

	9,82,500	
Additional Depreciation@35% on ₹ 58 lakhs, since the machinery is acquired and installed for a manufacturing unit set up in a notified backward area in the state of Andhra Pradesh	20,30,000	
Additional depreciation is not allowable on second hand machinery	-	
Depreciation under section 32 for A.Y. 2024-25	30,12,500	

Question 9

RTP Nov '23

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

M/s XY & Co., a partnership firm, is engaged in the business of operating goods vehicles and computes its income on presumptive basis under section 44AE. Since the income is computed under section 44AE, no further deduction of any kind is allowable from the income so computed.

Answer:

The statement is incorrect.

If the income is computed under presumptive taxation under section 44AE, deduction allowable under section 30 to 38 shall be deemed to have been given full effect to and no further deduction shall be allowed. However, in case of firm, salary and interest paid to partners is deductible subject to the conditions and limits prescribed in section 40(b).

Question 10

PYQ Nov'18, RTP Nov '19

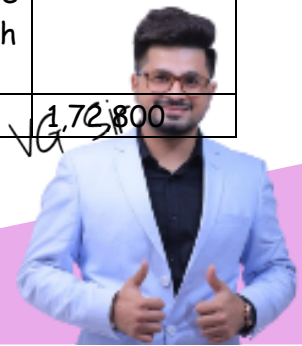
Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21-09-2023, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase. Determine the depreciation allowable on car for the A.Y. 2024-25, if this is the only asset in the block. Rate of depreciation may be taken at 15% If this car were to be used in the subsequent Assessment Year 2025-26 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961. **4 Marks**

Answer:

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2017- 18, full depreciation@15% is allowable on the actual cost of ₹15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2023-24 = $15\% \times ₹15,36,000 \times 75\% =$	1,72,800



Written Down Value as on 1.4.2024 = ₹15,36,000 - ₹1,72,800 = ₹13,63,200	
Depreciation for P.Y.2024-25 = 15% x ₹13,63,200 x 75% =	1,53,360

Note -

As per section 17(5) of the CGST Act, 2017/Delhi GST Act, 2017, input tax credit would not be available in respect of motor vehicles except if they are used for making taxable supply of such vehicles or for transportation of goods or passengers or for imparting training on driving, flying navigating such vehicles. In this case, the question mentions that the car is the only asset in the block. In the absence of any information in the question to the contrary, it is logical to assume that the car is not used for making the above taxable supplies. Accordingly, input tax credit would not be available and hence,

¹As per section 49(4), in case where capital gains arise from subsequent sale of property, which was subject to tax under section 56(2)(x), the value taken into account for the purpose of section 56(2)(x) would be deemed to be the cost of acquisition.

GST would form part of actual cost of car. The above solution has been worked out accordingly. However, input tax credit would be available if it is assumed that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows -

Alternative Answer

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2023-24, full depreciation@15% is allowable on the actual cost of ₹ 12 lakh (exclusive of GST of ₹ 3,36,000), assuming that input tax credit is available in respect of GST.	
Further, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2023-24 = 15% x ₹ 12,00,000 x 75% =	1,35,000
Written Down Value as on 1.4.2014 = ₹ 12,00,000 - ₹ 1,35,000 = ₹ 10,65,000	
Depreciation for P.Y.2024-25 = 15% x ₹ 10,65,000 x 75% =	1,19,813

Question 11

PYQ Jan'21, RTP Nov '19

Mr. Anmol (aged 67 years), a manufacturer, reported a profit of ₹ 3,95,11,290 for the previous year 2023-24 after debiting/crediting the following items:

Debits:

- ₹ 15,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
- ₹35,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
- Interest paid ₹ 1,75,000 on loan taken for purchase of E-vehicle on 15-07-2023 from a bank. The E-vehicle was purchased for the personal use of his wife.
- He has purchased timber under a forest lease of ₹ 25,00,000 for the purpose of business



Credits:

1. Income of ₹ 3,50,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
2. He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2019-20. Amount due from the debtor (which was written off as bad) was ₹ 4,00,000, out of which tax officer had only allowed ₹ 2,50,000 as deduction in computing the total income for assessment year 2020-21.
3. He sold some goods to his brother for ₹ 6,00,000. The fair market value of such goods was ₹ 9,00,000.

