ADVANCE LEARNING ON
BASIC CONCEPTS & RESIDENTIAL STATUS

Objective of advance learning

The advance learning material is designed with an objective to enable the readers to gain advanced knowledge on the topic "Basic concepts and residential status". The basic level topics relating to "Basic concepts and residential status" are already discussed in the study material and case study Day 1 and hence to avoid repetition, these topics are not once again discussed in the advance learning material and only advanced level topics are discussed in this material.

Before studying the advance learning material, readers are advised to once again revise the topic "Basic concepts and residential status" from the study material and case study Day 1. This will help them in better understanding of the advanced learning material.

The material covers following advanced level topics:

- Incomes which are charged to tax in the previous year itself viz:
    - Income of a person leaving India [Section 174]
    - Income of a person likely to transfer property to avoid tax [Section 175]
    - Income of discontinued business or profession [Section 176]
    - Income from shipping business of non-residents [Section 172]
    - Income of bodies formed for short duration [Section 174A]
- Relevance of method of accounting while computing taxable income.
- Few important concepts to be kempt in mind while interpreting the term income viz:
    - Tax treatment of tax free income
    - Income in kind
    - Pin money received by wife
    - Diversion of income by overriding title vs. Application of income
- Rule of taxability and focus on income deemed to be received in India and income deeded to be accrued in India.

Rule of taxability and exception to the rule

Generally, income of previous year is taxed (*i.e.*, assessable) in the immediately following assessment year. However, in following cases, income of previous year is taxed in the previous year itself :

(1) Income of a person leaving India [Section 174]

If following conditions are satisfied, then income of a person leaving India is charged to tax in the previous year itself:

- It appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry.
- Such a person has no present intention of returning to India.

In above cases, the total income of such an individual upto the probable date of his departure from India shall be charged to tax in that assessment year.

Example

Mr. Francis is a foreign citizen. He has been residing in India since January, 2000. At the time of making his assessment for the assessment year 2012-13 (in January 2013), the Assessing Officer came to know that Mr. Francis is going to leave India on 8-4-2013. In this case, at the time of completing assessment for the previous year 2011-12 (*i.e.*, assessment year 2012-13), the Assessing Officer will make following three assessments :

- The assessment of the income of the previous year 2011-12.
- The assessment of the income of the previous year 2012-13.
- The assessment of the income of the period 1-4-2013 to 8-4-2013.

(2) Income of a person likely to transfer property to avoid tax [Section 175]

If following conditions are satisfied, then income of a person transferring his assets is charged to tax in previous year itself:

- It appears to the Assessing Officer during any current assessment year that any person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets.
- The intention of such sale, transfer, etc, is with a view to avoid payment of any liability under the provisions of the Act.

In above cases, the total income of such person for the period from the expiry of the previous year for that assessment year to the date when the Assessing Officer commences proceedings under section 175 shall be chargeable to tax in that assessment year.

Example

In November 2012, while making the assessment of income of Mr. Kumar for the assessment year 2012-13, *i.e.*, previous year 2011-12, the Assessing Officer came to know that Mr. Kumar is transferring his building with an intention to avoid payment of Income-tax liability. Considering the intention of Mr. Kumar, the Assessing Officer issued notice (in November, 2012) to Mr. Kumar to furnish his return of income for the period April, 2012 to November, 2012.

In the above case, it can be observed that income of the period April, 2012 to November, 2012 is covered in the previous year 2012-13, *i.e.*, assessment year 2013-14 and it can be charged to tax in assessment year 2013-14 only. However, by invoking the provisions of section 175, the Assessing Officer can assess the income for the period of April, 2012 to November, 2012 in the assessment year 2012-13 itself.

(3) Income of discontinued business or profession [Section 176]

In addition to above instances, income of a discontinued business or profession can be charged to tax in the previous year itself. In other words, if a business or profession is discontinued during a year, then the income from the first day of the assessment year till the date of discontinuation can be charged to tax by the Assessing Officer in the assessment year in which the business is discontinued or in the immediately following assessment year.

Example

Mr. Kumar was running a textile factory. He discontinued his business on 25-2-2013. In this case the Assessing Officer has two options :

- To tax the income of the period 1-4-2012 to 25-2-2013 in assessment year 2012-13, *i.e.*, the assessment year in which business is discontinued.
- To tax the income of the period 1-4-2012 to 25-2-2013 in assessment year 2013-14.

(4) Income from shipping business of non-residents [Section 172]

If following conditions are satisfied, then income of a non-resident is charged to tax in previous year itself:

- The assessee is a non-resident.
- He owns a ship or a ship is chartered by him.
- The ship carries passengers, livestock, mail or goods shipped at a port in India.

In the above cases, 7.5% of the amount paid or payable on account of such carriage to the non-resident shall be deemed to be income accruing in India to the non-resident and tax on such income is payable at the rates applicable to a foreign company.

(5) Income of bodies formed for short duration [Section 174A]

If the following conditions are satisfied, then income of bodies formed for short duration is charged to tax in previous year itself:

- It appears to the Assessing Officer that any association of persons or a body of individuals or an artificial juridical person has been formed or established or incorporated for a particular event or purpose.
- Above entity is likely to be dissolved in the assessment year in which such an entity was formed or established or incorporated or immediately after such assessment year.

In above case, the total income of such entity for the period from the expiry of the previous year for that assessment year up to the date of its dissolution shall be chargeable to tax in that assessment year.

General comment

It should be noted that in cases given in (1), (2), (4) and (5) it is mandatory to tax the income in the previous year itself. However, in case (3), *i.e.*, income of discontinued business/profession, income can be charged to tax in the previous year itself or in the assessment year (at the discretion of the Assessing Officer).

Relevance of method of accounting while computing taxable income

- Generally, there are two main methods of accounting, *viz.*, Cash system of accounting and Mercantile system of accounting.
- Under Mercantile system of accounting, also known as Accrual system, revenue and expenses are recorded on an accrual basis.
- Under Cash system of accounting, revenue and expenses are recorded on cash basis, *i.e.*, revenue or expenses not realised/paid during the year are not recorded.
- As far as income-tax is concerned, the method of accounting followed by the assessee is relevant only for computing income charged to tax under the heads "Profits and gains of business or profession" and "Income from other sources".

- The method of accounting followed by the assessee has no relevance while computing income charged to tax under the heads "Salaries", "House property" and "Capital gains".

Example

(1) Mr. Hitesh is running a provision shop. He is following mercantile system of accounting. In this case the income chargeable to tax under the head "Profits and gains of business or profession" will be computed by following mercantile system.

(2) Mr. Mitul is running a provision shop. He is following cash system of accounting. In this case, the income chargeable to tax under the head "Profits and gains of business or profession" will be computed by following cash system.

