REVISIONARY TEST PAPER

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GROUP I

PAPER - 7 : APPLIED DIRECT TAXATION

THE INSTITUTE OF
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INTERMEDIATE EXAMINATION

(REVISED SYLLABUS - 2008)

GROUP - I

Paper-7 : APPLIED DIRECT TAXATION

Q1. (i) Sec. 6(1) (c) is not applicable on an Indian citizen who goes out of India for employment purpose. Here employment purpose does not include —

(a) Working as hotel manager in a Hotel Situated in USA.

(b) Working as Cost Accountant in a Company Situated at Germany.

(c) Visited Japan for 250 days to purchase raw material for his business in India.

(d) None of the above.

(ii) Income from business connection in India does not include.

(a) A branch in India, head office situated outside India.

(b) An agent/organisation of a non-resident Indian.

(c) For a non-resident if operations are confined to purchase of goods in India for the purpose of export.

(d) A non-resident individual who is a citizen of India and the business activity confined to shooting of any cinematography flims in India.

(iii) Salary and Interest received by a partner from firm growing and manufacturing tea, coffee, rubber is—

(a) Business Income

(b) Agricultural Income

(c) Income from other Sources

(d) Partly Business and Partly Agricultural Income

(iv) Compensation received from insurance company for damage caused by hail-strom to green leaf of the assesse's tea garden is—

(a) Agricultural Income

(b) Business Income

(c) Partly Business and Partly agricultural Income to be apportioned under Rule 8 between manufacturing Income and agricultural Income.

(d) Income from other sources

(v) Agricultural Income is—

(a) Fully Exempted Income

(b) included with non-agricultural income to apply higher rate of tax on non-agricultural income, provided agricultural income is Rs. 5,000.

(c) included with non-agricultural income to apply higher rate of tax on non-agricultural income, provided agricultural income exceeds Rs. 5,000.

(d) Taxable as ordinary income.

(vi) Voluntary retirement compensation received from the employer being an individual, firm, HUF, AOP is —

(a) fully exempted from income tax.

(b) exempted up to Rs. 5,00,000.

(c) exempted to an amount equivalent to 3 months salary for each completed year of service

(d) fully taxable in the hands of employee.

(vii) Taxable value of perquisite being sweat shares alloted by the employee is —

(a) The fair market value of such shares as on the date when such option is exercised by the employee as reduced by the amount paid.

(b) The fair market value of shares as on the date when such option is vested to the employee as reduced by the amount paid.

(c) Fair market value subject to standard deduction of Rs. 50,000.

(d) Taxable in hands of employer.

(viii) Capital gain on compulsory acquisition of a capital assets the indexation benifit will be available—

(a) till the year when full consideration is received

(b) till the year when compensation or consideration (or part thereof) is first received

(c) Till the year of compulsory acquisition

(d) None of the above.

(ix) Cost of acquisition of capital assets being immovable property acquired through gift covered under 49(4) is—

(a) Actual Cost of acquisition to the previous owner.

(b) Nil

(c) Stamp duty value of the property as considered while computing income under section 56(2)(vii).

(d) Actual cost of acquisition to the assessee.

(x) An individual purchased a house property on 1.12.09 for Rs. 6,00,000 though stamp duty value of the property is Rs. 6,35,000, income taxable u/s 56(2)(vii) is—

(a) Rs. 35,000 i.e. difference between stamps value and actual consideration.

(b) Nil as this is not a gift.

(c) Nil as difference between stamp value and actual consideration does not exceed Rs. 50,000.

(d) The provision is not applicable for P.Y. 2009-10.

(xi) Mr. X, sustained loss from business of Rs. 3 lacks on 31-03-06 and his business was closed down. In the current year he recovered a bad debt of his closed business Rs. 5 lacks. If he has no other income, amount taxable in the current year is —

(a) Rs. Nil

(b) Rs. 5,00,000

(c) Rs. 2,00,000

(d) Exempted from tax.

(xii) Unabsorbed depreciation can be carried forward up to :

(a) 4 years

(b) 8 years

(c) 10 years

(d) None of the above.

Answer 1.

(i) (c) Visited Japan for 250 days to purchase raw material for his business in India.

(ii) (c) For a non-resident if operations are confined to purchase of goods in India for the purpose of export.

(iii) (d) Partly Business and Partly Agricultural Income

(iv) (a) Agricultural Income

(v) (c) included with non-agricultural income to apply higher rate of tax on non-agricultural income, provided agricultural income exceeds Rs. 5,000.

(vi) (d) fully taxable in the hands of employee.

(vii) (a) The fair market value of such shares as on the date when such option is exercised by the employee as reduced by the amount paid.

(viii) (c) Till the year of compulsory acquisition

(ix) (c) Stamp duty value of the property as considered while computing income under section 56(2)(vii).

(x) (c) Nil as difference between stamp value and actual consideration does not exceed Rs. 50,000.

(xi) (c) Rs. 2,00,000.

(xii) (d) Unabsorbed depreciation can be carried forward for any no. of years until it is fully set-off.

Q. 2. Mr. B is a Cost Accountant in practice. The Income & Expenditure Account for the year ended March 31, 2009 read as follows :

Expenses	*Rs.*	*Income*	*Rs.*
To Employees cost	2,50,000	By professional earnings	12,00,000
To traveling & conveyance	50,000	By dividend income	
To Administration & Office expenses	4,00,000	- from shares	2,00,000
To interest	1,50,000	- from equity oriented mutual funds	1,00,000
To Demat charges	10,000		
To Net profit	6,40,000		
Total	15,00,000		15,00,000

Other information :

a. **Entire Dividend income is claimed as exempt from taxation by virtue of Section 10 (34) and 10 (35).**

b. **Mr B claims that no expenditure has been incurred against the dividend income, which is claimed as exempt from tax.**

c. **The value of investment in shares as on the first day and the last day of the previous year is Rs. 3,50,000/- and 7,00,000/- respectively**

d. **The value of investment in units of Mutual funds as on the first day and the last day of the previous year is Rs. 5,00,000 and 2,00,000 respectively.**

e. **All expenditure including interest expenditure of Rs. 1,50,000 incurred by Mr B are relating to taxable and non taxable Income. Demat charges are directly attributable to exempt income.**

f. **The value of the total assets as appearing in the Balance sheet of the assessee as on the first day and last day of the previous year is Rs. 50,00,000 and Rs. 60,00,000 respectively.**

Compute his taxable income :

Answer 2.

Computation of taxable income **A.Y. 2009-10**

Particulars	**Rs.**
Income from Profits & Gains of Business or Profession	3,40,000
- as per working Note 1	
Income from other sources	
- as per working 2	Nil
Total	**3,40,000**
Add : Disallowance u/s. 14A	
- as per working note 3	38,239
Taxable Income	**3,01,761**

Working Note 1 —Profit & Gains of Business or profession

	Rs.	**Rs.**
Net profit as per Income & Expenditure Account		6,40,000
Less : Income considered under other heads		
- Dividend Income form shares	2,00,000	
- Income from UTI	1,00,000	3,00,000
Taxable professional income		**3,40,000**

Working Note 2 –Income from other sources

1. Dividend Income from Shares	2,00,000	
Less : Exempt under section 10(34)	2,00,000	Nil
2. Income from units in Mutual funds	1,00,000	
Less : Exempt under section 10(35)	1,00,000	Nil
Taxable income from other sources		**Nil**

Working Note 3 –Disallowance u/s. 14A **Rs.**

a. Amount of expenditure directly relating to exempt income (Other than interest)	10,000
b. Amount of interest incurred by way of expenditure other than those included above (150,000 x 8,75,000 / 55,00,000)	23864
c. Amount equal to 0.5% of the average value of investments (8,75,000 x 0.5%)	4,375
Total amount disallowed u/s. 14A {a) + (b) + (c)}	38,239

Note :

1. Average value of investments = (8,50,000 + 9,00,000) / 2 = Rs. 8,75,000/-
2. Average value of Total Assets = (50,00,000 + 60,00,000) / 2 = Rs. 55,00,000/-

Q. 3. From the details given below find out the taxable amount of recovery of unrealized rent as per the provision of Sec 25AA.

Unrealised rent recovered during the P.Y. 2009-2010 relating to P.Y. 2003-2004	**(Actual rent receivable – Unrealised rent) of PY 2003-2004**	**GAV of P.Y. 2003-2004**
30000	**180000**	**180000**
20000	**150000**	**160000**
50000	**120000**	**140000**

Answer 3.

Unrealised rent recovered during the P.Y. 2009-2010 relating to P.Y. 2003-2004	(Actual rent receivable – Unrealised rent) of PY 2003-2004	GAV of P.Y. 2003-2004	Taxable amount
1	2	3	1 + (2-3)
30000	180000	180000	30000
20000	150000	160000	10000
50000	120000	180000	NIL

Q. 4. Mr. X lets out his house property from 1.4.2009 to 1.12.2009 at a monthly rent of Rs. 7000 and from 1.12.2009 to 1.3.2010, it was self occupied by him for residence. The other relevant data are given below :

Municipal value Rs. 90000, Fair Rent Rs. 80000, Standard Rent Rs. 60000. Municipal tax 15%. , Interest on Loan Rs. 12000.

Answer 4.

