

COMPUTATION OF TOTAL INCOME

Question 1

Mr. Pankaj, aged 58 years, who retired from the services of the Central Government on 30.6.06, furnishes particulars of his income and other details as under:

- ◆ Salary @ Rs.6,000 p.m.
- ◆ Pension @ Rs.3,000 p.m. for July' 06 to Nov' 06.
- ◆ On 1.12.2006, he got 1/3rd of his pension commuted for Rs.1,20,000.
- ◆ A house plot at Ernakulam sold on 1.2.07 for Rs.5,00,000 had been purchased by him on 3.11.79 for Rs.10,000. The stamp valuation authority had assessed the value of said house plot at Rs.6,00,000 which was neither disputed by the buyer nor by him. The value of this house plot as on 1.4.81 was Rs.15,000 (The cost inflation index for the year 2006-07 is 519).
- ◆ Received interest on bank FDRs of Rs.72,500, dividend on mutual fund units of Rs.15,000 and interest on maturity of NSC of Rs.50,000 out of which an amount of Rs.40,000 was already disclosed by him on accrual basis in the returns upto Asst. Year 2006-07.
- ◆ Investment in purchase of NSC for Rs.30,000 and payment for mediclaim insurance for self and wife of Rs.12,500. Made investment in Tax Magnum units of Mutual Fund of SBI of Rs.80,000.

Compute the total income of Mr. Pankaj for A.Y. 2007-08.

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

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

(20 Marks)(May 2007)

Taxation

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of total income of Mr. Pankaj for A.Y.2010-11

Particulars	Rs.
Income from salaries (See Working Note 1)	41,000
Capital gains (See Working Note 2)	5,05,200
Income from other sources (See Working Note 3)	82,500
Gross Total Income	6,28,700
Less: Deductions under Chapter VI-A (See Working Note 4)	1,12,500
Total Income	5,16,200

Working Notes:

1. Income from salaries

Particulars	Rs.
Salary for 3 months received from Government of India (6000 x 3)	18,000
Pension for 5 months from July'09 to Nov'09 @ Rs.3000 p.m. (3000 x 5)	15,000
Pension for 4 months from Dec'09 to March'10 @ Rs.2,000 p.m.(2,000 x 4)	8,000
	41,000

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

2. Capital gains

Particulars	Rs.
Long term capital gains on sale of house plot at Ernakulam on 01.02.2010	
Sale consideration received is Rs.5,00,000. However, since the value assessed by the stamp valuation authority (i.e. Rs.6,00,000) is higher than the sale consideration, such value assessed is deemed to be the full value of the consideration received or accruing as a result of such transfer as per section 50C	6,00,000

Computation of Total Income

Less: Indexed cost of acquisition	
$15,000 \times \frac{632}{100}$	94,800
	5,05,200

3. Income from other sources

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

4. Deductions under Chapter VI-A

Particulars	Rs.	Rs.
Under section 80C		
Purchase of NSC	30,000	
Tax Magnum units of Mutual Fund of SBI	80,000	
Total	1,10,000	
Maximum deduction available under section 80C		1,00,000
Under section 80D		
Medical insurance premium paid Rs.12,500 (assumed to have been paid by cheque)		12,500
		1,12,500

Investment in approved modes

Section 54F (by constructing a new house)

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

Taxation

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

Section 54EC

In order to avail maximum exemption under section 54EC, the assessee should invest the entire long-term capital gain arising from transfer of the house plot, i.e. Rs.5,05,200, within six months from the date of sale of house plot, in bonds of National Highways Authority of India (NHAI) or Rural Electrification Corporation Ltd. (RECL). If only part of the capital gain is invested, then the exemption would be restricted to the amount invested in such bonds.

Question 2

The broad break-up of tax and allied details of Mrs. Rinku, born on 30th March, 1942 are as under:

	Rs.
Long-term capital gains on sale of house	2,00,000
Short-term capital gains on sale of shares in B Pvt. Ltd.	30,000
Prize winning from a T.V. show	20,000
Business income	2,20,000
Net agricultural income	40,000
Mrs. Rinku has paid the following:	
LIC premium of self	40,000
LIC premium of husband	20,000
Premium for annuity contract with LIC in the name of her husband	25,000
Repayment of housing loan principal (loan taken by her son dependent on her)	30,000
Compute the tax payable by Mrs. Rinku for the assessment year 2007-08.	

