

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.6.2023.

Expected rent = ₹ 75,000 being higher of - Fair rent

= $1,00,000 \times 9 / 12 = ₹ 75,000$

Municipal value

= $72,000 \times 9 / 12 = ₹ 54,000$

Actual rent = ₹ 90,000 (₹ 15,000 p.m. for 6 months from July to December, 2023)

Gross Annual Value = ₹ 90,000 (being higher of Expected Rent of ₹ 75,000 and actual rent of ₹ 90,000).

Question 2

MTP April'22

Mr. Sailesh constructed a house in P.Y. 2017-18 with 3 independent units. During the P.Y. 2023-24, Unit- 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January 2024 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Sailesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2024 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Sailesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 2,88,000 Fair rent - ₹ 2,98,000

Standard rent under the Rent Control Act - ₹ 2,78,000 Municipal taxes - ₹ 30,000 paid by Mr. Sailesh Repairs - ₹ 7,000

Interest on capital borrowed for the construction of the property - ₹ 90,000, Ground rent - ₹ 6,000 and Fire insurance premium paid - ₹ 60,000.

Income of Sailesh from the business is ₹ 2,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Sailesh for the assessment year 2024-25 if he opts to be taxed under section 115BAC.

7 Marks

Answer:

Computation of taxable income of Mr. Sailesh for A.Y. 2024-25

Particulars	Amount	Amount
Income from house property		
Unit - 1 [50% of floor area - Let out]		
Gross Annual Value, higher of		
- Expected rent ₹ 1,39,000 [Higher of Municipal Value of ₹ 1,44,000 p.a. and Fair Rent of ₹ 1,49,000 p.a., but restricted to Standard Rent of ₹ 1,39,000 p.a.]		
-Actual rent ₹ 1,80,000 i.e., [₹ 20,000 × 10] less unrealized rent of January, 2022 ₹ 20,000		
Gross Annual Value	1,80,000	
Less: Municipal taxes [50% of ₹30,000]	15,000	
Net Annual Value	1,65,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	49,500	
(b) Interest on loan [50% of ₹ 90,000]	45,000	70,500



Unit - 3 [25% of floor area - Self occupied]			
Net Annual Value		-	
Less: Interest on loan [Not allowed as Mr. Sailesh is opting for section 115BAC.]		-	-
Income from house property			70,500
Profits and gains from business or profession			
Business Income [without deducting expenditure of Unit - 2 25% floor area used for business purposes]		2,40,000	
Less: Expenditure in respect of Unit -2			
- Municipal taxes [25% of ₹ 30,000]	7,500		
- Repairs [25% of ₹ 7,000]	1,750		
- Interest on loan [25% of ₹ 90,000]	22,500		
- Ground rent [25% of ₹ 6,000]	1,500		
- Fire Insurance premium [25% of ₹ 60,000]	15,000	48,250	1,91,750
Taxable Income			2,62,250

Note:

Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being higher of unexpected rent of ₹ 1,39,000 and actual rent of ₹ 2,00,000. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 15,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,65,000.

Question 3

RTP Nov '20

Ms. Pihu has three houses, all of which are self-occupied. The particulars of these houses are given below:

Particulars	(Value in ₹)		
	House - I	House - II	House-III
Municipal Valuation per annum	1,30,000	1,20,000	1,20,000
Fair Rent per annum	1,10,000	1,85,000	1,45,000
Standard rent per annum	1,00,000	1,90,000	1,30,000
Date of completion	30-01-2005	31-07-2008	31.5.2011
Municipal taxes payable during the year (paid for House II & III only)	12%	9%	10%
Interest on money borrowed for repair of property during current year	-	75,000	-

You are required to compute Pihu's income from house property for the Assessment Year 2024-25 and suggest which houses should be opted by Pihu to be assessed as self-occupied so that her tax liability is minimum.

Answer:

In this case, Pihu has more than two house properties for self-occupation. As per section 23(4), Pihu can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of any two of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the Expected rent would be the gross annual value. Pihu should, therefore, consider the most beneficial option while deciding which house properties should be treated by her as self-occupied.



