

Less: Indexed cost of acquisition [ $\text{₹ } 2,00,000 \times 331/200$ ]	<u>3,31,000</u>
Less: Exemption u/s 54F	6,67,000
Deposit in Capital Gains Accounts Scheme on or before the due date of filing return of income would be deemed to be cost of new asset. Accordingly, exemption u/s 54F would be $\text{₹ } 3,34,168$ [ $\text{₹ } 5,00,000 \times \text{₹ } 6,67,000 / \text{₹ } 9,98,000$ ]	<u>3,34,168</u>
Capital Gains chargeable to tax	<u>3,32,832</u>

**(ii) Tax treatment of unutilized amount in Capital Gains Accounts Scheme**

The unutilized amount will be chargeable to tax as capital gains on proportionate basis in the previous year in which the 3 years period from the date of transfer expires. In this case, the 3-year period from 17.5.2022 expires on 16.5.2025. Consequently, the proportional capital gains on the unutilized amount will be taxable in the A.Y. 2026-27, relevant to the P.Y. 2025-26.

The amount of capital gains for A.Y. 2026-27 would be  $\text{₹ } 33,416$  [ $\text{₹ } 3,34,168 - \text{₹ } 3,00,752$  ( $\text{₹ } 4,50,000 \times \text{₹ } 6,67,000 / \text{₹ } 9,98,000$ )]

**Question 30**

CS Execu. June'11

**Distinguish between Cost of Acquisition and Cost of Improvement.****3 Marks****Answer:**

Cost of acquisition of an asset is the value which was paid by the assessee. It includes expenses/commission paid on purchase and interest on money borrowed to purchase the asset.

Cost of improvement is capital expenditure incurred by the assessee in making additions and improvement, which enhance capital value of asset.

**Question 31**

CS Execu. Dec'23

Ajay, a property dealer, entered into an agreement with Mukesh to sell a plot on 6th April, 2023 for ₹ 55 lakh. He received an advance of ₹ 12 lakhs from him on the date of agreement by account payee cheque. Transfer took place on 12th September, 2023. The Valuation determined by the stamp valuation authority on the date of agreement and date of transfer was ₹ 59 Lakhs and ₹ 63 Lakhs, respectively. Mukesh has sold this plot to Deepti on 24th March, 2024 for 65 Lakhs.

The valuation as per stamp valuation authority was ₹ 64 Lakhs on 24th March 2024.

Discuss the tax consequences of above, in the hands of Ajay and Mukesh. Also compute the capital gain in the hands of Mukesh. Note: none of the parties viz. Ajay, Mukesh and Deepti are related to each other the transactions are between outsiders.

**Answer:**

Computation of Capital Gain of Mukesh

Sales consideration (On 24.03.2024)	65,00,000
Less: Cost of Acquisition (On 12.09.2023)	55,00,000
Short Term Capital Gain	10,00,000

Note: Since difference in purchase/sale price is within 110% of stamp duty value, there is no additional tax liability on Ajay, Mukesh and Deepti.



## Multiple Choice Questions

**Question 1**

MTP Oct'19

Neha sold her residential house for ₹85 lakhs on 11.08.2023. Value adopted by the Stamp Valuation Authority on the date of registration of the Conveyance Deed i.e., 17.08.2023 was ₹150 lakhs. Neha disputed the valuation done by the said authority before the Assessing Officer and filed an application before him to refer her case to the Valuation Officer. The Valuation Officer determined the value of the house on date of registration of Conveyance Deed at ₹160 lakhs. In light of these facts, compute the full value of consideration to be taken in case of Neha for the purpose of calculation of capital gains in her hands.

- a) ₹85 lakh
- b) ₹150 lakh
- c) ₹160 lakh
- d) ₹89.25 lakh

  
  
  

**Question 2**

MTP Oct'19

Suman is a Chartered Accountant practicing in Mumbai since September, 1994. She transfers her practice to another Chartered Accountant Smita on 19.06.2023 and charges ₹14,50,000 towards goodwill. Determine the tax implications that may arise in the hands of Neha on account of transfer of her practice to Smita.

- a) ₹14,50,000 shall be charged to tax as capital gains
- b) ₹14,50,000 shall be charged to tax as income from other sources
- c) ₹14,50,000 shall be charged to tax as income from profession
- d) No tax implications shall arise

  
  
  

**Question 3**

MTP April'19

XYZ a partnership firm was dissolved on 30-6-2023. A machine acquired on 1-5-2016 for ₹2,50,000 was distributed amongst the partners on dissolution for ₹2,25,000. The value of machinery as per books of account and Fair Market Value on 30-6-2023 was ₹2,00,000 and ₹3,50,000, respectively. What will be the full value of consideration of this machine?

