Paper-7: Applied Direct Taxation

Time Allowed: 3 hours **Full Marks: 100**

All the questions relate to the assessment year 2015-16, unless stated otherwise.

Working notes should form part of the answers.

Answer **Question No. 1** which is compulsory and **any five** from the rest.

Question 1.

(a) Choose the most appropriate alternative: **[1x13]**

(i) Under Section 10(10) of the Income tax Act, 1961, in case of non-government employee, the maximum amount of gratuity received which is not chargeable to tax shall be:
(A) ₹ 3,50,000;
(B) ₹ 3,00,000;
(C) ₹ 2,50,000;
(D) ₹ 10,00,000.

(ii) Loss from business can be set-off against other income in subsequent assessment year(s) except:
(A) Income from speculation business;
(B) Income under the head house property;
(C) Income under the head other sources;
(D) Income under the head Salaries.

(iii) In respect of every domestic company having total income exceeding ₹ 1 crore, but less than ₹ 10 crore, the rate at which surcharge is charged on the income tax payable is:
(A) 5%;
(B) 10%;
(C) 7.5%;
(D) 2%.

(iv) Credit of Minimum Alternate Tax (MAT) in respect of excess amount of tax paid under Section 115JB of the Income tax Act, 1961 could be carried forward for-
(A) 8 Assessment Year;
(B) 5 Assessment Year;
(C) 7 Assessment Year;
(D) 10 Assessment Year.

(v) A company is said to be a resident in India in previous year, if:
(A) It is an Indian company;
(B) The control and management is wholly situated in India;
(C) Either it is an Indian company or the control and management is wholly situated in India;

(D) It is both an Indian Company and the control and management is wholly situated in India.

(vi) The method of accounting for computing income is the method of accounting regularly employed by the assessee under the head:
(A) House Property
(B) Capital Gain
(C) Salaries
(D) Profits and gains from Business or profession

(vii) Income earned and received outside India in 2008-09 but remitted to India in the financial year 2014-15, is taxable in the hands of:
(A) Resident;
(B) Resident but not ordinarily resident;
(C) Non-resident;
(D) None of the above.

(viii) Leave encashment at the time of retirement or leaving job in case of a non-government employee is exempt to the extent of maximum of the following:
(A) ₹ 3,50,000;
(B) ₹3,00,000;
(C) ₹ 10,00,000;
(D) ₹ 2,50,000.

(ix) Which of the following is covered for deduction under section 80D of the Income Tax Act, 1961:
(A) Repayment of loan taken for higher education;
(B) Medical treatment of handicapped dependent;
(C) Medical insurance premium;
(D) Reimbursement of medical expenses.

(x) Any rent or revenue derived from land may be treated as agricultural income if-
(A) it is derived from land;;
(B) the land is situated in India;
(C) the land is used for agricultural purpose;
(D) all the above conditions are satisfied.

(xi) To file return of income, the form which is used for individuals and HUFs, not having business / professional income, is:
(A) ITR-2;
(B) ITR-4;
(C) ITR-3;
(D) ITR-7.

(xii) For the assessment year 2015-16, the royalty income in the hands of a foreign company is taxable at the rate of:
(A) 30% plus surcharge, education cess and secondary and higher education cess;
(B) 25% plus surcharge, education cess and secondary and higher education cess;
(C) 20% plus surcharge, education cess and secondary and higher education cess;

(D) 15% plus surcharge, education cess and secondary and higher education cess.

(xiii) In which of the following cases, the Dearness Allowance / pay (forming part of salary as per the terms of employment or forming part of salary for computing all retirement benefits) is not considered for the meaning of salary:
(A) Salary for the purpose of house rent allowance;
(B) Salary for the purpose of leave encashment;
(C) Salary for the purpose of entertainment allowance;
(D) Salary for the purpose of rent-free house.

(b) Fill up the blanks: [1×12]

(i) Employers contribution towards an approved superannuation fund will be chargeable to tax in the hands of an employee to the extent it exceeds ₹ ___________ per annum.