OPTION 1 [House I & II - Self-occupied and House III- Deemed to be let out]

If House I and II are opted to be self-occupied, Pihu's income from house property for A.Y.2024-25 would be:

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowable].	(30,000)
House III (Deemed to be let-out) [See Working Note below]	82,600
Income from house property	52,600

OPTION 2 [House I & III - Self-occupied and House II- Deemed to be let out]

If House I and III are opted to be self-occupied, Pihu's income from house property for A.Y.2024-25 would be

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) [See Working Note below]	46,940
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	46,940

OPTION 3 [House I - Deemed to be let out and House II & III - Self-occupied]

If House II and III are opted to be self-occupied, Pihu's income from house property for A.Y.2024-25 would be Since Option 3 is more beneficial, Pihu should opt to treat House - II & III as Self-occupied and House I as Deemed to be let out, in which case, her income from house property would be ₹ 40,000 for the A.Y. 2024- 25.-

Particulars	Amount in ₹
House I (Deemed to be let-out) [See Working Note below]	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowable].	(30,000)
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	40,000



Working Note:

Computation of income from House I, II and House III assuming that all are deemed to be let out

Particulars	Amount in Rupees		
	House I	House II	House III
Gross Annual Value (GAV) Expected rent is the GAV of house property Expected rent= Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,85,000	1,30,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	10,800	12,000
Net Annual Value (NAV)	1,00,000	1,74,200	1,18,000
Less: Deductions under section 24			
(a) 30% of NAV	30,000	52,260	35,400
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	75,000	-
Income from deemed to be let-out house property	70,000	46,940	82,600

Question 4

RTP May'21, MTP Oct '23

Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2023-24. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of \$ 18,000. Fair rent of the house property is \$ 20,000. The value of one CYD (\$) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2023, which is used for self-occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during the previous year 2023-24. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2022 for purchasing this flat. No amount is repaid by him till 31.03.2024.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2023-24. Compute the income chargeable from house property of Mr. Roxx for the assessment year 2024-25.

6 Marks**Answer:**

Since Mr. Roxx, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands. Thus, the rental income which accrues or arises in Country Y from the let-out property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Accordingly, the income from house property of Mr. Roxx for A.Y.2024-25 will be calculated as under:

Particulars	₹	₹
1. Self-occupied house at Delhi		
Annual value		Nil
Less: Deduction under section 24	Nil	VG Sir



	Interest on borrowed capital (See Note below)		2,00,000
	Chargeable income from this house property		(2,00,000)
2.	Let out house property at Bangalore		
	Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000	
	Actual rent [40,000 × 12]	4,80,000	
	Gross Annual Value, being higher of expected rent and actual rent		4,80,000
	Less: Municipal taxes		5,400
	Net Annual Value		4,74,600
	Less: Deduction under section 24 - 30% of net annual value [30% × 4,74,600]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	3,92,380
			82,220
	Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)		(1,17,780)

Note: Interest on borrowed capital

Particulars		₹
Interest for the current year [18,00,000 × 9.5%]		1,71,000
Add: 1/5th of pre-construction interest (₹ 2,85,000 × 1/5)		57,000
1.8.2021 to 31.03.2022- (₹ 18,00,000 × 9.5% × 8/12)	1,14,000	
1.4.2022 to 31.03.2023 - (₹ 18,00,000 × 9.5%)	1,71,000	
		2,28,000
Interest deduction allowable under section 24, restricted to		2,00,000



Multiple Choice Questions

Question 1

MTP Oct'21

Mr. Ashutosh purchased his first dream home in Bangalore on 16.8.2023. He applied for home loan of ₹ 40 lakhs from IDFC bank on 15.7.2023, the same was sanctioned by bank on 20.7.2023. The stamp duty value of the said house was ₹ 44 lakhs. The interest due on the said home loan is ₹ 3,75,000 for the financial year 2023-24. Due to liquidity issues, Mr. Ashutosh could only pay ₹ 3,26,000. Compute the total interest deduction Mr. Ashutosh can claim for the A.Y. 2024-25, assuming Mr. Ashutosh doesn't opt for the tax rates under the new scheme.

- (a) ₹ 3,26,000
 (b) ₹ 2,00,000
 (c) ₹ 3,75,000
 (d) ₹ 3,50,000

Question 2

MTP April'19

Ms. Sheetal and her brother jointly own a bungalow. They had taken a housing loan to purchase the bungalow. The loan is sanctioned in the name of Ms. Sheetal and her brother in the year 2020. Interest on housing loan for the P.Y. 2023-24 amounted to ₹4,50,000 which is paid by Ms. Sheetal (₹2,25,000) and her brother (₹2,25,000). The bungalow is used by them for their residence. In this case, what will be the amount of deduction available under section 24(b) to Ms. Sheetal and her brother?

