

Revisionary Test Paper_ Intermediate_ Syllabus 2008_ June 2013

Paper 7 – Applied Direct Taxation

Q. 1. a) Mr. Waugh, an Australian National, visits India since the Previous Year 2002-03 and resided for 90 days per year. Ascertain his Residential Status for the Assessment Year 2013-14. What would be the opinion if he was in India for (i) 100 days per Previous Year (ii) 110 days per Previous Year?

b) Mr.X furnishes the following particulars of his income earned during Previous Year 2012-13:

- (i) Income from agriculture in Bangladesh, received there ₹ 3,80,000, but later on remitted to India.
- (ii) Interest on Pakistani Development Bonds, ₹ 90,000, one-sixth of which received in India.
- (iii) Gift of ₹ 70,000 received in foreign currency from a relative in India.
- (iv) Arrears of salary ₹ 1,50,000 received in Pakistan from a former employer in India.
- (v) Income from property received outside India ₹ 3,00,000 (₹ 1,00,000 is used in Bahrain for the educational expenses of his son in Bahrain, and ₹ 2,00,000 later on remitted to India).
- (vi) Income from business in Iran which is controlled from India (₹ 1,00,000 being received in India) ₹ 2,00,000.
- (vii) Dividends received on 30.06.2012 outside India from an Indian company, ₹ 2,50,000.
- (viii) Untaxed profit of the FY 2007-2008 brought to India in July 2012, ₹ 2,50,000.
- (ix) Profit from business in Kolkata managed from outside India ₹ 1,00,000, 60% of which is received outside India.

Determine the Gross Total Income of Mr. X for Previous Year 2012-2013, if Mr. X is (a) Resident and Ordinarily Resident; (b) Resident but not Ordinarily Resident; (c) Non Resident.

Answer 1.

a) Mr. Waugh visits India for 90 days in each of the Previous Year since 2002-03. To ascertain his Residential Status:

Previous Year	90 days per Year					100 days per Year			110 days per Year
	No. of Days Physically Present in India during the Previous Year	Total number of days during the preceding four Years Prior to the Previous Year	Residential Status	No. of Days Physically Present in India during the Previous Year	Total number of days during the preceding four Years Prior to the Previous Year	Residential Status	No. of Days Physically Present in India during the Previous Year	Total number of days during the preceding four Years Prior to the Previous Year	Residential Status
2002-03	90	Nil	NR	100	Nil	NR	110	Nil	NR
2003-04	90	90	NR	100	100	NR	110	110	NR
2004-05	90	180	NR	100	200	NR	110	220	NR
2005-06	90	270	NR	100	300	NR	110	330	NR
2006-07	90	360	NR	100	400	RNOR	110	440	RNOR
2007-08	90	360	NR	100	400	RNOR	110	440	RNOR
2008-09	90	360	NR	100	400	RNOR	110	440	RNOR
2009-10	90	360	NR	100	400	RNOR	110	440	ROR
2010-11	90	360	NR	100	400	RNOR	110	440	ROR

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	90 days per Year					100 days per Year			110 days per Year
Previous Year	No. of Days Physically Present in India during the Previous Year	Total number of days during the preceding four Years Prior to the Previous Year	Residential Status	No. of Days Physically Present in India during the Previous Year	Total number of days during the preceding four Years Prior to the Previous Year	Residential Status	No. of Days Physically Present in India during the Previous Year	Total number of days during the preceding four Years Prior to the Previous Year	Residential Status
2011-12	90	360	NR	100	400	RNOR	110	440	ROR
2012-13	90	360	NR	100	400	RNOR	110	440	ROR
	Non-Resident (NR)					Resident but not Ordinarily Resident (RNOR)			Resident and Ordinarily Resident (ROR)

Explanation :

Case I : If he was present for 90 days every Year

- (a) Physically present in India for more than 60 days during any Previous Year
- (b) Physically present in India for less than 365 days during four Previous Years preceding the Previous Year

So, the assessee, fails to satisfy the Basic condition of – “physically present in India for at least 60 days during the Previous Year and at least 365 days during the four Previous Years preceding the Previous Year”. Hence, the Assessee is a Non-Resident for the Assessment Year 2013-14 related to Previous Year 2012-13.

Case II : If he was present for 100 days every Year

- (a) Physically present in India for more than 60 days during any Previous Year
- (b) Physically present in India for more than 365 days during four Previous Years preceding the Previous Year

So, the assessee satisfies the Basic condition of – “physically present in India for at least 60 days during the Previous Year and at least 365 days during the four Previous Years preceding the Previous Year”. Hence, the Assessee is a Resident for the Assessment Year 2013-14 related to Previous Year 2012-13.

Now, we will have to check the Additional conditions :

- (c) Additional Condition No.1 – The assessee must be a Resident in India for at least two times during the 10 Previous Years, preceding the Previous Year 2012-13.

The Assessee satisfies this additional condition, as he was a resident for more than two times during the 10 Previous Years, preceding the Previous Year.

- (d) Additional Condition No.2 – The assessee must be physically present in India for at least 730 days during the 7 Previous Years, preceding the Previous Year 2012-13.

The Assessee fails to satisfy this additional condition, as he was physically present in India for 700 days only during the 7 Previous Years, preceding the Previous Year.

Since the assessee satisfies either of the additional condition/(s), the Assessee is determined as “Resident but not Ordinarily Resident (RNOR)” for the Previous Year 2012-13.

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Case III : If he was present for 110 days every Year

- (a) Physically present in India for more than 60 days during any Previous Year
- (b) Physically present in India for more than 365 days during four Previous Years preceding the Previous Year

So, the assessee satisfies the Basic condition of – “physically present in India for at least 60 days during the Previous Year and at least 365 days during the four Previous Years preceding the Previous Year”. Hence, the Assessee is a Resident for the Assessment Year 2013-14 related to Previous Year 2012-13.

Now, we will have to check the Additional Conditions:

- (c) Additional Condition No.1 – The assessee must be a Resident in India for at least two times during the 10 Previous Years, preceding the Previous Year 2012-13.

The Assessee satisfies this additional condition, as he was a resident for more than two times during the 10 Previous Years, preceding the Previous Year.

- (d) Additional Condition No.2 – The assessee must be physically present in India for at least 730 days during the 7 Previous Years, preceding the Previous Year 2012-13.

The Assessee also satisfies this additional condition, as he was physically present in India for 770 days (i.e. more than 730 days) only during the 7 Previous Years, preceding the Previous Year.

Since the assessee satisfies both the additional condition/(s), the Assessee is determined as “Resident and Ordinarily Resident (ROR)” for the Previous Year 2012-13.

b) Computation of Gross Total Income for the Previous Year 2012-13

Particulars	ROR	RNOR	NR
(i) Income from agriculture in Bangladesh, received there but later on remitted to India	3,80,000	-	-
(ii) Interest on Development Bonds in a foreign land :			
(a) 1/6th of ₹ 90,000 received in India	15,000	15,000	15,000
(b) 5/6th of ₹ 90,000 being received in India	75,000	-	-
(iii) Gift received from a relative in India is exempted u/s 57(v)	-	-	-
(iv) Salary arrears received in Pakistan from a former employer in India	1,50,000	1,50,000	1,50,000
(v) Income from property received outside India but later on remitted to India	3,00,000	-	-
(vi) Profit from a business in foreign land but controlled from India			
(a) Profits received in India	1,00,000	1,00,000	1,00,000
(b) Profits received outside India	1,00,000	1,00,000	-

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(vii) Dividends received from an Indian Company, outside India, deemed to accrue or arise but exempted u/s 10(34)	-	-	-
(viii) Untaxed foreign profit of 2007-08 brought to India	-	-	-
(ix) Profit from business in India ₹ 1,00,000, 60% of which was received outside India	1,00,000	1,00,000	1,00,000
Gross Total Income	12,20,000	4,65,000	3,65,000

Q. 2. a) Who is an "Assessee" under the IT Act 1961 ?

b) The Assessing Officer found during the course of assessment of a Firm that it had paid rent in respect of its business premises amounting to ₹ 75,000, which was not debited in the books of account for the year ending 31.03.2012. The firm did not explain the source for payment of rent. The A.O. proposes to make an addition of ₹ 75,000 in the hands of firm for the AY 2013-2014. The firm claims that even if the addition is made, the sum should be allowed as deduction while computing its business income since it has been expended for purposes of its business. Examine the claims of the firm.

Answer 2.

a) Assessee means any person who is liable to pay any tax or any other sum under the Income Tax Act, 1961, and

Assessee includes –

- (i) Every person in respect of whom any proceedings has been taken for the assessment of –
 - His income or fringe benefits or of the income of any other person
 - Loss sustained by him or other person
 - Refund due to him or such other person
- (ii) Every person who is deemed to be an assessee under the Act
- (iii) Every person who is deemed to be an assessee in default under the Act

b) Unexplained expenditure (Section 69C)

- (i) The assessee has incurred expenditure during the financial year.
- (ii) He offers no explanation about such expenditure or the explanation is not satisfactory.
- (iii) The amount of such expenditure shall be treated as income of the previous year in which it was incurred.
- (iv) Unexplained expenditure shall be treated as income of the previous year in which it was incurred.
- (v) Unexplained expenditure shall be chargeable to tax at a Presumptive Rate of 30% [Section 115BBE].
- (vi) No deduction in respect of any expenditure/allowance shall be allowed to the assessee under any provisions of this act in computing the above income.

Here, the firm has incurred the rent payment of ₹ 75,000 but had not explained the source for payment of rent. In view of the above provisions, the assessee officer is correct in making the addition in the hands of the firm. The firm cannot claim the rent as deduction in its assessment. Thus, the claim of the Firm is not valid.

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Q. 3. a) Mr. Anurag is a Cost Accountant in practice. The Income & Expenditure Account for the year ending March 31, 2013 read as follows :

Income & Expenditure

Dr.		Cr.	
Expenses	₹	Income	₹
To, Employees cost	1,50,000	By, Professional earnings	16,00,000
To, Travelling & Conveyance	50,000	By, Dividend income	
To, Administration & Office exp.	4,00,000	- from shares	2,00,000
To, Interest	1,50,000	- from equity oriented mutual funds	1,00,000
To, Demat charges	10,000		
To, Excess of Income over Expenditure [Profit]	11,40,000		
Total	19,00,000	Total	19,00,000

Other Information :

- (a) Entire Dividend income is claimed as exempt from taxation by virtue of Section 10(34) and 10(35).
- (b) Anurag claims that no expenditure has been incurred against the dividend income, which is claimed as exempt from tax.
- (c) The value of investment in shares as on the first day and the last day of the Previous Year is ₹ 7,50,000 and ₹ 9,00,000 respectively.
- (d) The value of investment in units of Mutual Funds as on the first day and the last day of the Previous Year is ₹ 5,00,000 and 2,00,000 respectively.
- (e) All expenditure including interest expenditure of ₹ 1,50,000 incurred by Anurag are relating to taxable and non Taxable Income. Demat charges are directly attributable to exempt income.
- (f) The value of the total assets as appearing in the Balance sheet of the assessee as on the first day and last day of the Previous Year is ₹ 60,00,000 and ₹ 80,00,000 respectively.

You are required to compute the Taxable Income of Anurag for the Assessment Year 2013-14.

b) Mr. Viswanathan after putting 25 years of service opted for voluntary retirement and under approved scheme received an amount of ₹ 35 lakhs as VRS compensation on 01.01. 2013. He was advised by his tax consultant to claim exemption to the extent as specified in Section 10(10C) and also the relief under Section 89. Discuss whether such a treatment of VRS compensation is permissible under the Act?

Answer 3.

a) Computation of Taxable Income A.Y. 2013-14

Particulars	₹
Income from Profits & Gains of Business or Profession - as per Working Note 1	8,40,000
Income from Other Sources - as per Working Note 2	Nil
Total	8,40,000
Add : Disallowance u/s 14A - as per Working Note 3	41,054
Taxable Income	7,98,946

Working Note 1 — Profits & Gains of Business or Profession

	₹	₹
Net profit as per Income & Expenditure Account		11,40,000
Less : Income considered under other heads		
- Dividend Income from shares	2,00,000	
- Income from UTI	1,00,000	3,00,000
Taxable Income from Profession		8,40,000

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Working Note 2 — Income from other sources

	₹	₹
1. Dividend Income from Shares Less : Exemt under sec 10(34)	2,00,000 <u>2,00,000</u>	Nil
2. Income from units in Mutual funds Less : Exempt under sec 10(35)	1,00,000 <u>1,00,000</u>	Nil
Taxable Income from Other Sources		Nil

Working Note 3 — Disallowance u/s 14A

	₹
(a) Amount of expenditure directly relating to exempt income (Other than interest) — Demat charges	10,000
(b) Amount of interest incurred by way of expenditure other than those included above (1,50,000 × 11,75,000 / 70,00,000)	25,179
(c) Amount equal to 0.5% of the average value of Investments (11,75,000 × 0.5%)	5,875
Total amount disallowed u/s 14A (a) + (b) + (c)	41,054

Note :

1. Average value of Investment = $[(7,50,000 + 9,00,000) / 2] + [(5,00,000 + 2,00,000) / 2]$
= ₹ 11,75,000
2. Average value of Total Assets = $(60,00,000 + 80,00,000) / 2 = ₹ 70,00,000.$

b) W.e.f. AY 2010-11, no exemption u/s 10(10C) shall be allowed, if the assessee has claimed relief u/s 89 in respect of VRS compensation. The assessee shall be allowed to claim either exemption u/s 10(10C) or relief u/s 89. Therefore, in the given case Mr. Viswanathan shall claim exemption u/s 10(10C) or relief u/s 89 but not both.