(3) Mr. Sunil is a salaried employee and he is maintaining proper books of account of his transactions. He is recording his salary income in his books on an accrual basis, *i.e.,* he is following mercantile system of accounting.

In this case, it can be observed that Mr. Sunil is following mercantile system of accounting for recording his salary income. However, for the purpose of computing taxable salary income, the method of accounting has no relevance. Hence, salary will be charged to tax on due or receipt basis, whichever is earlier.

(4) Mr. Kapoor owns 3 flats which are rented by him. He is maintaining regular books of account to record his rental income. He maintains books of account on cash basis.

In this case rental income will be charged to tax under the head "Income from house property". It can be observed that Mr. Kapoor is following cash system of accounting for recording his rental income. However, for the purpose of computing income charged to tax under the head "House property", the method of accounting has no relevance and, hence, income charged to tax under the head "House property" will be charged to tax as per the provisions given in sections 22 to 27.

Important concepts to be kept in mind while understanding the meaning of the term 'income' as defined in income-tax [i.e., under section 2(24)]

Tax free income

If a person is receiving tax free income, *i.e.*, tax on such income is paid by the payer, then the gross amount of such income, *i.e.*, tax free income *plus* tax paid by the payer will be treated as taxable income of the receiver.

Example

Mr. Sanjay is working in Essem Ltd. on a monthly salary of Rs. 84,000 (tax free because tax on salary is paid by the company). In addition to salary of Rs. 84,000, the company is paying tax of Rs. 25,200 on the said salary. In this case, the taxable income of Mr. Sanjay will be Rs. 1,09,200 per month (Rs. 84,000 salary *plus* Rs. 25,200 tax on salary paid by the company).

Income can be in cash or in kind

Income-tax has nothing to do with the nature of income, *i.e.*, whether in cash or in kind. An income received in kind is charged to tax in the same way as income received in cash. In case of income received in kind, the taxable value is computed by computing the fair value of such an income. The fair value of income received in kind is computed by following the rules prescribed in this behalf. If no specific rules in this regard are prescribed under the income-tax law, then the market value of such an income is to be considered.

Example

Gifts in kind received by a doctor from his patients are charged to tax in the hands of the doctor.

Pin money received by wife

Pin money received by a wife for her personal expenses is not regarded as an income of the wife. Further, any savings made by wife from money received from her husband for household expenses are also not regarded as income of the wife.

Diversion of income by overriding title vs. application of income

If an assessee claims that there has been a diversion of income, then the income for which diversion is claimed cannot be treated as taxable income of the assessee. However, if there is an application of income (and not diversion), then income so applied will be charged to tax in the hands of the assessee.

In other words, diversion of income will not result in taxable income in the hands of the assessee. However, application of income will be taxed in the hands of the assessee.

Diversion will occur when income does not reach the assessee and is directly diverted to any other person. In other words, in case of diversion of income the assessee has no right over the income as the income does not reach in his hands.

Application occurs when the income reaches the assessee, *i.e.*, the assessee has right over the income.

Example

Mr. Kapoor and Mr. Sunil prepared an article and the same was published in a magazine. The publisher issued a cheque of Rs. 84,000 in the name of Mr. Kapoor (since he is first author). Out of Rs. 84,000, Mr. Kapoor paid Rs. 42,000 to Mr. Sunil. In this case, the taxable income of Mr. Kapoor will be Rs. 42,000 only (even though he has received Rs. 84,000). Rs. 42,000 paid by Mr. Kapoor to Mr. Sunil will be treated as diversion of income by an overriding title and cannot be treated as his taxable income.

Rule of taxation on the basis of residential status of the assessee

The following chart highlights the tax incidence in case of different persons on the basis of their residential status :

Nature of income	***Residential status***		
	ROR (*)	***RNOR (*)***	***NR (*)***
Income accrued in India	Taxed	Taxed	Taxed
Income deemed to be accrued in India	Taxed	Taxed	Taxed
Income received in India	Taxed	Taxed	Taxed
Income deemed to be received in India	Taxed	Taxed	Taxed
Income other than above, but from a business controlled from India	Taxed	Taxed	Not taxed

Income other than above (*i.e.,* income which has no relation with India)	Taxed	Not taxed	Not taxed

(*) ROR means resident and ordinarily resident.

RNOR means resident, but not ordinarily resident.

NR means non-resident.

Income deemed to be received in India

Following incomes are treated as incomes deemed to be received in India :

- Interest credited to recognised provident fund account of an employee in excess of 9.5% per annum.
- Employer's contribution to recognised provident fund in excess of 12%.
- Transfer balance in case of reorganisation of unrecognised provident fund.
- Tax deducted at source.
- Contribution by the Central Government or other employer to the account of the employee in case of notified pension scheme refered to in section 80CCD.

Income deemed to accrue or arise in India

Following incomes are treated as incomes deemed to accrue or arise in India :

- Capital gain arising on transfer of property situated in India is treated as an income deemed to accrue or arise in India.
- Income from business connection in India is treated as an income deemed to accrue or arise in India.
- Income from salary in respect of service rendered in India is treated as an income deemed to accrue or arise in India.
- Salary received by an Indian national from Government of India in respect of service rendered outside India is treated as an income deemed to accrue or arise in India. However, allowances and perquisites are exempt in this case.
- Income from any property, asset or other source of income located in India is treated as an income deemed to accrue or arise in India.
- Dividend paid by an India company is treated as an income deemed to accrue or arise in India.
- Interest/royalty/fees for technical services received from Government of India are treated as income deemed to accrue or arise in India.
- Interest/royalty/fees for technical services received from resident/non-resident are treated as income deemed to accrue or arise in India, if such interest is in respect of funds borrowed for carrying on business/profession in India or such royalty/fees is for business/profession/other source of income which is located in India.

FAQs

Q1. Generally, income of previous year is taxed (*i.e.*, assessable) in the immediately following assessment year. What are the situations in which income of previous year is taxed in the previous year itself ?

Generally, income of the previous year is taxed (*i.e.*, assessable) in the immediately following assessment year. However, in the following cases income of the previous year is taxed in the previous year itself :

(1) Income of a person leaving India [Section 174]

If following conditions are satisfied, then income of a person leaving India is charged to tax in the previous year itself:

- It appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry.
- Such a person has no present intention of returning to India.

In above cases, the total income of such an individual upto the probable date of his departure from India shall be charged to tax in that assessment year.

Example

Mr. Francis is a foreign citizen. He is residing in India since January, 2000. At the time of making his assessment for the assessment year 2012-13 (in January, 2013), the Assessing Officer came to know that Mr. Francis is going to leave India on 8-4-2013. In this case, at the time of completing assessment for the previous year 2011-12 (*i.e.*, assessment year 2012-13), the Assessing Officer will make following three assessments :

- The assessment of the income of the previous year 2011-12.
- The assessment of the income of the previous year 2012-13.
- The assessment of the income of the period 1-4-2013 to 8-4-2013.

