

Revisionary Test Paper December 2018

Intermediate Group I Paper 7 : DIRECT TAXATION (SYLLABUS – 2016)

Objective Type Questions

1. (a) Multiple Choice Questions:

1. All assesseees are required to follow –
 - (a) Uniform previous year and that must be calendar year
 - (b) Uniform previous year and that must be financial year
 - (c) Any period of 12 months
 - (d) Period starting from 1st July to 30th June only
2. Calculate the amount of rebate under section 87A in case of a resident individual having total income of ₹ 3,00,000.
 - (a) ₹ 30,000
 - (b) ₹ 10,000
 - (c) ₹ 2,500
 - (d) ₹ 2,000
3. Total income of a person is determined on the basis of his —
 - (a) Residential status in India
 - (b) Citizenship in India
 - (c) Both (a) and (b)
 - (d) None of the above
4. The term business would include _____ and accordingly the term business used in Section _____ would also include a professional connection.
 - (a) Profession; 9(1)(i)
 - (b) Vocation; 9(1)(i)
 - (c) Profession; 9(1)(ia)
 - (d) Profession; 9(1)(ii)
5. Salary payable for the rest period or leave period which is preceded and succeeded by the period during which services were rendered in India and forms part of the service contract of employment –
 - (a) Deemed to accrue or arise in India
 - (b) Deemed to be received in India
 - (c) Deemed Receipt
 - (d) Income arise outside India
6. Daily allowance received by any person by reason of his membership of Parliament or of any State Legislature or of any Committee thereof is _____.
 - (a) exempt
 - (b) taxable as salary income
 - (c) exempt to the extent of ₹ 7,500 p.m.
 - (d) none of these

Revisionary Test Paper December 2018

7. Which of the following income is not exempt u/s 10?
(a) Share in total income of firm
(b) Income from agriculture in Lahore
(c) Bonus on life insurance
(d) Income from mutual funds
8. Income from saplings shall be considered as _____.
(a) Agricultural Income
(b) Business Income
(c) Partly agricultural income and partly business income
(d) Income from other sources
9. Receipts from TV serial shooting in farm house is -
(a) Agricultural income
(b) Non agricultural income
(c) Not an income
(d) None of the above
10. An assessee has borrowed money for acquisition of a house and interest is payable outside India. Such interest shall -
(a) be allowed as deduction
(b) not be allowed as deduction
(c) be allowed as deduction if tax is deducted at source
(d) be partially allowed
11. In case where accommodation to employee is provided in a hotel, value of requisite shall be minimum of the following:
a. _____ of salary for the period such accommodation is provided; or
b. Actual charges paid or payable to such hotel.
(a) 24%
(b) 15%
(c) 10%
(d) 35%
12. X Ltd. maintains books of account on mercantile basis. For the previous year 2017-18, interest payable on term loan taken from a scheduled bank was ₹ 84,000. Out of ₹ 84,000, it had not paid ₹ 25,000 till the due date of filing the return for the previous year 2017-18. In which year, can it deduct such interest expenditure?
(a) The year in which it will pay the interest in future
(b) Any year as per the choice of the assessee
(c) P.Y. 2017-18
(d) P.Y. 2018-19
13. Provision of sec. 94(8) is applicable if following conditions are satisfied:
• any person buys or acquires any units (original units) within a period of _____ prior to the record date;
• such person is allotted bonus units on such date;
• such person sells or transfers all or any of the original units within a period of _____ after such date, while continuing to hold all or any of the bonus unit(s).
(a) 3 months; 9 months
(b) 3 months; 3 months
(c) 3 months; 6 months
(d) 6 months; 6 months

Revisionary Test Paper December 2018

14. Any payment (whether in cash or in kind) by a company in which public are not substantially interested to the extent of accumulated profit (excluding capitalized profit) by way of loan or advance to its equity shareholder, who is registered as well as beneficial owner of the shares, holding not less than _____ of voting power in the company is treated as dividend.
- (a) 10%
 - (b) 20%
 - (c) 5%
 - (d) 25%
15. When both, husband and wife, have substantial interest in a concern and both are drawing remuneration from that concern without possessing any specific qualification; in such case in whose hands such income is clubbed –
- (a) Remuneration from such concern will be included in the total income of husband or wife, whose total income excluding such remuneration, is higher.
 - (b) Remuneration from such concern will be included in the total income of the assessee who receives such income
 - (c) Remuneration from such concern will be included in the total income of husband or wife, whose total income excluding such remuneration, is lower.
 - (d) Remuneration from such concern will be included in the total income of husband or wife, whose income from such concern, is higher.
16. Long term capital loss can be set off from –
- (a) Short term capital gain only
 - (b) Long term capital gain only
 - (c) Income from business or profession
 - (d) Income from salary
17. Maximum deduction allowed under section 80GG is –
- (a) ₹ 24,000
 - (b) ₹ 10,000
 - (c) ₹ 60,000
 - (d) ₹ 30,000
18. If a trust established wholly for charitable purposes, receives an anonymous donation with a specific direction that the donation shall form part of the corpus of the trust, such anonymous donation would be :
- (a) Exempt by virtue of section 11(1)(d)
 - (b) Taxable @ 30% as provided in section 115BBC
 - (c) Taxable @ 10%
 - (d) Taxable @ 20%.
19. Following form number is to be used for filing the return of income by an individual having business income?
- (a) Form No. 1
 - (b) Form No. 2
 - (c) Form No. 3
 - (d) Form No. 5
20. Which of the following can be corrected while processing the return of income under section 143(1)?
- (a) any arithmetical error in the return
 - (b) any mistake in the return of income
 - (c) any error in the return of income
 - (d) any claim by the taxpayer which is against law

Revisionary Test Paper December 2018

Answer:

| | | | | | | | |
|----|---|-----|---|-----|---|-----|---|
| 1. | b | 6. | a | 11. | a | 16. | b |
| 2. | c | 7. | b | 12. | a | 17. | c |
| 3. | a | 8. | a | 13. | a | 18. | b |
| 4. | a | 9. | b | 14. | a | 19. | c |
| 5. | a | 10. | c | 15. | a | 20. | a |

b. Fill in the blanks

1. The maximum amount deductible u/s 80U is ₹ _____.
2. Expenses on purchase of lottery ticket is _____ deductible
3. Agricultural activities may be divided into two parts viz. _____ and subsequent activities
4. 40% of income from Tea operation shall be _____ under the head profits of Business and Profession.
5. In case of company, the return of income has to be signed by the _____.
6. When unrealized rent of ₹ 50,000 in respect of a let-out property is realized subsequently, the amount liable to tax would be ₹ _____.
7. A person owns 4 heavy goods vehicles. His estimated annual income u/s 44AE is ₹ _____.
8. Advance tax is payable in _____ installments by a non-corporate assessee.
9. Fixed medical allowance of ₹ 2,000 per month paid by an employer is _____ in the hands of the employee.
10. Assessee's own contribution to the National Pension Scheme is eligible for a maximum deduction of ₹ _____.

Answer:

1. ₹ 1,25,000
2. Not
3. Basic activities
4. Taxable
5. Managing director
6. ₹ 35,000
7. ₹ 3,60,000
8. 4
9. Taxable
10. ₹ 50,000

c. State whether the following statements are true or false

1. A return of income filed without payment of self-assessment tax is a defective return.
2. Reasonable expected rent cannot exceed standard rent.
3. No tax is required to be deducted from winning from race-horse, if such winning does not exceed ₹ 50,000
4. Negative income under the head 'income from house property' can be adjusted with income from speculation business subject to restriction of ₹ 2,00,000
5. The income of minor child will always be included in the income of his/her parents.
6. Short term capital loss cannot be adjusted with any income.
7. Deduction under chapter VIA cannot exceed gross total income.
8. Belated return cannot be revised.
9. Loss under the head 'Income from house property' cannot be carried forward.

