

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Question 1

Mr. Janak, working as Finance Manager in Thilagam Realty Ltd., Jaipur, retired from the company on 31.10.2010 at the age of 60. The following amounts were received from the employer from 1st April, 2010 to 31st October, 2010:

<i>Basic Salary</i>	<i>Rs.30,000 p.m.</i>
<i>Dearness Allowance</i>	<i>Rs.20,000 p.m. (40% reckoned for superannuation benefits)</i>
<i>Ex-gratia (lump sum)</i>	<i>Rs.15,000</i>

In addition to the above –

- (i) The company had taken on lease a residential house at Jaipur, paying a lease rent of Rs.9,000 p.m. Mr. Janak, who was paying to the company Rs.6,000 p.m. towards aforesaid rent, vacated the said premises on 31.10.2010.*
- (ii) The company had also provided to Mr. Janak a cooking range and micro-wave oven owned by it. The original cost of these assets was Rs.40,000 and the written down value as on 1.4.2010 was Rs.22,000.*
- (iii) Mr. Janak has two sons. His second son was studying in a school run by the employer-company throughout the financial year 2010-11. The cost of such education in a similar school is Rs.1,800 p.m.*
- (iv) The employer-company was contributing Rs.7,000 p.m. to Central Government Pension Scheme.*
- (v) Professional tax paid by the employer Rs.3,000.*
- (vi) Subsequent to his retirement, Mr. Janak started his own business on 15-11-2010. The results of the said business from 15.11.2010 to 31.3.2011 were:*
 - (i) Business loss (excluding current depreciation) Rs.90,000*
 - (ii) Current year's depreciation Rs.60,000*

Taxation

(vii) Mr. Janak won a prize in a TV game show. He received a sum of Rs.42,000 after deduction of tax at source to the tune of Rs.18,000.

(viii) Mr. Janak furnishes the under-mentioned data relating to savings, investments and out-goings :

A. Life insurance premium, with a private insurance company Rs.30,000 for his son and Rs.20,000 for his married daughter.

B. Medical insurance premium of Rs.12,000 for himself and Rs.16,000 for his father (aged 82), paid by credit card. His father is however not dependent on him.

You are required to compute the total income of Mr. Janak (showing clearly the computation under various heads of income) and tax payable by him for the assessment year 2011-12.

Answer

Computation of total income of Mr. Janak for A.Y. 2011-12

Particulars	Rs.	Rs.
Basic salary = Rs.30,000 x 7	2,10,000	
Dearness Allowance = Rs.20,000 x 7	1,40,000	
Ex-gratia	15,000	
Employers' contribution to Central Government Pension Scheme = Rs.7,000 x 7	49,000	
Professional tax paid by employer	3,000	
Concessional accommodation (See Notes 1 & 2)	150	
Value of furniture (See Note 3)	2,333	
Value of concessional educational facility = (1,800 x 7) (See Note 4)	12,600	
Gross salary	4,32,083	
Less : Deduction under section 16(iii)		
Professional tax	3,000	
Net salary		4,29,083
Income from other sources		
Winnings from TV Game Show (Rs.42,000 + Rs.18,000)		60,000
Gross Total Income		4,89,083

Computation of Total Income and Tax Payable

<i>Less : Deductions under Chapter VI-A</i>		
80C Life insurance premium (30,000 + 20,000)	50,000	
80CCD (See Notes 5 & 6)		
Employee's contribution to pension scheme (to be restricted to 10% of salary)	26,600	
Employer's contribution to pension scheme (to be restricted to 10% of salary)	26,600	
Salary = (30,000 + 8,000) × 7 = Rs.2,66,000		
Total deduction under section 80C & 80CCD	1,03,200	
Deduction to be restricted to Rs.1,00,000 as per section 80CCE	1,00,000	
80D (Rs.12,000 + 16,000) (See Note 7)	28,000	1,28,000
Total Income		3,61,083
Total income (rounded off)		3,61,080

Computation of tax liability of Mr. Janak for the A.Y. 2011-12.

Particulars	Rs.	Rs.
Tax @ 30% on winnings of Rs.60,000 from game show (See Note 8)		18,000
Tax on balance income of Rs.3,01,080		14,108
		<u>32,108</u>
<i>Add : Education cess @ 2%</i>	642	
Secondary and higher education cess @ 1%	321	963
		<u>33,071</u>
<i>Less : TDS</i>		18,000
Tax liability		<u>15,071</u>

Notes:

- (1) For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. Rs.8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation

benefits. Therefore, salary for the purpose of perquisite valuation would be Rs.2,81,000 [i.e., (Rs.30,000 + Rs.8,000) x 7 + 15,000].

- (2) In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. Rs.63,000, being 9,000 x 7) and 15% of salary [i.e., Rs.42,150, being 15% of Rs.2,81,000]. This value (i.e. Rs.42,150) would be reduced by the rent paid by the employee (i.e., Rs.42,000, being 6,000 x 7).

The value of concessional accommodation is Rs.150 [i.e. Rs.42,150 – Rs.42,000].

- (3) The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to Rs.2,333 [i.e. 10% of 40,000 x 7/12].

It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.

- (4) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds Rs.1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of Rs.1,800 per month is taxable as perquisite. It has been assumed that the education is provided free-of-cost to Mr.Janak's son since the question is silent regarding the same. In such a case, the value of the perquisite would be Rs.12,600 (i.e. Rs.1,800 x 7).
- (5) The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD should be restricted to 10% of salary.
- (6) Employee's contribution to Central Government Pension Scheme is not given in the question. However, since the employer is contributing Rs.7,000 per month to the pension account and generally, the employer makes a matching contribution, therefore, the problem has been solved assuming that the employee has made a contribution of Rs.7,000 per month. Even if it is assumed that the employee has contributed only 10% of salary, the same would not affect the answer, since deduction under section 80CCD is to be restricted to 10% of salary.
- (7) The deduction for medical insurance premium of Rs.16,000 paid for father is allowable in full under section 80D, as the maximum limit is Rs.20,000, since his father is a senior citizen. Therefore, the total deduction under section 80D would be Rs.12,000 (for self) + Rs.16,000 (for father) = Rs.28,000.

Computation of Total Income and Tax Payable

- (8) Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB. No loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.
- (9) As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the assessee has income chargeable under the head "Salaries", the assessee shall not be entitled to have such loss set-off against such income. From a plain reading of the provisions of section 71(2A), it is possible to take a view that even depreciation cannot be set-off against salary income. Therefore, both business loss and current depreciation cannot be set-off against salary income.

Question 2

Mr. Mahesh, a production manager working in ABC Ltd., New Delhi, receives the following emoluments during the previous year 2010-11:

	Rs.		Rs.
<i>Basic salary</i>	<i>1,75,000</i>	<i>Bonus</i>	<i>8,000</i>
<i>D.A. (not forming part of salary)</i>	<i>1,40,000</i>	<i>Medical allowance</i>	<i>5,000</i>
<i>Commission on extra production</i>	<i>12,000</i>	<i>Special allowance</i>	<i>18,000</i>

Education Allowance (including allowance for hostel expenditure) for two sons who are engineering students at Mumbai - Rs.16,000.

- (i) *His employer has provided rent free house to him in New Delhi.*
- (ii) *Electricity bills paid by ABC Ltd. for him during the previous year are of Rs.11,500.*
- (iii) *On 1.1.2011, his employer company has given him a CD player for domestic use and a laptop for office and personal use. Ownership of both the assets have not been transferred. The cost of CD player is Rs.20,000 and that of laptop is Rs.40,000.*
- (iv) *His investments during the previous year are:*
- | | |
|---------------------------------|------------------|
| <i>(1) Notified mutual fund</i> | <i>Rs.25,000</i> |
| <i>(2) PPF</i> | <i>Rs.15,000</i> |
- (v) *He has paid tuition fees of his sons on 17.12.2010 of Rs.60,000.*
- (vi) *He has deposited Rs.10,000 in Five Year Time Deposit Scheme in Post Office on 25.3.2011.*

Taxation

(vii) His agricultural income during the year is Rs.45,000.

(viii) He has received gift of Rs.25,000 from his grandfather on 10.6.2010.

(ix) He has gifted his car to his wife on 15.5.2010. She has earned income of Rs.30,000 from hiring the same during the previous year.

Compute the total income and tax payable of Mr. Mahesh for the A.Y. 2011-12.

Answer

Computation of total income of Mr. Mahesh for the A.Y. 2011-12

Particulars	Rs.
Income from salary (as per note 3)	4,10,053
Business Income (assuming that his wife carries on the business of hiring of cars) [Income of wife from hiring of car clubbed under section 64(1)(iv)]	30,000
Gross Total Income	4,40,052
Less: Deduction under section 80C (as per note 4)	1,00,000
Total income	3,40,052
Total income (rounded off)	3,40,050

Computation of tax liability of Mr. Mahesh for the A.Y.2011-12

	Rs.	Rs.
Step 1		
Add: Agricultural income and Non-agricultural income (Rs. 45,000 + Rs.3,40,050)		
Tax on Rs. 3,85,050	22,505	
Step 2		
Add: Basic exemption limit to agricultural income (Rs.1,60,000 + Rs.45,000)		
Tax on Rs.2,05,000	4,500	
Step 3		
Tax on non-agricultural income (Tax under step 1 – Tax under step 2) (Rs.22,505 – Rs.4,500)		18,005

Computation of Total Income and Tax Payable

Add: Education cess @2% and Secondary and higher education cess @ 1%	540
--	-----

Total tax liability	18,545
----------------------------	---------------

Rounded off	18,550
--------------------	---------------

Notes:

1.	Valuation of rent free house	Rs.
	Basic salary	1,75,000
	DA (not to be considered as it is not forming part of salary)	Nil
	Commission on extra production	12,000
	Bonus	8,000
	Special allowance	18,000
	Education allowance (See Note 3)	6,400
	Medical allowance	5,000
	Salary for the purpose of valuation of rent-free house	2,24,400
	Value of rent-free house = 15% of Rs.2,24,400	33,660

2. Valuation of perquisite of CD Player given for use by the employee

Taxable value of this perquisite is 10% p.a. of cost of the CD player w.e.f. 1.1.2011 (i.e. for 90 days)

10% of Rs.20,000 = 2,000 x 90/365 = Rs.493

Provision of laptop by the employer is a tax-free perquisite.

3.	Income from salary	Rs.
	Basic pay	1,75,000
	DA	1,40,000
	Bonus	8,000
	Commission	12,000
	Special Allowance	18,000
	Taxable education allowance (See Working Note below)	6,400
	Medical Allowance	5,000
	Total	3,64,400

Add :Taxable perquisites :

1. Rent free accommodation (Note 1)	33,660
-------------------------------------	--------

Taxation

2. Electricity Bill paid by employer	11,500	
3. CD Player given by employer (Note 2)	493	
		45,653
Taxable salary		4,10,053

Working Note - Education allowance exempt under section 10(14)

Education allowance of Rs.100 per month per child for a maximum of 2 children plus hostel allowance of Rs.300 per month per child for a maximum of 2 children is exempt.

i.e. $(100 \times 2 \times 12) + (300 \times 2 \times 12) = 2400 + 7200 = \text{Rs.} 9,600$

Therefore, taxable education allowance would be $\text{Rs.} 16,000 - \text{Rs.} 9,600 = \text{Rs.} 6,400$.