(2) Income of a person likely to transfer property to avoid tax [Section 175]

If following conditions are satisfied, then income of a person transferring his assets is charged to tax in the previous year itself:

- It appears to the Assessing Officer during any current assessment year that any person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets.
- The intention of such sale, transfer, etc, is with a view to avoid payment of any liability under the provisions of the Act.

In above cases, the total income of such person for the period from the expiry of the previous year for that assessment year to the date when the Assessing Officer commences proceedings under section 175 shall be chargeable to tax in that assessment year.

Example

In November, 2012, while making the assessment of income of Mr. Kumar for the assessment year 2012-13, *i.e.*, previous year 2011-12, the Assessing Officer came to know that Mr. Kumar was transferring his building with an intention to avoid payment of Income-tax liability. Considering the intention of Mr. Kumar, the Assessing Officer issued notice (in November, 2012) to Mr. Kumar to furnish his return of income for the period April, 2012 to November, 2012.

In the above case, it could be observed that income of the period April, 2012 to November, 2012 was covered in the previous year 2012-13, *i.e.*, assessment year 2013-14 and it could be charged to tax in assessment year 2013-14 only. However, by invoking the provisions of section 175, the Assessing Officer could assess the income for the period of April, 2012 to November, 2012 in the assessment year 2012-13 itself.

(3) Income of discontinued business or profession [Section 176]

In addition to above instances, income of a discontinued business or profession can be charged to tax in the previous year itself. In other words, if a business or profession is discontinued during a year, then the income from the first day of the assessment year till the date of discontinuation can be charged to tax by the Assessing Officer in the assessment year in which the business is discontinued or in the immediately following assessment year.

Example

Mr. Kumar was running a textile factory. He discontinued his business on 25-2-2013. In this case the Assessing Officer has two options :

- To tax the income of the period 1-4-2012 to 25-2-2013 in assessment year 2012-13, *i.e.*, the assessment year in which business is discontinued.
- To tax the income of the period 1-4-2012 to 25-2-2013 in assessment year 2013-14.

(4) Income from shipping business of non-residents (Section 172)

If following conditions are satisfied, then income of a non-resident is charged to tax in previous year itself:

- The assessee is a non-resident.
- He owns a ship or a ship is chartered by him.
- The ship carries passengers, livestock, mail or goods shipped at a port in India.

In the above case, 7.5% of the amount paid or payable on account of such carriage to the non-resident shall be deemed to be income accruing in India to the non-resident and tax on such income is payable at the rates applicable to a foreign company.

(5) Income of bodies formed for short duration [Section 174A]

If following conditions are satisfied, then income of bodies formed for short duration is charged to tax in the previous year itself:

- It appears to the Assessing Officer that any association of persons or a body of individuals or an artificial juridical person is, formed or established or incorporated for a particular event or purpose.
- Above entity is likely to be dissolved in the assessment year in which such entity was formed or established or incorporated or immediately after such assessment year.

In above cases the total income of such an entity for the period from the expiry of the previous year for that assessment year up to the date of its dissolution shall be chargeable to tax in that assessment year.

General comment

It should be noted that in cases given in (1), (2), (4) and (5) it is mandatory to tax the income in the previous year itself. However, in case (3), *i.e.*, income of discontinued business/profession income can be charged to tax in the previous year itself or in the assessment year (at the discretion of the Assessing Officer).

Q2. For the purpose of which head of income the method of accounting followed by the assessee is relevant?

- There are two main methods of accounting, *viz.*, Cash system of accounting and Mercantile system of accounting.
- Under Mercantile system of accounting also known as Accrual system, revenue and expenses are recorded on accrual basis.
- Under Cash system of accounting, revenue and expenses are recorded on cash basis, *i.e.*, revenue or expenses not realised/paid during the year are not recorded.
- As far as income tax is concerned, the method of accounting followed by the assessee is relevant only for computing income charged to tax under the head "Profits and gains of business or profession" and "Income from other sources".
- The method of accounting followed by the assessee has no relevance while computing income under the heads "Salaries", "House property" and "Capital gains".

Examples

(1) Mr. Hitesh is running a provision shop. He is following mercantile system of accounting. In this case the income chargeable to tax under the head "Profits and gains of business or profession" will be computed by following mercantile system.

(2) Mr. Mitul is running a provision shop. He is following cash system of accounting. In this case the income chargeable to tax under the head "Profits and gains of business or profession" will be computed by following cash system.

(3) Mr. Sunil is a salaried employee. He is maintaining proper books of account of his transactions. He is recording his salary income in his books on accrual basis, *i.e.*, he is following mercantile system of accounting.

In this case it can be observed that Mr. Sunil is following mercantile system of accounting for recording his salary income. However, for the purpose of computing taxable salary income, the method of accounting has no relevance and, hence, salary will be charged to tax on due or receipt basis, whichever is earlier.

(4) Mr. Kapoor owns 3 flats and all of these are rented by him. He is maintaining regular books of account to record his rental income. He maintains books of account on cash basis.

In this case rental income will be charged to tax under the head "Income from house property". It can be observed that Mr. Kapoor is following cash system of accounting for recording his salary income. However, for the purpose of computing income charged to tax under the head "House property" the method of accounting has no relevance and, hence, income charged to tax under the head "House property" will be charged to tax as per the provisions of sections 22 to 27.

Q3. How tax free income is charged to tax (*i.e.*, incomes on which tax is paid by the payer)?

If a person is receiving tax free income, *i.e.*, tax on such income is paid by the payer, then, the gross amount of such income, *i.e.*, tax free income *plus* tax paid by the payer will be treated as taxable income of the receiver.

Example

Mr. Sanjay is working in Essem Ltd. on a monthly salary of Rs. 84,000 (tax free because tax on salary is paid by the company). In addition to salary of Rs. 84,000, the company is paying tax of Rs. 25,200 on the said salary. In this case the taxable income of Mr. Sanjay will be Rs. 1,09,200 per month (Rs. 84,000 salary *plus* Rs. 25,200 tax on salary paid by the company).

Q4. Is income received in kind charged to tax ?

Income-tax has nothing to do with the nature of income, *i.e.*, whether in cash or whether in kind. An income received in kind is charged to tax in the same way as income received in cash. In case of incomes received in kind, the taxable value is computed by computing the fair value of such income. The fair value of income received in kind is computed by following the rules prescribed in income-tax. If no specific rules in this regard are prescribed under the income-tax law, then the market value of such income is to be considered.

Example

Gifts in kind received by a doctor from his patients are charged to tax in the hands of the doctor.

Q5. Is pin money received by wife taxable?

