 31.07.2019 and 50% of the dearness allowance forms the part of salary for retirement benefits.
The employee was entitled for 3 months leave for every year of service, but the employee has availed 7 months leave throughout the service and has encashed 4 months leave.
Compute employee’s Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: ₹19,240

Problem 10.
Mr. X is retired from ABC Ltd. on 28.02.2020 after serving the employer for 21 years and 10 months. At the time of his retirement his basic pay was ₹13,000 p.m. but upto 30.09.2019 it was ₹9,500 p.m. The employer has allowed him dearness allowance @ 10% of his basic pay.
The employee was entitled for 45 days leave per year of service. During entire service the employee has availed 65 days leave and has encashed 45 days leave. The employer has paid him leave salary of ₹3,10,000 at the time of retirement.
Employer has also paid him gratuity of ₹2,50,000, pension of ₹6,000 p.m. and the employee was allowed commutation of 40% of his pension amounting to ₹ 2,88,000.
Compute his Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: Nil

Problem 11.
Mr. X is retired from ABC Ltd. with effect from 01.12.2019 after serving the employer for 16 years. At the time of his retirement his basic pay was ₹43,000 p.m. The employee was entitled for 65 days leave per year of service. The employee has 780 days leave at his credit at the time of retirement (as per employer’s record) which were encashed by the employer. An amount of ₹5,12,000 was paid by the employer.
Compute his Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: ₹14,250

Problem 12.
Mr. X is employed in ABC Ltd. getting basic pay ₹45,000 p.m., dearness allowance ₹7,000 p.m. The
employer has provided him rent free accommodation for which rent paid by the employer is ₹3,000 p.m. The employer has contributed ₹6,000 p.m. to recognised provident fund and the employee has also contributed equal amount. The interest of ₹16,000 @ 8.5% was credited to the provident fund account on 30.06.2019 for the period 01.07.2018 upto 30.06.2019.

Compute employee’s Total Income and tax liability for the Assessment Year 2020-21.

**Answer** = Total Income: ₹5,45,200; Tax Liability: ₹22,400

**Problem 13.**

Mr. X is employed in ABC Ltd. getting basic pay ₹20,000 p.m., dearness allowance ₹7,000 p.m. The employer has contributed ₹3,500 to the unrecognised provident fund and the employee has also contributed equal amount. The employee was retired on 31.10.2019 after serving the employer for 20 years and 6 months and employer has credited interest ₹21,000 to the provident fund account on 31.10.2019 and interest rate is 12% p.a.

The employer has paid provident fund balance ₹10,00,000 to the employee on 01.11.2019 out of which employee’s contribution is ₹4,00,000 and employer’s contribution is also ₹4,00,000 and balance is interest. Employer has paid gratuity ₹2,60,000 and allowed him pension ₹5,000 p.m. The employee was allowed commutation of pension on 01.01.2020 for 40% of the pension and has paid ₹2,40,000.

Compute employee’s Tax Liability for the Assessment Year 2020-21.

**Answer** = Tax Liability: ₹87,460

**Problem 14.**

Mr. X is employed in ABC Ltd., Calcutta and is getting basic pay ₹40,000 p.m., dearness allowance ₹16,000 p.m. (50% of dearness allowance forms part of salary for the purpose of retirement benefits).

The employee was allowed bonus ₹1,000 p.m. and commission @ 2.5% on the sales turnover of ₹60,00,000. The employer has paid him house rent allowance ₹6,000 p.m. The employee has paid rent ₹6,500 p.m.

Compute his Gross Salary and Tax Liability for the Assessment Year 2020-21.

**Answer** = Gross Salary: ₹8,50,600; Tax Liability: ₹85,920

**Problem 15.**

Mr. X is employed in ABC Ltd. getting basic pay ₹45,000 p.m., dearness allowance ₹19,000 p.m. (half of it is taken into consideration for retirement benefit).

Employer has allowed him house rent allowance with effect from 01.10.2019 @ 10,000 p.m. and the employee has paid rent ₹12,000 p.m. throughout the year. Employer has paid him children education allowance ₹75 per month per child for four children and has also paid him hostel allowance ₹500 per month for one child, the actual expenses incurred by the employee is ₹1,000 per month per child.

Employer has paid him transport allowance ₹1,700 per month with effect from 01.07.2019 and the employee has incurred ₹1,500 p.m.

Compute his Gross Salary and Tax Liability for the Assessment Year 2020-21.

**Answer** = Gross Salary: ₹7,58,200; Tax Liability: ₹66,710

**Problem 16.**

Mr. X is employed in Indian Airlines as pilot and is getting basic pay ₹55,000 p.m. and dearness allowance @ 10% of basic pay.

Employer has paid him children education allowance of ₹750 per month for one of his adopted child. The employer has also paid transport allowance of ₹1,800 per month. The employee has incurred ₹2,000 per month. The employer has paid him flight allowance in lieu of daily allowance ₹10,000 p.m.

Compute his Gross Salary and Tax Liability for the Assessment Year 2020-21.

**Answer** = Gross Salary: ₹7,41,400; Tax Liability: ₹63,210

**Problem 17.**

Mr. X is employed in Central Government getting basic pay ₹39,000 p.m. and dearness allowance @ 60% of basic pay. Employer has paid children education allowance ₹600 per month per child for 3 children and has paid hostel allowance ₹1,000 per month per child for one child. Employer has paid professional tax of ₹175

p.m. on behalf of the employee and has allowed him entertainment allowance ₹200 p.m. out of which he has saved ₹100 p.m. The employer has paid medical allowance ₹300 p.m. but employee’s expenditure is ₹500 p.m.

Compute his income under the head Salary and Tax Liability for the Assessment Year 2020-21.

**Answer** = Income under the head Salary: ₹7,30,000; Tax Liability: ₹60,840

**Problem 18.**

Mr. X is employed in ABC Ltd. since 01.07.2003 in the pay scale of 35,000 – 300 – 36,500 – 500 – 40,000 – 750 – 47,500 – 1000 – 57,500. The employer has given him two increments in advance at the time of his taking up the job.

During the previous year 2019-20, he was allowed dearness allowance @ 11% of the basic pay. The employer has allowed him house rent allowance @ ₹3,000 p.m. Entertainment allowance ₹600 p.m. but the employee has saved ₹100 p.m. which was donated by him to a charitable institution.

The employer has paid Professional tax of ₹2,400 on his behalf on 02.04.2019 though it was due on 31.03.2019. The employer has paid conveyance allowance of ₹500 p.m. The employee has incurred ₹100 p.m. for official purpose, ₹150 p.m. for personal purpose and balance has been saved by the employee.

Compute his income under the head Salary and Tax Liability for the Assessment Year 2020-21.

**Answer** = Income under the head salary: ₹5,88,240; Tax Liability: ₹31,350

**Problem 19.**

Mr. X joined ABC Ltd. on 01.07.2012 in the pay scale of 25,000 – 1,500 – 31,000 – 1,600 – 39,000 – 1,800 – 49,800. The employer has allowed him 3 increments in advance at the time of taking up the job. The employee’s salary is due on the 1st of next month.

Employee was allowed dearness allowance @ ₹10,000 p.m., during the previous year 2018-19 and @ ₹12,000 p.m. in 2019-20. The employee has resigned w.e.f. 01.03.2020. The employee was allowed pension @ ₹10,000 p.m. and his pension is due on the last day of the month.

Compute Tax Liability for the Assessment Year 2020-21.

**Answer** = ₹30,560

**Problem 20.**

Mrs. X is employed in ABC Ltd. and income u/h salary ₹5,40,000, but it is increased to ₹6,00,000 in previous year 2019-20 w.e.f. previous year 2018-19. Compute Tax Liability and relief under section 89.

**Tax Rate of Previous Year 2018-19 for resident woman**

<table>
<thead>
<tr>
<th>If total income upto ₹2,50,000</th>
<th>Nil</th>
</tr>
</thead>
<tbody>
<tr>
<td>On Next 2,50,000</td>
<td>5%</td>
</tr>
<tr>
<td>On Next 5,00,000</td>
<td>20%</td>
</tr>
<tr>
<td>On Balance amount</td>
<td>30%</td>
</tr>
</tbody>
</table>

Heath & education cess @ 4%, rebate u/s 87A will be allowed up to ₹2,500 if total income of the person is up to ₹3,50,000.

Standard deduction u/s 16(ia) was ₹40,000 in year 2018-19

**Answer** = Tax Liability: ₹35,880; Relief: Nil

**Problem 21.**

Mr. X is employed in ABC Ltd. getting basic pay ₹40,000 p.m. and dearness allowance ₹5,000 p.m. (half of the dearness allowance forms part of salary for retirement benefit salary). The employee was working in sales deptt. and employer has allowed him commission @ 1.5% on the sales turnover of ₹20,00,000.

Employee has contributed ₹6,000 p.m. to the recognized provident fund. The employer has also contributed an equal amount. During the year interest of ₹20,000 was credited on 30.06.2019 @ 8.5% p.a.

The employer has provided him rent free accommodation which is owned by the employer himself and the population of the place is 14,00,000.

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

**Answer** = Total Income : ₹5,09,200; Tax Liability: ₹14,910
Problem 22.
Mr. X is employed in ABC Ltd. getting basic pay ₹41,000 p.m., dearness allowance ₹7,000 p.m. (10% of the dearness allowance forms part of salary for retirement benefits).
The employer has paid commission of ₹3,000 p.m. and has allowed him medical allowance ₹400 p.m. The employee was paid house rent allowance ₹6,000 p.m. The employee has paid rent of ₹5,000 p.m. The employer has discontinued payment of house rent allowance with effect from 01.09.2019 and has provided him rent free accommodation with effect from 01.11.2019. The accommodation was owned by the employer and the population of the place is 4,00,000. The employee was allowed arrears of salary ₹10,000 and advance salary ₹20,000. The employee was also provided furniture with effect from 01.01.2020. Its original cost is ₹1,00,000 and written down value is ₹35,000.
Compute employee’s Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: ₹42,550

Problem 23.
Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. and dearness allowance 5,000 p.m. Commission ₹3,500 p.m. Employer has paid overtime allowance with effect from 01.05.2019 @ ₹1,000 p.m. and has allowed him house rent allowance ₹2,000 p.m. The employee has paid rent ₹500 p.m. The employer has discontinued payment of house rent allowance with effect from 01.06.2019 and has allowed him rent free accommodation with effect from 01.09.2019. The accommodation was owned by the employer itself at Calcutta. Employer has also provided him furniture from the same date with original cost ₹1,50,000 and has also paid professional tax ₹200 p.m. on behalf of the employee.
The employee has received arrears of salary ₹35,000.
Compute his Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: ₹68,740

Problem 24.
Mr. X is employed in ABC Ltd. getting basic pay ₹45,000 p.m., dearness allowance ₹5,000 p.m. and 30% of it forms part of salary.
The employee is also getting dearness pay ₹1,000 p.m. and 10% of it forms part of salary. He is getting bonus ₹1,200 p.m. The employer has provided him one accommodation in Delhi for which rent paid by the employer is ₹1,200 p.m.
The employee was transferred to Bombay with effect from 01.01.2020 and the employer has provided him rent free accommodation at Bombay also which is owned by the employer himself.
The employee has received arrears of salary ₹32,000 and advance salary of ₹11,000.
Compute employee’s Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: ₹40,830

Problem 25.
Mr. X is employed in ABC Ltd getting basic pay ₹40,000 p.m. Salary for the month of March 2019 was paid to the employee on 03.04.2019.
The employer has paid house rent allowance ₹5,000 p.m. with effect from 01.11.2019 and the employee has paid rent ₹6,000 p.m.
Prior to 01.11.2019 the employer has provided him an accommodation and rent paid by the employer was ₹7,000 p.m.
Employee has also received advance salary ₹20,000.
Compute his Tax Liability for the Assessment Year 2020-21.
Answer = Tax Liability: ₹14,460

Problem 26.
Mr. X has taken four loans from his employer –
(i) ₹7,00,000 (term loan) on 23.09.2019 @ 3% p.a. for the purpose of purchasing a new motor car (in Delhi). The loan was repaid in monthly instalments of ₹ 25,000 each starting from 10.12.2019. (Presume SBI Rate 10%)
(ii) ₹10,00,000 on 11.05.2019 @ 5% p.a. for purchasing a house. The loan was repaid in annual instalments of ₹55,000 each starting from 31.03.2020. (Presume SBI Rate 10.5%)

(iii) The employee has taken a loan of ₹3,00,000 for the treatment of specified disease on 28.11.2019 (Presume SBI Rate 12%)

(iv) He has taken a personal loan of ₹18,000 on 30.03.2020 for a period of 2 years. (Presume SBI Rate 12%)

Compute perquisite value of the loan given to the employee.

Answer = Total Perquisite Value: ₹77,469.57

Problem 27.
Find out the perquisite value in the following cases:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Furniture</th>
<th>Air-conditioner</th>
<th>Video camera</th>
<th>Motor car</th>
<th>Computer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original cost</td>
<td>1,00,000</td>
<td>45,000</td>
<td>50,000</td>
<td>3,40,000</td>
<td>55,000</td>
</tr>
<tr>
<td>Date of purchase by the employer</td>
<td>07.03.2016</td>
<td>01.07.2018</td>
<td>10.07.2017</td>
<td>01.10.2015</td>
<td>01.01.2017</td>
</tr>
<tr>
<td>Date of putting to use by employer</td>
<td>31.03.2016</td>
<td>01.07.2018</td>
<td>11.07.2017</td>
<td>01.10.2015</td>
<td>10.01.2017</td>
</tr>
<tr>
<td>Date of sale of asset to the employee</td>
<td>01.09.2019</td>
<td>01.08.2019</td>
<td>01.08.2019</td>
<td>01.01.2020</td>
<td>09.01.2020</td>
</tr>
<tr>
<td>Payment made by the employee</td>
<td>40,000</td>
<td>15,000</td>
<td>20,000</td>
<td>1,50,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>

Answer: Furniture: ₹30,000; Air-Conditioner: ₹25,500; Video Camera: ₹20,000; Motor Car : Nil; Computer: Nil

Problem 28.
Mr. X is employed in ABC Ltd. getting basic pay of ₹8,000 p.m.
Employer has paid medical allowance of ₹10,000 during the year and has incurred ₹7,000 on the treatment of father in law of Mr. X in India. The treatment was provided in a Government hospital and father in law of Mr. X is dependent on him.
The employee has been provided with a motor car of 1.8 litre engine capacity for official as well as personal use and all expenses are met by the employee himself but driver has been provided by the employer.
Mr. X has income under the head house property ₹1,00,000 and income under the head business profession ₹1,50,000 and deductions allowed under section 80C to 80U are ₹3,500.
Compute his Tax Liability for the Assessment Year 2020-21.

Answer = Tax Liability: Nil
SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:

Computation of Gross Salary

Basic Pay

\[(44,500 \times 3) + (45,000 \times 9)\]

Working Note:

\[
\begin{align*}
01.07.2009 - 30.06.2010 &= 40,000 \text{ p.m.} \\
01.07.2010 - 30.06.2011 &= 40,500 \text{ p.m.} \\
01.07.2011 - 30.06.2012 &= 41,000 \text{ p.m.} \\
01.07.2012 - 30.06.2013 &= 41,500 \text{ p.m.} \\
01.07.2013 - 30.06.2014 &= 42,000 \text{ p.m.} \\
01.07.2014 - 30.06.2015 &= 42,500 \text{ p.m.} \\
01.07.2015 - 30.06.2016 &= 43,000 \text{ p.m.} \\
01.07.2016 - 30.06.2017 &= 43,500 \text{ p.m.} \\
01.07.2017 - 30.06.2018 &= 44,000 \text{ p.m.} \\
01.07.2018 - 30.06.2019 &= 44,500 \text{ p.m.} \\
01.07.2019 - 30.06.2020 &= 45,000 \text{ p.m.}
\end{align*}
\]

Dearness Allowance

Working Note:

\[
\begin{align*}
7\% \text{ of } (44,500 \times 3) &= 9,345 \\
10\% \text{ of } (45,000 \times 9) &= 40,500 \\
\text{Total} &= (9,345 + 40,500) &= 49,845
\end{align*}
\]

Gross Salary

Less: Standard Deduction u/s 16(ia)

Income under the head Salary

Gross Total Income

Less: Deduction u/s 80C to 80U

Total Income (Rounded off u/s 288A)

Computation of Tax Liability

Tax on ₹5,38,350 at slab rate

Add: HEC @ 4%

Tax Liability

Rounded off u/s 288B

Solution 2:

Computation of Gross Salary

Basic Pay

\[(37,000 \times 6) + (38,100 \times 6)\]

Working Note:

\[
\begin{align*}
01.10.2006 - 30.09.2007 &= 25,000 \text{ p.m.} \\
01.10.2007 - 30.09.2008 &= 25,900 \text{ p.m.}
\end{align*}
\]
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Date Range</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.10.2008 – 30.09.2009</td>
<td>26,800 p.m.</td>
</tr>
<tr>
<td>01.10.2009 – 30.09.2010</td>
<td>27,700 p.m.</td>
</tr>
<tr>
<td>01.10.2010 – 30.09.2011</td>
<td>28,600 p.m.</td>
</tr>
<tr>
<td>01.10.2011 – 30.09.2012</td>
<td>29,500 p.m.</td>
</tr>
<tr>
<td>01.10.2012 – 30.09.2013</td>
<td>30,400 p.m.</td>
</tr>
<tr>
<td>01.10.2013 – 30.09.2014</td>
<td>31,500 p.m.</td>
</tr>
<tr>
<td>01.10.2014 – 30.09.2015</td>
<td>32,600 p.m.</td>
</tr>
<tr>
<td>01.10.2015 – 30.09.2016</td>
<td>33,700 p.m.</td>
</tr>
<tr>
<td>01.10.2016 – 30.09.2017</td>
<td>34,800 p.m.</td>
</tr>
<tr>
<td>01.10.2017 – 30.09.2018</td>
<td>35,900 p.m.</td>
</tr>
<tr>
<td>01.10.2018 – 30.09.2019</td>
<td>37,000 p.m.</td>
</tr>
<tr>
<td>01.10.2019 – 30.09.2020</td>
<td>38,100 p.m.</td>
</tr>
</tbody>
</table>

Dearness Allowance: 30,231.00

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>From April to September</td>
<td>9,657.00</td>
</tr>
<tr>
<td>4.35% of (37,000 x 6)</td>
<td></td>
</tr>
<tr>
<td>From October to December</td>
<td>8,572.50</td>
</tr>
<tr>
<td>7.5% of (38,100 x 3)</td>
<td></td>
</tr>
<tr>
<td>From January to March</td>
<td>12,001.50</td>
</tr>
<tr>
<td>10.5% of (38,100 x 3)</td>
<td></td>
</tr>
</tbody>
</table>

Total: 30,231.00

Gross Salary: 4,80,831.00
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary: 4,30,831.00
Gross Total Income: 4,30,831.00
Less: Deduction u/s 80C to 80U Nil
Total Income (rounded off u/s 288A): 4,30,830.00

**Computation of Tax Liability**

Tax on ₹4,30,830 at slab rate: 9,041.50
Less: Rebate u/s 87A (9,041.50)
Tax Liability: Nil

**Solution 3:**

Basic Pay (40,000 x 12): 4,80,000.00
Dearness allowance (10,000 x 12): 1,20,000.00
Bonus: 12,000.00
Commission (60,00,000 x 2%): 1,20,000.00
Employer’s contribution to recognised provident fund in excess of 12% of retirement benefit salary: 18,240.00

**Working Note:**

RBS = 4,80,000 + 48,000 + 1,20,000
= 6,48,000
12% of RBS = 77,760
Employer’s contribution = 8,000 x 12 = 96,000
96,000 – 77,760 = 18,240
Interest credited in excess of 9.5% p.a.
(1,00,000 / 10% x 0.5%)/2: 2,500.00
Gross Salary: 7,52,740.00
Less: Standard Deduction u/s 16(ia) (50,000.00)
**Income under the head Salary**: 7,02,740.00

**Income under the head other sources**
Interest credited in excess of 9.5% p.a.
(1,00,000 / 10% x 0.5%)/2: 2,500.00
Income Under The Head Salary

Gross Total Income 7,05,240.00
Less: Deduction u/s 80C (96,000.00)
Total Income 6,09,240.00

Computation of Tax Liability
Tax on ₹6,09,240 at slab rate 34,348.00
Add: HEC @ 4% 1,373.92
Tax Liability 35,721.92
Rounded off u/s 288B 35,720.00

Solution 4:

Basic Pay (80,000 x 12) 9,60,000.00
Dearness allowance (20,000 x 12) 2,40,000.00
Bonus 24,000.00
Commission (80,00,000 x 2%) 1,60,000.00
Employer’s contribution to recognised provident fund in excess of 12% of retirement benefit salary 33,600.00

Working Note:
RBS = 9,60,000 + 1,60,000
= 11,20,000
12% of RBS = 1,34,400
Employer’s contribution = 14,000 x 12 = 1,68,000
1,68,000 – 1,34,400 = 33,600
Gross Salary 14,17,600.00
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 13,67,600.00
Income under the head House Property 3,00,000.00
Gross Total Income 16,67,600.00
Less: Deduction u/s 80C (₹ 1,68,000 but limited to ₹ 1,50,000) (1,50,000.00)
Total Income 15,17,600.00

Computation of Tax Liability
Tax on ₹15,17,600 at slab rate 2,67,780.00
Add: HEC @ 4% 10,711.20
Tax Liability 2,78,491.20
Rounded off u/s 288B 2,78,490.00

Solution 5:

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

Basic Salary 1,90,566.67

Working Note:

From April to May
33,000 x 2 = 66,000
From June to August
37,000 x 3 = 1,11,000
For September
11/30 x 37,000 = 13,566.67
Total = ₹66,000 + 1,11,000 + 13,566.67 = 1,90,566.67

Dearness Allowance 19,466.67

Working Note:

From April to May
3,000 x 2 = 6,000.00
From June to August
4,000 x 3 = 12,000.00
For September
Income Under The Head Salary

$$\begin{align*}
11/30 \times 4,000 &= 1,466.67 \\
\text{Total} &= \text{₹}6,000 + 12,000 + 1,466.67 = 19,466.67 \\
\text{Gratuity} \{\text{Sec 10(10)}\} &= 2,26,153.85
\end{align*}$$

**Working Note:**

Least of the following is exempt:
1. ₹5,10,000
2. ₹20,00,000
3. $\frac{15}{26} \times (37,000 + 4,000) \times 12 = ₹2,83,846.15$

Received = ₹5,10,000.00

Exempt = (₹2,83,846.15)

Taxable = ₹2,26,153.85

Gross Salary = 4,36,187.19

Less: Standard Deduction u/s 16(ia) = (50,000.00)

Income under the head Salary = 3,86,187.19

Gross Total Income / Total Income = 3,86,190.00

(Rounded off u/s 288A)

**Computation of Tax Liability**

Tax on ₹3,86,190 at slab rate = 6,809.50

Less: Rebate u/s 87A = (6,809.50)

Tax Liability = Nil

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

Basic Salary = 1,90,566.67

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>From April to May</strong></td>
<td></td>
</tr>
<tr>
<td>33,000 x 2</td>
<td>= 66,000</td>
</tr>
<tr>
<td><strong>From June to August</strong></td>
<td></td>
</tr>
<tr>
<td>37,000 x 3</td>
<td>= 1,11,000</td>
</tr>
<tr>
<td><strong>For September</strong></td>
<td></td>
</tr>
<tr>
<td>11/30 x 37,000</td>
<td>= 13,566.67</td>
</tr>
<tr>
<td>Total = ₹66,000 + 1,11,000 + 13,566.67</td>
<td>= 1,90,566.67</td>
</tr>
</tbody>
</table>

Dearness Allowance = 19,466.67

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>From April to May</strong></td>
<td></td>
</tr>
<tr>
<td>3,000 x 2</td>
<td>= 6,000.00</td>
</tr>
<tr>
<td><strong>From June to August</strong></td>
<td></td>
</tr>
<tr>
<td>4,000 x 3</td>
<td>= 12,000.00</td>
</tr>
<tr>
<td><strong>For September</strong></td>
<td></td>
</tr>
<tr>
<td>11/30 x 4,000</td>
<td>= 1,466.67</td>
</tr>
<tr>
<td>Total = ₹6,000 + 12,000 + 1,466.67</td>
<td>= 19,466.67</td>
</tr>
</tbody>
</table>

Gratuity \{\text{Sec 10(10)}\} = 3,12,825.00

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least of the following is exempt</td>
<td></td>
</tr>
<tr>
<td>1. ₹5,10,000</td>
<td></td>
</tr>
<tr>
<td>2. ₹20,00,000</td>
<td></td>
</tr>
<tr>
<td>3. $\frac{1}{2} \times 35,850 \times 11 = ₹1,97,175$</td>
<td></td>
</tr>
<tr>
<td>Received = ₹5,10,000</td>
<td></td>
</tr>
<tr>
<td>Exempt = (₹1,97,175)</td>
<td></td>
</tr>
<tr>
<td>Taxable = ₹3,12,825</td>
<td></td>
</tr>
</tbody>
</table>

