

**ANSWERS OF MODEL TEST PAPER 1**

**INTERMEDIATE COURSE: GROUP - I**

**PAPER – 3: TAXATION**

**SECTION – A: INCOME TAX LAW**

**Division A – Multiple Choice Questions**

MCQ No.	Sub-part	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(i)	(d)	3.	(c)
	(ii)	(a)	4.	(c)
	(iii)	(a)		
2.	(i)	(c)		
	(ii)	(d)		
	(iii)	(d)		

**Division B – Descriptive Questions**

1. **Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2025-26**

Particulars	₹
Net profit as per profit and loss account	50,85,000
<b>Less:</b> Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"	<u>30,000</u>
	50,55,000
<b>Add: Expenses either not allowable or to be considered separately but charged in the profit &amp; loss account</b>	
- Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	5,000
- Advertisement in the souvenir of political party not allowable as per section 37(2B) <b>(See Note 1)</b>	2,500
- Payment made to political party by cheque <b>(See Note 2)</b>	1,00,000
- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law <b>(See Note 3)</b>	5,300
- Depreciation as per books	1,07,250
- 30% of interest paid on loan paid to Mr. Mohit, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
	<b>52,99,050</b>

<i>Less:</i> Depreciation allowable as per Income-tax Act, 1961	65,000	
Depreciation on building [₹ 20 lakhs x 10%]	2,00,000	2,65,000
<b>Profits and gains from business or profession</b>		<b>50,34,050</b>
<b>Income from Other Sources</b>		
Interest on income-tax refund		4,570
<b>Gross Total Income</b>		<b>50,38,620</b>
<i>Less:</i> Deduction under section 80GGC [Contribution to Political Party] [Not allowable]		Nil
<b>Total Income</b>		<b>50,38,620</b>

**Notes –**

- (1) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- (2) Payment to political party is not an expenditure incurred wholly and exclusively for business purpose and hence not allowance under section 37(1). Since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (3) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (4) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

**Computation of tax liability as per section 115BAC**

Particulars	₹	₹
<b>Tax on total income of ₹ 50,38,620</b>		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 – ₹ 50,38,620 [@30% of ₹ 35,38,620]	<u>10,61,586</u>	
		12,01,586
<i>Add:</i> Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		<u>1,20,159</u>
		<b>13,21,745</b>

Less: Marginal relief (See computation below)	<u>93,125</u>
	12,28,620
Add: Health and education cess@4%	<u>49,145</u>
<b>Total tax liability</b>	<b><u>12,77,765</u></b>
<b>Total tax liability (Rounded off)</b>	<b><u>12,77,770</u></b>

#### Computation of marginal relief

Particulars		₹
(A)	Tax payable including surcharge on total income of ₹ 50,38,620 as per section 115BAC	13,21,745
(B)	Tax payable on total income of ₹ 50 lakhs as per section 115BAC	<u>11,90,000</u>
(C)	Excess tax payable (A-B)	<u>1,31,745</u>
(D)	Marginal relief (₹1,31,745 – ₹ 38,620, being the amount of income in excess of ₹ 50 lakhs)	<b>93,125</b>

**Note** - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

#### Computation of total income of Mr. Amit for A.Y. 2025-26 under normal provisions of the Act

Particulars	₹	₹
<b>Gross Total Income as per default tax regime under section 115BAC</b>		50,38,620
Add: Depreciation on building [₹ 20 lakhs x 10%]		<u>2,00,000</u>
		52,38,620
Less: Warehousing charges		<u>22,50,000</u>
<b>Gross Total Income excluding profits and gains from specified business under section 35AD</b>		29,88,620
<b>Profits and gains from specified business under section 35AD</b>		
Warehousing charges	22,50,000	
Less: Deduction under section 35AD (See Note 1)	<u>20,00,000</u>	<u>2,50,000</u>
<b>Gross Total Income as per normal provisions of the Act</b>		32,38,620
Less: Deduction under section 80GGC for contribution to Political Party (See Note 2)		1,00,000
<b>Total Income as per regular provisions of the Act</b>		<b>31,38,620</b>

**Notes –**

- (1) Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.
- (2) Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque.

**Computation of tax liability of Mr. Amit for A.Y. 2025-26 under the regular provisions of the Act**

Particulars	₹	₹
<b>Tax on total income of ₹ 31,38,620</b>		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [ <i>@5% of ₹ 2.50 lakh</i> ]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [ <i>@20% of ₹ 5,00,000</i> ]	1,00,000	
₹ 10,00,001- ₹ 31,38,620 [ <i>@30% of ₹ 21,38,620</i> ]	<u>6,41,586</u>	7,54,086
<i>Add: Health and education cess@4%</i>		<u>30,163</u>
<b>Total tax liability</b>		<b><u>7,84,249</u></b>
<b>Total tax liability (rounded off)</b>		<b>7,84,250</b>

**Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2025-26**

Particulars	₹	₹
<b>Total Income (computed above as per regular provisions of income tax)</b>		<b>31,38,620</b>
<i>Add: Deduction under section 35AD</i>	20,00,000	
<i>Less: Depreciation under section 32 on building [₹ 20 lakhs x 10%]</i>	<u>(2,00,000)</u>	<b><u>18,00,000</u></b>
<b>Adjusted Total Income</b>		<b><u>49,38,620</u></b>
<i>Alternative Minimum Tax@18.5%</i>		9,13,645
<i>Add: Health and education cess@4%</i>		<u>36,546</u>
<b>Total tax liability</b>		<b><u>9,50,191</u></b>
<b>Total tax liability (rounded off)</b>		<b>9,50,190</b>

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, liability as per section 115JC is ₹ 9,50,190.