Pin money received by a wife for her personal expenses is not regarded as the income of the wife. Further, any savings made by wife from money received from her husband for household expenses is also not regarded as the income of the wife.

Q6. What is diversion of income by overriding title and application of income?

If an assessee claims that there has been a diversion of income, then the income for which diversion is claimed cannot be treated as taxable income of the assessee. However, if there is an application of income (and not diversion), then income so applied will be charged to tax in the hands of the assessee.

In other words, diversion of income will not result in taxable income in the hands of the assessee. However, application of income will be taxed in the hands of the assessee.

Diversion will occur when income does not reach the assessee and is directly diverted to any other person. In other words, in case of diversion of income the assessee has no right over the income and the income does not reach in his hands.

Application occurs when the income reaches the assessee, *i.e.*, the assessee has right over the income; then by exercising his right he applies the income.

Example

Mr. Kapoor and Mr. Sunil prepared an article and the same was published in a magazine. The publisher issued a cheque of Rs. 84,000 in the name of Mr. Kapoor (since he is first author). Out of Rs. 84,000, Mr. Kapoor paid Rs. 42,000 to Mr. Sunil. In this case, the taxable income of Mr. Kapoor will be Rs. 42,000 only (even though he has received a cheque of Rs. 84,000). Rs. 42,000 paid by Mr. Kapoor to Mr. Sunil will be treated as diversion of income by overriding title and cannot be treated as his taxable income.

Q7. What is the broad band rule of taxation on the basis of residential status of the assessee ?

The following chart highlights the tax incidence in case of different persons on the basis of their residential status :

Nature of income	*Residential status*		
	ROR (*)	*RNOR (*)*	*NR (*)*
Income accrued in India	Taxed	Taxed	Taxed
Income deemed to be accrued in India	Taxed	Taxed	Taxed
Income received in India	Taxed	Taxed	Taxed
Income deemed to be received in India	Taxed	Taxed	Taxed
Income other than above, but from a business controlled from India	Taxed	Taxed	Not taxed
Income other than above (*i.e.*, income which has no relation with India)	Taxed	Not taxed	Not taxed

(*) ROR means resident and ordinarily resident.

RNOR means resident but not ordinarily resident.

NR means non-resident.

Q8. What incomes are deemed to be received in India ?

Following incomes are treated as incomes deemed to be received in India :

- Interest credited to recognised provident fund account of an employee in excess of 9.5% per annum.
- Employer's contribution to recognised provident fund in excess of 12%.
- Transfer balance in case of reorganisation of unrecognised provident fund.
- Tax deducted at source.
- Contribution by the Central Government or other employer to the account of the employee in case of notified pension scheme refered to in section 80CCD.

Q9. What incomes are deemed to accrue or arise in India ?

Following incomes are treated as incomes deemed to accrue or arise in India :

- Capital gain arising on transfer of property situated in India is treated as an income deemed to accrue or arise in India.
- Income from business connection in India is treated as an income deemed to accrue or arise in India.
- Income from salary in respect of service rendered in India is treated as an income deemed to accrue or arise in India.

- Salary received by an Indian national from Government of India in respect of service rendered outside India is treated as an income deemed to accrue or arise in India. However, allowances and perquisites are exempt in this case.
- Income from any property, asset or other source of income in India is treated as an income deemed to accrue or arise in India.
- Dividend paid by an India company is treated as an income deemed to accrue or arise in India.
- Interest/royalty/fees for technical services received from Government of India are treated as income deemed to accrue or arise in India.
- Interest/royalty/fees for technical services received from resident/non-resident are treated as income deemed to accrue or arise in India, if the such interest is in respect of funds borrowed for carrying on business/profession in India or such royalty/fees is for business/profession/other source located in India.

MCQs

Q1. Income of previous year is taxed in the immediately following assessment year. Are there any exceptions to this rule?

(a) Yes (b) No

Correct answer : (a)

Justification of correct answer :

Income of previous year is taxed in the immediately following assessment year. However, in following cases the income of previous year is taxed in the previous year itself :

- Income of a person leaving India who has no present intention of returning to India
- Income of a person likely to transfer property to avoid tax
- Income from shipping business of non-residents
- Income of bodies formed for short duration

Thus, option (a) is the correct option.

Comment on incorrect answer : In a few cases, income of previous year is charged to tax in the previous year itself, hence, there are few exceptions to the rule of taxability given in the question. Thus, option (b) is not correct.

Q2. Income of previous year is taxed in the immediately following assessment year. However, income of a person leaving India who has no present intention of returning to India is taxed in the previous year itself.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Income of previous year is taxed in the immediately following assessment year. However, in following cases the income of previous year is taxed in the previous year itself :

- Income of a person leaving India who has no present intention of returning to India
- Income of a person likely to transfer property to avoid tax
- Income from shipping business of non-residents
- Income of bodies formed for short duration

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q3. Income of previous year is taxed in the immediately following assessment year. However, income of a person likely to transfer property to avoid tax is taxed in the previous year itself.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Income of previous year is taxed in the immediately following assessment year. However, in following cases the income of previous year is taxed in the previous year itself :

- Income of a person leaving India who has no present intention of returning to India
- Income of a person likely to transfer property to avoid tax
- Income from shipping business of non-residents
- Income of bodies formed for short duration

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q4. Income of previous year is taxed in the immediately following assessment year, however, income from shipping business of non-residents is taxed in the previous year itself.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Income of previous year is taxed in the immediately following assessment year. However, in following cases the income of previous year is taxed in the previous year itself :

- Income of a person leaving India who has no present intention of returning to India
- Income of a person likely to transfer property to avoid tax
- Income from shipping business of non-residents
- Income of bodies formed for short duration

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q5. Income of previous year is taxed in the immediately following assessment year. However, income of bodies formed for short duration is taxed in the previous year itself.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Income of previous year is taxed in the immediately following assessment year. However, in following cases the income of previous year is taxed in the previous year itself :

- Income of a person leaving India who has no present intention of returning to India
- Income of a person likely to transfer property to avoid tax
- Income from shipping business of non-residents
- Income of bodies formed for short duration

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q6. Income of discontinued business ______ taxed in the previous year itself.

(a) Can be (b) Must be

Correct answer : (a)

Justification of correct answer :

Income of discontinued business/profession can be charged to tax in the previous year itself or in the assessment year (at the discretion of the Assessing Officer). Thus, option (a) is the correct option.

Comment on incorrect answer : Income of discontinued business/profession can (and not must) be charged to tax in the previous year itself or in the assessment year (at the discretion of the Assessing Officer). Thus, option (b) is not correct.

Q7. Income of a person leaving India who has no present intention of returning to India is charged to tax in the previous year itself. In this case, the total income of such individual upto _______________ shall be charged to tax in that assessment year.

