

Paper 7- DIRECT TAXATION

Paper 7 - Direct Taxation

Full Marks: 100

Time allowed: 3 hours

All questions relate to Income Tax Assessment Year 2020-21 and the provisions stated relate to the Income-tax Act, 1961, unless otherwise stated in the question

Answer Question No. 1, which is compulsory and any five from Question No.2 to 8.

1. (A) Choose the most appropriate alternative for the following: [10x1=10]
- (i) Income from a house property located outside India is:
- (a) Taxable in hands of all assessee
 - (b) Taxable in hands of non-resident assessee
 - (c) Taxable in hands of resident and ordinarily resident assessee
 - (d) Exempted from tax in India.
- (ii) Deduction u/s 35AD is available in respect of expenditure on specified business provided such business commenced its operation on or after 01-04-2009 subject to an exception. The exception is:
- (a) Business of industrial undertaking may be commenced at any time on or after 01-04-2007
 - (b) Business of laying and operating a cross-country natural gas pipeline network may be commenced at any time on or after 01-04-2007
 - (c) Business of cold chain facility may be commenced at any time on or after 01-04-2007
 - (d) All of the above
- (iii) An assessee has incurred Rs. 1,00,000 on the cultivation of agricultural produce. 50% of the produce has been sold for Rs. 1,00,000 and the balance 50% has been used by the assessee for his self consumption, the agricultural income in this case shall be:
- (a) Rs. 10,000
 - (b) Rs. 60,000
 - (c) Rs. 1,20,000
 - (d) None of the above
- (iv) If goodwill of a profession which is self generated is transferred, there will:
- (a) not be capital gain
 - (b) be any capital gain
 - (c) be a short term capital gain
 - (d) none of the above
- (v) Which of the following income of a resident and ordinarily resident is taxable in India?
- (a) Bank interest from State Bank of India, Delhi
 - (b) Bank interest from Bank of America, New York Branch
 - (c) Rental income from house property located in London
 - (d) All of the above

- (vi) Deduction u/s 80IA for any undertaking or enterprises engaged in development of infrastructure facility shall be allowed to the extent of:
- (a) 100% of the profits for first 5 years and 30% for subsequent 5 years.
 - (b) 50% of the profit for 10 years.
 - (c) 100% of the profits of such industrial undertaking or Enterprise for 10 years
 - (d) 100% of the profits of such industrial undertaking or Enterprise for a period of 15 years.
- (vii) If no system of accounting is followed, interest on securities is taxable on:
- (a) due basis
 - (b) receipts basis
 - (c) due or receipt basis at the option of the assessee
 - (d) none of the above
- (viii) Rate of Interest accruing to a particular employee by virtue of his employer's contribution to Recognized Provident Fund is 12.5% p. a. In such a case:
- (a) Total Interest accrued is taxable
 - (b) Total Interest accrued is exempt
 - (c) Only 10% Interest is taxable
 - (d) Only 3% of interest is taxable
- (ix) Which of the following is not allowed as a deduction for computation of business Income?
- (a) Loss incurred due to theft in factory after working hours
 - (b) Anticipated future losses
 - (c) Loss caused by white ants
 - (d) Loss due to accidental fire in stock-in-trade
- (x) R, an individual, who is not carrying on a business has borrowed a sum of Rs. 1,00,000 on 01.04.2019 @18% p.a. from a finance company. R in this case should deduct tax on such interest paid amounting to:
- (a) Rs. 1,800
 - (b) Rs. 1,872
 - (c) Rs. 2,060
 - (d) Nil

Answer:

- (i) c
- (ii) b
- (iii) b
- (iv) a
- (v) d
- (vi) c
- (vii) a
- (viii) d
- (ix) b
- (x) d

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(B) Match the following (sufficient to give the corresponding item in column 3 for column 1 reproducing columns 2 and 4 are not required): [5×1=5]

1	2	3	4
(i)	Bonds Specified in Section 54EC	a.	Rounding off of tax
(ii)	Non Speculative business loss	b.	Threshold limit Rs. 30,000
(iii)	Sec. 288B	c.	Maximum Limit Rs. 50 Lakhs
(iv)	Sec. 143(1)	d.	Carry forward for 8 Years
(v)	Sec. 194J	e.	Intimation for return

Answer:

- (i) c
- (ii) d
- (iii) a
- (iv) e
- (v) b

(C) Say True or False for the following question: [5×1=5]

- (i) Capital gain arising from compulsory acquisition of a property under law is taxable in the year of receipt of compensation or part thereof.
- (ii) Expenses of purchasing lottery tickets are deducted out of winning from lottery under the head income from other sources.
- (iii) For computing advance tax liability in case of an individual on its total income, agricultural income is not to be included.
- (iv) Voluntary contribution received by electoral trust shall be exempt in all cases.
- (v) "Profits in lieu of salary" shall be taxable under the head "Income from other sources."