Since the tax liability of Mr. Amit under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2025-26 and pay tax

under regular provisions of the Act. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

**AMT credit to be carried forward under section 115JEE**

Particulars	₹
Tax liability under section 115JC	9,50,190
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,84,250
	<b>1,65,940</b>

2. (a) As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year in case such person has total income, other than the income from foreign sources, not exceeding ₹ 15 lakhs. However, if such person has total income, other than the income from foreign sources, exceeding ₹ 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.

Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

In this case, total income, other than the income from foreign sources, of Mr. Akash for P.Y. 2024-25 would be

Particulars	Amount (₹)
Salary from ABC Inc., California received in California (Computed) (Not included in total income, since it is income from foreign source)	-
Dividend from Indian companies (Included in total income, since it is deemed to accrue or arise in India)	5,00,000
Agricultural income from land situated in Nepal (Not included in total income, since it is accrued or arisen outside India and received outside India)	-
Rent received/receivable from house property in Delhi (Included in total income, since it is deemed to accrue or arise in India)	5,50,000
Less: 30% of ₹ 5.50 lakhs	<u>1,65,000</u>
Profits from a profession in California, which was set up in India, received there	6,00,000
<b>Total income, other than the income from foreign sources</b>	<b>14,85,000</b>

Since Mr. Akash is an Indian citizen who comes on a visit to India only for 121 days in the P.Y. 2024-25 and his total income, other than income from foreign sources does not exceed ₹ 15 lakhs, he would be non-resident for the A.Y. 2025-26.

A non-resident is chargeable to tax in respect of income received or deemed to receive in India and income which accrues or arises or is deemed to accrue or arise to him in India. Accordingly, his total income would be as follow –

Particulars	Amount (₹)
Salary from ABC Inc., California received in California (Computed) (Not taxable, since it neither accrues or arises in India nor is it received in India)	-
Dividend from Indian companies (Taxable, since deemed to accrue or arise in India)	5,00,000
Agricultural income from land situated in Nepal (Not taxable, since it neither accrues or arises in India nor is it received in India)	-
Rent received/receivable from house property in Delhi (Taxable, since it is deemed to accrue or arise in India)	5,50,000
Less: 30% of ₹ 5.50 lakhs	<u>1,65,000</u>
	3,85,000
Profits from a profession in California, which was set up in India, received there	-
<b>Gross Total Income/ Total income</b>	<b>8,85,000</b>

**(b) TDS implications**

- (i) Section 194-I, which governs the deduction of tax at source @10% on payment of rent, exceeding ₹ 2,40,000 p.a., is applicable to all persons except individuals and HUF, whose turnover/gross receipts do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the financial year immediately preceding the financial year in which such rent is credited or paid.

In the present case, State Bank of India has to deduct at source @ 10% on rental payment to Mr. Kunal.

Tax deducted at source = ₹ 72,000 (₹ 7,20,000 x 10%)

Section 196, however, provides exemption in respect of payments made to Government from application of the provisions of tax deduction at source.

Therefore, no tax is required to be deducted at source by State Bank of India from rental payments to the Government.

- (ii) As per section 194C, no tax is required to be deducted at source on payment to transporter if the following conditions are satisfied:

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He furnishes a declaration to this effect along with his PAN.

In the present case, since Mr. Deepak has not furnished his PAN, tax is required to be deducted at source @ 20% under section 206AA on ₹ 2,50,000, since the same exceeds the threshold limit of ₹ 1,00,000.

Tax deducted at source = ₹ 50,000 (₹ 2,50,000 x 20%)

**3. (a) Computation of Income under the head “Salaries” in the hands of Mr. Sahil for the A.Y. 2025-26**

Particulars	₹
Basic Salary [₹ 55,000 x 12]	6,60,000
Dearness allowance [10% of basic salary]	66,000
Bonus	60,000
Fixed Medical Allowance [Taxable]	50,000
Reimbursement of Medical expenditure incurred for his father [Fully taxable]	6,500
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [₹ 8,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	96,000
Value of equity shares allotted [700 equity shares x ₹ 110 (₹ 280, being the fair market value – ₹ 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,400
<b>Gross Salary</b>	<b>10,16,900</b>
<i>Less:</i> Deduction under section 16	
Professional tax paid [Not allowed]	-
Standard Deduction (Lower of ₹ 75,000 or amount of salary)	75,000
<b>Taxable Salary</b>	<b>9,41,900</b>