(ii) Any sum received under a Keyman insurance policy (including bonus) is taxable under the head _____________________.

(iii) In case of family pension, the amount of standard deduction is ₹ __________ or __________ per cent of such income, whichever is less.

(iv) In case where the income of individual includes the income of his or her minor child, such individual shall be entitled to exemption of ₹ _________ in respect of each minor child or the actual amount in case of income of minor is less than that amount.

(v) As per section 80G of the Income-tax Act, the donation to the Indira Gandhi Memorial Trust is eligible for deduction of _____ per cent of net qualifying amount.

(vi) The provisions of Alternate Minimum Tax are applicable in case of an individual, HUF, AOP, BOI, artificial juridical person if adjusted total income exceeds ₹ ______________.

(vii) Exemption of capital gains under section 54GA of the Income-tax Act is allowed on transfer of assets in case of shifting of an industrial undertaking from urban area to any _______________________.

(viii) As per section 35DD of the Income-tax Act, if an Indian company incurs any expenditure for the purpose of amalgamation or demerger, it is allowed as deduction in ___________ successive years in ___________ equal installments.

(ix) In computing income from the house property, interest on borrowed capital is allowable as deduction u/s ________ of the Income-tax Act if the capital is borrowed for the purpose of purchase, construction, repair, renewal or reconstruction of the property.

(x) In case of corporate assessee, the due date of installment in a relevant previous year for payment of 45% of advance tax is on or before __________________.

Answer to 1(a):

(i) (D) ₹ 10,00,000.

(ii) (D) Income under the head Salaries.

(iii) (A) 5%.

(iv) (D) 10 Assessment Year.

(v) (C) Either it is an Indian company or the control and management is wholly situated in India.

(vi) (D) Profits and gains from Business or profession.

(vii) (D) None of the above

(viii) (B) ₹ 3,00,000

(ix) (C) Medical insurance premium
(x) (D) all the above conditions are satisfied
(xi) (A) ITR-2
(xii) (B) 25% plus surcharge, education cess and secondary and higher education cess
(xiii) (C) Salary for the purpose of entertainment allowance

Answer to 1(b):
(i) 1 lakh
(ii) income from other sources
(iii) 15,000, 33⅓
(iv) 1,500
(v) 50
(vi) 20 lakhs
(vii) Special Economic Zone.
(viii) five, five
(ix) 24(b)
(x) 15th September

Question No. 2

(a) The following are the particulars of income of Mr. P for the previous year 2014-15:

Particulars	₹
(a) Rent from a property in Delhi received in USA	**80,000**
(b) Income from a business in USA controlled from Delhi	**1,20,000**
(c) Income from a business in Bangalore controlled from USA	**1,80,000**
(d) Rent from a property in USA received there but subsequently remitted to India	**60,000**
(e) Interest from deposits with an Indian company received in USA	**20,000**
(f) Profits for the year 2013-14 of a business in USA remitted to India during the previous year 2014-15 (Not taxed earlier)	**75,000**
(g) Gift received from his parents.	**45,000**

Compute his income for the assessment year 2015 –16 if he is:

(i) Resident and ordinarily resident in India,
(ii) Not ordinarily resident in India,
(iii) Non-resident in India. [6]

Solution:

Particulars	Resident and ordinarily resident	Not Ordinarily resident	Non-Resident
(1) Income earned/deemed to a accrue/arise in India			
Rent from property in Delhi	80,000	80,000	80,000
Income from business in Bangalore	1,80,000	1,80,000	1,80,000

Interest from Indian company	20,000	20,000	20,000
(2) Income earned and received outside India, form a business controlled from India Income from business in U. S. A.	1,20,000	1,20,000	-
(3) Income earned and received outside India other than (2) Rent from property in U. S. A	60,000		
	4,60,000	4,00,000	2,80,000

1. Profits of 2013-14 are not income of the previous year 2014-15 and hence cannot be included in the income for assessment year 2015-16.
2. Gifts received are capital receipts and are not regarded as income.