4. Particulars of investments/payments deductible under section 80C	Rs.
Investment in notified mutual fund	25,000
Investment in PPF	15,000
Investment in 5 year Time Deposit in Post Office	10,000
Tuition fees of children (assumed to be paid to an eligible educational institution – hence qualifies for deduction under section 80C)	60,000
	1,10,000

However, the total deduction under section 80C cannot exceed Rs.1,00,000. This restriction is contained in section 80CCE.

Therefore, the permissible deduction under section 80C = 1,00,000

5. Taxability of gift received from grandfather

Gift from a relative is not taxable under section 56(2)(vii). Grandfather is a relative as per the definition of "relative" given in the Explanation to section 56(2)(vii) and hence Rs.25,000, being gift received from grandfather, is not taxable.

Question 3

Rajat is a Chartered Accountant in practice. He maintains his accounts on cash basis. He is a Resident and ordinarily resident in India. His profit and loss account for the year ended March 31, 2011 reads as follows:

Expenditure	Rs.	Income	Rs.
Salary to staff	5,25,000	Fees earned:	
Stipend to articled assistants	18,000	Audit	6,65,800

Computation of Total Income and Tax Payable

<i>Incentive to articled assistants</i>	5,000	<i>Taxation services</i>	4,68,600	
<i>Office rent</i>	24,000	<i>Consultancy</i>	<u>3,82,000</u>	15,16,400
<i>Printing and stationery</i>	6,600	<i>Dividend on shares of Indian companies (gross)</i>		9,635
<i>Meeting, seminar and conference</i>	38,600	<i>Income from Unit Trust of India</i>		6,600
<i>Repairs, maintenance and petrol of car</i>	22,400	<i>Profit on sale of shares</i>		15,620
<i>Subscription and periodicals</i>	15,000	<i>Honorarium received from various institutions for valuation of answer papers</i>		16,350
<i>Postage, telegram and fax</i>	32,500	<i>Rent received from residential flat let out</i>		84,000
<i>Depreciation</i>	29,500			
<i>Travelling expenses</i>	55,000			
<i>Municipal tax paid in respect of house property</i>	1,000			
<i>Net profit</i>	8,76,005			
	<u>16,48,605</u>			<u>16,48,605</u>

Other information:

- (i) *The total travelling expenses incurred on foreign tour was Rs.20,000 which was within the RBI norms.*
- (ii) *Incentive to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.*
- (iii) *Repairs and maintenance of car includes Rs.1,600 for the period from 1.10.2010 to 30.09.2011.*
- (iv) *Salary include Rs.30,000 to a computer specialist in cash for assisting Mr. Rajat in one professional assignment.*
- (v) *Rs.1,500, interest on loan paid to LIC on the security of his Life Insurance Policy and utilised for repair of computer, has been debited to the drawing account of Mr. Rajat.*

Taxation

(vi) *Medical Insurance Premium on the health of:*

	Amount	Mode of payment
Self	10,000	By Cheque
Dependent brother	5,000	By Cheque
Major son dependent on him	3,000	By Cash
Minor married daughter	2,000	By Cheque
Wife dependent on assessee	6,000	By Cheque

(vii) *Shares sold were held for 10 months before sale.*

(viii) *Rajat paid life membership subscription of Rs.1,000 to Chartered Accountants Benevolent Fund. The amount was debited to his drawings account. The Chartered Accountants Benevolent Fund is an approved fund under section 80G of Income-tax, 1961.*

Compute the total income and tax payable of Rajat for the Assessment year 2011-12

Answer

Computation of Total Income of Mr. Rajat for Assessment Year 2011-12.

Particulars	Working Note Nos.	Amount in Rs.
Income from House Property	1	58,100
Profit and gains of Business or Profession	2	7,73,300
Short-term capital gains	3	15,620
Income from other sources	4	16,350
Gross Total Income		8,63,370
Less: Deduction under Chapter VI-A	5	<u>15,500</u>
Total Income		<u>8,47,870</u>
Tax on total income		
Total Income		8,47,870
Less: Short-term capital gains (See Note 10 below)		<u>15,620</u>
Normal Income		<u>8,32,250</u>
Tax on normal income		1,03,675
Tax on short-term capital gains @15%		<u>2,343</u>

Computation of Total Income and Tax Payable

	1,06,018
<i>Add: Education cess @ 2% and SHEC @ 1%</i>	<u>3,180</u>
Total tax liability	<u>1,09,199</u>
Total tax liability (rounded off)	1,09,200

Notes :

(1) Income from House Property

Gross annual value	84,000	
Less: Municipal taxes paid by owner	<u>1,000</u>	
Net Annual Value (NAV)	83,000	
Less: Deduction under section 24 @ 30% of NAV	<u>24,900</u>	58,100

Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Net profit as per Profit & Loss Account		8,76,005
<i>Add: Expenses debited to the Profit & Loss Account but not allowable</i>		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs.20,000	30,000	
(ii) Municipal Taxes paid in respect of residential flat let out	<u>1,000</u>	<u>31,000</u>
		9,07,005
<i>Less: Expenses allowable but not debited to profit and loss account</i>		
Interest paid on loan taken from LIC used for repair of computer		<u>1,500</u>
		9,05,505
<i>Less: Income credited to Profit & Loss Account but not taxable under this head:</i>		
(i) Dividend on shares of Indian companies	9,635	
(ii) Income from UTI	6,600	

Taxation

(iii)	Profit on sale of shares	15,620	
(iv)	Honorarium for valuation of answer papers	16,350	
(v)	Rent received from letting out of residential flat	<u>84,000</u>	<u>1,32,205</u>
			<u>7,73,300</u>
(3)	Capital gains:		
	Short term capital gain on sale of shares		15,620
(4)	Income from other sources:		
	Dividend on shares of Indian companies	9,635	
	Less: Exempt under section 10(34)	<u>9,635</u>	Nil
	Income from UTI	6,600	
	Less: Exempt under section 10(35)	<u>6,600</u>	Nil
	Honorarium for valuation of answer papers	<u>16,350</u>	16,350
(5)	Deduction under Chapter VI-A :		
	Deduction under section 80D (Medical Insurance Premium)		
	Policy holder	Amount of Premium (Rs.)	Amt. eligible for deduction (Rs.)
	Self	10,000	10,000
	Dependent brother	5,000	Nil
	Major son dependent on him	3,000	Nil
	Minor married daughter	2,000	Nil
	Wife dependent on assessee	<u>6,000</u>	<u>6,000</u>
			<u>16,000</u>
	Amount of deduction is restricted to Rs.15,000		15,000
	Deduction under section 80G (Donation)		
	Donation to CA Benevolent Fund (50% of Rs.1,000)		<u>500</u>
	Total deduction under Chapter VI-A		<u>15,500</u>

Computation of Total Income and Tax Payable

Note – Premium paid to insure the health of brother is not eligible for deduction under section 80D. Premium paid to insure the health of son is not eligible for deduction since payment is made in cash. Premium paid to insure the health of minor married daughter is not eligible for deduction as she is not dependent on Mr. Rajat.

- (6) Rs.20,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with his professional work. Therefore, it requires no further treatment.
- (7) Incentive to articled assistants passing IPCC examination in their first attempt is deductible under section 37(1).
- (8) Repairs and maintenance paid in advance for the period 1.4.2011 to 30.9.2011 i.e. for 6 months amounting to Rs.800 will be allowed since Mr. Rajat is following the cash system of accounting.
- (9) It is assumed that the transaction of sale of shares has been entered into in a recognized stock exchange and that securities transaction tax has been paid on such sale. Since the period of holding of these shares is less than 12 months, the profit arising therefrom is a short-term capital gain chargeable to tax at 15% under section 111A.

Question 4

Dr. Sparsh Kumar is running a clinic. His Income and Expenditure account for the year ending 31st March, 2011 is given below:

Expenditure	Amount Rs.	Income	Amount Rs.
To Staff Salary	4,30,000	By Fees Receipts	12,63,600
To Consumables	9,250	By Dividend from Indian Companies	9,500
To Medicine consumed	3,64,800	By Winning from Lotteries (Net of TDS of Rs.12,000)	28,000
To Depreciation	91,000	By Income-tax refund	2,750
To Administrative Expenses	1,46,000		
To Donation to Prime Minister's National Relief Fund	15,000		
To Excess of Income over expenditure	2,47,800		
Total	13,03,850	Total	13,03,850

Taxation

- (i) Depreciation in respect of all assets has been ascertained at Rs.50,000 as per Income-tax Rules.
- (ii) Medicines consumed include medicine of (cost) Rs.16,000 used for his family.
- (iii) Fees Receipts include Rs.14,000 honorarium for valuing medical examination answer books.
- (iv) He has also received Rs.80,000 on account of Agricultural Income which had not been included in the above Income and Expenditure Account.
- (v) He has also received Rs.57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.
- (vi) He received Rs.6,000 per month as salary from a City Care Centre. This has not been included in the 'Fees Receipts' credited to Income and Expenditure Account.
- (vii) He has sold land in June, 2010 for Rs.6,00,000 (valuation as per stamp valuation authority Rs.11,00,000). The land was acquired by him in October, 1998 for Rs.4,50,000.
- (viii) He has paid premium of another LIC Policy Rs.12,000 (sum assured Rs.50,000).
- (ix) He has paid Rs.2,500 for purchase of lottery tickets.

From the above, compute the income and tax payable of Dr. Sparsh Kumar for the Asst. year 2011-12.

Cost Inflation Index: F.Y. 1998-99 – 351; F.Y. 2010-11 - 711.

Answer

Computation of total income and tax liability of Dr. Sparsh Kumar for the A.Y. 2011-12

Particulars	Rs.
Income from salary (Working Note – 1)	72,000
Income from business (Working Note – 2)	2,65,550
Long-term capital gains (Working Note – 3)	1,88,461
Income from other sources (Working Note – 4)	54,000
Gross Total Income	5,80,011
Less: Deduction under Chapter VI-A (Working Note – 5)	25,000
Total Income	5,55,011
Rounded off	5,55,010

Computation of Total Income and Tax Payable

Tax on total income (Working Note - 6)	66,347
Add: Education cess @ 2% and SHEC @1%	1,990
Total tax liability	68,337
Less: Tax deducted at source (TDS)	12,000
Tax payable	56,337
Rounded off	56,340

Working Notes:

1. Computation of salary income

Particulars	Rs.
Gross Salary (6,000×12)	72,000
Less: Deduction under section 16	Nil
Net Salary	72,000

2. Computation of income under the head “Profits and gains of business or profession”

Particulars	Rs.	Rs.
Net Income as per Income and Expenditure Account		2,47,800
Add: Expenses disallowed:		
Depreciation (91,000 - 50,000)	41,000	
Cost of medicine for self-use	16,000	
Donation to Prime Minister's Relief Fund	15,000	72,000
		3,19,800
Less: Dividend from Indian companies	9,500	
Income-tax refund	2,750	
Winning from Lotteries	28,000	
Honorarium for valuing answer books	14,000	54,250
		2,65,550

3. Computation of Capital Gains

Particulars	Rs.	Rs.
Sale consideration	6,00,000	

Taxation

Valuation as per Stamp Valuation Authority	11,00,000
(Value to be taken higher of actual sale consideration or valuation adopted for stamp duty purposes as per section 50C)	
Consideration for the purpose of capital gain	11,00,000
Less: Cost of acquisition = $\frac{4,50,000 \times 711}{351}$	9,11,538
Long term capital gain	1,88,461

4. Computation of income under the head "Income from other sources"

Particulars	Rs.	Rs.
Dividend from Indian Companies [Exempt u/s 10(34)]		-
Honorarium for valuing answer books		14,000
Winning from Lotteries (Net)	28,000	
Add: TDS	12,000	40,000
Income from other sources		54,000

Note : As per section 58(4), no expense or deduction is allowable in respect of winnings from lotteries.