- (a) ₹ 30,000 each
 (b) ₹2,00,000 each
 (c) ₹2,25,000 each
 (d) ₹4,50,000 each

Question 3

MTP Oct'22

Mr. Akash is constructing a residential house property in Patna for self-occupation. He has taken a loan of ₹ 40 lakhs from SBI on 30.3.2023 for this purpose. He pays interest of ₹ 2.50 lakhs during the P.Y.2023-24. He repays ₹ 1.50 lakhs towards principal on 31.3.2024. The construction is completed in May, 2023. The stamp duty value of the house is ₹ 46 lakhs. This is the only house property of Mr. Akash. For A.Y. 2024-25-

- a) Mr. Akash is entitled for deduction of ₹ 2 lakhs under section 24 and ₹ 1.50 lakhs under section 80C
 b) Mr. Akash is entitled for deduction of ₹ 2 lakhs under section 24, ₹ 50,000 under section 80EEA and ₹ 1.50 lakhs under section 80C.
 c) Mr. Akash is neither entitled for deduction under section 24 nor under section 80C. He is, however, entitled for deduction of ₹ 1.50 lakhs under section 80EEA
 d) Mr. Akash is not entitled for deduction under section 24, section 80C and section 80EEA



Question 4

RTP May '19

In respect of loss from house property, which of the following statements are correct?

- While computing income from any house property, the maximum interest deduction allowable under section 24 is ₹ 2 lakhs
- Loss from house property relating to a particular year can be set-off against income under any other head during that year only to the extent of ₹ 2 lakhs
- The loss in excess of ₹ 2 lakh, which is not set-off during the year, can be carried forward for set-off against any head of income in the succeeding year(s)
- All the above

Question 5

RTP Nov '19

Mr. Raghav has three houses for self-occupation. What would be the tax treatment for A.Y.2024-25 in respect of income from house property?

- One house, at the option of Mr. Raghav, would be treated as self-occupied. The other two houses would be deemed to be let out.
- Two houses, at the option of Mr. Raghav, would be treated as self-occupied. The other house would be deemed to be let out.
- One house, at the option of Assessing Officer, would be treated as self-occupied. The other two houses would be deemed to be let out.
- Two houses, at the option of Assessing Officer, would be treated as self-occupied. The other house would be deemed to be let out.

Question 6

RTP May '23

Mr. Virat has a house property in Chennai which he let out to Mr. Sumit. For acquisition of this house, Mr. Virat has taken a loan of ₹ 30,00,000 @10% p.a. on 1-4-2017. He has further taken a loan of ₹ 5 lakhs @12% p.a. on 1.7.2023 towards repairs of the house. He has not repaid any amount of loan so far. The amount of interest deduction u/s 24(b) to Mr. Virat for A.Y. 2024-25 if he opted for the provisions of section 115BAC is -

- ₹ 2,00,000
- ₹ 2,30,000
- ₹ 3,45,000
- ₹ 3,60,000

Question 7

CS Execu..

Nishit was allowed deduction of unrealized rent to the extent of ₹ 1,20,000 in F.Y. 2021-22, although the total unrealized rent during the F.Y. 2021-22 was ₹ 1,60,000. In F.Y. 2022-23 he is able to recover from the tenant ₹ 90,000 on account of such unrealized rent. His Income under the head of House Property for assessment year 2023-24 is :

- ₹ 90,000
- ₹ 63,000
- ₹ 35,000
- ₹ 50,000



Question 8

CS Execu.

Javed borrowed ₹ 5,00,000 @ 12% p.a. on 1st April, 2014 for construction of let out house property whose construction was completed on 15th March, 2020. The loan was repaid on 31st August, 2022. The deduction of interest for previous year 2022-23 shall be :

- (A) ₹ 60,000
(B) ₹ 85,000
(C) ₹ 25,000
(D) ₹ 30,000

Question 9

CS Execu.

Abhinav has three residential house properties, all of which are self-occupied, the annual value of:

- (A) All the house properties shall be computed as if all these are deemed to be let out
(B) All the three house properties shall be Nil
(C) One house property shall be nil and for the other two properties, annual value shall be computed as if these are let out
(D) Two house properties shall be nil and for one house property annual value shall be computed as if it is deemed to be let out

Question 10

CS Execu.

