



CS EXECUTIVE NEW SYLLABUS

DT-IDT

Amended as per
finance Act, 2023

QUESTION BANK

For June 24 & Dec 24 Exams

All India Rankers

AIR 1



CHIRAG
AGARWAL

AIR 1



VAISHNAVI
BIYANI

AIR 2



S SWATHI

AIR 2



SONIA BOOB

AIR 2



RAKESH
CHAUDHARY

AIR 3



KHUSHI
MEHTA

AIR 6



MANAV
SHINGARI

AIR 7



ISHIKA
BASU

TAX
TOPPER
STUDENT'S



TEESHA
NAVLANI



TUSHAR
SARODE



SARIKA



ANKIT KUMAR
AGARWAL



Dil se... 

Unique Academy For Commerce has been the pioneer of quality education propagating zero boundaries when it comes to hard work, and a result oriented classroom approach. This institution has guided thousands of students over the years in their professional journeys. Unique Academy For Commerce is an institute for all CA and CS aspirants. Over the years, the Academy has been successful in producing All India Rank holders at all the levels and tremendous results overall.

Unique Academy For Commerce is a place for grooming young talents. The Academy provides face to face and virtual classes for 11th & 12th Commerce, All levels of CA and CS courses. The faculty emphasizes on keeping the classes exam focused and does not compromise on the quality and conceptual clarity of the topics covered. The sole aim of the Academy and the teachers is to provide a versatile platform for the students to learn, get their queries resolved, take test series, participate in discussions and ultimately, be able to score the best in their exams. The team at Unique Academy For Commerce is working every minute to put out the best content for the students, and help them in cracking the exams. The classes and study material at the Unique Academy For Commerce are designed in such a manner that it ensures the students only get the relevant information and knowledge that they need to pass the exams.

At Unique Academy For Commerce it is not just about teaching a subject, solving questions, finding solutions, passing the exams. The goal is much bigger because the teachers keep in mind the bigger picture while taking every class. At Unique Academy For Commerce, the common belief is in delivering the right kind of education that today's generation needs to get ahead in life. It is made sure that no stone is left unturned when it comes to preparation for the exams.

Recently, Unique Academy For Commerce was able to create history with over 750+ students clearing the CS Executive level examinations. Out of these achievers, 250 students were able to get an exemption in Module-1, while over 150 students scored an exemption in the second module. To put a cherry on the top, the Academy produced more than 20 All India Rank holders in the Dec-21 CS Executive examinations, including AIR – 1, 2 and 3. These rank holders are a true inspiration for the hard working mentors at Unique Academy For Commerce and for all the potential trend setters.

The team at Unique Academy For Commerce wishes each and every student all the very best in their learning journeys and continuous guidance at every level of their examinations.

Happy Learning!

Unique Academy For Commerce

INDEX- DIRECT TAX

Sr No	Lesson Title	Page No
1	Direct Taxes at a Glance	1.1-1.2
2	Basics & Residential Status	2.1-2.14
3	Incomes Exempt from Tax	3.1-3.13
4	Incomes from Salaries	4.1-4.40
5	Incomes from House Property	5.1-5.18
6	Profits and Gains from Business and Profession	6.1-6.30
7	Capital Gains	7.1-7.29
8	Incomes from Other Sources	8.1-8.13
9,10	Clubbing and Set Off & Carry Forward of Losses	9/10.1-9/10.6
11	Deductions	11.1-11.8
12,13	PAN – Return Filing – Self assessment – Refund, TDS-TCS- Advance Tax	12/13.1-12/13.8
14	Various Entities	14.1-14.41
15	Tax Incidence on Companies	15.1-15.15

CHAPTER 1 DIRECT TAX AT GLANCE

MCQ

1. Which among the following is a Progressive Tax?
 - a) Customs Duty
 - b) Development Surcharge
 - c) Sales Tax
 - d) Income Tax
2. For which of the following type of tax, union government imposes it but the state governments collect it?
 - a) GST
 - b) Income Tax
 - c) Wealth Tax
 - d) Stamp Duty
3. In which of the following system of taxation, the tax rate decreases as the taxable amount increases?
 - a) Progressive Taxation
 - b) Regressive Taxation
 - c) Degressive Taxation
 - d) Proportional Taxation
4. CBDT full form:
 - a) Central Board of Digital Taxes
 - b) Common Board of direct Taxes
 - c) Central Board of direct Taxes
 - d) Common Board of digital Taxes
5. Merits of Direct Taxes:
 - a) equity
 - b) elasticity and productivity
 - c) Certainty
 - d) All of the above
6. CBDT comprises of how many members?
 - a) One
 - b) Two
 - c) four

d) Six

7. The CBDT is a statutory authority functioning under the

a) Central Board of Revenue Act, 1961

b) Central Board of Revenue Act, 1963

c) Central Board of Revenue Act, 1965

d) Central Board of Revenue Act, 1962

8. Income Tax was levied in India for the first time in the Year

a) 1857

b) 1959

c) 1860

d) 1861

Answer: 1 (d), 2 (d), 3 (a), 4 (c), 5 (d), 6 (d), 7 (b), 8 (c)

Descriptive Questions

1. What is the rationale behind to levy tax in India?
2. Distinguish with example the difference between Direct and Indirect Tax.
3. Income tax is progressive tax system? Explain with reasoning.
4. What are the characteristics of Good tax system?

Chapter 2 – Basics & Residential Status

Illustration 1: State whether the following are capital or revenue receipts/expenses and give your reasons:

1. ABC & Co. received Rs. 5,00,000 as compensation from XYZ & Co. for premature termination of contract of agency.
2. Sales-tax collected from the buyer of goods.
3. PQR Company Ltd. instead of receiving royalty year by year, received it in advance in lump sum.
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.
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.
6. An employee director of a company was paid Rs. 3,50,000 as a lump sum consideration for not resigning from the directorship

Solution:

1. Receipt in substitution of a source of income is a capital receipt. Therefore, the amount received by ABC & Co. from XYZ & Co. for premature termination of an agency contract is a capital receipt though the same is taxable under Section 28(ii)(c).
2. Sales-tax is the liability of a seller to pay to the Government on the sale of goods made by him, which is allowed as deduction as revenue expenditure. If any part of Sales-tax is collected from the buyer of goods that may be treated as a revenue receipt. Thus the sales-tax collected from the buyer of goods is a revenue receipt.
3. Receipt of lump sum royalty in lieu of future royalties is a revenue receipt, as it is an income from royalty.
4. Amount spent by a company for sending its production manager abroad to study new methods of production is revenue expenditure to be allowed as a deduction. Because the new knowledge and exposure of that manager will assist the company in improving its existing methods of production etc.
5. This is a capital expenditure, as any expenditure incurred by a person to free himself from a capital liability is a capital expenditure. In the given case, the payment of Rs. 50,000 for cancelling the order for purchase of the machinery has helped the assessee to become free from an unnecessary capital liability.
6. The amount of Rs. 3,50,000 received for not resigning from the directorship is a reward received from the Employer Therefore it is a revenue receipt

Illustration 2:

Which of the following is not a revenue receipt?

- (i) Compensation received for the loss of a capital asset
- (ii) Compensation received for damage to or loss of a trading asset.
- (iii) Profits on purchase and sale of shares by a share broker on his own account.
- (iv) Income from letting out buildings owned by a company to its employees etc

Options:

- a) i only
- b) i and ii both
- c) i, ii, and iii
- d) All of the above

Answer: (a)**Illustration 3:**

Mr. A, an Indian Citizen, is living in Mumbai since 1950, he left for China on July 1, 2018 and comes back on August 7, 2023. Determine his residential status for the assessment year 2024- 25.

Solution:

Stay in India for a minimum period of 182 days in the previous year:

Mr. A has stayed in India for 238 (viz. 25 + 30 + 31 + 30 + 31 + 31 + 29 + 31) days in the Previous year 2023-24. So, this test is satisfied.

So, Mr. A shall be a resident in India during the previous year 2023-24. (Assessment year 2024-25). Keeping in view the facts of the given case, Mr. A satisfies the two additional conditions also namely: He is resident in two out of ten previous years *preceding the relevant previous year*.

<i>PY</i>	<i>Stay in PY (days)</i>	<i>Stay during PY (days)</i>	<i>Basic Condition Satisfied</i>	<i>Resident/Non-Resident</i>
2022-23	Nil	-	None	Non-Resident
2021-22	Nil	-	None	Non-Resident
2020-21	Nil	-	None	Non-Resident
2019-20	Nil	-	None	Non-Resident
2018-19	30+31+30+1= 92	365 days	Second	Resident
2017-18	365	365	First	Resident

His stay in India is also more than 730 days in 7 previous years preceding the relevant previous year. As he left for China on 1st July 2018.

<i>PY</i>	<i>Stay (days)</i>
2022-23	Nil
2021-22	Nil
2020-21	Nil
2019-20	Nil

2018-19	92
2017-18	365
2016-17	366
Total Stay in 7 Previous Years	823

Hence, Mr. A is resident and ordinary resident in India for the assessment year **2024-25**.

Illustration 4:

Mr. Steve Waugh, the Australian cricketers comes to India for 100 days every year. Find out his residential status for AY **2024-25**.

Solution:

Step 1: The total stay of Steve Waugh in the last 4 preceding years is 400 days and his stay in India during the previous year is 100 days. Since, he satisfied the second condition in section 6(1), he is resident.

Step 2: Since his total stay in India in the last 7 years preceding the previous years is 700 days, he does not satisfy the minimum requirements of 730 days in 7 years.

Therefore the residential status of Mr. Steve Waugh for the previous year **2023-24** is Resident but not ordinarily resident in India.

Illustration 5:

Dr. A, an Indian Citizen and a Professor in IIM, Luc now, left India on September 15, **2023** for USA to take up Professors job in MIT, USA. Determine his residential status for the assessment year **2024-25**.

Solution:

Dr. A being a citizen of India and who has gone out of the country for employment, will be governed by 182 days test only and therefore the second condition under section 6(1), i.e. 60 days during relevant previous year shall not be applicable.

Dr. A stayed in India for 168 (viz. 30 + 31 + 30 + 31 + 31 + 15) days only in the relevant previous year.

Hence, Dr. A shall be a non-resident in India for the assessment year **2024-25**. as condition by stay of 182 days in relevant previous year is not satisfied.

Illustration 6:

Mr. Anil, an Indian citizen, leaves India on 22nd September, **2023** for the first time to work as an Engineer in France. Determine his residential status for A.Y. **2024-25**.

Solutions:

During the previous year **2023-24**, Mr. Anil, an Indian citizen, was in India for 175 days (i.e. 30+31+30+31+31+22). He does not satisfy the minimum criteria of 182 days. Also since he is an Indian citizen leaving India for the purpose of employment outside India, the second condition

u/s 6(1) is not applicable to him.

Therefore Mr. Anil is non-resident for the P.Y. 2023-24

Illustration 7:

An HUF, whose affairs of business are completely controlled from India. Determine its Residential status for AY 2024-25 (a) if Karta is ROR in India for that year (b) If Karta is NR in India but he satisfies both the additional conditions (c) If Karta is RNOR in India.

Solution:

HUF would be Resident in India as Control and Management is wholly situated in India. Determination of whether HUF is ROR or RNOR:

- a) HUF is ROR in India as Karta would be satisfying both the additional conditions (because he is ROR).
- b) HUF is ROR in India as Karta is satisfying both the additional conditions. Karta's Residential status during relevant previous year (i.e. resident/non-resident) is irrelevant.
- c) HUF is RNOR as Karta does not satisfy both the additional conditions.

Illustration 8:

Karta of an Hindu Undivided Family comes to India every year for a minimum period of 60 days and maximum 91 days. Determine residential status of the HUF for the assessment year 2024-25.

Solution:

Hindu Undivided Family is resident since the karta has come to India for at least 60 days but the stay of karta during seven years can be maximum 637 days. Hence HUF can be considered as resident but not ordinarily resident.

Illustration 9:

Hindu Undivided Family is being managed partly from Mumbai and partly from Japan. The Karta of HUF is a foreign citizen and comes to visit in India every year since 1980 in the month of April for 105 days.

Determine residential status of HUF for AY 2024-25.

Solution:

Since the control and management of the affairs of HUF is partly managed from Mumbai and therefore HUF is resident in India. Further, the Karta of HUF is also satisfying both of additional conditions of section 6 (6)(b) and therefore HUF is resident and ordinarily resident in India during the AY 2024-25.

Illustration 11

AB & Co. is a partnership firm whose operations are carried out in India. However, all meetings of partners take place outside India as all the partners are settled abroad. Determine Residential status of firm for A.Y. 2024-25.

Solution:

AB & Co. is Non-Resident in India during relevant previous year as Control and Management (place where policy decisions are taken, here it is the place where meetings are held) is wholly situated outside India.

Once the residential status of an individual is identified, the rule of taxation could be applied to determine whether an income is to be taxed or not.

Illustration 12

Compute the total income in the hands of an individual, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2024-25

Particulars	Amount (₹)
Interest on Uk Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Profits on sale of shares of an Indian company received in London	20,000
Dividend from British Company received in London	5,000
Profits on sale of plant at Germany 50% of profits are received in India	40,000
Income earned from Business in Germany which is controlled from Delhi (₹40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from House Property in London deposited in a Indian Bank at London, brought to India (computed)	50,000
Interest on debentures in an Indian company received in London.	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Bombay managed from London	26,000
Pension for services rendered in India but received in Burma	4,000
Income from property situated in Pakistan received there	16,000
Past foreign untaxed Income brought to India during the previous year	5,000
Income from agricultural land in Nepal received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on Savings Bank Deposit in State Bank of India	12,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian company	5,000
Agricultural income from a land in Rajasthan	15,000

Solution:

Computation of total income for the A.Y. 2023-24

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
	₹	₹	₹

Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Profits on sale of shares of an Indian company received in London (assuming that they are in the nature of short-term capital gains)	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Profits on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which ₹40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Bombay managed from London	26,000	26,000	26,000
Pension for services rendered in India but received in Burma	4,000	4,000	4,000
Income from property situated in Pakistan received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,56,000	2,22,000	1,87,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹10,000]	10,000	10,000	10,000
Total Income	3,46,000	2,12,000	1,77,000

Illustration 12:

Mr. X earns the following income during the previous year ended 31st March, **2024**. Determine the income liable to tax for the assessment year **2024-25** if Mr. X is (a) resident and ordinarily resident in India, (b)

resident and not ordinarily resident in India, and (c) non-resident in India during the previous year ended 31st March, 2023.

- Profits on sale of a building in India but received in Holland – Rs. 20,000
- Pension from former employer in India received in Holland – Rs. 14,000
- Interest on U.K. Development Bonds (1/4 being received in India) – Rs. 20,000
- Income from property in Australia and received in U.S.A. – Rs. 15,000
- Income earned from a business in Abyssinia which is controlled from Zambia (Rs. 30,000 received in India) – Rs. 70,000
- Dividend on shares of an Indian company but received in Holland – Rs. 10,000
- Profits not taxed previously brought into India – Rs. 40,000
- Profits from a business in Nagpur which is controlled from Holland – Rs. 27,000

Solution : Computation of income liable to tax :

<i>Particular</i>	<i>Resident & Ordinarily Resident (Rs.)</i>	<i>Resident but not Ordinarily Resident (Rs.)</i>	<i>Non-Resident (Rs.)</i>
Profits on sale of a building in India but received in Holland (accrued in India received outside India)	20,000	20,000	20,000
Pension from former employer in India received in Holland (accrued in India, received out of India)	14,000	14,000	14,000
Interest on U.K. Development Bonds (Accrued out of India, 1/4th received in India)	5,000	5,000	5,000
Interest on U.K. Development Bonds (Accrued out of India, 3/4th received out of India)	15,000	Nil	Nil
Income from property in Australia and received in U.S.A. (Accrued and received out of India)	15,000	Nil	Nil
Income earned from a business in Abyssinia which is controlled from Zambia (Business controlled outside India)	70,000	30,000	30,000
Dividend on shares of an Indian company but received in Holland (Accrued in India)	10,000	10,000	10,000
Profits not taxed previously brought into India (Not an income so not taxable)	Nil	Nil	Nil
Profits from a business in Nagpur which is controlled from Holland (Accrued in India)	27,000	27,000	27,000

Total	1,76,000	1,06,000	1,06,000
			0

Illustration 13:

A had the following income during the previous year ended 31st March, 2024:

- Salary Received in India for three Months - Rs. 9,000
- Income from house property in India - Rs. 13,470
- Interest on Saving Bank Deposit in State Bank of India - Rs. 1,000
- Amount brought into India out of the past untaxed profits earned in Germany - Rs. 20,000
- Income from agriculture in Indonesia being invested there - Rs. 12,350
- Income from business in Bangladesh, being controlled from India - Rs. 10,150
- Dividends received in Belgium from French companies, out of which Rs. 2,500 were remitted to India- Rs. 23,000.

You are required to compute his total income for the assessment year 2024-25 if he is : (i) a resident; (ii) an ordinarily resident, and (iii) a Non-resident

Solution :

Computation of total income of A is given below:

Particular	Resident & Ordinarily Resident (Rs.)	Resident but not Ordinarily Resident (Rs.)	Non-Resident (Rs.)
Salary Received in India for three Months (Income received in India)	9,000	9,000	9,000
Income from house property in India (Income accrue or arise in India)	13,470	13,470	13,470
Interest on Saving Bank Deposit in State Bank of India (Income accrue or arise in India)	1,000	1,000	1,000
Amount brought into India out of the past untaxed profits earned in Germany (not an income, hence not taxable)	Nil	Nil	Nil
Income from agriculture in Indonesia being invested there (Income accrue or arise outside India)	12,350	Nil	Nil
Income from business in Bangladesh, being controlled from India (it is supposed that the money is not received in India) (Income accrued outside India from a business)	10,150	10,150	Nil

controlled from India)			
Dividends received in Belgium from French companies (Income accrue outside India. Remittance to India is irrelevant)	23,000	Nil	Nil
Total	68,970	33,620	23,470

Illustration 14 :

Mr. Y earns the following income during the previous year ended on 31st March, 2023. Determine the income liable to tax for the assessment year 2024-25 if Mr. Y is (a) resident and ordinary resident (b) resident and not ordinary resident, and (c) non-resident in India during the previous year ended on 31st March, 2024.

- (i) Honorarium received from Government of India (Travelling and other incidental expenses of Rs. 7,000 were incurred in this connection)- Rs. 20,000
- (ii) Profits earned from a business in Tamilnadu controlled from Pakistan - Rs. 50,000
- (iii) Profits earned from a business in U.K. controlled from Delhi - Rs. 30,000
- (iv) Profits earned from a business in U.S.A. controlled from Pakistan and amount deposited in a bank there - Rs. 40,000
- (v) Income from a house property in France, received in India - Rs. 10,000
- (vi) Past untaxed foreign income brought into India during the year - Rs. 25,000
- (vii) Dividends from a German company credited to his account in Pakistan - Rs. 35,000
- (viii) Dividends declared but not received from an Indian company- Rs. 20,000
- (ix) Agricultural income from Burma not remitted to India - Rs. 40,000
- (x) Pension for services rendered in India, but received in Pakistan - Rs. 30,000

Solution:

Computation of Income liable to tax of Mr. Y is given below:

Particular	Resident & Ordinarily Resident (Rs.)	Resident but not Ordinarily Resident (Rs.)	Non-Resident (Rs.)
Honorarium received from Govt. of India	20,000	20,000	20,000

Profits earned from a business in Tamilnadu controlled from Pakistan (Income accrue or arise in India)	50,000	50,000	50,000
Profit earned from a business in U.K. controlled from Delhi (Income accrue or arise outside India from a business controlled from India)	30,000	30,000	-
Profits earned from a business in USA controlled from Pakistan and amount deposited in a Bank there (Income accrue outside India)	40,000	-	-
Income from a house property in France, received in India (Income received in India)	10,000	10,000	10,000
Past untaxed foreign income brought into India during the year (Not taxable as profit of past years, also remittance is irrelevant)	-	-	-
Dividends from a foreign company credited to his account in Pakistan (Income accrue outside India)	35,000	-	-
Agricultural income from Burma not remitted to India (Income accrue outside India)	40,000	-	-
Pension for Services rendered in India, but received in Pakistan (Income deemed to accrue or arise in India)	30,000	30,000	30,000
Total	2,55,000	1,40,000	1,10,000

Question 15

AB & Co. is a partnership firm whose operations are carried out in India. However, all meetings of partners take place outside India as all the partners are settled abroad. Determine Residential status of firm for A.Y. 2023-24.

Solution:

AB & Co. is Non-Resident in India during relevant previous year as Control and Management (place where policy decisions are taken, here it is the place where meetings are held) is wholly situated outside India.

Once the residential status of an individual is identified, the rule of taxation could be applied to determine whether an income is to be taxed or not.

Question

Mr. Raghav aged 26 years, has a total income of ₹ 4,80,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y. 2023-24

Solution

Computation of tax liability of Mr. Raghav for A.Y. 2023-24

Tax on total income of ₹ 4,80,000

@5% of ₹ 2,30,000 (₹ 4,80,000 – ₹ 2,50,000) ₹11,500

Less: Rebate u/s 87A ₹ 11,500

Nil

MCQ

1. Person is defined under section of the Income Tax Act, 1961

(a) 2 (31)

(b) 2 (7)

(c) 2 (9)

(d) 3

Answer: (a)

2. Association of persons consists of

(a) Individuals (only)

(b) Company

(c) Any Person other than (a)

(d) Any kind of person

Answer: (d)

Basic Concept of Income Tax LESSON 2

61

3. Body of Individuals consists of

(a) Individuals (only)

(b) Company

(c) Any Person other than (a)

(d) Any kind of person

Answer: (a)

4. Income is defined under section of the Income Tax Act, 1961

(a) 2 (31)

(b) 2 (24)

(c) 2 (9)

(d) 3

Answer: (b)

5. Which of the following is not a revenue receipt?

(i) Compensation received for the loss of a capital asset

(ii) Compensation received for damage to or loss of a trading asset.

(iii) Profits on purchase and sale of shares by a share broker on his own account.

(iv) Income from letting out buildings owned by a company to its employees etc.

(a) i only

(b) i and ii both

(c) i , ii, and iii

(d) All of the above

Answer: (a)

6. The incidence of tax on income under the Income tax Act, 1961 is linked with residential status of

an assessee. Ram, an individual brought into India during the previous year 2022-23 past untaxed

profits of Rs. 2,00,000 of the business in UK. State in which case amount of Rs. 2,00,000 brought

into India be put to tax in A.Y. 2023-24 when Ram is (a) Resident and Ordinary resident (R&OR); (b)

Resident and not Ordinary resident (R&NOR) and (c) Non-Resident (NR).

(a) Taxable in case of R&OR and R&NOR

(b) Taxable in case of R&OR and Non Resident

(c) Not taxable in all R&OR; R&NOR and Non-Resident

(d) Taxable in all R&OR; R&NOR and Non-Resident

Answer: (c)

7. Radhika during the previous year 01.04.2022 to 31.03.2023 received (1) Dividend from XYZ Ltd of UK,

a Foreign Company of Rs. 12,00,000 (2) Agriculture income from land in Rajasthan of Rs. 50,000 (3)

Short term capital gain on sale of shares of Indian company received in London of Rs. 60,000. Total

Income of Radhika when she is a Resident and not Ordinarily Resident (R&NOR) for Assessment

Year 2023-24 shall be :

EP-TL&P Basic Concept of Income Tax

62

- (a) Rs. 13,10,000
- (b) Rs. 60,000
- (c) Rs. 1,10,000
- (d) Rs. 12,00,000

Answer: (b)

8. Sita Raman born in U.K. is a foreign citizen. His father Radha Raman was born in Rajasthan in 1960

and mother Geeta was born in South Africa in 1965. His grandfather was also born in Rajasthan in

1935. Sita Raman for the first time to see historical places comes to India on 25th November, 2020

and remained till June, 2021 for 200 days. Residential status for assessment year 2021-22 of Sita

Raman shall be :

- (a) Resident and Ordinarily Resident
- (b) Not Ordinarily Resident
- (c) Non-Resident
- (d) None of the above

Answer: (c)

9. The definition of Income as per section 2(24) of the Income tax Act, 1961 is :

- (a) Inclusive
- (b) Exhaustive
- (c) Exclusive
- (d) Descriptive

Answer: (a)

10. A & Co. received Rs. 2 lacs as compensation from B & Co. for premature termination of contract of

agency. Amount so received is :

- (a) Capital receipt & taxable
- (b) Capital receipt & not taxable
- (c) Revenue receipt & taxable
- (d) Revenue receipt & not taxable

Answer: (a)

11. If Karta is ROR in India but control & management of HUF is situated partly outside India in PY, HUF

is:

- (a) ROR
- (b) RNOR
- (c) NR
- (d) None of the above

Answer: (a)

Descriptive Questions:

1. Determining the Residential Status of an assessee is the First Step for computing the tax liability of an assessee. How?
2. Explain the term POEM 'Place of Effective Management'?
3. Define the term 'Business Connection'?
4. Distinguish between the Capital and Revenue Receipt?
5. Capital Receipt will also be taxable if it is expressly provided in the Act. Explain with examples.
6. Income may be legal as well as illegal for tax purposes. Explains.
7. Explain the term 'Active Business outside India' as define in guiding principles of 'POEM'.

CHAPTER 3 EXEMPT INCOME

Illustration 1:

Whether income from nursery constitutes agricultural income? Solution:

Yes, as per *Explanation 3* to section 2(1A), income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land

Illustration 2:

Kundan Lal 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
Agriculture Income	19.0	
Business Income		4.0

Notes:

- 40% of the sugarcane produce was sold raw @ INR 15,00,000 and 60% of the sugarcane produce was subjected to further manufacturing, MV was INR 33,00,000. Therefore, for the purposes of agricultural income, the entire produce was disposed at a consideration of INR 48,00,000
- The cost of 100% produce is INR 8,00,000 and INR 21,00,000 for the 40% and 60% respectively, which is INR 29,00,000
- For sugar, the MV of the 60% produce would be taken as the cost hence, and therefore the cost of cultivation would be INR 33,00,000

Illustration 3

Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of

cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute B's business income and agricultural income

Solution: Income from sale of sugarcane gives rise to agricultural income and from sale of sugar gives rise to business income.

$$\begin{aligned}
 \text{Business income} &= \text{Sales (-) Market value of 70\% of sugarcane produce (-)} \\
 &\quad \text{Manufacturing expenses} \\
 &= \text{Rs 25 lacs} - \text{Rs. 22 lacs} - \text{Rs. 1.5 lacs} = \text{Rs. 1.5 lacs.} \\
 \text{Agricultural income} &= \text{Market value of sugarcane produce} - \text{Cost of cultivation} \\
 &= [\text{Rs. 10 lacs} - \text{Rs. 5 lacs}] + [\text{Rs. 22 lacs} - \text{Rs. 14 lacs}] \\
 &= 5 \text{ lacs} + 8 \text{ lacs} = \text{Rs. 13 Lacs}
 \end{aligned}$$

Illustration 4:

Nikhil manufactures latex from rubber plants grown by him in India. These are subsequently sold in the market at INR 50,00,000. The costs incurred are as under:

- Manufacturing Latex: INR 12,00,000
- Growing Rubber Plants: INR 18,00,000

Solution:

The treatment is explained as under:

Particulars	INR
Total Income	50,00,000
Total Costs	30,00,000
Profits	20,00,000
Business Income	7,00,000
Agricultural Income	13,00,000

Note: the business income chargeable to tax under the head "Profits and Gains from Business / Profession" is taken @ 35% of the profits and the agricultural income is taken @ 65%, which is subsequently exempt from tax.

Mr. A manufactures latex from the rubber plants grown by him in India. These are then sold in the market for Rs. 50 lacs. The cost of growing rubber plants is Rs. 20 lacs and that of manufacturing latex is Rs. 10 lacs. Compute his total income.

Solution:

The total income of Mr. A comprises of agricultural income and business income. Total profits from the sale of latex= Rs. 50 lacs – Rs. 20 lacs – Rs. 10 lacs = Rs. 20 lacs. Agricultural income = 65% of Rs. 20 lac
= Rs. 13 lacs

Business income = 35% of Rs. 20 lacs = Rs. 7 lacs

Illustration 5:

Mr. A manufactures latex from the rubber plants grown by him in India. These are then sold in the market for Rs. 50 lacs. The cost of growing rubber plants is Rs. 20 lacs and that of manufacturing latex is Rs. 10 lacs. Compute his total income.

Solution:

The total income of Mr. A comprises of agricultural income and business income. Total profits from the sale of latex= Rs. 50 lacs – Rs. 20 lacs – Rs. 10 lacs = Rs. 20 lacs. Agricultural income = 65% of Rs. 20 lac
= Rs. 13 lacs

Business income = 35% of Rs. 20 lacs = Rs. 7 lacs

Illustration 6:

Whether income arising from transfer of agricultural land situated in urban area be agricultural income? Solution:

No, as per Explanation 1 to section 2(1A), the capital gains arising from the transfer of urban agricultural land would not be treated as agricultural income under section 10 but will be taxable under section 45.

Illustration 7:

Income of Mr. A for the previous year 2023-24 is as follows: Compute Tax Liability for the Assessment year 2024-25.

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

Solution:

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

Note:

- 1) The (A) would be the combined income and the tax liability is computed per the current slabs and rates
- 2) The (B) would be the net agricultural income as increased by the minimum exemption amount and the tax liability is computed per the current slabs and rates
- 3) The (A)-(B) would be the tax liability on which rebate 87A is allowed to determine the final total tax liability.
- 4) It is assumed that the assessee has not opted for Section 115BAC of the Income tax Act, 1961.

Illustration 8:

Mr. P, a member of a HUF, received Rs. 5,000 as his share from the income of the HUF. Is such income includible in his chargeable income?

Solution:

No. Such income is not includible in Mr. P's chargeable income since section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family.

Illustration 9:

HUF earned Rs. 5,00,000 during the previous year and paid tax on its income. Mr. A, a co-parcener is an employee and earns a salary of Rs. 20,000 p.m. During the previous year Mr. A also received Rs. 1,00,000 from HUF. What will be the tax treatment on the above receipt?

Solution:

Mr. A will pay tax on his salary income but any sum of money received from his HUF is not chargeable to tax in Mr. A's hands.

Illustration 10:

HUF earned Rs. 90,000 during the previous year 2023-24 and it is not chargeable to tax. Mr. A, a co-parcener is earning individual income of Rs. 20,000 p.m. Besides his individual income, Mr. A receives Rs. 30,000 from his HUF. What will be the tax treatment on the above receipt?

Solution:

Mr. A will pay tax on his individual income but any sum of money received by him from his HUF is not chargeable to tax in the hands of co-parcener whether the HUF has paid tax or not on that income

Illustration 11:

Rajveer Turbines has 2 undertakings, one in a SEZ and one in a normal zone. The summarised results are as under:

<i>Item</i>	<i>SEZ</i>	<i>Normal</i>
Domestic turnover	50	125
Export turnover	200	0
Gross Profit	75	25
Expenses & Depreciation	15	10
Net profit	60	15

Compute The business of assessee.**Solution:**

The treatment is as under:

Total profit	75
Less : Exempt u/s 10AA	48
Taxable profits	27

Note:

1. Total profits is the sum of the respective net profits for both the units
2. The exemption is in the proportion of the export turnover to total turnover

Illustration 12:

Whether the payment of Compensation on agreed terms in respect of land acquired would be entitled for exemption under section 10(37) of the Income tax Act, 1961?

Solution: Even if the amount of compensation is paid on agreed terms it would not change the character of the acquisition from that of compulsory acquisition to the voluntary sale and the exemption provided under the Income tax Act, 1961 would be available and such negotiations would be confined to the quantum of compensation only.

[Supreme Court decision in case of *Balakrishnan v. Union of India*]

Questions for Concept Clarity

1. Mr. C 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.

Solution

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

2. Mr. X, a resident, has provided the following particulars of his income for the P.Y. **2023-24**.

- i. Income from salary (computed) - ₹ 1,80,000
- ii. Income from house property (computed) - ₹ 2,00,000
- iii. Agricultural income from a land in Jaipur - ₹ 2,80,000
- iv. Expenses incurred for earning agricultural income - ₹ 1,70,000

Compute his tax liability assuming his age is -

- (a) 45 years

(b) 70 years

Solution

Computation of total income of Mr. X for the A.Y. 2024-25

(a) Computation of tax liability (age 45 years)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000. His tax liability is computed in the following manner

Particulars	₹	₹
Income from salary		1,80,000
Income from house property		2,00,000
Net agricultural income [2,80,000 – 1,70,000]	1,10,000	
Less: Exempt under section 10(1)	(1,10,000)	-
Gross Total Income		3,80,000
Less Deductions under Chapter VI-A		-
Total Income		<u>3,80,000</u>

Step 1: ₹ 3,80,000 + ₹ 1,10,000 = ₹ 4,90,000

Tax on ₹ 4,90,000 = ₹ 12,000 (i.e., 5% of ₹ 2,40,000)

Step 2 : ₹ 1,10,000 + ₹ 2,50,000 = ₹ 3,60,000

Tax on ₹ 3,60,000 = ₹ 5,500 (i.e. 5% of ₹ 1,10,000)

Step 3: ₹ 12,000 – ₹ 5,500 = ₹ 6,500

Step 4 – Less Rebate u/s 87A = ₹ 6,500

Step 5: Total tax payable = Nil

(b) Computation of tax liability (age 70 years)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000. His tax liability is computed in the following manner:

Step 1: ₹ 3,80,000 + ₹ 1,10,000 = ₹ 4,90,000

Tax on ₹ 4,90,000 = ₹ 9,500 (i.e. 5% of ₹ 1,90,000)

Step 2: ₹ 1,10,000 + ₹ 3,00,000 = ₹ 4,10,000

Tax on ₹ 4,10,000 = ₹ 5,500 (i.e. 5% of ₹ 1,10,000)

Step 3: ₹ 9,500 – ₹ 5,500 = ₹ 4,000

Step 4 – Less Rebate u/s 87A = ₹ 6,500

Step 5: Total tax payable = Nil

3. Y Ltd. furnishes you the following information for the year ended 31.3.2024:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2024-25

Solution

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y. 2023-24 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ.

As per section 10AA (7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$\begin{aligned}
 & (\text{Profit of the business of Unit A} \times \text{Export Turnover of Unit A}) / \text{Total Turnover of Unit A} \\
 & = (\text{₹}30\text{Lakhs} \times 50) / 100 \\
 & = \text{₹}15\text{Lakhs}
 \end{aligned}$$

3. Examine whether the following are chargeable to tax, and if so, compute the amount liable to tax:

- Arvind received ₹ 20,000 as his share from the income of the HUF.
- Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Central Government, received a pension of ₹ 2,20,000 during the financial year 2023-24.
- Agricultural income of ₹ 1,27,000 earned by a resident of India from a land situated in Malaysia.

(iv) Rent of ₹ 72,000 received for letting out agricultural land for a movie shooting.

Answer

S.No.	Taxable/ Not Taxable	Amount liable to tax (₹)	Reason
(i)	Not Taxable	-	Share received by member out of the income of the HUF is exempt under section 10(2).
(ii)	Not Taxable	-	Pension received by Mr. Xavier, a former Central Government's employee who is a 'Param Vir Chakra' awardee, is exempt under section 10(18).
(iii)	Taxable	1,27,000	Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income.
(iv)	Taxable	72,000	Agricultural income is exempt from tax as per section 10(1). Agricultural income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹ 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources".

5. Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine.

Solution

As per Explanation 3 to section 2(1A) of the Act, income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

6. Examine with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

- (i) Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.
- (ii) Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt from income-tax.
- (iii) Mr. A, a member of a HUF, received ₹ 10,000 as his share from the income of the HUF. The same is to be included in his chargeable income.

Solution

False: Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.

True: Section 10(18) exempts any income by way of pension received by individual who has been in service of Central Government and has been awarded "ParamVir Chakra" or "MahaVir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.

False: Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, ₹ 10,000 should not be included in Mr. A's chargeable income.

7. Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for the previous year 2023-24.

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2024-25, in the following situations:

- (i) If both the units were set up and start manufacturing from 22-05-2016.
- (ii) If both the units were set up and start manufacturing from 14-05-2020.

Solution

Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services

during the previous year relevant to the **previous year** commencing on or after 01.04.2005 but before 31st March 2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2016:

Since A.Y. **2023 – 24** is the 8th assessment year from A.Y. **2017-18**, relevant to the previous year **2016-17**, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = ₹ 22.50 \text{ lakhs}
 \end{aligned}$$

(i) If Unit in SEZ was set up and began manufacturing from 14-05-2020:

Since A.Y. **2024 – 25** is the 4th assessment year from A.Y. **2021-22**, relevant to the previous year **2020-21**, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\% = ₹ 45 \text{ lakhs}
 \end{aligned}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

Kundan Lal 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. Hint – Agricultural Income 19 lacs, Business Income – 4 lacs

Multiple Choice Questions 'MCQs'

Choose the most appropriate answer from the given options in respect of the following:

- Any rent or revenue derived from land may be treated as agricultural income if-
 - It is derived from land
 - The land is situated in India
 - The land is used for agricultural purpose
 - All the above conditions are satisfied. Answer: (d)

- Which of the following income is agricultural income—
 - Rent received against agricultural land
 - Rent received from agricultural land Income from dairy farm
 - Income from poultry farm
 - Dividend from a company engaged in agriculture.

Answer: (a)

- Income of an assessee engaged in the business of growing and manufacturing tea in India is taxable to the extent of-
 - 40% of such income
 - 60% of such income
 - 70% of such income
 - 30% of such

income. Answer: (a)

- If non-agricultural income is Rs. 2,02,000 and net agricultural income is Rs. 40,000, the tax liability of an individual assessee will be (assuming assessee has not opted for Section 115BAC of the Income tax Act, 1961:
 - Nil
 - Rs. 200
 - Rs. 206
 - Rs. 4,326.

Answer: (a)

- Which of the following additional incomes will not be treated as agricultural income under the Income- Tax Act, 1961:

- (a) Additional income from selling ginned cotton as compared to unginned cotton
- (b) Additional income from selling dried-up coffee as compared to raw coffee
- (c) Additional income from selling cured tobacco as compared to green tobacco leaves
- (d) Additional income from selling dried-up tea leaves as compared to raw tea leaves. Answer: (a)

6. Pawan reports net income of Rs. 5 lakh from the activity of growing and manufacturing rubber. How much of such income is to be treated as non-agricultural income:

- (a) Rs. 1,75,000 (b) Rs. 2,00,000
- (c) Rs. 1,25,000 (d) Nil

Answer: (a) Rs.1,75,000

7. Mr. Vinayak derived income from sale of tea manufactured and grown in Coorg, Karnataka. His income for the previous year 2023-24 from the said activity is Rs. 20 lakhs. The amount exempt from tax by way of agricultural income is:

- (a) Rs. 8 lakhs (40%) (b) Rs. 5 lakhs (25%)
- (c) Rs. 12 lakhs (60%) (d) Rs. 7 lakhs (35%)

Answer: (c) Rs. 12 lakhs (60%)

8. Mr. Sankar received Rs. 50,000 as educational scholarship from Nehru Memorial Trust (a charitable trust). The scholarship is to assist Mr. Sankar for pursuing M.A. (History) at Jawaharlal Nehru University, New Delhi. The amount of scholarship liable to tax is:

- (a) Rs. 50,000 (b) Rs. 10,000
- (c) Rs. 25,000 (d) Nil

Answer: (d) Nil

9. Mr. Chandan (age 70) received Rs. 30,000 every month during the financial year 2023-24 on reverse mortgage of his property with State Bank of India. The amount of receipt liable to tax in the hands of Mr. Chandan is:

- (a) Rs. 3,60,000 (b) Rs. 2,52,000
- (c) Rs. 40,000 (d) Nil

Answer: (d) Nil

10. Mr. Menon having tea estate in Munnar (Kerala) earned Rs. 5 lakhs by way of growing tea leaves and manufacturing tea. The income chargeable to tax would be:

- (a) Rs. 2,00,000 (b) Rs. 1,75,000
- (b) Rs. 1,25,000 (d) None of the

above Answer: (a) Rs. 2,00,000

11. Ms. Laxmi received Rs. 60,000 by way of family pension from State Government. The amount of family pension eligible for exemption under section 10(19) of the Income

tax Act 1961 is:

- (a) Rs. 60,000 (b) Rs. 40,000
(c) Rs. 20,000 (d) Nil

Answer: As per section 10(19) family pension received by the widow or children or nominated heirs, as the case may be, of a member of the armed forces (including paramilitary forces) of the Union, where the death of such member has occurred in the course of operational duties, in such circumstances and subject to such conditions, as may be prescribed shall be fully exempted. Exemption is available only to union and not state, hence exemption under 10(19) is NIL.

12. A registered trade union earned income by way of interest on fixed deposit held with State Bank of India of Rs. 5,60,000. The interest income chargeable to tax in the hands of trade union would be:

- (a) Rs. 5,60,000 (b) Nil
(c) Rs. 2,60,000 (d) Rs. 3,10,000

Answer: (b) Nil

13. The income derived from growing, manufacturing and sale of Centrifuged latex or Cenex or Latex based cops as per Rule 7A of the Income-tax Rules, 1962 shall be taken as agricultural and non- agricultural income in the following ratio:

- (b) 75% and 25% (b) 60% and 40%
(c) (c) 65% and 35% (d) None of the above

Answer: (c) 65% and 35%

Descriptive Questions

1. What is Agriculture Income? Explain its Tax Treatment under Income tax Act, 1961
2. What is the difference between Exemption and Deduction under the Income tax Act, 1961.
3. Justify the correctness of the statement "Exempt Income is not chargeable at all and therefore not to be included in Total Income of the Assessee".
4. Income of Mr. Arun for the previous year 2023-24 is as follows:

Particulars	INR
Income from salary (computed)	5,00,000
Income from house property (computed)	50,000
Net Agricultural Income	2,00,000

Compute Tax Liability for the Assessment year 2024-25 assuming assessee has not opted for section 115BAC of the Income Tax Act, 1961.

Answer: Rs. 54,600

CHAPTER 4 SALARY

Illustration 1:

Vir is employed with happiness Solutions Ltd. and during the FY 2023-24. He had a Basic Pay of INR 75000 per month. Owing to his good performance at workplace, he was given an annual increment in his Salary of 20% effective Feb 2024. He also received during the year, a Dearness Allowance of 100% of Basic (however only 50% of which was included as per his terms of employment). The Company also gave him HRA of INR 30000 per month, which was increased to INR 35000 per month effective Jan 2024. He stayed at his parental home in Ahmedabad for Apr and May 2023, post which he took up a Rented Accommodation at Surat at a monthly rental of INR 26000. Effective Nov 2023 he was moved to Mumbai to the Corporate office, and he took up an accommodation at Mumbai at a monthly rental of INR 36000. You are required to compute the HRA exempt from Tax and the gross Salary.

Solution:

The computation of HRA exempt from tax would have to be done on a monthly basis as the salary and rental figures changed during the year, in the manner provided below.

Item	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Basic	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	90,000	90,000	9,30,000
D.A.	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	45,000	45,000	-
Salary for HRA	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,12,500	1,35,000	1,35,000	-
Accommodation	Own	Own	Surat	Surat	Surat	Surat	Surat	Mumbai	Mumbai	Mumbai	Mumbai	Mumbai	-
40% or 50% of Salary	-	-	45,000	45,000	45,000	45,000	45,000	56,250	56,250	56,250	67,500	67,500	-
HRA Actually Recd	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	35,000	35,000	35,000	3,75,000
Rent - 10% Salary	-	-	14,750	14,750	14,750	14,750	14,750	24,750	24,750	24,750	22,500	22,500	-
Min	-	-	14,750	14,750	14,750	14,750	14,750	24,750	24,750	24,750	22,500	22,500	1,93,000

Note:

- (1) For the stay at Surat, 40% of Salary and for stay at Mumbai, 50% of Salary is considered for one of the parameters for exemption.
- (2) DA, only to the extent of it being included per terms of employment, is included in Salary for the purposes of HRA.

Please note the gross Salary Computation below:

Particulars	(Rs.)	(Rs.)
-------------	-------	-------

Basic Salary (75000 x 10 + 90000 x 2)		9,30,000
Dearness Allowance (100% of Basic)		9,30,000
HRA	3,75,000	
Less : exempt	1,93,000	1,82,000
Gross Salary		20,42,000

Note: It is assumed that assessee has not opted u/s 115BAC, otherwise exemption u/s 10(13A) of Rs.1,93,000 will not be available. In that case, gross Salary would be Rs.22,35,000

Illustration 2:

Arjun retired on 15-4-2023 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. He is not entitled to gratuity.

Solution :

1. 75% of commuted pension is equal to Rs. 4,50,000. Hence commuted value of 1/3 of the pension would amount to Rs. $4,50,000 \times 100 / 75 \times 1/3 = \text{Rs. } 2,00,000$; Rs. 2,00,000 would, therefore be exempt and balance Rs. 2,50,000 would be taxable.
2. 75% of commuted pension is equal to Rs. 4,50,000 hence commuted value of 50% of pension amount to $4,50,000 \times 100 / 75 \times 1/2 = \text{Rs. } 3,00,000$. Therefore, Rs. 3,00,000 would be exempt and Rs. 1,50,000 would be taxable.

Illustration 3:

A pensioner from Maharashtra State government retired in December 2015 receiving an amount of Rs. 10,00,000 as gratuity. But thereafter, he received a further amount of Rs. 1.20 lakhs in April 2018 consequent on revision of pay. At the time of his retirement the exemption limit was Rs. 10 lakh. Is he eligible for the higher exemption limit under Section 10(10) available at the time of receipt. The higher limit of Rs. 20 lakhs is raised by dated 29.03.2018 S.o. 1420(e) notification.

Solution:

Every time the limit has been raised, such limit has only referred to the retirement on or after the date on which it was raised. Hence the limit on the date of retirement time would alone have to be considered, so exemption with reference to the enhanced limit will not apply in this case. Since the assessee is a government pensioner. There is no ceiling for Central or State pensioners. If assessee is a retiree from the civil service of a State or held a civil post under a State or had even been an employee of a local authority, the gratuity amount, that is received, is totally exempt vide Section 10(10)(i) of the Income-tax Act irrespective of the date of retirement or the notification. Further for government pensioners maximum gratuity amount was increased to Rs. 20 lakh with effect from 01/01/2016 under 7th Pay Recommendations as one of the employees Welfare Measures to compensate rising inflation over the period. Please note that this is Maximum amount which they can receive as gratuity but there is no ceiling on Tax exemption for gratuity for Central or State pensioners.

Illustration 4:

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.

Solution:

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
 $= (20,000 + 5,000) \times 3 \times 30 \text{ years} = \text{Rs. } 22,50,000$
- (iv) last drawn salary $\times$ remaining months of service
 $= (20,000 + 5,000) \times 6 \times 12 \text{ months} = \text{Rs. } 18,00,000$

Illustration 5:

ABC Ltd. provided the following perquisites to its employee Srinivasan, for the **FY 2023-24**.

- 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 for official + personal purpose 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 assessee had not opted for section 115BAC of the Income Tax Act, 1961.

Solution:

Accommodation on lease	Amount (Rs.)	Amount (Rs.)
Salary for the purposes of Valuation of Perquisites	25,00,000	
Actual lease Charges	6,00,000	
10% of the above (Cap)	2,50,000	
Hence, Gross Taxable Value of the Perquisite		2,50,000
Less: Amount recovered from the employee		(2,40,000)
Taxable value of unfurnished leased accommodation		10,000
Add: Actual hire charges of furniture hired		48,600
Taxable value of Furnished Accommodation		58,600
Car used partly for Official & partly for Personal		

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
Total Value of perquisites		1,00,000

Note:

1. Refer to the valuation rules for perquisites – taxable value of perquisite for a hired accommodation is the actual hire charges incurred by the employer subject to max. 10 % of salary reduced by the amount recovered from the employee.
2. Since the accommodation is furnished, the actual hire charges are added to the above.
3. Gift Vouchers are taxable as perquisites too if received by the employer and more than 5000.

Illustration 6:

Mr. X, working in MNO Ltd., draws the following amount of emoluments from the company:

Particulars	Amount (in lakhs)
Basic Pay	50
Commission	15
Employer's contribution to recognized provident fund	10
Employer's contribution to NPS	7
Employer's contribution to the superannuation fund	5
Total	87

Solutions:

Amount (in lakhs)

Particulars	Before Amendment	After Amendment
Basic Pay	50	50
Commission	15	15
Employer's contribution to recognized provident fund (in excess of 12% of basic pay) [Rs. 10 lakh (less) Rs.6 lakh (Rs. 50 lakh * 12%)] [Section 17(1)]	4	4
Employer's contribution to NPS	7	7
Employer's contribution to the superannuation fund in excess	3.50	-

of rs. 1.5 lakhs [Old Section 17(2)(vii)]		
Perquisite arising from Employer's contribution to the superannuation fund, RPF and NPS in excess of rs. 7.5 lakhs [New Section 17(2)(vii)]	-	14.5 0
Income chargeable to tax under the head "Salary"	79.5 0	90.5 0

Illustration 7:

Nitin is an employee of XYZ Ltd. he was appointed on 1st Mar 2023 at a scale of 50000 – 5000 – 70000. He is paid DA (which forms part of retirement benefits) @ 15% of Basic Pay and Bonus equivalent to 2 month's salary at end of FY. He contributes 18% of his Basic + DA to a recognised provident fund, and the contribution is matched by the employer.

He is provided rent free accommodation, hired by the employer, @ 25000 pm. He is also provided the following benefits / amenities:

- Medical Treatment of his dependant spouse INR 40000.
- Monthly salary to housekeeper INR 4000.
- Telephone Allowance INR 1200 pm.
- Gift Voucher of INR 4500 on account of his marriage anniversary.
- Medical Insurance Premium for Nitin, paid by his employer INR 15000.
- Motor Car owned and driven by Nitin, and engine capacity within 1.6 liters; used partly for official and partly for personal purposes. Running & maintenance expenses borne by the employer INR 36,600.
- Lunch during office hours valued at INR 2200.

He was also allotted 2000 sweat equity shares in September 2023. The shares were allotted @ INR 227 per share against the FMV of INR 377 per share as on the date of exercise of the option.

Compute the Salary income chargeable to tax. *Option 1*

: Assessee has not opted for Section 115BAC *Option 2* :

Assessee has opted for Section 115BAC **Solution:**

Option 1 : Assessee has not opted for Section 115BAC

Particulars	Amount INR
Basic	6,05,000
DA	90,750
Bonus	1,10,000
Employers' Contribution to Pf > 12%	41,745
Taxable Allowances	
Telephone	14,400

Taxable Perquisites	
Medical Reimbursement (fully Taxable)	40,000
Housekeeper	48,000
Motor Car	15,000
Rent free Accommodation	82015
Sweat equity	3,00,000
Gross Salary	13,46,910
Less: Standard Deduction under section 16(ia)	(50,000)
Taxable Salary	12,96,910

Note:

- 1) Employer's Contribution to Provident fund in excess of 12% is chargeable to Income Tax.
- 2) Rent free Accommodation is valued as under:
 - a. Since the accommodation is hired, the actual hire charges subject to a cap of 10% of "salary" is considered;
 - b. "Salary" for this purpose is Basic + DA + Bonus + all Taxable Allowances = INR 8,20,150.
- 3) Medical Treatment is chargeable to Tax, as no more tax free perquisite.
- 4) Since the value of the gift voucher is below INR 5000, it is not taxable as perquisite.
- 5) Lunch during office hours is also not taxable as perquisite assuming cost of meal upto Rs.50 per meal.
- 6) Medical Insurance Premium paid by the employer on behalf of Nitin is also not taxable as perquisite.
- 7) The motor car is chargeable as under:

If the Car is owned / hired by the employee; expenses met by the employer & is used by the employee partly for official and partly for Personal purposes, the taxable value of the perquisite would be the actual expenditure incurred by the employer as reduced by the taxable value of the perquisite determined basis the engine capacity, i.e., INR 36600 – INR (1800*12) = INR 15000.

Option 2 : Assessee has opted for Section 115BAC

Particulars	Amount (INR)
Basic	6,05,000
DA	90,750
Bonus	1,10,000
Employers' Contribution to Pf > 12%	41,745
Taxable Allowances Telephone	14,400
Taxable Perquisites Medical Reimbursement (fully Taxable)	40,000
Housekeeper	48,000

Motor Car	15,000
Rent free Accommodation	82015
Sweat equity	3,00,000
Meals	15,000
Gross Salary	1361910
Less: Standard Deduction under section 16(ia)	(50,000)
Taxable Salary	1311910

Note

- Employer's Contribution to Provident fund in excess of 12% is chargeable to Income Tax.
- Rent free Accommodation is valued as under:
 - a) Since the accommodation is hired, the actual hire charges subject to a cap of 15% of "salary" is considered;
 - b) "Salary" for this purpose is Basic + DA + Bonus + all Taxable Allowances = INR 8,20,150.
- Medical Treatment is chargeable to Tax, as no more tax free perquisite.
- Since the value of the gift voucher is below INR 5000, it is not taxable as perquisite.
- Lunch during office hours is taxable as perquisite.
- Medical Insurance Premium paid by the employer on behalf of Nitin is also not taxable as perquisite.
- The motor car is chargeable as under:

If the Car is owned / hired by the employee; expenses met by the employer & is used by the employee partly for official and partly for Personal purposes, the taxable value of the perquisite would be the actual expenditure incurred by the employer as reduced by the taxable value of the perquisites determined basis the engine capacity i.e. $\text{INR } 36600 - \text{INR } (1800 \times 12) = \text{INR } 15000$.

Illustration 8 :

Mr. Ram is employed at Bombay. His basic Salary is Rs. 5,000 per month. He receives Rs. 5,000 p.a. as house rent allowance. Rent paid by him is Rs. 12,000 p.a. find out the amount of taxable house rent allowance. Assuming assessee has not opted u/s 115BAC

Solution:

As per Rule 2A, the least of the following is exempt from tax:

- (i) the actual house rent allowance;
- (ii) excess of rent paid over 10% of salary;
- (iii) where the accommodation is situated at Bombay, Delhi, Calcutta or Madras, one-half of the amount of salary due to the assessee for the relevant period;
- (iv) Where the accommodation is situated at any other place, two-fifth of the salary due to the assessee for the relevant period.

Accordingly, Mr. Ram would be entitled to the least of:

- (i) Rs. 5,000; or

- (ii) Rs. 6,000 being excess of rent over 1/10th of salary; or
- (iii) Rs. 30,000 (being one-half of the salary of the assessee).

Rs. 5,000, being the least, would not be included in the total income of Mr. Ram. So the entire amount of HRA would be exempt from tax.

Salary for this purpose includes basic salary as well as dearness allowance if the terms of employment so provide. It also includes commission based on a fixed percentage of turnover achieved by an employee as per terms of contract of employment but excludes all other allowances and perquisites and these are determined on due basis for the period during which rental accommodation is occupied by the employee in the previous year.

Illustration 9:

Mr. Shyam, employed at Mumbai, receives the following from his employer during the previous year:

Particulars	Rs.
Basic Salary	60,000
Bonus	1,800
Entertainment allowance (taxable)	6,000
Electricity expenses	2,000
Professional tax paid by the employer	2,000
Rent free house (owned by Employer):	
Fair rent	48,000
Salary of gardener	2,400
Garden Maintenance	1,200
Salary of watchman	1,800

Determine the value of taxable perquisites in respect of rent free house assuming (a) Mr. Shyam is a government officer and the fair rent as arrived at by the government is Rs. 6,000 p.a. (b) Mr. Shyam is a semi-government employee, and (c) Mr. Shyam is employed by a private company.

Solution:

- (a) **If Mr. Shyam is a Government Officer:** As per Rule 3(1) of Income-tax Rules, Rs. 6,000 p.a. being the rent of the house as per government rules, will be the taxable value of the perquisite.
- (b) **If Mr. Shyam is a semi-Government employee:** As per Rule 3(1) of the Income-tax Rules, the value of the perquisite in respect of rent free accommodation is taken at **10% of salary of the employee** (as the house is owned by the employer and provided in Mumbai).

Salary = Rs. 67,800 (Rs. 60,000 + 1,800 + 6,000)

10% of salary = Rs. 6,780 and

Therefore, Rs. 6,780 is taxable value of the perquisite.

Further, the value of electricity expenses and Professional Tax paid by the employer, being perquisites, are not included in the salary for valuation of Rent free house Accommodation.

(c) If Mr. Shyam is employed in Private Company: The value of perquisite in this case shall also be Rs. 6,780. Under the new rules there is no difference between the semi-govt. and other employees.