(b) Tarun is employed with ABC Ltd. on a monthly salary of ₹25,000 per month. The company provides him with the following benefits:

- **I.** **A company owned accommodation is provided to him in Delhi.**
- **II.** **The company has given him a housing loan of ₹5,00,000 on which it charges interest @6% per annum. The entire loan is still outstanding. (Assume the interest charged by SBI is 10% p.a.)**
- **III.** **The company gave him a gift worth ₹15,900 on his 50th birthday on 21.10.2014.**
- **IV.** **He is allowed to use the video camera belonging to the company. The company had purchased this camera for ₹60,000 on 1.5.2010. This camera was sold to him on 1.8.2014 for ₹30,000**
- **V.** **The company had purchased a car on 16.7.2011 for ₹2,50,000. This car is sold to Tarun on 14.7.2014 for ₹80,000. The car was not being used by Tarun.**
- **VI.** **The company pays the telephone bills of ₹24,000 for the telephone installed at the residence of Tarun.**

Compute the Gross income from salary of Tarun for the assessment year 2015-16. [7]

Solution:

	₹	₹
Salary (₹25,000 × 12)		3,00,000
Value of accommodation (15% of salary)		45,000
Value for housing loan (4% of ₹5,00,000)		20,000
Gift in kind on birthday (₹ 15,900 - 5,000)		10,900
Value for use of video camera for 4 months $\left(60,000 \times \frac{10}{100} \times \frac{4}{12}\right)$		2,000
Benefit of sale of camera		
W.D.V. on basis of straight line method (₹60,000 - 18,000 depreciation for 3 completed years)	42,000	
Lew: Amount recovered	30,000	12,000
Benefit on sale of car W.D.V. (see note)	1,60,000	

Less: Consideration paid	80,000	80,000
Payment of telephone bills		(Exempt)
Gross income from salary		4,69,900

Note.—The car has been used from 16.7.2011 to 14.7.2014 and the completed years in this case are two. Therefore, the WDV shall be determined as under:

	₹
Original cost	2,50,000
Less: Depreciation for first year @20%	50,000
W.D.V.	2,00,000
Less: Depreciation for second year	40,000
	1,60,000

(c) Whether the following assets are "asset u/s 2(ea) of the Wealth Tax Act 1957?

i. In the cash book of an individual/HUF opening balance as on the valuation date is ₹1,85,000 out of which the assessee deposits ₹1,35,000 in his current account with the Citi Bank before the closure of banking hours on the same day (no other inflow and outflow of cash as on the same day).

ii. Residential house owned by a company and allotted to a part time director whose salary is ₹1,00,000 p.a. **[2]**

Answer:

i. Since, at the time of valuation i.e. last moment of valuation date the cash balance is only ₹50,000 hence assets u/s 2(ea) shall be taken as Nil.

ii. Yes, as the director is not a whole time director.

Question No. 3

(a) Sourav owns a house property in Delhi. From the particulars given below compute the income from house property for the assessment year 2015-16.

	₹
Municipal value	**2,00,000**
Fair rent	**2,52,000**
Standard rent	**2,40,000**
Actual rent (per month)	**23,000**
Municipal taxes	**20% of municipal value**
Municipal taxes paid during the year	**50% of tax levied**
Expenses on repairs	**20,000**
Insurance premium	**5,000**

Sourav had borrowed a sum of ₹12,00,000 @10% p.a. on 1.7.2012 and the construction of the property was completed on 28.2.2014. **[6]**

Solution:

Gross annual value shall be higher of the following two:

		₹	₹
(a)	Expected rent [Municipal value (₹2,00,000), Fair rent (₹2,52,000) whichever is higher, but limited to standard rent (₹2,40,000)	2,40,000	
(b)	Actual rent received/receivable (₹23,000 × 12)	2,76,000	
	∴ Gross annual value		2,76,000
	Less Municipal taxes paid [50% of (20% of ₹2,00,000)]		20,000
Less: Deductions u/s 24			2,56,000
(a)	Statutory deduction @ 30%	76,800	
(b)	Interest on borrowed money (see note below)	1,38,000	2,14,800
	Income from house property		41,200

Notes:

(1) Interest for pre-construction period
Pre-construction period shall be from 1.7.2012 to 31.3.2013 i.e. 9 months

Interest for 9 months = 12,00,000 × $\frac{10}{100} \times \frac{9}{12} = 90,000$

1/5 of ₹90,000	18,000
(2) Interest for previous year (10% of ₹12,00,000)	1,20,000
	1,38,000

(b) A company makes a slump sale of one of its divisions on 1.8.2014 for ₹20,00,000. The W.D.V. of the block of assets being plant and machinery carrying 15% depreciation was ₹12,00,000. The company has acquired a new machinery X on 5.7.2014 for ₹3,00,000 and sold machinery Y on 30.12.2014 for ₹9,00,000. The plant and machinery which were transferred under the slump sales were acquired at actual cost of ₹14,00,000. The amount of depreciation allowed on such plant and machinery was as under:
Actual depreciation upto assessment year 1988- 89 ₹2,40,000.
Depreciation for assessment years 1989-90 to 2014-15 (assuming that these were the only machines in that block) ₹4,50,000.
Compute the W.D.V. for the purpose of charging current year depreciation. [7]

Solution:

	₹	₹	₹
W.D.V. of the block as on 1.4.2014 (I)			12,00,000
Additions during the year for 180 days or more (II)			3,00,000

			15,00,000
Less: Sold during the year (III)			9,00,000
Balance WDV before Slump Sale			6,00,000
Less: Assets transferred in Slump Sale			
Actual cost		14,00,000	
Less: depreciation upto A.Y. 1988-89	2,40,000		
Depreciation upto A.Y. 2014-15	4,50,000	6,90,000	
WDV of the assets sold in slump sale is ₹7, 10,000, but deduction will be limited to WDV calculated as per step I + step II - step III i.e. ₹6,00,000		7,10,000	6,00,000
W.D.V. for the purpose of charging depreciation			Nil

The deduction of asset sold in the slump sale cannot exceed the W.D.V. calculated as per Step I + Step II - Step III. Further, there will be no short-term capital gain as per section 50 as the sale price of assets exclusive of slump sales is less than W.D.V. However, there will be capital gain on slump sale as per section 50B discussed later under chapter on capital gain and the W.D.V. of the assets sold in slump sale for computing capital gain under section 50B in that case shall be ₹6,00,000.

(c) State the power of Transfer Pricing Officer for the purpose determining arm's length price? **[2]**

Answer:

The Transfer Pricing Officer may, for the purposes of determining the arm's length price under this section, exercise all or any of the powers specified in clauses (a) to (d) of section 131(1) or section 133(6) or survey under section 133A. Thus, TPO shall now have power to conduct on the spot enquiry and verification.

Question No. 4

(a) A holds 5,000 shares (10%/of total share holding) in X Ltd. which he had purchased on 5.3.1994 for ₹2,00,000. The company went into liquidation on 16.7.2014 and paid a sum of ₹ 50 per share in cash and an asset whose market value as on the date of distribution i.e. 28.9.2014 was ₹6,40,000 to A. The accumulated profits of the company were ₹5,00,000.

(i) Compute the income of A for the assessment year 2015-16 assuming that he has no other income.

(ii) Compute the capital gain chargeable to tax if the asset X is sold by A for ₹7,00,000 on 28.3.2015. **[8]**

Solution:

Computation of Capital Gain of A assessment year 2015-16

(i) Capital Gain on transfer of shares

	₹	₹
Full value of consideration for capital gain (₹2,50,000 + 6,40,000)	8,90,000	
Less: Proportionate amount of deemed dividend (10% of ₹4,27,369)	42,737	8,47,263
Less: Indexed cost of acquisition – (₹2,00,000 ×1024) ÷ 244		8,39,344
Long-term capital gain		7,919
Income from other sources		
Deemed dividend (₹42,737)		exempt
Total Income		7,919

(ii) Capital gain on transfer of asset X

Full value of consideration	7,00,000
Less: Cost of acquisition (Market value as on date of distribution)	6,40,000
Short-term capital gain	60,000

The accumulated profits of the company are ₹5,00,000 and the company has to pay dividend tax @ 16.995% (15% + 10% surcharge + 2% education cess + SHEC @ 1%) on the amount of dividend distributed or paid. Hence, the amount to be distributed plus tax @ 16.995% on such amount should be ₹5,00,000.

