PROBLEMS ON INCOME FROM OTHER SOURCES

Q-1. Shri Nihar furnishes the following particulars of his income for the previous year ending 31st March, 2010 :

(1) Dividend from a tea company Rs. 2,500 (Gross) (60% of the income of the company is agricultural income).
(2) Amount won from a horse race Rs. 2,500.
(3) Interim Dividend declared by the directors of K Co. Ltd., in March 2010 but the payment was received in May 2010 for which dividend warrants were despatched in April 2010. Amount received as dividends was Rs. 8,000.
(4) Dividend declared by P Co. Ltd., in January 2010. Dividend warrants were dispatched in April, 2010 and the payment was received in June, 2010 amounting to Rs. 4,475 (Net).
(5) Winning from a lottery Rs. 62,500.
(6) Interest on Post Office Cumulative Time Deposit Rs. 1,000.
(7) Interest received on deposit with a firm Rs. 5,382.
(8) Dividend received from a Co-operative Society Rs. 500.
(9) Income from Non-agricultural land Rs. 1,500.
Shri Swami Prasad claims the following expenses:
Bank Commission Rs. 100 for collecting dividends from companies; interest on loan taken to purchase shares in tea company Rs. 800; and expenses incurred for purchasing lottery tickets Rs.2,000.
Compute the taxable income of Shri Swami Prasad under the head 'Income from Other Sources' for the Assessment Year 2010-11. Ans. Rs. 72980.

Q-2. From the following particulars of Shri Amber Siraj for the assessment year 2010-2011, compute his taxable income under the head 'Income from Other Sources' :
(1) Ground Rent Rs. 5,000.
(2) Following interest received:
(a) On Fixed Deposit from Bank Rs. 400;
(b) From Post Office Savings Bank Rs. 300;
(c) Interest on deposit with a firm Rs. 600.
(3) Income from sub-letting of house taken on rent Rs. 5,000. Rent paid Rs. 3,000.
(4) Received dividend of Rs. 3,580 on the shares of an Indian Company.
On 1-6-2009 Shri Maheshwari took a loan of Rs. 10,000 @ 12% per annum to purchase the shares of another Indian Company. He purchased shares of the face value of Rs. 8,000 for Rs. 8,000 and invested Rs. 2,000 in his business. No dividend was received on these shares during the year.
He paid bank commission @ 1 % for collecting dividend and spent Rs. 400 for collecting the rent of the house
Ans. Rs. 7,600.
Hints: 1. Interest on deposit with a firm has not been grossed up as the amount is less than Rs. 5,000.
2. Rent paid and expenses incurred in collecting the rent will be allowed as expenditure from rent received.

Q-3. Mr. Waseem has the following investments in the previous year ended on 31st March, 2010 :
(1) Rs. 11,000, 10% Central Govt. Securities.
(2) Rs. 32,000, 10% Tax-free Commercial Securities.
(3) Rs. 3,200 received as interest on Tax-free Public Ltd. Company Securities.
(4) Rs. 4,000 received as interest on U.P. Govt. Securities.
(5) Rs. 3,600 received as interest on Tax-free Company Securities (Listed).
(6) Rs. 30,000, 13.5% Securities of Cement Company (Unlisted).
(7) Rs. 35,000, 11% Securities of a Paper Mill Company (Listed).
(8) Rs. 10,000, 15% Jaipur Municipal Corporation Bonds, received from his father on 1st April, 2009.
(9) Rs. 10,000, 11% (Compound Interest) Savings Certificates purchased on 31st March, 2008 maturing after 6 years.

For purchasing Cement Company's Securities he took a loan of Rs. 25,000 @ 12% p.a. This loan was taken from his friend in Bahrain. The interest has been paid in Bahrain but no deduction of tax at source-is made.
The Bank charged 1.5% commission on gross interest as collection charges.
Interest on all securities is payable half-yearly on 1st July and 1st January each year except on Savings Certificates which is due, but not payable yearly.
Find out his taxable income from interest on securities under the head 'Income from Other Sources' for the Assessment Year 2010-2011.