Note: The Solution is provided assuming assessee has not opted for section 115BAC. However, even if he would have opted for section 115BAC, the solution would be same.

Illustration 10:

Mr. Ramamoorthy, an employee of M/s. Gopal Krishnan & Co. of Chennai receives during the previous year ended March 31, 2024 the following payments:

Particulars	(Rs.)
Basic Salary	40,000
Dearness allowance	3,000
Leave Salary	5,400
Professional tax paid by employer	1,000
Fair rent of the flat provided by employer	6,000
Rent paid for furniture	1,000
Rent recovered by employer	3,000
Contribution to Statutory Provident fund	4,000
Employer's contribution to Statutory Provident fund	4,000

Compute his taxable income for the Assessment Year 2024-25.

Option 1: Assessee has not opted for Section 115BAC

Option 2: Assessee has opted for Section 115BAC

Solution:

Option 1: Assessee has not opted for Section 115BAC

Computation of taxable income of Mr. Ramamoorthy for the Assessment Year 2024-25

Particulars	Amount (Rs.)
Basic Pay	40,000
Dearness allowance	3,000
Leave salary	5,400

Professional tax paid by employer	1,000
Perquisite for house :	
10% of salary (Rs. 40,000 + 3,000 + 5,400) 4,840	2,840
Add: furniture rent 1,000	
Less: Rent recovered (-) 3,000	
	52,240
Less: Standard Deduction under section 16(ia)	(50,000)
Less: Professional tax u/s 16	1,000
Gross Total Income	1,240
Less: Deduction under Section 80C	(1,240)
Total income	Nil
Total tax payable	Nil

Note: Assumed that dearness allowance forms part of the salary for the purpose of computation of superannuation or retirement benefits.

Option 2: Assessee has opted for Section 115BAC

Computation of taxable income of Mr. Ramamoorthy for the Assessment Year 2024-25

Particulars	Amount (Rs.)
Basic Pay	40,000
Dearness allowance	3,000
Leave salary	5,400
Professional tax paid by employer	1,000
Perquisite for house :	
10% of salary (Rs. 40,000 + 3,000 + 5,400) 4,840	
Add: furniture rent 1,000 less: Rent recovered (-) 3,000	2,840
	52,240
Less: Standard Deduction under section 16(ia)	(50,000)
Less: Professional tax u/s 16	(NA)
Gross Total Income	2,240
Less: Deduction under Section 80C	(NA)

Total income	2,240
Total tax payable	Nil

Note:

- (i) Assumed that dearness allowance forms part of the salary for the purpose of computation of superannuation or retirement benefits.
- (ii) Deduction u/s 16 & 80C is not allowed as the assessee has opted for section 115BAC

Illustration 11:

Raman, an employee of the gas Supply Ltd., Agra population 43 Lakhs, receives the following emoluments during the previous year **2023-24**.

Particulars	(Rs.)
Basic pay	10,000
Project allowance	1,800
Arrears of project allowance of May, 2018	150
Professional tax paid by the employer	200
Rent free furnished house	
- Fair rent of the house	2,000
- Rent of furniture	500
Free gas supply	400
Service of sweeper	600
Services of gardener	1,000
Service of cook	800
Free lunch	2,400

Free use of chauffeur driven fiat car which is used partly for official and partly for private purposes.

He is a member of recognized provident fund to which he contributes Rs.1,500. His employer also contributes an equal amount. He deposits Rs. 600 per month in 10 year account under the Post office Savings Bank (CTD) Rules.

Determine his taxable income and tax payable thereon for the assessment year **2024-25**.

- (a) If Raman is a director in the employer company and the rent-free house is owned by it,
- (b) If Raman is neither a director nor a shareholder in the employer company and the rent-free house is not owned by it.

Option 1: Assessee has not opted for Section 115BAC

Option 2: Assessee has opted for Section 115BAC

Solution:

SOLUTION

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

His taxable income will be computed as under:

<i>Particulars</i>	<i>If Raman is a director and rent-free house is owned by the company 'A'</i>	<i>If Raman is neither a director nor a shareholder and rent-free house is not owned by the company 'B'</i>
(1)	(2)	(3)
	Rs.	Rs.
Basic Pay	10,000	10,000
Project allowance	1,800	1,800
Arrears of project allowance of May, 2018	150	150
Professional tax paid by the employer	200	200
Rent free furnished house:		
– 10% of Salary	1,180	1,180
– Rent of furniture	500	500
Free gas supply	400	Nil
Service of sweeper	600	Nil
Service of gardener	1,000	Nil
Service of cook	800	Nil
Free lunch	Nil	Nil
Excess of employer's contribution towards provident fund over 12% of salary (1,500 - 12% of Rs. 10,000)	300	300
Gross salary	16,930	14,130
Deduction : Standard Deduction (Maximum Rs. 50,000)	(16,930)	(14,130)
Net Salary Income	Nil	Nil
Tax on total income	Nil	Nil

Notes:

- (1) It is assumed that the arrears of project allowance are taxable on receipt basis.
- (2) Perquisite in respect of Rent free house is taxable in the hands of all the assesseees. In this case fairmarket value has no relevancy and assumed that the house is owned by the employer. Since the house is provided in Agra, population is assumed as exceeding 40 lakhs. Salary for valuation of perquisite is (10,000 + 1,800).
- (3) The free sweeper, gardener, cook, lunch, car etc. are not taxable in the second case, because Raman does not fall in the category of specified employee under Section 17(2)(iii) of the Act i.e., he is neither a director nor his salary is Rs. 50,000 p.a. or more.

- (4) Free lunch provided is not taxable to the extent of Rs. 50 per day.
- (5) Since Raman is employed in a gas supply company, the value of gas supplied is taxable as cost to the employer. And it is assumed that the cost of supply is same as Rs. 400 as given.

Option 2: Assessee has opted for Section 115BAC his taxable income will be computed as under:

<i>Particulars</i>	<i>If Raman is a director and rent-free house is owned by the company 'A'</i>	<i>If Raman is neither a director nor a shareholder and rent-free house is not owned by the company 'B'</i>
(1)	(2)	(3)
	Rs.	Rs.
Basic Pay	10,000	10,000
Project allowance	1,800	1,800
Arrears of project allowance of May, 2018	150	150
Professional tax paid by the employer	200	200
Rent free furnished house:		
– 10% of Salary	1,180	1,180
– Rent of furniture	500	500
Free gas supply	400	Nil
Service of sweeper	600	Nil
Service of gardener	1,000	Nil
Service of cook	800	Nil
Free lunch	2400	2400
Excess of employer's contribution towards provident fund over 12% of salary (1,500 - 12% of Rs. 10,000)	300	300
Gross salary	19,330	16,530
Deduction : Standard Deduction (Maximum Rs.50,000)	(19,330)	(16,530)
Net Salary Income	Nil	Nil
Tax on total income	Nil	Nil

Notes:

- (1) It is assumed that the arrears of project allowance are taxable on receipt basis.
- (2) Perquisite in respect of Rent free house is taxable in the hands of all the assessees. In this case fairmarket value has no relevancy and it is assumed that the house is owned by the employer. Since the house is provided in Agra, population is assumed as exceeding 40 lakhs. Salary for valuation of perquisite is (10,000 + 1,800).
- (3) The free sweeper, gardener, cook, lunch, car etc. are not taxable in the second case, because Ram does not fall in the category of specified employee under Section 17(2)(iii) of the Act i.e., he is neither a director nor his salary is Rs. 50,000 p.a. or more.
- (4) Free lunch provided is taxable as the assessee is opted for Section 115BAC.
- (5) Since Raman is employed in a gas supply company, the value of gas supplied is taxable as cost to the employer. And it is assumed that the cost of supply is same as Rs. 400 as given.

Illustration 12:

For the financial year 2023-24, 'A', a Central government officer receives salary of Rs. 77,000 (including dearness allowance of Rs. 42,000) and entertainment allowance of Rs. 18,000. His contribution to recognised provident fund during this period is Rs. 7,200. In addition, he has purchased national Savings Certificates (VIII Issue) for Rs. 6,000. He has been provided with accommodation by the government for which the rent determined is Rs. 375 per month and this is recovered from A's salary. Compute A's tax liability for the assessment year 2024-25 assuming that he has no other income.

Option 1: Assessee has not opted for Section 115BAC

Option 2: Assessee has opted for Section 115BAC

Solution:

Option 1: Assessee has not opted for Section 115BAC

Mr. A

Assessment Year: 2024-25

Status: Resident Individual

Statement of Assessable Income

<i>Particulars</i>	<i>(Rs.)</i>	<i>(Rs.)</i>
Salary from Central government		77,000
Entertainment allowance	18,000	
Less: Entertainment Allowance u/s 16(ii) Rs. 5,000 or [1/5th of salary exclusive of any allowance, benefit or perquisite]	(5,000)	(13,000)
Less: Standard Deduction u/s 16(ia)		(50,000)
Gross Total Income		14,000
Less: Deduction u/s 80C (7,200 + 6,000)		(13,200)
Total Income		800

Tax liability		Nil
Net tax payable		Nil

Option 2: Assessee has opted for Section 115BAC

Name of Assessee: Mr. A Assessment Year : 2024-25

Status: Resident Individual

Statement of assessable income

Particulars	(Rs.)
Salary from Central government	77,000
Entertainment allowance	18,000
Less: Deduction u/s 16	(50,000)
Gross Total Income	45,000
Less : Deduction u/s 80C	Nil
Total Income	45,000
Tax liability	Nil
Net tax payable	Nil

Illustration 13:

Mr. X is employed in ABC Ltd. getting basic pay Rs. 60,000 p.m. and dearness allowance Rs. 10,000 p.m. (forming part of salary). Employer has paid bonus Rs. 20,000 during the year. Commission was allowed @ 2% of sales turnover of Rs. 50,00,000. The employer and employee both are contributing Rs. 11,000 p.m (each) to the recognised provident fund. During the year interest of Rs. 1,00,000 was credited to the RPF @ 10% p.a.

Compute tax liability of Mr. X for A.Y. 2024-25.

Option 1: Assessee has not opted for Section 115BAC

Option 2: Assessee has opted for Section 115BAC

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

Particulars	Amount (INR)
Basic Pay (60,000 x 12)	7,20,000
Dearness allowance (10,000 x 12)	1,20,000
Bonus	20,000
Commission (50,00,000 x 2%)	1,00,000
Employer's contribution to RPF >12% Salary	19,200
Interest credited in excess of 9.5% p.a. (1,00,000 / 10% x 0.5%)	500
Gross Salary	9,79,700
Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	9,29,700
Gross Total Income	9,29,700
Less: Deduction u/s 80C	(1,32,000)
Total Income	7,97,700
Computation of Tax liability	
Tax on Rs. 7,97,700 at slab rate	72,040
Add: HEC @ 4%	2,882
Tax liability Rs. 74,922 (R/o)	74,920

Option 2: Assessee has opted for Section 115BAC

Particulars	Amount (INR)
Basic Pay (60,000 x 12)	7,20,000
Dearness allowance (10,000 x 12)	1,20,000
Bonus	20,000
Commission (50,00,000 x 2%)	1,00,000
Employer's contribution to RPF >12% Salary	19,200
Interest credited in excess of 9.5% p.a. (1,00,000 / 10% x 0.5%)	500
Gross Salary	9,79,700

Less: Standard Deduction u/s 16 (ia)	(50,000)
Income under the head Salary	9,29,700
Gross Total Income	9,29,700
Less: Deduction u/s 80C	(Nil)
Total Income	9,29,700
Computation of Tax liability	
Tax on Rs. 9,29,700 at slab rate [Section 115BAC note 1]	49,455
Add: HEC @ 4%	1,978
Tax liability Rs. 74,833 (R/o)	51,433

Note:

1. Computation of Tax liability Tax on Rs. 9,29,700 at new slab rate [Section 115BAC] 0 to 30,00,000 : Nil
 >3,00,000 to 6,00,000 @5%: 15,000
 >6,00,000 to 9,00,000 @10% : 30,000
 >9,00,000 to 9,29,700 @15% : 4,455
 Total = 49455
2. Salary for RPF= 7,20,000 + 1,20,000 + 1,00,000 = 9,40,000 @12% = 1,12,800
 Employer's contribution = 11,000 x 12 = 1,32,000
 1,32,000 – 1,12,800 = 19,200

Questions for Practice

1. Mr. Raj Kumar has the following receipts from his employer:

- (1) Basic pay ₹40,000 p.m.
- (2) Dearness allowance (D.A.) ₹6,000 p.m.
- (3) Commission ₹50,000 p.a.
- (4) Motor car for personal use (expenditure met by the employer) ₹ 1500 p.m.
- (5) House rent allowance ₹ 15,000 p.m.

Find out the amount of HRA eligible for exemption to Mr. Raj Kumar assuming that he paid a rent of ₹ 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits.

(Assume 115BAC Not opted)

Solution

HRA received	₹180,000
Less: Exempt under section 10(13A) [Note]	₹ 1,36,800
Taxable HRA	₹ 43,200

Note: Exemption shall be least of the following three limits:

(a) the actual amount received ($₹ 15000 \times 12$) = ₹ 180000

(b) excess of the actual rent paid by the assessee over 10% of his salary

= Rent Paid (-) 10% of salary for the relevant period

= ($₹ 16,000 \times 12$) (-) 10% of [$₹ 40,000 + ₹ 6000$] $\times 12$
= ₹ 192,000 - ₹ 55,200 = ₹ 136,800

(c) 40% salary as his accommodation is situated at Kanpur
= 40% of [$₹ 40,000 + ₹ 6000$] $\times 12$ = ₹ 220,800

Note: For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide, but excludes all other allowances and perquisites.

2. Mr. Srikant has two sons. He is in receipt of children education allowance of ₹ 150 p.m. for his elder son and ₹ 70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances:

Transport allowance : ₹ 1,800 p.m.

Tribal area allowance: ₹ 500 p.m.

Compute his taxable allowances.

Solution

Taxable allowance in the hands of Mr. Srikant is computed as under -

If Mr. Srikant exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

Children Education Allowance:

Elder son [$(₹ 150 - ₹ 100)$ p.m. $\times 12$ months]	= ₹ 600	
Younger son [$(₹ 70 - ₹ 70)$ p.m. $\times 12$ months]	= Nil	₹ 600
Transport allowance ($₹ 1,800$ p.m. $\times 12$ months)		₹ 21,600
Tribal area allowance [$(₹ 500 - ₹ 200)$ p.m. $\times 12$ months]		₹ 3,600

Taxable allowances **₹ 25,800**

If Mr. Srikant pays tax under default tax regime under section 115BAC

Children Education Allowance [$(₹ 150 + ₹ 70)$ p.m. $\times 12$ months]	₹ 2,640
Transport allowance ($₹ 1,800$ p.m. $\times 12$ months)	₹ 21,600
Tribal area allowance ($₹ 500$ p.m. $\times 12$ months)	₹ 6,000

Taxable allowances **₹ 30,240**

3. Mr. Sagar retired on 1.10.2023 receiving ₹ 5,000 p.m. as pension. On 1.2.2024, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:
- He is a government employee.
 - He is a private sector employee, receiving gratuity of ₹ 5,00,000 at the time of retirement.
 - He is a private sector employee and did not receive any gratuity at the time of retirement.

Solution

(a) He is a government employee

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)	(₹ 3,00,000)	NIL
Taxable pension		₹ 24,000

(b) He is a private sector employee, receiving gratuity ₹ 5,00,000 at the time of retirement

Uncommuted pension received (October – March)		₹ 24,000 [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
1/3 × (3,00,000/60%) × 100%	(₹ 1,66,667)	₹ 1,33,333
Taxable pension		₹ 1,57,333

(c) He is a private sector employee and did not receive any gratuity at the time of retirement

Uncommuted pension received (October – March)		24,000 [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
$\left(\frac{1}{2} \times \frac{₹ 3,00,000}{60\%} \times 100\% \right)$	₹ 2,50,000	₹ 50,000
Taxable pension		₹ 74,000

4. Mr. Ravi retired on 15.6.2023 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary : ₹ 50,000 p.m.

Dearness Allowance : ₹ 10,000 p.m. (60% of which is for retirement benefits)

Commission : 1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)

Bonus : ₹ 25,000 p.a.

Compute his taxable gratuity assuming:

- He is private sector employee and covered by the Payment of Gratuity Act, 1972.
- He is private sector employee and not covered by Payment of Gratuity Act, 1972.
- He is a Government employee.

Solution

He is covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10) Least of the following:	
i. Gratuity received	₹ 15,00,000
ii. Statutory limit	₹ 20,00,000
iii. 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months	
15/26 x Last drawn Salary x years of service	
15/26 x (₹ 50,000 + ₹ 3,000) x 27 =	₹ 9,34,615
	₹ 9,34,615
Taxable Gratuity	₹ 5,65,385

(a) He is not covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10) (Note)	₹ 8,58,000
Taxable Gratuity	₹ 6,42,000

Note: Exemption under section 10(10) is least of the following:

- Gratuity received ₹ 15,00,000

- (ii) Statutory limit ₹ 20,00,000
- (iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

$$\begin{aligned} & \text{i.e. } \frac{1}{2} \times \text{Average salary} \times \text{years of service} \\ &= \frac{1}{2} \times \frac{\left[(50,000 \times 10) + (10,000 \times 60\% \times 10) + \left(1\% \times 1,20,00,000 \times \frac{10}{12} \right) \right]}{10} \times 26 \\ &= ₹ 8,58,000 \end{aligned}$$

(c) He is a government employee

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10)	<u>₹ 15,00,000</u>
Taxable gratuity	<u>Nil</u>

- 5.** Mr. Gupta retired on 1.12.2023 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary : ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2023, so previously it was Rs. 4,000 p.m)

Dearness Allowance : ₹ 3,000 p.m. (60% of which is for retirement benefits) Commission : ₹ 500 p.m.

Bonus : ₹ 1,000 p.m.

Leave availed during service : 480 days He was entitled to 30 days leave every year. You are required to compute his taxable leave salary assuming:

- (a) He is a government employee.
- (b) He is a non-government employee.

Solution

(a) He is a government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exemption under section 10(10AA)	₹ 5,00,000
Taxable Leave salary	<u>Nil</u>

(b) He is a non-government employee

Leave Salary received at the time of retirement	₹
---	---

5,00,000

Less: Exempt under section 10(10AA) [See Note below]

₹26,400

Taxable Leave Salary

₹ 4,73,600**Note:** Exemption under section 10(10AA) is least of the following:

1. Leave salary received ₹ 5,00,000
2. Statutory limit ₹ 3,00,000
3. 10 months' salary based on average salary of last 10 months
(10x Salary of last 10 months/10 Months)

₹ 66,000

Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service)

Leave Due = Leave allowed – Leave taken

= (30 days per year × 20 years) – 480 days = 120 days

Leave due (in due)/ 30 days) × Average salary p.m
(120/30 × ₹ 66,000 / 10)

₹ 26,400

- 6.** Mr. A retires from service on December 31, 2023, after 25 years of service. Following are the particulars of his income/investments for the previous year 2023-24:

Particulars	₹
Basic pay @ ₹ 16,000 per month for 9 months	1,44,000
Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months	72,000
Lumpsum payment received from the Unrecognized Provident Fund	6,00,000
Deposits in the PPF account	40,000

Out of the amount received from the unrecognized provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2024-25? (Assume that the employee has not opted for Section 115BAC)

Solution

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2024-25 is computed hereunder:

Particulars	₹
Amount taxable under the head "Salaries":	

Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
Total	2,70,000
Amount taxable under the head "Income from Other Sources" :	
Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	3,30,000

Note: Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income

7. Will your answer be any different if the fund mentioned above was a recognized provident fund?

Solution

Since the fund is a recognized one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

8. Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. **2023-24**. You are required to compute his gross salary from the details given below:

Basic Salary	₹ 10,000 p.m.
D.A. (50% is for retirement benefits)	₹ 8,000 p.m.
Commission as a percentage of turnover	0.1% ₹ 50,00,000
Turnover during the year	
Bonus	₹ 40,000
Gratuity	₹ 25,000
His own contribution in the RPF	₹ 20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	₹ 13,000

Solution

Computation of Gross Salary of Mr. B for the A.Y. **2024-25**

Particulars	₹	₹
Basic Salary [₹ 10,000 × 12]		1,20,000

Dearness Allowance [$\text{₹ } 8,000 \times 12$]		96,000
Commission on turnover [$0.1\% \times \text{₹ } 50,00,000$]		5,000
Bonus		40,000
Gratuity [Note 1]		25,000
Employee's contribution to RPF [Note 2]		-
Employers contribution to RPF [20% of $\text{₹ } 1,20,000$]	24,000	
Less: Exempt [Note 3]	20,760	3,240
Interest accrued in the RPF @ 13% p.a.	13,000	3,500
Less: Exempt @ 9.5% p.a.	9,500	
Gross Salary		2,92,740

Note 1: Gratuity received during service is fully taxable.

Note 2: Employee's contribution to RPF is not taxable. It is eligible for deduction under section 80C.

Note 3: Employers contribution in the RPF is exempt up to 12% of the salary.

i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [$\text{₹ } 1,20,000 + (50\% \times \text{₹ } 96,000) + \text{₹ } 5,000$] = 12% of $\text{₹ } 1,73,000 = \text{₹ } 20,760$

8A. Mr. D went on a holiday on 25.12.2022 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 2 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt. (Assume that the employee has not opted for Section 115BAC)

Solution

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.

9. In the above question, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

Solution

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children.

Taxable

$$\text{LTC} = 15,000 \times 1/3 = ₹ 5,000$$

LTC exempt is only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

10. Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. **2023-24:**

Medical premium paid for insuring health of Mr. G	₹ 7,000
Treatment of Mr. G by his family doctor	₹ 5,000
Treatment of Mrs. G in a Government hospital	₹ 25,000
Treatment of Mr. G's grandfather in a private clinic	₹ 12,000
Treatment of Mr. G's mother (68 years and dependent) by family doctor	₹ 8,000
Treatment of Mr. G's sister (dependent) in a nursing home	₹ 3,000
Treatment of Mr. G's brother (independent)	₹ 6,000
Treatment of Mr. G's father (75 years and dependent) abroad	₹ 50,000
Expenses of staying abroad of the patient and	₹ 30,000
Limit specified by RBI	₹ 75,000

Solution

Computation of taxable value of perquisite in the hands of Mr. G

Particulars	₹	₹
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less: Exempt up to limit specified by RBI	75,000	5,000
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor		5,000
Treatment of Mr. G's mother (dependent) by family doctor		8,000
Treatment of Mr. G's sister (dependent) in a nursing home		3,000
Treatment of Mr. G's grandfather in a private clinic		12,000
Treatment of Mr. G's brother (independent)		6,000
Taxable value of perquisite		39,000

Note: Grandfather and independent brother are not included within the meaning of family of Mr. G.

- 11.** Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation in Mumbai. He gives you the following particulars:

Basic salary	₹ 6,000 p.m.
Dearness Allowance	₹ 2,000 p.m. (30% is for retirement benefits)
Bonus	₹ 1,500 p.m.

Even though the company allotted the house to him on 1.4.2023, he occupied the same only from 1.11.2023. Calculate the taxable value of the perquisite for A.Y. 2024-25.

Solution

Value of the rent free unfurnished accommodation

= 10% of salary for the relevant period

= 10% of [(₹ 6000 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] [See Note below]

= 10% of ₹ 40,500 = ₹ 4,050.

Note: Since, Mr. C occupies the house only from 1.11.2023, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2023 to 31.03.2024) will be considered.

- 12.** Using the data given in the previous question, compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

Solution

First of all, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in cities having a population exceeding 40 lakh, there would be deemed to be a concession in the matter of rent if 10% of salary exceeds rent recoverable from the employee.

In this case, 10% of salary would be ₹ 4,050 (i.e. 10% of ₹ 40,500). The rent paid by the employee is ₹ 5,000 (i.e., ₹ 1,000 × 5). Recovery is more than benefit so perquisite is not taxable.

- 13.** Using the data given in Question 12, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,200 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

Solution

Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation taken on lease by the employer, there would be deemed to be a concession in the matter of rent if the rent paid by the employer or 10% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 10% of salary is ₹ 4,050 (i.e. 10% of ₹ 40,500). Rent paid by the employer is ₹

6,000 (i.e. ₹ 1,200 x 5). The lower of the two is ₹ 4050 which is less than the rent paid by the employee i.e. ₹ 5,000 (₹ 1,000 x 5). So not taxable.

- 14.** Using the data given in **Question 12**, compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2024. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.

Solution

Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in a city having a population exceeding ₹ 40 lakh, there would be deemed to be a concession in the matter of rent if 10% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether there is a concession in the matter of rent.

In this case, 10% of salary is ₹ 4050 (i.e. 10% of ₹ 40,500). The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 x 5). The value of furniture of ₹ 4,625 (see Note below) is to be added to 10% of salary. The deemed concession in the matter of rent is ₹ 4,050 + ₹ 4,625 - ₹ 5,000 = ₹ 3,675. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation (computed earlier)	= ₹ 4050
Add: Value of furniture provided by the employer [Note]	= ₹ 4,625
Value of rent-free furnished accommodation	= ₹ 8675
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Value of furnished accommodation given at concessional rent	= ₹ 3675

Note: Value of the furniture provided = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625

- 15.** Using the data given in above question, compute the value of the perquisite if Mr. C is a government employee. The license fees determined by the Government for this accommodation was ₹ 700 p.m.

Solution

In the case of Government employees, the excess of license fees determined by the employer as increased by the value of furniture and fixture over and above the rent recovered/ recoverable from the employee and the charges paid or payable for furniture by the employee would be deemed to be the concession in the matter of rent. Therefore, the deemed concession in the matter of rent is ₹ 3,125 [i.e. ₹ 3,500 (license fees: ₹ 700 x 5) + ₹ 4,625 (Value of furniture) – ₹ 5,000 (₹ 1,000 × 5)]. Once there is a deemed concession, the provisions of Rule 3(1) would be

applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation ($\text{₹ } 700 \times 5$)	= ₹ 3,500
Add: Value of furniture provided by the employer (computed earlier)	= ₹ 4,625
Value of rent-free furnished accommodation	= ₹ 8,125
Less: Rent paid by the employee ($\text{₹ } 1,000 \times 5$)	= ₹ 5,000
Perquisite value of furnished accommodation given at concessional rent	= ₹ 3,125

16. Mr. X and Mr. Y are working for M/s. Gama Ltd. As per salary fixation norms, the following perquisites were offered:

(i) For Mr. X, who engaged a domestic servant for ₹ 500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. ₹ 500 per month.

(ii) For Mr. Y, he was provided with a domestic servant @ ₹ 500 per month as part of remuneration package.

You are required to comment on the taxability of the above in the hands of Mr. X and Mr. Y, who are not specified employees.

Solution

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

17. Mr. X retired from the services of M/s Y Ltd. on 31.01.2024, after completing service of 30 years and one month. He had joined the company on 1.1.1994 at the age of 30 years and received the following on his retirement:

- (i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- (iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2021 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.

- (v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

- (i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2023 to 31.01.2024.
- (ii) Received pension of ₹ 5,000 per month for the period 01.02.2024 to 31.03.2024 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2024-25.

Solution

Computation of Gross Total Income of Mr. X for A.Y. 2024-25.

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (₹ 5000 x 2)	10,000
Commuted pension (See Note - 5)	1,50,000
Less- Standard Deduction	(50,000)
Taxable Salary /Gross Total Income	6,82,769

Notes:

As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 6,000 is liable to tax as perquisite.

Note - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001. Gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 1,000 and gross taxable income would be ₹ 7,27,769.

- (i) Perquisite value of transfer of car: As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which

such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (30.1.2021)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2022	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2023	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2024	2,56,000
Less: Amount recovered	2,00,000
Value of perquisite	56,000

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. X.

(2) **Taxable gratuity**

Particulars	₹
Gratuity received	6,00,000
Less : Exempt under section 10(10) - Least of the following:	
(i) Notified limit = ₹ 20,00,000	
(ii) Actual gratuity = ₹ 6,00,000	
(iii) $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$	
$15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$	
	5,19,231
Taxable Gratuity	80,769

Note: As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption under section 10(10).

(3) **Taxable leave encashment**

Particulars	₹
Leave Salary received	3,30,000
Less: Exempt under section 10(10AA) - Least of the following:	

(i)	Notified limit	₹	25,00,000	
(ii)	Actual leave salary	₹	3,30,000	
(iii)	10 months x ₹ 20,000	₹	2,00,000	
(iv)	Cash equivalent of leave to his credit	₹	2,20,000	
	(330/30) x 20,000			
				2,00,000
Taxable Leave encashment				1,30,000

(4) **Commuted Pension**

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	₹
Amount received	3,00,000
Exemption under section 10(10A) = $\frac{1}{3} \times (3,00,000 \times \frac{3}{2})$	
	1,50,000
Taxable amount	1,50,000

The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

18. Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2023-24:

- i. Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).

In case the company has employed the domestic servant, what is the value of perquisite?

- ii. Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- iii. The employer has provided movable assets such as television, refrigerator and air- conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.

- iv. A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- v. Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- vi. Housing loan @ 6% per annum. Amount outstanding on 1.4.2023 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2024-25.

The lending rate of State Bank of India as on 1.4.2023 for housing loan may be taken as 10%.

Solution

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

- (i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.

- (ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child

Arthy, since the cost does not exceed ₹ 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

- (iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.

The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 1,10,000.

- (iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

Note- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001. Gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000.

- (v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.
- (vi) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2023	5,88,000	1,960
May, 2023	5,76,000	1,920
June, 2023	5,64,000	1,880
July, 2023	5,52,000	1,840
August, 2023	5,40,000	1,800
September, 2023	5,28,000	1,760
October, 2023	5,16,000	1,720
November, 2023	5,04,000	1,680
December, 2023	4,92,000	1,640

January, 2024	4,80,000	1,600
February, 2024	4,68,000	1,560
March, 2024	4,56,000	1,520
Total value of this perquisite		20,880

Total value of taxable perquisite

= ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

Note - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be ₹ 57,280 [i.e., ₹ 18,000 + ₹ 2,400 + ₹ 11,000 + ₹ 5,000 + ₹ 20,880].

19. AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2023. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

(i) What is the perquisite value of sweat equity shares allotted to Sri Chand?

(ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?

Solution

(i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	₹
Fair market value of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ ₹ 200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	1,00,000

(ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). (The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter)

(iii) Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

20. X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2023-24 –

(1) Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.

(2) Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.

(3) A Car of 1200 c.c which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.

(4) A gift voucher of ₹ 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the A.Y. 2024-25, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Solution

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y. 2024-25

	Particulars	Amount in ₹		
1	Value of concessional accommodation			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 10% of ₹ 10,00,000 Lower of the above	1,00,000	1,00,000	
	Less: Rent paid by Mr. Y (₹ 5,000 × 12)		60,000	
			40,000	
2	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)		36,000	76,000
	Perquisite value of car owned by X Ltd. and provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]			32,400
3	Value of gift voucher			10,000
	Value of perquisites chargeable to tax			1,18,400

Mr. **Goyal** receives the following emoluments during the previous year ending 31.03.2024.

Basic pay	₹ 4,00,000
Dearness Allowance	₹ 1,50,000
Commission	₹ 1,00,000
Entertainment allowance	₹ 40,000
Medical expenses reimbursed	₹ 25,000
Professional tax paid	₹ 2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2024-25, if Mr. Goyal is a State Government employee.

SOLUTION

Computation of salary of Mr. Goyal for the A.Y.2024-25 under default tax regime under section 115BAC

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-

Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions under section 16(ia) - Standard deduction of upto ₹ 50,000	50,000
Income from Salary	6,66,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime under section 115BAC.

Computation of salary of Mr. Goyal for the A.Y.2024-25 under the optional tax regime (normal provisions of the Act)

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		7,16,000
Less: Deductions under section 16		
under section 16(ia) - Standard deduction of upto ₹ 50,000		50,000
under section 16(ii) - Entertainment allowance being lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [$1/5 \times ₹ 4,00,000$]	80,000	
(c) Statutory amount	5,000	5,000
under section 16(iii) - Professional tax paid		2,000
Income from Salary		6,59,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Multiple Choice Questions (MCQs)

1. Conveyance Allowance is exempt to the extent of per month?

- a) INR 800
- b) INR 1600
- c) Nil
- d) None of the above

Answer: (c)

2. Uncommuted pension is always taxable irrespective of whether the assessee is a Private Sector or

a Public-Sector employee?

- a) Yes
- b) Yes, like commuted pension
- c) It depends on whether the person is in receipt of gratuity
- d) false

Answer: (a)

EP-TL&P Income under the head Salary

134

3. For the purposes of taxability of Commuted Pension, this is independent of whether you have received gratuity or not as these are anyways taxed separately?

- (a) Incorrect, it depends on whether you are a government employee or not
- (b) Incorrect, it depends on whether you are in receipt of gratuity
- (c) Both a & b
- (d) none of the above

Answer: (c)

4. No. of days in a month for purposes of computing taxable gratuity in case the employee is covered

under the Payment of gratuity Act, 1972, are?

- a) 26
- b) 25
- c) 30
- d) 31

Answer: (a)

5. allowance deduction is allowed only to Government employees.

- a) Entertainment
- b) House Rent
- c) Travel
- d) None of these

Answer: (a)

6. Arrears of salary are taxable in the year of

- a) payment
- b) Receipt
- c) Accrual
- d) None of the above

Answer: (b)

7. Telephone provided at the residence of an employee by employer is perquisite.

- a) Non-taxable
- b) Taxable
- c) Exempt
- d) None of the above

Answer: (a)

8. An employer has paid medical insurance premium of Rs. 12,000 in respect of a salaried employee drawing annual salary of Rs. 6 lakhs. The amount of perquisite charged in the hands of employee towards medical insurance premium is:

- (a) Nil
- (b) Rs. 6,000
- (c) Rs. 12,000
- (d) None of the above

Answer: (a)

Descriptive Questions:

1. Illustrate with examples the difference between Allowances and Perquisites while computing Income under the head Salary.
2. Employer and Employee relationship is the pre-requisite between payer and payee for the income to be chargeable under the head Salary. Explain with reason.

Practical Questions

1. Mr. Ram resides in Chennai and gets Rs. 10,000 per month as basic salary Rs. 8,000 per month as DA (entering service benefits), Rs.12,000 per month as HRA. He pays Rs. 10,000 per month as rent.

Calculate taxable HRA.

Answer: Rs. 98,400

2. The Following are the particulars of Mr. Priyan who is employed in Chennai.

- i. Basic Salary Rs.4000 p.m
- ii. DA (60% of Basic Salary)
- iii. CCA Rs.250 p.m
- iv. House Rent Allowance Rs.450 p.m (Rent paid Rs.500 p.m)
- v. During the year he paid professional tax Rs.550
- vi. Education allowances Rs.150 p.m (Per Child)

Calculate Salary Income.

Answer: Rs. 35,250

CHAPTER 5 HOUSE PROPERTY

Illustration 1:

State the head of income in the following cases under which the receipt is to be assessed and comment.

- Atin uses his property for his own business. Can he claim depreciation?
- Ashni lets out his property to Preeti. Preeti sublets it. How is sub-letting to be assessed in the hands of Preeti?
- Sachin has built a house on a leasehold land. He has let out the property and claims the rent as income from house property and deducted expenses on repairs, security charges, insurance and collection charges totalling to 40% of receipts.

Solution:

The taxability of income under various heads is as under-

- Yes, even if property is used for assessee's own business depreciation is allowed u/s 32 of Income-tax Act, 1961.
- Income from sub-letting is taxable under the head income from other sources.
- Even if property is built on a leasehold land, the assessee will be regarded as owner of such house property and rental income will be taxed under Income from house property. However, standard deduction of 30% of net annual value is allowed while computing income from house property. Hence, he will not be entitled deduction on repairs, security charges, insurance and collection charges totalling to 40% of receipts.

Illustration 2:

Mr. X is the owner of four houses, which are all let out and are covered by the Rent Control Act. From the following particulars find out the gross annual value in each case, giving reasons for your answer:

Particulars	House I	House II	House III
Municipal Value	30,000	20,000	35,000
Actual (<i>De facto</i>) Rent	32,000	28,000	30,000
Fair Rent	36,000	24,000	32,000

Solution:

Gross Annual Value (GAV): Higher of Expected or Actual Rent Expected Rent: Higher of Municipal Valuation or Fair Rent

House I: Rs. 36,000 House II: Rs. 24,000

House III: Rs. 35,000

Actual Rent (given) GAV: House I: Rs. 36,000

House II: Rs. 28,000 House III: Rs. 35,000

Illustration 3:

Mr. x is the owner of three houses, which are all let out and not governed by the Rent Control Act. From the following particulars find out the gross annual value in each case:

Particulars	House I	House II	House III	House IV
Municipal Value	30,000	26,000	35,000	30,000

Actual (<i>De Facto</i>) Rent	40,000	30,000	32,000	32,000
Fair Rent	36,000	28,000	30,000	36,000
Standard Rent	30,000	35,000	36,000	40,000

Solution:

As all the houses are covered by the Rent Control Act, their gross annual value will be higher of Expected Rent or Actual Rent. Expected Rent shall be higher of Municipal Value or Fair Rent but subject to Standard Rent:

Particulars	House I	House II	House III	House IV
Expected Rent	30,000	28,000	35,000	36,000
Actual (<i>De Facto</i>) Rent	40,000	30,000	32,000	32,000
Gross Annual Value (GAV)	40,000	30,000	35,000	36,000

- Annual letting value of self occupied property, subject to Rent Control Act is to be fixed on basis of standard rent and not on basis of open market *Tilak Raj v. CIT (1989) 45 Taxman 279/178 ITR 327 (Punj. & Har.)*.
- In determining annual value salary paid to caretaker cannot be taken into account *CIT v. Smt. Sreelekha Banerjee (1989) 45 Taxman 358/179 ITR 46 (Cal.)*.
- Loss relating to self occupied house property could be set off against income from other sources *CIT v. K.K. Dhanda (HUF) (1989) 45 Taxman 346/178 ITR 602 (Punj. & Har.)*.

Illustration 4:

(i.e. No vacancy but there is unrealized rent)

Mr. A owns two houses. The expected rent of the house one is Rs. 65,000. This house was let out for Rs.7,500 per month but the rent for the months of February and March, 2023 could not be realized.

The expected rent of another house is Rs. 1,50,000. This house was let out for Rs.12,000 per month but there rent for the last three months could not be realized.

In the both cases, Mr. A fulfills the conditions of Rule 4. You are required to compute the Gross Annual Value of both the houses

Solution:

Particulars	House I	House II
Expected Rent	65,000	1,50,000
Annual Rent	90,000	144,000
Unrealized Rent	15,000	36,000

Computation of Gross Annual Value

Particulars	House I	House II
Step 1: Expected Rent	65,000	1,50,000
Step 2: Actual Rent (After deducting unrealized rent) if higher than Expected Rent then Actual rent otherwise Expected rent	75,000	N.A.

Step 3: Applicable only in case of vacancy	N.A.	N.A.
Gross Annual Value	75,000	1,50,000

Illustration 5:**(There is vacancy but no unrealized rent)**Find out the gross annual value in the case of the following properties for the Assessment year **2024-25**

Rs in thousand				
Particulars	P	Q	R	S
Expected Rent	70	55	85	125
Rent Per Month (if let out)	7	5	8	8
Let out period (in months)	11	0	9	10
Vacancy (in months)	1	12	3	2

Further all the rent were realized for the year by the assessee.

Solution:**Calculation of Gross Annual Value of Mr. X for A.Y **2024-25****

Rs in thousand				
Particulars	P	Q	R	S
Annual Rent (If let out for 12 months)	84	60	96	96
Loss due to vacancy	7	60	24	16
Unrealized rent	Nil	Nil	Nil	Nil
Actual Rent (for let out period)	77	Nil	72	80
Calculation of Gross Annual Value				
Step 1: Expected Rent	70	55	85	125
Step 2: If annual rent is more than Expected Rent then annual rent otherwise expected Rent	84	60	96	125
Step 3: If property remain vacant then decline due to vacancy shall be considered	(7)	(60)	(24)	(16)
Gross Annual Value	77	0	72	109

Illustration 6:**(Vacancy and unrealized rent both exist)**

Mr. X is the owner of a house property. He lets the property during the previous year **2022-23** for Rs. 7,000 p.m. The house was occupied from 1.4.2022 to 31.1.2023. From 1.2.2023, it remained vacant. Mr. X fails to realize Rs. 10,000 from the tenant. The Expected rent of the house is Rs. 82,000 p.a.

Calculate the Gross Annual Value of the house.

Solution:

<i>Particulars</i>	<i>Rs.</i>
Expected Rent	82,000
Annual Rent (Actual for the whole year - 7000 x 12)	84,000
Actual Rent (7,000 x 10)	70,000
Unrealized rent	10,000
Realized rent (70,000 - 10,000)	60,000
Loss Due to vacancy (7,000 x 2)	14,000
Decline due to vacancy (82,000 - 14,000) but not less than actual rent received	68,000

Calculation of Gross annual Income

Step 1: Expected Rent	82,000
Step 2: If actual rent is more than expected rent than actual rent otherwise expected rent	84,000
Step 3: Decline due to vacancy in Expected Rent (i.e. Expected Rent minus Loss due to vacancy but not less than actual rent received)	14,000
Gross Annual Value	68,000

Illustration 7:

Mr. R owns a house which uses for residential purposes throughout the previous year **2023-24**. Municipal Value: Rs. 2,40,000. Fair Rent: Rs. 3,00,000. Compute income from house property assuming following expenditure are incurred by him:

Municipal taxes paid: Rs. 15,000 Repairs: Rs.

12,000

Depreciation: Rs. 10,000

Interest on borrowed capital: Rs. 2,00,000 (loan taken on 1.1.2015). House was purchased on 1.5.2018.

Option 1: Assessee has not opted for Section 115BAC

Option 2: Assessee has opted for Section 115BAC

Solution:

Option 1 Assessee has not opted for Section 115BAC

<i>Particulars</i>	<i>Rs.</i>
Net Annual Value	Nil
<i>Less:</i> Interest on borrowed capital	2,00,000

(lower of actual interest or 2,00,000; as conditions are satisfied)	
Loss from House Property	(2,00,000)

Option 2 : Assessee has opted for Section 115BAC

<i>Particulars</i>	<i>Rs.</i>
Net Annual Value	Nil
Less: Interest on borrowed capital	NA
Income from House Property	Nil

Illustration 8:

Mr. R. owns a house. The Municipal value of the house is Rs. 50,000. He paid Rs. 8,000 as local taxes during the year. He uses this house for his residential purposes but lets out half of the house @ Rs. 3,000 p.m. Compute the annual value of the house.

Solution

<i>Particulars</i>	<i>Rs.</i>
Gross Annual rent or Municipal valuation (higher)	72,000
Less: Local taxes paid	8,000
Net Annual value of House Property	64,000
Less : Half of annual value regarding self occupied portion for the whole year	(32,000)
Net Annual Value of let out portion	32,000

Illustration 9:

M is the owner of a house. The municipal value of the house is Rs. 40,000. He paid Rs. 8,000 as local taxes during the year. He was using this house for his residential purposes but let out w.e.f. 1.1.2024 @ Rs. 4,000 p.m. Compute the annual value of the house.

Solution:

<i>Particulars</i>	<i>Amount (Rs.)</i>
Gross annual value : Actual rent or Expected Rent (whichever is higher)	48,000
Less: Local taxes	8,000
Net Annual value of the House	40,000

(a) Self-occupied House remaining vacant:**Illustration 10:**

X has a house which has two identical units. One of the units is self-occupied throughout the previous year and the other unit is let out throughout the previous year on a rent of Rs. 50,000 p.m. Municipal taxes for the complete house amounting to Rs. 60,000 have been paid during the previous year. The construction of the property was completed on 1.1.1995. Determine the income from house property for assessment year 2024-25, if X:

- Does not opt to be taxed under section 115BAC
- Opts to be taxed under section 115BAC

Solution:

Particulars	Unit I (Let out)		Unit II (Self-occupied)	
	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Gross Annual Value	6,00,000	6,00,000	Nil	Nil
Less: Municipal Taxes	30,000	30,000	—	—
Net Annual Value	5,70,000	5,70,000	Nil	Nil
Less: Statutory deduction @ 30%	1,71,000	1,71,000	Nil	Nil
	399,000	399,000	Nil	Nil

No deduction shall be made under the second proviso unless the assessee furnishes a certificate, from the person to whom any interest is payable on the capital borrowed, specifying the amount of interest payable by the assessee for the purpose of such acquisition or construction of the property, or, conversion of the whole or any part of the capital borrowed which remains to be repaid as a new loan.

Illustration 11:

The assessee took a loan of Rs. 6,00,000 on 1.4.2021 from a bank for construction of a house on a piece of land owned in Indore. The loan carries an interest @ 10% per annum. The construction is completed on 15.8.2023. The entire loan is still outstanding. Compute the interest allowable for the assessment year 2024-25.

Solutions

Particulars	Amount (Rs.)
(i) Interest for the previous year 2023-24 on 6,00,000 @ 10%	60,000
(ii) Interest for the pre-construction period i.e. from 1.4.2021 to 31.3.2023 (1/5th of 1, 20,000)	24,000
Total interest allowable	84,000

Note: Although the property is completed on 15.8.2023, the interest for the entire previous year i.e. 1.4.2023 to 31.3.2024 will be treated as current year's expenditure.

Illustration 12:

Nikhil has a property whose Municipal Valuation is INR 500,000 p.a. The Fair Rent of the property is INR 400,000 p.a. and the Standard Rent fixed by Rent Control Act is Rs. 4,50,000 p.a. The property was let out for a Rent of INR 35,000 pm and the tenant vacated the same on 31st Jan 2024. Unrealised Rent was INR 35,000 and the conditions are fulfilled with respect to the same. He paid municipal taxes worth INR 15,000 during the PY and the Interest on Loan was INR 60,000. Please exhibit the computation and advise the income from house property.

Solutions

Computation of GAV (Gross Annual Value)	INR	INR
ER (Expected Rent)		
Higher of:		
1) Fair Rent	4,00,000	

2) Municipal Value	5,00,000	
<i>Limited to Standard Rent</i>		4,50,000
AR (Actual Rent)	3,50,000	
<i>Less: Unrealised Rent</i>	(35,000)	
		3,15,000
GAV (as falls Vacant)		3,15,000
<i>Less: Municipal Taxes paid by the owner during the PY</i>		(15,000)
NAV (Net Annual Value)		3,00,000
<i>Less: Deductions u/s 24</i>		
30% NAV	90,000	
Interest on borrowed capital	60,000	
		(1,50,000)
Income from House Property		1,50,000

Computation of GAV	INR	INR
ER		
Higher of:		
1) Fair Rent	7,50,000	
2) Municipal Value	10,00,000	
<i>Limited to Standard Rent</i>		8,00,000

Illustration 13 :

Smt. Shanti Devi has a house property in Kolkata. The Municipal Valuation for the same is INR 10,00,000. The Fair Rental for the property is INR 750,000. The Standard Rent per the Rent Control Act is INR 800,000. She let out the property until 30th November, 2023 for a monthly rent of Rs. 75,000 per month. Thereafter, the tenant vacated the property and she used the house for self-occupation. Rent for the months of Oct & November 2023 could not be realised despite all efforts, and all the conditions for unrealised rent were satisfied. She paid Municipal Taxes @ 12% during the year. She also paid Interest of INR 25,000 during the year for amount borrowed for repairs. Compute the Income from House Property for AY 2024-25.

Solution:

Annual Rent	6,00,000	
<i>Less: Unrealised Rent</i>	(1,50,000)	4,50,000
GAV (partly let out and partly self occupied)		8,00,000
<i>Less: Municipal Taxes paid by the owner during the PY</i>		1,20,000
NAV		6,80,000
<i>Less: Deductions u/s 24</i>		
30% NAV	2,04,000	
Interest on borrowed capital	25,000	(2,29,000)

Income from House Property		4,51,000
-----------------------------------	--	-----------------

1. Income from property used for one's own business or profession is also tax-exempted under section 22

Illustration 14:

Mrs. Ruchika has a house which has two identical units. One of the units is self-occupied throughout the previous year and the other unit is let out throughout the previous year on a rent of ₹ 50,000 p.m. Municipal taxes for the complete house amounting to ₹ 60,000 have been paid during the previous year. The construction of the property was completed on 1.1.1995.

Determine the income from house property for assessment year 2023-24, if Mrs. Ruchika:

- (a) Does not opt to be taxed under section 115BAC
(b) Opts to be taxed under section 115BAC

What if the self-occupied portion was let out for three months then what will be the income from house property?

Solution:

Particulars	Unit I (Let out)		Unit II (Self-occupied)	
	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Gross Annual Value	6,00,000	6,00,000	Nil	Nil
Less: Municipal Taxes	30,000	30,000	—	—
Net Annual Value	5,70,000	5,70,000	Nil	Nil
Less: Statutory deduction @ 30%	1,71,000	1,71,000	Nil	Nil
Income under the head House Property	399,000	399,000	Nil	Nil

In this case, the self-occupied property has been let out for part of the year and as such annual value shall not be nil it will be determined as if property is let

Particulars	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
	Unit I	Unit I	Unit II	Unit II
Gross Annual Value	6,00,000	6,00,000	6,00,000	6,00,000
Less: Municipal value	30,000	30,000	30,000	30,000
Net Annual Value	5,70,000	5,70,000	5,70,000	5,70,000
Less: Statutory deduction @ 30%	1,71,000	1,71,000	1,71,000	1,71,000
Income from house property	3,99,000	3,99,000	3,99,000	3,99,000

Illustration 15:

Two sisters, Seema and Rashmi, 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 2023-24, 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.

Solutions:

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: Deductions u/s 24		
30% NAV	3,09,000	
Interest on borrowed capital	2,85,714	
		(5,94,714)
Income from House Property		4,35,286
Share of each Co-owner		2,17,643
Loss from House Property (self occupied portions)		(30,000)
Income from House Property (each co-owner)		1,87,643

Notes:

- 1) Observe that the computation has been done for the 5 let out and 2 self-occupied portions separately and commensurately.
- 2) The Interest on Borrowed Capital for let out proportions is fully allowable as deduction without any cap.
- 3) The Annual Value for the Self Occupied Portion is NIL and the Interest on Borrowed Capital is restricted to INR 30,000 for each co-owner.

Illustration 16:

Mr. X is the owner of four houses. The following particulars are available:

Particulars	House 1	House 2	House 3	House 4
Municipal valuation	16,000	20,000	24,000	5,600
Rent (Actual)	—	14,000	20,000	6,800
Municipal taxes	400	1,000	1,200	300
Repairs and collection charges	200	2,500	1,040	460
Interest on mortgage	—	—	—	1,000
Ground rent	—	100	—	60
Fire premium	140	—	200	—
Annual charges	—	—	360	—

House No. 1 is self-occupied.

House No. 2 is let out for business; construction was completed on 1.3.91 and consists of two residential units. House No. 3 is 3/4 used for own business 1/4 let out to the manager of the business.

House No. 4 is let out for residential purposes.

His other income is Rs. 30,000. Find out the income of X from house property for the assessment year 2024-25. Assuming he has not opted for section 115BAC of the Income Tax Act, 1961.

Solution:

House No. 1

Rs.

Municipal valuation	16,000
Annual Value deemed	NIL

House No. 2

Rs.

Fair rental value	20,000
Less: Municipal taxes	1,000
Net Annual Value	19,000
Less: 30% of Net Annual Value	(5,700)
	13,300

House No. 3

Since the house is used for own business, the income from this house is not taxable under the head 'Income from house property' but will be assessed under 'Profit and gains of business or profession'. 1/4 of the house occupied by the Manager is presumed to be incidental to the business and hence not assessable under the head 'Income from house property'.

House No. 4

Rs.

Rent Received	6,800
Less: Municipal taxes	300
Net annual Value	6,500
Less: 30% of Net Annual Value	(1,950)
	4,550

Income from House Property: Rs. NIL + Rs. 13,300 + Rs. 4,550 = Rs. 17,850. It is presumed that House No. 4 has not been mortgaged for purposes of acquiring or repairs on the house property.

Illustration 17:

Mr. Lal is the owner of a house property. Its municipal valuation is Rs. 80,000. It has been let out for Rs. 1,20,000 p.a. The local taxes payable by the owner amount to Rs. 16,000 but as per agreement between the tenant and the landlord, the tenant has paid the amount direct to the municipality. The landlord, however, bears the following expenses on tenant's amenities:

Particulars	(Rs.)
Extension of water connection	3,000

Water charges	1,500
Lift maintenance	1,500
Salary of gardener	1,800
Lighting of stairs	1,200
Maintenance of swimming pool	750

The landlord claims the following deductions:

Repairs and Collection charges	7,500
Land revenue paid	1,500

Compute the taxable income from the house property for the assessment year 2024-25.

Solution:

Computation of income from house property for the Assessment Year 2024-25

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Gross annual value: to be higher of the following:		
Municipal valuation or	80,000	
<i>De facto</i> rent (1,20,000 less value of amenities)	1,20,000	
Rent Received		1,20,000
<i>Less:</i> Value of the amenities provided by the assessee:		
(i) Extension of water connection not deductible as it is capital expenditure		—
(ii) water charges	(1500)	
(iii) Lift maintenance	(1500)	
(iv) Salary of gardener	(1,800)	
(v) Lighting of stairs	(1,200)	
(vi) Maintenance of swimming pool	(750)	
		(6,750)
Gross Annual Value		1,13,250
<i>Less:</i> Local tax Rs.16,000: No deduction is permissible as the taxes have been paid by the tenant		-
<i>Less:</i> Standard deduction from Net Annual Value: 30% of Net Annual Value		(33,975)
Income from House Property		79,275

Illustration 18:

For the assessment year 2024-25, Sonu submits the following information:

Income from business (speculative)	40,000	
Property Income	House I	House II
	Rs.	Rs.
Municipal valuation	35,000	80,000
Rent received	38,000	68,000
Municipal taxes paid by tenant	3,000	4,000
Repairs paid by tenant	500	18,000
Land revenue paid	2,000	16,000
Insurance premium paid	500	2,000
Interest on borrowed capital for payment of municipal tax of house property	200	400
Nature of occupation	Let out for Residence	Let out for Business
Date of completion of construction	1.4.1996	1.7.1994

Determine the taxable income of Sonu for the assessment year 2024-25.

Solution:

Computation of Taxable Income of Sonu for Assessment year 2024-25

House I	Rs.
Gross Annual Value	38000
Less: Municipal Taxes - not deductible since paid by tenant	NIL
Net Annual Value	38000
Less: 30% of Net Annual Value Taxable Income	(11,400)
Total	26,600
House II	
Gross Annual Value	80000
Less: Taxes - not deductible, paid by tenant	NIL
Net Annual Value	80,000
Less: 30% of Net Annual Value Taxable Income	(24,000)
Total	56,000

Total Income = Rs. 26,600 + Rs. 56,000 + Rs. 40,000 (income from speculative business) = Rs. 1,22,600.

Note: Interest on borrowed capital for payment of municipal tax is not allowed as deduction under Section 24 of the Act

Illustration 19:

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 01.10.2022 and the house remained self-occupied throughout the previous year 2023-24. 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 2024-25 .

Option 1: Assessee has not opted for Section 115BAC

Option 2: Assessee has opted for Section 115BAC

Solution: 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)
Total income	3,50,000

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 01.04.2023 to 31.03.2024	
5,00,000 x 10% =	50,000
Prior period interest from 01.10.2021 to 31.03.2023	
5,00,000 x 10% x 258/12 =	10,75,000
Installment = 10,75,000 /5 =	215000
Total Interest = Rs. 50,000 + Rs.215000 =265000 Subject to maximum Rs. 30,000	

Solution: Option 2 Assessee has opted for Section 115BAC

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

Computation of Tax Liability

tax on rs. 4,00,000 at slab rate	5,000
less: rebate u/s 87A	(5,000)
tax liability	Nil

Illustration:

Mr. Rohit has a house property in Delhi whose particulars are as under:

Particulars	Rs.
Municipal value	4,00,000
Standard rent	4,50,000
Municipal taxes paid	50,000
Interest on Money borrowed for acquiring the house	1,60,000

Period of occupation for own residence Actual rent for 10 months

Compute the income from house property assuming he pay tax under Section 115BAC of the Income tax Act, 1961.