(a) The probable date of his departure from India

(b) The end of the assessment year

(c) The end of the previous year

(d) The end of the previous year in which he leaves India

Correct answer : (a)

Justification of correct answer :

If following conditions are satisfied, then income of a person leaving India is charged to tax in previous year itself:

- It appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry.
- Such a person has no present intention of returning to India.

In above case, the total income of such individual upto the probable date of his departure from India shall be charged to tax in that assessment year.

Thus, option (a) giving correct provision is correct.

Comment on incorrect answer : In the case given in the question, the total income of such an individual upto the probable date of his departure from India shall be charged to tax in that assessment year. Thus, options (b), (c) and (d) giving incorrect provisions are not correct.

Q8. If it appears to the Assessing Officer during any current assessment year that any person is likely to charge, sell, transfer, dispose off or otherwise part with any of his assets and the intention of such sale, transfer, etc, is with a view to avoiding payment of any liability under _____________, then the total income of such person for the period from the expiry of the previous year for that assessment year to the date when the Assessing Officer commences proceedings under section 175 shall be chargeable to tax in that assessment year.

(a) The Wealth-tax Act (b) The provisions of the Act (*i.e.*, Income-tax Act)

(c) The state VAT Act(d) The provisions of any Act

Correct answer : (b)

Justification of correct answer :

If following conditions are satisfied, then income of a person transferring his assets is charged to tax in previous year itself:

- It appears to the Assessing Officer during any current assessment year that any person is likely to charge, sell, transfer, dispose off or otherwise part with any of his assets.
- The intention of such sale, transfer, etc, is with a view to avoiding payment of any liability under the provisions of the Act.

In above case, the total income of such person for the period from the expiry of the previous year for that assessment year to the date when the Assessing Officer commences proceedings under section 175 shall be chargeable to tax in that assessment year.

Thus, option (b) giving correct provision is correct.

Comment on incorrect answer : Income of previous year is charged to tax in the previous year itself, if it appears to the Assessing Officer during any current assessment year that any person is likely to charge, sell, transfer, dispose off or otherwise part with any of his assets and the intention of such sale, transfer, etc, is with a view to avoiding payment of any liability under the Act. Thus, options (a), (c) and (d) giving incorrect provisions are not correct.

Q9. In December 2012, while making the assessment of income of Mr. Kapoor for the assessment year 2012-13, *i.e.*, previous year 2011-12, the Assessing Officer came to know that Mr. Kapoor is transferring his building with an intention to avoid payment of Income-tax liability. In this case, the income of the period __________ to ________ can be charged to tax in assessment year 2012-13 only.

(a) April, 2011 and March, 2012 (b) April, 2012 and March, 2013

(c) April, 2012 and December, 2012 (d) January, 2012 and December, 2012

Correct answer : (c)

Justification of correct answer :

By virtue of section 175, the Assessing Officer can assess the income for the period of April, 2012 to December, 2012 in the assessment year 2012-13 only. Thus, option (c) giving correct period is correct.

Comment on incorrect answer : The correct period is April, 2012 to December, 2012, thus, options (a), (b) and (d) giving incorrect periods are not correct.

Q10. Mr. Rahul is running a garments factory. He discontinued his business on 1-1-2013. In this case, the Assessing Officer has following two options :

- To tax the income of the period 1-4-2012 to 1-1-2013 in assessment year 2012-13, *i.e.*, the assessment year in which business is discontinued.
- To tax the income of the period 1-4-2012 to 1-1-2013 in assessment year 2013-14.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

If a business or profession is discontinued during a year, then the income from the first day of the assessment year till the date of discontinuation can be charged to tax by the Assessing Officer (at his discretion) in the assessment year in which the business is discontinued or in the immediately following assessment year.

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q11. Income from shipping business of a non-resident is charged to tax in the previous year itself; in such a case, ________% of the amount paid or payable on account of such carriage to the non-resident shall be deemed to be income accruing in India to the non-resident.

(a) 5 (b) 5.5

(d) 7 (d) 7.5

Correct answer : (d)

Justification of correct answer :

Income from shipping business of a non-resident is charged to tax in the previous year itself. In such a case 7.5% of the amount paid or payable on account of such carriage to the non-resident shall be deemed to be income accruing in India to the non-resident. Thus, option (d) giving correct rate is correct.

Comment on incorrect answer : In the given case in question 7.5% of the amount paid or payable on account of such carriage to the non-resident shall be deemed to be income accruing in India. Thus, options (a), (b) and (c) giving incorrect rates are not correct.

Q12. Income from shipping business of a non-resident is charged to tax in the previous year itself. In such a case, prescribed percentage of the amount paid or payable on account of such carriage to the non-resident shall be deemed to be income accruing in India to the non-resident and tax on such income is payable at the rates applicable to a ________.

(a) Foreign company (b) Domestic company

(c) Partnership firm (d) Association of firm

Correct answer : (a)

Justification of correct answer :

Income from shipping business of a non-resident is charged to tax in the previous year itself. In such a case, 7.5% of the amount paid or payable on account of such carriage to the non-resident shall be deemed to be income accruing in India to the non-resident and tax on such income is payable at the rates applicable to a foreign company. Thus, option (a) giving correct provision is correct.

Comment on incorrect answer : In the case given in question, tax on such income is payable at the rates applicable to a foreign company. Thus, options (b), (c) and (d) giving incorrect provisions are not correct.

Q13. Income of any association of persons or a body of individuals or an artificial juridical person, formed or established or incorporated for a particular event or purpose can be charged to tax in the previous year itself, if such an entity is likely to be dissolved in the assessment year in which such an entity was formed or established or incorporated or__________.

(a) Immediately after such assessment year, (b) Immediately after its creation,

(c) At the discretion of the creator, (d) At the discretion of any authority,

Correct answer : (a)

Justification of correct answer :

If the following conditions are satisfied, then income of bodies formed for short duration is charged to tax in previous year itself:

- It appears to the Assessing Officer that any association of persons or a body of individuals or an artificial juridical person, formed or established or incorporated for a particular event or purpose.
- Above entity is likely to be dissolved in the assessment year in which such an entity was formed or established or incorporated or immediately after such assessment year.

Thus, option (a) giving correct provision is correct.

Comment on incorrect answer : Income of any association of persons or a body of individuals or an artificial juridical person is formed or established or incorporated for a particular event or purpose can be charged to tax in the previous year itself, if such an entity is likely to be dissolved in the assessment year in which such an entity was formed or established or incorporated or immediately after such an assessment year. Thus, options (b), (c) and (d) giving incorrect provisions are not correct.

Q14. While computing income which of the following heads of income the method of accounting adopted by the assessee is relevant?

