QUESTIONS AND ANSWERS OF CA FINAL DIRECT TAXES JUNE, 2009

Questions 1. X. Y and HUF of Z (represented by Z) are partners with equal shares in profits and losses of a firm, ABC, which is engaged in the production of TV serials and telefilms. In the previous year 2007-08, one partner A retired, but his dues have been settled in the previous year 2008-09.

The earlier partnership deed did not authorise payment of remuneration or interest to partners. The partnership deed was not revised by the partners on June 1, 2008 to authorise payment of remuneration of Rs. 1 lakh per month to each working partner and simple interest at 15 per cent per annum to X and Y on their capital. X, Y and Z are actively associated with the affairs of the firm.

The profit and loss account of the firm for the year ending March 31, 2009 shows a net profit of Rs. 10 lakh after debiting/crediting the following :

1. Interest amounting to Rs. 15 lakh paid to X and Y on the balances standing to their capital accounts from April 1, 2008 to March 31, 2009.

2. Remuneration to the partners including partner in representative capacity Rs. 30 lakh.

3. Interest amounting to Rs. 2 lakh paid to Z on loan provided by him in his individual capacity at the rate of 16 per cent per annum.

4. Royalty of Rs. 5 lakh paid to partner X, who is litterateur and a professional scriptwriter, for use of his scripts as per an agreement between the firm and X.

5. Two separate payments of Rs. 18,000 and Rs. 15,000 made in cash on February 1, 2009 to P, a hairdresser against his bill for services rendered in January, 2009 and two payments of Rs. 19,000 and Rs. 10,000 made in cash on February 1 and February 2, 2009 respectively to Q, assistant cameraman against her bill for services provided in January, 2009.

6. Amount of Rs. 5 lakh provided in the books on March 31, 2009 as liability for remuneration to S, a film artist and a non-resident. Tax deducted at source under section 195 from the amount so credited was paid June 3, 2009.

7. Amount of Rs. 6 lakh provided as gratuity for the year on the basis of actuarial valuation. Gratuity paid to retired employees is Rs. 1.50 lakh.

8. Interest of Rs. 1.20 lakh received on income-tax refund under section 244(1A) in respect, of assessment year 2007-08.

The firm has also provided the following additional information :

The amount due to A, the former partner was Rs. 15 lakh. The dues were settled on September 30, 2008 by transferring a plot of land purchased two years back having a book value of Rs. 10 lakh. The difference of Rs. 5 lakh was credited to partners' capital accounts in their profit sharing ratio. The fair market value of the plot on the date of transfer was Rs. 16 lakh.

Compute total income of the firm for the assessment year 2009-10 stating the reasons for treatment of each item.

Answer .1 *Computation of total income of ABC for the assessment year 2009-10:*

	Rs.
Net Profit as per profit and loss account	10,00,000
Adjustments	
Add: Interest paid on capital to partners [*see* Note I]	5,00,000
Add: Remuneration to partners (to be taken separately)	30,00,000
Add: Interest paid to Z in his personal capacity [*see* Note II]	*Nil*
Add: Royalty to partner X [*see* Note III]	*Nil*
Add: Cash payment of a bill to P, hairdresser (amount of bill of Rs. 33,000 and two separate cash payments of Rs. 18,000 and Rs. 15,000 are made on the same day, the entire expenditure is disallowed)	33,000
Add: payment to Q, cameraman (two separate cash payments of Rs. 19,000 and Rs.	

10,000 are made on two different days, disallowance is not applicable)	*Nil*
Add: Amount paid to S, a non-resident artist [tax is deducted on March 31, 2009, it is paid in the next financial year after the due date of May 31, 2009, it will be disallowed under section 40(*a*)(*i*)]	5,00,000
Add: Provision towards gratuity (provision for future liability of gratuity to the extent of Rs. 4,50,000 is disallowed on the assumption that gratuity fund is unapproved, provision for current liability of gratuity is deductible)	4,50,000
Add: Interest on income-tax refund (it is chargeable to tax and it is credited to profit and loss account, no adjustment is, therefore, required)	*Nil*
Book profit	54,83,000
Less: Remuneration to working partners (maximum amount deductible is 90% of Rs. 75,000 + 60% of next Rs. 75,000 + 40% of remaining Rs. 53,33,000)	24,45,700
Profits and gains of business or profession	32,17,500
Capital gain [*see* Note IV]	*Nil*
Net income	32,17,500

Notes –

I. Interest on Rs. 15,00,000 is paid to partners. This interest pertains to the period commencing from April 1, 2008 and ending on March 31, 2009. Partnership deed was amended to authorize payment of interest to partners for the first time on June 1, 2008. Consequently, interest for April and May, 2008 (*i.e.,* Rs. 2,50,000 being 2/12 of Rs. 15,00,000) is not deductible. Further, under section 40(*b*) interest in excess of 12% per annum is not deductible. The excess interest (*i.e.*, Rs. 2,50,000 being 3/15 of Rs. 12,50,000) is not deductible. The aggregate disallowance is Rs. 5,00,000.