Solution:**Computation of income from House Property****Gross annual value shall be higher of following two**

(a) Expected rent (Municipal value Rs. 4,00,000 or FRV Rs. 5,40,000 whichever is higher i.e., Rs. 5,40,000 but restricted to standard rent i.e., Rs. 4,50,000)	4,50,000
(b) Actual rent received or receivable (45,000 x 10)	4,50,000
Less: Municipal taxes paid	(50,000)
Net Annual Value	4,00,000
Less: Deduction u/s 24	
(a) Statutory deduction @ 30%	(1,20,000)
(b) Interest on money borrowed for acquisition houses	(1,60,000)
Income from House Property	1,20,000

Illustration 15:

Prakash owns a house property in Delhi which is let out for Rs. 15,000 p.m. The municipal value of which is Rs. 2,00,000 and municipal taxes were 20% of municipal valuation. He paid during the previous year municipal tax of 6 year which relate to past 5 years as well as for the current year. The other expenses of the property were as under

	Rs.
Repair	8,000
Insurance premium	4,000
Interest for purchase of house	25,000
Ground rent due	4,000

Compute income of Prakash from house property assuming he has opted for section 115BAC of the Income tax Act, 1961.

Solution:	
Gross Annual value higher of the following two	Rs.
(a) Expected rent	2,00,000
(b) Actual rent received or receivable	1,80,000
Therefore, Gross Annual Value	2,00,000
Less Municipal taxes paid	(2,40,000)
Net annual value	(40,000)
Less Deduction u/s 24	
(a) Statutory deduction @ 30%	Nil
(b) Interest	(25,000)
Income from House Property	(65,000)

Illustration 19:**(There is vacancy but no unrealized rent)**Find out the gross annual value in the case of the following properties for the Assessment year **2024-25**

	P	Q	R	S
Expected Rent (Rs. In ' 000)	70	55	85	125
Rent Per Month (if let out)	7	5	8	8
Let out period (in months)	11	0	9	10
Vacancy (in months)	1	12	3	2

Further all the rent were realized for the year by the assessee.

Solution:**Calculation of Gross Annual Value of Mr. X for A.Y **2024-25****

	P	Q	R	S
Annual Rent (If let out for 12 months)	84	60	96	96
Loss due to vacancy	7	60	24	16
Unrealized rent	Nil	Nil	Nil	Nil
Actual Rent (for let out period)	77	Nil	72	88
Calculation of Gross Annual Value				
Step 1: Expected Rent	70	55	85	125
Step 2: If actual rent is more than Expected				
Rent than Actual rent otherwise expected Rent	77	N.A.	N.A.	N.A.
Step 3: If property remain vacant then decline due to vacancy shall be considered	77	0	72	109
Gross annual value	77	0	72	109

Illustration 22

Mr A owns a house property. It is used by him throughout the previous year 2023-24 for his (and his familymembers) residence. Municipal value of the property is Rs. 1,66,000, whereas fair rent is Rs. 1,76,000 and standard rent is Rs. 1,50,000. The following expenses incurred by Mr A -repairs Rs. 20,000, municipal tax: Rs. 16,000, insurance Rs : 2,000, interest on capital borrowed to construct the property: Rs. 1,66,000; interest on capital borrowed by mortgaging the property for daughter's marriage: Rs. 20,000 (in either case capital is borrowed before April 1, 1999). Income of Mr A from business is Rs. 7,10,000. Find out the net income of Mr A for the assessment year 2024-25.

Solution:

Particulars	Rs.
Gross annual value	Nil
Less: Municipal tax	Nil
Net annual value	Nil
Less: Interest on borrowed capital (maximum Rs. 30,000)	-30,000
Property income	-30,000
Business income	7,10,000
Net income	6,80,000

Illustration 23

Find out the income from property chargeable to tax for the assessment year 2024-25 in the following cases-

Particulars	X Rs.	Y Rs.
Municipal value (MV)	1,20,000	1,20,000
Fair rent	1,30,000	1,30,000
Standard rent under the Rent Control Act (SR)	1,10,000	1,10,000
Actual rent if property is let out throughout the previous year	1,26,000	1,26,000
Unrealized rent of the previous year 2023-24	10,500	Nil
Period when the property remains vacant (in number of month)	(1)	(Nil)
Loss due to Vacancy	10,500	Nil
Municipal taxes-		
Tax for the year 2023-24	18,000	18,000
– Paid by X and Y during 2023-24	17,000	8,000
– Paid by X and Y after March 31, 2024	1,000	1,000
– Paid by Tenants during 2023-24	-	9,000

Solution: Computation of income under the head “Income from house property”

Particulars	X Rs.	Y Rs.
Gross annual value		
Step I – Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	1,10,000	1,10,000

Step II – Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	1,15,500	1,26,000
Step III – Amount computed in Step I or Step II, whichever is higher	1,15,500	1,26,000
Step IV – Loss due to vacancy	10,500	Nil
Step V – Gross annual value in Step III minus step IV	1,05,000	1,26,000
Less : Municipal tax paid by X or Y during the previous year 2023-24	17,000	8,000
Net annual value	88,000	1,18,000
Less : Standard deduction under section 24(a) [30% of net annual value]	26,400	35,400
Income from house property	61,600	82,600

Illustration 24

X, Y, Z, A and B separately own the following properties-

(Rs. in thousand)

Particulars	H1 X	H2 Y	H3 Z	H4 A	H5 B
Municipal Value(MV)	105	105	105	105	105
Fair rent(FR)	107	107	107	107	107
Standard rent under the Rent Control Act (SR)	NA	88	88	135	135
Actual rent	103	112	86	114	97
Unrealized rent (conditions are satisfied)	1	2	1	2	1
Period of the previous year(in months)	12	12	12	12	12
Period during which the property remains vacant	Nil	Nil	Nil	Nil	Nil

Find out the Gross annual value for the assessment year 2024-25.

Solution: In this case gross annual value shall be determined as follows-

(Rs. in thousand)

Particulars	X	Y	Z	A	B
Computation of gross annual value					
Step I- Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	107	88	88	107	107
Step II- Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	102	110	85	112	96
Step III- Amount computed in Step I or Step II, whichever is higher	107	110	88	112	107
Step IV- Loss due to Vacancy	Nil	Nil	Nil	Nil	Nil
Step V- Gross annual value is Step III minus Step IV	107	110	88	112	107

Multiple Choice Questions (MCQs)

1. The Gross Annual Value is the higher of Actual Rent and?

- (a) Municipal Valuation
- (b) Fair Rental Value
- (c) Standard Rent
- (d) Expected Rent

Answer: d

2. Expected Rent is always the higher of Fair Rental Value and Municipal Valuation?

- (a) True
- (b) True but limited to Standard Rent
- (c) True but limited to INR 250,000
- (d) False

Answer: b

3. Standard Rent is the rent fetched by a similar property in the neighbourhood?

- (a) Yes
- (b) Yes, but not limited to neighbour hood
- (c) Yes, but with a Cap
- (d) No

Answer: d

4. If the assessee has more than two house that is self-occupied, the choice of the houses that should be

construed as self-occupied for the others to be considered as deemed to be let out lies with?

- (a) Assessing Officer
- (b) Assessee
- (c) Either
- (d) Neither

Answer: b

5. Section 24 (a) prescribes the standard deduction from NAV of a sum equal to?

- (a) 33% of NAV
- (b) 30% of NAV
- (c) 1/3rd of NAV
- (d) Actual cost of repairs

Answer: b

CHAPTER 6 PGPB

Illustration 1:

X Ltd. has a block of assets (P&M), carrying 15% depreciation, WDV on 1st Apr 2023 is INR 75,00,000. It purchased subsequently on 1st Dec. 2023, another machinery for INR 25,00,000 and put to use on the same day. X Ltd. was amalgamated with Y Ltd. effective 1st Feb. 2024.

Solution:

Compute the depreciation allowable for X Ltd. and Y Ltd. for the AY 2024-25.

Block	Days	Allowable	Depreciation
75,00,000	365	Full	11,25,000
25,00,000	121	Half	1,87,500
Total Depreciation			13,12,500
Predecessor	306	On the Opening P&M	9,43,151
Successor	59		1,81,849
Predecessor	62	On the Acquired P&M	96,074
Successor	59		91,426

Notes:

- (1) The depreciation for the asset in existence and used for the whole year is proportionately divided on the basis of the number of days used by the predecessor until amalgamation date and the successor post amalgamation date.
- (2) The depreciation for the asset acquired during the year and used for the remaining part of the year is proportionately divided on the basis of the number of days used by the predecessor until amalgamation date and the successor post amalgamation date, beginning the date of acquisition.

Note: As per the CBDT circular, irrespective of the accounting treatment, the Lessor shall be entitled to claim depreciation on leased assets, whether the lease is an operating lease or a financial lease.

Illustration 2:

M Ltd. owns the following assets on 1.4.2023:

Assets	WDV as on 1.4.2023 (₹)	Rates of Depreciation (%)
Building A	10,20,000	10
Building B	5,40,000	10

Building C	6,35,000	10
Machinery C	1,65,000	30
Machinery D	4,000	30
Machinery E	50,000	30
Furniture A	1,10,000	10
Furniture B	8,000	10

The following assets are acquired by the company during the previous year 2023-24:

Asset	Actual Cost	Rate of Depreciation (%)	Date of acquisition
Building D	5,40,000	10	14.5.2023
Machinery F	16,000	30	21.9.2023
Patents	40,000	25	15.4.2023
Technical Know-how	60,000	25	17.5.2023

The following assets are sold by the company during the previous year 2023-24:

Asset	Sale consideration (₹)	Date of Sale
Machinery C	1,10,000	2.9.2023
Machinery E	80,000	28.3.2023

Determine the depreciation for the assessment year 2024-25.

Solution:

Particulars	WDV as on 1.4.2023 (₹)	Additions during the year (₹)	Assets sold during the year (₹)	WDV as on 31.3.2024 (₹)	Depreciation (₹)
Block 1 Building 10%	21,95,000	5,40,000	—	27,35,000	2,73,500
Block 2 Machinery 30%	2,19,000	16,000	1,90,000	45,000	13,500
Block 3 Furniture & Fixtures	1,18,000	—	—	1,18,000	11,800
Block 4 Intangible assets	Nil	1,00,000	—	1,00,000	25,000
Total					323800

Illustration 3:

W.D.V. of the block having two machines namely A & B as on 1.4.2023 is ₹ 6,00,000. Machine C was acquired on 12.11.2023 for ₹ 3,00,000 and put to use on the same date. Machine C is sold on 31.3.2024 for ₹ 4,00,000.

- Compute the depreciation allowable for the assessment year 2024-25.
- What will be the amount of depreciation allowed, if machine 'A' is sold instead of machine 'C'.
- What will be the amount of depreciation allowed if both 'A' and B machines are sold instead of machine C

Solution (a)

Particulars	(₹)
W.D.V. of the block as on 1.4.2023	6,00,000
Addition during the year of Machine C for less than 180 days	3,00,000
	9,00,000
Less: Sale price of machine C sold during the year	(4,00,000)
W.D.V. as on 31.3.2024 for the purpose of charging depreciation	5,00,000
Depreciation on ₹ 5,00,000 @ 15%	(75,000)
W.D.V. as on 1.4.2024	4,25,000

Full depreciation @ 15% has been charged, as the machine C which was put to use for less than 180 days during the year, ceases to exist on 31.3.2024 and as such depreciation shall not be charged at the rate of 50% of the normal rate. It would have been charged, if the machine other than C had been sold during the year.

(b)

Particulars	Amount	Amount
W.D.V. of the block as on 1.4.2023		6,00,000
Addition during the year of Machine C put to use for less than 180 days		3,00,000
		9,00,000
Less : Sale price of machine A sold during the year		4,00,000
		5,00,000
Depreciation @ 7.5% on ₹ 3,00,000	22,500	
@ 15% on balance ₹ 2,00,000	30,000	52,500
W.D.V. as on 1.4.2024		4,47,500

(c)

Particulars	Amount	Amount
W.D.V. of the block as on 1.4.2023		6,00,000
Addition during the year of Machine C put to use for less than 180 days		3,00,000
		9,00,000

Less : Sale price of machine A & B sold during the year		4,00,000
		5,00,000
Depreciation* @ 7.5% on ₹ 3,00,000	22,500	
@ 15% on balance ₹ 2,00,000	30,000	52,500
W.D.V. as on 1.4.2024		4,47,500

Although only one asset 'C' is left in the block whose cost is ₹ 3,00,000, still depreciation will be allowed on the balance amount of ₹ 2,00,000 @ 15% as the block has not ceased to exist.

Illustration 4

Ashwani borrowed a sum of ₹ 30,00,000 on 1.4.2021 @ 12% p.a. to construct the building for the purpose of other business. The construction of house property is completed on 30.6.2023 and put to use immediately. The loan is still outstanding. Cost of construction of building is ₹ 60 lakh. Calculate the actual cost of building which shall be eligible for depreciation.

Solution:

Particulars	Amount
Cost of construction	₹ 60,00,000
Add: Interest from 1.4.2021 to 30.6.2023 (₹ 30,00,000 x 12/100 x 27/12)	8,10,000
Total actual cost eligible for depreciation	68,10,000

Note: Interest payable after 30.6.2023 shall be allowed as revenue expenditure

Illustration 5:

An electricity company which was charging depreciation on straight line method and whose actual cost of the asset was ₹ 6,00,000 and written down value ₹ 5,50,000 sold the said asset during 2023-24 after 2 years. What will be the tax treatment if the asset is sold for:

- (i) ₹ 4,50,000 (ii) 5,80,000 (iii) ₹ 7,00,000

Solution

- (i) ₹ 4,50,000 - ₹ 5,50,000 = ₹ 1,00,000 will be allowed as terminal depreciation in the previous year 2023-24.

- (ii) ₹ 5,80,000 - ₹ 5,50,000 = ₹ 30,000 shall be balancing charge and taxable as business income as per section 41(2).

- (iii) ₹ 7,00,000 - 5,50,000 = ₹ 50,000 shall be balancing charge and hence taxable as business income

7,00,000 - 6,00,000 = ₹ 1,00,000 shall be short-term capital gain.

Illustration 7

Mr. Mohan, engaged in the business of generation of power, furnishes the following details for FY 2023-24. He has opted for WDV method, you are required to compute the allowable depreciation for FY 2023-24.

The Opening Block as on 1st Apr 2023 was INR 950,000 (15% block). He acquired second hand machinery for INR 250,000 on 30th Nov'23. He also acquired Power Generation Machinery on 1st Aug 2023 for INR 10,00,000. He invested in an AC for Office for INR 200,000 on 9th Sep'23 and a pollution control equipment

for INR 250000 on 30th **Jun'23**. He bought additional power generation machinery for INR 500,000 on 1st **Feb'24**. Also, he sold assets valued INR 400,000 for INR 350,000 during the year.

Calculation –

	INR	Block	Date		INR	Block	Date
Opening WDV	9,50,000	15%		Air Pollution Ctrl Equipment	2,50,000	40%	30th Jun 23
Acq. Second hand	2,50,000	15%	30th Nov'23				
Power Generation Machinery	10,00,000	15%	1st Aug 23				
AC for Office	2,00,000	15%	9th Sep				
Power Generation Machinery	5,00,000	15%	1st Feb 24				
Sale Value	3,50,000						
Depreciation							
On the ones put to use for < 180 day	18,750						
	37,500						
On the Remaining Block, which comes to INR 18,00,000	2,70,000			On the Pollution Control Equipment	1,00,000		
Depreciation allowable	3,26,250						
Addl Depreciation allowable on Power	2,00,000			Addl Depreciation allowable on the Poll Control Equipment @	50,000		

Generation Machinery @ 20							
Power Generation Machinery @ 20% which was used for < 180 days	50,000						
Total Depreciation Allowable	5,76,250			Total Depreciation Allowable	1,50,000		

Notes:

- The cells highlighted denote the ones which were put to use for < 180 days.
- Power generation equipment, pollution control equipment can enjoy additional depreciation.
- No depreciation is allowable on second hand machinery or office appliances like AC.

Illustration 8

Binod furnishes the following particulars for PY 2023-24. You are required to arrive at the deduction allowable u/s 35 for AY 2024-25, while computing the Income under the head "Profits / Gains from Business / Profession".

- Amount paid to M/s ABC Ltd., a company registered in India, which has as its main object, scientific research and development, as approved by the prescribed authority INR 600,000
- Amount Paid to IIT Mumbai, for an approved scientific research programme INR 375,000
- Revenue Expenditure on In-house R&D facility as approved by prescribed authority INR 450,000
- Capital Expenditure on In-house R&D facility as approved by prescribed authority INR 12,00,000. This includes cost of Land INR 450,000
- Amount paid to Indian Institute of Science, Bangalore, for Scientific Research INR 10,00,000

Assume – Assessee has opted for Section 115BAC

Solution

Expenditure	INR	Allowable Section	Deduction
Amount paid to M/s ABC Ltd., a company registered in India, which has as its main object, scientific research and development, as approved by the prescribed authority	6,00,000	100% 35(1)(ia)	6,00,000

Amount Paid to IIT Mumbai, for an approved scientific research programme	3,75,000	100 % 35(2AA)	3,75,000
Revenue Expenditure on In-house R&D facility as approved by prescribed authority	4,50,000	100% 35(1)(i)	4,50,000
Capital Expenditure on In-house R&D facility as approved by prescribed authority	7,50,000	100% 35(1)(iv)	7,50,000
Amount paid to Indian Institute of Science, Bangalore for Scientific Research	10,00,000	100 % 35(1)(ii)	10,00,000
Total	31,75,000		31,75,000

Illustration 8:

Kiara Ltd. constructed a building and started operating a hotel of 3 star category w.e.f. 1.4.2023. The company incurred the following expenditure in this connection.

1	Capital expenditure (including cost of land ₹ 70 lakhs) incurred during December, 2021 to March 2023 which were capitalized in the books of account 31.3.2023	₹ 1,30,00,000
2	Capital expenditure incurred during previous year 2023-24 (it includes ₹ 40 lakhs paid for Goodwill)	₹ 1,40,00,000

Compute the deduction available under section 35AD in the assessment year 2024-25.

Solution:

Particulars	Amount
Capital expenditure incurred before commencement but capitalized in books of account	1,30,00,000
Less: Cost of land not eligible for deduction under section 35 AD	(70,00,000)
	60,00,000
Capital expenditure incurred during previous year 2023-24 exclusive of value of goodwill	1,00,00,000
Deduction allowable under section 35AD	1,60,00,000

Illustration 9:

ABC Ltd commenced operations of the Business of a new Four-Star Hotel in Chennai on 01.04.2023. The Company incurred Capital Expenditure of ₹ 40 Lakhs during the period January, 2023 to March, 2023 exclusively for the above Business, and capitalised the same in its Books of Account as on April, 2023. Further, during the Previous Year 2023-2024, it incurred Capital Expenditure of ₹ 2.5 Crores (out of which ₹ 1 Crore was for Acquisition of Land) exclusively for the above Business.

Compute the Income under the heading Profits and Gains of Business or Profession for the Assessment Year 2024-2025, assuming that ABC Ltd has fulfilled all the conditions specified for claim of deduction u/s 35AD and has not claimed any deduction under Chapter VI-A under the heading "C-

Deductions in respect of certain incomes". The Profits from the Business of running this Hotel (before claiming deduction u/s 35AD), for the Assessment Year **2024-2025** is ₹80 Lakhs.

Assume that the Company also has another existing Business of running a Four-Star Hotel in Kanpur, which commenced Operations 6 years back, the Profits from which was ₹130 Lakhs for the AY **2024-2025**.

Solution:

Assessee: ABC Ltd Previous Year: **2023-2024** Assessment Year: **2024-2025**

Computation of Deduction u/s 35AD

Particulars	Lakhs
1. Income from Four Star Hotel in Chennai	80
Less: Eligible deduction u/s 35AD:	
(i) Prior Period Expenditure (40)	(190)
(ii) Capital Expenditure (₹250 Lakhs - ₹100 Lakhs) (150)	
Total [Loss can be set-off only against the Income from any Specified Business] [Section 73A]	(110)
2. Income from Four Star Hotel in Kanpur [Being a Specified Business, above Loss is eligible to be set-off against this Income u/s 73A],	130
Income under the head Profits & Gains of Business/Profession	20

Note: Expenditure relating to acquisition of Land is not allowable as a deduction u/s 35AD.

Illustration 10:

- (a) Compute the deduction allowable under section 35D on the basis of the following information submitted.

Preliminary expenses incurred	₹2,20,000
Cost of project	₹50,00,000

- (b) What will be your answer if the above preliminary expenses have been incurred by Ruchira Ltd. & the capital employed is ₹60,00,000.

Solution

(a) Cost of project	₹50,00,000
5% of cost of project	₹2,50,000
Actual expenditure incurred	₹2,20,000
Deduction allowed shall be limited to	₹2,20,000

Deduction allowed shall be ₹2,20,000/5 = ₹44,000 for a period of 5 years starting from the previous year in which business has commenced.

(b) Actual preliminary expenditure incurred	₹2,20,000
---	-----------

5% of cost of project	₹ 2,50,000
Capital employed	₹ 60,00,000
5% of capital employed	₹ 3,00,000

Maximum deduction to be allowed shall be restricted to ₹ 2,50,000 Deduction allowable for 5 years — ₹ 2,50,000/5 = ₹ 50,000 every year

Illustration 11

During the Financial Year **2023-2024**, the following payments / expenditure were made / incurred by Mr. Yuvan Raja, a Resident Individual (whose turnover during the year ended 31.03.2023 was ₹ 54 Lakhs):

1. Interest of ₹ 12,000 and commission Rs.15,000 was paid to Rehman & Co, a Resident Partnership Firm.
2. Interest of ₹ 4,000 was paid as interest to Mr. R.D. Burman, a Non-Resident.
3. ₹ 3,00,000 was paid as salary to a resident individual.
4. He had sold goods worth ₹ 5 Lakhs to Mr. Deva. He gave Mr. Deva a cash discount of ₹ 12,000 later. Commission of ₹ 15,000 was paid to Mr. Vidyasagar on 02.07.2023.

In none of these transactions, tax was deducted at source. Briefly discuss whether any disallowance arises under the provisions of Section 40(a)(i) / 40(a)(ia) of the Income Tax Act, 1961.

Solution:

Assessee: Mr. Yuvan Raja Previous Year: 2023-2024 Assessment Year: 2024-2025

1. **Payment of Interest and Commission:** The Assessee is not subject to Tax Audit in the preceding PY since the Turnover of ₹ 54 Lakhs is less than the prescribed limit of u/s 44AB for PY **2022-2023**. Therefore the Assessee is **not liable to deduct Tax** for both interest u/s 194A and commission u/s 194H. The amounts of ₹ 12,000 (Interest) and ₹ 15,000 (Commission) are allowable expenditure.
2. Interest, Royalty, Fees for Technical Services or other similar sum payable outside India or in India to a **Non-Resident** not being a Company, or to a **Foreign Company**, on which tax has not been paid or deducted at source or after deduction, tax has not been paid before the prescribed time u/s 139(1) will be allowed as a deduction in computing the income of the previous year in which such tax has been paid and not in the previous year to which it relates to. Hence, the interest of ₹ 4,000 paid to Mr. Burman without deduction of tax is **not an allowable expenditure** for the Previous Year 2023-2024. [Note: However, Where an Assessee fails to deduct tax at source but is **not** deemed to be an Assessee in Default u/s 201(1), then it shall be deemed that the Assessee has deducted and paid the tax on such sum, on the date of furnishing of Return of Income by the **Payee**.]
3. **Salary to a Resident:** TDS on Salaries to Resident Employees in India is also covered u/s 40(a)(ia). So, payment of ₹ 3,00,000 to a Resident Individual on which Tax was not deducted is disallowed to an extent of 30%. However, is allowed in the year of TDS remittance.

4. Sale of Goods and Cash Discount are business transactions and **TDS is not attracted** for these transactions. Therefore the amounts are **not disallowed u/s 40(a)(ia)**.

Illustration 9

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2023. He incurred capital expenditure of Rs. 80 lakhs, Rs. 60 lakh and Rs. 50 lakhs, respectively, on purchase of land and building during the period January, 2023 to March, 2023 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures is Rs. 50 lakhs, Rs. 40 lakh and Rs. 30 lakhs, respectively. Further, during the P.Y.2023-24, he incurred capital expenditure of Rs. 20 lakhs, Rs. 15 lakh & Rs. 10 lakhs, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2024-25 and the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”.

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2024- 25 is Rs. 16 lakhs, Rs. 14 lakhs and Rs. 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Solution

Computation of profits and gains of business or profession for A.Y. 2024- 25

Particulars	Rs. (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	
10% of Rs. 30 lakhs, being (Rs. 50 lakh – Rs. 30 lakhs + Rs.10 lakh)	3
Income chargeable under “Profits and gains from business or profession”	28

Computation of income/loss from specified business under section 35AD

Particulars	Food Grains.	Sugar	Total
(A) Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)	16	14	30

	Less: Deduction under section 35AD			
(B)	Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023 (excluding the expenditure incurred on acquisition of land) = Rs. 30 lakhs (Rs. 80 lakh – Rs. 50 lakh) and Rs. 20 lakhs (Rs. 60 lakh – Rs.40 lakh)	30	20	50
(C)	Capital expenditure incurred during the P.Y. 2023-24	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD			
	100% of capital expenditure (food grains/sugar)	50	35	85
	Total deduction u/s 35AD for A.Y.2024-25	50	35	85
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- (i) Deduction of 100% for sugar storage ware house is allowed.
- (iii) Deduction for warehousing facility for storage of edible oils is not allowed.
Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2023-24.

Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of Rs. 55 lakhs from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of Rs. 28 lakhs from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

Illustration 10

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2024 without deduction of tax at source. What would be the consequence of non- deduction of tax at source by Delta Ltd. on these amounts during the financial year 2023-24, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in Rs.
(1)	Salary to its employees (credited and paid in March, 2024)	12,00,000
(2)	Directors' remuneration (credited in March, 2024 and paid in April, 2024)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2023 at the time of payment and remitted the same in July, 2024?

Solution

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance under section 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible under section 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance@30% under section 40(a)(ia). Whereas in case of salary, tax has to be deducted under section 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2023-24, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed under section 40(a)(ia) while computing business income for A.Y.2024-25 is as follows –

	Particulars	Amount paid in Rs.	Disallowance u/s 40(a)(ia) @30%
(1)	Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2)	Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)			3,68,400

Illustration 10

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of Rs. 7,00,000 before deduction of the following items:

- (1) Salary of Rs. 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) Rs. 1,50,000.

- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest Rs. 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
(ii) Allowable working partner salary for the assessment year 2024-25 as per section 40(b).

Solution

- (i) As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars		Rs.	Rs.
Net Profit (before deduction of depreciation, salary and interest)			7,00,000
Less:	Depreciation under section 32	1,50,000	
	Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (Rs. 5,00,000 × 12%)	60,000	2,10,000
Book Profit			4,90,000

- (ii) Salary actually paid to working partners = Rs.20,000 × 2 × 12 = Rs.4,80,000.

The maximum allowable working partners' salary for the A.Y. 2024-25 in this case would be:

Particulars	Rs.
On the first Rs. 3,00,000 of book profit [(Rs. 1,50,000 or 90% of Rs. 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (Rs. 4,90,000 - Rs. 3,00,000)]	1,14,000
Maximum allowable partners' salary	3,84,000

Hence, allowable working partners' salary for the A.Y. 2024-25 as per the provisions of section 40(b)(v) is Rs. 3,84,000.

Illustration 11

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

		Rs.
(i)	Andhra Pradesh State Financial Corporation (P.Y. 2022-23 & 2023-24)	15,00,000
(ii)	Indian Bank (P.Y. 2023-24)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2023-24, converted the above interest payable by Hari to them as a loan repayable in 60 equal instalments. During the year ended 31.3.2024, Hari paid 5 instalments to APSFC and 3 instalments to Indian Bank.

Hari claimed the entire interest of Rs. 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Discuss whether his claim is valid and if not, what is the amount of interest, if any, allowable.

Solution

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, *inter alia*, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of Rs. 15,00,000 dues to APSFC and of Rs. 30,00,000 dues to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of Rs. 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y. 2023-24 shall be calculated as follows:

	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable (Rs.)
APSFC	15 lakhs	60	25,000	5	1,25,000
Indian Bank	30 lakhs	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

Example

Case	Date of transfer of land/ building held as stock-in-trade	Actual consider-action	Stamp duty value on the date of agreement	Stamp duty value on the date of registration	Full value of consider-tions	Remark
		Rs. in lakhs				
1	1/5/2021	100 (Rs. 10 lakhs received by A/c payee cheque on 1/9/2020)	120 (1/9/2020)	210 (1/5/2021)	120	Stamp duty Value on date agreement the to be adopted as full value of consideration since the stamp duty value exceeds 110% of consideration i.e., Rs. 110 lakhs.
2	1/5/2021	100 (Rs. 10 lakhs received by cash on 1/9/2020)	104 (1/9/2020)	210 (1/5/2021)	210	Stamp duty Value on the date of Registration to be adopted as full value of Consideration since part of consideration is Received by cash and such stamp duty Value exceeds 110% of consideration i.e., Rs. 110 lakhs.
3	31/1/2022	100 (Rs. 10 lakhs received by A/c payee cheque on 1/9/2020)	110 (1/9/2020)	210 31/1/2022	100	Actual sales consideration would be the full value of consideration, since stamp duty value on the date of agreement (which has to adopted as full value of consideration since part of consideration is received by account payee cheque) does not exceed 110% of actual consideration

4	31/3/2022	100 (Full amount received on the date of registration)	120 (1/5/2021)	210 (31/3/2022)	210	Stamp duty value of the date of registration would be the full value of consideration since the stamp duty value Exceeds 110% of consideration i.e., Rs. 110 lakhs.
---	-----------	---	-------------------	--------------------	-----	---

Illustration 12

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under: Rs.

Financial year 2020-21	1,15,000
Financial year 2021-22	1,80,000
Financial year 2022-23	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2024-25 under section 44AA of Income-tax Act, 1961?

Solution

Section 44AA (1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

- if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded Rs.1,50,000; or
- if it is a new profession which is setup in the relevant previous year, it is likely to exceed Rs.1,50,000 in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded Rs. 1,50,000 in financial year 2020-21, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Illustration 13 (Section 44AE)

Mr. X commenced the business of operating goods vehicles on 1.4.2023. He purchased the following vehicles during the P.Y.2023-24. Compute his income under section 44AE for

A.Y.2024-25.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04. 2023
(2)	6,500	1	15.03.2024
(3)	10,000	3	16.07. 2023
(4)	11,000	1	02.01.2024
(5)	15,000	2	29.08. 2023
(6)	15,000	1	23.02.2024

Would your answer change if the goods vehicles purchased in April, 2023 were put to use only in July, 2023?

Solution –

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs.1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs.7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08. 2023	8	16
1	23.02.2024	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4. 2023	12	24
1	15.3. 2024	1	1
3	16.7. 2023	9	27
1	2. 1. 2022	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2023-24 would be -

Rs. 6,82,500, i.e., $55 \times \text{Rs. } 7,500$, being for other than heavy goods vehicle
(+) $18 \times \text{Rs. } 1,000 \times 15$ ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2 2023 were put to use only in July, 2023, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Illustration 14

Mr. Praveen engaged in retail trade, reports a turnover of Rs. 1,98,50,000 for the financial year 2023-24. His income from the said business as per books of account is Rs. 13,20,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2023-24 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation under section 44AD.

- (i) Is Mr. Praveen also eligible to opt for presumptive determination of his income chargeable to tax for the assessment year 2024-25?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.
- (iii) In case Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iv) What is the due date for filing his return of income under both the options?

Solution

- (i) Yes. Since his total turnover for the F.Y. 2023-24 is below Rs. 200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be Rs. 15,88,000, being 8% of Rs. 1,98,50,000.
- (iii) Mr. Praveen had declared profit for the previous year 2022-23 in accordance with the presumptive provisions and if he does not opt for presumptive provisions for any of the five consecutive assessment years i.e., A.Y. 2024-25 to A.Y. 2028-29, he would not be eligible to claim the benefit of presumptive taxation for next five assessment years. Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.
- (iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2024.
- (v) In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2024.

Question 1

Ms. Priya is engaged in the business of generation and distribution of power and opts the WDV method for claiming Depreciation. She has an opening block of INR 50,00,000. She acquired new machinery for INR 25,00,000 on 15th Nov 2023. She also imported a new machinery from Zurich for INR 10,00,000 on 14th Apr 2023. This machine was used there earlier and she is the first user in India. Additionally, she bought computers for INR 500,000 on 9th Sep 2023.

You are required to compute the allowable depreciation under Income Tax Act, 1961 for AY 2024- 25.

Solution

Items	Date	INR	Category	Rate	Depreciation
Opening WDV	1st Apr 2023	50,00,000	Full	15%	7,50,000
New Machinery	15th Nov 2023	25,00,000	Half	15%	1,87,500
Imported Machinery	14th Apr 2023	10,00,000	Full	15%	1,50,000
Computers	9th Sep 2023	5,00,000	Full	40%	2,00,000
Total Depreciation					12,87,500
Addl Depreciation					
New Machinery		25,00,000	Half	20%	2,50,000
Computers		5,00,000	Full	20%	1,00,000
Additional Depreciation					3,50,000
Annual Depreciation					16,37,500

Note: The machinery that was imported was first used therein at Zurich, earlier before being imported in to India and hence no depreciation will be allowable on the same.

Question 2

Examine whether the following expenses incurred by Ms. Priyanka, a dealer in Securities, will be allowable?

- Expenses on CSR Activities INR 750,000
- Setting up a cold chain facility for specified products, INR 10,00,000
- Interest on loan paid to Mr. Shyam, INR 100,000 on which no TDS was affected. Her sales for the PY was INR 5 Crores
- Securities Transaction Tax paid INR 50,000

Solution

- a) Expenses on CSR activities are not allowable as a deduction u/s 37 and hence the entire INR 750,000 would be disallowed
- b) This is a specified business for which she can claim 100% deduction u/s 35AD, hence entire INR 10,00,000 will be allowable
- c) The turnover of Ms. Priyanka exceeds the threshold of INR 100,00,000 and hence she was required to deduct tax at source. Since she didn't, 30% of the interest, i.e., 30% of INR 100,000, that is INR 30,000 would be disallowed u/s 40(a)(ia) and the balance INR 70,000 would be allowable for the assessee u/s 36(1)(iii)
- d) Securities Transaction Tax of INR 50,000 would be an allowable expense, assuming that income from such source, has been included under the head "Profits / Gains from Business / Profession".

Question 3

Mr. Kundan Lal, a trader at Kolkata, submits the P&L as under, for FY 2023-24

Profit & Loss Account for Year Ended 31st March, 2024			
Particulars	INR	Particulars	INR
To Opening Stock	1,00,000	By Sales	1,25,00,000
To Purchases	1,20,00,000	By Closing Stock	2,00,000
To Gross Profit	6,00,000		
Total	1,27,00,000	Total	1,27,00,000
To Rent, Rates, Taxes	1,08,000	By Gross Profit	6,00,000
To Salaries	1,25,000	By Interest Income	5,000
To Interest on loan	25,000		
To Depreciation	2,25,000		
To Printing & Stationery	25,000		
To Postage & Telegram	1,750		
To Loss on Sale of Shares (Short Term)	12,190		
To General Expenses	17,060		
To Net Profit	66,000		
Total	6,05,000	Total	6,05,000

Additional Information:

- a) Closing Stock & Opening Stock was under-valued by 10%
- b) Salary includes INR 20,000 paid to a relative which was considered unreasonable
- c) The whole amount of Printing & Stationery was paid in Cash at one go
- d) WDV of the Plant & Machinery on **1st Apr 23** was INR 12,00,000. Additions of INR 5,00,000 were made on 1st June **2023** and on 1st Oct **2023**, Machinery was sold for INR 12,57,993
- e) Rent & Rates included outstanding GST Liability for **Mar'23**, of INR 27,000, duly paid within 7th April **2024**
- f) A donation of INR 12,000 was made to a public charitable trust during the year. You are required to:
 - a) Calculate the Profits / Gains from Business Profession
 - b) Advise whether he should opt for the Presumptive scheme u/s 44AD

You can assume that the entire amount of turnover was received by account payee cheque.

Solution

	Particulars	INR
	Net Profit	66,000
Add:	UV Closing Stock	2,22,222
	Salary (Relative)	20,000
	Printing & Stationery (Cash > 20000)	25,000
	Depreciation	2,25,000
	Donation	12,000
	Loss on Sale of Shares	12,190
		5,82,412
Less:	UV Opening Stock	1,11,111
	Allowable Depreciation	66,301
	Interest Income	5,000
	Profits / Gains from Business / Profession	4,00,000
	Under Presumptive Taxation	7,50,000

Since the tax liability on presumptive basis, i.e. 6% of Gross Receipts (INR 125,00,000 *6%) = INR 750,000 is higher than the computed Profits / Gains from Business

Profession, he shouldn't adopt for presumptive basis. However, since his turnover is > INR 1 Crore, audit u/s 44AB would be mandatory, if he doesn't adopt presumptive basis.

Notes:

- a) Under-valued closing stock added to Profits $(100/90 \times 200,000)$
- b) Under-valued opening stock reduced $(100/90 \times 100,000)$
- c) Salary to relative, to the extent considered reasonable, added back
- d) Since the cash payment was > INR 10,000, entire amount disallowed u/s 40 A(3)
- e) Depreciation added back and allowed as under:

Particulars	INR
Opening WDV	12,00,000
Additions	5,00,000
Disposals	12,57,993
Closing WDV	4,42,007
Depreciation @ 15%	66,3011

- f) Since the unpaid GST Liability was paid before the due date and before the date of filing return of income u/s 139(1), it is allowable.

Question 4

Net profit as per profit and loss account of X is Rs. 6,86,000 for the year ending 31st March, 2024. 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';

- (i) rs. 46,000 is bonus which is paid on 13th November, 2024;
 - (ii) rs. 36,000 is commission which is paid on 1st december, 2024;
 - (iii) rs. 20,000 is incentive to workers which is paid on 10th december, 2024;
 - (iv) rs. 40,000 is paid outside india in respect of which tax is not deducted at source;
 - (v) rs. 6,000 being capital expenditure for promoting family planning amongst employees; and
 - (vi) 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 2024-25

Solution:

Calculation of Net income of X for assessment year 2024-25

Net Profit as per Profit and Loss Account	6,86,000
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)	
Capital expenditure on advertisements	11400
Net income	8,57,300

Notes:

- restrictions on advertisement and entertainment abolished.
- With the abolition of Section 37(3), which inter alia governed the deductibility of advertising expenses, advertising too has come within the fold of the omnibus Section 37(1) which specifically frowns on capital expenditure. the Himachal Pradesh High Court verdict in Mohan Meakin Breweries Ltd. v. CIT (1979) 118 ITR 101 allowing capital expenditure on advertising therefore has ceased to have the force of law as it was rendered in the context of Section 37(3).
- advertisement expenses of rs. 12,000 (i.e. exceeding the limit of rs. 10,000) is

paid in cash, hence disallowed under section 40a(3).

4. The 'due date' for filing return where the assessee is a person (other than a company) who is required to get his accounts audited under the income-tax act or any other law is September 30; and where the assessee is a person deriving income from business and who is not required to get his accounts audited, the 'due date' is July, 31. under the provisions of Section 43B of the act - Bonus rs. 46,000 paid on 13th Nov., 2024 and Commission rs. 36,000 paid on 1st dec., 2024 are not admissible since the payments are made after the above mentioned 'due date'.
5. incentive to workers which is paid on 10th december, 2024 is admissible on 'due basis'

Question 5 (ICAI)

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 24:

Trading and Profit and Loss Account for the year ended 31.03.2024

Particulars	Rs.	Particulars	Rs.
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- (i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	Rs. 9,000
Closing stock	Rs. 18,000

- (ii) Salary includes Rs. 10,000 paid to his brother, which is unreasonable to the extent of Rs. 2,000.
- (iii) The whole amount of printing and stationery was paid in cash by way of one time payment.
- (iv) The depreciation provided in the Profit and Loss Account Rs. 1,05,000 was based on the following information:

The written down value of plant and machinery is Rs. 4,20,000 as on 01.04.2023. A new plant falling under the same block of depreciation was bought on 1.7.2023 for Rs. 70,000. Two old plants were sold on 1.10.2023 for Rs. 50,000.

- (v) Rent and rates includes GST liability of Rs. 3,400 paid on 7.4.2024.
- (vi) Other general expenses include Rs. 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation under section 44AD and profits and gains as per normal provisions of the Act. Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Answer

Computation of business income of Mr. Sivam for the A.Y. 2024-25

Particulars		Rs.	Rs.
Net Profit as per profit and loss account			50,000
<i>Add:</i> Inadmissible expenses/ losses			
	Under valuation of closing stock	18,000	
	Salary paid to brother – unreasonable [Section 40A (2)]	2,000	
	Printing and stationery -whole amount of printing& stationary paid in cash would be disallowed, since such amount exceeds Rs. 10,000 [Section 40A (3)]	23,200	
	Depreciation (considered separately)	1,05,000	
	Short term capital loss on shares	8,100	
	Donation to public charitable trust	2,000	1,58,300
<i>Less:</i>	Deductions items:		2,08,300
	Under valuation of opening stock	9,000	
	Income from UTI [Taxable under IOS]	2,400	11,400
	Business income before depreciation		1,96,900
<i>Less:</i>	Depreciation (See Note 1)		66,000

1,30,900

Computation of business income as per section 44AD -

As per section 44AD, where the amount of turnover is received, *inter alia*, by way of account payee cheque or use of electronic clearing system through bank, the presumptive business income would be 6% of turnover, i.e., Rs. 1,12,11,500 x 6 /100 = Rs.6,72,690

Notes:

1. Calculation of depreciation

Particulars	Rs.
WDV of the block of plant & machinery as on 1.4.2023	4,20,000
Add: Cost of new plant & machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2024	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

Question 6 (ICAI)

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024:

Manufacturing, Trading and Profit & Loss Account for the year ended

31.03.2024

Particulars	Rs.	Particulars	Rs.
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000

To GST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2023-24:

- Administrative charges include Rs. 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is Rs. 36,000.
- The assessee paid Rs. 33,000 in cash to a transport carrier on 29.12.2023. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- A sum of Rs. 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- Bank term loan interest actually paid upto 31.03.2024 was Rs. 20,000 and the balance was paid in November 2024.
- Housing loan principal repaid during the year was Rs. 50,000 and it relates to residential property occupied by him. Interest on housing loan was Rs. 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	Rs.
Opening WDV (as on 01.04.2023)	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000
Note: Ignore additional depreciation under section 32(1) (iia)	

Compute the total income of Mr. Raju for the assessment year 2024-25.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

Answer

Computation of total income of Mr. Raju for the A.Y. 2024-25

Particulars		R S .	R S .
Profits and gains of business or profession			
Net profit as per profit and loss account			5,00,000
Add:	Excess commission paid to brother disallowed under section 40A (2)	10,000	
	Disallowance under section 40A (3) is not attracted since the limit for one-time cash payment is Rs. 35,000 in respect of payment to transport operators. Therefore, amount of Rs. 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
	Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See Note 1 below]	48,000	
	Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
	State GST penalty paid disallowed [See Note 2 below]	5,000	
	Depreciation debited to profit and loss account	2,00,000	3,03,000
Less:	Dividend from domestic companies – Taxable under IOS	15,000	8,03,000
	Income from agriculture [Exempt under section 10(1)]	1,80,000	
	Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	4,18,500
			3,84,500
Income from house property			
Annual value of self-occupied property		Nil	
Less	Deduction under section 24(b) – interest on housing loan	23,000	(23,000)
Income From Other Sources			
	Dividend from domestic companies		15,000
Gross Total Income			3,75,000
Less: Deduction under section 80C in respect of Principal repayment of housing loan			50,000
Total Income			3,26,500

Working Note:**Computation of depreciation under the Income-tax Act, 1961**

Particulars	Rs.
Depreciation@15% on Rs. 14 lakhs (Opening WDV of Rs. 12 lakh plus assets purchased during the year and used for more than 180 days Rs. 2 lakh)	2,08,500
Depreciation @7.5% on Rs. 2 lakh (Assets used for less than 180 days)	15,000
	2,23,500

Notes (Alternate views):

1. It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure, but would be allowable as deduction while computing profits and gains of business and profession.
2. Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be Rs.3,21,500.

Illustration 12

In the example below, the assessee has opted for presumptive taxation in AY 2020-21 and 2022-23 but in AY 2023-24, since his computed gains from business were lower than the presumptive, he didn't opt for it. Hence for 5 AY's subsequent to that year, i.e., from AY 2023-24 to AY 2027-28, he will not be able to opt for presumptive basis u/s 44AD.

ASSESSMENT YEAR			
Particulars	2020-21	2022-23	2023-24
Gross Receipts	1,80,00,000	1,90,00,000	2,00,00,000
Presumptive Opted	Y	Y	N
Tax Rate	8%	8%	Not Applicable

Deemed Income for Taxation	14,40,000	15,20,000	10,00,000
Books of Accounts & Audit	N	N	Y

Multiple Choice Questions “MCQs”

1. Preliminary Expenses u/s 35D, qualifying so would be deductible in equal installments

- a) Five
- b) Seven
- c) Ten
- d) O

ne

Answer

r : (a)

2. The rate of depreciation specified for intangible assets is?

- a) 25%
- b) 30%
- c) 40%
- d) 15%

Answer : (a)

3. Salary, Bonus etc. under section 40(b) is allowed to:

- a) Working partner
- b) Non-working partner
- c) All the partners
- d) None of the partners

Answer : (a)

LESSON 7 CAPITAL GAIN

Case Study

ABC Ltd.; a domestic company purchases its own unlisted shares, on 14th Oct'22. The consideration for the buyback amounted to INR 50,00,000, which was paid the very same day. The amount received by the company 2 years ago, for the issue of such shares was INR 27,00,000.

The tax on such buy back was deposited by the company to the credit of the Central Government on 27th Feb'23. You are required to compute the tax and the interest payable.

Solution

	Buy Back Consideration	50,00,000
Less:	Cost of Shares	27,00,000
	net paid for buy-back	23,00,000
	Tax payable	4,60,000
	SC	55,200
	Cess (on Tax + SC) @ 4%	20,608
	Total additional tax payable	5,35,808
	Additional Tax Payable (rounded off)	5,35,810
	Interest payable	21,432

Note: The tax had to be deposited to the credit of the Central Government within 14 days of the payment of buy-back consideration, i.e., on or before 28th Oct'22. However, the tax was deposited on 27th Feb, and hence interest for 4 months @ 1% per month is applicable.

Illustration 1:

Mr. Nagendra Kumar converts his capital asset acquired for an amount of INR 125000 in 2005-06, into stock in trade in the FY 2016-17. He thereafter sells this asset for INR 10,00,000 in 2023-24. Please advise on the taxability.

Solution:

It is to be noted that when the owner of a capital asset, converts it in to stock in trade, the "capital gains" arises in the year of such conversion, that is regarded as transfer, i.e., in the year in which the transfer (conversion) was effected. Therefore, in this case the Capital Gains arises in FY 2016-17. however, the same will be taxable only in the year the asset was sold, and along with it shall be chargeable to tax, the relevant income under the head "profits / Gains from Business / profession".

Particulars	INR
FMV of asset on date of conversion	7,50,000
Indexed Cost of acquisition [See note 1]	2,82,051
Capital Gain arises in FY 2016-17	4,67,949

Finally sold for	10,00,000
Cost of Acquisition	7,50,000
Business Income arises in FY 2023-24	2,50,000

Note:

- 1) Indexed Cost of Acquisition is INR 125000/117*264 (refer to the CII table for the indices of respective years).
- 2) The Capital Gain arises in FY 2016-17.
- 3) The Capital Gain is taxable only in FY 2023-24 when the asset is sold, along with the Business Income.

Illustration 2:

Mr. Srinivasan, purchases 2000 equity shares in ABC Ltd., for INR 50 per share (Brokerage 1%), in Feb 1997. He gets 200 Bonus shares in September, 2000. He again gets 2200 bonus shares in September, 2007. FMV of the Shares on 1st April, 2001 was INR 125.

In January, 2024, he sells all the shares for INR 500 per share (Brokerage 2%).

Compute the Capital Gains Tax in the hands of Mr. Srinivasan in FY 2023-24.

Solution:

Cost of Acquisition	Nos.	Per Share	Total INR
Original	2,000	50.50	101000
Bonus Shares prior to 1st Apr'01	200	125(FMV)	25000
Bonus Share post 1st Apr'01	2,200	-	-
full value of Consideration	4,400	490.00	21,56,000
Indexed Cost of Acquisition			
Original (2000 x 125 x (348)/100)		8,70,000	
Bonus (200 x 125 x 348 /100)		87,000	(9,57,000)
Capital Gains (Long Term)			11,99,000

Note:

- The brokerage is netted against the costs and sales values
- The Cost of Acquisition of Bonus Shares acquired prior to 1st April, 2001 is the FMV on 1st April, 2001 and for the ones acquired post 1st April, 2001 is NIL
- For the Original Shares, since the acquisition cost (INR 50) is less than the FMV (INR 125) as on 1st April, 2001, the FMV as on 1st April, 2001 is considered for computing the indexed cost of acquisition

Refer to the tables for the Indices used in the computation

Illustration 3

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 2023-24. You are required to compute the capital gains for AY 2024-25.

Solutions

Particulars	(Rs.)
Cost of acquisition	1,50,000
Cost of Improvement	2,50,000
Full Value of Consideration	15,00,000
Indexed Cost	
Acquisition [See note (b)]	(4,97,143)
Improvement [See note (c)]	(6,74,419)
Capital gains	3,28,438

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 FY 2006-07
- Indexed Cost of Acquisition therefore is INR $(1,50,000/105) \times 348 = 4,97,143$
- Indexed Cost of Improvement therefore is INR $(2,50,000/129) \times 348 = 6,74,419$

Illustration 4:

Mr. X purchases a property for INR 50,000 on 3rd May 1975. The following expenses were incurred by him:

- Improvement of property in 1998-99 INR 250,000
- Construction of two floors in 2002-03 INR 800,000
- Reconstruction and refurbishment of property in 2012-13 INR 15,00,000

FMV of property on 1st Apr'01 is 10,00,000. He sells the house on 9th Sep'23 for INR 90,00,000 and incurs INR 250,000 on transfer. Compute the Capital Gains taxable in his hands in AY 2024-25.

Solution:

	Particulars	INR
	Net Sale of Consideration	87,50,000
Less	Indexed Cost of Acquisition [(FMV as on 01.04.2001 or cost of acquisition whichever is higher i.e. 10,00,000*348/100)]	(34,80,000)
	Indexed Cost of Improvement [8,00,000*348/105]	(26,51,429)
	Indexed Cost of Improvement [15,00,000*348/200]	(26,10,000)
	Long Term Capital Gains	8,571

Note:

The improvement to the property only after 1st Apr'01 are considered. The costs are indexed using the indices from the CII table.

Illustration 5:

Mohan is the proprietor of Photo film Agencies which has 2 units, one for printing and the other for binding. He transferred, by way of slump sale, one of the units (unit 2) on **1st Apr'23**, for a total consideration of INR 50,00,000. expenses on sale were 0.5%. This unit was started in the year **2013-14**.

Appended below is the Balance Sheet

Particulars	Unit 1	Unit 2
Building	7,50,000	15,00,000
Machinery	5,00,000	10,00,000
Debtors	2,50,000	5,00,000
Other Assets	1,00,000	2,00,000
	16,00,000	32,00,000
Capital		40,00,000
Revaluation Reserve		2,50,000
Bank Loan		3,50,000
Creditors		2,00,000
		48,00,000

The Revaluation Reserve was created by upward revaluation of Buildings in unit 2. Other Assets of unit 2 include, INR 1,00,000 of patents acquired on 1st July, 2017, on which no depreciation has been charged. 75% of Creditors and 25% of Bank Loan is for unit 2.

Compute the Capital Gains on the slump sale for AY **2024-25**.

Solution:

The Capital Gains from Slump Sale are as under:

Particulars	(Rs.)
Full Value of Consideration	50,00,000
Expenses on Sale	(25,000)
Net Sale Consideration	49,75,000
Net Worth	(26,44,141)
Long Term Capital Gains	23,30,859

Working Notes

- (1) The first note details the computation of net worth for unit 2

	Net Worth	Amount (Rs.)	Amount (Rs.)
	Buildings	15,00,000	
Less :	Revaluation Reserve	(2,50,000)	
	Net for Buildings		12,50,000
	Machinery		10,00,000
	Debtors		5,00,000

	Other Assets		1,00,000
	Patents		23,731
	Total Assets		28,73,731
Less:	Creditors	1,50,000	
	Bank Loan	87,500	
	Total Liabilities		(2,37,500)
	Net Worth		26,36,231

1. The second note details the valuation of WDV of Patents

Patent s	Amount (Rs.)
Opening Block	1,00,000
Depreciation Y1	(25,000)
Written Down Value EOY1	75,000
Depreciation Y2	(18,750)
Written Down Value EOY2	56,250
Depreciation Y3	(14,063)
Written Down Value EOY3	42,188
Depreciation Y4	(10,547)
Written Down Value EOY4	31,641
Depreciation Y5	(7910)
Written Down Value EOY5	23,731

Illustration 6:

A has the following incomes for the previous year **2023-24**:

	Rupees	
Business income	(--) 30,000	(viz. business loss of 30,000)
Short-term capital gains	6,000	
Long-term capital gains	1,90,000	

A deposits Rs. 9,000 in public provident fund account. You are required to find out his tax liability for the assessment year **2024-25**.

Solution:

Computation of net Income of Mr. A for the assessment year **2024-25**

	Rs.	Rs.
Business Income		(-) 30,000
Capital gain		
– Short-term	6,000	
– Long-term	1,90,000	1,96,000
		1,66,000

Computation of Tax Liability for the assessment year **2024-25**

Tax on Total income: Nil

Notes :

1. If the net income (other than long-term capital gain) is below the amount of first slab which is not taxable (i.e. Rs. 2,50,000), then the long-term capital gain is to be reduced by the amount by which the total income (other than long-term capital gain) falls short of the maximum amount which is not chargeable tax.
2. In this case, net income (other than long-term capital gain) is (-) Rs. 24,000 which will be allowed for carried forward i.e. not to be deducted from Rs. 2,50,000. Therefore, long-term capital gain shall be reduced by Rs. 2,50,000. Thus, no tax shall be leviable on long-term capital gain.

Illustration 7

Mr. Khan purchased a residential house in the previous year 2005-06 for Rs. 2 crores. The house property is sold for Rs. 10 crores in the previous year **2023-24** and the capital gain is invested in two residential house properties worth Rs. 4 crores each. Can he claim the benefit of section 54 in respect of both houses?

Solution :

Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. an assessee has an option to make investment in two residential house properties in india to claim section 54 exemption. this option can be exercised by the assessee only once in his lifetime provided the amount of long-term capital gain does not exceed rs. 2 crores. Since, the gain arising in hands of Mr. Khan is **Rs 5.06 crores** which is more than rs. 2 crore, he cannot claim the benefit of section 54 by making investment in both the house properties. However he can claim the benefit only in respect of one residential property invested.

Computation of Long Term Capital Gains (LTCG)

	Sale Consideration	10 Crores
less	indexed Cost of acquisition (2*348/117)	(5.95 Crores)
	long term Capital Gains (LTCG)	5.05 Crores
less	deduction u/s 54	(4 Crores)
	taxable LTCG	1.05 Crores

Illustration

	A	B	C	D	E	F
Cases	Actual Cost	FMV as on 31.1.18	Sale Value	Lower of FMV & Sale Value (B&C)	Cost of acquisition (Higher of D & A)	Capital Gain/ Loss (C – E)
I	100	200	250	200	200	50
II	100	200	150	150	150	Nil
III	100	50	150	50	100	50

IV	100	200	50	50	100	(50) [This Capital Loss can be set off & C/f normally]
----	-----	-----	----	----	-----	---

Question (Focus Indexation)

Mr. Raman is a salaried employee. In the month of January, 2014 he purchased 100 shares of X Ltd. @ Rs. 1,400 per share from Bombay Stock Exchange.

These shares were sold through BSE in April, 2023 @ Rs. 2,600 per share. The highest price of X Ltd. share quoted on the stock exchange on January 31, 2018 was Rs. 1,800 per share. What will be the nature of capital gain in this case?

Solution:

Shares were purchased in January, 2014 and were sold in April, 2023, i.e., sold after holding them for a period of more than 12 months and, hence, the gain will be long-term capital gain (LTCG).

In the given case, shares are sold after holding them for a period of more than 12 months, shares are sold through recognized stock exchange and the transaction is liable to STT. Therefore, section 112A is applicable in this case.