**Calculation of Average Salary**

Basic Pay

From November to May ₹33,000 x 7 = 2,31,000
Income Under The Head Salary

From June to August  \( \text{₹}37,000 \times 3 = 1,11,000 \)
Total = 3,42,000
D.A.
From November to May  \( \text{₹}1,500 \times 7 = 10,500 \)
From June to August  \( \text{₹}2,000 \times 3 = 6,000 \)
Total = 16,500
Average Salary = (3,42,000 + 16,500)/10 = 35,850

Gross Salary 5,22,858.34
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 4,72,858.34
Gross Total Income / Total Income 4,72,860.00
(Rounded off u/s 288A)

Computation of Tax Liability
Tax on ₹4,72,860 at slab rate 11,143.00
Less: Rebate u/s 87A (11,143.00)
Tax Liability Nil

Solution 6:

Computation of income under the head Salary
Basic Pay 2,17,100.00
[(39,000 \times 5) + (39,000 \times 17/30)]
Dearness Allowance 16,700.00
[(3,000 \times 5) + (3,000 \times 17/30)]
Gratuity {Sec 10(10)} 85,384.62

Working Note:
1. ₹5,70,000
2. ₹20,00,000
3.15/26 \times 42,000 \times 20 = ₹4,84,615.38
Received = ₹5,70,000.00
Exempt = (₹4,84,615.38)
Taxable = ₹85,384.62

Uncommuted Pension {Sec 17(1)(ii)} 24,966.67

Working Note:
5,000 \times 13/30 = 2,166.67
From October to December
5,000 \times 3 = 15,000.00
From January to March
5,000 \times 52\% \times 3 = 7,800.00
Total = ₹2,166.67 + ₹15,000 + ₹7,800 = 24,966.67
Commuted Pension {Sec 10(10A)} 88,000.00

Working Note:
Received = 2,88,000
Exempt = 2,88,000 / 48\% \times 100\% \times 1/3 = (2,00,000)
Taxable = 88,000

Gross Salary 4,32,151.29
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 3,82,151.29
Gross Total Income 3,82,151.29
Less: Deductions u/s 80C to 80U Nil
Total Income 3,82,151.29
Rounded Off u/s 288A 3,82,150.00
Income Under The Head Salary

**Computation of Tax Liability**

Tax on ₹3,82,150 at slab rate 6,607.50  
Less: Rebate u/s 87A (6,607.50)  
Tax Liability Nil

**Solution 7:**

**Computation of income under the head Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>₹98,750.00</td>
</tr>
<tr>
<td>[(12,500 x 7) + (12,500 x 27/30)]</td>
<td></td>
</tr>
<tr>
<td>Gratuity {Sec 10(10)}</td>
<td>₹1,81,250.00</td>
</tr>
<tr>
<td>Working Note: Least of the following is exempt:</td>
<td></td>
</tr>
<tr>
<td>1. ₹2,50,000</td>
<td></td>
</tr>
<tr>
<td>2. ₹20,00,000</td>
<td></td>
</tr>
<tr>
<td>3. ½ x 1,25,000/10 x 11 = ₹68,750</td>
<td></td>
</tr>
<tr>
<td>Received = ₹2,50,000</td>
<td></td>
</tr>
<tr>
<td>Exempt = (₹ 68,750)</td>
<td></td>
</tr>
<tr>
<td>Taxable = ₹1,81,250</td>
<td></td>
</tr>
</tbody>
</table>

**Uncommuted Pension** {Sec 17(1)(ii)} 18,972.00

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>From November</td>
<td>₹620</td>
</tr>
<tr>
<td>6,200 x 3/30</td>
<td></td>
</tr>
<tr>
<td>From December and January</td>
<td>₹12,400</td>
</tr>
<tr>
<td>6,200 x 2</td>
<td></td>
</tr>
<tr>
<td>From February to March</td>
<td>₹5,952</td>
</tr>
<tr>
<td>6,200 x 2 x 48%</td>
<td></td>
</tr>
<tr>
<td>Total = ₹620 + 12,400 + 5,952 =</td>
<td>₹18,972</td>
</tr>
</tbody>
</table>

**Commuted Pension** {Sec 10(10A)} 1,38,880.00

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received =</td>
<td>₹3,86,880.00</td>
</tr>
<tr>
<td>Exempt = 3,86,880 / 52% x 1/3 =</td>
<td>(2,48,000.00)</td>
</tr>
<tr>
<td>Taxable =</td>
<td>₹1,38,880.00</td>
</tr>
</tbody>
</table>

**Gross Salary** 4,37,852.00  
Less: Standard Deduction u/s 16(ia) (50,000.00)  
Income under the head Salary 3,87,852.00  
Gross Total Income 3,87,852.00  
Less: Deductions u/s 80C to 80U Nil  
Total Income 3,87,852.00  
Rounded off u/s 288A 3,87,850.00

**Computation of Tax Liability**

Tax on ₹3,87,850 at slab rate 6,892.50  
Less: Rebate u/s 87A (6,892.50)  
Tax Liability Nil

**Solution 8:**

**Computation of income under the head Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>₹99,700.00</td>
</tr>
<tr>
<td>[(17,900 x 3) + (18,400 x 2) + (18,400 x 15/30)]</td>
<td></td>
</tr>
<tr>
<td>Working Note:</td>
<td>₹</td>
</tr>
<tr>
<td>01.07.2001 – 30.06.2002 =</td>
<td>10,800 p.m.</td>
</tr>
<tr>
<td>01.07.2002 – 30.06.2003 =</td>
<td>11,200 p.m.</td>
</tr>
<tr>
<td>01.07.2003 – 30.06.2004 =</td>
<td>11,600 p.m.</td>
</tr>
</tbody>
</table>
01.07.2004 – 30.06.2005 = 12,000 p.m.
01.07.2005 – 30.06.2006 = 12,400 p.m.
01.07.2006 – 30.06.2007 = 12,800 p.m.
01.07.2007 – 30.06.2008 = 13,200 p.m.
01.07.2008 – 30.06.2009 = 13,600 p.m.
01.07.2009 – 30.06.2010 = 14,000 p.m.
01.07.2010 – 30.06.2011 = 14,400 p.m.
01.07.2011 – 30.06.2012 = 14,800 p.m.
01.07.2012 – 30.06.2013 = 15,200 p.m.
01.07.2013 – 30.06.2014 = 15,600 p.m.
01.07.2014 – 30.06.2015 = 16,000 p.m.
01.07.2015 – 30.06.2016 = 16,400 p.m.
01.07.2016 – 30.06.2017 = 16,900 p.m.
01.07.2017 – 30.06.2018 = 17,400 p.m.
01.07.2018 – 30.06.2019 = 17,900 p.m.
01.07.2019 – 30.06.2020 = 18,400 p.m.

Dearness Allowance 49,850.00
Gratuity {Sec 10(10)} 17,000.00

**Working Note:**
**Least of the following is exempt:**
1. ₹2,60,000
2. ₹20,00,000
3. ½ x 27,000 x 18 = ₹2,43,000

**Calculation of average salary**

Basic Pay
[(17,900 x 8) + (18,400 x 2)] = 1,80,000

Dearness Allowance
50% of ₹1,80,000 = 90,000
Average Salary = 2,70,000/10 = 27,000

Received = ₹2,60,000
Exempt = (₹2,43,000)
Taxable = ₹ 17,000

Uncommuted Pension {Sec 17(1)(ii)} 25,500.00

**Working Note:**
**From September**
6,000 x 15/30 = 3,000

**From October to December**
6,000 x 3 = 18,000

**From January to March**
6,000 x 3 x 25% = 4,500
Total = ₹3,000 +18,000 + 4,500 = 25,500

Commuted Pension {Sec 10(10A)} 3,33,333.33

**Working Note:**
Received = 6,00,000.00
Exempt = (6,00,000 x 4/3 x 1/3) = (2,66,666.67)
Taxable = 3,33,333.33

Gross Salary 5,25,383.33
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 4,75,383.33
Gross Total Income 4,75,383.33
Less: Deductions u/s 80C to 80U Nil
Income Under The Head Salary

Total Income
Rounded off u/s 288A

Computation of Tax Liability
Tax on ₹4,75,380 at slab rate
Less: Rebate u/s 87A
Tax Liability

Solution 9:

Basic Salary
Dearness Allowance
Leave Salary [Sec 10(10AA)]

Working Note:
1. ₹ 5,00,000
2. ₹ 3,00,000
3. ₹ 10 x 2,72,000/10 = ₹ 2,72,000
4. 2,72,000 /10 x 19 = ₹ 5,16,800
Received = ₹5,00,000
Exempt = (₹2,72,000)
Taxable = ₹2,28,000
Calculation of average salary
Basic Pay
Dearness Allowance
Average Salary = 2,72,000/10 = 27,200

Computation of leave at credit
Leave Entitlement = 30
Less: Leave Availed = (7)
Less: Leave Encashed = (4)
Leave at Credit = 19

Gross Salary
Less: Standard Deduction u/s 16(ia)
Income under the head Salary
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income

Computation of Tax Liability
Tax on ₹5,30,000 at slab rate
Add: HEC @ 4%
Tax Liability

Solution 10:

Computation of income under the head Salary
Basic Pay

Working Note:
[(9,500 x 6) + (13,000 x 5)]
Dearness Allowance
(10% of basic pay)
Gratuity [Sec 10(10)]

Gross Salary
Less: Standard Deduction u/s 16(ia)
Income under the head Salary
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income

Computation of Tax Liability
Tax on ₹5,30,000 at slab rate
Add: HEC @ 4%
Tax Liability

Solution 10:
**Working Note:**
Least of the following is exempt:
1. ₹2,50,000
2. ₹20,00,000
3. \( \frac{1}{2} \times 1,09,000/10 \times 21 = ₹1,14,450 \)
Received = ₹2,50,000
Exempt = (₹1,14,450)
Taxable = ₹1,35,550

**Calculation of Average Salary**

**Computation of Basic Pay**

\[ [(9,500 \times 6) + (13,000 \times 4)] = 1,09,000 \]
Average Salary = 1,09,000/10 = 10,900

**Commuted Pension {Sec 10(10A)}**

\[ 48,000.00 \]

**Working Note:**
Received = ₹2,88,000
Exempt = 2,88,000 / 40% x 100% x 1/3 = (2,40,000)
Taxable = 48,000

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

\[ 3,600.00 \]

**Working Note:**
(6,000 x 60%) x 1 = ₹3,600

**Leave Salary {Sec 10(10AA)}**

\[ 1,97,500.00 \]

**Working Note:**
Least of the following is exempt:
1. ₹3,10,000
2. ₹3,00,000
3. 10 x 1,12,500/10 = ₹1,12,500
4. ₹1,12,500/10 x 520/30 = ₹1,95,000
Received = ₹3,10,000
Exempt = (₹1,12,500)
Taxable = ₹1,97,500

**Computation of leave at credit**
Leave Entitlement = 30 x 21 = 630 days
Less: Leave Encashed = (45 days)
Less: Leave Availed = (65 days)
Leave at Credit = 520 days

**Calculation of Average Salary**

**Computation of Basic Pay**

\[ [(9,500 \times 5) + (13,000 \times 5)] = 1,12,500 \]
Average Salary = 1,12,500/10 = 11,250

**Gross Salary**

\[ 5,18,850.00 \]

Less: Standard Deduction u/s 16(ia)

\[ (50,000.00) \]

Income under the head Salary

\[ 4,68,850.00 \]

Gross Total Income

\[ 4,68,850.00 \]

Less: Deductions u/s 80C to 80U

Nil

Total Income

\[ 4,68,850.00 \]

**Computation of Tax Liability**

Tax on ₹4,68,850 at slab rate

\[ 10,942.50 \]

Less: Rebate u/s 87A

\[ (10,942.50) \]

Tax Liability

Nil
**Solution 11:**

*Computation of income under the head Salary*

- **Basic Pay** 3,44,000.00
- **(43,000 x 8)**
- **Leave Salary** {Sec 10(10AA)} 2,12,000.00

**Working Note:**

*Computation of leave availed and encashed by the employee*

- Leave entitlement at the rate of 30 days (30 x 16) = 480 days
- Leave availed and encashed by the employee = 260 days
- Leave at the credit = 220 days
- Leave allowed by employer (65 x 16) = 1040 days
- Less: Leave encashed by the employee at the time of retirement = (780 days)
- Hence leave availed/encashed while in service = 260 days

Average salary of 10 months ending November 30, 2018 = 43,000

*Least of the following is exempt: –*

1. Cash equivalent of leave at the credit of the employee at the time of retirement (i.e. 43,000 x 220/30) = 3,15,333.33
2. 10 Months Average Salary = 43,000 x 10 = 4,30,000
3. ₹ 3,00,000
4. ₹ 5,12,000

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

- **Gross Salary** 5,56,000.00
- **Less: Standard Deduction u/s 16(ia)** (50,000.00)
- **Income under the head Salary** 5,06,000.00
- **Gross Total Income** 5,06,000.00
- **Less: Deductions u/s 80C to 80U** Nil
- **Total Income** 5,06,000.00

*Computation of Tax Liability*

- Tax on ₹5,06,000 at slab rate 13,700.00
- Add: HEC @ 4% 548.00
- **Tax Liability** 14,248.00
- Rounded off u/s 288B 14,250.00

**Solution 12:**

*Computation of Taxable Income*

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

*Working Note:*

15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = Basic Pay = ₹5,40,000
15% of rent free accommodation salary = ₹81,000
Rent Paid = ₹36,000
Perquisite value = ₹36,000

- **Gross Salary** 6,67,200
- **Less: Standard Deduction u/s 16(ia)** (50,000)
- **Income under the head Salary** 6,17,200
Gross Total Income 6,17,200
Less: Deduction u/s 80C (72,000)
{Employee’s contribution in recognised provident fund} Total Income 5,45,200

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

Solution 13:
Computation of income under the head Salary
Basic Pay 1,40,000
(20,000 x 7)
Dearness Allowance 49,000
(7,000 x 7)
Refund of employer’s contribution in unrecognised provident fund 4,00,000
Refund of Interest on employer’s contribution in unrecognised provident fund 1,00,000
Gratuity {Sec 10(10A)} 60,000

Working Note:
Least of the following is exempt:
1. ₹2,60,000
2. ₹20,00,000
3. ½ x 20,000 x 20 = ₹ 2,00,000
Received = ₹2,60,000
Exempt = ₹2,00,000
Taxable = ₹ 60,000

Uncommuted Pension {Sec 17(1)(ii)} 19,000

Working Note:
For November to December
5,000 x 2 = 10,000
For January to March
5,000 x 60% x 3 = 9,000
Total = ₹10,000 + ₹9,000 = 19,000

Committed Pension {Sec 10(10A)} 40,000

Working Note:
Received = 2,40,000
Exempt = 2,40,000 / 40% x 100% x 1/3 = (2,00,000)
Taxable = 40,000

Gross Salary 8,08,000
Less: Standard Deduction u/s 16(ia) (50,000)
Income under the head Salary 7,58,000
Income under the head Other Sources 1,00,000
(Interest on employee’s contribution)
Gross Total Income 8,58,000
Less: Deduction u/s 80C to 80U Nil
Total Income 8,58,000

Computation of Tax Liability
Tax on ₹8,58,000 at slab rate 84,100
Add: HEC @ 4% 3,364
Tax Liability 87,464
Rounded off u/s 288B 87,460
### Solution 14:

**Computation of Gross Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>4,80,000.00</td>
</tr>
<tr>
<td>(40,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>1,92,000.00</td>
</tr>
<tr>
<td>(16,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td>12,000.00</td>
</tr>
<tr>
<td>(1,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Commission</td>
<td>1,50,000.00</td>
</tr>
<tr>
<td>(2.5% of 60,00,000)</td>
<td></td>
</tr>
<tr>
<td>House Rent Allowance {Sec 10(13A), Rule 2A}</td>
<td>66,600.00</td>
</tr>
</tbody>
</table>

**Working Note:**

**Least of the following is exempt:**

1. \(78,000 - 72,600 = 5,400\)
2. 50% of retirement benefit salary = \(3,63,000\)
   (Retirement benefit salary = \(7,26,000\))
3. \(72,000\)

**Gross Salary**

\(9,00,600.00\)

Less: Standard Deduction u/s 16(ia) \((50,000.00)\)

Income under the head Salary \(8,50,600.00\)

Gross Total Income \(8,50,600.00\)

Less: Deduction u/s 80C to 80U Nil

Total Income \(8,50,600.00\)

**Computation of Tax Liability**

Tax on \(8,50,600\) at slab rate \(82,620.00\)

Add: HEC @ 4% \(3,304.40\)

Tax Liability \(85,924.80\)

Rounded off u/s 288B \(85,920.00\)

### Solution 15:

**Computation of Gross Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>5,40,000.00</td>
</tr>
<tr>
<td>(45,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>2,28,000.00</td>
</tr>
<tr>
<td>(19,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>House Rent Allowance {Sec 10(13A), Rule 2A}</td>
<td>20,700.00</td>
</tr>
</tbody>
</table>

**Working Note:**

**From October to March**

**Least of the following is exempt**

1. \(72,000 - 32,700 = 39,300\)
2. 40% of retirement benefit salary = \(1,30,800\)
   (Retirement benefit salary = \(3,27,000\))
3. \(60,000\)

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

**Working Note:**

Received = \(75 \times 4 \times 12 = 3,600\)

Exempt = \(75 \times 2 \times 12 = (1,800)\)
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Taxable</th>
<th>1,800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hostel Allowance {Sec 10(14), Rule 2BB}</td>
<td>2,400.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = ₹500 x 12 =</td>
</tr>
<tr>
<td>Exempt = ₹300 x 12 =</td>
</tr>
<tr>
<td>Taxable =</td>
</tr>
</tbody>
</table>

Transport Allowance | 15,300.00 |
Gross Salary | 8,08,200.00 |
Less: Standard Deduction u/s 16(ia) | (50,000.00) |
Income under the head Salary | 7,58,200.00 |
Gross Total Income | 7,58,200.00 |
Less: Deduction u/s 80C to 80U | Nil |
Total Income | 7,58,200.00 |

**Computation of Tax Liability**

Tax on ₹7,58,200 at slab rate | 64,140.00 |
Add: HEC @ 4% | 2,565.60 |
Tax Liability | 66,705.60 |
Rounded off u/s 288B | 66,710.00 |

**Solution 16:**

**Computation of Gross Salary**

Basic Pay | 6,60,000.00 |
(55,000 x 12) |
Dearness Allowance | 66,000.00 |
(10% of Basic pay) |
Children Education Allowance {Sec 10(14), Rule 2BB} | 7,800.00 |

**Working Note:**

<table>
<thead>
<tr>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = ₹750 x 12 =</td>
</tr>
<tr>
<td>Exempt = ₹100 x 12 =</td>
</tr>
<tr>
<td>Taxable =</td>
</tr>
</tbody>
</table>

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

**Working Note:**

**Least of the following is exempt:**

1. 70% of allowance received
   = 70% of (10,000 x 12) = ₹84,000
2. 10,000 x 12 = ₹1,20,000
Received = ₹1,20,000
Exempt = (₹ 84,000)
Taxable = ₹ 36,000

Gross Salary | 7,91,400.00 |
Less: Standard Deduction u/s 16(ia) | (50,000.00) |
Income under the head Salary | 7,41,400.00 |
Gross Total Income | 7,41,400.00 |
Less: Deduction u/s 80C to 80U | Nil |
Total Income | 7,41,400.00 |

**Computation of Tax Liability**

Tax on ₹7,41,400 at slab rate | 60,780.00 |
Add: HEC @ 4% | 2,431.20 |
Tax Liability | 63,211.20 |
Rounded off u/s 288B | 63,210.00 |
### Solution 17:

**Computation of income under the head Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>₹4,68,000.00</td>
</tr>
<tr>
<td>(39,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>₹2,80,800.00</td>
</tr>
<tr>
<td>(60% of 4,68,000)</td>
<td></td>
</tr>
<tr>
<td>Children Education Allowance {Sec 10(14), Rule 2BB}</td>
<td>₹19,200.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = ₹600 x 3 x 12 =</td>
<td>₹21,600</td>
</tr>
<tr>
<td>Exempt = ₹100 x 2 x 12 =</td>
<td>(2,400)</td>
</tr>
<tr>
<td>Taxable</td>
<td>₹19,200</td>
</tr>
</tbody>
</table>

Hostel Allowance {Sec 10(14), Rule 2BB}

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received = 1,000 x 1 x 12 =</td>
<td>₹12,000</td>
</tr>
<tr>
<td>Exempt = 300 x 1 x 12 =</td>
<td>(3,600)</td>
</tr>
<tr>
<td>Taxable</td>
<td>₹8,400</td>
</tr>
</tbody>
</table>

Entertainment Allowance

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(200 x 12)</td>
<td>₹2,400.00</td>
</tr>
<tr>
<td>Professional Tax</td>
<td>₹2,100.00</td>
</tr>
<tr>
<td>(175 x 12)</td>
<td></td>
</tr>
<tr>
<td>Medical Allowance</td>
<td>₹3,600.00</td>
</tr>
<tr>
<td>(300 x 12)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>₹7,84,500.00</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(₹50,000.00)</td>
</tr>
<tr>
<td>Less: 16(ii) Entertainment Allowance</td>
<td>(₹2,400.00)</td>
</tr>
</tbody>
</table>

**Working Note:**

**Least of the following is deductible:**

1. ₹2,400
2. ₹5,000
3. 20% of ₹4,68,000 = ₹93,600

So, Deductible = ₹2,400

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: 16(iii) Professional Tax</td>
<td>(₹2,100.00)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>₹7,30,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹7,30,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹7,30,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹7,30,000 at slab rate</td>
<td>₹58,500.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹2,340.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹60,840.00</td>
</tr>
</tbody>
</table>

### Solution 18:

**Computation of income under the head Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>₹5,31,750.00</td>
</tr>
<tr>
<td>[(43,750 x 3) + (44,500 x 9)]</td>
<td></td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2003 – 30.06.2004 =</td>
<td>35,600 p.m.</td>
</tr>
<tr>
<td>01.07.2004 – 30.06.2005 =</td>
<td>35,900 p.m.</td>
</tr>
<tr>
<td>01.07.2005 – 30.06.2006 =</td>
<td>36,200 p.m.</td>
</tr>
<tr>
<td>01.07.2006 – 30.06.2007 =</td>
<td>36,500 p.m.</td>
</tr>
<tr>
<td>01.07.2007 – 30.06.2008 =</td>
<td>37,000 p.m.</td>
</tr>
<tr>
<td>01.07.2008 – 30.06.2009 =</td>
<td>37,500 p.m.</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

<table>
<thead>
<tr>
<th>Period</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2009 – 30.06.2010 =</td>
<td>38,000 p.m.</td>
</tr>
<tr>
<td>01.07.2010 – 30.06.2011 =</td>
<td>38,500 p.m.</td>
</tr>
<tr>
<td>01.07.2011 – 30.06.2012 =</td>
<td>39,000 p.m.</td>
</tr>
<tr>
<td>01.07.2012 – 30.06.2013 =</td>
<td>39,500 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014 =</td>
<td>40,000 p.m.</td>
</tr>
<tr>
<td>01.07.2014 – 30.06.2015 =</td>
<td>40,750 p.m.</td>
</tr>
<tr>
<td>01.07.2015 – 30.06.2016 =</td>
<td>41,500 p.m.</td>
</tr>
<tr>
<td>01.07.2016 – 30.06.2017 =</td>
<td>42,250 p.m.</td>
</tr>
<tr>
<td>01.07.2017 – 30.06.2018 =</td>
<td>43,000 p.m.</td>
</tr>
<tr>
<td>01.07.2018 – 30.06.2019 =</td>
<td>43,750 p.m.</td>
</tr>
<tr>
<td>01.07.2019 – 30.06.2020 =</td>
<td>44,500 p.m.</td>
</tr>
</tbody>
</table>

Dearness Allowance {11% of Basic Pay} | 58,492.50
House Rent Allowance {Sec 10(13A), Rule 2A} | 36,000.00

<table>
<thead>
<tr>
<th>Period</th>
<th>Least of the following is exempt:</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.04.2019 To 30.06.2019</td>
<td>1. Nil</td>
</tr>
<tr>
<td></td>
<td>2. 40% of retirement benefit salary = ₹52,500</td>
</tr>
<tr>
<td></td>
<td>(Retirement benefit salary = ₹1,31,250)</td>
</tr>
<tr>
<td></td>
<td>3. ₹9,000</td>
</tr>
<tr>
<td></td>
<td>Received = ₹9,000</td>
</tr>
<tr>
<td></td>
<td>Exempt = Nil</td>
</tr>
<tr>
<td></td>
<td>Taxable = ₹9,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period</th>
<th>Least of the following is exempt:</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2019 To 31.03.2020</td>
<td>1. Nil</td>
</tr>
<tr>
<td></td>
<td>2. 40% of retirement benefit salary = ₹1,60,200</td>
</tr>
<tr>
<td></td>
<td>(Retirement benefit salary = 4,00,500)</td>
</tr>
<tr>
<td></td>
<td>3. ₹27,000</td>
</tr>
<tr>
<td></td>
<td>Received = ₹27,000</td>
</tr>
<tr>
<td></td>
<td>Exempt = Nil</td>
</tr>
<tr>
<td></td>
<td>Taxable = ₹27,000</td>
</tr>
<tr>
<td></td>
<td>Total = 9,000 + 27,000 = ₹36,000</td>
</tr>
</tbody>
</table>