Revisionary Test Paper December 2018

10. No individual is required to deduct tax at source on any business expenses incurred by him.

Answer:

| | |
|-------------------------------|--------------------------------|
| Following statements are true | Following statements are False |
| 1, 2, 4, 7 | 3, 5, 6, 8, 9, 10 |

d. Match the column

| | |
|----------------------------------------------------------------|-----------------------------------------------------|
| Securities Transaction Tax | Income of co-operative societies |
| Contribution of Employer to Pension Fund of Central Government | Includible as Salary income of employee |
| Donation in kind | Effect of changes in foreign exchange rates |
| Ground rent | Zero Coupon Bonds |
| Bonds specified in section 54EC | Not eligible for deduction under section 80G |
| Section 80 | Deductible as business expenditure |
| ICDS VI | Compulsory filing of loss return |
| Section 80P | Not deductible while computing income from property |
| Section 59 | Maximum limit ₹ 50 lakhs |
| Section 2(48) | Profit chargeable to tax |

Answer:

| | |
|----------------------------------------------------------------|-----------------------------------------------------|
| Securities Transaction Tax | Deductible as business expenditure |
| Contribution of Employer to Pension Fund of Central Government | Includible as Salary income of employee |
| Donation in kind | Not eligible for deduction under section 80G |
| Ground rent | Not deductible while computing income from property |
| Bonds specified in section 54EC | Maximum limit ₹ 50 lakhs |
| Section 80 | Compulsory filing of loss return |
| ICDS VI | Effect of changes in foreign exchange rates |
| Section 80P | Income of co-operative societies |
| Section 59 | Profit chargeable to tax |
| Section 2(48) | Zero Coupon Bonds |

Descriptive Type Question

2. What is the meaning of Agricultural Income?

Answer:

As per sec. 2(1A), agricultural income means –

1. Any rent or revenue derived from a land, which is situated in India & is used for agricultural purposes;
2. Any income derived from such land by agriculture
3. Any income derived from such land by the performance by –
 - a) a cultivator;
 - b) receiver of rent in kind;
 - of any process ordinarily employed by a them to render the produce raised or received by him fit to be taken to market.

Revisionary Test Paper December 2018

4. Any income derived from such land by the sale by
 - a) a cultivator of the produce raised by him; or
 - b) receiver of rent-in-kind of the produce received by him;
 - in respect of which no process has been performed other than a process required to render it fit for the market.
5. Any income derived from a building subject to fulfillment of the following conditions -
 - a) The building should be occupied by the cultivator or receiver of rent in kind.
 - b) The building should be on or in the immediate vicinity of the land, being situated in India and used for agricultural purposes.
 - c) The building should be used as dwelling house or store-house or other out building.
 - d) The land is either situated in –
 - i) Rural area; or
 - Urban area and assessed to land revenue / local rates.

3. **Mr. X grows and manufactures tea in India. His income details are as under –**

| | |
|--------------------------------------------------------------------------------------------------------|-------------------|
| Income from business of growing & manufacturing tea (in total) | ₹ 1,00,000 |
| Interest received from Mr. Y, being a grower and manufacturer of tea | ₹ 2,55,000 |
| Brought forward loss (P.Y. 2016-17) from business of growing & manufacturing tea (in total) | ₹ 40,000 |

Compute total income of Mr. X for A.Y.2018-19.

Answer:

Computation of total income and agricultural income of Mr. X for the A.Y. 2018-19

| Particulars | Agro-income | Non-agro income |
|-------------------------------------------|---------------|-----------------|
| Profits & gains of business or profession | | |
| Income from tea business (Rule 8) | | |
| 60% of ₹ 1,00,000 | 60,000 | |
| 40% of ₹ 1,00,000 | | 40,000 |
| Less: Brought forward loss | | |
| 60% of ₹ 40,000 | 24,000 | |
| 40% of ₹ 40,000 | | 16,000 |
| | 36,000 | 24,000 |
| Income from other sources | | |
| Add: Interest income | - | 2,55,000 |
| Total income | 36,000 | 2,79,000 |

4. **X, a foreign citizen (not being a person of Indian origin), came to India for the first time on 2nd December, 2017 for a visit of 210 days. X had the following income during the previous year ended 31-3-2018:**

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Salary received in India for 3 months | 90,000 |
| Income from house property in London (received there) | 2,69,200 |
| Interest on Fixed Bank Deposit with Standard Chartered Bank, New Delhi | 40,000 |
| Amount brought into India out of the past untaxed profit earned in Germany | 80,000 |
| Income from agriculture in Sri Lanka being invested there | 12,324 |
| Income from business in Nepal, being controlled from India | 30,240 |
| Gift in foreign currency from a relative received in India | 80,000 |
| Income from house property in USA received in USA (₹ 76,000 is used in Canada for meeting the educational expenses of X's daughter and ₹ 10,000 is later on remitted to India) | 86,000 |

You are required to compute his total income for the A.Y.2018-19.

Revisionary Test Paper December 2018

Answer:

Assessee resided in India for 210 days in the following manner –

| P.Y. | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|--------------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 18-19 | 30 | 31 | 28 | - | - | - | - | - | - | - | - | - | 89 |
| 17-18 | - | - | - | - | - | - | - | - | 30 | 31 | 29 | 31 | 121 |
| 16-17 & back | - | - | - | - | - | - | - | - | - | - | - | - | - |

Since X does not satisfy any of the condition prescribed u/s 6(1), he is non-resident in India for the P.Y. 2017-18.

Computation of total income of X, a non-resident, for the A.Y. 2018-19

| Particulars | Amount | Amount |
|-------------------------------------------------------------------|--------|-----------------|
| <u>Salaries</u> | | |
| Salary received in India | | 90,000 |
| <u>Income from house property</u> | | |
| Income from house property in London | Nil | |
| Income from house property in USA being received in USA | Nil | Nil |
| <u>Profit & gains from business or profession</u> | | |
| Income from business in Nepal being controlled from India | | Nil |
| <u>Income from other sources</u> | | |
| Interest on Fixed Deposit with Standard Chartered Bank, New Delhi | 40,000 | |
| Income from agriculture in Sri Lanka | Nil | 40,000 |
| Gross Total Income / Total Income | | 1,30,000 |

Notes:

- Remittance of past-untaxed profit in India is not taxable.
- Gift from a relative is not an income, hence not taxable.

5. **Teji, a citizen of India, is an export manager of Arjun Overseas Ltd., an Indian company since 1-5-2013. He has been regularly visiting USA for export promotion. He spent the following days in USA during the last five years:**

| <u>Previous year ended</u> | <u>Number of days spent in USA</u> |
|----------------------------|------------------------------------|
| 31-3-2014 | 319 days |
| 31-3-2015 | 150 days |
| 31-3-2016 | 270 days |
| 31-3-2017 | 310 days |
| 31-3-2018 | 295 days |

Determine his residential status for A.Y. 2018-19 assuming that prior to 1-5-2013, he had never travelled abroad.

