Paper 7 – Applied Direct Taxation

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

All the questions relate to the assessment year 2014-15, 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 No 1.

(a) Choose the most appropriate alternative:

(i) Tax will be collected at source on sale of any coin or any other article weighing ten grams or less if payment in excess of -

(A) ₹2,00,000 received in cash
(B) ₹1,00,000 received in cash
(C) ₹3,00,000 received in cash
(D) ₹2,50,000 received in cash

(ii) Deduction for donation to the National Children's Fund has been raised from —

(A) 50% to 100%;
(B) 100% to 150%;
(C) Nil to 50%;
(D) 25% to 50%

(iii) Any specified income arising, from any international sporting event held in India, to the person or persons notified by the Central Government in the Official Gazatte, shall be exempt if such international sporting event —

(A) is approved by the international body regulating the international sporting event;
(B) has participation by more than two countries;
(C) is notified by more than two countries;
(D) Any one of the above

(iv) Allowances which are fully taxable is —

(A) Education Allowance;
(B) House Rent Allowance;
(C) Medical Allowance;
(D) Transport Allowance

(v) Amount of exemption available under Voluntarily Retirement Scheme is –

(A) Compensation received or ₹3,00,000, whichever is less;
(B) Compensation received or ₹5,00,000, whichever is less;
(C) Upto ₹3,00,000;
(D) Upto ₹5,00,000

(vi) Besides the normal depreciation, additional depreciation shall be allowed —

(A) @10%;
(B) @15%;

(C) @20%;
(D) @25%

(vii) Maximum amount of deduction available under House property for loan borrowed for repairs or renewal is:
(A) ₹1,50,000;
(B) 1/3 of the interest amount;
(C) **₹30,000;**
(D) ₹2,00,000

(viii) Where annual value of one self-occupied house is nil, the assessee will not be entitle to claim:
(A) **Standard deduction u/s 24(a);**
(B) Interest on Loan u/s 24(b);
(C) Municipality tax paid by owner;
(D) None of the above

(ix) Brought forward long-term capital loss can be carried forward for :
(A) 4 assessment years;
(B) 6 assessment years;
(C) indefinitely;
(D) 8 assessment years

(x) Wealth tax is payable on amount by which 'net wealth' exceeds by ₹30,00,000 at the rate of —
(A) 10%;
(B) 5%;
(C) 2%;
(D) 1%

(xi) The deduction under section 80C is allowed to —
(A) An Individual;
(B) A Hindu Undivided Family;
(C) An Individual or a Hindu Undivided Family;
(D) Any assessee

(xii) The provisions of AMT shall apply to a person who has claimed any deduction under —
(A) Under section 80-IA to 80RRB other than section 80P;
(B) Section 10AA;
(C) Under section 80-IA to 80RRB other than section 80P or Section 10AA;
(D) All the above case

(xiii) The due date of return filing in case of partner of a partnership firm whose accounts is audited under section 44AB of the Income Tax Act, 1961is:
(A) 30th June;
(B) 31st July;
(C) 30th September;
(D) 30th November

[13 × 1]

(b) Fill up the blanks:

(i) Any payment due to or received by an employee, under a keyman Insurance Policy including the sum allocated by way of bonus on such policy, will be regarded as Profit in lieu of salary.

(ii) An assessee who is in the business of generation or generation and distribution of power shall be eligible for additional depreciation.

(iii) Any transfer of a capital asset by a company to its 100% subsidiary company provided the subsidiary company is an Indian company is exempted under section 47(iv).

(iv) The conversion of capital asset into stock-in-trade is treated as a 'transfer' within the meaning of section 2(47).

(v) When preference shares are converted into equity shares, it will be regarded as transfer.

(vi) Any property being shares of a closely held company received without consideration or for inadequate consideration by the firm or a closely held company if aggregate value of the amount of such gift or inadequate consideration exceeds ₹50,000.

(vii) Deduction u/s 80E is allowed for 8 assessment years starting from the assessment year in which the assessee starts paying the interest on loan, or until the interest thereon is paid by the assessee in full whichever is earlier.

(viii) Belated return can be filed at any time before the expiry of one year from the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.

(ix) 60% of Advance Tax should be paid by a Non-corporate assessee on or before 15th December.

[12 × 1]

Question 2.