Q. 4. a) A was employed with Z Ltd. He retired w.e.f. 1.2.2013 after completing a service of 24 years and 5 months. He submits the following information:

Basic Salary : ₹5,000 per month (at the time of retirement)

Dearness Allowance : 100% of Basic Pay (60% of which forms part of salary for retirement benefits). Last increment : ₹ 500 w.e.f. 1st July, 2012

His pension was determined at ₹ 3,000 per month. He got 50% of the pension commuted w.e.f. 1.3.2013 and received a sum of ₹ 1,20,000 as commuted pension. In addition to this, he received a gratuity of ₹1,50,000 and leave encashment amounting to ₹ 56,000 on account of accumulated leave of 240 days. He was entitled to 40 days leave for every year of service.

Compute his Gross Salary for Assessment Year 2013-14 assuming that he is not covered under Payment of Gratuity Act.

b) A Ltd. incurred ₹ 5.00 lakhs towards replacement of worn out parts of machinery, which it debited to the account "Repairs to Plant and Machinery". Comment

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Answer 4.

a) Assessee: Mr. Aniket
Computation of Income from Salary

Assessment Year: 2013-14

Particulars	Amount (₹)	Amount (₹)
Basic Pay		
April 2012 to June 2012 @ ₹ 4,500 p.m.	13,500	
July 2012 to January 2013 @ ₹5,000 p.m.	<u>35,000</u>	48,500
Add: Dearness Allowance @ 100 % of Basic Pay		48,500
Add: Uncommuted value of pension		
February 2013 @ ₹3,000 p.m	3,000	
March 2013 ₹1,500 p.m. (since 50% already commuted)	<u>1,500</u>	4,500
Add: Commuted Value of Pension		
Amount Received	1,20,000	
Less: Exemption u/s/ 10(10A)		
1/3 rd of full value of commuted pension	<u>80,000</u>	40,000
[1/3 rd of ₹2,40,000]		
Full Value of commuted pension = Amount received / % commuted		
= ₹ 1,20,000 / 50% = ₹2,40,000		
Add: Taxable Value of Gratuity		
Amount received as Gratuity	1,50,000	
Less: Exemption u/s 10(10)		
Least of the followings:		
Actual amount received = 1,50,000		
Maximum limit = 10,00,000		
½ months average salary for each years of completed service =		
[½ x 7,760 x 24]	= 93,120	
Salary for Gratuity (not covered by Payment of Gratuity Act)	<u>93,120</u>	56,880
= Basic Pay + D.A. (forming part of salary for retirement benefits)		
Average Salary = Total salary of 10 months preceding the month of retirement / 10		
= (48,500 + 60% of 48,500)/10 = ₹ 7,760		

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Add: Taxable Value of Leave Encashment Amount Received 56,000 Less : Exemption u/s 10(10AA) Least of the followings: Actual amount received = 56,000 10 months average salary = 77,600 Maximum limit = 3,00,000 Leave credit (- refer Note 1) = NIL		<u>NIL</u> 56,000
Notes: Calculation of leave credit Total leave entitlement (24 years x 40 days p.a.) = 960 days Less: Leave availed during service = Total leave entitlement – leave encashment = (960 days – 240 days) = <u>720 days</u> 240 days Less: Leave in excess of 30 days p.a. granted by employer [24 years (40 days p.a. granted by employer - 30 days p.a. as per rules)] = 24 x 10 = <u>240 days</u> <u>NIL</u>		
Gross Income from Salary		2,54,380

b) Where a repair amounts to restoration or replacement of subsidiary parts or defective parts of existing or old machinery, then no new asset comes into existence and so treated as current repairs. However, where a repair has resulted in restoration or replacement of whole or substantially the entire machinery, then the same shall be treated as capital expenditure as it enhances the life of the asset. [Darbhanga Sugar Co. Ltd. 29 ITR 21 (Pat)].

U/s 31, amount paid on account of current repairs of machinery shall be allowed as deduction. However such expenses shall not include any expenditure of capital nature. In the given case if the expenditure incurred towards current repairs is of capital nature, then the same shall not be allowed as a deduction. Otherwise, it can be claimed as deduction u/s 31.

Q. 5. a) Mr. Ashis discloses the following particulars of the property owned by him during the PY 2012-2013.

Particulars	House self-occupied	Flat allotted by HB Society let out ₹	Shops & godowns let out ₹
Municipal Value	5,00,000	2,00,000	4,00,000
Fair Rent	4,00,000	2,50,000	5,00,000
Municipal taxes payable	60,000	80,000	80,000
(a) Paid by Ashis	60,000	30,000	-
(b) Paid by tenant	-	50,000	80,000
Annual Rent	-	3,60,000	7,00,000
Expenses incurred by Ashis : Maintenance charges			
Repairs	-	12,000	-
Collection charges	-	-	2,60,000
Electricity bills paid	-	-	6,000
Insurance premium	-	-	Nil
Ground rent	20,000	-	6,000
Depreciation	5,000	2,000	600
	1,000	2,000	20,000

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Other information :

- (i) He has taken the loan on 1st July 2010 to purchase the house in self-occupancy. However, he could purchase the house on 1st May 2011. He repaid ₹ 6,30,000 on 1st July 2012. This includes a charge of ₹ 1,20,000 on account of interest from the date of borrowing.
- (ii) The flat has been purchased under EMI scheme of the Gujarat Apartment Cooperative House Building Society Ltd. He has to pay 120 EMI of ₹ 10,000 each, which includes 50% charge on account of interest. He has defaulted in payment of the last 20 EMI. To repay the outstanding EMI and penal interest of ₹ 20,000, he borrowed ₹ 2,20,000 on 1st October 2012 @ 15% p.a.

The flat remained vacant for 1.5 months and rent of 3/4th month could not be realized. Conditions of Rule 4 have been satisfied.

- (iii) Shops and godowns are held as stock-in-trade. However, till a suitable buyer is found, these are let out. P claims that income from letting should be computed under the head "Profits and Gains of Business of Profession".

He has borrowed money to construct/repair the godowns/ shops. He paid ₹ 20,000 on account of brokerage for arranging the loan.

Interest is payable outside India, in two equal installments of ₹ 50,000 each. The first installment was paid net of tax at ₹ 40,000. However, the second installment was paid without deducting tax at sources as the recipient had given an undertaking in the prescribed form to pay the tax. Compute Income from House Property for the Assessment Year 2013-2014.

Answer 5.

Assessee : Mr. Ashis

Computation of Income from House Property

A. Y : 2013-14

Particulars	House self-occupied ₹	Flat let-out ₹	Shops and godowns let out ₹
Gross Annual Value	Nil	2,92,500	7,00,000
Less: Municipal taxes paid by the assessee	—	30,000	—
Net Annual Value	Nil	2,62,500	7,00,000
Less: Deductions u/s 24			
Statutory deduction u/s 24(a) @ 30% of NAV	—	78,750	2,10,000
Interest on Loan u/s 24(b)	24,000	37,500	50,000
Income from House Property	(24,000)	1,46,250	4,40,000

Workings:

1. Gross Annual Value:

(a) ALV	2,50,000
(b) Annual Rent (3,60,000 – 22,500)	<u>3,37,500</u>
Higher of the above (a) & (b)	3,37,500
Less: Vacancy Allowance	<u>(45,000)</u>
	<u>2,92,500</u>

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2. Interest on loan taken for self occupied:

- (i) Amount of interest = ₹ 1,20,000
- (ii) Period of interest = 01.07.2010 to 01.07.2012 = 2 years
- (iii) Pre-acquisition period = 01.07.2010 to 31.3.2011 = 9 months
- (iv) Interest for pre-acquisition period = $1,20,000 \times \frac{9}{24} = ₹ 45,000$
- (v) Interest for 2011-2012 = $₹ 1,20,000/2 = ₹ 60,000$
- (vi) Interest for 2012-2013 for 3 months = $1,20,000 \times \frac{3}{24} = 15,000$
- (vii) Interest deductible during PY 2012-2013 = $(45,000/5) + (15,000) = 24,000$

3. Interest for the flat:

- (i) Interest included in EMI from 01.04.2012 to 30.09.2012: $₹ (10,000 \times 6/2) = ₹ 30,000$
- (ii) Interest on money borrowed to repay original loan interest
 $₹ (10,000 \times 20/2) = (1,00,000 \times 15\% \times 1/2) = 7,500$
- (iii) Total interest = $₹ (30,000 + 7,500) = ₹ 37,500$
- (iv) No deduction is allowed for penal interest.

4. Letting out of shops and godowns, held as stock-in-trade:

Section 22 excludes from its charge only such building as is occupied by the assessee for his business or profession, profits of which are chargeable to tax. In the instant case, as letting out is not the business of the assessee, so, it cannot be said that he has occupied shop and godown for his business. Accordingly, income from letting out shop and building, held as stock-in-trade is assessable under the head "Income from House Property". Where an assessee is not holding shops and godowns as stock-in-trade but engaged in the business of letting them on hire, the income is again chargeable under the head "House Property" as it is a specific head of income dealing with letting out of buildings only.

5. Deduction in respect of other expenses: Section 24 does not allow any deduction in respect of (i) maintenance charges, (ii) repairs, (iii) collection charges, (iv) electricity, (v) fire insurance premium, (vi) ground rent, and (vii) depreciation.

Q. 6. a) Free Call Ltd. obtained a telecom licence on 15.6.09 for a period of 8 years ending on 31.3.2017 against a fee of ₹ 30 crores to be paid in four instalments of ₹12 crores, ₹7 crores, ₹6 crores, ₹5 crores by June 2008, June 2010, June 2011 and June 2012 respectively. Explain how the payment for licence fee shall be dealt under the Income Tax Act, 1961.

b) Mr. Goutam, out of his own funds, had taken a FDR for ₹ 1,00,000 bearing interest @ 10% p.a. payable half-yearly in the name of his wife Latika. The interest earned for the year 2012-2013 of ₹ 10,000, was invested by Mrs. Latika in the business of packed spices which resulted in a net profit of ₹ 55,000 for the year ended 31st March, 2013. How shall the interest on FDR and income from business be taxed for the Assessment Year 2013-2014?

Answer 6. a)

Assessee : Free Call Ltd.

Previous Year 2012-13

Assessment Year : 2013-14

- (i) U/s 35ABB, expenditure incurred for the purpose of acquiring any right to operate telecommunication services is allowed equally as deduction throughout the unexpired life of the licence. Deduction shall be allowed only for the actual payment made.
- (ii) If only part payment is made, amortization is based on the amount paid and not on the basis of total consideration. For any further payments, deduction/amortization is allowed equally for the remaining unexpired useful life.
- (iii) Computation of amount of eligible deduction u/s 35 ABB:

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Previous Year	Amount paid (₹ Crores)	Unexpired Period of Licence on the date of actual payment	Amount of Deduction (₹ Crores)
2009-10	12.00	8 years	1.50
2010-11	7.00	7 years	[1.50 + (7.00/7)] = 2.50
2011-12	6.00	6 years	[2.50 + (6.00/6)] = 3.50
2012-13	5.00	5 years	[3.50 + (5.00/5)] = 4.50

b) Where an individual transfers an asset (excluding house property), directly or indirectly to his/her spouse, otherwise than for adequate consideration, or in connection with an agreement to live apart, income from such asset is included in the total income of such individual [Sec. 64(1)(iv)].

Accordingly, interest on FDR, accruing to wife, is included in the total income of her husband. However, business profits cannot be clubbed with total income of husband. Clubbing applies only to the income from assets transferred without adequate consideration. It does not apply to the income from accretion of the transferred assets. Hence, business profit is taxable as the income of wife.