Answer:

During previous year 2017-18, Teji was in India for 70 days (i.e., 365 days – 295 days) & during four years immediately preceding the previous year, he was in India for 412 days as shown below:

| Year | 2013-14 | 2014-15 | 2015-16 | 2016-17 | Total |
|-----------------------------|-------------|-------------|-------------|-------------|----------|
| No. of days stayed in India | 46 days | 215 days | 96 days | 55 days | 412 days |
| | (365 – 319) | (365 - 150) | (366 - 270) | (365 - 310) | |

Thus, he satisfies one of the conditions specified u/s 6(1) & consequently, he becomes resident for the P.Y. 2017-18.

Revisionary Test Paper December 2018

Further, to determine whether Teji is an ordinarily resident or not, he needs to satisfy both conditions laid down in sec. 6(6). His days of stay in India in last few years are as follows:

| S.N. | Year | Presence in India (In days) | Resident (R) or Non resident (NR) | Condition satisfied to become a resident |
|------|-----------|-----------------------------|-----------------------------------|------------------------------------------|
| 1 | 2016-2017 | 55 | NR | None |
| 2 | 2015-2016 | 96 | R | Sec. 6(1)(c) |
| 3 | 2014-2015 | 215 | R | Both |
| 4 | 2013-2014 | 46 | NR | None |
| 5 | 2012-2013 | 365 | R | Both |
| 6 | 2011-2012 | 366 | R | Both |
| 7 | 2010-2011 | 365 | R | Both |
| 8 | 2009-2010 | 365 | R | Both |
| 9 | 2008-2009 | 365 | R | Both |
| 10 | 2007-2008 | 366 | R | Both |

Condition (i) of sec. 6(6) requires that an individual should be resident in India for at least 2 out of 10 years immediately preceding the relevant previous year. Teji was resident in India for 8 out of 10 years immediately preceding the previous year. Thus, he satisfies this condition.

Condition (ii) of sec. 6(6) requires that an individual should be present in India for at least 730 days during 7 years immediately preceding the relevant previous year. Teji was in India for 1508 days during 2010-11 to 2016-17. Hence, he satisfies this condition also.

Teji satisfies the condition of sec. 6(1)(c) as well as both the conditions of sec. 6(6). Thus, he is a resident and ordinarily resident in India for the previous year 2017-18.

6. **Mr. Bhoumik of Siliguri is offered an employment by Vimal & Co., Kolkata on a basic salary of ₹ 2,000 p.m. Other allowances are Dearness Allowance (not forming part of salary for retirement benefits) ₹ 4,000 p.m., Medical Allowance ₹ 1,000 p.m. and Bonus being 1 month's basic salary. The company gives an option to Mr. Bhoumik either to take a rent free accommodation in Kolkata of the fair rental value of ₹ 2,000 p.m. or to accept a cash house rent allowance of ₹ 2,000 p.m. Mr. Bhoumik decides to accept house rent allowance and takes a house in Kolkata at a monthly rent of ₹ 2,000. Do you think he has made a wise choice.**

Answer:

Computation of taxable salary of Mr. Bhoumik for the A.Y.2018-19

| Particulars | When he takes HRA | | When he takes RFA | |
|---------------------------------------------------|-------------------|----------|-------------------|----------|
| | Details | Amount | Details | Amount |
| Basic | | 1,44,000 | | 1,44,000 |
| Bonus | | 12,000 | | 12,000 |
| <u>Allowances</u> | | | | |
| Dearness allowance | | 48,000 | | 48,000 |
| Medical allowance | | 12,000 | | 12,000 |
| HRA | 24,000 | | | |
| Less: Minimum of following is exempt u/s 10(13A): | | | | |
| - Actual amount received 24,000 | | | | |
| - 50% of salary ¹ 72,000 | | | | |

Revisionary Test Paper December 2018

| | | | | |
|-------------------------------------------------------------------------|-------|-----------------|--|-----------------|
| - Rent paid – 10% of salary ¹ [₹ 24,000 – ₹ 14,400] 9,600 | 9,600 | 14,400 | | NA |
| Rent free accommodation (being 15% of salary ¹) | | NA | | 25,200 |
| Taxable Salary | | 2,30,400 | | 2,41,200 |

¹Salary for the purpose:

| Particulars | RFA | HRA |
|-------------------|-----------------|-----------------|
| Basic salary | 1,44,000 | 1,44,000 |
| Medical Allowance | 12,000 | -- |
| Bonus | 12,000 | -- |
| Total | 1,68,000 | 1,44,000 |

Comment: The above computation indicates that if the assessee chooses rent-free accommodation then his taxable salary increases by ₹ 10,800 (being ₹ 2,41,200 – ₹ 2,30,400), which may increase his tax liability. Hence, assessee has taken a right decision.

7. **Rustam, the general manager of Ferrous Ltd., retired on 31st December, 2017 after 30 years of service. The particulars of his income are as follows:**
- Salary ₹ 8,000 per month from 1-1-2017. House rent allowance ₹ 3,000 per month from 1-1-2017.**
 - Medical expenses reimbursed by employer: ₹ 21,000 for the period from 1st April, 2017 to 31st December, 2017 which includes ₹ 5,000 paid to a government hospital.**
 - Rustam contributes 22% (12% regular and 10% additional voluntary contribution) to a recognized provident fund and the company matches his regular contribution of 12%.**
 - He lives in a rented house in Delhi and pays ₹ 4,000 per month as rent.**
 - Rustam received ₹ 1,50,000 as gratuity. He is not covered by the Payment of Gratuity Act, 1972.**
 - He received ₹ 1,60,000 for encashment of leave, being 16 months leave not availed of.**

Compute Rustam's income from salary for the assessment year 2018-19.

Answer:

Computation of income of Mr. Rustam for A.Y. 2018-19

| Particulars | Working | Detail | Amount | Amount |
|-----------------------------------------------------------|------------------------|-----------|----------|--------|
| Basic Salary | 8,000 * 9 | | | 72,000 |
| Gratuity | | | 1,50,000 | |
| Less: Exemption u/s 10(10)(iii) [Being minimum] | | | | |
| a) Statutory amount | | 10,00,000 | | |
| b) Actual amount received | | 1,50,000 | | |
| c) ½ * Completed years of service * Average Salary | ½ * 8,000 * 30 | 1,20,000 | 1,20,000 | 30,000 |
| Leave encashment | | | 1,60,000 | |
| Less: Exemption u/s 10(10AA)(iii) [Being minimum] | | | | |
| a) Actual amount received | | 1,60,000 | | |
| b) Statutory amount | | 3,00,000 | | |
| c) 10 months average salary | 10 * 8,000 | 80,000 | | |
| d) Leave not availed * average salary | 16 * 8,000 (Note 1) | 1,28,000 | 80,000 | 80,000 |

Revisionary Test Paper December 2018

| | | | | |
|---------------------------------------------|---------------------------------|--------|-----------------|-------|
| <u>Allowances</u> | | | | |
| House rent allowance | | | 27,000 | |
| Less: Exemption u/s 10(13A) [Being minimum] | | | | |
| a) 50% of salary | 50% of 72,000 | 36,000 | | |
| b) Actual amount received | 3,000 * 9 | 27,000 | | |
| c) Rent paid – 10% of salary | 36,000 – 10% of 72,000 | 28,800 | 27,000 | Nil |
| <u>Perquisites</u> | | | | |
| Reimbursement of medical expenses | | | 21,000 | |
| Less: Treatment in Govt. hospital | Exempted | | 5,000 | |
| | | | 16,000 | |
| Less: Exempted | Note 2 | | 15,000 | 1,000 |
| RPF contribution | Within the exempted limit | | | Nil |
| Taxable Salary/Gross Total Income | | | 1,83,000 | |

Notes

1. Assume his employer allows him 30 days leave for each completed year of service.
2. Reimbursement of medical expenses up to ₹ 15,000 is exempt from tax. Amount incurred by the employee for medical treatment in a Government hospital is also exempt from tax.