Particulars	**Amount**	**Amount**
Municipal value	90000	
Fair Rent	80000	
Standard Rent	60000	
Reasonable Expected Rent (RER)	60000	
Actual Rent Receivable ARR(7000*8)	56000	
Higher of ERV and ARR	60000	
Since ARR is less than ERV due to vacancy otherwise it would have been (7000*9)= 63000, therefore ARR is the Gross Annual Value (GAV)		
Gross Annual Value (GAV)		56000
Less : Municipal Tax 15% of 90000		13500
Net Annual Value		42500
Less: Standard Deduction 24(a)	12750	
Interest on Loan	12000	24750
Income from House property		17750

Q. 5. X had been working with ABC Ltd., in a tribal area since 1-10-1996. He was entitled to the following emoluments :

1. **Basic salary w.e.f. 1-1-2009 Rs. 6,000 p.m.**
2. **Dearness allowance 40% of basic salary (50% of which forms part of salary for retirement benefits)**
3. **Medical allowance Rs. 500 p.m., (entire amount is spent on his own medical treatment).**
4. **Entertainment allowance Rs. 400 p.m.**
5. **Children education allowance Rs. 40 p.m. per child for three children.**
6. **Hostel expenditure allowance Rs. 100 p.m. per child for three children.**
7. **Tribal area allowance Rs. 300 p.m.**
8. **Uniform allowance Rs. 250 p.m. (He spends Rs. 1,500 on the purchase and maintenance of uniform)**
9. **House rent allowance Rs. 750 per month. He pays Rs. 1,000 per month as rent.**
10. **He contributes Rs. 900 per month to a recognised provident fund to which his employer contributes an equal amount.**

He retired from his job on 1-1-2010 and shifted to Delhi. He was entitled to the following benefits at the time of his retirement :

(a) **Gratuity Rs. 1,15,000**

(b) **Pension from 1-1-2010 Rs. 2,000 p.m.**

(c) **Payment from recognised provident fund Rs. 3,00,000**

(d) **Encashment of earned leave for 150 days Rs. 36,000**

He was entitled to 40 days leave for every completed year of service. He got 50% of his pension commuted in lumpsum *w.ef* 1-3-2010 and received Rs. 1,20,000 as commuted pension.

He joined XYZ Ltd. at Delhi *w.e.f* 1-2-2010 and was entitled to the following emoluments :

(I) **Basic salary Rs. 5,000 p.m.**

(2) **Dearness allowance (forming part of salary) 20% of basic salary**

(3) **Rent-free unfurnished accommodation in Delhi which is owned by the employer and whose fair rental value is Rs. 48,000 p.a.**

He was also given the following facilities by the employer.

(a) **Motor car (1.4 ltr. engine capacity) with driver, which he uses partly for official and partly for personal purposes.**

(b) **The monthly expenses incurred by 'A' on gas and electricity were Rs. 500 which were reimbursed by the employer.**

(c) **Reimbursement of educational expenses of his two children which amounted to Rs. 350 p.m.**

(d) **On 4-3-2010 his wife fell ill and the employer reimbursed the expenditure of medical treatment amounting to Rs. 17,500.**

(e) **A watchman a sweeper, a cook and a gardener have been provided to whom the company pays a salary of Rs. 400 p.m.**

(f) **Loan of Rs. 1,00,000 @ 12% p.a for construction of his house was given by the construction of his house given by the company. SBI rate of interest is 11% pa.**

He made the following payments during the previous year :

(1) **Professional tax Rs. 500**

(2) LIP on his life policy of Rs. 1,00,000 – Rs. 15000

(3) Deposit in PPF account Rs. 50,000

Compute his total income and tax liability for the assessment year 2010-11.

Answer 5.

	Rs.	Rs.
Employer – ABC. Ltd		
Basic salary 6,000 x 9		54,000
DA @ 40%		21,600
Medical allowance 500 x 9		4,500
Entertainment allowance 400 x 9		3,600
Children education allowance 40 x 3 x 9	1,080	
Less :Exempt 40 x 2 x 9	720	360
Hostel expenditure allowance 100 x 3x 9	2,700	
Less : Exempt 100 x 2 x 9	1,800	900
Tribal area allowance (300 x 9 – 1,800)		900
Uniform allowance (250 x 9 –15,00)		750
HRA (750 x 9)	6,750	
Less : Exempt	2,520	4,230
Employer's Contribution to RPF in excess of 12 % of salary		324
Gratuity – Actual amount	1,15,000	
Less : Exempt	46,800	68,200
Uncommuted pension (2,000 x 2 + 1,000 x 1)		5,000
Commuted pension – Actual amount	1,20,000	
Less : Exempt (12,0000 x 2/1 x 1/3)	80,000	40,000
Payment from RPF (Exempt)		-
Leave encashment –Actual amount	36,000	
Less : Exempt	36,000	-
		2,04,364
Employer XYZ Ltd.		
Basic salary 5,000 x 2		10,000
DA 20%		2,000
Motor Car facility		Nil
Reimbursement of Gas/Electricity (500 x2)		1,000
Education Re-imbursement (350 x 2)		700
Medical Re-imbursement (17,500 – 15,000)		2,500
Watchmen (400 x 2)		800
Sweeper (400 x 2)		800
Gardener (400 x 2)		800

Interest on Loan (not taxable as interest charged is more than the rate of SBI)		—
Rent-free unfurnished accommodation		2,250
		21,650
Aggregate salary from ABC. Ltd. and XYZ. Ltd.		2,26,014
Less : (i) Entertainment allowance u/s 16(ii)	nil	
(ii) Professional tax u/s 16 (iii)	500	500
Income from salary		2,25,514
Other income		Nil
Gross total income		2,25,514
Less : Deduction u/s 80C		
RPF (900 x 9)	8,100	
LIP	15,000	
PPF	50,000	73,100
Total income (rounded off)		1,52,414
Tax on Rs. 1,52,414		Nil
u/s 288B		

1.	HRA is exempt to the extent of minimum of following 3 amounts :	**Rs.**
	(a) 40% of salary	25,920
	(b) Actual HRA received	6,750
	(c) Rent paid –10% of salary (9,000 – 6,480)	2,520
2.	Gratuity will be exempt upto minimum of three limits:	
	(a) Actual Gratuity received	1,15,000
	(b) Half months' average salary for ever completed year of service (1/2 x 7,200 x 12)	46,800
	(c) Specified amount	3,50,000
3.	Leave encashment shall be exempt as under :	
	Completed years of service	13 years
	Number of days leave allowed every year.	40
	Total leave allowable (13×40)	520 days
	Leave encashed	150 days
	Therefore leave unavailed (520 – 150)	370 days
	Leave available on basis of 30 days (30 x13)	390 days
	Less : Leave availed	150 days
	Therefore encashment eligible for exemption (390 –370)	240 days

	Hence leave encashment will be exempt upto minimum of following 4 limits:	
	(a) Actual encashment	36000
	(b) Eligible encashment (7,200/30 x 240)	57,600
	(c) 10 months average salary (7200 x 10)	72,000
	(d) Amount specified	3,00,000
4.	Valuation of unfurnished rent-free accommodation :	
	15% of salary which includes the following:	
	Basic (5,000 x 2)	10000
	DA	2000
	Uncommuted pension from ABC Ltd. (2,00 0+ 1,000)	**3000**
	Value of the unfurnished accommodation 15% of Rs. 15,000 = Rs. 2,250	15,000
5	Since he has received lump sum payment on account of gratuity, commuted pension and leave encashment, he can claim relief u/s 89 if the same is beneficial to him.	

Q. 6. Mr A and B are partners of Ms AB & Co Traders, furnishes the following details

P/L Account for the year ended 31.3.2010

Cost of goods Sold	**300000**	**Sales**	**1300000**
Other Expenses	**135000**	**Interest on Drawing**	
Salary to partners		**X**	**2500**
X	**250000**	**Y**	**2500**
Y	**500000**		
Interset on capital @15%			
X	**5250**		
Y	**5250**		
Depreciation	**22000**		
Net Profit	**87500**		
	1305000		**1305000**

(a) Deprecation allowable Rs 12000

(b) During the last year, firm incurred loss of Rs 900000(which includes unabsorbed deprecation of Rs 100000)

(c) Other Expenses include outstanding sales tax liability of Rs 45000 not paid before return filing date.

Calculate Book Profit

Answer 6.

Computation of Book Profit

Net profit as per P&L A/c		87500
Add: Expenses disallowed but debited to P&L A/C :		
Salary to partners	750000	
Interest on Capital in excess of 12% (5250+5250)*3/15	2100	
Depreciation	22000	
Other Expenses (disallowed under sec 43B)	45000	819100
		906600
Less : Expenditure allowed but not debited to P&L A/c		12000
		894600
Less : Unabsorbed Deprecation allowed (allowed to the extent that the remaining book profit is not less than brought forward business loss)		94600
Book Profit		800000

Q. 7. Ms AB an enterprise sold one of its undertaking consisting of machinery A (Rate of deprecation 30%), Machinery B (Rate of deprecation 15%), Building X (Rate of deprecation 30%), for Rs 15000000 on 9.9.2009. Machinery A originally acquired for Rs 500000 on 1.9.2006.

Machinery B originally acquired for Rs 1000000 , the amount of deprecation allowed on such machinery up to AY 1988-99 Rs 200000 and depreciation from AY 1989-99 to 2009-2010 (assuming this is only machinery in the block) is 794000.

Building X acquired on 18.8.2009 for Rs 400000.

During the year a new machinery C (15%) purchased for Rs 500000 on 6.6.2009.

Compute deprecation—

Machinery (Rate of depreciation 30%) block (WDV as on 1.4.2009 is Rs 900000)
Machinery (Rate of depreciation 15%) block (WDV as on 1.4.2009 is Rs 800000)
Building (Rate of depreciation 10%) block (WDV as on 1.4.2009 is Rs 500000)

Answer 7.