Q. 7. Dr L. Kochagaway is a renowned medical practitioner. He furnishes his receipts and payments account for the previous year 2012-2013:

Dr.		₹	Cr.		₹
Receipts			Payments		
To Balance b/d		35,000	By Rent of clinics:		
To Consultation fees :			2010-2011	13,600	
2010-2011	25,000		2011-2012	44,800	
2011-2012	1,80,000		2012-2013	<u>26,600</u>	85,000
2012-2013	<u>2,62,000</u>		By Electricity and water		12,000
To Visiting fees		4,67,000	By Purchase of professional books		18,000
To Loan from bank for professional purposes		1,30,000	By Household expenses		97,800
To Sale of medicines		2,25,000	By Municipal taxes paid in respect of property		12,000
To Gift/presents from patients		1,73,000	By Purchase of motor car		2,45,000
To remuneration from articles published in professional magazines		15,000	By Telephone Charges		10,000
To Rent from house property		26,000	By Fire insurance in respect of property		3,200
To Interest on Post Office National Savings Certificates		96,000	By Surgical equipment		44,700
		17,000	By Advance income tax		43,000
			By Salary and perquisite to compounder		72,000
			By Entertainment expenses		16,000
			By Purchase of X-ray machine		2,00,000
			By Expenses of income-tax proceedings		15,000
			By Life insurance premium		25,000
			By Gifts to wife		25,000
			By Interest on loan		12,000
			By Loan A/c—instalment paid		25,000
			By Donation to Political Party		2,500
			By Car expenses		36,000
			By Purchase of medicines		1,05,000
			By Balance c/d		79,800
		<u>11,84,000</u>			<u>11,84,000</u>

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Compute his income from Profession and Gross Total Income for the assessment year 2013-2014 after taking into account the following additional information:

1. One-third of the car expenses are in connection with personal use.
2. Depreciation on motor car is allowed at the rate of 15%.
3. The construction of the house property was completed in March 2008. It was let out for residential purposes.
4. Expenses on income tax proceeding include ₹ 1,000 paid for the preparation of return of income.
5. Receipts outstanding from patients for 2012-2013, amount to ₹ 8,000.
6. Closing stock of medicines is ₹ 8,000 but its current market price is ₹ 12,000.
7. Books purchased include annual publications of ₹ 12,000, purchased in December 2012.

Solution 7.

(a) Computation of income from profession for the Assessment Year 2013-2014 :

Particulars	₹	₹
Income from Profession :		
(a) Receipt from profession:		
1. Consultation fees: [Sec. 28(i)]: (₹ 25,000 + ₹ 1,80,000 + ₹ 2,62,000)	4,67,000	
2. Visiting fees [Sec. 28(i)]	1,30,000	
3. Sale of medicines [Sec. 28(i)]	1,73,000	
4. Gifts and presents from patients [Sec. 28(iv)]	15,000	
5. Remuneration from articles published in professional magazines [Sec. 28(i)]	26,000	8,11,000
(b) Closing stock of medicines		8,000
Total receipts and closing stock		8,19,000
Less: Expenses allowable:	85,000	
1) Rent of clinic [Sec. 30] (₹13,600 + ₹44,800+ ₹26,600)	12,000	
2) Electricity and water [Sec. 37(1)]	72,000	
3) Salary of compounder [Sec. 37(1)]	16,000	
4) Entertainment expenses [Sec. 37(1)]	15,000	
5) Expenses on income-tax proceedings [Sec. 37(1)]	12,000	
6) Interest on loan [Sec. 37(1)(iii)]	1,05,000	
7) Purchase of medicines [Sec. 37(1)]	24,000	
8) Car expenses [Sec. 37(1)] (2/3 x ₹ 36,000)		
9) Depreciation on professional books :		
(i) Annual publications: 12,000 × 100% × 50%	6,000	
(ii) Other books: 6,000 × 60%	3,600	
10) Depreciation on car [Sec. 32 r.w. Sec. 38] : 15% of 2,45,000 × 2/3	24,500	
11) Depreciation on plant and machinery:		
(i) X-ray machine	2,00,000	
(ii) Surgical equipment	44,700	
Depreciation @ 15% of	2,44,700	36,705
12) Telephone Charges		10,000
Taxable Income from Profession		(4,21,805)

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	B/F	
Computation of Income from House Property:		3,97,195
Gross Annual value on the basis of rental valuation	96,000	
Less: Full municipal taxes paid by the owner	12,000	
Net Annual Value	84,000	
Less: Statutory deduction: 30% of net annual value	25,200	
Income from House Property		<u>58,800</u>
Gross Total Income		4,55,995
Less: Deduction u/s 80C (LIC premium paid assumed that the premium is 10% of the capital sum insured)		25,000
Less: Deduction u/s 80GGC- Actual amount of donation to political party		<u>2,500</u>
Total Income		<u>4,28,495</u>
Total Income rounded off u/s 288A		<u>4,28,490</u>

Notes :

1. Purchase of motor car is capital expenditure. Hence, it is not deductible. Depreciation has been allowed on motor car.
2. Plant includes books and surgical equipment. Depreciation on professional books is allowed @ 60% but annual publications are written off @ 100%. However, as annual publications have been put to use for less than 180 days during the year, depreciation has been allowed @ 50%. The assessee can claim depreciation on surgical equipment at general rate.
3. Contribution of articles to periodicals and magazines constitutes income from vocation of the assessee.
4. Expenses in income-tax proceedings are wholly deductible [Sec. 37(1)].
5. One-third of car expenses and proportionate depreciation in respect of motor car have been disallowed as they are in connection with the personal use of the assessee.
6. Interest on Post Office National Saving Certificates is exempt from income tax [Sec. 10(15)].
7. Profits and gains of the business or profession are computed according to the method of the accounting regularly followed by the assessee (Sec. 145). Since the assessee has adopted cash system of accounting. "Income" is taxable on receipt basis and "expenditure" is allowed to be deducted on payment basis, irrespective of the previous year to which the receipt of payment belongs. Receipts outstanding for the previous year 2011-2012 will not be taken into consideration.
8. Profits and gains of business or profession is required to be computed according to the system of accounting regularly followed by the assessee but if the income cannot be properly deducted therefrom, the Assessing Officer may compute the income on such basis and in such manner as he may deem fit [Proviso to Sec. 145(1)].
In view of this, the Assessing Officer may take into account the value of closing stock while determining profits even under cash system of accounting
9. Donation to Political Party is allowed to be deducted from gross total income under Sec. 80GGC.

Q. 8. Mr. Sahani was the owner of a residential house property which was purchased by him on 1.8.1981 for ₹ 50,000. The Government acquired the house as per notification on 1.4.2009 against the compensation of ₹ 10,00,000 out of which ₹ 6,00,000 was received by Mr. Sahani on 31st December, 2012 and ₹ 4,00,000 was received on 30th April, 2013. On his appeal, the court enhanced its compensation from ₹ 10,00,000 to ₹ 12,00,000. Mr. Sahani received the additional compensation on 21st January, 2016. Ascertain the amount of investment and time of investment for availing the maximum exemption u/s 54.

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Answer 8.

Assessee : Mr. Sahani

Previous Year : 2012-13 Assessment Year : 2013-14

Computation of Capital Gain

Particulars	₹
Consideration received	10,00,000
Less: Index cost of acquisition [50,000 × 852/100]	<u>4,26,000</u>
Long Term Capital Gain	5,74,000

In order to avail the exemption u/s 54, Mr. Sahani has to purchase a house property of ₹ 5,74,000 or more within one year before the date of receipt of initial compensation or upto the due date of filing the Income Tax Return u/s 139 for the A.Y. – 2013-14. Otherwise he can also deposit the amount in the deposit account with a nationalized bank within the due date of filing return. However in this case he has to purchase the house property within 2 years or constructed it within 3 years from the date of receipt of the part of the initial compensation, which can be shown as follows:

Date of part received	31/12/2012	30/04/2013
Amount of part received	6,00,000	4,00,000
Minimum investment to get full exemption u/s 54	1,74,000	4,00,000
Date by which a house should be purchased by withdrawing from deposit account	31/12/2014	29/04/2015
Date by which a house should be constructed by withdrawing from deposit account	30/12/2015	29/04/2016

Additional compensation received on 21st January, 2016 :

Assessee : Mr. Sahani

Previous Year : 2015-16 Assessment Year : 2016-17

Computation of Capital Gain

Particulars	₹
Consideration received	2,00,000
Less: Cost of acquisition	<u>NIL</u>
Long Term Capital Gain	2,00,000

Ravi should purchase a new house property of ₹ 2,00,000 or more within one year before the additional compensation received or upto the due date of filing the Income Tax Return u/s 139 for the A.Y. 2016-17. Otherwise, he can also deposit the amount in the deposit account with a nationalized bank within the due date of filing return but in this case he has to purchase the house within 20th January, 2018 or constructed it within 20th January, 2019.

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Q. 9. a) Mr. Samir submits the following information for the A.Y. 2013-14.

Particulars	₹
Taxable Income from Salary	1,64,000
Income from House property :	
House 1 Income	37,000
House 2 loss	(53,000)
Textile Business (discontinued on 10.10.2012)	(20,000)
Brought forward loss of textile business - A.Y. 2009-10	(80,000)
Chemical Business (discontinued on 15.3.2012)	
- b/f loss of Previous Year 2009-10	(25,000)
- unabsorbed depreciation of Previous Year 2009-10	(15,000)
- Bad debts earlier deducted recovered in July '2012	40,000
Leather Business	62,000
Interest on securities held as stock in trade	10,000

Determine the Gross Total Income for the Assessment Year 2013-14 and also compute the amount of loss that can be carried forward to the subsequent years.

b) An assessee filed a return of income on 31.8.2013 in respect of Assessment Year 2013-14 disclosing an income of ₹5 lakhs from business. It was not accompanied by proof of payment of tax due on self-assessment. Discuss the validity of such a return.

Answer 9.

a) Computation of Gross Total Income A.Y. 2013-14

Particulars	₹	₹
I. Income from Salary		1,64,000
II. Income from House property :		
House 1 Income	37,000	
House 2 Loss	(53,000)	(16,000)
III. Profits and Gains of Business or Profession :		
(i) Textile business loss	(20,000)	
(iii) Chemical business – Bad debts		
recovered taxable u/s 41(4)	40,000	
Less : (i) Set off of brought forward		
loss of P.Y. 2009-10 u/s. 72	(25,000)	
	15,000	
	(5,000)	
(iii) Leather Business Income	62,000	
(iv) Interest on securities held as stock-in-trade	10,000	
	72,000	
Less: B/f business loss ₹ 80,000 restricted to	67,000	Nil
Gross Total Income	67,000	1,48,000

Note :

- The unabsorbed loss of ₹ 13,000 (80,000-67,000) of Textile business can be carried forward to A.Y. 2014-15 for setoff u/s. 72, even though the business is discontinued.
- The unabsorbed depreciation of ₹ 15,000 is eligible for set off against any income other than salary income. Since, Gross Total Income contains the balance of Income from Salary only, unabsorbed depreciation cannot be adjusted, and hence, carried forward for adjustment in the subsequent years.

b) As per Explanation to sub-section (9) of section 139 a return is regarded as defective unless it is accompanied by proof of tax deducted at source, advance tax and tax on self-assessment, if any, claimed to have been paid. Therefore, the return is prima facie defective. It is not invalid at that stage. On receipt of the return, the Assessing Officer has to intimate the defect to the assessee and give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation or within such

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further period which, on application by the assessee, he may, in his discretion, allow. If the defect is not rectified within the said period, the return will be treated as an invalid return and the provisions of the Income-tax Act shall apply, as if the assessee has failed to furnish the return.

Also, it may be noted that section 140A(3) says that if an assessee fails to pay tax or interest on self assessment he shall be deemed to be an assessee in default in respect of the tax or interest or both remaining unpaid and all the provisions of the Act shall apply accordingly.