Entertainment Allowance | 7,200.00
Professional Tax | 2,400.00
Conveyance Allowance | 4,800.00

<table>
<thead>
<tr>
<th>Salary</th>
<th>Dependent</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>6,40,642.50</td>
<td></td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000.00)</td>
<td></td>
</tr>
<tr>
<td>Less: 16(iii) Professional Tax</td>
<td>(2,400.00)</td>
<td></td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>5,88,242.50</td>
<td></td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>5,88,242.50</td>
<td></td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>5,88,242.50</td>
<td></td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>5,88,240.00</td>
<td></td>
</tr>
</tbody>
</table>

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹5,88,240 at slab rate</td>
<td>30,148.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>1,205.92</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>31,353.92</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>31,350.00</td>
</tr>
</tbody>
</table>
**Solution 19:**

**Computation of income under the head Salary**

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

<table>
<thead>
<tr>
<th>Working Note:</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.07.2012 – 30.06.2013 =</td>
<td>29,500 p.m.</td>
</tr>
<tr>
<td>01.07.2013 – 30.06.2014 =</td>
<td>31,000 p.m.</td>
</tr>
<tr>
<td>01.07.2014 – 30.06.2015 =</td>
<td>32,600 p.m.</td>
</tr>
<tr>
<td>01.07.2015 – 30.06.2016 =</td>
<td>34,200 p.m.</td>
</tr>
<tr>
<td>01.07.2016 – 30.06.2017 =</td>
<td>35,800 p.m.</td>
</tr>
<tr>
<td>01.07.2017 – 30.06.2018 =</td>
<td>37,400 p.m.</td>
</tr>
<tr>
<td>01.07.2018 – 30.06.2019 =</td>
<td>39,000 p.m.</td>
</tr>
<tr>
<td>01.07.2019 – 30.06.2020 =</td>
<td>40,800 p.m.</td>
</tr>
</tbody>
</table>

Dearness allowance \([(10,000 \times 1) + (12,000 \times 11)]\)  

Pension  

Gross Salary  

Less: Standard Deduction u/s 16(ia)  

Income under the head Salary  

Gross Total Income  

Less: Deduction u/s 80C to 80U  

Total Income  

**Computation of Tax Liability**

Tax on ₹5,84,400 at slab rate  

Add: HEC @ 4%  

Tax Liability  

Rounded off u/s 288B

**Solution 20:**

Step 1.  **Previous Year 2019–20**

- Salary 6,00,000  
- Add: Arrears for previous year 2018-19 60,000  
- Gross Salary 6,60,000  
- Less: Standard deduction u/s 16(ia) (50,000)  
- Income under the head Salary 6,10,000  
- Tax before health & education cess 34,500  
- Add: HEC @ 4% 1,380  
- Tax Liability 35,880

Step 2.  **Previous Year 2019–20**

- Salary 6,00,000  
- Gross Salary 6,00,000  
- Less: Standard deduction u/s 16(ia) (50,000)  
- Income under the head Salary 5,50,000  
- Tax before health & education cess 22,500  
- Add: HEC @ 4% 900  
- Tax Liability 23,400

Step 3. Difference between Step 1 and Step 2 12,480

Step 4.  **Previous Year 2018–19**

- Salary 5,40,000  
- Add: Arrears 60,000  
- Gross Salary 6,00,000  
- Less: Standard deduction u/s 16(ia) (40,000)  
- Income under the head Salary 5,60,000  
- Tax before health & education cess 24,500  
- Add: HEC @ 4% 980
Income Under The Head Salary

Step 5. **Previous Year 2018–19**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>5,40,000</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>5,40,000</td>
</tr>
<tr>
<td>Less: Standard deduction u/s 16(ia)</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>5,00,000</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>

Step 6. Difference between Step 4 and Step 5 (25,480 - 13,000)

Step 7. Relief under section 89 Step 3 – Step 6 (12,480 - 12,480)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax after adjusting relief u/s 89 [35,880 – Nil]</td>
<td>35,880</td>
</tr>
</tbody>
</table>

**Solution 21:**

**Computations of income under the head Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>4,80,000.00</td>
</tr>
<tr>
<td>(40,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>60,000.00</td>
</tr>
<tr>
<td>(5,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Commission</td>
<td>30,000.00</td>
</tr>
<tr>
<td>(1.5% of 20,00,000)</td>
<td></td>
</tr>
<tr>
<td>Employer’s contribution to provident fund {Rule 6 of Part A of schedule IV}</td>
<td>7,200.00</td>
</tr>
</tbody>
</table>

**Working Note:**

Retirement benefit salary = 4,80,000 + 30,000 + 30,000 = 5,40,000
12% of retirement benefit salary = 64,800
Employer contribution = 72,000
Allowed = 12% of retirement benefit salary = 64,800
Taxable = 7,200

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% of rent free accommodation salary = 54,000</td>
<td></td>
</tr>
<tr>
<td>Rent free accommodation Salary = 5,40,000</td>
<td></td>
</tr>
</tbody>
</table>

**Computations of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on 5,09,200 at slab rate</td>
<td>14,340.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>573.60</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>14,913.60</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>14,910.00</td>
</tr>
</tbody>
</table>

**Solution 22:**

**Computations of income under the head Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>4,92,000.00</td>
</tr>
<tr>
<td>(41,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>84,000.00</td>
</tr>
<tr>
<td>(7,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Commission</td>
<td>36,000.00</td>
</tr>
<tr>
<td>(3,000 x 12)</td>
<td></td>
</tr>
</tbody>
</table>
Income Under The Head Salary

Medical Allowance  
(400 x 12)  
House Rent Allowance {Sec 10(13A), Rule 2A}  

Working Note:
From April to August
1. ₹25,000 – ₹20,850 = ₹4,150
2. 40% of retirement benefit salary = ₹83,400
   (Retirement benefit salary = (41,000 + 700) x 5 = 2,08,500)
3. ₹30,000
   Received = ₹30,000
   Exempt = ₹4,150
   Taxable = ₹25,850

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

Working Note:
From November to March
Perquisite value = 7.5% of rent free accommodation salary = ₹16,912.50
Rent free accommodation Salary
= Basic Pay + Dearness Allowance + Commission + Medical Allowance
= ₹2,05,000 + ₹3,500 + ₹15,000 + ₹2,000 = ₹2,25,500
Perquisite value of furniture = 10% of (1,00,000 x 3/12) = ₹2,500
Taxable Amount = ₹16,912.50 + ₹2,500 = ₹19,412.50

Arrears of Salary  
Advance Salary  
Gross Salary  
Less: Standard deduction u/s 16(ia)  
Income under the head Salary  
Gross Total Income  
Less: Deductions u/s 80C to 80U  
Total Income  
Rounded off u/s 288A  

Computation of Tax Liability
Tax on ₹6,42,060 at slab rate  
Add: HEC @ 4%  
Tax Liability  
Rounded off u/s 288B  

Solution 23:
Computation of income under the head Salary
Basic Pay  
(50,000 x 12)  
Dearness Allowance  
(5,000 x 12)  
Commission  
(3,500 x 12)  
Overtime Allowance  
(1,000 x 11)  
House Rent Allowance {Sec 10(13A), Rule 2A}  

Working Note:
From April to May
1. ₹1,000 – ₹10,000 = Nil
2. 50% of retirement benefit salary = ₹50,000
   (Retirement benefit salary = 50,000 x 2 = ₹1,00,000)
3. ₹4,000
Income Under The Head Salary

Received = ₹4,000
Exempt = Nil
Taxable = ₹4,000

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)} 65,975.00

Working Note:
From September to March
15% of rent free accommodation salary = ₹57,225
Rent free accommodation Salary = Basic Pay + Commission + Overtime Allowance
= ₹3,50,000 + 24,500 + 7,000 = ₹3,81,500
Add: cost of furniture = ₹1,50,000 x 7/12 x 10% = ₹8,750
Perquisite value of furnished house = ₹57,225 + ₹8,750 = ₹65,975

Professional Tax 2,400.00
(200 x 12)
Arrears of Salary {Sec 15} 35,000.00
Gross Salary 8,20,375.00
Less: Standard Deduction u/s 16(ia) (50,000.00)
Less: 16(iii) Professional Tax (2,400.00)
Income under thehead Salary 7,67,975.00
Gross Total Income 7,67,975.00
Less: Deductions u/s 80C to 80U Nil
Total Income 7,67,975.00
Rounded off u/s 288A 7,67,980.00

Computation of Tax Liability
Tax on ₹7,67,980 at slab rate 66,096.00
Add: HEC @ 4% 2,643.84
Tax Liability 68,739.84
Rounded off u/s 288B 68,740.00

Solution 24:
Computation of income under the head Salary
Basic Pay 5,40,000.00
(45,000 x 12)
Dearness Allowance 60,000.00
(5,000 x 12)
Dearness Pay 12,000.00
(1,000 x 12)
Bonus 14,400.00
(1,200 x 12)
Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)} 14,400.00

Working Note:
From April To December
15% of Rent free accommodation Salary or rent paid whichever is less
Rent free accommodation Salary
= Basic Pay + Dearness Allowance + Dearness Pay + Bonus
= 4,05,000 + 13,500 + 900 + 10,800 = ₹4,30,200
15% of rent free accommodation Salary = ₹64,530
Rent Paid = ₹1,200 x 9 = ₹10,800
(A) Perquisite value of unfurnished house = ₹10,800

From January To March
Rent free accommodation Salary of Delhi
= Basic Pay + Dearness Allowance + Dearness Pay + Bonus
Income Under The Head Salary

= 1,35,000 + 4,500 + 300 + 3,600 = ₹1,43,400
15% of Rent free accommodation Salary = ₹21,510
Rent paid = ₹3,600
Perquisite value of Rent free accommodation of Delhi = ₹3,600
Rent free accommodation of Bombay
Rent free accommodation Salary
= Basic Pay + Dearness Allowance + Dearness Pay + Bonus
= 1,35,000 + 4,500 + 300 + 3,600 = ₹1,43,400
15% of Rent free accommodation Salary = ₹21,510
Perquisite value of rent free accommodation of Bombay = ₹21,510
(B) Perquisite value of unfurnished house {least is in Delhi} = ₹3,600
Total Amount = A + B = ₹10,800 + 3,600 = ₹14,400

Arrears of Salary {Sec 15} 32,000.00
Advance of Salary {Sec 15} 11,000.00
Gross Salary 6,83,800.00
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 6,33,800.00
Gross Total Income 6,33,800.00
Less: Deductions u/s 80C to 80U Nil
Total Income 6,33,800.00

Computation of Tax Liability
Tax on ₹6,33,800 at slab rate 39,260.00
Add: HEC @ 4% 1,570.40
Tax Liability 40,830.40
Rounded off u/s 288B 40,830.00

Solution 25:

Computation of income under the head Salary
Basic Pay 4,80,000
(40,000 x 12)
House rent allowance {Sec 10(13A), Rule 2A} 15,000

Working Note:
From November to March
1. ₹30,000 – ₹20,000 = ₹10,000
2. 40% of retirement benefit salary = ₹80,000
   (Retirement Benefit Salary = 40,000 x 5 = ₹2,00,000)
3. ₹25,000
   Received = ₹25,000
   Exempt = ₹10,000
   Taxable = ₹15,000

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

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

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

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

## Solution 26:

**(i) Computation of perquisite value of the loan**

<table>
<thead>
<tr>
<th>Months</th>
<th>Outstanding balance at the end (in ₹)</th>
<th>Amount of interest (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rate = 10% - 3% = 7%</td>
</tr>
<tr>
<td>September</td>
<td>7,00,000</td>
<td>7,00,000 x 7% x 1/12 = 4,083.33</td>
</tr>
<tr>
<td>October</td>
<td>7,00,000</td>
<td>7,00,000 x 7% x 1/12 = 4,083.33</td>
</tr>
<tr>
<td>November</td>
<td>7,00,000</td>
<td>7,00,000 x 7% x 1/12 = 4,083.33</td>
</tr>
<tr>
<td>December</td>
<td>6,75,000</td>
<td>6,75,000 x 7% x 1/12 = 3,937.50</td>
</tr>
<tr>
<td>January</td>
<td>6,50,000</td>
<td>6,50,000 x 7% x 1/12 = 3,791.67</td>
</tr>
<tr>
<td>February</td>
<td>6,25,000</td>
<td>6,25,000 x 7% x 1/12 = 3,645.83</td>
</tr>
<tr>
<td>March</td>
<td>6,00,000</td>
<td>6,00,000 x 7% x 1/12 = 3,500.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>27,124.99</strong></td>
</tr>
</tbody>
</table>

So, perquisite value of interest free loan = ₹27,124.99

**(ii) Computation of perquisite value of the loan**

₹10,00,000 x 5.5% x 10/12 45,833.33
₹ 9,45,000 x 5.5% x 1/12 4,331.25
Perquisite value of interest free loan 50,164.58

**(iii) Computation of perquisite value of the loan**

Perquisite value shall be Nil in case of loan for specified disease

**(iv) Computation of perquisite value of the loan**

₹18,000 x 12% x 1/12 180.00
Total perquisite value 77,469.57

## Solution 27:

**Computation of perquisite value of Furniture**

Cost of the furniture 1,00,000
Less: Depreciation on straight line method @ 10% from 31.03.2016 to 30.03.2017 (10,000)
Less: Depreciation on straight line method @ 10% from 31.03.2017 to 30.03.2018 (10,000)
Less: Depreciation on straight line method @ 10% from 31.03.2018 to 30.03.2019 (10,000)
Written down value 70,000
Less: Amount paid by the assessee (40,000)
Perquisite value of Furniture 30,000

**Computation of perquisite value of Air-conditioner**

Cost of the Air-conditioner 45,000
Less: Depreciation on straight line method @ 10% from 01.07.2018 to 30.06.2019 (4,500)
Written down value 40,500
Less: Amount paid by the assessee (15,000)
Perquisite value of Air-conditioner 25,500

**Computation of perquisite value of Video Camera**

Cost of the Video Camera 50,000
Less: Depreciation on straight line method @ 10% from 11.07.2017 to 10.07.2018 (5,000)
Written down value 45,000
Less: Depreciation on straight line method @ 10% from 11.07.2018 to 10.07.2019 (5,000)
Written down value 40,000
Less: Amount paid by the assessee (20,000)
Income Under The Head Salary

Perquisite value of Video Camera                          20,000

**Computation of perquisite value of Motor car**

Cost of the motor                                        3,40,000
Less: Depreciation on reducing balance method @ 20% from 01.10.2015 to 30.09.2016 (68,000)
Written down value                                       2,72,000
Less: Depreciation on reducing balance method @ 20% from 01.10.2016 to 30.09.2017 (54,400)
Written down value                                       2,17,600
Less: Depreciation on reducing balance method @ 20% from 01.10.2017 to 30.09.2018 (43,520)
Written down value                                       1,74,080
Less: Depreciation on reducing balance method @ 20% from 01.10.2018 to 30.09.2019 (34,816)
Written down value                                       1,39,264
Less: Amount paid by the assessee                        (1,50,000)
Perquisite value of motor car                             Nil

**Computation of perquisite value of Computer**

Cost of the Computer                                    55,000
Less: Depreciation on reducing balance method @ 50% from 10.01.2017 to 09.01.2018 (27,500)
Written down value                                      27,500
Less: Depreciation on reducing balance method @ 50% from 10.01.2018 to 09.01.2019 (13,750)
Written down value                                      13,750
Less: Depreciation on reducing balance method @ 50% from 10.01.2019 to 09.01.2020 (6,875)
Written down value                                      6,875
Less: Amount paid by the assessee                        (25,000)
Perquisite value of computer                             Nil

**Solution 28:**

**Computation of income under the head Salary**

Basic Pay                                               96,000.00
(8,000 x 12)
Medical Allowance                                       10,000.00
Medical Facility                                        7,000.00
Motor Car {Sec 17(2) (iii), Rule 3(2)}                  21,600.00

**Working Note:**

Since basic pay is ₹96,000 so monetary income is more than ₹50,000 hence, he is a specified employee
(1,800 x 12)

Gross Salary                                            1,34,600.00
Less: Standard Deduction u/s 16(ia)                      (50,000.00)
Income under the head Salary                            84,600.00
Income under the head House Property                    1,00,000.00
Income under the head Business/Profession               1,50,000.00
Gross Total Income                                      3,34,600.00
Less: Deductions u/s 80C to 80U                         (3,500.00)
Total Income                                            3,31,100.00

Computation of Tax Liability
Tax on ₹3,31,100 at slab rate                           4,055.00
Less: Rebate u/s 87A                                      (4,055.00)
Tax Liability                                           Nil
EXAMINATION QUESTIONS

MAY – 2019 (NEW COURSE)

Question 1  Marks 14
From the following particulars of Shri Jagdish (Aged 59 Years) for the Assessment Year 2020-21, you are required to find out his taxable income and net tax liability:

(i) Basic Salary @ ₹ 51,000 per month, Dearness allowance @ ₹ 10,000 per month (Part of salary for retirement benefits), House rent allowance ₹ 4,000 per month and rent paid for house in Mumbai is ₹ 7,000 per month.
(ii) He owns a commercial building at New Delhi, which is let out on 1/7/2019 at a monthly rent of ₹ 46,000. He paid for municipal taxes of ₹ 27,000 and ₹ 25,000 for the financial year 2018-19 and 2019-20 on 31-3-2020 and 20-4-2020 respectively.
(iii) He deals in shares. During financial year 2019-20 he earned ₹ 1,70,000 from his share business and paid ₹ 30,000 as security transaction tax.
(iv) He purchased 4000 unlisted shares of Shyam Limited on 16-1-2009 for ₹ 80,000. Company declared bonus in the ratio of 1:1 on 1st February, 2009. Shri Jagdish sold 3000 Bonus Shares on 28/12/2019 for ₹ 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange.(Cost Inflation Index: 2008-09: 137, 2019-20 : 289)
(v) He received dividend of ₹ 13,00,000 as dividend income from listed domestic company (on which dividend distribution tax is paid), Interest from saving bank account deposits with IDBI Bank ₹ 15,000 and lottery winnings (Net of TDS @ 30%) is ₹ 21,000.

He paid the following amount out of his taxable income:

(a) Deposits in Public Provident Fund ₹ 2,00,000.
(b) Medical insurance premium paid for health of his wife ₹ 19,000 and for health of dependent son ₹ 12,000 through cheque.

Solution:

Computation of Total Income and Net Tax Liability of Mr. Jagdish of A.Y. 20-21

Computation of Income under the head Salary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay</td>
<td>6,12,00</td>
</tr>
<tr>
<td>(51,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>1,20,000</td>
</tr>
<tr>
<td>(10,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>House Rent Allowance {Sec 10 (13A), Rule 2A}</td>
<td>37,200</td>
</tr>
</tbody>
</table>

Working Note:

Least of the following is exempt:

1. ₹84,000 – 73,200 = ₹10,800
2. 50% of retirement benefit salary = ₹3,66,000
   (Retirement benefit salary (₹51,000+10,000) x 12 = ₹7,32,000)
3. ₹48,000
   Received = ₹48,000
   Exempt = (₹10,800)
   Taxable = ₹37,200

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Salary</td>
<td>7,69,200</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>7,19,200</td>
</tr>
</tbody>
</table>
### Income Under The Head Salary

**Income from house property**
- Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) \(46,000 \times 9\)
- Less: Municipal taxes paid
- Net Annual Value (NAV)
- Less: Deductions u/s 24 (a) 30% of NAV
- Less: Deductions u/s 24 (b) Interest
- Income from House Property

**Income under the head business/profession**
- Earned from his share business
- Less: Securities Transaction tax paid (section 36(1)(xv))
- Income under the head business/profession

**Income under the head capital Gains**
- Full value of Consideration on Sale of Bonus shares
- Less: Indexed cost of Acquisition
- Long Term capital gains
- Income under the head other sources
- Dividend Income in excess of ₹10,00,000
- Interest from saving bank account
- Lottery Winning (21,000/70%)
- Income under the head other sources

**Gross Total Income**
- Income under the head Salary
- Income from House Property
- Income under the head business/profession
- Income under the head capital Gains
- Income under the head other sources
- Gross Total Income
- Less: Deduction u/s 80C – PPF
- Less: Deduction u/s 80D (19,000+12,000 = 31,000 but limited to 25,000)
- Less: Deduction u/s 80TTA
- Total Income

**Computation of Tax Liability**
- Tax on ₹30,000 @ 30% u/s 115BB
- Tax on ₹2,00,000 @ 20% u/s 112
- Tax on ₹3,00,000 @ 10% u/s 115BBDA
- Tax on normal income ₹9,60,100
- Tax before health & education cess
- Add: HEC @ 4%
- Tax Liability
- Less: TDS
- Tax Payable
- Rounded off u/s 288B

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**MAY – 2019 (OLD COURSE)**

**Question 1**  
Mr. X working in a private company from last 10 years. His salary details for the financial year 2019-20 are:
Income Under The Head Salary

\( \text{₹} \)

i. Basic Salary 1,50,000 p.m.
ii. Dearness Allowance 55,000 p.m.
iii. Commission 35,000 p.m.
iv. Transport Allowance 5,000 p.m.
v. Medical Reimbursement 20,000 paid during the year

Mr. X resigned from the services on 30\(^{th}\) September, 2019. He was paid gratuity of ₹ 20 lakhs on his retirement. A lumpsum amount of ₹ 36 lakhs was also paid from unrecognized provident fund. The provident fund amount consisted of employee’s contribution ₹ 13.20 lakhs and interest thereon ₹ 3 lakhs. The employer’s contribution was ₹ 16.20 lakhs and interest thereon was ₹ 3.60 lakhs.

He had taken the possession of house on 28\(^{th}\) February, 2020 after making payment of final installment of housing loan to bank. Loan was taken on 01-04-2018. The accumulated interest as on 31\(^{st}\) march, 2019 was ₹ 1.5 lakh. He made payment of ₹ 2,20,000 during the year which included interest ₹ 1,10,000 for 11 months.

He started business of hiring of goods vehicle, purchased 3 small goods vehicle on 15\(^{th}\) November, 2019 and 3 heavy vehicles having gross weight of 15 MTs each on 1\(^{st}\) December, 2019. He did not maintain books of accounts for income and expenditure of hiring of goods vehicle. One of his friend gifted him ₹ 6 lakhs to purchase the vehicles.

He was holding 25% equity shares in CMF Ltd., an Indian company. The paid up share capital of company as on 31\(^{st}\) March, 2019 was ₹ 20 lakh divided into 2 lakh shares of ₹ 10 each which were issued at a premium of ₹ 30 each. Company allotted shares to shareholders on 1\(^{st}\) October, 2014. Company bought back 30% of its share on 30\(^{th}\) April, 2019 under the provisions of Companies Act, 2013 on making payment of ₹ 60 per share.

He paid insurance premium of ₹ 20,000 on his life policy during the financial year 2019-20. The policy was taken in April 2011 and sum assured was ₹ 1,50,000. He also made payment of ₹ 25,000 L.I.C pension fund and premium of ₹ 40,000 towards mediclaim policy for self and wife.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Cost Inflation Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>240</td>
</tr>
<tr>
<td>2019-20</td>
<td>289</td>
</tr>
</tbody>
</table>

Solution:

Computation of Total Income and Net Tax Liability of Mr. X of A.Y. 20-21

Computation of Income under the head Salary

\( \text{₹} \)

Basic Pay (1,50,000 x 6) 9,00,000
Dearness Allowance (55,000 x 6) 3,30,000
Commission (35,000 x 6) 2,10,000
Transport Allowance (5,000 x 6) 30,000
Medical Reimbursement 20,000
Gratuity [Sec10(10)] 12,50,000

Working Note:
Least of the following is exempt:
1. ₹ 20,00,000
2. ₹ 20,00,000
3. ₹ 1/2 x (1,50,000 x 10)/10 x 10 = ₹ 7,50,000
Received = ₹ 20,00,000
Exempt = (₹ 7,50,000)
Taxable = (₹ 12,50,000)

Employer contribution from URPF (lumpsum) 13,20,000
Interest on Employer’s contribution 3,00,000
Gross Salary 43,60,000
Less: Standard Deduction u/s 16(ia) (50,000)
**Income under the head Salary** 43,10,000
Less: Loss under the head house property (1,50,000)
**Income under the head Salary** 41,60,000

Income from house property
Gross Annual Value (GAV) Nil
Less: Municipal taxes paid Nil
Net Annual Value (NAV) Nil
Less: Deductions u/s 24 (a) 30% of NAV Nil
Less: Deductions u/s 24 (b) Interest (1,50,000)
Current Period interest ₹ 1,20,000
Prior period installment ₹ 1,50,000 / 5 = ₹ 30,000
(assumed all the conditions has been satisfied)
Loss from House Property (1,50,000)

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

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

**Gross Total Income**
Income under the head salary 41,60,000
Income under the head business/profession 2,92,500
Income under the head other sources 9,60,000
**Gross Total Income** 54,12,500
Less: Deduction u/s 80C – LIC (20,000)
Less: Deduction u/s 80CCC – LIC Pension fund (25,000)
Less: Deduction u/s 80D (40,000 but limited to 25,000) (25,000)
(assumed payment made through cheque)
Total Income 53,42,500

**Computation of Tax Liability**
Tax on normal income ₹ 53,42,500 14,15,250.00
Add: Surcharge @ 10% 1,41,525.00
Tax before health & education cess 15,56,775.00
Add: HEC @ 4% 62,271.00
Tax Liability 16,19,046.00
Round off u/s 288B 16,19,050.00
Note:
1. As per section 10 (34A), any income arising to an assessee being a shareholder on account of buy back of shares by the company shall be exempt from income tax.
2. Dearness allowance is not forming part of salary hence not taken in salary computation.