Ans. Interest on Securities Rs. 26447

Hints: 1. No deduction will be allowed for interest on loan paid in Bahrain as tax has not been deducted at source.
2. No T.D.S. is done now on Govt. Securities.
3. On Savings Certificates, interest is dlilculated for 1st year (i.e., Prev. Year 2008-09) as under: 10,000 x 11 + 100 = Rs. 1,100, and for 2nd year ii.e., Prevo Year 2009-10) as under: On Rs. 10,000 + 1,100 = Rs. 11,100. 11,100 x 11 + 100 = Rs. 1,221.
4. Bank collection charges are not allowed on Savings Certificates as interest on them has not actually been received; but is due every year and will be paid only on maturity.

Q-4. From the following particulars of Mr.Azeem for the assessment year 2010-2011, compute his Income from other Sources :
(1) He holds the following securities and shares:
(a) 2,000 Equity Shares of Rs. 10 each of Paras Ltd.
(b) Rs. 40,000, 12% Uttar Pradesh Government Securities.
(c) Rs. 1,000, 10% Preference Shares of Rs. 100 each of Madhu Ltd.
Paras Ltd. declared 10% equity dividend, but the cheque was not received as yet. Other interest and dividends were, however, received. He had borrowed Rs. 1,00,000 @ 12% per annum interest for the purpose of making all the above investments. He also paid 1 % collection charges on gross income.

(2) Dr. Azeem had set-up a factory with building, plant, machinery, furniture, etc. However, he decided to give it on hire at Rs. 2,000 per month. During the year he spent Rs. 2,000 for repairs and Rs. 500 for insurance. The depreciation allowable is Rs. 5,000. He had borrowed Rs. 30,000 against mortgage of these assets and paid Rs. 3,000 interest thereon. The amount was spent for the marriage of his daughter.
Ans. Rs. 18,252. .

Q-5 Mr. Siddarth Mehra has the following investments in the previous year ended on 31st March, 2010 :
(i) Rs. 750 received as interest on Post Office Recurring Deposit.
(ii) Rs. 25,000, 12% Haryana State Electricity Board Bonds.
(iii) Rs. 20,000, 13% Allahabad Development Bonds were issued
(iv) Family Pension Rs. 24,000.
(v) Rs. 1,747 received interest on tax-free Secured Securities of Chits India (P) Ltd. Co.
(vi) Rs. 30,000, 10% (Tax-free) Listed Debentures of a Company.
(vii) Rs. 40,000, 12% Debentures of Goa Development Authority .
He took a loan to purchase Goa Development Authority Debentures Rs. 20,000 @ 11 % on which interest has become due but not yet paid in the previous year. Bank charged 2% as collection charges on realisation of interest on all securities. Interest being payable in each case on 1st January and 1st July.
Calculate his income from interest on securities under the head 'Income from Other Sources'.

Ans. Rs. 13192

Q-6. Miss Sana, a resident individual, submits the following particulars of his income for the previous year 2009-10 :

	Rs.
(1) Dividend received from an Indian Company AB Ltd. on shares purchased in January, 2003	17,900
(2) Dividend (net) received from a foreign company after deduction of Rs. 4,500 as tax at source. Nothing has been paid to the Indian Government out of the amount of tax deducted at source	19,500
(3) Interest paid on outstanding loan of Rs 80,000 taken @ 15% p.a. to purchase the shares of AB Ltd.	12,000

(4) Collection charges paid to collect the dividend from foreign company	350
(5) Rent from a building let out along with plant, machinery and furniture	50,000
(6) Depreciation allowable on the above assets	15,000
(7) Five Insurance Premium paid:	
On Building	800
On Plant & Machinery	500
On Furniture	200
(8) Repairs of Building	500
(9) Winnings from horse race (Gross)	7,000

Compute the taxable income from other sources for the relevant assessment year.