Other information:

- 1) Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
- 2) Mr. Anmol purchased a new car of ₹ 14,00,000 on 1st August, 2023 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
- 3) Mr. Anmol had sold a house on 25th March, 2023 and deposited the long term capital gains of ₹ 20,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 11th March, 2024, he sold another house property in which he resided for ₹ 1 crore. He earned a long-term capital gain of ₹ 55,00,000 on sale of this property. On 25th March, 2024, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
- 4) Mr. Anmol also made the following payments during the previous year 2023-24
 - Lump-sum premium of ₹ 1,20,000 paid on 30th March, 2024 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2024 to 29th March, 2029.
 - ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Anmol for the assessment year 2024-25 assuming he does not opt for section 115BAC

14 Marks

Answer:

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

	Particulars	₹	₹	₹
	Income from business or profession			
I	Net profit as per profit and loss account		3,95,11,290	
	Add: Items of expenditure debited but not allowable while computing business income			
	(a) Donation to Gurudwara in cash [not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	15,000		
	(b) Contribution to a university approved and notified u/s 35(1)(ii) for scientific research [Eligible for deduction @100%. Since, 100% of the expenditure is already debited to profit and loss account, no adjustment is required]	-		



	(c) Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,75,000		
	(iii) Sale of goods to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of ₹ 3 lakh]	-	1,90,000	
			3,97,01,290	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	(i) Royalty on patent [Not taxable as business income since Mr. Anmol is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	3,50,000		
	(ii) Bad debt recovered [Actual bad debt is ₹ 1 lakhs i.e., ₹ 4 lakhs less ₹ 3 lakh, being the amount of bad debt recovered. Bad debt written off is ₹ 2.50 lakhs. Bad debt recovered to the extent of ₹ 1.50 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire ₹ 3 lakhs is credited to the profit and loss account, ₹ 1.50 lakhs has to be reduced]	1,50,000	5,00,000	
			3,92,01,290	
	Less: Allowable expenditure			
	7. Depreciation on car [₹ 14 lakh x 15%, since car is put to use for more than 180 days in the P.Y.2021-22]		2,10,000	
				3,89,91,290
II	Capital Gain			
	Long term capital gain on sale of house property		55,00,000	
	Less: Exemption under section 54 [Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit.] [Capital gain of ₹ 20 lakhs in capital gain account scheme is not taxable in P.Y. 2023-24, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹ 80 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of ₹55 lakhs being long- term capital gain on sale of house property during the P.Y.2023-24]		55,00,000	
III	Income from Other Sources			
	Royalty on patent [Taxable as "income from other sources", since he is engaged in business of manufacturing]			
	Gross Total Income			3,93,41,290
	Less: Deduction under Chapter VI-A			
	Deduction under section 80D - Medclaim premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [₹ 1,20,000/6 years, being relevant previous years in which the insurance is in force]	20,000		
	- Preventive health checkup of self and spouse [Preventive health checkup paid in cash allowed to the extent of ₹ 5,000]	5,000	25,000	
	Deduction under section 80EEB [Since the loan is sanctioned by Bank during the P.Y. 2023-24, interest on loan taken for purchase of e-vehicle is allowed to the extent of ₹ 1,50,000]		1,50,000	
	Deduction under section 80G [Donation of ₹ 15,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash]		-	



Deduction under section 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakh]		3,00,000	4,75,000
Total income			3,88,66,290