(9 Marks)(May 2007)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Computation of Total Income

Answer

Computation of tax payable by Mrs. Rinku for the A.Y.2010-11

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

Notes -

1. Computation of total income of Mrs. Rinku for the A.Y.2010-11

Particulars	Rs.	Rs.
Business income		2,20,000
Long term capital gains on sale of house		2,00,000
Short term capital gains on sale of shares in B Pvt. Ltd		30,000
Prize winnings from a T.V. show		20,000
Gross Total Income		4,70,000

Taxation

Less: Deduction under section 80C

Life insurance premium of self	40,000	
Life insurance premium of husband	20,000	60,000
Total Income		<u>4,10,000</u>

2. Mrs. Rinku has completed 65 years of age. Therefore, she is entitled to the higher basic exemption limit of Rs. 2,40,000.
3. Short-term capital gains on sale of shares in B Pvt. Ltd. is taxable at normal rates.
4. Premium for annuity contract with LIC in husband's name and repayment of housing loan taken by dependent son are not eligible for deduction under section 80C.

Question 3

Ramdin working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.07:

- Basic Salary Rs. 15,000 p.m.
- DA (50% of it is meant for retirement benefits) Rs. 12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company Rs. 50 lacs
- Bonus Rs. 50,000
- Gratuity Rs. 30,000
- Own Contribution to R.P.F. Rs. 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a.. Rs. 15,000
- Gold Ring worth Rs.10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 02.04.06 by the company for Rs. 85,000 and was given to him for personal use.
- Two old heavy goods vehicles owned by him were leased to a transport company against the fixed charges of Rs.6,500 p.m. Books of account are not maintained.
- Received interest of Rs.5,860 on bank FDRs, dividend of Rs. 1,260 from shares of Indian Companies and interest of Rs. 7,540 from the debentures of Indian Companies.
- Made payment by cheques of Rs.15,370 towards premium of Life Insurance policies and Rs.12,500 for Mediclaim Insurance policy.
- Invested in 6 years NSC Rs.30,000 and in FDR of SBI for 7 years Rs. 50,000.
- Donations of Rs.11,000 to an institution approved u/s 80G and of Rs.5,100 to Prime Minister's National Relief Fund were given during the year.

Compute the total income and tax payable thereon for the A.Y. 2007-08.(20 Marks)(Nov 2007)

Computation of Total Income

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of Total Income for the Assessment year 2010-11

Particulars	Rs.	Rs.
Income from Salaries		
Basic Salary (15,000 x 12)		1,80,000
DA (12,000 x 12)		1,44,000
Commission on Turnover (0.5% of Rs. 50 lacs)		25,000
Bonus		50,000
Gratuity (Note 1)		30,000
Employer's contribution to RPF		
Actual contribution [20% of Rs. 1,80,000]	36,000	
Less: Exempt (Note 2)	33,240	2,760
Interest credited in RPF account @ 15% p.a.	15,000	
Less: Exempt @ 9.5% p.a.	9,500	5,500
Gift of gold ring worth Rs.10,000 on 25 th wedding anniversary by employer Rs. (10,000 - 5000)		5,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of Rs. 85,000		8,500
		4,50,760
Profits and Gains of Business or Profession		
Lease of 2 trucks on contract basis against fixed charges of Rs. 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. Rs. 3,500 p.m. for each of the two trucks (3,500x 2 x12). He cannot claim lower profits and gains since he has not maintained books of account.		84,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest from debentures	7,540	
Dividend on shares [Exempt under section 10(34)]	Nil	13,400
Gross total Income		5,48,160

Taxation

Less: Deductions under Chapter VI-A

Section 80C

LIC	15,370	
NSC	30,000	
FDR of SBI for 7 years	50,000	
Employee's contribution to R.P.F.	30,000	
Total	<u>1,25,370</u>	
Limited to	1,00,000	
Section 80D Mediclaim Insurance	12,500	
Section 80G (Note 3)	10,600	1,23,100
Total Income		<u>4,25,060</u>
Tax on total income		
Income-tax		39,012
Add: Education cess @ 2%		780
Add: Secondary and higher education cess @ 2%		<u>390</u>
Total Tax Payable		<u>40,182</u>
Tax Payable (rounded off)		40,180

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the R.P.F. is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 = 12% of (Rs. 1,80,000+ (50% of Rs.1,44,000)+ Rs. 25,000)
 = 12% of 2,77,000
 = Rs.33,240
- Deduction under section 80G is computed as under:

	Rs.
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of Rs.11,000) (amount contributed Rs.11,000 or 10% of Adjusted Gross Total Income i.e. Rs.43,566, whichever is lower)	5,500
Total deduction	<u>10,600</u>

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D = Rs.5,48,160 – Rs.1,12,500 = Rs.4,35,660.