Ans. Rs. 59,150.

Hint: Dividend from AB Ltd. is exempt, hence interest on loan taken for purchasing the shares of AB Ltd. is not deductible.

Q-7. Mr. Ankit, a resident individual, submits the following particulars of his income for the year ended 31st March, 2010 :

(1) Royalty from a coal mine Rs. 20,000.
(2) Agricultural income in Pakistan Rs. 15,000.
(3) Salary for a part-time job with a firm Rs. 21,000.
(4) Salary as Member of Parliament Rs. 36,000.
(5) Daily Allowance as M.P. Rs. 15,000.
(6) His residential house has been taken on a rent of Rs. 1,000 p.m., half of which he has sub-let at Rs. 1,200 p.m.
(7) Dividend received from a co-operative society Rs. 5,000.
(8) He has incurred the following expenses:
(i) Paid collection charges Rs. 100 for collecting dividends. (ii) Rs. 3,000 spent for earning and collecting royalty income.

Compute Mr. X's income from other sources for the assessment year 2010-2011

. Ans. Rs. 81,300.

Hints:

1. Since the question has asked to compute Income from Other Sources the salary from part-time job which is taxable under the head 'Salaries' has not been shown here.
2. Salary as M.P. is not taxable under the head 'Salaries'. He is not an employee of the Government. Hence, it is taxable under the head 'Other Sources'.
3. Daily allowance as M.P. is not taxable.
4. Dividend received from a co-operative society is not grossed up.

Q-8. Miss Shivangi, a resident individual, submits the following particulars of her income from other sources for the year ended 31st March, 2010 :

1. Family pension from the Government of Uttar Pradesh Rs. 42,000. Exp on the collection of family pension---700 p.m.
2. She has written a book for schools on which she gets a royalty of Rs. 17,000 from the publisher. She has spent Rs. 3,000 on books, stationery, typing, etc. during the previous 'year.
3. She has received remuneration for doing invigilation in Examination Rs. 1,000.
4. Remuneration for acting as examiner Rs. 1,800. She incurred Rs. 75 on postage, etc. in connection with the examination work, which were reimbursed by the University.
5. Cash worth Rs. 1,00,000 was found in the previous year in her bank locker, the source of which could not be explained by her.
6. Interest credited to her savings bank account in Allahabad Bank Rs. 800.
7. Interest credited to her cumulative time deposit account in post office was Rs. 2,000.

Compute her taxable income from other sources for the assessment year 2010-2011.

Ans. Rs. 1,45,600. (Int. on Cumulative Time Deposit Ale in Post Office is exempt.)

Q.9. The following incomes were received by Mr. Manish during the financial year 2009-09 :

Director's Fees	6000
Income from Agricultural land (in Pakistan)	40000
Interest from Post-office Saving Bank A/c	1500
Interest on Fixed Deposit in SBI	1800
Winning from lottery (Net)	35000
Crossword Puzzles	2500
Royalty on Books	20000

(Expenses in this connection Rs. 4,000)
Compute his income from other sources.
Ans. Rs. 1,16,300.

Q.10 Shri Arshad is a political leader. The particulars of his income for the F. Y. 2009-09 are as follows:

(i) Received Rs. 12,000 @ Rs. 1,000 p. m. as family pension from the Central Government.
(ii) Received a sum of Rs. 2,000 for delivering lectures, in favour of a candidate in municipal election.
(iii) Received a sum of Rs. 3,000 as royalty from Friends & Company to whom he has given right to publish his book on Political Science.
(iv) He has some machines which he gives on rent. The rent received in this respect amounts to Rs. 15,500. Repair charges on machines are Rs. 1,000.
(v) Received Rs. 5,600 as rent of agricultural land given to a kiln contractor for the kiln.
(vi) Interest received on Post-office savings bank account Rs. 800.
(vii) Remuneration received for radio talk Rs. 1,000.
Compute his taxable income under the head "Income from other sources" for the Assessment Year 2010-2011.
Ans. Rs. 34,100.