Answer:

- (i) True
- (ii) False
- (iii) False
- (iv) True
- (v) False

(D) Fill in the blanks: [5×1=5]

- (i) For claiming exemption u/s 54B, the asset transferred should be _____ (urban agricultural rural agricultural/urban non-agricultural/rural non-agricultural) land.
- (ii) When unrealized rent of Rs.50,000 in respect of a let-out property is realized subsequently, the amount liable to tax would be Rs. _____.
- (iii) Shares given to the employee at free of cost or at concessional price under Employees Stock Option Plan are _____ (Taxable/Non-taxable) perquisite.
- (iv) X Ltd., is a foreign company whose place of effective management is situated outside India. X Ltd. shall be _____ (resident/non-resident).

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(v) A firm's business income is nil/negative. It shall still be allowed a deduction on account of remuneration to working partner to the extent of Rs. _____.

Answer:

- (i) Urban agricultural
- (ii) 35,000
- (iii) Taxable
- (iv) Non-resident
- (v) 1,50,000

2. (a) What are the characteristics of Artificial Juridical Persons? State the difference between AOP and BOI. [3+2=5]

(b) Compute income under the head 'Income from house property' of Syam from the following information:

Particulars	H1	H2	H3	H4
Used for	Self occupied	Self occupied	Self occupied	Own Business
Situated at	Mumbai	Abu	Kolkata	Hyderabad
Gross Municipal Value	3,00,000	2,00,000	7,00,000	3,00,000
Fair Rent	2,00,000	2,00,000	6,00,000	1,20,000
Standard Rent	3,00,000	2,40,000	7,00,000	2,00,000
Municipal Tax	15%	15%	15%	15%
Repairs	13,000	4,000	8,000	8,000
Ground Rent	20,000	Nil	Nil	6,000
Land Revenue	Nil	10,000	Nil	Nil
Interest on Loan	40,000	1,00,000	2,10,000	20,000
Loan taken on	1998-99	1998-99	2016-17	1999-00

[10]

Answer:

2. (a) Artificial juridical person are entities -

- which are not natural person;
- has separate entity in the eyes of law;
- may not be directly sued in a court of law but they can be sued through person(s) managing them
E.g.: Deities, Idols, University, Bar Council, etc.

Difference between AOP and BOI:

- (i) In case of BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like Company, Firm etc. can be the member of AOP but not of BOI.
- (ii) In case of an AOP, members voluntarily get together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

(b) In the given question, there are three options:

Option 1: Take H1 & H3 as Self-Occupied (S/O) and H2 as Deemed to be Let-Out (DLO)

Option 2: Take H1 as Deemed to be Let-Out (DLO) and H2 & H3 as Self-Occupied (S/O)

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Option 3: Take H3 as Deemed to be Let-Out (DLO) and H1 & H2 as Self-Occupied (S/O)

Total income under the head house property shall be computed applying each option separately and then the option, which yields least income under this head, shall be opted.

Particulars	Option 1		Option 2		Option 3	
	H1 & H3 S/O	H2 DLO	H1 DLO	H2 & H3 S/O	H3 DLO	H1 & H2 S/O
Gross Annual Value	Nil	2,00,000	3,00,000	Nil	7,00,000	Nil
Less: Municipal Tax (15% of Municipal value)	Nil	30,000	45,000	Nil	1,05,000	Nil
Net Annual Value (A)	Nil	1,70,000	2,55,000	Nil	5,95,000	Nil
Less: Deduction u/s						
Sec. 24(a): Standard deduction (30% of NAV)	Nil	51,000	76,500	Nil	1,78,500	Nil
24(b): Interest on loan	2,00,000	1,00,000	40,000	2,00,000	2,10,000	10,000
Total deduction (B)	2,00,000	1,51,000	1,16,500	2,00,000	3,88,500	30,000
Income from house property [A-B]	(-)2,00,000	19,000	1,38,500	(-)2,00,000	2,06,500	(-)30,000
Income from house property		(-) 1,81,000		(-) 61,500		1,76,50

Notes:

1. In case of H1 & H2 loan was taken prior to 1/4/1999.
2. Loan was taken for construction on or after 1/4/1999.
3. H4 is used for own business purpose so it is not taxable under this head.