Computation of Total Income

Question 4

Dr. Smt. Niranjana, a resident individual, aged 60 years is running a clinic. Her Income and Expenditure Account for the year ending March 31st, 2008 is as under:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Medicine consumed	5,38,400	By Consultation and Medical charges	18,85,850
To Staff salary	3,80,000	By Income-tax refund (Principal Rs.5,000, interest Rs.450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI	10,500
To Rent paid	90,000	By winning from game show on T.V. net of TDS (TDS Rs. 16,830)	33,170
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved under section 35	1,50,000		
To Net profit	4,38,570		
	<u>19,61,970</u>		<u>19,61,970</u>

- (i) Rent paid includes Rs.30,000 paid by cheque towards rent for her residential house.
- (ii) Clinic equipments are:

1. 4. 2007	Opening W.D.V.	- Rs.5,00,000
7. 12. 2007	Acquired (cost)	- Rs.2,00,000
- (iii) Rent received relates to property situated at Surat. Gross Annual Value Rs.27,000. The municipal tax of Rs.2,000, paid in December, 2007, has been included in "administrative expenses".
- (iv) She received salary of Rs.7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of Rs.5,50,000 from a bank for higher education of her daughter. She repaid principal of Rs.1,00,000, and interest thereon Rs.55,000 during the year 2007-08.
- (vi) She paid Rs.1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.

Taxation

- (vii) An amount of Rs.18,000 has also been paid by cheque on 27th March, 2008 for her medical insurance premium.

From the above, compute the total income and tax payable thereon by Dr. Smt. Niranjana for the Assessment year 2008-09. (20 Marks)(Nov 2008)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of total income and tax liability of Dr. Niranjana for A.Y. 2010-11

Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
I Income from Salary			
Basic Salary (Rs.7,500 x 12)			90,000
II Income from house property			
Gross Annual Value (GAV)		27,000	
Less : Municipal taxes paid		2,000	
Net Annual Value (NAV)		25,000	
Less : Deduction under section 24 (@ 30% of Rs. 25,000)		7,500	17,500
III Income from profession			
Net profit as per Income and Expenditure account		4,38,570	
Less : Items of income to be treated separately			
(i) Rent received	27,000		
(ii) Dividend from units of UTI	10,500		
(iii) Winning from game show on T.V. (net of TDS)	33,170		
(iv) Income tax refund	5,450	76,120	
		3,62,450	
Less : Allowable expenditure			
Depreciation on Clinic equipments			
on Rs.5,00,000 @ 15%	75,000		
on Rs.2,00,000 @ 7.5%	15,000		

Computation of Total Income

(On equipments acquired during the year after September 2009, she is entitled to depreciation @ 50% of normal depreciation)

Additional deduction of 25% for amount paid to scientific research association (Since weighted deduction of 125% is available in respect of such payment)	37,500	1,27,500	
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2,34,950

Add: Items of expenditure not allowable while computing business income

(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	32,000	

2,66,950

IV Income from other sources

(a) Interest on income-tax refund		450	
(b) Dividend from UTI	10,500		
Less : Exempt under section 10(35)	10,500	Nil	

(c) Winnings from the game show on T.V. (Rs.33,170 + Rs.16,830)		50,000	
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50,450

Gross Total Income 4,24,900

Less: Deductions under Chapter VI A

(a) Deduction under section 80C			
Tuition fee paid to university for full time education of her daughter		1,00,000	
(b) Deduction under section 80D			
Medical insurance premium (maximum allowable upto Rs.15,000)		15,000	
(c) Deduction under section 80E			
Interest on loan taken for higher education is deductible		55,000	1,70,000

Total income 2,54,900

Taxation

Tax Payable

Tax @ 30% on winnings of Rs.50,000 from T.V. game show			15,000
Tax on balance income of Rs.2,04,900			
On Rs.1,90,000	Nil		
On next Rs.14,900 @10%	1,490	1,490	16,490
Add: Education cess @ 2%			330
Add: Secondary and higher education cess @ 1%			165
Total Tax payable			16,985
Less: TDS			16,830
Tax Payable			155

Notes:

- The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (Rs.33,170 + Rs.16,830). Thereafter, while computing tax liability, TDS of Rs.16,830 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.

