Question 1

From the following details, compute the total income of Siddhant of Delhi and tax payable for the A.Y.2012-13:

	Rs.
Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant was provided with company's car (self-driven) also for personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer.

Siddhant purchased a flat in a co-operative housing society for Rs. 4,75,000 in April, 1992,which was financed by a loan from Life Insurance Corporation of India of Rs. 1,60,000 @ 15% interest, his own savings of Rs.85,000 and a deposit from a nationalized bank for Rs. 2,50,000 to whom this flat was given on lease for ten years. The rent payable was Rs. 3,500 per month.

The following particulars are relevant:

(a) Municipal taxes paid 4,300pa
(b) Society charges for passage lights, watchman's salary 1,900pa
(c) Insurance 860
(d) He earned Rs. 2,700 in share speculation business and lost Rs.4,200 in cotton speculation business.
(e) In the year 2005-06, he had gifted Rs.30,000 to his wife and Rs.20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@ 19% per annum.
(f) Siddhant received a gift of Rs.25,000 each from four friends.
(g) He contributed Rs.5,600 to Public Provident Fund and Rs.4,000 to Unit Linked Insurance Plan.
(h) He received national award for humanitarian work from the Central Government in the form of a land whose fair market value is Rs.5,00,000 as on 31st March, 2012.

Question 2

From the following particulars of Pankaj for the previous year ended 31st March, 2012,compute the income chargeable under the head "Income from other sources":

		Rs.
(i)	Directors fee from a company	10,000
(ii)	Interest on bank deposits	3,000
(iii)	Income from undisclosed source	12,000
(iv)	Winnings from lotteries (Net)	33,936
(v)	Royalty on a book written by him	9,000
(vi)	Lectures in seminars	5,000
(vii)	Interest on loan given to a relative	7,000
(viii)	Interest on debentures of a company (listed in a recognised stock exchange) net of taxes	3,600
(ix)	Interest on Post Office Savings Bank Account	500
(x)	Interest on Government Securities	2,200
(xi)	Interest on Monthly Income Scheme of Post Office	33,000

He paid Rs.1,000 for typing the manuscript of book written by him.

Question 3

Mr. Raman is a co-owner of a house property alongwith his brother.

	Rs.
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000pm

The loan for the construction of this property is jointly taken and the interest charged by the bank is Rs. 25,000, out of which Rs. 21,000 has been paid. Interest on the unpaid interest is Rs. 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is Rs. 5,000.

The municipal taxes of Rs. 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2012-13.

Question 4

Compute the net taxable capital gains of Smt. Megha on the basis of the following information -

A house was purchased on 1.5.1999 for Rs. 4,50,000 and was used as a residence by the owner. The owner had contracted to sell this property in June, 2009 for Rs. 10 lacs and had received an advance of Rs. 61,000 towards sale. The intending purchaser did not proceed with the transaction and the advance was forfeited by the owner. The property was sold in April, 2011 for Rs. 15,00,000. The owner, from out of sale proceeds, invested Rs. 4 lacs in a new residential house in January, 2012.

Question 5

Mr. Rajat submits the following information for the financial year ending 31st March, 2012. He desires that you should:

(a) Compute the total income and

(b) Ascertain the amount of losses that can be carried forward.

		Rs.
(i)	He has two houses:	
	(a) House No. I – Income after all statutory deductions	72,000
	(b) House No. II – Current year loss	(30,000)
(ii)	He has three proprietary businesses:	
	(a) Textile Business:	
	i. Discontinued from 31st October, 2011 - Current year loss	40,000
	ii. Brought forward business loss of A.Y.2008-09	95,000
	(b) Chemical Business:	
	i. Discontinued from 1st March, 2010 - hence no profit/loss	Nil
	ii. Bad debts allowed in earlier years recovered during this year	35,000
	iii. Brought forward business loss of A.Y. 2010-11	50,000
	(c) Leather Business: Profit for the current year	1,00,000
	(d) Share of profit in a firm in which he is partner since 2005	16,550
(iii)		
	(a) Short-term capital gain	60,000
	(b) Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium	10,000

Question 6

What are the circumstances under which the Assessing Officer can make a reference to the Valuation Officer under section 55A of the Income-tax Act, 1961?