A House owned by Meghna and located at Jaipur was on rent till it was sold out in the month of March, 2021. She received an amount of ₹ 45,000 as arrears of rent from the tenant in the month of February, 2023. The taxable amount of arrears of rent so received by her in A.Y. 2023-24 would be :

- (A) ₹ 31,500
(B) ₹ 22,500
(C) ₹ 45,000
(D) NIL

Answers

1	2	3	4	5	6	7	8	9	10
d	b	d	b	b	c	b	c	d	a



Chapter 3: Profits & Gains from Business Profession

Unit 3

Descriptive Questions

Easy

Question 1

RTP May'19

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	10.04.2021
(2)	6,500	1	15.03.2022
(3)	10,000	3	16.07.2021
(4)	11,000	1	02.01.2022
(5)	15,000	2	29.08.2021
(6)	15,000	1	23.02.2022

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

Answer:

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	02.1.2024	3	3
			55



The presumptive income of Mr. X under section 44AE for A.Y.2024-25 would be -Rs. 6,82,500, i.e., 55 × Rs. 7,500, being for other than heavy goods vehicle + 18 × Rs. 1,000 × 15 ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 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.

Question 2

MTP April '21 & Oct '23

M/s. Moksh Enterprises, a sole proprietorship owns four machines, put in use for business in March, 2022. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2023 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2023 for ₹ 10,00,000. A second-hand plant was bought for ₹ 6,10,000 on 30th December, 2023. You are required to:

- Determine the claim of depreciation for Assessment Year 2024-25.
- Compute the capital gains liable to tax for Assessment Year 2024-25.

If Moksh Enterprises had sold the two machines in July, 2023 for ₹ 15,00,000, explain, will there be any difference in your above workings? **4 Marks**

Answer:

i. Computation of depreciation for A.Y.2024-25

Particulars	₹
W.D.V. of the block as on 1.4.2023	7,70,000
Add: Purchase of second hand plant during the year [in December, 2023]	6,10,000
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2023]	10,00,000
W.D.V of the block as on 31.03.2024	3,80,000
Depreciation @ 15% but restricted to 50% thereon. ₹ 3,80,000 X 7.5% [Since the value of the block as on 31.3.2024 represents part of actual cost of second-hand plant purchased in December, 2023, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000]	28,500

- In the given case, no capital gains would arise, since the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block as increased by the actual cost of asset purchased during the year.
- If the two machines are sold in July, 2023 for ₹ 15,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Sale consideration		15,00,000
Less: W.D.V. of the machines as on 1.4.2023	7,70,000	
Purchase of second plant during the year	6,10,000	
		13,80,000
Short term capital gains		1,20,000



Question 3

MTP April'21 & Nov 19

Mr. Yogesh is in the business of operating goods vehicles. As on 1st April, 2023, he had the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y. 2023-24?
A	9000	2-6-2022	Yes
B	15000	15-5-2022	Yes
C	12000	4-8-2022	No (as under repairs)

During P.Y. 2023-24, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11500	20-4-2023	10-5-2023
E	14000	15-5-2023	18-5-2023

Compute his income under section 44AE of the Income-tax Act, 1961 for A.Y. 2024-25.

4 Marks

Answer:

Since Mr. Yogesh 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. As per section 44AE, ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 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.

Calculation of presumptive income as per section 44AE

Type of carriage	No. of months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount ₹
(1)	(2)	(3)	(4)	(5) [(2) x (3) x (4)]
Heavy goods vehicle Vehicle B (15,000 kgs) held throughout the year	12	₹ 1,000	15 (15,000/1,000)	1,80,000
Vehicle E (14,000 kgs) purchased on 15.5.2020	11	₹ 1,000	14 (14,000/1,000)	1,54,000
Goods vehicles other than heavy goods vehicle		Rate per month		
Vehicle A held throughout the year	12	₹ 7,500	-	90,000
Vehicle C held throughout the year	12	₹ 7,500	-	90,000
Vehicle D purchased on 20.4.2023	12	₹ 7,500	-	90,000
Total				6,04,000

The "put to use" date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Yogesh.



Question 4

MTP Oct'20, RTP May 18

Mr. Abhimanyu has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2024:

Sl. No.	Particulars	₹ (in lakhs)
(I)	Payment made to AB University, an approved University	15
(ii)	Payment made to Soya College	17
(iii)	Payment made to IIT, Madras (under an approved programmed for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2024-25, while computing his income under the head "Profits and gains of business or profession".