Q. 10. M, an individual, retired from the services of a Company on 31.10.2012. He joined another employer on 1.11.2012 and was in service till end of March 2013, when he furnishes the following details and information —

1. Salary and Allowances for the period

From First Employer	₹ Per month
Basic Salary	30,000
Dearness Allowance	16,000
Conveyance Allowance	6,000
From Second Employer	₹ Per month
Basic Salary	35,000
Fixed Conveyance Allowance	8,000

- While he was with the first employer, M contributed 10% of his basic salary to a Provident Fund Account with the Regional Provident Fund Commissioner. He did not become a member of the Provident Fund maintained by the second employer.
- M was permitted by the second employer to encash 15 days leave he had accumulated during his service and received ₹ 12,500 from his employer.
- M had constructed a residential house in Chennai in February 2008 for ₹ 30 Lakhs. Part of the costs of construction was met by borrowals of ₹ 20 lakhs from the Housing Development Corporation, at interest of 12.5% p.a. The loan was taken on June 2007. The loan outstanding at the beginning of the current year was ₹ 12,00,000. The rate of interest applicable for the current year was reduced to 9% p.a. due to reduction in rates. [He had also borrowed from some relatives ₹ 4,00,000 on which interest at 15% p.a. was due.] The property had been let-out soon after completion.
- In the Assessment Year 2008-09, M was allowed a deduction of ₹ 50,000 for irrecoverable rents. The annual value decided by the Corporation of Chennai for the property is ₹ 80,000. The property was let-out in the current year to a Company on a rent of ₹ 20,000 p.m. The half-yearly municipal taxes on the property were fixed by the Corporation of Chennai only in August 2012 at ₹ 15,000 for every half year from 1.4.2009. M paid the taxes due in September 2012 upto the year ending 31.3.2012.
- M also received from the previous tenant ₹ 40,000 (out of the dues of ₹ 50,000).
- After retirement from the first employer, M received ₹ 4,50,000 from the Regional Provident Fund Commissioner, money was fully invested by him in the 15% Non-Redeemable Debentures issued by the Indian Oil Corporation interest on these had not come in by the end of March 2013.
- M received interest of ₹ 60,000 on long-term fixed deposits with Banks, ₹ 2,500 as interest on Post Office Savings Bank Accounts and ₹ 20,000 as income from units.
- M owns a car which is used for office purposes also and it is found that the entire conveyance allowance from his employer had been fully spent on travel for official purposes.
- One of the policies of insurance taken by M had matured for payment and ₹ 8,00,000 received by him in June 2012 from the LIC was invested by him, in the name of his 16-year old son, in fixed deposits with companies. Interest received upto 31.3.2013 on these deposits was ₹ 90,000. On one of the continuing policies of insurance, M paid a premium of ₹ 60,000 in the year.

Compute M's Total Income for the Assessment Year 2013-14.

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Answer 10.

Assessee : Mr. M

Previous Year : 2012-13

Assessment Year : 2013-14

Computation of Total Income

Particulars	₹	₹	₹
Income under the head Salaries			
From First Employer			
Basic Pay (₹ 30,000 × 7)		2,10,000	
Dearness Allowance (₹ 16,000 × 7)		1,12,000	
Conveyance Allowance (₹ 6000 × 7)	42,000		
Less: Exempt u/s 10(14)	(42,000)	Nil	3,22,000
Amount received from Regional Provident Fund Commissioner	4,50,000		
Less: Exempt u/s 10(12)	(4,50,000)	Nil	
From Second Employer			
Basic Salary (₹ 35,000 × 5)		1,75,000	
Conveyance Allowance (₹ 8,000 × 5)	40,000		
Less: Exempt u/s 10(14) (incurred for official performance of duties)	(40,000)	Nil	
Leave Encashment - Fully taxable while in service		12,500	1,87,500
Gross Income from Salary			5,09,500
Income from House Property :			
Gross Annual Value u/s. 23(1) — Higher of Municipal Value of ₹ 80,000 or Actual Rent of ₹ 2,40,000		2,40,000	
Less: Municipal Taxes paid during the year @ ₹ 15,000 for every half year from 1.4.2009 upto 31.3.2012 (Current Year - Not Paid)		(90,000)	
Net Annual Value (NAV)		1,50,000	
Less: Deduction @ 30% of NAV u/s 24(a)		(45,000)	
Interest on Borrowed Capital u/s 24(b)			
Loan from Housing Development Corporation:			
Current Period Interest: ₹ 12,00,000 × 9%	1,08,000		
Prior Period Interest (Interest upto 31.3.2008) [(₹ 20,00,000 × 12.5%) + (4,00,000 × 15%)] × 10/12 × 1/5	51,667	(2,19,667)	
Loan from Relative - Current Period Interest (₹ 4,00,000 × 15%)	60,000	40,000	
Add: Unrealised Rent recovered (taxable in the year of recovery u/s 25AA)			(74,667)
Income from Other Sources			
Interest on Long-term Fixed Deposits with Bank		60,000	
Interest on Post Office Savings Bank A/c	2,500		
Less: Exempt u/s 10(15)	(2,500)	Nil	
Income from Units of UTI	20,000		
Less: Exempt u/s. 10(35)	(20,000)	Nil	
LIC Policy matured	8,00,000		
Less: Exempt u/s. 10(1D)	(8,00,000)	Nil	
Interest from Fixed Deposits with Companies in the name of minor son		88,500	
Less: Exemption u/s. 10(32)	90,000		1,48,500
Gross Total Income	(1,500)		5,83,333
Less: Deduction under Chapter VIA:		(60,000)	
u/s 80C – LIC Premium		(21,000)	
– RPF – 10% of ₹ 2,10,000			81,000
Total Income			5,02,333
Total Income (Rounded Off u/s 288A)			5,02,330

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Assumptions :

1. It is presumed that Mr. M accounts for his interest income on receipt basis.
2. Assumed that there has been no repayment of Housing Loan Principal during the year ending 31.3.2007 for the purpose of calculation of prior period interest.
3. Recognised Provident Fund received on retirement shall not be taxable u/s 10 (assuming conditions are satisfied).
4. **Unrealised Rent recovered** : Since the assessee has been allowed a deduction of ₹ 50,000 from his house property income in earlier years in respect of Unrealised Rent, entire ₹ 40,000 recovered during current year becomes taxable.
5. **Deduction of Interest** u/s 24 shall be allowed even if the amount is borrowed from any person other than the Banks/Financial Institutions in respect of Let Out property.

Q. 11. Mr. Anurag is a Cost Accountant in practice. The Income & Expenditure Account for the year ending March 31, 2013 read as follows :

Income & Expenditure

Dr.	₹	Cr.	₹
Expenses		Income	
To, Employees cost	1,50,000	By, Professional earnings	16,00,000
To, Travelling & Conveyance	50,000	By, Dividend income	
To, Administration & Office exp.	4,00,000	- from shares	2,00,000
To, Interest	1,50,000	- from equity oriented mutual funds	1,00,000
To, Demat charges	10,000		
To, Excess of Income over Expenditure [Profit]	11,40,000		
Total	19,00,000	Total	19,00,000

Other Information:

- (a) Entire Dividend income is claimed as exempt from taxation by virtue of Section 10(34) and 10(35).
- (b) Anurag claims that no expenditure has been incurred against the dividend income, which is claimed as exempt from tax.
- (c) The value of investment in shares as on the first day and the last day of the Previous Year is ₹ 7,50,000 and ₹ 9,00,000 respectively.
- (d) The value of investment in units of Mutual Funds as on the first day and the last day of the Previous Year is ₹ 5,00,000 and 2,00,000 respectively.
- (e) All expenditure including interest expenditure of ₹ 1,50,000 incurred by Anurag are relating to taxable and non Taxable Income. Demat charges are directly attributable to exempt income.
- (f) The value of the total assets as appearing in the Balance sheet of the assessee as on the first day and last day of the Previous Year is ₹ 60,00,000 and ₹ 80,00,000 respectively.

You are required to compute the Taxable Income of Anurag for the Assessment Year 2013-14.

Answer 11.

Computation of Taxable Income A.Y. 2013-14

Particulars	₹
Income from Profits & Gains of Business or Profession	
- as per Working Note 1	8,40,000
Income from Other Sources	
- as per Working Note 2	Nil
Total	8,40,000
Add : Disallowance u/s 14A	
- as per Working Note 3	41,054
Taxable Income	7,98,946

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Working Note 1 — Profits & Gains of Business or Profession

	₹	₹
Net profit as per Income & Expenditure Account		11,40,000
Less : Income considered under other heads		
– Dividend Income from shares	2,00,000	
– Income from UTI	1,00,000	3,00,000
Taxable Income from Profession		<u>8,40,000</u>

Working Note 2 — Income from other sources

	₹	₹
1. Dividend Income from Shares	2,00,000	
Less : Exemt under sec 10(34)	<u>2,00,000</u>	Nil
2. Income from units in Mutual funds	1,00,000	
Less : Exempt under sec 10(35)	<u>1,00,000</u>	Nil
Taxable Income from Other Sources		<u>Nil</u>

Working Note 3 — Disallowance u/s 14A

	₹
(a) Amount of expenditure directly relating to exempt income (Other than interest) — Demat charges	10,000
(b) Amount of interest incurred by way of expenditure other than those included above (1,50,000 × 11,75,000 / 70,00,000)	25,179
(c) Amount equal to 0.5% of the average value of Investments (11,75,000 × 0.5%)	
Total amount disallowed u/s 14A (a) + (b) + (c)	<u>5,875</u>
	41,054

Note :

- Average value of Investment = $[(7,50,000 + 9,00,000) / 2] + [(5,00,000 + 2,00,000) / 2]$
= ₹ 11,75,000
- Average value of Total Assets = $(60,00,000 + 80,00,000) / 2 = ₹ 70,00,000.$

Q. 12. Mr. P has estates in Rubber, Tea and Coffee. He has also a nursery wherein he grows plants and sells. For the Previous Year ending 31.3.2013, he furnishes the following particulars of his sources of income from estates and sale of Plants. You are requested to compute the taxable income for the Assessment Year 2013-2014:

Manufacture of Rubber	₹ 5,00,000
Manufacture of Coffee grown and cured	₹ 3,50,000
Manufacture of Tea	₹ 7,00,000
Sale of Plants from Nursery	₹ 1,00,000

Answer 12. Computation of Taxable Income for the Assessment Year 2013-14

Rule	Nature of Business	Agl Inc.	Non-Agl. Inc.
7A	Sale of centrifuged latex or cenex manufactured from rubber [65% is Agricultural Income]	3,25,000	1,75,000
7B	Sale of grown and cured coffee by seller in India [75% is Agricultural Income]	2,62,500	87,500
8	Growing and Manufacturing Tea [60% is Agricultural Income]	4,20,000	2,80,000
	Sale of plants from nursery	1,00,000	—
	Total	11,07,500	5,42,500

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Computation of Tax Liability :

	₹
(a) Total Income (Agricultural Income + Non-agricultural Income)	<u>16,50,000</u>
(b) Tax on (a) above	<u>3,25,000</u>
(c) Total of (Agricultural Income + Basic Exemption Limit)	<u>13,07,500</u>
(d) Tax on (c) above	<u>2,22,250</u>
(e) Tax Payable (b) – (d)	1,02,750
Add: Education Cess @ 2%	2,055
Add: SHEC @ 1%	<u>1,028</u>
Total Tax Liability	<u>1,05,833</u>
Tax payable rounded off u/s 288B	1,05,830

Q. 13. D Ltd., a closely-held Indian company, is engaged in the business of manufacture of chemical goods (value of plant and machinery owned by the company is ₹ 55 lakh). The following information for the financial year 2012-13 are given :

D Ltd. is engaged in the business of manufacture of garments.

Particulars	₹
Sale proceeds of goods (domestic sale)	25,00,000
Sale proceeds of goods (export sale)	7,00,000
Amount withdrawn from general reserve (reserve was created in 1997-98 by debiting P&L A/c)	2,00,000
Amount withdrawn from revaluation reserve	<u>1,50,000</u>
Total	35,50,000
Less : Expenses	
Depreciation (normal)	6,16,000
Depreciation (extra depreciation because of revaluation)	2,70,000
Salary and wages	2,10,000
Wealth tax	10,000
Income-tax	3,50,000
Outstanding customs duty (not paid as yet)	17,500
Proposed dividend	60,000
Consultation fees paid to tax expert	21,000
Other expenses	<u>1,39,000</u>
Net Profit	18,56,500

For tax purposes the company wants to claim the following :

—Deduction under section 80-IB (30 per cent of ₹ 14,56,500).

—Depreciation under section 32 (₹ 5,36,000)

The company wants to set off the following losses/allowances :

Particulars	For tax purposes ₹	For accounting purposes ₹
Brought forward loss of 2005-06	14,80,000	4,00,000
Unabsorbed depreciation	—	70,000

Compute the net income and tax liability of D Ltd. for the Assessment Year 2013-14 assuming that D Ltd. has a (deemed) Long-term Capital Gain of ₹ 60,000 under proviso (i) to section 54D(2) which is not credited in Profit and Loss Account.

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Answer 13.