8. Paritosh is the owner of 5 houses. From the following particulars of the houses, compute his total income for the A.Y. 2018-19:

First House: The house was constructed in December, 1999. The house consists of 4 equal flats. He let out three flats for residential purpose at a monthly rent of ₹ 1,500 per flat, and one flat was let out at ₹ 1,200 per month to his employee for the benefits of his business. He paid ₹ 6,000 as municipal tax, ₹ 5,000 as insurance for the house. He had taken loan from the bank for the construction of the house and he paid ₹ 8,000 as interest on loan. He was responsible for repair works but he spent nothing on repair.

Second house: The house was constructed on 30/6/2017 on leasehold land and was let out to a friend at a monthly rent of ₹ 2,000 from 1/08/2017. After the friend left, the house was let out to another person from 1/01/2018 at a monthly rent of ₹ 2,500. He spent ₹ 100 p.m. for water supply (which was recovered from tenant and included in rent), ₹ 1,500 for municipal tax and ₹ 1,200 for rent collection charges

Third house: This house was taken by Sri Paritosh on hire from Sen at a rent of ₹ 1,000 p.m. and was sub-let to another person at monthly rent of ₹ 1,500. He paid ₹ 1,000 as municipal tax and ₹ 200 for repairs.

Fourth house: The house was constructed in 1987. The house is used for his business. The annual value of this house was ₹ 12,000 and he spent ₹ 1,000 as Municipal tax and ₹ 300 for repairs.

Fifth house: This house is used for his residential purpose. The fair rent of this house was ₹ 1,200 per month. He paid ₹ 7,000 as interest on loan taken from a Bank for the construction of house. It includes ₹ 1,000 as interest on arrears of interest.

His business income is ₹ 1,00,000 (Without considering income and expenses mentioned above).

Revisionary Test Paper December 2018

Answer:

Computation of total income of Sri Paritosh for the A.Y. 2018-19

| Particulars | Details | Details | Amount | Amount |
|----------------------------------------------------------------------|---------|---------|-----------|-----------------|
| <u>Income from house property</u> | | | | |
| House 1: <u>Let out (Only 3/4th portion)</u> [Sec. 23(1)] | | | | |
| Gross Annual Value (Working 1) | | 54,000 | | |
| Less: Municipal Tax (3/4 th) | | 4,500 | | |
| Net Annual Value | | 49,500 | | |
| Less: <u>Deduction u/s</u> | | | | |
| 24(a) Standard Deduction | 14,850 | | | |
| 24(b) Interest on loan (3/4 th) | 6,000 | 20,850 | 28,650 | |
| House 2: <u>Let out</u> [Sec. 23(1)] | | | | |
| Gross Annual Value (Working 2) | | 21,600 | | |
| Less: Municipal Tax | | 1,500 | | |
| Net Annual Value | | 20,100 | | |
| Less: <u>Deduction u/s</u> | | | | |
| 24(a) Standard Deduction | 6,030 | | | |
| 24(b) Interest on loan | --- | 6,030 | 14,070 | |
| House 3: Note 2 | | | | |
| - | | | | |
| House 4: Note 3 | | | | |
| - | | | | |
| House 5: <u>Self occupied</u> [Sec. 23(2)(a)] | | | | |
| Net Annual Value | | Nil | | |
| Less: <u>Deduction u/s</u> | | | | |
| 24(b) Interest on loan (Note 4) | | 6,000 | (-) 6,000 | 36,720 |
| <u>Profits and gains of business or profession</u> | | | | |
| Net profit as per P/L Account | | | | |
| | | | 1,00,000 | |
| Add: <u>Income taxable but not credited in P/L Account</u> | | | | |
| Rent received from employee (₹ 1,200 * 12) | | | 14,400 | |
| | | | 1,14,400 | |
| Less: <u>Expenditure allowed but not debited in P/L Account</u> | | | | |
| Municipal tax of house ¹ | | | 1,500 | |
| Insurance of house ¹ | | | 1,250 | |
| Interest on loan taken for construction of house ¹ | | | 2,000 | |
| Municipal tax of house ⁴ | | | 1,000 | |
| Repairs of house ⁴ | | | 300 | 6,050 |
| | | | 1,08,350 | |
| <u>Income from other sources</u> | | | | |
| Rent Received (₹ 1,500 * 12) | | | 18,000 | |
| Less: <u>Expenditure</u> | | | | |
| Rent paid (₹ 1,000 * 12) | | | 12,000 | |
| Municipal tax | | | 1,000 | |
| Repairs | | | 200 | 13,200 |
| | | | 4,800 | |
| Total Income | | | | 1,49,870 |

Notes

- House 1 to the extent of 1/4th portion (let out to employee) shall be taxable as business income and all expenditure of house 1 to the extent (1/4th) used for the business purpose shall be allowed proportionately.

Revisionary Test Paper December 2018

2. House 3 is not owned by assessee, hence taxable under the head Income from other sources.
3. House 4 is used for own business of the assessee hence not taxable under the head Income from house property but considered under the head Profits & gains of business or profession.
4. Interest on arrear-interest is not allowed as deduction.

Workings:

1. Computation of GAV of House 1

House is divided into 4 flats, out of which 3 were let out and one is let-out to employee for benefit of business of assessee. So, flat, which was let out to employee is taxable under the head "Profits & gains of business or profession" and remaining portion (i.e. 3/4th portion) is taxable under this head.

Since RER is not given, GAV equals to Actual rent receivable ₹ 54,000 (i.e. ₹1,500 * 3 * 12)

2. Computation of GAV of house 2

| Particulars | Working | Amount |
|---------------------------------|--------------------------------------------------------|---------------|
| Actual Rent Receivable | 2,000 * 5 | 10,000 |
| | 2,500 * 3 | 7,500 |
| | | 17,500 |
| Less: Water supply charges | | 800 |
| | | 16,700 |
| Fair Rent ¹ | 2,400 * 9 | 21,600 |
| Reasonable Expected Rent (RER) | Being Fair Rent | 21,600 |
| Actual Rent Receivable (ARR) | | 16,700 |
| Higher of above | | 21,600 |
| Gross Annual Value (GAV) | As ARR is less than RER not only due to vacancy | 21,600 |

¹**Fair Rent:** Since 2nd house is let out by assessee to his friend @ ₹ 1,900 p.m. (being ₹ 2,000 – ₹ 100), and the same property let out to other tenant @ ₹ 2,400 p.m. (being ₹ 2,500 – ₹ 100), this signifies that 2nd house has fair rent ₹ 2,400 * 9 = ₹ 21,600.

Construction of property completed on 30.6.2017, therefore previous year will be of 9 months only.