5. Computation of deduction under Chapter VI-A

Particulars	Rs.
U/s 80C Life Insurance Premium (maximum 20% of sum assured)	10,000
U/s 80G Donation to Prime Minister's Relief Fund [See Note below]	15,000
Total deduction under Chapter VI-A	25,000

Note –The donation made to the Prime Minister's National Relief Fund qualifies for 100% deduction under section 80G.

6. Computation of tax on total income

Particulars	Rs.
Tax on agricultural income plus non-agricultural income i.e. tax on Rs.6,35,010, (being Rs.80,000 + 5,55,010) [See Note below]	74,347
Less: Tax on agricultural income plus basic exemption limit i.e. tax on Rs.2,40,000, (being Rs.80,000 + 1,60,000)	8,000
Tax on total income	66,347

Computation of Total Income and Tax Payable

Note : Tax on Rs.5,55,010 plus agricultural income of Rs.80,000 is computed hereunder :

Particulars	Rs.
Tax on long term capital gain	
Rs.1,88,461 @ 20%	37,692
Tax on winnings from lotteries	
Rs.40,000 @ 30%	12,000
Tax on balance income of (Rs.3,26,550+ 80,000)	24,655
	74,347

Note : Agricultural income is exempt from tax. It is considered for rate purpose only.

7. Any sum received under a life insurance policy is wholly exempt from tax under section 10(10D).

Question 5

Dr. Krishna furnishes you the following information:

Income and Expenditure Account for the year ended 31st March 2011.

	Rs.		Rs.
To Medicines consumed	2,42,000	By Fee receipts	8,47,500
To Staff salary	1,65,000	By Rent	27,000
To Hospital consumables	47,500	By Dividend from Indian companies	9,000
To Rent paid	60,000		
To Administrative expenses	1,23,000		
To Net Income	2,46,000		
	8,83,500		8,83,500

- (i) Rent paid includes rent for his residential accommodation of Rs.30,000 (paid by cheque) at Bangalore.
- (ii) Hospital equipments (eligible for depreciation @ 15%)
 01.04.2010 Opening WDV Rs.5,00,000
 07.12.2010 Acquired (Cost) Rs.2,00,000
- (iii) Medicines consumed include medicines (cost) Rs.10,000 used for Dr. Krishna's family.

Taxation

- (iv) Rent received – relates to a property situated at Mysore (Gross Annual Value). The municipal tax of Rs.2,000 paid in December, 2010 has been included in the “administrative expenses”.
- (v) He received Rs.5,000 per month as salary from Full Cure Hospital. This has not been included in the “fee receipts” credited to income and expenditure account.
- (vi) He sold a vacant site in July, 2010 for Rs.5,00,000. It was inherited by him from his father in January, 1998. The site was acquired by his father in December, 1990 for Rs. 1,50,000.

(Cost inflation index 1990-91 = 182; 1997-98 = 331 and 2010-11 = 711)

Compute Dr. Krishna’s taxable income for the year ended 31.03.2011.

Answer

Computation of taxable income of Dr.Krishna for the previous year ended 31.03.2011

Particulars	Rs.	Rs.
Income from Salaries		
Salary received @ Rs.5,000 per month		60,000
Income from house property		
Gross annual value	27,000	
Less: Municipal tax	2,000	
Net annual value	25,000	
Less: Deduction u/s.24 @ 30%	7,500	
		17,500
Income from business or profession		
Net income as per income & expenditure account	2,46,000	
Add: Rent paid to residence	30,000	
Medicines consumed – personal use	10,000	
Municipal tax relating to let out property included in administrative expenses – disallowed	2,000	
	2,88,000	
Less: Depreciation (See working note 2)	90,000	
Rent credited to income & expenditure account	27,000	

Computation of Total Income and Tax Payable

Dividend from Indian companies [Exempt u/s.10(34)]	9,000	
		1,62,000
Capital Gains (Long term capital gains)		
Sale consideration	5,00,000	
Less: Indexed cost acquisition (1,50,000 x 711/331)	3,22,205	
		1,77,794
Gross Total income		4,17,294
Less: Deduction under chapter VIA – Section 80GG		
Under section 80GG, rent paid would be allowable as a deduction to the extent of the last of the following		
(i) 25% of total income = 25% of Rs.2,39,500	59,875	
(ii) Excess of rent paid over 10% of total income (30,000 - 23,950)	6,050	
(iii) Rs.2,000 per month	24,000	
Least of the above		6,050
Total Income		4,11,244

Note :

- Deduction under section 80GG is to be made from Gross Total Income. Gross Total Income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross Total Income and Chapter VI-A deductions should be allowed as if the Gross Total income so reduced were the Gross Total Income of the assessee. Therefore, in this case, for the purpose of allowing deduction u/s 80GG, Gross Total Income = 4,53,095 – 2,13,595 = 2,39,500.
- Depreciation on plant & machinery

	Rs.
On opening WDV of Rs.5,00,000 @ 15%	75,000
On equipment acquired Rs.2,00,000 @ 15%	15,000
(50% thereon, since acquired in December)	
	90,000
- Since the property was acquired by Dr. Krishna through inheritance, the cost of acquisition to him will be the cost to the previous owner. However, indexation will be from the year in which the assessee (i.e., Dr. Krishna in this case) first held the asset i.e. F.Y. 1997-98.

Taxation

Question 6

Mr. Pankaj, aged 58 years, who retired from the services of the Central Government on 30.6.10, furnishes particulars of his income and other details as under:

- ◆ Salary @ Rs.6,000 p.m.
- ◆ Pension @ Rs.3,000 p.m. for July' 10 to Nov' 10.
- ◆ On 1.12.2010, he got 1/3rd of his pension commuted for Rs.1,20,000.
- ◆ A house plot at Ernakulam sold on 1.2.11 for Rs.5,00,000 had been purchased by him on 3.11.79 for Rs.10,000. The stamp valuation authority had assessed the value of said house plot at Rs.6,00,000 which was neither disputed by the buyer nor by him. The value of this house plot as on 1.4.81 was Rs.15,000 (The cost inflation index for the year 2010-11 is 711).
- ◆ Received interest on bank FDRs of Rs.72,500, dividend on mutual fund units of Rs.15,000 and interest on maturity of NSC of Rs.50,000 out of which an amount of Rs.40,000 was already disclosed by him on accrual basis in the returns upto assessment year 2011-12.
- ◆ Investment in purchase of NSC for Rs.30,000 and payment for mediclaim insurance for self and wife of Rs.12,500. Made investment in Tax Magnum units of Mutual Fund of SBI of Rs.80,000.

Compute the total income of Mr. Pankaj for A.Y. 2011-12.

In the event of Mr. Pankaj being ready to make appropriate investment for availing exemption in respect of capital gain arising from sale of house plot, what will be the amount to be invested and the period within which the same should be invested?

- (a) if he wishes to avail exemption under section 54F by constructing a new residential house;
- (b) if he wants to avail exemption under section 54EC.

Answer

Computation of total income of Mr. Pankaj for A.Y.2011-12

Particulars	Rs.
Income from salaries (See Working Note 1)	41,000
Capital gains (See Working Note 2)	4,93,350
Income from other sources (See Working Note 3)	82,500
Gross Total Income	6,16,850
Less: Deductions under Chapter VI-A (See Working Note 4)	1,12,500
Total Income	5,04,350

Computation of Total Income and Tax Payable

Working Notes:

1. Income from salaries

Particulars	Rs.
Salary for 3 months received from Government of India (6000 x 3)	18,000
Pension for 5 months from July'10 to Nov'10 @ Rs.3000 p.m. (3000 x 5)	15,000
Pension for 4 months from Dec'10 to March'11 @ Rs.2,000 p.m.(2,000 x 4)	8,000
	41,000

Note : Commuted value of pension of Rs.1,20,000 received from the Central Government is fully exempt under section 10(10A).

2. Capital gains

Particulars	Rs.
Long term capital gains on sale of house plot at Ernakulam on 01.02.2011	
Sale consideration received is Rs.5,00,000. However, since the value assessed by the stamp valuation authority (i.e. Rs.6,00,000) is higher than the sale consideration, such value assessed is deemed to be the full value of the consideration received or accruing as a result of such transfer as per section 50C	6,00,000
Less: Indexed cost of acquisition	
$15,000 \times \frac{711}{100}$	1,06,650
	4,93,350

3. Income from other sources

Particulars	Rs.	Rs.
Interest on bank FDRs		72,500
Dividend of Rs.15,000 on units of Mutual Fund [exempt under section 10(35)]		-
Interest on maturity of NSC	50,000	
Less: Interest already shown on accrual basis in the past returns	40,000	10,000
		82,500

4. Deductions under Chapter VI-A

Particulars	Rs.	Rs.
Under section 80C		
Purchase of NSC	30,000	

Taxation

Tax Magnum units of Mutual Fund of SBI	80,000	
Total	1,10,000	
Maximum deduction available under section 80C		1,00,000

Under section 80D

Medical insurance premium paid Rs.12,500 (assumed to have been paid by cheque)	12,500	
		<u>1,12,500</u>

Investment in approved modes

Section 54F (by constructing a new house)

In order to avail exemption under section 54F by constructing a new residential house, the assessee should construct a residential house within three years from the date of transfer of house plot. To avail the maximum exemption, the entire net consideration received from sale of house plot should be invested. If only part of the net consideration is invested, then proportionate exemption of long term capital gains would be available i.e.

$$\text{Long term capital gain} \times \frac{\text{Amount invested in new residential house}}{\text{Net sale consideration}}$$

Section 54EC

In order to avail maximum exemption under section 54EC, the assessee should invest the entire long-term capital gain arising from transfer of the house plot, i.e. Rs.4,93,350, within six months from the date of sale of house plot, in bonds of National Highways Authority of India (NHAI) or Rural Electrification Corporation Ltd. (RECL). If only part of the capital gain is invested, then the exemption would be restricted to the amount invested in such bonds.

Question 7

The broad break-up of tax and allied details of Mrs. Rinku, born on 30th March, 1946 are as under:

	Rs.
Long-term capital gains on sale of house	2,00,000
Short-term capital gains on sale of shares in B Pvt. Ltd.	30,000
Prize winning from a T.V. show	20,000
Business income	2,20,000
Net agricultural income	40,000

Computation of Total Income and Tax Payable

Mrs. Rinku has paid the following:

LIC premium of self	40,000
LIC premium of husband	20,000

Compute the tax payable by Mrs. Rinku for the assessment year 2011-12.