The cost of acquisition of X Ltd. Shares shall be higher of:

1. Cost of acquisition i.e., Rs. 1,40,000 ($1,400 \times 100$)
2. Lower of:
 - i). Highest price quoted as on 31-1-218 i.e., 1,80,000 ($1,800 \times 100$);
 - ii). Sales consideration i.e., 2,60,000 ($2,600 \times 100$)

Thus, the cost of acquisition of shares shall be Rs. 1,80,000. Accordingly, Long-term capital gains in hands of Mr. Raman would be Rs. 80,000 (i.e., $2,60,000 - 1,80,000$). Since long-term capital gains doesn't exceed Rs. 1,00,000, nothing is taxable in hands of Mr. Raman.

Illustration 10:

(1) Long-term capital gains on zero coupon bonds are chargeable to tax —

- (a) @ 20% computed after indexation of such bonds
- (b) @ 10% computed without indexation of such bonds
- (c) Higher of (a) or (b)
- (d) Lower of (a) or (b).

Answer: (d) Lower of (a) or (b).

(2) Short-term capital gains arising from the transfer of equity shares in a company or units of an equity oriented fund or units of a business trust charged with security transaction tax are subject to income-tax at the rate of —

- (a) 10%
- (b) 15%
- (c) 20%
- (d) Normal rate

Answer: (b) 15%

Question (ICAI Module)

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2006 at rate of Rs. 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2022. He has also received dividend of Rs. 10 per share on 01.05.2023.

He has sold all the shares on 01.10.2023 at the rate of Rs. 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for Assessment Year 2024-25, assuming that he is having no income other than given above. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is Rs. 2,000.

Answer

Computation of total income and tax liability of Mr. Mithun for A.Y. 2023-24

Particulars	Rs.
Long term capital gains on sale of original shares	
Gross sale consideration (100 x Rs. 4,000)	4,00,000
Less: Brokerage @1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x Rs. 2,000) (Refer note 2)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x Rs. 4,000)	4,00,000
Less : Brokerage @ 1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short term Capital Gains	3,96,000
Dividend Income – IOS (200 shares x 10 rs.)	2,000
Total Income	5,94,000
Tax Liability	
15% of (Rs. 3,96,000 - Rs. 2,98,000, being unexhausted basic exemption limit)	14,700
10% of (Rs. 1,96,000 - Rs.1,00,000)	9,600
	24,300
Less: Rebate u/s 87A	14,700
	9,600
Add : Health and education cess @4%	384
Tax payable	9,984
Tax payable(Rounded off)	9,980

Notes:

- (1) Long-term capital gains exceeding Rs. 1 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10%, without indexation benefit.
- (2) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of

- Cost of acquisition i.e., Rs. 1,000 per share and
- lower of

Fair market value of such asset i.e., Rs. 2,000 per share

and Full value of consideration i.e., Rs. 4,000 per share.

So, the cost of acquisition of original share is Rs. 2,000 per share.

- (2) Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short-term capital gain chargeable to tax@15% as per section 111A after adjusting the unexhausted basic exemption limit. Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of Rs. 3,00,000 for A.Y. **2024-25**.
- (3) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- (4) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- (5) Securities transaction tax is not allowable as deduction.

Illustration

Suppose the assessee is a Resident Individual aged 50 years, The assessee's income consists of PGBP income of Rs 2,00,000 & sec. 112A income of Rs. 1, 80,000. Find the amount of tax payable.

Answer

- In this case the Basic Exemption limit will be Rs. 2, 50,000.
- Therefore for tax calculation Rs 50,000 of sec. 112A will be adjusted to exhaust the difference of Rs. 2, 50,000 & Rs. 2 Lacs (PGBP Income).
- So tax payable = Rs. 1, 80,000 of 112A – Rs. 50,000(adjusted) – Rs. 1,00,000 (as tax is levied on the amount exceeding Rs. 1,00,000)
i.e. Rs. 30,000 * 10% = Rs. 3000 + 4% HEC = Rs. 3120.

Case Study 1

Mr. Kapoor (age 67 years and resident) is a retired person earning total pension of Rs. 1,00,000. He purchased gold in December, 2010 and sold the same in April, **2022**. Taxable LTCG amounted to Rs. 2,80,000. What will be his tax liability for the A.Y. **2023- 24**?

Option 1 : Assessee has not opted for Section 115BAC

Option 2 : assessee has opted for Section 115BAC

Solution : Computation of tax liability for the A.Y. 2023- 24 is as under :	
<u>Option 1 : Assessee has not opted for Section 115BAC</u>	
Gross Salary (pension income)	Rs. 1,00,000
Less: Standard deduction u/s 16 (ia)	<u>Rs. 50,000</u>
Income under the head Salary	Rs. 50,000

LTCG on sale gold	Rs. 2,80,000
Total income	Rs. 3,30,000
Tax on LTCG u/s 112 on Rs. 30,000 @ 20%*	Rs. 6,000
Less : Rebate as per section 87A	Rs. 6,000
Tax after Rebate	Nil

* Resident individual above 60 years but below 80 years of age has basic exemption limit of Rs. 3,00,000. Which can be adjusted against LTCG of Rs. 2,80,000 but after the adjustment of salary income of Rs. 50,000. Hence, the balance LTCG taxable will come to Rs. 30,000 @ 20%.

Option 2 : Assessee has opted for Section 115BAC

Computation of tax liability for the a/y is as under :

Gross Salary (pension income)	rs. 1,00,000
less: Standard deduction u/s 16	N/
(ia)	a rs.
Income under the head Salary	1,00,000
LTCG on sale gold	rs. 2,80,000
Total income	rs. 3,80,000
Tax on LTCG U/s 112 on Rs. 1,30,000 @ 20%*	Rs. 26,000
less : rebate as per section 87A	rs. 12,500
Tax after rebate	rs. 13,500
Add: Health and Education Cess @4% on Rs. 13500	Rs. 540
tax liability	rs. 13,940

* u/s 115BAC Basic exemption limit is 2,50,000 irrespective of age. Unutilised exemption limit of rs.2,50,000 – 1,00,000 i.e. Rs. 1,50,000, can be adjusted against LTCG of rs. 2,80,000. Hence, the balance LTCG taxable will come to Rs.1,30,000 @ 20%.

Case Study 2

Mr. Gagan (age 69 years and non-resident) is a retired person earning total pension of Rs. 1,00,000 from Indian employer. He purchased a piece of land in Delhi in December, 2010 and sold the same in April, 2022. Taxable LTCG amounted to Rs. 2,30,000. What will be his tax liability for the year 2022-23?

Option 1 : assessee has not opted for Section 115BAC

Option 2 : assessee has opted for Section 115BAC

Solution :

Computation of tax liability for the A.Y. 2023 - 24 is as under :

Option 1 : assessee has not opted for Section 115BAC

Gross Salary (pension income)	Rs. 1,00,000
Less: Standard deduction u/s 16 (ia)	Rs. 50,000
Income under the head Salary	Rs. 50,000
LTCG on sale gold	Rs. 2,30,000
Total income	Rs. 2,80,000

Tax on LTCG u/s 112 on Rs. 2,30,000 @ 20%*	Rs. 46,000
Less : Rebate as per section 87A (Not available to non resident)	NIL
Tax after Rebate	Rs. 46,000
Add : Health & Education Cess @ 4%	Rs. 1,840
Net tax payable	Rs. 47,840

*Non-Resident individual (of any age) has basic exemption limit of Rs. 2,50,000. Which cannot be adjusted against LTCG of Rs. 2,30,000 but the same can be adjusted against salary income of Rs. 50,000. Hence, the whole amount of LTCG is taxable @ 20%.

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

Computation of tax liability for the A.Y **2023 - 24** is as under:

Gross Salary (pension income)	rs. 1,00,000
less: Standard deduction u/s 16 (ia)	N/
income under the head Salary	a rs. 1,00,000
LTCG on sale gold	rs. 2,30,000
Total income	Rs. 3,30,000
Tax on LTCG U/s 112 on Rs. 2,30,000 @ 20%*	Rs. 46,000
less : rebate as per section 87a (Not available to non-resident)	Nil
tax after rebate	rs. 46,000
Add : Health & education cess @ 4%	Rs. 1840
Net tax payable	rs. 47840

*Non-resident individual (of any age) has basic exemption limit of rs. 2,50,000. Which cannot be adjusted against LTCG of rs. 2,30,000 but the same can be adjusted against salary income of rs. 1,00,000. Hence, the whole amount of LTCG is taxable @ 20%.

Case Study 3

Priyanka furnishes the following data for the PY ended 31st **Mar'23**

- She had unlisted shares of XYZ Ltd., 100,000 in number, which she sold on 30th **Jun'22** for INR 1000 per share.
- The above shares were acquired as under:

- Gift from father: 50000 shares on 3rd May' 99 (FMV on 1st Apr'01 is INR 300)
- Bonus Shares on 21st Jun' 09: 20000 shares
- Purchased 30,000 shares on 1st Jan'11 @ INR 525 per share

Thereafter, she invested the proceeds to buy a residential house at INR 4,00,00,000 on 3rd May'23 and she was already owing a residential house prior to the purchase of this one. You are required to compute the Capital Gains.

Solution:

	Particulars	Number	Rate per Share	Amount	Date
	Full Value of Consideration	1,00,000	1000	10,00,00,000	30th Jun 22
Less:	Indexed COA				
	Gift from father	50,000	300	46950000	3rd May'99
	Bonus	20,000	0	-	21st Jun'09
	Purchased	30,000	525	31217066	1st Jan'11
	Total Indexed COA			80867066	
	LTCG			1,91,32,934.13	
	New Residential House			4,00,00,000	
	LTCG exempt			7,653,173.65	
	Taxable LTCG			11,479,760.48	

Note:

- The bonus shares were granted after 1st Apr'01 and hence the cost of acquisition is NIL
- For the shares gifted by her father prior to 1st Apr'01, the FMV as on 1st Apr'01 would be considered as the Cost of Acquisition
- Indexed COA for the gifted shares therefore is $50000 \times 300 / 100 \times 331$
- Indexed COA for the acquired shares therefore is $30000 \times 525 / 167 \times 331$
- In the case above the necessary conditions u/s 54F have been fulfilled and therefore she is entitled to a proportionate exemption from LTCG (i.e. INR 4 Crores / INR 10 Crores * 1,91,32,934.13)

Case Study 4

Mrs. Shanti Devi, a resident individual, sold her residential property on 18th Jul 22 for INR 75,00,000. She had purchased the same for INR 25,00,000 on 3rd May 2006. She paid INR 100,000 towards brokerage for the sale. The stamp duty valuation was INR 1,03,00,000. She bought another property for INR 20,00,000 on 14th Dec'22 and deposited another INR 5,00,000 on 21st Jun'23 in the capital gain deposit scheme with SBI for construction of an additional floor in the property.

She also deposited INR 5,00,000 on 30th Nov'22 in the NHAI Bonds.

Compute the Capital Gains and Tax Liability. Assuming not opted for section 115BAC

Solution :

PARTICULARS	AMOUNT
Full Value of Consideration	1,03,00,000
Brokerage	1,00,000
Net Sale Consideration	1,02,00,000
Indexed Cost (25 Lacs/ 122*331)	(67,82,787)
Gains before Exemptions	34,17,213
exemption u/s 54 (20 + 5)	25,00,000
exemption u/s 54EC	5,00,000
Capital gains (Total Income)	4,17,213
Tax Payable (417213-250000) * 20%	33,443
Rebate u/s 87A	(12,500)
Tax Payable (Including cess)	21,780
Total Tax Liability	21,780

Notes:

As Per Section 50C, in case the actual sale consideration is less than the stamp duty value, the stamp duty valuation would be the full value of the consideration. B) Exemptions u/s 54 are towards purchase of another house within 2 years of date of transfer and Deposit in Capital Gains Accounts Scheme (CGAS) on or before the due date of filing return of Income. C) Exemption u/s 54EC is towards investment in specified bonds (NHAI) within 6 months from date of transfer. D) Since the Taxable LTCG, which is less than basic exemption limit of Rs. 2,50,000, therefore no tax will be payable.

Case Study 5

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

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

Full value of consideration	1,00,00,000
less: indexed cost of acquisition = 2,00,000 / 100 x 331	(6,62,000)
less: indexed Cost of improvement = 3,00,000 / 105 x 331	(9,45,714)

less: indexed Cost of improvement = $4,00,000 / 220 \times 331$	(6,01,818)
long term Capital Gains	77,90,468
Gross total income	77,90,468
less: deduction u/s 80C (Not allowed from Capital Gains)	N/A
Total Income (rounded off u/s 288A)	77,90,470
Computation of tax liability	
Tax on LTCG Rs. 75,40,470 (77,90,470 – 2,50,000) @ 20%	15,08,094
Add: Surcharge @ 10%	1,50,809
tax before health & education cess	16,58,903
Add: HEC @ 4%	66,356
Tax liability	17,25,260

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.

Case Study 6

State, giving reason, whether the asset is Short term or Long term in the cases given below –

- L purchases a house property on March 10, 2021 and transfers it on June 6, 2022
- M purchases listed shares in an Indian Company on March 10, 2021 and transfers it on June 6, 2022
- N acquires units of equity oriented mutual fund on July 7, 2021 and he transfers these units on July 10, 2022 & purchases diamonds on September 12, 2019 and gifts the same to his friend P on December 31, 2021. P transfers the assets on October 20, 2022.
- P purchases shares in a company through a NSE broker (Date of purchase by the broker: November 21, 2021 the company transfers shares in the name of P: January 5, 2022). These shares are transferred by P on December 20, 2022.

Solution

Taxpayer	Asset	Minimum period to become long-term capital asset	Short term or long term
L	House property	24 months	Short term
M	Listed Shares	12 months	Long term
N	Units of EOMF	12 months	Long term
P	Diamonds	36 months	Long term
P	Listed Shares	12 months	Long term

Case Study 7

State, giving reasons the assessment year for which capital gain is chargeable to tax in the cases given below –

1. K sells a house property to Q as per sale deed dated **March 30, 2022**. The documents are, however, registered on **April 6, 2022**.
2. H sells a house property to C as per agreement to sale dated May **6, 2021**, A pays the consideration on the same day. The possession is given on June 1, **2021**, the sale deed is yet to be registered.
3. V sells shares to M on March, **1, 2022**. Transfer deed is signed on the same day. Share certificates are delivered at the time of signing the transfer deed. Shares are, however, transferred in the name of M in the records of the company on May **10, 2022**.

Solution:

1. **“Transfer” takes effect** from the date of execution of the sale deed (and not from the date of registration. Therefore in this case transfer takes place during the p/y **2021-22** and, consequently Capital Gain is taxable for the A/Y **2022-23**.
2. Even if sale deed is not registered, an immovable property is transferred when the three conditions of section 53A of the Transfer of Property Act are satisfied. The three conditions are satisfied on June **1, 2021**. Therefore capital gains is taxable for the A/Y **2022-23**.
3. When a movable property is delivered pursuant to a contract to sell, the ownership is transferred. In this case, ownership is transferred on March 1, **2022** and, consequently Gain is taxable for the assessment year **2022-23**.

Illustrations for practice**ILLUSTRATION 1**

A is the owner of a car. On **1-4-2023**, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on **31-3-2024** and gets a profit of Rs. 1 lakh. Discuss the tax implication in his hands under the head “Capital gains”.

SOLUTION

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

ILLUSTRATION 2

X converts his capital asset (acquired on June 10, **2005** for Rs. 60,000) into stock-in-trade on March 10, **2023**. The fair market value on the date of the above conversion was Rs. 5,50,000. He subsequently sells the stock-in-trade so converted for Rs. 6,00,000 on June 10, **2023**. Discuss the year of chargeability of capital gain.

SOLUTION

Since the capital asset is converted into stock-in-trade during the previous year relevant to the P.Y. **2022-23**, it will be a transfer under section 2(47) during the A.Y. **2023-24**. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. **2024-25**, since the stock-in-trade has been sold only on June 10, **2023**. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, **2023**) will be the full value of consideration. . The business income of ` 50,000 (i.e., ` 6,00,000 (-) ` 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y. **2024-25**. Thus, both capital gains and business income would be chargeable to tax in the A.Y. **2024-25**

ILLUSTRATION 3

M held 2000 shares in a company ABC Ltd. This company amalgamated with another company during the previous year ending **31-3-2024**. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs. 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax Rs. 50,000 as capital gain. Is he justified?

SOLUTION

In the above example, assuming that the amalgamated company is an Indian company, the transaction is squarely covered under the provisions explaining “transactions not regarded as transfer” and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

ILLUSTRATION 4

In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 1970 for Rs. 25,000. In the P.Y. 2023-24, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was Rs. 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for Rs. 20,000. It is given to one of the family members in the P.Y. 2023-24 at the time of partition of the family. FMV on the day of partition was Rs. 12,00,000.
- (iii) Mr. B purchased 50 convertible debentures for Rs. 40,000 in 1995 which are converted into 500 shares worth Rs. 85,000 in November 2023 by the company.

SOLUTION

We know that capital gains arise only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does **not** arise in the given situation.
- (ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does **not** arise in the given situation.
- (iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does **not** arise in the given situation.

ILLUSTRATION 5

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

SOLUTION

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

However, capital gains tax liability would be attracted at the stage of alienation of the mortgaged property by the bank for the purposes of recovering the loan.

ILLUSTRATION 6

Calculate the income-tax liability for the assessment year **2024-25** in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Resident	Non- resident	Resident	Non- resident
Total income other than long- term capital gain	2,40,000	2,80,000	5,90,000	4,80,000
Long-term capital gain	15,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

SOLUTION

Computation of income-tax liability for the A.Y. **2024-25**

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Resident	Non-resident	Resident	Non- resident
Applicable basic exemption limit	Rs. 2,50,000	Rs. 2,50,000	Rs. 5,00,000	Rs. 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	Rs. 15,000 [Taxable @20% u/s 112]	Rs. 10,000 [exempt u/s 112A since it is less than Rs. 1,00,000]	Rs. 60,000 (Exempt – not a capital asset)	-

Other income	Rs. 2,40,000	Rs. 2,80,000	Rs. 5,90,000	Rs. 4,80,000
Tax liability				
On LTCG (after adjusting Basic Exemption limit)	Rs. 1,000	-	-	-
On Other income	Nil	Rs. 1,500	Rs. 18,000	Rs. 11,500
Less: Rebate u/s 87A	Rs. 1,000			
Add: Health and education cess @4%	Nil	Rs. 60	Rs. 720	Rs. 460
Total tax liability	Nil	Rs. 1,560	Rs. 18,720	Rs. 11,960

Notes:

1. Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of Rs. 3,00,000 and Rs. 5,00,000 for persons over the age of 60 years and 80 years, respectively.
2. Since Mr. A is a resident whose total income does not exceed Rs.5 lakhs, he is eligible for rebate of Rs. 12,500 or the actual tax payable, whichever is lower, under section 87A.

CASE 1

On 25th December, 2023, Mr. X sold 500 grams of gold, the sale consideration of which was Rs 14,50,000. He had acquired this gold on 20th August, 2000 for Rs 4,00,000. Fair market value of 500 grams of gold on 1st April, 2001 was Rs 3,40,000. Find out the amount of capital gain chargeable to tax for the assessment year 2024-25.

SOLUTION

Statement showing computation of Capital Gains

Particulars		Amount (Rs)
Sale consideration		14,50,000
Less: Indexed Cost of Acquisition (If Acquisition before 1.4.2001) ICOA = [(COA or FMV [^] as on 1.4.2001 whichever is higher)*(CII for the year of Transfer/100)]	Cost=4,00,000 FMV=3,40,000 Whichever is higher i.e. 4,00,000 = [(4,00,000)*(348/100)]	(13,92,000)

Long Term Capital gain		58,000
------------------------	--	--------

CASE 2(Where indexation benefit is not available even on transfer of long term capital asset)

Ms. Dixita has 1,000 9% Debentures of DD Ltd. acquired on 15.04.2009 for Rs 85 each. As on 01.02.2023, she sold such asset for Rs 1,25,500. Brokerage @ $\frac{1}{2}$ % of sale value was paid by her. Compute capital gain for AY 2024-25.

Solution:

Statement showing computation of capital gain

Particulars	Amount (Rs)
Sale Consideration	1,25,500
Less:	
Expense on transfer (i.e. Brokerage 0.5% of Rs 1,25,500)	(628)
Cost of Acquisition (85*1000)	85000
(Note: No indexation benefit is available as Capital Asset is Debenture)	
Long Term Capital gain	39,872

CASE 3: Self generated Assets

Nisha transferred the following assets on 02.06.2021, determine capital gain for the A.Y. 2024-25 assuming Brokerage paid on transfer @ 2%

Particulars	Cost	MV(1.4.2021)	Sale Value
Land acquired in 1976	25000	1,00,000	30,00,000
Goodwill of business [Business commenced on 1-05-1995]	Nil	40,000	2,00,000
Tenancy right	Nil	30,000	3,00,000

Solution:

Computation of capital gains in the hands of Nisha for the AY 2024-25

Particulars	Land	Goodwill of business	Tenancy right
Sale Consideration	30,00,000	2,00,000	3,00,000
Less:			
Expense on transfer (2% Brokerage on sale)	(60,000)	(4,000)	(6,000)
COA or ICOA	3,17,000	Nil	Nil
(Acquisition of land before 1.4.2001) Cost= Rs. 25000, FMV=Rs100000 whichever is higher i.e. 1,00,000 shall be considered for indexation	$[(100000) \times (348/100)]$	As per section 55(2)(a)	As per section 55(2)(a)

LTCG	25,92,000	1,96,000	2,94,000
------	-----------	----------	----------

CASE 4

If XP owns a house property which was acquired on 1.5.1979 for Rs. 3,00,000 and it was destroyed by flood on 3.4.2023 and received Rs.5,00,0000 insurance compensation during the year. The market value of the said property as on 1.4.2001 was Rs. 15,00,000. Compute the capital gain for the AY **2024-25**.

Solution:

Computation of capital gains in the hands of Nisha for the AY **2024-25**

Particulars	Amount (Rs)	Amount (Rs)
Sale consideration (In this case, Sale consideration= Amt of compensation)		50,00,000
Less: Indexed Cost of Acquisition (If Acquisition before 1.4.2001) ICOA = [(COA or FMV [^] as on 1.4.2001 whichever is higher)*(CII for the year of Transfer/100)]	(3,00,000 or 15,00,000 whichever is higher) i.e. 15,00,000 = (15,00,000)*(348/100)	(52,20,000)
LTCg		2,20,000

CASE 5

NX invested Rs. 1,65,000 on the purchase of gold ornaments on 4.1.2005 for investment purpose. On 12.1.2016, he started a Jewellery business and converts his investment into stock in trade. Moreover, the Market value as on date of conversion was Rs. 4,50,000. These ornaments were sold in **PY2023- 24** for Rs. 5,50,000. Compute the capital gain and business income.

Solution:

Year of Acquisition : 2004-05 (i.e. 4.1.2005)

Year of Conversion : 2015-16 (i.e. on 12.1.2016)

Year of taxability : **2023-24** (In the year in which stock is transferred)

Sale Consideration : FMV as on date of conversion

Statement showing computation of Capital gain

Particulars		Amount (Rs)
Sale consideration (In this case, Sale consideration= FMV as on date of conversion)		4,50,000
Less: Indexed Cost of Acquisition (If Acquisition on or after 1.4.2001) ICOA = [(COA)*(CII for the year of Conversion /CII for	= [(165000)*(254/113)	(3,70,885)

Year of Acquisition)]		
LTCg		79,115

COMPUTATION OF BUSINESS INCOME

Sale consideration	5,50,000
Less: FMV as on date of conversion	4,50,000
business Income	1,00,000

CASE 6

Mr. X converts his capital asset acquired for an amount of Rs 55,000 in June, 2003 into stock-in-trade in the month of November, 2019. The fair market value of the asset on the date of conversion is Rs 4,50,000. The stock-in-trade was sold for an amount of Rs 7,50,000 in the month of September, 2023. Compute the capital gain and business income.

Solution:

Year of Acquisition	:	2003-04 (i.e. June 2003)
Year of Conversion	:	2019-20 (i.e. November 2019)
Year of taxability	:	2023-24 (In the year in which stock is transferred)
Sale Consideration	:	FMV as on date of conversion

Statement showing computation of Capital gain

Particulars		Amount Rs
Sale consideration (In this case, Sale consideration= FMV as on date of conversion)		4,50,000
Less: Indexed Cost of Acquisition (If Acquisition on or after 1.4.2001)		(1,45,826)
ICOA = [(COA)*(CII for the year of Conversion /CII for Year of Acquisition)]	= [(55000)*(289/109)]	
LTCg		3,04,174

COMPUTATION OF BUSINESS INCOME

Sale consideration	7,50,000
--------------------	----------

Less: FMV as on date of conversion	4,50,000
business Income	3,00,000

Practice Question

Mr. X converts his plot of land purchased in July, 2004 for Rs 80,000 into stock-in-trade on 31st March, 2022. The fair market value as on 31.3.2022 was Rs 3,00,000. The stock-in-trade was sold for Rs 3,25,000 in the month of January, 2024. You are required to compute business income and Capital gain for the AY 2024-25. Details of CII are as below:

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2021-22: 317.

[Answer: LTCg=Rs 75,575, business Income=Rs 25,000]

CASE 7

Mr. Raja has acquired assets in terms of gift from his father dated 12.5.2006 where FMV as on date was Rs475000. It is interesting to note that father had acquired such asset on 16.10.2003 for Rs875000 and it was given as capital contribution to Partnership firm in which Raja become partner on 5.6.2023. Market Value of asset as on such date was Rs2500000 but it was recorded in the books of account at Rs2600000. Compute the capital gain for the AY2024-25.

Solution:

Year of Acquisition	:	2003-04 (i.e. 16.10.2003)
Year of taxability	:	2023-24 (In the year of transfer)
Sale Consideration	:	Amount recorded in books of account

Statement showing computation of Capital gain

Particulars	Amount (Rs)
Sale consideration (In this case, Sale consideration= Amount recorded in books of account)	26,00,000
Less: Indexed Cost of Acquisition (If Acquisition on or after 1.4.2001) ICOA = [(COA)*(CII for the year of transfer /CII for Year of Acquisition)] = [(875000)*(348/109)	(27,93,578)
LTCg	1,93,578

CASE 8

DP & Co. has three partners D, P and N sharing profit or loss in the ratio 5:3:2. They admitted X as a new partner on 31/03/2024 for 1/5th share and X is to bring Rs 4,00,000 as his capital which he brought in form of furniture (earlier used in his home) Rs 1,00,000 immediately & further brought jewellery of which fair market value is Rs 2,50,000 on 2/04/2024 (however such assets was recorded in the books at Rs 1,80,000). X had acquired such jewellery for Rs 55,000 on 7/07/2001. Compute capital gain in the hands of Mr. X.

Statement showing computation of Capital gain

Particulars	Amount (Rs)
-------------	-------------

Sale consideration (In this case, Sale consideration = Amount recorded in books of account)		1,80,000
Less: Indexed Cost of Acquisition	$=[(55000)*(348/100)]$	(1,91,400)
LTCg		(11,400)

CASE 9

Mr. AP acquired a house for Rs.240000 in 1997-98. Upon his death, it was acquired by his son KP. The market value as on 1.4.2001 was Rs.250000. But Government has acquired on 15.3.2013 for Rs.1260000 as it will be used by rail transport. Government paid compensation of Rs.1020000 on 25.3.2014 and balance of Rs.240000 on 15.4.2014. Mr KP filed suit for challenging compensation of Govt. and court ordered for giving additional compensation of Rs.400000 (Incurred an expense in connection with Rs.10000). It was received on 14.3.2024. Compute the Capital Gain for AY 2024-25.

Solution:**COMPUTATION OF INITIAL COMPENSATION**

Particulars		Amount (Rs)
Sale consideration (In this case, Sale consideration = Initial compensation)		12,60,000
Less: Indexed Cost of Acquisition If Acquisition before 1.4.2001 ICOA = [(COA or FMV [^] as on 1.4.2001 Whichever)*(CII for the year of compulsory acquisition (12-13)/100)]	Cost = 240000 MV = 250000 Whichever is higher = 250000 = [(250000)*(200/100)]	(5,00,000)
LTCg		7,60,000

Computation of Additional/Enhanced Compensation

Particulars		Amount (Rs)
Sale consideration (In this case, Sale consideration = Additional compensation)		4,00,000
Less: - Expense on transfer - COA - COI	10000 - -	(10,000)
LTCg		3,90,000

CASE 10

Mr. J purchased a residential plot for Rs. 32,50,000 on first of July 1998. Fair Market Value as on 1.4.2001 was Rs. 96,50,000. Y Ltd (Builder) enters into registered Joint Development Agreement with Mr. J on 1.7.2019 and paid Rs. 1,25,00,000. Company will construct 6 residential units on a plot of land and will give

3 units to Mr. J. Moreover the construction of all 6 units was completed and certificate of completion would also be issued by competent authority on dated 20.3.2023. The stamp duty of each flat on same date is Rs. 80,50,000. Later on, Mr. J sold his one flat to Mr. DP on 25th September 2023 for Rs. 1,32,50,000. You are required to compute capital gain for AY2023-24.

Solution:

Date of transfer 1.7.2019 (i.e. Date of agreement) [PY2019-2020]

Year of taxability PY 2022-2023 (i.e. 20.3.2023 – Date of completion certificate received)

Statement showing computation of capital gain for AY 2023-24

Particulars		Amount (Rs.)
Sale Consideration (i.e. Stamp duty) [(80,50,000*3) + 1,25,00,000]		3,66,50,000
Less:		
Indexed Cost of Acquisition: (If Acquisition before 1.4.2001) ICOA = [(96,50,000)*(289/100)] = [(COA or FMV [^] as on 1.4.2001 Whichever is higher)*(CII for the year of Transfer (19-20)/100)]	Cost=3250000 FMV=9650000 Whichever is higher=9650000	2,78,88,500
Long term Capital gain		87,61,500

CASE 11: (block is partly sold)

Mr. provides following information towards his WDV of assets as on 1.4.2023 having rate of depreciation of 15%

Plant –A Rs. 1,00,000 and Plant B of Rs. 20,000. He has also purchased Plant C and Plant D for same rate of depreciation for Rs. 60,000 and Rs. 40,000 dated 15.4.2023 and 15.9.2023 respectively. At the same time, he has sold plant A on 15.3.2024 for Rs. 2,40,000. Compute the capital gain for AY2024-25. Does your view change if Plant A has sold for Rs. 2,00,000?

Solution:

Particulars	Amount (Rs.)
Sale Consideration	2,40,000
Less:	
Opening WDV as on 1.4.2023 (100000+20000)	(120000)
Cost the acquisition during year (60000+40000)	(100000)
Short Term Capital gain	20,000

Note: if Plant A has sold for Rs. 2,00,000, there will be no capital gain in the cited case as Sale consideration (Rs. 2,00,000) < Value of Block of assets (i.e. Opening + during the year purchase) (Rs. 2,20,000). At the same time, allowable depreciation shall be Rs20000. (i.e. 220000-200000) because still the block exist.

CASE 12 (block is entirely sold)

Mr. provides following information towards his WDV of assets as on 1.4.2023 having rate of depreciation of 15%

Plant –A Rs. 1,00,000 and Plant B of Rs. 20,000. He has also purchased Plant C and Plant D for same rate of

depreciation for Rs. 60,000 and Rs. 40,000 dated 15.4.2023 and 15.9.2023 respectively. At the same time, he has sold all the plants for Rs. 2,40,000 on 15.3.2024. Compute the capital gain for AY2024-25. Does your view change if Plant A has sold for Rs. 2,00,000?

Solution:

Particulars	Amount (Rs.)
Sale Consideration	2,40,000
Less	
Opening WDV as on 1.4.2023 (100000+20000)	(120000)
Cost the acquisition during year (60000+40000)	(100000)
Short Term Capital gain	20,000

If Plant A has sold for Rs. 2,00,000?

Particulars	Amount (Rs.)
Sale Consideration	200000
Less	
Opening WDV as on 1.4.2023 (100000+20000)	(120000)
Cost the acquisition during year (60000+40000)	(100000)
Short Term Capital Loss	20,000

Note:

It is interesting to note that no depreciation shall be allowed as entire block gets empty (i.e. all plant have been sold)

CASE 13

Mr. Kaka has a self-occupied house property acquired 10 months ago for Rs 5,00,000. He sold such property for Rs 6,00,000 to Dada. Stamp duty authority for the purpose of levying stamp duty adopted value of Rs 6,25,000. You are required to compute the capital gain for AY2024-25. Does your view towards taxability change if stamp duty adopted value will be Rs. 6,75,000?

Solution:

(If value adopted for stamp duty is Rs. 6,25,000)

Nature of Capital Asset : House Property

Value adopted for stamp duty: Rs. 6,25,000

Actual consideration : Rs. 6,00,000

Computation of Sale consideration

A. Value adopted/assessed/assessable by the stamp valuation authority 6,25,000

B. 110% of actual consideration (110% * 6,00,000)

6,60,000 A<B, Hence, Sale Consideration = Actual consideration = Rs 6,00,000

Computation of Capital gain for AY2024-25

Particulars	Amount (Rs.)
Sale consideration	6,00,000
Less:	
Expense on transfer	-
Cost of Acquisition	5,00,000
Short Term Capital Gain	1,00,000

(If value adopted for stamp duty is Rs. 6,75,000)

Nature of Capital Asset : House Property

Value adopted for stamp duty: Rs. 6,75,000

Actual consideration : Rs. 6,00,000

Computation of Sale consideration

A. Value adopted/assessed/assessable by the stamp valuation authority 6,75,000

B. 110% of actual consideration (110% * 6,00,000) 6,60,000

A>b, Hence, Sale Consideration = Value adopted by Stamp Value authority = Rs. 6,75,000

Computation of Capital gain for AY 2024-25

Particulars	Amount (Rs.)
Sale consideration	6,75,000
Less:	
Expense on transfer	-
Cost of Acquisition	5,00,000
Short Term Capital gain	1,75,000

CASE 14

Mr. Divyesh has a house property acquired on 14/10/2022 for Rs 8,00,000. He sold such property for Rs. 7,00,000 to Vatsal as on 16/08/2023. Stamp duty authority for the purpose of levying stamp duty adopted value of Rs. 12,00,000. Assessing Officer for computing capital gain on such transfer is taking sale consideration Rs. 12,00,000 u/s 50C. On request of Mr. Divyesh, the matter being referred to Valuation Officer and value determined by the Valuation Officer is Rs. 11,00,000. Compute capital gain for AY2024-25. What will be the tax treatment if value determined by the Valuation Officer is Rs. 12,25,000.

Solution:

Nature of Capital Asset :House Property

Value adopted for stamp duty :Rs. 12,00,000

The value determined by the Valuation Officer :Rs. 11,00,000

Computation of Sale consideration

A. The value determined by the Valuation Officer 11,00,000

B. The value adopted or assessed or assessable for the purpose of stamp duty 12,00,000

A<B , Hence Sale Consideration=A (i.e. value determined by valuation officer) 11,00,000

Computation of Capital gain for AY 2024-25

Particulars	Amount (Rs.)
--------------------	---------------------

Sale consideration	11,00,000
Less:	
Expense on transfer	-
Cost of Acquisition	8,00,000
Short Term Capital gain	3,00,000

if value determined by the valuation Officer is Rs. 12,25,000.

- A. The value determined by the Valuation Officer 12,25,000
 B. The value adopted or assessed or assessable for the purpose of stamp duty 12,00,000
 A>B, Hence Sale Consideration=b (i.e. adopted for stamp duty) 12,00,000

Computation of Capital gain for AY 2022-23

Particulars	Amount (Rs.)
Sale consideration	12,00,000
Less:	
Expense on transfer	-
Cost of Acquisition	8,00,000
Short Term Capital gain	4,00,000

CASE 15

Mr. X acquired a house in Mumbai on 16.12.2012 for Rs. 12,50,000. After few years i.e. on March-2016, he entered into agreement to sell the property to Mr. Y for Rs. 20,50,000 and received Rs. 2,50,000 as an advance money and balance money to be paid within period of a month as per the terms of agreement subject to forfeiture if not paid within stipulated time. Mr. Y failed to make payment within stipulated time and consequently it was forfeited. Later on it was sold to Mr. Z for Rs. 25,50,000 by Mr. X and paid 2% of brokerage of sale. You are required to compute Capital Gain for AY 2024-25.

Solution:

Statement showing computation of capital gain for AY 2024-25

Particulars	Amount (Rs.)
Sale Consideration	25,50,000
Less:	(51,000)
Expense on transfer (2% of 25,50,000)	
Indexed Cost of Acquisition (If Acquisition on or after 1.4.2001)	21,75,000
ICOA = [(COA)*(CII for the year of transfer / CII for Year of Acquisition)] ICOA = [(12,50,000)*(348/200)]	
Short Term Capital gain	3,24,000

Practical Questions (MCQs)

State with reason whether the following statements are true or false with regard to the provisions of the Income- tax Act, 1961 for the Assessment year 2024-25:

1. Capital gain of Rs. 75 lakh arising from transfer of long term capital assets will be exempt from tax if such capital gain is invested in the bonds redeemable after three years, issued by NHAI u/s 54 EC of the Act.

Answer : False : Because the maximum limit of investment in bond of NHAI u/s 54 EC, is just Rs. 50 lakhs.

2. In order to enjoy exemption under section 54EC, the resultant long-term capital gains should be invested in specified bonds within a period of _____ from the date of transfer
- a. 36 Months (b) 4 Months
(c) 6 Months (d) 12 Months.

Answer: (c) 6 Months

3. Long-term capital gains on sale of a long-term capital asset in October, 2021 is Rs. 105 lakh. The assessee invested Rs. 50 lakh in REC bonds in March, 2024 and Rs. 55 lakh in NHAI bonds in May, 2024. The amount of exemption eligible under section 54EC is —
- a. Nil (b) Rs. 50 lakh
(c) Rs. 55 lakh (d) Rs. 105 lakh.

Answer: (b) Rs. 50 lakh

4. Mr. Madan sold a vacant land for Rs. 120 lakhs on 10-10- 2023. The indexed cost of acquisition amounts to Rs. 18 lakhs. He deposited Rs. 50 lakhs in REC bonds in January 2024 and another Rs. 50 lakhs in March, 2024. The amount of capital gain liable to tax after deduction under section 54EC is :
- a. Rs. 2 lakhs (b) Rs. 18 lakhs
(c) Rs. 102 lakhs (d) Rs. 52 lakhs

Answer: (d) Rs. 52 lakhs

Practical Questions (MCQs)

1. Capital asset excludes all except-
- (a) Stock-in-trade (b) Personal effects
(c) Jewellery (d) Agricultural land in India

Answer: (c) Jewellery

2. In terms of section 2(42A), listed securities are treated as long-term capital asset, if they are held for
- a period of more than –

- (a) 12 Months (b) 36 Months
(c) 24 Months (d) 48 Months.

Answer: (a) 12 Months

3. Which of the following is not a requisite for charging income-tax on capital gains –
- (a) The transfer must have been effected in the relevant assessment year
(b) There must be a gain arising on transfer of capital asset
(c) Capital gains should not be exempt under section 54
(d) Capital gains should not be exempt under section 54EC.

Answer: (a) The transfer must have been effected in the relevant assessment year

4 Rajat purchased a car for his personal use for Rs. 5,00,000 in April, 2019 and sold the same for

Rs. 5,50,000 in July, 2022. The taxable capital gains is –

- (a) Nil (b) Rs. 5,50,000
(c) Rs. 50,000 (d) Rs. 4,00,000

Answer: (a) Nil [Car for personal use is not capital asset. Therefore, no capital gain shall arise.

5. Which of the following is not a capital asset for Mr. Rao who is employed in a public sector bank?

- (a) urban land
(b) Agricultural land within 2 kms from local limits of municipality
(c) Deposit certificate issued under Gold Monetization Scheme, 2015
(d) Jewellery

Answer: (c) Deposit certificate issued under Gold Monetization Scheme, 2015

6. Land or building, or both, if transferred on or after 1st April, 2022 shall be treated as a long term

capital asset, if it is being held immediately prior to the date of its transfer for more than :

- (a) 36 months (b) 12 months
(c) 24 months (d) none of the above

Answer: (c) 24 months

LESSON 8 Income from Other Sources

Illustration

The following details of the shares issued by the following closely held companies are available. You are required to advise the Company on the applicability or otherwise of Sec 56(2) (viib).

Co.	No. of Shares	FV of Shares (INR)	FMV of Shares (INR)	Issue Price (INR)	Applicability & Chargeable Tax
A (P) Ltd.	10000	100	120	130	Sec. 56(2) (viib) attracted as the shares are issued at premium. $10000 \times (130 - 120) = \text{INR } 100,000$ would be chargeable to tax under the head "Income from other sources"
B (P) Ltd.	20000	100	120	110	Sec. 56(2) (viib) attracted as the shares are issued at premium. However, no amount is chargeable to tax as the Issue Price is < the FMV
C (P) Ltd.	30000	100	90	98	Sec. 56(2) (viib) are not attracted as the shares are not issued at premium, rather at a discount on FV, even though the issue price is > FMV
D (P) Ltd.	40000	100	90	110	Sec. 56(2) (viib) attracted as the shares are issued at premium. $40000 \times (110 - 90) = \text{INR } 800,000$ would be chargeable to tax under the head "Income from Other Sources"

Illustration

ABC Ltd. declared a dividend of INR 200,00,000 for the FY 2023-24 and distributed the same on 15th Jul'23. Mr. A holds 10% shares and therefore receives INR 20,00,000 as dividend. Mr. B hold 4% shares and therefore receives INR 8,00,000 as dividend.

Solution:

The tax treatment would be as under:

- ✓ Mr. A would include full amount of Rs.20,00,000 as income from other sources and He will liable to pay tax at applicable slab rates.
- ✓ Mr. B would include full amount of Rs. 8,00,000 as income from other sources and he will liable to pay tax at applicable slab rates.
- ✓ The company would not be liable to pay dividend distribution tax on the dividend distributed u/s 115-O as the same would be taxable in the hands of shareholders.

Illustration

Suppose, X is holding 29% shares in a company and he took a loan of INR 20,00,000 on 15.7.2023 from the Company and on the date, the loan was granted, the accumulated profits stood at INR 12,00,000.

Solution:

The tax treatment would be as under:

- ✓ In case, the company is one, where the public is substantially interested, the loan would not be treated as deemed dividend. However, in case the company is a closely held company, X holds > 10% stake, this loan upto 12,00,000 would be as deemed dividend and company will not be liable to pay DDT u/s 115O.
- ✓ X would pay tax on such deemed dividend at applicable slab rates and entire amount of 12 lakhs would be included as income under the head Other sources.

Example 1: Non Resident/ Resident Individual

P/G/B/P	1,00,00,000
LTCG 112A	51,00,000
STCG 111A	60,00,000
Total Income	2,11,00,000
Computation of Tax	
Tax on LTCG of 112A	5, 00,000
Tax on STCG of 111A	9, 00,000
Taxon 1,00,00,000	28,12,500
Total Tax	42,12,500
Surcharge	
Surcharge 15% on 14,00,000	2,10,000
Surcharge 15% on 28,12,500	4,21,875

	48,44,375
Add: 4% cess	1,93,775
Total Tax liability	50,38,150
Example 2: Non Resident/ Resident individual	
P/G/B/P	2,50,00,000
LTCG of 112A	3,01,00,000
STCG of 111A	1,00,00,000
Total Income	6,51,00,000
Tax on LTCG of 112A	30,00,000
Tax on STCG of 111A	15,00,000
Tax on 2,50,00,000	73,12,500
Total Tax	118,12,500
Surcharge 15% on 45,00,000	6,75,000
Surcharge 25% on 73,12,500	18,28,125
	1,43,15,625
Add: 4% cess	5,72,625
Total Tax Liability	1,48,88,250

Case Study 1

Nikhil, a dealer in shares received from his friend Anshul, the following without any consideration:

- ✓ Cash Gift INR 100,000 on his birthday (14th Apr)
- ✓ Bullion, FMV INR 75,000 on his anniversary (22nd Apr)
- ✓ Plot of land at Gurgaon on 1st Jun'23, stamp duty value INR 750,000 on that date.

Advise on tax treatment.

Answer

- a) Cash Gift is > INR 50000, therefore, the entire amount of INR 100,000 is chargeable to tax as Income from Other Sources
- b) Bullion received without consideration is taxable too in full as it is received without consideration, therefore, the entire amount of INR 75000 is chargeable to tax as Income from Other Sources
- c) Plot of land received without consideration is taxable too in full as it is received without consideration, therefore, the entire amount of INR 750,000 is chargeable to tax as IOS.

Case Study 2

Nisha, on 1st Dec'23 took possession of a flat booked by her 2 years back, at INR 25,00,000. The Stamp Duty of the flat on the date of possession was INR 40,00,000 and on the date of booking was INR 32,00,000. She had paid INR 200,000 by account payee cheque, on date of booking.

Advise tax treatment.

Answer

It is to be noted that where the date of the agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same, the stamp duty value on the date of the agreement (in this case booking) may be taken. However, this exception shall apply only in a case where the amount of consideration referred to therein, or a part thereof, has been paid by any mode other than cash on or before the date of the agreement for the transfer of such immovable property.

Therefore, the difference between the Stamp Duty Value on date of booking (INR 32,00,000) and the actual consideration (INR 25,00,000); i.e. INR 7,00,000 would be taxable under the head "Income from Other Sources".

Case Study 3

Discuss the taxability of the following transactions in the hands of the recipient.

1. An HUF received from the Karta's niece, INR 80,000 in cash
2. Shruti, a member of her father's HUF, transferred to the HUF a property without any consideration. The Stamp Duty valuation was INR 12,00,000
3. Robin received from his friend 100 shares of INR 200 each and Jewellery worth INR 55,000 (FMV) from his nephew on the same day
4. An HUF gifted a Car to the Karta's son, for brilliant performance in the board exams. The FMV of Car was 10,00,000

Answer

1. **Taxable:** Sum of money received exceeding INR 50,000 without consideration from a non-relative is taxable. Therefore INR 80000 is taxable as his niece, not being a member of the HUF is not a relative of the HUF
2. **Non-Taxable:** Immovable property received without consideration from a relative is non-taxable. Since Shruti is a member of the HUF, she is a relative of the HUF and hence the same is not taxable
3. **Taxable:** In this case, the aggregate FMV of the property other than immovable property, received without consideration exceeds INR 50000 (INR 75,000 actually for the shares & jewellery together). Hence, the entire amount would be taxable
4. **Non-taxable:** Car is not a property for the purposes of Sec. 56 and hence the transaction is non-taxable

Case Study 4

Mr. X is getting family pension of Rs. 7,000 p.m. He also has dividend income from domestic company of Rs. 7,00,000. He has long term capital gain of Rs. 3,89,000. He is entitled to deduction of Rs.1,00,000 u/s 80C Compute his tax liability for assessment year **2024-25**

Option 1 : assessee has not opted for Section 115BAC

Option 2 : assessee has opted for Section 115BAC

Solution:

Option 1 : Assessee has not opted for Section 115BAC

Particulars	Amount (Rs.)	Amount (Rs.)
Family Pension (7,000 x 12)	84,000	

less: deduction u/s 57(iia) [1/3 of rs.84,000 or rs.15,000 whichever is less]	(15,000)	69,000
dividend income		7,00,000
income under the head Other Sources		7,69,000
income under the head Capital Gains		
long term capital gain		3,89,000
Gross total income		11,58,000
less: deduction u/s 80C to 80U		(1,00,000)
total income		10,58,000
Computation of tax liability		
Tax on 3,89,000 @ 20% u/s 112		77,800
tax on 6,69,000 at slab rate		46,300
tax before health & education cess		1,24,100
Add: HEC @ 4%		4,964
tax liability		1,29,064
Rounded off u/s 288B		1,29,070

Option 2 : Assessee has opted for Section 115BAC

<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>
Family Pension (7,000 x 12)	84,000	
Less: Deduction u/s 57(iia)	(15,000)	69,000
Dividend income		7,00,000
Income under the head Other Sources		7,69,000
Income under the head Capital Gains		
Long term capital gain		3,89,000
Gross Total Income		11,58,000
Less: Deduction u/s 80C to 80U		N/A
Total Income		11,58,000
Computation of Tax Liability		
Tax on 3,89,000 @ 20% u/s 112		77,800
Tax on 7,69,000 at new slab rate 0 to 3,00,000 : Nil >3,00,001 to 6,00,000 : 15,000 i.e. 5% >6,00,001 to 7,69,000 : 16,900 i.e. 10%		31,900
Tax before health & education cess		109700

Add: HEC @ 4%		4388
Tax Liability		114088
Rounded off u/s 288B		114090

Case Study 5

ABC Ltd. a closely-held company has bonus share capital of Rs. 10 lakhs, General Reserves of Rs. 6 lakhs and current profits of Rs. 2 lakhs. The company has given a loan of Rs. 9 lakhs to one of the shareholders, who is beneficial owner of equity shares holding 10% of the voting power.

Compute amount of dividend in the hands of shareholder.

Solution:

In this case dividend under section 2(22)(e) shall be Rs. 8 lakhs, i.e., to the extent of the accumulated profits of the company excluding capitalized profits. It shall be taxable in hands of shareholder under Other Sources.

Case Study 6

Mr. Rohit Aggarwal is beneficial owner of equity shares holding 10% of the voting power in ABC Ltd, a closely held company. He is partner in a partnership firm XY and has 20% share in the firm. The company has given a loan of Rs. 5 lakhs to the firm and company's accumulated profits are Rs. 6 lakhs.

Compute amount of dividend in the hands of shareholder and the firm.

Solution:

In this case deemed dividend is Rs. 5 lakhs as per section 2(22)(e). It shall be taxable in the hands of the receiver under Other Sources.

Case Study 7

Mr. Goyal has one factory building along with machines and furniture in Mumbai which has been let out @ Rs. 50,000 p.m. Repair charges of the building is Rs. 7,000 and that of furniture fixtures are Rs. 4,000, insurance premium paid Rs. 3,000 and depreciation is Rs. 27,000.

Compute his income under the head other sources.

Solution

Particulars	Rs.
Gross Rent (50,000 x 12)	6,00,000
Less: Repair of building	7,000
Less: Repair of Furniture and fixtures	4,000
Less: Insurance premium	3,000
Less: Depreciation	27,000
Income under the head Other Sources	5,59,000

Illustrations for Practice**ILLUSTRATION 1**

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2023-24 from his friend Mr. B, -

- (1) Cash gift of Rs. 75,000 on his anniversary, 15th April, 2023.
- (2) Bullion, the fair market value of which was Rs. 60,000, on his birthday, 19th June, 2023.
- (3) A plot of land at Faridabad on 1st July, 2023, the stamp value of which is Rs. 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ Rs.

400 each on 19th June, 2023, the fair market value of which was Rs. 600 each on that date.

Mr. A sold these shares in the course of his business on 23rd June, 2023

Further, on 1st November, 2023, Mr. A took possession of property (building) booked by him two years back at Rs. 20 lakh. The stamp duty value of the property as on 1st November, 2023 was Rs. 32 lakh and on the date of booking was Rs. 23 lakh. He had paid Rs. 1 lakh by account payee cheque as down payment on the date of booking. On 1st March, 2024, he sold the plot of land at Faridabad for Rs. 7 lakh. Compute the income of Mr. A under the head "Income from other sources" and "Capital Gains" for A.Y. 2024-25

SOLUTION

Computation of "Income from other sources" of Mr. A for the A.Y. 2024-25

	Particulars	
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds Rs. 50,000	75,000
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds Rs. 50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4)	Difference of Rs. 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
(5)	Difference between the stamp duty value of Rs. 23 lakh on the date of booking and the actual consideration of Rs. 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds Rs. 2,00,000 being, the higher of Rs. 50,000 and 10% of consideration	3,00,000
Income from Other Sources		9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y. 2024-25

Particulars	Rs.
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

ILLUSTRATION 2

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- Akhil HUF received Rs. 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is Rs. 9,00,000.

- (iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was Rs. 100 per share. He also received Jewellery worth Rs. 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is Rs. 5,25,000.

SOLUTION

	Taxable/ Non-taxable	Amount liable to tax (Rs.)	Reason
(i)	Taxable	75,000	Sum of money exceeding Rs. 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs. 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (Rs. 10,000) and jewellery (Rs. 45,000) exceeds Rs. 50,000. Hence, the entire amount of Rs. 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

ILLUSTRATION 3

Interest on enhanced compensation received by Mr. G during the previous year 2023 - 24 is Rs. 5,00,000. Out of this interest, Rs. 1,50,000 relates to the previous year 2019-20, Rs. 1,65,000 relates to previous year 2020-21 and Rs. 1,85,000 relates to previous year 2021-22. Discuss the tax implication, if any, of such interest income for A.Y. 2024-25.

SOLUTION

The entire interest of Rs. 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2023-24.

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
Interest chargeable under the head "Income from other sources"	2,50,000

Questions for Practice**Question 1**

Examine under which heads the following incomes are taxable:

- (i) Rental income in case property held as stock-in-trade for 3 years

- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary received by a partner from his partnership firm
- (iv) Rental income of machinery
- (v) Winnings from lotteries by a person having the same as business activity
- (vi) Salaries payable to a Member of Parliament
- (vii) Receipts without consideration
- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- (ix) Rental income in case of a person engaged in the business of letting out of properties.

Answer

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Dividend on shares in case of a dealer in shares	Income from other sources
(iii)	Salary by partner from his partnership firm	PGBP
(iv)	Rental income of machinery (See Note below)	Income from other sources/ Profits and gains of business or profession
(v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi)	Salaries payable to a Member of Parliament	Income from other sources
(vii)	Receipts without consideration	Income from other sources
-	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Question 2

Examine whether the following are chargeable to tax and the amount liable to tax:

- (i) A sum of Rs. 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- (ii) Interest on enhanced compensation of Rs. 96,000 received on 12-3-2024 for acquisition of urban land, of which 40% relates to the PY

Answer

S.No	Taxable /Not Taxable	Answer Amount liable to tax (Rs.)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non- relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).

(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of Rs. 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2023-24 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, Rs. 48,000 is chargeable to tax under the head "Income from other sources".
------	---------	--------	--

Question 3

On 10.10.2023, Mr. Govind (a bank employee) received Rs. 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2015-16.

Out of this interest, Rs. 1,50,000 relates to the financial year 2016-17; Rs. 1,65,000 to the financial year 2017-18; and Rs. 1,85,000 to the financial year 2018-19. He incurred Rs. 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2024-25?

Answer

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2024-25:

Particulars	Rs.
Interest on enhanced compensation taxable under section 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x Rs. 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

Question 4

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2024:

- (i) Cash gift of Rs. 51,000 received from her friend on the occasion of her "Shastiapha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth Rs. 2 lacs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2024, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was Rs. 51,000.

Compute the income, if any, assessable as income from other sources.

Answer

- (i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of Rs. 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali.

- (ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".

- (iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds Rs. 50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

- (1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".
- (2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of "sum of money" received.

Income assessable as "Income from other sources"

If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be Rs. 51,000, being cash gift received from a friend on her Shastiapha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs. 1,02,000 (Rs. 51,000 + Rs. 51,000).

Question 5

Examine the following transactions in the context of Income-tax Act, 1961:

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2023 for Rs. 3,00,000 when the market price was Rs. 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at Rs. 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

- (ii) Mr. Chezian is employed in a company with taxable salary income of Rs. 5,00,000. He received a cash gift of Rs. 1,00,000 from Atma Charitable Trust (registered under section 12AB) in December 2023 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian?

Answer

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs. 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs. 2,00,000

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (Rs. 5,00,000) less the indexed cost of acquisition (Rs. 4,55,000) would result in a long term capital gains of Rs. 55,000 in the hands of Mr. B.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AA. Therefore, the cash gift of Rs. 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

Multiple Choice Questions "MCQs"

- Mr. Dev has earned interest of Rs. 12,000 under Post Office Savings Bank Account. The income taxable as other sources is ?
 - Rs. 12000
 - Fully Exempt
 - Rs. 8,500
 - Rs. 6,000

Answer : c

- Mr. Raj received Rs. 80,000 from his friends on the occasion of his Marriage anniversary. Taxable income from other sources is?
 - Entire Rs. 80,000 is exempt
 - Entire Rs. 80,000 is taxable
 - only Rs. 30,000 is taxable
 - Only 50% , i.e. Rs. 40,000

Answer : b

- Ram received INR 80,000 from his best friend on his birthday?
 - INR 80000 is taxable
 - INR 30000 is taxable
 - Entire amount is exempt
 - None of the above

Answer : a

- Mr. C aged 72 years, received INR 15,00,000 as dividend, in FY 2023-24. The Income chargeable to tax is:
 - INR 15,00,000
 - INR 5,00,000

- c) Nil
- d) INR 750000

Answer : a

5. Dividend received from a foreign company is charged to tax under the head ____.
- (a) Profits and gains of business or profession
 - (b) Capital gains
 - (c) Income from other sources
 - (d) Income from salaries

Answer : c

6. Dividend received from domestic company will be included in the total income of the tax payer and will be charged to tax at ____.
- a) 15%
 - b) 20%
 - c) 30%
 - d) Normal rate of tax applicable to the assessee

Answer : d

CHAPTER 9 & 10 CLUBBING OF INCOME AND SET OFF AND C/F OF LOSSES

Illustration 1: A owns Debentures worth Rs 1,000,000 of ABC Ltd., (annual) interest being Rs. 100,000. On April 1, 2023, he transfers interest income to B, his friend without transferring the ownership of these debentures.