9. From the following profit & loss account of Vijay for the year ended 31-3-2018, compute his gross total income for the assessment year 2018-19:

| Particulars | Amount | Particulars | Amount |
|-------------------------|-------------|---------------------------------|-------------|
| Opening stock | 4,00,000 | Sales | 1,40,00,000 |
| Purchases | 1,30,00,000 | Closing stock | 4,80,000 |
| Salaries | 8,00,000 | Income from house property | 80,000 |
| Rent, rates & taxes | 1,20,000 | Dividend from an Indian company | 9,000 |
| Legal charges | 40,000 | | |
| Miscellaneous expenses | 20,000 | | |
| Provision for bad debts | 30,000 | | |
| Provision for gratuity | 20,000 | | |

Revisionary Test Paper December 2018

| | | | |
|--------------------------|-------------|--|-------------|
| Provision for income tax | 40,000 | | |
| Salary to Mrs. Vijay | 36,000 | | |
| Depreciation | 40,000 | | |
| Net profit | 23,000 | | |
| | 1,45,69,000 | | 1,45,69,000 |

Additional information

1. Purchases include ₹ 1,00,000 paid in cash to cultivator for purchase of an agricultural produce.
2. Purchases also include ₹ 1,00,000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finances.
3. Opening stock was overvalued by 25% and closing stock was undervalued by 25%.
4. Salary includes ₹ 15,000 paid as customary bonus on the occasion of Diwali over and above the bonus payable under the Payment of Bonus Act, 1956.
5. Rent, rates & taxes include ₹ 10,000 on account of disputed GST demand. ₹ 3,000 on account of municipal taxes for property let out. It also includes ₹ 5,000 as customs penalty paid during the year.
6. An amount of ₹ 20,000 from a customer was written off from the provision for bad debts
7. An employee retired on 28-3-2018. Gratuity payable to him was ₹ 20,000. A provision was created for the same this year and it was paid on 2-4-2018.
8. Mrs. Vijay is a law graduate and actively working in the assessee's firm.

Answer:

Computation of gross total income of Ronie for the A.Y.2018-19

| Particulars | Note | Details | Amount |
|-----------------------------------------------------------------------|------|----------|----------|
| Profits and gains of business or profession | | | |
| Net profit as per books of account | | | 23,000 |
| Add: Expenditure disallowed but debited in P/L A/c | | | |
| Disputed GST demand | 6 | 10,000 | |
| Municipal tax | 7 | 3,000 | |
| Custom penalty | 8 | 5,000 | |
| Provision for bad debts | 9 | 30,000 | |
| Provision for income tax | 12 | 40,000 | 88,000 |
| | | | 1,11,000 |
| Less: <u>Expenditure allowed but not debited in P/L A/c:</u> | | | |
| Bad debts | 9 | 20,000 | |
| Less: <u>Income not taxable but credited to P/L A/c:</u> | | | |
| Dividend received from companies | | 9,000 | |
| Less: <u>Income taxable under other heads but credited to P/L A/c</u> | | | |
| Income from house property | | 80,000 | 1,09,000 |
| | | | 2,000 |
| <u>Adjustment of stock</u> | | | |
| Add: Under valuation of closing stock | 4 | 1,60,000 | |
| Add: Over valuation of opening stock | 3 | 80,000 | 2,40,000 |
| | | | 2,42,000 |
| <u>Income from house property</u> | | | |
| Gross Annual Value (Actual rent received) | | 80,000 | |

Revisionary Test Paper December 2018

| | | | |
|-------------------------------------------------|--|--------|-----------------|
| Less: Municipal Taxes | | 3,000 | |
| Net Annual value (NAV) | | 77,000 | |
| Less: Standard deduction u/s 24(a) @ 30% of NAV | | 23,100 | 53,900 |
| <u>Income from other sources</u> | | | |
| Dividend [Exempt u/s 10(34)] | | | Nil |
| Gross Total Income | | | 2,95,900 |

Notes

1. Since the payment is made in cash of ₹ 1,00,000 to agriculturist, hence the provision of sec. 40A(3) do not attract.
2. Payment of compensation to supplier is a business expenditure and shall be allowed.
3. Overvaluation of opening stock by 25%
 Stock at overvalued figure (i.e. at 125%) = ₹ 4,00,000
 Stock at cost (i.e. at 100%) = ₹ 3,20,000 (i.e. ₹ 4,00,000/125%)
 Overvaluation of stock = ₹ 80,000 (i.e. ₹ 4,00,000 - ₹ 3,20,000)
4. Under valuation of closing stock by 25%
 Stock at undervalued figure (i.e. at 75%) = ₹ 4,80,000
 Stock at cost (i.e. at 100%) = ₹ 6,40,000 (i.e. ₹ 4,80,000/75%)
 Undervaluation of stock = ₹ 1,60,000 (i.e. ₹ 6,40,000 - ₹ 4,80,000)
5. Voluntary bonus to employee shall be allowed expenditure.
6. Disputed GST demand is not allowed assuming it is still not paid [Sec.43B]
7. Municipal tax paid is allowed under the head income from house property.
8. Any payment for infringement of law is not allowed as deduction.
9. Provision for bad debt is disallowed. However, bad debt written off against the same is allowed expenditure.
10. Since the gratuity is paid before due date of filing of return, hence the same is allowed.
11. Payment to relative not being in excess shall be allowed as deduction. Further Mrs. Vijay is possessing technical or professional qualification. Hence, clubbing provision u/s 64(1) is not attracted.
12. Income tax is disallowed expenditure u/s 40(a).

10. Sonu, Monu and Renu, partners of Raj Traders, furnishes the following details –

Profit and loss account for the year ended 31-3-2018

| Particulars | Amount | Particulars | Amount |
|----------------------------------|------------------|--------------|------------------|
| Salary to employees | 1,50,000 | Gross Profit | 10,00,000 |
| Other Expenses | 3,50,000 | | |
| <u>Salary to partners</u> | | | |
| Sonu | 1,00,000 | | |
| Monu | 1,20,000 | | |
| Renu | 1,50,000 | | |
| <u>Interest on capital @ 10%</u> | | | |
| Sonu | 10,000 | | |
| Monu | 12,000 | | |
| Renu | 15,000 | | |
| Depreciation | 25,500 | | |
| Net profit | 67,500 | | |
| | 10,00,000 | | 10,00,000 |

Additional information

1. Other expenses include an expenditure of ₹ 25,000, which is not allowed as deduction.

Revisionary Test Paper December 2018

2. During the previous year, firm paid ₹ 15,000 outstanding professional tax of earlier years.
3. Depreciation allowed u/s 32 is ₹ 30,000.
4. The firm is not evidenced by any instrument. However, they share profit or loss in equal ratio.

| <u>Other income of partners</u> | <u>Sonu</u> | <u>Monu</u> | <u>Renu</u> |
|---------------------------------|-------------|-------------|-------------|
| Income from other business | ₹ 2,50,000 | ₹ 1,50,000 | ₹ 50,000 |
| Income from dividend | ₹ 15,000 | ₹ 5,000 | ₹ 25,000 |
| Interest on loan given | ₹ 5,000 | ₹ 2,000 | ₹ 3,000 |

Compute total income of the firm and that of partners.

Answer:

Since the firm is not evidenced by an instrument, hence it fails to satisfy conditions laid down u/s 184. Therefore, firm is not eligible for any deduction in respect to interest and remuneration to partners.