Computation of deprecation for respective blocks.

	Machinery 30% block	**Machinery 15% block**	**Building 10% block**
W.D.V. as on 1.4.2009	900000	800000	500000
Add: Purchase under the block during the year		500000	400000
Sale under slump sale	171500	6000	400000
	728500	1294000	500000
Deprecation	218550	194100	50000

	Machinery A	Machinery B	Building X
Original cost of assets sold	500000	1000000	400000
Less: Deprecation actual allowed on such assets in respect of any previous year commencing before 1987-88	Nil	200000	Nil
Less: Depreciation (Notional) that would have been allowable from the previous year 1987-88 onwards as if the assets is only assets in the relevant block Depreciation for 2006-2007 Rs. 150000 plus Rs 105000 for 2007-2008 plus Rs 73500 for 2008-2009	328500	794000	Nil
WDV of the assets sold under slump sale	171500	6000	400000

Q. 8. Kalpataru power Projects is a power generating unit. On 1.4.2007, it purchased a plant of Rs. 5000000, eligible for depreciation @15% on SLM. Compute balancing charge or terminal deprecation assuming the plant is sold on 21.4.2009 for :

(a) Rs 850000 (b) 3200000 (c) Rs 4500000 (d) 5200000

Answer 8.

Computation of Terminal depreciation or balancing charge, capital gain.

Paritculars	**A**	**B**	**C**	**D**
W.D.V. as on 1.4.2009	3500000	3500000	3500000	3500000
Less: Sale Proceeds	850000	3200000	4500000	5200000
Balance	2650000	3000000	(1000000)	(1700000)
Terminal depreciation	2650000	300000	NIL	NIL
Balancing charge	NIL	NIL	1000000	1500000
Shot term capital Gain	NIL	NIL	NIL	200000

Computation of Depreciation :

Original cost	5000000
Less: Depreciation	750000
WDV as on 1.4.2008	4250000
Less: Depreciation for the year 2008-2009	750000
WDV as on 1.4.2009	3500000

Q. 9. Reliance Infrastrucure Ltd (an Infrastructure Company) issued ZCB on 1.9.2009 @Rs 50 (Face Value Rs100) redeemable at par after 125 months. Public subscribed 50000 bonds. Find the amount of deduction under section 36(1)(iiia).

Answer 9.

Deduction allowed under section 36(1)(iiia).

Total amount of discount	50000*(Rs100-Rs50)	Rs 2500000
Period of bond life		125 months
Cost per month	Rs 2500000/125	Rs 20000
Number of months in PY 2009-2010 for which the bonds remain outstanding	Period from 1.9.2009 to 31.3.2010	7 months
Amount of deduction in the previous year 2009-2010	Rs 20000* 7	Rs 140000

Q. 10. During the previous year 2009-2010 profit and loss account of Mr Modi engaged in hosiery business shows a profit of Rs 160000. With the following information compute his taxable income from business :

(a) Purchased of goods in cash from his son amounting Rs 23000 , however market value of such goods Rs 18000

(b) Interest on capital Rs 5000

(c) Interest paid outside India without TDS Rs 100000

(d) Penalty paid to Sales Tax authority Rs 10000

(e) Penalty paid to a customer for non-fuling of order within time Rs 5000

(f) Revenue Expenditure on promoting family planning amongst employee Rs 5000

(g) Premium paid on health of employee Rs 5000 in cash

(h) Employer's contribution to RPF Rs 15000, One half of the amount is paid after dur date as per relevant Act but before 31.3.2010

(i) Employee contribution to RPF Rs 12000, One half of the amount is paid after due date as per relevant Act

(j) Interest on late payment of sales tax Rs 10000 (yet to be paid)

(k) Interest on loan from State Bank Rs 10000 (Rs 5000 is not paid before return filling date)

(l) He received Rs 50000 from a debtor at a time in cash

(m) An employee retired on 28.3.2010. Gratuity payable to him was Rs 20000. A provision was created for the same this year and it was paid on 2.4.2010.

During the previous year 2005-2006 he claimed Rs 45000 as bad debt out of which only Rs 35000 was allowed. During the previous year he recovers Rs 25000 and the amount has not been credited to profit and loss account.

Answer 10.

Net profit as per Profit and loss account		160000
Add: Expenditure disallowed but debited in the Profit and loss account		
Unreasonable payment to relative disallowed under section 40A(2). Therefore, the actual payment of Rs 18000 does not exceed Rs 20000, hence section 40A(3) is not applicable	5000	
Interest of capital disallowed being an appropriation item	5000	
Interest paid outside India without TDS Rs 100000 disallowed under section 40(a)	100000	

Penalty paid to Sales Tax authority	10000	
Revenue Expenditure on promoting family planning amongst employee	5000	
Premium paid on health of employee Rs 5000 in cash disallowed since payment made in cash	5000	
Employee contribution to RPF such should have credited on before the due date for the relevant fund as per Section 36(1)(va)	6000	
Interest on loan from State Bank is not paid before return filing date as per section 43B	5000	
Add : Income not credited to profit and loss account (25000-(45000-35000))	15000	3,16,000

Note :

1. Interest on late payment of sales tax is not penalty but compensatory in nature. Futrther such interest is not covered under sec 43B.
2. Receipt from debtors in cash is not attracted by provision of sec 40A(3) .
3. Since the Gratuity is paid before due date of filing return of Income hence allowed
4. Family planning expenditure amongst employee is allowed for Company assessee.

Q. 11.

Ms. ABC

Balance sheet as on 31.12.2009

Liblities	Amount	Assets	Amount
Captial :		Land	30000
A	90000	Building	60000
B	90000	Machinery	80000
C	90000	Investments	60000
Creditors	50000	Stock	40000
		Cash &others	50000
	320000		320000

On dissolution of the above firm cash & others were applied for payment of creditors. Other remaining assets were distributed among partners as under :

Asset	Given	Market value	Acquired by the firm
Land	A for Rs 100000	110000	1.8.86
Building	B for Rs 80000	70000	15.9.93
Machinery	C for Rs 30000	40000	1.9.88
Investment	A for Rs 90000	70000	24.5.2002
Stock	C for Rs 32000	40000	Nil

WDV of the block as per IT Act is similar to that of books of accounts

Compute Capital gain.

Answer 11.

Computation of Capital Gain

Land Sale Consideration	110000
Less: Expenses on transfer	Nil
Net Consideration	110000
Less: Indexed cost of acquisition 60000*632/ 140	270857
Less: Indexed cost of Improvement	NIL
Long term capital gain	160857

Investment : Sale Consideration	70000
Less: Expenses on transfer	Nil
Net Consideration	70000
Less: Indexed cost of acquisition 40000*632/ 447	56555
Long term Capital gain	13445

	Building	**Machniery**
WDV as on 1.4.2009	80000	60000
Add: Purchase	Nil	Nil
	80000	60000
Less: Sales	70000	40000
Short Term Capital Gain	(10000)	(20000)

Profit on transfer of stock Rs 40000-30000 shall be taxable as business income of the firm.

Q. 12. Mr X had borrowed Rs. 180000 @ 15% on 1.4.98 and further borrowed Rs 1000000@ 10% for construction of house property and such amount still remains unpaid. Construction was completed on 1.2.2000. Find out the deduction amount under Section 24(b) if the house is used by Mr X as self occupied property for his residence.

Answer 12.

If the loan was taken before 1.4.99 as well as on or after 1.4.99 then total interest allowed in aggregate cannot exceed Rs. 150000. However, the interest on loan in respect of loan taken prior to 1.4.99 shall be restricted to maximum of Rs. 30000. Since the first loan was taken on 1.4.98 and construction was completed on 1.2.2000, the preconstruction period is 98-99 only and the interest for the period is Rs 27000. (Rs180000*15%). The interest of Rs 27000 shall be spread over 5 years @ Rs 5400 per year commencing from 1999-2000 to 2003-2004. Therefore, total eligible interest on the first loan (Pre-construction + Post construction) is Rs. 27000. Further, eligible interest on second loan is Rs 100000 (i.e 10% of Rs 1000000). Hence, the total allowable interest under 24(b) shall be Rs 127000.

Q. 13. Compute interest on loan allowed under section 24(b) :

Interest on loan taken for repair of house property	**15000**
Interest on loan taken for purchasing HP (50% paid to the extent of Rs 18000)	**36000**
Interest on new loan taken for repaying old loan which was taken for purchasing house property	**30000**
Interest on loan taken for payment of interest on earlier loan	**15000**
Interest on loan taken for payment of Municipal Tax	**14000**
Interest on loan by mortgaging House property for business purpose	**50000**
Interest on loan for reconstruction of House property paid outside India without deducting tax at source	**25000**
Interest on loan for reconstruction of House property payable outside India on which TDS has not been deducted and no payment yet been made	**24000**
Interest on loan on mortgage of House property I but the loan is utilized for House Property II	**33000**

Answer 13.