NOV – 2018 (NEW COURSE)

Question 5(a)  Marks 6
Mr. Janakaraj, employed as General Manager in Rajus Refractories Pvt. Ltd., furnishes you the undermentioned information for the year ended 31-03-2020:

(i) Basic salary upto 30-11-2019 ₹70,000 p.m.
   Basic salary from 01-12-2019 ₹80,000 p.m.

   Note: Salary is due and paid on the last day of every month.

(ii) Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).

(iii) Bonus equal to one month salary. This was paid in November, 2019 on basic salary plus dearness allowance applicable for that month.

(iv) Contribution of employer to recognized provident fund account of the employee @ 18% of basic salary, employee also contributing an equivalent amount.

(v) Profession tax paid ₹6,000 of which ₹3,000 was paid by the employer.

(vi) Facility of laptop was provided to Janakaraj for both official and personal use. Cost of laptop ₹65,000 and was purchased by the company on 11-10-2019.

(vii) Leave travel concession given to Janakaraj, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer ₹20,000 for adults and lumpsum of ₹25,000 for three children. Janakaraj is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

Compute the taxable salary of Mr. Janakaraj.

Solution: Computation of Taxable salary of Mr. Janakaraj ₹

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>8,80,000.00</td>
</tr>
<tr>
<td>(70,000 x 8) + (80,000 x 4)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>4,40,000.00</td>
</tr>
<tr>
<td>(50% x 8,80,000)</td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td>1,05,000.00</td>
</tr>
<tr>
<td>(70,000 + 35,000)</td>
<td></td>
</tr>
<tr>
<td>Contribution to recognized provident fund</td>
<td>52,800.00</td>
</tr>
<tr>
<td>(8,80,000 x 6%) (in excess of 12% shall be taxable)</td>
<td></td>
</tr>
<tr>
<td>Professional Tax paid by employer Section 17 (2)(iv)</td>
<td>3,000.00</td>
</tr>
<tr>
<td>Facility of Laptop/computer (Section 17 (2)(viii)/Rule 3(7)(vii))</td>
<td>Nil</td>
</tr>
<tr>
<td>Leave Travel concession (section 10(5)/Rule 2B)</td>
<td>Nil</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>14,80,800.00</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(50,000.00)</td>
</tr>
<tr>
<td>Less: Deduction of professional tax u/s 16(iii)</td>
<td>(6,000.00)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>14,24,800.00</td>
</tr>
</tbody>
</table>

Note:
1. Professional tax paid by employer shall be added to the gross salary of the employee then deduction u/s 16 (iii) shall be allowed for professional tax paid.
2. As per Section 10(5)/Rule 2B, Leave Travel concession shall be allowed to employee and his family. Exemption shall be allowed for the expenditure incurred during the trip. Family shall include spouse and children of the employee however exemption shall be allowed for maximum of 2 children but in case of multiple birth after the birth of one child, exemption is allowed for all the children.
3. As per section 10(12), Employer’s contribution upto 12% of RBS shall be exempt and excess amount shall be taxable.
Question 5(b)  
Marks 2

Examine with brief reasons, whether the following are chargeable to income tax and the amount liable to tax with reference to the provisions of the Income Tax Act, 1961:

(i) Allowance received by an employee Mr. Ram working in a transport system at ₹12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.

Answer:

(i) As per section 10(14)/Rule 2BB, any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place is called outstation allowance. Such allowance is given in lieu of daily allowance. It is exempt to the extent of least of the following:

   (i) 70% of the allowance
   (ii) ₹10,000 p.m.

In the given case allowance received is taxable and taxable amount shall be –

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount received</td>
<td>1,44,000</td>
</tr>
<tr>
<td>Less: Exempt - least of the following</td>
<td></td>
</tr>
<tr>
<td>(i) 70% of 1,44,000 = 1,00,800</td>
<td></td>
</tr>
<tr>
<td>(ii) ₹10,000 p.m. x 12 = 1,20,000</td>
<td></td>
</tr>
<tr>
<td>Taxable amount</td>
<td>43,200</td>
</tr>
</tbody>
</table>


Question 3(a)  
Marks 5

Ms. Nandini, a resident individual, aged 48 years, is an assistant manager of Dye Hard Ltd. She was appointed on 1st June, 2017 at a salary of ₹32,000 per month. During the previous year 2019-2020, she received the following amounts from her employer.

(i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
(ii) Bonus for the previous year 2018-2019 amounting to ₹32,000 was received on 01st October, 2019.
(iii) Fixed Medical allowance of ₹20,000 for meeting medical expenditure.
(iv) She was also reimbursed the medical bill of her father-in-law dependent on her amounting to ₹3,000.
(v) Ms. Nandini was provided:
   - a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2017 at ₹15,000.
   - a domestic servant at a monthly salary of ₹1,000 which was reimbursed by her employer.
(vi) Dye Hard Ltd. allotted 500 equity shares in the month of December 2019 @ ₹150 per share against the fair market value of ₹250 per share on the date of exercise of option by Ms. Nandini. The fair market value was computed in accordance with the method prescribed under the Act.
(vii) Professional tax ₹2,500 (out of which ₹1,800 was paid by the employer).

Compute the total Income of Ms. Nandini for the assessment year 2020-2021. (Assume that Ms. Nandini pays tax on the receipt basis)

Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pay (32,000 x 12)</td>
<td>3,84,000</td>
</tr>
<tr>
<td>Dearness Allowance (3,200 x 12)</td>
<td>38,400</td>
</tr>
<tr>
<td>Medical Allowance (section 17(1))</td>
<td>20,000</td>
</tr>
<tr>
<td>Medical Facility taxable</td>
<td>3,000</td>
</tr>
<tr>
<td>Laptop facility (section 17(2)(viii) /Rule 3(7)(vii))</td>
<td>Nil</td>
</tr>
<tr>
<td>Servant reimbursement (1,000 x 12) (section 17(2)(iii) /Rule 3(3))</td>
<td>12,000</td>
</tr>
<tr>
<td>Equity Shares (500 x (₹ 250-₹ 150)) (section 17(2)(vi))</td>
<td>50,000</td>
</tr>
<tr>
<td>Professional Tax</td>
<td>1,800</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>5,06,200</td>
</tr>
<tr>
<td>Less: Deduction u/s 16(ia)</td>
<td>(50,000)</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

Less: Deduction u/s 16(iii) (2,500)
Income under the head Salary 4,53,700
Gross Total Income 4,53,700
Less: Deduction u/s 80C to 80U Nil
Total Income 4,53,700

Notes:
1. Bonus received on 01-10-2019 was for the previous year 2018-19 hence taxable in the year 2018-19.
2. Reimbursement of medical bill of father in law is fully taxable.
3. Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees.
4. As per section 17(2)(vi), equity shares received at less than market price then difference of market price and amount recovered shall be taxable.

MAY – 2018 (NEW COURSE)

Question 4

Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company’s product. He has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (for 6 months) ₹50,000 P.M.
Salary received in India (for 6 months) ₹50,000 P.M.

He has been given rent free accommodation in U.S.A. for which company pays ₹15,000 per month as rent, but when he comes in India, he stays in the guest house of the company. During this period he is given free lunch facility. During the previous year company incurred an expenditure of ₹48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹5,000. His elder son is studying in India for which his employer spends ₹12,000 per year whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year the company paid premium of ₹5,000 and ₹10,000 respectively.

Compute Mr. Honey’s taxable income from salary for the Assessment Year 2020-21.

Solution:

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

Computation of Income under the head salary for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (50,000 x 12)</td>
<td>6,00,000.00</td>
</tr>
<tr>
<td>Rent free Accommodation {Sec 17(2)(i), Rule 3(1)}</td>
<td>94,680.00</td>
</tr>
</tbody>
</table>

Working Note:
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation Salary
= Basic Pay + Children Education allowance + Hostel Allowance
= 6,00,000 + 31,200
= ₹6,31,200
15% of rent free accommodation Salary = ₹94,680
Rent Paid = ₹15,000 x 12 = ₹1,80,000
Perquisite value of unfurnished house = ₹94,680

Guest House facility (official purpose) Exempt
Income Under The Head Salary

Free lunch Facility Rule 3(7) (iii)
Total Incurred ₹48,000
Total Stay 184 days
Value of each lunch ₹260.87
Less exemption ₹50.00
Taxable ₹210.87
Total Taxable ₹210.87 x 184 = 38,800.08

Motor car facility (used for personal and official) (2,400 x 6) Section 17(2) (iii)/Rule 3(2)
Taxable value (8,00,000 x 10% x 6/12) 40,000.00
Expenditure on car (5,000 x 6) 30,000.00

Education Facility Section 17(2) (iii)/Rule 3(5)
Elder son (12,000-12,000) Nil
Younger Son Children Education allowance and Hostel allowance combined 36,000
Less: Exempt Children Education allowance (100 x 12) Section 10(14)/Rule 2BB (1,200)
Less: Exempt Hostel allowance (300 x 12) Section 10(14)/ Rule 2BB (3,600) 31,200.00

Accident Insurance Policy section 17(2)(v) Nil
Life Insurance Policy section 17(2)(v) 10,000.00
Gross Salary 8,59,080.08
Less: Standard deduction u/s 16(ia) (50,000.00)
Income under the head salary 8,09,080.08

MAY – 2018 (OLD COURSE)

Question 1

1. Mrs. Babu, working as journalist with ABC Limited provides the following information for the year ended 31-03-2020.

Basic salary ₹25,000 p.m.
DA (50% of it is meant for retirement benefits) 50% Basic Pay
Own contribution to Recognized Provident fund (R.P.F.) ₹30,000
Employer’s contribution to R.P.F 20% of Basic Salary
Interest credited in the R.P.F. @ 15% ₹15,000
Arrears of rent received from ABC Limited ₹69,000
Received interest ₹10,000 from Axis Bank Savings account during the year, and interest of ₹12,040 from the debentures of M/s. Coal India Ltd.
She made payment through cheque ₹12,500 for Mediclaim Insurance Policy for her major daughter.

She had contributed ₹1,196 pm towards Atal Pension Yojana and ₹5,000 pm towards Sukanya Samridhi account.

M/s. ABC Limited has taken residential house of Mrs. Babu as Company’s guest house and later purchased from her in the 2017 at market value for ₹75 lakhs. Purchased cost was only ₹10 lakhs in April, 2005.

During August, 2019 Mrs. Babu had lost her gold chain and a diamond ring which she had purchased in April, 2005 for ₹1,17,000 and market value of these two items were ₹2,50,000 and she has received insurance compensation of ₹2,92,000 during Feb.,2020

Compute Total Income for the Asst. year 2020-21.
(CII FOR 2005- 06 = 117, 2017 -18 = 272, and 2019-20=289)

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

Working Note:
RBS = 3,00,000 + 75,000
= 3,75,000
12% of RBS = 45,000
Employer’s contribution = 3,00,000 x 20% = 60,000
60,000 – 45,000 = 15,000
Interest credited in recognised provident fund in excess of 9.5% (15,000/15% x 5.5%)/2
Gross Salary 4,67,750
Less: Standard deduction u/s 16(ia) (50,000)
Income under the head salary 4,17,750

Income under the head other sources
Interest from axis bank saving account 10,000
Interest credited in recognised provident fund in excess of 9.5% (15,000/15% x 5.5%)/2 2,750
Interest from debentures 12,040
Income under the head other sources 24,790

Income from house property
Arrears of rent 69,000
Less: 30% u/s 25A (20,700)
Income from house property 48,300

Income under the head Capital Gains
Gold chain and diamond ring lost
Full Value of Consideration 2,92,000.00
Less: Indexed cost of acquisition (1,17,000/117 x 289) (2,89,000.00)
Long term capital gains 3,000.00

Gross Total Income
Income under the head Salary 4,17,750
Income under the head other sources 24,790
Income from house property 48,300
Long term capital gains 3,000
Gross Total Income 4,93,840
Less: Deduction u/s 80C
Employee contribution to RPF 30,000
Sukanya Samridhi account 60,000 (90,000)
Less: Deduction u/s 80D for major daughter (12,500)
Less: Deduction u/s 80CCD Contribution to Pension fund (1,196 x 12) (14,352)
Less: Deduction u/s 80TTA (10,000)
Total Income 3,66,988
Rounded off u/s 288A 3,66,990

Notes:
1. Interest on debentures is presumed to be gross receipts.
2. Residential house is sold in 2017 hence tax on such income is already given in 2017 hence no treatment is done in current year.
3. It is assumed in section 80D that Daughter is dependent.

Question 2(b) (5 Marks)
Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to National Pension Scheme ₹50,000 every year since 2017 and was claiming deduction under section 80CCD. In December 2019, he opted out of the pension scheme and withdrew a lump sum amount of ₹2,00,000. Is the amount so withdrawn taxable? If yes, how much is the taxable amount?
Answer:

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

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

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

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

Question 3

Mrs. Jaya is the marketing manager in XYZ limited. She gives you the following particulars:

Basic Salary ₹65,000 p.m.
Dearness Allowance ₹22,000 p.m. (30% is for retirement benefits)
Bonus ₹17,000 p.m.

Her employer has provided her with an accommodation on 1st April, 2019 at a concessional rent. The house was taken on lease by XYZ Ltd. for ₹12,000 p.m. Mrs. Jaya occupied the house from 1st November, 2019. ₹4,800 p.m. is recovered from the salary of Mrs. Jaya.

The employer gave her a gift voucher of ₹8,000 on her birthday. She contributes 18% of her salary (Basic Pay+ 30% of DA) towards recognized provident fund and the company contributes the same amount.

The company pays medical insurance premium to effect insurance on the health of Mrs. Jaya ₹18,000.

Motor car owned by the employer (cubic capacity of engine 1.4 litres) provided to Mrs. Jaya from 1st November, 2019 which is used for both official and personal purposes. Repair and running expenses of ₹50,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head “Salaries” in the hands of Mrs. Jaya for the Assessment Year 2020-21. Also compute her tax liability for A.Y. 2020-21

Solution:

Computation of Salary chargeable to tax of Mrs. Jaya for A.Y. 2020-21 ₹

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

Working Note:

In the given question accommodation is given on 01-04-19 but occupied on 01-11-2019, in such cases it will be taxable from 01-11-19 and taxable value shall be as given below:

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

Employer’s contribution to provident fund {Part A of schedule IV} 51,552.00
Working Note:
Retirement benefit salary = ₹65,000 + (30% of 22,000) x 12 = ₹8,59,200
Taxable Amount of Employer contribution ₹51,552

(8,59,200 x 6%)

Perquisite value of use of motor car (section 17 (2) (iii)/Rule 3(2)) 9,000.00

Gross Salary 13,47,552.00
Less: Standard Deduction u/s 16(ia) (50,000.00)
Gross Total Income 12,97,552.00
Less: Deduction u/s 80C (8,59,200 x 18%) but maximum ₹ 1,50,000 (1,50,000.00)
Total Income 11,47,552.00
Rounded off u/s 288A 11,47,550.00

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

Question 3(a) (8 Marks)
Mr. Nambi, a salaried employee, furnishes the following details for the financial year 2019-20:

Particulars ₹

Basic salary 6,00,000.00
Dearness allowance 3,20,000.00
Commission 50,000.00
Entertainment allowance 7,500.00
Profession Tax (of this, 50% paid by employer) 7,000.00
Health insurance premium paid by employer 9,000.00
Gift voucher given by employer on his birthday 12,000.00
Life insurance premium of Nambi Paid by employer 34,000.00
Laptop provided for use at home . Actual cost of Laptop to employer 30,000.00
[Children of the assessee are also using the Laptop at home]
Employer -Company owns a Tata Nano car, which was provided to the assessee,
Both for official and personal use. No driver was provided. (Engine cubic capacity less than 1.6 litres)
Annual credit card fees paid by employer [Credit card is not exclusively used for Official purposes; details of usage are not available]

You are required to compute the income chargeable under the head "Salaries" for the assessment year 2020-21.

Solution:

Computation of Salary chargeable to tax of Mr. Nambi for A.Y. 2020-21 ₹

Basic Salary 6,00,000.00
Dearness Allowance 3,20,000.00
Commission 50,000.00
Entertainment allowance 7,500.00
Professional Tax paid by the employer Section 17 (2)(iv) 3,500.00
Facility of Laptop/computer (Rule 3(7)(vii)) Nil
Health Insurance by Employer proviso to Section 17(2) Nil
Gift Voucher (Rule 3(7)(iv)) (12,000-5,000) 7,000.00
Life Insurance paid by Employer (section 17 (2) (v)) 34,000.00
Perquisite value of use of motor car (section 17 (2) (iii)/Rule 3(2)) (1,800 x 12) 21,600.00
Annual Credit card fees (Rule 3 (7)(v)) 2,000.00
Gross Salary 10,45,600.00
Income Under The Head Salary

Less: Standard Deduction u/s 16(ia) (50,000.00)
Less: Deduction of professional tax u/s 16(iii) (7,000.00)
Income under the head Salary 9,88,600.00

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

Question 3(a) (4 Marks)
(i) Mr. X, a citizen of India, serving in the Ministry of Finance in India and transferred to High Commission of Australia on 15th March 2019. He did not come to India during the financial year 2019-20. His income during the financial year 2019-20 is given here under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary from Govt. of India</td>
<td>7,20,000</td>
</tr>
<tr>
<td>Foreign Allowances from Govt. of India</td>
<td>Nil</td>
</tr>
<tr>
<td>Rent from a house situated at London, received in London</td>
<td>3,60,000</td>
</tr>
<tr>
<td>Interest accrued on National Saving Certificate during the year 2019-20</td>
<td>45,000</td>
</tr>
</tbody>
</table>

Compute The Gross Total Income of Mr. X for the Assessment year 2020-21.

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

Computation of Gross Total Income of Mr. X for the Assessment year 2020-21

Income under the head Salary
Salary from Govt. of India 7,20,000
Foreign Allowances from Govt. of India (exempt) Nil
Gross Salary 7,20,000
Less: Standard Deduction u/s 16(ia) (50,000)
Income under the head Salary 6,70,000

Income under the head other sources
Interest accrued on National Saving Certificate during the year 2019-20 45,000
Income under the head other sources 45,000
Gross Total Income 7,15,000

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

Question 5(a) (4 Marks)
(ii) Compute the amount of LTC Exemption in the following cases with reference to the provision under Income Tax Act, 1961:
(a) Mr. X went on a holiday on 09.09.2019 to Mysore with his wife and 3 children - one daughter born on 02.02.2013 and twin sons born on 05.05.2015. The total cost of travel was ₹80,000. The ticket cost for Mr. X and his wife was ₹50,000 and for all three children was ₹30,000. The Employer reimbursed total ticket cost ₹80,000.

(b) In the above case (a), if among his 3 children the twin sons born on 02.02.2013 and the daughter was born on 05.05.2015, what shall be the exemption?

Solution:
As per Section 10(5), Leave Travel concession shall be allowed to employee and his family. Exemption shall be allowed for the expenditure incurred during the trip. Family shall include spouse and children of the employee however exemption shall be allowed for maximum of 2 children but in case of multiple birth after the birth of one child, exemption is allowed for all the children.

(i) As per the above provision Exemption shall be allowed for all the children as the case is of multiple birth after the birth of one child. Hence cost of travel of all shall be exempt.

(ii) As per the above provision Exemption shall be allowed for only 2 children.

Hence Exemption shall be ₹80,000 – ₹30,000/3 = ₹70,000.

Taxable Amount shall be ₹80,000 - ₹70,000 = ₹10,000.

MAY – 2016

Question 1(a)                          (10 Marks)
Mr. Vinod Kumar, resident, aged 62, furnishes the following information pertaining to the year ended 31.03.2020:

(i) Pension receives (Net of TDS) 6,27,000
(ii) Short-term capital gains (from sale of listed shares) 65,000
(iii) Long-term capital gains (from sale of listed shares) 1,24,000
(iv) Interest on fixed deposit from bank 1,60,000
(v) Pertaining to consultancy services provided by him:
    Gross receipts 12,60,000
    Expenses:
        Rent for premises 1,44,000
        Salary of P.A. 1,20,000
        Stenographer's salary 1,00,000
        Business Development expenditure 91,000
        Conveyance 3,00,000
    (vi) Contribution to PPF 1,10,000
(vii) Premium on life insurance policy taken on 10.01.2020 (sum assured ₹5,00,000) 60,000
(viii) Mediclaim Insurance Premium for self(paid otherwise than by cash) 27,000
    Preventive health checkup expenses (in cash) 6,000
(ix) Donation given in cash to a charitable trust registered under Section 12AA (eligible for deduction u/s 80G) of the Income-Tax Act, 1961 14,000
(x) Interest received from Post Office Savings A/c. 18,000

Additional information:
- TDS from pension 25,000
- 1/4th of conveyance expenses is estimated for personal use.

Compute the total income of the assessee for the assessment year 2020-21, under proper heads of income. Listed share were sold in recognized stock exchange.

Solution:

Computation of Total Income of Mr. Vinod Kumar for the A.Y. 2020-21

Income from Salaries
Pension 6,52,000.00
Gross Salary 6,52,000.00
Less: Standard Deduction u/s 16(ia) (50,000.00)
Income under the head Salary 6,02,000.00
Profits and gains of business or profession
Gross Receipts 12,60,000.00
Less: Allowable expenses
Rent (1,44,000.00)
Salary to P.A. (1,20,000.00)
Stenographer’s salary (1,00,000.00)
Business Development expenditure (91,000.00)
Conveyance (3/4th of ₹3,00,000 allowed) (2,25,000.00)
Income under the head Profits and gains of business or profession 5,80,000.00

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

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

Gross Total Income 15,45,500.00

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

Note: 1. Deduction under section 80G is not allowed because payment is made by cash.
2. Business development expenditure are assumed as revenue in nature and wholly incurred for the purpose of business/profession.

NOV – 2015

Question 1(a). (10 Marks)
Mrs. X provides the following information for the financial year ending 31.03.2020. Compute her total income and tax payable thereon for AY 2020-2021 as per Income Tax Act 1961.

Income / Receipts:
(1) Salary from M/s. XYZ, ₹60,000 per month (joined from 1st March, 2019).
(2) She is in receipt of HRA, ₹15,000 per month and also educational allowance of ₹1,500 per month for all the three of her children.
(3) She bought a truck on 01.08.2019 and has been letting it on hire. She does not maintain books of account for this business. But she declares for income tax purpose, that she is earning net income of ₹11,000 per month from this business.
(4) She received ₹8,500 as interest on Post Office Savings Bank Account.
(5) She received ₹25,000 as interest from Company Deposits.
(6) Amounts withdrawn from National Savings Scheme (Principal ₹10,000 & Interest ₹25,000)

Expenses / Payments:
(1) Interest payable to bank ₹1,000 per month on loan for the purchase of truck.
(2) Total interest paid to bank for loan borrowed for investing in company deposits is ₹5,000.
(3) Rent paid for residence is ₹18,000 per month.
(4) Tuition fees paid for the year 2019-20 for her three children is ₹50,000, ₹30,000 and ₹20,000 respectively, to educational institution situated in India.
(5) Medical insurance premium for her and for her husband is ₹30,000 (paid by cheque) and ₹25,000 (paid by cash) respectively.
(6) She has deposited during the year, in 5 year Post Office Recurring Deposit Scheme ₹20,000.