- (a) ₹2,25,000
- (b) ₹3,50,000
- (c) ₹2,50,000
- (d) ₹2,00,000

  
  
  



**Question 4**

MTP April'19

Mr. Vicar sold his old residential house in May, 2022 for ₹25,00,000. Long-term capital gain arising on transfer of old house amounted to ₹8,70,000. In December, 2022 he purchased another residential house worth ₹4,50,000. The new house was however, sold in May, 2023 for ₹14,00,000 (stamp duty value of the new house was ₹13,00,000). What will be amount of taxable capital gains in the hands of Mr. Vikram for the A.Y. 2023-24 and 2024-25?

- Long term capital gain of ₹4,20,000 in A.Y. 2023-24 and short-term capital gain of ₹14,00,000 in A.Y. 2024-25
- Long term capital gain of ₹4,20,000 in A.Y. 2023-24 and long term capital gain of ₹4,50,000 and short-term capital gain of ₹14,00,000 in A.Y. 2024-25
- Long term capital gain of ₹4,20,000 in A.Y. 2023-24 and long term capital gain of ₹4,50,000 and short-term capital gain of ₹9,50,000 in A.Y. 2024-25
- Long term capital gain of ₹4,20,000 in A.Y. 2023-24 and long term capital gain of ₹4,50,000 and short-term capital gain of ₹8,50,000 in A.Y. 2024-25

**Question 5**

MTP March'19

Ms. Jaya acquires 5,000 equity shares on 01.01.2016 at ₹500. The Fair Market Value of the said share on 31.01.2018 is ₹250 and on 31.03.2018 is ₹600. She sells the said shares on 30.04.2018 at ₹700. Calculate the amount of long term capital gain in the hands of Ms. Jaya assuming that Securities Transaction Tax has been paid by her on acquisition and transfer of the said equity share.

CII - F.Y. 2015-16: 254; F.Y. 2018-19: 280; F.Y. 2023-24-348

- ₹10 lakhs, out of which ₹9 lakhs is taxable@10%
- ₹22.50 lakh, out of which ₹21.5 lakh is taxable@10%
- ₹7.45 lakh, out of which ₹6.45 lakh is taxable @10%
- ₹5 lakhs, out of which ₹4 lakhs is taxable@10%

**Question 6**

MTP March 22

In P.Y. 2023-2024, Mr. A has transferred the following assets:

Asset transferred	Full Value of Consideration (₹)	Indexed Cost of Acquisition (₹)	Transfer Date
Residential house property	8 crores	6 crores	25.11.2023
Jewellery	3 crores	2 crores	05.01.2024

Mr. A bought a new residential house property on 01.04.2022 for ₹ 1 crore and on 28.02.2024 deposited ₹ 3 crores in a capital gains deposit account scheme. On 30.07.2024, Mr. A has withdrawn ₹ 3 crores from capital gains deposit account and acquired a residential house property worth ₹ 2.5 crore. What would be the capital gains in the hands of Mr. A for A.Y. 2024-25, if the expenses in connection with transfer of jewellery were ₹ 2,00,000?

- ₹ 80,50,000
- ₹ 81,55,705
- ₹ 98,00,000
- ₹ 48,00,000



**Question 7**

MTP March '19

The following information is available with respect to Tina:

Capital Asset acquired on 01.04.2001 for ₹85,200

The capital asset was converted into stock-in-trade on 30.09.2022. On the said date, the fair market value of the said asset was ₹6,00,000.

The stock-in-trade so converted was sold on 15.07.2023 for ₹8,50,000. Determine the tax implications in the hands of Tina for A.Y. 2024-25.

Cost Inflation Index Financial year 2001-02: 100, 2022-23: 331, 2023-24: 348]

- Only business profits of ₹2,50,000 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
- Only long term capital gain of ₹6,11,440 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
- Business profits of ₹2,50,000 and long term capital gain of ₹3,61,440 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
- Business profits of ₹2,50,000 and long term capital gain of ₹3,17,988 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.

**Question 8**

RTP May '20

Mr. Rana is a resident of India residing in Meerut. During F.Y. 2010-11 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2018 -19, Mr. Rana sold this land to Mr. Jeet for ₹ 25 lacs on 29.1.2019. Mr. Rana invested ₹ 5 lakhs in bonds of NHAI on 31.7.2019. Cost inflation index for F.Y. 2010-11 and F.Y. 2018-19 is 167 and 280 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2019-20:

- ₹ 3,23,353
- ₹ 8,23,353
- ₹ 10,00,000
- None of the above

**Question 9**

RTP Nov '20, MTP April '23

Mr. A, aged 45 years sold an agricultural land for ₹ 52 lakhs on 04.10.2023 acquired at a cost of ₹ 49.25 lakhs on 13.09.2022 situated at 7 kms from the jurisdiction of municipality having population of 4,00,000 and also sold another agricultural land for ₹ 53 lakhs on 12.12.2023 acquired at a cost of ₹ 46 lakhs on 15.02.2022 situated at 1.5 kms from the jurisdiction of municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for the assessment year 2024-25? Cost inflation index for F.Y. 2017-18: 272; 2018-19: 280; 2019-20:289; F.Y. 2023-24- 348.