Computation of Book Profit & Minimum Alternate Tax for the Assessment Year 2013-14

Particulars	Amount (₹)
Net Profit as per P&L A/c	18,56,500
Add :	
Excess depreciation [i.e., ₹ 6,16,000 + ₹ 2,70,000 — ₹ 5,36,000]	3,50,000
Wealth tax	10,000
Income tax	3,50,000
Customs duty which is not paid	17,500
Proposed dividend	<u>60,000</u>
Total	26,44,000
Less : Amount withdrawn from reserve (i.e., ₹ 2,00,000+₹ 1,50,000)	<u>3,50,000</u>
Business income	22,94,000
Less : Unabsorbed loss	<u>14,80,000</u>
Business Income	8,14,000
Long-term Capital Gain	<u>60,000</u>
Gross Total Income	8,74,000
Less : Deductions under section 80-IB [30% of ₹ 4,14,000] = [₹ (8,14,000 – 4,00,000)]	<u>1,24,200</u>
Net Income (rounded off)	<u>7,49,800</u>
Tax liability (under normal provisions) [20% of ₹ 60,000 + 30% of ₹ 6,89,800, plus 3% of tax as Cess]	<u>2,25,508</u>
Book Profit	
Net Profit	18,56,500
Add :	
Depreciation (i.e. ₹ 6,16,000 + ₹ 2,70,000)	8,86,000
Wealth tax	Nil
Income-tax	3,50,000
Proposed dividend	60,000
Less : Amount withdrawn from general reserve	(-) 2,00,000
Unabsorbed depreciation	(-) 70,000
Depreciation (normal)	(-) 6,16,000
Amount withdrawn from revaluation reserve to the extent it does not exceed extra depreciation because of revaluation	<u>(-) 1,50,000</u>
Book Profit	<u>21,16,500</u>
Tax liability (19.055% of 21,16,500)	4,03,299

D Ltd. will pay ₹ 4,03,299 as tax for the Assessment Year 2013-14 as per section 115JB. Tax credit is however, available in respect excess tax (i.e., ₹ 1,77,791) under section 115JB.

Q. 14. GMK are partners in a firm assessed as an association of persons. They share profit and losses in the ratio of 4:3:3. The abridged profit and loss for the Previous Year 2012-2013 is as follows:

Particulars	₹	Particulars	₹
Business expenses	5,00,000	Gross Profits	6,85,000
Salaries to partners		Short-term Capital Gain	2,80,000
G	60,000	Interest on drawings	
M	40,000	G	5,000
K	50,000	M	20,000
Bonus to partners:		K	10,000
G	30,000		
M	20,000		

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Commission to K	40,000		
Interest to partners:			
G	20,000		
M	15,000		
K	25,000		
Net Profit			
G	80,000		
M	60,000		
K	60,000		
	10,00,000		10,00,000

Business expenses include donation to Nalanda University ₹ 50,000.

Compute the taxable income of AOP, its tax liability and tax liability of its members in the following

Personal income of members	Case-I ₹	Case-II ₹
G: Interest on bank deposits	2,40,000	1,00,000
M: Interest on Government securities	2,65,000	1,20,100
K: Income from House Property	2,50,000	1,10,000
LIP paid by every member on a policy of ₹ 1,00,000.	20,000	20,000

Answer 14. (a) Computation of Taxable Business Profits

Particulars	₹
Net Profit as per Profit & Loss A/c	2,00,000
Add: (i) Donation to Nalanda University	50,000
(ii) Salaries to partners [Sec. 40(ba)] (60,000 + 40,000 + 50,000)	1,50,000
(iii) Bonus to partners (30,000 + 20,000)	50,000
(iv) Interest on capital (Net of Interest on Drawings)	15,000
G 20,000 – 5,000 =	15,000
K 25,000 – 10,000 =	<u>40,000</u>
(v) Commission to K	5,20,000
	<u>2,80,000</u>
Less: Short-term Capital Gain	<u>2,40,000</u>
Taxable Business Profits	2,40,000
Computation of Total Income	
Add: (i) Business Profits	<u>2,80,000</u>
(ii) Short-term Capital Gain	5,20,000
Gross Total Income	
Less: Deduction for charitable donation (Sec. 80G)	
(a) Actual donation ₹ 50,000 or,	
(b) 10% of gross total income: × 5,20,000 = 52,000	<u>25,000</u>
whichever is less, is qualifying amount. i.e. ₹ 50,000.	
Amount of deduction 50% of ₹ 50,000, qualifying amount	4,95,000
Total Income	

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Tax liability of AOP :

Particulars	Case I	Case II
(a) Tax on Total Income at slab rates including Education Cess and SHEC	30,385	—
(b) Tax on Total Income at maximum marginal rates including surcharge plus education cess plus SHEC	—	1,52,955
Tax Payable	30,385	1,52,955
Tax Payable rounded off (u/s 288 B)	30,390	1,52,960

Tax liability of members:

Share of income from AOP:	G (₹)	M (₹)	K (₹)	Total (₹)
(i) Salary	60,000	40,000	50,000	1,50,000
(ii) Bonus	30,000	20,000	—	50,000
(iii) Commission	—	—	40,000	40,000
(iv) Interest	15,000	—	15,000	30,000
(v) Divisible loss : (2,40,000-25,000)-270,000 = (-) 55,000	1,05,000	60,000	1,05,000	2,70,000
Share of Business Profit	(-) 22,000	(-) 16,500	(-) 16,500	(-) 55,000
Share of Short-term Capital Gain	83,000	43,500	88,500	2,15,000
Share of income from AOP	112,000	84,000	84,000	2,80,000
	1,95,000	1,27,500	1,72,500	4,95,000

Total Income and Tax Liability of members :

Case:(a) where AOP is taxed at slab rates:

Particulars	G	M	K
Income from House Property	—	—	2,50,000
Income from Other Sources	2,40,000	2,65,000	—
Share income from AOP	1,95,000	1,27,500	1,72,500
Gross Total Income	4,35,000	3,92,500	4,22,500
Less: Deduction under Sec. 80C: LIP restricted to 20% of policy [Assumed the policy is issued before 1.4.2012]	20,000	20,000	20,000
Total Income	4,15,000	3,72,500	4,02,500
Gross income tax at slab rate	21,500	17,250	20,250
Add: Surcharge	Nil	Nil	Nil
Add: Education Cess @ 2%	430	345	405
Add : SHEC @ 1%	215	173	203

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Less: Rebate on share of profit from firm at the average rate	22,145	17,768	20,858
	<u>10,405</u>	<u>6,082</u>	<u>8,939</u>
Tax Payable	11,740	11,686	11,919
Tax Payable rounded off (u/s 288B)			
	11,740	11,690	11,920
Note 1: $22,145 \div 4,15,000 \times 1,95,000 = 10,405$			
Note 2: $17,768 \div 3,72,500 \times 1,27,500 = 6,082$			
Note 3: $20,858 \div 4,02,500 \times 1,72,500 = 8,939$			

Case (b) where AOP is taxed at maximum marginal rate:

	G	M	K
1. Share of profit from AOP; Since the AOP was assessed at the maximum marginal rate, share of income from AOP is exempt (Sec. 86)	—	—	—
2. Personal income:			
Income from House Property	—	—	1,10,000
Income from Other Sources	1,00,000	1,20,100	—
Less: Deduction u/s 80C	<u>(-) 20,000</u>	<u>(-) 20,000</u>	<u>(-) 20,000</u>
Total Income	80,000	1,00,100	90,000
Tax Payable	Nil	Nil	Nil

Note : Provisions of AMT are not applicable in the above case.

Q. 15. Dinesh Pally Cooperative Society Ltd. furnishes the following particulars of its income for the Previous Year ending on 31st March 2013:

	Particulars	Amount
(i)	Interest on government securities	40,000
(ii)	Profits from banking business	3,50,000
(iii)	Income from purchase and sale of agricultural implement and seeds to its members	2,50,000
(iv)	Income from marketing of agricultural produce of its members	4,00,000
(v)	Profits and gains of business	2,20,000
(vi)	Income from cottage industry	3,50,000
(vii)	Interest and dividends (gross) from other cooperative societies	30,000

Compute Total Income of the society and calculate the Tax Payable by it for the Assessment Year 2013-2014.

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Answer 15.

Dinesh Pally Cooperative Society Ltd.

Computation of income of the for the Previous Year 2012-2013 relating to the Assessment Year 2013-2014 :

Particulars	₹	₹
1. Profits and Gains of Business or Profession:		
a) Banking business	3,50,000	
b) Income from purchase and sale of agricultural implements and seeds to its members	2,50,000	
c) Income from marketing of agricultural produce of its members	4,00,000	
d) Profits and gains of business	2,20,000	
e) Income from cottage industry	<u>3,50,000</u>	15,70,000
2. Income from Other Sources:		
a) Interest on Government securities	40,000	
b) Interest and dividends from other cooperatives	<u>30,000</u>	<u>70,000</u>
Gross Total Income		16,40,000
Less: Deduction allowable from gross total income under Sec. 80P		
1. Banking business [Assumed it is a Rural Development Bank]	3,50,000	
2. Income from purchase and sale of agricultural implement and seeds to its members	2,50,000	
3. Income from marketing of agricultural produce of its members	4,00,000	
4. Income from cottage industry	3,50,000	
5. Interest on government securities(not eligible for deduction)	Nil	
6. Interest and dividends from other cooperative societies	<u>30,000</u>	<u>13,80,000</u>
Total Income		2,60,000

Computation of Tax Liability :

Particulars	Rate	₹
On first ₹ 10,000	10%	1,000
On next ₹ 10,000	20%	2,000
On balance ₹ 2,40,000	30%	<u>72,000</u>
Income Tax Payable		75,000
Add: Education cess @ 2%		1,500
Add: SHEC @ 1%		750
Tax Payable		77,250

Note: It is assumed that the provisions of Alternate Minimum Tax are not applicable.

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Q. 16. From the Profit and Loss Account of Alo of 36 years old for the year ending March 31, 2013, ascertain her Total Income and Tax liability for the Assessment Year 2013 – 14:

Particulars	₹	Particulars	₹
General Expenses	13,500	Gross Profits	3,17,000
Bad debts	22,000	Commission	8,800
Advance Tax	3,000	Brokerage	37,000
Insurance	800	Sundry receipts	2,500
Printing & Stationery	1,200	Bad debt recovered (earlier allowed as deduction)	11,000
Salary to Staff	27,000	Interest on debentures (i.e., net amount ₹18,000 + tax deducted at source : ₹ 2,000)	20,000
Salary to Alo	51,000	Interest on deposit with a company (non – trade) (net interest : ₹ 13,500 + tax deducted at source : ₹ 1,500)	15,000
Interest on Overdraft	4,000		
Interest on loan to Chandra	41,000		
Interest on capital of Alo	22,000		
Depreciation	48,000		
Advertisement expenditure	7,000		
Contribution to employees' Recognized Provident Fund	7,800		
Net Profit	1,63,000		
	4,11,300		4,11,300

Other Information:

1. The amount of depreciation allowable is ₹ 45,000 as per the Income Tax Rules. It includes depreciation on permanent sign board.
2. Advertisement expenditure includes ₹ 2000, being cost of permanent sign board fixed on office premises.
3. Income of ₹ 2500, accrued during the Previous Year, is not recorded in the Profit and Loss Account.
4. Alo pays ₹ 9000 as premium on own life insurance policy of ₹ 1,00,000.
5. General expenses include:
 - (a) ₹ 1,500 given to sister for arranging a party in her birthday party
 - (b) ₹ 1,000 being contribution to a political party.
6. Loan was taken from Chandra for payment of arrears of Income – tax.



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Answer 16. Assessee : Alo	Previous Year : 2012-2013	Assessment Year : 2013-2014
Particulars	₹	₹
Net profit as per Profit & Loss Account		1,63,000
Add: Inadmissible expenses:		
Expenses for arranging personal party	1,500	
Contribution to a political party	1,000	
Advance tax	3,000	
Salary to Alo	51,000	
Interest on capital to Alo	22,000	
Interest on loan taken for payment of Income-tax	41,000	
Capital expenditure on advertisement	2,000	
Depreciation debited to the Profit & Loss A/c	<u>48,000</u>	<u>1,69,500</u>
		3,32,500
Add: Income not recorded in the Profit and Loss Account		<u>2,500</u>
		3,35,000
Less: Income credited to the Profit and Loss Account but not chargeable under the head "Profits and gains of business or profession".		
Interest on debentures	20,000	
Interest on company deposit	<u>15,000</u>	<u>35,000</u>
		3,00,000
Less: Depreciation allowable Income Tax Rules		<u>45,000</u>
Business Income		<u>2,55,000</u>
Computation of Net Income of Alo		
Profits and Gains of Business or Profession		2,55,000
Income from Other Sources (interest on debentures and company deposit)		<u>35,000</u>
Gross Total Income		2,90,000
Less: Deductions		
Under section 80C (payment of insurance premium)	9,000	
Deduction under section 80GGC (being contribution to a political party)	<u>1,000</u>	<u>10,000</u>
Net Income		<u>2,80,000</u>
Tax on Net Income		8,000
Add: Surcharge (surcharge is not applicable for the Assessment Year 2013-14)		<u>Nil</u>
Tax and Surcharge		
Add: Education cess (2% of tax and Surcharge)		8,000
Add: Secondary and higher education cess [1% of tax and Surcharge]		160
Tax		80
Less: Pre-paid tax (i.e., advance tax + tax deducted at source)		8,240
Tax Payable (rounded off)		<u>6,500</u>
		1,740

Note :

Provisions of Alternate Minimum Tax are not applicable.

