

**Study Circle**



**FOR  
DEC. 2023  
ATTEMPT**



**CS EXECUTIVE  
GROUP - 2  
DIRECT TAX**

**CA JINESH SHAH**

**Illustration : 1**

State whether the following are capital or revenue receipts/expenses and give your reasons:

1. SC & Co. received Rs. 5,00,000 as compensation from SC Pvt Ltd for premature termination of contract of agency. – **Capital Receipt**
2. Sales-tax collected from the buyer of goods. – **Revenue Receipt**
3. Dev Company Ltd. instead of receiving royalty year by year, received it in advance in lump sum.- **Revenue Receipt**
4. An amount of Rs. 1,50,000 was spent by a company for sending its production manager abroad to study new methods of production. – **Revenue Expenditure**
5. Payment of Rs. 50,000 as compensation for cancellation of a contract for the purchase of machinery with a view to avoid an unnecessary expenditure. – **Capital Expenditure**
6. An employee director of a company was paid Rs. 3,50,000 as a lump sum consideration for not resigning from the directorship – **Revenue Receipt**

**Illustration : 2**

Mr. Rahul an Indian Citizen, is living in Mumbai since 1950, he left for China on July 1, 2017 and comes back on August 7, 2022. Determine his residential status for the assessment year 2023- 24. **ROR**

**Illustration : 3**

Mr. Ronak, an Indian citizen, leaves India on 22nd September, 2022 for the first time to work as an Engineer in France. Determine his residential status for A.Y. 2023-24.- **NR**

**Illustration : 4**

From the following information of Mr. Ashish (Person of Indian Origin & An Australian Citizen, Compute his gross total income for the A/Y 2023-24 assuming he is a non-resident.

- (a) Consultancy services provided in Thailand for ₹ 2,50,000 but received in India.
- (b) Fees for services rendered in Jaipur but received in UAE – ₹ 75,000.
- (c) Income of ₹ 5,80,000 from a business in UK received in Switzerland. The business is controlled from India.
- (d) Income from a business confined to shooting of a cinema film in India – ₹ 55,000.

- (e) Fees for technical services received from a non-resident, the payment relates to a business carried on in India – ₹90,000.
- (f) Income from property in USA received there only - ₹ 2,00,000 (₹ 1,30,000 is applied for meeting hospital expenses of his son and rest is remitted to India).
- (g) Honorarium received from Government of India – ₹ 32,000.
- (h) Speculation profit earned and received outside India – ₹ 34,000.
- (i) Dividend from a USA company but received in India – ₹ 18,000.
- (j) Income from property in Srilanka deposited in an Indian Bank at Colombo, brought to India – ₹ 80,000.
- (k) Past untaxed profit for the year 2016-17 of a business in Canada remitted to India during the P/Y 2023-24 – ₹ 80,000.

### Illustration : 5

Jaivin grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 40% of the sugarcane produce is sold for INR 15,00,000 and the cost of cultivation of this part is INR 8,00,000. 60% of the sugarcane produce is further subjected to manufacturing sugar and the Market Value (MV) of the same was INR 33,00,000 and the cost of cultivation of this part was INR 21,00,000. Post incurring INR 3,00,000 in the manufacturing process for sugar, that the sugarcane was subjected to, the sugar was sold for INR 40,00,000. You are required to advise on his Agricultural and Business Income.

Particulars	Figure in Lakhs	Figure in Lakhs
Item	Sugarcane	Sugar
Sale	48.0	40.0
Cost of cultivation	29.0	33.0
Further Mfg.	0.0	3.0
<b>Agriculture Income</b>	<b>19.0</b>	
<b>Business Income</b>		<b>4.0</b>

### Illustration : 6

Income of Mr. Praful for the previous year 2022-23 is as follows:  
Compute Tax Liability for the Assessment year 2023-24.

Income from salary (computed)	2,50,000
Income from house property (computed)	1,25,000
Net Agricultural Income	1,00,000

Particulars	INR
Income from salary (computed)	2,50,000
Income from house property (computed)	1,25,000
Net Agricultural Income	1,00,000
<b>Total (A)</b>	<b>4,75,000</b>
Tax Liability	11,250
<b>Total (B)</b>	<b>3,50,000</b>
Tax Liability	5,000
(A)-(B)	6,250
Less: Rebate 87A [12500 or tax payable i.e. 6,250 whichever is lower]	6,250

**Illustration : 7**

Mr. Santosh manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 30 lacs. The cost of growing rubber plants is ₹ 10 lacs and that of manufacturing latex is ₹ 8 lacs. Compute his total income.