- Short-term capital gain of ₹ 9.75 lakhs
- Short-term capital gain of ₹ 7 lakhs
- Long-term capital gain of ₹ 4,12,500
- Long-term capital gain of ₹ 5,29,196



**Question 10**

RTP May '21, MTP Oct '23

Mr. Vikas transferred 600 unlisted shares of XYZ (P) Ltd. to ABC (P) Ltd. on 15.12.2023 for ₹ 3,50,000 when the market price was ₹ 5,15,000. The indexed cost of acquisition of shares for Mr. Vikas was computed at ₹ 4,25,000. Determine the income chargeable to tax in the hands of Mr. Vikas and ABC (P) Ltd. in respect of the above transaction.

- ₹ 90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- ₹ 75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- ₹ 90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.
- ₹ 75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.

**Question 11**

RTP Nov '21

A building was acquired on 1.4.1995 for ₹ 20,00,000 and sold for ₹ 80,00,000 on 01.06.2023. The stamp duty value on the date of transfer was ₹ 85,00,000. The fair market value of the building on 1.4.2001 was ₹ 25,00,000. Its stamp duty value on the same date was ₹ 22,00,000. Determine the capital gains on sale of such building for the A.Y. 2024-25? Cost Inflation Index for F.Y. 2001-02: 100; F.Y. 2023-24: 348

- ₹ 3,44,000
- ₹ 18,78,000
- ₹ 9,75,000
- ₹ 4,75,000

**Question 12**

RTP May '20

Mr. Rana is a resident of India residing in Meerut. During F.Y. 2015-16 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2023-24, Mr. Rana sold this land to Mr. Jeet for ₹ 25 lacs on 29.1.2024. Mr. Rana invested ₹ 5 lakhs in bonds of NHAI on 31.7.2024. Cost inflation index for F.Y. 2015-16 and F.Y. 2023-24 is 254 and 348 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2024-25:

- ₹ 3,23,353
- ₹ 8,23,353
- ₹ 10,00,000
- None of the above



**Question 13**

RTP May '22

Ashiyana Developers has completed one of its housing projects in Gurugram in January, 2023 which comprises of 10 residential units. It has transferred 9 residential units in February, 2023 and remaining one residential unit in May, 2023 to Mr. Suraj. All the units were transferred by way of first time allotment. The consideration received from Suraj for the residential unit is ₹ 50 lakhs while the stamp duty value of the unit in May, 2023 is ₹ 57 lakhs. Due to some emergency in the family, Mr. Suraj was in urgent need of funds and he sold such residential unit to Mr. Prakash in December, 2023 for ₹ 53 lakhs. The stamp duty value of the unit was ₹ 61 lakhs in December, 2023. Determine the capital gain/ income which is chargeable to tax in the hands of Mr. Suraj and Mr. Prakash from the above transactions for A.Y. 2024-25.

- In the hands of Mr. Suraj - STCG of ₹ 11 lakhs; In the hands of Mr. Prakash - ₹ 8 lakhs as income under the head "Other sources"
- In the hands of Mr. Suraj - ₹ 7 lakhs as income under the head "Other sources", STCG of ₹ 4 lakhs; In the hands of Mr. Prakash - ₹ 8 lakhs as income under the head "Other sources"
- In the hands of Mr. Suraj - STCG of ₹ 11 lakhs; In the hands of Mr. Prakash - Nil
- In the hands of Mr. Suraj - ₹ 7 lakhs as income under the head "Other sources", STCG of ₹ 11 lakhs; In the hands of Mr. Prakash - ₹ 8 lakhs as income under the head "Other sources"

**Question 14**

RTP Nov '20

Mr. Arjun holding 1000 shares of X Ltd acquired on 01.07.2022 for ₹ 600 per share, sold 500 shares to Mr. Shaurya, on 01.05.2023 for ₹ 550 per share. X Ltd. declared dividend @ ₹ 65 per share on 20.07.2023, being the record date for declaration of dividend. Mr. Shaurya sold 300 equity shares at ₹ 475 per share on 28.09.2023 and the balance 200 equity shares at ₹ 450 per share on 28.10.2023. Apart from above mentioned information, Mr. Shaurya was having only long-term capital gains from sale of unlisted shares of ₹ 50,000. Assuming that Mr. Shaurya has no other income, his total income for A.Y. 2024-25 is -