Computation of total income of Raj Traders for A.Y. 2018-19

| <u>Particulars</u> | <u>Amount</u> | <u>Amount</u> |
|------------------------------------------------------------------|---------------|-----------------|
| Profits and gains of business or profession | | |
| Net profit as per profit and loss account | | 67,500 |
| Add: <u>Expenditure disallowed but debited in P/L Account</u> | | |
| Salary to partners [₹ 1,00,000 + ₹ 1,20,000 + ₹ 1,50,000] | 3,70,000 | |
| Interest on capital to partners [₹ 10,000 + ₹ 12,000 + ₹ 15,000] | 37,000 | |
| Depreciation | 25,500 | |
| Other Expenses | 25,000 | 4,57,500 |
| | | 5,25,000 |
| Less: <u>Expenditure allowed but not debited in P/L Account</u> | | |
| Depreciation | 30,000 | |
| Outstanding professional tax | 15,000 | 45,000 |
| Total Income | | 4,80,000 |

Computation of total income of partners

| <u>Particulars</u> | <u>Sonu</u> | | <u>Monu</u> | | <u>Renu</u> | |
|------------------------------------------------------------------------|----------------|-----------------|----------------|-----------------|----------------|---------------|
| | <u>Details</u> | <u>Amount</u> | <u>Details</u> | <u>Amount</u> | <u>Details</u> | <u>Amount</u> |
| <u>Profits and gains of business or profession</u> | | | | | | |
| Share of profit from Raj Traders [Exempted u/s 10(2A)] | Nil | | Nil | | Nil | |
| Interest on capital from Raj Traders [To the extent allowed u/s 40(b)] | Nil | | Nil | | Nil | |
| Remuneration from Raj Traders [To the extent allowed u/s 40(b)] | Nil | | Nil | | Nil | |
| Income from other business | 2,50,000 | 2,50,000 | 1,50,000 | 1,50,000 | 50,000 | 50,000 |
| Income from other sources | | | | | | |
| Dividend income [Exempted u/s 10(34)] | Nil | | Nil | | Nil | |
| Interest on loan given | 5,000 | 5,000 | 2,000 | 2,000 | 3,000 | 3,000 |
| Total Income | | 2,55,000 | | 1,52,000 | | 53,000 |

Revisionary Test Paper December 2018

11. Mr. A, is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident in May 2017. The value of stock lost (totally damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-04-2017 was ₹ 10,80,000. During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2007 for ₹ 1,10,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000. Mr. A received the following amounts from the insurance company:

| | |
|-------------------------------------------|------------|
| (i) Towards loss of stock | ₹ 4,80,000 |
| (ii) Towards damage of machinery | ₹ 6,00,000 |
| (iii) Towards gold chain and diamond ring | ₹ 2,80,000 |

You are requested to briefly comment on the tax treatment of the above 3 items.

Answer:

Computation of depreciation on machinery

| Particulars | Amount |
|--------------------------------------|---------------|
| W.D.V. as on 01-04-2017 | 10,80,000 |
| Add: Purchased during the year | Nil |
| | 10,80,000 |
| Less: Insurance compensation | 6,00,000 |
| W.D.V. as on 31-03-2018 [#] | 4,80,000 |
| Depreciation on above @ 15% | 72,000 |

[#] As machinery is not completely lost, thus there is machine as well as value in the block. Hence, the provision of capital gain shall not be applicable.

Computation of capital gain

| Particulars | Jewellery |
|------------------------------------------------------------|---------------|
| Sale Consideration | 2,80,000 |
| Less: Expenses on transfer | Nil |
| | 2,80,000 |
| Less: Indexed cost of acquisition [₹ 1,10,000 * 272 / 129] | 2,31,938 |
| Long term capital gain | 48,062 |

Computation of income under the head profit and gains from business or profession

| Particulars | Amount |
|-----------------------------------------------------|-------------------|
| Insurance compensation received | 4,80,000 |
| Less: Value of stock damaged | 6,50,000 |
| Profit and gains from business or profession | (1,70,000) |

12. Miss Vinita has a house property used for her residential purpose. She sold such property as on 13/8/2017 for ₹ 18,50,000. Such house was originally acquired by her for ₹ 3,00,000 in June 2013. On 15/3/2018, she purchased another residential house for ₹ 5,20,000. Compute her capital gain for the assessment year 2018-19.

Revisionary Test Paper December 2018

Answer:

Computation of capital gain of Miss Vinita for the A.Y. 2018-19

| Particulars | Details | Amount |
|---------------------------------------|-------------------------------------------------------|-----------------|
| Sale consideration | | 18,50,000 |
| Less: Expenditure on transfer | | Nil |
| Net sale consideration | | 18,50,000 |
| Less: Indexed cost of acquisition | ₹ 3,00,000 * 272/220 | 3,70,909 |
| Less: Indexed cost of improvement | | Nil |
| Long term capital gain | | 14,79,091 |
| Less: Exemption u/s 54 | Amount invested or capital gain whichever is lower | 5,20,000 |
| Taxable Long term capital gain | | 9,59,091 |

13. Mr. Sujay let out his house to Raju for a monthly rent of ₹ 10,000. The house has been let out with the facilities i.e. Fooding; Furniture; Electricity & Telephone.

Actual expenditures incurred by Mr. Sujay for providing such facilities are as follows:

On fooding ₹ 1,400 p.m, On furniture repairs ₹ 500 p.m, Depreciation on furniture as per sec. 32 ₹ 6,000 p.a, Depreciation of room as per sec. 32 cost ₹ 6,000 p.a, On electricity & telephone ₹ 600 p.m

Find the taxable income of Mr. Sujay in the following cases -

Case I: Rent is not segregated and such facilities, in segregated form, are not acceptable to the tenant.

Case II: Rent is segregated as under and Raju is ready to accept the property without above facilities: For room ₹ 4,000, Furniture ₹ 3,000, Fooding ₹ 2,000, Electricity & Telephone ₹ 1,000.

Case III: Rent is segregated as in Case II, but Raju is not willing to accept property without such facilities.

Answer:

Case I: Generally, income from letting of house property is taxable under the head "Income from house property". However, in the given case, letting is inseparable from the facilities provided by Mr. Sujay. Hence, income from such letting is charged to tax under the head "Income from other sources", assuming such letting is not the business of the assessee:

Computation of total income of Mr. Sujay for the A.Y 2018-19

| Particulars | Working | Details | Amount |
|----------------------------------|---------------|---------|---------------|
| <u>Income from other sources</u> | | | |
| Rent Received | ₹ 10,000 * 12 | | 1,20,000 |
| Less: <u>Expenditure</u> | | | |
| Fooding | ₹ 1,400 * 12 | 16,800 | |
| Furniture repairs | ₹ 500 * 12 | 6,000 | |
| Depreciation on furniture | | 6,000 | |
| Electricity & telephone | ₹ 600 * 12 | 7,200 | |
| Depreciation of room | | 6,000 | 42,000 |
| Total Income | | | 78,000 |

Revisionary Test Paper December 2018

Case II: As the segregation of rent is possible and Raju is ready to acquire the property even without facilities. Hence, sum received by Mr. Sujay for the use of his house property only shall be taxable under the head "Income from house property" and sum received for the facilities shall be taxable under the head "Income from other sources".