(a) Calculation of Income Tax in the case of an employee below the age of sixty years having a handicapped dependent (With valid PAN furnished to employer). For A.Y. 2014-2015

S. No.	Particulars	₹
1	**Gross Salary**	**3,20,000**
2	**Amount spent on treatment of a dependant, being person with disability (but not severe disability)**	**7000**
3	**Amount paid to LIC with regard to annuity for the maintenance of a dependant, being person with disability(but not severe disability)**	**50,000**
4	**GPF Contribution**	**25,000**
5	**LIP Paid**	**10,000**

[5]

Solution:

Computation of Tax

S.No.	Particulars	₹
1	Gross Salary Less: Deduction U/s 80DD (Restricted to ₹50,000/- only)	3,20,000 50,000
2	Taxable income Less: Deduction U/s 80C (i) GPF ₹25,000/- (ii) LIP ₹ 10,000/- = ₹35,000/-	2,70,000 35,000
3	Total Income	2,35,000

4	Income Tax thereon/payable Add: (i) Education Cess @2% (ii) Secondary and Higher Education Cess @1%	3,500 70 35
5	Total Income Tax payable	3,605
6	Rounded off to	3,610

(b) Mr. Y submits the following particulars of his income for the assessment year 2014-2015

	(₹)
Income (other than income from business & profession)	**4,00,000**
Dividend from Indian Company	**1,000**
Interest on Bank Deposit	**2,000**
Life Insurance Premium paid	**6,000**
Donation to Jawahar Lal Nehru Memorial Fund	**15,000**
Donation to Prime Minister's National Relief Fund	**16,000**
Donation to a Public Charitable Institution	**24,000**
Donation to a University for statistical research approved U/s 35(1)(iii)	**5,000**

Determine the net income and tax liability for the assessment year 2014-2015. [8]

Solution:

Computation of Taxable Income:-

	₹
Income	4,00,000
Dividend from Indian Co.	1,000 (exempt)
Interest on Bank Deposit	2,000
Gross total Income	**4,02,000**
Less: Deductions under Chapter VI-A	
U/s 80C for Life Insurance Premium	6,000
U/s 80G (see Note 1)	35,500
U/s 80GGA for Donation to University (see note 3)	5,000
Net Income	**3,55,500**
Tax on ₹ 3,55,500 [(3,55,500 – 2,00,000)x 10%]	15,550
Add : Surcharge @ 10%	NIL
Add : Education Cess @ 2%	311
Add : Additional SHE Cess @ 1%	156
Net Tax payable	16,017

Note 1: Computation of deduction u/s 80G in respect of donations-

	₹
Qualifying amount:-	
Donation to Jawahar Lal Nehru Memorial Fund	15,000
Donation to Prime Minister's National Relief Fund	16,000
Donation to Public Charitable Institution	24,000
Gross qualifying amount	**55,000**
(i) Donation to Jawahar Lal Nehru Memorial Fund (without any maximum limit)	15,000
(ii) Donation to Prime Minister's National Relief Fund (without any maximum limit)	16,000

(iii) Donation to Public Charitable Institution [least of (a) ₹ 24,000 & (b) ₹ 39,100 being 10% of adjusted gross total income calculated in Note 2]	24,000
Net qualifying amount	**55,000**
Amount deductible:	
50% of Net Qualifying Amount of Item (i) & (iii) [i.e., 50% of (15,000 + 24,000)]	19,500
100% of Net Qualifying Amount of item(ii)	16,000
	35,500

Note 2: Adjusted gross total income –

		₹
Gross total income		4,02,000
Less: Amount of deduction under Chapter VI-A (except 80G)		
U/s 80 C	6,000	
U/s 80 GGA	5,000	11,000
Adjusted gross total income		3,91,000

Note-3: Deduction u/s 80 GGA is allowed in the Case where gross total income does not include income from business profession.

(c) Mr. X, a person of Indian origin came to India on a visit in the previous year 2013-14. He stayed in India for 130 days. From financial years 2009-2010 to 2012-13 his total stay in India was for 400 days. Determine the residential status of Mr. X for the assessment year 2014-15. [2]

Answer:

Mr. X would be treated as a non-resident since a minimum stay of 182 days in India is necessary in the previous year, so as to be treated as a resident. (Explanation (ii) to section 6(1)].

Question 3.