- ₹ 7,500
- ₹ 27,000
- ₹ 50,000
- ₹ 30,000

**Question 15**

RTP Nov '23

Mr. Kashyap, CEO of SHY Ltd., purchased a BMW of ₹ 1.15 crores on 23rd September, 2020 for his personal use. On 28.2.2024, he sold this car for ₹ 1 crore and incurred an expenditure of ₹ 2.74 lakhs for transferring the ownership of car. Compute the taxable capital gain/loss, if any to Mr. Kashyap for the A.Y. 2024-25. CII-2020-21: 301; 2022-23: 331; 2023-24: 348

- Short term capital loss of ₹ 0.1774 crores
- Long term capital loss of ₹ 0.3445 crores
- Nil
- Long term capital loss of ₹ 0.317 crores



**Question 16**

CS Execu.

Kirti acquired a house property on 25th July, 2016 for ₹ 8,00,00. On 15<sup>th</sup> June, 2022 she became a partnership firm. On this day, she transferred this property to partnership firm as her capital contribution. The fair market value of the property as on 15th June, 2022 was ₹ 20,00,000, but it was recorded in the books of account of the firm at ₹ 18,00,000. Compute capital gain chargeable to tax in the hands of Kirti for the assessment year 2023-24?  
(Cost inflation index for F.Y. 2015-16 = 240, 2016-17 = 254 and 2022-23 = 317)

- (A) LTCG ₹ 8,01,575  
(B) LTCG ₹ 10,01,575  
(C) LTCG ₹ 7,43,333  
(D) Not Taxable

**Question 17**

CS Execu.

If new agricultural land purchased for which exemption was claimed u/s 54B is transferred within 3 years then.

- (A) Capital gain exempt u/s 54B earlier shall be separately taxable as capital gains  
(B) Capital gain exempt u/s 54B earlier shall be added to the cost of acquisition of new house property  
(C) Capital gain exempt u/s 54B earlier shall be reduced from cost of acquisition of new house property  
(D) The entire capital gain on new transfer shall be taxable

**Question 18**

CS Execu.

Which out of the following is the capital asset?

- (A) A maruti dealer holding cars for sale  
(B) A maruti dealer has Honda city car for his personal use  
(C) Jewellery held by a jeweller for his personal use  
(D) Jewellery held by a jeweller which has been held as SIT

**Question 19**

CS Execu.

Shanthi sold a vacant land for ₹ 2 crores on 18th June, 2021. The cost of acquisition of land was ₹ 25 lakhs in the year 2009-10. She deposited 90 lakhs in RECL bonds in October 2021. The amount of capital gain liable to tax after deduction under sec. 54EC is (Assessee has not opted form section 115BAC). Indexation F.Y. 2021-22 = 317. F.Y. 2009-10 = 148

- (A) ₹ 56,45,270  
(B) ₹ 86,45,270  
(C) ₹ 1,46,45,270  
(D) ₹ 96,45,270

**Question 20**

CS Execu.

Ganesh incurred short term capital loss of ₹ 80,000 on sale of shares during the previous year 2022-23 through the national stock exchange. Such loss can be :

- (A) Set off against short term capital gain  
(B) Set off against short term and long term capital gain  
(C) Not be allowed to set off  
(D) Set off against long term capital gains



**Answers**

1	2	3	4	5	6	7	8	9	10
b	d	b	a	a	b	d	d	b	c
11	12	13	14	15	16	17	18	19	20
a	d	a	b	c	a	a	c	d	c

CA VIVEK GABA



## Descriptive Questions

Easy

## Question 1

MTP Aug'18

Examine the taxability or otherwise of the following independent transactions as per the provisions of section 56 of the Income-tax Act, 1961 for the Assessment year 2024-25.

- (i) Mrs. Meenakshi has received cash gifts aggregating of ₹ 2 lakhs from several friends and relatives on her birthday. Each cash gift ranges from ₹ 500 to ₹ 1,000.
- (ii) Mr. Krishna has received an immovable property, the stamp duty value of which is ₹ 10 lakhs as per a WILL executed by Mrs. Chandraben on her death.
- (iii) Mr. King has received an immovable property at Kilkanur Village from Mr. Prince as a gift. The stamp duty value of the property is ₹ 75,000
- (iv) Mrs. Vijay has gifted diamonds valued at ₹ 1 lakh to Mrs. Preethi, her sister's daughter-in-law on her birthday.