II. Z is partner representing his Hindu undivided family and firm pays interest to Z in his personal capacity. Provisions of section 40(*b*) are not applicable. The entire amount is allowed as deduction on the assumption that this case is not covered by section 40A(2).

III. Where payments made to partners are not in their capacity as partners, but are made to them for specific services rendered by them, said payments are not covered by section 40(*b*). Royalty to a partner is not covered by section 40(*b*) – *CIT* v. *Rajam Ramaswamy & Sons* [2008] 298 ITR 325 (Mad.), *CIT* v. *Gemini Productions* [1977] 110 ITR 847 (Mad.), *CIT* v. *Chitrakalapana* [1988] 36 Taxman 35 (AP).

IV. Section 45(4) is not applicable where some partners retire and the firm continues to carry on the business with remaining partners and with new partners or without new partners—***CIT*** v. ***G.K. Enterprises*** [2003] 131 Taxman 181 (Mag.), ***CIT*** v. ***Sohrabji Khanna & Co.*** [2003] 133 Taxman 112 (Asr.) (Mag.). The Bombay High Court in ***CIT*** v. ***A.N. Naik Associates*** [2004] 136 Taxman 107/265 ITR 346 has held that the word “otherwise” appearing in section 45(4) not only includes cases of dissolution but also takes into its sweep cases of retirement of partners even though there is no dissolution and the business is a continuing one. With due respect it is submitted that if the intention of the Legislature is to tax the firm in each and every case of distribution of assets whether the partnership is subsisting or not, then there is no need for the words “on dissolution or otherwise” in section 45(4) and the expression would itself lose its usefulness. The whole relevance of section 45(4) is lost if the reasoning of the Bombay High Court is accepted. If the Legislature wanted to include retirement under the expression “or otherwise”, the same would have been expressly provided.

Questions .2 *Discuss the following –*

1. X, a leading advocate on corporate law decided to reduce his practice and to accept briefs only for paying his taxes and making charities with the fees received on such briefs. In a particular case he agreed to appear to defend one company in the Supreme Court on condition that he would be provided with Rs. 5 lakh for a public charitable trust that he would create. He defended the company and was paid the sum by the company. X created a trust of that sum by executing a trust deed. Decide whether the amount received by X is assessable in his hands as income from profession.

2. The Finance Act, 2008 inserted a provision effective from April 1, 2009 for granting deduction for 100 per cent of profit derived by an undertaking from the business of operating and maintaining a hospital located anywhere in India, other than excluded area, subject to certain conditions. State briefly those conditions.

3. Y, a resident Indian and aged 67 years has derived the following incomes during the previous year 2008-09 :

	Rs.
Income from business in India	2,50,000
Commission (gross) from a company in Hong Kong (tax paid in Hong Kong : Rs. 60,000)	3.00,000
Dividend (gross) from a company in Hong Kong (tax paid in Hong Kong Rs. 18,000)	90,000
Interest on fixed deposit and savings account with banks in India	2,00,000

India has no double tax avoidance agreement with Hong Kong . Compute the income and tax payable by Y for assessment year 2009-10.

Answer.2 *Pointwise answer –*

1. After receiving the fee, X created a trust by executing a trust deed. It is a case of application of income and not diversion of income by overriding title. Hence, the amount received by X is chargeable to tax under section 28 under the head “Profit and gains of business or profession”.