(a) Tax liability of M/s. XYZ Ltd. for A.Y. 2014-2015 is estimated at ₹ 80,000. Determine the amount of instalment of advance-tax payable and date of payment. [4]

Solution:

Installment of Advance-tax and their due date is as under:-

	₹
1st installment of advance-tax payable on or before 15th day of June 2013 @15% of advance-tax liability.	12,000
2nd installment of advance-tax payable on or before 15th day of Sept. 2013 @ 30% [i.e. 45%-15%] of advance-tax liability.	24,000
3rd installment of advance-tax payable on or before 15th day of Dec. 2013 @ 30% [i.e. 75%-45%] of advance-tax liability.	24,000
4th installment of advance-tax payable on or before 15th day of March 2014 @ 25% [i.e. 100%-75%] of the advance-tax liability.	20,000

(b) Assessment year 2014-15

		(₹)	
-	**Salary per month (exclusive of benefits & perquisites)**	**30,000**	
-	**Dearness allowance (2/5 forming part of retirement benefits)**	**3,000**	
-	**Actual House rent allowance received from employer per month**	**3,000**	
-	**Actual rent paid by the employee per month in respect of residential Accommodation at Delhi**	**5,000**	
-	**Commission @1% of annual turnover of ₹40,00,000**	**40,000**	**[4]**

Solution:

		₹
House Rent Allowance-		
(a) Amount received on account of H.R.A. from employer		3,000
(b) Actual rent paid	5,000	
Less : 1/10th of salary (30,000 +1,200 + 3,333) = 34,533	3,453	1,547
(c) 1/2 of the salary as residential accommodation is situated at Delhi.		17,267

The least of the above is ₹ 1,547 which is the amount exempt from house rent allowance. So relief of ₹ 1,547 per month is permissible in respect of house rent allowance received from the employer.

Note 1:- In case the house is situated at any place other than Delhi, Bombay, Calcutta & Madras then deduction would have been least of (a) amount received on a/c of HRA i.e. 3,000 (b) Actual rent paid less 1/10 of salary i.e. (5000-3453) 1547 (c) of 2/5 salary i.e. 13,813. Hence amount exempt is 1,547 being the least of the three.

Note 2:- Employees who are not in receipt of house rent allowance from their employers but who pay rent for their residential accommodation in excess of 10% of their salary are entitled to claim deduction u/s 80GG of the Income-tax Act. It may be noted that for the purpose of deduction of tax at source from salary of employees, the employers are entitled to allow deduction u/s 80GG in respect of rent paid by the employees subject to the condition that the employee should satisfy all the conditions provided in section 80GG.

(c) Mr. Y requires to compute total taxable income in the Assessment Year 2014-15. He had received various incomes which come under the head "Income from other sources". Calculate taxable income of Mr. Y:-

(i) Interest on NSC VII ₹2,000

(ii) Family Pension ₹65,000 p.a.

(iii) Rent received from machinery on hire ₹4,000 p.m., he spent ₹5,000 p.a for repairs and ₹2,000 p.a for insurance against risk of damage.

(iv) Dividend received by Indian Company ₹3,000

(v) Interest on Kisan Vikas Patra ₹1,500

(vi) Winning from Lotteries ₹1,20,000. **[5]**

Solution:

Computation of taxable income for the A.Y.2014-15 of Mr. Y

		₹
Income from other sources		
(i) Interest on NSC VII		2,000
(ii) Family Pension	65,000	
Less: Exempt (See Note - ii)	15,000	50,000
(iii) Rent received	48,000	
Less: Repairs	5,000	
Insurance	2,000	41,000
(iv) Dividend received from Indian Company		Exempt
(v) Interest on Kisan Vikas Patra		1,500
Total Income		94,500
Less: Interest on NSC (See Note i)		2,000
Taxable Income		**92,500**

Notes:- (i) Interest on National Saving Scheme allowed for deduction u/s 80CCA.

(ii) U/s. 57, Family pension allowed for deduction—

(a) 33.33% of Actual amount – 3 3.33% x 65000 = 21664

(b) ₹ 15,000

whichever is less, so in this case ₹15,000 will be exempt.

(iii) On lottery TDS compulsory is deductible @ 30% and income will not added to other income.