(b) **Computation of income from house property of Mr. Kushal for A.Y. 2025-26**

Particulars	₹	₹
<b>1. Income from let-out property in New York [See Note 1 below]</b>		
<sup>1</sup> Gross Annual Value (\$ 5,000 p.m. x 12 months x ₹ 81)		48,60,000
Less: Municipal taxes paid during the year [\$ 2,000 (\$ 1,250 + \$ 750) x ₹ 81] <sup>2</sup>		<u>1,62,000</u>
Net Annual Value (NAV)		46,98,000
Less: Deductions under section 24		
(a) 30% of NAV	14,09,400	
(b) Interest on housing loan	<u>-</u>	<u>14,09,400</u>
		<b><u>32,88,600</u></b>
<b>2. Income from self-occupied property in Ahmedabad</b>		
Annual Value [Nil, since the property is self-occupied]		NIL
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		
Less: Deduction in respect of interest on housing loan [See Note 2 below]		<u>2,00,000</u>
		<b><u>(2,00,000)</u></b>
<b>Income from house property [₹ 32,88,600 – ₹ 2,00,000]</b>		<b>30,88,600</b>

**Notes:**

(1) Since Mr. Kushal is a resident but not ordinarily resident in India for A.Y. 2025-26, income which is, *inter alia*, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in New York would be taxable in India since such income is received by him in India.

(2) **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24**

Interest for the current year (₹ 30,00,000 x 10%)      ₹ 3,00,000

<sup>1</sup> In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the GAV

<sup>2</sup> Both property tax and sewerage tax qualify for deduction from gross annual value

**Pre-construction interest**

For the period 01.09.2019 to 31.03.2021  
 $(₹ 30,00,000 \times 10\% \times 19/12) = ₹ 4,75,000$

₹ 4,75,000 allowed in 5 equal installments ₹ 95,000  
 (₹ 4,75,000/5)

₹ 3,95,000

In case of self-occupied property, interest deduction to be restricted to ₹ 2,00,000

**4. (a) Computation of Total Income of Mr. Vishal for A.Y. 2025-26**

Particulars	Amount (₹)	Amount (₹)
<b>Income from house property</b>		
<b><u>House in Delhi</u></b> [Since Mr. Vishal receives direct or indirect benefit from income arising to his brother's daughter, Ms. Deepika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Vishal, even though the transfer may not be revocable during lifetime of Ms. Deepika]		
Gross Annual Value <sup>3</sup>	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,65,000	
(b) Interest on loan	-	
		3,85,000
<b>Capital Gains</b>		
Long term capital gain from sale of property	15,000	
<b>Less:</b> Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹15,000. Balance short term capital loss of ₹ 1,000 to be carry forward to A.Y.2026-27	<u>15,000</u>	-
<b>Income from other sources</b>		
Dividend on preference shares [Taxable in	4,50,000	

<sup>3</sup> Rent receivable has been taken as the gross annual value in the absence of other information.

the hands of Mr. Vishal as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]		
Interest from saving bank account	1,75,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	25,000	
Income from card games [No loss is allowed to be set off against such income]	<u>46,000</u>	<u>7,71,000</u>
<b>Gross Total Income</b>		<b>11,56,000</b>
<b>Less: Deduction under Chapter VI-A</b>		
Deduction under section 80TTA [Interest from savings bank account]	<u>10,000</u>	<u>10,000</u>
<b>Total Income</b>		<b>11,46,000</b>

**Losses to be carried forward to A.Y. 2026-27**

Particulars	Amount (₹)
Short term capital loss [₹ 16,000 – ₹ 15,000]	1,000
Loss on maintenance of race horses [Loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses.	14,600

**(b) First alternative**

As per section 139(3), an assessee is required to file a return of loss within the due date specified u/s 139(1) for filing return of income.

As per section 80, certain losses which have not been determined in pursuance of a return filed under section 139(3) on or before the due date specified under section 139(1) cannot be carried forward and set-off. Thus, the assessee has to file a return of loss under section 139(3) within the time allowed u/s 139(1) in order to carry forward and set off of following losses:

- loss under the head “Capital Gains”,
- loss from activity of owning and maintaining race horses.
- business loss,
- speculation business loss and

- loss from specified business (in case assessee opts out of the default tax regime).

However, following can be carried forward for set-off even if the return of loss has not been filed before the due date:

- Loss under the head “Income from house property” (in case assessee opts out of the default tax regime) and
- Unabsorbed depreciation

**(b) Second alternative**

	<b>Transaction</b>	<b>Is quoting of PAN mandatory in related documents?</b>
1.	Sale of scooter for ₹ 70,000	No, quoting of PAN is not mandatory on sale of scooter.
2.	Payment of life insurance premium of ₹ 67,000 to insurance company	Yes, since the amount paid exceeds ₹ 50,000.
3.	Purchase of plot for ₹ 9 lakhs while the stamp duty of the same is ₹ 11 lakhs	Though the amount of consideration does not exceed ₹ 10 lakhs, Mr. Vishnu has to quote PAN since stamp duty of plot exceeds ₹ 10 lakhs.
4.	Applied to PNB for issue of credit card	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.