In this particular case during 2023-24, interest of Rs. 100,000 is received by B; it will be taxable in the hands of A as per Section 60.

Illustration 2: Mr. X owns Debentures worth Rs 1,000,000 of ABC Ltd., (annual) interest being Rs. 100,000. On April 1, 2023, he transfers interest income to Mr. Y, his friend without transferring the ownership of these debentures. Although during 2023-24, interest of Rs. 100,000 is received by Mr. Y, it is taxable in the hands of Mr. X as per Section 60.

Illustration

X has a substantial interest in A Ltd. and Mrs. X is employed by A Ltd. without any technical or professional qualification to justify the remuneration.

In this case, salary income of Mrs. X shall be taxable in the hands of X.

Illustration

Mr. P is employed as Public Relation Officer in a company where Mrs. P holds 21 per cent equity shares. She has been holding the share before marriage with Mr. P., Mr. P gets a salary of Rs. 1,500 per month.

The whole salary of Rs. 18,000 will be included in the income of Mrs. P provided Mr. P has no technical or professional qualification.

It is immaterial that the remuneration so paid is genuine and not excessive and that Mrs. P had substantial interest in the company even before her marriage.

Illustration –

X transfers 500 debentures of IFCI to his wife without adequate consideration. Interest income on these debentures will be included in the income of X.

Illustration 6 & Solution:

A transfers certain shares to his wife B. Dividends received on such shares are taxable in the hands of A. B sells the shares and makes some capital gains, such gains are also taxable in A's hands. Now from the dividend money, B purchases some more shares and receives dividends on these new shares, such dividends are not taxable to A. In the same way, if B receives certain bonus shares on the shares transferred by her husband and later on she receives dividend on such bonus shares, the dividend shall not be included in the income of the transferor because the bonus shares were never transferred by her husband.

Illustration 1 :

Mr Sharma invests Rs 10 lakh in a fixed deposit (FD) at a bank, in his wife's name. Interest of Rs. 1 lakhs arises on this income. Mrs Sharma invests the interest on periodic basis and interest for an amount of Rs. 5,000 arises on the interest deposited by her in bank. Analyze the clubbing provisions and find out the taxability of interest accrued.

Solution

Rs. 1 lakhs in the Now Interest income on FD will be clubbed with his (Mr. Sharma) income. Interest of Rs. 5,000 aroused out of Investment made by Mrs. Sharma will be taxed as her own income.

Illustration 2 :

Red holds 40% of shares in a Company. Mrs. Red (a CS) is employed in the company as a Company Secretary and is getting salary of Rs. 15,000 per month. Compute total income and tax payable by Red and Mrs. Red for the Assessment Year 2024-25 assuming other income of Red is Rs. 2,00,000 from a business.

Solution

In the present case, Mrs. Red's salary income will be taxable in her hands only as she is earning the same through her professional qualification.

Computation of Total Income and Tax Liability for Assessment Year 2024-25

Particulars	Red	Mrs. Red
Income from Salary	nil	1,80,000
Income from Business	2,00,000	nil
Gross Total Income (or Total Income)	2,00,000	1,80,000
Tax Liability (as total income does not exceed Rs. 2,50,000):	Nil	Nil

Illustration 3:

Mr. Amit is beneficially holding 21% equity shares of Essem Minerals Pvt. Ltd. Mrs. Amit is employed as Manager (in accounts department) in Essem Minerals Pvt. Ltd. at a monthly salary of Rs. 84,000. Mrs. Amit is not having any knowledge, experience or qualification in the field of accountancy. Will the remuneration (i.e., salary) received by Mrs. Amit be clubbed with the income of Mr. Amit?

Solution

In this situation, Mr. Amit is having substantial interest in essem Minerals Pvt. Ltd. and remuneration of Mrs. Amit is not justifiable (i.e., she is employed without any technical or professional knowledge or experience) and, hence, salary received by Mrs. Amit from essem Minerals Pvt. Ltd. will be clubbed with the income of Mr. Amit and will be taxed in the hands of Mr. Amit.

Illustration 4:

Mr. Kapoor gifted Rs. 8,40,000 to his wife. The said amount is invested by his wife in debenture of a company. Will the income from the debenture purchased by Mrs. Kapoor from gifted money be clubbed with the income of Mr. Kapoor?

Solution

Rs. 8,40,000 is transferred to spouse. Fund is transferred via gift (i.e., without adequate consideration) and, hence, the provisions of section 64(1)(iv) will be attracted. The provisions of clubbing will apply even if the form of

asset is changed by the transferee- spouse.

In this case asset transferred is money and, subsequently, the form of asset is changed to debentures, hence, income from debentures acquired from money gifted by her husband will be clubbed with the income of her husband. Thus, interest on debenture received by Mrs. Kapoor will be clubbed with the income of Mr. Kapoor.

Illustration 11:

Mr. Raj has given a bungalow owned by him on rent. Annual rent of the bungalow is Rs. 84,000. He transferred entire rental income to his friend Mr. Kumar. However, he did not transfer the bungalow.

Solution:

In this situation, rent of Rs. 84,000 will be taxed in the hands of Mr. Raj.

Illustration 12:

Mr. Soham holds 8,400 debentures of Shyamal Minerals Ltd. He gifted these debentures to his wife. Will the income from debentures be clubbed with the income of Mr. Soham?

Solution:

In this situation, the debentures are transferred to spouse. Transfer is via gift (i.e., without any consideration) and, hence, income generated from the transferred asset, i.e., interest on such debentures will be clubbed with the income of Mr. Soham.

Illustration 13:

Mr. Raja has two minor children, viz., Master A and Master B. Master A is a child artist and Master B is suffering from diseases specified under section 80U. Income of A and B are as follows:

Income of A from stage shows: Rs. 1,00,000 Income of

A from bank interest: Rs. 6,000

Income of B from bank interest: Rs. 1,20,000.

Will the income of minor children be clubbed with the income of their parent (Mrs. Raja is not having any income)?

Solution:

As per section 64(1A), income of minor children is clubbed with the income of that parent whose income (excluding minor's income) is higher. In this case, Mrs. Raja is not having any income and, hence, if any income is to be clubbed then it will be clubbed with the income of Mr. Raja.

Income of minor child earned on account of manual work or income from the skill, knowledge, talent, experience, etc., of minor child will not be clubbed with the income of his/her parent. Thus, income of A from stage show will not be clubbed with the income of Mr. Raja but income of A from bank interest of Rs. 6,000 will be clubbed with the income of Mr. Raja.

Income of a minor suffering from disability specified under section 80U will not be clubbed with the income of his/her parent. Hence, any income of B will not be clubbed with the income of Mr. Raja.

The taxpayer can claim an exemption under section 10(32)). Thus, in respect of interest income of Rs. 6,000 clubbed in the income of Mr. Raja, he will be entitled to claim exemption of Rs. 1,500 under section 10(32)), hence, net income to be clubbed will be Rs. 4,500 (i.e., Rs. 6,000 – Rs. 1,500).

PRACTICE QUESTIONS

1. If income from a particular source is exempt from tax, then loss from such source cannot be set off against any other income which is chargeable to tax.
 - (a) True
 - (b) False Answer: (a) True

2. The process of adjustment of loss from a source under a particular head of income against income from other source under the same head of income is called _____ .
- (a) Inter-head adjustment
 - (b) Intra-head adjustment
 - (c) Carry forward of loss
 - (d) Clubbing of income

Answer: (b) Intra-head adjustment

3. While making intra-head adjustment of loss, short-term capital loss cannot be set off against long-term capital gain.
- (a) True
 - (b) False Answer: (b)

False

4. While making intra-head adjustment, loss from the business of owning and maintaining race horses can be set off against
- (a) Income from winnings from lotteries
 - (b) Income from crossword puzzles _____ only.
 - (c) Income from business of owning and maintaining race horses
 - (d) Income from card game

Answer: (c) Income from business of owning and maintaining race horses

5. While making inter-head adjustment of loss, loss from business and profession cannot be set off against income chargeable to tax under the head "Salaries".
- (a) True
 - (b) False Answer: (a)

True

6. Loss under the head "Profits and gains of business or profession" can be carried forward even if the return of income/loss of the year in which loss is incurred is not furnished on or before the due date of furnishing the return, as prescribed under section 139(1).
- (a) True
 - (b) False Answer: (b)

False

7. If loss under the head "Income from house property" cannot be fully adjusted in the year in which such loss is incurred, then unadjusted loss can be carried forward for _____ years immediately succeeding the year in which the loss is incurred.
- (a) 2
 - (b) 5
 - (c) 8
 - (d) 10

Answer: (c) 8

8. In case of a Company, being a company in which public are not substantially interested but not being an eligible start-up as referred to in section 80-IAC, if the person beneficially holding _____ of the voting power as on the last day (i.e. 31st March) of the year in which the loss was incurred and on the last day (i.e. 31st March) of the year in which the company wants to set off the brought forward loss are different, then the company cannot set off such brought forward loss.

- (a) 20%
- (b) 25%
- (c) 50%
- (d) 51%

Answer: (d) 51%

Multiple Choice Questions "MCQs"

1. Income of a minor child from a Fixed Deposit with a bank, made out of income earned from scholarship, is to be?
 - a) Assessed in the hands of the minor child
 - b) Clubbed with the income of the parent whose total income before such clubbing is higher
 - c) Exempted from tax
 - d) Clubbed with father's income Answer: (b)
2. Carried forward losses of normal business can be set-off against other income in subsequent assessment year except:
 - a) Income from speculation business
 - b) Income under the head house property
 - c) Income under the head other sources
 - d) Income under the head salaries Answer: (d)
3. Transfer of income without transfer of asset would be taxable in the hands of:
 - a) Transferor only
 - b) Transferee only
 - c) Either transferor or transferee
 - d) Both transferor and transferee Answer: (a)
4. The maximum period for which losses from speculative business can be carried forward is:
 - a) 4 years
 - b) 8 years
 - c) Indefinitely
 - d) None of the above Answer: (a)
5. Income of Minor Child, includible in the income of his/her parents income, deductible to the extent of such income does not exceeds for each minor child:
 - a) Rs. 500
 - b) Rs. 1000
 - c) Rs. 1500
 - d) Rs. 2000 Answer:(c)
6. Unabsorbed depreciation which could not be set off in the assessment year in which it arose, can be carried forward for:
 - a) 8 Years
 - b) Indefinite Period
 - c) 4 Years
 - d) 12 Years Answer: (b)
7. Loss from the activity of owning and maintaining race horses can be set off against _____of the same assessment year.
 - a) Speculation profits

- b) Specified business profits
 - c) Any business profits
 - d) Income from owning and maintaining race horses Answer: (d)
8. Loss from specified business under Section 35 AD can be carried forward for :
- a) 8 Years
 - b) Infinite Period
 - c) 4 Years
 - d) 12 Years Answer: (b)
9. If the loss from business is Rs. 20,000 and income under the head salary is Rs. 2,40,000 then total income of assessee is:
- a) Rs. 2,40,000
 - b) Rs. 2,20,000
 - c) Rs. 2,40,000 and carry forward loss of Rs. 20,000
 - d) Rs. 2,40,000 and no carry forward loss Answer: (c)

Practical Questions:

1. Mr. Sharma gifted his wife Rs 5,00,000. The wife invests this amount in a FD and starts earning an interest on the same. Will this interest income be taxable in the hands of Mr. Sharma? Give reasoning to support the answer.
2. Mr Chandra Babu holds 25% equity shares of Heritage Minerals Pvt. Ltd. His wife – Smt Bhuvaneshwari is employed as Manager (*in Sales department*) in the same company, at a monthly salary of Rs. 90,000. Bhuvaneshwari is not having any knowledge, experience or qualification in the field of Sales. Will the remuneration (*i.e.*, salary) received by Bhuvaneshwari be clubbed with the income of Mr. Babu? If yes, give reasoning to support the answer.
3. Mr. Suresh (transferor) gifts Rs. 1 crore to his wife Swapna (transferee). The said amount is invested by his wife in a house property. Will the rental income (if any) from the house property purchased by Swapna Suresh from gifted money be clubbed with the income of Mr. Suresh. Give reasoning to support the answer.
4. Mr. Pawan Kalyan has given a bungalow owned by him on rent. Annual rent of the bungalow is Rs. 10,00,000. He transferred entire rental income to his friend Mr. Trivikram. However, he did not transfer the bungalow. In whose hand the rental income of Rs. 10,00,000 will be taxed. Give reasoning to support the answer.

LESSON 11 Deductions

Questions

Illustration 1:

X a resident individual incurs Rs. 30,000 expenditure on his own treatment of a specified disease and Rs. 15,000 on medical treatment of his wife in a Government hospital. Rs. 2,000 is reimbursed by insurance company for his wife and Rs. 5,000 are reimbursed by his employer for him. Compute the amount of deduction under section 80DDB?

Solution:

The amount of deduction under section 80DDB shall be **lower of 1 and 2 below** less amount recovered from insurance company and employer.

1. $30,000 + 15,000 = 45,000$

2. $40,000$

Rs. 40,000 less (2,000+5,000) = 33,000

Hence, Rs. 33, 000 is the amount of deduction under section 80 DDB.

Illustration 2:

1. If X, an individual incurs Rs. 1,80,000 expenditure on medical treatment of a specified disease for his mother (65 years) in a hospital recognised by Chief Commissioner and Rs. 8,000 are reimbursed by insurance company, what will be the amount of deduction available to him under section 80DDB?

- (a) Rs. 92,000
- (b) Rs. 72,000
- (c) Rs. 1,80,000
- (d) Any amount**

Ans - A

2. If X, an individual incurs Rs. 1,80,000 expenditure on medical treatment of a specified disease for his grand-mother (85 years) in a hospital recognised by Chief Commissioner and Rs. 8,000 are reimbursed by insurance company, what will be the amount of deduction available to him under section 80DDB?

- (a) Rs. 60,000
- (b) Rs. 1,80,000
- (c) Rs. 92,000
- (d) NIL**

Ans - d

3. Maximum amount of deduction is allowed upto u/s 80DDB of the Income Tax Act, 1961, to an individual or HUF (Age below 60 years) towards the payment of medical treatment for critical illness for himself or family members:

- a) Rs. 1,00,000
- b) Rs. 60,000
- c) Rs. 40,000
- d) Nil

Ans: (c) Rs. 40,000

Illustration 3

What is the upper limit of deduction (including interest) on loan, taken by an individual from any financial institution or any approved charitable institution for the purpose of pursuing his/her higher education?

- (a) Rs. 30,000
- (b) Rs. 40,000
- (c) Rs. 50,000
- (d) Any Amount**

Ans - D

Illustration 4

Find out the amount of deduction under Section 80EE for the assessment year **2024-25** where an individual has applied for a loan for acquisition of house property on March 15, 2016 for Rs. 50 lakh and the loan is sanctioned on May 10, 2016 for Rs. 30 lakh only. He does not own any other residential house property and pays interest of Rs. 70,000 for previous year **23-24**

- (a) 70,000
- (b) 50,000
- (c) NIL
- (d) 40,000

Ans - C

Illustration 5

Section 80D provides deduction to an individual in respect of premium paid towards medical insurance of his family. For the purpose of Section 80 D Family means:

- a) The spouse
- b) The spouse and dependent children of the assessee.
- c) The spouse and any children of the assessee.
- d) The spouse, children and parents of the assessee.

Solution: (b) The spouse and dependent children of the assessee.

Illustration 6

Assessment year **2024-25**, an individual taxpayer can claim deduction of up to _____ under Section 80D of the Income Tax Act, 1961, if he or his family members and his parents are 60 years or above:

- a) Rs. 50,000
- b) Rs. 60,000
- c) Rs. 1,00,000
- d) None of the above

Solution: (c) Rs. 1,00,000

Illustration 5

If Mr. 'A' had income against the following heads	
Taxable salary income	40,000
Income from house property	75,000
Income from other sources	20,000
Interest on securities of DCM Ltd. (Gross)	8,000
TOTAL	1,43,000
He made following payments:	
Contribution to P.F. (recognized)	2,000
Donation to the Prime Minister's National Relief Fund	2,500
Donation to the Indira Gandhi Memorial Trust	4,000
Donation to an approved association for promoting family planning	4,000
Donation to approved charitable trust	10,000

Compute Mr. A's taxable income for assessment year **2024-25**.

Solution: His taxable income for assessment year **2024-25** will be computed as follows:

Net income from salary	40,000
Income from house property	75,000
Income from other sources	28,000

Gross Total Income	1,43,000
Less: Deduction under Section 80C	2,000
Less: Deduction permissible: Donation under Section 80G (as worked out below)	13,500
Taxable income	1,27,500
Income-tax on Rs.1,27,500	NIL
Net tax payable (including Health & Education Cess @ 4%)	NIL

Note: under Section 80G the various items of donations will be dealt with as under:

1. Prime Minister's National Relief Fund deductible in full without any restrictions.
2. Donation to Indira Gandhi Memorial Trust is deductible to the extent of 50% of donation without any restrictions.
3. Donation to approved family planning association is deductible in full so long as it is within the 10% limit imposed by Section 80G (4).
4. Donation to an approved charitable trust is deductible to the tune of 50% so long as it is also within the limit imposed by Section 80G(4).

Calculation of deduction under Section 80G:

	Gross Total Income	1,43,000
Less :	Deduction under Sections 80C to 80U	2,000
	Adjusted gross total income	1,41,000

(i) Donation on which qualifying limit is not applicable:

(A) Allowed @ 100%	
Prime Minister's National Relief Fund	2,500
(B) Allowed @ 50%	
I. Indira Gandhi Memorial Trust (4000)	2,000

(ii) Donation to which qualifying limit is applicable:

(1) For promotion of family planning	4,000
(2) Charitable trust	10,000
	14,000

Limited to 10% of Adjusted Gross Total Income:

i.e. Rs.14,100/- Since donation to family planning are lowest than maximum allowable.

Therefore, allowable amount is (4,000 + 5,000) Rs. 9,000/-

Total Deduction for Section 80G **13,500**

Illustration 6

If Mr. 'A' had income against the following heads,

Professional income	6,40,000
Income from STCG (covered under section 111A)	5,000
Income from LTCG	12,000
Income from other sources	10,000
Contribution to P.P.F.	70,000
Payment of Rent	84,000

Compute Mr. A's taxable income for assessment year 2024-25.

Solution: His taxable income for assessment year 2024-25 will be computed as follows:

Professional income	6,40,000
Income from capital gains	17,000
Income from other sources	10,000
Gross Total Income	6,67,000
Less: Deduction under Section 80C	70,000
Less: Deduction under Section 80GG	26,000
(as worked out below)	
Taxable income	571,000

Working note:

Least of the following is deductible under section 80GG

- $84,000 - (10\% \text{ of } 5,80,000) = 26,000$
- $25\% \text{ of } 5,80,000 = 1,45,000$.
- $\text{Rs. } 5,000 * 12 = 60,000$

Deduction under Section 80GG is lower of three above Rs. 26,000.

Adjusted Total Income = $6,67,000 - 17,000 - 70,000 = 5,80,000$.

Note: if the assessee opted to pay tax under section 115BaC, deduction under section 80C / 80GG is not available.

Illustration 8

Mr. Ram who is a person with disability submit the following information. Compute (a) the Taxable Income for the assessment year 2024-25

(i)	Salary (per annum)	3,00,000
(ii)	Rent received	48,000
(iii)	Dividend from Co-operative Society	1,000
(iv)	Interest on Savings Bank Deposits	18,000
(v)	Interest on Government securities	1,000
(vi)	Winning from Lotteries (gross)	5,000
(vii)	NSC (VIII Issue) purchased during the year	10,000
(viii)	Deposit under PPF Scheme	30,000

He earned a long-term capital gain of Rs. 15,000 on sale of gold during the year

Solution

A. Computation of Total Income	Rs.	Rs.
Income from Basic Salary		3,00,000
Less : Deduction under section 16(ia) – Standard Deduction		(50,000)
		2,50,000
Income from house property		
Rent Received	48,000	
Less : Statutory Deduction @ 30%	(14,400)	33,600

Capital Gains		
Long-term capital gains		15,000
Income from other sources		
Dividend from co-operative society	1,000	
Interest on saving bank deposits	18,000	
Interest on government Securities	1,000	
Winning from Lotteries	5,000	25,000
Gross Total Income		3,23,600
Less : Deduction under section 80C to 80U		
(i) Under section 80C Rs. (10,000 + 30,000)	(40,000)	
(ii) Under section 80TTA	(10,000)	
(iii) Under section 80U	(50,000)	(1,00,000)
Total Income		2,23,600
B. Computation of Tax on Total Income		
Tax on winning from lotteries (30% of Rs.5,000)		1,500
Tax on long-term capital gains (20% of Rs.15,000)		3,000
Balance of Total Income Rs.2,03,600		Nil
Tax payable, bring total income below Rs. 2,50,000		Nil

Note: The solution has been made assuming the assessee has not opted to pay tax under section 115BAC of the income tax act, 1961

Illustration 9

Rahul who is a resident in India, is a person with disability. He provides the following particulars of his income for the year ended 31.3.2024.

(a)	Salary for working as a cable operator (per month)	18,000
(b)	Interest on government securities (gross)	45,000
(c)	Dividend from Indian Company	5,000
(d)	Honorarium from school of orphanage for giving his service	49,000

He has donated Rs. 20,000 to the school for orphanage which is approved as a charitable institution and contributed Rs. 2,000 to Prime Minister National Relief Fund. He has also paid Rs.3,000 by credit card as premium of Medici claim policy. His father is also a person with disability and is dependent on him for medical treatment and rehabilitation. Rahul spends Rs. 8,000 during the year on him.

Compute the Total Income for the Assessment Year 2024-25, assuming he has deposited Rs. 20,000 in Public Provident fund Account.

Solution Computation of Total Income for the Assessment Year 2024-25

Income from salary		Rs.	Rs.
Gross Salary		2,16,000	
Less: Deduction (Standard)		50,000	1,66,000
Income from other sources			
Interest on Government Securities		45,000	

Dividend from Indian Company		5000	
Honorarium		49,000	99,000
Gross Total Income			2,65,000
Less: Deductions:			
(i) under section 80C		20,000	
(ii) under section 80D		3,000	
(iii) under section 80DD		75,000	
(iv) under section 80U		75,000	
(v) under section 80G			
Prime Minister Relief Fund (100% of Rs. 2,000)	2,000		
Orphanage School (50% of Rs. 9,200)			
10% of 92,000 Rs. (2,65,000 - 1,73,000)	4,600	6,600	1,79,600
Total Income			85,400

Note: The solution has been made assuming the assessee has not opted to pay tax under section 115BAC of the income tax act, 1961.

Illustration 10

Following are the particulars of income of Mr. Ram, who is 70 years old resident in India, for the Assessment year **2024-25**:
 Gross Total Income Rs. 8,10,040 which includes long-term capital gain of Rs. 2,55,000, Short-term capital gain of Rs. 88,000, interest income of Rs. 12,000 from savings bank deposits with banks. Mr. Ram invested in PPF Rs. 1,40,000 and also paid a medical insurance premium Rs. 31,000. Compute the total income of Mr. Ram.

Solution Computation of Total Income for the Assessment Year **2024-25**

Rs.

Gross total income	8,10,040
Less: Deductions:	
under section 80C	1,40,000
under section 80D	31,000
under section 80TTA	10,000
Total income	6,29,040

Note: The solution has been made assuming the assessee has not opted to pay tax under section 115BAC of the income tax act, 1961

Multiple Choice Questions "MCQs"

- Deduction u/s 80C, in respect of Life Insurance premium, Contribution to provident fund etc., is allowed to?
 - Any assessee
 - An individual
 - An individual / HUF
 - An individual / HUF who is resident in India
 Answer: (d)
- The flat amount of deduction under section 80U is -
 - Rs. 50,000 and Rs. 75,000
 - Rs. 75,000 and Rs. 1,00,000
 - Rs. 75,000 and Rs. 1,10,000
 - Rs. 75,000 and Rs. 1,25,000
 Answer: (d)

3. Which of the following is covered under section 80D of the Income-tax Act, 1961 –
- a) Repayment of loan taken for higher education
 - b) Medical treatment of handicapped dependent
 - c) Medical Insurance premium
 - d) Reimbursement of medical expenses Answer: (c)
4. Deduction under section 80E can be claimed for interest on loan for
- a) Any course of higher education
 - b) only post graduate courses
 - c) only graduate courses
 - d) Any course of study after passing the Senior Secondary examination or its equivalent from any recognised school, board or university

Answer: (d)

5. Maximum qualifying limit for deduction under section 80C is -
- a) Rs. 50,000
 - b) Rs. 1,10,000
 - c) Rs. 1,00,000
 - d) Rs. 1,50,000

Answer: (d)

6. Deduction u/s 80D of the Income tax Act, 1961 can be claimed by _
- a) An Individual and HUF opted for Section 115BAC of the Income tax Act, 1961.
 - b) An Individual and HUF not opted for Section 115BAC of the Income tax Act, 1961.
 - c) All assessee
 - d) none of the above Answer: b

7. In Income Tax Act, 1961, deduction under sections 80C to 80U cannot exceed _____
- a) gross total income
 - b) Total income
 - c) Income from business or profession
 - d) Income from house property Answer: a

8. Deduction can be claimed for amount deposited under Sukanya Samridhi Account under section..... of the Income-tax Act, 1961
- a) 80CC
 - b) 80 C
 - c) 80 D
 - d) 80DD

Answer: b

9. Chapter VI-A of the Income-tax Act, 1961 deals with:
- a) Deduction
 - b) exemption
 - c) Carry forward and set-off of losses
 - d) none of the above Answer: a
10. Donation on PM's national Relief fund is deductible 100% out of the gross total income of the assessee, under section__ of the Income-tax Act, 1961.
- a) 80 C

- b) 80 D
- c) 80 G
- d) 80 GG
- e) Answer: c

CA Saumil Manglani

LESSON 12 & 13 TDS TCS Advance Tax Returns

Illustration 1 :

Calculate Advance Tax Payable by Mr. Arun from the following estimated incomes for the previous year **2023-24** :

- Business Income : Rs. 4,75,000;
- Rent from house property : Rs. 36,000 per month;
- Municipal taxes : Rs. 27,000;
- Winning from games : Rs. 70,000 (net of TDS);
- Life insurance premium paid for himself (sum assured : Rs. 5,00,000) : Rs. 30,000.

Solution:

Computation of Advance Tax payable by Mr. Arun - Previous Year **2023-24 (Assessment Year **2024-25**)** Step 1 :

Step 1: Compute Estimated Total Income for the year :

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Income from house property :		
Gross Annual Value [Rental Income (36,000 x 12)]	4,32,000	
Less : Municipal taxes paid by owner	(27,000)	
Net Annual Value (NAV)	4,05,000	
Less : Standard Deduction @ 30% of NAV	(1,21,500)	2,83,500
Profits and gains of Business or Profession		4,75,000
Income from other sources :		
Winning from games (gross) [70000 x 100(100% - 30%)]		1,00,000
Gross Total Income (GTI)		8,58,500
Less : Deductions under Section 80C		(30,000)
Total Income		8,28,500

Step 2 : Computation Estimated of Tax Liability and Advance Tax Payable

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Tax on :		
Winning from Games @ 30% [1,00,000 x 30%]	30,000	
Balance Income @ Slab Rate [12,500 + 20% of (7,28,500 - 5,00,000)]	58,200	
Tax Payable		88,200
Add : Surcharge, if any		Nil

Add : Cess @ 4%		3,528
Tax Liability		91,728
Less : TDS		(30,000)
Advance Tax Liability		61,728
Advance Tax (Rounded off)		61,730

Step 3 : Advance Tax Instalments - Advance tax is payable as follows

<i>Upto</i>	<i>% (Rate)</i>	<i>Cumulative (Rs.)</i>	<i>Each Instalment (Rs.)</i>
15.06.2023	15	9,259 [61,730x15%]	9,259
15.09.2023	45	27,778 [61,730x45%]	18,519
15.12.2023	75	46,297 [61,730x75%]	18,519
15.03.2024	100	61,730 [61,730x100%]	15,433

Note: Assuming assessee has opted for section 115BAC of the Income Tax Act, 1961.

Illustration 2 :

Red Ltd. (an Indian company) has estimated its income for previous year **2023-24**. Calculate advance taxpayable by it from the following :

- Business Income : Rs. 10,80,000;
- Income from house property (after deduction under section 24) : Rs. 7,20,000;
- Long term capital gain (LTCG) on transfer of immovable property on 1st November, 2021 : Rs. 3,60,000;
- Interest on bank deposits (other than saving bank account) : Rs. 45,000;
- TDS on business income and interest was Rs. 60,000;
- Deduction under section 80G is Rs.1,00,000.

Solution:

Computation of advance tax payable by Red Ltd. for Previous Year **2023-24 (Assessment Year **2024-25**)**

Step 1: Compute Estimated total income for the year :

<i>Particulars</i>	<i>Rs.</i>
Profits and gains of Business or Profession	10,80,000
Income from house property	7,20,000
LTCG	3,60,000
Income from other sources :	
Interest on bank deposits	45,000
Gross Total Income (GTI)	22,05,000

Less : Deductions under Section 80G	(1,00,000)
Total Income	21,05,000

Step 2: Computation of Estimated Tax Liability and Advance Tax Payable (It is presumed that Red Ltd is a regular company which is not satisfying the conditions of 115BA, 115BAA and 115BAB and its turnover/Gross receipts during P.Yr. **2022-23** exceeds Rs 400 Crores, hence rate of tax is taken as 30%)

Particulars	Rs.	Rs.
Tax on :		
LTCG @ 20% (3,60,000 x 20%)	72,000	
Balance Income @ 30% [(21,05,000 - 3,60,000) x 30%]	5,23,500	5,95,500
Add : Surcharge, if any		Nil
Add : Cess @ 4%		23,820
Tax Liability		6,19,320
Less : TDS		(60,000)
Advance Tax Liability		5,59,320
Advance Tax (rounded off)		5,59,320

Step 3: Advance Tax Instalments - Advance Tax is payable as follows:

Note: Advance Tax is payable by all Assessee in four installments during the previous year, i.e., by 15th June (15%), 15th September (45%), 15th December (75%) and 15th March (100%). However, in case of LTCG arising after one or more installments, advance tax on installments prior to date of LTCG can be paid without including tax on LTCG and advance tax on installments after LTCG must be paid in the remaining installments on the amount of total tax liability including that on LTCG.

Therefore, in this case, advance tax payable by 1st and 2nd installment would be based on Tax excluding Tax on LTCG and advance tax payable by 3rd and 4th installment would be based on tax including tax on LTCG.

Tax excluding tax on LTCG : Rs. 5,23,500 + Cess @ 4% = Rs. 5,44,440 - TDS Rs. 60,000 = Rs. 4,84,440

Upto	Cumulative %	Cumulative (Rs.)	Each installment (Rs.)
15.06.2023	15	72,666 [4,84,440x15%]	72,666
15.09.2023	45	2,17,998 [4,84,440x45%]	1,45,332
15.12.2023	75	4,19,490 [5,59,320x75%]	2,01,492
15.03.2024	100	5,59,320 [5,59,320x100%]	1,39,830

Practice Questions:

- Miss Saroj is a salaried employee. Her taxable salary income for the year **2021-22** is Rs. 8,40,000 (she does not have any other income). What will be the due date of filing the return of income for the financial year **2021-22**?

Answer: 31st July, **2022**

- Mr. Rupen is a doctor. gross receipts for the year **2021-22** came to Rs. 18,40,000. He opts for

the presumptive taxation scheme of section 44ADA. What will be the due date for filing of return of income by Mr. Rupen for the financial year 2021-22?

Answer: The gross receipts for the year are less than Rs. 50,00,000 and Mr. Rupen has opted for the presumptive taxation scheme of section 44ADA. Hence Mr. Rupen will not be liable to get his accounts audited i.e. he is not covered by audit. Hence, the due date for filing the return of income of the year 2021-22 will be 31st July, 2022.

3. Mr. Rahul is running a garments factory. Turnover of his business for the year 2021-22 amounted to Rs. 1,84,00,000. He opts for the presumptive taxation scheme of section 44AD. What will be the due date for filing of return of income by Mr. Rahul for the financial year 2021-22?

Answer: The turnover for the year is less than Rs. 2,00,00,000 and hence Mr. Rahul will not be liable to get his accounts audited i.e. he is not covered by audit as he opts for the presumptive taxation scheme of section 44AD. Hence, the due date of filing the return of income of the year 2021-22 will be 31st July, 2022.

4. Mr. Kaushal is a partner in Essem Trading Company. The turnover of the firm for the financial year 2021-22 amounted to Rs. 2,84,00,000. Apart from remuneration, interest and share of profit from the firm, Mr. Kaushal is not having any other source of income. What will be the due date for filing the return of income by the partnership firm and by Mr. Kaushal for the financial year 2021-22?

Answer: The turnover of the firm exceeds Rs. 2,00,00,000 and, hence, the firm will not be eligible for presumptive taxation scheme under section 44AD. Further, the firm shall be liable to get its accounts audited under section 44AB. Hence, the due date for filing the return of income of the year 2021-22 (in case of the firm as well as Mr. Kaushal) will be 31st October, 2022.

5. Mr. Kiran is a partner in SM Enterprises. The turnover of the firm for the financial year 2021-22 amounted to Rs. 1,84,00,000. The firm has declared income @ 8% on presumptive basis under section 44AD of the Act. Apart from remuneration, interest and share of profit from the firm, Mr. Kiran is not having any other source of income. What will be the due date of filing of return of income by the partnership firm and by Mr. Kiran for the financial year 2021-22?

Answer: The turnover of the firm is below Rs. 2,00,00,000 and, hence, it will not be liable to get its accounts audited. Hence, the due date for filing the return of income of the year 2021-22 (in case of firm as well as Mr. Kiran) will be 31st July, 2022.

6. Essem Minerals Pvt. Ltd. is a company engaged in trading of minerals. What will be the due date for filing the return of income for the financial year 2021-22?

Answer: The due date for filing the return of income of the year 2021-22 will be 31st October, 2022.

7. Essem Minerals Pvt. Ltd. is a company engaged in trading of minerals and liable to furnish a report in Form No. 3CEB under section 92E. What will be the due date for filing the return of income for the financial year 2021-22?

Answer: The due date for filing the return of income of the year 2021-22 will be 30th November, 2022.

8. Mrs. Gupta is house wife and has no source of income. During the financial year 2021-22, she made payment towards electricity bills of her house. Total payment of Rs. 1,50,000 lakhs were made through bank account. Whether Mrs. Gupta will be liable to file return of income?

Answer: W.e.f., Assessment Year **2020-21**, a person shall be liable to file return of income if he has incurred aggregate expenditure in excess of Rs. 1 lakh towards payment of electricity bill. In this case, Mrs. Gupta has made payment of Rs. 1,50,000 towards electricity bills. Thus, she will be liable to file return of income for the financial year **2021-22** by 31st July, 2022.

9. Mr. Raghav is a salaried employee. He gifted a holiday package of Dubai to his brother. Mr. Raghav paid total amount of Rs. 2.5 lakhs to tour operator for the holiday package. His salary income for the financial year **2021-22** is Rs. 2,00,000 and has no other income. Whether Mr. Raghav is liable to file return of income?

Answer: W.e.f Assessment Year **2020-21**, a person shall be liable to file return of income if he has incurred aggregate expenditure in excess of Rs. 2 lakh for himself or any other person for travel to a foreign country. So whether a person incurred expense for self or for any other person, filing of return is mandatory if expenses on foreign travel is in excess of Rs. 2 Lakh.

In this case, Mr. Raghav has purchased holiday package worth Rs. 2.5 lakhs. Thus, he will be liable to file return of income for the financial year **2021-22** by 31st July, **2022** even though his total income doesn't exceed the maximum amount not chargeable to tax.

Practice Questions:

1. For the previous year 2021-22, Mr. x did not file the return of income on the due date. Can Mr. x file the return of income after the due date?

Answer: Yes, as per section 139(4), Mr. X can file a belated return. Mr. X may file the return of income at any time on or before 31st of December, **2022**.

2. Mr. Raja is a trader of agricultural products. Turnover of his business for the previous year 2021-22 amounted to Rs. 84,00,000. He has not opted for the presumptive taxation scheme of section 44AD

i.e. not declaring income at 8% of sales. He declared income at less than 8% of sales. What will be the 'due date' for filing his return of income for the financial year 2021-22? If he fails to file the return of income by the due date then by what date he can file a belated return?

Answer: In this case, as Mr. Raja had not opted for presumptive taxation scheme of section 44AD, and declared income at less than 8% of sales, he will be required to get his accounts audited under section 44AB and therefore the due date for filing the return of income of the year **2021-22** will be 31st October, **2022**. If he cannot file the return of income by the due date, i.e., by 31st October, **2021**, then he can file a belated return 3 months before end of the relevant assessment year or before completion of assessment, whichever is earlier. In other words, he can file a belated return upto 31-12-**2022**. If the assessment is completed before 31-12-**2022**, then he can file a belated return at any time before the completion of assessment.

Multiple Choice Questions "MCQs"

1. Mr. Anil who is a non-resident in India during the previous year has paid consultancy fees of Rs. 50 lakhs to X Ltd, a non-resident foreign company in connection to a project / liaison office in India. Under which section Mr. Anil is required to deduct tax at source on the above payment?
- a) Section 194J of the Income tax Act, 1961
 - b) Section 195 of the Income tax Act, 1961

- c) No TDS is required to be deducted
 - d) None of the above Answer: (b)
2. Interest on deferment of advance tax is levied under section:
- a) Section 234A of the Income -tax Act, 1961
 - b) Section 234B of the Income-tax Act, 1961
 - c) Section 234C of the Income-tax Act, 1961
 - d) Section 201A of the Income-tax Act, 1961 Answer: (c)
3. The TDS Certificate issued by an employer to his employees in case of salary income is
- a) Form 16
 - b) Form 26
 - c) Form 26A
 - d) Form 26Q Answer:
- (a)
4. For making a TAN Application online, a person shall file his application in Form No.
- a) 49A
 - b) 49C
 - c) 49B
 - d) 49D
- Answer: (c)
5. Every individual/HUF/AOP/BOI/artificial juridical person has to file the return of income if his total income (including income of any other person in respect of which he is assessable) without giving effect to the provisions of section 10(38), 10A, 10B 10BA, 54, 54B, 54D, 54EC, 54F, 54G, 54GA or 54GB or Chapter VIA (i.e., deduction under section 80C to 80U), exceeds
- (a) Rs. 2,00,000
 - (b) Rs. 2,50,000
 - (c) Rs. 5,00,000
 - (d) The maximum amount not chargeable to tax Answer: (d)
6. What is the due date of filing the return of income in case of a company other than a company who is required to furnish a report in Form No. 3CEB under section 92E?
- (a) October 31 of the assessment year
 - (b) November 30 of the assessment the year
 - (c) July 31 of the assessment year
 - (d) June 30 of relevant assessment the year Answer: (d)

Justify with reason the correctness / incorrectness of the statement

- 1. "Every person, being a company, has to file its return of income only if it has any positive income or if it wants to carry forward the loss (if any).
- 2. Every person, being a company, has to file its return of income compulsorily, irrespective of its income being profit or loss. In other words, it is mandatory for every company to file the return of income irrespective of its income or loss.

3. Every person, being a partnership firm (including Limited Liability Partnership), has to file its return of income compulsorily, irrespective of its income being profit or loss.
4. If a person fails to file the return of income within the time-limit prescribed in this regard, then as per section 139(4) he can file a belated return. A belated return can be filed before the end of the relevant assessment year or before completion of assessment, whichever is earlier.

Descriptive Questions:

1. Mr. A is an employee earning salary of Rs. 30,000 per month. He filed return of income and his tax liability was nil after claiming rebate under section 87A. Later he found that he didn't disclose interest income of Rs. 60,000 on which tax was deducted by bank. The time limit to file belated return has expired. Can assessee file updated return and claim refund of tax deducted on interest?
2. What are the implications If a person fails to file the return of income within the time-limit prescribed under the Income tax Act, 1961.
3. What is Tax Deducted at Source and Tax Collected at Source

CA SAUMIL MANGLANI

LESSON 14 Various Entities

Illustrations:

Compute Income Tax liability in following situations for Assessment Year **2024-25** given that in none of the cases assessee wants to opt for the regular tax regime i.e. computation is to be done under section 115BAC and the assessees are resident individuals. Given are the Total Incomes.

1. Mr. Ishank (30 years): Rs.7,00,000.
2. Ms. Shirin (29 years): Rs.7,27,000.
3. Mr. Aroha (21 years): Rs.7,80,000.
4. Mr. Nirvan (23 years): Rs.8,00,000.

Solution:

Computation of Tax liability for the Assessment Year **2024-25:**

PARTICULARS	Mr. Ishank	Ms. Shirin	Mr. Aroha	Mr. Nirvan
Total Income (1)	7,00,000	7,27,000	7,80,000	8,00,000
Tax on Total Income as per section 115BAC (2)	25,000	27,700	33,000	35,000
Less: Rebate u/s 87A (3)	(25,000)	(Nil)	(Nil)	(Nil)
Less: Amount deductible as per proviso (b) to section 87A {i.e. Marginal Relief Adjustment} (4) Excess of tax in step 2 over Total Income (-) Rs.7 lakhs in case of Mr. Ishank {There is no such excess tax in situation of Mr. Aroha & Mr. Nirvan}		(700)	(Nil)	(Nil)
Therefore, Income Tax after Rebate u/s 87A	Nil	27,000	33,000	35,000
Add: Health and Education Cess @ 4%	Nil	1,080	1,320	1,400
Therefore, Total Tax Liability	Nil	28,080	29,120	36,400

Case 1 –

Where the **whole of the net consideration received on transfer is utilized** for acquiring the new capital assets, so much of the capital gains shall be exempt.

Example: Given

Particulars	Amount
Net sale Consideration	Rs. 1,00,000
Cost of old asset	Rs. 80,000
Capital Gains	Rs. 20,000
Now New asset purchased for	Rs.1,00,000
In this case full amount of Capital Gains Rs. 20,000 will be exempt as amount utilized for new asset is cost of old asset (Rs. 80,000+ Capital Gains utilized Rs. 20,000)	

Case 2 - Where only a **part of the net consideration** is utilized for acquiring the new capital

asset, so much of the capital gain as is equal to the amount by which the amount so utilized exceeds the cost of the transferred asset will be taxable. Understand with the example -

Example: If a trust had a capital asset costing Rs.1,00,000 and sold the same for Rs. 1,50,000 and then bought a capital asset for Rs. 1,30,000, then the working will be as follows:

Particulars	Rs.
Sale proceeds of old asset	1,50,000
Cost of the old asset	(1,00,000)
Capital gain	50,000
Cost of the new asset	1,30,000
So, amount not taxable (cost of old asset + Capital Gains utilized)	1,30,000
Capital gain taxable is	20,000
Net Sale Consideration [Rs. 1,50,000]	
minus	
Cost of old asset [Rs. 1,00,000] + Capital Gains utilized [Rs. 30,000]	

Example - A trust has a capital asset costing Rs. 2,00,000 and 1/2 of its income is utilized for charitable purpose. It is sold for Rs. 3,50,000. If the trust buys another capital asset for Rs. 3,50,000 then appropriate fraction of the capital gain deemed to have been applied for charitable purpose. Here –

Particulars	Rs.
Sale proceeds of Capital asset relevant for charitable purpose (Rs. 3.5 Lacs/2)	1,75,000
Cost of the asset sold relevant for charitable purpose (Rs. 2 Lacs/2)	1,00,000
Capital gain on transfer of capital asset relevant for charitable purpose (Rs. 1.5 Lacs/2)	75,000
Another asset purchased relevant for charitable purpose (Rs. 3.5 Lacs/2)	1,75,000
Appropriate fraction utilised (Relevant cost of old asset – Rs. 1 Lac + Relevant Capital gains Rs. 75,000)	1,75,000
In this case amount of relevant Capital Gains Rs. 75,000 will be exempt as amount utilized for new asset is relevant cost of old asset (Rs. 1,00,000+ relevant Capital Gains utilized Rs. 75,000)	

- (i) in any other case, so much of the appropriate fraction of the capital gain as is equal to the amount, if any, by which the appropriate fraction of the amount utilized for acquiring the new asset exceeds the appropriate fraction of the cost of the transferred asset. **(Let's understand with the help of example)**

Example - (Asked in June 18)→ A trust has a capital asset costing Rs. 2,00,000 and 1/2 of its income is utilized for charitable purpose. It is sold for Rs. 3,50,000. If the trust buys another capital asset for Rs. 2,90,000 then appropriate fraction of the capital gain deemed to have been applied for charitable purpose. Here –

Solution –

Particulars	Rs.
Sale proceeds of Capital asset relevant for charitable purpose (Rs. 3.5 Lacs/2)	1,75,000
Cost of the asset sold relevant for charitable purpose (Rs. 2 Lacs/2)	1,00,000
Capital gain on transfer of capital asset relevant for charitable purpose (Rs. 1.5 Lacs/2)	75,000
Another asset purchased relevant for charitable purpose (Rs. 2.9 Lacs/2)	1,45,000
Appropriate fraction utilised (Relevant cost of old asset – Rs. 1 Lac + Relevant Capital gains Rs. 45,000)	1,45,000
So, amount not taxable (cost of old asset + Capital Gains utilized)	1,45,000
Capital gain taxable is Relevant Net Sale Consideration [Rs. 1,75,000] minus Relevant Cost of old asset [Rs. 1,00,000] + Relevant Capital Gains utilized [Rs. 45,000]	30,000

Illustration 1:

Delhi Co-operative Society derived the following incomes during the previous year (1.4.2022 to 31.3.2023 - Assessment Year 2023-24).

(1)	Marketing of agricultural produce of its members	10,000
(2)	interest from members on delayed payment of the price of goods purchased	1,000
(3)	Processing (without aid of power) of agricultural produce of its members	8,000
(4)	Supplying milk to the Government (raised by its members)	15,000
(5)	agency business	25,000
(6)	dividends from other Co-operative Societies	15,000
(7)	income from letting of godowns	20,000
(8)	income from House Property	30,000

Compute the total income of the Delhi Co-operative Society.

Option 1 : Assessee has not opted for Section 115BAD

Option 2 : Assessee has opted for Section 115BAD

Solution: Option 1 : Assessee has not opted for Section 115BAD

Computation of total income of Delhi Co-operative Society

(1) income from House Property	30,000	
letting of godowns	20,000	50,000
(2) income from Business:		
Marketing of agricultural product	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
agency business	25,000	58,000
(3) income from other sources:		
interest from members	1,000	
dividends	15,000	16,000
Gross income		1,24,000
deductions under Section 80P:		
(1) letting of godowns	20,000	
(2) Marketing of agricultural produce	10,000	
(3) Processing of goods	8,000	
(4) Supplying milk	15,000	

(5) agency business	25,000	
(6) dividends	15,000	(93,000)
total income		31,000

Notes:

- (1) interest from members rs. 1,000 is not deductible as it is not from the credit facilities provided to the member and for this purpose society cannot be said to be a credit society [*Rodier Mill Employees' Co-operative Stores Ltd. v. CIT (1982) 135 ITR 355*].
- (2) the gross total income of the society exceeds rs. 20,000 hence deduction regarding income from house property is not available.

Solution: Option 2 : Assessee has opted for Section 115BAD

Computation of total income of Delhi Co-operative Society

(1) income from House Property	30,000	
letting of godowns	20,000	50,000
(2) income from Business:		
Marketing of agricultural product	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
agency business	25,000	58,000
(3) income from other sources:		
interest from members	1,000	
dividends	15,000	16,000
Gross income		1,24,000
deductions under Section 80P:		Na
total income		1,24,000

Notes:

1. interest from members rs. 1,000 is not deductible as it is not from the credit facilities provided to the member and for this purpose society cannot be said to be a credit society [*Rodier Mill employees' Co- operative Stores Ltd. v. CIT (1982) 135 itr 355*].
2. The gross total income of the society exceeds rs. 20,000 hence deduction regarding income from house property is not available.
3. deduction under section 80P is not allowed u/s 115BAD

CASE 1

Mr. DP, has earned gross salary of Rs. 655000 including HRA of Rs. 45000. He has paid Rs. 15000 p.m. as rent for his residential accommodation. Besides that, he earned Rs. 12000 from saving bank deposit during the year 2023-24 and at the same time he has deposited to Rs. 65000 to PPF. You are required to compute total income and tax payable by DP if

- He doesn't opt to be taxed under Section 115BAC
- He opts to be taxed under Section 115BAC

Solution:

Statement showing computation of Total income and tax liability

Particulars	Opts to pay tax as per regular scheme		He pays tax under section 115BAC	
	Amount (₹)	Amount (₹)	Amount (₹)	Amount (₹)
Salary received	655000		655000	
Less: HRA Exempted u/s 10(13A)	(45000)		Nil	
	610000		655000	
Less: Standard Deduction	(50000)		(50000)	
Income under the head salary		560000		605000
Income from saving bank deposit		12000		12000
Gross Total Income		572000		617000
Less:				
Deduction u/s 80C Deduction u/s 80TTA	65000			
(a) Actual 12000	10000			
(b) Limit 10000		(75000)		Nil
Whichever is less				
Total Income		497000		617000
Tax on total Income		12350		16700
Less: Rebate u/s 87A				
(a) 100% of Tax				
(b) Limit 12500 or Rs. 25000 (as applicable)				
Whichever is less		(12350)		(16700)
Balance		Nil		Nil
Add: HEC @4%		Nil		Nil
Total Tax Payable (R/O)		Nil		Nil

Illustration 1:

Gross total income of Mr. X, a tax consultant based at Mumbai, is Rs. 18,00,000 (income from profession Rs. 17,00,000 and interest on bank fixed deposit Rs. 1,00,000). He pays Rs. 3,00,000 as house rent. He deposits Rs. 50,000 in public provident fund. Compute his taxable income for the assessment year 2024-25.

Option 1 : Assessee has not opted for Section 115BAC**Option 2 : Assessee has opted for Section 115BAC**

Solution:**Option 1: Assessee has not opted for Section 115BAC****Computation of Taxable Income of Mr. X for the A.Y. 2024-25**

<i>Particular</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>
Professional Income – PGBP		17,00,000
Interest on Bank Deposit – Other sources		1,00,000
Gross Total Income		18,00,000
Less: Deductions under Chapter VI-A	(50,000)	
u/s 80C (PPF)	(60,000)	
u/s 80 GG (Note-1)		(1,10,000)
Total Income		16,90,000

Note 1: Deduction u/s 80GG is least of the following:

- Rs. 60,000 (i.e., Rs. 5000 x 12 months)
- Rs. 4,37,500 [25% of total income (Rs. 18,00,000- 50,000)]
- Rs. 1,25,000 [Excess of rent paid over 10% of total income (Rs. 3,00,000- 1,75,000)]

Option 2: Assessee has opted for Section 115BAC**Computation of Taxable Income of Mr. X for the A.Y. 2024-25**

<i>Particular</i>	<i>Amount (Rs.)</i>
Professional Income – PGBP	17,00,000
Interest on Bank Deposit – Other sources	1,00,000
Gross Total Income	18,00,000
Less: Deductions under Chapter VI-A	Nil
Total Income	18,00,000

Note 1: Deduction u/s 80C & 80GG not allowed.**Illustration 2:**

From the following profit and loss account of Vinay for the year ended 31st March 2024, compute his total income and tax liability for the assessment year 2024-25:

<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
Interest on capital	12,000	Gross profit	5,10,000
Insurance	2,000	Brokerage	30,000
Bad debts	30,000	Bad debts recovered (earlier allowed as deduction)	15,000

Depreciation	34,000	Sundry receipts	18,000
Advance tax	25,000	Interest on debentures (gross) [TDS Rs. 4,000]	40,000
General expenses	12,000		
Advertisement	5,000		
Salary (including salary to Vinay Rs.20,000)	85,000		
Interest on loan	8,000		
Net profit	4,00,000		
Total	6,13,000	Total	6,13,000

Additional information:

- (i) The amount of depreciation allowable as per income-tax rules is Rs. 42,000.
- (ii) General expenses include Rs.5,000 given as Health insurance Premium.
- (iii) Vinay pays Rs. 5,200 as premium on his own life insurance policy of Rs. 50,000 issued in 2016-17.
- (iv) Loan was obtained for payment of income-tax.

Option 1 : Assessee has not opted for Section 115BAC

Option 2 : Assessee has opted for Section 115BAC

Solution :

Option 1: Assessee has not opted for Section 115BAC

<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>
(I) Income from business		
Net profit for the year		4,00,000
<i>Add : Expenses not allowed under Income tax Act but debited to P & L A/c</i>		
Interest on capital (Note 2)	12,000	
Depreciation as per books of a/c	34,000	
Advance tax	25,000	
General Expenses	5,000	
Salary to Vinay	20,000	
Interest on loan (Note 2)	8,000	1,04,000
<i>Less : Income not related to business and profession but Credited to P & L a/c</i>		

Interest on debentures	40,000	
Deductible expenses not debited to P&L Account		
Depreciation as per Income tax Act	42,000	(82,000)
Profits and gains of Business & Profession		4,22,000
(II) Income from other sources Interest on debenture		40,000
gross Total Income (I + II)		4,62,000
Less: Deduction U/S 80C – 80U		
(i) Premium on life insurance policy (u/s 80C)(Note 1)		(5,000)
(ii) Health insurance Premium (u/s 80 D)		(5,000)
Total Taxable Income		4,52,000

Note

- Under section 80C deduction of life insurance premium cannot exceed 10% of the sum assured.
- Under Section 36(1)(iii) Interest paid on borrowed capital is allowed as a deduction. Interest on own capital is not deductible. Similarly, interest on money borrowed to pay income tax is not allowed as a deduction.

Option 2: Assessee has opted for Section 115BAC

Particulars	Amount (Rs.)	Amount (Rs.)
(I) Income from Business		
Net profit for the year		4,00,000
Add : Expenses not allowed under Income tax act but debited to P & L A/c		
Interest on capital (Note 2)	12,000	
Depreciation as per books of A/c	34,000	
Advance tax	25,000	
General Expenses	5,000	
Salary to Vinay	20,000	
Interest on loan (Note 2)	8,000	1,04,000
Less : Income not related to business and profession but Credited to P& L A/c		
Interest on debentures	40,000	
Deductible expenses not debited to P&L Account		
Depreciation as per Income tax Act (Working Note)	42,000	(82,000)
Profits and Gains of Business & Profession		4,22,000
(II) Income from other sources Interest on debenture		40,000
Gross total income (I + II)		4,62,000

Less: Deduction U/S 80C – 80U		NIL
Total Taxable Income		4,62,000

Note:

1. Deduction u/s 80C is not allowed under section 115BAC.
2. Under Section 36(1)(iii) Interest paid on borrowed capital is allowed as a deduction. Interest on own capital is not deductible. Similarly, interest on money borrowed to pay income tax is not allowed as a deduction.
3. Depreciation u/s 115BAC is allowed except Additional depreciation as per prescribed manner.

Illustration 3:

For the Assessment Year **2024-25**, Mr. Ram, who is 58 years old, resident in India, furnishes the following information:

Basic salary	Rs. 15000 pm
Dearness Allowance (20% forming part for retirement benefits)	40% of basic salary
City Compensatory Allowance	Rs. 300 pm
Children education allowance	Rs. 200 pm per child for 2 children
Transport allowance	Rs. 2000 pm
House Rent Allowance	Rs. 6000 pm
Actual rent paid for a house in Delhi	Rs. 7000 pm
He travels via Delhi metro from his residence to office and back in which he spends	Rs. 1500 pm
Medical allowance	Rs. 1000 pm
Lunch allowance	Rs. 200 pm

He owns a house property in Mumbai whose construction is completed in 2005 and which is let out for Rs.40,000 pm. The standard rent as per Rent Control Act is Rs. 3,10,000. He pays Rs. 32,000 for municipal taxes and interest on capital borrowed for construction of house Rs. 75,000. Further, he incurs Rs. 10,000 on repairs of the house.