(d) A is a owner of land in Noida. Such land was being used for agricultural purpose from last 3 years. On 2.4.2003 his land was acquired by Central Government. The assessee had received compensation of ₹5 crore in respect of land on 1.7.2004. Whether A would be liable to pay tax or not on compensation or capital gain received by him? [2]

Answer:

Capital gains received due to compulsory acquisition of agricultural land if fully exempt from tax u/s 10(37) of the Income tax Act from assessment year 2005-06. The assessee fulfilled all conditions which are required under this section. Hence, the Capital gain of ₹5 crore is exempt from tax under the head "Capital Gains".

Question 4.

(a) Mr. X, an employee retired from service on 30.9.2013 after completing 42 years of service. He received ₹3,10,000 as gratuity. His average monthly salary in the last 10 months was ₹13,000. He is not covered by the Payment of Gratuity Act, 1972. His present salary being ₹15,000 per month. Dearness allowance received is ₹3,000 per month. Calculate total Income of assessee for A.Y. 2014-2015. [4]

Solution:

		₹
Basic Salary		90,000
Dearness allowance		18,000
Gratuity received	3,10,000	

Less: exempt U/s 10(10) (see note 1)	2,73,000	37,000
Taxable Income		1,45,000

Note 1:

Average monthly salary 13,000

The amount of gratuity received exempt from tax is the least of the following:

(i) Actual amount received 3,10,000
(ii) One-half month's salary for each year of completed service 1/2 x 42 x 13,000 2,73,000
(iii) Ceiling amount 10,00,000

(b) Mr. Y. retires from ABC Ltd. on 30th June, 2013. He gets pension of ₹ 800 per month upto 31st January, 2014. With effect from 1st February, 2014 he gets 80% of the pension commuted for ₹80,000. Calculate the taxable pension of Mr. Y. if-

(a) he does not receive gratuity

(b) he receives ₹3,000 as gratuity at the time of retirement. [5]

Solution:

In case of a non-government employee commuted pension is partly exempt from tax, however uncommuted pension is fully taxable. Amount of taxable pension would be calculated as under:

Uncommuted pension [Chargeable to tax in both the cases (a) and (b)]	₹
Uncommuted pension upto 31st January, 2014 [800x7]	5,600
Uncommuted pension from 1st Feb. to 31st March, 2014 [(20/100) x 800 x 2]	320
Total uncommuted pension taxable as salary	5,920
Commuted pension:	
Commuted value of 80% [i.e. 80% of full pension]	80,000
Commuted value of full pension [i.e. (100/80) x 80,000]	1,00,000
(a) If Mr. Y does not receive gratuity :	
Commuted pension received	80,000
Less : Amount exempt u/s 10 (10A) (ii) [i.e. one-half of the commuted value of full pension i.e. 1/2x1,00,000]	50,000
Commuted pension taxable	30,000
(b) If Mr. Y receives gratuity :-	
Commuted pension received	80,000
Amount exempt u/s 10 (10A) (ii) [one-third of the commuted value of full pension i.e. 1/3x1,00,000]	33,333
Commuted pension taxable	46,667

(c) A partnership firm, having four partners has a business income of ₹5,00,000 before paying salary @ ₹6,000 p.m. to each of its partners. Calculate tax on firm for A.Y. 2014-2015. [4]

Solution:

	₹
Business income **Less —** Salary ₹2,88,000 i.e. [₹6,000x12x4] subject to limit prescribed by section 40(b)- First ₹ 3,00,000 @ 90% or ₹ 1,50,000 (whichever's higher) 2,70,000	5,00,000

Next on the balance ₹ 2,00,000 @ 60%	1,20,000	2,88,000
(whichever is less) [3,90,000 or 2,88.000]	3,90,000 or 2,88,000	2,12,000
Taxable income		63,600
Tax liability for A.Y. 2014-2015 @ 30%		NIL
Add: Surcharge @10%		1,272
Add : Education cess @ 2%		636
Add: SHE Cess @1%		
Total tax payable		**65,508**

Notes:

1. Taxable salary in the hands of individual partners will be adjusted to give effect the amount disallowed u/s 40(b) and such adjusted salary will be taxed in their individual hands as business income.
2. The new limits of payment of remuneration to any partner applicable from A.Y. 2010-2011.
3. For F.Y. 2013-2014 (A.Y. 2014-2015) 10% Surcharge levied, if total income exceed 1 crore.