Hence, the amount of tax shall be ₹5,00,000 × $\frac{16.995}{116.995}$ = 72,631

∴ the amount available for distribution is ₹5,00,000 – 72,631 = ₹4,27,369

Tax on ₹4,27,369 @ 16.995% is ₹72,631.

(b) X, a German national, came to India for the first time on 1.7.2008. During the period from 1.7.2008 to 31.3.2015, he stayed in India as follows—from 1.7.2008 to 31.10.2008; from 1.5.2008 to 31.10.2010; from 1.11.2010 to 31.12.2010 and from 1.7.2013 to 31.8.2014. During the previous year ended on 31.3.2015, X's income consisted of: (a) business in India: ₹40,000; (b) interest from an Indian company: ₹2,000; (c) dividends from non-Indian companies received in Germany but remitted to India: ₹5,000; (d) business in Germany (controlled from India): ₹25,000; (e) income from house property in Germany: ₹8,000. Determine, giving full reasons, the gross total income of X for the assessment year 2015-16 after ascertaining his 'residence' for the purpose of income-tax. [7]

Solution:

Stay in India during previous year 2014 –15	Days
1.4.2014 to 31.8.2014 (30 + 31 +30 + 31 +31)	153
Stay in India during 4 years preceding the previous year	
2013-14(31+31+30 + 31+30 + 31 +31+28 + 31)	274
2012 – 13	Nil
2011 – 12	Nil
2010 – 11 (30 + 31)	61
	333

Hence, he does not satisfy any condition for being a resident

Therefore he is a Non-resident

Taxable Income

	₹
(i) Business Income	40,000
(ii) interest from an Indian Company	2,000
	42,000

Question No. 5

(a) The income of X, who is totally blind, for the previous year 2014-15, is as under:

		₹
(i)	**Income from house property**	**1,82,000**
(ii)	**Income from interest on loan**	**27,000**
(iii)	**Income from interest on bank deposits under recurring**	**10,000**
(iv)	**Long-term capital gains**	**1,20,000**

He is eligible for deduction of ₹10,000 u/s 80C on account of PPF and ₹50,000 under section 80U. Compute his tax liability. **[5]**

Solution:

Particulars	₹
Gross Total Income (without long-term capital gains)	2,19,000
Less: Deductions u/s 80C and 80U (10,000 + 50,000)	60,000
Total income (without LTCG)	1,59,000
Tax on total income (₹1,59,000 + 91,000 shifted from LTCG)	Nil
Tax on long-term capital gain @ 20% on ₹29,000 (1,20,000 - 91,000)	5,800
Tax payable	5,800
Less: Rebate u/s 87A	2,000
	3,800
Add: Education cess & SHEC - @ 3%	114
Total tax payable	3914
Tax rounded off	3910

(b) Ms. S who draws a salary of ₹20,000 p.m. received the following gifts during the previous year 2014-15:

(i) Gift of ₹5,00,000 on 16.4.2014 from a friend.
(ii) Gift of jewellery fair market value of which is ₹3,00,000 on 17.5.2014 from her fiancee.
(iii) Gifts of ₹51,000 each received from her 4 friends on the occasion of her marriage on 21.10.2014.
(iv) Gift of ₹1,00,000 on 22.11.2014 from her mother's sister.
(v) Gift of ₹60,000 on 25.11.2014 from her father's brother.
(vi) Gift of ₹50,000 from her husband's friend on 1.12.2014.
(vii) Gift of ₹21,000 on 15.12.2014 from her mother's friend.
(viii) Gift of ₹26,000 on 25.12.2014 from her brother's father in law.
(ix) Gift of ₹1,21,000 from her husband's brother.
(x) Gift of ₹26,000 from her employer.
(xi) Scholarship of ₹1,20,000 from a charitable institution registered under section 12AA.
(xii) He has purchased a immovable property from B who is not his relative from a sum of ₹24,50,000. The stamp duty value of the property is ₹26,00,000.
(xiii) She purchased bullion for ₹4,40,000 whose fair market value is ₹4,85,000.
(xiv) Gift of immovable property from her friend whose stamp duty value is ₹5,00,000.