(a) Salaries (b) Business or profession

(c) House property (d) Capital gains

Correct answer : (b)

Justification of correct answer :

As far as income-tax is concerned, the method of accounting followed by the assessee is relevant only for computing income charged to tax under the head "Profits and gains of business or profession" and "Income from other sources". Thus, option (b) gives correct head of income.

Comment on incorrect answer : As far as income-tax is concerned, the method of accounting followed by the assessee is relevant only for computing income charged to tax under the head "Profits and gains of business or profession" and "Income from other sources". Thus, options (a), (c) and (d) giving incorrect heads of income are not correct.

Q15. Income chargeable to tax under the head "Income from other sources" is computed on the basis of the method of accounting followed by the assessee.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

As far as income-tax is concerned, the method of accounting followed by the assessee is relevant only for computing income charged to tax under the heads "Profits and gains of business or profession" and "Income from other sources", thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q16. Income chargeable to tax under the heads "Salaries", "House property" and "Capital gains" is computed on the basis of the method of accounting followed by the assessee.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

The method of accounting followed by the assessee has no relevance while computing income under the head "Salaries", "House property" and "Capital gains", thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q17. _________ and ___________ are the methods of accounting which can be followed by the assessee.

(a) Mercantile and cash (b) Mercantile and hybrid

(c) Cash and hybrid (d) Cash and credit

Correct answer : (a)

Justification of correct answer :

Generally, there are two main methods of accounting, *viz.*, Cash system of accounting and Mercantile system of accounting. Thus, option (a) is the correct option.

Comment on incorrect answer : Generally, there are two main methods of accounting, *viz.*, Cash system of accounting and Mercantile system of accounting. Thus, options (b), (c) and (d) giving incorrect methods of accounting are not correct.

Q18. Mercantile system of accounting is also known as ________.

(a) Credit system (b) Cash system

(d) Revenue system (d) Accrual system

Correct answer : (d)

Justification of correct answer :

Mercantile system of accounting is also known as accrual system. Thus, option (d) is the correct option.

Comment on incorrect answer : Mercantile system of accounting is also known as accrual system. Thus, options (a), (b) and (c) giving incorrect names are not correct.

Q19. Under Mercantile system of accounting, revenue and expenses are recorded on accrual basis.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Under Mercantile system of accounting, also known as Accrual system, revenue and expenses are recorded on accrual basis.

Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q20. Under Cash system of accounting, revenue and expenses are recorded on cash basis.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Under Cash system of accounting, revenue and expenses are recorded on cash basis. Thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q21. On 1-4-2012 Mr. Kumar started a garments shop and started following mercantile system of accounting. Sales made by him during the year 2012-13 amounted to Rs. 8,40,000 (entire sale was credit sale). Out of credit sales of Rs. 8,40,000, debtors have paid Rs. 7,40,000 and balance Rs. 1,00,000 is paid in April, 2013. In this case, while computing his taxable income, sales to be recorded by him will amount to _______.

(a) Rs. 1,00,000 (b) Rs. 7,40,000

(c) Rs. 8,40,000 (d) Rs. 9,40,000

Correct answer : (c)

Justification of correct answer :

Under Mercantile system of accounting, also known as Accrual System, revenue and expenses are recorded on accrual basis. In this case, the assessee is following mercantile system of accounting. Hence, sales to be recorded while computing taxable income will come to Rs. 8,40,000. Thus, option (c) is the correct option.

Comment on incorrect answer : In this case, the assessee is following mercantile system of accounting. Hence, sales to be recorded while computing taxable income will come to Rs. 8,40,000. Thus, options (a), (b) and (d) giving incorrect amount of sales are not correct.

Q22. On 1-4-2012, Mr. Raja started a provision shop and started following cash system of accounting. Sales made by him during the year 2012-13 amounted to Rs. 2,52,000 (entire sale was credit sale). Out of credit sale of Rs. 2,52,000, debtors have paid Rs. 2,00,000 and balance Rs. 52,000 is paid in April, 2013. In this case, while computing his taxable income, sales to be recorded by him will amount to _______.

(a) Rs. 2,52,000 (b) Rs. 2,00,000

(c) Rs. 52,000 (d) Rs. 3,04,000

Correct answer : (b)

Justification of correct answer :

Under Cash System of accounting, revenue and expenses are recorded on cash basis, *i.e.*, revenue or expenses not realised/paid during the year are not recorded. In this case, the assessee is following cash system of accounting, hence, sales to be recorded while computing taxable income will come to Rs. 2,00,000. Thus, option (b) is the correct option.

Comment on incorrect answer : In this case, the assessee is following cash system of accounting, hence, sales to be recorded while computing taxable income will come to Rs. 2,00,000. Thus, options (a), (c) and (d) giving incorrect amount of sales are not correct.

Q23. If a person is receiving tax free income, *i.e.*, tax on such income is paid by the payer, then the net amount of such income will be treated as taxable income of the receiver. Tax on such income paid by the payer is not regarded as the income of the receiver.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

If a person is receiving tax free income, *i.e.*, tax on such income is paid by the payer, then the gross amount of such income, *i.e.*, tax free income *plus* tax paid by the payer will be treated as taxable income of the receiver, thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q24. Mr. Roop received tax free salary of Rs. 8,40,000 from his employer (no perquisites are provided). Tax of Rs. 1,00,940 on salary is paid by his employer. In this case, what will be his taxable salary income?

(a) Rs. 8,40,000 (b) Rs. 9,40,940

Correct answer : (b)

Justification of correct answer :

If a person is receiving tax free income, *i.e.*, tax on such income is paid by the payer, then the gross amount of such income, *i.e.*, tax free income *plus* tax paid by the payer will be treated as taxable income of the receiver. In this case, taxable salary income will be salary *plus* tax on salary paid by the employer, *i.e.*, Rs. 9,40,940. Thus, option (b) is the correct option.

Comment on incorrect answer : In this case, taxable salary income will be salary *plus* tax on salary paid by the employer, *i.e.*, Rs. 9,40,940. Thus, option (a) giving incorrect taxable income is not correct.

Q25. Mr. Sunil received tax free interest of Rs. 2,52,000 from his friend on loan given by him to his friend. Tax on the amount of interest is paid by his friend. In this case, what will be the taxable amount of interest in the hands of Mr. Sunil?

(a) Rs. 2,52,000 and tax on interest paid by his friend will be exempt from tax.

(b) Rs. 2,52,000 *plus* the amount of tax on interest paid by his friend.

Correct answer : (b)

Justification of correct answer :

If a person is receiving tax free income, *i.e.*, tax on such income is paid by the payer, then the gross amount of such income, *i.e.*, tax free income *plus* tax paid by the payer will be treated as taxable income of the receiver. In this case, taxable interest will be Rs. 2,52,000 *plus* the amount of tax on interest paid by his friend. Thus, option (b) is the correct option.