Total income under the head Income from house property as per option 1 is (-) Rs.1,81,000

Computation of Income from house property of Syam for the A.Y.2020-21

Particulars	Details	Details	Details
H1 & H3: Self-occupied u/s 23(2)(a)			
Net Annual Value		Nil	
Less: Deduction u/s			
24(b) Interest on loan			
- For H1 (Max Limit)	30,000		
- For H3 (Max Limit)	2,00,000		
Subject to maximum of Rs. 2,00,000	2,30,000	2,00,000	(2,00,000)
H2: Deemed to be let out u/s 23(4)			
Gross Annual Value		2,00,000	
Less: Municipal Tax		30,000	
Net Annual Value		1,70,000	
Less: Deduction u/s			

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24(a) Standard Deduction (30% of NAV)	51,000		
24(b) Interest on loan	1,00,000	1,51,000	19,000
Income from house property			(-)1,81,000

3. (a) Mr Jitin Ahuja is employed with a transport firm. He is member of an unrecognised provident fund. He has been drawing salary @ Rs. 32,000 p.m. since 01.01.2019. Dearness allowance, forming part of pay for superannuation benefits, is paid @ 10% of his salary. He gets house rent allowance Rs. 4,800 p.m. He pays rent of Rs. 8,000 p.m. He contributes @ 10% of his salary to the fund and employer contributes @ 20%. The employer also reimburses his personal club bills amounting to Rs. 76,000. Besides, he is paid Rs. 1,600 p.m. as transport allowance.

He retires on 01.01.2020 after 28 years 9 months of service. He gets Rs. 3,18,000 as accumulated balance from the provident fund. It consists of Rs. 60,000 as his contribution and Rs. 46,000 interest there on. The employer's contribution is Rs. 1,22,000 and interest there on is Rs. 90,000. He also gets gratuity of Rs. 9,20,000.

After retirement he gets pension @ Rs. 12,000 p.m. on 01.03.2020 he surrenders one half pension for a consolidated amount of Rs. 4,80,000.

He has made the following payments/investments during the previous year 2019-20:

- (i) Life insurance premium amounting Rs. 8,000 on the policy taken on the life of his married son.
- (ii) Public Provident fund deposit Rs. 20,000.
- (iii) Refund of Rs. 40,000 to the Life Insurance Corporation of India on account of loan taken for the purchase of a flat, allotted in March, 2005.
- (iv) Purchase of National Savings Certificates, VIII issue, amounting to Rs. 12,000
- (v) Contribution of Rs. 20,000 to Sukanya Samriddhi Account.

From the above information you are required to compute his total income for the assessment year 2020-21 and his tax liability. [10]

- (b) Ashok, Surat furnishes you the following information for the previous year 2019-20

		Rs.
(i)	Income from coffee grown and cured in Coorg, Karnataka	3,00,000
(ii)	Income from tea grown and manufactured in Jorhat, Assam	2,50,000
(iii)	Income from Rubber estates in Kerala by sale of field latex obtained from rubber plants grown there	4,00,000
(iv)	Income from nursery by name "Soundarya Nursery", Chennai	2,00,000
(v)	Rent from a dwelling house in agricultural land in Coorg, Karnataka (It is occupied by the coffee estate laborers).	90,000

Compute the agricultural income of Ashok. [5]

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Answer:

3. (a) Computation of Total income & Tax Liability of Mr. Ahuja for the assessment year 2020-21

	Rs.
Income from Salary:	
Salary (Rs. 32,000 x 9)	2,88,000
D.A. 10% of salary	28,800
Club Bills reimbursed by employer	76,000
H.R.A. (Rs. 43,200-40,320)	2,880
Transport Allowance (Rs. 1,600 X 9) i.e. Rs. 14,400 – exemption 70%)	4,320
Pension (Rs. 12,000 X 2 + 6,000 X 1)	30,000
Commuted Pension (Rs. 4,80,000 X 3,20,000)	1,60,000
Gratuity (Rs. 9,20,000 - 4,92,800)	4,27,200
Employer's contribution of U.R.P.F.	1,22,000
Interest on Employer's contribution of U.R.P.F.	90,000
Gross Salary	12,29,200
Less: Standard Deduction u/s 16(ia)	50,000
Income from salary	11,79,200
Income from Other Sources:	
Interest received on own contribution U.R.P.F.	46,000
Gross Total Income	12,25,200
Less: Deduction U/s 80C	1,00,000
Total Income	11,25,200
Tax on Rs. 11,25,200 is	1,50,060
Add: Health and education cess @4%	6,002
Tax Payable (rounded off)	1,56,060

Working Note:

1.	HRA is exempt to the extent of minimum of following:	
(i)	HRA received	43,200
(ii)	Rent Paid- 10% of salary of Rs. 3,16,800 (Rs. 72,000-31,680)	40,320
(iii)	40% of salary	1,26,720
	Therefore, Rs. 40,320 will be exempt	
2.	Commuted pension will be exempt to the extent of commuted value of 1/3 rd of the pension as the assessee is also entitled to gratuity. The exemption amount will be (Rs. 4,80,000 X 2 X 1/3) = Rs. 3,20,000	
3.	Assuming that he is not covered under the Payment of Gratuity Act, out of gratuity received the minimum of the following shall be exempt:	
(i)	Half month's average salary for every completed year of service i.e. (28 X 1/2 X 35,200)	4,92,800
(ii)	Actual gratuity received	9,20,000
(iii)	Specified amount	20,00,000
	Therefore Rs. 4,92,800 will be exempt	

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4.	The following payment qualify for deduction u/s 80C	
(i)	LIC Premium	8,000
(ii)	PPF	20,000
(iii)	Sukanya Samriddhi Account	20,000
(iv)	Repayment of housing loan	40,000
(v)	Purchase of NSC VIII Issue	12,000
		1,00,000

(b) Computation of agricultural Income of Ashok

Particulars	Agricultural Income	Non- Agricultural Income
Coffee grown and cured in Coorg, Karnataka [75% agri income and 25% of non-agri income]	2,25,000	75,000
Income from tea grown and manufactured in Jorhat, Assam 60% agri income and 40% non-agri income]	1,50,000	1,00,000
Income from Rubber estates in Kerala [65% agri income and 35% non agri income]	2,60,000	1,40,000
Income from nursery at Chennai is fully agricultural income	2,00,000	Nil
Rent from dwelling house in agricultural land in Coorg, Karnataka	90,000	Nil
Total	9,25,000	3,15,000

4. (a) PD Ltd. who is carrying on the business of trading in shares submits the following information:

	Rs.
Opening inventory of shares which includes shares of Tata Industries amounting to Rs. 25,00,000	3,00,00,000
Purchase of shares of various companies during the year inclusive STT paid	1,40,00,000
Sale of shares during the year whose cost was Rs. 80,00,000	1,20,00,000
STT paid on the sale of such shares	12,000
Tata Industries share costing Rs. 20,00,000 were converted into capital asset on 05.05.2019 when the fair market value of such shares was rupees	45,00,000
Tata Industries shares which were converted into capital asset were sold on 08.11.2019	54,00,000
STT paid on the sale of shares	4,500

Compute the income under the head “business and profession” and “capital gain” of PD Ltd. for the previous year 2019-20 **[9]**

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(b) Simran furnished following details-

	Amount (Rs.)
Income from Business	
Business A (Readymade garments)	50,000
Business C (Processing bio-degradable wastes) (started during previous year)	25,000
Long term capital gain	25,000
Short term capital gain	65,000
Saving Bank interest	2,000
Interest on deposits with IDBI	1,000
Interest paid on loan taken for deposits in IDBI	1,200
Interest on NSC (including last year interest Rs. 1,500)	4,200
Investment in NSC	500
LIC premium paid on the life of dependent blind mother (Sum assured Rs. 1,00,000)	12,000
Investment in LIC annuity plan	8,000
Donation to National Defence Fund	12,500

Compute her total income and tax liability FOR Assessment Year 2020-21. [6]

Answer:

4. (a) Computation of business income of PD Ltd. for the assessment year 2020-21

	Rs.	Rs.	Rs.
Shares sold during the year			1,20,00,000
Less: Cost of shares sold:			
Opening Inventory		3,00,00,000	
Add: Shares purchased during the year		1,40,00,000	
		4,40,00,000	
Less: Cost of shares converted into capital assets	20,00,000		
Less: Closing Inventory	3,40,00,000	3,60,00,000	80,00,000
Gross Profit			40,00,000
Less: STT paid			12,000
Net Profit			39,88,000
Add: Fair market value of Tata Industries shares converted into capital asset			45,00,000
Business Income			84,88,000

Computation of closing inventory

	Rs.	Rs.
Opening inventory of shares		3,00,00,000
Add: Cost of shares purchased during the year		1,40,00,000
Total		4,40,00,000
Less: Cost of the shares converted into capital assets	20,00,000	
Cost of shares sold	80,00,000	1,00,00,000
Value of closing inventory		3,40,00,000

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Computation of Income under the head "Capital Gain"

Consideration Price		54,00,000
Less: Cost of acquisition [as per section 49(9)]	45,00,000	
STT paid Rs. 4,500	Not allowed as deduction	45,00,000
Short-term capital gain Period of holding (05.05.2019 to 08.11.2019) thus short-term capital asset		9,00,000

Note: The cost of inventory which has been converted into capital asset (i.e. Rs.20,00,000) will no longer form part of inventory and hence it has been reduced from the value of closing inventory. This will have the effect of reducing the profit of the year of conversion by the cost value of converted inventory (i.e. Rs.20,00,000). Correspondingly, as per section 28(va), the fair market value (and not Rs.25,00,000) on the date of conversion i.e. Rs. 45,00,000 is treated as business income.