Question 5

Mr. X is a resident individual. His Profit and Loss account for the year ending 31st March, 2009 is given below:

To	Amount	By	Amount
General charges	35,650	Gross Profit	5,25,860
Insurance	3,550	Commission	6,800
Staff Salary	1,12,560	Rent received	37,500
Donation to political party	1,000	Interest on debentures (Net amount Rs.22,450 plus TDS Rs. 2,550)	25,000
Fringe benefit tax	2,400	Agricultural income	45,000
Depreciation	1,25,656	Short term capital gain on sale of investment	29,000
Administrative expenses	42,500	Dividend from Indian Company	16,000
Advance tax	17,000		

Computation of Total Income

Net Profit	3,44,894	
	<u>6,85,160</u>	<u>6,85,160</u>

- (i) Depreciation has been calculated as per the Income Tax Rules at Rs. 75,000
- (ii) He has deposited Rs. 35,000 in a notified scheme under Post Office Time Deposit Rules, 1981 for five year time.
- (iii) He had bought 200 shares of AB Co. Ltd. on 5.12.2007 @ Rs. 75 each, 150 shares of PQ Co. Ltd. on 3.8.2008 @ Rs. 112 each and 150 shares of AB Co. Ltd. on 05.09.2008 @ Rs. 60 each. He sold all the shares of AB Co. Ltd. on 15.12.2008 @ Rs. 98 each and sold the shares of PQ CO. Ltd. on 10.3.2009 @ Rs. 102 each. All shares were sold in National Stock Exchange through a registered broker.
- (iv) One of his life insurance policies was matured on 14.6.2008. The sum assured was Rs. 1,00,000 and amount received on maturity was Rs. 1,62,850.
- (v) Donation to the political party represented the contribution made to a political party registered under section 29A of the Representation of the People Act, 1951.
- (vi) Income tax department refunds Rs. 42,580 (including interest of Rs. 1,470) which was directly credited in his personal savings account.
- (vii) He incurred expenditure of Rs. 40,000 on treatment of his dependent father who was suffering from specified disease as defined in rule 11DD of Income Tax Rules, 1962. The payment of medical expenses was made by cheque and an amount of Rs. 7,500 was reimbursed to him by an insurance company.
- (viii) Bad debt of a business which was discontinued in earlier years, recovered during the year Rs. 15,000.

Compute total income and tax payable thereon by Mr. X for the assessment year 2009 - 2010.
(20 Marks)(June 2009)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of taxable income and tax payable by Mr. X for the Assessment year 2010-11

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

Taxation

Less : Deductions under Chapter VIA

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

Components of total income

Special Income

Short-term capital gains from sale of shares (chargeable at a special rate of 15% u/s 111A) 4,200

Normal income 2,91,670
2,95,870

Computation of tax

Tax on short-term capital gains from sale of shares @ 15% of Rs.4,200 630

Tax on agricultural income plus non-agricultural income aggregating to Rs.3,36,670

First	1,60,000	NIL	0	
Next	1,40,000	10%	14,000	
Balance	<u>36,670</u>	20%	<u>7,334</u>	
	3,36,670		21,334	21,334
				<u>21,964</u>

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

Computation of Total Income

First	1,60,000	Nil	0	
Next	<u>45,000</u>	10%	<u>4,500</u>	
	2,05,000		4,500	<u>4,500</u>
Income tax payable				17,464
Add : Education cess @ 2%				349
Secondary and higher education cess @ 1%				<u>175</u>
Total tax				17,988
Less : Tax deducted at source				<u>2,550</u>
				15,438
Less: Advance tax paid				<u>17,000</u>
Tax refundable				<u>1,562</u>

Notes:

1. Computation of Income from House Property

Gross Annual Value (GAV)	37,500
Rent received is taken as the GAV in the absence of other information	
Less: Municipal taxes paid	<u>Nil</u>
Net Annual Value (NAV)	37,500
Less: Deduction under section 24 @ 30% of NAV	<u>11,250</u>
Income from House Property	<u>26,250</u>
2. Computation of Profits and gains of business or profession