Computation of tax payable by Mr. Anmol for A.Y.2024-25

Particulars	₹	₹
Tax on total income of ₹ 3,88,66,290		
Up to ₹3,00,000	Nil	
₹3,00,001 - ₹ 5,00,000 [@5% of ₹2 lakh]	10,000	
₹5,00,001 - ₹10,00,000 [@20% of ₹5,00,000]	1,00,000	
₹10,00,001- ₹ 3,88,66,290 [@30% of ₹ 3,78,66,290]	1,13,59,887	1,14,69,887
Add: Surcharge @ 25%, since total income exceeds ₹ 2,00,00,000 but does not exceed ₹ 5,00,00,000		28,67,472
		1,43,37,359
Add: Health and education cess@4%		5,73,494
Total tax liability		1,49,10,853
Less: TCS u/s 206C(1) @ 2.5% on ₹ 25 lakh i.e., timber	62,500	
TCS u/s 206C(1F)@1% of ₹14 lakh i.e., sale of motor car where consideration exceeds ₹10 lakh	14,000	
TDS u/s 194-IA@1% of ₹1 crore i.e., sale of immovable property where consideration is ₹ 50 lakh or more	1,00,000	1,76,500
Tax payable		1,47,34,353
Tax payable (rounded off)		1,47,34,350

Question 12

MTP March '23, RTP July'21

Mr. Samar, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2024 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on Public Provident Fund (PPF) Account	60,000
To General Expenses	75,000	By Interest on Savings Bank Account	20,000
To Electricity Expenses	65,000	By Interest on National Savings Certificates VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		59,81,000

The following other information relates to financial year 2023-24:

- (i) The expenses on Employees' Remuneration & Benefits includes:
- (a) Family Planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.



- (b) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Samar, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.
- (ii) Amount received by Mr. Samar as Employees' Contribution to EPF for the month of February, 2024 - ₹ 10,000 was deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr. Samar. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 25,000 paid to Ms. Annalee on 5th January, 2024 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April, 2023 were as follows:
Professional Books ₹ 90,000 Computers ₹ 35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2023 and was put to use on the same day. The payment was made as under:
- ₹ 18,000 paid in cash at the time of purchase of new furniture on 31.08.2023.
 - ₹ 19,000 paid by account payee cheque on 05.09.2023 as balance cost of new furniture and
 - ₹ 11,000 paid in cash on 31.08.2023 to the transporter as freight charges for the new furniture.
- (vii) Mr. Samar purchased a car on 02.04.2022 for ₹ 3,35,000 for personal use. However, on 30.04.2023 he brought the said car for use in his profession. The fair market value of the car as on 30.04.2023 was ₹ 2,50,000.
- (viii) Mr. Samar made a contribution of ₹ 1,00,000 in his PPF A/c on 31.01.2024.
- (ix) The Gross Professional Receipts of Mr. Samar for P.Y. 2022-23 was ₹ 52,00,000.
- Compute the total income and tax liability of Mr. Samar for A.Y. 2024-25, assuming that he has not opted for payment of tax under section 115BAC.
- Ignore provisions under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income.

14 Marks

Answer:

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

Particulars	₹	₹	₹
Income from business or profession		39,43,000	
Excess of income over expenditure			
Add: Items debited but not allowable while computing business income			
- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assesses / not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	20,000		
- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" ¹ for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Samar's sister-in-law]	Nil		



- Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure / not an expenditure incurred for the purpose of business of Mr. Samar. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	80,000		
- Commission to Ms. Annalee without deduction of tax at source [Mr. Samar would be liable to deduct tax at source on commission since his gross receipts from profession exceeded ₹ 50 lakhs during F.Y.2022-23. Since commission has been paid without deduction of tax at source, hence 30% of ₹ 25,000, being commission paid without deducting tax at source, would be disallowed under section 40(a)(ia) while computing the business income of A.Y.2024-25]	7,500		
- Depreciation as per books of account	90,000	2,45,500	
- Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000		
		41,88,500	
Add: Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Since the amount is not credited to Income and Expenditure Account, the same has to be added for computing business income. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employee's contribution to EPF for February 2024 is deposited after the due date under the relevant Act, no deduction would be available]		10,000	
Less: Depreciation as per Income-tax Rules		41,98,500	
- On Professional Books [₹ 90,000 x 40%]	36,000		
- On Computers [₹ 35,000 x 40%]	14,000		
- On Furniture [₹ 19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an A/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2023 in cash would not be included in the actual cost of furniture]	1,900		