Answer

Computation of tax payable by Mrs. Rinku for the A.Y.2011-12

Particulars	Rs.	Rs.
Step 1		
Add Agricultural income and Non-agricultural income (Rs.40,000 + Rs.4,10,000) [For computation of non-agricultural income, see Note 1 below]		4,50,000
Tax on the above income		
(i) Tax on long-term capital gain of Rs.1,90,000 @ 20% [2,00,000 – 10,000 (unexhausted basic exemption limit)]	38,000	
(ii) Tax on winnings of Rs.20,000 from a T.V. show @ 30%	6,000	
(iii) Tax on balance income of Rs.2,30,000	Nil	
Total tax on Rs.4,50,000		44,000
Step 2		
Add Basic exemption limit to agricultural income (Rs.2,40,000 + Rs.40,000)		2,80,000
Tax on Rs.2,80,000		4,000
Step 3		
Tax on non-agricultural income (Tax under step 1 – Tax under step 2) (Rs.44,000 – Rs.4,000)		40,000
Add: Education cess @ 2%		800
Add: Secondary and higher education cess @ 1%		400
Tax payable by Mrs. Rinku		41,200

Taxation

Notes :

1. Computation of total income of Mrs. Rinku for the A.Y.2011-12

Particulars	Rs.	Rs.
Business income		2,20,000
Long term capital gains on sale of house		2,00,000
Short term capital gains on sale of shares in B Pvt. Ltd		30,000
Prize winnings from a T.V. show		20,000
Gross Total Income		4,70,000
Less: Deduction under section 80C		
Life insurance premium of self	40,000	
Life insurance premium of husband	20,000	60,000
Total Income		4,10,000

2. Mrs. Rinku has completed 65 years of age during the P.Y.2010-11. Therefore, she is entitled to the higher basic exemption limit of Rs. 2,40,000.

3. Short-term capital gains on sale of shares in B Pvt. Ltd. is taxable at normal rates.

Question 8

Ramdin working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2011:

– Basic Salary	Rs. 15,000 p.m.
– DA (50% of it is meant for retirement benefits)	Rs. 12,000 p.m.
– Commission as a percentage of turnover of the Company	0.5 %
– Turnover of the Company	Rs. 50 lacs
– Bonus	Rs. 50,000
– Gratuity	Rs. 30,000
– Own Contribution to R.P.F.	Rs. 30,000
– Employer's contribution to R.P.F.	20% of basic salary
– Interest credited in the R.P.F. account @ 15% p.a..	Rs. 15,000
– Gold Ring worth Rs.10,000 was given by employer on his 25 th wedding anniversary.	

Computation of Total Income and Tax Payable

- Music System purchased on 01.04.10 by the company for Rs. 85,000 and was given to him for personal use.
- Two old heavy goods vehicles owned by him were leased to a transport company against the fixed charges of Rs.6,500 p.m. Books of account are not maintained.
- Received interest of Rs.5,860 on bank FDRs, dividend of Rs. 1,260 from shares of Indian Companies and interest of Rs. 7,540 from the debentures of Indian Companies.
- Made payment by cheques of Rs.15,370 towards premium of Life Insurance policies and Rs.12,500 for Mediclaim Insurance policy.
- Invested in 6 years NSC Rs.30,000 and in FDR of SBI for 7 years Rs. 50,000.
- Donations of Rs.11,000 to an institution approved u/s 80G and of Rs.5,100 to Prime Minister's National Relief Fund were given during the year.

Compute the total income and tax payable thereon for the A.Y. 2011-12.

Answer

Computation of Total Income for the A.Y. 2011-12

Particulars	Rs.	Rs.
Income from Salaries		
Basic Salary (15,000 x 12)		1,80,000
Dearness Allowance (12,000 x12)		1,44,000
Commission on Turnover (0.5% of Rs. 50 lacs)		25,000
Bonus		50,000
Gratuity (Note 1)		30,000
Employer's contribution to RPF		
Actual contribution [20% of Rs. 1,80,000]	36,000	
Less: Exempt (Note 2)	33,240	2,760
Interest credited in RPF account @ 15% p.a.	15,000	
Less: Exempt upto 9.5% p.a. upto 31.8.2010 and upto 8.5% p.a. from 1.9.2010	8,917	6,083
Gift of gold ring worth Rs.10,000 on 25 th wedding anniversary by employer		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of Rs. 85,000		8,500
		4,56,343

Taxation

Profits and Gains of Business or Profession

Lease of 2 trucks on contract basis against fixed charges of Rs. 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. Rs. 5,000 p.m. for each of the two trucks (5,000x 2 x12). He cannot claim lower profits and gains since he has not maintained books of account.

1,20,000

Income from Other Sources

Interest on bank FDRs	5,860	
Interest from debentures	7,540	
Dividend on shares [Exempt under section 10(34)]	Nil	13,400

Gross total Income **5,89,743**

Less: Deductions under Chapter VI-A

Section 80C

LIC 15,370

NSC 30,000

FDR of SBI for 7 years 50,000

Employee's contribution to R.P.F. 30,000

Total 1,25,370

Limited to 1,00,000

Section 80D Mediclaim Insurance 12,500

Section 80G (Note 3) 10,600 1,23,100

Total Income **4,66,643**

Tax on total income

Income-tax 30,664

Add: Education cess @ 2% 613

Add: Secondary and higher education cess @ 1% 307

Total Tax Payable **31,584**

Tax Payable (rounded off) **31,580**

Notes:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the R.P.F. is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)

Computation of Total Income and Tax Payable

$$\begin{aligned}
 &= 12\% \text{ of } (\text{Rs. } 1,80,000 + (50\% \text{ of Rs. } 1,44,000) + \text{Rs. } 25,000) \\
 &= 12\% \text{ of } 2,77,000 \\
 &= \text{Rs. } 33,240
 \end{aligned}$$

3. Deduction under section 80G is computed as under:

	Rs.
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of Rs.11,000) (amount contributed Rs.11,000 or 10% of Adjusted Gross Total Income i.e. Rs.47,724, whichever is lower)	5,500
Total deduction	10,600
Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D = Rs.5,89,743 – Rs.1,12,500 = Rs.4,77,243.	

Question 9

Dr. Niranjana, a resident individual, aged 60 years is running a clinic. Her Income and Expenditure Account for the year ending March 31st, 2011 is as under:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Medicine consumed	5,38,400	By Consultation and Medical charges	18,85,850
To Staff salary	3,80,000	By Income-tax refund (Principal Rs.5,000, interest Rs.450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI	10,500
To Rent paid	90,000	By winning from game show on T.V. net of TDS (TDS Rs. 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved under section 35	1,50,000		
To Net profit	4,40,400		
	19,63,800		19,63,800

(i) Rent paid includes Rs.30,000 paid by cheque towards rent for her residential house.

Taxation

(ii) Clinic equipments are:

1. 4. 2010	Opening W.D.V.	- Rs.5,00,000
7. 12. 2010	Acquired (cost)	- Rs.2,00,000

(iii) Rent received relates to property situated at Surat. Gross Annual Value Rs.27,000. The municipal tax of Rs.2,000, paid in December, 2010, has been included in "administrative expenses".

(iv) She received salary of Rs.7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".

(v) Dr. Niranjana availed a loan of Rs.5,50,000 from a bank for higher education of her daughter. She repaid principal of Rs.1,00,000, and interest thereon Rs.55,000 during the year 2010-11.

(vi) She paid Rs.1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.

(vii) An amount of Rs.18,000 has also been paid by cheque on 27th March, 2011 for her medical insurance premium.

From the above, compute the total income and tax payable thereon by Dr. Smt. Niranjana for the Assessment year 2011-12.

Answer

Computation of total income and tax liability of Dr. Niranjana for A.Y. 2011-12

Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
I Income from Salary			
Basic Salary (Rs.7,500 x 12)			90,000
II Income from house property			
Gross Annual Value (GAV)		27,000	
Less : Municipal taxes paid		2,000	
Net Annual Value (NAV)		25,000	
Less : Deduction under section 24 (@ 30% of Rs. 25,000)		7,500	17,500
III Income from profession			
Net profit as per Income and Expenditure account		4,40,400	
Less : Items of income to be treated separately			
(i) Rent received	27,000		

Computation of Total Income and Tax Payable

(ii) Dividend from units of UTI	10,500		
(iii) Winning from game show on T.V. (net of TDS)	35,000		
(iv) Income tax refund	5,450	77,950	
		<u>3,62,450</u>	
<i>Less : Allowable expenditure</i>			
Depreciation on Clinic equipments			
on Rs.5,00,000 @ 15%	75,000		
on Rs.2,00,000 @ 7.5%	15,000		
(On equipments acquired during the year after September 2010 she is entitled to depreciation @ 50% of normal depreciation)			
Additional deduction of 75% for amount paid to scientific research association (Since weighted deduction of 175% is available in respect of such payment)			
	1,12,500	2,02,500	
		<u>1,59,950</u>	
<i>Add: Items of expenditure not allowable while computing business income</i>			
(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	32,000	1,91,950
		<u></u>	
IV Income from other sources			
(a) Interest on income-tax refund		450	
(b) Dividend from UTI	10,500		
Less : Exempt under section 10(35)	10,500	Nil	
(c) Winnings from the game show on T.V. (Rs.35,000 + Rs.15,000)		50,000	
		<u>50,450</u>	
			<u>3,49,900</u>
Gross Total Income			
<i>Less: Deductions under Chapter VI A:</i>			
(a) Deduction under section 80C			
Tuition fee paid to university for full time education of her daughter		1,00,000	

Taxation

(b) Deduction under section 80D		
Medical insurance premium (maximum allowable upto Rs.15,000)	15,000	
(c) Deduction under section 80E		
Interest on loan taken for higher education is deductible	55,000	1,70,000
Total income		1,79,900

Tax Payable

Tax @ 30% on winnings of Rs.50,000 from T.V. game show	15,000	
Tax on balance income of Rs.1,29,900		Nil
		15,000
Add: Education cess @ 2%		300
Add: Secondary and higher education cess @ 1%		150
Total Tax payable		15,450
Less: TDS		15,000
Tax Payable		450

Notes:

- The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (Rs.35,000 + Rs.15,000). Thereafter, while computing tax liability, TDS of Rs.15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- It has been assumed that Dr. Niranjana is staying in a rented premises in Surat itself. Hence, she would not be eligible for deduction u/s 80GG, since she owns a house in Surat which she has let out.