Net profit as per Profit & Loss account	3,44,894
Add : Inadmissible expenses	
Depreciation charges	1,25,656
Advance tax (Note 9)	17,000
Fringe Benefit tax (Note 9)	2,400
Donation to political party	<u>1,000</u>
	1,46,056
Add: Recovery of bad debt (Note 8)	<u>15,000</u>
	5,05,950

Taxation

Less : Income chargeable under any other head / exempt income

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

3. Computation of Capital Gains

Short term capital gains on sale of investment			29,000
Short term capital gains on sale of shares			
Shares of AB Co. Ltd.			
Sale consideration 150 shares @ Rs.98 each	14,700		
Less: Cost of 150 shares @ Rs.60 each	<u>9,000</u>	5,700	
Shares of PQ Co. Ltd.			
Sale consideration 150 shares @ Rs.102 each	15,300		
Less: Cost of 150 shares @ Rs.112 each	<u>16,800</u>	(1500)	4,200
			<u>33,200</u>

Long term capital gains on sale of shares

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

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

Capital Gains		<u>33,200</u>
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4. Computation of Income from other sources

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

Computation of Total Income

5. The Finance Act, 2008 has amended section 80C to include within its fold, five year time deposit in an account under Post Office Time Deposit Rules, 1981.
6. The maturity proceeds of the life insurance policy are exempt under section 10(10D) assuming that the policy does not fall under the exceptions stated under that section.
7. Refund of income tax is not taxable. However, interest on refund is chargeable to tax under the head "Income from other sources".
8. Recovery of bad debts, assumed to be allowed in full in an earlier year, is taxable under section 41(4), whether or not the business or profession in respect of which the deduction has been allowed is in existence at the time when it is recovered.
9. Advance tax and Fringe Benefit Tax are not allowable as deduction.
10. Agricultural income is exempt under section 10(1) and dividend from an Indian company is exempt from tax under section 10(34).
11. Contribution to a Political Party registered under section 29A of the Representation of the People Act, 1951 is deductible under section 80GGC.

Question 6

Dr. Parekh is a resident individual. His Income and Expenditure Account for the year ending 31st March, 2009 is given below:

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

- (i) He has deposited Rs.70,000 in PPF.
- (ii) He received salary of Rs.1,50,000 and commission of Rs.50,000 from a nursing home in which Dr. (Mrs.) Parekh also an equal partner.
- (iii) He received fees of Rs.50,000 from University of Trinidad as lecturer.

Taxation

- (iv) Received pension of Rs.84,000 from LIC Jeevan Suraksha.
- (v) Paid Rs.22,500 by cheque as mediclaim insurance premium for his medical treatment.
- (vi) He paid LIC premium of Rs.80,000 for his own life.
- (vii) Cost of administration includes Rs.3,000 paid for municipal tax for the house let out to a tenant.
- (viii) Depreciation as per Income-tax Rules to be computed as follows:

WDV as on 1.4.2008	Rs 3,00,000
Rate of depreciation	@ 15%

- (ix) Cost of lottery tickets amounting to Rs.350 has not been debited to Income and Expenditure account.

You are required to compute the total income and tax payable thereon by Dr. Parekh for the assessment year 2009-10. (20 Marks)(Nov 2009)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of total Income and tax payable by Dr. Parekh for the A. Y. 2010-11

	Rs.	Rs.	Rs.
1. Income from House Property (Note 1)			11,900
2. Profits and gains of business or profession (Note 2)			8,71,000
3. Income from other sources (Note 3)			2,60,400
Gross Total income			11,43,300
Less: Deductions under Chapter VIA			
(i) Deduction under section 80C			
Investment in PPF	70,000		
Life insurance premium paid	80,000		
	1,50,000		
Deduction restricted to		1,00,000	
(ii) Deduction under section 80D			
Mediclaim premium paid by cheque for himself	22,500		
Deduction restricted to		15,000	1,15,000
Total income			10,28,300

Computation of Total Income

Components of Total Income

Special income :

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

Normal income 10,18,300

10,28,300

Computation of Tax

Tax on winnings from lotteries @ 30% 3,000

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

First	1,60,000	Nil	0
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Next	1,40,000	10%	14,000
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Next	2,00,000	20%	40,000
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Balance	5,18,300	30%	1,55,490
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	<u>10,18,300</u>		<u>2,09,490</u>
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Income tax payable 2,12,490