2. See para 254.11.

3. Computation of income of Y –

	Rs.
Income from business in India	2,50,000
Commission from company in Hong Kong	3,00,000
Dividend from company in Hong Kong	90,000
Bank interest	2,00,000
Gross total income	8,40,000
Less: Deduction	*Nil*
Net income	8,40,000
Tax on net income	1,49,500
Add: Surcharge	*Nil*
Tax and surcharge	1,49,500
Add: Education cess	2,990
Add: Secondary and higher education cess	1,495
Tax payable	1,53,985
Average rate of tax in India (Rs. 1,53,985 ÷ Rs. 8,40,000): 18.33% (*a*)	
Average rate of tax in Hong Kong (Rs. 60,000 ÷ Rs. 3,00,000, Rs. 18,000 ÷ Rs. 90,000): 20% (*b*)	
Rate of relief under section 91 [*i.e.*, (*a*) or (*b*), whichever is lower]: 18.33%	
Doubly taxed income: Rs. 3,90,000	
Effective tax rate Rs.153985 / 840000 X 100 = 18.33%	
Relief under section 91 (*i.e.*, 18.33% of Rs. 3,90,000)	71,493
Net tax payable (rounded off)	82,490

Questions .3 *Discuss the following –*

1. X, an employee of a management consultancy firm was sent to UK in connection with a project of the firm's client for 2 months in a previous year. In addition to his salary, the firm paid *per diem* allowance for the period when he worked in UK to meet expenses on boarding and lodging. The employer did not deduct tax at source from such allowance. X did not include such allowance in computation of his taxable salary for the relevant assessment year. In course of assessment of X under section 143(3), the Assessing Officer sent a notice to him asking him to explain why the *per diem* allowance received by him should not be charged to tax ? X sought your advice.

2. Y, converted the capital asset acquired by him in the year 1988, into stock in trade at the fair market value on March 1. 2008. Y sold the entire stock-in-trade so converted on November 25, 2008. Y seeks your advice as to the tax implications of the transaction for the assessment year 2009-2010.

3. Z Ltd. charged depreciation on its fixed assets at the rates prescribed in the Income-tax Rules in its accounts consistently. The Assessing Officer disallowed the same and considered depreciation computed at the rates prescribed in the Companies Act, 1956, for the purpose of computation of “book profit” under section 115JB for the assessment year 2009-10. Examine the correctness of the action of the Assessing Officer.

4. East Bengal Club, a renowned football club has engaged A, a resident in India as its coach at a remuneration of Rs. 6 lakh annually. The club wants to know from you whether it is liable to deduct tax at source from such remuneration.

Answer .3 *Pointwise answer –*

1. Per diem allowance - As per Board’s Circular No.8/2005, dated August 29, 2005, *per diem* allowance is not taxable in the hands of an employee, even if the expenditure incurred for official purposes by the concerned employee is less than *per diem* allowance. It is subject to fringe benefit tax under section 115WB(2).

2. Conversion of capital asset into stock in trade is treated as “transfer” under section 2(*47*). The transfer takes place in the year in which capital asset is converted into stock-in-trade. However, capital gain is chargeable to tax in the year in which stock-in-trade is transferred. In the given problem, Y has converted a capital asset into stock-in-trade in the previous year 2007-08. The stock-in-trade is transferred in the previous year 2008-09. Capital gain will be taxable in the previous year 2008-09 (*i.e.*, the assessment year 2009-10). In other words, the tax liability in respect of capital gain would arise only when the stock-in-trade is sold in the regular course of business. For calculating capital gain, the fair market value of the capital asset on the date of conversion will be taken as full value of consideration. For detailed discussion, *see* para 176.1.

3. The action of the Assessing Officer is not tenable. The Assessing Officer has only limited power to examine whether books of account have been certified by authorities under the Companies Act, as having been properly maintained in accordance with said Act. Thereafter, he does not have jurisdiction to go behind net profit shown in profit and loss account except to extent provided in *Explanation* to section 115JB. Where an assessee is consistently charging depreciation in its books of account at rates prescribed in Income-tax Rules and accounts of the assessee has been prepared and certified as per provisions of the Companies Act, the Assessing Officer would not have any jurisdiction under section 115JB to rework net profits of the assessee by substituting rates of depreciation prescribed under the Companies Act – *Malayala Manorama Co. Ltd.* v.*CIT* [2008] 169 Taxman 471 (SC).

4. Tax is deductible under section 194J. “Coach” of a sports team is a profession prescribed by the Board for the purpose of section 194J.

Questions .4 *Discuss the following –*

1. A shareholder of a demerged Indian company receives shares from the resulting company in the scheme of demerger. The shareholder wants to transfer the said shares received subsequent to the demerger for a consideration. Your advice is sought on the tax consequences. as to the shares received on demerger and sought to be transferred.

