

TEST PAPER : TAXATION

SECTION A: INCOME TAX LAW PART - I

TOTAL MARKS: 50

Case Scenario 1

Question No	Answer	Question No	Answer
1	iv	2	iv
3	iv		

Case Scenario 2

Question No	Answer	Question No	Answer
4	iv	5	iii
6	iv	7	ii

Question No	Answer
8	(d)

SECTION A: INCOME TAX LAW PART - II

Answer 1

STATEMENT OF TOTAL INCOME

Particulars	Amt.	Amt.
Income from Salaries		-
Income from House Property:		-
Arrears of Rent [75,000 -30%]		52,500
Income from Business & Profession:		
- Salary from Partnership Firm [to the extent allowed to the firm]		90,000
- Interest from Partnership Firm [3L x 12/15] [to the extent allowed to the firm]		2,40,000
- Own business [Note 1]		6,32,500
Capital Gains		-
<u>Income from Other Sources:</u>		
Interest on Bank FD [Gross] (49,500/90%)		55,000
Dividend		24,000
Agriculture Income	60,000	
Less: Exempt u/s 10(1)	60,000	
GROSS TOTAL INCOME		10,94,000
<u>Less: Deduction under Chapter VIA:</u>		
→ Sec. 80C:		
LIC Premium (2,00,000 x 10%)	20,000	
PPF Deposit	70,000	90,000
→ Sec. 80D: Mediclaim Insurance [mother] [Normal 25,000]		
Additional deduction [max.25,000 for Senior]		50,000
→ Sec. 80TTB: Int on Bank FD		50,000
NET TAXABLE INCOME		9,04,000

STATEMENT OF TAX

	111A	112A	Long Term	Balance
Net Taxable Income	Nil	Nil	Nil	9,04,000
Tax on above				99,800*
Add: SC				Nil
				99,800
Add: HEC @ 4%				+ 3,992
Tax payable				1,03,792
Less: TDS				- 5,500
Less: Advance tax				- 70,000
Tax payable				28,292
Tax payable [Rounded]				28,290

* Tax as per partial integration:

Particulars	Amt.
Tax on (Balance NTI + Net Agricultural Income) i.e. Tax on (9,04,000 + 60,000)	1,02,800
Tax on (Basic Exemption + Net Agricultural Income) i.e. Tax on 3,00,000 + 60,000)	- 3,000
	99,800

Note 1: STATEMENT OF INCOME FROM BUSINESS

Particulars	Amt.	Amt.
Net Profit as per Profit & Loss A/c		4,32,000
<u>Add: Disallowed/Items Consider Separately:</u>		
Salary to manager in cash [sec.40A(3)]	15,000	
Car expenses [50,000 x 1/5 personal]	10,000	
Advance tax [sec.40(a)]	70,000	
Depreciation as per books	4,25,000	+ 5,20,000
		9,52,000
<u>Less: Allowed/Items Consider Separately:</u>		
Interest on Bank FD	49,500	
Agricultural income	60,000	
Dividend	24,000	-1,33,500
		8,18,500
<u>Less: Unrecorded Business Expenses:</u>		
Depreciation as per the Income Tax Act (Note 2)		- 1,86,000
		6,32,500
<u>Add: Unrecorded Business Income:</u>		--
TAXABLE BUSINESS INCOME		6,32,500

Note 2: Deduction for Depreciation u/s 32:

COMPUTATION OF DEPRECIATION

	<u>Machinery (15%)</u>		<u>Motor Car (15%)</u>	
	Amount	No.	Amount	No.
Opening WDV	6,50,000	(1)	3,00,000	(1)
<u>Add: Purchases</u>				
→ 180 days or more	-	-	-	-
→ less than 180 days	3,00,000	(1)	-	-
	9,50,000	(2)	3,00,000	(1)
<u>Less: Sales (SP)</u>	-	-	-	-
	9,50,000	(2)	3,00,000	(1)
	↓		Dep @15%	
			45,000	
	↓		3,00,000 x 15% x 1/2 = 22,500	
Cost of Asset used FOR less than			<u>Balance</u>	
180 days Half year depreciation			Full year depreciation 6.5L x 15% = 97,500	