Tax Payable 2,12,490

Add: Education cess @2% 4,250

Secondary and Higher Education cess @1% 2,125

Total Tax Payable 2,18,865

Less: Tax deducted at source

from Interest 3,000

from lottery income 3,000 6,000

2,12,865

Less : Advance tax paid 2,40,000

Refund (-) 27,135

Working Note:

Note 1

Computation of Income from House Property

Gross Annual Value – Rent received (treated as fair rent) 20,000

Less : Municipal taxes paid 3,000

Net Annual Value (NAV) 17,000

Less : Statutory deduction under section 24 @ 30% NAV 5,100

Income from House Property 11,900

Taxation

Note 2

Computation of Profits and gains of business or profession

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

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

Less:

Rent received	20,000	
Interest PO MIS	86,400	
Interest on TD with bank (Net of TDS)	27,000	
Winning from lotteries (Net of TDS)	7,000	
Depreciation as per Income Tax Act.	45,000	1,85,400
		6,71,000

Salary from Nursing Home as partner	1,50,000	
Commission from Nursing home as partner	50,000	2,00,000
Income from business		8,71,000

Note 3

Computation of Income from Other Sources

Interest PO MIS	86,400
Interest on TD with Bank (Gross)	30,000
Winning from lotteries (Gross)	10,000
Fees from University of Trinidad	50,000
Pension from LIC Jeevan Suraksha	84,000
Income from Other Sources	2,60,400

Note 4

Advance Tax is not allowable as deduction.

Note 5

Depreciation of Apparatus :

WDV as on 1.4.2009	3,00,000
Depreciation @15%	45,000
WDV as on 31.3.2010	2,55,000

Computation of Total Income

Note 6

Any salary, bonus, commission or remuneration by whatever name called due to or received by a partner of a firm from the firm shall not be treated as salary for the purposes of section 15 but it shall be treated as income from business or profession for the purposes of section 28.

Note 7

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

Note 8

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

Question 7

Ramesh is the karta of Ramesh (HUF) in which the other members are his wife Padma, major son Guru and a minor daughter Champaka. The following details of this HUF, resident in India, pertaining to the year ended 31st March, 2008 are made available to you:

- (a) Rent (at Rs. 10,000 per month) received from a flat in Salem is Rs. 1,10,000. Rent of Rs. 10,000 for the month of March, 2008 was received in April, 2008.

Property tax paid Rs. 10,000.

Bank loan of Rs. 10,00,000 was taken for construction of this flat, bearing interest at 10%. Rs. 8,000 interest is in arrears pertaining to this year, which was paid by the HUF in May, 2008 only. Principal repayment during the year was Rs. 48,000.

- (b) Ramesh represents the HUF in a partnership firm M/s. Ashok & Co., engaged in turmeric business. The firm has paid interest of Rs. 1,80,000 to the HUF computed at 15%.

For the services rendered by Ramesh to this firm as the lone Working partner, the firm has paid him a remuneration of Rs. 1,50,000 as per the provisions of the partnership deed. The "book profit" of the firm in terms of Section 40(b) is Rs. 1,35,000.

- (c) The HUF is also running two businesses, as narrated below:

- (i) Retail trade in food grains:

A rough account book alone is maintained. Expense bills/vouchers are not properly maintained. The total turnover is Rs. 38 lacs. The net profit as per the rough account is Rs. 1,41,000. This has been arrived at after considering a penalty of Rs. 8,000 levied by Sales-tax authorities for misuse of "C" Form.

- (ii) Business of Civil construction:

Cash received from contractee : Rs. 31,00,000

Value of materials supplied by contractee : Rs. 7,00,000

No books of account are maintained.

Taxation

- (d) The HUF has received dividend of Rs. 90,000 from shares held in a foreign company.
- (e) Tuition fees of Rs. 20,000 was paid for the purpose of part-time education of Ms. Champaka in an Indian college.
- (f) The following sums have been paid by the HUF in respect of Life Insurance Premium:

Policy holder's name	Insurer	Premium (Rs.)	Late fee (Rs.)
Mrs. Padma	LIC	30,000	500
Guru	IRDA approved private insurer	42,000	1,500

Part of the above premiums were paid from out of agricultural income of Rs. 60,000 derived from agricultural lands situated in Colombo.