Comment on incorrect answer : In this case, taxable interest will be Rs. 2,52,000 *plus* the amount of tax on interest paid by his friend. Thus, option (a) giving incorrect amount of interest liable to tax is not correct.

Q26. Income received in ________ is charged to tax.

(a) Cash (b) Kind

(c) Cash as well as in kind (d) Bank account of the assessee

Correct answer : (c)

Justification of correct answer :

Income-tax has nothing to do with the nature of income, *i.e.*, whether in cash or in kind. An income received in kind is charged to tax in the same way as income received in cash. Thus, option (c) giving correct taxability of the income is correct.

Comment on incorrect answer : An income received in kind is charged to tax in the same way as income received in cash. Thus, options (a), (b) and (d) giving individual/incorrect nature of incomes are not correct.

Q27. Gift in kind received by an engineer from his client is not charged to tax.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

An income received in kind is charged to tax in the same way as income received in cash, thus, gift in kind received by an engineer from his client is charged to tax. Considering above discussion, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q28. Mr. Anil is a doctor. During the year 2012-13 he received fees of Rs. 8,40,000 from his patients. Apart from fees of Rs. 8,40,000, his patients gifted him articles valued at Rs. 2,52,000. In this case, his taxable fees for the year will be _______.

(a) Rs. 8,40,000 (b) Rs. 2,52,000

(c) Rs. 10,29,000 (d) Rs. 10,92,000

Correct answer : (d)

Justification of correct answer :

Income-tax has nothing to do with the nature of income, *i.e.*, whether in cash or whether in kind. An income received in kind is charged to tax in the same way as income received in cash. Considering above provision, taxable fees of Mr. Anil will come to Rs. 10,92,000. Thus, option (d) is the correct option.

Comment on incorrect answer : Taxable fees of Mr. Anil will come to Rs. 10,92,000. Thus, options (a), (b) and (c) giving incorrect taxable incomes are not correct.

Q29. Gift in kind received by a non-professional from his customers like gift received by shopkeeper, *i.e.*, a businessman from his customers is not charged to tax.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

Income-tax has nothing to do with the nature of income, *i.e.*, whether in cash or in kind. An income received in kind is charged to tax in the same way as income received in cash. This rule applies to a person engaged in a profession as well as a person engaged in business. Thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q30. Pin money received by a wife for her personal expenses is not regarded as income of the wife.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Pin money received by a wife for her personal expenses is not regarded as an income of the wife, thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q31. Mrs. Kapoor is a housewife. During the year 2012-13, she received Rs. 84,000 as pin money from her husband. In this case, ______ will be treated as taxable income from the pin money received by her.

(a) Rs. 84,000 (b) *Nil*

Correct answer : (b)

Justification of correct answer :

Pin money received by a housewife for her personal expenses is not regarded as an income of the house wife. Considering above provision, nothing will be charged to tax from the pin money received by Mrs. Kapoor. Thus, option (b) is the correct option.

Comment on incorrect answer : Nothing will be charged to tax from the pin money received by Mrs. Kapoor. Thus, option (a) giving incorrect amount liable to tax is not correct.

Q32. Any saving made by wife from money received from her husband for household expenses is regarded as income of the wife.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

Any saving made by wife from money received from her husband for household expenses is not regarded as an income of the wife, thus statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q33. Mrs. Kapoor is a housewife. During the year 2012-13, she received Rs. 1,84,000 from her husband for household expenses. Out of Rs. 1,84,000 she utilised Rs. 1,50,000 for household expenses and saved Rs. 34,000. In this case, ______ will be treated as taxable income of Mrs. Kapoor out of Rs. 1,84,000.

(a) Rs. 1,84,000 (b) Rs. 1,50,000

(c) Rs. 34,000 (d) *Nil*

Correct answer : (d)

Justification of correct answer :

Pin money received by a housewife for her personal expenses is not regarded as income of the housewife. Further, any savings made by housewife from money received from her husband for household expenses is also not regarded as income of the housewife. Considering above provision, nothing will be charged to tax in the hands of Mrs. Kapoor out of Rs. 1,84,000. Thus, option (d) is the correct option.

Comment on incorrect answer : Nothing will be charged to tax in the hands of Mrs. Kapoor out of Rs. 1,84,000. Thus, options (a), (b) and (c) giving incorrect amounts liable to tax are not correct.

Q34. Which of the following is not regarded as income of a person ?

(a) Diversion of income by an overriding title

(b) Application of income

Correct answer : (a)

Justification of correct answer :

If an assessee claims that there has been a diversion of income then the income for which diversion is claimed cannot be treated as taxable income of the assessee. However, if there is an application of income (and not diversion), then income so applied will be charged to tax in the hands of the assessee. Thus, option (a) gives correct legal provision.

Comment on incorrect answer : If an assessee claims that there has been a diversion of income then the income for which diversion is claimed cannot be treated as taxable income of the assessee. However, if there is an application of income (and not diversion), then income so applied will be charged to tax in the hands of the assessee. Thus, option (b) giving incorrect legal provision is not correct.

Q35. Diversion will occur when income does not reach the assessee and is directly diverted to any other person.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Diversion will occur when income does not reach the assessee and is directly diverted to any other person. In other words, in case of diversion of income the assessee has no right over the income; the income does not reach his hands, thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q36. Application of income occurs when the income reaches the assessee; then by exercising his right he applies the income.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Application of income occurs when the income reaches the assessee, *i.e.*, the assessee has a right over the income; then by exercising his right he applies the income, thus, the statement given in the question is true and, hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.

Q37. Which of the following is not taxed in the hands of a resident and ordinarily resident?

(a) Income accrued in India
(b) Income deemed to be accrued in India
(c) Income received in India
(d) Remittance from other country

Correct answer : (d)

Justification of correct answer :

Income from other country is taxed in the hands of a resident and ordinarily resident. Thus, option (d) giving correct legal provision is correct.

Comment on incorrect answer : Income from other country is taxed in the hands of a resident and ordinarily resident. Thus, options (a), (b) and (c) giving individual items are not correct.

Q38. World income is taxed in the hands of a resident but not ordinarily resident.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

Income from other country is taxed in the hands of a resident and ordinarily resident and not in case of resident but not ordinarily resident, thus, statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q39. A non-resident can never be charged to tax in India.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

The following chart highlights the tax incidence in case of different persons on the basis of their residential status :

Nature of income	***Residential status***		
	ROR (*)	***RNOR (*)***	***NR (*)***
Income accrued in India	Taxed	Taxed	Taxed
Income deemed to be accrued in India	Taxed	Taxed	Taxed
Income received in India	Taxed	Taxed	Taxed
Income deemed to be received in India	Taxed	Taxed	Taxed
Income other than above but from a business controlled from India	Taxed	Taxed	Not taxed
Income other than above (*i.e.*, income which has no relation with India)	Taxed	Not taxed	Not taxed

(*) ROR means resident and ordinarily resident.