	- On Car [₹ 3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Samar, i.e., ₹ 3,35,000]	50,250	1,02,150	
			40,96,350	
II	Less: Items of income credited but not taxable or taxable under any other head of income			
	- Interest on Public Provident Fund [Exempt]	60,000		
	- Interest on savings bank account [Taxable under the head "Income from other sources"]	20,000	1,01,000	
	- Interest on National Savings Certificates VIII Issue (3rd Year) [Taxable under the head "Income from other sources"]	21,000		
	Income from Other Sources	1,00,000		39,95,350
	Interest on savings bank account	21,000	20,000	
	Interest on National Savings Certificates VIII Issue (3 rd Year)		21,000	41,000
	Gross Total Income			40,36,350
	Less: Deduction under Chapter VI-A Deduction under section 80C			
	Contribution to PPF Interest on NSC (3rd Year) (Reinvested)		1,21,000	



Deduction under section 80D Medical expenses for the treatment of father [Since Mr. Samar's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000]		50,000	
Deduction under section 80TTA Interest on savings bank account to the extent of ₹ 10,000		10,000	1,81,000
Total Income			38,55,350

Computation of tax liability of Mr. Samar for A.Y.2024-25

Particulars	₹	₹
Tax on total income of ₹ 38,55,350		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 - ₹ 10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 38,55,350 [@30% of ₹ 28,55,350]	8,56,605	
		9,69,105
Add: Health and education cess@4%		38,764
Tax liability		10,07,869
Tax liability (rounded off)		10,07,870

Question 13

RTP Nov 18

You are required to compute the total income and tax liability of Mr. Anoop, a resident individual aged 55 years, for the Assessment Year 2024-25 from the following information shown in his Profit and Loss Account for the year ended 31st March 2024:

- 1) The net profit was ₹ 8,40,000.
 - 2) Depreciation debited in the books of account was ₹ 1,05,000.
 - 3) The following incomes were credited in the Profit & Loss Account :
 - a. Interest on notified government securities ₹ 32,000
 - b. Dividend from a foreign company ₹ 28,000.
 - c. Gold chain worth ₹ 78,000 received as gift from his mother.
 - 4) Interest on loan amounting to ₹ 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2023.
 - 5) General expenses included:
 - (a) An expenditure of ₹ 18,500 which was paid by a bearer cheque.
 - (b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.
- Additional Information:**
- 6) Depreciation allowable as per Income-tax Act, 1961 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].
 - 7) He contributed the following amounts by cheque:
 - (a) ₹ 48,000 in Sukanya Samridhi Scheme in the name of his minor daughter Anya.
 - (b) ₹ 23,000 to the Clean Ganga Fund set up by the Central Government.



- (c) ₹ 28,000 towards premium for health insurance and ₹ 2,500 on account of preventive health check up for self and his wife.
- (d) ₹ 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

Answer:

Computation of total income of Mr. Anoop for the Assessment Year 2024-25

Particulars	₹	₹	₹
Profits and gains from business or profession			
Net profit as per profit and loss account		8,40,000	
Less: Income credited to profit and loss account but not taxable under this head Interest on notified government securities	32,000		
Dividend from foreign company	28,000		
Gift of gold chain received from his mother	78,000	1,38,000	
Add: Depreciation debited in the books of account		7,02,000	
		1,05,000	
		8,07,000	
Add: Expenses debited to profit and loss account but not allowable as deduction		1,00,500	
Interest on capital borrowed for purchase of plant & machinery [As per the proviso to section 36(1)(iii), the interest on loan borrowed for purchase of new asset which is not put to use upto 31.3.2014 not allowable as deduction. The said amount has to be added to the cost of the asset ⁴ . Since the amount has been debited to profit and loss account, it has to be added back].	82,000		
Expenditure in excess of ₹ 10,000 paid by bearer cheque to be disallowed as per section 40A(3)	18,500		
Compensation paid to an employee on termination of his services in the business unit is allowable on the grounds of commercial expediency. Hence, no disallowance is attracted	-		
Less: Depreciation allowable under the Income-tax Act, 1961 [Depreciation on new plant & machinery would not be allowed, since it was not put to use during the previous year 2023-24]		9,07,500	7,91,500
Income from Other Sources			
Interest on notified Government Securities, exempt under section 10(15)		-	
Dividend from foreign company [(not exempt under section 10(34))]		28,000	