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Q. 17. The following details have been supplied by the Karta, of an HUF aged 62 years. You are required to compute its total income and tax liability for the Assessment Year 2013-2014.

Particulars	₹
(i) Profits from business (after charging ₹ 1,00,000 salary to Karta for managing the business)	15,00,000
(ii) Salary received by the member of a family	60,000
(iii) Director's fee received by Karta from B Ltd where HUF holds 20% shares but he became director because of his qualifications,	40,000
(iv) Rental income from house property (after deduction of municipal taxes ₹ 12,000)	78,000
(v) Dividends (gross) from Indian companies	15,000
(vi) Long-term Capital Gain	80,000
(vii) Short-term Capital Gain	30,000
(viii) Donation to a school, which is an approved institution	1,00,000
(ix) Deposits in Public Provident Fund	20,000
(x) NSC-VIII issues purchased	40,000

Answer 17.

Computation of Total Income for the A.Y. 2013-14

Particulars	₹	₹
(i) Income from House Property: Gross annual value (₹ 78,000 + ₹ 12,000)	90,000	
Less: Municipal Taxes paid	<u>12,000</u>	
Annual value	78,000	
Less: Statutory deduction: 30% × 78,000	<u>23,400</u>	54,600
(ii) Profits and gains from business		15,00,000
(iii) Capital Gains (a) long-term + (b) short-term		1,10,000
(iv) Income from other sources—gross dividends from Indian companies: Exempt [Sec. 10(34)]		<u>Nil</u>
Gross Total Income		16,64,600
Less:		
1. Contribution to approved savings (Sec. 80C)		
(i) Deposits in Public Provident Fund	20,000	
(ii) NSC-VIII Issue	<u>40,000</u>	
	60,000	
2. Donation to recognised school:		
(a) Actual donation: ₹ 1,00,000 or		
(b) 10% of adjusted total income = (Gross Total Income – Long Term Capital Gains – All deductions under Chapter VIA excluding Sec. 80G)		
of ₹ 15,24,600 (16,64,600 - 80,000 - 60,000)		
whichever is less, is qualifying amount.		
Amount of deduction: : 50% of ₹ 1,00,000	<u>50,000</u>	<u>1,10,000</u>
Total Income		<u>15,54,600</u>

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Computation of Tax Liability:

Particulars of total income	Rate of income tax		₹
	₹	₹	
(a) Long-term Capital Gain	80,000	20%	16,000
(b) Balance of total income: ₹ 14,74,600			
(i) First	2,00,000	Nil	—
(ii) Between 2,00,000 – 5,00,000	3,00,000	10%	30,000
(iii) Between 5,00,000 – 10,00,000	5,00,000	20%	1,00,000
(iv) Between 10,00,000 – 14,74,600	4,74,600	30%	1,42,380
Gross Income Tax			2,88,380
Add: Education cess @ 2% on income tax			5,768
SHEC @ 1% on income tax			2,884
Tax Payable			2,97,032
Rounded off u/s 288B			2,97,030

Note: Assumed applicability conditions of AMT are not satisfied and hence, AMT provisions are not applicable.

Q. 18. A, B and C are three partners (3: 3: 4) of ABC & Co., a LLP engaged in manufacturing leather goods and it has agencies of different companies. The Profit and Loss Account of the LLP for financial year ending March 31, 2013 is as follows:

Particulars	₹	Particulars	₹
Cost of goods sold	7,90,000	Sales	21,22,000
Salary to staff	7,80,000	Long-term Capital Gains	3,00,000
Depreciation	2,50,000		
Remuneration to Partners :		Short-term Capital Gain under section 111A	55,000
A	1,92,000	Other Short-term Capital Gain	65,000
B	96,000	Fixed deposit interest	50,000
C	1,80,000	Other business receipts	2,000
Interest on capital to partners		Interest on drawings recovered from A	16,000
A	17,000		
B	30,000		
C	40,000		
Other expenses	1,65,000		
Net Profit:			
A	21,000		
B	21,000		
C	28,000		
	26,10,000		26,10,000

Other information:

- The LLP satisfies conditions of sections 184 and 40(b).
- The LLP is not eligible for deduction under section 80-IA/80-IB.
- The LLP has given donation of ₹ 70,000 to a notified public charitable trust which is not debited to the Profit and Loss Account.
- Up to March 31, 2012, there is no provision in the partnership deed to pay remuneration to partners. The deed is amended on April 1, 2012 to pay remuneration/interest to partners as under:

Particulars	Remuneration (₹)	Interest on capital (₹)
A	16,000 per month	17 per cent simple interest
B	8,000 per month	15 per cent simple interest
C	15,000 per month	20 per cent simple interest

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5. Depreciation as per section 32 comes to ₹ 95,000
6. Other expenses to the tune of ₹ 65,000 is not deductible under sections 30 to 43D.
7. For the Assessment Years 2011-12 and 2012-13, the firm has assessed business loss of ₹ 30,000 and Long-term Capital Loss of ₹ 15,000 (which has not been set off so far).

Answer 18.

Particulars	₹	
Computation of remuneration deductible under section 40(b)		
Net Profit as per P&L A/c (₹ 21,000+₹21,000+₹28,000)		70,000
Add:		
Depreciation debited to P&L A/c		2,50,000
Remuneration to partners (i.e., ₹ 1,92,000+₹96,000+₹1,80,000)		4,68,000
Interest to partners (to the extent not deductible) (i.e., 5/17 of ₹ 17,000 + 3/15 of ₹ 30,000 + 8/20 of ₹ 40,000)		27,000
Other expenses (to the extent not deductible)		<u>65,000</u>
		8,80,000
Less:		
Capital Gain (₹ 3,00,000+₹55,000+₹65,000)		4,20,000
Interest on Bank Fixed Deposit		50,000
Depreciation as per Section 32		<u>95,000</u>
Book Profit		<u>3,15,000</u>
Remuneration deductible (90% of ₹ 3,00,000 + 60% of ₹15000)		<u>2,79,000</u>
Computation of income of the firm	₹	₹
Business Income		
Book Profit		
Less : Remuneration deductible	3,15,000	
Balance	<u>2,79,000</u>	
Less : Brought forward business loss	36,000	6,000
Long-term Capital Gain (minus brought forward Long-term Capital Loss of ₹15,000)	<u>30,000</u>	
Short-term Capital Gain under section 111A	2,85,000	
Other short-term Capital Gain	55,000	4,05,000
Interest on Fixed Deposit	<u>65,000</u>	<u>50,000</u>
Gross total income		4,61,000
Less: Deduction under section 80G [i.e., 50% of 10% of ₹ (4,61,000-2,85,000-55,000)]		6,050
Net Income (rounded off)		<u>4,54,950</u>
Computation of tax of firm		
Long-term Capital Gain (20% of 2,85,000)		57,000
Short-term Capital Gain under section 111A (15% of ₹ 55,000)		8,250
Other Income (30% of ₹ 1,14,950)		34,485
Total		99,735
Add: Surcharge		Nil
Total		99,735
Add: Education cess		1,995
Add: Secondary and higher education cess		997
Tax liability of the firm (rounded off)		<u>1,02,730</u>

Note:

1. Interest recovered from partners is fully taxable.
2. Provisions of Alternate Minimum Tax are not applicable in the above cases.

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Q. 19. Fashion Ltd., a well-diversified group, gives below its Profit and Loss Account for the Previous Year 2012-2013 :

Particulars	₹	Particulars	₹
Manufacturing expenses	9,00,000	Sale of manufactured goods	15,00,000
Salaries/wages	5,50,000	Sale of agriculture produce	10,00,000
Cultivation expenses	4,00,000	Receipt from generation /distribution of power	15,00,000
Power generation/distribution expenses	4,00,000	Receipt from I.U. set up in backward district in July 2004	10,00,000
Irrigation expenses	6,00,000	Transfer from Reserve & Provision A/c, debited to Profit and Loss Account in 2005-06 on account of free service under warranty period	9,50,000
Expenses of I.U., located in backward district	5,00,000	Sale of goods of I.U. (Sec. 10B)	2,00,000
Expenses of I.U., located in free trade zone(Sec. 10A)	1,50,000	Sale of goods of I.U. located in free trade zone (Sec. 10A)	2,00,000
Expenses of I.U. (Sec. 10B) Expenses of I.U. located in NRE Provision for losses of subsidiary Sundry expenses	1,00,000 50,000 4,00,000 10,000	Receipt from water supply/irrigation project	1,00,000
Provision for bad and doubtful debts	2,00,000	Income from UTI	50,000
Provision for bills under discount	50,000	Sale of goods of I.U. located in Northern Eastern Region (NER) (Sec. 10C)	5,00,000
Provision for sales tax, wealth tax against demand notice	3,30,000	Long Term Capital Gain on sale of equity shares, transaction chargeable to Securities Transaction Tax	35,00,000
Income tax provision against demand notice	3,00,000		
Dividend paid on preference shares	2,00,000		
Proposed dividend on equity shares	2,00,000		
Transfer to General Reserve	4,00,000		
Dividend Equalisation Reserve	1,00,000		
Penalties under direct tax laws	2,00,000		
Goodwill written off	60,000		
Depreciation	50,000		
Amortisation of patent rights	3,00,000		
Expenses on transfer of equity shares	30,000		
Net Profit	20,000		
	42,00,000		
	1,05,00,000		1,05,00,000

The following additional information is provided as below:

1. Depreciation includes, a sum of ₹ 1,00,000 on account of revaluation of building and plant and machinery.
2. Past year losses, before depreciation, are given below:

	Loss (₹)	Depreciation (₹)
2008-2009	(-) 5,00,000	(-) 6,00,000
2009-2010	Nil	(-) 5,00,000
2010-2011	(-) 7,00,000	(-) 4,00,000
2011-2012	(-) 5,00,000	Nil

Compute book-profits for the Previous Year 2012-2013/AY 2013-2014 for MAT under Sec. 115 JB.

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Answer 19.

Computation of Book Profit for the AY 2013-2014

Particulars	₹	₹
Net Profit as per Profit and Loss Account		42,00,000
Add:		
Cultivation expenses	4,00,000	
Expenses of I.U. located in Free Trade Zone (Sec. 10A)	1,50,000	
Expenses of I.U. under Sec. 10B	1,00,000	
Provision of loss of subsidiary	4,00,000	
... Provision for bad and doubtful debts— an unascertained liability	2,00,000	
Provision for bills under discount— an unascertained liability	50,000	
... Provision for wealth-tax, sales- tax, against demand notice — an ascertained liability	—	
... Income-tax provision— an ascertained liability to be added back	3,00,000	
... Dividend paid on preference shares	2,00,000	
... Proposed dividend on equity shares	4,00,000	
... Transfer to General Reserve	1,00,000	
Dividend Equalisation Reserve	2,00,000	
Depreciation [Sec. 115JB(2)(g) w.e.f. AY 2011-2012]	<u>3,00,000</u>	<u>28,00,000</u>
Adjusted Profits		70,00,000
Less:		
Sales of agriculture produce [Sec. 10(1)]	10,00,000	
Receipt from I.U. in Free Trade Zone [Sec. 10A]	2,00,000	
Receipt from I.U. Sec. 10B	2,00,000	
. Depreciation, excluding depreciation on account of revaluation of assets	2,00,000	
. Withdrawals from Reserve & Provision for free sale service, under warranty scheme	2,00,000	
. Long-term capital gain on transfer of equity shares [Sec. 10(38)] — see Note below	9,50,000	
Receipts from UTI [Sec. 10(35)]	Nil	
Brought forward loss or depreciation, whichever is less.	50,000	
Book-profits	<u>9,00,000</u>	<u>35,00,000</u>

Note: 1. Calculation of brought forward losses or depreciation:

2008-2009	Loss	5,00,000
2009-2010	Loss/depreciation	Nil
2010-2011	Depreciation	4,00,000
2011-2012	Loss/depreciation	Nil
	Total	9,00,000

- Transfer from provision for after sale service, free of cost, made during the year 2005-2006, debited to Profit and Loss A/c and now credited to Profit and Loss A/c and the amount so credited to Profit and Loss A/c is an allowable deduction [Sec. 115-JB(2)].
- Long-term Capital Gain from the transfer of equity shares in a company is exempt is chargeable to Securities Transaction Tax (STT). However, for the purposes of computing Book-profits, it is not to be deducted [Sec.10(38)]. Accordingly, the expenditure incurred for the transfer of equity shares has not been added back in computing Book Profits.