RNOR means resident but not ordinarily resident.

NR means non-resident.

Considering above provisions, it can be observed that a non-resident can be charged to tax in respect of first four items given in the above chart, thus, statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q40. Which of the following incomes are treated as incomes deemed to be received in India?

(a) Interest credited to recognised provident fund account of an employee in excess of 9.5% per annum.

(b) Gift received in India

(c) Income in kind received in India

(d) Gift in kind received in India

Correct answer : (a)

Justification of correct answer :

Following incomes are treated as incomes deemed to be received in India :

- Interest credited to recognised provident fund account of an employee in excess of 9.5% per annum.
- Employer's contribution to recognised provident fund in excess of 12%.
- Transfer balance in case of reorganisation of unrecognised provident fund.
- Tax deducted at source.
- Contribution by the Central Government or other employer to the account of the employee in case of notified pension scheme refered to in section 80CCD.

Thus, option (a) giving correct item which is treated as income deemed to be received in India is correct.

Comment on incorrect answer : From the items given in the question, only interest credited to recognised provident fund account of an employee in excess of 9.5% per annum is treated as income deemed to be received in India. Hence, options (b), (c) and (d) giving incorrect items are not correct.

Q41. Interest credited to recognised provident fund account of an employee in excess of ____% per annum will be treated as income deemed to received in India.

(a) 9 (b) 9.5

(c) 12 (d) 12.5

Correct answer : (b)

Justification of correct answer :

Interest credited to recognised provident fund account of an employee in excess of 9.5% per annum will be treated as income deemed recevied in India. Thus, option (b) is the correct option.

Comment on incorrect answer : Interest credited to recognised provident fund account of an employee in excess of 9.5% per annum will be treated as income recevied in India. Thus, options (a), (c) and (d) giving incorrect rates are not correct.

Q42. Capital gain arising on transfer of property situated in India is treated as _______.

(a) Income deemed to accrue or arise in India

(b) Indian income

(c) Tax free income

(d) Not treated as income

Correct answer : (a)

Justification of correct answer :

Capital gain arising on transfer of property situated in India is treated as income deemed to accrue or arise in India. Thus, option (a) giving correct provision is correct.

Comment on incorrect answer : Capital gain arising on transfer of property situated in India is treated as income deemed to accrue or arise in India. Hence, options (b), (c) and (d) giving incorrect provision are not correct.

Q43. Mr. Kishan is a non-resident residing in Canada since 1990. He owns a flat in Mumbai. The flat is sold by him on 8-4-2012. Capital gains arising on the sale of flat amounted to Rs. 8,40,000. In this case _________ will be treated as income deemed to accrue or arise in India in the hands of Mr. Kishan.

(a) Rs. 8,40,000. (b) *Nil*

Correct answer : (a)

Justification of correct answer :

Capital gain arising on transfer of property situated in India is treated as income deemed to accrue or arise in India. Considering above provision, Rs. 8,40,000 being capital gains arising on account of sale of property in India will be treated as income deemed to accrue or arise in India in the hands of Mr. Kishan. Thus, option (a) is the correct option.

Comment on incorrect answer : Rs. 8,40,000 being capital gains arising on account of sale of property in India will be treated as income deemed to accrue or arise in India in the hands of Mr. Kishan. Thus, option (b) giving incorrect option is not correct.

Q44. Income from salary in respect of service rendered outside India is treated as an income deemed to accrue or arise in India in case of a resident and ordinarily resident.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

Income from salary in respect of service rendered in India is treated as an income deemed to accrue or arise in India, thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q45. Salary received by an Indian national from Government of India in respect of service rendered outside India is treated as an income deemed to accrue or arise in India. Further, allowances and perquisites in this case are also taxable.

(a) True (b) False

Correct answer : (b)

Justification of correct answer :

Salary received by an Indian national from Government of India in respect of service rendered outside India is treated as an income deemed to accrue or arise in India. However, allowances and perquisites are exempt in this case, thus, the statement given in the question is false and, hence, option (b) is the correct option.

Comment on incorrect answer : The statement given in the question is false, hence, option (a) is not correct.

Q46. Mr. Kumar is an Indian citizen. He is deputed in Canada by the Government of India. During the year 2012-13 he received salary of Rs. 8,40,000 from Government of India. Apart from salary he also received various allowances amounting to Rs. 2,52,000. In this case, what will be the amount taxed in the hands of Mr. Kumar?

(a) Rs. 8,40,000 (b) Rs. 2,52,000

(c) Rs. 10,92,000 (d) *Nil*

Correct answer : (a)

Justification of correct answer :

Salary received by an Indian national from Government of India in respect of service rendered outside India is treated as an income deemed to accrue or arise in India. However, allowances and perquisites are exempt in this case. Considering above provisions, Rs. 8,40,000 being salary from Government of India will be taxed in the hands of Mr. Kumar. Allowance of Rs. 2,52,000 will be exempt from tax. Thus, option (a) is the correct option.

Comment on incorrect answer : Rs. 8,40,000 being salary from Government of India will be taxed in the hands of Mr. Kumar. Allowance of Rs. 2,52,000 will be exempt from tax. Thus, options (b), (c) and (d) giving incorrect amount liable to tax are not correct.

Q47. Mr. Kumar is an Indian citizen. He is deputed to Canada by the Government of India. During the year 2012-13 he received salary of Rs. 8,40,000 from Government of India. Apart from salary he has been provided various perquisites valuing to Rs. 2,52,000. In this case, what will be the amount taxed in the hands of Mr. Kumar?

(a) Rs. 8,40,000 (b) Rs. 2,52,000

(c) Rs. 10,92,000 (d) *Nil*

Correct answer : (a)

Justification of correct answer :

Salary received by an Indian national from Government of India in respect of service rendered outside India is treated as an income deemed to accrue or arise in India. However, allowances and perquisites are exempt in this case. Considering above provisions, Rs. 8,40,000 being salary from Government of India, will be taxed in the hands of Mr. Kumar. Value of perquisites amounting to Rs. 2,52,000 will be exempt from tax. Thus, option (a) is the correct option.

Comment on incorrect answer : Rs. 8,40,000 being salary from Government of India will be taxed in the hands of Mr. Kumar. Value of perquisites amounting to Rs. 2,52,000 will be exempt from tax. Thus, options (b), (c) and (d) giving incorrect amount liable to tax are not correct.

Q48. Interest/royalty/fees for technical services received from Government of India are treated as incomes deemed to accrue or arise in India.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

Interest/royalty/fees for technical services received from Government of India are treated as incomes deemed to accrue or arise in India. Hence, option (a) is the correct option.

Comment on incorrect answer : The statement given in the question is true, hence, option (b) is not correct.