Particulars	**Amount**
Interest on loan taken for repair of house property (Since loan under reference is for the house i.e. loan taken for repairs, Renovation, construction or purchase of house)	15000
Interest on loan taken for purchasing HP (50% paid) (Allowed since interest on loan is deductible on accrual basis)	36000
Interest on new loan taken for repaying old loan which was taken for purchasing house property (Since loan under reference is for the house)	30000
Interest on loan taken for payment of interest on earlier loan (Since interest is not for the purpose of house but for unpaid interest)	
Interest on loan taken for payment of Municipal Tax (Since loan under reference is not for repairs, Renovation, construction or purchase of house)	
Interest on loan by mortgaging House property for business purpose Since loan under reference is not for the house, it for business	
Interest on loan for reconstruction of House property paid outside India without deducting tax at source(As per section 25 any payment outside India without tax deducted at source is not allowed as deduction)	
Interest on loan for reconstruction of House property payable outside India on which TDS has not been deducted and no payment yet been made (Interest payable outside India without TDS whether paid or unpaid is not allowed as deduction)	
Interest on loan on mortgage of House property I but the loan is utilized for House Property II (Since loan has been utilized for House II it would allowed as a deduction from house II and not house I)	33000 (From HP II)

Q. 14. Hassan, a person of Indian origin was working in Australia since 1986. He returned to India for permanent settlement in June 2004 when he remitted the moneys into India. He furnished the following particulars of his wealth as on 31.3.2010. You are required to arrive at his wealth in respect of Assessment Year 2010-11.

(a) Market Value of Residential house in Jharkhand (let-out for residence) Rs. 10,00,000 with Net Maintainable Rent p.a. of Rs. 1,20,000.

(b) Share in building owned by a firm in which Hassan is a Partner - used for business Rs. 5,00,000

(c) Motor-car purchased in April 2009, out of moneys remitted to India from Australia Rs. 4,00,000

(d) Value of interest in Firm excluding item (b) above Rs. 5,00,000

(e) Shares in companies (quoted) Rs. 2,00,000

(f) Assets purchased out of amount remitted from Australia :

- **Jewellery purchased in March 2002 Rs. 5,50,000**
- **Vacant land purchased in October 2000 Rs. 10,00,000**

(g) Amount standing to the credit of NRE Account Rs. 15,00,000

(h) Cash on hand (out of sale proceeds of agricultural income) Rs. 65,000

Answer 14.

Assessee: Hassan Valuation Date: 31.3.2010 Computation of Net Wealth

Nature of Asset	Amount Taxable	Reasons
Residential House in Jharkhand	NIL	Not an Asset u/s 2(ea) - Let-out for whole year -Hence, not taxable
Share in the building owned by the firm	NIL	Not an asset u/s 2(ea), used for its own business - not chargeable to tax
Motor-car 4,00,000		
Less: Exempt u/s 5(v)-acquired out of money brouqht into India (4,00,000)	NIL	Asset u/s 2(ea). But, exemption available u/s 5(v), since acquisition out of money brought into India.
Value of Interest in a Firm	5,00,000	Assumed as deemed asset u/s 4(1)(b)
Shares in Companies	NIL	Not an asset u/s 2(ea)
Value of Jewellery	5,50,000	Asset u/s 2(ea) - Not entitled for exemption
Vacant Land	10,00,000	Asset u/s 2(ea) - Purchased in October 2000
Money in NRE A/c	NIL	Not an asset u/s 2(ea)
Cash in Hand in excess of Rs. 50,000	15,000	Asset u/s 2(ea), being an Individual
NET WEALTH	**20,65,000**	
Tax Liability	**Nil**	

Q. 15. 'X' received a vacant site under his father's will. The value of the site on 31.3.2010 is Rs.15 Lakhs. As per terms of the 'Will' in the event 'X' wants to sell the site he should offer it to his brother for sale at Rs.10 Lakhs. 'X', therefore, claims that the value of the site should be taken at Rs.10 Lakhs as at 31.3.2010. Is the claim correct?

Answer 15.

1. As per Rule 21 of Schedule III to the Act, the **price or other consideration for which** any property may be **acquired by or transferred to any person under the terms of a deed of trust** or through or under any restrictive agreement in any instrument of transfer **shall be ignored** for the purpose of determining the value under the provisions of the Schedule.
2. In view of the above, the value of the site should be taken as Rs. 15 Lakhs and not as Rs. 10 Lakhs.
3. Therefore, **claim of X is incorrect.**

Q. 16. Abhishek, a person of Indian origin was working in Austria since 1991. He returned to India for permanent settlement in May 2009 when he remitted money into India. For the valuation date 31.3.2010, the following particulars were furnished. You are required to compute the taxable wealth. The reason for inclusion or exclusion should be stated –

- **Building owned and let-out for 270 days for residence. Net maintainable rent (Rs.1,00,000) and the Market Value (Excess of Unbuilt Area over Specified Area is 20% of the Aggregate Area) Rs. 30 lakhs**
- **Jewellery : (a) Purchased in April 2009 out of money remitted to India from Austria Rs.12,00,000 (b) Purchased in May 2009 out of sale proceeds of motor-car brought from abroad and sold for Rs. 40 lakhs.**
- **Value of interest in urban land held by a firm in which he is a partner Rs.10 lakhs**
- **Bonds held in companies Rs.10 lakhs**
- **Motor car used for own business Rs. 25 lakhs**
- **Vacant house plot of 480 sq. mts. (purchased in December 2002) market value of Rs. 20,00,000**
- **Cash in hand Rs. 45,000**
- **Urban land purchased in the year 2007 out of withdrawals of NRE Account Rs. 15,00,000**

Answer 16.

Assessee : Abhishek Valuation Date : 31.3.2010 Assessment Year : 2010-11

Computation of Net Wealth

Nature of the Asset	Rs	Rs	Reasons
Value of the House	18,50,000	**18,50,000**	Asset u/s 2(ea). Working Note 1
Jewellery: Purchased in April 2009	12,00,000	**Nil**	Asset u/s 2(ea).
Less: Exempt u/s 5(v) Jewellery	(12,00,000)		Purchased out of money brought into India
Jewellery: Purchased in May 2009	40,00,000	**Nil**	Asset u/s 2(ea).
Less: Exempt u/s 5(v)	(40,00,000)		Purchased out of sale proceeds of assets brought into India

Interest in Urban Land held by firm	10,00,000	**10,00,000**	Deemed Asset u/s 4(1)(b)
Bonds held in companies	—	**Nil**	Not an asset u/s 2(ea)
Motor car		**25,00,000**	Asset u/s 2(ea). Not held as stock-in-trade
Vacant House Plot (480 sq. mts.)	20,00,000	**Nil**	Asset u/s 2 (ea)
Less: Exempt u/s 5(vi)	(20,00,000)		House/part of house/plot less than 500 sq.mts.
Cash in hand		**Nil**	Since not exceeding Rs.50,000
Urban Land Purchased	15,00,000	**Nil**	Purchased out of money
Less: Exempt u/s 5(v)	(15,00,000)		brought into India
NET WEALTH		**53,50,000**	
***Less* :** Basic Exemption		**30,00,000**	
Net Taxable Wealth		**23,50,000**	
Tax Payable @ 1%		**23,500**	

(1) Working Notes: Valuation of Building :

Net Maintainable Rent(NMR)	= Rs. 1,00,000
Capitalized Value of NMR=NMR×12.5 (Owner of the land)	= Rs.12,50,000
= Rs. 1,00,000 × 12.5	
Add : Premium for excess of unbuilt area (20%) over specified area	= Rs. 5,00,000
= 40% of CNMR	
VALUE OF THE HOUSE	**Rs. 18,50,000**

Q. 17. Arif, a resident both in India and Malaysia in previous year 2009-2010, owns immoveable properties (including residential house) at Malaysia and India. He has earned income of Rs 50 lakh from rubber estates in Malaysia during the financial year 2009-2010. He also sold some property in Malaysia resulting in short-term capital gain of Rs 10 lakh during the year. Arif has no permanent establishment of business in India. However, he has derived rental income of Rs 6 lakh from property let out in India and he has a house in Lucknow where he stays during his visit to India. The Article 4 of the Double Taxation Avoidance agreement between India and Malaysia provides that where an individual is a resident of both the contractting States, he shall be deemed to be resident of the Contracting State in which he has permanent home available to him. If he has permanent home in both the Contracting States, he shall be deemed to be a resident of the Contracting State with which his personal and economic relations are closer (centre of vital interests).

You are required to state with reasons whether the business income of Arif arising in Malaysia and the capital gains in respect of sale of the property situated in Malaysia can be taxed in India.

Answer 17.

Where the Central Government has entered into an aggreement with the government of any other country for granting relief to tax or for avoidance of double taxation, the provisions of the Income-tax Act, 1961 are applicable in such case to the extent they are more beneficial to the assessee.

Arif has a residential house both in Malaysia and India. Thus, he has a permanent home in both the countries. However, he has no permanent establishment of business in India. The Double Taxation Avoidance Agreement (DTAA) with Malaysia provides that where an individual is a resident of both countries, he is deemed to be resident of that country in which he has a permanent home and if he has a permanent home in both the countries, he is deemed to be resident of that country, which is the centre of his vital interests, i.e. the country with which he has closer personal and economic relations. Arif owns rubber estates in Malaysia from which he derives business income. However, Arif has no permanent establishment of his business in India. Therefore, his personal and economic relations with Malaysia are closer, since Malaysia is the place where—(a) the property is located and (b) the permanent establishment (PE) has been set-up. Therefore, he is deemed to be resident of Malaysia for AY 2010-2011.

So, in this case, Arif is not liable to income tax in India for assessment year 2010-2011 in respect of business income and capital gains arising in Malaysia.

Q. 18. Branco Inc., a French Company, holds 45% of Equity in the Indian Company Chirag Technologies Ltd (CTL). CTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Branco Inc.