**Solution 1(a):**

**Computation of total income of Mrs. X for the A.Y. 2020-21**

**Income from Salaries**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary including dearness allowance</td>
<td>₹7,20,000.00</td>
</tr>
<tr>
<td>House rent allowance [Sec 10(13A) Rule 2A]</td>
<td>₹36,000.00</td>
</tr>
</tbody>
</table>

**Working Note:**

Least of the following is exempt:

1. ₹2,16,000-₹72,000 = ₹1,44,000
2. 40% of retirement benefit salary = ₹2,88,000
3. ₹1,80,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received</td>
<td>₹1,80,000.00</td>
</tr>
<tr>
<td>Exempt</td>
<td>(1,44,000)</td>
</tr>
<tr>
<td>Taxable</td>
<td>₹36,000.00</td>
</tr>
</tbody>
</table>

**Children Education Allowance [Sec 10(14), Rule 2BB]**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received</td>
<td>₹1,500 x 12 = 18,000</td>
</tr>
<tr>
<td>Exempt</td>
<td>₹100 x 12 x 2 = (2,400)</td>
</tr>
<tr>
<td>Taxable</td>
<td>15,600.00</td>
</tr>
</tbody>
</table>

**Gross Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹7,16,000.00</td>
<td>7,21,600.00</td>
</tr>
</tbody>
</table>

**Profits and gains of business or profession**

**Income from the head Profits and gains of business or profession**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from truck business (11,000 x 8)</td>
<td>₹88,000.00</td>
</tr>
<tr>
<td>(Taken 11,000 P.m. Because assessee is declaring higher income)</td>
<td></td>
</tr>
</tbody>
</table>

**Income from Other Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest from Post Office Saving Bank (8,500-3,500)</td>
<td>₹5,000.00</td>
</tr>
<tr>
<td>Interest income from company deposits [₹25,000 – 5,000]</td>
<td>₹20,000.00</td>
</tr>
<tr>
<td>Withdrawn from National Saving Scheme (Note)</td>
<td>₹25,000.00</td>
</tr>
</tbody>
</table>

**Income under the head Other Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹50,000.00</td>
<td></td>
</tr>
</tbody>
</table>

**Gross Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹8,59,600.00</td>
<td></td>
</tr>
</tbody>
</table>

**Less: Deduction under section 80C - Tuition Fees**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(80,000.00)</td>
<td></td>
</tr>
</tbody>
</table>

**Less: Deduction under section 80D**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(25,000.00)</td>
<td></td>
</tr>
</tbody>
</table>

**Less: Deduction under section 80TTA**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(5,000.00)</td>
<td></td>
</tr>
</tbody>
</table>

**Total Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹7,49,600.00</td>
<td></td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹7,49,600 at slab rate</td>
<td>62,420.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>2,496.80</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>64,916.80</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>64,920.00</td>
</tr>
</tbody>
</table>

**Note:** The taxability of withdrawals from National Savings Scheme depends on whether the withdrawal was from National Savings Scheme, 1992 or National Savings Scheme, 1987. In the above solution, the interest component alone has been brought to tax on the assumption that the withdrawal is from National Savings Scheme, 1992. However, if the withdrawal is in respect of National Savings Scheme, 1987, both the interest and the principal would be chargeable to tax and in such case, amount of ₹35,000 shall be taxable.
Question 4(a). (8 Marks)
From the following details furnished by Mr. Dinesh, a marketing manager of XL Corporation Ltd., Delhi.
Compute the gross total income for the Assessment Year 2020-21.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary including Dearness Allowance</td>
<td>6,50,000</td>
</tr>
<tr>
<td>Conveyance allowance of 900 p.m.</td>
<td>10,800</td>
</tr>
<tr>
<td>Bonus</td>
<td>50,000</td>
</tr>
<tr>
<td>Salary of servant provided by the employer</td>
<td>48,000</td>
</tr>
<tr>
<td>Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mr. Dinesh</td>
<td>82,000</td>
</tr>
</tbody>
</table>

Dinesh purchased a flat in a co-operative housing society in Dwarka, Delhi for self occupation for ₹35,00,000 in April 2016, which was finance by a loan from Bank of India of ₹20,00,000 @ 11% interest and his own savings of ₹5,00,000 and a deposit of ₹10,00,000 from Bank of Baroda, to whom he let out his another house in Rohini, Delhi on lease for ten years. The rent payable by Bank of Baroda is ₹35,000 per month. Assessee has submitted certificate of interest. Other relevant particulars are given below:
(i) Municipal taxes paid by Dinesh for his flat in Dwarka are ₹18,000 per annum and for his house in Rohini are ₹12,000 per annum.
(ii) Principal loan amount outstanding as on 01.04.2019 was ₹18,50,000.
(iii) He also paid ₹8,000 towards insurance of both the houses.
(iv) In the financial year 2018-19, he had gifted ₹40,000 each to his wife and minor son. The gifted amounts were advanced to Mr. Sandeep, who is paying interest @ 18% per annum.
(v) Mr. Dinesh's son is studying in a school run by the employer company throughout the financial year 2019-20. The education facility was provided free of cost. The cost of such education in similar school is ₹2,500 per month.
(vi) Dinesh also received gifts of ₹45,000 each from his two friends during the previous year 2019-20.

Solution:
Computation of Gross Total Income of Mr. Dinesh for the A.Y. 2020-21

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

Income from house property
Letout house
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (35,000 x 12) 4,20,000
Less: Municipal taxes paid                                              (12,000)
Net Annual Value (NAV)                                                  4,08,000
Less: Deductions under section 24
(i) 30% of NAV                                                          (1,22,400)
(ii) Interest on loan                                                   Nil
Income from House 1                                                      2,85,600
Self occupied house
Gross Annual Value (GAV)                                                 Nil
Income Under The Head Salary

Less: Municipal taxes paid  
Net Annual Value (NAV)  
Less: Deductions under section 24
(i) 30% of NAV  
(ii) Interest on loan (18,50,000 x 11 % but restricted to ₹2,00,000)  
Loss from House 2  
Income under the head house property  
Income from Other Sources
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Mr. Dinesh as per section 64(1A)  
Less: Exempt under section 10(32)
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)  
(iii) Gift received from two friends (taxable under section 56(2) as the aggregate amount received during the year exceeds ₹50,000)  
Income under the head other sources  
Gross Total Income  

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

NOV – 2014

Question 4(a) (8 Marks)
Mr. X an employee of XYZ Co. Ltd. at Mumbai and covered by Payment of Gratuity Act, retires at the age of 64 years on 31.12.2019 after completing 33 years and 7 months of service. At the time of retirement, his employer pays ₹20,51,640 as Gratuity and ₹6,00,000 as accumulated balance of Recognised Provident fund. He is also entitled for monthly pension of ₹8,000. He gets 75% of pension Commuted for ₹4,50,000 on 1st February, 2020.

Determine the salary chargeable to tax for Mr. X for the Assessment Year 2020-21 with the help of following information:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary (₹80,000 x 9)</td>
<td>7,20,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>36,000</td>
</tr>
<tr>
<td>House Rent Allowance (₹15,000 x 9)</td>
<td>1,35,000</td>
</tr>
<tr>
<td>Rent paid by Mr. X (₹10,000 x 12)</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Employer contribution towards Recognized Provident Fund</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Professional Tax paid by Mr. X</td>
<td>2,000</td>
</tr>
</tbody>
</table>

Note: Salary and Pension falls due on the last day of each month.

Solution:

Computation of income under the head Salary

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

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

Employer’s contribution to provident fund {Part A of schedule IV}

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

Gratuity {Sec 10(10)}

**Working Note:**
Least of the following is exempt:
1. ₹20,51,640
2. ₹20,00,000
3. 15/26 x 80,000 x 34 = ₹15,69,230.77
Received = ₹20,51,640.00
Exempt = (₹15,69,230.77)
Taxable = ₹4,82,409.23

Uncommuted Pension {Sec 17(1)}

**Working Note:**

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>January</strong></td>
<td></td>
</tr>
<tr>
<td>8,000 x 1</td>
<td>8,000.00</td>
</tr>
<tr>
<td><strong>February &amp; March</strong></td>
<td></td>
</tr>
<tr>
<td>8,000 x 25% x 2</td>
<td>4,000.00</td>
</tr>
<tr>
<td>Total</td>
<td>12,000.00</td>
</tr>
</tbody>
</table>

Commuted Pension {Sec 10(10A)}

**Working Note:**

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received</td>
<td>4,50,000</td>
</tr>
<tr>
<td>Exempt   = 4,50,000 / 75% x 100% x 1/3 =</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Taxable</td>
<td>2,50,000</td>
</tr>
</tbody>
</table>

Gross Salary: ₹16,41,009.23
Less: Standard Deduction u/s 16(ia) (50,000.00)
Less: Deduction u/s 16(iii) - Professional Tax (2,000.00)
Income under the head Salary: ₹15,89,009.23

**Note:** ₹6,00,000 as accumulated balance of Recognised Provident fund received from employer is exempt as Mr. X has rendered continuous service of more than 5 Years with the employer.

**Question 1(a).**
From the following details compute the total income of Mr. X, A resident individual aged 54 years for the year ended 31.03.2020. Tax payable need not be calculated.

1. Salary including Dearness Allowance ₹5,00,000
2. Bonus ₹15,000
3. Salary to servant provided by Employer ₹12,000
4. Free gas, electricity and water provided by employer ₹14,500
5. Cost of Laptop provided by the employer ₹40,000

(Used both for official and personal purposes)

Following additional information is provided:
(1) Mr. X purchased a flat in a Cooperative Housing Society in Delhi for ₹10,75,000 in April, 2016 by taking loan from State Bank of India amounting to ₹5,00,000 @ 15% per annum interest, ₹65,000 from his

**MAY – 2014**

(10 Marks)
own savings and a deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of ₹ 5,500. The outstanding amount of loan is ₹1,60,000.

(2) Municipal Taxes paid by Mr. X ₹ 4,500 p.a.
(3) Insurance in respect of the said flat ₹1,275
(4) Mr. X earned a profit of ₹15,000 in shares speculation business and incurred a loss of ₹20,200 in speculation business of cotton.
(5) In the year 2017-18, he had gifted ₹ 50,000 to his wife and ₹ 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr. Mohan @ 15% per annum interest.
(6) Mr. X received a gift of ₹ 25,000 each from his four friends on the occasion of his birthday.
(7) He contributed ₹ 10,500 to Public Provident Fund and ₹6,000 to Unit Linked Insurance plan.
(8) He deposited ₹ 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.
(9) He has taken a policy on life for his married daughter on 01.04.2019 and paid a premium of ₹ 25,000. The sum assured for policy is ₹2,00,000.

Solution:

**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>Income from Salaries</strong></td>
<td></td>
</tr>
<tr>
<td>Salary including dearness allowance</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>15,000</td>
</tr>
<tr>
<td>Salary of servant provided by employer Sec 17(2)(iii)Rule 3(3)</td>
<td>12,000</td>
</tr>
<tr>
<td>Free gas, electricity and water provided by employer Sec 17(2)(iii) Rule 3(4)</td>
<td>14,500</td>
</tr>
<tr>
<td>Laptop Sec 17(2)(viii) Rule 3(7)(vii)</td>
<td>Nil</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>5,41,500</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>4,91,500</td>
</tr>
<tr>
<td><strong>Income from house property</strong></td>
<td></td>
</tr>
<tr>
<td>Gross Annual Value (GAV) (₹ 5,500 × 12)</td>
<td>66,000</td>
</tr>
<tr>
<td>Less: Municipal taxes paid</td>
<td>(4,500)</td>
</tr>
<tr>
<td>Net Annual Value (NAV)</td>
<td>61,500</td>
</tr>
<tr>
<td>Less: Deductions</td>
<td></td>
</tr>
<tr>
<td>30% of NAV 24(a)</td>
<td>(18,450)</td>
</tr>
<tr>
<td>Less: Interest on loan from State Bank of India@15% of ₹ 1,60,000 u/s 24(b)</td>
<td>(24,000)</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>19,050</td>
</tr>
<tr>
<td><strong>Profits and gains of business or profession</strong></td>
<td></td>
</tr>
<tr>
<td>Income from share speculation business</td>
<td>15,000</td>
</tr>
<tr>
<td>Less: Loss from cotton speculation business</td>
<td>(20,200)</td>
</tr>
<tr>
<td>Net loss from speculation business to be carried forward</td>
<td>(5,200)</td>
</tr>
<tr>
<td><strong>Income from Other Sources</strong></td>
<td></td>
</tr>
<tr>
<td>Income of minor child (30,000 x 15%) – 1,500</td>
<td>3,000</td>
</tr>
<tr>
<td>Interest income of spouse [₹ 50,000 x 15%]</td>
<td>7,500</td>
</tr>
<tr>
<td>Gift (₹ 25,000 x 4)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>1,10,500</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>6,21,050</td>
</tr>
<tr>
<td>Less: Deduction under section 80C</td>
<td></td>
</tr>
<tr>
<td>- Public Provident Fund</td>
<td>(10,500)</td>
</tr>
<tr>
<td>- Unit Linked Insurance Plan</td>
<td>(6,000)</td>
</tr>
<tr>
<td>- Tax saver deposit with Nationalized bank in the name of his married son does not qualify for deduction under section 80C. The deposit has to be in Mr. X’s own name.</td>
<td>Nil</td>
</tr>
<tr>
<td>- Life Insurance Premium [paid to insure life of married daughter is allowable]</td>
<td></td>
</tr>
<tr>
<td>[In respect of policies taken on or after 01.04.2012, the deduction is restricted to 10% of minimum capital sum assured. Hence, in this case, deduction is restricted to 10% of ₹ 2,00,000]</td>
<td>(20,000)</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>5,84,550</td>
</tr>
</tbody>
</table>
Notes:
(1) No separate deduction is available for insurance of ₹1,275, while computing income under the head “Income from house property”.
(2) It is assumed that ₹1,60,000 is the loan outstanding at the beginning of the year and there is no principal repayment of housing loan during the year qualifying for deduction under section 80C. Interest under section 24 has, accordingly, been calculated at the rate 15% of ₹1,60,000.
(3) It is assumed that Mr. X’s total income, before including minor’s income, is higher than that of his spouse.

**NOV – 2013**

**Question 3(a).** (8 Marks)

From the following details, find out the salary chargeable to tax of Mr. X for the assessment year 2020-21:

Mr. X is a regular employee of ABC Ltd. in Mumbai. He was appointed on 01.03.2019 in the scale of 25,000-2,500-35,000. He is paid dearness allowance (which forms part of salary for retirement benefits) @ 15% of basic pay and bonus equivalent to one and a half month’s basic pay as at the end of the year. He contributes 18% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.

He is provided free housing facility which has been taken on rent by the Company at ₹15,000 per month. He is also provided with following facilities:

(i) The monthly salary of ₹2,000 of a house keeper is reimbursed by the Company.
(ii) He is getting telephone allowance @ ₹1,000 per month.
(iii) A gift voucher of ₹4,700 was given on the occasion of his marriage anniversary.
(iv) The Company pays medical insurance premium to effect an insurance on the health of Mr. X ₹12,000.
(v) Motor car running and maintenance charges fully paid by employer of ₹36,600. (The motor car is owned and driven by Mr. X. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee.)
(vi) Value of free lunch provided during office hours is ₹2,200.

**Solution:**

**Computation of taxable salary of Mr. X for A.Y. 2020-21**

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

1. Medical insurance premium paid by the employer to effect an insurance on the health of the employee is fully exempt.
**Income Under The Head Salary**

**NOV – 2012**

**Question No. 6(a)**

(8 Marks)

Discuss whether the following receipts are taxable and also indicate the head of income under which the same is taxable:

(i) Bonus shares received by equity shareholder and preference shareholder.

(ii) Loan advanced by a company in which public are not substantially interested to a person holding 15% of the beneficial ownership of the share capital of the company.

(iii) Medical allowance received by an employee, the entire amount of which has been spent by him for medical treatment.

(iv) Receipt of cash gift of ₹60,000/- from a friend on the occasion of wedding anniversary.

(v) Gift of a plot of land given to a chartered accountant by one of his clients. The chartered accountant has been fully compensated for his services and this gift has been given in appreciation of his personal qualities.

(vi) A lawyer closed down his profession. Subsequently he accepted a case on the insistence of his friend but advised his friend to pay the fee payable to him directly to a charitable trust.

(vii) Payment from unrecognised provident fund at the time of retirement which consists of employee’s contribution, employer’s contribution and interest on both contributions.

**Answer:**

(i) Bonus shares received by equity shareholders is not taxable. Bonus share is deemed dividend in the hands of preference shareholder only and it is covered under the head Other Sources. However, it is tax free u/s 10(34) as company is liable to pay additional income tax on it.

(ii) Such loan is deemed dividend in the hand of shareholder u/s 2(22)(e). He is liable to tax thereon under the head other sources.

(iii) Fully taxable under the head salary.

(iv) ₹60,000 taxable as gift under the head Other Sources.

(v) Perquisites under section 28 taxable as PGBP.

(vi) Taxable as income under the head Business/Profession.

(vii) Employer’s contribution & interest is taxable as salary. Employee’s contribution is not taxable. However, interest on his contribution is taxable as Income from other Sources.

**MAY – 2012**

**Question 1 (a)**

(4 Marks)

Ms. X, employed in a private sector company, furnishes following information for the year ended 31.03.2020

- Income from salary (computed) ₹3,45,000
- Bank interest on savings bank account ₹15,000
- Tax on non-monetary perquisite paid by employer ₹20,000
- Amount contributed by her during the year of given below:
  - Contribution to Recognized Provident Fund ₹60,000
  - Health Insurance Premium –on self (paid by crossed cheque) ₹7,000
  - Medical expenditure for dependent sister with disability ₹20,000

Compute the total income of Ms. X for the Assessment Year 2020-21.

**Answer:**

**Computation of Total Income of Ms. X for the A.Y. 2020-21**

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

Total Income 2,08,000

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

Question 3 (4 Marks)
Mr. X is Production Manager of XYZ Ltd. From the following details, compute the Total Income for the Assessment Year 2020-21.

Basic salary ₹50,000 per month
Dearness allowance 40% of basic salary
Transport allowance (for commuting between ₹3,000 per month Place of residence and office)
Motor car running and maintenance charges fully paid by employer ₹60,000
The motor car is owned by the company and driven by the employee. The engine cubic capacity is above 1.60 litres. The motor car is used for both official and personal purpose by the employee.
Expenditure on accommodation in hotels while touring on official duties met by the employer ₹80,000
Loan from recognized provident fund (maintained by the employer) ₹60,000
Lunch provided by the employer during office hours.
Cost to the employer ₹24,000
Computer (cost ₹35,000) kept by the employer in the residence of Mr. X from 01.06.2019

Mr. X made the following payments:
Medical insurance premium: Paid in cash ₹4,800
Paid by account payee crossed cheque ₹15,200

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

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

Question 2 (8 Marks)
Mr. X, employed as Production Manager in B Ltd., furnishes you the following information for the year ended 31.03.2020:

(i) Basic salary upto 31.10.2019. ₹50,000 p.m.
Basic salary from 01.11.2019. ₹60,000 p.m.
Note: Salary is due and paid on the last day of every month.
(ii) Dearness allowance @ 40% of basic salary.
(iii) Bonus equal to one month salary. Paid in October 2019 on basic salary plus dearness allowance applicable for that month.
(iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
(v) Professional tax paid ₹3,000 of which ₹2,000 was paid by the employer.
(vi) Facility of laptop and computer was provided to Mr. X for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2019.

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2019 meant for both official and personal use. Repair and running expenses of ₹45,000 from 01.11.2019 to 31.03.2020 were fully met by the employer. The motor car was self-driven by the employee.

(viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons- aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹30,000 for adults and ₹45,000 for three children. Mr. X is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income and also tax liability of Mr. X for the assessment year 2020-21.

**Answer:**

**Computation of Salary chargeable to tax of Mr. X for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>₹ 6,50,000.00</td>
</tr>
<tr>
<td>(50,000 x 7)+ (60,000 x 5)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>₹ 2,60,000.00</td>
</tr>
<tr>
<td>(40% x 6,50,000)</td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td>₹ 70,000.00</td>
</tr>
<tr>
<td>(50,000 + 20,000)</td>
<td></td>
</tr>
<tr>
<td>Contribution to recognized provident fund</td>
<td>₹ 26,000.00</td>
</tr>
<tr>
<td>(6,50,000 x 4%)</td>
<td></td>
</tr>
<tr>
<td>Professional Tax paid by the employer</td>
<td>₹ 2,000.00</td>
</tr>
<tr>
<td>Facility of Laptop/computer</td>
<td>NIL</td>
</tr>
<tr>
<td>Perquisite value of use of motor car</td>
<td>₹ 12,000.00</td>
</tr>
<tr>
<td>(2,400 x 5)</td>
<td></td>
</tr>
<tr>
<td>Leave Travel concession</td>
<td>NIL</td>
</tr>
<tr>
<td>Gross Salary</td>
<td>₹ 10,20,000.00</td>
</tr>
<tr>
<td>Less: Standard Deduction u/s 16(ia)</td>
<td>(₹ 50,000.00)</td>
</tr>
<tr>
<td>Less: Deduction of professional tax u/s 16(iii)</td>
<td>(₹ 3,000.00)</td>
</tr>
<tr>
<td>Income under the head Salary</td>
<td>₹ 9,67,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹ 9,67,000.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹ 9,67,000.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹9,67,000 at slab rate</td>
<td>₹ 1,05,900.00</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹ 4,236.00</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹ 1,10,136.00</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹ 1,10,140.00</td>
</tr>
</tbody>
</table>

**Question 3**

Mrs. X (aged 40 years) is working with ABC Company Ltd., a manufacturer of tyres based at Mumbai, has received the following payments during the financial year 2019-20 from her employer:

- Basic salary : ₹60,000 per month.
- Darness allowance : 40% of basic salary.

Her employer has taken on rent her own house on a monthly rent of ₹15,000 and the same has been provided for residence of Mrs. X. Company is recovering ₹2,000 per month as rent of house.

Mrs. X has further furnished the following details:

(i) She has paid professional tax of ₹6,000 during financial year 2019-20.
(ii) She is owning only one house and payment of interest of ₹1,75,000 and principal of ₹1,00,000 was made for housing loan taken from SBI for purchase of house.
(iii) She has also taken a loan of ₹2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered ₹10,000 as interest from her salary for such loan during the year.

Compute Total Income and Tax Liability for Assessment Year 2020-21.
Answer:

**Computation of Taxable Income of Mrs. X for the A.Y. 2020-21**

**Computation of income under the head Salary**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary</td>
<td>₹7,20,000</td>
</tr>
<tr>
<td>(60,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Dearness Allowance</td>
<td>₹2,88,000</td>
</tr>
<tr>
<td>(7,20,000 x 40%)</td>
<td></td>
</tr>
<tr>
<td>Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}</td>
<td>₹84,000</td>
</tr>
</tbody>
</table>

**Working Note:**

15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = ₹7,20,000
15% of ₹7,20,000 = ₹1,08,000
(assuming that dearness allowance does not form part of pay for retirement benefits)
Rent Paid = ₹15,000 x 12 = ₹1,80,000
Value of unfurnished house = 1,08,000
Less: Amount recovered from the employee (2,000 x 12) = (24,000)
Perquisite value of accommodation at concessional rent = ₹84,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perquisite of Interest on loan {Sec 17(2)(viii) Rule 3(7)(i)}</td>
<td>₹10,000</td>
</tr>
</tbody>
</table>

**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>₹1,80,000</td>
</tr>
<tr>
<td>(15,000 x 12)</td>
<td></td>
</tr>
<tr>
<td>Less: Municipal Tax</td>
<td>Nil</td>
</tr>
<tr>
<td>Net Annual Value</td>
<td>₹1,80,000</td>
</tr>
<tr>
<td>Less: 30% of NAV u/s 24(a)</td>
<td>(54,000)</td>
</tr>
<tr>
<td>Less: Interest on capital borrowed u/s 24(b)</td>
<td>(1,75,000)</td>
</tr>
<tr>
<td>Loss under the head House Property</td>
<td>(49,000)</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹9,97,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C-Repayment of principal</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹8,97,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹8,97,000 at Slab rate</td>
<td>₹91,900</td>
</tr>
<tr>
<td>Add: HEC @ 4%</td>
<td>₹3,676</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹95,576</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹95,580</td>
</tr>
</tbody>
</table>

**Question 4**

Mr. X a senior citizen retired from the services of M/s Y Ltd. on 31.01.2020 after completing service of 30 years and one month. He received the following on his retirement:

(i) Gratuity ₹6,00,000. He was covered under the Payment of Gratuity Act, 1972.
(ii) Leave encashment of ₹3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
(iii) He purchased one motor car from the company on 31.03.2020. This car was purchased on 01.07.2016 by the company for ₹5,00,000. It was put use by the company on the same date. The car was sold by the company to Mr. X for ₹2,00,000. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
(iv) An amount of `3,00,000 as commutation of 2/3 of his pension.
(v) Company presented him a gift voucher worth `6,000 on his retirement.
(vi) His colleagues also gifted him a Television (LCD) worth `1,50,000 from their own contribution.

Following are the other particulars:

(i) He has drawn a Basic Salary of `20,000 and 50% Dearness allowance per month for the period from 01.04.2019 to 31.01.2020.

(ii) Received pension of `5,000 per month for the period 01.02.2020 to 31.03.2020 after commutation of pension.

Compute his total income and tax liability from the above for Assessment Year 2020-21.

**Answer:**

<table>
<thead>
<tr>
<th>Computation of Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
</tr>
<tr>
<td>(20,000 x 10)</td>
</tr>
<tr>
<td>DA</td>
</tr>
<tr>
<td>(2,00,000 x 50%)</td>
</tr>
<tr>
<td>Gift voucher</td>
</tr>
<tr>
<td>(6,000-5,000)</td>
</tr>
<tr>
<td>Motor Car</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Cost</th>
<th>5,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Depreciation @ 20%</td>
<td></td>
</tr>
<tr>
<td>01.07.2016-30.06.2017</td>
<td>(1,00,000)</td>
</tr>
<tr>
<td>01.07.2017-30.06.2018</td>
<td>(80,000)</td>
</tr>
<tr>
<td>01.07.2018-30.06.2019</td>
<td>(64,000)</td>
</tr>
<tr>
<td>WDV</td>
<td>2,56,000</td>
</tr>
<tr>
<td>Less: Amount Recovered</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td>Perquisite value of car</td>
<td>56,000</td>
</tr>
</tbody>
</table>

| Uncommuted Pension {Sec 17(1)} | 10,000 |
| Commuted pension {Sec 10(10A)} | 1,50,000 |

**Working Note:**

| Amount received | 3,00,000 |
| Less: exempted  | (1,50,000) |
| (3,00,000 x 3/2 x 1/3) |          |
| Taxable         | 1,50,000 |

| Gratuity {Sec 10(10)} | 80,769 |

**Working Note:**

**Least of the following is exempt**

1. Gratuity received `6,00,000
2. `20,00,000
3. 15/26 x 30,000 x 30 = 5,19,231

Received = `6,00,000
Exempt = (`5,19,231)
Taxable = `80,769

| Leave Salary {Sec 10(10A)} | 1,30,000 |

**Working Note:**

**Least of the following is exempt**

1. `3,30,000
2. `10 x 20,000 = `2,00,000
3. `3,00,000
3. 330/30 x 20,000 = 2,20,000

Received = `3,30,000
MAY – 2011

Question 3 (5 Marks)
Mr. X employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2019-20:

(i) Domestic servant was provided at the residence of Mr. X. Salary of domestic servant is ₹1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer). In case, the company has employed the domestic servant, what is the value of perquisite?