Computation of total income of Mr. Sujay for the A.Y 2018-19

| Particulars | Working | Details | Amount | Amount |
|----------------------------|------------------------------------|---------|--------|---------------|
| Income from house property | | | | |
| Gross Annual Value | ₹ 4,000 * 12 | | 48,000 | |
| Less: Municipal tax | | | Nil | |
| Net Annual Value | | | 48,000 | |
| Less: Deduction u/s 24(a) | 30% of ₹ 48,000 | | 14,400 | 33,600 |
| Income from other sources | | | | |
| Charges / Rent Received | (₹ 3,000 + ₹ 2,000 + ₹ 1,000) * 12 | | 72,000 | |
| Less: Expenditure | | | | |
| Food | ₹ 1,400 * 12 | 16,800 | | |
| Furniture repairs | ₹ 500 * 12 | 6,000 | | |
| Depreciation on furniture | | 6,000 | | |
| Electricity & telephone | ₹ 600 * 12 | 7,200 | 36,000 | 36,000 |
| Total Income | | | | 69,600 |

Case III: As the letting of house property alone is not acceptable to Raju, hence the sum received as rent by Mr. Sujay shall be taxable under the head income from other sources, even though separate rent is quoted for house property and for facilities. Tax treatment for the amount received, as rent shall be the same as in Case I.

14. An assessee who maintains books of account on mercantile basis borrowed ₹ 33,000 at 7% per annum on 1st August, 2017 & invested it in 8% tax free securities of the Central Government purchased at ₹ 110 (face value ₹ 100), due date of interest is 1st January and 1st July every year. On 31-8-2017, he borrowed ₹ 40,000 at 7% per annum for investing it in 11% listed debenture of C Ltd. (date of payment of interest 15th April every year). Interest on borrowing for the period ending 31-3-2018 is, however, paid by the assessee on 25-4-2018. Compute his income chargeable under the head income from other sources.

Answer:

Computation of income under the head Income from other sources for A.Y.2018-19

| Particulars | Details | Amount | Amount |
|-----------------------------------|-----------------------------------------|--------|------------------|
| Interest on Government securities | $(33,000/110 * 100) * 8% * \frac{1}{2}$ | 1,200 | |
| Less: Interest on borrowing | $33,000 * 7% * \frac{8}{12}$ | 1,540 | (-) 340 |
| Interest on Debenture | As due date is 15 th April | Nil | |
| Less: Interest on borrowing | $40,000 * 7% * \frac{7}{12}$ | 1,633 | (-) 1,633 |
| Income from Other Source | | | (-) 1,973 |

15. Balu is the Karta of a HUF, whose members derive income as given below:

| Particulars | Amount |
|------------------------------------------------------------------------------------------------------|----------|
| Income from Balu's own business | 50,000 |
| Mrs. Balu a dermatologist draws salary | 80,000 |
| Minor son Deepak (earning interest on FD with ABC Ltd., which were gifted to him by his grandfather) | 15,000 |
| Minor daughter Priya gave a dance performance and received remuneration | 1,00,000 |
| Deepak got winnings from lottery (gross) | 2,00,000 |

Explain how the above will be taxed.

Revisionary Test Paper December 2018

Answer:

Computation of total income for the A.Y. 2018-19

| Particulars | Details | Balu | Mrs. Balu | Priya |
|--------------------------------------------------------------------------------------------------------------------------------------|---------|---------------|-----------------|-----------------|
| Salaries | | | | |
| Salary of Mrs. Balu | | - | 80,000 | - |
| Profits & gains of business & profession | | 50,000 | - | - |
| Income from other sources | | | | |
| Interest on fixed deposit | 15,000 | - | - | - |
| Less: Exemption u/s 10(32) | 1,500 | - | 13,500 | - |
| Winning from lotteries | | - | 2,00,000 | - |
| Remuneration from dance performance | | - | - | 1,00,000 |
| Gross Total Income / Total Income | | 50,000 | 2,93,500 | 1,00,000 |
| Note: Interest income of minor son Deepak will be taxable in the hands of his parent and not in the hands of his grandfather. | | | | |

16. From the following particulars of Mr. Naresh for the previous year ending on 31.3.2018, compute income under each head and the total income with reasons and also explain the provisions of carry forward of such loss, that could not be absorbed:

| Particulars | Amount |
|---------------------------------------------------------|-----------------|
| Income from business (Proprietary concerns): | |
| Net adjustable profit from textile trade | 20,000 |
| Net adjusted loss from automotive trade | (30,000) |
| Loss in shares trade (shares were never taken delivery) | (40,000) |
| Negative income from house property: | (25,000) |
| Capital gains: | |
| Short term loss | (20,000) |
| Long term gain | 30,000 |

Answer:

Computation of gross total income of Mr. Naresh for the A.Y. 2018-19

| Particulars | Details | Amount | Amount |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------------|----------|
| Income from house property | | (25,000) ¹ | |
| Profits and gains of business or profession | | | |
| Proprietary Concern | | | |
| Profit from textile trade | 20,000 | | |
| Net adjusted loss from automotive trade | (30,000) | | (10,000) |
| Speculative Business | | | |
| Loss in shares trade | (40,000) | (40,000) ² | |
| Capital gains | | | |
| Short term loss | (20,000) | | |
| Long term gain | 30,000 | | 10,000 |
| Gross Total Income | | | Nil |
| Loss to be carried forward for subsequent assessment years: | | | |
| Loss under the head 'Income from house property' ₹ 25,000 shall be carried forward for 8 years and 'Speculation loss' shall be carried forward for 4 years ₹ 40,000 | | | |

Revisionary Test Paper December 2018

Notes

1. Income from house property can be carried forward to subsequent assessment years.
2. Loss from speculative business cannot be set off against any other income and is to be carried forward to subsequent assessment year.
3. Loss under the head 'Profits & gains of business or profession' other than speculative loss can be set off against income under the head 'Capital gains'. Accordingly, business loss of ₹ 10,000 is set off against income u/h 'Capital Gains'.
4. Short term capital loss can be set off against long term capital gains [Sec. 70].

Alternatively, loss under the head 'Profits & gains of business or profession' of ₹ 10,000 (non-speculative) & ₹ 40,000 (speculative) and loss under the head 'Income from house property' ₹ 15,000 may be carried forward.

17. From the following information furnished by Mrs. Savitri, 68 years, compute tax liability for the assessment year 2018-19, if gross total income (GTI):

| | | |
|----------------------------------------------|--------------------|--------------------|
| Case 1) ₹ 1,40,000 (Including LTCG ₹ 50,000) | Case 2) ₹ 5,90,000 | Case 3) ₹ 6,00,000 |
|----------------------------------------------|--------------------|--------------------|

- a) Premium accrued ₹ 6,000 on a Life insurance policy of ₹ 1,00,000 on the life of the assessee, payment made on 17/04/2018.
- b) Premium paid ₹ 13,000 on a Life insurance policy of ₹ 1,20,000 on the life of her husband (who is not dependent on her).
- c) Premium paid ₹ 5,000 on a Life insurance policy of ₹ 1,50,000 on the life of her father.
- d) Premium paid ₹ 3,000 on a Life insurance policy of her 17 years married daughter.
- e) Premium paid ₹ 2,000 on a Life insurance policy of her 16 years unmarried daughter.
- f) Premium paid ₹ 1,000 on a Life insurance policy of her 26 years son.
- g) Contribution made to unrecognised provident fund ₹ 15,000
- h) Contribution made to Jeevan Dhara ₹ 10,000
- i) Repayment of housing loan ₹ 22,000 (₹ 20,000 as the principal & ₹ 2,000 as interest). The loan amount was utilised by the assessee to purchase a flat for her own residential purpose in the year 2000.
- j) Subscription to units of Mutual Fund notified u/s 10(23D) ₹ 9,000
- k) Contribution made to 15 years Post Office Saving Bank (Cumulative Time Deposits) ₹ 15,000.
- l) Investment in ULIP ₹ 35,000