Long-term capital gains Rs. 225,000

Short term capital gains for the year Rs.1,01,000 (STT not applicable). Dividend received from Indian Company X Ltd. Rs. 12,000.

Interest received @10% on listed debentures of face value 14,00,000 Diwali Gift of gold coins received from a friend. Market value Rs. 50,000 Share of profit from:

Firm	40,000
HUF	34,000
Income from Lotteries (gross)	50,000

Mr. Ram invested in PPF Rs.1,50,000 and also paid a life insurance premium of Rs. 21,000. Donation to National Defence Fund Rs.10,000.

Compute the total income and Tax liability of Mr. Ram for the Assessment year **2024-25**.

Option 1 : Assessee has not opted for Section 115BAC

Option 2 : Assessee has opted for Section 115BAC

Solution:

Option 1: Assessee has not opted for Section 115BAC

(A) Computation of Total Income

Particulars	Amount Rs.	Amount Rs.
Income from Salary		
Basic salary (15000 *12)		180,000
Dearness Allowance (180,000*0.40)		72,000
CCA (fully taxable) (300*12)		3600
Children Education Allowance	4800	
Less: Exempt	(2400)	2400
Transport allowance	24000	
Less: Exempt (Exemption withdrawn by Finance Act, 2018)	NIL	24000
House Rent Allowance (Note)		7440
Lunch Allowance		2400
Medical Allowance		12000
Less: Deduction under section 16 (ia) Standard Deduction		(50,000)
Taxable Salary		2,53,840
Income from house property		
Gross annual Value (Rent Received 40,000*12)		4,80,000
Less: Municipal Taxes		(32,000)
Net annual Value		4,48,000
Less: Standard Deduction @ 30% of 4,48, 000		(1,34,400)
Less: Interest on capital borrowed		(75,000)
Income from House property		2,38,600
Income from Business/Profession		
Firm (Exempt)		NIL
HUF (Exempt)		NIL
Income under the head Capital gains		
Long-term capital gains u/s 112		2,25,000
Short term Capital gain u/s 111A		1,01,000
Income from other sources		

Dividend received from Indian Company X Ltd.	12,000	
Interest received on listed debentures	1,40,000	
Winning from Lotteries	50,000	
Gift in kind	50,000	252,000
gross Total Income		10,70,440
Less: Deduction under section 80C to 80U		
(i) Under section 80C (maximum)		(150,000)
(ii) Under section 80G		(10,000)
Total Income		9,10,440

(B) Computation of Tax on Total Income

Tax on winning from lotteries (30% of Rs. 50,000)	15,000
Tax on long-term capital gains (20% of Rs. 2,25,000)	45,000
Balance of Total Income Rs. 6,35,440	39,588
Total tax	99,588
Add: Health and Education cess at 4%	3,983.52
Total liability	1,03,571.52
Total liability (round off)	1,03,570

Notes:

- House Rent Allowance: Least of three is exempt

- 50% of the salary* because the house is in Delhi = $0.50 \times 194,400 = \text{Rs. } 97,200$

- HRA received = Rs. 72,000

- Rent paid – 10% of the salary = $(7,000 \times 12) - 0.10 \times 194,400 = 84,000 - 19,440 = \text{Rs. } 64,560$

Exempted HRA = Rs. 64,560

Taxable HRA = $72,000 - 64,560 = \text{Rs. } 7,440$

*Salary here = Basic salary + Dearness allowance (forming part only) = $180,000 + 180,000 \times 0.40 \times 0.20$
= Rs. 1,94,400

- The tax liability is subject to set-off of TDS for winning from lotteries and interest from listed debentures.

Option 2: Assessee has opted for Section 115BAC**(A) Computation of Total Income**

Income from salary	Rs.	Rs.
Basic salary (15,000 * 12)		180,000
Dearness Allowance (180,000 * 0.40)		72,000
CCA (fully taxable) (300 * 12)		3,600
Children Education Allowance	4,800	

Less: Exempt	NA	4800
Transport allowance	24000	
Less: Exempt	NA	24000
House Rent Allowance (Note)		72,000
Lunch Allowance		2400
Medical Allowance		12000
Less: Deduction under section 16		(50000)
Taxable Salary		3,20,800
<i>Income from house property</i>		
Gross annual Value (Rent Received 40,000*12)		4,80,000
Less: Municipal Taxes		(32,000)
Net annual Value		4,48,000
Less: Standard Deduction @ 30% of 4,48,000		(1,34,400)
Less: Interest on capital borrowed		(75,000)
Income from House property		2,38,600
Income from Business/Profession		
Firm (Exempt)	NIL	
HUF (Exempt)	NIL	NIL
Income under the head Capital Gains		
Long-term capital gains u/s 112		2,25,000
Short term Capital Gain u/s 111A		1,01,000
Income from other sources		
Dividend received from Indian Company X Ltd.	12,000	
Interest received on listed debentures	1,40,000	
Winning from Lotteries	50,000	
Gift in kind	50,000	252,000
Gross Total Income		11,37,400
Less: Deduction under section 80C to 80U		NA
Total Income		11,37,400

(B) Computation of Tax on Total Income

Tax on winning from lotteries (30% of Rs. 50,000)	15,000
Tax on long-term capital gains (20% of Rs. 2,25,000)	45000
Balance of Total Income Rs. 8,62,400	41,240

Total tax	1,01,240
Add: Health and Education cess at 4%	4,050
Total liability	1,05,290

Notes:

1. Exemption from House Rent Allowance / Children Education allowance, Standard Deduction, Deduction under section 80C & 80G is not allowed
2. The tax liability is subject to set-off of TDS for winning from lotteries and interest from listed debentures.

Illustration 4:

Mr. X aged 62 years, resident individual furnishes the following particulars relevant for the assessment year 2024-25

Profit and Loss Account			
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Salaries	30000	Gross profit	436000
General Expenses	45000	Commission	120000
Bad Debts	15000	Sundry Receipts	40000
Reserve for losses	3000	Short term capital gain	30000
Insurance	5200	Discount	2000
Advertisement	10000	Profit on sale of import license	100000
Add: outstanding 2000	12000		
Interest on capital	4500		
Interest on bank loan	12500		
Expenditure on acquisition of patent and put to use on 30.06.21	16000		
Depreciation on Plant	24000		
Depreciation on building	10000		
Depreciation on Furniture	4000		
Provision for outstanding GST liability	12000		
Taxation reserve	12000		
Loss by fire of a part of building (Uninsured)	8000		
Net profit	514800		

Total	728000	Total	728000
--------------	---------------	--------------	---------------

Other information

1. Bank loan is used for business purposes.
2. The amount of depreciation as per tax rates, in respect of plant, building, furniture, amounts to Rs.20000, 12000, 7400 respectively.
3. Salary include payment to a relative which is unreasonable to the extent of Rs. 5000.
4. Out of GST liability Rs. 2000 is paid on 04.07.22 and Rs. 6000 is paid on 03.10.22. The balance is still outstanding. Due date of filling the return of income is 31.7.22
5. Income of X from other sources is Rs. 24000.
6. X paid medical insurance premium Rs. 16000 for himself and Rs. 16000 for his mother (dependent)
7. X repaid housing loan to the extent of Rs. 45000.

Determine the taxable income and tax liability of Mr. X for the assessment year **2024-25** assuming STT is not applicable on STCG.

Assume Assesee has not opted for section 115BAC.

Solution:**Computation of total income of Mr. X for the AY **2024-25****

Particulars	Rs.
Profit and gain from business profession (Note)	537900
Income under the head capital gain [STCG]	30000
Income from other sources	24000
Gross Total Income	591900
Less: Deduction	
80C Repayment of Housing Loan	(45000)
80D Medical Insurance Premium	(32000)
Total Income	514900

Computation of Tax on Total Income

Tax on Rs. 300000	Nil
Tax on Rs. 200000 @ 5%	10000
Balance of Total Income 14900 @ 20%	2980
Total tax	12980
Add: Health and Education cess at 4%	519.2
Total liability	13499.2
Total liability (round off)	13,500

Working Note:

Calculation of Business Income

<i>Particulars</i>	<i>Rs.</i>
Profit as per P&L A/C	514800
Add: Inadmissible Expenses	
Reserve for losses	3000
Interest on capital	4500
Patent right [16000- 25% of 16000]	12000
Excess salary paid to relative	5000
Outstanding GST liability [12000-2000]	10000
Taxation reserve	12000
Loss by fire of part of building	8000
Less : Admissible Expenses Depreciation [39400-38000]	(1400)
Less : Income taxable under head capital gain (STCG)	(30000)
Business Income	537900

Illustration 5:

Ram Manhar & Sons HUF, running Raghuveer Departmental Stores consists of Karta, his wife, two sons and daughter. Both the sons who are having professional/technical qualifications as a Chartered Accountant and as an Automobile Engineer started in partnership, a garage for the repairing of motor cars, with a clear understanding that the technical side of the business be looked after by the Engineer while the general administration and finance part be taken care by the Chartered Accountant. They had taken an interest-free loan of Rs. 5,00,000 from the HUF for starting the venture. The business of garage resulted in a net profit of Rs. 15,00,000 for the year ended 31.03.2024.

The Assessing Officer proposes to assess the income from the business of motor garage in the hands of HUF. Examine the validity of the proposition of the Assessing Officer in the light of a decided case law.

Solution:

The facts of the case are similar to that of the case of *CIT v. Charan Dass Khanna & Sons (1980) 123 ITR 194*, where the Delhi High Court observed that if the investment made by the HUF in the business started by the coparceners plays a minor role and it is primarily the personal efforts, specialized skill and enterprise of the individual coparceners which resulted in setting up of a new business and earning of goods profits, then it may not essentially be said that the income belongs to the HUF.

The Supreme Court has also supported this view in the case of *K.S. Subbiah Pillai v. CIT (1999) 237 ITR 11* and held that where the remuneration and commission earned by the Karta were on account of the personal qualifications and exertions and not on account of the investment of the family funds, such income cannot be treated as income of the HUF.

Thus, in the given case, profits were earned primarily because of the specialized skills acquired by both the partners in their respective fields and used in the business of motor garage. The initial capital taken from the HUF as interest free loan, of course, has its role but it is nevertheless a minor one. Therefore, the income from the business set up by the brothers is assessable in their individual hands and not as the income of the family.

Further, the proposition of the Assessing Officer to tax the profits of the business of motor garage earned by the two sons in the hands of the HUF is not valid.

Illustration 6:

Ram (59 years) and his two brothers (Ramesh (57 years) and Somesh (50 years) are engaged in family business of cultivation of wheat. Last year they had losses to the extent of Rs. 12,000 but this year, due to good season the Business earned a Profit of Rs. 2,20,000.

The family owns a house property, the municipal valuation of which is Rs. 280,000 and the market rent of similar property is Rs. 2,85,000. The standard rent as per Rent Control Act is Rs. 3,50,000. The family pays Rs. 48,000 for municipal taxes during the previous year out of which Rs. 20,000 pertains to earlier year which could not be paid due to business loss. Interest on capital borrowed for repaying original loan for construction of house Rs. 75,000. Further, the rental income of the property is Rs. 3,10,000.

Dividend received from Indian Company X Ltd. Rs. 12,000. Interest received on listed debentures Rs. 8,10,000 (net).

Compute the total income and Tax liability of the family X (HUF) for the Assessment year 2024-25.

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

Option 2: Assessee has opted for Section 115BAC.

Solution:

Option 1: Assessee has not opted for Section 115BAC

Computation of Total Income of X (HUF) for the Assessment Year 2024-25

Income from House Property	(Rs.)
Gross annual Value	3,10,000
Less: Municipal Taxes	(48,000)
Net annual Value	2,62,000
Less: Standard Deduction @ 30% of 2,62,000	(78,600)

Less: Interest on capital borrowed	(75,000)
Income from House property	1,08,400
Income from Business/Profession	
Agricultural income (Exempt)	NIL
Income from other sources	
Dividend received from Indian Company X Ltd.	12,000
Interest on listed debentures	9,00,000
Gross Total Income	10,20,400
Less: Deduction under section 80C to 80U	NIL
Total Income	10,20,400

Note: The share of Karta and other coparceners in the profits of HUF will be exempt under section 10(2)

Computation of tax on Total Income of X (HUF) for the Assessment Year 2024-25

Particulars		Amount
(a)	Agricultural income (2,20,000-12,000)	2,08,000
(b)	Non-agricultural income	10,20,400
(c)	Total of (a) and (b)	12,28,400
(d)	Tax payable on (c)	1,81,020
	Tax on first 2,50,000 NIL	
	Tax on next 250,000 @ 5% = Rs. 12,500	
	Tax on next 500,000 @ 20% = Rs. 100,000	
	Tax on remaining income Rs. 2,28,400 @ 30% = 68,520	
(e)	Total of agricultural income and basic exemption limit	4,58,000
(f)	Tax payable on (e) (As per slab rates)	10,400
(g)	Net tax payable = (d)-(f)	1,70,620
(h)	Add: Health and Education cess of 4% on Rs.170620	6,824
(i)	Total tax (round off)	1,77,440

Option 2: Assessee has opted for Section 115BAC**Computation of Total Income of X (HUF) for the Assessment Year 2024-25**

Income from House Property	(Rs.)
Gross annual Value	3,10,000
Less: Municipal Taxes	(48,000)
Net annual Value	2,62,000
Less: Standard Deduction @ 30% of 2,62,000	(78,600)
Less: Interest on capital borrowed	(75,000)
Income from House property	1,08,400
Income from Business/Profession	(Rs.)
Agricultural income (Exempt)	NIL
Income from other sources	
Dividend received from Indian Company X Ltd.	12,000
Interest on listed debentures	9,00,000
Gross Total Income	10,20,400
Less: Deduction under section 80C to 80U	NIL
Total Income	10,20,400

Note: The share of Karta and other coparceners in the profits of HUF will be exempt under section 10(2).

Computation of Tax on Total Income of X (HUF) for the Assessment Year 2024-25

	Particulars	Amount (Rs.)
(a)	Agricultural income (2,20,000-12,000)	2,08,000
(b)	Non-agricultural income	10,20,400
(c)	Total of (a) and (b)	12,28,400
(d)	Tax payable on (c)	95,680
	Tax on first 3,00,000 NIL	
	Tax on next 3,00,000 @ 5% = Rs. 15,000	
	Tax on next 3,00,000 @ 10% = Rs. 30,000	
	Tax on next 3,00,000 @ 15 % = Rs.45,000	
	Tax on next 28,400 @ 20 % = Rs.5,680	
(e)	Total of agricultural income and basic exemption limit	5,08,000
(f)	Tax payable on (e) (As per slab)	10,400
(g)	Net tax payable = (d)-(f)	85,280

(h)	Add: Health and Education cess of 4% on Rs. 85,280	3,411
(i)	Total tax (round off)	88,690

Illustration 7:

Ram, 66 years is the karta of a HUF with his two sons Ramesh (39 years) and Somesh (25 years). The family owns a house property, the rental income of the same is Rs. 3,10,000. Family business profits Rs. 2,80,000. Long-term capital gains Rs. 25,000 and short term capital gains for the year Rs.11,000 (STT applicable). Dividend received from Indian Company X Ltd. Rs. 12,000. Interest received on listed debentures Rs.8,000 (gross) Ram invested in PPF Rs. 1,50,000 out of family funds and received share of profits from a firm in which he represented HUF being Karta. Ram gifts Rs. 1,00,000 to family. Salary income of Ramesh Rs. 6,00,000 Interest on Government Securities Rs. 10,000(gross) out of own funds of Ram.

Compute the total income and Tax liability of the family X (HUF) and Ram, Ramesh and Somesh for the Assessment year 2024-25. Assume assessee have not opted for section 115BAC.

Solution:**Computation of Total Income of X (HUF) for the Assessment Year 2024-25**

Income from house property	Amount (Rs.)
Rent	3,10,000
Less: Standard Deduction @ 30%	93,000
Income from House property	2,17,000
Income from Business/Profession	
Business Profits	2,80,000
A Firm (Exempt)	NIL
Income under the head Capital gains	
Long-term Capital Gain	25,000
Short term Capital Gain	11,000
Income from other sources	
Dividend received from Indian Company X Ltd.	12,000
Interest received on listed debentures	8,000
Gift (Exempt)	NIL
gross Total Income	5,53,000
Less: Deduction under section 80C to 80U	
Under section 80C (maximum)	1,50,000
Total Income	4,03,000

Note : The share of Karta and other coparceners in the profits of HUF will be exempt under section 10(2)

Computation of tax on Total Income of HUF for the assessment year 2024-25

Tax on long-term capital gains (20% of Rs. 25,000)	5,000
Tax on short-term capital gains (15% of Rs. 11,000)	1,650

Balance of Total Income Rs. 3,67,000	5,850
Total tax	12,500
Add: Health and Education cess at 4%	500
Total liability (round off)	13,000

Note : The share of Karta and other coparceners in the profits of HUF will be exempt under section 10(2)

Computation of taxable income of Ram, Ramesh and Somesh for the assessment year 2024-25

<i>Particulars</i>	<i>Ram</i>	<i>Ramesh</i>	<i>Somesh</i>
Salary Income		6,00,000	
Business Income:			
Profit share in HUF	Exempt	Exempt	Exempt
Income from other sources			
Interest on Government Securities	10,000		
gross Total Income	10,000	6,00,000	
Deductions u/s 80C to 80U			
Taxable Income	10,000	6,00,000	
Tax liability	NIL	33,800	NIL

The provisions of AMT shall not apply to a person who has exercised the option referred to in section 115BAC or section 115BAD. [Finance Act, 2020]

CASE 1

D Patel & Associates, a firm carrying on business provides details for the FY 2024-25 stated a book profit before adjusting unabsorbed depreciation and b/f business loss of Rs 185000. However, the unabsorbed depreciation of earlier years and b/f business loss would be Rs 85000 and Rs. 115000 respectively. Kindly advice towards treatment of Brought forward business losses and allowable remuneration under section 40(b).

Solution:

Provision for brought forward business losses

Brought forward business losses are not to be deducted from "book profit" (Adjust b/f unabsorbed depreciation from earlier years); and for allowing unabsorbed depreciation, b/f business loss shall have to be notionally allowed first from current business income.

Computation of allowable remuneration under section 40(b)

<i>Particulars</i>	<i>Amount(Rs)</i>
Book profit before adjusting unabsorbed depreciation and b/f business loss	185000
Less: B/F business loss (Notional Deduction)	(115000)
Balance	70000
Less: Set off unabsorbed depreciation (To the extent of Rs70000)	(70000)
Balance	0

Add: B/F business loss (Notional Deduction) but not allowed to be set off as carried under section 72	115000
Book Profit	115000
Allowable Remuneration under section 40(b)	150000
a) 150000	
b) 90% of Book profit (i.e. 90% of 115000) = 103500	
Whichever is higher	

CASE 2

XL and Associates (A firm) having 3 partners sharing profit in the ratio of 2:2:1 provides you the following details for the PY **2023-24**.

Profit (Before) setting of b/f loss and depreciation	360000
B/F depreciation for AY 2021-22 (i.e. P.Y 2020-21)	150000
B/F loss of AY 2023-24	200000

You are requested to advice on Tax Treatment in case of change in constitution of firm when one of the partners retired on 31.8.**2023** from the firm.

Solution:

Particulars	Amount
Step 1: Share of outgoing partner in the profit of the firm in the year of change in the constitution of firm $(360000 \times 2/5 \times 5/12)$ [Period from 1.4.2021-31.8.2021]	60000
Step 2: Share of loss of outgoing partner in the brought forward loss. $(200000 \times 2/5)$	80000
Step 3: Set off loss to the extent of profit	
Loss 80000	
Less: Set off of profit (60000)	
Balance of Loss (Can't be carried forward and set off by firm)	20000
Firm is allowed to set off b/f loss $(200000 - 20000)$ to the extent of	180000

Illustration 8:

A, B and C are the partners for 3:2:1 share respectively, in a firm engaged in medical profession. Compute the total income of the firm for the year ended 31st March, **2024**:

Particular	Rs.	Particular	Rs.
Office Expenses	15,400	Gross Profit	40,000
Income Tax	1,000	Net Loss A	8,700
Salary to A	5,000	Net Loss B	5,800
Salary to B	4,000	Net Loss C	2,900
Salary to C	10,000		
Bonus to A	10,000		
Bonus to B	12,000		

Total	57,400	Total	57,400
--------------	---------------	--------------	---------------

Solution

Computation of Book Profit of the Firm	Rs.	Rs.	Rs.
Net Loss as per P & L A/c			(17,400)
Add: Inadmissible Expenses:			
Income-tax		1,000	
Salary to partners:			
A	5,000		
B	4,000		
C	10,000	19,000	
Bonus to partners			
A	10,000		
C	12,000	22,000	42,000
Book Profit			24,600

Permissible Remuneration to Partners

90% of first Rs. 3,00,000 of Book-profit or Rs. 1,50,000 whichever is more, is allowed as deduction. Here the permissible remuneration comes to Rs. 1,50,000, but as the partners have claimed Rs. 41,000 only, hence the entire amount will be allowed.

Computation of total income of the firm

Book Profit		24,600
Less: Salary to Partners	19,000	
Bonus to Partners	22,000	(41,000)
Loss of the Firm		(16,400)

Note: Loss of the firm will be carried forward by the firm to the next year(s).

Illustration 9:

M, N and O are partners sharing profits and losses in the ratio of 2:1:1 respectively. Their summarised Profit and Loss A/c for the year ending 31st March, 2024 is appended below

Particulars	Amount Rs.	Particulars	Amount Rs.
Office salaries	5,680	Gross Profit	60,570
Telephone and Telegram	2,000	Rent received	6,000
Interest on loan from M	2,000	Interest on securities	4,000
Local taxes (let out property)	1,000		
Salary to N	3,000		
Commission to partners			
M	4,000		

N	5,000		
O	6,000		
Collection charges of interest on securities	50		
Bad debts reserve	1,000		
Net Profit to partners:			
M	20,420		
N	10,210		
O	10,210		
Total	70,570	Total	70,570

Compute total income of the firm for the assessment year **2024-25** and tax liability thereon. Interest paid to M has been calculated at the rate of 20% p.a.

Solution:

Computation of book-Profit		
Particulars	Rs.	Rs.
Net Income as per P & L A/c		40,840
Add: Inadmissible items -		
Local taxes (on let out property)	1000	
Salary to N (Partner)	3000	
Commission to partners	15,000	
Collection charges	50	
Bad debts reserve	1,000	20,050
		60,890
Less: Other Incomes -		
Rent received	(6,000)	
Interest on securities	(4,000)	(10,000)
Book Profit		50,890

Maximum remuneration payable to partners

Here Rs. 1,50,000 will be allowed as maximum remuneration. But as the partners have drawn only Rs. 18,000 by way of salary and commission, the entire amount will be allowed as deduction.

Computation of Total Income of the Firm [Assessment Year 2024-25]		
Particulars	Rs.	Rs.
Book Profit:		50,890
Less : Salary and commission to partners		(18,000)
– Taxable Business Profit		32,890
– Income from house property		
Rent received		6,000

Less : Municipal taxes		(1,000)
Net adjusted annual value (NAAV)		5,000
Less : Repairs (30% of NAAV) u/s 24		(1,500)
Income from House Property		3500
– Income from other sources:		
Interest on Securities	4,000	
Less: Collection charges	(50)	3,950
Gross Total Income (32,890 + 3,500 + 3,950)		40,340

The firm will have to pay tax on Rs. 40,340 @ 30%, which comes to Rs. 12,102 plus health and education cess @ 4% on 12,102 making the total liability as Rs. 12,586.

Illustration 10:

Compute tax liability of the firm X & Co. for the assessment year **2024-25** considering the provisions of Section 115JC. The business income of the firm is Rs. 21,00,500 before deduction under section 32 and before deduction under section 35AD Rs. 11,00,000, because of which depreciation of Rs. 40,000 cannot be claimed. Deduction under section 80IB Rs. 1,00,000. Donation paid to a political party Rs. 85,000.

Solution:

Particulars	Rs.
GTI - Business Income (Rs. 21,00,500 less 11,00,000)	10,00,500
Less: Deductions	
Under section 80IB	1,00,000
Under section 80GGC	85,000
Net Income	8,15,500
Tax on Rs. 8,15,500 @ 30%	2,44,650
Add : Health and Education Cess @ 4%	9786
Tax liability	2,54,436
Adjusted total income and alternate minimum tax for the purpose of section 115JC	
Net Income	8,15,500
Add: Under section 80IB	1,00,000
Add: under section 35AD (Rs. 11,00,000 less 40,000)	10,60,000
Adjusted total income	19,75,500
AMT on Rs. 19,75,500 @ 18.5%	3,65,467
Add: Health and Education Cess @ 4%	14,618
AMT liability	3,80,085
AMT liability (round off)	3,80,090
Tax payable is Rs. 3,80,090 being higher of tax liability Rs. 2,54,436 and AMT Rs. 3,80,090.	

Illustration 11:**Income & Expenditure A/c of Lawyers & Co. for the year ending March 31, 2024**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Expenses	1,50,000	By Professional Receipts	3,80,000
To Depreciation	20,000	By Other fees	90,000
To Remuneration to partners	1,50,000		
Interest on Capital to partners @ 20 per cent	20,000		
To Net Profit	1,30,000		
Total	4,70,000	Total	4,70,000

Other Information:

- Expenses include Rs. 18,000 and Rs. 12,000 paid in cash as brokerage to a single party on a single day.
- Depreciation calculated as per section 32 is Rs. 40,000.

Compute the Total Income of the Firm.

Solution:**Computation of Total Income of Lawyers & Co. for A. Y. 2024-25**

Particulars		Amount Rs.
Net profit as per profit and loss account		1,30,000
Add : Expenses not allowable		
Section 40A(3)- Cash payments to a broker exceeding Rs. 10,000 (Note 1)	30,000	
Section 40(b)-Excess interest on capital to partners 20%-12%, i.e., (20000*8/20) (Note 2)	8,000	38,000
Add : Remuneration to partners debited to profit and loss account		1,50,000
Less : Depreciation u/s 32 (Rs. 40,000 - Rs. 20,000 debited in profit and loss account)		(20,000)
Book profit (Note 3)		2,98,000
Maximum permissible remuneration (higher of the two : (i.e., 90 per cent of Rs. 2,98,000 or Rs. 1,50,000) OR	2,68,200	
Actual (Subject to actual)	1,50,000	(1,50,000)
Business Income of the Firm		1,48,000
Tax Liability (30% of 1,48,000)		44,400
Add : Health and Education Cess @ 4%		1,776
Total Tax Liability		46,176

Notes :

- As per section 40A(3) of the Act, if the aggregate payment made (otherwise than by an account payee cheque/draft) to the same person during a day exceeds Rs. 10,000/- the entire amount of such payment is disallowed.
- As per section 40 (b) of the Act, if the interest payable to the partners exceeds simple interest of 12% per annum, the excess amount is not deductible.

3. The remuneration paid to the working partners cannot exceed the permissible limits specified under section 40 (b) of the Act.

Illustration 12:

Mr. X, carrying on the business of operating a warehousing facility for storage of sugar, has a total income of Rs. 80 lakh. In computing the total income, he had claimed deduction under section 35AD to the tune of Rs. 70 lakh on investment in building (on 1.4.2021) for operating the warehousing facility for storage of sugar. Compute his tax liability for A.Y. 2024-25. Show the calculations of Alternate Minimum Tax also.

Option 1 : Assessee has not opted for Section 115bAC

Option 2 : Assessee has opted for Section 115bAC Solution:

Option1: Assessee has not opted for Section 115bAC

Computation of Tax payable by Mr. x for AY 2024-25

Computation of Normal Tax

Particulars	Amount (Rs. in lakh)
Tax liability under the normal provisions of the Income-tax Act, 1961	22.125
Add: Surcharge @ 10% of Total income > 50 lacs	2.2125
Add: Health and Education Cess @ 4% of 24.3375	0.9735
Total Tax Liability	25.311

Computation of Alternate Minimum Tax

Particulars	Amount (Rs. in lakh)
Adjusted Total Income	80.00
Add : Deduction under section 35AD	70.00
Less : Depreciation under section 32	(7.00)
Adjusted Total Income	143.00
AMT @18.5%	26.46
Surcharge @ 15% (since adjusted total income> Rs. 100 lakh)	3.97
Tax	30.43
Add: Health and Education Cess @ 4%	1.217
Total tax Liability	31.647

Since the regular income tax payable is less than the AMT payable, the adjusted total income of Rs. 143 lakhs shall be deemed to be the total income of Mr. X and tax is payable @18.5% thereof plus surcharge @ 15% and cess @4%. Therefore, tax liability is 31.647 lakhs.

However, Mr. X would be eligible for credit in 15 subsequent years to the extent of difference between the AMT and Normal Tax, i.e. Rs., 6.336 lakhs.

Option 2: Assessee opted for Section 115bAC

Computation of Tax payable by Mr. x for AY 2024-25

Computation of Normal Tax

Particulars	Amount (Rs. in lakh)
Tax liability under the normal provisions of the Income-tax Act, 1961	21.375
Add: Surcharge @ 10% of Total income > 50 lacs	2.1375
Add: Health and Education Cess @ 4% of 23.5125	0.9405
Total Tax Liability	24.453

Note: Alternate Minimum Tax is not applicable if assessee covered u/s 115BAC

Illustration 13:

Mr. A, 42 years, and Mr. B, 50 years, are equal partners in a partnership firm AB and Co. engaged in furniture business. From the profit and loss account of the firm compute net income and tax liability of the firm as well as the partner's for the assessment year 2024-25.

Profit and Loss Account

For the year ending March 31, 2024

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Cost of goods sold	5,10,000	Sales	1,90,0000
Salary to staff	6,00,000	Long term capital gain	1,00,000
Depreciation	1,20,000	Lottery prize	35,000
Fees for technical service	40,000	Other business receipts	1,47,000
Remuneration to partners A 140000 B 60000	2,00,000		
Other Expenses	2,10,000		
Interest on capital@20%			
A 43000			
B 60000	10,3000		
Provision for bad debts	10,000		
Net profit	3,89,000		
Total	2,18,2000	Total	2,18,2000

Other Information

- 1) Remuneration and interest to partners is paid as per partnership deed
- 2) Depreciation as per income tax rules Rs. 100000
- 3) Firm paid bonus to employees Rs. 20,400 relating to last year on 15-12-2023.
- 4) Other expenses include donation to approved charitable institution for the purpose of family planning Rs. 45,000.
- 5) Fees for technical services are paid out of India wherein TDS rules apply. Tax has been deducted at source on time on 31 July, 2023 but it is deposited to Government 21 days late on 28 August, 2023.
- 6) The firm complies with conditions of section 184 and 40(b)
- 7) Income and investments of Mr. A and Mr. B are as follows:

Particulars	Mr. A (Rs.)	Mr. B (Rs.)
Interest on Government Securities	60,000	56,000
Interest on Bank Deposit (gross)	4,500	5,000
Dividend from Indian Company	20,000	22,000
Contribution to PPF	1,00,000	1,10,000
Interest on listed Debentures (net)	6,300	6,300

- 8) Mr. A received gift of Rs. 80,000 from a friend.
 9) Assessee has not opted for section 115BAC

Solution:

Computation of Total Income of Ab and Co. for the Assessment Year 2024-25

Calculation of business Income

Particulars	Amount (Rs.)
Net Profit as per P&L A/C	3,89,000
<i>Add:</i> Inadmissible Expenses	
Excess depreciation [120000-100000]	20,000
Remuneration to partners	2,00,000
Interest on capital in excess of 12% p.a.	
A: $43000 \times 8/20 = 17200$	
B: $60000 \times 8/20 = 24000$	41,200
Provision for bad debts	10,000
Donations	45,000
<i>Less:</i> Admissible Expenses	
Bonus to employees	(20,400)
<i>Less:</i> Income taxable under head capital gain and other sources	
LTCG	(1,00,000)
Lottery prize	(35,000)
Book profit	5,49,800
<i>Less:</i> Remuneration to partners	
On First 3,00,000 of book profit @90%	=2,70,000
Balance 2,34,800 @60%	=1,40,880
4,10,880 or Rs. 2,00,000 whichever is less	(2,00,000)
Business Income	3,49,800
Income under the head capital gain [LTCG]	1,00,000
Income from other sources	
Lottery prize $35,000 \times 100/70$	50,000
Gross total income	4,99,800
<i>Less:</i> Deduction u/s 80	
80G [100% of 45,000 or 10% of {4,99,800 – 1,00,000}]	(39,980)
Taxable Income	4,59,820

Share of A and B in the income of the firm Rs. 2,29,910 (4,59,820/2)

Computation of Tax on Total Income of Ab and Co. for the Assessment Year 2024-25

Particulars	Amount
Tax on winning from lotteries (30% of Rs. 50,000)	15,000
Tax on long-term capital gains (20% of Rs. 1,00,000)	20,000

Balance of Total Income 3,09,820 @ 30%	92,946
Total tax	1,27,946
Add: Health and Education Cess @ 4%	5,118
Total liability	1,33,064

Rs. 1,33,060 (round off, subject to setoff of TDS for winning from lotteries)

Computation of Taxable Income of partners for the Assessment Year 2024-25

Particulars	A (Rs.)	B (Rs.)
Business Salary		
Remuneration	1,40,000	60,000
Interest on capital	25,800	36,000
Profit share in firm	Exempt	Exempt
Income from other sources		
Interest on Government securities	60,000	56,000
Interest on Bank deposits	4,500	5,000
Dividend from Indian companies	20,000	22,000
Interest on listed debentures (6,300*100)/90	7,000	7,000
Gift from a friend	80,000	-
Gross Total Income	3,37,800	1,86,000
Deductions u/s 80-80C PPF	1,00,000	1,10,000
Taxable Income	2,37,800	76,000
Tax liability	NIL	NIL
TDS amounting to Rs. 700 to be claimed for refund		

Illustration 14:

Mr. A (40 years) and Mr. B (49 years) are equal partners in a firm of Chartered Accountants, AB Co. On April 1, 2023 they amended their partnership deed and provided for salary and interest to partners as follows:

Particulars	Amount (Rs.)
Salary to A	2,50,000 p.a.
Salary to B	3,00,000 p.a.
Interest to A and B	24 % p.a.

From the income and expenditure account of the firm compute net income and tax liability of the firm as well as the partner's for the assessment year 2024-25. Assessee has not opted for section 115BAC.

Income and Expenditure Account For the year ending March 31, 2024

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Office expenses	2,51,000	Receipts from clients	8,40,000
Salary to staff	82,000	Interest on drawings	3,500
Income Tax	39,000		
Salary to A	2,50,000		
Salary to B	3,00,000		
Interest on loan to minor son of X @15%	6,000		
Interest on capital@24%			
A 17000			
B 19000	36,000		

Net profit	1,14,500		
Total	843500	Total	8,43,500

Other Information

- Office expenses include expenses not deductible under sections 30 to 37 Rs. 48,000.
- The firm does not comply with conditions of section 184 and 40(b)
- The firm sells a capital asset on August 10, 2021 and LTCG on the same amounts to Rs. 5,50,000.
- The firm has received funds from minor son of X as loan.
- Income and investments of Mr. A and Mr. B are as follows:

Particulars	Mr. A (Rs.)	Mr. B (Rs.)
Investment in 5% Government Loan	12,00,000	11,20,000
Interest from Post office savings bank	4,500	5,000
Medical Insurance Premium	12,000	15,000
Dividend from Foreign Companies	40,000	30,000

Solution:**Computation of Total Income of Ab and Co. for the Assessment Year 2024-25****Calculation of business Income**

Particulars	Rs.
Net Profit as per P&L A/C	1,14,500
Add: Inadmissible Expenses	
Income Tax	39,000
Salary to A	2,50,000
Salary to B	3,00,000
Interest on capital in excess of 12% p.a.	
A: 17000*12/24 8,500	
B: 19000*12/24 9,500	18,000
Book profit	7,21,500
Less: Remuneration to partners (not allowed as conditions of section 184 &40(b) are not met)	NIL
Business Income	7,21,500
Taxable Income	7,21,500

Share of A and B in the income of the firm Rs. 7,21,500/2= 3,60,750

Computation of tax on Total Income for the Assessment Year 2024-25

Particulars	Amount
Tax on Rs. 7,21,500@30%	2,16,450
Add: Health and Education Cess @ 4%	8,658
Total liability	2,25,108
Total (round off)	2,25,110

Computation of taxable income of partners for the Assessment Year 2024-25

Particulars	A	B
Business Salary		
Remuneration	—	—

Interest on capital	8500	9500
Profit share in firm	Exempt	Exempt
Income from other sources		
Interest on Government Loan (5% of 12,00,000; 5% of 11,20,000)	60,000	56,000
Interest on Post office savings bank (exempt upto Rs. 3500 u/s 10(15)(i))	1,000	1,500
Dividend from Foreign companies	40,000	30,000
Gross Total Income	1,09,500	97000
Deductions u/s 80		
80D Mediclaim Insurance	(12,000)	(15,000)
Taxable Income	97500	82,000
Tax liability	NIL	NIL

CASE 1

Tax on total income as per normal provision of Income Tax Act is Rs. 205000 and AMT is Rs. 305000. Compute the tax liability and implications assuming Foreign Tax Credit (FTC) will be Rs. 45000 and Rs. 60000 attributable to Normal provision and AMT respectively.

Solution:**Computation of tax liability and adjustment of FTC**

Particulars	Amount	Amount
Tax on total income as per normal provision of Income Tax Act	205000	
Less: FTC attributable to Normal Tax	(45000)	
A. Tax on total income as per normal provision of Income Tax Act		160000
Alternate Minimum Tax	305000	
Less: FTC attributable to AMT	(60000)	
b. Tax as per AMT		245000
Amount of tax payable = (A) or (b) whichever is higher		245000
Tax Implications:		
A < b ➤ Non Corporate has to pay AMT u/s 115JC ➤ Non Corporate can only avail AMT credit. AMT Credit Available = B - A = 245000 - 160000 = Rs. 85000		

CASE 2

The taxable income for the year **2023-25** of Mr. Shah (resident and age 40 years) computed as per the provisions of Income-tax Act is Rs. 28,40,000. The taxable income has been computed after deduction of Rs. 2,00,000 under section 80QQB in respect of royalty on books. Compute the tax liability and tax implications with reference to AMT assuming Mr. Shah does not opt to be taxed under section 115BAC/BAD.

Solution

Check the eligibility	
Applicable to Non-Corporate Assessee (i.e. Mr Shah)	Yes

If claimed deduction	Yes
- u/s/ 10AA/80H to 80RRB (Except 80P) for AY 13-14 or 14-15 or - u/s 10AA/35AD/80H to 80RRB (Except 80P) for AY 15-16 onwards	
ATI > Rs 2000000 (i.e. 30,40,000 Refer Note:2)	Yes
Provision of AMT apply	Yes

Computation of Adjusted Total Income (ATI)		
Net Income or Total Income		28,40,000
<i>Add:</i>		
Deduction under section 10AA		Nil
Deduction under section 80H to 80RRB (Except 80P) (i.e. 80QQB)		2,00,000
Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed).		Nil
Adjusted Total Income (ATI)		30,40,000
A	Tax on total income as per normal provision of Income Tax Act	6,91,080
B	18.5% (+SC+HEC) of Adjusted Total Income	5,84,896
Amount of tax payable = (A) or (b) whichever is higher		6,91,080

Tax Implications

A > b	- Non Corporate (i.e. Mr. Shah) has to pay normal income tax - Non Corporate can utilize amount of AMT credit in that year if available.
Maximum Amount of Credit Utilized = A-b = 6,91,080 - 5,84,896 = 1,06,184	

CASE 3

The taxable income for the financial year 2023-24 of Mr. Jay (resident and age 35 years) computed as per the provisions of Income-tax Act is Rs. 20,84,000. The taxable income has been computed after deduction of Rs. 5,00,000 under section 80JJA. Will he be liable to AMT? What will be his tax liability for the year? Assuming Mr. Jay does not opt to be taxed Under section 115BAC/BAD.

Solution:

Check the eligibility	
Applicable to Non-Corporate Assessee (i.e. Mr. Jay)	Yes
If claimed deduction	Yes
- u/s/ 10AA/80H to 80RRB (Except 80P) for AY 13-14 or 14-15 or - u/s 10AA/35AD/80H to 80RRB (Except 80P) for AY 15-16 onwards	
ATI > Rs 2000000 (i.e. 25,84,000 Refer Note:2)	Yes
Provision of AMT apply	Yes

Computation of Adjusted Total Income (ATI)	
Net Income or Total Income	20,84,000

Add: - Deduction under section 10AA - Deduction under section 80H to 80RRB (Except 80P) (i.e. 80JJA) - Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction is claimed).	N il 5,00,0 00 Nil
Adjusted Total Income (ATI)	25,84,000

A	Tax on total income as per normal provision of Income Tax Act		4,55,208
	Tax on 20,84,000	4,37,700	
	Less: Rebate u/s 87A	N.A	
	Balance	4,37,700	
	Add: Surcharge	N.A.	
	Tax and Surcharge	4,37,700	
	Add: HEC@4%	17,508	
	Total Tax Payable	4,55,208	
B	18.5% (+SC+HEC) of Adjusted Total Income		4,97,162
Amount of tax payable = (A) or (b) whichever is higher			4,97,162

Tax Implications A<b

- Non Corporate (i.e. Mr Jay) has to pay AMT u/s 115JC
 - Non Corporate (i.e. Mr Jay) can only avail AMT credit.
- AMT Credit Available = b-A = 497162-455208 =Rs 41,954**

CASE 4

The tax liability of SP Enterprises (a partnership firm) for the financial year **2023-24** under the normal provisions of the Income-tax Act is Rs. 8,40,000 and the liability as per the provisions of AMT is Rs. 10,00,000. Will it be entitled to claim any AMT credit in the subsequent year(s)?

Solution:

A	Tax on total income as per normal provision of Income Tax Act	840000
b	18.5% (+SC+HEC) of Adjusted Total Income	1000000
	Amount of tax payable = (A) or (b) whichever is higher	1000000

Note: Tax Implications A<b

- Non Corporate has to pay AMT u/s 115JC
- Non Corporate can only avail AMT credit.

AMT Credit Available = B-A = 1000000-840000 = Rs. 160000

CASE 5

The taxable income for the financial year **2023-24** of Mr. Dixy (resident and age 35 years) who established **unit located in IFSC** and derived income solely in convertible forex computed as per the provisions of Income-tax Act is Rs. 20,84,000. The taxable income has been computed after deduction of Rs. 5,00,000 under section 80JJA. Will he be liable to AMT? What will be his tax liability for the year? Assuming Mr. Jay does not opt to be taxed under section 115BAC/BAD.

Check the eligibility	
Applicable to Non-Corporate Assessee (i.e. Mr Jay)	Yes

If claimed deduction	Yes
- u/s/ 10AA/80H to 80RRB (Except 80P) for AY 13-14 or 14-15 or - u/s 10AA/35AD/80H to 80RRB (Except 80P) for AY 15-16 onwards	
ATI >Rs. 2000000 (i.e. 25,84,000 Refer Note:2)	Yes
Provision of AMT apply	Yes

Computation of Adjusted Total Income (ATI)	
Net Income or Total Income	20,84,000
<i>Add:</i>	
- Deduction under section 10AA - Deduction under section 80H to 80RRB (Except 80P) (i.e. 80JJA) - Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction is claimed).	Nil Nil 5,00,000 Nil
Adjusted Total Income (ATI)	25,84,000

A	Tax on total income as per normal provision of Income Tax Act	4,55,208
b	9% (+SC+HEC) of Adjusted Total Income	2,41,862
Amount of tax payable = (A) or (b) whichever is higher		4,55,208

A > b	➤ Non Corporate (i.e. Mr. Dixy) has to pay normal income tax ➤ Non Corporate can utilize amount of AMT credit in that year if available. Maximum Amount of Credit Utilized = A-b = 455208 - 241862 = 213346
-----------------	--

Illustration 15:

Mr. A, Mr. B and a foreign company X Ltd. are members of a AOP sharing profits and losses in the ratio of 2:2:1. The total income of the AOP is Rs. 2,50,000 including long term capital gains Rs. 40,000. Calculate tax liability of the AOP for AY 2024-25.

Solution: Foreign Company X Ltd. is taxable at a rate higher than maximum marginal rate (i.e., 40%)

Tax on LTCG	40,000 at 20%	8,000
Tax on share of X Ltd. (2,10,000 *40%*1/5)		16,800
Balance	(2,10,000 *40%*1/5)	50,400
Total Tax		75,200
Add Cess (4%)		3,008
Tax liability		78,208
Total		78,210 (round off)

CASE 1

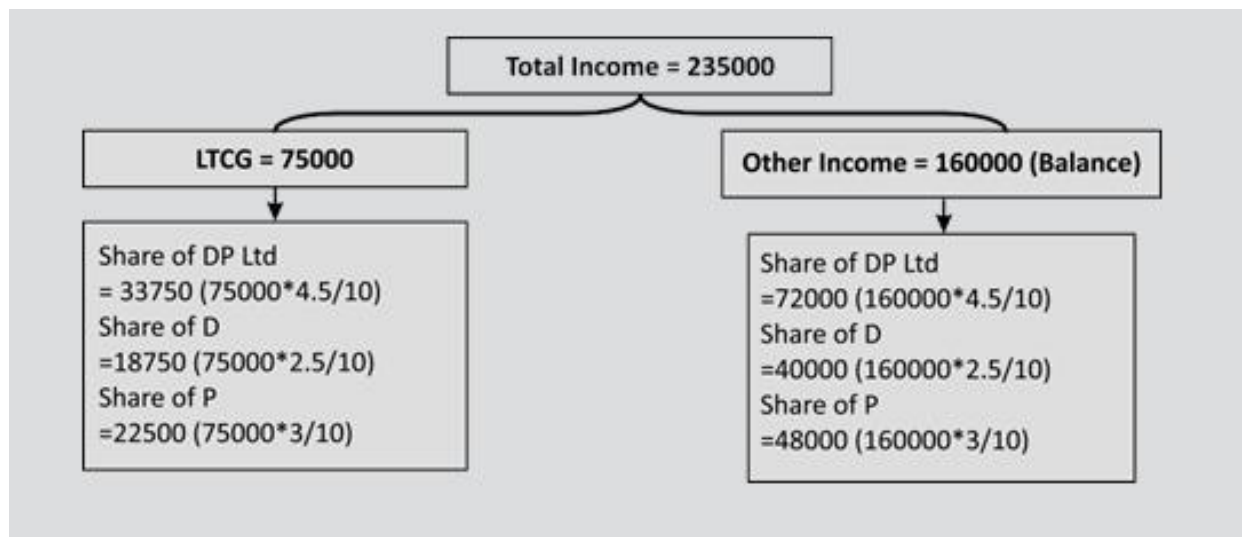
DP Ltd, D and P are the three partners of AOP having profit sharing ratio of 4.5:2.5:3. Details of income provided are as follows:

Rs

DP Ltd (Foreign Company)	12 cr
D	35000
P	18000
Taxable income of AOP	235000 (Including LTCG Rs75000)
You are required to compute tax liability of AOP for AY 2024-25	

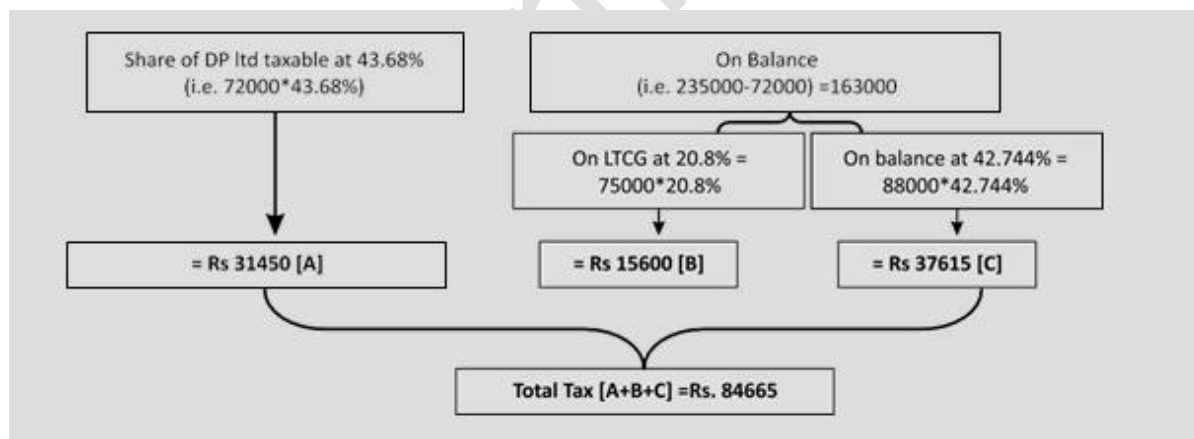
Solution:

Note: 1 Computation of Total income and Attributable income of DP Ltd, D and P

**Note: 2**

Here, in the above computation, share of DP Ltd in other income i.e. 72000 is chargeable to tax at 43.68% (Foreign Company) which is higher than MMR i.e. 42.744%.

Note: 3 Computation of Tax liability of AOP

**CASE 2**

DD, D and P are the three partners of AOP having profit sharing ratio of 2:2:1. Details of income provided are as follows:

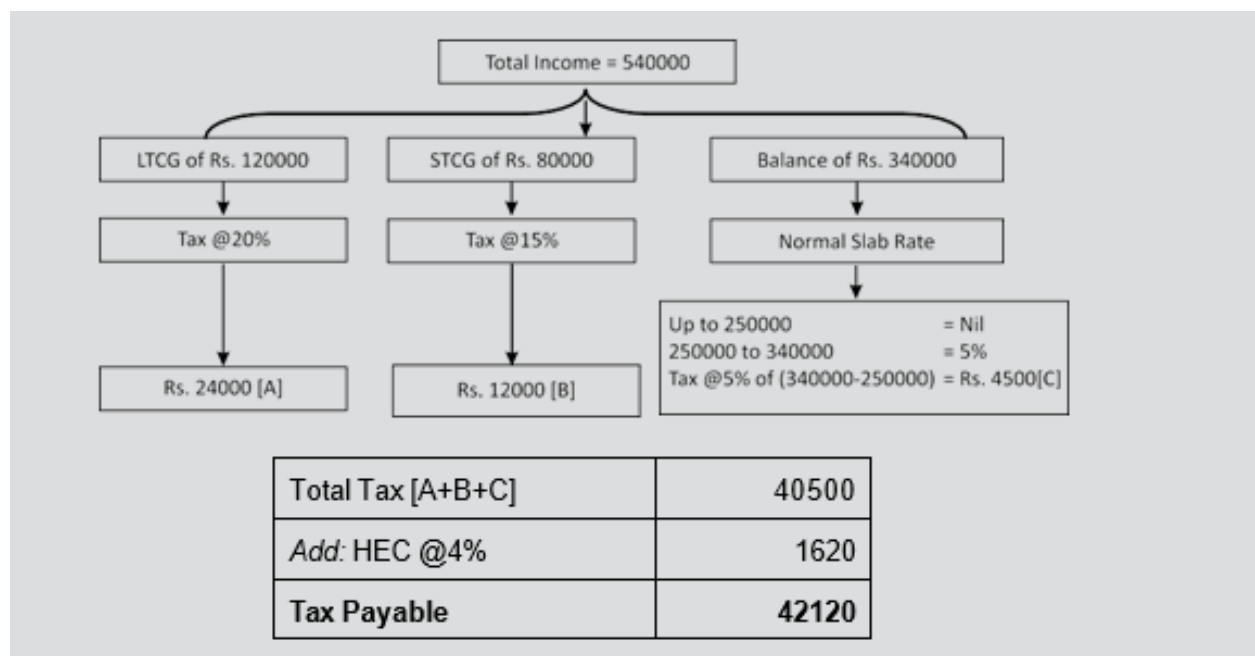
	Rs.
DD	100000
D	90000
P	110000

Total income of AOP 540000 (Including LTCG Rs. 120000 and STCG under 111A Rs. 80000)

You are required to compute tax liability of AOP for AY 2024-25.

Solution:

Here, in this case, AOP will be assessed and taxed like an individual

**CASE 1**

P Co-operative Society engaged in procession of agriculture produce and running its activities without aid of power furnishes following details of income, compute taxable income and tax liability for the purpose of A.Y. 2024-25 if it does not opt to be taxed under section 115BAD and if opts to be taxed under section 115BAD.

• Income from processing of agricultural produce of its member	38500
• Income from marketing of the agricultural produce	12000
• Dividend from another co-operative society	41400
• Income from letting of godown	24000
• Commission income	91000

Solution:

Statement showing computation of Total income and tax liability

Particulars	Remarks	Not opt to be taxed under section 115BAD	Opts to be taxed under section 115BAD
Income from letting of godown [a]		24000	24000
Income from processing of agricultural produce of its member		38500	38500
Income from marketing of the agricultural produce		12000	12000
Commission income		91000	91000
Income from PgbP [b]		141500	141500
Dividend from another co-operative society		41400	41400
Income from other Source [c]		41400	41400
gross Total Income [a+b+c]		206900	206900
Deduction under section 80C to 80U			

Deduction under section 80P			
Income of agricultural produce	38500*100%	38500	Nil
Income from marketing of the agricultural produce	12000*100%	12000	Nil
Commission income	Exempt up to 50000	50000	Nil
Letting out of godowns	24000*100%	24000	Nil
Dividend income	41400*100%	41400	Nil
Total Income		41000	206900
Tax on total income		At Slab rate	At 22%
Up to 10000 = 10% (10%*10000)=1000 10000-20000=20% (20%*10000) =2000 20000-41000=30% (30%*21000)=6300		9300	45518
Add: Surcharge		NA	NA
Tax and Surcharge		9300	45518
Add: HEC@4%		372	1821
Tax Payable (Rounded off)		9670	47340

Illustration 16:

Delhi Co-operative Society derived the following incomes during the previous year 01.4.2023 to 31.3.2024

- Assessment Year 2024-25.

(1)	Marketing of agricultural produce of its members	10,000
(2)	Interest from members on delayed payment of the price of goods purchased	1,000
(3)	Processing (without aid of power) of agricultural produce of its members	8,000
(4)	Supplying milk to the Government (raised by its members)	15,000
(5)	Agency business	25,000
(6)	Dividends from other Co-operative Societies	15,000
(7)	Income from letting of godowns	20,000
(8)	Income from House Property	30,000

Solution:

Option 1 : Assessee has not opted for Section 115BAD

Computation of total income of Delhi Co-operative Society

Particulars	Amount (Rs.)	Amount (Rs.)
Income from House Property	30,000	
Letting of godowns	20,000	50,000
Income from business		
Marketing of agricultural product	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
Agency business	25,000	58,000
Income from other sources		
Interest from members	1,000	

Dividends	15,000	16,000
Gross Income		1,24,000
Deductions under Section 80P		
Letting of godowns	20,000	
Marketing of agricultural produce	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
Agency business	25,000	
Dividends	15,000	(93,000)
Total income		31,000

Notes:

- (1) Interest from members Rs. 1,000 is not deductible as it is not from the credit facilities provided to the member and for this purpose society cannot be said to be a credit society [*Rodier Mill Employees' Co-operative Stores Ltd. v. CIT (1982) 135 ITR 355*].
- (2) The gross total income of the society exceeds Rs. 20,000 hence deduction regarding income from house property is not available.

Option 2: Assessee has opted for Section 115bAD

Computation of total income of Delhi Co-operative Society

Particulars	Amount (Rs.)	Amount (Rs.)
Income from House Property	30,000	
Letting of godowns	20,000	50,000
Income from business		
Marketing of agricultural product	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
Agency business	25,000	58,000
Income from other sources		
Interest from members	1,000	
Dividends	15,000	16,000
Gross Income		1,24,000
Deductions under Section 80P		NA
Total income		1,24,000

Notes:

- (1) Interest from members Rs. 1,000 is not deductible as it is not from the credit facilities provided to the member and for this purpose society cannot be said to be a credit society [*Rodier Mill Employees' Co-operative Stores Ltd. v. CIT (1982) 135 ITR 355*].
- (2) The gross total income of the society exceeds Rs. 20,000 hence deduction regarding income from house property is not available.