Question 7

Explain the concept of reverse mortgage and discuss its tax implications.

Question 8

Discuss briefly on carry forward and set off of losses in the case of change in constitution of firm or succession.

Question 9

Mr. Dinesh Karthik, a resident individual aged 45, furnishes the following information pertaining to the year ended 31.3.2012:

(a) He is a partner in Badrinath & Co. he has received the following amounts from the firm:
Interest on capital at 15% Rs. 3,00,000
Salary as working partner (at 1% of firm's sales) Rs. 90,000

(b) He is engaged in a business in which he manufactures wheat flour from wheat. The Profit and Loss account pertaining to this business (summarized form) is as under:

To	Rs.	By	Rs.
Salaries	1,20,000	Gross Profit	12,50,000
Bonus	48,000	Interest on Bank FD (Net of TDS Rs. 5,000)	45,000
Car expenses	50,000	Agricultural income	60,000
Machinery repairs	2,34,000	Pension from LIC Jeevandhara	24,000
Advance tax	70,000		
Depreciation:			
Car	3,00,000		
Machinery	1,25,000		
Net profit	4,32,000		
	13,79,000		13,79,000

Opening WDV of assets are as under:

	Rs.
Car	3,00,000
Machinery (used during the year for 170 days)	6,50,000
Additions to machinery:	
New purchased on 23.09.2011	2,00,000
New purchased on 12.11.2011	3,00,000
Old purchased on 12.4.2011	1,25,000

(All assets added during the year were put to use immediately after purchase)

Of the total bonus amount, Rs. 15,000 was paid on 11.10.2011
One-fifth of the car expenses are towards estimated personal use of the assessee.

(c) In March, 2010, he had sold a house at Chennai. Arrears of rent relating to this house amounting to Rs. 75,000 was received in February, 2012.

(d) Details of his Savings and Investments are as under:

	Rs.
Life Insurance Premium for policy in the name of his major son employed in LMN Ltd. at a salary of Rs. 6 lacs p.a. Sum assured Rs. 2,00,000	50,000
Contribution to Pension Fund of National Housing Bank (this was met partially from out of premature withdrawal of deposit in Post Office Time Deposit made on 12.3.2009 Principal component Rs. 55,000 and Interest Rs. 5,000)	70,000
Medical Insurance Premium for his father aged 70, who is not dependent on him	22,000

You are required to compute the total income of Mr. Dinesh Karthik for the assessment year 2012-13 and the tax payable by him. Also indicate whether interest, if any, under sections 234A and234B are payable, assuming that the return was filed on 28th September, 2012.
Computation of interest, if any, is NOT required.

Question 10

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) Coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2012 are given below:

	Rs.
WDV of Car as on 1.4.2011	3,00,000
WDV of Machinery as on 31.3.2011 (15% rate)	15,00,000
Expenses incurred for growing Coffee	3,10,000
Expenditure for curing Coffee	3,00,000
Sale value of cured Coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are Rs. 50,000. The machines were used in coffee curing business operations.

Compute the Income arising from the above activities for the assessment year 2012-13. Show the WDV of the assets as on 31.03.2012.

Question 11

Mr. Raj Kumar sold a house to his friend Mr. Dhuruv on 1st November, 2011 for a consideration of Rs. 25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty had to be paid of Rs. 45,00,000, which was the Government guideline value. Mr. Raj Kumar preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as Rs. 32,00,000 (Rs. 22,00,000 for land, balance for building portion).The differential stamp duty was paid, accepting the said value determined. Assuming that the fair market value is Rs. 32,00,000, what are the tax implications in the hands of Mr. Raj Kumar and Mr. Dhuruv for the assessment year 2012-13? Mr. Raj Kumar had purchased the land on 1st June, 2007 for Rs. 5,51,000 and completed the construction of house on 1st October, 2009 for Rs. 14,00,000.

Cost inflation indices may be taken as 551 for the financial year 2007-08, 632 for the financial year 2009-10 and 785 for the financial year 2011-12.