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Q. 20. a) What is the difference between dispersal and diversion of income?

b) In the case of Ms Laxmi, you are required to compute the interest u/s 234A, 234B & 234C from the following details—

Tax on total income ₹ 2,00,000; Due date for filing the return 30.09.2013; Actual date of filing the return 1.10.2014 and tax paid on 30.09.2013 ₹ 2,00,000.

Answer 20.

a) Dispersal ensures that income accrues separately in different hands. Diversion is said to take place when money is siphoned off to other hands after accrual in one hand. The decision of the *Supreme Court in CIT v Sitaldas Thirakhdas* is as to what constitutes diversion as distinct from dispersal. In this case, an amount of annuity decreed by the court to be paid by son to his mother in view of his obligation was held to be dispersal, i.e., diversion by overriding title, so that he was entitled to re-duce such payment from his taxable income. While diversion by overriding title will amount to dispersal, any other diversion without title at source is a mere application of income. The decision of Supreme Court in *CIT v Thakar Das Bhargava* illustrates the principle of application of income, which does not help, where a lawyer who had assigned his right to fees to a charitable institution and had not received the same was still held liable to pay tax on such fees.

b) Computation of interest u/s 234A

Particulars	As per assessed income	
Tax		₹ 2,00,000
Less : Advance tax paid	Nil	Nil
TDS	Nil	
Amount on which interest is payable		₹ 2,00,000
Period of default (October being part of a month shall be considered)		1 month
Interest u/s 234A (1% × ₹ 2,00,000 × 1 month)		₹ 2,000

Computation of interest u/s 234B

Since assessee did not pay any amount by way of advance tax, hence she is liable to pay interest u/s 234B.

Particulars	Assessed income
Shortfall	₹ 2,00,000
Period of default (From April to September)	6 months
Interest (1% × ₹ 2,00,000 × 6 months)	₹ 12,000

Computation of interest u/s 234A

Due date	Advance Tax Payment ₹	Advance Tax paid ₹	Cumulative Advance Tax paid before due date ₹	Shortfall in Payment ₹	Surplus ₹	Months	Interest @ 1% p.m. ₹
15.9.2012	30% of ₹ 2,00,000 = 60,000	Nil	Nil	60,000	—	3	1,800
15.12.2012	60% of ₹ 2,00,000 = 1,20,000	Nil	Nil	1,20,000	—	3	3,600

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15.3.2013	100% of ₹ 2,00,000 = 2,00,000	Nil	Nil	2,00,000	—	1	2,000
							7,400

Total interest payable

Particulars	Amount
U/s 234A	2,000
U/s 234B	12,000
U/s 234C	7,400
Total	21,400

Q. 21. Compute the Advance Tax payable by R from the following estimated income submitted for the Previous Year 2012-13.

Particulars	₹
(1) Income from Salary	3,64,000
(2) Rent from house property (per annum)	1,80,000
(3) Interest on Government securities	5,000
(4) Interest on bank deposits	3,000
(5) Receipt from horse race (net)	14,000
(6) Agricultural Income	90,000
(7) Contribution towards PPF	10,000

Tax deducted at source by the employer on salary is ₹ 9,680.

Answer 21.

Computation of Estimated Total Income for the Previous Year 2012-13

Particulars	₹	₹
Income from Salary:		
Gross salary	3,64,000	
Less : Deduction	Nil	3,64,000
Income from House Property:		
Rent received	1,80,000	
Less : (Statutory deduction u/s 24(a) @ 30%)	54,000	1,26,000
Income from Other Sources:		
Interest on Government securities	5,000	
Interest on Bank Deposit	3,000	
Horse Races (Gross)	20,000	28,000
Estimated Gross Total Income		5,18,000
Less : Deduction under section 80C		10,000
		5,08,000

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Estimated Tax: Step-1 : Aggregate of Agricultural income + Non-Agricultural income (90,000 + 5,08,000) = 5,98,000		
Tax on: Income from Horse Race of ₹ 20,000 @ 30%	6,000	
Balance income of ₹ 5,78,000	45,600	
		51,600
Step-2 : Aggregate of Basic exemption limit of agricultural income (2,00,000 + 90,000) = 2,90,000		
Tax on ₹ 2,90,000		9,000
Step-3 : Tax on non-agricultural income Tax under step-1 - Tax under step-2 (51,600 – 9,000) = 42,600 Estimated tax payable Add: Education cess @2% Add: SHEC @1% Less : Estimated TDS on salary on horse races Advance tax payable (rounded off) First installment payable by 15.9.2012 (30%) Second installment payable by 15.12.2012 (30%) Third installment payable by 15.3.2013 (balance 40%)	9,680 6,000	42,600 852 426 43,878 15,680 28,198 8,459 8,459 11,280
Working notes: 1. Computation of gross winnings from horse races: Net Amount Grossing up 14,000 X100/70 Tax deducted at source (Gross amount ₹ 20,000 – Amount received ₹ 14,000)		₹ 14,000 20,000 6,000

2. Interest on Bank deposit assumed not to be from savings deposit.

Q. 22. From the following dated furnished by Mr.Soumitra, determine the value of house property built on leasehold land as at the valuation date 31.3.2012 :

Particulars	₹
Annual Value as per Municipal valuation	1,40,000
Rent received from tenant (Property vacant for 3 months during the year)	1,08,000
Municipal tax paid by tenant	10,000
Repairs on property borne by tenant	8,000
Refundable deposit collected from tenant as security deposit which does not carry any interest	50,000
The difference between unbuilt area and specified area over aggregate area is 10.5%.	

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Answer 22.

Assessee: Mr. Soumitra

Valuation Date: 31.3.2012

Assessment Year: 2013-14

Computation of Value of House Property

Step I: Computation of Gross Maintainable Rent(GMR)

Particulars	₹	₹
Actual Annual Rent- ₹ 1,08,000 x 12 Months/9 Months		1,44,000
Add: Municipal tax paid by the Tenant	10,000	
1/9 th of Actual Rent Receivable as repair expenses are borne by the tenant - ₹ 1,44,000/9	16,000	
Interest on Refundable Security Deposit- ₹ 50,000 x 15% x 9/12	5,625	31,625
GROSS MAINTAINABLE RENT (GMR)		17,05,625

Step II: Computation of Net Maintainable Rent (NMR)

Particulars	₹	₹
Gross Maintainable Rent (GMR)		1,76,000
Less: Municipal Taxes levied by the local authority	10,000	
15% of Gross Maintainable Rent - ₹ 1,75,625 x 15%	26,399	(36,399)
NET MAINTAINABLE RENT (NMR)		1,39,281

Step III: Capitalisation of the Net Maintainable Rent (CNMR) (Assumed that unexpired lease period is more than 50 Years)

NMR × Multiple Factor for an Unexpired Lease Period - ₹ 1,39,281 × 10 = ₹ 13,92,810

Step IV: Addition of Premium to SNMR in case of excess inbuilt area:

Particulars	₹
Add: Capitalisation of the Net Maintainable Asset	13,92,810
Premium for excess of 10.5% unbuilt area over specified area-30% of CNMR	4,17,843
Value of House Property as per Wealth Tax Act	18,10,653

Q. 23. a) Net wealth of firm consisting of three partners Bidyut, Kingshuk and Deepak in 2:2:1 and a capital contribution of ₹17 Lakhs, ₹13 Lakhs, and ₹12 Lakhs respectively is as under -

(a) Value of assets located outside India	₹ 30,00,000
(b) Value of assets located in India	₹ 80,00,000
(c) Debts incurred in relation to assets in India	₹ 40,00,000

Determine the value of interest of the partners in the firm under the Wealth Tax Act, 1957.

b) 'X' received a vacant site under his father's will. The value of the site on 31.3.2013 is ₹15 Lakhs. As per terms of the 'Will' in the event 'X' wants to sell the site he should offer it to his brother for sale at ₹10 Lakhs. 'X', therefore, claims that the value of the site should be taken at ₹10 Lakhs as at 31.3.2013. Is the claim correct?

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Answer 23.

a) Assesses : Bidyut, Kingshuk & Deepak Valuation Date : 31.3.2013

Assessment Year: 2013-

14

Computation of net wealth of the Firm

Particulars	₹	₹
Value of Assets located in India	80,00,000	
Less: Liability in relation to assets in India	40,00,000	40,00,000
Value of Assets located outside India		30,00,000
Net Wealth of the Firm		70,00,000

b) As per Rule 21 of Schedule III to the Act, the **price or other consideration for which** any property may be **acquired by or transferred to any person under the terms of a deed of trust** or through or under any restrictive agreement in any instrument of transfer **shall be ignored** for the purpose of determining the value under the provisions of the Schedule.

In view of the above, the value of the site should be taken as ₹ 15 Lakhs and not as ₹ 10 Lakhs.

Therefore, **claim of X is incorrect.**

Q. 24. a) Raja, an individual was carrying on a business as sole proprietor. On his death, his legal heirs decided to continue the same business by forming a firm. At the time of death, Raja had a determined business loss of ₹ 3 lakhs, under the provisions of the Income-tax Act, to be carried forward. Does the firm, consisting of all the legal heirs of Raja, get a right to have this loss adjusted against its current income ? Discuss.

b) Bharat Ltd. Purchased a flat for a sum of ₹ 6.5 lakhs in 1979, which was allowed to be used by Mr. Pratap, Director, as residence free of rent. On retirement of Pratap from the Company in 2012, Bharat Ltd. Sold the flat to Pratap for a sum of ₹ 6.5 lakhs on the plea that it was a tenanted property and hence could not be sold for a higher price. Discuss the impact of these transactions in the hands of Bharat Ltd and Mr. Pratap.

Answer 24.

a) Under section 78, on death of an individual, if the legal heirs carry on the business of the individual by forming a Partnership, then the firm is entitled to carry forward the loss of individual. [Madhukant Mehta 247 ITR 805 (SC)]. In the instant case, the carry forward business loss in the hands of late Mr. Raja can be set off against the income of the firm subject to the following conditions :

- (i) The legal heirs are the only partners and no other outsiders are involved
- (ii) The business carried on belongs to the deceased assessee.

In view of the Supreme Court decision given above, they are entitled to carry forward and set off Mr. Raja's business loss of ₹ 3 lakhs.

b) In the hands of Bharat Ltd. : Under Section 50C, where any land or building is transferred and if the value is below the value determined by Stamp Duty Valuation Authority, then Capital Gains shall be computed on the value determined by Stamp Duty Valuation Authority.

Capital Gain = value determined by Stamp Duty Valuation Authority or Actual Consideration (whichever is higher)

Less : Indexed cost of acquisition

In the hands of Mr. Paratap : The difference between the Fair Market Value of the house and the consideration paid shall be treated as perquisite u/s/ 17(2) and chargeable under the head "Salaries".

Q. 25. a) An interest free loan of ₹ 60 lakhs was given by Raja Ltd. to its sister concern Rani Ltd. (which sells its entire production to Raja Ltd.) for procurement of raw material available at a discount on cash payment. Assessing Officer proposes to disallow the interest paid on loans by Raja Ltd. To the extent of interest foregone by advancing loan to Rani Ltd.. Is the action of A.O. correct ?

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b) A company had an inventory of closing stock on 31.03.2013, the cost of manufacture of which was ₹ 12 lakhs. Since the goods were liable to excise duty, a provision of ₹ 12 lakhs, towards the duty was also made in the accounts. Since the excise duty was eligible for deduction only on actual payment, the Company valued the closing stock at cost viz. ₹ 12 lakhs. Discuss the position from the taxation point of view.

Answer 25.

a) There should be nexus between the interest expenditure and the purpose of the business which need not necessarily be the business of the Assessee himself. [S.A. Builders Ltd. Vs. CIT 206 CTR 631 (SC)] Interest paid on the borrowed capital for the purpose of business is deductible irrespective of the fact that substantial amount was outstanding and due from its sister concern [Caldern Pharmaceuticals Ltd. 136 Taxman 531 (Cal.)]

On the basis of the above, the AO's action to disallow interest paid by Raja Ltd. To the extent of interest foregone by advancing loan to Rani Ltd. Is incorrect.

b) Under section 145A, any tax, cess, duty or fee actually paid or incurred by the assessee to bring the goods to the place of the location and condition as on the valuation date should be added to the cost of manufacture for determining the value of the goods.