(ii) Free education was provided to his two children Mr. S and Mr. A in a school maintained and owned by the company. The cost of such education for Mr. S is computed at ₹900 per month and for Mr. A at ₹1,200 per month. No amount was recovered by the company for such education facility from Mr. X.

(iii) The employer has provided movable assets such as television refrigerator and air conditioner at the residence of Mr. X. The actual cost of such assets provided to the employee is ₹1,10,000.

(iv) A gift voucher worth ₹10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employee above certain grade.

State the taxability or otherwise of the above said perquisites and compute the total value of taxable perquisites.

Answer.

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

(i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees. Taxable perquisite value = ₹1,500 × 12 = ₹18,000.

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

(ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹1,000 per month.

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

However, the cost of free education provided to his child Mr. A would be taxable, since the cost exceeds ₹1,000 per month. Only the sum in excess of ₹1,000 per month is taxable. The value of perquisite would be ₹2,400.
(iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹1,10,000.

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

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

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

**Answer.**

**Computation of taxable salary of Mr. X for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic pay</td>
<td>2,43,000</td>
</tr>
<tr>
<td>Dearness allowance</td>
<td>24,300</td>
</tr>
<tr>
<td>Bonus</td>
<td>21,000</td>
</tr>
<tr>
<td>Employer’s contribution to RPF in excess of 12%</td>
<td>8,019</td>
</tr>
<tr>
<td><strong>Taxable allowances</strong></td>
<td></td>
</tr>
<tr>
<td>Telephone allowance</td>
<td>6,000</td>
</tr>
<tr>
<td><strong>Taxable perquisites</strong></td>
<td></td>
</tr>
<tr>
<td>Rent-free accommodation [See Note (2) below]</td>
<td>44,145</td>
</tr>
<tr>
<td>Reimbursement of salary of housekeeper</td>
<td>12,000</td>
</tr>
<tr>
<td>Gift voucher (10,000 – 5,000)</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Salary income chargeable to tax</strong></td>
<td>3,63,464</td>
</tr>
<tr>
<td>Less: Standard deduction u/s 16 (ia)</td>
<td>(50,000)</td>
</tr>
<tr>
<td><strong>Income under the head Salary</strong></td>
<td>3,13,464</td>
</tr>
</tbody>
</table>

**Notes:**

1. Bonus has been taken as one month’s basic pay as at the end of the year i.e. ₹21,000. In the alternative, the problem can also be worked out by taking bonus as ₹20,000, being one month’s basic pay upto 31.12.2019.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

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

(i) Basic salary i.e., ₹2,43,000
(ii) Dearness allowance i.e. ₹24,300
(iii) Bonus i.e., ₹21,000
(iv) Telephone allowance i.e., ₹6,000
Therefore, salary works out to
2,43,000 + 24,300 + 21,000 + 6,000 = 2,94,300.
15% of salary = 2,94,300 × 15/100 = 44,145
Value of rent-free house = Lower of rent paid by the employer (i.e. ₹1,20,000) or 15% of salary (i.e., ₹44,145).
Therefore, the perquisite value is ₹44,145.
(3) Facility of laptop is not a taxable perquisite.
(4) Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
(5) Premium of ₹5,000 paid by the company for personal accident policy is not liable to tax.
(6) As per Circular No.15/2001, dated: 12.12.2001, Gift, voucher or token in lieu of gift - It is customary in India, as it is in other parts of the world, to provide presents directly or indirectly in the form of vouchers or tokens to employees on social and religious occasions like Diwali, Christmas, New Year, the anniversary of the organization etc. Such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. However, gifts made in cash or convertible into cash, like gift cheques etc. do not fall in the purview of this sub-rule.

**Question 7**
Mr. X, an Accounts Manager, has retired from JK Ltd. on 15.01.2020 after rendering services for 30 years 7 months. His salary is ₹25,000/- p.m. upto 30.09.2019 and ₹27,000 p.m. thereafter. He also gets ₹2,000/- p.m. as dearness allowance (55% of it is a part of salary for computing retirement benefits).
He is not covered by the payments of Gratuity Act, 1972.
He has received ₹ 8 Lacs as gratuity from the employer company.

**Answer.**
**Computation of gratuity taxable in the hands of Mr. X for the P.Y. 2019-20**
As per section 10(10), gratuity received by an employee would be exempt upto the least of the following limits –
(i) Gratuity received = ₹ 8,00,000
(ii) Half-month’s salary for every year of completed service
= ½ x 26,700 x 30 = ₹4,00,500
(iii) Monetary limit = ₹20,00,000
Received 8,00,000
Less: Exempt (4,00,500)
Taxable 3,99,500

**Note:**
(1) One of the limits for calculation of gratuity exempt under section 10(10) is one-half-month’s salary for each year of completed service (fraction of a year to be ignored), calculated on the basis of average salary for the ten months immediately preceding the month of retirement. In this case, the month of retirement is January, 2020. Therefore, average salary for the months of March 2019 to December 2019 have to be considered. The salary is ₹25,000 p.m. upto 30.09.2019 and ₹27,000 p.m. from 01.10.2019. Hence, average salary would be ₹26,700 [(₹25,000 × 7) + (₹27,000 × 3) + (2000× 55%×10)]/10.
Further, half-month’s salary should be multiplied by the number of years of completed service and any fraction of a year has to be ignored. Therefore, in this case, half-month’s salary should be multiplied by 30 and the fraction of 7 months should be ignored.
(2) PS – The requirement of the question has not been specified. Having regard to the information given in the question, the taxable gratuity has been computed.

**Question 5**
Mr. X, Marketing Manager of KL Ltd. based at Mumbai furnishes you the following information for the year ended 31.03.2020:
Basic salary - ₹1,00,000 per month
Dearness allowance - ₹50,000 per month (forming part for retirement benefit salary)
Bonus - 2 Months basic salary
Contribution of employer to Recognized Provident Fund @ 15% of basic salary plus Dearness allowance
Rent free unfurnished accommodation was provided by the company at Mumbai (accommodation owned by the company).

(i) Recognized Provident Fund contribution made by Mr. X. ₹ 1,50,000
(ii) Health insurance premium for his family paid by cheque. ₹ 20,000
(iii) Health insurance premium in respect of parents (senior citizens) paid by cheque. ₹ 28,000
(iv) Medical expenses of dependent brother with ‘severe disability’ (covered by Section 2(o) of National Trust of Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999). ₹ 60,000
(v) Interest on loan taken for education of his son studying B.com (full-time) in a recognized college. ₹ 24,000
(vi) Interest on loan taken for education of a student for whom Mr. X is the legal guardian for pursuing B.Sc. (Physics) (full-time) in a recognized university. ₹ 20,000

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

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

**Section 80C**

Contribution to RPF ₹ 1,50,000

**Section 80D** – Health insurance premium

| Family | ₹ 20,000 |
| Parents (Senior Citizens) | ₹ 28,000 |

**Section 80DD**

Medical treatment of dependent brother with severe disability (flat deduction irrespective of expenditure incurred) ₹ 1,25,000

**Section 80E** – Interest on loan taken for full-time education of
- his son studying B.Com. ₹ 24,000
- a student studying B.Sc. for whom he is the legal guardian ₹ 20,000

**Total income** ₹ 19,37,000

**Question 6** (2 Marks)

Allowance received by an employee working in a transport system at ₹10,000 per month to meet his personal expenditure while in duty. He is not receiving any daily allowance.

**Answer.**

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

**Question 6** (2 Marks)

Amount withdrawn from Public Provident Fund as per relevant rules.

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

**Question 6** (2 Marks)
Telephone provided at the residence of employee and the bill aggregating to ₹25,000 paid by the employer. Determine the perquisite value taxable in the hands of employee.

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

**Question 7** (4 Marks)
AB Co. Ltd., allotted 1000 sweat equity shares to Mr. X in June 2019. The shares were allotted at ₹200 per share as against the fair market value of ₹300 per share on the date of exercise of option by the allottee viz. Mr. X. The fair market value was computed in accordance with the method prescribed under the Act.
(i) What is the perquisite value of sweat equity shares allotted to Mr. X?
(ii) In the case of subsequent sale of those shares by Mr. X, what would be the cost of acquisition of those sweat equity shares?

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

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

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

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

**MAY – 2010**

**Question 3** (6 Marks)
Following benefits have been granted by ABC Software Ltd. to one of its employees Mr. X:
(i) Housing loan @ 6% per annum. Amount outstanding on 01.04.2019 is ₹6,00,000. Mr. X pays ₹12,000 per month, on 5th of each month.
(ii) Air-conditioners purchased 4 years back for ₹2,00,000 have been given to Mr. X for ₹90,000. Compute the chargeable perquisite in the hands of Mr. X for the Assessment Year 2020-21.

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

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

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

<table>
<thead>
<tr>
<th>Month</th>
<th>Maximum outstanding balance as on last date of month</th>
<th>Perquisite value at 4.5% for the month</th>
</tr>
</thead>
<tbody>
<tr>
<td>April, 2019</td>
<td>5,88,000</td>
<td>5,88,000 x 4.5% x 1/12 = 2,205</td>
</tr>
<tr>
<td>May, 2019</td>
<td>5,76,000</td>
<td>5,76,000 x 4.5% x 1/12 = 2,160</td>
</tr>
</tbody>
</table>
### Income Under The Head Salary

<table>
<thead>
<tr>
<th>Month, Year</th>
<th>Salary (₹)</th>
<th>Calculation</th>
<th>Income (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June, 2019</td>
<td>5,64,000</td>
<td>5,64,000 x 4.5% x 1/12 = 2,115</td>
<td>2,115</td>
</tr>
<tr>
<td>July, 2019</td>
<td>5,52,000</td>
<td>5,52,000 x 4.5% x 1/12 = 2,070</td>
<td>2,070</td>
</tr>
<tr>
<td>August, 2019</td>
<td>5,40,000</td>
<td>5,40,000 x 4.5% x 1/12 = 2,025</td>
<td>2,025</td>
</tr>
<tr>
<td>September, 2019</td>
<td>5,28,000</td>
<td>5,28,000 x 4.5% x 1/12 = 1,980</td>
<td>1,980</td>
</tr>
<tr>
<td>October, 2019</td>
<td>5,16,000</td>
<td>5,16,000 x 4.5% x 1/12 = 1,935</td>
<td>1,935</td>
</tr>
<tr>
<td>November, 2019</td>
<td>5,04,000</td>
<td>5,04,000 x 4.5% x 1/12 = 1,890</td>
<td>1,890</td>
</tr>
<tr>
<td>December, 2019</td>
<td>4,92,000</td>
<td>4,92,000 x 4.5% x 1/12 = 1,845</td>
<td>1,845</td>
</tr>
<tr>
<td>January, 2020</td>
<td>4,80,000</td>
<td>4,80,000 x 4.5% x 1/12 = 1,800</td>
<td>1,800</td>
</tr>
<tr>
<td>February, 2020</td>
<td>4,68,000</td>
<td>4,68,000 x 4.5% x 1/12 = 1,755</td>
<td>1,755</td>
</tr>
<tr>
<td>March, 2020</td>
<td>4,56,000</td>
<td>4,56,000 x 4.5% x 1/12 = 1,710</td>
<td>1,710</td>
</tr>
</tbody>
</table>

**Total value of this perquisite**: 23,490

### Perquisite Value of Air Conditioners:

- **Original cost**: ₹2,00,000
- **Depreciation on SLM basis for 4 years @10% i.e. ₹2,00,000 x 10% x 4**: ₹80,000

**Written down value**: ₹1,20,000

- **Amount recovered from the employee**: ₹90,000

**Perquisite value**: ₹30,000

### Chargeable perquisite in the hands of Mr. X for the assessment year 2020-21

- **Housing loan**: ₹23,490
- **Air Conditioner**: ₹30,000

**Total**: ₹53,490

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

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**NOV – 2009**

**Question 1**

(10 Marks)

From the following details compute the total income of Mr. X of Delhi and tax liability for the Assessment Year 2020-21:

- **Salary including dearness allowance**: ₹3,35,000
- **Bonus**: ₹11,000
- **Salary of servant provided by the employer**: ₹12,000
- **Rent paid by Mr. X for his accommodation**: ₹49,600
- **Bills paid by the employer for gas, electricity and water provided free of cost at the above flat**: ₹11,000

Mr. X was provided with company’s car engine capacity 1.6 litre (self driven) also for personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer.

Mr. X purchased a flat in a Co-operative Housing Society for ₹4,75,000 in April, 2015, in Delhi, which was financed by a loan from Life Insurance Corporation of India of ₹1,60,000 @ 15% interest, his own savings of ₹65,000 and a deposit from a nationalised bank for ₹2,50,000 to whom this flat was given on lease for ten years. The rent payable was ₹20,000 per month. The following particulars are relevant:

- **Municipal taxes paid (per annum)**: ₹4,300
- **Society charges for passage lights, watchman’s salary (per annum)**: ₹1,900
- **Insurance**: ₹860
- **He earned ₹2,700 in share speculation business and lost ₹4,200 in cotton speculation business.**
- **In the year 2017-18 he had gifted ₹30,000 to his wife and ₹20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.**
- **Mr. X received a gift of ₹25,000 each from four friends.**
- **He contributed ₹5,600 to public provident fund and ₹4,000 to Unit Linked Insurance Plan.**
- **He received national award for humanitarian work from the Central Government in the form of a land whose fair market value is ₹5,00,000 as on 31st March, 2020.**
Answer: Computation of Total Income and Tax Liability of Mr. X for the A.Y. 2020-21

Salary Income
Salary including dearness allowance 3,35,000
Bonus 11,000
Value of perquisites:
(i) Salary of servant 12,000
(ii) Car (1,800 x 12) 21,600
(iii) Free gas, electricity and water 11,000 44,600

Less: Standard deduction u/s 16 (ia) (50,000)
Income under the head salary 3,40,600

Income from house property
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (20,000 x 12) 2,40,000
Less: Municipal taxes paid [See Note (ii)(a)] (4,300)
Net Annual Value (NAV) 2,35,700
Less: Deductions under section 24
(i) 30% of NAV 70,710
(ii) Interest on loan from LIC @ 15% of 1,60,000 24,000 (94,710) 1,40,990

Income from speculative business
Income from share speculation business 2,700
Less: Loss from cotton speculation business (4,200)
Net Loss 1,500

Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.

Income from Other Sources
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Mr. X as per section 64(1A)
Less: Exempt under section 10(32) (1,500)

(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)
(iii) Gift received from four friends (taxable under section 56(2) as the aggregate amount received during the year exceeds ₹50,000) 1,00,000 1,08,000

Gross Total Income 5,89,590
Less: Deduction under section 80C
Contribution to Public Provident Fund 5,600
Unit Linked Insurance Plan 4,000 (9,600)
Total Income 5,79,990

Particulars
Tax on total income 28,498.00
Add: HEC @ 4% 1,139.92
Tax Liability 29,637.92
Rounded off u/s 288B 29,640.00

Notes:
(i) National Award for humanitarian work given by the Central Government is exempt under section 10(17A) of the Income-tax Act, 1961.
(ii) The following assumptions have been made while computing income under the head “Income from house property” –
(a) It is the owner, namely, Mr. X, who has paid the municipal taxes;
(b) The entire loan of ₹1,60,000 is outstanding as on 31.03.2020; and
(c) Society charges of ₹1,900 p.a. is not included in the rent of ₹20,000 p.m. payable by the tenant. Such charges have either been paid directly by Mr. X or recovered separately from the tenant.

**Question 3**

Mr. X is an area manager of M/s N. Steels Co. Ltd. During the financial year 2019-20, he gets the following emoluments from his employer:

**Basic Salary**
- Up to 31.08.2019: ₹20,000 p.m.
- From 01.09.2019: ₹25,000 p.m.

**Transport allowance**: ₹2,000 p.m.

**Contribution to Recognised Provident Fund by employer and employee**: 15% of basic salary (each)

**Children education allowance**: ₹500 p.m. for two children

**City compensatory allowance**: ₹300 p.m.

**Hostel expenses allowance**: ₹380 p.m. for two children

**Tiffin allowance (actual expenses ₹3,700)**: ₹5,000 p.a.

**Tax paid on employment**: ₹2,500

Compute Tax Liability of Mr. X for the Assessment Year 2020-21.

**Answer.**

**Computation of Taxable Salary of Mr. X for the Assessment Year 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>₹20,000 x 5 + (₹25,000 x 7)</td>
<td>2,75,000.00</td>
</tr>
<tr>
<td>Transport allowance (₹2,000 x 12)</td>
<td>24,000.00</td>
<td></td>
</tr>
<tr>
<td>Children education allowance (₹500 x 12)</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Less: Exempt under section 10(14) (₹100 x 2 x 12)</td>
<td>(2,400)</td>
<td></td>
</tr>
<tr>
<td>City Compensatory Allowance (₹300 x 12)</td>
<td>3,600.00</td>
<td></td>
</tr>
<tr>
<td>Hostel Expenses Allowance (₹380 x 12)</td>
<td>4,560</td>
<td></td>
</tr>
<tr>
<td>Less: Exempt under section 10(14) (₹300 x 2 x 12 i.e. ₹7,200 but restricted to the actual allowance of ₹4,560)</td>
<td>(4,560)</td>
<td></td>
</tr>
<tr>
<td>Tiffin allowance (fully taxable)</td>
<td>5,000.00</td>
<td></td>
</tr>
<tr>
<td>Tax paid on employment</td>
<td>2,500.00</td>
<td></td>
</tr>
<tr>
<td>Employer’s contribution to Recognised Provident Fund in excess of 12% of salary (i.e. 3% of ₹2,75,000)</td>
<td>8,250.00</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Salary</strong></td>
<td><strong>3,21,950.00</strong></td>
<td></td>
</tr>
<tr>
<td>Less: Standard deduction u/s 16 (ia)</td>
<td>(50,000.00)</td>
<td></td>
</tr>
<tr>
<td>Less : Tax on employment under section 16(iii)</td>
<td>(2,500.00)</td>
<td></td>
</tr>
<tr>
<td><strong>Taxable salary</strong></td>
<td><strong>2,69,450.00</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Computation of Total Income**

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

**Computation of Tax Liability**

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

**Notes:**

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

1. Mr. Ajay is found to be the owner of two gold chains of 50 gms each (market value of which is ₹1,45,000 each) during the financial year ending 31.3.2020 but he could offer satisfactory explanation for ₹50,000 spent on acquiring these gold chains. As per section 115BBE, Mr. Ajay would be liable to pay tax of –
   (a) ₹ 1,87,200  
   (b) ₹ 2,26,200  
   (c) ₹ 1,49,760  
   (d) ₹ 1,80,960
   Answer: (a)
   
   **Hint:**
   Taxable Income (unexplained money section 69A)  
   2,40,000  
   Tax @ 60% as per section 115BBE  
   1,44,000  
   Add: Surcharge @ 25%  
   36,000  
   Tax before HEC  
   1,80,000  
   Add: HEC @ 4%  
   7,200  
   Tax Liability  
   1,87,200

2. Mr. Suhaan (aged 35 years), a non-resident earned dividend income of ₹12,50,000 from an Indian Company which is credited directly to its bank account in France and ₹15,000 as interest in Saving A/c from State Bank of India during the previous year 2019-20. Assuming that he has no other income, what will be amount of income chargeable to tax in his hands in India for A.Y. 2020-21?
   (a) ₹ 2,55,000  
   (b) ₹ 2,65,000  
   (c) ₹ 15,000  
   (d) ₹ 5,000
   Answer: (d)
   **Hint:** 115BBDA is not applicable for non – resident, dividend received from Indian company is exempt for non - resident assessee. Further 80TTA is allowed to non resident hence taxable amount shall be 15,000-10,000 = 5,000.

3. XYZ Ltd. has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 12.3.2012 and unit in DTA from 15.6.2015. Total turnover of XYZ Ltd. and Unit in DTA is ₹ 8,50,00,000 and 3,25,00,000, respectively. Export sales of unit in SEZ and DTA is ₹ 2,50,00,000 and ₹ 1,25,00,000, respectively and net profit of Unit in SEZ and DTA is ₹ 80,00,000 and ₹ 45,00,000, respectively. XYZ Ltd. would be eligible for deduction under section 10AA for -
   (a) ₹ 38,09,524  
   (b) ₹ 19,04,762  
   (c) ₹ 23,52,941  
   (d) ₹ 11,76,471
   Answer: (b)
   **Hint:**
   Eligible deduction u/s 10AA  
   50% of export profit is allowed as deduction from 6th year to 10th year  
   Export profit = Profit of business in SEZ/Total Turnover of SEZ x Export turnover of SEZ  
   = 80,00,000/5,25,00,000 x 2,50,00,000 = 38,09,524  
   = 50% x 38,09,524 = 19,04,762
4. Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2019-20, following transactions were undertaken by Mr. Jagat:

(i) He attended a seminar on “Perquisite Valuation”. Seminar fees of ₹ 12,500 was paid by Bharat Ltd.
(ii) Tuition fees of Mr. Himanshu (son of Mr. Jagat) was reimbursed by Bharat Ltd. Amount of fees is ₹ 25,000.
(iii) Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.) Tuition fees paid for Ms. Sapna was ₹ 750 per month. Cost of education in similar institution is ₹ 5,250 per month.

Compute the amount which is chargeable to tax under the head “Salaries” in hands of Mr. Jagat for A.Y. 2020-21.

(a) ₹ 25,000
(b) ₹ 37,500
(c) ₹ 66,500
(d) ₹ 67,000

Answer: (d)

Hint:
Computation of amount chargeable to tax under the head salaries

(i) Perquisite value in case of Seminar fees is exempt
(ii) Tuition fees of son reimbursed by employer is fully taxable
(iii) Studies in school owned and maintained by employer is taxable

\[
\text{Taxable perquisite} = (5,250-1,000-750) \times 12 = 67,000
\]

5. Mr. Jha, an employee of FX Ltd, attained 60 years of age on 15.05.2019. He is resident in India during F.Y. 2019-20 and earned salary income of ₹ 5 lacs (computed). During the year, he earned ₹ 7 lacs from winning of lotteries. Compute his advance tax liability for A.Y. 2020-21:

(a) ₹ 2,20,000 + Cess ₹ 8,800 = ₹ 2,28,800, being the tax payable on total income of ₹ 12 lacs
(b) ₹ 2,10,000 + Cess ₹ 8,400 = ₹ 2,18,400, being the tax payable on lottery income of ₹ 7 lacs
(c) ₹ 10,000 + Cess ₹ 400 = ₹ 10,400, being the tax payable on salary income, since tax would have been deducted at source from lottery income.
(d) Nil

Answer: (d)

Hint: A senior citizen who don’t have income from business shall be exempt from payment of advance tax.

6. APM Ltd. is a pioneer company in textile industry. At the end of F.Y. 2019-20, it decided to distribute deposit certificates (without interest) to its shareholders (preference as well as equity shareholders). Total value of accumulated profits of APM Ltd. was ₹ 25 lakhs. Mr. A is an equity shareholder of APM Ltd. holding 10% of share capital. During F.Y. 2019 - 20, Mr. A received deposit certificates (without interest) valuing ₹ 5,00,000 from APM Ltd.

Comment upon taxability of receipt of deposit certificates in the hands of Mr. A.

(a) Deposit Receipts (without interest) are taxable to the extent of ₹ 2,50,000 under Income from other sources.
(b) Deposit Receipts (without interest) are fully taxable under Income from other sources.
(c) Deposit Receipts (without interest) are exempt since DDT is payable by the company.
(d) Deposit Receipts (without interest) are fully taxable and shall be included in Gross total income. But such receipt shall be allowed as deduction under Chapter-VI A.