The total income of Mr. C comprises of agricultural income and business income.

Total Profits from the sale of latex = ₹ 30 Lacs – ₹ 10 Lacs – ₹ 8 Lacs = ₹ 12 Lacs

Agricultural Income = 65% of ₹12 Lacs = ₹ 7.8 Lacs

Business Income = 35% of ₹ 12 Lacs = ₹ 4.2 Lacs

**Illustration : 8**

Arjun retired on 15-4-2022 from X Company Ltd. He was entitled to a pension of Rs. 20,000 p.m. At the time of retirement, he got 75% of the pension commuted and received Rs. 4,50,000 as commuted pension. Compute the taxable portion of the commuted pension if:

1. He is also entitled to gratuity. **2.5 Lacs Taxable**
2. He is not entitled to gratuity. **1.5 Lacs Taxable**

**Illustration : 9**

Mr. X received voluntary retirement compensation of Rs. 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary Rs. 20,000 p.m.; Dearness allowance (which forms part of pay) Rs. 5,000 p.m. Compute his taxable voluntary retirement compensation.

Voluntary retirement compensation received	Rs. 7,00,000
Less: Exemption under section 10(10C) [note 1]	Rs. (5,00,000)
Taxable voluntary retirement compensation	Rs. 2,00,000

**Note 1:** Exemption is to the extent of least of the following:

- (i) Compensation actually received = Rs. 7,00,000
- (ii) Statutory limit = Rs. 5,00,000
- (iii) last drawn salary  $\times$  3  $\times$  completed years of service =  $(20,000 + 5,000) \times 3 \times 30$  years = Rs. 22,50,000
- (iv) last drawn salary  $\times$  remaining months of service =  $(20,000 + 5,000) \times 6 \times 12$  months = Rs. 18,00,000

### Illustration : 10

ABC Ltd. provided the following perquisites to its employee Srinivas, for the FY 2022-23.

- 1) Leased accommodation provided to the employee. hire Charges INR 50000 pm; recovered from employee INR 20000 pm
- 2) Accommodation was furnished and the actual hire charges paid by the employer was INR 4050 pm
- 3) He was also provided a Hyundai Santro with Chauffer and a gift Voucher worth INR 9000.

Salary for the purposes of valuation of perquisites is INR 25,00,000. Compute the taxable value of the perquisites assuming assesses had not opted for section 115BAC of the Income Tax Act, 1961.

Accommodation on lease	Amount (RS)	Amount (RS)
Salary for the purposes of Valuation of Perquisites	25,00,000	
Actual lease Charges	6,00,000	
15% of the above (Cap)	3,75,000	
Hence, Gross Taxable Value of the Perquisite		3,75,000
Less: Amount recovered from the employee		(2,40,000)
Taxable value of unfurnished leased accommodation		1,35,000
Add: Actual hire charges of furniture hired		48,600
Taxable value of Furnished Accommodation		1,83,600
<b>Car used partly for Official &amp; partly for Personal</b>		
Engine Capacity is within 1.6 (Santro)		
Taxable Value of Perquisite @ 1800 pm		21,600

Chauffer @ 900 pm		10,800
Taxable value of Motor Car provided		32,400
Gift Voucher		9,000
<b>Total Value of perquisites</b>		<b>2,25,000</b>

**Illustration : 11**

Two sisters, Prachi and Riya, are co-owners of a house property, with 50% share each in the property. The property was constructed prior to 1st April 1999. The property has 7 equal units and is situated in Bangalore. During the FY 2022-23, each co-owner occupied one unit each and the balance were let out at a rental of INR 20000 per unit per month. The Municipal Valuation (MV) was INR 7,00,000 and the Municipal Taxes were @ 10% of the MV. Interest payable on loan taken for construction was INR 400,000. One of the let-out units was vacant for 6 months in the year.

Compute the Income from House Property for each of the sisters. Assuming they have not opted for section 115BAC.