Q-11 Mr. Hammad is a professor and a resident of India. He submits before you the following income for computing his income under the head "income from other sources" for the assesement year 2010-2011:
1. Salary Rs. 15,600 per month from Vaishnaw Commerce College.
2. He is the author of a text book 'Book-keeping and Accountancy' which fetched him a gross royalty of Rs. 20,000 in lump-sum and which is in consideration of the transfer of copyright. He claims the following deductions from the amount:
(i) Salary to a clerk who collects for him necessary data and goes through the final proofreading Rs.3,000.
(ii) Purchased books worth Rs. 400 in connection with the revision of the book.
(iii) Telephone expenses of Rs. 1,600 attributed to the publication and sale of his book and other matters in connection with the printing of the new edition of the book.
3. Income from articles which were published in 'Yojna' Rs. 4,000.
4. He lives in a rented house paying rent @ Rs. 3,000 p.m. He has sub-let 1/3 portion of the house on a rent of Rs. 1,500 per month. Dr. Tripathi has undertaken the liability of paying municipal taxes of Rs. 5,400 on the whole house and also the current repairs of the whole house amounting to Rs. 6,000.
5. Dr. Pahwa received Rs. 60 per lecture delivered at Ambedkar institute during the previous year. He delivered 20 lectures.
6. He is an examiner in university. This source gave him a remuneration of Rs. 2,600. He incurred Rs. 60 on postage etc. in connection with the examination work which were reimbursed by the university. He received Rs. 400 as remuneration for invigilation work in the university examinations.
7. His other incomes were :
(i) Wins from card games and betting Rs. 6,500. (ii) Wins from chess Rs. 1,000.
(iii) Received interest on Govt. of Nepal Bonds Rs. 1,500.
8. Received Rs. 2,000 as dividend from a Co. in which the public a substantially interested.
9. Income from agricultural land situated at Ujjain Rs. 7,000.
10. Rs. 800 per month scholarship for research work from D.G.C. (8.21)
Ans. Rs. 34,400

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Q12. Miss Shubhangi, a resident individual, submits the following particulars of income for the previous year ending March 31,2010 :

Dividend from REC Intemational Ltd. (Gross) Rs. 4,800; Dividend from Sundaram Finance Ltd. Rs. 2,700; interest paid on capital borrowed for the purpose of investment in shares of Sundaram Finance Ltd. Rs. 4,200; collection charges in respect of dividend Rs. 460. Winnings from lottery net amount Rs. 69,100. Tax deducted at source Rs. 30,900. Winnings from card games Rs. 23,500. Interest on securities issued by the Govemment of Singapore Rs. 20,570. Determine the income chargeable under the head 'Income from other sources' for the assessment year 2010-2011.

Ans. Rs. 1,44,070.

Q-13 Shri Anuj had the following investment for the year ending on 31st March, 2010 :

(i) 8% Tax-free Govt. of India loan Rs. 15,000;

(ii) 9.5% Secured debentures of a cotton mills Rs. 10,000;

(iii) 12% Tax-free secured debenture of Raymond Woollen Mills Ltd. listed in Delhi Stock Exchange Rs. 10,000;

(iv) 11% Debentures of Reliance Textile Industry Rs. 8,000.

He took a loan of Rs. 15,000 @ 7% p. a. rate of interest to purchase debentures. Collection charges spent to collect the taxable interest this year amounted to Rs. 30. The interest is due on 1st January and 1st July on the securities.

Compute taxable income of the head 'Income from other sources' for the assessment year 2010-2011.

Ans. Rs. 2,083.

Q-14 Miss Priya submits the following particulars of her income from other sources for the year ended 31st March, 2010 :

(a) Family pension received from the Govemment of Karnataka Rs. 30,000.