(b) Computation of total income of Simran for A.Y.2020-21

Particulars	Amount	Amount	Amount
Profits and gains of business or profession			
Business A		50,000	
Business C		25,000	75,000
Capital gains			
Long term capital gain		25,000	
Short term capital gain		65,000	90,000
Income from other sources			
Saving Bank interest		2,000	
Interest on deposit with IDBI	1,000		
Less: Interest paid on loan	1,200	(200)	
Interest on NSC		4,200	6,000
Gross Total Income			1,71,000
Less: Deduction u/s			
80C		3,200	
80CCC (Deposit in LIC annuity plan)		8,000	
80DD (Dependent blind mother)		75,000	
80G (Donation to National Defence Fund)		12,500	
80JJA (Business of processing bio-degradable wastes)		25,000	
80TTA (Saving Bank Interest)		2,000	(1,25,700)
Total Income			45,300

Working Note:

- Tax liability is nil as total income is within exempted limit.
- Calculation of deduction u/s 80C:

Interest on NSC (excluding last year interest i.e. Rs.4,200 – Rs.1,500)	Rs. 2,700
Investment in NSC	Rs. 500
LIC premium paid on the life of mother (Premium paid for policy taken on life of parents)	Nil
Total	Rs. 3,200

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5. (a) Mr. R furnishes the following information relevant for the assessment year 2020-21.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Office Expenses	15,000	Gross Profit	4,32,900
Sundry Expenses	10,000	Sundry receipts	10,000
Entertainment Expenditure	6,000	Bad debts recovered(not	
Audit fees	1,000	allowed as deduction earlier)	7,000
Legal charges/expenses	4,000	Customs duties recovered	10,000
		from Govt. (earlier allowed as	
		deduction)	
Depreciation on plant and	300	Gift received from father	18,000
machinery purchased			
during the year @15% p.a.			
for 6 months			
Salary to staff:		Dividend(gross) from Unit Trust	4,000
		Of India	
Salary	58,000	Interest on FDR with bank	2,000
Bonus	4,000	Interest on Government	3,000
		Securities	
Contribution towards	5,000		
Employee's Recognized			
Provident Fund			
Unapproved Gratuity Fund	4,000		
GST	8,000		
Provision for GST	15,000		
Payment to Mumbai	7,200		
University for carrying on			
scientific research			
Copyright purchased	35,000		
during the year			
Net Profit	3,14,400		
	4,86,900		4,86,900

Other Information:

- (i) As shown in the P&L A/c Rs. 7,200 is paid to Mumbai University for the purpose of carrying on approved scientific research in natural sciences, not related to business of Mr. R.
- (ii) Provision of GST represents an outstanding tax liability.
- (iii) Copyrights were purchased on 06.07.2019

Ascertain the total income of Mr. R for the assessment year 2020-21 assuming that he deposited Rs. 10,000 in a PPF Account during previous year 2019-20. [9]

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(b) Compute gross total income of Mr. Anand from following data-

Sources of Income	Amount
Income under the head 'Salaries'	2,60,000
Income from house property (A)	60,000
Income from house property (B)	(2,80,000)
Speculation income	20,000
Business income	(1,30,000)
Income from activity of owning and maintaining race-horses	(1,50,000)
Income from agricultural business	(1,25,000)
Short term capital gain	30,000
Long term capital gain	(1,00,000)
Income from lottery	10,000
Income from horse races	1,70,000
Dividend income from non-domestic company (shares purchased out of borrowed money)	(90,000)
Interest on securities	20,000

[6]

Answer:

5. (a) Computation of total income of Mr. R for the assessment year 2020-21

	Rs.	Rs.	Rs.	Rs.
Profit and gains from Business or profession				
Net profit as per P&L A/c			3,14,400	
Add: Expenses not admissible:				
Unapproved Gratuity Fund		4,000		
Provision for GST		15,000		
Payment for copyrights(subject to depreciation)		35,000		
Depreciation on machine for separate consideration		300	54,300	
			3,68,700	
Less: Income not taxable under this head or not taxable:				
Bad debts recovered		7,000		
Gifts		18,000		
Dividends		4,000		
Bank Interest		2,000		
Interest on securities		3,000	34,000	
			3,34,700	
Less: 50% additional deduction for scientific research		3,600		
Depreciation @15% on Machine	600			