4 Marks

Answer:

Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	150% (100%)	22.5 15
Soya College [See Note 1]	17	-	NIL	NIL
IIT Madras (under an approved programme for scientific research)	12	35(2AA)	150% (100%)	18 12
In-house research [See Note 2]				
Capital expenditure - Purchase of Machinery	25	35(1)(iv) row 35(2)	100%	25
Deduction allowable under section 35				65.50 52

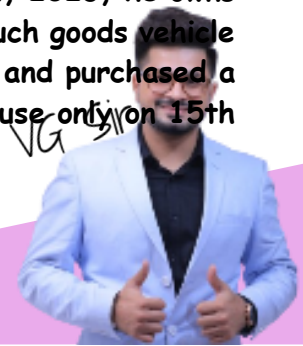
Notes: -

1. Payment to Soya College: Since the Question clearly mentions that AB University (mentioned in item (I)) is approved research institutions, it is logical to conclude that Siya College mentioned in item (ii) is not an approved research institution. Therefore, payment to Siya College would not qualify for deduction under section 35.
2. Deduction for in-house research and development: Only company assesses are entitled to weighted deduction @150% under section 35(2AB) in respect of expenditure on scientific research on in-house research and development facility. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction@100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business. (As per amendment sec 352AA & sec 35(1)(ii) the deduction limit is reduced from 150% to 100%)

Question 5

MTP March'19

Mr. Satinder is engaged in the business of plying goods carriages. On 1 set April, 2023, he owns 10 trucks (out of which 5 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 17,000 kg each). On 5th May, 2023, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 8th May, 2023. This new vehicle could however be put to use only on 15th



July, 2023. Compute the total income of Mr. Satinder for the assessment year 2024-25, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,50,500
Less : Operational expenses	5,25,500	
Depreciation as per section 32	1,85,000	
Other office expenses	17,000	7,27,500
Net Profit		5,23,000
Other business and non- business income		70,000

5 Marks

Answer:

Section 44AE would apply in the case of Mr. Satinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year. Section 44AE provides for computation of business income of such assesses on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assesses in the previous year or such higher sum as declared by the assesses in his return of income. Mr. Santander's business income calculated applying the provisions of section 44AE is ₹13,82,500 [See Notes (1) & (2) below] and his total income would be

₹14,52,500. However, as per section 44AE (7), Mr. Satinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹5,23,000 instead of ₹13,82,500 and his total income would be ₹5,93,000.

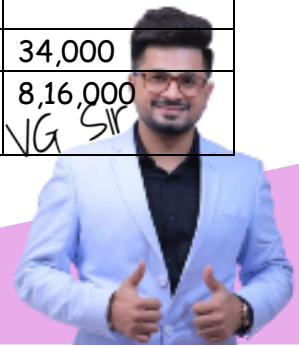
Notes:

1. Computation of total income of Mr. Satinder for A.Y. 2024-25

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note (2) Below]	13,82,500	5,23,000
Other business and non-business income	70,000	70,000
Total Income	14,52,500	5,93,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/per month	Ton	Amount ₹
(1)	(2)		(3)	(1) × (2) × (3) = (4)
Heavy goods vehicle				
1 goods carriage up to 5th May	2	1,000	17 (17,000/ 1,000)	34,000
4 goods carriage held throughout the year	12	1,000	17 (17,000/ 1,000)	8,16,000



Goods vehicle other than heavy goods vehicle				
1 goods carriage from 8th May	11	7,500	-	82,500
5 goods carriage held throughout the year	12	7,500	-	4,50,000
Total				13,82,500

Question 6

MTP March'18

Kapil & Sons, a partnership firm consisting of two working partners, reports a net profit of ₹ 6,00,000 before deduction of the following items:

- (1) Salary of ₹ 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 purchased on 15.7.2013 by a bearer cheque in single payment for ₹ 1,50,000.
- (3) Interest on capital at 18% per annum (as per the deed of partnership). The amount of capital eligible for interest ₹5,00,000

You are required to 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).

5 Marks

Answer:

- (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 partner. Therefore, the book profit shall be as follows:

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

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		6,00,000
Less: Depreciation under section 32 (See note below)	NIL	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	60,000	60,000
Book Profit		5,40,000

Note:

As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on plant and machinery purchased on 15.7.2013 is not allowable since the payment is made otherwise than by A/c payee cheque/ A/c payee draft/ ECS to a person in a day.