During the year, CTL had spent 2,400 Man Hours for developing and maintaining software for Branco Inc, with each hour being billed at Rs.1,300. Costs incurred by CTL for executing work for Branco Inc. amount to Rs. 20,00,000.

CTL had also undertaken developing software for Harsha Industries Ltd for which CTL had billed at Rs.2,700 per Man Hour. The persons working for Harsha Industries Ltd and Branco were part of the same team and were of matching credentials and caliber. CTL had made a Gross Profit of 60% on the Harsha Industries work.

CTL's transactions with Branco Inc. are comparable to the transactions with Harsha Industries, subject to the following differences:

(a) Branco gives technical know how support to CTL which can be valued at 8% of the Normal Gross Profit. Harsha Industries does not provide any such support.

(b) Since the work for Branco involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.

(c) CTL had offered 90 Days credit to Branco the cost of which is measured at 2% of the Normal Billing Rate, No such discount was offered to Harsha Industries Ltd.

Compute ALP and the amount of increase in Total Income of Chirag Technologies Ltd.

Answer 18.

(A) Computation of Arms Length Gross Profit Mark Up

	Particulars	**%**	**%**
	Normal GP Mark Up		60
Less:	Adjustment for Differences		
	(a) Technical Support from Branco 8% of Normal GP [8% of 60%]	4.8	
	(b) Quantity Discount 14% of Normal GP [14% of 60%]	8.4	(13.2)
			46.8
Add:	Cost of Credit to Branco 2% of Normal Bill [2% ×GP 60%]	1.2	1.2
	Arms Length Gross Profit Mark-up		**48**

(B) Computation of Increase in Total Income of Branco Ltd

Particulars	Rs.
Cost of Services Provided to CTL	20,00,000
Arms Length Billed Value [Cost / (100 - Arms' Length Mark up)] [=Rs. 20,00,000 / (100% - 48%)]	38,46,154
Less:	(31,20,000)
Therefore, increase in Total Income of Branco	**7,26,154**

Q. 19. C, the Karta of a Hindu undivided family, was appointed as the treasurer of a private sector bank on his furnishing security of the family property valued at Rs 3,00,000, as required by the service rules of the bank. C does not own any self-acquired property.

(i) Discuss how the remuneration of C as the treasurer should be assessed.

(ii) Will your answer be different if C had joined a partnership firm as a partner by contributing family funds of Rs 30,000.

Answer 19.

(i) Remuneration from bank cannot be treated a return on the security of family property, pledged with the bank to secure the continuity of service. It cannot be treated as income of the HUF.

Remuneration is a compensation for services rendered by C, in his personal capacity on account of personal qualifications. C is assessable on remuneration as income from "salary". He can claim standard deduction under Sec. 16.

(ii) Membership of partnership has been obtained because of HUF funds and not because of personal skill or qualification of C. Therefore, any income from partnership firm will be treated as income of the HUF.

Q. 20. Prem was the Karta of HUF. He died leaving behind his major son Anand, his widow, his grandmother and brother's wife. Can the HUF retain its status as such or the surviving persons become co-owners?

Answer 20.

Income-tax law does not require that there should be at least two male members to constitute an HUF [Gowli Buddanna CIT (1966) 60ITR 293 (SC)]. The expression "Hindu undivided family" used in the Act, should be understood in the sense in which it is understood under the Hindu personal law. The expression "Hindu undivided family" under the Income-tax Act is known as "joint Hindu family", under the Hindu personal law. A 'Joint family' may consist of a single male member and the widows of the deceased male members. The property of the Hindu joint family does not cease to be an HUF property merely because that the HUF, consist of one male member at a given point of time, exercising the proprietary rights over the property of HUF property.

Q. 21. Devdas Charitable Trust submits the particulars of its receipts and outgoing during the previous year 2009-2010.

	as below :	**Rs.**
(i)	**Income from property held under trust for charitable purposes**	**20,00,000**
(ii)	**Voluntary contribution (out of which Rs 5,00,000 will form part of the corpus)**	**15,00,000**

(iii)	**Donations paid to blind charitable school**	**6,00,000**
(iv)	**Scholarship paid to poor students**	**4,00,000**
(v)	**Amount spent on holding free eye camps in urban slums**	**3,00,000**
(vi)	**Amount set apart for setting up an old age home by March 2013**	**10,00,000**

Compute the total income of the trust for the previous years 2008-2009 and 2014-2015 if it spends Rs 5,00,000 during the previous year 2013-2014 and Rs 3,00,000 during the previous year 2014-2015 in setting up the old age home.

Answer 21.

(a) Computation of the taxable income of the trust for previous year 2008-2009/AY 2009-2010.

	Particulars		Rs.
(i)	Income from property held under charitable trust		20,00,000
(ii)	Income from voluntary contributions (Rs 15,00,000-Rs 5,00,000)		10,00,000
	Total		**30,00,000**
	Less: 15% set apart for future application		45,00.000
	Balance		**25,50,000**
	Less: Income applied for charitable purposes:		
(i)	Donations to blind charitable school	6,00,000	
(ii)	Scholarship to poor students	4,00,000	
(iii)	Free eye camps in urban slums	3,00,000	
	Total	**13,00,000**	
	Amount set apart for old age home	**10,00,000**	23,00,000
	Taxable income		**2,50,000**
(b)	Previous year 2014-2015 /AY 2015-2016:		
	Amount set apart for old age home	10,00,000	
	Less:		
1.	Amount spent during 2013-2014	5,00,000	
2.	Amount spent during 2014-2015	3,00,000	
	Taxable income	**2,00,000**	

Q. 22. What do you mean by annexure less return? What is the manner of filling the return of income?

Answer 22.

The return of income and return of fringe benefits required to be furnished in Form No. ITR-1, ITR-2, ITR-3, ITR-4, ITR-5, ITR-6 or ITR-8 shall not be accompanied by a statement showing the computation of the tax payable on the basis of the return, or proof of the tax, if any, claimed to have been deducted or collected at source or the advance tax or tax on self-assessment, if any, claimed to have been paid or any document or copy of any account or Form or report of audit required to be attached with the return of income or the return of fringe benefits under any of the provisions of the Act.

Manner of filling the return : The return of income or return of fringe benefits referred to in sub-rule (1) may be furnished in any of the following manners, namely :

(i) Furnishing the return in a paper form;

(ii) Furnishing the return electronically under digital signature;

(iii) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V;

(iv) Furnishing a bar-coded return in paper from.

Q. 23. Can a belated return of income filed u/s 139(4) be revised?

Answer 23.

There was a difference of opinion among various courts regarding filling of revised return in respect of belated returns. However, it has been held that a belated return filed u/s 139(4) cannot be revised as section 139(5) provides that only return filed u/s 139(1) or in pursuance to a notice u/s 142(1) can be revised [Kumar Jagdish Chandra Sinha vs. CIT(1996) 220 ITR-67(SC)].

Q. 24. What are the consequences if a person fails to comply with the provisions of Sec. 139A i.e. quoting of PAN?

Answer 24.

As per sec. 272B(2), if a person fails to comply with the provisions of Sec. 139A, the Assessing Officer may direct that such person shall have to pay, by way of penalty, a sum of Rs. 10,000.

Q. 25. Mr. Gangaprasad, resident in India, turns out 65 years of age on 31 March 2009. He furnishes the following particulars of his income for the previous year 2008-2009:

Particulars	**Rs.**
(i) Rent from agriculture land, located in a village of Jharkhand district	**2,50,000**
(ii) Rent from building, located in the vicinity of agriculture land, which is assessed to land to revenue and the tenant, cultivating the agricultural land, occupies it for his dwelling and storing purposes	**60,000**
(iii) Income from business	**3,00,000**
(iv) Long-term capital gain	**1,00,000**

He maintains a motor car which is used 70% for business purpose, 10% for collecting rent from building and 20% for collecting rent from agriculture land. He has incurred and expenditure of Rs.1,00,000 by way of petrol, repair and salary of the driver. He also claims depreciation on the written down value of the motor car on 1.4.2008. Rs 2,00,000 @ 15%. He has paid Rs 2000 as local tax to the village panchayat in respect of the building. He also paid Rs 30,000 land revenue to the Government on account of agriculture land.

Determine his total income and tax liability in the following cases:

(i) Agriculture produce goes under marketing process to fetch better rates in the market,

(ii) Agriculture produce goes under marketing process to make it saleable in the local market.

Answer 25.