Gift of gold chain received from his mother is not taxable, since mother is a relative [clause (I) of proviso to section 56(2)(x)]		-	28,000
Gross Total Income			8,19,500
Less: Deductions under Chapter VI-A			1,31,000
Under section 80C			
Deposit in Sukanya Samridhi Scheme		48,000	
Under section 80D			
Medical insurance premium			
Self and wife ₹ 28,000 + ₹ 2,500 preventive health checkup, subject to a maximum of	25,000		
Medical expenses of father, being a very senior citizen, ₹ 35,000, since there is no insurance policy in his name, restricted to ₹ 30,000 as per amendment the limit is increased to ₹ 50,000	35,000	60,000	
Under section 80G			
Donation to Clean Ganga Fund (qualifies for 100% deduction)		23,000	
Total Income			6,88,500
Tax on total income @ 5% on ₹ 2,50,000 (₹ 5,00,000 less ₹ 2,50,000, being the basic exemption limit) plus @20% on ₹ 1,88,500 (in excess of ₹ 5,00,000)			50,200
Add: Education cess @2%			1024
Add: Secondary and higher education cess @1%			512
Add: EC & SHEC @4%			2008
Tax Payable			52,208
Tax Payable (rounded off)			52,200

Question 14

RTP Nov '19

Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31st March, 2024 is as follows:

Income and Expenditure account for the year ending 31st March, 2024

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By Share of Profit from HUF	55,000
To Depreciation	87,500	By Interest on bank fixed deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		



To Excess of income over Expenditure	49,25,500		
	59,06,000		59,06,000

The following other information relates to the financial year 2023-24:

- (1) Salary includes a payment of ₹ 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month.
- (2) Written down value of the assets as on 1st April, 2023 are as follows: Motor Car (25% used for personal use) ₹ 3,50,000 Furniture and Fittings ₹ 80,000
- (3) Medical expenses include:
 - Family planning expenditure ₹ 15,000 incurred for the employees which was revenue in nature.
 - Medical expenses for his father ₹ 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). ₹ 2,500 incurred in cash and remaining by credit card.
- (4) The computer was purchased on 5th June, 2023 on credit. The total invoice was paid in the following manner:
 - ₹ 18,000 paid in cash as down payment on the date of purchase.
 - Remaining amount was paid through account payee cheque on 10th August, 2023.
- (5) Bonus was paid on 30th September, 2023.
- (6) General expenses include commission payment of ₹ 42,000 to Mr. Mahesh for the promotion of business on 17th September, 2023 without deduction of tax at source.
- (7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15th November, 2023. The market value of the coins on the said date was ₹ 85,000.

The consultancy fees for the previous year 2022-23 was ₹ 52,50,300.

Compute the total income and the tax liability of Mr. Manohar for the assessment year 2024-25.

Answer:

Computation of Total Income of Mr. Manohar for the A.Y.2024-25

Particulars	₹	₹
Profit and gains from business or profession		
Net income as per Income and Expenditure Account		49,25,500
Add: Expenses debited but not allowable		
- Excess salary of ₹ 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' under section 2(41)]	-	
- Motor car expenses attributable to personal use not allowable (₹ 88,000 × 25%)	22,000	
- Depreciation as per books of account	87,500	
- Medical expenses of ₹ 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	
- Medical expenditure of ₹ 55,000 incurred for his father, not allowable, since it is personal in nature]	55,000	
- Purchase of computer (not allowable since it is capital in nature)	90,000	



- Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 30.9.2023)	-	
[For the P.Y.2022-23 the gross receipts i.e., fees of Mr. Manohar from consultancy services are ₹ 58 lakhs (exceeding ₹ 50 lakhs), he has to get his books of account audited under section 44AB, in which case, his due date for filing return of income would be 30.9.2023 (as per amendment 31 st Oct from AY 22-23)]		
- Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source under section 194-H on commission paid during the P.Y.2023-24, since his gross receipts from profession during the P.Y.2022-23 exceeded the monetary limit specified in section 44AB i.e., ₹ 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission]	12,600	2,82,100
Less: Income credited but not taxable or taxable under any other head		52,07,600
- Share of profit from HUF (Exempt)	55,000	
- Interest on bank fixed deposit	25,000	
- Interest on income-tax refund	26,000	
		1,06,000
		51,01,600
Less: Depreciation allowable under the Income-tax Act, 1961 [See Working Note]		76,175
- Income from Other Sources		50,25,425
- Interest on bank fixed deposits	25,000	
- Interest on income-tax refund	26,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable under section 56(2)(x), as the fair market value of such coins exceeds - ₹ 50,000)	85,000	1,36,000
Gross Total Income		51,61,425
Less: Deduction under Chapter VI-A		
Section 80D Medical expenses for father (Deduction allowable to the extent of ₹50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy)		50,000
Total Income		51,11,425
Total Income (Rounded off)		51,11,430

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

Particulars	₹	₹
Tax on total income of ₹ 51,11,430		
Up to ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000	



Above ₹ 10,00,001 i.e., 41,11,430 @30%	12,33,429	13,45,929
Add: Surcharge @10% [Since his total income exceed ₹ 50,00,000]		1,34,593
Less: Marginal Relief:		14,80,522
Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of ₹ 50 lakhs]	1,68,022	
Amount of income in excess of ₹ 50,00,000	1,11,430	56,592
		14,23,930
Add: Health & Education cess@4%		56,957
Tax liability		14,80,887
Tax liability (rounded off)		14,80,890

Working note:**Computation of depreciation allowable as per Income-tax Act, 1961**

Particulars	₹
On Motor Car	
₹ 3,50,000 × 15% × 75%	39,375
On Furniture and fittings	
₹ 80,000 × 10%	8,000
On Computer	
₹ 72,000 × 40% [Actual cost of the computer is ₹ 72,000 (i.e., ₹ 90,000 - ₹ 18,000). ₹ 18,000 paid otherwise than by way of account payee cheque/bank draft or use of ECS is not includible in actual cost.	28,800
	76,175

Question 15

RTP Nov'22

Mr. Kamal, having business of manufacturing of consumer items and other products, gives the following Trading and Profit & Loss Account for the year ended 31.03.2024:

Trading and Profit & Loss Account

Particulars	₹	Particulars	₹
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		



Miscellaneous expenses	7,88,475		
Net profit of the year	50,85,000		
	66,66,000		66,66,000

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

- (i) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- (ii) Bonus to staff includes an amount of ₹ 7,500 relating to P.Y. 2022-23, paid in the month of December 2023.
- (iii) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (iv) Miscellaneous expenses include:
 - (a) amount of ₹ 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - (b) amount of ₹ 1,00,000 paid to Political Party by cheque.
- (v) Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- (vi) Mr. Kamal had purchased a warehouse building of ₹ 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2023 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (vii) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000.
- (x) Interest on loans includes an amount of ₹ 80,000 paid to Mr. X, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Kamal for the A.Y. 2024-25 in a most beneficial manner.