(b) Royalty received from the publisher Rs. 50,000. She spent Rs. 5,000 on books, stationery, typing etc. during the year.

(c) Winning from lotteries (Net) Rs. 56000

(d) Winning from horse race (Net) Rs. 28000

(e) Interest on tax-free debentures of Mysore Electric Company (listed) Rs. 7,200.

(d) Interest on 10% tax-free bonds of the Govt. of India Rs. 10,000.

(g) Dividend (Net) Rs. 8,000, received from a foreign company. Nothing has been paid to the Government out of tax deducted at source.

Compute income from other sources of Mrs. Rekha for the A.Y. 2010-2011.

Ans. Rs. 2,01,000.

Q-15 Mr. Shivam has the following investments in the previous year ended 31st March, 2010 :

(i) Rs. 11,000, 10% Karanataka State Govt. Loan.

(ii) Rs. 30,000, 13.5% Debentures LMT Ltd. (listed).

(iii) Rs. 35,000, 11% Securities of Sugar Mill Co. (not listed).

(iv) Rs. 32,000, 10% Tax-free commercial securities (listed).

(v) Rs. 3,580, received as interest on Tamil Nadu Govt. securities.

(vi) Rs. 3,600, received as interest on the securities of a Paper Mill Company (not listed).

(vii) Rs. 4,500 received as interest on securities of Textile Company (listed).

Interest on all securities is payable on 30th June and 31st December. The bank charged 1.5% commission on Net realisation of interest as collection charges.

He was also a director in a company from which he received Rs. 3,000 as directors' fees. His other incomes are:

(i) Winning from lottery Rs. 25,000.

(ii) Income from agriculture in Sri Lanka Rs. 10,000.

(iii) Winning from Horse race Rs. 15,000.

(iv) Interest on Post Office Saving Bank Account Rs. 2,000.

Find out his taxable income from other sources for the assessment year 2010-2011.

Ans. Rs. 74789.

Q-16 Following are the particulars of income of Miss Mani :

	Rs.
(i) Interest received on Government Securities	9,000
(ii) Dividend received from a Foreign Company	8,000
(iii) Amount received from winnings of lottery	66,500
(iv) Winning from wager	25,000
(v) Income from letting on hire the private car (Letting on hire of car is not the business of Smt. Kiran)	40,000
(vi) Family pension (per month)	1,500

She incurred the following expenditures :

(i) Interest paid on loan taken to purchases shares and securities Rs. 7,000.

(ii) (ii) Bank commission paid @ 2% for collecting dividend and interests.

(iii) Spent Rs. 1,500 on purchasing lottery tickets.

(iv) Expenses of the private car for the period during which it was let out Rs. 12,000 (including depreciation).

Compute the income of Miss Mani under the head 'Income from Other Sources' for the assessment year 2010-2011.

Ans. Rs. 1,69,660.

Q-17 From the following particulars submitted by Mr. Saurabh Bhandula, resident individual, compute his income from salary and other sources for the assessment year 2010-2011 :

1. He is a Managing Director of a company from which he received Rs. 14,000 p.m. as salary, Rs. 10,000 as entertainment allowance, and Rs. 25,000 as travelling allowance. He spent Rs. 20,000 on travelling for official purposes. He has also been provided with the facility of small car for his personal as well as official use. The expenses for personal use are borne by Mr. A himself and he himself drives the car.

2. He is also a director in another company from which he received Rs. 28,000 as Director's fee.

3. His income from agricultural land in Nepal Rs. 12,000. Income from a plot of land lying isolated which has been let at Rs. 1,000 per month for being used as Soft Coke Sale Depot.

4. His investments were as under:

(a) Rs. 10,000, 10% Debentures of a company.

(b) Rs. 10,000, 12% Debentures of a Co-operative Society.

(c) Rs. 10,000, 12% Preference Shares of a domestic company. Dividend received.

(d) Rs. 15,000, advance outstanding with a firm on 1st April, 2009 @ 12% p.a. interest.