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@25% on copyright as intangible asset	8,750	9,350	12,950	
Income from Business				3,21,750
Income from Other Sources:				
Dividends from U.T.I.		Exempt		
Bank Interest on FDR		2,000		
Interest on securities		3,000		5,000
Gross Total Income				3,26,750
Computation of Taxable Income:				
Gross Total Income				3,26,750
Less: Deductions				
U/s 80C				10,000
Taxable Income				3,16,750
Tax on Income				
On 1st Rs. 2,50,000			Nil	
On balance of Rs. 66,750 @5%			3,338	3,338
Less: Rebate U/s 87A (100% of tax or Rs. 12,500 whichever is less)				3,338
Tax Payable				Nil

Working Note:

1. GST is allowed as deduction only when this is actually paid or paid as per section 43B.
2. Bad debts recovered are those which were not allowed as deduction earlier. Hence these are not taxable.
3. Additional depreciation on purchase of plant and machinery is not allowed as the question does not state that the plant and machinery was put to use by an industrial undertaking.

(b) Computation of gross total income of Mr. Anand for the A.Y.2020-21

Particulars	Details	Amount	Amount
Salaries		2,60,000	
Income from house property			
House property A	60,000		
House Property B [Max. limit, balance shall be carried forward]	(2,80,000)	(2,00,000)	
Profits & gains of Business or Profession			
Speculation income	20,000		
Other business income	(1,30,000)		
Income from agricultural business [exempted u/s 10(1)]	Nil	(1,10,000)	
Capital Gains			
Short term capital gain		30,000	

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Long term capital gain	(1,00,000)	Nil	
Long term capital loss cannot be set off against any income & shall be carried forward			
Income from Other Sources			
Casual income			
Income from lottery	10,000		
Income from horse races	1,70,000		1,80,000
(As no loss can be set off against such income.)			
Income from activity of owning and maintaining race-horses	(1,50,000)	Nil	
(Loss from activity of owning and maintaining race-horses cannot be set off against any income & shall be carried forward)			
Other income			
Dividend from non-domestic company	(90,000)		
Interest on securities	20,000	(70,000)	
Gross Total Income		(90,000)	1,80,000

Working Note:

- From salary income, losses under the head income from other sources Rs. 70,000 is adjusted first and then loss under the head 'Income from house property' considering following:
 - Loss under the head 'Profits and gains of business or profession' cannot be set-off against salary income; and
 - Loss under the head income from other sources cannot be carried forward.
- Loss under the head 'Income from house property' of Rs.10,000 and losses under the head 'Profits & gains of business or profession' up to Rs. 20,000 is adjusted against Short term capital gain of Rs. 30,000 and remaining losses under the head Profits and gains of business or profession Rs. 90,000 and loss under the head 'Income from house property' Rs.20,000 (including loss over and above Rs. 2,00,000) shall be carried forward.

Alternatively, loss under the head Income from house property of Rs. 30,000 and loss under the head Profits & gains of business or profession of Rs. 80,000 can be carried forward.

6. (a) The following particulars are submitted by Mr. Rahul Sharma, aged 61 years for the assessment year 2020-21.

Particulars	Amount (Rs.)
1/2 share of profit of firm	95,000
Income from House Property	1,35,000
Long term capital gains on transfer of equity shares sold on 02.12.2019 through a recognized stock exchange. (FMV as on 01.04.2001 & 31.01.18 was Rs. 12,000 & Rs. 46,000 respectively)	40,000
Long term capital gain on transfer of house	1,30,000
Lottery winning(Net, after TDS)	11,200
Life insurance premium paid	25,000

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Donation to National Children Fund	10,000
Royalty from books of literary nature	4,14,000

You are required to compute his total taxable income and his tax liability. [9]

(b) State the conditions to claim exemption to political parties u/s 13A. [6]

Answer:

6. (a) Computation of Total Income of Mr. Rahul Sharma for the assessment year 2020-21

Particulars	Amount (Rs.)	Amount (Rs.)
1. Income from House Property(computed)		1,35,000
2. Income from profession		
Royalty from books		4,14,000
3. Capital Gains:		
Long term capital gains on transfer of shares		
Consideration price	40,000	
Less: Cost of acquisition	40,000	Nil
Note: It shall be higher of:		
(i) Actual cost- Rs. 12,000 and,		
(ii) Lower of		
(a) FMV as on 31.01.18- Rs. 46,000		
(b) Consideration price- Rs. 40,000		
Long term capital gains on transfer of house	1,30,000	1,30,000
4. Income from other sources- Gross winning of lottery		
$11,200 \times \frac{100}{70}$		16,000
Gross Total Income		6,95,000
Less: Deduction		
U/s 80C	25,000	
U/s 80G(100% of Rs. 10,000)	10,000	
U/s 80QQB	3,00,000	3,35,000
Total Income		3,60,000
Computation of tax:		
Tax on lottery- 30% of Rs. 16,000		4,800
Tax on long term capital gain [Rs. 1,30,000- Rs. 86,000-(Rs. 3,00,000- Rs. 2,14,000)20% of Rs. 44,000]		8,800
Tax on balance income of Rs. 3,00,000		Nil
Total Tax		13,600
Less: Rebate U/s 87A(100% of tax or Rs. 12,500 whichever is less)		12,500
		1,100
Add: Health and education cess @4%		44
Total Tax Payable		1,144
Tax Round Off		1,140

Note- Share of profit from a firm is exempt.