Therefore, the company should add the excise duty payable on the goods to the cost of ₹ 12 lakhs.

Section 43B is applicable only for the allowability of excise duty paid, and has no bearing on valuing closing stock on the Balance Sheet date. Therefore, the company's contention is not correct.

Q. 26. a) Suvam & Co. started two separate industrial undertaking, which prima facie are eligible for deduction u/s 80-IB. For the year ending 31.03.2013, the profit of one unit was ₹ 5 lakhs while the other unit suffered a loss of ₹ 1 lakh.

The Assessing Officer has allowed the deduction u/s 80-IB on the net profit of ₹ 4 lakhs. Discuss the validity of the order of the AO?

b) Mr. Asrani won the first prize in a quiz show and the prize was a Maruti Car worth ₹ 3.60 lakhs. According to Sec 194B, tax has to be deducted at source from the winning of the show at the time of payment of the prize money. What is the procedure to be adopted handling over the Maruti Car to Mr. Asrani ?

Answer 26.

a) Under section 80 IB deduction is available in respect of the profits or gains derived from the eligible industrial undertaking of the assessee. [Canara Workshops Pvt. Ltd. 161 ITR 320 (SC)]. Even section 80 IB expressly provides that the deduction under this section shall be calculated on the gains derived from such undertaking.

In view of the above, Suvam & Co. is entitled for deduction u/s 80 IB at 25% of income derived from first undertaking, not on the net income from the two undertakings.

Hence, the eligible deduction for the AY 2013-2014 is ₹ 1,25,000 (₹ 5,00,000 x 25%)

Total income shall be net income from both the undertakings less deduction u/s 80 IB i.e. ₹ 4,00,000 less ₹ 1,25,000 = ₹ 2,75,000. Therefore, the action of the AO is not valid in law.

b) Under proviso to section 194B, where earnings are wholly in kind or partly in cash and partly in kind, but the part in cash is not sufficient to meet the liability of deduction of tax in respect of the whole of the winnings, the person responsible for making the payment shall, before releasing the winnings, ensure that tax has been paid in respect of the winnings.

Hence, where the prize is not in cash but in kind, then the winner of the prize shall deposit the amount of tax on the value of the prize won in kind and then claim the prize.

The person conducting the show should collect tax equivalent to ₹ 1,08,000 i.e. 30% x value of the car from Mr. Asrani before handing over the Maruti car to him. [Note : Where the winnings exceed ₹ 10,000 the entire winnings are liable for TDS.]

Q. 27. a) What is a protective assessment under Income-tax law? What is the procedure followed for the recovery of tax in such cases?

b) What do you mean by annexure less return? What is the manner of filing the return of income?

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Answer 27.

a) A protective assessment is made in a case where there are doubts relating to the true ownership of the income. If there is an uncertainty about the taxing of an income in the hands of Mr. A or Mr. B, then at the discretion of the Assessing Officer, the same may be added in the hands of one of them on protective basis. This is to ensure that on finality, the addition may not be denied on the ground of limitation of time. Once finality regarding the identity of the tax payer to be taxed is established, the extra assessment is cancelled. But the Department cannot recover the tax from both the assesseees in respect of the same income. Penalty cannot be imposed on the strength of a protective assessment.

b) The return of income required to be furnished in Form No. ITR-1, ITR-2, ITR-3, ITR-4, ITR-5 or ITR-6 shall not be accompanied by a statement showing the computation of the tax payable on the basis of the return, or proof of the tax, if any, claimed to have been deducted or collected at source or the advance tax or tax on self-assessment, if any, claimed to have been paid or any document or copy of any account or Form or report of audit required to be attached with the return of income under any of the provisions of the Act.

Manner of filling the return: The return of income referred to in sub-rule (1) may be furnished in any of the following manners, namely:-

- (i) Furnishing the return in a paper form;
- (ii) Furnishing the return electronically under digital signature;
- (iii) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V;
- (iv) Furnishing a bar-coded return in paper form.

Q. 28. a) An assessee has filed a belated return showing a business loss. What is the remedy available to him for carry forward and set off of the said loss?

AG Ltd. filed its return of loss for the Assessment Year 2013 – 2014 on 10.01.2014 beyond the time prescribed u/s 139(3) declaring a total loss of ₹ 12,00,000. It approaches you for your advice regarding the course of action to be taken to secure the benefit of carry forward of the business loss for set off against future profits. Advise the company suitably.

b) Sawant is a fashion designer having lucrative business. His wife is a model. Sawant pays her a monthly salary of ₹ 20,000. The Assessing Officer, while admitting that the salary is an admissible deduction, in computing the total income of Sawant, had applied the provisions of Sec. 64(1) and had clubbed the income (salary) of his wife in Sawant's hands.

Discuss the correctness of the action of the Assessing Officer.

Answer 28. a)

- A. **CBDT's Powers:** CBDT has the powers to condone the delay in filing return in cases having claim of carry forward of losses. [**Associated Electro Ceramics vs. CBDT 201 ITR 501 (Kar.)**]
- B. **Monetary limits** prescribed for the condonation of delay are as under – [**Cir. No. 8/2001 dt. 16.5.2001**]

Refund claimed	Authority empowered to condone
Upto ₹ 10,000	Assessing Officer with the prior approval of the CIT
₹ 10,001 - ₹ 1,00,000	Assessing Officer with the prior approval of the CCIT / DGIT
₹ 1,00,001 and above	Central Board of Direct Taxes

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C. Analysis and conclusion: Here, since the loss of AG Ltd. is ₹ 12,00,000, the authority empowered to condone the delay is CBDT. Hence, AG Ltd. has to file a condonation petition to the CBDT to carry forward the business loss.

b) Where an individual has got substantial interest in a concern and his spouse derives any income from such concern by way of salary, commission, fees or by any other mode, such income is clubbed with the total income of such individual [Sec. 64(1)(ii)].

However, clubbing provision does not apply if the earning spouse holds technical or professional qualification and the income is solely attributable to the application of such knowledge and experience. Salary earned by wife as model from the concern where her husband holds substantial interest is assessable as her income.

Q. 29. a) A Company, incorporated for the manufacture of steel, had not commenced production. The plant and machinery was in the stage of erection. During the Previous Year ending 31.3.2013, it paid interest on borrowings, amounting to ₹ 20 Lakhs. It also received interest of ₹ 1.50 Lakhs on investment in short-term deposits of moneys not immediately required for business. The Assessing Officer assessed the interest income under other sources. Discuss the correctness of the assessment.

b) Discuss the admissibility or otherwise of the following claims in connection with assessment to income-tax. They do not necessarily relate to the same assessee:

- (i) An expenditure of ₹ 1,00,000 was incurred on the occasion of the silver jubilee of the company for presentation of silver mementos to shareholders and directors, the value of each memento being ₹ 1,000 only.
- (ii) An assessee carries on business in respect of which it holds tenancy rights. It carries out improvements to the said building at a cost of ₹ 2,00,000 and claims depreciation @ 10% thereon. The assessing officer rejects the claim on the ground that the assessee is not the owner of the building.
- (iii) Excise duty amounting to ₹ 2,00,000 for the period 2012-13 was paid by the company by 30-9-2012 before furnishing the return of income for the Assessment Year 2013-14.
- (iv) A criminal case was filed against a company under the Essential Commodities Act, 1955. The company incurred litigation expenses amounting to ₹ 50,000 to defend the directors. The directors were ultimately acquitted.
- (v) A company was generating electricity privately for its factory. Later, at its expense, electric lines were laid from the trunk road to the factory. It paid ₹ 5,00,000 to the State Electricity Board as its contribution for this purpose. The ownership of the power-line was to vest with the State Electricity Board.
- (vi) X and Y are two shareholders of Pooja Ltd., a closely held company. X holds 55% share capital on 30-1-2012, X transfers his shares to A. Pooja Ltd. wants to set off brought forward loss of ₹ 4,00,000 (business loss ₹ 1,00,000; unadjusted depreciation ₹ 3,00,000) of the Previous Year 2011-12 against the income of the previous year 2012-13 (i.e., ₹ 9,00,000). Can it do so?

Answer 29.

(a) Interest on surplus funds: Interest income earned on deposits made out of surplus funds before commencement of business is taxable as "Income from Other Sources".

In view of the above judgment, the sum received as interest on deposits shall be charged to tax under the head 'Income from Other Sources'.

No part of the interest paid on the loan borrowed shall be allowed as deduction u/s 57 as the same was not borrowed wholly and exclusively for the purpose of earning such interest. Whole of such interest shall be capitalised.

Therefore, the action of the Assessing Officer is correct.

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b)

- (i) As per the decision of the Apex Court in the case of *Aluminum Corporation of India Ltd. v CIT* (1972) 86 ITR 11 (SC) and various other decisions, where an expenditure is incurred for commercial expediency, the same shall be allowed as deduction under section 37(1). If at the time the expenditure is incurred, commercial expediency justifies it, it will be taken to be for the purpose of the business even though not supported by any prevailing practice.

Presentation of silver mementos to the directors and shareholders on the occasion of silver jubilee is to motivate both the directors and the shareholders. The expenditure has been incurred on account of commercial expediency and should qualify for deduction under section 37(1).

- (ii) According to Explanation to section 32(1) where the business or profession of the assessee is carried on in a building not owned by him but in respect of which the assessee holds a lease or other right of occupancy and any capital expenditure is incurred by the assessee for the purposes of the business or profession on the construction of any structure or doing of any work, in or in relation to, and by way of renovation or extension of, or improvement to, the building, then, the provisions of section 32 shall apply as if the said structure or work is a building owned by the assessee. Hence, depreciation in this case will be allowable.
- (iii) As the excise duty has been paid on or before the due date of furnishing return under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred, the same shall be allowed as deduction on due basis as per section 43B.
- (iv) Section 37(1) does not make any distinction between expenditure incurred in civil litigation and that incurred in criminal litigation. All that the court has to see is whether the legal expenses were incurred by the assessee in his character as a trader, in other words, whether the transaction in respect of which proceedings are taken arose out of and was incidental to assessee's business. Further, it is to be seen whether the expenditure was *bona fide* incurred wholly and exclusively for the purpose of the business. [*CIT vs. Birla Cotton Spg. & Wvg. Mills Ltd.* (1971) 82 ITR 166 (SC)]. In view of this, the litigation expenses of ₹ 50,000 incurred in defending directors is deductible under section 37(1).
- (v) The new electric power lines were laid to run the factory efficiently but since the ownership of the power lines was to vest with the State Electricity Board, the contribution of ₹ 5,00,000 paid to the State Electricity Board shall be allowable as revenue expenditure under section 37(1).
- (vi) According to section 79 the losses of a closely held company can be carried forward and set off in the subsequent assessment year only when at least 51% of the shares of the company carrying voting rights are held by the same persons as on the last day of the Previous Year in which the loss was incurred and the last day of the previous year in which the losses are set off. In this case business loss will not be allowed to be set off but unabsorbed depreciation is not a loss and shall be allowed to be set off.

Q. 30. a) The Assessing Officer has served a notice proposing to levy penalty under section 271(1)© of the Income Tax Act 1961, as the variation of income assessed to income returned and also the tax effect was more than 30%. The addition arose consequent to the disallowance of claim of assessee. The assessee wants to reply to the effect that there was no mens rea or conscious act of concealment on his part and that the claim made was bonafide, the levy of penalty under section 271(1)© is not valid. You are requested to help the assessee in this regard in drafting a suitable reply.

b) Mr. Pradip, a foreign technician is employed with an Indian company. His contract of service was approved by the Government. He was in receipt of bonus from the said Company where he is working. The Assessing Officer subjected the amount to tax on the ground that bonus receipt falls outside the purview of the contract of service. Is the Assessing Officer justified?

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Answer 30.

a) Merely because the assessee had claimed the expenditure, which claim was not accepted or was not acceptable to the revenue, that by itself would not, attract the penalty under section 271(1)© as it does not amount to furnishing of inaccurate particulars. [Reliance Petroproducts Pvt. Ltd. (2010) 322 ITR 158, CIT vs. Vijay Kumar Jain 325 ITR 378 (Chhattisgarh)].

Since in the given case the penalty is rejected due to disallowance of the claim made by the assessee on an honest belief, the assessee can put forth the above supreme court decision in his reply to the notice issued by AO.

b) U/s 9(1)(ii) salary earned in India is deemed to accrue or arise in India and is taxable in India. The salary and bonus paid to a foreign technician for services rendered in India is taxable in India and the same is not entitled for any exemption from the Assessment Year 2008-09 onwards.