4 Marks

Answer:

S. No	Taxable	Reason
(i)	Taxable	As per Sec 56(2)(x), where any person receives, in any previous year from any person or persons, any sum the aggregate value of which exceeds ₹ 50,000, the whole of the aggregate value of such sum shall be included in the total income of such person under the head "Income from other sources". Though the gifts range from ₹ 500 to ₹ 1000, the aggregate value exceeds ₹ 50,000. Hence, ₹ 2 lakhs are taxable in her hands.
(ii)	Not taxable	Immovable property received by Mr. Krishna from the deceased Mrs. Chandraben as per a WILL is not taxable since any sum of money or any property received under a will is excluded under section 56(2)(x).
(iii)	Taxable	Where any immovable property is received by any person without consideration the stamp duty value of which exceeds ₹ 50,000, the stamp duty value shall be included in the total income of such person under the head "Income from other sources". Therefore, ₹ 75,000 being the stamp duty value of the immovable property received as gift by Mr. King is taxable in his hands.
(iv)	Taxable	The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. However, sister's daughter in law is not a relative as per section 56(2)(x). Since, the fair market value of diamonds exceeds ₹ 50,000, the value of diamonds is taxable in the hands of sister's daughter in law.



**Question 2**

MTP March'22

XYZ (P) Ltd. was incorporated during P.Y. 2023-24 having a paid-up capital of ₹ 25 lakhs. In order to increase its capital, the company further issues 1,00,000 shares (having face value of ₹ 100 each) during the year at par as on 1.9.2023. The FMV of such shares as on 1.9.2023 was ₹ 75.

- (i) Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.
- (ii) Will your Answer change, if shares were issued at ₹ 110 each?
- (iii) What will be your answer, if shares were issued at ₹ 110 and FMV of the shares was ₹125 as on 1.9.2023?

4 Marks

**Answer:**

The provisions of section 56(2)(viib) would be attracted, where consideration is received from a resident person by a company, other than a company in which public are substantially interested, in excess of the face value of shares i.e., where shares are issued at a premium. In such a case, the difference between the consideration received and the fair market value would be chargeable to tax under the head "Income from Other Sources".

- (i) In this case, since XYZ (P) Ltd., a closely held company issued 1,00,000 shares (having face value of ₹100 each) at par i.e., ₹ 100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.
- (ii) In this case, since shares are issued at a premium, the amount by which the issue price of ₹110 each exceeds the FMV of ₹ 75 each would be chargeable to tax under the head "Income from other sources". Hence, ₹35 lakh, being ₹35 (i.e., ₹110 - ₹75) × 1,00,000 shares, would be chargeable under section 56(2) (viib).
- (iii) If shares are issued at ₹115 each and FMV of share is ₹ 125 each, no amount would be chargeable to tax even though the shares were issued at a premium, since shares are issued at a price which is less than the fair market value.

**Question 3**

MTP Oct'22 MTP Nov'21

Mr. Koshi transferred 300 shares of Style Pvt Ltd. to Moksh Pvt. Ltd. on 10. 9.2021 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. Koshi was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

- (i) Determine the income chargeable to tax in the hands of Mr. Koshi and Moksh Pvt. Ltd. because of the above said transaction.
- (ii) Mr. Chetan is employed in a company with taxable salary income of ₹ 4,00,000. He received a cash gift of ₹ 1,00,000 from Help Charitable Trust (registered under section 12AB) in March 2022 for meeting his medical expenses.

2 Marks

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chetan?

**Answer:**

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by Moksh Pvt. Ltd. from Mr Koshi for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.



As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of Style Pvt. Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of Style Pvt. Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long-term capital gain of ₹ 55,000 in the hands of Mr. Koshi.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of ₹ 1 lakh received from Help Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chetan.

**Question 4**

MTP May'18, MTP Oct '20

From the following transactions relating to Mrs. Sonu, determine the amount chargeable to tax in her hands for the A.Y. 2024-25. Your Answer should be supported by reasons:

- (i) Received cash gifts on the occasion of her marriage on 19-11-2023 of ₹ 2,10,000. It includes gift of ₹ 55,000 received from non-relatives.
- (ii) On 1-1-2024, being her birthday, she received a gift of ₹ 45,000 by means of cheque from her father's maternal uncle.
- (iii) On 12-2-2024, she acquired a vacant site from her friend for ₹ 1,12,000. The State stamp valuation authority fixed the value of site at ₹ 1,92,000 for stamp duty purpose.
- (iv) She bought 50 equity shares of a private company from another friend for ₹ 75,000. The fair market value of such shares on the date of purchase was ₹ 1,33,000. **3 Marks**

Answer:

Computation of amount chargeable to tax in hands of Mrs. Sonu for A.Y. 2024-25

	Particulars	₹
(i)	Cash gift of ₹ 2,10,000 received on the occasion of her marriage is not taxable, since gifts received by an individual on the occasion of marriage is excluded from tax under section 56(2)(x), even if the same are from non-relatives.	Nil
(ii)	Even though father's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of ₹ 45,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Mrs. Sonu without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2023-24 does not exceed ₹ 50,000.	Nil
(iii)	Purchase of vacant site for inadequate consideration on 12.2.2024 would attract the provisions of section 56(2)(x). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of Individual. <b>(As per amendment where any person receives, in any previous year, from any person or persons any immovable property having stamp duty value that exceeds such consideration and if the amount of such excess is more than the higher of the following amounts, namely:- (i) the amount of fifty thousand rupees; and (ii) the amount equal to ten per cent of the consideration then the difference between the consideration and stamp duty value is chargeable to tax)</b> Therefore, in the given case ₹ 80,000 (₹ 1,92,000 - ₹ 1,12,000) is taxable in the hands of Mrs. Sonu.	80,000



(iv)	Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares is ₹ 58,000 (₹ 1,33,000 - ₹ 75,000) i.e. it exceeds ₹ 50,000, the difference would be taxable under section 56(2)(x).	58,000
	Amount chargeable to tax	1,38,000

**Question 5**

RTP May '20, PYQ Nov 18

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

- (i) Allowance of ₹ 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.
- (ii) During the previous year 2023-24, Mrs. Aadhya, a resident in India, received a sum of ₹ 9,63,000 as dividend from Indian companies and ₹ 4,34,000 as dividend from units of equity oriented mutual fund.

**2 Marks****Answer:**

	Chargeability	Amount liable to tax (₹)	Reason
(i)	Partly taxable	96,000	Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 12,600 per month being, 70% of ₹ 18,000, in the present case) or ₹ 10,000 per month, whichever is less. Hence, ₹ 1,20,000 (i.e., ₹ 10,000 × 12) is exempt. Balance ₹ 96,000 (₹ 2,16,000 - ₹ 1,20,000) is taxable in the hands of Mr. Uttam Prakash.
(ii)	Not Taxable (Taxable)	- 13,97,000	As per section 10(34), dividend received up to ₹ 10 lakhs from Indian companies on which dividend distribution tax is paid by the company, is exempt in the hands of shareholder. As per section 10(35), income received from units of mutual fund is exempt. Hence, ₹ 9,63,000, being the dividend from Indian companies and ₹ 4,34,000, being the dividend from units of equity oriented mutual fund is not taxable in the hands of Mrs. Aadhya. As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assesses. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished. Income/dividend from UTI/Mutual Fund will also be taxable. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. Even TDS u/s 194 & 194K respectively for dividend from shares & mutual fund/UTI @10% if the aggregate income is over Rs. 5000 will be applicable.



**Question 6**

RTP Nov '23

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

Akash, aged 17 years, received ₹ 3,50,000 as educational scholarship from M/s ABC Ltd. As a part of public welfare program, ABC Ltd. gave the above scholarship for his exceptional performance in Higher Secondary Examinations and to meet the cost of his further studies. The scholarship so received by Akash is taxable in his hands under the head "Income from other sources".

**Answer:**

*The statement is incorrect.*

Income of Akash, being a minor child, from his skill or talent would be taxable in his hands. However, as per section 10(16), the value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.

**Question 7**

RTP Nov '23

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

Mr. Shyam is a salaried individual. He purchased a painting and sculpture from his friends Mr. Kamal and Mr. Ashish for ₹ 45,000 and ₹ 35,000, respectively. The fair market value of painting and sculpture on the date of purchase was ₹ 80,000 and ₹ 60,000, respectively. Since the difference between fair market value and consideration of painting and sculpture does not exceed ₹ 50,000 individually, nothing would be taxable in the hands of Mr. Shyam.

**Answer:**

*The statement is incorrect.*

In case movable property is received for inadequate consideration and the difference between aggregate fair market value of the property and such consideration exceeds ₹ 50,000, such difference would be taxed as the income of the recipient. Since the difference between aggregate fair market value of painting and sculpture (i.e., ₹ 1,40,000) and consideration (i.e., ₹ 80,000) exceeds ₹ 50,000, the difference of ₹ 60,000 would be taxable in the hands of Mr. Shyam under the head "Income from other sources".

**Question 8**

PYQ Nov'20

Ms. Julie received following amounts during the previous year 2023-24.

- (i) Received loan of ₹ 5,00,000 from the ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was 2,00,000 on the date of the loan.
- (ii) Received Interest on enhanced compensation of 5,00,000. Out of this interest, 1,50,000 relates to the previous year 2020-21, 1,90,000 relates to previous year 2021-22 and 1,60,000 relates to previous year 2022-23. She paid 1 lakh to her advocate for his efforts in the matter. Discuss the tax implications, if any, arising from these transactions in her hand with reference to Assessment Year 2024-25.