Question 10

Mr. X is a resident individual. His Profit and Loss account for the year ending 31st March, 2011 is given below:

To	Amount	By	Amount
General charges	35,650	Gross Profit	5,25,860
Insurance	3,500	Commission	6,800

Computation of Total Income and Tax Payable

Staff Salary	1,12,560	Rent received	37,500
Donation to political party	1,000	Interest on debentures (Net amount Rs.22,500 plus TDS Rs. 2,500)	25,000
Depreciation	1,25,656	Agricultural income	45,000
Administrative expenses	42,500	Short term capital gain on sale of investment	29,000
Advance tax	17,000	Dividend from Indian Company	16,000
Net Profit	3,47,294		
	6,85,160		6,85,160

- (i) Depreciation has been calculated as per the Income Tax Rules at Rs. 75,000
- (ii) He has deposited Rs. 35,000 in a notified scheme under Post Office Time Deposit Rules, 1981 for a five year time period.
- (iii) He had bought 200 shares of AB Co. Ltd. on 5.12.2009 @ Rs. 75 each, 150 shares of PQ Co. Ltd. on 3.8.2010 @ Rs. 112 each and 150 shares of AB Co. Ltd. on 05.09.2010 @ Rs. 60 each. He sold all the shares of AB Co. Ltd. on 15.12.2010 @ Rs. 98 each and sold the shares of PQ CO. Ltd. on 10.3.2011 @ Rs. 102 each. All shares were sold in National Stock Exchange through a registered broker.
- (iv) One of his life insurance policies matured on 14.6.2010. The sum assured was Rs. 1,00,000 and amount received on maturity was Rs. 1,62,850.
- (v) Donation to the political party represented the contribution made to a political party registered under section 29A of the Representation of the People Act, 1951.
- (vi) Income tax department refunds Rs. 42,580 (including interest of Rs. 1,470) which was directly credited in his personal savings account.
- (vii) He incurred expenditure of Rs. 40,000 on treatment of his dependent father who was suffering from specified disease as defined in rule 11DD of Income Tax Rules, 1962. The payment of medical expenses was made by cheque and an amount of Rs. 7,500 was reimbursed to him by an insurance company.
- (viii) Bad debt of a business which was discontinued in earlier years, recovered during the year Rs. 15,000.

Compute total income and tax payable thereon by Mr. X for the assessment year 2011-2012.

Taxation

Answer

Computation of taxable income and tax payable by Mr. X for the Assessment year 2011-12

Particulars	Rs.	Rs.	Rs.
1. Income from House Property (Note 1)			26,250
2. Profits and gain of business or profession (Note 2)			2,78,450
3. Capital gains (Note 3)			33,200
4. Income from other sources (Note 4)			
			<u>26,470</u>
Gross Total income			3,64,370

Less : Deductions under Chapter VIA

(i) Deduction under section 80C (Note 5)		35,000	
(ii) Deduction under section 80DDB in respect of expenditure on medical treatment incurred on treatment of his father	40,000		
Less: Expenditure reimbursed by insurance company	<u>7,500</u>	32,500	
(iii) Deduction under section 80GGC in respect of contribution to the Political Party (Note 11)		<u>1,000</u>	68,500
Total income			<u>2,95,870</u>

Components of total income

Special Income		
Short-term capital gains from sale of shares (chargeable at a special rate of 15% u/s 111A)		4,200
Normal income		<u>2,91,670</u>
		<u>2,95,870</u>

Computation of tax

Tax on short-term capital gains from sale of shares @ 15% of Rs.4,200			630
Tax on agricultural income plus non-agricultural income aggregating to Rs.3,36,670			
First	1,60,000	NIL	0
Next	<u>1,76,670</u>	10%	<u>17,667</u>
	3,36,670		<u>17,667</u>
			18,297

Computation of Total Income and Tax Payable

Less: Tax on agricultural income plus basic exemption limit aggregating to Rs.2,05,000

First	1,60,000	Nil	0	
Next	45,000	10%	4,500	
	<u>2,05,000</u>		<u>4,500</u>	<u>4,500</u>
Income tax payable				13,797
Add : Education cess @ 2%				276
Secondary and higher education cess @ 1%				<u>138</u>
Total tax				14,211
Less : Tax deducted at source				<u>2,500</u>
				11,711
Less: Advance tax paid				<u>17,000</u>
Tax refundable				<u>5,289</u>

Notes:

1. Computation of Income from House Property

Gross Annual Value (GAV)	37,500
Rent received is taken as the GAV in the absence of other information	
Less: Municipal taxes paid	<u>Nil</u>
Net Annual Value (NAV)	37,500
Less: Deduction under section 24 @ 30% of NAV	<u>11,250</u>
	<u>26,250</u>

2. Computation of Profits and gains of business or profession

Net profit as per Profit & Loss account	3,47,294
Add : Inadmissible expenses	
Depreciation charges	1,25,656
Advance tax (Note 9)	17,000
Donation to political party	<u>1,000</u>
	1,43,056
Add: Recovery of bad debt (Note 8)	<u>15,000</u>
	5,05,950

Taxation

Less : Income chargeable under any other head / exempt income

Rent received	37,500	
Interest on debentures (gross)	25,000	
Agricultural income (Note 10)	45,000	
Short term capital gain on sale of investment	29,000	
Dividend from Indian Company (Note 10)	16,000	1,52,500
		3,53,450
Less: Depreciation as per Income-tax Act		75,000
		2,78,450

3. Computation of Capital Gains

Short term capital gains on sale of investment 29,000

Short term capital gains on sale of shares

Shares of AB Co. Ltd.

Sale consideration 150 shares @ Rs.98 each	14,700	
Less: Cost of 150 shares @ Rs.60 each	<u>9,000</u>	5,700

Shares of PQ Co. Ltd.

Sale consideration 150 shares @ Rs.102 each	15,300	
Less: Cost of 150 shares @ Rs.112 each	<u>16,800</u>	(1500)
		4,200
		33,200

Long term capital gains on sale of shares

Long-term capital gains on sale of 200 shares of AB Co. Ltd. is exempt under section 10(38). Nil

Since the holding period of 200 shares of AB Ltd. is more than twelve months, the capital gain on sale of such shares is a long-term capital gain and hence, exempt from income-tax.

Capital Gains 33,200

4. Computation of Income from other sources

Interest on debentures	25,000
Interest on refund from IT authority (Note 7)	<u>1,470</u>
Income from other sources	26,470

Computation of Total Income and Tax Payable

5. Five year time deposit in an account under Post Office Time Deposit Rules, 1981, is eligible for deduction under section 80C.
6. The maturity proceeds of the life insurance policy are exempt under section 10(10D) assuming that the policy does not fall under the exceptions stated under that section.
7. Refund of income tax is not taxable. However, interest on refund is chargeable to tax under the head "Income from other sources".
8. Recovery of bad debts, assumed to be allowed in full in an earlier year, is taxable under section 41(4), whether or not the business or profession in respect of which the deduction has been allowed is in existence at the time when it is recovered.
9. Advance tax is not allowable as deduction.
10. Agricultural income is exempt under section 10(1) and dividend from an Indian company is exempt from tax under section 10(34).
11. Contribution to a Political Party registered under section 29A of the Representation of the People Act, 1951 is deductible under section 80GGC.

Question 11

Dr. Parekh is a resident individual. His Income and Expenditure Account for the year ending 31st March, 2011 is given below:

To	Amount Rs.	By	Amount Rs.
Salary to staff	3,78,000	Consultation fees	11,85,000
Cost of medicine	6,35,000	Cost of medicines recovered	7,85,000
Rent	66,000	Stock of medicine	25,000
Administrative cost	1,98,000	Interest on Post Office MIS	86,400
Advance tax	2,40,000	Interest on Time Deposit with bank (Net of TDS Rs.3,000)	27,000
Membership fees	5,000	Rent received	20,000
Depreciation on apparatus	42,500	Winning from lotteries (Net of TDS Rs.3,000)	7,000
Net profit	5,70,900		
	21,35,400		21,35,400

(i) He has deposited Rs.70,000 in PPF.

Taxation

- (ii) He received salary of Rs.1,50,000 and commission of Rs.50,000 from a nursing home in which Dr. (Mrs.) Parekh also an equal partner.
- (iii) He received fees of Rs.50,000 from University of Trinidad as lecturer.
- (iv) Received pension of Rs.84,000 from LIC Jeevan Suraksha.
- (v) Paid Rs.22,500 by cheque as mediclaim insurance premium for his medical treatment.
- (vi) He paid LIC premium of Rs.80,000 for his own life.
- (vii) Cost of administration includes Rs.3,000 paid for municipal tax for the house let out to a tenant.
- (viii) Depreciation as per Income-tax Rules to be computed as follows:

WDV as on 1.4.2010	Rs 3,00,000
Rate of depreciation	@ 15%
- (ix) Cost of lottery tickets amounting to Rs.350 has not been debited to Income and Expenditure account.

You are required to compute the total income and tax payable thereon by Dr. Parekh for the assessment year 2011-12.

Answer

Computation of total Income and tax payable by Dr. Parekh for the A. Y. 2011-12

	Rs.	Rs.	Rs.
1. Income from House Property (Note 1)			11,900
2. Profits and gains of business or profession (Note 2)			8,71,000
3. Income from other sources (Note 3)			2,60,400
Gross Total income			11,43,300
Less: Deductions under Chapter VIA			
(i) Deduction under section 80C			
Investment in PPF	70,000		
Life insurance premium paid	80,000		
	<u>1,50,000</u>		
Deduction restricted to		1,00,000	

Computation of Total Income and Tax Payable

(ii) Deduction under section 80D

Mediclaime premium paid by cheque for himself	22,500		
Deduction restricted to		15,000	1,15,000
Total income			10,28,300

Components of Total Income

Special income :

Winning from lotteries (chargeable at special rate @ 30% u/s 115BB) 10,000

Normal income 10,18,300

10,28,300

Computation of Tax

Tax on winnings from lotteries @ 30% 3,000

Tax on normal income (Rs.10,18,300)

First	1,60,000	Nil	0	
Next	3,40,000	10%	34,000	
Next	3,00,000	20%	60,000	
Balance	2,18,300	30%	65,490	
	10,18,300		1,59,490	1,59,490

Income tax payable 1,62,490

Add: Education cess @2% 3,250

Secondary and higher education cess @1% 1,625

Total Tax Payable **1,67,365**

Less: Tax deducted at source

from Interest 3,000

from lottery income 3,000 6,000

1,61,365

Less : Advance tax paid 2,40,000

Refund **(-) 78,635**

Taxation

Working Notes:

Note 1

Computation of Income from House Property

Gross Annual Value – Rent received (treated as fair rent)	20,000
Less : Municipal taxes paid	3,000
Net Annual Value (NAV)	17,000
Less : Statutory deduction under section 24 @ 30% NAV	5,100
Income from House Property	11,900

Note 2

Computation of Profits and gains of business or profession

Net Profit as per Income & Expenditure Account	5,70,900
--	----------

Add :

Depreciation charged	42,500	
Municipal Taxes paid	3,000	
Advance Tax	2,40,000	2,85,500
		8,56,400

Less:

Rent received	20,000	
Interest on Post Office MIS	86,400	
Interest on Term Deposit with bank (Net of TDS)	27,000	
Winning from lotteries (Net of TDS)	7,000	
Depreciation as per Income Tax Act.	45,000	1,85,400
		6,71,000
Salary from Nursing Home as partner	1,50,000	
Commission from Nursing home as partner	50,000	2,00,000
Income from business		8,71,000

Note 3

Computation of Income from Other Sources

Interest Post Office MIS	86,400
--------------------------	--------

Computation of Total Income and Tax Payable

Interest on Term Deposit with Bank (Gross)	30,000
Winning from lotteries (Gross)	10,000
Fees from University of Trinidad	50,000
Pension from LIC Jeevan Suraksha	84,000
Income from Other Sources	2,60,400

Note 4

Advance Tax is not allowable as deduction.