Ans. Income from Salary Rs. 183000; Income from Other Sources Rs. 56,000.

Q-18 Mr. Siddarth Khanna has the following investments in the previous year ended on 31st March, 2010

(i) Rs. 750 received as interest on Post Office Recurring Deposit.

(ii) Rs. 25,000, 12% Haryana State Electricity Board Bonds.

(iii) Rs. 20,000, 13% Allahabad Development Bonds were issued directly from company on 1st June 2009.

(iv) Family Pension Rs. 24,000.

(v) Rs. 1,747 received interest on tax-free Secured Securities of Chits India (P) Ltd. Co.

(vi) Rs. 30,000, 10% (Tax-free) Listed Debentures of a Company. Sold on 02 January 2010

(vii) Purchased Rs. 40,000, 12% Debentures of Goa Development Authority from open market on 1st June 2009.

He took a loan to purchase Goa Development Authority Debentures Rs. 20,000 @ 11 % on which interest has become due but not yet paid in the previous year. Bank charged 2% as collection charges on realisation of interest on all securities. Interest being payable in each case on 1st January and 1st July.

Calculate his income from interest on securities under the head 'Income from Other Sources'.

Ans. Rs. 12495

PROBLEMS ON DEEMED DIVIDEND (Total Problems 14)

PROBLEM 1.

ABC Ltd. has current profits of Rs. 150 lakhs and the company has distributed dividends of Rs.55 lakhs. Compute income tax liability of the company and also additional income tax payable by the company. Also compute tax payable by the shareholder.

Answer = Income tax liability Rs. 50,98,500 and additional income tax liability Rs.9,34,730. Tax liability of shareholder is Nil.

PROBLEM 2.

ABC Ltd a domestic company has aocumulated profits of Rs. 225 lakhs has distributed dividends of Rs.12 lakhs and one of the share holders Mr. Sumit Monga has received dividend of Rs. 1 lakh.

Compute tax payable by the shareholder and also additional income tax payable by the company.

Answer = Tax payable by the shareholder Nil; Additional Income tax payable by the company Rs.2,03,940

PROBLEM 3.

Mr. Varun Talwar is holding 100 shares of ABC Ltd. which were purchased by him on 01.10.1978 @ Rs.10/- per share. Market value of one share on 01.04.1981 was Rs. 25/- and total number of shares issued by the company is 10,000. The. company goes into liquidation on 01.10.2010 and has net distributable amount of Rs. 25 lakhs after discharging all the liabilities including any additional income tax under section 1 15-O. Out of Rs. 25 lakhs, Rs. 10 lakhs is accumulated profits.

Compute dividends in the hands of Mr. Yarun Talwar and also capital gains.

Answer = Dividend under section 1(22)(c) Rs.10,000 and Long term capital loss: Rs.800

PROBLEM 4 ..

ABC Ltd. a closely-held company has bonus share capital of Rs.10 lakhs, General Reserves of Rs.6 lakhs and current profits' of Rs.2 lakhs. The company has given a loan of Rs 9 lakhs to one of the shareholders, who is beneficial owner of equity shares holding 10% of the voting power.

Compute amount of dividend in the hands of shareholder.

Answer = Rs.8,00000

PROBLEM 5.

Mr. Rohit Aggarwal is beneficial owner of equity shares holding 10% of the voting power in ABC Ltd, a closely held company. He is partner in a partnership firm XY and has 20% share in the firm. The company has given a loan of Rs.5 lakhs to the firm and company's accumulated profits are Rs 6 lakhs.

Compute amount of dividend in the hands of shareholder and the firm.

Answer = Dividend in the hands of Shareholder: Nil; dividend in the hands of Firm: Rs.5,00000

PROBLEM 6.