(3) Deduction under section 80P is not allowed u/s 115BAD

Example 1: A charitable trust had a capital asset the cost of which was Rs.80,000 and it sold the same for Rs. 1,00,000. The whole of the consideration, i.e., Rs. 1,00,000 will be exempt from capital gains tax if a new capital asset is bought for Rs. 1,00,000.

Example 2: If a trust had a capital asset costing Rs.1,00,000 and sold the same for Rs. 1,50,000 and then bought a capital asset for Rs. 1,30,000, then the working will be as follows:

Particulars	Rs.
Sale proceeds of old asset	1,50,000
Cost of the old asset	(1,00,000)
Capital gain	50,000
Cost of the new asset	1,30,000
Cost of the old asset	(1,00,000)
Capital gain utilised	30,000
Capital gain taxable	20,000

Illustration 17

A trust has a capital asset costing Rs. 2,00,000 and 1/2 of its income is utilised for charitable purpose. It is sold for Rs. 3,50,000. If the trust buys another capital asset for Rs. 3,50,000 then appropriate fraction of the capital gain deemed to have been applied for charitable purpose. Supposing that the trust buys another asset for Rs. 2,90,000.

Solution:

Particulars	Rs.
Sale proceeds of Capital asset	3,50,000
Cost of the asset sold	2,00,000
Capital gain on transfer of capital asset	1,50,000
Appropriate fraction i.e. 1/2	75,000
Another asset purchased	2,90,000
Appropriate fraction utilised (1/2 of Rs. 2,90,000)	1,45,000
Appropriate fraction of the original capital asset	
1/2 of Rs. 2,00,000	(1,00,000)
Capital gain utilised	45,000
Capital gain not utilised	30,000

Multiple Choice Questions "MCQs"

- Alternative Minimum Tax (AMT) is applicable if adjusted Total Income of individual, AOP, artificial juristic person, Firm etc. exceeds:
 - 15 lakhs
 - 20 lakhs
 - 25 lakhs

- (a) 10 lakhs Answer: (b)
2. Share in the profits of the firm is taxable in the hands of partner under the head:
- (a) Salary
 - (b) Business & Profession
 - (c) Income from other sources
 - (d) Exempt from tax Answer: (d)
3. Salary, fees, bonus received by a partner from the firm is Taxable in the hands of partner under the head:
- (a) Salary
 - (b) Business & Profession
 - (c) Income from other sources
 - (d) Exempt from tax Answer: (b)
4. Income earned from sale of "Stridhan" is taxable in the hands of:
- (a) HUF
 - (b) Husband of such woman
 - (c) Such woman herself
 - (d) None of above Answer: (c)
5. Personal earning including income from Self Acquired Property of a member of the HUF is included in Income of:
- (a) HUF income
 - (b) Son's income
 - (c) Individual's income
 - (d) None of these Answer: (c)

LESSON 15- Companies

Illustration: State with the reason whether in the following cases Companies are widely held or closely held:

(a) The shares of ABC Private Limited are held as follows:

i	A corporation owned by RBI	15%
ii	Central Govt.	18%
iii	R.B.I.	10%
iv	Mr. Raman	28%
v	Mr. Bhuvan	27%

(b) 85% equity shares of Progressive Private Limited were held by the public and its affairs during the relevant previous year were controlled by seven persons.

Solution:

(a) Shares held by Govt., RBI and Corporation owned by RBI = $18\% + 10\% + 15\% = 43\%$.

As shares held by CG along with RBI are more than 40%, therefore, ABC Pvt. Ltd. is a Govt. Participating company. Hence it is a company in which Public is substantially interested i.e. widely held.

(b) As none of the criteria mentioned in Section 2(18) are met in case of Progressive Pvt. Ltd. (such as Govt. Participating, Section 8 Company or Nidhi etc.) therefore, it is a closely held company.

Example for understanding the above Note

	A	B	C	D	E	F	G	H
Yr.	Tax Payable as per Normal provisions of the IT Act	Tax Payable as per AMT/ MAT provisions	Higher of A or B	Tax Payable as per	Difference of A and B (in absolute terms)	Carried forward amount to be set off -	Final tax payable this year	Amount to credit to be C/f
1	Rs 25 Lacs	Rs. 17 Lacs	Rs 25 Lacs	Normal provisions of Income Tax act - subject to the credit available	Rs. 7 Lacs	Nil. Since Tax as per normal provisions is > tax as per AMT/ MAT	Rs 25 Lacs	Nil
2	Rs. 10 Lacs	Rs. 15 Lacs	Rs. 15 Lacs	Provisions of AMT/ MAT	Rs. 5 Lacs	Not available for this year	15 Lacs	Rs 5 Lacs (Rs 15 Lacs - Rs. 10

								Lacs)
3	Rs. 12 Lacs	Rs. 9 Lacs	Rs. 12 Lacs	Normal provisions of Income Tax act - subject to the credit available	Rs. 3 Lacs	Rs 5,00,000 but maximum credit that can be used is upto Rs 3,00,000	Rs. 9 Lacs (Rs 12 Lacs - Rs 3 Lacs)	Rs. 2 Lacs (Rs. 5 Lacs - Rs. 3 Lacs)
4	Rs 20 Lacs	Rs 15 Lacs	Rs 20 Lacs	Normal provisions of Income Tax act - subject to the credit available	Rs. 5 Lacs	Available only Rs. 2,00,000	Rs 18 Lacs (Rs 20 Lacs - Rs 2 Lacs)	Nil

Case Study

Def Ltd. is in the business of manufacture and sale of formal apparels and in order to expand its footprints globally, has launched a massive online campaign. For the purpose of the online advertisements, it utilized the services of GHI Ltd, based out of Singapore. During the PY, DEF Ltd. paid a consideration of INR 20,00,000 to GHI Ltd. for such services.

entail the implications if:

- GHI Ltd. has no permanent establishment in India
- GHI Ltd. has a permanent establishment in India

Answer

- In case GHI Ltd. has no permanent establishment in India, the consideration paid to GHI Ltd. by DEF Ltd. would attract Equalization Levy to be deducted @ 6%. Hence, INR 120,000 has to be deducted by Def Ltd. and deposited to the credit of the Central Government within 7th of the following month. non- deduction of equalization levy would attract a disallowance u/s 40(a)(ib) of 100% of the amount paid, while computing business income.
- In case GHI Ltd. has a permanent establishment in India, Equalization Levy would not be attracted. Therefore Def Ltd. need not deduct equalization Levy from the payment of consideration to GHI Ltd. However, tax has to be deducted u/s 195 in respect of such payments towards TDS. non-deduction of TDS would attract a disallowance u/s 40(a)(i) of 100% of the amount paid, while computing business income.

SELF TEST QUESTIONS

Q.1. State whether the following companies can be said to be companies in which the public are substantially interested:

- Vimal Industries (P) Ltd. The entire equity share capital was beneficially held by public and its affairs were managed during the financial year by more than five persons.
- Arun Industries Ltd. During the year more than 75 per cent of the equity share capital of the company

was beneficially held by the public in general. The shares of the company were not listed in a recognized stock exchange in India.

- (ii) Reliable Industries Ltd. The company is running a textile mill. 60 per cent of its equity share capital was beneficially held during the year by D & Co. Ltd. which is a widely-held company, i.e., a company in which the public were substantially interested. The shares of Reliable Industries Ltd. were not listed in a recognized stock exchange in India.
- (iii) 30 per cent of the equity share capital of the ABC Ltd. was beneficially held during the year by XYZ Co. Ltd. which is a widely-held company. i.e., a company in which the public were substantially interested. The rest 70 per cent shares were held by the public in general. The shares were listed in a recognized stock exchange in India.
- (iv) M & Co. Ltd. The company carried on mining business. During the year the equity share capital of the company was beneficially held as under:

30 per cent by Arun Industries Ltd. which is a Company in which the public were substantially interested.

15 per cent by Varun Industries Ltd. which is a 100 per cent subsidiary of Arun Industries Ltd.

55 per cent by the public in general. The shares of the company were not listed in a recognized stock exchange in India.

Answers – (i) No (ii) No (iii) Yes (iv) Yes (v) Yes

Illustration 1:

State with reason whether in the following cases Companies are widely held or closely held:

- (a) The shares of ABC Private Limited are held as follows:

i	A corporation owned by RBI	15%
ii	Central Govt.	18%
iii	R.B.I.	10%
iv	Mr. Raman	28%
v	Mr. Bhuvan	27%

- (b) 85% equity shares of Progressive Private Limited were held by the public and its affairs during the relevant previous year were controlled by seven persons.

Solution:

- (a) Shares held by Govt., RBI and Corporation owned by RBI = $18\% + 10\% + 15\% = 43\%$.

As shares held by CG along with RBI are more than 40%, therefore, ABC Pvt. Ltd. is a Govt. Participating company. Hence it is a company in which Public is substantially interested, i.e., widely held.

- (b) As none of the criteria mentioned in Section 2(18) are met in case of Progressive Pvt. Ltd. (such as Govt. Participating, Section 8 Company or Nidhi etc.) therefore, it is a closely held company.

Illustration 2:

Number of years for which credit of MAT excess paid under section 115JB can be carried forward is –

- (a) 7 Assessment years (b) 8 Assessment years

- (c) 15 Assessment years (d) 9 Assessment years.

Solution: (c) 15 Assessment years

Illustration 3:

A domestic company ABC Ltd furnishes the following particulars for AY 2024-25 and solicits your advice on the application of section 115JB. You are also required to compute the total income and tax payable.

Particulars		Amount (Rs.)
	Profits as per P&L Account as per Companies Act, 2013	1,95,00,000
	This includes:	
a)	Excess realized on sale of land held as investment	30,00,000
b)	Depreciation on SLM basis	1,00,00,000
c)	Provision for losses of subsidiaries	60,00,000
	Depreciation allowable per Income Tax Rules, 1962	1,50,00,000
	STCG on sale of land mentioned above	40,00,000
	B/f losses	50,00,000
	Unabsorbed Depreciation	60,00,000

The Company has also represented to you that the excess realized on sale of land cannot form part of the book profits u/s 115 JB. You will have to deal with the issue assuming that the Co. is not required to comply with Ind. AS. The annual turnover of ABC Ltd. was INR 40 Crores.

Solution:

Computation of Total Income

Particulars		Amount (Rs.)	Amount (Rs.)
	Net Profit per P&L Account		1,95,00,000
Less:	Excess realized on sale of land (treated separately)		30,00,000
			1,65,00,000
Add:	Depreciation on SLM Basis	1,00,00,000	
	Provisions for losses of subsidiaries	60,00,000	
			1,60,00,000
	Total		3,25,00,000
Less:	Depreciation allowable per Income-tax Act		(1,50,00,000)
	Business Income		1,75,00,000
Less:	Set-off of B/F losses		(50,00,000)
	Net Business Income		1,25,00,000
	Capital Gains		40,00,000

	Total Income		1,65,00,000
Less:	Unabsorbed Depreciation		(60,00,000)
	Total Income per as Income-tax Act, 1961		1,05,00,000

Computation of book Profit u/s 115Jb

	Particulars	Amount (Rs.)	Amount (Rs.)
	Net Profit per P&L Account		1,95,00,000
Add:	Depreciation on SLM Basis	1,00,00,000	
	Provisions for losses of subsidiaries	60,00,000	1,60,00,000
			3,55,00,000
Less:	Depreciation		(1,00,00,000)
	Business Income		2,55,00,000
Less:	B/f Business Loss as it's less than Unabsorbed Depreciation		(50,00,000)
	Book Profits		2,05,00,000

- (a) Note that the profit on sale of land held as investment is not excluded from the P&L for purposes of computing the Book Profits.
- (b) Note that the least of the B/f loss and the Unabsorbed Depreciation is reduced to compute Book Profits.

Income Tax Liability under Normal Provisions		
	Tax Liability @ 25% as the Turnover is < 400 Crores	26,25,000
Add:	Surcharge @ 7% as the Income is > 1 Cr.	1,83,750
	Total Tax Payable	28,08,750
Add:	Health and Education Cess @ 4%	1,12,350
	Total Income Tax Liability	29,21,100

Income Tax Liability per MAT Provisions		
	15% of Book Profits	30,75,000
Add:	Surcharge @ 7% as the Income is > 1 Cr.	2,15,250
	Total Tax Payable	32,90,250
Add:	Health and Education Cess @ 4%	1,31,610
	Total Income Tax Liability	34,21,860

Note:

- (a) Since 15% of book profits exceeds the tax payable per Income-tax Act, 1961, the book profit would be deemed to be the total income and the tax payable on such total income, which is INR 34,21,860 (rounded off) would become the liability for AY 2024-25 for the Company.
- (b) With regards to the company's representation, in respect of the capital gains, whether liable for book profit tax u/s 115JB, it may be noted that since the excess realised on sale of land which was held as investment, has been included in the net profit computed per Sch. III of the Companies Act, 2013, it shall form part of Book Profits (Bombay HC Judgement in *CIT vs. Veekay Lal Investment Co Pvt Ltd.*).

Illustration 4:

Mona Ltd., a resident Co., earned a profit of INR 15,00,000/- after debit / credit of the following amounts:

Items debited

- a) Provisions for the losses of Subsidiaries; INR 70,000
- b) Provision for doubtful debts; INR 75,000
- c) Provision for Income Tax; INR 105,000
- d) Provision for Gratuity basis actuarial valuation; INR 200,000
- e) Depreciation; INR 360,000
- f) Interest to Financial Institution (unpaid before filing of return); INR 100,000
- g) Penalty for infraction of law; INR 50,000

Items credited

- a) Profits from unit(s) established in SEZ; INR 500,000
- b) Share in income of an AOP as a member; INR 175,000
- c) Long Term Capital Gains; INR 300,000

Other Information

- a) Depreciation includes INR 150,000 on account of revaluation of fixed assets
- b) Depreciation per Income Tax Rules is INR 280,000
- c) Balance of P&L Account on the assets side of B/S as at 31st March, 2020 was INR 10,00,000; of which the unabsorbed depreciation was INR 400,000
- d) Capital Gains has been invested in specified assets u/s 54EC
- e) The AOP, of which the Co. is a member has paid the tax at maximum marginal rate
- f) Provision for Income Tax includes INR 45,000 as interest

You are required to compute the MAT u/s 115JB of the Income Tax Act, 1961 for AY 2024-25, assuming that the Co. is not required to comply with IND AS.

Solution:**Computation of book Profit u/s 115Jb**

	Particulars	Amount (Rs.)	Amount (Rs.)
	Net Profit per P&L Account		15,00,000
Add:	Provisions for subsidiaries' losses	70,000	
	Provision for doubtful debts	75,000	

	Provision for Income Tax	1,05,000	
	Depreciation	3,60,000	
			6,10,000
			21,10,000
Less:	Share in income of an AOP	1,75,000	
	Depreciation (excl. Reval. Amounts)	2,10,000	
	Unabsorbed Business Losses	4,00,000	
			(7,85,000)
	Book Profits		13,25,000
	MAT Liability @ 15%		19,87,50
Add:	Health and Education Cess @ 4%		7,950
	MAT Liability (rounded off)		20,6700

Note:

1. Interest to FI's / Banks which are unpaid prior to filing of return and penalties are not specified items u/s 115JB and hence not added back
2. Provision for Gratuity Liability based on actuarial valuation is an ascertained liability and hence should not be added back to ascertain book profits (*CIT vs. Echjay Forgings P. Ltd.*)
3. Capital Gains reflected in the P&L will form a part of the book profits even if the investments u/s 54EC have been made. Therefore, these cannot be reduced. (*CIT vs. Veekaylal Investment Co. P. Ltd.*)
4. Share of the AOP's income as a member is reduced as the AOP has already paid the tax at maximum marginal rate

Illustration 5:

The table below highlights and explains the modus of MAT Credit, and how it is utilised and carried forward.

MAT CREDIT UTILISATION AND C/F					
A.Y.	Normal Tax Liability	Liability (MAT)	Tax Payable	Credit utilised	Credit c/f
2014-15	100	300	300	-	200
2015-16	120	90	120	30	170
2016-17	150	110	150	40	130
2017-18	180	200	200	-	150
2018-19	200	190	200	10	140
2019-20	300	280	300	20	120
2020-21	250	230	250	20	100
2021-22	225	175	225	50	50

2022-23	250	240	250	10	40
2023-24	275	270	275	5	35
2024-25	350	315	350	35	0

CASE 1

DP Ltd (A Domestic Company) provides you the information related to AY: 2024-25. Dividend received from ACC Ltd. (A Domestic Company) ₹1200000 (Interest paid for borrowed money for investment in ACC Ltd ₹300000 and dividend collection charges paid would be ₹7000). Income from Mutual Fund (HDFC Equity Oriented) ₹300000 (Interest paid for borrowed money for investment in MF ₹16000 and other charges paid would be ₹4000). DP Ltd company has distributed the dividend to shareholders:

Particulars	FY	Date of Payment	Amount
Interim Dividend	2023-24	23-7-2023	2,50,000
Interim Dividend	2023-24	29-11-2024	90,000

You are required to compute Taxable Dividend Income and Deduction under section 80M and Section 57 of Income Tax Act.

Solution:**Computation of Taxable Dividend Income and deduction u/s 57**

Particulars	Amount
Dividend received from ACC Ltd	1,20,0000
Less: Deduction u/s 57 in terms of Interest	
(a) Actual Amount	3,00,000
(b) 20% of income (i.e. 20% *12,00,000)	2,40,000
a or b whichever is lower	(2,40,000)
Dividend income received	9,60,000
Income from Mutual Fund (HDFC Equity oriented)	3,00,000
Less: Deduction u/s 57 in terms of Interest	
(a) Actual Amount	16,000
(b) 20% of income (i.e. 20% *3,00,000)	60,000
a or b whichever is lower	(16,000)
Income received	2,84,000

Computation of Deduction u/s 80M

Due date of filling of return	30.9.2022
(a) Amount of dividend received from domestic companies (As per above)	9,60,000

(b) Amount of dividend distributed 1 month prior to the due date of filing return(i.e.30-9-2024)	2,50,000
Amount of Deduction u/s 80M = A or B Whichever is lower	2,50,000

Note: Dividend collection charges and other charges are not allowed as a deduction.

Illustration 6:

X Ltd. an Indian Company received dividend of Rs. 15 lakhs from a foreign company in which it holds 28% in nominal value of the equity share capital of the company. X Ltd. incurred expenditure of Rs. 0.25 lakhs on earning this income. Examine the taxability of the dividend under the provisions of the Income-tax Act, 1961.

Solution

Under section 115BBD, dividend received by an Indian company from a foreign company in which it holds 26% or more in nominal value of the equity share capital of the company, would be subject to a concessional tax rate of 15% plus surcharge and cess, as against the tax rate of 30% applicable to other income of a domestic company. This rate of 15% plus surcharge and cess would be applied on gross dividend, in the sense, that no expenditure would be allowable in respect of such dividend. Therefore, dividend of Rs. 15 lakhs received by X Ltd. from a foreign company, in which it holds 28% in nominal value of equity share capital of the company, would be subject to tax@15% under section 115BBD. Such dividend would be taxable under the head "Income from other sources". No deduction is allowable in respect of Rs.

0.25 lakhs spent on earning this income.

CASE STUDY

ABC Ltd.; a domestic company purchases its own unlisted shares, on 14th October, 2023. The consideration for the buyback amounted to INR 50,00,000, which was paid the very same day. The amount received by the company 2 years ago, for the issue of such shares was INR 27,00,000.

The tax on such buy back was deposited by the company to the credit of the Central Government on 27th February, 2024.

You are required to compute the tax and the interest payable.

Solution

Particulars	Amount (Rs.)
Buy Back Consideration	50,00,000
Less: Cost of Shares	27,00,000
Net paid for buy-back	23,00,000
Tax payable @20%	4,60,000
Surcharge	55,200
Cess (on Tax + SC) @ 4%	20,608
Total additional tax payable	5,35,808
Additional Tax Payable (rounded off)	5,35,810
Interest payable	21,432

Note: The tax had to be deposited to the credit of the Central Government within 14 days of the payment of buy-back consideration, i.e., on or before 28th October, 2021. However, the tax was deposited on 27th February, 2024 and hence interest for 4 months @ 1% per month is applicable.

Illustration 7:

DEF Ltd. is in the business of manufacture and sale of formal apparels and in order to expand its footprints globally, has launched a massive online campaign. For the purpose of the online advertisements, it utilized the services of GHI Ltd., based out of Singapore. During the PY, DEF Ltd. paid a consideration of INR 20,00,000 to GHI Ltd. for such services.

Entail the implications if:

- (a) GHI Ltd. has no permanent establishment in India.
- (b) GHI Ltd. has a permanent establishment in India.

Solution:

- (a) In case GHI Ltd. has no permanent establishment in India, the consideration paid to GHI Ltd. by DEF Ltd. would attract Equalization Levy to be deducted @ 6%. Hence, INR 120,000 has to be deducted by DEF Ltd. and deposited to the credit of the Central Government within 7th of the following month. Non-deduction of equalization levy would attract a disallowance u/s 40(a)(ib) of 100% of the amount paid, while computing business income.
- (b) In case GHI Ltd. has a permanent establishment in India, Equalization Levy would not be attracted. Therefore DEF Ltd. need not deduct Equalization Levy from the payment of consideration to GHI Ltd. However, tax has to be deducted u/s 195 in respect of such payments towards TDS. Non-deduction of TDS would attract a disallowance u/s 40(a)(i) of 100% of the amount paid, while computing business income

CASE 1

Mr. DP has advertised on Facebook for his business purpose. For that, he has to pay Rs. 200000 to Facebook for said advertising services. Discuss the tax implications under chapter VIII of Finance Act, 2016 read with Section 10(50) of Income Tax Act, 1961.

Solution:

Mr. DP deduct Equalization Levy = 6% of 200000 = Rs. 12,000 and Pay balance Rs. 1,88,000 to Facebook, the said advertisement. As per section 10(50) of the Income tax Act, 1961, Rs. 200000 shall be exempted in the hands of Facebook.

CASE 2

Mama web online portal owned by Kremal corp. (US Based Company) providing online platform to Indian and foreign customers. Goods and services provided to Indian customer's amounts to Rs. 20 crores where provided to Non-resident amounting to Rs. 70 crores (other than u/s 165 & 165A). However, online services provided to Indian Customer XL Virtual by way of online advertisement amounts to Rs. 10,00,000. Discuss the tax implications in relation to Equalization Levy?

Solution:

1. If Mama web online portal has PE in India. In above case, Equalization Levy is not applicable and company is required to pay tax as per normal income tax provisions.
2. If Mama web online portal does not have PE in India. In above case, Equalization Levy is applicable.
 - EL payable by Mama Web online portal to Govt. = 2% * 20 Crores = Rs. 4,00,000
 - XL Virtual is required to deduct Equalization Levy for online advertisement = 6% of 10,00,000 = Rs. 60,000

CASE 3

Nozy Inc., a USA based company, is carrying on the business of manufacture and sale of Cosmetic". In order to increase its Indian Market share, Company launched a massive advertisement campaign of its products. For the purpose of online advertisement, it utilized the services of Kuka Inc., a Ghana based company which also owns and operates a digital platform. The gross receipt of Kuka Inc from provision of such services during the P.Y. 2021-22 is Rs 3 crores. During the previous year 2021-22, Nozy Inc. paid Rs. 5 lakhs to Kuka Inc. for such services. Discuss the tax implications in line with reference to Equalization Levy If –

- (a) Nozy Inc. and Kuka Inc. have no PE in India
- (b) Nozy Inc. has a PE in India but Kuka Inc. has not PE in India

- (c) Kuka Inc. has a PE in India and the advertisement services are effectively connected with such PE

Solution:

(1) Nozy Inc. and Kuka Inc. have no PE in India

- Equalization levy would not be applicable. Therefore, the Nozy Inc. is not required to deduct equalization levy @ 6%
- Equalization levy @2% under section 165A is leviable on Rs. 5 lakhs as the amount of consideration received by Kuka Inc, an e-commerce operator from e-commerce services provided by it to Nozy Inc., a non-resident in the specified circumstance (i.e. sale of advertisement) which targets a customer, who is resident in India, since the gross receipt of Kuka Inc. in the P.Y. 2021-22 exceeds Rs. 2 crores.

(2) Nozy Inc. has a PE in India but Kuka Inc. has not

- Equalization levy @6% is leviable on Rs 5,00,000 received by Kuka Inc., a non-resident not having a PE in India.
- Hence, Nozy Inc. is required to deduct equalisation levy of Rs 30,000 (6% * 5 lakhs) as Services provided by Nozy Inc., a non-resident having no permanent establishment in India.
- Since, equalisation levy is attracted on the amount of Rs 5 lakhs, the said amount is exempt from income-tax by virtue of section 10(50) of the Income-tax Act, 1961.

(3) Kuka Inc. has a PE in India and the advertisement services are connected with such PE

- Equalisation levy would not be applicable as the non-resident service provider Kuka Inc., has a PE in India and the service is effectively connected to the permanent establishment in India.
- Hence, Nozy Inc. is not required to deduct equalisation levy on Rs 5 lakhs, being the amount paid towards online advertisement services to Kuka Inc, in this case.
- Since equalisation levy is not applicable in this case hence no exemption under section 10(50) of the Income-tax Act, 1961 would be available.
- It is immaterial whether Nozy Inc. has a PE in India or not for the purpose of equalisation levy implication of advertisement transaction, as in both the cases, equalisation levy would not be attracted.

CASE 1

XP Private Ltd. went into liquidation on 1.6.2023. The company was apprehended and controlled of the following funds prior to the distribution of assets to the shareholders: Share capital of Rs. 500000 which was issued on 1st April 2015, Accumulated profit till date would be Rs. 300000. Moreover, Rs. 500000 has been an excess realisation on liquidation. There are five shareholders, each of whom received Rs. 2,60,000 from the liquidator in full settlement. Being Company Secretary of Company, throw light on the various issues and advice the shareholders and company about their liability to Income tax.

Solution:

Facts: XP Private Ltd. went into liquidation on 1.6.2023 and having accumulated profit prior to liquidation would be Rs. 300000.

Issue: Taxability in case of liquidation i.e. in the hands of company and shareholder.

Analysis:

In the hands of Company:

- Distribution made to the shareholders of the company on liquidation is treated as “**Deemed Dividend**” u/s 2(22)(c)
- If the assets of company are distributed in the event of liquidation, then such distribution shall not be considered as “Transfer”. **Hence, Capital gain shall not be applicable to company.**

In the hands of Shareholders:

- If the money or other sums received by shareholders on liquidation, then capital gain is **applicable to Shareholders in the year of receipt of assets.**

In this case, the accumulated profits immediately before liquidation is Rs 3,00,000. The share of each shareholder is Rs 60,000 (i.e. 300000/5) shall be treated as deemed dividend under section 2(22) (c). The same is taxable in the hands of the shareholder under the head "Income from other sources".

Consideration received	260000
Add: Fair Market Value of the assets received on date of distribution	-
Less: Amount assessed as dividend u/s 2(22) (c)	(60000)
Sale Consideration in the hands of each shareholder as per section 46(2)	200000

Illustration 8:

The following details of the shares issued by the following closely held companies are available. You are required to advise the Company on the applicability or otherwise of Section 56(2) (viib).

Company	No. of Shares	Fv of Shares (INR)	FMv of Shares (INR)	Issue Price (INR)	Applicability & Chargeable Tax
A (P) Ltd.	10000	100	120	130	Section 56(2) (viib) attracted as the shares are issued at premium. $10000 \times (130-120) = \text{INR } 100,000$ would be chargeable to tax under the head "Income from other sources"
B (P) Ltd.	20000	100	120	110	Section 56(2) (viib) attracted as the shares are issued at premium. However, no amount is chargeable to tax as the Issue Price is < the FMV
C (P) Ltd.	30000	100	90	98	Section 56(2) (viib) are not attracted as the shares are not issued at premium, rather at a discount on FV, even though the issue price is > FMV
D (P) Ltd.	40000	100	90	110	Section 56(2) (viib) attracted as the shares are issued at premium. $40000 \times (110-90) = \text{INR } 800,000$ would be chargeable to tax

					under the head "Income from Other Sources"
--	--	--	--	--	--

Multiple Choice Questions "MCQs"

1. Tax credit in respect of MAT paid as per section 115JB will be allowed only in the previous year in which the tax payable on the total income at the normal rate is –
 - (a) More than the tax payable under section 115JB
 - (b) Less than the tax payable under section 115JB
 - (c) Equal to the tax payable under section 115JB
 - (d) All of the above.

Answer: (a) More than the tax payable under section 115JB

2. Metro Ltd., a domestic company, is assessed with a total income of Rs. 11.25 crore. The surcharge payable by the company shall be at the rate of –
 - (a) 2% (b) 5%
 - (c) 10% (d) 12%.

Answer: (d) 12%

3. Dividend received from domestic company will be included in the total income of the shareholder and will be charged to tax at –
 - (a) 15 % (b) 18.5 %
 - (c) 30% (d) Normal slab rate of tax as applicable to assessee. Answer: (d)

Normal slab rate of tax as applicable to assessee

4. Provisions of Section 115JB are applicable in case of –
 - (a) Domestic companies only (b) Foreign companies only
 - (c) All companies (d) Closely held companies. Answer: (c)

All companies.

5. For computing the Book Profit under section 115JB, which of the following is not added back to the profits?
 - (a) Income-Tax
 - (b) Provision for Tax
 - (c) Dividend Distribution Tax U/S 115-O
 - (d) Securities Transaction Tax Answer: (d) Securities Transaction Tax

6. Mr. Ganapathy a resident individual received Rs. 12 lakhs during the financial year 2023-24 by way of dividend from domestic companies. The applicable rate of dividend distribution tax under Section 115- O on the dividend declared shall be:
 - (a) 10.4% (b) 31.2%

- (c) Nil (d) 15.60%

Answer: (c) Nil

7. A domestic company whose turnover for the previous year 2020-21 Rs. 420 crores; for previous year 2020-21 Rs. 380 crore and for previous year 2021-22 Rs. 120 crores. Its total income (computed) for the assessment year 2024-25 is Rs. 30 crores. The rate of income tax applicable for such company (without cess) is:

- (a) 30% (b) 22%
(c) 15% (d) 25%

Answer: (d) 25%

8. ABC Pvt. Ltd. has a business loss of Rs. 10 lakh. There is unexplained share application money to the tune of Rs. 25 lakh. The total income of the company will be :

- (a) Rs. 15 lakh (b) Rs. 35 lakh
(c) Rs. 25 lakh (d) None of the above Answer: (c)

9. Provisions of Minimum Alternate Tax (MAT) are applicable to the companies which are :

- (a) Indian companies
(b) Foreign companies in certain situations
(c) LLP
(a) (i) and (iii) (b) (i) and (ii)
(c) All the three (d) None of the above Answer: (b)

10. In order to be entitled to concessional rate of tax for dividend received from a foreign company, the Indian company should have the following minimum shareholding in such foreign company –

- (a) 10% (b) 25%
(c) 26% (d) 51%.

Answer: (c) 26%

11. An Indian company having 30% voting power in a foreign company received dividend of Rs. 10 lakh from the foreign company. The dividend so received by the Indian company is –

- (a) Exempt (b) Taxable @ 15%
c. Taxable at the regular rates (d) Taxable @ 20% Answer: (b) Taxable @ 15%

12. At present, MAT Provisions are given in section __ of Income Tax Act, 1961

- (a) 115J (b) 115A
(c) 115JA (d) 115JB

Answer: (d)

13. MAT provisions are applicable to

- (a) Public Co (b) Private company
(c) Domestic Co (d) All companies Answer: (d)

14. As per Explanation 1 to section 115JB(2) "book profit" for the purposes of section 115JB means net profit as shown in the statement of profit and loss prepared in accordance with ____ of the Companies Act as increased and decreased by certain items prescribed in this regards

- (a) Schedule V (b) Schedule III

(c) Schedule II (d) Schedule I Answer: (c)

15. Every company to which this section applies, shall furnish a report in the prescribed form from a Chartered Accountant as defined in the Explanation below Section 288(2), certifying that the book profit has been computed in accordance with the provisions of this section

(a) CA (b) CS
(c) CMA (d) ACCA

Answer: (a)

16. Rate of MAT in case of a unit located in International Financial Service Centre

(a) 15% (b) 9.5%
(c) 15.5% (d) 9%

Answer: (d)

17. MAT Credit to be set off ____

(a) Regular Income tax - Minimum alternate tax
(b) Regular Income tax + Minimum alternate tax
(c) Regular Income tax /Minimum alternate tax
(c) Zero Answer: (a)

18. Credit of MAT in respect of tax excess paid under Section 115JB will be available and it can be carried forward for ____

(a) 15 Financial Year (b) 15 Assessment Year
(c) 15 Calendar Year (d) 15 Year of Receipt Answer: (b)

True and False

1. As per section 115JB(5A) MAT shall not apply to any income accruing or arising to a company from life insurance business referred to in section 115B. **(True)**
2. As per section 115JB(5A) MAT shall apply to any income accruing or arising to a company from life insurance business referred to in section 115B. **(False)**
3. If in any year the company pays liability as per MAT, then it is entitled to claim credit of MAT paid over and above the normal tax liability in the subsequent year(s). **(True)**

INDEX- INDIRECT TAX

Sr No	Lesson Title	Page No
1	Concept of Indirect Taxes at a Glance	1.1-1.1
2	Supply under GST	2.1-2.3
3	Levy And Composition Scheme	3.1-3.3
4	Exemptions under GST	4.1-4.6
5	Concept of Time, Value and Place of Supply	5.1-5.7
6	ITC & GST Liability	6.1-6.5
7,8,9	Registration, Invoices, Accounts & E-Way Bills, Returns, Payments, QRMP & Refund, GSTP, Assessment, Demand & Recovery	7/8/9.1-7/8/9.4
10	UTGST, IGST & Compensation to States Act	10.1-10.2
11	Overview of Customs Law	11.1-11.6

LESSON 1- GST Basics

Multiple Choice Questions (MCQs)

1. The GST Council was established under of the Constitution.
 - a) Article 269A
 - b) Article 368
 - c) Article 286
 - d) Article 279A
2. The exclusive right to make laws for matters containing in List-III of Schedule VII of the Constitution of India has been given to
 - a) State Government
 - b) Central Government
 - c) Both of the above
 - d) None of the Above
3. Which of the following taxes have been subsumed in GST?
 - a) Value Added Tax (VAT)
 - b) Central Sales Tax (CST)
 - c) Central Excise Duty and Service Tax
 - d) All of the above
4. GST came into force by the _____ Constitutional Amendment Act.
 - a) 110
 - b) 101
 - c) 111
 - d) None of the above
5. _____ contains the power to make laws with respect to Goods and Services Tax by Union and State Government.
 - a) Article 254
 - b) Article 246
 - c) Article 246A
 - d) Article 264

Answers: 1 (d), 2 (c), 3 (d), 4 (b), 5 (c)

Descriptive Questions

1. Explain Constitutional amendments made to implement GST.
2. "GST is One Nation One Tax" Explain the Concept.
3. What were the Taxes which GST subsumed?
4. Which commodities have been kept outside the purview of Goods and Services Tax (GST)?
5. What were the highlights of Constitutional (101st Amendment) Act, 2016 with respect to Goods and Service Tax?

LESSON 2- Supply & Composite & Mixed

Illustration:

Mr. Akshay a dealer sells a washing machine for Rs. 30,000 to earn a profit. Does it qualify as a supply?

Solution:

Yes, it qualifies as supply as per Section 7(1)(a) of CGST Act, 2017.

Illustration:

Mr. Ram (an unregistered person) wants to do MBA abroad. He takes Education consultancy services from a UK based consultant for Rs. 10,000. Does it qualify as a supply?

Solution:

Yes, it qualifies as supply, because as per Section 7(1)(b) of CGST Act, 2017, Supply includes import of services for a consideration whether or not in the course or furtherance of business. Hence, in the above case it will be treated as supply.

Illustration:

ABC Ltd. a manufacturing company scraps old plant and machinery due to renovation of manufacturing facility. The company has taken Input Tax Credit on plant and machinery so scrapped without consideration. Does it qualify as a supply?

Solution:

As per Section 7(1)(c) read with Schedule I of CGST Act, 2017, Permanent transfer or disposal of business assets where Input Tax Credit has been availed shall be treated as supply even made without consideration. Hence scrapping of old plant and machinery without consideration shall qualify as supply since Input Tax Credit has been availed by ABC Ltd.

Illustration:

Big Ltd. provides management technical services without consideration to Small Ltd. in which Big Ltd. has controlling rights. These technical services have been provided for benefit of entire group. Does it qualify as a supply?

Solution:

As per Section 7(1) (c) read with Schedule I of CGST Act, 2017, Supply of goods or services between related persons is treated as supply even if it is without consideration. As per Explanation to Section 15 of CGST Act, 2017, persons shall be deemed to be "related persons" if "one of them directly or indirectly controls the other". Since Big Ltd. has controlling rights of Small Ltd., they will be treated as related person and the said transaction will qualify as supply.

Illustration:

American Express Pvt. Ltd. makes gifts to an employee worth Rs. 75,000 during the year. Do such gifts qualify as a supply? Would your answer be different if gifts of Rs. 45,000 have been given to employee?

Solution:

As per Section 7(1) (c) read with Schedule I of CGST Act, 2017, supply of goods or services between related persons is treated as supply even if it is without consideration. As per Explanation to Section 15 of CGST Act, 2017, persons shall be deemed to be "related persons" if such persons are employer and employee. Thus, gifts to employee worth Rs. 75,000 will qualify as supply and such supply would be leviable to GST.

If gifts of Rs. 45,000 are given instead of Rs. 75,000, the same will not qualify as supply since it has been specifically provided that gifts not exceeding Rs. 50,000 in value in a financial year by an employer to an

employee shall not be treated as supply of goods or services or both.

Illustration:

Honda Motors Ltd. engages DB Motors as an agent to sell motorcycle on its behalf. For the purpose, Honda Motors Ltd. has supplied 500 cars to the showroom of DB Motors located in Punjab. Does it qualify as supply?

Solution:

As per Section 7(1) (c) read with Schedule I of CGST Act, 2017, Supply of goods by a principal to his agent where the agent undertakes to supply such goods on behalf of the principal shall be treated as supply even if made without consideration. In view of the same Supply of motorcycles by Honda Motors Ltd. to DB Motors will qualify as supply.

Illustration:

Raheja Builders (a registered taxable person) receives architectural design supplied by a foreign architect to design a residential complex to be built in Faridabad for a consideration of Rs. 1 crore. Does it qualify as supply?

Solution:

As per Section 7(1) (b) of CGST Act, 2017, Importation of services for a consideration whether or not in the course or furtherance of business is covered under supply. In the above case it will be treated as supply and will be liable to GST.

Composite And Mixed Supply

Illustration:

Heera Printers is a printing house registered under GST. It receives an order for printing 5000 copies of a book on yoga and meditation authored by a well-known yoga guru. The content of the book is to be provided by the yoga guru to Heera Printers. It is agreed that Heera Printers will use its own paper to print the said books.

You are required to determine the rate of GST applicable on supply of printed books by Heera Printers assuming that rate of GST applicable on services is 18% whereas the rate of GST applicable on supply of goods is 12%.

Solution :

Section 2(30) provides that a composite supply means a supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.

Circular No. 11/11/2017 GST dated 20.10.2017 has clarified that supply of books, pamphlets, brochures, envelopes, annual reports, leaflets, cartons, boxes etc. printed with logo, design, name, address or other contents supplied by the recipient of such printed goods, are composite supplies.

Further, section 8(a) stipulates that a composite supply comprising two or more supplies, one of which is a principal supply, is treated as a supply of such principal supply. Hence, one needs to ascertain what constitutes the principal supply in this supply. As per section 2(90), principal supply is the supply of goods or services which constitutes the predominant element of a composite supply and to which any other supply forming part of that composite supply is ancillary.

The above circular further clarifies that in the composite supply of printing of books, pamphlets, brochures, annual reports, and the like, where only content is supplied by the publisher or the person who owns the usage rights to the intangible inputs while the physical inputs including paper used for printing belong to the printer, supply of printing [of the content supplied by the recipient of supply] is the principal supply and therefore such supplies would constitute supply of service.

Accordingly, in the given case, the supply of printed books by Heera Printers is a composite supply wherein the principal supply is supply of printing services. Thus, the rate of GST applicable thereon is the rate applicable on supply of printing services, i.e. 18%.

Multiple Choice Questions (MCQs)

1. Activities which are to be treated as “supply” even if made without consideration are specified in
 - a) Schedule III of Central Goods and Services Tax Act, 2017.
 - b) Schedule II of Central Goods and Services Tax Act, 2017.
 - c) Schedule I of Central Goods and Services Tax Act, 2017.
 - d) None of the Above Answer- c
2. Licence to occupy land is treated as
 - a) Supply of Services
 - b) Supply of Goods
 - c) Neither supply of goods nor supply of services
 - d) None of the Above Answer- a
3. The _____ supply will be charged at the rate applicable to the supply that attracts the highest rate of tax from within the consolidated package
 - a) Mixed
 - b) Composite
 - c) Principal
 - d) None of the Above Answer-a

Descriptive Questions

1. Discuss whether the following transactions will be considered as supply or not under GST laws.
 - a. An individual buys a car for personal use and after a year sells it to a car dealer.
 - b. A dealer of air-conditioners permanently transfers an air conditioner from his stock in trade, for personal use at his residence.
 - c. Provision of service or goods by a club or association or society to its members.
2. Discuss whether the following transactions/activities will be treated as supply of goods or supply of service
 - a. Transfer of right to use goods.
 - b. Works contracts and Catering services.
 - c. Supply of software.
 - d. Goods supplied on hire purchase basis.
3. State which of the following is composite supply or mixed supply under the GST law:
 - a. Sale of car with warranty coverage.
 - b. Gift pack with chocolates and books.
 - c. Sale of Refrigerator with power stabilizer.
 - d. Hotel Sanyasi providing accommodation with complimentary breakfast.
4. Define the Scope of supply provided under section 7 of CGST Act, 2017.
5. What are the activities which are treated as supply of goods or services as per schedule II of the CGST Act, 2017?
6. Which are the commodities which have been kept outside the purview of GST?

LESSON 3- Levy And Composition

Illustration:

Mr. A, a retailer, presents the following information for the year -

Purchases of goods: Rs. 30,00,000., out of which goods worth Rs. 2,00,000 purchased from unregistered dealer.
Sale of Goods: Rs. 49,00,000. He has opted the composition scheme. Show the treatment in GST, assuming that rate under GST are 0.5% CGST and 0.5% (composition scheme) and 9% CGST and 9% SGST (Regular scheme).

Solution:

Tax payable under Composition Scheme: CGST payable=

$$49,00,000 \times 0.5\% = 24,500$$

$$\text{SGST payable} = 49,00,000 \times 0.5\% = 24,500$$

Illustration:

A person availing composition scheme during a financial year crosses the turnover of Rs. 150 Lakhs (Rs. 75 lakhs in specified States) during the course of the year, i.e., say he crosses the turnover in December? Will he be allowed to pay tax under composition scheme for the remainder of the year, i.e., till 31st March?

Solution:

No. The option availed shall lapse from the day on which his aggregate turnover during the financial year exceeds Rs. 150 Lacs (Rs. 75 lakhs in specified States).

Illustration:

Delite Brothers, engaged in the sale of spare parts of motor vehicles, have opted for composition. During the year, apart from the sale of spare parts for Rs. 1.2 Cr, they also provided maintenance service to their few customers for which they earned revenue of Rs.8 Lakhs. Please advise the eligibility of Delite Brothers of composition levy under Section 10 of the CGST Act.

Solution:

Under Section 10 of the CGST Act, the registered person opting to pay tax under composition levy can apart from manufacture / supply of goods, provide service not exceeding 10% of their turnover or Rs. 5 lakhs whichever is higher. In this case, the turnover representing service comes to Rs.8 lakhs which is less than 10% of their total turnover. Thus, Delite brother shall be eligible for composition levy in that financial year.

Illustration:

XYZ Ltd., a manufacturing concern had effected Intra-State taxable supply of Rs. 20,00,000 and inter-State taxable supply of Rs. 25,00,000 in Financial year 2017-18. The company wants to opt for composition scheme under Section 10 of CGST Act, 2017. As a GST consultant advise XYZ Ltd. whether it can opt for composition scheme.

Solution:

As per provisions of Section 10 of CGST Act, 2017, a manufacturer can opt for composition scheme if he is not engaged in making any Inter-State outward supplies of goods. In this case since XYZ Ltd. has effected inter-State taxable supply of goods, hence it cannot opt for composition scheme.

Illustration:

A, a retailer who keeps no inventories, presents the following expected information for the year -

- (1) Purchases of goods: Rs. 50 lakhs (GST @5% extra).
- (2) Sales (at fixed selling price inclusive of all taxes): Rs. 60 lakhs (GST rate on such goods as per Customs Tariff is @5%).

Discuss whether he should opt for composition scheme if composite tax is 1% of turnover. Expenses of

keeping detailed statutory records required under the GST Laws will be Rs. 1,20,000 p.a., which shall get reduced to Rs. 50,000 if composition scheme is opted for. Other expenses are Rs. 3,00,000 p.a.

Solution:

The cost to the ultimate consumer under two schemes is as under -

Particulars	Normal GST scheme	Composition Scheme
Cost of goods sold (*No credit under composition scheme, hence, cost of goods sold will be higher)	50,00,000	52,50,000
Add: Costs of maintaining records	1,20,000	50,000
Add: Normal Expenses	3,00,000	3,00,000
Total Costs	54,20,000	56,00,000
Sales (inclusive of all taxes)	60,00,000	60,00,000
Less: Tax (GST = Rs. 60 lakh $\times$ 5 / 105); (Composite Tax = Rs. 60 lakh $\times$ 1%)	2,85,714	60,000
Sales (net of taxes)	57,14,286	59,40,000
Profit of the dealer (Sales, (net of taxes - Total Costs)	2,94,286	3,40,000

Conclusion: It is apparent that while cost to ultimate consumer, in both the cases remains same, the profit of the dealer is higher if the dealer opts for composition scheme. Hence, composition scheme should be opted.

Illustration:

Applicability of composition scheme: XYZ Ltd. is having two factories. One factory is located in Rajasthan is manufacturing readymade garments and another factory located in Gujarat is engaged in manufacture of auto components. The turnover details of Financial Year 2017-18 are as under:

	Particulars	Rs.
(1)	Intra-State supply of readymade garments in Rajasthan	28,00,000
(2)	Intra-State supply of auto- components in Gujarat	18,00,000
	Total Value of taxable supplies	46,00,000

The company wants to opt for composition scheme for factory in Rajasthan and tax at normal rates in Gujarat. Advise.

Solution:

According to Section 10(2) of CGST Act, 2017, All Registered person having same PAN have to opt for Composition Scheme. If one opts for regular levy for one registered place, others become ineligible for composition levy. Thus, XYZ Ltd. cannot opt for composition scheme in Rajasthan and pay normal tax in Gujarat.

Illustration:

Determine whether the suppliers in the following cases are eligible for composition levy, under section 10(1) & 10(2), provided their turnover in preceding year does not exceed Rs.1.5 crore:

- Ram Enterprises is engaged in trading of pan masala in Rajasthan and is registered in the same State.
- Shyam Manufacturers has registered offices in Punjab and Haryana and supplies goods in neighbouring States.

Solution :

- A supplier engaged in the manufacture of goods as notified under section 10(2)(e), during the preceding FY is not eligible for composition scheme under section 10(1) and 10(2). Ice cream and other edible ice, whether

or not containing cocoa, Pan masala, Tobacco and manufactured tobacco substitutes and aerated waters are notified under this category. However, in the given case, since Ram Enterprises is engaged in trading of pan masala and not manufacture and his turnover does not exceed Rs.1.5 crore, he is eligible for composition scheme subject to fulfilment of specified conditions.

- (ii) Since supplier of inter-State outward supplies of goods or services is not eligible for composition levy, Shyam Manufacturers is not eligible for composition levy.

Multiple Choice Questions (MCQs)

1. Which of the following supplies of goods is subject to reverse charge ?
 - a) cotton yarn
 - b) silk yarn
 - c) nylon
 - d) books Answer- b
2. For which of the following goods, the manufacturer is not allowed to opt for composition scheme
 - a) ice-cream and other edible ice, whether or not containing cocoa;
 - b) pan masala;
 - c) tobacco and manufactured tobacco substitutes;
 - d) all of the Above Answer- d

Descriptive Questions

1. Who is the person eligible to opt for Composition Scheme?
2. What are the provisions relating to tax payable on reverse charge basis under section 9(3)? Which are the categories of supply of services on which recipient has to pay tax on reverse charge basis?
3. The aggregate turnover of Sona & Sons, a registered firm during the financial year 2022-23 is Rs. 66,00,000. During the financial year 2022-23 the aggregate turnover for the firm till 12.10.2022 is Rs. 1,49,00,000. On 13.10.2022 it issues three invoices of Rs. 1,50,000, Rs. 80,000 and Rs. 90,000. Will the firm be liable to pay GST under normal Scheme and if so on what amount?
4. What is the meaning of exempt supply? Give some examples of goods which are exempt from GST?

LESSON 4- Exemptions

Illustration:

XYZ Education Advisory promotes the courses of foreign universities among prospective students. It has tied up with various Universities all over the world. These Universities have engaged them for promotional and marketing activities for promotion of the courses taught by them and making the prospective students aware about the course fee and other associated costs, market intelligence about the latest educational trend in the territory and ensuring payment of the requisite fees to the Universities if the prospective students decide upon pursuing any course promoted by the Applicant.

XYZ Education Advisory receives consideration in the form of commission from the foreign University for these services rendered to prospective students. It wants to know whether the service provided to the Universities abroad would be considered “export” within the meaning of Section 2(6) of the Integrated Goods and Services Act, 2017, and, therefore, a zero-rated supply under the CGST Act, 2017?

Solution:

The facts of the case are similar to the matter before Authority of Advance Ruling in the case of Global Reach Education Services Pvt. Ltd. where the West Bengal Authority for Advance Ruling has held that Section 2(6) of the Integrated Goods and Services Tax Act, 2017, reads as “export of services” means the supply of any service when -

- i. the supplier of service is located in India;
- ii. the recipient of service is located outside India;
- iii. the place of supply of service is outside India;
- iv. the payment for such service has been received by the supplier of service in convertible foreign exchange or in Indian rupees wherever permitted by the Reserve Bank of India; and
- v. the supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with Explanation 1 in Section 8.”

It is, thus, evident from the above citation that in the case of Export of Services all the conditions as laid down under Section 2(6) of IGST Act, 2017 is to be followed in totality without any violation, and that there is no scope of partial compliance of the conditions laid down therein. The main service provided by the applicant is facilitating recruitment of students and the consideration is paid as commission.

XYZ Education Advisory, therefore, represents the University in the territory of India and acts as its recruitment agent and not as an independent service provider.

Being an intermediary service provider, the place of supply shall be determined under section 13(8)(b) of the IGST Act, 2017 and not under section 13(2) of the IGST Act, 2017. The place of supply under the above legal framework is the territory of India. As the condition under section 2(6)(iii) of the IGST Act, 2017 is not satisfied, the service provided by XYZ Education Advisory to the foreign universities does not qualify as “Export of Services”, and is, therefore, taxable under the GST Act.

Pertinently, the referred Advance Ruling has also been affirmed by the Appellate AAR.

Illustration:

Ashish acts as a team manager for Indian Sports Authority (ISA), a recognised sports body, for a tennis tournament organised by a multinational company and received a remuneration of Rs. 2,00,000. Determine whether GST is payable on the remuneration received by Ashish.

Solution : Services provided by a team manager to a recognised sports body for participation in a sporting event are exempt from GST provided said sporting event is organised by a recognized sports body.

In the given case, the services are being provided by a team manager to a recognised sports body, but the sporting

event is not organised by a recognised sports body. Therefore, the services provided by Ashish are not exempt from GST.

Illustration:

Ramu Transporters, a Goods Transport Agency, transported relief materials meant for victims of Kerala floods, a natural disaster, by road from Delhi to Ernakulam, for a company. Ramu Transporters is of the view that it is not liable to pay GST on the said services provided as said services are exempt. You are required to advice it on the said issue.

Solution : Services provided by a goods transport agency, by way of transport in a goods carriage of relief materials meant for victims of, inter alia, natural or man-made disasters, calamities, are exempt from GST. Therefore, services provided by Ramu Transporters will be exempt from GST.

TEST YOUR KNOWLEDGE

- Exempt supply includes supply of any goods or services or both which attracts nil rate of tax and which may be wholly exempt from tax, but excludes non-taxable supply. Discuss the validity of the statement.
- Services provided by an entity registered under section 12AA of the Income-tax Act, 1961 are exempt from GST if such services are provided by way of charitable activities. Elaborate the term 'charitable activities'.
- Examine which of the following independent services are exempt from GST:
 - Food supplied by the canteen run by a hospital to the in-patients as advised by the doctors.
 - An RWA, registered under GST, collects the maintenance charges of ₹ 6,500 per month per member.
- An individual acts as a referee in a football match organized by Sports Authority of India. He has also acted as a referee in another charity football match organized by a local sports club, in lieu of a lump sum payment. Discuss whether any GST is payable on the activities undertaken by him.
- RXL Pvt. Ltd. manufactures a beauty soap with the brand name 'Forever Young'. RXL Pvt. Ltd. has organized a concert to promote its brand. Ms. Ahana Kapoor, its brand ambassador, who is a leading film actress, has given a classical dance performance in the said concert. The proceeds of the concert worth ₹ 1,20,000 will be donated to a charitable organization.

Examine whether Ms. Ahana Kapoor will be required to pay any GST.

- Determine the GST payable @ 18% with respect to each of the following independent services provided by the registered persons:

PARTICULARS	GROSS AMOUNT CHARGED
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961	50,000
Amount charged by business correspondent from banking company for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	1,00,000
Amount charged by cord blood bank for preservation of stem cells	5,00,000
Amount charged for service provided by selectors to a recognized sports body	5,20,000

7. Examine whether GST is exempted on the following independent supplies of services:
 - (i) Service provided by a private transport operator to Scholar Boys Higher Secondary School in relation to transportation of students to and from the school.
 - (ii) Services provided by way of vehicle parking to general public in a shopping mall.
8. A State Transport Undertaking has hired motor vehicles meant to carry 8 - 10 passengers from Fast Cab Renting, a motor vehicle renting company. Give your comments as to whether any GST is payable in this case.
9. Indiana Engineering College, a recognised educational institution, has conducted an entrance test examination for various courses run by it and charged entrance fees from the applicants. Determine whether Indiana Engineering College is liable to pay GST on the same.
10. Ram, an agriculturist, has stored sugarcane in a warehouse. He has taken fumigation services in the said warehouse from Gupta Pest Control Co. for which he paid the consideration of ₹ 6,000. He seeks your advice on the taxability or otherwise of the service so availed by him.
11. Poorva acts as a team manager for Indian Sports Authority (ISA), a recognised sports body, for a tennis tournament organised by a multinational company and received a remuneration of ₹ 2,00,000. Determine whether GST is payable on the remuneration received by Poorva.
12. Babloo Transporters, a Goods Transport Agency, transported relief materials meant for victims of Kerala floods, a natural disaster, by road from Delhi to Ernakulam, for a company. Babloo Transporters is of the view that it is not liable to pay GST on the said services provided as said services are exempt. You are required to advise it on the said issue.
13. Keyan Enterprises, an event organizer, provided services to Breathing Wall Ltd. by way of organizing business exhibition in New Delhi as part of Make in India initiative. Keyan Enterprises claims that it is not required to pay GST as the services provided by way of organizing business exhibition are exempt from GST. Examine the technical veracity of the claim of Keyan Enterprises, in the given case.
14. Ekta Charitable trust, registered under section 10(23C)(v) of the Income-tax Act, 1961, manages a temple in Rohini, Delhi. It has given on rent a community hall, located within temple premises, to public for celebration of Teej Mela. Rent charged is ₹ 9,500. You are required to determine whether the services provided by Ekta Charitable trust are liable to GST.
15. ST Ltd. has given on hire 5 trucks to Titu Transporters of Delhi (a goods transport agency) for transporting goods in Central and West Delhi. The hiring charges for the trucks are ₹ 7,500 per truck per day. Examine whether GST is payable in the given case.