Note 5

Depreciation of Apparatus :

WDV as on 1.4.2010	3,00,000
Depreciation @15%	45,000
WDV as on 31.3.2011	2,55,000

Note 6

Any salary, bonus, commission or remuneration by whatever name called due to or received by a partner of a firm from the firm shall not be treated as salary but it shall be treated as income from business or profession for the purposes of section 28.

Note 7

As per section 58(4), no expenditure can be allowed against winnings from lotteries. Therefore, amount spent on lottery tickets being Rs.350, cannot be allowed as deduction from income from winnings of lotteries.

Note 8

Pension from LIC Jeevan Suraksha is taxable as Income from other sources.

Question 12

From the following particulars furnished by Mr. X for the year ended 31.3.2011, you are requested to compute his total income and tax payable for the assessment year 2011-12.

- (a) *Mr. X retired on 31.12.2010 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Mumbai.*
- (b) *He was paid a salary of Rs.25,000 p.m. and house rent allowance of Rs.6,000 p.m. He paid rent of Rs.6,500 p.m. during his tenure of service.*
- (c) *On retirement, he was paid a gratuity of Rs.3,50,000. He was not covered by the payment of Gratuity Act. His average salary in this regard may be taken as Rs.24,500.*

Taxation

Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.

- (d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of Rs.3,15,000 was received by him in this regard. His average salary may be taken as Rs.24,500.*
- (e) After retirement, he ventured into textile business and incurred a loss of Rs.80,000 for the period upto 31.3.11.*
- (f) Mr. X has invested Rs.22,500 in recognized provident fund, Rs.40,000 in public provident fund and Rs.37,500 in National Savings Certificates.*

Answer

Computation of total income of Mr. X for A.Y.2011-12

	Rs.	Rs.	Rs.
Income from Salaries			
Basic salary (Rs.25,000 x 9 months)			2,25,000
House rent allowance			
Actual amount received		54,000	
Less : Exemption u/s.10(13A)(Note 1)		36,000	18,000
Gratuity			
Actual amount received		3,50,000	
Less: Exemption u/s.10(10)(iii) (Note 2)		3,06,250	43,750
Leave encashment			
Actual amount received		3,15,000	
Less : Exemption u/s.10(10AA) (Note 3)		2,45,000	70,000
Gross Salary			3,56,750
Profits and gains of business or profession			
Business loss of Rs.80,000 to be carried forward as the same cannot be set off against salary income.			Nil
Gross Total income			3,56,750
Less : Deduction u/s.80C			
RPF	22,500		
PPF	40,000		
NSC	37,500		
			1,00,000

Computation of Total Income and Tax Payable

Total income	2,56,750
Tax on total income	9,675
Add : Education cess @ 2% and Secondary and higher education cess @ 1%	290
Tax payable	9,965
Tax payable (rounded off)	9,970

Note :

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

(i) HRA actually received (6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (Rs.6,500 – Rs. 2,500) x 9 months	36,000
(iii) 50% salary	1,12,500

- (2) Gratuity of Rs.3,06,250 is exempt under section 10(10)(iii), being the minimum of the following amounts :

(i) Actual amount received	3,50,000
(ii) Half month average salary for each year of completed service (1/2 x 24,500 x 25)	3,06,250
(iii) Statutory limit	10,00,000

- (3) Leave encashment is exempt upto the least of the following:

(i) Actual amount received	3,15,000
(ii) 10 months average salary (24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (see note 4 below)	3,06,250
(iv) Statutory limit	3,00,000

- (4) The leave entitlement of Mr. X as per his employer's rules is not given in the question. It is assumed that the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service. Since Mr. X had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Taxation

Leave entitlement of Mr.X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 25 = 750 days
Less: Leave taken /availed by Mr.X during the period of his service	= 15 days/year x 25 = <u>375 days</u>
Earned leave to the credit of Mr.X at the time of his retirement	<u>375 days</u>
Cash equivalent of earned leave to the credit of Mr.X at the time of his retirement	= $375 \times 24,500 / 30$ = Rs.3,06,250

Question 13

- (i) *Smt. Savita Rani was born on 01.07.1944. She is a Deputy Manager in a Company in Mumbai. She is getting a monthly salary and D.A. of Rs.45,000 and Rs.12,000 respectively. 50% of DA forms part of pay. She also gets a House Rent Allowance of Rs.6,000 per month. She is a member of Recognised P.F. wherein she contributes 15% of her salary of Rs. 51,000 p.m. (45,000 + 6,000, being 50% of DA). Her employer also contributes an equal amount.*
- (ii) *She is living in the house of her minor son in Mumbai.*
- (iii) *During the previous year 2010-2011, her minor son has earned an income of Rs.30,000 (computed) as rent from a House Property, which had been transferred to him by Smt. Savita Rani without consideration a few years back.*
- (iv) *During the previous year 2010-2011, she sold Government of India Capital Indexed Bonds for Rs.1,50,000 on 30.09.2010, which she purchased on 01.07.2000 for Rs.80,000 (Cost inflation index – F.Y. 2000-2001: 406 and for the F.Y. 2010-2011: 711).*
- (v) *Her employer gave her an interest free loan of Rs.1,50,000 on 01.10.2010 to one of her son's wife for the purchase of an Alto Maruti Car. Nothing has been repaid to the company towards the loan.*
- (vi) *During the previous year 2010-2011 she paid Rs.15,000 by cheque to GIC towards Medical Insurance Premium of her dependent mother.*

Compute the taxable income and tax liability of Mrs. Savita Rani for the A.Y. 2011-2012.

Answer

Computation of taxable income and tax liability of Smt. Savita Rani for A.Y. 2011-12.

	Rs.	Rs.
Income from salary		
Basic salary (45,000 x 12)		5,40,000
DA (12000 x 12)		1,44,000

Computation of Total Income and Tax Payable

House Rent allowance (fully taxable)		72,000
Employer's contribution to RPF in excess of 12% is taxable as salary income.		
12% of salary is Rs.73,440. Employer's contribution is 15% of salary, which is Rs.91,800.		
Excess contribution is (Rs.91,800 – Rs.73,440)		18,360
Perquisite in respect of interest free loan (See Note 1 below) Rs.1,50,000 x 8% x ½		6,000
Net Salary		7,80,360
Income from house property (of which Smt. Savita Rani is the deemed owner) – See Note 2 below		30,000
Long term Capital Gain:		
Sale consideration of GOI capital indexed bonds	1,50,000	
Less: Indexed cost of acquisition (80,000 x 711* / 406*)	1,40,099	
* Purchased on 01.07.2000. Transferred on 30.9.2010		9,901
Gross Total Income		8,20,261
Deduction U/s.80C – in respect of RPF contribution	91,800	
Deduction U/s.80D – Mediclaim	15,000	
		1,06,800
Total Income		7,13,461
Income tax payable on long term capital gains:		
(i) 20% on Rs.9,901 or	1,980	
(ii) 10% of Rs.70,000 (u/s.112)	7,000	
Tax on long term capital gain – whichever is less		1,980
Income tax payable on income other than LTCG (i.e. Rs.7,13,461 – 9,901) i.e. Rs.7,03,560		66,712
		68,692
Add : Education cess and Secondary and higher education cess @ 3%		2,061
Total tax payable		70,753
Total tax payable (rounded off)		70,750

Taxation

Notes :

1. The rate of interest charged by SBI as on 1.4.2010 in respect of car loan is assumed at 8%, which is relevant for determining the perquisite value for A.Y. 2011-12.
2. As per section 27, any property transferred to the minor child without adequate consideration would be deemed to be the property of the assessee. Therefore, the income from house property of Rs.30,000 (computed) is to be assessed in the hands of Smt. Savita Rani.

Question 14

Ramesh retired as General manager of XYZ Co. Ltd. on 30.11.2010 after rendering service for 20 years and 10 months. He received Rs.3,00,000 as gratuity from the employer. (He is not covered by Gratuity Act, 1972).

His salary particulars are given below :

Basic pay Rs.10,000 per month up to 30.6.2010

Basic pay Rs.12,000 per month from 1.7.2010

Dearness allowance (Eligible for retirement benefits) 50% of basic pay

Transport allowance Rs.1,500 per month

He resides in his own house. Interest on monies borrowed for the self occupied house is Rs.24,000 for the year ended 31.03.2011.

From a fixed deposit with a bank, he earned interest income of Rs.18,000 for the year ended 31.03.2011.

Compute taxable income of Ramesh for the year ended 31.03.2011

Answer

Computation of taxable income of Ramesh for the assessment year 2011-12

	Rs.	Rs.
Income from salary		
Basic pay : April to June (10,000 x 3)		30,000
Basic pay : July to November (12,000 x 5)		60,000
Dearness allowance @ 50% basic pay		45,000
Transport allowance (Rs.1500 x 8) less exemption @ Rs.800 per month (12,000 – 6,400)		5,600

Computation of Total Income and Tax Payable

Gratuity

(i) Statutory limit Rs.10,00,000	
(ii) Half month average salary [See Note below] Rs.8,100 x 20 yrs = 1,62,000	
(iii) Actual amount received = Rs.3,00,000	
Least of the above i.e. Rs. 1,62,000 is exempt. Balance is taxable (3,00,000 – 1,62,000)	1,38,000
	2,78,600

Income from house property:

Self occupied – ALV	Nil
Less: Interest on monies borrowed u/s.24	24,000
	(24,000)

Income from other sources:

Fixed deposit interest	18,000
Total income	2,72,600

Note :

Average salary of 10 months preceding the date of retirement is to be computed :

Basic pay 10,000 x 6	60,000
Basic pay 12,000 x 4	48,000
Total	1,08,000
Add: 50% DA – eligible for retirement benefits	54,000
	1,62,000
Average salary : 1,62,000/10	16,200
Half month average salary 16,200 / 2	8,100

Question 15

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1979 and settled at Canada since 1979. Mary got married and settled at Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2011:

S.No.	Particulars	Rosy Rs.	Mary Rs.
1.	Pension received from State Government	-	10,000

Taxation

2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	50,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,00,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	10,000	--
7.	Mediclaime policy premium paid	--	5,000
8.	Tax saving bond purchased in March, 2011	30,000	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income of Mrs. Rosy and Mrs. Mary for the Assessment Year 2011-12 and tax thereon.