2. The assessment was made under section 143(1) for assessment year 2005-06. The assessee has received a notice under section 148 on April 6, 2008 for reopening of assessment. Can the aseessee challenge the legality of the notice on the ground of change of opinion ?

3. Is it possible for the Assessing Officer to initiate proceeding under section 147 in respect of income involving matters which are the subject matter of an appeal ?

4. The Assessing Officer has no power to make any adjustment to income returned by the assessee while processing the return of income under section 143(1). Examine the correctness of the statement.

Answer .4 Pointwise answer –

1. Transfer of shares in demerged company - At the time of allotment of share by the resulting company, there is no transfer in view of section 47(*vid*). When the shares in resulting company are transferred, capital gain would be chargeable to tax. If. However, shares are transferred in a recognized stock exchange in India and shares are long-term capital asset (period of holding would be determined from the date of acquisition of shares in the demerged company), the long-term capital gain is exempt from tax under section 10(*38*). Conversely, if these shares are short-term capital assets, the resulting short-term capital gain is taxable under section 111A (the cost of acquisition will be taken on proportionate basis). For detailed discussion, *see* para 517 and Problem 517.6-P1.

2. Re-opening of assessment originally completed under section 143(1) - In this case, if the Assessing Officer has reason to believe that income chargeable to tax has escaped assessment, he can take action under section 147. This condition is applicable even if originally the return was processed under section 143(1) and it was not taken in scrutiny. If this condition is satisfied, action of the Assessing Officer to invoke section 147 in the given problem cannot be challenge on the ground of change of opinion. For detailed discussion, *see* para 367.1-2.

3. Re-opening of assessment in case when the matter is pending in an appeal - The Assessing Officer can assess or reassess only such income which is not subject matter of an appeal.

4. Adjustment under section 143(1) - See para 364.1.

Questions .5 *Discuss the following –*

1. X Ltd. files its return of income for assessment year 2008-09 on June 6, 2008. The return is selected for regular assessment under section 143(3) for which notice under section 143(2) is served on the company on October 3, 2009. The company responds to the notice under section 143(2). State whether the service of the notice is within time and if not. Further discuss whether the assessment order can be challenged by X Ltd.

2. Miss Y, a Sikkimese woman marries X a non-Sikkimese on January 1, 2008. During the previous year 2008-09 she receives rent of Rs. 12 lakh from letting out of house properties situated in the State of Sikkim. Is she liable to income-tax for assessment year 2009-10 ? Will your answer be different, it she marries X on April 16, 2008 ?

3. S Ltd. (subsidiary company) is a company in which 70 per cent shares are held by H Ltd. (holding company). S Ltd. in its annual general meeting held on May 18, 2008 declares a dividend amounting to Rs. 40 lakh to its shareholders for the year ending March 31, 2008 and it pays dividend distribution tax on May 28, 2008.

H Ltd. does not declare any dividend for the year ending March 31. 2008. However, it declares interim dividend amounting to Rs. 60 lakh on December 1, 2008 for the year ending March 31, 2009. What is the amount of tax on dividend payable by H Ltd. ? What would be your answer, if 60 per cent of shares in H Ltd. is held by P Ltd., a domestic company ? Does the position further change, if P Ltd. is a foreign company

Answer .5 *Pointwise answer –*

1. Issue of notice under section 143(2) - The time-limit for service of notice under section 143(2) is 6 months from the end of the financial year in which the return is filed. In this case, the notice was served beyond time. Consequently, the notice issued under section 143(2) is time barred. If, however, the assessee has participated in the proceedings, section 292BB will apply to validate the assessment made.

2. Income of Sikkimese woman - See para 38.62A.

3. Dividend tax - Dividend tax liability of X Ltd. will be calculated as follows –

	Rs.
Dividend distributed by H Ltd.	60,00,000
Less: Dividend received from S Ltd. in the same financial year (70% of Rs.40 lakh)	28,00,000
Amount on which dividend tax payable	32,00,000
Dividend tax @ 16.995%	5,43,840

Note - In case H Ltd. is subsidiary of another company (domestic or foreign), it will have to pay dividend tax on Rs. 60 lakh. For detailed discussion, *see* para 337.5.