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(b) Conditions to claim exemption u/s 13A:

- (a) Maintenance of Books of Account: The political party keeps and maintains such books of account and other documents as would enable the Assessing Officer to properly deduce its income there from;
- (b) Record of voluntary contribution in excess of Rs.20,000: The political party keeps and maintains a record of –
- each voluntary contribution (other than contribution by way of electoral bond) in excess of Rs. 20,000; and
 - names and addresses of persons who have made such contributions
- (c) Audit of accounts: The accounts of the political party shall be audited by a chartered accountant.
- (d) Cap on Cash Donation: Donation exceeding Rs. 2,000 shall not be received by such political party otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through other prescribed electronic modes or through electoral bond.
- (e) Return of Income: Return of income for the previous year should be furnished within due date.
- (f) Submission of report: The political party should submit a report to the Election Commission showing contribution received in excess of Rs.20,000.

Time limit for submission of such report is on or before the due date of submission of return of income.

7. (a) Compute taxable income under the head Income from other sources of Mrs. X from the following data: [9]

Particulars	Amount
Private tuition fee received	10,000
Winning from lottery	2,000
Award from KBC (a TV show) [Gross]	3,20,000
Pension from employer of deceased husband	25,000
Interest on bank deposit	25,000
Directors fee (Gross)	5,000
Letting out of vacant land	25,000
Remuneration for checking the examination copy of employer's school	10,000
Remuneration for checking the examination copy of C.A	10,000
Income tax refund	5,000
Interest on income tax refund	100
Composite rent (related expenditures are Rs. 5,000)	10,000
Rent on sub-letting of house property (rent paid to original owner 12,000)	20,000
Income tax paid	2,000
Payment made for personal expenses	18,000
Payment made to LIC as premium	2,000

(b) Write a short note on TDS provision of commission, etc other than Insurance commission [Sec. 194H]. [6]

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Answer:

7. (a) Computation of income of Mrs. X under the head Income from other source for the A.Y. 2020-21

Particulars	Details	Amount
Private tuition fee received		10,000
Casual income:		
Winning from lottery		2,000
Award from KBC (a TV show) [Gross]		3,20,000
Pension	25,000	
Less: Standard deduction		
a) 1/3rd of amount received (i.e. Rs. 8,333)		
b) Rs. 15,000	8,333	16,667
Interest on bank deposit		25,000
Directors fee		5,000
Letting out of vacant land		25,000
Remuneration for checking the examination copy of employer school	Taxable as salary	-
Remuneration for checking examination copy of CA		10,000
Income tax refund	Not an income	
Interest on income tax refund		100
Composite rent	10,000	
Less: Expenditure	5,000	5,000
Rent on sub-letting of house property	20,000	
Less: Rent paid to original owner	12,000	8,000
Income from Other Source		4,26,767

Note: Payment of income tax and personal expense is not deductible in any case.

(b) TDS on commission, etc other than Insurance commission [Sec. 194H]:

- The following persons are responsible to deduct tax at source on commission or brokerage (other than commission on insurance) to a resident person -
 - (i) Any person, other than individual or HUF; &
 - (ii) Individual or HUF, whose books of account are required to be audited u/s 44AB (due to turnover or gross receipt criteria) during the financial year immediately preceding the financial year in which such commission is credited or paid.

Note:

1. No tax shall be deducted if the aggregate amounts of commission or brokerage credited or paid during the financial year to the payee does not exceed Rs.15,000.

2. No deduction shall be made on any commission or brokerage payable by Bharat Sanchar Nigam Limited or Mahanagar Telephone Nigam Limited to their public call office franchisees.
- Tax shall be deducted at the time of payment or crediting the payee, whichever is earlier.
- Rate of TDS is 5%
- Exemption or relaxation from the provision- When the recipient applies to the Assessing Officer in Form No. 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax [Refer sec.197]
- Where commission or brokerage is retained by the consignee/agent while remitting the sale consideration, the consignor/principal will have to deposit the tax deductible on the amount of such retained commission- [Circular No.619]
- Commission or brokerage includes any payment received or receivable, directly or indirectly, by a person acting on behalf of another person for services rendered (not being professional services) or for any services in the course of buying or selling of goods or in relation to any transaction relating to any asset, valuable article or thing, not being securities.