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

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -



On the first ₹ 3,00,000 of bookprofit or in case of loss	₹ 1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

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

Particulars	₹
On the first ₹3,00,000 of book profit [(₹1,50,000 or 90% of ₹ 3,00,000) whichever is more.]	2,70,000
On the balance of book profit [60% of (₹ 5,40,000 - ₹ 3,00,000)]	1,44,000
Maximum allowable partners' salary	4,14,000

Hence, allowable working partners' salary for the A.Y. 2018-19 as per the provisions of section 40(b)(v) is ₹ 4,14,000.

Question 7

RTP Nov '18

Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2024-25 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross Profit	20,50,000		
Total	2,71,00,000	Total	2,71,00,000
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	20,50,000	Total	20,50,000

Other information:

- He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2023 to M/s Décor World.
- Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 1962.
- No deduction of tax at source on payment of interest on bank loan has been made.
- Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income. Further, employee's contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

Compute business income of Mr. Chauhan for the Assessment Year 2024-25.



Answer:

Computation of Business Income of Mr. Chauhan for the A.Y. 2024-25

Particulars	₹	₹
Net profit as per Profit and Loss Account		11,50,000
Add: Expenses not deductible		
Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
Provision for bad debts (Refer Note 2)	50,000	
Family planning expenditure incurred on employees (Refer Note 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income-tax (Refer Note 4)	1,00,000	
Employer's contribution to recognized provident fund (Refer Note 5)	25,000	3,25,000
Less: Expense allowed		14,75,000
Depreciation as per Income-tax Rules, 1962 (Refer Note 6)		40,000
Add: Employee's contribution included in income as per Section 2(24)(x) (Refer Note 7)		14,35,000
		25,000
Business Income		14,60,000

Notes:-

- Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction under section 80G from the gross total income.
- Provisions for bad debts is allowable as deduction under section 36(1)(viia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Chauhan.
- Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Chauhan.
- Income-tax paid is not allowable as deduction as per the provisions of section 40(a)(ii).
- Since Mr. Chauhan's contribution (Employer's Contribution) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B, in computing business income of A.Y. 2024-25.
- As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on furniture & fixtures would not be allowed, since payment exceeding ₹ 10,000 (₹ 35,000 in this case) is made in cash. Therefore, no adjustment is required to be made in the amount of depreciation computed as per Income-tax Rules, 1962, since such amount does not include depreciation on furniture & fixtures.
- Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date under the Provident Fund Act.
- TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.



Question 8

RTP May '20

Mr. Chirag, set up a manufacturing unit of Baking Soda in notified backward area of the State of Andhra Pradesh on 18th May, 2023. The following machineries (falling under 15% block) purchased by him during the previous year 2023-24.

		Amount(₹ lakhs)
(i)	Machinery X, Machinery Y and Machinery Z from Sahaj Limited on credit (installed and usage started on 18th July, 2023, 25th July 2023 and 1st August 2023, respectively). Payment is made on 15th April 2024 to Sahaj Limited by net banking.	58
(ii)	Machinery L from Swayam Limited (installed on 8th August, 2023). The Invoice was paid through a cash payment on the same day.	35
(iii)	Machinery M (a second-hand machine) from Sunshine Limited on 18th December, 2023 (The payment for the purchase invoice was made through NEFT on 5th January, 2024)	15

Compute the depreciation allowance under section 32 of the Income-tax Act, 1961 for the assessment year 2024-25.

Answer:

Computation of depreciation under section 32 for A.Y. 2024-25

Particulars	₹	₹
Machinery X, Machinery Y and Machinery Z acquired from Sahaj Ltd. (Since payment is made to Sahaj Ltd by way of use of ECS and the machineries were put to use for more than 180 days during the previous year, depreciation is allowable @15%)		58,00,000
Machinery L acquired from Swayam Ltd. in cash and installed on 8.8.2023 [Since payment of ₹ 35 lakhs is made otherwise than by account payee cheque/bank draft or use of ECS, the said amount will not be included in actual cost and hence, depreciation not allowable]		NIL
Second hand Machinery M from Sunshine Ltd on 18.12.2023 assuming it is installed and put to use in P.Y. 2023-24. [Since payment is made to Sunshine Ltd by way of use of ECS]		
Actual Cost		73,00,000
Depreciation for P.Y.2023-24		
Depreciation@15% on Machineries X, Y and Z on ₹ 58 lakhs	8,70,000	
Depreciation@7.5% (50% of 15%) on ₹ 15 lakhs for Machinery M since it is put to use for less than 180 days	1,12,500	