Compute her total income for the assessment year 2015-16. [10]

Solution:

		₹	₹
Income under the head salary			
Salary (20,000 × 12)		2,40,000	
Add: cash gift from employer		26,000	
		2,66,000	
Less: Deduction		Nil	2,66,000
Income from other sources			
(1)	Gift of money	₹	₹
(i)	Gift from a friend is includable	5,00,000	
(ii)	Gifts received from her 4 friends are exempt as they have been received on the occasion of her marriage	-	
(iii)	Gift from her mother's sister is exempt as the donor is covered in the definition of relative	-	
(iv)	Gift from father's brother is exempt as the donor covered in the definition of relative	-	
(v)	Gift of ₹50,000 from her husband's friend on 01.12.2014 is taxable as aggregate sum of money received during the year exceeds ₹50,000	50,000	
(vi)	Gift of ₹21,000 from her mother's friend is includable as aggregate sum of money received during the year exceeds ₹50,000	21,000	
(vii)	Gift from her brother's father in law is taxable as the donor is not covered in the definition of relative	26,000	
(viii)	Gift from her husband's brother is exempt as the donor is covered in the definition of relative	-	

(ix)	Gift from her employer is taxable as income from salary	-	
(x)	Gift in the form of scholarship from charitable institution registered u/s 12AA	exempt	
(2)	Gift of moveable property - Gift of jewellery is taxable	3,00,000	
(3)	Moveable property acquired for inadequate consideration - Difference between fair market value of movable property and purchase price does not exceed ₹50,000	Not taxable	
(4)	Gift of immovable property - Gift of immovable property received from her friend	5,00,000	
(5)	Immovable property acquired for inadequate consideration - Difference between stamp duty value and purchase price	1,50,000	15,47,000
	Total income		18,13,000

Question No. 6

(a) Mrs. Satya Yadav received the following amounts during financial year 2014 –15:

	₹
Gross Salary	**5,30,000**
Family Pension (₹10,000 × 12)	**1,20,000**
Income of a minor child	**49,000**
Accumulated balance in PF of her husband after his death	**1,00,000**
Gratuity received after the death of husband	**1,00,000**

Calculate taxable income of Mrs. Satya Yadav and tax liability for the assessment year 2015-16.

[6]

Solution:

Computation of taxable income of Mrs. Satya Yadav for the assessment year 2015-16 Income from Salary

	₹	₹
Gross salary	5,30,000	
Less: Deduction	Nil	5,30,000
Income from other sources		
Family pension	1,20,000	
Less: Deduction u/s 56 1/3 or ₹ 15,000 whichever is less	15,000	1,05,000
Income of a minor child	49,000	
Less: Exemption u/s 10(32)	1,500	47,500
Gross total income		6,82,500
Tax payable		66,500
Add: Education cess & SHEC - @ 3%		1,995
Tax rounded off		68,500

Note.—Accumulated balance in PF and amount of gratuity received after the death of husband is exempt from tax as it is assumed to be within the limit prescribed by section 10(10).

(b) M, who was born on 4.01.1950 submits the following information:

Particulars	**₹**
1. Rent from house (per month)	**25,000**
2. Municipal taxes paid during the previous year	**20,060**
3. Long-term capital gains on sale of gold	**1,00,000**
4. Interest on bank deposits (gross)	**44,150**
5. Term deposit made during the year in a schedule bank for six years	**20,000**

Compute the Total Income and tax liability of M for assessment year 2015-16. [7]

Solution:

	₹	₹
Income from house property:		
Actual rent	3,00,000	
Less: Municipal taxes (paid)	20,000	
	2,80,000	
Less: Statutory deduction @ 30%	84,000	1,96,000
Long-term capital gain: On sale of gold		1,00,000
Income from other sources: Interest on bank deposits		44,150
Gross Total Income		3,40,150
Less: Deduction u/s 80C		20,000
Total Income		3,20,150
Computation of tax:		
Tax on Total Income of ₹2,20,150 + 79,850 shifted from LTCG		Nil
Tax on long-term capital gains @ 20% on ₹20,150 (₹1,00,000 - 79,850)		4,030
Tax payable		4,030
Less: Rebate u/s 87A		2,000
		2,030
Add: Education cess & SHEC - @ 3%		61
Tax (round off)		2,090

(c) Discuss the manner of determination of arm's length price. [2]

Answer:

The manner of determination of arm's length price referred to in section 92CC(1), may include the methods referred to in section 92C(1) (i.e. 6 methods) or any other method, with such adjustments or variations, as may be necessary or expedient so to do.

Question No. 7

(a) Dream Company Ltd. has let-out a premise with effect from 1.10.2014 for monthly rent of ₹1.5 lakh. The lease is valid for 10 years and the tenant has made a deposit equivalent to 3 months rent. The tenant has undertaken to pay the municipal taxes of the premises amounting to ₹ 2 lakh. What will be the value of the property under Schedule III of the Wealth Tax Act for assessment to wealth tax? [4]

Solution :

Assessee: Property Company Ltd. Valuation Date: 31.3.2015 Assessment Year : 2015-16

Computation of Value of Let-out Property

Actual Annual Rent Receivable - ₹ 1,50,000 × 12 Months	18,00,000
Add: Municipal Taxes borne by the Tenant	2,00,000
GROSS MAINTAINABLE RENT	20,00,000
Less: Municipal Taxes levied by the Municipal Authority	2,00,000
Less: 15% of Gross Maintainable Rent ₹ 20,00,000 × 15%)	3,00,000
NET MAINTAINABLE RENT	15,00,000

(b) E, an employee of XYZ Pvt. Ltd. retired from the company on 30.11.2014. At the time of his retirement, he received ₹1,44,000 as leave salary from his employer. The following information is provided by the employee:

(1) Salary at the time of retirement (per month)	**₹9,000**
(2) Period of Service	**20 years & 8 months**
(3) Leave encashment	**₹1,44,000**
(4) Leave availed while in service	**14 months**
(5) Balance unavailed leave at the time of retirement	**16 months**
(6) Average salary for the months of February, 2014 to November, 2014	**₹8,800**
(7) Leave entitlement	**1 ½ month for every completed year of service**

Compute the amount of taxable leave encashment. [4]

Solution:

The minimum of the following four amounts will be exempt:

(a) Leave encashment actually received = ₹1,44,000
(b) 10 months' average salary i.e. ₹8,800 ×10 = ₹88,000
(c) Leave encashment for 6 months @ ₹8,800 p.m. = ₹52,800
(d) Amount specified by the Government i.e. ₹3,00,000

Hence ₹52,800 would be exempt and the balance of ₹91,200 would form part of gross salary.

(c) 'X' received a vacant site under his father's will. The value of the site on 31.3.2015 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 31.3.2015. Is the claim correct? [4]

Solution :

1. 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.
2. In view of the above, the value of the site should be taken as ₹ 15 Lakhs and not as ₹ 10 Lakhs.
3. Therefore, **claim of X is incorrect.**

(d) Briefly discuss the tax treatment of Limited Liability Partnership under the Income Tax Act, 1961. [3]

Answer:

The tax treatment of the Limited Liability Partnerships (LLPs), as contained in the provisions of the Income Tax Act, 1961 are discussed in the following points:

(i) The taxation scheme of the LLPs, in the Income Tax Act, 1961, is on the same lines, as applicable for partnerships. Accordingly, tax liability would be attracted in the hands of the LLP and tax exemption would be available to the partners.

(ii) The rate of income-tax applicable to the LLPs is 30% of the total income.

(iii) The provisions of Section 40(b) requiring payment of remuneration only to working partner, in accordance with the terms of the partnership deed for a period commencing on or after the date of the partnership deed, shall be applicable to LLPs as well.