(d) X, resident, pays ₹60,000 on medical treatment of his mother who is 67 years old. He received ₹20,000 from insurance company, ₹10,000 from employer. Determined the amount of deduction available u/s 80DDB. [2]

Answer:

Amount of deduction available under section 80DDB –

= ₹30,000 (60,000 – 20,000 - 10,000).

Deduction to be reduced by insurance claim received and reimburshed from employer.

Question 5.

(a) A Ltd., a domestic company and engaged in the business of trading in shares and has manufacturing plant of rubber in Gujarat.

The assessee have following income for the assessment year 2014-2015.

a) Trading Business of shares ₹3,70,000

b) Manufacturing Business ₹8,50,000

c) Book profit after deducting securities transaction tax ₹1,00,20,000

Compute the tax liability and amount of MAT Credit available for subsequent years. (Revised) [7]

Solution:

Particulars	A.Y. 2014-2015
Income from trading in shares	3,70,000
Income from manufacturing shares	8,50,000
Total Income Income tax @30% Add: Surcharge @10%	12,20,000 3,66,000 NIL
 Add: Education Cess @2% SHE Cess @1%	3,66,000 7,320 3,660
Total Income-tax (1)	3,76,980
Minimum alternate tax (under normal provision) [See Note 3]	

Tax on book profit of ₹ 1,00,20,000 @18.5% Surcharge @5%	18,53,700 92,685
Total on book profit & Surcharge (2)	19,46,385
Minimum Alternate tax (under marginal relief) Tax on book profit of ₹ 1,00,00,000 Add: 100% of book profit in excess of ₹ 1,00,00,000	18,00,000 20,000
Total Tax (3) Minimum Alternate tax (including Surcharge) after marginal relief [(2) or (3) whichever is lower] (4)]	18,20,000 18,20,000
Normal tax or minimum alternate tax whichever is higher [(1) or (4)] Add: Education Cess @2% Add: Secondary and higher education Cess @1%	18,20,000 36,400 18,200
Tax liability (5) Less: Tax liability if minimum alternate tax is ignored (1)	18,74,600 3,76,980
Tax credit available u/s 115JAA(2A)	14,97,620

(b) Rajesh owns a residential house, who takes loan of ₹6,00,000 @ 12% p.a. for construction of his house on 1st Oct., 2006. Construction of the house was completed on 22nd Feb., 2013. If date of repayment of loan is (i) 26th May, 2010 and (ii) 3rd April, 2012.

(a) Actual rent received by the owner is ₹4,50,000;

(b) Municipal value ₹3,20,000;

(c) Fair rental value ₹4,00,000;

(d) Standard rent ₹3,80,000.

The owner paid municipal taxes of ₹40,000 for the previous year. Find out the Income from house property for the assessment year 2014-2015. [6]

Solution:

Computation of Gross Annual Value

	Case (i)	**Case (ii)**
Grass annual value	4,50,000	4,50,000
Less: Municipal taxes	40,000	40,000
Net annual value	4,10,000	4,10,000
Less: Deduction u/s 24-		
(a) Statutory deduction (30% of NAV)	1,23,000	1,23,000
(b) Interest on borrowing current year	NIL	72,000
(c) Interest on pre-constrution period	52,460	79,200
Income from house property-	2,34,540	1,37,000

Note- Maximum interest allowable on loan is ₹ 1,50,000.

(i) If date of repayment is 26th May, 2009 and date of completion of construction is 22nd Feb., 2012 -1st Oct, 2005-31st March, 2009 = 3 years 7 months, 26 days
Interest on pre-construction = 6,00,000 x 12/100x3yrs. 7months. 26 days
= 2,63,200x1/5
= ₹ 52,640

(ii) If date of repayment of is 3rd April, 2011
The date of loan taken and till the end of 31st March proceeding the date of completion of construction date of repayment of loan, whichever is earlier.
1st Oct, 2005- 31st March, 2011 = 5 years 6 months

Interest on pre- construction = 6,00,000 x 12/100 x 5.5
= 3,96,000/5
= 79,200

Computation of Gross annual value-

Step 1- Higher of (b)or(c), subject to maximum (d)	3,80,000
Step 2- higher of (a) or step 1	4,50,000
Gross Annual Value	**4,50,000**

(c) Where a trust incurs a debt for the purposes of the trust, whether the repayment of the debt would amount to an application of the income for the purposes of the trust? [2]

Answer:

The loan was taken by the trust to fulfill the objects of the trust. Therefore, the repayment of the loan will amount to an application of the income for charitable and religious purposes.