Answer: (c)

7. Mr. Hari is 65 years old residing in Agra. During F.Y. 2014-15, he purchased a house property in Kamla Nagar for ₹ 25 lacs. This house property was self-occupied by him till F.Y. 2016-17. In F.Y. 2017-18, he shifted to Delhi and the house property in Kamla Nagar was let out to Mr. Kishore. His income from house property was ₹ 5 lacs per annum (computed). During F.Y. 2019-20, Mr. Hari earned long-term capital gain of
INCOME UNDER THE HEAD SALARY

2.50 lacs, casual income of ₹ 10 lacs, agricultural income of ₹ 3 lacs and profits from business of ₹ 4 lacs. During the same year, he transferred house property situated in Kamla Nagar to Mrs. Neelam (his son’s wife) without any consideration. Subsequently, income from house property was received by Mrs. Neelam for F.Y. 2019-20. Compute gross total income of Mr. Hari for A.Y. 2020-21:

(a) ₹ 16.50 lacs
(b) ₹ 21.50 lacs
(c) ₹ 19.50 lacs
(d) ₹ 24.50 lacs

Answer: (b)

Hint:
Computation of Gross Total Income of Mr. Hari

Income from house property 5,00,000
Income under the head business/profession 4,00,000
Income under the head capital gains 2,50,000
Income under the head other sources 10,00,000
Gross Total Income 21,50,000

8. The details of income/loss of Mr. Kumar for A.Y. 2020-21 are as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amt. (in ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from Salary (Computed)</td>
<td>5,20,000</td>
</tr>
<tr>
<td>Loss from self-occupied house property</td>
<td>95,000</td>
</tr>
<tr>
<td>Loss from let-out house property</td>
<td>2,25,000</td>
</tr>
<tr>
<td>Loss from specified business u/s 35AD</td>
<td>2,80,000</td>
</tr>
<tr>
<td>Loss from medical business</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Long term capital gain</td>
<td>1,60,000</td>
</tr>
<tr>
<td>Income from other sources</td>
<td>80,000</td>
</tr>
<tr>
<td>Compute gross total income of Mr. Kumar for A.Y. 2020-21:</td>
<td></td>
</tr>
<tr>
<td>(a) ₹ 4,40,000</td>
<td></td>
</tr>
<tr>
<td>(b) ₹ 3,20,000</td>
<td></td>
</tr>
<tr>
<td>(c) ₹ 1,60,000</td>
<td></td>
</tr>
<tr>
<td>(d) ₹ 4,80,000</td>
<td></td>
</tr>
<tr>
<td>Answer: (a)</td>
<td></td>
</tr>
</tbody>
</table>

Hint:
Computation of Gross total Income

Income from salary 5,20,000
Less: loss from House property (maximum from other head 2,00,000) (2,00,000)
(balance amount can be carried forward)
Income under the head salary 3,20,000
Income under the head capital gains
Long term capital gains 1,60,000
Less: Loss from medical business (1,20,000)
Income under the head capital gains 40,000
Income under head other sources 80,000
Gross Total Income 4,40,000

Loss from specified business can be setoff from income of specified business only.


(a) ₹ 5,000
(b) Not exceeding ₹ 1,000
(c) ₹ 10,000

Answer: (a)
10. Mr. Rana is a resident of India residing in Meerut. During F.Y. 2011-12 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2019-20, Mr. Rana sold this land to Mr. Jeet for ₹ 25 lacs on 29.1.2020. Mr. Rana invested ₹ 5 lakhs in bonds of NHAI on 31.7.2020. Cost inflation index for F.Y. 2011-12 and F.Y. 2019-20 is 167 and 289 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2020-21:
   (a) ₹ 3,23,353
   (b) ₹ 8,23,353
   (c) ₹ 10,00,000
   (d) None of the above
   Answer: (d)
   Hint: Since land is situated 3 km from the local limits having the population below 1,00,000 hence such land shall be treated as rural land and no capital gains shall be computed.

DESCRIPTIVE QUESTIONS
1. Mr. Sunil Patni, aged 45 years, furnishes the following details of his total income for the A.Y. 2020-21:
   Income from Salaries (computed)              26,56,000
   Income from House Property (computed)           16,90,000
   Interest income from FDR's               7,34,000
   He has not claimed any deduction under Chapter VI-A. You are required to compute tax liability of Mr. Sunil Patni as per the provisions of Income Tax Act, 1961.
   Answer: Computation of tax liability of Mr. Sunil Patni for the A.Y. 2020-21
   **Particulars**
   | Income from Salaries (computed) | ₹ 26,56,000 |
   | Income from house property (computed) | ₹ 16,90,000 |
   | Interest income from FDR’s | ₹ 7,34,000 |
   **Total Income** | ₹ 50,80,000 |
   **Tax Liability**
   | Tax on ₹50,80,000 at slab rate | ₹ 13,36,500 |
   | Add: Surcharge @ 10% | ₹ 1,33,650 |
   | Tax before marginal relief | ₹ 14,70,150 |
   | Less: Marginal Relief | (₹ 77,650) |
   **Working Note:**
   | Tax + surcharge @10% 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 |
   | Add: HEC @ 4% | ₹ 55,700 |
   | Tax Liability | ₹ 14,48,200 |

2. Mr. Rajesh Sharma (aged 62 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 29th May 2019 as stamped in the passport and returned on 27th April 2020. He has been in India for less than 365 days during the 4 years immediately preceding the previous year. Determine his residential status and his total income for the assessment year 2020-21 from the following information:
(1) Short term capital gain on the sale of shares of Tilt India Ltd., a listed Indian company, amounting to ₹ 58,000. The sale proceeds were credited to his bank account in Singapore.
(2) Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore. He had borrowed money from Mr. Abhay, 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 ₹ 5,800.
(3) Interest on fixed deposit with Punjab National Bank, Delhi amounting to ₹ 9,500 was credited to his saving bank account.

Answer: Determination of residential status
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 during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Mr. Rajesh Sharma, an Indian citizen, has not satisfied either of the basic conditions for being a resident, since he was in India for only 59 days during the previous year 2019-20. Hence, he is non-resident in India for A.Y.2020-21.

Computation of total income of Mr. Rajesh Sharma for A.Y.2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Short-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Rajesh Sharma, since it has accrued and arisen in India even through the sale proceeds were credited to bank account in Singapore.</td>
<td>58,000</td>
</tr>
<tr>
<td>(2) Dividend of ₹ 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the non-resident since the income has neither accrued or arisen in India nor has it been received in India. Since dividend is not taxable in India, interest paid for investment is not allowable as deduction.</td>
<td>Nil</td>
</tr>
<tr>
<td>(3) Interest on fixed deposit with Punjab National Bank, Delhi credited to his savings bank account is taxable in the hands of Mr. Rajesh Sharma as Income from other sources, since it has accrued and arisen in India and is also received in India. He would not be eligible for deduction under section 80TTB, since he is a non-resident.</td>
<td>9,500</td>
</tr>
</tbody>
</table>

Total Income: 67,500

3. Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:
(i) Allowance of ₹ 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.
(ii) During the previous year 2019-20, Mrs. Aadhya, a resident in India, received a sum of ₹ 9,63,000 as dividend from Indian companies and ₹ 4,34,000 as dividend from units of equity oriented mutual fund.

Answer:

<table>
<thead>
<tr>
<th>Chargeability</th>
<th>Amount liable to tax (₹)</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Partly taxable</td>
<td>96000</td>
<td>Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of</td>
</tr>
</tbody>
</table>
such allowance (i.e., ₹ 12,600 per month being, 70% of ₹ 18,000, in the present case) or ₹ 10,000 per month, whichever is less. Hence, ₹ 1,20,000 (i.e., ₹ 10,000 x 12) is exempt. Balance ₹ 96,000 (₹ 2,16,000 – ₹ 1,20,000) is taxable in the hands of Mr. Uttam Prakash.

(ii) Not Taxable

As per section 10(34), dividend received upto ₹ 10 lakhs from Indian companies on which dividend distribution tax is paid by the company, is exempt in the hands of shareholder.

As per section 10(35), income received from units of mutual fund is exempt. Hence, ₹ 9,63,000, being the dividend from Indian companies and ₹ 4,34,000, being the dividend from units of equity oriented mutual fund is not taxable in the hands of Mrs. Aadhya.

4. Ms. Suhaani, a resident individual, aged 33 years, is an assistant manager of Daily Needs Ltd. She is getting a salary of ₹ 48,000 per month. During the previous year 2019-20, she received the following amounts from her employer.

(i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).

(ii) Bonus for the previous year 2018-19 amounting to ₹ 52,000 was received on 30th November, 2019.

(iii) Fixed Medical allowance of ₹ 48,000 for meeting medical expenditure.

(iv) She was also reimbursed the medical bill of her father dependent on her amounting to ₹ 4,900.

(v) Ms. Suhaani was provided;

• a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2017 at ₹ 35,000.

• a domestic servant at a monthly salary of ₹ 5,000 which was reimbursed by her employer.

(vi) Daily Needs Ltd. allotted 700 equity shares in the month of October 2019 @ ₹ 170 per share against the fair market value of ₹ 280 per share on the date of exercise of option by Ms. Suhaani. The fair market value was computed in accordance with the method prescribed under the Act.

(vii) Professional tax ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

Compute the Income under the head “Salaries” of Ms. Suhaani for the assessment year 2020-21.

**Answer:** Computation of Income under the head “Salaries” in the hands of Ms. Suhaani for the A.Y. 2020-21

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary [₹ 48,000 x 12]</td>
<td>5,76,000</td>
</tr>
<tr>
<td>Dearness allowance [10% of basic salary]</td>
<td>57,600</td>
</tr>
<tr>
<td>Bonus [Taxable in the P.Y. 2019-20, since it is taxable on receipt basis]</td>
<td>52,000</td>
</tr>
<tr>
<td>Fixed Medical Allowance [Taxable]</td>
<td>48,000</td>
</tr>
<tr>
<td>Reimbursement of Medical expenditure incurred for her father [Fully taxable from A.Y. 2020-21, even though father is included in the meaning of “family” on account of standard deduction being introduced in lieu of reimbursement of medical expenditure].</td>
<td>4,900</td>
</tr>
<tr>
<td>Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]</td>
<td>Nil</td>
</tr>
<tr>
<td>Reimbursement of salary of domestic servant [₹ 5,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]</td>
<td>60,000</td>
</tr>
<tr>
<td>Value of equity shares allotted [700 equity shares x ₹ 110] (₹ 280, being the fair market value – ₹ 170, being the amount recovered)]</td>
<td>77,000</td>
</tr>
<tr>
<td>Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]</td>
<td>1,400</td>
</tr>
</tbody>
</table>

**Gross Salary** 8,76,900

**Less:** Deduction under section 16 Professional tax paid (2,200)

**Standard Deduction (Lower of ₹ 50,000 or amount of salary)** (50,000)

**Taxable Salary** 8,24,700
5. Mr. Vihaan is a resident but not ordinarily resident in India during the Assessment Year 2020-21. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2019-20:

- He owns two houses, one in Singapore and the other in Pune.
- The house in Singapore is let out there at a rent of SGD 4,000 p.m. The entire rent is received in India. He paid Property tax of SGD 1250 and Sewerage Tax SGD 750 there. (1SGD=INR 51)
- The house in Pune is self-occupied. He had taken a loan of ₹ 25,00,000 to construct the house on 1st June, 2015 @12%. The construction was completed on 31st May, 2017 and he occupied the house on 1st June, 2017.

The entire loan is outstanding as on 31st March, 2020. Property tax paid in respect of the second house is ₹ 2,800.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Vihaan for the Assessment Year 2020-21.

**Answer: Computation of income from house property of Mr. Vihaan for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Income from let-out property in Singapore [See Note 1 below]</td>
<td>24,48,000</td>
</tr>
<tr>
<td>Gross Annual Value (SGD 4,000 p.m. x 12 months x ₹ 51)</td>
<td>1,02,000</td>
</tr>
<tr>
<td>Less: Municipal taxes paid during the year [SGD 2,000 (SGD 1,250 + SGD 750) x ₹ 51]</td>
<td>23,46,000</td>
</tr>
<tr>
<td>Net Annual Value (NAV)</td>
<td>7,03,800</td>
</tr>
<tr>
<td>Less: Deductions under section 24</td>
<td>16,42,200</td>
</tr>
<tr>
<td>(a) 30% of NAV</td>
<td>2,00,000</td>
</tr>
</tbody>
</table>

2. Income from self-occupied property in Pune

- Annual Value [Nil, since the property is self-occupied]
- [No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]
- Less: Deduction in respect of interest on housing loan [See Note 2 below] | 1,10,000 |

Income from house property [₹ 16,42,200 – ₹ 2,00,000] | 14,42,200 |

**Notes:**

1. Since Mr. Vihaan is a resident but not ordinarily resident in India for A.Y. 2020-21, income which is, *inter alia*, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1).

2. **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24**

   - Interest for the current year (₹ 25,00,000 x 12%) | 3,00,000 |

   **Pre-construction interest**

   - For the period 01.06.2015 to 31.03.2017 (₹ 25,00,000 x 12% x 22/12) = ₹ 5,50,000
   - ₹ 5,50,000 allowed in 5 equal installments (₹ 5,50,000/5) | 1,10,000 |
   - Total | 4,10,000 |
   - In case of self-occupied property, interest deduction to be restricted to ₹2,00,000

6. Mr. Chirag, set up a manufacturing unit of Baking Soda in notified backward area of the State of Andhra Pradesh on 18th May, 2019. The following machineries (falling under 15% block) purchased by him during the previous year 2019-20.

<table>
<thead>
<tr>
<th>Amount</th>
<th>₹ lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Machinery X, Machinery Y and Machinery Z from Sahaj Limited on credit (installed and usage started on 18th July, 2019, 25th July 2019 and 1st August 2019, respectively). Payment is made on 15th April 2020 to Sahaj Limited by net banking.</td>
<td>58</td>
</tr>
<tr>
<td>(ii) Machinery L from Swayam Limited (installed on 8th August, 2019). The Invoice was paid through a cash payment on the same day.</td>
<td>35</td>
</tr>
<tr>
<td>(iii) Machinery M (a second-hand machine) from Sunshine Limited on 18th December, 2019</td>
<td>35</td>
</tr>
</tbody>
</table>
Income Under The Head Salary

(The payment for the purchase invoice was made through NEFT on 5th January, 2020)


**Answer: Computation of depreciation under section 32 for A.Y. 2020-21**

**Particulars**

- Machinery X, Machinery Y and Machinery Z acquired from Sahaj Ltd. (Since payment is made to Sahaj Ltd by way of use of ECS and the machineries were put to use for more than 180 days during the previous year, depreciation is allowable @15%) $58,00,000
- Machinery L acquired from Swayam Ltd. in cash and installed on 8.8.2019 [Since payment of ₹ 35 lakhs is made otherwise than by account payee cheque/bank draft or use of ECS, the said amount will not be included in actual cost and hence, depreciation not allowable] Nil
- Second hand Machinery M from Sunshine Ltd on 18.12.2019 assuming it is installed and put to use in P.Y. 2019-20. [Since payment is made to Sunshine Ltd by way of use of ECS] $15,00,000

**Actual Cost** $73,00,000

**Depreciation for P.Y.2019-20**
- Depreciation@15% on Machineries X, Y and Z on ₹ 58 lakhs $8,70,000
- Depreciation@7.5% (50% of 15%) on ₹ 15 lakhs for Machinery M since it is put to use for less than 180 days $1,12,500
- Additional Depreciation@35% on ₹ 58 lakhs, since the machinery is acquired and installed for a manufacturing unit set up in a notified backward area in the state of Andhra Pradesh $20,30,000
- Additional depreciation is not allowable on second hand machinery -

**Depreciation under section 32 for A.Y. 2020-21** $30,12,500

7. Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement.

However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2019 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by cash payment. The stamp duty value on the date of agreement was ₹ 835 lakhs. The sale deed was executed and registered on 14-1-2020 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 870 lakhs.

Mrs. Yuvika paid 1% as brokerage on sale consideration received. Subsequent to sale, Mrs. Yuvika made following investments:
- (i) Acquired a residential house at Delhi for ₹ 130 lakhs on 31.5.2020.
- (ii) Acquired a residential house at UK for ₹ 290 lakhs on 23.3.2020.
- (iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 47 lakhs on 29-3-2020 and for ₹ 50 lakhs on 12-5-2020.

Compute the income chargeable under the head 'Capital Gains'. The choice of exemption must be in the manner most beneficial to the assessee.


**Answer: Computation of income chargeable under the head “Capital Gains” for A.Y.2020-21**

**Particulars**

- Capital Gains on sale of residential building ₹ (in lakhs)
  - Actual sale consideration ₹ 810 lakhs
  - Value adopted by Stamp Valuation Authority ₹ 870 lakhs
  - Gross Sale consideration ₹ 870.00
[Where the actual sale consideration declared by the assessee on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.

However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since advance of ₹ 80 lakh is received by cash, stamp duty value on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be considered for determining the full value of consideration, since such value exceeds 105% of ₹ 810 lakhs]

Less: Brokerage@1% of sale consideration (1% of ₹ 810 lakhs) 8.10
Net Sale consideration 861.90

Less: Indexed cost of acquisition
- Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 289/113] (225.06)
- Construction cost of residential building (₹ 100 lakhs x 289/122) (236.89)
Long-term capital gains before exemption 399.95

Less: Exemption under section 54
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in UK.

Less: Exemption under section 54EC
Amount deposited in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2020), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 97 lakhs, even if the both the investments are made on or before 13.7.2020 (i.e., within six months after the date of transfer).

Long term capital gains chargeable to tax 219.95

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head “Income from other sources”, in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

8. Mr. Raghav is a chartered accountant and his income from profession for the year 2019-20 is ₹ 15,00,000. He provides you with the following information for the year 2019-20.

Particulars ₹
Income of minor son Rahul from company deposit 1,75,000
Income of minor daughter Riya (professional dancer) from her dance performances 20,00,000
Interest from Canara bank received by Riya on fixed deposit made in 2015 out of income earned from her dance performances 20,000
Gift received by Riya from friends of Mr. Raghav on winning National award 45,000
Loss from house property (computed) 2,50,000
Short term capital loss 6,00,000
Long term capital gain under section 112 4,00,000
Short term capital loss under section 111A 10,00,000

Mr. Raghav income before considering clubbing provisions is higher than that of his wife.
Compute the Total Income of Mr. Raghav for Assessment Year 2020-21 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

**Answer: Computation of Total Income of Mr. Raghav for A.Y. 2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profits and gains from business and profession</strong></td>
<td></td>
</tr>
<tr>
<td>Income from chartered accountancy profession</td>
<td>15,00,000</td>
</tr>
<tr>
<td><em>Less</em>: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A))</td>
<td>(2,00,000)</td>
</tr>
<tr>
<td><strong>Capital gains</strong></td>
<td></td>
</tr>
<tr>
<td>Long term capital gain under section 112</td>
<td>4,00,000</td>
</tr>
<tr>
<td><em>Less</em>: Short term capital loss set off against long-term capital gain as per section 74</td>
<td>(4,00,000)</td>
</tr>
<tr>
<td><strong>Income from other sources</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Income of minor son Rahul</strong></td>
<td></td>
</tr>
<tr>
<td>Income of company deposit includible in the hands of Mr. Raghav as per section 64(1A)</td>
<td>1,75,000</td>
</tr>
<tr>
<td><em>Less</em>: Exemption in respect of income of minor child u/s 10(32)</td>
<td>(1,500)</td>
</tr>
<tr>
<td><strong>Income of minor daughter Riya</strong></td>
<td></td>
</tr>
<tr>
<td>Income of ₹ 20,00,000 of minor daughter Riya (professional dancer) <strong>not</strong> includible in the hands of parent, since such income is earned on account of her special skills</td>
<td>Nil</td>
</tr>
<tr>
<td>Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills</td>
<td>20,000</td>
</tr>
<tr>
<td>Gift of ₹ 45,000 received by her from friends of Mr. Raghav is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000</td>
<td>Nil</td>
</tr>
<tr>
<td><em>Less</em>: Exemption in respect of income of minor child u/s 10(32)</td>
<td>(1,500)</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>14,92,000</td>
</tr>
</tbody>
</table>

**Losses to be carried forward to A.Y.2020-21**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss from house property [₹ 2,50,000 – ₹ 2,00,000]</td>
<td>50,000</td>
</tr>
<tr>
<td>Short term capital loss under section 111A</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Short term capital loss (other than above) [₹ 6,00,000 – ₹ 4,00,000]</td>
<td>2,00,000</td>
</tr>
</tbody>
</table>

**Note** — Short-term capital loss under section 111A can also be set-off against long-term capital gains under section 112. In such a case, the losses to be carried forward to A.Y.2020-21 would be as under —

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss from house property [₹ 2,50,000 – ₹ 2,00,000]</td>
<td>50,000</td>
</tr>
<tr>
<td>Short term capital loss under section 111A [₹ 10,00,000 – ₹ 4,00,000]</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Short term capital loss (other than above)</td>
<td>6,00,000</td>
</tr>
</tbody>
</table>

9. Mr. Arihant, a resident individual aged 40 years, 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 for 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 Punjab National Bank of India.
Paid ₹ 78,000 towards medical insurance for the term of 3 years as a lumpsum payment for himself and his spouse. Also, incurred ₹ 54,000 on medical expenditure of his father, a resident aged 68 years. No medical insurance policy is taken in the name of his father. His father earned ₹ 4,50,000 interest from fixed deposit.
Contributed ₹ 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.

**Answer: Computation of Total Income of Mr. Arihant for A.Y. 2020-21**

**Particulars**

**Gross Total Income**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>7,50,000</td>
</tr>
</tbody>
</table>

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

**Under section 80C**

- Life insurance premium of ₹ 70,000 (restricted to ₹ 60,000 i.e., 15% of ₹ 4,00,000, being the sum assured, since the policy has been taken on or after 01.04.2013, in respect of his handicapped son suffering from disability u/s 80U) (60,000)
- Tax saver deposit of ₹ 90,000 in the name of his major son does not qualify for deduction under section 80C, since such deposit has to be made in the name of the assessee himself to qualify for deduction u/s 80C Nil

**Under section 80D**

- Medical insurance premium for self and his wife, pertaining to the previous year 2019-20 is ₹ 26,000, being 1/3rd of ₹ 78,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to (25,000)
- Deduction in respect of medical expenditure of ₹ 54,000 for his father, being a senior citizen would be allowable, since no insurance policy is taken in his name, to the extent of (50,000)

**Under section 80G**

- Contribution by a resident towards the Clean Ganga Fund, set up by the Central Government would be eligible for 100% deduction without any qualifying limit. (25,000)

**Total Income**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Income</strong></td>
<td>5,90,000</td>
</tr>
</tbody>
</table>

10. You are required to compute the total income of the Ms. Radhika, a resident individual, aged 37 years and the tax payable for the assessment year 2020-21. She furnishes the following particulars relating to the year ended 31-3-2020:

(i) Winnings from a TV Game show (Net) 77,000
(ii) Gift received from Father's brother 85,000
(iii) Gift received from Archita, her close friend 80,000
(iv) Interest on capital received from TVA & Co., a partnership firm in which she is a partner (@15% p.a.) 4,50,000
(v) Rent received for a vacant plot of land (Net) 3,03,300
(vi) Amount received from Lime Pvt. Ltd., for a house at Delhi for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2019. 2,85,000
(vii) Amount received under Keyman Insurance Policy 4,35,000
(viii) Amount forfeited by her for the vacant plot, since the buyer could not finalize the deal as per agreement. 3,10,000
(ix) Donation given in cash to a charitable trust registered u/s 12AA 22,000
(x) She owns agricultural lands at Dhaka, Bangladesh. She has derived agricultural income therefrom 5,20,000
(xi) Public Provident Fund paid in the name of her minor daughter 1,25,000
(xii) Interest credited in the said PPF account during the year 50,900
(xiii) Share of profits received from TVA & Co., a partnership firm 1,50,000

Computation should be made under proper heads of income.

**10. Computation of total income of Ms. Radhika for A.Y. 2020-21**

**Particulars**

**Income from house property**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrears of rent [Taxable, even if Ms. Radhika is no longer the owner of house property]</td>
<td>2,85,000</td>
</tr>
<tr>
<td>Less: 30% of arrears of rent</td>
<td>(85,500)</td>
</tr>
<tr>
<td></td>
<td>1,99,500</td>
</tr>
</tbody>
</table>
**Profits and gains of business or profession**

Interest on capital @12%, being the maximum allowable interest
\[ ₹ 4,50,000 \times \frac{15\% \times 12\%}{100} \] assuming interest@12% is authorized by the partnership deed and has been allowed as deduction while computing the income of the firm 3,60,000

Share of profit from TVA & Co., a firm [Exempt]  -

Amount received under Keyman Insurance Policy 4,35,000

**Income from other sources**

Winning from a TV Game show (Gross) \[ ₹ 77,000 \times \frac{100}{(100-30)} \] 1,10,000

Gift received from father’s brother would be exempt, since father’s brother falls within the definition of relative  -

Gift received from her close friend would be taxable, since it exceeds ₹ 50,000 80,000

Rent received for a vacant plot of land \[ ₹ 3,03,300 \times \frac{90}{100} \] 3,37,000

Amount forfeited on cancellation of agreement for transfer of vacant plot 3,10,000

Agricultural income from agricultural land at Dhaka, Bangladesh [not exempt, since such income is derived from land outside India] 5,20,000

Interest credited in PPF account [Exempt]  -

**Gross Total Income** 23,51,500

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

**Section 80C**

PPF subscription in the name of minor daughter (1,25,000)

**Section 80G**

Donation of ₹ 22,000 to a charitable trust registered u/s 12AA is not allowable as deduction since the same is made in cash in excess of ₹ 2,000  -

**Total Income** 22,26,500

**Computation of tax liability of Ms. Radhika for A.Y. 2020-21**

**Particulars**

Tax on winnings of ₹ 1,10,000 from TV game show @30% ₹ 33,000

Tax on balance income of ₹ 21,16,500 4,47,450

Add: Health and Education cess @ 4% 19,218

**Tax liability** 4,99,668

Less: TDS Under section 194-I (33,700)

Less: TDS Under section 194B (33,000)

**Tax payable** 4,32,968

**Tax payable (rounded off)** 4,32,970

11. Mr. Chandra Prakash, a resident individual aged 54, is planning to pay self-assessment tax and furnish his return of income on 15.12.2020. He furnishes the following details of his income, the amount of tax deducted at source and advance tax paid for the previous year 2019-20 as under:

(i) Retail Toy business, whose turnover is ₹ 185 lakhs [received ₹ 90 lakhs by Account payee cheque, ₹ 50 lakhs through ECS and balance in cash]. He opts for presumptive taxation scheme under section 44AD.