Answer

Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y.2011-12

S. No.	Particulars	Mrs. Rosy Rs.	Mrs. Mary Rs.
(I)	Salaries		
	Pension received from State Government		10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	
		-	10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a) @ 30%	18,000	9,000
		42,000	21,000
(III)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	50,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,00,000
		1,20,000	2,50,000

Computation of Total Income and Tax Payable

(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	2,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
1.	LIC Premium paid	-	10,000
2.	Premium paid to Canadian Life Insurance Corporation	10,000	
3.	Tax Saving Bond (assuming that they are notified infrastructure bonds eligible for deduction under section 80C)	30,000	20,000
		40,000	30,000
2.	Deduction under section 80D – Mediciam premium paid (assuming that the same is paid by cheque)	-	5,000
		40,000	35,000
(B)	Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	2,50,000

Tax liability of Mrs. Rosy for A.Y. 2011-12

Tax on long-term capital gains @ 20%	20,000	Nil
Tax on short-term capital gains @ 15%	3,000	
	23,000	

Tax liability of Mrs. Mary for A.Y.2011-12

Tax on short-term capital gains @ 15% of Rs.60,000 [i.e. Rs.2,00,000 less Rs.1,40,000, being the unexhausted basic exemption limit as per proviso to section 111A]		9,000
--	--	-------

Education cess @ 2% & SHEC@ 1%	690	270
--------------------------------	-----	-----

Total tax payable	23,690	9,270
--------------------------	---------------	--------------

Note :

- (1) Long-term capital gains is chargeable to tax @ 20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @ 15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains/short-term capital gains will be reduced by

Taxation

the unexhausted basic exemption limit and only the balance will be taxed at 20%/10% respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can set-off unexhausted basic exemption limit against long-term capital gains and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.

- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of Rs.1,90,000 against long-term capital gains of Rs.50,000 and the balance limit of Rs.1,40,000 (i.e., 1,90,000 – 50,000) against short-term capital gains.

Question 16

Mr. Rajesh is serving in a public limited company as General Manager (Finance). His total emoluments for the year ended 31st March, 2011 are as follows:

Basic Salary	Rs 5,40,000
HRA (Computed)	Rs. 1,80,000
Transport allowance	Rs. 12,400

Apart from the above, his employer has sold the following assets to him on 1st January, 2011:

- (i) Laptop computer for Rs.20,000 (Acquired in September, 2009 for Rs.1,20,000).
(ii) Car 1800 cc for Rs.3,20,000 (purchased in April, 2008 for Rs.8,50,000).

He also owns a residential house, let out for a monthly rent of Rs.15,000. The fair rental value of the property for the let out period is Rs.1,50,000. The house was self-occupied by him from 1st January, 2011 to 31st March, 2011. He has taken a loan of Rs.20 lacs for the construction of the property, and has repaid Rs.1,05,000 (including interest Rs.40,000) during the year.

Mr. Rajesh sold shares of different Indian companies on 14th April, 2010:

Name	Sale value (per share)	Purchase price (per share)	Acquired on	No. of shares
A Ltd.	Rs.150	Rs.120	2 nd May, 2005	200
B Ltd.	Rs.82	Rs.65	16 th April, 2009	125

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.075% on the gross consideration. He received income-tax refund of Rs.5,750 (including interest Rs.750) relating to the assessment year 2009-10.

Compute the total income of Mr. Rajesh for the Assessment Year 2011-12.

Computation of Total Income and Tax Payable

Answer

Computation of total income of Mr. Rajesh for the A.Y. 2011-12

	Rs.
Income from salaries (Working note 1)	9,86,800
Income from house property (Working note 2)	1,00,000
Capital gains	
Short-term capital gains (Working note 3)	2,115
Income from other sources: Interest on I.T. refund	750
Gross Total Income	10,89,665
Less: Deduction under Chapter VIA	
Deduction under section 80C	
Repayment of housing loan (principal) [See Note below]	65,000
Total Income	10,24,665
Total Income (rounded off)	10,24,670

Note : It is presumed that the housing loan has been taken from a borrower approved under section 80C (for example, a bank) for the purpose of availing deduction under that section.

Working Notes :

1. Income from salaries	Rs.	Rs.
Basic Salary		5,40,000
HRA (computed)		1,80,000
Transport allowance	12,400	
Less: Exempt under section 10(14) [Rs.800 ×12]	<u>9,600</u>	2,800
Perquisites (relating to sale of movable assets by employer)		
<i>Laptop Computer</i>		
Cost [September, 2009]	1,20,000	
Less: Depreciation at 50% for one completed year	<u>60,000</u>	
WDV [September, 2010]	60,000	
Less: Amount paid to the employer	<u>20,000</u>	
Perquisite value of laptop (A)	<u>40,000</u>	

Taxation

Car

Cost [April, 2008]	8,50,000	
Less: Depreciation for the 1 st year (April'08 to March'09) @ 20% of WDV	<u>1,70,000</u>	
WDV [April, 2009]	6,80,000	
Less: Depreciation for the 2 nd year (April'09 to March'10) @ 20% of WDV	<u>1,36,000</u>	
WDV [April, 2010]	5,44,000	
Less: Amount paid to the employer	<u>3,20,000</u>	
Perquisite value of car (B)	<u>2,24,000</u>	
Perquisite value (A) + (B)		<u>2,64,000</u>
Income chargeable under the head "Salaries"		<u>9,86,800</u>

2. Income from house property

Section 23(2) provides that the annual value of a self-occupied house shall be taken as Nil. However, section 23(3) provides that the benefit of self-occupation would not be available if the house is actually let during the whole or part of the previous year. This implies that the benefit of taking the annual value as nil would be available only if the house is self-occupied for the whole year.

In this case, therefore, the benefit of taking annual value as Nil is not available since the house is self-occupied only for 3 months. In such a case, the gross annual value has to be computed as per section 23(1). Accordingly, the fair rent for the whole year should be compared with the actual rent for the let-out period and whichever is higher shall be adopted as the Gross Annual Value.

Particulars	Rs.	Rs.
Gross Annual Value (higher of fair rent for the whole year and actual rent for the let-out period)		2,00,000
Fair rent for the whole year = Rs.1,50,000 × 12/9	2,00,000	
Actual rent received = Rs.15,000 × 9	1,35,000	
Less: Municipal taxes		<u>Nil</u>
Net Annual Value (NAV)		<u>2,00,000</u>
Less: Deductions under section 24		
30% of NAV	60,000	
Interest on loan [See Note below]	40,000	<u>1,00,000</u>
Income from house property		<u>1,00,000</u>

Note : It is presumed that the interest of Rs.40,000 paid on housing loan represents the interest actually due for the year.

3. Income chargeable as “Capital Gains”

Section 10(38) exempts long-term capital gain on sale of equity shares of a company, if such transaction is chargeable to securities transaction tax. Since Mr.Rajesh has held shares of A Ltd. for more than 12 months, the gains arising from sale of such shares is a long-term capital gain, which is exempt under section 10(38), since securities transaction tax has been paid on such sale.

Shares in B Ltd. are held for less than 12 months and hence the capital gains arising on sale of such shares is a short-term capital gain chargeable to tax @15% as per section 111A, since the transaction is subject to securities transaction tax. It may be noted, however, that securities transaction tax is not a deductible expenditure.

Short-term capital gains arising from sale of shares of B Ltd.

Sale consideration (82 × 125)	10,250
Less: Brokerage @ 0.1%	10
Net sale consideration	10,240
Cost of acquisition (65 x 125)	8,125
	<u>2,115</u>

Question 17

Mr. Ram, who does not maintain books of account for the year ended 31.3.2011, requests you to compute his total income and the tax payable thereon for the assessment year 2011-2012 from the following:

- (i) *Basic Salary - 20,000 p.m.*
CCA - 1,000 p.m.
HRA - 5,000 p.m.
- (ii) *Ram resides in Chennai, paying a rent of Rs.6,000 per month.*
- (iii) *Ram is paid an education allowance of Rs.500 per month per child for all the three of his children. Actual expenses (tuition fees only) amounts to Rs.15,000, Rs.10,000 and Rs.5,000 respectively.*
- (iv) *He bought a heavy goods vehicle on 7.6.2010 and has been letting it on hire from the same date. He declares an income of Rs.34,900 from the same.*
- (v) *Interest from company deposits is Rs.15,000 and bank interest is Rs.5,000.*

Taxation

(vi) Interest is payable on bank loans availed for buying the truck and making company deposits as follows:-

Purpose	Date of loan	Amount	Interest rate
Truck purchase	1.4.2010	5 lakhs	10% p.a.
Company deposit	1.10.2010	1 lakh	9 % p.a.

(vii) Loss carried forward arising from speculating in shares during the preceding previous year and eligible for set-off is Rs.1,00,000.

(viii) Ram has invested Rs.12,000 in notified equity linked saving scheme of UTI, Rs.52,000 in PPF, Rs.9,000 as life insurance premium on his own life (sum assured Rs.40,000) and Rs.15,000 towards pension fund of LIC.

Answer

Computation of total income of Mr. Ram for the Assessment Year 2011-12

	Rs.	Rs.
Income from Salary		
Basic Salary (Rs.20,000 × 12)		2,40,000
CCA (Rs.1,000 × 12)		12,000
HRA (Rs.5,000 × 12)	60,000	
Less: Exempt u/s 10(13A) [See Note 1 below]	48,000	12,000
Education Allowance (500×12×3)	18,000	
Less: Exempt u/s 10(14) (100×12×2)	2,400	15,600
Income from Salary		2,79,600
Profits and gains from business or profession		
Income from the business of letting on hire, a heavy vehicle u/s 44AE (5,000×10) [See Note 2 below]		50,000
Income from Other Sources		
Interest from company deposits	15,000	
Bank interest	5,000	
	20,000	
Less: Deduction under section 57		
Rs.1,00,000 @ 9% for 6 months—towards loan interest	4,500	15,500
Gross Total Income		3,45,100

Computation of Total Income and Tax Payable

Less: Deduction under Chapter VI-A		
Under section 80C [See Note 4 below]	97,000	
Under section 80CCC	15,000	
	1,12,000	
restricted to		1,00,000
Total Income		2,45,100

Computation of tax payable for the A.Y.2011-12

Tax on Rs.2,45,100	8,510
Add: Education cess @ 2% and SHEC @ 1%	255
Tax Payable	8,765

Notes :

- (1) HRA is exempt to the extent of the least of the following under section 10(13A)
 - (1) 50% of salary (as the city is Chennai) i.e. 50% of Rs.2,40,000 = Rs.1,20,000
 - (2) Excess of rent paid over 10% of salary = Rs.72,000 – Rs.24,000 = Rs.48,000
 - (3) Actual HRA received = 5,000 × 12 = Rs.60,000

Least of the above i.e.Rs.48,000 is exempt under section 10(13A)
- (2) In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each heavy vehicle will be deemed to be Rs.5,000/- for every month or part of the month during which the heavy vehicle is owned by the assessee during the previous year [Section 44AE].

Presumptive income = Rs.5,000 × 10 = 50,000

If, however, the assessee declares a higher amount, such amount will be considered as income. In the instant case, since the assessee declares a lower amount, it cannot be considered, since no books of account are maintained. Also, interest is not deductible, since under section 44AE, all deductions under sections 30 to 38 are deemed to have been allowed.
- (3) Brought forward loss from speculation business can be set off only against income from speculation business and not against other business income.
- (4) Deduction under section 80C:

Investment in notified equity linked saving scheme of UTI	12,000
Investment in PPF	52,000
Life insurance premium on own life restricted to 20% of sum assured	8,000

Taxation

Tuition fees paid for two of his children (Most favourable to Ram)	25,000
	97,000

- (5) Contribution to pension fund of LIC Rs.15,000 is deductible under section 80CCC.
- (6) Total deduction under sections 80C, 80CC and 80CCD is limited to Rs.1,00,000 as per section 80CCE.