Question 6.

(a) Mr. X has sold his building for ₹32,00,000 on 15th Jan'2014. He had purchased the plot in 1980 at a total consideration of ₹2,00,000 and constructed the building in F.Y.1985-86, 1986-87 and 1992-93 and invested ₹ 2,00,000, ₹2,50,000 and ₹2,00,000 during the respective financial years. Fair market value of the plot as on 1-4-81 was ₹2,50,000. The brokerage @ 2% was paid by Mr. X for effecting the sale of building. Compute capital gain. [5]

Solution:

			A.Y. 2014-2015 ₹
	Sale consideration		32,00,000
	Less : Brokerage 2% of the sale of building		64,000
	Net sale consideration	**(a)**	**31,36,000**
	Less :		
I.	Indexed Cost of plot [i.e. 2,50,000 x 939 ÷ 100)		23,47,500
II.	Indexed cost of construction		
	(1) For construction during 1985-86 [i.e. 2,00,000 x 939 ÷ 133]		14,12,030
	(2) For construction during 1986-87 [i.e. 2,50,000 x 939 ÷ 140]		16,76,786
	(3) For construction during 1992-93 (i.e. 2,00,000 x 939 ÷ 223]		10,52,691
	Total indexed cost of acquisition and improvement	**(b)**	**64,89,007**
	Capital Loss (a-b) :		**(33,53,007)**

(b) Calculate the Gross Taxable income of Mr. Pranav Gupta for the A.Y. 2014-2015 after adjusting following Profits Losses given under different heads of Income are as follows:-

		(₹)
(a)	**Income from Salary**	**4,20,000**
(b)	**Income from house property-**	
	House I	**48,000**
	House II	**(-)22,000**
	House III (Self occupied)	**(-)50,000**
(c)	**Profit and gains of from business & Profession-**	

	Manufacturing business	**72,000**
	Trading Business	**(-) 32,000**
	Business X (speculative)	**95,000**
	Business Y (speculative)	**(-)1,40,000**
(d)	**Long-term Capital Gains from the transfer of house**	**1,20,000**
	Short term Capital Loss from the transfer of shares	**(-) 65000**
(e)	**Income from other Sources-**	
	Winning from lotteries	**37,500**
	Loss from Card Games	**(-)30,000**
	Interest received	**28,000**

[8]

Solution:

Calculation of Gross Taxable Income of Mr. Pranav Gupta for A.Y. 2014-2015.

	₹	₹
(a) Income from Salary		4,20,000
(b) Income from house property-		
House I	48,000	
House II	(-)22,000	
House III (Self occupied)	(-)50,000	(-)24,000
(c) Profit and gains of from Business & Profession (Non-speculative)		
Manufacturing business	72,000	
Trading Business	(-)32,000	40,000
Profit and gains of from business & Profession (Speculative)		
Business X	95,000	
Business Y	(-)1,40,000	NIL
(d) Long-term Capital Gains -		
Long-term Capital Gain	1,20,000	
Short term Capital Loss	(-)65,000	55,000
(e) Income from other Sources-		
Winning from lotteries	37,500	
Interest received	28,000	65,500
Gross Taxable Income		**5,56,500**

Notes:

(a) Loss from Speculative business of ₹45,000 will be carried forward to the A.Y. 2015-2016 under the same Income of Speculation business.

(b) Loss from Card games of ₹ 30,000 will be carried forward to the A.Y. 2015-2016 under the same income not even allowed under the same head "Income from other sources".

(c) From A.Y.2013-2014, exemption limit for individual increased from ₹1,80,000 to ₹2,00,000.

(c) Compute the tax liability of an Individual for the assessment year 2014-15 from the following data:

	(₹)
Net agricultural income	**1,20,000**
Total non-agricultural income	**1,60,000**

[2]

Answer:

No income-tax is payable in this case since the total non-agricultural income does not exceed the exemption limit i.e. ₹2,00,000.

Question 7.