GAV (partly let out and partly self occupied)		10,80,000
Less: Municipal Taxes paid by the owner during the PY		(50,000)
NAV		10,30,000
Less: <b>Deductions u/s 24</b>		
30% NAV	3,09,000	
Interest on borrowed capital	2,85,714	
		(5,94,714)
<b>Income from House Property</b>		4,35,286
Share of each Co-owner		2,17,643
Loss from House Property (self occupied portions)		(30,000)
<b>Income from House Property (each co-owner)</b>		<b>1,87,643</b>

**Illustration : 12**

Mr. X has taken a loan of Rs. 5,00,000 on 01.10.1999 @ 10% p.a. for construction of a house which was completed on 01.10.2021 and the house remained self-occupied throughout the previous year 2022-23. The assessee has income under the head salary Rs. 4,00,000. Mr. X has paid life insurance premium of Rs. 20,000. Compute tax liability for assessment year 2023-24 .

**Option 1:** Assessee has not opted for Section 115BAC

**Option 2:** Assessee has opted for Section 115BAC

**Option 1 Assessee has not opted for Section 115BAC**

Net annual Value	Nil
less: interest on capital borrowed u/s 24(b)	(30,000)
loss under the head House Property	(30,000)
income under the head Salary	4,00,000
Gross total income	3,70,000
less: deduction u/s 80C	(20,000)
<b>Total income</b>	<b>3,50,000</b>

Computation of tax liability tax on Rs. 3,50,000 at slab rate 5,000

less: rebate u/s 87A	(5,000)
Tax liability	Nil

### Working Note:

Current period interest From 01.04.2022 to 31.03.2023

$$5,00,000 \times 10\% = 50,000$$

Prior period interest From 01.10.2000 to 31.03.2020

$$5,00,000 \times 10\% \times 234/12 = 9,75,000$$

$$\text{instalment} = 9,75,000 / 5 = 1,95,000$$

total interest = rs. 50,000 + rs.1,95000 =2,45,000 Subject to maximum rs. 30,000

### Option 2 Assessee has opted for Section 115BAC

Net annual Value	Nil
less: interest on capital borrowed u/s 24(b) (Not Available)	
<b>Income under the head House Property</b>	<b>Nil</b>
income under the head Salary	4,00,000
Gross total income	4,00,000
less: deduction u/s 80C	(Not Available)
total income	4,00,000

### Computation of Tax Liability

Tax on rs. 4,00,000 at slab rate	7,500
Less: rebate u/s 87A	(7,500)
Tax liability	Nil

### Illustration : 13

Net profit as per profit and loss account of X is Rs. 6,86,000 for the year ending 31st March, 2023. The following information is noted from his accounts:

- (a) Advertisement expenditure debited to profit and loss account include the following:

- (i) Expenditure incurred outside India: Rs. 46,000 (permitted by RBI);
- (ii) Articles presented by way of advertisement (60 articles cost of each being Rs.900; and 36 articles cost of each being rs. 1,700);
- (iii) Rs.16,000 being cost of advertisement which appeared in a newspaper owned by a political party;
- (iv) Rs.11,400 being capital expenditure on advertisement;
- (v) Rs.12,000 paid in cash; and
- (vi) Rs. 7,000 paid to a concern in which X has substantial interest (amount is excessive to the extent of Rs.(1,400).
- (b) Out of salary to employees of Rs. 8,70,000 debited to the profit and loss account:
- (i) Rs. 40,000 is employees' contribution to recognised provident fund, rs. 37,500 of which is credited in the employees' account in the relevant fund before the 'due date';
- (ii) Rs. 46,000 is bonus which is paid on 13th November, 2023;
- (iii) Rs. 36,000 is commission which is paid on 1st December, 2023;
- (iv) Rs. 20,000 is incentive to workers which is paid on 10th December, 2023;
- (v) Rs. 40,000 is paid outside India in respect of which tax is not deducted at source;
- (vi) Rs. 6,000 being capital expenditure for promoting family planning amongst employees; and
- (vii) Rs. 40,000 being entertainment allowance given to employees.
- (c) Entertainment expenditure debited to profit and loss account is Rs. 9,000.