Question 18

Mr. Ashok owns a property consisting of two block of identical size. The first block is used for business purposes. The other block has been let out from 1.4.2010 to his cousin for Rs.10,000 p.m. The cost of construction of each block is Rs.5 lacs (fully met from bank loan), rate of interest on bank loan is 10% p.a. The construction was completed on 31.3.2010. During the year ended 31.3.2011, he had to pay a penal interest of Rs.2,000 in respect of each block on account of delayed payments to the bank for the borrowings. The normal interest paid by him in respect of each block was Rs.42,000. Principal repayment for each block was Rs.23,000. An identical block in the same neighbourhood fetches a rent of Rs.15,000 per month. Municipal tax paid in respect of each block was Rs.12,000.

The income from business prior to adjustment towards depreciation on any asset is Rs.2,20,000. He follows Mercantile system of accounting.

Depreciation on equipments used for business is Rs.30,000.

On 23.3.2011, he sold shares of B Ltd., a listed share in BSE for Rs.2,30,000. The share had been purchased 10 months back for Rs.1,80,000. Securities transaction tax paid may be taken as Rs.220.

Brought forward business loss of a business discontinued on 12.1.2010 is Rs.80,000. This loss has been determined in pursuance of a return of income filed in time and the current year is the seventh year.

The following payments were effected by him during the year :

- (i) *LIP of Rs.20,000 on his life and Rs.12,000 for his son aged 22, engaged as a software engineer and drawing salary of Rs.25,000 p.m.*
- (ii) *Mediclaime premium of Rs.6,000 for himself and Rs.5,000 for above son. The premiums were paid by cheque.*

You are required to compute the total income for the assessment year 2011-12 and the tax payable. The various heads of income should be properly shown. Ignore the interest on bank loan for the period prior to 1.4.2010, as the bank had waived the same.

Computation of Total Income and Tax Payable

Answer

Computation of total income of Mr. Ashok for the A.Y.2011-12

Particulars	Rs.	Rs.	Rs.
Income from house property [See Note I]			
House block 1 used for business, hence ALV		Nil	
House block 2 let out (higher of fair rent and rent receivable)		1,80,000	
Less: Municipal tax paid		12,000	
Net annual value (NAV)		1,68,000	
Less: Deductions under section 24			
(a) 30% of NAV	50,400		
(b) Interest on bank loan @ 10% on Rs.5,00,000	50,000	1,00,400	
			67,600
Profits and gains of business or profession [See Note II]			
Income prior to adjustment for depreciation		2,20,000	
Less : Depreciation on equipments used for business	30,000		
Depreciation on building Rs.5,00,000 @ 10%	50,000	80,000	
		1,40,000	
Less: Set off of brought forward business loss relating to discontinued business [See Note III]		80,000	60,000
Capital Gains [See Note IV]			
Short term capital gains from sale of listed shares			
Full value of consideration		2,30,000	
Less : Cost of acquisition		1,80,000	50,000
Gross Total Income			1,77,600
Less : Deduction u/s.80C in respect of LIP Rs.32,000 and housing loan repayment in respect of II block Rs.23,000	55,000		

Taxation

Deduction u/s.80D (for self)	6,000	61,000
Total income		1,16,600
Tax on total income		Nil

Notes :

I – On computation of Income from house property

- (i) The annual value of the house property which is used for business would not fall under the head “Income from house property”. Therefore, the annual value of the first block is not chargeable to tax under the head “Income from house property”. However, depreciation there on at 10% has been claimed while computing the income from business.
- (ii) As regards the second block, the sum for which the property may be reasonably expected to be let is Rs.15,000 per month. The Gross Annual Value (GAV) of the block is the higher of fair rent (i.e., Rs.15,000 p.m.) or the actual rent received (Rs.10,000 p.m.) Hence, the GAV of the second block is Rs.1,80,000 (i.e. Rs.15,000 p.m.)
- (iii) Under section 24(b), interest on bank loan for construction of house is deductible. However, penal interest is not deductible. Assuming that the principal repayment of Rs.23,000 was made at the end of the year, interest due during the year in respect of the second block is Rs.50,000 (i.e. 10% of Rs.5 lakhs), which is allowable as deduction under section 24(b). It is also possible to solve the problem assuming that the interest of Rs.42,000 paid during the year represents the interest due.

II – On computation of Profits and gains of business or profession

- (i) Mr. Ashok can claim depreciation @ 10% on the building used by him for business purposes. The depreciation on the first block is Rs.50,000 (being 10% of Rs.5,00,000) and depreciation on equipments used for business is Rs.30,000. Hence the depreciation allowable during the year is Rs.80,000.
- (ii) Since Mr. Ashok follows mercantile system of accounting, outstanding bank interest would have been provided for already. It is possible to prepare the solution taking into account section 43B of the Act.

III – On set off of business loss

As per section 72, business loss relating to discontinued business is eligible for set off.

IV – On treatment of short-term capital gains (STCG)

The listed shares have been sold and securities transaction tax is paid, hence it is taxable at 15% as per section 111A. For the purpose of providing deduction under Chapter VI-A, the gross total income should be reduced by the STCG on listed shares.

V – On computation of deductions under sections 80C and 80D

Deduction under section 80C can be claimed in respect of life insurance premium paid for major son, even though he is not dependent on the assessee. It is assumed Block 2 let out to cousin was used for residential purpose and accordingly principal repayment was considered for deduction under section 80C.

However, deduction under section 80D cannot be claimed in respect of mediclaim premium paid for non-dependant son. Mediclaim premium paid for self of Rs.6,000 is eligible for deduction.

Question 19

Total income of Mrs. Priti, aged 64, a resident of Mumbai for the financial year 2010-11 is Rs.2,10,500. It includes an income of Rs.22,000 from the business of dealing in shares on which she has paid securities transaction tax of Rs.1,500. She has also deposited Rs.15,000 in her P.P.F. account with the State Bank of India. Compute her tax liability for the A.Y. 2011-12.

Answer

Computation of tax liability of Mrs. Priti for A.Y. 2011-12

Particulars	Rs.	Rs.
Total income other than business of dealing in shares (Rs.2,10,500 – Rs.22,000) (before deduction under section 80C)		1,88,500
Income from business of dealing in shares – See Note		20,500
Gross Total Income		2,09,000
Less : Deduction under section 80C in respect of PPF deposit		15,000
Total income		1,94,000

Tax on total income Rs.400 plus education cess @ 2% and SHEC @ 1% = Rs. 412

Note: Rs.22,000 less amount of Rs. 1,500 paid towards securities transaction tax eligible for deduction under section 36(1)(xv).

Question 20

Mr. A, a senior citizen, has furnished the following particulars relating to his house properties:

	House I	House II
Nature of occupation	Self occupied	Let out
	Rs.	Rs.
Municipal valuation	60,000	1,20,000

Taxation

Fair rent	90,000	1,50,000
Standard rent	75,000	90,000
Actual rent per month		9,000
Municipal taxes paid	6,000	12,000
Interest on capital borrowed	70,000	90,000

Loan for both houses were taken on 1.4.2006. House II remained vacant for 4 months.

Besides the above two houses, A has inherited during the year an old house from his grand father. Due to business commitments, he sold the house immediately for a sum of Rs.250 lakhs. The house was purchased in 1960 by his grand father for a sum of Rs.2 lakhs. However, the fair market value as on 1.4.1981 was Rs.20 lakhs. With the sale proceeds, A purchased a new house in March, 2011 for a sum of Rs.100 lakhs and the balance was used in his business.

The other income particulars of Mr. A besides the above are as follows (Assessment Year 2011-12)

Business loss	Rs. 2 lakhs
Income from other sources (Bank interest)	Rs.1 lakh
Investments made during the year : PPF	Rs.70,000
NABARD bonds	Rs.30,000
Cost inflation index (F.Y. 2011-12)	711

Compute total income of Mr. A and his tax liability for the assessment year 2011-12

Answer

Computation of Total Income and Tax liability of Mr. A for A.Y. 2011-12

	Rs	Rs.
1. Income from house property – House I	(70,000)	
– House II	<u>(48,000)</u>	
(See working note 1)		(1,18,000)
2. Profits and gains of business		(2,00,000)
3. Capital gains – long term (See working note 2)		1,30,00,000
4. Income from other sources – Bank interest		<u>1,00,000</u>
Gross total income		1,27,82,000
Less : Deduction under chapter VI-A		
Deduction U/s.80C (PPF and NABARD Bonds)		<u>1,00,000</u>
Total income		<u>1,26,82,000</u>

Computation of Total Income and Tax Payable

Tax liability

Total income other than long term capital gain is Nil.

Taxable long term capital gain is = 1,24,42,000

[i.e. Rs.1,30,00,000 – Rs.3,18,000 – basic exemption limit of Rs.2,40,000]

On long term capital gains of Rs.1,24,42,000 @ 20%	24,88,400
--	-----------

Education cess@2% and Secondary and higher education cess@1%	74,652
--	--------

Total tax payable	<u>25,63,052</u>
--------------------------	-------------------------

Working notes:

1. Calculation of income from house property

House I – Self occupied	Rs.
--------------------------------	------------

Annual value	Nil
--------------	-----

Less : Interest as per section 24(b)	<u>70,000</u>
--------------------------------------	---------------

Loss from house property (House I)	<u>(70,000)</u>
------------------------------------	-----------------

House II - Let out	Rs.
---------------------------	------------

Gross annual value (Rs.9,000 x 8)	72,000
-----------------------------------	--------

Less :Municipal taxes	<u>12,000</u>
-----------------------	---------------

Net Annual Value (NAV)	60,000
------------------------	--------

Less : Deductions u/s.24

30% of NAV	18,000
------------	--------

Interest on borrowed capital	<u>90,000</u>
------------------------------	---------------

1,08,000

Loss from house property (house II)	<u>(48,000)</u>
-------------------------------------	-----------------

Note : Interest on capital borrowed will be allowed in full for let out properties. As per section 23(1)(c), where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the annual letting value, then the actual rent received or receivable would be the Gross Annual Value of the property. In this case, the actual rent received (i.e. Rs. 72,000) is lesser than the annual letting value on (i.e. Rs. 90,000) account of vacancy and therefore, the actual rent received is taken as the Gross Annual Value.

Taxation

2. Computation of Capital Gains

	Rs.	Rs.
Sale consideration	2,50,00,000	
Less :Cost of acquisition	<u>20,00,000</u>	
	2,30,00,000	
Less : Exemption u/s.54	<u>1,00,00,000</u>	
Taxable long term capital gain		1,30,00,000

As per the definition in the Explanation to section 48, "indexed cost of acquisition" means an amount which bears to the cost of acquisition the same proportion as the Cost Inflation Index for the year in which the asset transferred bears to the Cost Inflation Index for the first year in which the asset was held by the assessee or for the year beginning on the 1st April, 1981, whichever is later.

3. It has been assumed that the loss from house property and business loss have been set-off fully against long term capital gains. Therefore, Rs.1 lakh relating to section 80C investments are deducted against "Income from other sources". The taxable income represents long term capital gains only and the tax liability is computed accordingly.