8. Short Note: (any three)

[5x3=15]

(a) Scheme for submission of return through Tax Return Preparers (TRP) [Sec. 139B]

(b) Method of calculation of relief [Rule 21A] when salary is paid in arrears or in advance.

(c) Scope and Disclosure requirement of ICDS VII.

(d) Rectification of Mistake by Income-tax authority [Sec. 154].

Answer:

8. (a) Scheme for submission of return through Tax Return Preparers (TRP) [Sec. 139B]

- A TRP is an individual who has been authorized to enable any specified class(es) of person to prepare and furnish their returns of income. The scheme framed under the above provision shall specify:
 - (i) The manner in which the TRP shall assist the person furnishing the return of income
 - (ii) The educational and other qualifications to be possessed,
 - (iii) The training and other conditions required to be fulfilled, by a person to act as a TRP,
 - (iv) The code of conduct for the TRP,
 - (v) Duties and obligation of the TRP
 - (vi) The manner in which authorization may be withdrawn; and
 - (vii) Any other matter.
- Specified class(es) of person means resident individual and resident HUF other than person whose accounts are required to be audited.
- The TRP shall also affix his signature on such return.
- Person not eligible to become TRP
 - (i) Chartered Accountant
 - (ii) Any legal practitioner who is entitled to practice in any civil court in India.

(iii) Any officer of a scheduled bank cannot be the TRP of the assessee who maintains a Current account or has other regular dealing with such bank.

- Educational Qualification of TRP An individual, who holds a bachelor degree from a recognised Indian University or institution, or has passed the intermediate level examination conducted by the Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or the Institute of Cost Accountants of India, shall be eligible to act as Tax Return Preparer.

(b) Method of calculation of relief [Rule 21A] when salary is paid in arrears or in advance
Where any portion of salary/family pension is received in arrears or in advance (hereinafter referred as additional salary), following steps are to be followed for calculating relief –

Step	Particulars
1	Calculate the tax payable for the previous year in which such additional salary is received, on: 1(a) Total income including additional salary 1(b) Total income excluding additional salary
2	Calculate the tax payable for the previous year to which such additional salary relates, on – 2(a) Total income including additional salary 2(b) Total income excluding additional salary
3	a) Add tax calculated on 1(a) and 2(b) = Tax on receipt basis b) Add tax calculated on 1(b) and 2(a) = Tax on accrual basis
4	Relief u/s 89 = Tax on receipt basis – Tax on accrual basis

(c) Scope and Disclosure of ICDS VII-

Scope:

- The Standard deals with the treatment of Government grants. The Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, waiver, concessions, reimbursements, etc. but does not include Government participation in the ownership of the enterprise
- Government refers to the Central Government, State Governments, agencies and similar bodies, whether local, national or international.
- Government grants are assistance by Government in cash or kind to a person for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot have a value placed upon them and the transactions with Government which cannot be distinguished from the normal trading transactions of the person.

Disclosure requirement:

- Following disclosure shall be made in respect of Government grants:
 - a. nature and extent of Government grants recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets during the previous year;
 - b. nature and extent of Government grants recognised during the previous year as income;

- c. nature and extent of Government grants not recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets and reasons thereof; and
- d. nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

(d) Rectification of Mistake [Sec. 154]:

- An income-tax authority, is empowered (suo moto or on application by assessee) to -
 - a) rectify any mistake apparent in an order passed by him; or
 - b) amend any intimation issued u/s 143(1) or deemed intimation
 - c) amend any intimation issued u/s 200A(1).
- Taxpoint is when such order of rectification must be passed in writing.
- Time limit for Rectification [Sec. 154(7)]- Within 4 years from the end of the financial year in which the order sought to be amended was passed.
However, in respect of an application made by the assessee or deductor or collector, the authority shall, within a period of 6 months from the end of the month in which the application is received by it, pass an order -
 - a. making the amendment; or
 - b. refusing to allow the claim.
- Opportunity of being heard [Sec. 154(3)]- If such rectification order is prejudicial to the assessee or deductor or collector, an opportunity of being heard must be given to the assessee, before passing such order.
- Where any such amendment has the effect of reducing the assessment or otherwise reducing the liability of the assessee or the deductor or collector, the Assessing Officer shall make any refund which may be due to such assessee or the deductor or collector.
- Where any such amendment has the effect of enhancing the assessment or reducing a refund already made or otherwise increasing the liability of the assessee or the deductor or collector, the Assessing Officer shall serve on the assessee or the deductor or collector, as the case may be a notice of demand in the prescribed form specifying the sum payable, and such notice of demand shall be deemed to be issued u/s 156.