(a) Mr. A. completed construction of house property at Delhi in 1982, the aggregate area of the plot is 600 sq. mtrs., while the built-up area of the house is 200 sq. mtrs. The total cost of the house (including cost of land) is ₹11,00,000. The fair rental value of the house is ₹7,500 per month, but the house is let out at a rent of ₹ 8,000 per month and he has accepted security deposit of ₹1,00,000. Mr. A pays municipal taxes ₹10,000, ground rent ₹1,000, insurance premia for coverage of risk of damage to house ₹2,000 and collection charges ₹500 during the previous year ended on 31.3.2014. Expenses on repairs are borne by tenant. Compute the value of the house property as on 31.3.2014 being the valuation date of Mr. A for A.Y. 2014-2015 assuming the house is built on (a) freehold land, or (b) leasehold land (unexpired period of lease of the land being 55 years) or (c) lease hold land (unexpired period of lease of the land being 30 years).

[8]

Solution:

(a) Calculation of net maintainable rent

		₹
Fair rental value or actual rent received, whichever is higher (8,000 x 12)		96,000
Add: (i) 15% of deposit held 15/100x1,00,000		15,000
(ii)1/9 x 96,000 (as expenditure on repairs is borne by tenant)		10,667
Gross maintainable rent		1,21,667
Less: (i) Municipal taxes	₹ 10,000	
(ii) 15% of gross maintainable rent (15/100x1,21,667)	₹ 18,250	28,250
Net maintainable rent		**93,417**

(b) Capitalisation of net maintainable rent

	Freehold land	Leasehold land (unexpired period of lease 55 years)	Leasehold land (unexpired period of lease 30 years)
Net maintainable	x 12.5	x 10	x 8
Rent (₹ 93,417)	₹ 11,67,713	₹ 9,34,170	₹ 7,47,336

(c) Capitalisation of unbuilt area

The unbuilt area of the plot i.e. 400 sq. mtrs. (aggregate area 600 sq. mtrs, built-up area 200 sq. mtrs.) is in excess of the specified area i.e.360 sq. mtrs. (60% of the aggregate area 600 sq. mtrs.) by 40 sq. mtrs. i.e. 6.67% of aggregate area, hence, a premium @20% will be added to the capitalised value calculated above:

	Freehold land	Leasehold land (unexpired period of lease 55 years)	Leasehold land (unexpired period of lease 30 years)
Capitalised value as calculated above	₹ 11,67,713	₹ 9,34,170	₹ 7,47,336
Add: 20%	₹ 2,33,543	₹ 1,86,834	₹ 1,49,467
Total	**₹ 14,01,256**	**₹ 11,21,004**	**₹ 8,96,803**

(d) Value of house under rule 3-

	Freehold land	Leasehold land (unexpired period of lease 55 years)	Leasehold land (unexpired period of lease 30 years)
(a) Value as determined above	₹ 14,01,256	₹ 11,21,004	₹ 8,96,803
(b) Actual cost of construction	₹ 11,00,000	₹ 11,00,000	₹ 11,00,000
Value of house for wealth tax purposes (A or B whichever is higher)	₹ 14,01,256	₹ 11,21,004	₹ 11,00,000

Notes:-

1. Ground rent, insurance premia and collection charges are not deductible.
2. It is assumed that Mr. A holds an another house which is claimed as exempt u/s 5(vi).

(b) Mrs. Sudha, an individual, submits the following particulars of her assets and liabilities on 31st March, 2014.

	(₹)
Self occupied residential house	**7,80,000**
Motor car for personal use	**3,10,000**
Urban land (situated in area within the jurisdiction of municipality)	**8,00,000**
Equity shares in an Indian Joint stock company	**2,50,000**
Units in Unit Trust of India	**1,50,000**
Jewellery	**1,30,000**
Deposits under National Deposit Scheme	**60,000**
Cash in hand	**70,000**
Deposits made in a finance company	**2,00,000**
Borrowing for the purchase of residential house	**5,00,000**
Loan taken to purchase equity shares	**1,00,000**

Note: One more house is transfer by Mrs. Sudha to her spouse without any adequate consideration.