(iv) Expenditure in relation to interest, in excess of 12% per annum and salary exceeding the prescribed percentage of book profit, shall stand disallowed.

(v) Presumptive Tax Scheme u/s 44AD is not applicable to LLP.

(vi) Unlike a company, LLP is not subject to Minimum Alternate Tax (MAT), Dividend Distribution Tax (DDT) and Wealth Tax.

Question No. 8

(a) Municipal valuation of a house is ₹3,00,000, its fair rent is ₹4,00,000 whereas its standard rent is ₹3,60,000. This house property is letout for ₹27,500 p.m. It remained vacant for 3 months. Municipal taxes paid ₹60,000.

Compute annual value of the house. [7]

Solution:

Step I: Expected rent

Municipal value ₹3,00,000 or Fair rent ₹4,00,000 whichever is more but cannot exceed the standard rent i.e. ₹3,60,000. Hence, expected rent is ₹3,60,000.

Step II: Actual rent received or receivable

₹27,500 × 9 = ₹2,47,500

Since actual rent received or receivable is less not only owning to vacancy but also due to actual rent ₹27,500 p.m. being less than the expected rent i.e. ₹30,000 p.m. Hence, we cannot take gross annual value as actual rent. In this case we shall take the expected rent to be the gross annual value. Therefore, the annual value shall be ₹3,60,000.

Since the house remained vacant for 3 months, the vacancy allowance should be allowed for 3 months proportionately from the expected rent.

	₹
Hence, expected rent for 12 months	3,60,000
Less: Vacancy for 3 months on proportionate basis (₹3,60,000 × 3/12)	90,000*
∴ Gross annual value	2,70,000
Less: Municipal tax paid	60,000
Net annual value	2,10,000

* As we have taken notional rent i.e. expected rent into consideration, the vacancy allowance should also be allowed on the basis of expected rent and not on the basis of actual rent.

(b) Mr. X (age 55 years) has following income during the year 2014-15:

	₹
1. Salary	**3,65,000**
2. Rent received from property in Delhi (per month)	**4,000**
3. Winnings from lottery (Gross)	**15,000**
He makes the following deposits/Payments during the year	
1. Contribution towards PPF	**10,000**

2. Premium paid in cash on Mediclaim policy for his dependant father	**8,000**
3. Purchase of listed equity shares of notified company as new retail investor	**40,000**
4. Amount paid in cash for preventive health check of himself and spouse	**6,000**

He has a son being a person with disability, dependant on him, for whom he incurs expenses for his medical treatment and rehabilitation. He also deposits a sum of ₹25,000 for the benefit of his son under a scheme framed by the UTI for such a purpose.

(a) Compute his Total Income for the assessment year 2015-16.

(b) Compute his tax liability for the assessment year 2015-16. **[8]**

Solution:

(a)

	₹	₹
Income from salary	3,65,000	
Less: Deduction under section 16	Nil	3,65,000
Income from House Property		
Rent received ₹4,000 × 12	48,000	
Less: 30% as statutory deduction	14,400	33,600
Income from Other Sources		
Winnings from lotteries		15,000
Gross Total Income		4,13,600
Less: Deductions u/s 80C to 80U		
(i) 80C	10,000	
(ii) 80CCG 50% of ₹40,000 or ₹25,000 whichever is less	20,000	
(iii) 80D (₹8,000 not allowed as payment is made in cash, ₹6,000 paid in cash for preventive health check up allowed to the extent of ₹5,000)	5,000	
(iv) 80DD	50,000	85,000
Total Income		3,28,600

(b)

	₹	₹
Computation of tax-liability: Tax on ₹3,28,600		
Total income includes ₹15,000 as winning from lottery which will be taxable at a special rate of 30%	4,500	
Balance income of ₹3,13,600 at the normal slab rate of tax	6,360	10,860
Less: Rebate u/s 87A		2,000
		8,860
Add: Education cess & SHEC - @ 3%		266
Tax (rounded off)		9,130