Answer:

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

Particulars		₹
Net profit as per profit and loss account		50,85,000
Less:	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"	30,000
Add:	Expenses either not allowable or to be considered separately but charged in the profit & loss account	50,55,000
	- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 2)	2,500
	- Payment made to political party by cheque (See Note 4)	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 (See Note 5)	5,300
	- Depreciation as per books	1,07,250
	- 30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
		52,94,050
Less:	Depreciation allowable as per Income-tax Act, 1961	65,000

VG Sir



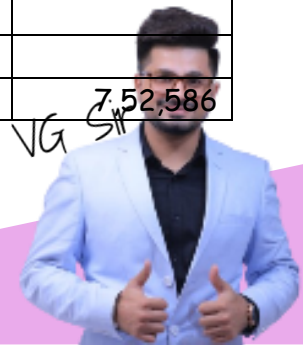
Less:	Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately		52,29,050
			22,50,000
	Income from business (other than specified business)		29,79,050
	Computation of income/ loss from specified business		
	Income from specified business	₹22,50,000	
	Less: Deduction under section 35AD @ 100% of ₹ 20 lakhs (See Note 6)	₹20,00,000	
	Income from specified business		2,50,000
	Profits and gains from business or profession		32,29,050
	Income from Other Sources		
	Interest on income-tax refund		4,570
	Gross Total Income		32,33,620
Less:	Deduction under section 80GGC		
	Contribution to Political Party (See Note 4)		1,00,000
	Total Income		31,33,620

Notes -

- Bonus for the previous year 2022-23 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2022 -23. However, when the same has been paid in December 2023, it should be allowed as deduction in the P.Y.2023-24 (A.Y.2024-25). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- The penalty of ₹ 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- 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.
- 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.

Computation of tax liability of Mr. Kamal for A.Y. 2024-25 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 31,33,620		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 - ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 31,33,620 [@30% of ₹ 21,33,620]	6,40,086	7,52,586



Add: Health and education cess@4%		30,103
Total tax liability		7,82,689
Total tax liability (rounded off)		7,82,690

Computation of adjusted total income and AMT of Mr. Kamal for A.Y. 2024-25

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		31,33,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [₹ 20 lakhs x 10%]	(2,00,000)	18,00,000
Adjusted Total Income		49,33,620
Alternative Minimum Tax@18.5%		9,12,720
Add: Health and education cess@4%		36,509
Total tax liability		9,49,229
Total tax liability (rounded off)		9,49,230

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 ₹ 9,49,230.

Computation of total income of Mr. Kamal as per section 115BAC for A.Y. 2024-25

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		32,33,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation on building [₹ 20 lakhs x 10%]	(2,00,000)	18,00,000
Gross Total Income/Total Income as per section 115BAC		50,33,620
[No deduction under Chapter VI-A allowable]		

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 50,33,620		
Upto ₹ 2,50,000 ₹ 3,00,000 Nil	Nil	
₹ ₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%]	15,000	
₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%]	30,000	
₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%]	45,000	
₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%]	60,000	
Above ₹ 15,00,000 @30%	10,60,086	12,10,086

Computation of marginal relief

Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]	1,21,008
	13,31,094
Less: Marginal relief (See computation below)	97,474
	12,33,620
Add: Health and education cess@4%	49,345
Total tax liability	12,82,965
Total tax liability (Rounded off)	12,82,970



Notes:

- (1) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) An individual exercising option u/s 115BAC is not liable to alternate minimum tax u/s 115JC. Since the tax liability of Mr. Kamal under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him not to opt for section 115BAC for A.Y. 2024-25. 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	9,49,230
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,82,690
	1,66,540

Question 16

RTP Nov '23

AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2024, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

	₹
(i) Current year revenue expenditure on scientific research	2,40,000
(ii) Unabsorbed capital expenditure on scientific research relating to P.Y. 2020-21	85,000
(iii) Brought forward business loss of A.Y. 2015-16	40,000
(iv) Unabsorbed depreciation of A.Y. 2012-13	52,000
(v) Current year depreciation under section 32	4,70,000
(vi) Brought forward business loss of A.Y. 2019-20	49,000
(vii) Current year capital expenditure on scientific research	3,45,000

You are required to compute the total income of AB Light LLP for A.Y. 2024-25 after considering the above items. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

Answer:**Computation of total income of AB Light LLP for the A.Y. 2024-25**

Particulars		Amount (₹)
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000
Less: Expenditure allowable from business income		
-Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 15,00,000 × 12% × 2)	3,60,000	