Question 12

From the following particulars of Income furnished by Mr. Anirudh pertaining to the year ended 31.3.2012, compute the total income for the assessment year 2012-13, if he is:
(i) Resident and ordinary resident;
(ii) Resident but not ordinarily resident;
(iii) Non-resident:

Particulars	Amount (Rs.)
(a) Profit on sale of shares in Indian Company received in Germany	15,000
(b) Dividend from a Japanese Company received in Japan	10,000
(c) Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d) Dividend from RP Ltd., an Indian Company	6,000
(e) Agricultural income from lands in Gujarat	25,000

Question 13
What are the conditions to be fulfilled by a Charitable Trust under section 12A for applicability of exemption provisions contained in sections 11 and 12?

Question 14
What are the particulars required to be furnished with the return of income, as per section139(6)?

Question 15
State the scope of total income in the case of an individual, whose residential status is 'non-resident' with reference to Section 5(2) of the Act.

Question 16
Mr. X a citizen of India received salary from the Government of India for the services rendered outside India. Is the salary income chargeable to tax?

Question 17
Mr. Anil earned Rs. 5,00,000 from sale of Coffee grown and cured (processed) by him. He claims the entire income as agricultural income, hence exempt from tax. Is he correct?

Question 18
What is the time limit for filing application seeking registration in the case of Charitable Trusts/Institutions under Section 12AA of the Act?

Question 19
In what status and tax rate Limited Liability Partnership (LLP) is taxed under the Act?

Question 20
Mr. Raman (aged 70 years), Karta of a Hindu Undivided Family (HUF) furnishes the following information for the Financial Year 2011-12:

i. Income from the business of Poultry farming Rs. 4,00,000.
ii. Income by way of winning from Horse race Rs. 30,000 (Horse race won on 28.2.2012)
iii. Net profit from the business of dealing in Equity shares Rs. 88,500. (Computed after deducting Securities Transaction Tax (STT) of Rs. 11,500).
iv. Brought forward business loss relating to discontinued automobile business Rs. 38,500 (relates to Assessment Year 2009-10).
v. Payment of Life Insurance Premium (on self) Rs. 22,500.
vi. Contribution to Pension Fund of LIC Rs. 17,500.
vii. Contribution made in the name of a member of HUF in Public Provident Fund Account Rs. 20,000.
viii. Interest income from Company deposits Rs. 15,100.
ix. Housing Loan principal repaid Rs. 30,000.
x. Interest on Housing loan Rs. 36,000 (actually paid Rs. 25,000).
xi. The HUF gave the right to receive furniture rent of Rs. 26,000 per annum by Mrs. Raman without transferring the ownership rights in her favour.

The HUF owns a residential property which has three identical residential units. Unit 1 and Unit 2 are self-occupied by the members of the HUF for residential purpose. Municipal tax paid @ Rs. 5,000 per annum for each residential unit.
Unit 3 is let out for a rent of Rs. 8,000 per month. The tenant paid the Municipal tax in respect of Unit 3 as per agreement.
The Assessee realised Rs. 1,20,000 on 16.4.2011 as per court order towards arrear rent for the period from 1.1.2009 to 31.12.2010.

Compute the Total Income and tax payable for the Assessment Year 2012-13.

Question 21

Mr. John commenced a proprietary business in the year 2002. His capital as on 1.4.2010 was Rs. 6,00,000.
On 10.4.2010 his wife gifted Rs. 2,00,000 which he invested in the business on the same date. Mr. John earned profit from his proprietary business as given below:

Previous year 2010-11	=	Profit Rs. 3,00,000
Previous year 2011-12	=	Profit Rs. 4,40,000

Compute the Income from business chargeable to tax in the hands of Mr. John for the Assessment Year 2012-13.
During the Financial Year 2011-12, he sold a vacant site which resulted in chargeable long-term capital gain of Rs. 5,00,000 (computed). The vacant site was sold on 20.12.2011.
Compute the total income and tax liability of Mr. John and the installments of advance tax payable for the Financial Year 2011-12.

Question 22

Mr. Prakash has the following Assets which are eligible for depreciation at 15% on Written Down Value (WDV) basis:

01.04.2008	WDV of plant 'X' and Plant 'Y'	Rs. 2,00,000
10.12.2011	Acquired a new plant 'Z' for	Rs. 2,00,000
22.01.2012	Sold Plant 'Y' for	Rs. 4,00,000
	Expenditure incurred in connection with transfer	Rs. 10,000

Compute eligible depreciation claim/chargeable capital gain, if any, for the AY 2012-13.