**4 Marks**

**Answer:**



- (i) Any payment by way of loan by a closely held company to its shareholder holding not less than 10% of voting power is deemed as dividend, to the extent of accumulated profits of the company. Accordingly, out of ` 5 lakhs given by ABC Pvt. Ltd. to Ms. Julie, loan to the extent of 2 lakhs would be treated as deemed dividend for the A.Y.2024-25. Such dividend would, however, be taxable@30% in the hands of ABC Ltd. Consequently, it would be fully exempt in Julie's hands under section 10(34).

*As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assesses. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.*

- (ii) Interest on enhanced compensation is chargeable to tax under the head "Income from other sources" in the year of receipt, after providing for deduction of 50% of such income. Accordingly, 2,50,000 [5,00,000 - 2,50,000, being 50% of 5 lakh] would be chargeable to tax in the hands of Ms. Julie under the head "Income from Other Sources" for the A.Y.2024-25.

**Question 9**

PYQ Nov'19

MLX Investments (P) Ltd. was incorporated during P.Y. 2021-22 having a paid-up capital of 10 lacs. In order to increase its capital, the company further issues, 1,00,000 shares (having face value of 100 each) during the year at par as on 01-08-2023. The FMV of such share as on 01-08-2023 was 85.

- (i) Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.  
 (ii) Will your answer change, if shares were issued at 105 each?  
 (iii) What will be your answer, if shares were issued at 105 and FMV of the share was 120 as on 01-08- 2023?

**4 Marks****Answer:**

The provisions of section 56(2) (vibe) would be attracted, where consideration is received from a resident person by a company, other than a company in which public are substantially interested, in excess of the face value of shares i.e., where shares are issued at a premium. In such a case, the difference between the consideration received and the fair market value would be chargeable to tax under the head "Income from Other Sources".

- (i) In this case, since MLX Investments (P) Ltd., a closely held company issued 1,00,000 shares (having face value of 100 each) at par i.e., 100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.  
 (ii) In this case, since shares are issued at a premium, the amount by which the issue price of 105 each exceeds the FMV of 85 each would be chargeable to tax under the head "Income from other sources". Hence, 20 lakhs, being 20 (i.e., 105 - 85) x 1,00,000 shares, would be chargeable under section 56(2) (vibe).  
 (iii) If shares are issued at 105 each and FMV of share is 120 each, no amount would be chargeable to tax even though the shares were issued at a premium, since shares are issued at a price which is less than the fair market value.



## Question 10

PYQ May'18

Discuss the taxability of the following receipts in the hands of Mr. Sanjay Kamboj under the Income-tax Act, 1961 for A.Y. 2018-19:

- (i) 51,000 received from his sister living in US on 1-6-2023.  
 (ii) Received a car from his friend on payment of 2,50,000, the FMV of which was 5,50,000.  
 Provisions of taxability or non-taxability must be discussed. **3 Marks**

Answer:

(i) Not taxable

Cash gift of 51,000 received from his sister, being a relative, would not be taxable in the hands of Mr. Sanjay Kamboj under section 56(2)(x), even though the amount exceeds 50,000.

(ii) Not Taxable

Car is not included in the definition of "property", for the purpose of taxability of gifts in kind, in the Hence, 5,50,000, being the fair market value of car received for inadequate consideration from his friend is not taxable under section 56(2)(x) in the hands of Mr. Sanjay Kamboj, even though the difference between the purchase price and FMV exceeds ` 50,000 and the gift is received from a non-relative.

**Moderate**

## Question 1

MTP May'18, MTP Oct '20

From the following transactions relating to Mrs. Sonu, determine the amount chargeable to tax in her hands for the A.Y. 2024-25. Your Answer should be supported by reasons:

- (v) Received cash gifts on the occasion of her marriage on 19-11-2023 of ₹ 2,10,000. It includes gift of ₹ 55,000 received from non-relatives.  
 (vi) On 1-1-2024, being her birthday, she received a gift of ₹ 45,000 by means of cheque from her father's maternal uncle.  
 (vii) On 12-2-2024, she acquired a vacant site from her friend for ₹ 1,12,000. The State stamp valuation authority fixed the value of site at ₹ 1,92,000 for stamp duty purpose.  
 (viii) She bought 50 equity shares of a private company from another friend for ₹ 75,000. The fair market value of such shares on the date of purchase was ₹ 1,33,000. **3 Marks**

Answer:

Computation of amount chargeable to tax in hands of Mrs. Sonu for A.Y. 2024-25

	Particulars	₹
(i)	Cash gift of ₹ 2,10,000 received on the occasion of her marriage is not taxable, since gifts received by an individual on the occasion of marriage is excluded from tax under section 56(2)(x), even if the same are from non-relatives.	Nil
(ii)	Even though father's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of ₹ 45,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Mrs. Sonu without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2023-24 does not exceed ₹ 50,000.	Nil



(iii)	Purchase of vacant site for inadequate consideration on 12.2.2024 would attract the provisions of section 56(2)(x). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of Individual.	80,000
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**Question 2**

RTP Nov '18

- (a) Mr. Pranav has 15% shareholding in TRP(P) Ltd. (engaged in trading business of toys) and has also 50% share in Pranav & Sons, a partnership firm. The accumulated profit of TRP(P) Ltd. is ₹ 30 lakh. Pranav & Sons had taken a loan of ₹ 35 lakh from TRP(P) Ltd. Examine whether the above loan can be treated as dividend as per the provisions of the Income-tax Act, 1961.
- (b) Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:
- (i) MNS Private Limited, a closely held company, issued 12,000 shares at ₹ 125 per share. (The face value of the share is ₹ 80 per share and the fair market value of the share is ₹ 110 per share).
- (ii) Mr. Arun received an advance of ₹ 56,000 on 11-09-2017 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 56,000 was forfeited.
- (iii) Mr. Nitin, transferred a house property to his son Mr. Raj without consideration. The value of the house is ₹ 12 lacs as per the Registrar of stamp duty.
- (iv) Mr. Tanmay gifted a refrigerator to his sister's daughter Tannu on her marriage. The fair market value of the refrigerator is ₹ 75,000.

**Answer:**

Section 2(22)(e) provides that any payment by a company, not being a company in which public are substantially interested, of any sum by way of advance or loan

- to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of voting power, or
- to any concern in which such shareholder is a partner and in which he has a substantial interest (i.e., he is beneficially entitled to not less than 20% of the income of such concern) is deemed as dividend, to the extent the company possesses accumulated profits.

In the present case, the loan given by TRP(P) Ltd. to Pranav & Sons, a partnership firm would be deemed as dividend, since Mr. Pranav is the beneficial owner of 15% shareholding in TRP(P) Ltd. and also has substantial interest in Pranav & Sons (as he is beneficially entitled to 50% of the income of the firm). However, the amount of loan would be deemed as dividend only to the extent TRP(P) Ltd. possesses accumulated profits. Therefore, out of the loan of ₹ 35 lakhs given to Pranav & Sons, only ₹ 30 lakhs, i.e., to the extent of accumulated profit of TRP(P) Ltd., would be deemed as dividend.

As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assesses. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished



S. No.	Taxable / Not Taxable	Reason
(i)	Taxable	Since MNS Private Limited, a closely held company, issued 12,000 shares at a premium (i.e., issue price exceeds the face value of shares), the excess of the issue price of the shares over the fair market value would be taxable under section 56(2) (viib) in its hands under the head "Income from other sources". Therefore, ₹ 1,80,000 [12,000 × ₹ 15 (₹ 125 - ₹ 110)] shall be taxable as income in the hands of MNS Private Limited under the head "Income from other sources".
(ii)	Taxable	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head "Income from other sources", if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2)(ix)]. Therefore, the amount of ₹ 56,000 received as advance would be chargeable to tax in the hands of Mr. Arun under the head "Income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.
(iii)	Not Taxable	As per section 56(2)(x), immovable property received without consideration by any person from his relative is not taxable. In the present case, since Mr. Nitin is the father of Mr. Raj, ₹ 12 lakhs, being the stamp duty value of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Raj.
(iv)	Not Taxable	Refrigerator is not included in the definition of "property", for the purpose of taxability under section 56(2)(x) in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Tannu on occasion of her marriage from her maternal uncle, being a relative. Hence, ₹ 75,000, being the fair market value of refrigerator received without consideration from a relative on the occasion of her marriage is not taxable in the hands of Tannu, even though its value exceeds ₹ 50,000.

### Difficulty

#### Question 1

MTP Oct'18

Mr. Akash, a property dealer, sold a building in the course of his business to his friend Varun, who is a share broker, for ₹85 lakhs on 12.12.2023, when the stamp duty value was ₹130 lakhs. The agreement was, however, entered into on 10.6.2023 when the stamp duty value was ₹120 lakhs. Mr. Akash had received a down payment of ₹15 lakhs by a crossed cheque from Varun on the date of agreement. Discuss the tax implications in the hands of Akash and Varun, assuming that Mr. Akash has purchased the building for ₹65 lakhs on 29th August, 2022. **6 Marks**

Answer:

**In the hands of Mr. Akash**

The provisions of section 43CA would be attracted in the hands of Mr. Akash, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value on the date of agreement.