(ii) Income from other sources ₹ 3,05,000.

(iii) Tax deducted at source ₹ 55,000.

(iv) Advance tax paid ₹ 1,45,000 on 14-3-2020.

Calculate the interest payable under section 234B of the income-tax Act, 1961.

**Answer: Computation of interest payable under section 234B by Mr. Chandra Prakash**

**Particulars**

Tax on total income of ₹ 15,05,000 [Business income of ₹ 12,00,000 (See Note below)] + Income from other sources of ₹ 3,05,000] ₹ 2,64,000

Add: Health and Education cess @4% 10,560

**Tax on total income** ₹ 2,74,560
**Income Under The Head Salary**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Less: Tax deducted at source</strong></td>
<td>55,000</td>
</tr>
<tr>
<td><strong>Assessed Tax</strong></td>
<td>2,19,560</td>
</tr>
<tr>
<td><strong>90% of assessed tax</strong></td>
<td>1,97,604</td>
</tr>
<tr>
<td><strong>Advance tax paid on 14-3-2020</strong></td>
<td>1,45,000</td>
</tr>
<tr>
<td>Interest under section 234B is leviable since advance tax of ₹1,45,000 paid is less than ₹1,97,604, being 90% of assessed tax</td>
<td></td>
</tr>
<tr>
<td>Number of months from 1st April, 2020 to 15th December, 2020, being the date of payment of self-assessment tax</td>
<td>9</td>
</tr>
<tr>
<td>Interest under section 234B@1% per month or part of a month for 9 months on ₹ 74,500 [i.e., difference between assessed tax of ₹ 2,19,560 and advance tax of ₹1,45,000 paid being ₹ 74,560 which is rounded off to ₹ 74,500]</td>
<td>6,705</td>
</tr>
<tr>
<td>Interest under section 234B rounded off</td>
<td>6,710</td>
</tr>
</tbody>
</table>

**Note:** The presumptive income computed under section 44AD would be ₹ 12 lakhs, being 8% of ₹ 45 lakhs and 6% of ₹ 140 lakhs.

12. Examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed by Mr. Sharma. These losses/deductions are in respect of the financial year 2019-20.

(i) Loss from the business carried on by him as a proprietor: ₹ 9,80,000 (computed)
(ii) Unabsorbed Depreciation: ₹ 3,25,000 (computed)
(iii) Loss from House property: ₹ 50,000 (computed)

The due date for filing the return for Mr. Sharma was 31st July, 2020 under section 139(1).

However, he filed the return on 25.9.2020.

**Answer:** Mr. Sharma has furnished his return of income for A.Y.2020-21 on 25.9.2020, i.e., after 31st July 2020, being the due date specified under section 139(1). Hence, the return is a belated return under section 139(4).

As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year.

The specified losses include, *inter alia*, business loss but does not include loss from house property and unabsorbed depreciation.

Accordingly, business loss of ₹ 9,80,000 of Mr. Sharma for A.Y. 2020-21, not determined in pursuance of a return of loss, filed within the time specified in section 139(1), cannot be carried forward to A.Y.2021-22.

However, the loss of ₹ 50,000 from house property and unabsorbed depreciation of ₹ 3,25,000 pertaining to A.Y.2020-21, can be carried forward to A.Y.2021-22 for set-off, even though Mr. Sharma has filed the return of loss for A.Y.2020-21 belatedly.
1. Miss. Raksha is engaged in providing private coaching services in Noida, Uttar Pradesh and is not registered under GST till 25-Sep-2019. Her aggregate turnover is ₹19,00,000/- on 30-Sep-2019. She got GST registration on 30-Sep-2019. Which of the following options are available to her?
(a) She can pay tax @ 18%, charge it from customer and avail full input tax credit on procurements made.
(b) She can pay tax @ 6% under exemption scheme for service providers but she cannot charge GST from customer and also cannot avail input tax credit.
(c) She is not liable for registration since her aggregate turnover is less than ₹40,00,000/-
(d) Either (a) or (b)
Answer: (d)

2. Mr. Arun, a registered supplier, is engaged in selling sweets. The sweets are sold in boxes and the cost of each sweet box is ₹500/-. In order to increase his turnover, he purchased certain juice cans @ ₹20/- each and added juice can with every sweet box as a gift. A sweet box along with free juice can is sold at ₹500/- each. Which of the statements is correct?
(a) He is liable to pay tax on ₹520/- and eligible to claim input tax credit on purchase of juice cans
(b) He is liable to pay tax on ₹500/- and not eligible to claim input tax credit on purchase of juice cans
(c) He is liable to pay tax on ₹500/- and also eligible to claim input tax credit on purchase of juice cans
(d) Either (a) or (b)
Answer: (c)

3. Which is not considered as supply under GST Law?
(a) Stock transferred from one establishment in Delhi to another establishment in Gurgaon, Haryana registered under same PAN.
(b) CA Ram supplies accounting services to CA Radha in lieu of taxation services received from CA Radha.
(c) A Health club supplies lunch to its members at its annual meeting against a nominal charge.
(d) Mr. A sells a flat to Mr. B
   (i) Date of completion certificate - 31/01/2020
   (ii) Date of agreement with buyer - 01/02/2020
   (iii) Consideration received - 05/02/2020
Answer: (d)

4. With reference to the provisions relating to transaction value under section 15 of the CGST Act, 2017, which of the following is not correct?
(a) Central excise duty will not be included in transaction value for supply of tobacco.
(b) Municipal taxes paid by tenant will be included in transaction value for supply of renting service.
(c) Entertainment tax included in movie ticket will form part of transaction value.
(d) Customer makes payment of freight which is payable by the supplier, directly to the service provider. However, supplier does not include this amount in the invoice. Such amount will be included in transaction value of the supplier.
Answer: (a)

5. Which of the following services are notified under section 9(3) of CGST Act, 2017 or section 5(3) of IGST Act, 2017 the tax on which shall be paid on reverse charge basis by the recipient of such supply:
(i) Supply of security services provided by a person other than a body corporate to a composition taxpayer
(ii) Services supplied by an insurance agent to insurance company located in taxable territory
(iii) Supply of services by way of renting of hotel accommodation through e-commerce operator.
(iv) Supply of notified categories of goods or services or both by a supplier, who is not registered, to specified class of registered persons.
Choose from the following options:
(a) (i) & (ii)
(b) Only (ii)

6. M/s. Comfortable (P) Ltd. is registered under GST in the State of Odisha. It is engaged in the business of manufacturing of iron and steel products. It has received IT engineering services from M/s. High-Fi Infotech (P) Ltd. for ₹ 11,00,000/- (excluding GST @ 18%) on 28-Oct-2019. Invoice for service rendered was issued on 5-Nov-19. M/s Comfortable (P) Ltd. made part-payment of ₹ 4,20,000/- on 30-Nov-19. Being unhappy with service provided by M/s High-Fi Infotech (P) Ltd., it did not make the balance payment. Deficiency in service rendered was made good by M/s High-Fi Infotech (P) Ltd. by 15-Feb-20. M/s. Comfortable (P) Ltd. made payment of ₹ 3,00,000/- on 15-Feb-20 and balance payment was made on 6-June-2020, i.e. after 180 days of issue of invoice. Input tax credit available in respect of IT engineering services received from M/s. High-Fi Infotech (P) Ltd. in financial year 2019-20:
(a) ₹ 1,98,000/-
(b) Nil
(c) ₹ 64,068/-
(d) ₹ 1,09,831/-
Answer: (a)

Hint : 11,00,000 x 18% = 1,98,000. Full credit can be availed in 19-20 and reversal will be done in the next year after 180 days from the date of invoice.

7. Mr. Dev Anand is engaged in providing services of facilitating sale and purchase of securities to various clients. He is also engaged in trading of securities. His turnover details are as follows:
Trading of securities ₹ 40,00,000/-
Brokerage on account of facilitating transactions in securities ₹ 30,00,000/-
You are required to ascertain aggregate turnover of Mr. Dev Anand under GST:
(a) ₹ 30,00,000/-
(b) ₹ 40,00,000/-
(c) ₹ 70,00,000/-
(d) ₹ NIL.
Answer: (a)

8. Mr. Pappu Singh, commenced his business in Feb-2020. He has established following units:
1. Unit A (in SEZ) and Unit B (non-SEZ) in the State of Maharashtra
2. Unit C in Delhi
3. Unit D and E in the State of Goa
Mr. Pappu Singh has approached you to help him in determining the States and number of registrations he is required to take under GST (presuming the fact that he is making taxable supply from each State and his aggregate turnover exceeds the threshold limit):
(a) Maharashtra-2: Delhi-1, Goa-Optional 1 or 2
(b) Maharashtra-Optional 1 or 2: Delhi-1, Goa-Optional 1 or 2
(c) Maharashtra-1: Delhi-1, Goa-1
(d) Maharashtra-2: Delhi-1, Goa-2
Answer: (a)

9. A non-resident taxable person is required to apply for registration:
(a) within 30 days from the date on which he becomes liable to registration
(b) within 60 days from the date on which he becomes liable to registration
(c) at least 5 days prior to the commencement of business
(d) None of the above
Answer: (c)

10. Which of the following activity shall be treated neither as a supply of goods nor a supply of services?
(i) Permanent transfer of business assets where input tax credit has been availed on such assets
Income Under The Head Salary

(ii) temporary transfer of intellectual property right
(iii) transportation of deceased
(iv) services by an employee to the employer in the course of employment

(a) (i) & (iii)
(b) (ii) & (iv)
(c) (i) & (ii)
(d) (iii) & (iv)

Answer: (d)

11. Examine whether the supplier is liable to get registered in the following independent cases:-
(i) Raghav of Assam is exclusively engaged in intra-State taxable supply of readymade garments. His turnover in the current financial year (FY) from Assam showroom is ₹ 28 lakh. He has another showroom in Tripura with a turnover of ₹ 11 lakh in the current FY.
(ii) Pulkit of Panjim, Goa is exclusively engaged in intra-State taxable supply of shoes. His aggregate turnover in the current financial year is ₹ 22 lakh.
(iii) Harshit of Himachal Pradesh is exclusively engaged in intra-State supply of pan masala. His aggregate turnover in the current financial year is ₹ 24 lakh.
(iv) Ankit of Assam is exclusively engaged in intra-State supply of taxable services. His aggregate turnover in the current financial year is ₹ 25 lakh.
(v) Sanchit of Assam is engaged in intra-State supply of both taxable goods and services. His aggregate turnover in the current financial year is ₹ 30 lakh.

Answer:
As per section 22 of the CGST Act, 2017 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-
(a) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.
(b) ₹ 20 lakh for the States of States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
(c) ₹ 40 lakh for rest of India. However, the higher threshold limit of ₹ 40 lakh is not available to persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.
The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-
(a) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.
(b) ₹ 20 lakh for the rest of India.

In the light of the afore-mentioned provisions, the answer to the independent cases is as under:-
(i) Raghav is eligible for higher threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Raghav is engaged in supplying readymade garments from a Special Category State i.e. Tripura, the threshold limit gets reduced to ₹ 10 lakh. Thus, Raghav is liable to get registered under GST as his turnover exceeds ₹10 lakh. Further, he is required to obtain registration in both Assam and Tripura as he is making taxable supplies from both the States.
(ii) The applicable threshold limit for registration for Pulkit in the given case is ₹ 40 lakh as he is exclusively engaged in intra-State taxable supply of goods. Thus, he is not liable to get registered under GST as his turnover is less than the threshold limit.
(iii) Harshit being exclusively engaged in supply of pan masala is not eligible for higher threshold limit of ₹40 lakh. The applicable threshold limit for registration in this case is ₹20 lakh. Thus, Harshit is liable to get registered under GST.
(iv) Though Ankit is dealing in Assam, he is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusive supply of goods while he is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is ₹ 20 lakh and hence, Ankit is liable to get registered under GST.
income under the head salary

(v) Since Sanchit is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in his case is ₹ 20 lakh. Thus, Sanchit is liable to get registered under GST as his turnover is more than the threshold limit.

12. Mr. Ajay has a registered repair centre where electronic goods are repaired/serviced. His repair centre is located in State of Rajasthan and he is not engaged in making any inter-State supply of services. His aggregate turnover in the preceding financial year (FY) is ₹ 45 lakh.

With reference to the provisions of the CGST Act, 2017, examine whether Mr. Ajay can opt for the composition scheme in the current financial year (FY)? Is he eligible to avail benefit of concessional payment of tax under Notification No. 2/2019 CT (R) dated 07.03.2019? Considering the option of payment of tax available to Mr. Ajay, compute the amount of tax payable by him assuming that his aggregate turnover in the current financial year is ₹ 35 lakh.

Will your answer be different if Mr. Ajay procures few items required for providing repair services from neighbouring State of Madhya Pradesh?

Answer:

Section 10 of the CGST Act, 2017 provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore (₹ 75 lakh in Special Category States except Assam, Himachal Pradesh and Jammu and Kashmir), may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates.

However, if, inter alia, such registered person is engaged in the supply of services other than restaurant services, he shall not be eligible to opt for composition levy.

In the given case, since Mr. Ajay is a supplier of repair services, he is not eligible for composition scheme even though his aggregate turnover in the preceding FY does not exceed ₹ 1.5 crore. Therefore, he has to discharge his tax liability under regular provisions at the applicable rates.

However, with effect from 01.04.2019, Notification No. 2/2019 CT (R) dated 07.03.2019 has provided an option to a registered person whose aggregate turnover in the preceding financial year is upto ₹ 50 lakh and who is not eligible to pay tax under composition scheme, to pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] on first supplies of goods and/or services upto an aggregate turnover of ₹ 50 lakh made on/after 1st April in any FY, subject to specified conditions.

Thus, in view of the above-mentioned provisions, Mr. Ajay is eligible to avail the benefit of concessional payment of tax under Notification No. 2/2019 CT (R) dated 07.03.2019 as his aggregate turnover in the preceding FY does not exceed ₹ 50 lakh and he is not eligible to opt for the composition scheme.

Thus, the amount of tax payable by him under Notification No. 2/2019 CT (R) dated 07.03.2019 is ₹ 2,10,000 [6% of ₹ 35 lakh].

A registered person cannot opt for Notification No. 2/2019 CT (R) dated 07.03.2019, if inter alia, he is engaged in making any inter-State outward supplies. However, there is no restriction on inter-State procurement of goods. Hence, answer will remain the same even if Mr. Ajay procures few items from neighbouring State of Madhya Pradesh.

13. Advise regarding availability of input tax credit (ITC) under the CGST Act, 2017 in the following independent cases:-

(i) AMT Co. Ltd. purchased a mini bus having seating capacity of 16 persons for transportation of its employees from their residence to office and back.

(ii) Bangur Ceramics Ltd., a manufacturing company purchased two trucks for transportation of its finished goods from the factory to dealers located in various locations within the country.

(iii) “Hans premium” dealing in luxury cars in Chankyapuri, Delhi purchased five Skoda VRS cars for sale to customers.

(iv) Sun & Moon Packers Pvt. Ltd. availed outdoor catering service to run a canteen in its factory. The Factories Act, 1948 requires the company to set up a canteen in its factory.

Answer:

(i) Section 17(5) of the CGST Act, 2017, inter alia, blocks input tax credit in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for certain specified purposes.
Since in the given case, the mini bus has a seating capacity of 16 persons, the ITC thereon will not be blocked.

(ii) Section 17(5) of the CGST Act, 2017, inter alia, blocks input tax credit in respect of motor vehicles for transportation of persons with certain exceptions. Thus, ITC on motor vehicles for transportation of goods is allowed unconditionally. Therefore, ITC on trucks purchased by Bangur Ceramics Ltd for transportation of its finished goods from the factory to dealers located in various locations within the country is allowed.

(iii) Section 17(5) of the CGST Act, 2017, inter alia, blocks input tax credit in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for making further supply of such motor vehicles. Being a dealer of cars, “Hans Premium” has purchased the cars for further supply. Therefore, ITC on such cars is allowed even though seating capacity is less than 13.

(iv) Section 17(5) of the CGST Act, 2017, inter alia, blocks input tax credit in respect of outdoor catering services. However, ITC is available on such services, when the same are provided by an employer to its employees under a statutory obligation. Thus, in view of the above-mentioned provisions, Sun & Moon packers Pvt. Ltd. can avail ITC in respect of outdoor catering services availed by it as the same is being provided under a statutory obligation.

14. M/s. Flow Pro sold a machine to BP Ltd. It provides the following particulars in this regard:-

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Price of the machine (excluding taxes and incidental charges)</td>
</tr>
<tr>
<td>(ii)</td>
<td>Machine was subject to third party inspection. The inspection charges have been directly paid by BP Ltd. to the inspection agency</td>
</tr>
<tr>
<td>(iii)</td>
<td>Freight charges for delivery of the machine (M/s Flow Pro has agreed to deliver the goods at BP Ltd’s premises)</td>
</tr>
<tr>
<td>(iv)</td>
<td>Subsidy received from State Government on sale of machine under skill Development Programme. [The subsidy is directly linked to the price]</td>
</tr>
<tr>
<td>(v)</td>
<td>Discount of 2% is offered to BP Ltd. on the price and recorded in the invoice</td>
</tr>
</tbody>
</table>

Note: Items given in S. No. (ii) to (v) have not been considered in the price at S. No. (i).

Determine the value of taxable supply made by M/s Flow Pro to BP Ltd.

Answer: Computation of value of taxable supply

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of the machine (Price ₹30,000 - ₹5,000 subsidy) [Note-1]</td>
<td>25,000</td>
</tr>
<tr>
<td>Third party inspection charges [Note-2]</td>
<td>5,000</td>
</tr>
<tr>
<td>Freight charges for delivery of the machine value [Note-3]</td>
<td>2,000</td>
</tr>
<tr>
<td>Total</td>
<td>32,000</td>
</tr>
<tr>
<td>Less: Discount @ 2% on ₹30,000 being price charged to BP Ltd. [Note-4]</td>
<td>(600)</td>
</tr>
<tr>
<td>Value of taxable supply</td>
<td>31,400</td>
</tr>
</tbody>
</table>

Notes:-
1. Since subsidy is received from State Government, the same is deductible to arrive at taxable value under section 15 of the CGST Act, 2017.
2. Any amount that the supplier is liable to pay in relation to such supply but has been incurred by the recipient, is includible in the value of supply under section 15 of the CGST Act, 2017.
3. Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.
4. Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply under section 15 of the CGST Act, 2017.

15. State with reasons, whether GST is payable in the following independent cases:-
(i) Services provided to recognized sports body as curator of national team.
(ii) Services provided by way of transportation of passenger in Metered Cab.
(iii) Services by way of public conveniences such as provision of facilities of washrooms.
(iv) Services provided by a player to a franchisee which is not a recognized sports body.

**Answer:**

**i)** Services provided to a recognized sports body by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST vide Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is payable in case of services provided to a recognized sports body as curator of national team.

**ii)** Service of transportation of passengers, with or without accompanied belongings, *inter alia*, by metered cabs are specifically exempt from GST vide Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is not payable in this case.

**iii)** Services by way of public conveniences such as provision of facilities of bathroom, washrooms, lavatories, urinal or toilets are not liable to GST as it is specifically exempt as per Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is not payable in this case.

**iv)** Services provided by a player to a franchisee which is not a recognized sports body is taxable as it is not exempt under Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is payable in this case.

16. Mahak Sons is a registered supplier of electronic items and pays GST under regular scheme. On 15th July 2019, Mahak Sons received an order from Sunder Trader for supply of a consignment of electronic items. Mahak Sons gets the consignment ready by 20th July 2019. The invoice for the consignment was issued the next day, 21st July 2019.

Sunder Trader could not collect the consignment immediately. Sunder Trader collects the consignment from the premises of Mahak Sons on 30th July 2019 and hands over the cheque towards payment on the same date. The said payment is entered in the books of accounts of Mahak Sons on 31st July, 2019 and amount is credited in their bank account on 1st August 2019.

You are required to determine the time of supply of the electronic items for the purpose of payment of tax.

**Answer:** As per section 12(2) of the CGST Act, 2017, the time of supply in respect of goods shall be the earlier of the following two dates:-

(a) Date of issue of invoice/last date on which the invoice is required to be issued as per section 31 of the CGST Act, 2017

(b) Date of receipt of payment

Further, as per Notification No. 66/2017 CT dated 15.11.2017, a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

As per section 31(1), the invoice needs to be issued either before or at the time of removal (where supply involves movements of goods) of goods/delivery of goods/ making goods available to the recipient.

In this case, the invoice is issued before the removal of the goods and is thus, within the time limit prescribed under section 31(1). Therefore, time of supply for the purpose of payment of tax is the date of issue of invoice, which is 21st July, 2019.

17. ABC Ltd., a registered supplier has made following taxable supplies to its customer Mr. P in the quarter ending 30th June, 2019.

<table>
<thead>
<tr>
<th>Date</th>
<th>Bill No.</th>
<th>Particulars</th>
<th>Invoice value (including GST) [₹]</th>
</tr>
</thead>
<tbody>
<tr>
<td>5th April, 2019</td>
<td>102</td>
<td>Notebooks [10 in numbers]</td>
<td>1,200</td>
</tr>
<tr>
<td>10th May, 2019</td>
<td>197</td>
<td>Chart Paper [4 in number]</td>
<td>600</td>
</tr>
<tr>
<td>20th May, 2019</td>
<td>230</td>
<td>Crayon colors [2 packets]</td>
<td>500</td>
</tr>
<tr>
<td>2nd June, 2019</td>
<td>254</td>
<td>Poster colors [5 packets]</td>
<td>900</td>
</tr>
<tr>
<td>22nd June, 2019</td>
<td>304</td>
<td>Pencil box [4 sets]</td>
<td>700</td>
</tr>
</tbody>
</table>
Goods in respect of bill no. 102, 230 and 254 have been returned by Mr. P. You are required to advise ABC Ltd. whether it can issue consolidated credit note against all the three invoices?

**Answer:** Where *one or more* tax invoices have been issued for supply of any goods and/or services and
(a) the taxable value/tax charged in that tax invoice is found to exceed the taxable value/tax payable in respect of such supply, or
(b) where the goods supplied are returned by the recipient, or
(c) where goods and/or services supplied are found to be deficient, the registered person, who has supplied such goods and/or services, may issue to the recipient *one or more* credit notes for supplies made in a financial year containing prescribed particulars.

Thus, one (consolidated) or more credit notes can be issued in respect of multiple invoices issued in a financial year without linking the same to individual invoices.

Hence, in view of the above-mentioned provisions, M/s ABC Ltd. can issue a consolidated credit note for the goods returned in respect of all the three invoices.

18. Mr. X, a supplier of goods, pays GST under regular scheme. The amount of input tax credit (ITC) available and output tax liability under different tax heads is as under:–

<table>
<thead>
<tr>
<th>Head</th>
<th>Output tax liability</th>
<th>ITC</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGST</td>
<td>2,000</td>
<td>4,000</td>
</tr>
<tr>
<td>CGST</td>
<td>800</td>
<td>2,000</td>
</tr>
<tr>
<td>SGST/UTGST</td>
<td>2,500</td>
<td>500</td>
</tr>
</tbody>
</table>

Compute the minimum GST payable in cash by Mr. X. Make suitable assumptions as required.

**Answer:**
(i) IGST credit should first be utilized towards payment of IGST.
(ii) Remaining IGST credit, if any, can be utilized towards payment of CGST and SGST/UTGST in any order and in any proportion.
(iii) Entire ITC of IGST should be fully utilized before utilizing the ITC of CGST or SGST/UTGST.
(iv) ITC of CGST should be utilized for payment of CGST and IGST in that order.
(v) ITC of SGST/UTGST should be utilized for payment of SGST/UTGST and IGST in that order. However, ITC of SGST/UTGST should be utilized for payment of IGST, only after ITC of CGST has been utilized fully.

CGST credit cannot be utilized for payment of SGST/UTGST and SGST/UTGST credit cannot be utilized for payment of CGST.

**Computation of minimum GST payable in cash**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>CGST (₹)</th>
<th>SGST (₹)</th>
<th>IGST (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GST payable</td>
<td>800</td>
<td>2,500</td>
<td>2,000</td>
</tr>
<tr>
<td>Less: ITC</td>
<td>nil</td>
<td>(2,000)-IGST</td>
<td>(2,000)-IGST</td>
</tr>
<tr>
<td>(800)-CGST</td>
<td>nil</td>
<td>(500) – SGST</td>
<td>nil</td>
</tr>
<tr>
<td>Net GST payable in cash</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Since sufficient balance of ITC of CGST is available for paying CGST liability and cross utilization of ITC of CGST and SGST is not allowed, it is beneficial to use ITC of IGST to pay SGST (after paying IGST liability) to minimize cash outflow.

**Note:** GST law has been subject to frequent changes since its inception. Although many clarifications are continually being issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.