Question 23

State with reasons, whether tax deduction at source provisions are applicable to the following transactions and if so, the rate of tax deduction:

(i) An Insurance Company paid Rs. 45,000 as Insurance Commission to its agent Mr. Hari.
(ii) X & Co. (Firm) engaged in wholesale business assigned a contract for construction of its godown building to Mr. Ravi, a contractor. It paid Rs. 25,00,000 to Mr. Ravi as contract payment.
(iii) AB Ltd. allowed a discount of Rs. 50,000 to XY & Co. (a firm) on prompt payment of its dues towards supply of automobile parts.
(iv) Y & Co. engaged in real estate business conducted a lucky dip and gave Maruti car to a prize winner.

Note: Assume that all the facts given above relate to Financial Year 2011-12.

Question 24

Mr. Banerjee furnishes you the following details for the year ended 31.3.2012:

Income (loss) from house property	Rs.
House-I	36,000
House-2 – Self-occupied	(20,000)
House-3	60,000
Profits and gains from Business or Profession	
Textile business	2,00,000
Automobile business	(3,00,000)
Speculation business	2,00,000
Capital Gains	
Long-term capital gain from sale of shares (STT paid)	1,50,000

Long-term capital gain from sale of vacant site	2,00,000
Short-term capital loss from sale of building	1,00,000

(Note : Assume that the figures given above are computed and arrived at after considering eligible deductions)

Other sources:

Gift from a Friend (non-relative) on 5.6.2011	60,000
Gift from Maternal Uncle on 25.2.2012	1,00,000
Gift from Grandfather's Younger Brother on 10.2.2012	1,00,000

Compute the total income of Mr. Banerjee for the Assessment Year 2012-13.

Question 25

Briefly explain the term 'Manufacture' defined in Section 2 (29BA).

Answers

Answer 1

Computation of total income and tax liability of Siddhant for the A.Y. 2012-13

Particulars		Rs.	Rs.
Salary Income			
Salary including dearness allowance			3,35,000
Bonus			11,000
Value of perquisites:			
(i) Salary of servant		12,000	
(ii) Car (Assumed to be of less than 1.6ltrs. cc) (1800 x 12)		21,600	
(iii) Free gas, electricity and water		11,000	44,600
			3,90,600
Income from house property			
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (3,500 × 12)		42,000	
Less: Municipal taxes paid [See Note 2(i)]		4,300	
Net Annual Value (NAV)		37,700	
Less: Deductions under section 24			
(i) 30% of NAV	11,310		
(ii) Interest on loan from LIC @15% of 1,60,000 [See Note 2(ii)]	24,000	35,310	2,390
Income from speculative business			
Income from share speculation business		2,700	
Less: Loss from cotton speculation business		4,200	
Net Loss		1,500	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.			
Income from Other Sources			
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)		3,800	
Less: Exempt under section 10(32)		1,500	
		2,300	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section64(1)		5,700	
(iii) Gift received from four friends (taxable under section 56(2)(vii) as the aggregate amount received during the year exceeds Rs.50,000)		1,00,000	1,08,000
Gross Total Income			5,00,990
Less: Deduction under section 80C			
Contribution to Public Provident Fund		5,600	
Unit Linked Insurance Plan		4,000	9,600
Total Income			4,91,390

Particulars	Rs.
Tax on total income	31,139.00
Add: Education cess @ 2%	622.78
Add: Secondary and higher education cess @ 1%	311.39
	32,073.17
Tax liability (rounded off)	32,070.00

Notes:

(1) National Award for humanitarian work given by the Central Government is exempt under section 10(17A) of the Income-tax Act, 1961.

(2) The following assumptions have been made while computing income under the head "Income from house property" -
   (i) It is the owner, namely, Mr. Siddhanth, who has paid the municipal taxes;
   (ii) The entire loan of Rs.1,60,000 is outstanding as on 31.3.2012; and
   (iii) Society charges of Rs.1,900 p.a. is not included in the rent of Rs.3,500 p.m. payable by the tenant. Such charges have been recovered separately from the tenant.