Accumulated profits of ABC Ltd, a closely-held company is 3 lakhs on 01.07.2010. A loan of Rs. 2 lakhs was advanced to Ranjeet Sharma holding 13% shares on 01.07.2010 and a loan of Rs. 1.5 lakhs was advanced to Saurabh Gupta on 0/./0.2010 holding / I % shares.

Compute amount of dividend in the hands of Mr. Ranjeet Sharma and Mr. Saurabh Gupta.

Answer ~ Mr. Ranjeet Sharma: Rs. 2,00,000: Mr. Saurabh Gupta: Rs. 100000

PROBLEM 7.

Mr. Prince Manchanda is holding 10% equity shares in ABC Ltd, a closely-held company and he has taken a loan of 3 lakhs on 01.10.2010. The loan was repaid after ten days. The company has accumulated profits of 101akhs.

Compute amount of dividends in the hands of Mr. Prince Manchanda.

Answer = RS.300000

PROBLEMS.

A trade deposit of 4 lakhs was given by a closely held company to one of the shareholders who is holding 10% of the voting power and it was Subsequently adjusted against supply of goods.

Compute amount of dividend in the hands of shareholder.

Answer = Rs.4.00.000

PROBLEM 9.

An Hindu Undivided Family, through its Karta Mr. Lokesh Kumar, is a shareholder of a closely held company and holds 12% shares in the company. The Company has accumulated profits of Rs.10 lakhs, The company gives a loan of Rs. 3,50,000 to the Hindu Undivided Family.

Compute amount of dividend.

Answer=: Nil

PROBLEM 10.

ABC Ltd, is a company in which public are not substantially interested. The company has Bonus share Capital of Rs. 5 lakh and General Reserve of Rs. 7 Iakh and the Company has given a loan of Rs. 8 lakh to one of the shareholders who is holding 10% of the voting power.

Compute amount of dividend in the hands of shareholder and also his tax liability.

Answer =: Dividend Rs.7,00,000; Tax Liability Rs117420

ROBLEM 11

There is a partnership firm XV. Mr. Suresh Kumar is holding 100/0 of the voting power of the Company and he has 20% share in profits of the firm. A loan of Rs.3 Iakh has been given to this partnership firm by the any having General Reserve of Rs. 10 lakhs.

Compute amount of dividend and discuss its taxability.

Answer =: Dividend Rs.300000; Tax Liability Rs.92,700

PROBLEM 12.

If a closely held company has accumulated profits of Rs. 10 /akhs. A loan of Rs. 7 lakh was given to one of shareholders who is holding 10% of voting power and subsequently loan of Rs. 6 lakh was given to another similar shareholder.

Compute amount of dividend and discuss its taxability.

Answer = 1st shareholder Dividend: Rs.7,OO,OOO; Tax Liability: Rs.I,17,420; 2nd shareholder Dividend: Rs.300000; Tax Liability: Rs.14,420

PROBLEM 13.

Mr. Ankush Jain holds shares carrying 25% of voting power in a-domestic company in which public are not substantially interested. On 01.09.2010, he obtained a loan of Rs. 5 lakhs @ 14% p.a. from the company, as on that date the company had accumulated profit of Rs.4 lakhs.

Explain the tax implication in the hands of the company and also in the hands of shareholder.

Answer = Dividends in the hands of the shareholder shall be Rs. 400000

PROBLEM 14.

Mr. Vibhor Gupta is holding 12% equity shares in ABC Ltd., a company in which public are not substantially interested. Mr. Vibhor Gupta needs Rs.7,00000 to purchase a car for his personal use. He can either borrow this money at an interest rate of II % p.a. from ABC Ltd. or from a finance company @ 15% p.a. Business of ABC Ltd. is not money lending but it has sufficient accumulated profits to advance the

requisite loan. Suggest from tax point of view, whether he should borrow from ABC Ltd. or the finance company?
Answer = It is beneficial to take loan from the finance company. (if the loan is taken from ABC Ltd., total amount payable is Rs. l ,94,420 and if loan is taken from finance company, amount payable is Rs. l ,05,000).