Determine the net income of X for the assessment year 2023-24

Calculation of Net income of X for assessment year 2023-24

Net Profit as per Profit and Loss Account	686000
add: inadmissible items:	
Cash paid for advertisement expenses (Note 3)	12000
Cost of advertisement which appeared in a newspaper owned by a political party	16000
excessive amount paid to a concern in which X has substantial interest	1400
employee contribution to recognised provident fund (to the extent not credited in the employees' account in the relevant fund before the 'due date')	2500
Bonus being paid to employees after the 'due date' of filing the return	46000

Commission being paid to employees after the 'due date' of filing the return	36000
Salary paid outside India in respect of which tax is not deducted at source	40000
Capital expenditure for promoting family planning amongst employees	6000
(allowed only to a corporate assessee)	11400
Capital expenditure on advertisements	
Net income	857300

**Illustration : 14**

M & Sons, HUF, had purchased a land for INR 150,000 in 2002-03. In the PY 2006-07, a partition takes place and the Coparcener, Mr. B, gets this plot, valued at INR 2,00,000. In PY 2007-08, he incurs expenses of INR 2,50,000 on the plot towards fencing of the plot of land. Mr. B then sells this plot at INR 15,00,000 in PY 2022-23. You are required to compute the capital gains for AY 2023-24.

Particulars	Rs.
Cost of acquisition	150000
Cost of Improvement	250000
Full Value of Consideration	1500000
Indexed Cost	
Acquisition [See note (b)]	(452857)
Improvement [See note (c)]	(614341)
<b>Capital gains</b>	<b>4,32,802</b>

**Note:**

- Although the cost of acquisition for the land, in case of partition of HUF would be the cost to the previous owner, the year would be the year in which he gets the asset upon partition, that is F.Y. 2006-07
- Indexed Cost of Acquisition therefore is INR  $(1,50,000/105) * 317 = 4,52,857$
- Indexed Cost of Improvement therefore is INR  $(2,50,000/129) * 317 = 6,14,341$

**Illustration : 15**

Mr. X purchased house 01.04.2001 Rs. 2,00,000 and incurred rs. 3,00,000 on improvement on 01.07.2002 and it was received by his son Mr. y on 01.07.2011 and Mr. y incurred rs. 4,00,000 on improvement 01.07.2013 and house was sold by him on 01.07.2022 for rs. 1,00,00,000. entitled to deduction u/s 80C of rs,1,00,000. Compute tax liability of Mr. y

**Option 1** : assessee has not opted for Section 115BAC

**Option 2** : assessee has opted for Section 115BAC

**Option 1** : Assessee has not opted for Section 115BAC.

Full value of consideration	10000000
less: indexed cost of acquisition = $2,00,000 / 100 \times 331$	(662000)
less: indexed Cost of improvement = $3,00,000 / 105 \times 331$	(945714)
less: indexed Cost of improvement = $4,00,000 / 220 \times 331$	(601818)
long term Capital Gains	7790468
<b>Gross total income</b>	7790468
less: deduction u/s 80C (Not allowed from Capital Gains)	N/A
<b>Total Income (rounded off u/s 288A)</b>	7790470
<b>Computation of tax liability</b>	
Tax on LTCG Rs. 75,40,470 ( <b>77,90,470</b> – 2,50,000) @ 20%	1508094
Add: Surcharge @ 10%	150809
tax before health & education cess	1658903
Add: HEC @ 4%	66356
Tax liability	1725260

**Option 2** : The answer will remain same as above as 80C deduction is not allowed from LTCG in existing rates and also 115BAC does not allow it.

### Illustration : 16

- (1) Cash gift of Rs. 75,000 on his anniversary, 15th April, 2022. Taxable
- (2) Bullion, the fair market value of which was Rs. 60,000, on his birthday, 19th June, 2022. Taxable
- (3) A plot of land at Faridabad on 1st July, 2022, the stamp value of which is Rs. 5 lakh on that date. Mr. B had purchased the land in April, 2009. Taxable

Thanks ....



# Our Rankers



**Pulak Bansal**



**Sidra Khan**



**Albiya Shaikh**



**Khushi Dubey**



**Kushal Todi**



**Richa Chokhani**



**Isha Shah**



**Kartiki Tulaskar**



**Mansi Rawat**



**Deep Patel**



**Aditya Dakh**



**Aditi Menon**



**Femi Jain**



**Ibrat Khan**



**Rahul Lakhwani**



**Kausha Sheth**



**Kimaya Sonawdekar**



**Suyash Kasat**



**Siddharth Nair**



**Anjali Vishwakarma**



**Kedar More**



**Raj Singh**



**Dhruvi Patel**



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**Kinjal Solanki**

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