Questions .6 *Discuss the following –*

1. X settled 1/4th share of his property under a trust for the education and maintenance of his minor daughter, P.

Under the terms of the trust deed the income accruing to the trust, after meeting the expenses of maintenance and education of P, was to be accumulated and paid over to her on her attaining majority. The Assessing Officer assessed the income arising from 1/4th share of the property, settled for the benefit of P, in the hands of X. Examine the correctness of the assessment.

2. XYZ is a public charitable trust created under a trust deed for providing relief to physically challenged persons and registered under section 12A. The following are the particulars of receipts of the trust during the year ending March 31, 2009 :

Rs. in lakh

Income from properties held by trust (net)	15
Income (net) from business (incidental to main objects)	14
Voluntary contributions from public (including the corpus donation of Rs. 7 lakh	18

The trust applied Rs. 18 lakh towards various activities and programmes undertaken for the benefit of physically challenged persons during the year. The trust has also paid Rs. 8 lakh towards repayment of a loan taken two years back for the purpose of construction of its centre for training the handicapped persons in various handicraft works and sports,

Determine the tax liability, if any, of the trust for the assessment year 2009-10 and also state how the trust can mitigate such liability,

Answer .6 *Pointwise answer –*

1. Trust for the benefit of daughter - In this case, the minor is eligible for the benefits during minority by way of income from the trust used for meeting education expenses and maintenance of the minor daughter. The rationale of the apex court decision in the case of *CIT* v. *M.R.Doshi* [1996] 85 Taxman 591 is not applicable. The stand taken by the Assessing Officer to tax the income in the hands of X is tenable. However, the Assessing Officer cannot tax the entire income from 1/4th share in the property in the hands of X by applying provisions of section 64(1A).

The following calculations are given on the assumption that annual income from 1/4th share in the property is Rs. 4,00,000. Out of which Rs. 75,000 is spent by the trust for the education and maintenance of minor child during the current year. Remaining amount is accumulated which will be handed over to the daughter after she becomes major. The amount taxable during the current year by virtue of section 64(1A) in the hands of X will be Rs. 73,500 [*i.e.*, Rs. 75,000 – exemption of Rs. 1,500 under section 10(*32*)].

2. Tax liability of XYZ public charitable trust - It will be determined as follows –

	Rs.
Income from properties held by trust for charitable purposes	15,00,000
Income from business incidental to main objects of trust	14,00,000
Voluntary contributions (excluding corpus donations)	11,00,000
Total	40,00,000
Less: 15% set apart for future	6,00,000
Balance	34,00,000
Less: Amount utilized for charitable purposes (Rs. 18,00,000 + Rs. 8,00,000)	26,00,000
Net income	8,00,000
Tax liability on Rs. 8,00,000 at tax rates applicable in the case of individuals	1,49,350

Questions .7 *Discuss the following –*

1. X Ltd., an Indian company is engaged in manufacturing electronic components. 74 per cent of shares in X Ltd. are held by Y Inc., incorporated in USA. X Ltd. Limited has borrowed funds from Y Inc. at London Inter-Bank Offer Rate (LIBOR) *plus* 150 points. The LIBOR prevalent at the time of borrowing is 4 per cent for US $. The borrowings allowed under the External Commercial Borrowings (ECB) guidelines issued under Foreign Exchange Management Act (FEMA) are LIBOR *plus* 200 points. Discuss whether the borrowing made by X Ltd. is at arm's length.

2. Y purchased a residential flat from D in 2005. However, deed of conveyance has not been registered in the name of Y till dale. Y has let out the flat at a monthly rent of Rs. 15,000 to M. Y claims that rent received is not chargeable under the head "Income from house property". But the same is chargeable under the head "Income from other sources" and he can claim deduction for expenses on repair and insurance premium on actual basis and depreciation (according to the provisions of section 32). Examine the correctness of X's claim.

3. IT Ltd. under its Employment Stock Option Plan (ESOP) allotted 500 equity shares to its finance manager, C on May 15, 2008, when she exercised her option. The option was granted on January 15, 2007 and the shares vested with C on January 15, 2008. The company's shares are quoted in Bombay Stock Exchange where the opening price and closing price of the date of vesting were Rs. 250 and 256 respectively. The company recovered Rs. 50 per share from C. Compute the value of fringe benefit for the assessment year 2009-10. If fringe benefit tax thereon is recovered by the company from C, can she claim such tax as a part of cost when she sells the shares?

Answer .7 *Pointwise answer –*

1. Arm's length price - The borrowings allowed under ECB issued under FEMA is LIBOR *plus* 200 basis points. The assessee had borrowed at LIBOR *plus* 150 basis points. Though the rate of borrowing is less than the limit prescribed under FEMA, technically it cannot be called as borrowing at arm's length price.