Computation of Total Income for the assessment year 2009-2010

(i) Income from house property:		
Gross annual value based on rent	60,000	
Less : Local tax to village panchayat : No deduction is allowed as — it is not a municipal tax	Nil	
Net annual value	**60,000**	
Less: (i) Statutory deduction @ 30% of NAV	18,000	
Income from House Property		42,000
Income from house property to be treated as agriculture income provided the agriculture produce is not subjected to marketing produce to fetch better rates [Sec. 2(1A)(c)]		
(ii) Income from business		3,00,000
(iii) Long-term capital gain		1,00,000
(iv) Income from other sources:		
Rent from agriculture land	2,50,000	
Less: Permissible deduction (Sec. 57):		
(a) Land revenue	(-) 30,000	
(b) Realisation expenses	(-) 20,000	
(c) Depreciation: Not admissible Sec. 57(ii)—see Note below		
Income from agriculture [Sec. 2(1A)(a)]	**2,00,000**	
Total income, subject to increase by Rs 42,000 when produce is subjected to marketing process to fetch better rates.		4,42,000

Computation of tax liability: AY. 2009-2010

Particulars	**Senior citizen**		**Not a senior citizen**	
	Case I Produce subjected to marketing process for better rates Rs.	Case II Produce subjected to marketing process to make it saleable Rs.	Case III Produce subjected to marketing process for better rates Rs.	Case IV Produce subjected to marketing process to make it saleable Rs.
Non-agriculture income	4,42,000	4,00,000	4,42,000	4,00,000
Agriculture income	2,00,000	2,42,000	2,00,000	2,42,000
(a) Tax on non-agriculture income + agriculture income as if it is the total income:	**6,42,000**	**6,42,000**	**6,42,000**	**6,42,000**
(i) Tax on long-term capital gain	20,000	20,000	20,000	20,000
(ii) Tax on balance of total income at slab rates	58,600	58,600	66,600	66,600
Gross Tax Liability (i) + (ii)	78,600	78,600	86,600	86,600
(b) Tax on agriculture income + exemption limit of (for Case I & II)	34,000	42,400	26,000	30,400
(c) **Tax payable: (a) – (b)**	44,600	36,200	60,600	56,200
Add: Education cess @ 2%	892	724	1,212	1,124
SHEC @ 1%	446	363	606	562
Tax payable	**45,938**	**37,286**	**62,418**	**57,886**
Tax payable to be rounded off to the nearest multiple of Rs 10 (Sec. 288B)	45,940	37,290	62,420	57,890

Note:

While computing income under "other sources" depreciation is allowed only in case where plant, machinery or furniture is let out on hire or building along with plant, machinery or furniture is let out on hire [Sec. 57(ii)]

Hence no depreciation is allowed in respect of motor car.

Proportionate depreciation on motor car is permissible under the head "business or profession":

It is assumed it has been allowed as the expression "income from business" refers to taxable income after permissible deductions.

Q. 26. B Ltd. owns a new industrial undertaking, located in industrially backward State. It has been approved 100% EOU by the Board, constituted by the Central Government. It is engaged in the export of computer software and started functioning from the previous year 2005-2006.

During the first three years it earned a profits and claimed deduction under Sec. 10B. During the fourth year it suffered a loss of Rs 10 lakh.

It furnishes the following particulars for the previous year 2009-2010.

	Rs (in lakh)
(i) Business profit	**40**
(ii) Export sales – FOB	**100**
(iii) Domestic sales	**50**
(iv) Receipt of convertible foreign exchange in India :	
(a) Receipt up to 30 September 2010	**70**
However, foreign exchange of Rs 10 lakh is on account of sale to a foreign customer in India and Rs 5 lakh is on account of reimbursement of freight, insurance, relating to export and expenses incurred in Malaya in foreign exchange in providing technical services.	
(b) Receipt in November 2010 but approved by the competent authority	**10**
(c) Receipt in January 2011 but competent authority has not granted its approval	**10**
(v) Converted foreign exchange kept in Malaya in State Bank of India in a separate account with the approval of RBI.	**10**

Compute its total income in the following cases :

(a) it claims deduction under Sec. 10B;

(b) it revises its option under Sec. 10B(8) and wants not to claim deduction under Sec. 10B. it proposes to claim deduction under Sec. 80 IB.

Answer 26.

(i) Claiming deduction under Sec. 10B

	Rs (in lakh)
Business profits	40
Less : Deduction for export profits : $40\times\frac{75}{150}$	20
	20
Less : Carried forward business loss [Sec. 72 (2)]	10
Total income	10

Working Note :

1. Export turnover :	
Convertible foreign exchange received up to 30 September 2010	
Less : (i) Convertible foreign exchange received from a foreign customer for sale in India	70
(ii) Reimbursement of foreign insurance relating to export and	(–) 10
expenses incurred in foreign exchange outside India in providing technical services.	(–) 5
Add: (i) Convertible foreign exchange received after prescribed time limit but approved by the competent authority	(+) 10
(ii) Convertible foreign exchange kept outside India with the permission of	(+) 10
Reserve Bank of India	75
2. Total turnover :	100
(i) Export sales	50
(ii) Domestic Sales	150
(ii) Claiming deduction under Sec. 80-IB	
Business profits	40
Less : Carried forward business loss	(–) 10
Gross total income	30
Less : Deduction under Sec. 80-IB 100% of profits derived from undertaking and included in GTI	30
Total Income	**Nil**

Q. 27. M, resident in India, furnishes the following particulars of his receipts and outgoings during the previous year 2009-2010.

		Rs.
Receipts:		
(i)	Income from salary	2,00,000
(ii)	Income from house property	3,00,000
(iii)	Gross winning from crossword puzzle	3,50,000
Outgoing:		
(i)	Contribution to LIC annuity plan	15,000
(ii)	Medical insurance premium:	
(a)	For himself	4,000
(b)	His wife, not dependent	3,000
(c)	Mother, non-resident, 67 years, dependent	5,000
(d)	Nephew, wholly dependent with disability	3,000
(e)	Grandson, dependent	2,000
(iii)	Expenditure on medical treatment and maintenance of the nephew referred to	30,000
(iv)	Medical treatment for grandson, suffering from a disease specified under income-tax rules(v)	50,000
(v)	Donation to Gujarat government for family planning	50,000
(vi)	Scholarship to a poor but meritorious student	20,000
(vii)	Contribution to approved scientific research association	30,000
(viii)	Contribution to Delhi Municipal Corporation for sewage scheme for slum-dwellers, approved by National Committee	50,000

(ix) Donation to Congress party paid during November 2009 assembly elections 20,000

Compute his total income for the assessment year 2010-2011. Make necessary assumptions and clarify them.

Computation of total income for AY 2010-2011

Particulars	Rs	Rs
Income from salary		2,00,00
Income from house property		3,00,000
Gross winnings from crossword puzzle		3,50,000
Gross Total Income		**8,50,000**
Less: Deductions under Chapter VIA :		
Contribution to LIC annuity plan [Sec. 80CCC]	10,000	
Medical insurance premium [Sec, 80D]		
Assessee	4,000	
His wife	3,000	
Mother, 67 years old	5,000	
Nephew dependent with disability	x	
Grand son	x	
	12,000	
Maintenance and medical treatment of a dependent with disability [Sec. 80DD]		
Expenditure for medical treatment of grandson [Sec. 80DDB]	Nil	
Donations for scientific research or rural development [Sec. 80-GGA]		
(a) Donation to approved scientific research association	30,000	
(b) Contribution to MCD for slum-dwellers scheme, approved by National Committee	50,000	
Donations to political party [Sec. 80GGC w.e.f. 22.9.2004]	20,000	
Charitable donations [Sec. 80G]		
(a) Scholarship to a poor meritorious student	xxx	
(b) Gujarat government for family planning: 100% of qualifying amount		
1. Actual donation = 50,000, or		
2. 10% of specified GTI = 37,800		
8,50,000 – (3,50,000 + 10,000 + 12,000 + 30,000 + 50,000 + 20,000)		
= Rs.3,78,000		
whichever is less, is QA 37,800= 100% of 37,800	37,800	1,59,800
Total Income		**6,90,200**

Q. 28. Mr Jamal resident in India, has paid Rs 60,000 for medical expenses during the previous year 2009-2010 for his wife suffering from cancer. Mrs. Jamal is also resident in India and turns 65 years of age on 31st March 2010. The full treatment cost has been reimbursed by the General Insurance Corporation of India. Please determine if Mr. Jamal is entitled to any deduction under Sec. 80DDB and if the answer is yes, determine the quantum of deduction. Also, please work but the quantum of deduction in the following circumstances :

I. Mrs. Jamal turns 65 years of age on 1 April 2009 and the amount reimbursed by the insurer is Rs 25,000. Payment of medical treatment was made out of exempted income.

II. Jamal turns 65 years of age on 1 April 2009 but Mrs. Jamal is 64 years, 11 months and 30 days as on 31 March 2010 and the insurer has not reimbursed any expenditure.

III. Mrs. Jamal is 66 years of age, a non-residential in India and the insurer has reimbursed Rs. 35.000

IV. Mr. Jamal, though having assessable income in India, is actually resident in Sri Lanka and is getting his wife treated in India for sake of better and more advanced medical facilities Mrs. Jamal is residential in India and the insurer has reimbursed Rs 20,000.

V. The expenditure is incurred by the assessee on cancer treatment of his 25 year old grandson who is dependent on him and is resident in India. The insurer has not reimbursed the claim.

VI. Mr. Jamal is able to produce the receipt of the medical expenditure only to the extent of Rs. 10,000 as he misplaced other receipts and the certificate in Form 10-I regarding the treatment of his wife does not mention the total amount incurred by him during the previous year. The insurer has reimbursed only Rs. 5,000.

Answer 28.

Amount of deduction under Sec. 80DDB: PY 2009-2010 / AY 2010-2011

Particulars	Existing	I	II	III	IV	V	VI
Gross deduction u/s 80DDB in respect of specified ailment of dependant wife.	60,000	40,000	40,000	40,000	Nil	Nil	10,000
Less : Insurance claim received	60,000	25,000	Nil	35,000	Nil	Nil	50,000
Net deduction allowable u/s 80DDB	**Nil**	**15,000**	**40,000**	**5,000**	**Nil**	**Nil**	**5,000**

Working Notes :

1. In order to be a senior citizen, a person should be a resident in India and be 65 years of age at any time during the previous year, be it one the last day of the previous year or at any time during the previous year. Therefore, except when Mrs. Jamal turns 65 after the end of the previous year or when she is a non-resident in India, the gross amount of deduction will be Rs. 40,000.
2. The assessee individual must be resident in India in order to be eligible to the deduction. A grandson is not covered by the definition of "dependant".
3. Form No. 10-I does not require the doctor to certify the amount incurred.