Answer:

Computation of total income

| Particulars | Case 1 | Case 2 | Case 3 |
|------------------------------------|---------------|-----------------|-----------------|
| Gross Total Income | 1,40,000 | 5,90,000 | 6,00,000 |
| Less: Deduction u/s 80C (#Maximum) | 90,000# | 92,000 | 92,000 |
| Total Income | 50,000 | 4,98,000 | 5,08,000 |

Computation of tax of Mrs. Savitri for the Assessment Year 2018-19

| Particulars | Rate | Case 1 | Case 2 | Case 3 |
|-------------------------------|------|--------|--------|--------|
| Income | | | | |
| Up to ₹ 3,00,000 | - | - | - | |
| From ₹ 3,00,001 to ₹ 5,00,000 | 5% | Nil | 9,900 | 10,000 |
| From ₹ 5,00,001 to ₹ 5,08,000 | 20% | Nil | Nil | 1,600 |
| Tax liability | | Nil | 9,900 | 11,600 |
| Less: Rebate u/s 87A | | Nil | Nil | Nil |

Revisionary Test Paper December 2018

| | | | | |
|---------------------------------|--|------------|---------------|---------------|
| Tax after rebate u/s 87A | | Nil | 9,900 | 11,600 |
| Add: Education cess & SHEC @ 3% | | Nil | 297 | 348 |
| Tax liability | | Nil | 10,197 | 11,948 |
| (Rounded off u/s 288B) | | Nil | 10,200 | 11,950 |

Working 1) Computation of deduction u/s 80C:

| Particulars | Amount |
|----------------------------------------------------------------------------------------------|---------------|
| Premium paid on a life insurance policy on the life of the - | |
| • Assessee (as not paid in P.Y.2017-18, however deduction can be claimed in the P.Y.2018-19) | Nil |
| • Husband of the assessee (To the maximum of 10% of sum assured i.e. 10% of ₹ 1,20,000) | 12,000 |
| • Father | Nil |
| • Married daughter of the assessee | 3,000 |
| • Minor daughter of the assessee | 2,000 |
| • Major son (whether dependent or not) | 1,000 |
| Contribution to unrecognized provident fund | Nil |
| Contribution made to Jeevan Dhara | 10,000 |
| Repayment of housing loan (Principal amount only) | 20,000 |
| Subscription to units of Mutual Fund notified u/s 10(23D) | 9,000 |
| Investment in ULIP | 35,000 |
| Total | 92,000 |

18. Mention ten circumstances where PAN is required to be quote.

Answer:

Every person shall quote its PAN in all documents pertaining to following transactions entered into by him –

1. Transactions relating to sale or purchase of a motor vehicle (other than two wheeled vehicles), which requires registration.
2. Opening an account [other than a time-deposit and a Basic Savings Bank Deposit Account] with a banking company or a co-operative bank
3. Making application for issue of a credit card or debit card.
4. Opening of a demat account
5. Payment in cash exceeding ₹ 50,000 to a hotel or restaurant against a bill or bills at any one time
6. Payment in cash exceeding ₹ 50,000 in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time
7. Payment exceeding ₹ 50,000 to any mutual fund for purchase of its units.
8. Payment exceeding ₹ 50,000 to a company or an institution for acquiring debentures or bonds issued by it
9. Payment exceeding ₹ 50,000 to RBI for acquiring bonds issued by it.
10. Deposit in cash exceeding ₹ 50,000 during any one day with a banking company or a co-operative bank
11. Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank in cash for an amount exceeding ₹ 50,000 during any one day
12. A time deposit of an amount exceeding ₹ 50,000 or aggregating to more than ₹ 5 lakh during a financial year with: (i) a banking company or a co-operative bank; or (ii) a Post Office; or (iii) a Nidhi referred to in section 406 of the Companies Act, 2013; or (iv) a non-banking financial company

Revisionary Test Paper December 2018

13. Payment in cash or by way of a bank draft or pay order or banker's cheque of an amount aggregating to more than ₹ 50,000 in a financial year for one or more pre-paid payment instruments, as defined in the policy guidelines for issuance and operation of pre-paid payment instruments issued by Reserve Bank of India u/s 18 of the Payment and Settlement Systems Act, 2007, to a banking company or a co-operative bank
 14. Payment aggregating to more than ₹ 50,000 in a financial year as life insurance premium to an insurer
 15. A contract for sale or purchase of securities (other than shares) where transaction value exceeds ₹ 1 lakh
 16. Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange where transaction value exceeds ₹ 1 lakh
 17. Sale or purchase of any immovable property where amount exceeds ₹ 10 lakh or stamp value exceeds ₹ 10 lakh
 18. Sale or purchase, by any person, of goods or services of any nature other than those specified above where transaction value exceeds ₹ 2 lakh
19. Mr. X, being an assessee covered u/s 44AB since 2010, is a businessman. State whether tax is required to be deducted in the following cases, if it required to be deducted then also state rate of TDS:
- a. ₹ 2,00,000 paid as Office Rent
 - b. ₹ 10,000 paid as brokerage
 - c. ₹ 23,000 paid to transporter
 - d. ₹30,00 (plus GST) to the auditor.

Answer:

- a. TDS is required to be deducted u/s 194-I @ 10%
- b. TDS is not required to be deducted because payment made is within threshold limit specified u/s 194H (i.e., ₹ 15,000).
- c. TDS is not required to deducted u/s 194C
- d. TDS is not required to be deducted because payment made is within threshold limit specified u/s 194J (i.e., ₹ 30,000). It is worthwhile to note that while computing threshold limit GST component shall not be considered.

20. Who is required to follow Income Computation and Disclosure Standards (ICDS)

Answer:

The ICDS are required to be followed:

- by all assessee (other than an individual or a Hindu undivided family who is not required to get his accounts of the previous year audited u/s 44AB)
- who follows the mercantile system of accounting,
- for the purposes of computation of income chargeable to income-tax under the head "Profits and gains of business or profession" or "Income from other sources".

Tax point

- The standards are not for the purpose of maintenance of books of account. The standards are for computation of income under aforesaid heads of income only.
- In case of conflict between the provision of the Income-tax Act and ICDS, the provision of the Act shall prevail to that extent.

Revisionary Test Paper December 2018

21. ICDS VII deals with government grants. You are required to state when is it recognized and how shall it be treated as per such ICDS.

Answer:

Recognition of Government Grants

- ⊗ Government grants should not be recognised until there is reasonable assurance that (i) the person shall comply with the conditions attached to them, and (ii) the grants shall be received.
- ⊗ Recognition of Government grant shall not be postponed beyond the date of actual receipt.

Treatment of Government Grants

| Grant Relates to | Treatment |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Depreciable fixed asset | The grant shall be deducted from the actual cost of the asset or from the written down value of block of assets |
| Non-depreciable asset requiring fulfillment of certain obligations | The grant shall be recognised as income over the same period over which the cost of meeting such obligations is charged to income |
| Not directly relatable to the asset acquired | Proportionate amount shall be deducted from the actual cost of the assets or shall be reduced from the written down value of block of assets to which the assets belonged to. |
| Receivable as compensation for expenses or losses incurred in a previous financial year or for the purpose of giving immediate financial support to the person with no further related costs | The grant shall be recognised as income of the period in which it is receivable |
| In other case | Grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate |

The Government grants in the form of non-monetary assets, given at a concessional rate, shall be accounted for on the basis of their acquisition cost.