You are required to compute the total income of Ramesh (HUF) for the assessment year 2008-09, showing clearly the computation under proper heads of income. You are also required to indicate with reasons, whether any item is to be considered in the hands of Ramesh (individual). (20 Marks)(May 2008)

The provisions of the Income-tax Act, 1961 relevant for Assessment Year 2010-11 should be taken into consideration while solving the question. Accordingly, the facts given above may be taken as relating to financial year 2009-10.

Answer

Computation of Total Income of Ramesh (HUF) for the A.Y. 2010-11

Particulars	Note	Amount (Rs.)	Amount (Rs.)
Income from House Property			
Gross annual value	1	1,20,000	
Less: Municipal taxes		10,000	
Net annual value		1,10,000	
Less: Deductions under section 24		33,000	
(i) 30% of net annual value			
(ii) Interest on borrowed capital (10% of Rs.10,00,000)	2	1,00,000	
Income from house property			(23,000)

Profit and Gains of Business or Profession

Own business

Computation of Total Income

(a) Profits from retail food grains business	3	1,90,000	
(b) Profits from business of civil construction	4	2,48,000	
Share income from partnership firm			
Interest on capital received from M/s. Ashok & Co.	5	<u>1,44,000</u>	
Income chargeable under this head			5,82,000
Income from other sources			
(a) Dividend from foreign company	6	90,000	
(b) Agricultural income from lands in Colombo	7	<u>60,000</u>	
Income chargeable under this head			<u>1,50,000</u>
Gross total income			7,09,000
Deduction under Chapter VI-A			
Deduction under section 80 C	8		<u>1,00,000</u>
Total Income			<u>6,09,000</u>

Notes:

- (1) Income from house property is chargeable on accrual basis. Rent received is taken as Gross annual value in the absence of other information relating to Municipal Value, Standard Rent and Fair Rent.
- (2) Interest of borrowed capital under section 24(b) is allowed on the accrual basis. So deduction shall be allowed even if interest is paid after the end of the previous year.
- (3) Retail food grains business
 The assessee is not maintaining expenses bills/vouchers properly and hence will not be in a position to show a profit lesser than the presumptive profits under section 44AF.
 As per section 44AF, presumptive income is 5% of Rs.38 lacs = Rs.1,90,000.
 No separate deduction can be claimed in respect of any expenditure, as all expenses are deemed to be allowed. In any case, penalty for infraction of law is not an allowable expenditure.
- (4) Business of civil construction
 - (a) Since no books of account are maintained, the presumptive provisions of section 44AD will squarely apply.
 - (b) Gross receipts will not include the value of materials supplied by contractee.
 - (c) Chargeable income is 8% of Rs. 31,00,000 = Rs. 2,48,000

Taxation

- (5) Share income from M/s.Ashok & Co.
- (a) As per proviso to section 28(v), the income to be included in the hands of the partner is only to the extent allowed in the hands of the firm, due to application of section 40(b).
 - (b) As per section 40(b), maximum interest allowable is 12%. Hence, the interest allowed in the hands of the firm would have been Rs. 1,44,000 only, and not Rs. 1,80,000.
 - (c) The entire remuneration of Rs.1,50,000 is allowable in the hands of the firm since the remuneration allowable for the first Rs. 3 lakh of book profit, is the higher of Rs.1,50,000 or 90% of book profit. In this case, the allowable remuneration is Rs.1,50,000, since it is higher than Rs.1,21,500, being 90% of Rs. 1,35,000.
- (6) Dividend from foreign company is not eligible for exemption under section 10(34).
- (7) Agricultural income from land situated outside India is not exempt under section 10(1). Since the HUF is resident, the agricultural income will form part of total income.
- (8) Deduction under section 80C:
- (a) Any sum paid to keep in force any insurance on the life of eligible person qualifies for deduction. However, late fees does not qualify for deduction under section 80C.
 - (b) Insurance taken with IRDA approved private insurer is also eligible for deduction.
 - (c) The source of income used for making the payment of insurance premium is immaterial.
 - (d) Tuition fee paid for full-time education is allowable only in the case of individual assessee. Hindu undivided families are not eligible for deduction in respect of payment of tuition fees, whether for full time or part time education.

Deduction allowed under section 80C is as under:

S.No.	Eligible item	Amount (Rs.)
(i)	Insurance premium	72,000
(ii)	Principal repayment of housing loan from bank	48,000
		1,20,000

Deduction under section 80C restricted to Rs. 1,00,000.