Q. 29. Following are the particulars of the income of Mr. Srikant for the previous year 2009-2010

	Rs.
1. Income from house property	
(a) Property R	**(+) 12,000**
(b) Property J	**(-) 20,000**
2. Profits and gains from business:	
(A) Non-speculation:	
(i) Business X	**40,000**
(ii) Business Y	**(-) 50,000**
(B) Speculation:	
(i) Silver	**40,000**

(ii) Bullion	**(-) 10,000**
3. Capital gains:	
(i) Long-term capital gains	**(+) 30,000**
(ii) Short-term loss	**(-) 10,000**
4. Income from other sources:	
(i) Card games-loss	**10,000**
(ii) From the activity of owing and maintaining race horses:	
(a) Loss at Mumbai	**(-) 50,000**
(b) Profit at Kolkata	**(+) 40,000**
(iii) Dividend from Indian companies	**10,000**
(iv) Income by letting out plant and machinery	**1,11,000**
The following losses have been carried forward:	
(i) Long-term capital loss from the assessment year 2006-2007:	**18,000**
(ii) Loss from silver speculation from the assessment year 2006-2007 and which was discontinued in the assessment year 2007-2008	**25,000**

Compute the gross total income for the assessment year 2010-2011.

Answer 29.

Computation of gross total income for the assessment year 2010-2011

Particulars	**Rs**	**Rs**
1. Income from house property (+ 12,000 - 20,000)		(-) 8,000
2. Profits from speculation:		
(i) Silver-profit	40,000	
Less: Current year loss from bullion	(-) 10,000	
	30,000	
Less: Carried forward silver speculative loss surplus from speculation	(-) 25,000	
	5,000	
(ii) Add: Business profit X business	40,000	
(iii) Less: Business loss Y business	(-) 50,000	(-) 5,000

Unabsorbed business loss may be set-off against the income of any other
head except 'salaries' and 'winnings from lottery, card games, crossward puzzle, betting on race horses', etc.

3. Capital gains:		
Long-term capital gains	30,000	
Less: Short-term capital loss	(-) 10,000	
Long-term capital gain	20,000	20,000
4. Income from other sources:		
(i) Income by letting out plant and machinery		1,11,000
(ii) Card game-loss of Rs 10,000		
Neither it can be set-off nor it can be carried forward		
(iii) Profit from race horses at Kolkata	(+) 40,000	
Less: Loss from race horses at Mumbai	(-) 50,000	
Loss to be carried forward for next four assessment year	(-) 10,000	
(iv) Dividend from Indian companies: Exempt under Sec. 10(34)		Nil
Aggregated income after setting-off current year losses from house property, profit and business against income from other sources:		1,18,000
Less*:* Carried forward long-term capital loss, from the assessment year 2006-2007 to be set-off against long-term capital gains		18,000
Gross total income or total income as there is no deduction available from GTI		1,00,000

Q. 30. Mr. Dey furnishes the following particulars of his income for the previous year 2009-2010:

Particulars	**Rs.**
Unit "A": Business loss	**(-) 4,00,000**
Unabsorbed depreciation	**(-) 2,00,000**
Unit "B"*:* Business profit	**10,00,000**
Income from house property	**2,00,000**
Carried forward losses and allowance;	
Unit "C" business was discontinued on 31-12-2004	
Apart from the above mentioned, the following unabsorbed:	
1. Business loss	**(-) 3,00,000**
2. Depreciation	**(-) 2,00,000**
Unit "D" business was discontinued on 1-3-2007 leaving the following unabsorbed:	
1. Business loss	**(-) 3,00,000**
2. Depreciation	**(-) 1,00,000**

Compute his total income for the assessment year 2010-11.

Answer 30.

Computation of total income for the AY 2010-2011:

Particulars	Rs	Rs
Income from house property		2,00,000
Business - profession		
Prof it of B-business	(+) 10,00,000	
Less: Business loss of A - business	(-) 4,00,000	
Depreciation of A-business	(-) 2,00,000	
	(+) 4,00,000	4,00,000
Aggregated income		6,00,000
Less: Carried forward business loss:		
(i) Loss of C Business to be set-off against business profits	(-) 3,00,000	
(ii) Loss of D business	(-) 3,00,000	
	(-) 6,00,000	(-) 6,00,000
Total income		Nil

Note: Where business loss and depreciation both are being carried forward, business loss has got priority, over deprecia-tion. Unabsorbed depreciation is carried forward without time-limit.

Q. 31. Mr A gifts Rs 3,00,000 to Mrs A on 1st February 2010. Mrs A invests the same in the existing crockery business where she has already invested Rs 5,00,000. Mrs A earns Rs 3,00,000 from the business during the year 2009-2010 ending on 31 March 2010 How would you assess the profits?

Answer 31.

The previous year of the existing business is April to March. On the first day of the previous year (i.e. 1 April 2009), total investment has come from Mrs A account. As the proportion of the gifted amount from spouse on 1 April 2009 to the total investment in business on the same day is **NIL**, the whole of the profits of Rs 3,00,000 for the year 2009-2010 will be included in the total income of Mrs A.

From the previous year 2010-2011, 60% [= 3,00,000/5,00,000 × 100] of the business profits will be included in the total income of Mr A.

Q. 32. Mr Goutam, out of his own funds, had taken a FDR for Rs 1,00,000 bearing interest @ 10% p.a. payable half-yearly in the name of his wife Latika. The interest earned for the year 2009-2010 of Rs 10,000, was invested by Mrs Latika in the business of packed spices which resulted in a net profit of Rs 55,000 for the year ended 31st March 2010. How shall the interest on FDR and income from business be taxed for the Assessment year 2010-2011?

Answer 32.

Where an individual transfers an asset (excluding house property), directly or indirectly to his/her spouse, otherwise than for adequate consideration, or in connection with an agreement to live apart, income from such asset is included in the total income of such individual [Sec. 64(1)(iv)].

Accordingly, interest on FDR, accruing to wife, is included in the total income of her husband. However, business profits cannot be clubbed with total income of husband. Clubbing applies only to the income from assets transferred without adequate consideration. It does not apply to the income from accretion of the transferred assets. Hence, business profit is taxable as the income of wife.

Q. 33. Sawant is a fashion designer having lucrative business. His wife is a model. Sawant pays her a monthly salary of Rs 20,000. The Assessing Officer while admitting that the salary is an admissible deduction, in computing the total income of Sawant had applied the provisions of Sec. 64(1) and had clubbed the income (salary) of his wife in Sawant's hands.

Discuss the correctness of the action of the Assessing Officer.

Answer 33.

Where an individual has got substantial interest in a concern and his spouse derives any income from such concern by way of salary, commission, fees or by any other mode, such income is clubbed with the total income of such individual [Sec. 64(1)(ii)].

However, clubbing provision does not apply if the earning spouse holds technical or professional qualification and the income is solely attributable to the application of such knowledge and experience.

Salary earned by wife as model from the concern where her husband holds substantial interest is assessable as her income.

Q. 34. Mr Ayan Goel receives the following gifts of of money :

S. No.	Date of gift	Donor	Form of gift	Amount of gifts	Remarks
1.	31.3.2009	Friend	Cheque	25,000	Cheque is encashed on 03.04.2008
2.	01.05.2009	Brother	Bank draft	50,000	
3.	30.07.2009	Non-resident friend	Cheque	30,000	
4.	01.10.2009	Brother-in-law	Cash	10,000	
5.	15.11.2009	Great-grandfather-in-law	Cash	40,000	
6.	05.12.2009	Cousin brother	Cash	21,000	On the occasion of the marriage
7.	01.01.2010	Neighbour	NSC-VIII Issue	10,000	Maturity date 31.03.2009
8.	31.03.2010	Friend	Cash	10,000	

Determine the chargeability of the aforesaid gifts. Would it make any difference if the amount of gift made on 31.03.2010 is Rs 10,001.

Answer 34.

Computation of taxable gifts for the AY 2010-2011.

	Particulars	Case – I Rs	Case – II Rs
1.	Gift of cheque dated 31.03.2009 from a friend but encashed on 03.04.2008 is not taxable since it does not exceed Rs 25,000. Chargeability is governed by the date of receipt and not by date of encashment.	—	—
2.	Gift from brother is exempt	—	—
3.	Gift from friend	30,000	30,000
4.	Gift from brother-in-law—Exempt	—	—
5.	Gift from great grandfather-in-law: Exempt	—	—
6.	Gift on the occasion of the marriage	—	—
7.	Gift from neighbour	10,000	10,000
8.	Gift from friend	10,000	10,001
		50,000	50,001
	Taxable gift	Exempt	50,001

Q. 35. Discuss the taxability of gifts received by an Assessee.

Answer 35.

1. Applicability: Gifts received by Individual and HUF irrespective of Residential Status.
2. Taxability: Any sum of **money, aggregate value of which exceeds Rs.50,000,** is received during the previous year without consideration, by an Individual or a HUF from any person(s) on or after 1.4.2007, then the **whole of the aggregate of such sum** will be taxable.
3. **Exceptions :**

(a) Gifts received from the following persons not taxable -

- From a relative, or
- On the occasion of the marriage of the individual, or
- Under a will or by way of inheritance, or
- In contemplation of death of the payer, or
- Any Local Authority, or Fund/Foundation/University/Educational Institution or Hospital or
- other Medical Institution or
- Trust or Institution referred u/s 10(23C), or
- Trust / Institution registered u/s 12AA

(b) Gifts received in kind not taxable.