Hence, Depreciation allowable u/s 32 will be:

Plant & Machinery

→ Normal depreciation (22,500 + 97,500)	1,20,000
→ Additional depreciation (3,00,000 x 20% x 1/2)	30,000
→ Motor Car (45,000 x 4/5)	<u>36,000</u>
	<u>1,86,000</u>

Purchase of machinery in cash/bearer cheque is not eligible for depreciation.

Answer 2 (A)**Computation of gross total income of Mr. Rohan for the A.Y.2025-26**

Particulars		Amount (Rs.)	Amount (Rs.)
I	Salaries		
	Basic Salary (Rs. 60,000 x 11 + Rs. 62,000 x 1)		7,22,000
	Dearness Allowance (40% of Rs. 7,22,000)		2,88,800
	Telephone allowance (Rs. 500 x 12)		6,000
	Employer's contribution to RPF (15% of Rs. 7,22,000)	1,08,300	
	Less: Exempt [12% of salary i.e., 12% x 8,95,280 (7,22,000 + 60% of 2,88,800)]	1,07,434	866
	Interest accrued in the RPF@12%	25,800	
	Less: Exempt @9.5% p.a.	20,425	5,375
	Value of Rent Free accommodation		
	[10% of Rs. 9,00,800 (7,22,000 + 1,72,800 (Rs. 2,88,000 x 60%) + Rs. 6000)]		90,080
	Reimbursement of salary of domestic servant [Rs. 2,500 x 12]		30,000
	Perquisite value of motor car		
	Running and maintenance costs incurred by employer	50,000	21,200
	Less: Specified as per Rule 3 [Rs. 2,400 x 12]	28,800	1,500
	Professional tax paid by employer		
	Gross Salary		11,65,821
II	Less: Deduction u/s 16		
	Standard deduction	50,000	
	Professional tax paid	2,500	52,500
	Taxable Salary		11,13,321
	Profit and gains from business or profession		
	Where the amount of Mr. Rohan (Rs. 6 lakh, in this case) is invested by Mrs. Rohan in a business as her capital, proportionate share of profit or loss, as the case may be, computing taking into account the value of the investment as on 1.4.2024 to the total investment in the business (Rs. 10 lakhs) would be included in the income of Mr. Rohan [loss of Rs. 1,20,000 x 6/10]	(72,000)	-
	[Business loss of Rs. 72,000 cannot be set off against salary income. It has to be carried forward to next year]		
	Gross Total Income		11,13,321

Answer 2 (B)**(A) Tax Treatment of Buyback of Shares (P.Y. 2024-25, A.Y. 2025-26)**

- As per Section 2(22)(f), the amount received from a buyback of shares is treated as deemed dividend in the hands of the shareholder.
- Therefore, ₹60,000 (400 shares × ₹150) will be taxed under Income from Other Sources (IFOS) in the hands of Mr. KK

(B) Computation of Capital Gain on Buyback of Shares (P.Y. 2024-25, A.Y. 2025-26)

Particulars	Amount (₹)
Full Value of Consideration (Buyback)	Nil
Less: Cost of Acquisition (COA) (400 shares × ₹60)	(24,000)
Capital Loss on Buyback (Long-Term Capital Loss - LTCL)	(24,000)

Note: FVOC on buyback is always taken as NIL, but the LTCL of ₹24,000 can be set off against other LTCG or carried forward for up to 8 years

(C) Computation of Capital Gain on Sale of 900 Shares (P.Y. 2025-26, A.Y. 2026-27)