Determine her wealth tax liability for A.Y. 2014-15 **[7]**

Solution:

Computation of Net Wealth for A.Y. 2014-2015

	₹
(1) Self occupied residential house	---
(2) Value of asset transferred by her	7,80,000
(3) Motor Car	3,10,000
(4) Urban Land	8,00,000
(5) Jewellery	1,30,000
(6) Cash in hand (in excess of ₹ 50,000)	20,000
	32,10,000
Less: Debt owed for purchase of residential house	---
Net Wealth	32,10,000
Less : Basic exemption (See Note-vii)	30,00,000
Taxable wealth	**2,10,000**
Wealth-tax payable @1%	**₹ 2,100**

Notes:

(i) Loan taken to purchase equity shares is not deductible from net wealth.
(ii) Debt owed for purchase of residential house is not deductible from net wealth as it relates to an exempt asset.
(iii) Equity shares are not an asset for the purpose of wealth tax.
(iv) Units in Unit Trust of India are also not an asset.
(v) Deposits under National deposit Scheme is also not an asset.
(vi) Deposit made in a finance company is also not an asset for the purpose of wealth tax.

Question 8.

(a) The gross total income of Rohit for the assessment year 2014-15 is ₹6,20,000 which includes long-term capital gain ₹80,000 short term capital gain referred to in section 115A ₹70,000 and interest on saving bank deposit ₹12,000. Compute the tax payable by Rohit assuming deposited ₹1,20,000 in PPF and paid premium for health insurance by cheque amounting to ₹15,000. [5]

Solution:

Computation of tax payable by Rohit for the assessment year 2014-15

	₹	₹
Gross total income		6,20,000
Less: Deductions		
U/s 80C	1,00,000	
U/s 80D	15,000	
U/s 80TTA	10,000	1,25,000
Total Income		4,95,000
Tax on ₹4,95,000		
Long-term capital gain ₹80,000@20%	16,000	
Short-term capital gain ₹70,000@15%	10,500	
Balance total income ₹3,45,000	14,500	
	41,000	
Less: Rebate u/s 87A	2,000	
	39,000	
Add: Education cess & SHEC @3%	1,170	
	40,170	

(b) Zamir Ltd. an Indian company has received the following dividend from its subsidiary companies:

(i) ₹10,00,000 on 5.8.2013 from S Ltd. a subsidiary company in India.

(ii) ₹20,00,000 on 9.7.2013 from T Ltd., a specified company in Germany in which Zamir Ltd. holds 60% shares.

Zamir Ltd. wishes to declared dividend of ₹1 crore to its shareholders.

Determine the amount of dividend distribution tax payable by Zamir Ltd.

Also determine the tax payable on dividend received from T Ltd. assuming the total income of Zamir Ltd. including the above dividend is ₹80,00,000.

What shall be your answer if Zamir Ltd. holds 36% shares in T Ltd. [8]

Solution:

		₹
Total dividend proposed to be declared		1,00,00,000
Less: Dividend received from		
S Ltd.	10,00,000	
T Ltd.	20,00,000	30,00,000
Balance amount which DDT is payable		70,00,000
Amount of DDT payable		
₹70,00,000 @15%	10,50,000	

Add: 10% surcharge	1,05,000	
	11,55,000	
Add: Education cess & SHEC@30%	34,650	
	11,89,650	
Tax payable by Zamir Ltd on its total income		
- On ₹20,00,000 received from T Ltd. @15%	3,00,000	
- Balance total income ₹60,00,000@30%	18,00,000	
	21,00,000	
Add: Education cess & SHEC @3%	63,000	
	21,63,000	

(b) Since Zamir Ltd hold 36% shares in T Ltd., it is not subsiding company although T Ltd. is a specified company. Hence, dividend received from T Ltd shall not be deductible while computing DDT payable by R Ltd.

Total dividend proposed to be declared		1,00,00,000
Less: Dividend received from S Ltd.		10,00,000
Balance		90,00,000
Amount of DDT payable		
₹90,00,000@15%	13,50,000	
Add: 10% surcharge	1,35,000	
	14,85,000	
Add: Education cess & SHEC@3%	44,550	
	15,29,550	

(c) A house is let out for 7 month @₹1,500 P.M. and for 3 months @₹2,000 P.M. It remains vacant for the balance 2 months. Calculate the annual rent under wealth tax Act, 1957. [2]

Answer:

$$= \frac{7 \times 1{,}500 + 3 \times 2{,}000}{10} \times 12$$

= 19,800