2. Deemed owner - X will be deemed as "owner" of the property under section 27(*iii*) [*see* para 86.2-4d]. Rental income will be taxable in the hands of X under section 22 under the head "Income from house property". In other words, income cannot be taxed under section 56 and X cannot claim deduction in respect of repairs and insurance on actual basis. Likewise, depreciation is not deductible.

3. Fringe benefit tax - It will be calculated as under –

	Rs.
Fair market value of 500 equity shares on the date of vesting [500 × Rs. 253 (*i.e.*, average of Rs. 250 and Rs. 256)]	1,26,500
Less: Amount paid by C [*i.e.*, 500 × Rs.50]	25,000
Value of fringe benefit	1,01,500

Cost of acquisition of shares in the hands of C will be Rs. 253 per share. Rs. 50 per share paid by C to the employer company will not be added to cost of acquisition. Likewise, if the employer company recovers under the provisions of section 115WKA, fringe benefit tax from C, the tax so paid by C cannot be added to the cost of acquisition which will remain Rs. 253 per share – Circular No.9/2007 dated December 20, 2007 (Q.N. 24).

Questions .8 *Discuss the following –*

1. X has a house property in Delhi, which was lying vacant for last 3 years. He constructed the property in 1990 at a cost of Rs. 40 lakh. He has let out the same at a monthly rent of Rs. 30,000 for a period of 3 years with effect from January 1, 2009. The quarterly corporation tax is Rs. 30,000. He took a premium of Rs. 1.20.000 from the tenant and also security deposit of Rs. 1,00,000. The house was constructed on a land measuring 4,000 square feet. It has three floors each measuring 960 square feet. Compute the value of the house property for wealth tax purpose as at valuation date March 31, 2009.

2. An association of persons (AOP), consisting two members Y and Z, owns an urban land valued at Rs. 60 lakh on the valuation date March 31, 2009. Examine the tax implications under the Wealth-tax Act.

Answer .8 *Pointwise answer –*

1. Computation of value of house property - It will be calculated as follows –

	Rs.
Computation of actual rent –	
Rent payable by the tenant for the previous year 2008-09 (Rs. 30,000 × 3)	90,000
Add: 15% per annum of security deposit of Rs. 1,00,000 (Rs. 1,00,000 × 0.15 × 3 ÷ 12)	3,750
Add: Proportionate amount of premium (Rs. 1,20,000 × 3 ÷ 36)	10,000
Actual rent for 3 months	1,03,750
Computation of annual rent –	
Actual rent for 3 months	1,03,750
Annual rent (Rs. 1,03,750 × 12 ÷ 3)	4,15,000
Computation of gross maintainable rent –	
Annual rent (*a*)	4,15,000
Annual value as assessed by municipal authority (assuming that it Rs. 4,15,000 or less) (*b*)	*NA*
Gross maintainable rent [(*a*) or (*b*), whichever is higher]	4,15,000
Net maintainable rent –	
Gross maintainable rent	4,15,000
Less: 15% of Rs. 4,15,000	62,250
Less: Municipal tax (Rs. 30,000 ×4)	1,20,000
Net maintainable rent	2,32,750
Capitilised value of net maintainable rent –	
Capitilised value (Rs. 2,32,750 × 12.5) (*c*)	29,09,375
Cost of acquisition (*d*)	40,00,000
Capitalized value [(*c*) or (*d*), whichever is higher] (*e*)	40,00,000
Premium –	
Unbuilt area: 3040 sft. (*i.e.*, 4,000 sft. – 960 sft.)	
Specified area in Delhi: 2,400 sft. (*i.e.*, 60% of 4,000 sft.)	
Excess of unbuilt area: 640 sft. (*i.e.*, 3,040 sft. – 2,400 sft.) (*f*)	
(*f*) as percentage of aggregate area of 4,000 sft.: 16% (*g*)	
Premium to be added when (*g*) is 16% (40% of capitalized value) (*h*)	16,00,000
Value of house property after adding premium [(*e*) + (*h*)]	56,00,000

2. Association of persons (AOP) - In the case of AOP, the value of interest of the members in the net wealth of the AOP is to be computed as per Schedule III [*see* para 549.4] and taxable in the hands of members separately by virtue of section 4(1)(*b*).