Particulars	Amount (₹)
Full Value of Consideration (900 shares × ₹250)	2,25,000
Less: Cost of Acquisition (COA) (900 shares × ₹60)	(54,000)
Long-Term Capital Gain (LTCG)	1,71,000
Less: LTCL of Previous Year (A.Y. 2025-26)	(24,000)
Net LTCG Taxable in A.Y. 2026-27	1,47,000

Answer 3 (A):**Computation of Taxable Income of Mr. Hritik for the A.Y. 2025-26 under normal provisions of the Act**

Particular	Amount	Amount
Salaries		
Shamita's salary (₹ 25,000 x 12) [See Note 1]	3,00,000	
Less: Standard deduction under section 16(ia) upto ₹ 50,000	50,000	
	2,50,000	
Less: Loss from house property set off against salary income as per section 71(3A) [See Note 2]	(2,00,000)	50,000
Capital Gains		
Short term capital gain	1,50,000	
Less: Loss from tea business (₹ 1,06,000 x 40%) [See Note 3 & 4]	(42,400)	1,07,600
Income from Other Sources		
Dividend income		11,00,000
Gross Total Income/Total Income		12,57,600

Following losses can be carried forward for subsequent assessment years:

(i) Loss from house property to be carried forward and set-off against income from house property	₹ 50,000
(ii) Long-term capital loss of A.Y. 2021-22 can be carried forward and set-off against long-term capital gains	₹ 86,000
(iii) Loss from speculative business to be carried forward and setoff against income from speculative business	₹ 50,000

Notes:

1. As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Shamita is not adequately qualified for the post and Mr. Hritik has substantial interest in Ray Ltd by holding 21% of the shares of the Ray Ltd., the salary income of Mrs. Shamita to be included in Mr. Hritik's income.
2. As per section 71(3A), loss from house property can be set off against any other head of income to the extent of ₹ 2,00,000 only.
3. 60% of the losses from tea business is treated as agricultural income and therefore exempt under section 10(1). Loss from an exempt source cannot be set off against profits from a taxable source.
4. As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 42,400 can be set off against short term capital gains or dividend income.
5. Loss from card games can neither be set off against any other income, nor can it be carried forward.
6. Loss of ₹ 50,000 from speculative business can be set-off only against the income from the speculative business. Hence, such loss has to be carried forward.
7. As per section 74(1), brought forward long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2026-27 for set-off against long-term capital gains.

Answer 3 (B):

- i. Section 194-IA requires deduction of tax@1% by every transferee responsible for paying any sum as consideration for transfer of immovable property (land, other than agricultural land, or building or part of building) to a resident transferor. Tax is not required to be deducted at source where the total amount of consideration for the transfer and SDV of immovable property is less than Rs 50 lakhs. Consideration for transfer of any immovable property includes, inter alia, club membership fee, car parking fee, maintenance fee, which are incidental to transfer of the immovable property.

As amendment made by FA 2024, w.e.f. 1/10/2024, Where there is more than one transferor or transferee in respect of any immovable property, then the consideration shall be the aggregate of the amounts paid or payable by all the transferees to the transferor or all the transferors for transfer of such

immovable property.

In the present case, since the consideration for transfer of flat by Mr. Mani & Mrs. Bani to Omkar Construction Ltd. is Rs 52,20,000 (Rs 48 lakhs + Rs 1,20,000, being Rs 5,000 x 24 + Rs 2 lakhs + Rs 1 lakh) which is not less than Rs 50 lakhs, Mr. Mani is required to deduct tax @1% on Rs 26,100,000 & Bani also require to deduct tax @1% on Rs 26,100,000.

Total Tax deductible by Mr. Mani & Mrs. Bani would be Rs 52,200

- ii. Since Mr. X pays rent exceeding Rs50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source @ 2% of such rent for F.Y. 2024-25 u/s 194-IB. Thus, Rs11,000 [Rs55,000 x 2% x 10] has to be deducted from rent payable for March, 2025.