4. **Relative means :**

(a) Spouse of the individual,

(b) Brother or sister of the individual,

(c) Brother or sister of the spouse of the individual,

(d) Brother or sister of either of the parents of the individual,

(e) Any lineal ascendant or descendant of the individual,

(f) Any lineal ascendant or descendant of the spouse of the individual,

(g) Spouse of the person referred to in clauses (b) to (f) above.

Q. 36. V. G. had placed a deposit of Rs. 10 Lakhs in a bank on which he received interest of Rs.80, 000. He had also borrowed Rs.5 Lakhs from the same bank on the security of the deposit and was liable to pay Rs.50,000 by way of interest to the bank. He therefore offered the difference between two amounts of Rs.30,000 as income from other sources. Is this correct?

Answer 36.

(a) U/s 57, any expenditure (not being capital expenditure) expended to earn income chargeable under the head "Income from Other Sources" will be allowed as deduction against such income.

(b) Interest on bank FD was the income in the hands of the assessee and the interest on the loan taken from bank on that deposit is not an allowable expenditure.

Therefore, in the given case, the interest of Rs.50,000 paid by VG is not allowable as deduction, and the entire interest of Rs.80,000 is fully taxable.

Q. 37. R discloses the following particulars of his income during the previous year 2009-2010 :

	Particulars	Rs
(i)	Dividends from Sri Lankan companies received in India Dividends were received partly in cash and partly in shares. Face value of shares is Rs 80,000 but their market value is Rs 3,20,000. However, currently there is no buyer in the market	4,00,000
(ii)	Pension remitted to him in India by Sri Lankan Government after deduction of tax source (Rs 15,000)	1,70,000
(iii)	Fees received in Qatar for arguing a patent case in Delhi High Court on behalf of a fellow-lawyer friend of Mumbai	2,00,000
(iv)	Commission credited to his account in India under his instructions by law firms in India, for referring clients from outside India but commission was received in Mauritius	2,20,000
(v)	Share of income from his HUF, received in Kolkata	1,50,000
(vi)	Income from law practice in Mauritius and Qatar, received there, but practice was set up in Delhi	6,80,000
(vii)	5% commission for the year 2009-2010 from publishers of law books on their annual profits, received in India, commission has been paid after setting off Rs 30,000 for books purchased by him. He has purchased the dealership rights from Mumbai Law House on 1 January 2010.	1,20,000
(viii)	Gift from a foreign client, received outside India	20,000

Determine his total income for the previous year 2009-2010 if his residential status during the previous year is (i) ROR, or (ii) NOR or (iii) NR.

Answer 37.

Computation of total income for PY 2009-2010 / AY 2010-2011

	Particulars	ROR Rs	NOR Rs	NR Rs
(i)	Dividend received in India			
(a)	Cash dividend	80,000	80,000	80,000
(b)	Dividend in kind to be valued at market price of shares	3,20,000	3,20,000	3,20,000
(ii)	Pension received outside India and not deemed to accrue or arise in India [CIT v. Kalyanakrishnan 195 ITR 534]	1,70,000	—	—
(iii)	Fees for arguing patent case in Delhi, but received in Ceylon— Income from business connection deemed to accrue or arise in India	2,00,000	2,00,000	2,00,000
(iv)	Commission credited to the account of payee under his instruction in the books of payer is a deemed receipt [Raghava Reddy v. CIT (1962) 44 ITR 720 (SC)]	2,20,000	2,20,000	2,20,000
(v)	Share income received from HUF exempt from tax [Sec. 10(2)]	—	—	—
(vi)	Income from profession set up in India, extended outside India: Income being received outside India	6,80,000	6,80,000	—
(vii)	Commission on account of dealership rights, received in India @ 5% or the annual profits of the publishers: Commission not to be apportioned between seller and purchaser on time basis	1,50,000	1,50,000	1,50,000
(viii)	Gift from a foreign client, received outside India [Sec. 28(iv)]	20,000	—	—
	Total income	**18,40,000**	**16,50,000**	**9,70,000**

Q. 38. Mr X furnishes the following particulars of his income earned during previous year ended on 31 March 2010 :

(i) Income from agriculture in Bangladesh, received there Rs. 3,80,000, but later on remitted to India,

(ii) Interest on Pakistani Development Bonds, Rs. 60,000, one-sixth of which received in India,

(iii) Gift of Rs. 70,000 received in foreign currency from a relative in India,

(iv) Arrears of salary Rs. 1,50,000 received in Pakistan from a former employer in India.

(v) Income from property received outside India Rs. 3,00,000 (Rs. 1,00,000 is used in Bahrain for the educational ex-penses of his son in Bahrain, and Rs. 2,00,000 later on remitted to India).

(vi) Income from business in Iran which is controlled from India (Rs. 1,00,000 being received in India) Rs. 2,00,000.

(vii) Dividends received on 30.06.2009 outside India from an Indian company, Rs. 2,50,000.

(viii) Untaxed .profit of the FY 2005-2006 brought to India in July 2009, Rs. 2,50,000.

(ix) Profit (computed) on sale of building in India received in Pakistan Rs. 21,00,000.

(x) Profit from business in Kolkata managed from outside India Rs. 90,000, 60% of which is received outside India.

Find out gross total income of Mr. X for AY 2010-2011, if Mr. X is (a) resident and ordinarily resident; (b) resident but not ordinarily resident; (c) non-resident.

Answer 38.

Computation of gross total income for AY 2010-2011

Particulars	ROR Rs	RNORs Rs	Non-resident Rs
(i) Income from agriculture in Bangladesh, received there but later on remitted to India	3,80,000	—	—
(ii) Interest on Pakistan Development Bonds:			
1/6th of Rs. 60,000 received in India	10,000	10,000	10,000
5/6th of Rs. 60,000 being received in India	50,000	—	—
(iii) Gift received from a relative in India: Exempt [Sec. 57(v)]	—	—	—
(iv) Salary arrears received in Pakistan from a former employer in India	1,50,000	1,50,000	1,50,000
(v) Income from property received outside India but later on remitted to India	3,00,000	—	—
(vi) Profit from Iran business controlled from India:			
(a) Profits received in India	1,00,000	1,00,000	1,00,000
(b) Profits received outside India	1,00,000	1,00,000	—
(vii) Dividends received from an Indian company, outside India, deemed to accrue or arise in India but exempt under Sec. 10(34)	—	—	—
(viii) Untaxed foreign profit of PY 2005-2006 brought to India	—	—	—
(ix) Profit on sale of building in India, received outside India deemed to accrue or arise in India	21,00,000	21,00,000	21,00,000
(x) Profit from Kolkata business, managed from outside India: 60% received outside India	90,000	90,000	90,000
Gross total income	32,80,000	25,50,000	24,50,000

Q. 39. Detail the provision relating to income from property held under Trust partly for religious purposes and partly for other purposes?

Answer 39.

Income from property held under Trust Partly for religious purposes and partly for other purposes [Sec.164(3)]

Where property is held under trust partly for religious purposes and partly for other purposes and the individual share of the beneficiaries in the income applicable to purposes other than charitable purposes, is not known, the incom-tax liability will be aggregated as followes :

(i) the tax which would be chargeable on the part of the relevant income which is applicable to charitable or religious purposes (as reduced by the income which is exempt u/s. 11 as if such part where the total income of an association of persons; and

(ii) the tax on that part of income attributable to purposes other than charitable or religious and in respect of which shares of beneficiaries are indeterminate or unknown, at the maximum marginal rate.

Where any part of income is not exempt u/s. 11 or 12 by virtue of sec. 13(1)(c) or (d), tax is charged on the relevant income at the maximum marginal rate.

Q. 40. Discuss the situations where provisions of Section 13(1)(d) shall not apply?

Answer 40.

However, the provisions of section 13(1)(d) shall not apply in relation to following :

- any asset forming part of the corpus of the trust as on 1.6.1973;
- any accretion to the corpus shares by way of bonus shares allotted to the trust;
- debentures issued by or on behalf of any company or corporation and acquired by the trust before March 1, 1983;
- any asset not covered u/s. 11(5) where such asset is held for not more than 1 year from the end of the previous year in which such asset is acquired;
- any fund representing the Profits and gains of business, being Profits and gains of any previous year relevant to the assessment year 1984-85 or any subsequent assessment year. But such relaxation of the restriction will be denied unless the trust keeps separate accounts for the business. As already noted, subject to certain exceptions, such business profits no longer enjoy exemption u/s. 11.

Q. 41. What is the provision of tax concession of 100% export oriented undertaking?

Answer 41.

Tax in respect of 100% exports oriented undertaking concession [Sec. lOB]

Profit or gains of export derived from 100% export oriented unit (EOU) is exempt from tax for 10 consecutive years beginning with the initial Assessment Year in which the undertaking begins to manufacture or produce articles or things or computer software. This tax concession is available to all tax payers including companies in lieu of all other tax concessions.

Conditions for tax exemptions are that:

(i) it is a manufacturing undertaking;

(ii) it is not formed by splitting up or the reconstruction of a business already in advance.

(iii) it should not use old machinery valued more than 20% of the value of total plant and machinery.

(iv) no deduction under section 8OHH, 8OHHA, 80-I and 80-IA shall be allowed in relation to the profits and gains of the undertaking. Exemption is also available to Successor company in case of reorganisation lOB (9A) w.e.f. AY 2003-04. For the Assessment Year 2003-04, exemption is restricted to 90% of of the profit.