ANSWERS/HINTS

1. The statement is not fully valid in law. Exempt supply has been defined as supply of any goods or services or both which attracts nil rate of tax or which may be wholly exempt from tax and includes non-taxable supply.
2. The term 'charitable activities' mean activities relating to-
 - (i) public health by way of-
 - (A) care or counseling of
 - (I) terminally ill persons or persons with severe physical or mental disability;
 - (II) persons afflicted with HIV or AIDS;
 - (III) persons addicted to a dependence-forming substance such as narcotics drugs or alcohol; or

- (B) public awareness of preventive health, family planning or prevention of HIV infection;
- (ii) advancement of religion, spirituality or yoga;
- (iii) advancement of educational programmes/skill development relating to,-
- (A) abandoned, orphaned or homeless children;
- (B) physically or mentally abused and traumatized persons;
- (C) prisoners; or
- (D) persons over the age of 65 years residing in a rural area;
- (iv) preservation of environment including watershed, forests & wildlife.
3. (a) Services by way of health care services by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST. Food supplied to the in-patients by a canteen run by the hospital, as advised by the doctor/nutritionists, is a part of composite supply of healthcare and not separately taxable. Thus, said services are exempt from GST.
- (b) Supply of service by a RWA (unincorporated body or a non-profit entity registered under any law) to its own members by way of reimbursement of charges or share of contribution up to an amount of 7500 per month per member for providing services and goods for the common use of its members in a housing society/a residential complex are exempt from GST. Hence, in the given case, services provided by the RWA are exempt from GST since the maintenance charges collected per month per member do not exceed `7500.
4. Services provided to a recognized sports body by an individual, inter alia, as a referee in a sporting event organized by a recognized sports body is exempt from GST.
- Since in the first case, the football match is organized by Sports Authority of India, which is a recognized sports body, services provided by the individual as a referee in such football match will be exempt.
- However, when he acts as a referee in a charity football match organized by a local sports club, he would not be entitled to afore-mentioned exemption as a local sports club is not a recognized sports body and thus, GST will be payable in this case.
5. Services by an artist by way of a performance in folk or classical art forms of
- (i) music, or (ii) dance, or (iii) theatre are exempt from GST, if the consideration charged for such performance is not more than ` 1,50,000. However, such exemption is not available in respect of service provided by such artist as a brand ambassador.
- Since Ms. Ahana Kapoor is the brand ambassador of 'Forever Young' soap manufactured by RXL Pvt. Ltd., the services rendered by her by way of a classical dance performance in the concert organized by RXL Pvt. Ltd. to promote its brand will not be eligible for the above-mentioned exemption and thus, be liable to GST. The fact that the proceeds of the concert will be donated to a charitable organization will not have any bearing on the eligibility or otherwise to the above-mentioned exemption.

6. Computation of value of taxable supply

PARTICULARS	AMOUNT	GST PAYABLE@ 18%
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961 [Note-1]	Nil	Nil
Amount charged by business correspondent for the services provided to the rural branch of a bank with respect to Savings Bank Accounts [Note-2]	Nil	Nil
Amount charged by cord blood bank for	Nil	Nil

preservation of stem cells [Note-3]		
Service provided by selectors to a recognized sportsbody [Note-4]	5,20,000	5,20,000

Notes:

1. Services by an entity registered under section 12AA of the Income-tax Act, 1961 by way of charitable activities are exempt from GST. The activities relating to advancement of yoga are included in the definition of charitable activities. So, such activities are exempt from GST.
2. Services by business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch have been exempted from GST.
3. Services provided by cord blood banks by way of preservation of stem cells/any other service in relation to such preservation are exempt from GST.
4. Services provided to a recognized sports body only by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST. Thus, services provided by selectors are liable to GST.
7. (i) Yes. Services provided TO an educational institution by way of transportation of students are exempted from GST.
(ii) No. Services provided by way of vehicle parking to general public are not exempted from GST. Therefore, GST is payable on the same.
8. Services by way of giving on hire, inter alia, to a State Transport Undertaking, a motor vehicle meant to carry more than 12 passengers is exempt from GST.
Since the motor vehicles given on hire by Fast Cab Renting to the State Transport Undertaking are meant to carry 8-10 passengers, the same would not be eligible for exemption and would thus, be liable to GST.
9. Services provided by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee are exempt from GST.
Since in the given case, services provided by Indiana Engineering College -an educational institution - are by way of conduct of entrance examination against entrance fee, the same is exempt and thus, GST is not payable in this case.
10. Services by way of fumigation in a warehouse of agricultural produce are exempt from GST. In the present case, since Gupta Pest Control Co. provides services by way of fumigation in the warehouse of sugarcane [being an agricultural produce], said services are exempt and GST is not payable on the same.
11. Services provided by a team manager to a recognised sports body for participation in a sporting event are exempt from GST provided said sporting event is organised by a recognized sports body.
In the given case, the services are being provided by a team manager to a recognised sports body, but the sporting event is not organised by a recognised sports body. Therefore, the services provided by Poorva are not exempt from GST.
12. Services provided by a goods transport agency, by way of transport in a goods carriage of relief materials meant for victims of, inter alia, natural or man-made disasters, calamities, are exempt from GST. Therefore, services provided by Babloo Transporters will be exempt from GST.
13. No, the claim made by Keyan Enterprises that it is not required to pay GST is not correct. Services provided by an organiser to any person in respect of a business exhibition are exempt from GST only when such business exhibition is held outside India. However, since in the given case, the exhibition is being organized in India, the services of organization of

eventby Keyan Enterprises will not be exempt from GST.

- 14.** Services by a person by way of renting of precincts of a religious place meant for general public, owned or managed by an entity registered as a trust or an institution under section 10(23C)(v) of the Income-tax Act are exempt provided renting charges of premises, community halls, kalyanmandapam or open area are not ` 10,000 or more per day. Thus, in the given case, renting of community hall by Ekta Charitable Trust is exempt from GST, as rent is less than ` 10,000 per day.
- 15.** GST is not payable in case of hiring of trucks to Titu Transporters since services by way of giving on hire, inter alia, to a goods transport agency, a means of transportation of goods are exempt.

LESSON 5- Time, Value and Place of Supply

Illustration:

Antra Ltd. supplied goods to Mantra Ltd., under a contract for the goods to be delivered to the factory of Antra Ltd. The goods were removed from the factory of Antra Ltd. on 9th September, 2022 and the goods were delivered to the factory of Mantra on 16th September, 2022.

The invoice was issued on 18th September, 2022 and the payment was credited to Antra's account on 20th October, 2022 although the entry in the books was made on 19th September, 2022 when the cheque was received.

Please advise on the Time of Supply.

Solution: In the above case, the relevant dates are as under:

- Date of issue of invoice: 18th September, 2022.
- Due date for issue of invoice: 9th September, 2022 (as the supply involved movement of goods).
- Date of receipt of payment: 19th September, 2022 (earlier of the entry in the books and the credit in the bank account) [Date of payment not relevant in terms of Notification No. 66/2017 - CT dated 15.11.2017]

Hence, the time of supply will be 9th September, 2022.

Illustration

Mr. A, an agriculturist supplies raw cotton (under reverse charge) to Mr. B who manufactures cotton shirts. The date wise turnout of events is given below:

01.04.2022- Mr. B approaches Mr. A and places an order for 1 ton of cotton 10.05.2022- Mr. B receives the goods

15.05.2022- Mr. A issues an invoice

20.05.2022- Mr. B makes a payment by cheque and accordingly records it in his books of accounts.

25.05.2022- The payment gets debited from Mr. B's bank account

Solution:

In this case, the time of supply shall be the earlier of the following dates:

- a) The date of receipt of goods i.e. 10.05.2022
- b) The date of payment as recorded in the books of Mr. B i.e., 20.05.2022 or the date when the payment gets debited in the books of the recipient i.e. 25.05.2022 whichever is earlier
- c) The date immediately following thirty days from the date of issue of invoice, i.e. 15.05.2022 + 30 days + 1 day = 15.06.2022

Therefore, the time of supply will be 10.05.2022.

Illustration:

ABC Ltd., enters in to an arrangement with "Hush Puppies", buys the vouchers, these vouchers were issued on 14th December, 2022. The Company then distributes these vouchers with denomination INR 4,000/- to all its employees on 24th December, 2022 valid until 31st January, 2023, so that they can use these vouchers for buying shoes of their choice. The employees make the most of it and redeem these vouchers on the New Year's, i.e., on 1st January, 2023.

Solution:

In this case, the supply is identifiable at the point of issue of the voucher and hence the time of supply would be construed as 14th December, 2022.

Illustration :

Nisha buys a voucher from Shoppers Stop for INR 10,000 and gifts it to Tarun on 14th February. The voucher was valid until 29th February. Tarun redeems the vouchers at the nearby Shoppers Stop store on 29th February.

Solution:

In this case, the supply was not identifiable at the point of issue of the voucher as Tarun was open to purchase anything from Shoppers Stop, therefore the time of supply would be construed as the date of redemption of the voucher, that is 29th February.

Illustration :

Shiva Supplies goods to Ramesh for Rs. 4,00,000 on 01.03.2022 on one month credit. It is also specified in the invoice that if the recipient fails to make payment within one month, then interest @Rs. 4,000 shall be charged for every delay of one month or part thereof. Ramesh makes the payment of Rs. 4,00,000 on 22.04.2022. However, in respect of interest, he requests Shiva for complete waiver, but Shiva agrees for waiving only 50% of Rs. 4,000. Consequently, Ramesh makes payment of Rs. 2,000 as interest on 30.04.2022. Determine the time of supply of goods and time of supply in relation to value of supply by way of interest.

Solution:

(1) **Time of supply of goods**

Date of invoice is 01.03.2022

Date of receipt of payment is 22.04.2022 Whichever is earlier

Thus the time of supply of goods shall be 01.03.2022.

(2) **Time of supply in relation to value of supply by way of interest**

It shall be 30.04.2022 i.e. the date of receipt of the interest amounting to Rs. 2,000.

Illustration:

Determine the time of supply from the following particulars:

15th October, 2022	The marriage hall was fixed and the advance of INR 25,000 was paid (amount agreed was INR 1,00,000)
20th October, 2022	Invoice issued for INR 25,000
30th November, 2022	The marriage ceremony took place in the hall
14th December, 2022	The invoice was issued for balance INR 75,000 indicating & adjusting the advance paid earlier
31st December, 2022	The balance payment was received

Solution:

In the above case, the invoice was issued within the prescribed time (that is within 30 days of the event) and hence the time of supply would be the earlier of:

- Date of invoice: which is 14th December, and
- The date of receipt of payment: which is 31st December

Therefore, for the amount of INR 75,000, the time of supply would be 14th December. For the advance of INR 25,000, the date of payment precedes the invoice and hence the time of supply for that amount would be 15th October.

Illustration:

Mr. A provides legal services as an advocate to Mr. B which fall under reverse charge basis. 10.04.2022 The services are provided to Mr. B

12.04.2022 – Mr. A issues an invoice to Mr. B

10.07.2022 – The payment is made by Mr. B through a cheque and recorded in his books of accounts

15.07.2022 – The payment gets debited from Mr. B's bank account

In this case, the time of supply shall be earlier of the following dates:

- The date of payment i.e. 10.07.2022 (earlier of 10.07.2022 and 15.07.2022)
- The date immediately following sixty days from the date of issue of invoice i.e. 12.06.2022 (12.04.2022 + 60 days+ 1day).

Therefore, the time of supply shall be 12.06.2022.

Illustration:

M/s ABC Dry Cleaners issues vouchers of Rs. 40,000 to M/s XYZ on 22.11.2022. M/s XYZ distributes the vouchers amongst its employees who shall get it redeemed in due course of time.

Determine the time of supply of vouchers.

Solution:

In above case, the time of supply shall be 22.11.2022 for the supply of vouchers made by M/s ABC Dry Cleaners to M/s XYZ because the vouchers are identifiable with particular supply of dry cleaning service. Tax liability can be determined at the time of issue of vouchers.

Illustration:

BA Telecommunications Ltd. charges Rs. 100 as late fees from the customer on account of non-payment of bill on due date for the month of February 2022. The customer paid such late fee on 05.04.2022.

Determine the time of supply of late fees.

Solution:

The time of supply of such late fees will be the date on which BA Telecommunications Ltd. receives the amount of late fees from the customer which is 05.04.2022.

Example:

The rate of GST on one particular product had decreased from 18% to 12% w.e.f. 01.06.2021. What is the tax rate applicable when goods are supplied and invoice issued after change in rate in June 2021, but full advance payment was already received in April 2021?

In this case the new rate of 12% shall be applicable as goods are supplied and invoice issued after 01.06.2021.

Illustration:

Mr. X residing in Noida, purchase 40,000 Markers @ Rs. 20 each from Anika & Stationary, wholesalers at Delhi. Mr. X's sister working as Manager in Anika & Stationary. Open Market Value of Marker is Rs. 23. Anika & Stationary additionally charges Rs. 15,000 for transporting markers to Mr. X's business place.

Solution: The transaction Value includes ancillary expenses borne by Anika & Stationary in regard of supply till the time of delivery of goods to the recipient. The transaction value will be Rs. 8,00,000 $(40,000 \times 20) + 15,000 = 8,15,000$.

Mr. X and Anika & Stationary Wholesaler are not related persons solely as Mr. X 's sister is an employee in Anika & Stationary, whereas Mr. X 's sister and Anika & Stationary are not to be considered as related persons. Therefore, the transaction value taken as value of supply.

Clarification by the government on the includability of penal interest in the value

Situation - 1 : X sells a mobile phone to Y. The cost of mobile phone is Rs. 40,000/-. However, X gives Y an option to pay in installments, Rs. 11,000/- every month before 10th day of the following month, over next four months $(Rs. 11,000/- \times 4 = Rs. 44,000/-)$. Further, as per the contract, if there is any delay in payment by Y beyond the scheduled date, Y would be liable to pay additional/penal interest amounting to Rs. 500/- per month for the delay. In some instances, X is charging Y Rs. 40,000/- for the mobile and is separately issuing another invoice for providing the services of extending loans to Y, the consideration for which is the interest of 2.5% per month and an additional/penal interest amounting to Rs. 500/- per month for each delay in payment.

Clarification : As per the provisions of sub-clause (d) of sub-section (2) of section 15 of the CGST Act, the amount of penal interest is to be included in the value of supply. The transaction between X and Y is for supply of taxable goods i.e. mobile phone. Accordingly, the penal interest would be taxable as it would be included in the value of the mobile, irrespective of the manner of invoicing.

Situation - 2 : X sells a mobile phone to Y. The cost of mobile phone is Rs. 40,000/-. Y has the option to avail a loan at interest of 2.5% per month for purchasing the mobile from M/s. ABC Ltd. The terms of the loan from M/s. ABC Ltd. allows Y a period of four months to repay the loan and an additional/penal interest @ 1.25% per month for any delay in payment.

Clarification: The additional/penal interest is charged for a transaction between Y and X, and the same is getting covered under Sl. No. 27 of notification No. 12/2017-Central Tax (Rate), dated 28-6-2017. Accordingly, in this case the 'penal interest' charged thereon on a transaction between Y and X would not be subject to GST, as the same would be covered under notification No. 12/2017-Central Tax (Rate), dated 28-6-2017. The value of supply of mobile by X to Y would be Rs. 40,000/- for the purpose of levy of GST (Rate), dated 28-6-2017. The value of supply of mobile by X to Y would be Rs. 40,000/- for the purpose of levy of GST.

Illustration:

Mr. Rama Swami a manufacturer provides the following particulars:

Price of the machine	2,00,000
Packing charges	20,000
Designing charges	40,000
Transit insurance	2,000
Freight outward	16,000
Cash discount to customer	2%

Compute the value of machine when Rama Swami has to deliver machine to factory of recipient.

Solution:

Also, assume that the buyer has paid cash and availed cash discount.

Price of the machine	2,00,000
Add : Packing charges	20,000
Add : Designing charges	40,000
Add : Transit insurance	2,000
Add : Freight outward	16,000
Less [Cash discount to customer 2,00,000* 2%]	(4,000)
Total value	2,74,000

Illustration:

M/s XYZ an event management company for organizing large scale events like marriages, birthday parties etc. owned by Mr. Sharma. Another Event organizer M/s ABC Ltd. in Gurugram contracts with M/s XYZ to arrange a celebrity concert charging Rs. 16,00,000. The company sub-contract the same work to M/s Well Events Management Company which were also controlled and managed by Mr. Sharma for Rs. 12,00,000. M/s Well Events Management Company charges Rs. 12,40,000 from market for the same work.

Answer: M/s. XYZ and M/s Well Events Management Company are managed and controlled by Mr. Sharma so both the businesses will be considered as related persons. The value of service will be the open Market Value being Rs. 12,40,000 rather than sub-contract price of Rs. 12,00,000.

Illustration:

A is principal and supplies groundnuts to his agent and the agent is supplying groundnuts of like kind and quality in subsequent supplies at a price of Rs. 5,000 per quintal on the day of the supply.

Another independent supplier is supplying groundnuts of like kind and quality to the said agent at the price of Rs. 4,550 per quintal.

Determine the value of supply of groundnuts.

Solution:

The value of the supply made by the principal shall be Rs. 4,550 per quintal or where he exercises the option, the value shall be 90 per cent of Rs. 5,000 i.e., Rs. 4,500 per quintal.

Illustration:

Mr. X is planning to visit California, USA to meet his cousin and want some foreign currency (i.e. US\$) for his travel. He converted US\$500 from the authorised money changer @ 82 per US\$ and receive Rs. 41,000. RBI reference rate for US\$ is 82.50 for that day. Compute the value of taxable supply.

Solution:

As per RBI reference rate the amount should have been $500 \times 82.50 = 41,250$.

Thus the difference of Rs. 250 (i.e. Rs. 41,250 - Rs.41,000) will be treated as taxable value of the service in relation to exchange of money.

If the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian rupees provided by the person changing the money. Thus it shall be 1% of Rs. 41,000= Rs. 410

Illustration:

Nisha Enterprises had made supplies of INR 7,50,000 to Tee Kay Services. There was a tax levied by Municipal Authorities on such sale of INR 75,000/-. CGST and SGST chargeable on the supply was 37,500/-. Packing charges, not included in the price above amounted to INR 15,000.

Nisha Enterprises received a subsidy of INR 30,000/- from an NGO on the sale of such goods, and the price mentioned above is after taking in to account the subsidy.

Discount offered is @ 1% and that's mentioned on the Invoice. Determine the Value of Supply.

	Price Charged	7,50,000
Add:	Tax charged by Municipal Authorities	75,000
	Packing Charges	15,000
	Subsidy from NGO	30,000
	Total after all inclusions	8,70,000
Less:	Discount @ 1%	7,500

Notes

1. CGST and SGST is not included in the determination of value of supply, rather taxed post determination on the same.
2. Subsidy since received from a non-governmental body is added back to determine the value of supply.
3. Discount on basic price is an exclusion.

Illustration:

Mr. X is civil contractor is located in different States in India providing services to Mr. Y for his factories and offices located around the world. Determine the place of supply and the nature of GST payable in the following cases:

Location of supplier	Location of receiver of services	Location of immovable properties
(1) Delhi	Punjab	Orissa
(2) Haryana	Punjab	West Bengal
(3) Delhi	Uttar Pradesh	Italy
(4) Delhi	Rajasthan	Delhi
(5) Delhi	France	Canada

Solution:

Place of Supply	Nature of GST
(1) Orissa	IGST

(2) West Bengal	IGST
(3) Uttar Pradesh (Location of the recipient of services)	IGST
(4) Delhi	CGST & Delhi GST
(5) France (Location of the recipient of services)	Zero rated supply as it is export of services

Illustration:

Divya GST Registered person in Varanasi (Uttar Pradesh) provides Management Consultancy services to Aman GST Registered person in Noida for Rs. 8 lakhs. The place from where the supply is made is Varanasi and the place where the supply is received is Noida. The supply in this situation is an intra-State supply.

Illustration:

Divya GST registered person in Varanasi (Uttar Pradesh) provides Management Consultancy services to Aman GST registered person in the Mumbai (Maharashtra) for Rs. 8 lakhs. The place from where the supply is made is Varanasi and the place where the supply is received is in Mumbai. The supply in this situation is an inter-State supply.

Illustration:

Amrinder, a Company Secretary GST registered person in Maharashtra for the past 5 years and having a flourishing practise there, goes to Delhi for 10 days as a visiting faculty for a summer course at a reputed College. While in Delhi, Amrinder earns Rs. 5 Lakh as Professional Fee for the services rendered.

This is an example of inter-State Supply because, Amrinder does not have a registered place of business in Delhi, or a fixed establishment in Delhi. The location of supplier will thus have to be taken as Maharashtra where Amrinder is registered under GST. Since the location of supplier is in Maharashtra and the place of supply is in Delhi, the supply is an inter-State supply, though no supply has actually taken place from Maharashtra.

Multiple Choice Questions (MCQs)

- PQR Consultants, registered at Delhi provides GST training to employees of Pankaj & Co. of Noida, UP at their filed location in the state of Manipur. Pankaj & Co. is unregistered under GST Act. In this case, which is the place of supply?
 - Uttar Pradesh
 - Delhi
 - Manipur
 - None of the Above
- Which section of CGST Act 2017 deals with Time of supply of goods?
 - Section 11 of IGST Act
 - Section 12 of IGST Act
 - Section 11 of CGST Act
 - Section 12 of CGST Act
- Which of the following discounts shall be excluded to determine the value of supply?
 - Staggered discount
 - post supply discounts established at the time of supply
 - volume discounts established before the time of supply
 - All of the Above
- Mr. Dhairya having a registered place of business in Jaipur, placed an order to HAM Ltd. in New Delhi,

for delivering a parcel to Mr. Lucky who is at Kanpur. What will be the place of supply in the present case?

- a) Jaipur
- b) New Delhi
- c) Kanpur
- d) None of the Above

5. What will be the value of goods, if consideration paid is not wholly in money and open market value of such goods are also known?
- a) Actual value paid in money
 - b) Open market value of such goods
 - c) 90% of open market value of such goods
 - d) None of the Above
- Answers:** 1 (c), 2 (b), 3 (d), 4 (a), 5 (b) **Descriptive Questions**

1. When Invoice will be issued in given cases;
 - a. Supply involve moment of goods
 - b. Supply Don't involve moment of goods
 - c. Continuous Supply of goods
 - d. supply don approval for sale/return basis
2. Mr. Foreigner is planning to visit USA to meet his Friend and want some Foreign currency (i.e. US \$) for his travel. He converted US\$ 12000 from the authorized money changer @ 90 per US\$ and receive Rs. 10.80 lacs. RBI reference rate for US\$ is 90.50 for that day. Compute the value of taxable supply.
3. What do you understand by place of supply of goods? Explain the same for Import and export in preview of IGST Act, 2017.
4. Explain the value of Supply of goods or services where consideration in not wholly in money.
5. In case of Reverse charge Mechanism what will be the time of supply of services?

LESSON 6- ITC and GST Liability

Illustration:

Mr. A orders 30,000 tonnes of goods which are to be delivered by the supplier via 3 lots of 10,000 each. The lots are sent under a single invoice with the first lot and the payment is made by the recipient for Value of Supply plus GST and the supplier has also deposited the tax with the Government.

The 3 lots are supplied in May, June and July 2020. The ITC is available to Mr. A only after the receipt of the 3rd lot. The reason is simple, one of the conditions to avail ITC is the receipt of goods which is completed only after the last lot is delivered.

Illustration:

For an Invoice dated 31st July, 2021, the same pertains to the financial year 2021-22.

Last date of claiming ITC in this example is 30th November 2022 or actual filing of annual return whichever is earlier.

Let's say that the annual return is filed on 12th September, 2022.

Thus ITC needs to be claimed before 12th September, 2022.

Illustration

Input X is used to produce and supply output Y which is exempt, no ITC is available on input X because it was used for exempt supply.

In the above example if the output Y is exported or supplied to an SEZ unit, ITC is available on Input X as the outward supply is zero rated.

Illustration:

Mr. B becomes liable to pay tax on 1st August 2022 and has obtained registration on 17th August 2022.

He will hence be entitled to take ITC effective 31st July 2022 in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock.

It must be noted that if the application is not made within 30 days, then he will be able to claim ITC effective the date of grant of such registration.

Illustration:

Mr. C acquired a Capital Asset on 1st April, 2020 and used it for production of exempt supplies only. Now, in November 2021, his supplies become taxable. The cost of the asset was INR 2,50,000 and GST 18% was charged on it.

Hence the ITC applicable is $\text{INR } 250,000 \times 18\%$, which is INR 45,000.

Now, number of quarters of usage that have elapsed between April 2020 to November 2021 are seven. Hence, there would be a reduction of 5% per quarter for 7 quarters, that is 35%.

Therefore, ITC available would be as under.

Total ITC	45,000
Less: Reduction for 7 quarters	15,750
Net ITC available	29,250

Note that this ITC would be available from the date immediately preceding the date from which the supply becomes taxable.

Rule 40(2) of Rules, 2017, states that the amount of credit shall be calculated by reducing the input tax @ 5% for every quarter or part thereof. It shall be calculated from the date of issue of invoice for the capital goods.

Illustration:

Mr. Z applies for voluntary registration on 1st September and is granted such registration on 9th September. He will hence be entitled to take ITC effective 8th September on inputs (Raw Material/Work in process / Finished Goods).

Illustration:

Baani Agro Traders located at Jaipur and engaged in the business as retail traders provides the following details

of its inward and outward supplies made during the month of July, 2022:

Sr. No.	Items	(Amount in Rupees)	
		Inward Supply	Outward Supply
(i)	Sugar Candies	1,00,000	1,20,000
(ii)	Chocolate Bars	80,000	1,00,000
(iii)	Wafers Packets	75,000	60,000
(iv)	Biscuits	50,000	50,000

The rate of tax under IGST on the items are 5%, 12%, 12% and 18% respectively. You are required to calculate the amount of IGST payable and the date by which the due tax is to be paid by the trader for the month of July, 22 after availing the Input Credit.

Note:

Since GST statutes require that GST is to be charged separately, hence, all prices are taken as ex-tax values. It is assumed that both purchase and sales are inter-state transactions.

Solution:

Calculation of outward tax payable by baani Agro Traders on the sales during July, 2022.

Item	Value in Rs.	Rate	Tax in Rs.
Sugar Candies	1,20,000	5%	6,000
Chocolates Bars	1,00,000	12%	12,000
Wafers Packets	60,000	12%	7,200
Biscuits	50,000	18%	9,000
			34,200

Calculation of Input Tax available on Inward Supplies

Item	Value in Rs.	Rate	Tax in Rs.
Sugar Candies	1,00,000	5%	5,000
Chocolates Bars	80,000	12%	9,600
Wafers Packets	75,000	12%	9,000
Biscuits	50,000	18%	9,000
Total Input Tax Credit			32,600

Total tax payable - Rs. 34,200

Mode of payment

By debiting electronic credit ledger - Rs. 32,600 and By debiting electronic cash ledger Rs. 1600 Due date for payment of tax shall be 20th of August 2022.

Illustration: Aqua Limited has taken registration as an Input Service Distributor and has received following invoices of input services in relation to its three locations (A , B & C) wherein IGST charge is as follows:

Invoice no. 1: Rs. 10,00,000 (IGST) attributable solely to A location

Invoice no. 2: Rs. 6,00,000 (IGST) attributable solely to B & C location

Invoice no. 3: Rs. 12,00,000 (IGST) attributable solely to all locations The

Turnover of each location is as follows:

Turnover of A : Rs. 80,00,000

Turnover of B: Rs. 70,00,000

Turnover of C: Rs. 50, 00,000

Compute the amount of ITC attributable to each location.

Solution:

Particulars	A	B	C
Turnover	80,00,000	70,00,000	50,00,000
ITC Distributed of Invoice no. 1	10,00,000	0	0
ITC Distributed of Invoice no. 2 Location B : Rs. $6,00,000 \times 70,00,000 / 1,20,00,000$ Location C : $\text{Rs. } 6,00,000 \times 50,00,000 / 1,20,00,000$	0	3,50,000	2,50,000
ITC Distributed of Invoice no. 3 Location A : Rs. $12,00,000 \times 80,00,000 / 2,00,00,000$ Location B : Rs. $12,00,000 \times 70,00,000 / 200,00,000$ Location C : Rs. $12,00,000 \times 50,00,000 / 2,00,00,000$	4,80,000	4,20,000	3,00,000
Total ITC Distributed	14,80,000	7,70,000	5,50,000

Illustration:

M/s X Ltd., a registered supplier from Maharashtra is engaged in the manufacturing of passenger auto. The company provides the following details of purchase made/services availed by it during the month of March 2021:

S. No.	Particulars	Amount (Rs.)
1.	Purchase of iron which is used as a raw material (Goods were received in two instalments, first on in March 2021 and the second instalment was received in April 2021).	2,50,000
2.	Purchase of accessories which were delivered directly to the dealers of the company. Only invoice was received by X Ltd.	90,000
3.	Purchase of Bus (seating capacity 15) for the transportation of employees from their residence to company and back.	1,97,000
4.	Input tax credit on general insurance taken on a car used by Executives of the company for official purposes.	5,200
5.	Payment made to M/s XYZ Caterers for providing daily breakfast & lunch to the employees of the company, as voluntary staff welfare measure.	54,700

You are required to determine the eligible Input Tax Credit available to M/s X Ltd. for the month of March 2021, by giving brief explanations for treatment of various items.

Subject to the information given above, all the other conditions necessary for availing input tax credit have been fulfilled.

Solution:

Computation of eligible tax credit to M/s x Ltd. for the month of March, 2021

S. No.	Particulars	Amount (Rs.)
--------	-------------	--------------

1	Purchase of iron which is used as a raw material (Refer Note (i))	Nil
2	Purchase of accessories which were delivered directly to the Dealers of the company. Only invoice was received by X Ltd. (ITC is allowed)	90,000
3	Purchase of Bus (seating capacity 15) for the transportation of employees from their residence to company and back (ITC is allowed) (Refer Note (ii))	1,97,000
4	Input tax credit on general insurance taken on a car used by Executives of the company for official purposes.	Nil
5	Payment made to M/s XYZ Caterers for providing daily breakfast & lunch to the employees of the company, as voluntary staff welfare measure. [Refer Note (iii)]	Nil
	Total	2,87,000

Notes:

- (i) As per Section 16(2) of the CGST Act, 2017, If the goods are received in instalments, tax credit shall be allowed only when last instalment has been received. In the given case last instalment is received in April 2021 hence credit shall be allowed in the month of April.
- (ii) As per Section 17(5) of the CGST Act, 2017, ITC of motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver) is not allowed in the given case bus is of 15 seating capacity.
- (iii) As per Section 17(5) of the CGST Act, 2017, ITC of food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, leasing, renting or hiring of motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) except when used for the purposes specified therein, life insurance and health insurance is not allowed.

Multiple Choice Questions (MCQs)

- Input Tax Credit is not available in respect of
 - Free samples,
 - Services on which tax has been paid under composition levy,
 - Goods used for personal consumption,
 - All of the above
- Inputs should be either brought back to the principal OR alternatively sold from the Job-worker's premises within----- in case of capital goods.
 - 36 months
 - 18 months
 - 24 months
 - 12 months
- Which section of CGST Act 2017 deals with eligibility and conditions for taking ITC?
 - Section 39
 - Section 16
 - Section 10
 - Section 20

4. The biggest benefit of ITC is:
 - a) Eliminating the cascading effect of taxes
 - b) Reducing the cost of goods and services
 - c) Paradigm shift from individuals paying more taxes to more individuals paying taxes
 - d) All of the above
5. A shirt manufacturing company sends semi-finished shirts (without collars and pockets) to job workers who will complete the remaining work. In such a situation, the would be allowed to take the credit of the tax paid on purchases of the goods sent for job work.
 - a) Job Workers
 - b) Principal Manufacturer
 - c) Both of the Above
 - d) None of the Above

Answers: 1 (d), 2 (a), 3 (b), 4 (d), 5 (b)

Descriptive Questions

1. Reeta is engaged in providing Beauty Treatment Services. On a particular day, with a view to cater to the demand of large number of customers, She availed the Beauty Treatment Services from Geeta. Accordingly, Geeta raised an invoice on Reeta for Rs. 20,000 along with applicable GST.

Will Reeta be allowed Input Tax Credit?

2. Pratham has a sum of Rs. 3,60,000 on account of Input Tax Credit of CGST in the electronic credit ledger, He has to pay the following tax liability:

Particulars	Amount (Rs.)
CGST payable for the month of November, 2022	1,31,400
IGST payable for the month of November, 2022	1,72,800
SGST payable for the month of November, 2022	54,000

Determine, how would you utilize ITC on account of CGST available in the Electronic Credit Ledger.

3. Explain the following terms;
 - a. Blocked Credit
 - b. Electronic Liability Ledger
 - c. Ineligible Credits
4. What do you understand by Zero Rated Supply? How it is different from Exempt supply? Explain.
5. What is Input Service Distributer (ISD)? Explain the manner of Distribution of credit by ISD.

LESSON 7,8,9

Illustration: M is located in Delhi. He provides the following information

Particulars	Amount in Rs.
Value of taxable supply of goods in Delhi	23,00,000
Value of supply of exempt supply	18,00,000

Does M require any registration?

Solution :

M require registration since the aggregate turnover exceed the threshold limit of Rs. 40,00,000 (i.e. 41,00,000= 23,00,000+18,00,000) by including the value of taxable supply of goods and value of services.

Illustration: L Pvt Ltd. Having its factory in Hyderabad is engaged in the manufacture and supply of goods. It has following turnover

- | | |
|---|-------------|
| i) Taxable turnover within Telangana | Rs. 5 lacs |
| ii) Inwards supplies liable to tax under reverse charge | Rs. 8 lacs |
| iii) Exempt turnover | Rs. 16 lacs |

Does L Pvt. Ltd. require any registration?

Solution :

For computing aggregate turnover, items (i) and (iii) shall be considered which comes to Rs. 21 lacs. For Telangana, the threshold for goods is Rs. 20 lacs, Thus, L Pvt. Limited is liable to take registration

Illustration:

Meenakshi enterprises, Kolkata makes a supply of goods to Dhirani enterprises, Ghaziabad. The goods were removed from the factory at Kolkata on 3rd May. Hence, the tax invoice must be issued on or before 3rd May.

Illustration:

Mohan Ltd. an event management company has provided its services for an event at Photo Film Agencies at Kolkata, on 1st June. The tax invoice must therefore be issued within 30 days, that is, within 30th June.

Illustration:

Seema & Co. has entered into an AMC (Annual Maintenance Contract) with Vir Enterprises for one-year effective 1st September, 2017 for the stabilisers installed in the factory. As per contract, the invoice must be issued by 9th September, 2018. In this case, since there is a continuous supply of services where the due date is ascertainable from the contract, the tax invoice must be issued before or on 9th September, 2018.

Illustration :

Amount of Input Tax Credit available and output liability under different tax heads

Head	Output Liability	Input Tax Credit
Integrated tax	1000	1300
Central tax	300	200
State tax / Union territory tax	300	200
Total	1600	1700

Option 1:

Input Tax credit on account of	Discharge of output liability on account of Integrated tax	Discharge of output liability on account of Central tax	Discharge of output liability on account of State tax/ Union territory tax	Balance of Input Tax Credit
Integrated tax	1000	200	100	0

<i>Input tax Credit on account of Integrated tax has been completely exhausted</i>				
Central tax	0	100	-	100
State tax / Union territory tax	0	-	200	0
Total	1000	300	300	100

Option 2:

<i>Input tax credit on account of</i>	<i>Discharge of output liability on account of Integrated tax</i>	<i>Discharge of output liability on account of Central tax</i>	<i>Discharge of output liability on account of State tax / Union territory tax</i>	<i>Balance of Input Tax Credit</i>
Integrated tax	1000	100	200	0
<i>Input tax Credit on account of Integrated tax has been completely exhausted</i>				
Central tax	0	200	-	0
State tax / Union territory tax	0	-	100	100
Total	1000	300	300	100

QRMP**Illustration**

(i) In case the last return filed was on quarterly basis for Quarter Ending March, 2021 :

<i>Tax paid in Cash in Quarter (January - March, 2021)</i>		<i>Tax required to be paid in each of the months - April and May, 2021</i>	
CGST	100	CGST	35
SGST	100	SGST	35
IGST	500	IGST	175
Cess	50	Cess	17.5

(ii) In case the last return filed was monthly for tax period March, 2021 :

<i>Tax paid in Cash in March, 2021</i>		<i>Tax required to be paid in each of the months - April and May, 2021</i>	
CGST	50	CGST	50
SGST	50	SGST	50
IGST	80	IGST	80
Cess	-	Cess	-

Monthly tax payment through this method would not be available to those registered persons who have not furnished the return for a complete tax period preceding such month. A complete tax period means a tax period in which the person is registered from the first day of the tax period till the last day of the tax period.

Illustration

A registered person, who has opted for the Scheme, had paid a total amount of Rs. 100/- in cash as tax liability in the previous quarter of October to December. He opts to pay tax under fixed sum method. He therefore pays Rs. 35/- each on 25th February and 25th March for discharging tax liability for the first two months of quarter viz. January and February. In his return for the quarter, it is found that liability, based on the outward and inward supplies, for

January was Rs. 40/- and for February it was Rs. 42/-. No interest would be payable for the lesser amount of tax (i.e. Rs. 5 and Rs. 7 respectively) discharged in these two months provided that he discharges his entire liability for the quarter in the **FORM GSTR-3B** of the quarter by the due date.

Illustration

A registered person, who has opted for the Scheme, had paid a total amount of Rs. 100/- in cash as tax liability in the previous quarter of October to December. He opts to pay tax under fixed sum method. He therefore pays Rs. 35/- each on 25th February and 25th March for discharging tax liability for the first two months of quarter viz. January and February. In his return for the quarter, it is found that total liability for the quarter net of available credit was Rs. 125 but he files the return on 30th April. Interest would be payable at applicable rate on Rs. 55 [Rs. 125 - Rs. 70 (deposit made in cash ledger in M1 and M2)] for the period between due date of quarterly **GSTR-3B** and 30th April.

DEMAND AND RECOVERY

Illustration:

Notice issued by the proper officer demanding suppression of turnover INR 35,00,000, GST @5% thereon. Assuming the amount was challenged by the respondent taxpayer before the Appellate Tribunal. The Tribunal awarded the judgement of addition to the tune of INR 12,50,000, GST @5%.

The liability for payment of GST shall be as follows:

GST liability 5% of INR 12,50,000	INR 62,500
Add: Interest @ 24% p.a. on INR 62,500 from the date of liability till the date of actual payment	
Add: Penalty (depending upon the date of issuance of notice)	

Illustrations(SECTION 77)

<i>Situation</i>	<i>Suggested procedure</i>
A Registered person has wrongly paid Central tax and State Tax / Union Tax on a transaction, which is considered to be intra-State, subsequently held to be inter-State, shall be refunded the amount of taxes so paid	There is no actual refund back of the tax paid. Rather, there shall have to be an amendment of invoice/invoices to be made while filing return of any subsequent tax period.
A registered person who has paid integrated tax on a transaction considered to be an inter-State supply, shall not be required to pay any interest on the amount of Central tax and State tax/Union territory tax.	Similar procedure as above & no interest is payable.

Multiple Choice Questions (MCQs)

- Which section of CGST Act 2017 deals with Persons liable for registration?
 - section 29
 - section 22
 - section 44
 - section 54
- GSTIN is a digit number
 - 10
 - 12
 - 15

- d) None of the above
3. Aggregate Turnover under CGST Act includes
- All taxable supplies
 - Exempt supplies
 - Zero-rated supplies
 - All of the above
4. When an e-way bill is not required to be generated?
- where the goods are being transported by a non-motorised conveyance
 - where the goods are being transported from the customs port, airport, air cargo complex and land customs station to an inland container depot or a container freight station for clearance by Customs
 - Where the goods being transported are specified in Annexure to Rule 138 of the CGST Rules
 - All of the above cases
5. Every registered person required to keep and maintain books of account or other records in accordance with section 35(1) of CGST Act 2017, shall retain them until the expiry of _____ from the due date of furnishing of annual return for the year pertaining to such accounts and records.
- 60 months
 - 72 months
 - 36 months
 - 24 months

Answers: 1 (b), 2 (c), 3 (d), 4 (d), 5 (b)

Descriptive Questions

1. Mr. Mohan is located in Sikkim. He provides the following informations:

Particulars	Amount (Rs.)
Value of taxable supply in Uttar Pradesh	12 Lacs
Value of exempt supply	6 Lacs

Does Mohan require any registration? What if he located in Uttar Pradesh?

- What do you understand by Suo Moto & Deemed Registration under GST Laws?
- Explain the Content of Tax Invoice as per applicable provisions of GST Act and GST Rule 2017.
- What is the e-way bill? Explain the validity period for e-way in the context of distance.
- What is the QRMP?
- Who are GST practitioners? What is the eligibility criteria for becoming GST Practitioner?

LESSON 10- UTGST IGST Compensation to States

Illustration – If the base year revenue for 2015-16 for a concerned State, calculated as per section 5 is one hundred rupees, then the projected revenue for financial year 2018-19 shall be as follows –

$$\text{Projected Revenue for 2018-19} = 100 \left(1 + \frac{14}{100} \right)^3 = 148.1544$$

Illustration: If the projected revenue for any year calculated in accordance with section 6 is one hundred rupees, for calculating the projected revenue that could be earned till the end of the period of ten months for the purpose of this sub-section shall be $100 \times (10/12) = \text{Rs.83.33}$;

Multiple Choice Questions (MCQs)

1. Which of the following is considered as inter-State Supply?
 - a) Supplies received from SEZ unit in Noida to Domestic Tariff Area
 - b) Supplies made to SEZ developer in Kandla from Kerala
 - c) Goods imported from France
 - d) All of the Above
2. Which section of IGST Act 2017 deals with Zero Rated Supply?
 - a) Section 20
 - b) Section 16
 - c) Section 5
 - d) None of the Above
3. When did President give assent to GST (Compensation to states) Act 2017?
 - a) 12th April 2017
 - b) 27th March 2017
 - c) 1st July 2017
 - d) None of the above
4. Which financial year is taken as base year for the purpose of calculating compensation amount payable to the states under GST (Compensation to states) Act 2017?
 - a) Financial Year 2014-15
 - b) Financial Year 2016-17
 - c) Financial Year 2015-16
 - d) None of the Above
5. The UTGST States to which the UTGST Act, 2017 applies are:
 - a) Dadra and Nagar Haveli and Daman and Diu
 - b) Chandigarh
 - c) Ladakh
 - d) All of the above

Answers: 1 (d), 2 (b), 3 (a), 4 (c), 5 (d)

Descriptive Questions

1. Are all goods and services taxable under GST?
2. Which are the questions for which advance ruling can be sought?
3. Explain with the help of illustrations how a particular transaction of goods and/or services is taxed simultaneously under Central GST (CGST) and State GST (SGST)?

4. A dual GST has been implemented in India. Elaborate.
5. What was the need to bring GST in India? What are the taxes which have been subsumed in GST?

CA Saumil Manglani

LESSON 11- Customs

Illustration:

Answer with reference to the provisions of section 14 of the Customs Act, 1962 and the rules made thereunder:

- (i) What shall be the value, if there is a price rise of the imported goods in international market between the date of contract and the date of actual importation but the importer pays the contract price?
- (ii) Whether the payment for post-importation process is includible in the value if the same is related to imported goods and is a condition of the sale of the imported goods?

Solution:

- i) The value of the imported goods or export goods is its transaction value, which means the price actually paid or payable for the goods. Where a contract has been entered into, the transaction value shall be the price stated in the contract, unless it is not legally acceptable.

Price rise between date of contract and date of actual import is irrelevant, as the price actually paid or payable shall be taken to be the value. Thus, price stated in the contract (unless unacceptable) shall be taken.

- ii) As per explanation to Rule 10(1) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007, the payment for post-importation process is includible in the value of the imported goods if the same is related to such imported goods and is a condition of the sale thereof.

Template for Calculation of Import Duties

Particulars	INR	
Assessable Value (AV)	1000	
Basic Custom Duty (BCD)	100	Taken at 10% of AV
Safeguard Duty	300	Taken at 300% of AV
Social Welfare Surcharge (SWS)	10	Taken at 10% of BCD
Anti Dumping Duty	200	
Total	1610	
IGST	289.8	Taken 18% of Total
GST Compensation Cess (GCC)	241.50	Taken 15% of Total
Total Taxes and Duties	1141.30	

Illustration :

Use the information appended below to find out the Assessable Value:

Item No.	Description	USD
1	Cost of Machine at the factory of the US Exporter	17500
2	Transport Charges from the said factory until the sea port for onward shipment	2500
3	Handling Charges at the Port of Shipment	200
4	Buying Commission paid by Importer	50
5	Freight Charges until the Indian Port	2500
	Please use an exchange rate of \$1=63.84 INR	

Solution:

Description	USD	INR
Cost of Machine at the factory of the US Exporter	17,500	
Transport Charges from the said factory until the sea port for onward shipment	2,500	
Handling Charges at the Port of Shipment	200	
F.O.B. Value	20,200	
Insurance Charges @ 1.125%	227	
Freight Charges	2,500	
Buying Commission paid by Importer	-	
C.I.F. Value	22,927	
Assessable Value	22,927	14,63,660

Notes :

- 1) All costs up to the Port of Shipment will be included in the F.O.B. Value.
- 2) Insurance Charges shall be added on @ 1.125% of F.O.B. Value as the value of Insurance Charges as it is not ascertainable.
- 3) The actual freight charges of USD 2500 are included as it is within the maximum that can be added on is USD 4040 (which is 20% of F.O.B. Value).
- 4) Buying Commission is not to be included in the computation.

Illustration :

Ms. Nisha imported 2500 Tonnes of goods and materials valued at USD 50 per tonne (C.I.F.). Exchange Rate per notification (CBIC) was \$1= INR 63.84. The Basic Customs Duty was chargeable @ 10% and over and above, there was an Anti-Dumping Duty levied on the goods, which was the differential between the amount so calculated as the Landed Value . Basic Customs Duty and Cess is INR 100,00,000/-. Calculate the Anti- Dumping Duty.

Solution:

Description	Tonnes	Rate	USD	INR
C.I.F. Value	2,500	50	1,25,000	79,80,000
Assessable Value				79,80,000
Basic Custom Duty (BCD) @ 10%				7,98,000
Social Welfare Cess @ 10% of BCD				79,800
Landed Value				88,57,800
Landed value as per Notification				1,00,00,000
Anti Dumping Duty				11,42,200

Note : Anti-Dumping Duty is levied to promote the local industry and to curb imports, and to ensure that India is not used as a dumping ground, which could otherwise have serious repercussions on the economic growth of the Nation. This Anti-dumping duty is continued even under the GST regime.

Illustration :

XYZ imports Pan Masala into India and the C.I.F value is INR 500/-. The rates of tax for Pan Masala (HSN Code 21069020) are Basic Customs Duty 37.5%; IGST 28% and Compensation Cess 60%.

Compute Total Import Duty.

Solution:

Description	INR	
CIF Value	500	
Assessable Value(AV)	500	
Basic Custom duty @ 37.5%	188	A
Social Welfare Cess @ 10% of A	18.80	B
AV + BCD + Cess = 500 + 188 + 18.8 = 706.8		
IGST @ 28%	197.90	C
Compensation Cess @ 60% (706.8 x 60%)	424.08	D
Total Import Duty payable(A+B+C+D)	828.78	
Total Value including Import Duty	1328.78	

Note : The CBIC notified rate of exchange in force as on the date on which the bill of entry is filed, is what will be applied for computation of assessable value. Note also, that the above cess, Compensation Cess is leviable under GST and hence applicable on the same base; i.e., AV + BCD, like IGST.

Illustration :

M/s XYZ Chemicals Ltd. imported a machine from ABC Inc. at USA (Boston). The price of the machine was contracted at USD 12500 and the machine was shipped on 1st February, 2022. Meanwhile XYZ Chemicals, renegotiated a price reduction owing to the past relationship, and this price reduction was agreed vide an e-mail and a fax on 15th February, 2022. The machine arrived in India (Mumbai Port) on 1st March, 2022.

The assessing authorities claimed that the duty would be payable basis the Original Contracted price, pre - shipment. Please advise your stand as a Tax Consultant to XYZ Chemicals Ltd.

Solution:

The stand taken by the Customs Authorities is factually incorrect and can be challenged under the Law. The basic reason is that the Transaction Value is considered at the time and place of importation. Hence, it was contended that the Import is complete only when the Goods become a part of the Country. Here, in the present case, the price was mutually revised while the Goods were still in transit. Hence, the revised price could be considered for arriving at the Assessable Value and the same was also enunciated under the case law : *Gujarat Heavy Chemicals vs. Commissioner of Customs, Ahmedabad 2004*.

Illustration :

Calculate the total Import Duty Payable if :

- F.O.B. Value is GBP 18000.
- Freight Charges incurred (actual) are GBP 7500.
- Design & Development Charges incurred at UK are GBP 2500.
- Selling Commission at India paid to a local agent @ 2% of F.O.B. Value.
- Date of Bill of Entry : 24th Oct 2022 (Rate of Basic Customs Duty is 20% and Exchange Rate as notified by CBIC is INR 68 to 1 GBP).
- Date of Entry Inward : 20th Oct 2022 (Rate of Basic Customs Duty is 18% and Exchange Rate as notified by CBIC is INR 70 to 1 GBP).

- g) IGST @ 18%.
- h) Insurance Charges could not be ascertained.

Solution:

ITEM	GBP	INR	
F.O.B.	18,000		
Design & Development	2,500		
Local commission @ 2%	360		
FOb as per Customs	20,860		
Freight @ 20% of F.O.B. (assumed by air)	4,172		
Insurance @ 1.125% of F.O.B.	234.675		
C.I.F. value	25,266.675		
Assessable Value (AV)		17,18,134	
Basic Custom Duty		3,43,627	A
Social Welfare cess @ 10%		34,363	B
Total for IgST (Av + All Custom Duties)		20,96,124	
IgST @ 18%		3,77,302	C
Total Import Duty		7,55,292	A+b+C

Notes:

- a) Insurance is taken @ 1.125% of F.O.B. value, as the charges aren't ascertainable.
- b) Freight can be taken at actuals but capped to 20% of F.O.B.
- c) Selling Commission is paid in Indian Rupees to local agents appointed by exporters to usher their sales in India and hence included in C.I.F. Value.
- d) The Exchange Rate in force per CBIC notification, on the date when the Bill of Entry is presented is to be considered.
- e) IGST is levied on Assessable Value + All Customs Duties.
- f) Social welfare Cess is levied on BCD @ 10%.

Illustration :

Determine the Customs Duty payable including the safeguard duty of 20%, for Goods with Assessable Value of INR 50,00,000 considering BCD @ 10%, IGST @ 18%.

Solution:

Item	INR	
Assessable Value	50,00,000	
Basic Custom Duty @ 10%	5,00,000	A
Social Welfare Surcharge @ 10%	50,000	B
Safeguard Duty @ 20%	10,00,000	C
Total for IGST(AV + All Custom Duties)	65,50,000	
IGST @ 18%	11,79,000	D
Total Duty & Taxes payable(A+B+C+D)	27,29,000	

BAGGAGE

Illustration: Mr. Ram, an Indian entrepreneur, went to London to explore new business opportunities on 01.04.2020. His wife also joined him in London on 01.12.2020. The following details are submitted by them with the Customs authorities on their return to India on 30.04.2021:

- (a) used personal effects worth Rs. 95,000
- (b) a music system worth Rs. 34,000
- (c) the jewellery brought by Mr. Ram for Rs. 44,000 and the jewellery brought by his wife worth Rs.25,000

Determine their eligibility with regard to duty free allowance.

Solution: As per the Baggage Rules, in case of passengers other than tourists there is no customs duty on used personal effects and general free allowance is Rs.50,000 per passenger. Thus, their duty liability is nil for the personal effects and a music system.

However, the additional duty-free allowance, that is jewellery allowance is applicable to non-tourist passenger of Indian origin who had stayed abroad for period exceeding one year. The additional jewellery allowance is as follows: -

Gentleman Passenger - Rs.50,000/-

Lady Passenger - Rs.1,00,000/- Thus, there is no duty liability on the jewellery brought by Mr. Ram as he had stayed abroad for period exceeding one year.

However, his wife is not eligible for this additional jewellery allowance as she had stayed abroad for a period less than a year. Thus, she has to pay customs duty on the amount of jewellery brought by her. However, she is eligible to avail GFA of Rs.50,000. To the extent of satisfaction of the Assistant commissioner of customs, Jewellery brought back which was taken out earlier by the passenger or by a member of his family from India shall be allowed clearance free of duty.

Multiple Choice Questions (MCQs)

1. charges are levied by the port authorities if goods are not cleared within 3 days of unloading.
 - a) Demurrage
 - b) Warehousing
 - c) Storage
 - d) None of the Above
2. Section 111 to Section 127 of Customs Act, 1962 deals with
 - a) Warehousing of goods
 - b) Confiscation of goods
 - c) Drawback
 - d) Goods in Transit
3. Warehouses allow goods to be stored and deferment of duty. The Goods are to be released from the Warehouse, subject to
 - a) Assessment
 - b) Payment
 - c) Clearance
 - d) All of the Above
4. In, the vessel after reaching an intermediate port, transfers the goods to another

vessel and the second vessel into which the goods are transferred (loaded) from the first vessel, carries the goods to the destination port.

- a) Transit
- b) Transshipment
- c) Both of the Above
- d) None of the above

5. IGM stands for

- a) Internal General Memo
- b) International General Memo
- c) Import General Manifest
- d) None of the above

Answers: 1 (a), 2 (b), 3 (d), 4 (b), 5 (c)

Descriptive Questions

1. Explain the following in the context of Custom Act, 1962.
 - a. Person-In-Charge
 - b. Advance Ruling
 - c. Countervailing Duty (CVD)
2. What do you understand by;
 - a. Demurrage
 - b. Territorial waters
 - c. Anti-Dumping Duty (ADD)
3. What is the difference between Transit and Transshipment?
4. Smart Limited imports goods into India by Air having FOB Rs. 10 lakh, cost of freight is Rs. 50,000 and cost of insurance is not ascertainable. Basic custom Duty is 37.5% and IGST is 28%. Compute Assessable Value and total Import Duty.
5. Explain the concept of duty Drawback and what will be the rate of Drawback in case where goods were in possession of the importer for;
 1. Upto 3 months
 2. more than 18 months
 3. more than 9 months to 12 months

FIRST TIME IN THE HISTORY OF INDIA

More Than 750+ Students Cleared CS Executive

After Every 5 Rankers
1 Ranker is From Unique Academy

• OUR TOP SCORED STUENTS •



& Many More..



& Many More..

MODULE 1



MODULE 2



& Many More..

Subscribe Our Youtube Channel



Unique Academy For Commerce



Shop NO.25, Kumar Prestige Point, Gate No 1, Bajirao Rd, Shukrawar Peth, Pune, Maharashtra 411002



www.uniqueacademyforcommerce.com



8007916622 | 8007916633

CS EXECUTIVE

Top Scored Students

It Happen Only at Unique

250+ Students Scored Exemption



& many more...

More than 600 students cleared Exams...

Subscribe Our Youtube Channel

Unique Academy For Commerce

Shop NO.25, Kumar Prestige Point, Gate No 1, Bajirao Rd, Shukrawar Peth, Pune, Maharashtra 411002

www.uniqueacademyforcommerce.com

8007916622 | 8007916633

More Than
600+
Students Cleared
CS EXECUTIVE

UNIQUE ACADEMY FOR COMMERCE

UNIQUE
ACADEMY FOR COMMERCE

CS EXECUTIVE
CHAMPIONS
DEC 2021



OUR TOP SCORED STUENTS



Module-1



Module-2





UNIQUE ACADEMY FOR COMMERCE

**Best Team For 11th & 12th Commerce CSEET,
CA Foundation, CS Executive, CA Inter &
CS Professional Across the Country**

**India's Best Coaching for 11th Commerce, 12th Commerce,
CS, CA & CMA Students, with a wide coverage of all
topics! Visit now and crack your exams**

UNIQUE ACADEMY FOR COMMERCE, an institute where students enter to learn and leave as invincible professionals is highly known for the coaching for CA and CS aspirants. One of the India's best academy with the finest faculty aims to provide quality education for a better future. It is recognized as the best online classes for Company Secretary Course.

As the word "Unique", itself suggests that we don't believe in doing any work ordinarily, we look forward to direct all our efforts to do ordinary work in an extraordinary manner. We have always tried our best to lead on a result-oriented approach as well as creating a professional aura among the students and has always held the hand of the students while creating their lucrative career.



**10,000+
Google
Review**



**25,000+
Students
in CA & CS**



**Live+
Recorded
Lectures**



**Unlimited
Watch
Time**



UNIQUE
ACADEMY FOR COMMERCE

Unique Academy For Commerce

www.uniqueacademyforcommerce.com

8007916622 | 8007916633