If Mr. X vacated the premises in December 2024, then tax of Rs7,700 (Rs55,000 x 2% x 7) has to be deducted from rent payable for December, 2024.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @ 20%, instead of 2%.

In case 1 above, this would amount to Rs1,10,000 [Rs55,000 x 20% x 10] but the same has to be restricted to Rs55,000, being rent for March 2025.

In case 1 above, this would amount to Rs77,000 [Rs55,000 x 20% x 7] but the same has to be restricted to Rs55,000, being rent for December 2024

- iii. Mr. Hardik last year T/O more than Rs 100 lakhs then also he is not required to deduct TDS u/s 194J as fees for professional service is for personal purpose of Individual.

However, tax is required to be deducted at source@2% u/s 194M, on the payment of Rs 65,00,000, since such an amount exceeds Rs 50 lakhs.

Therefore, tax deducted at source would be Rs 1,30,000, being 2% of Rs 65,00,000.

Answer 4 (A):

Computation of taxable capital gains for the A.Y.2025-26

Particulars	Rs	Rs
Sale consideration		1,25,00,000
Less: Expenses incurred for transfer		-
		1,25,00,000
Less: (i) Cost of acquisition		
(a) Cost	8,50,000	
(b) - FMV on 1/4/01	18.2 lakhs	
- SDV on 1/4/01	16.0 lakhs	16,00,000
(ii) Cost of improvement (12-13)		4,00,000
(iii) Cost of improvement (23-24)		3,50,000
Long term capital gains		1,01,50,000

Computation of Total Income & Tax Liability for the A.Y.2025-26

Particulars	Rs	Rs
LTCG u/s 112		1,01,50,000
Income from other sources		10,00,000
Net Taxable Income		1,11,50,000
Computation of Tax Liability		
1. Tax on LTCG u/s 112 [Note-2]		
(a) Tax @ 12.5% without Index [1,01,50,000 x 12.5%]	12,68,750	
(b) Tax @ 20% with Index (note -1) [56,00,914 x 20%]	11,20,183	11,20,183
Whichever is lower		
2. Tax on Balance Income		
Upto 2,50,000	-	
> 2,50,000 upto 5,00,000 5%	12,500	
> 5,00,000 upto 10,00,000 20%	1,00,000	1,12,500
Add: Surcharge @15% since Total Income more than 1 crore		12,32,683
		1,84,902
Add: Health & Education cess @4%		14,17,585
		56,703
Net Tax Liability	i.e.	14,74,289
		14,74,290

Note: 1

Particulars		Amount Rs
Full Value of Consideration		1,25,00,000
Less: Transfer Expenses	—	NIL
Net Consideration		1,25,00,000
Less: Indexed Cost of Acquisition	—	(58,08,0000)
16,00,000 × $\frac{363}{100}$ [F.Y. 2024-25]		
100 [F.Y. 2001-02]		
Less: Indexed Cost of Improvement		
4,00,000 × $\frac{363}{200}$ [F.Y. 2024-25]		
200 [F.Y. 2012-13]		(7,26,000)
3,50,000 × $\frac{363}{348}$ [F.Y. 2024-25]		
348 [F.Y. 2023-24]		(3,65,086)
Long Term Capital Loss		56,00,914

Note: 2

If a Resident Individual or HUF transfers any immovable property acquired before 23rd July, 2024, and the tax calculated on LTCG at the new rate (12.5% without indexation) is higher than the tax calculated at the old rate (20% with indexation), then the excess tax is ignored. In other words, the assessee is required to pay tax at 12.5% without indexation or 20% with indexation, whichever is lower

Answer 4 (B):

As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, inter alia, section 54EC and Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Prince, a senior citizen is required to file return of income, since his total income of 3,90,000 before giving effect to the exemption under section 54EC and deduction of Rs 1,50,000 under Chapter VI-A, exceeds the basic exemption limit of Rs 3,00,000 applicable in his case.