(3) It has been assumed that Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi. Therefore, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section80GG is that the assessee should not own any residential accommodation in the same place.

Answer 2

Computation of income of Pankaj chargeable under the head "Income from other sources" for the A.Y. 2012-13

	Particulars	Rs.	Rs.
1.	Directors' fees		10,000
2.	Interest on bank deposit		3,000
3.	Income from undisclosed source		12,000
4.	Royalty on books written (See Note below)	9,000	
	Less: expenses	1,000	8,000
5.	Lectures in seminars		5,000
6.	Interest on loan given to a relative		7,000
7.	Interest on listed debentures		
	Net received	3,600	
	Add: T.D.S. @ 10% [3,600 x 10 / 110]	400	4,000
8.	Interest on Post Office Savings Bank [exempt under section 10(15)]		---
9.	Interest on Government securities		2,200
10.	Interest on Post Office Monthly Income Scheme		33,000
11.	Winnings from lotteries		
	Net	33,936	
	Add: T.D.S. @ 30% [33,936 x 30 / 130]	14,544	48,480
	Income from Other Sources		1,32,680

Note –

Royalty income would be charged to tax under the head "Income from Other Sources", only if it is not chargeable to tax under the head "Profits and gains of business or profession". This problem has been solved assuming that the same is not taxable under the head "Profits and gains of business or profession" and hence, is chargeable to tax under the head "Income from other sources".

Answer 3

Computation of income from house property of Shri Raman for A.Y. 2012-13

Particulars	Rs.	Rs.
Gross Annual Value (See Note 1 below)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	

(ii) Interest on housing loan (See Note 2 below)		
– Interest on loan taken from bank	25,000	
– Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		96,000
50% share taxable in the hands of Shri Raman (See Note 3 below)		48,000

Notes:

1. Computation of Gross Annual Value (GAV)
   GAV is the higher of Annual Letting Value (ALV) and actual rent received. ALV is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	Rs.	Rs.	Rs.	Rs.
(a) Municipal value of property	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		
(e) Annual Letting Value [lower of (c) and (d)]			1,60,000	
(f) Actual rent [15,000 x 12]			1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]				1,80,000

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.

3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. In this case, the problem has been solved assuming that Mr. Raman, who is a co-owner of the house property, has 50% share in the house property.

Answer 4

Computation of net taxable capital gains of Smt. Megha for the A.Y.2012-13

Particulars	Rs.
Full value of consideration	15,00,000
Less: Expenses on transfer	Nil
Net sale consideration	15,00,000
Less: Indexed cost of acquisition (See Working note below)	7,85,000
Long term capital gain (since the period of holding is more than 3 years)	7,15,000
Less: Exemption under section 54 (See Note 1 below)	4,00,000
Taxable long term capital gain	3,15,000

Working Note:

Indexed cost of acquisition	
Purchase price	4,50,000
Less: Amount forfeited (See Note 2 below)	61,000
Cost of acquisition	3,89,000
Indexed cost of acquisition (Rs. 3,89,000 x 785 / 389)	7,85,000

785 is the cost inflation index for F.Y. 2011-12 and 389 is the cost inflation index for F.Y.1999-00.

Notes:

(1) Exemption under section 54 is available if a new residential house is purchased within two years from the date of transfer of existing residential house, which is a long-term capital asset. Since

the cost of new residential house is less than the long-term capital gains, capital gains to the extent of cost of new house, i.e., Rs.4lakh, is exempt under section 54.

(2) As per section 51, any advance received and retained by the assessee, as a result of earlier negotiations for sale of the asset, shall be deducted from the purchase price for computing the cost of acquisition of the asset.

Answer 5

Computation of total income of Mr. Rajat for the A.Y. 2012-13

	Particulars	Rs.	Rs.
1.	Income from house property		
	House No.1	72,000	
	House No.2	(30,000)	42,000
2.	Profits and gains of business or profession		
	Profit from leather business	1,00,000	
	Less: Current year loss of textile business	(40,000)	
		60,000	
	Bad debts recovered taxable under section 41(4)	35,000	
		95,000	
	Less: Brought forward business loss of textile business for A.Y.2008-09 set off against the business income of current year	95,000	Nil
3.	Capital Gains		
	Short-term capital gain		60,000
	Gross Total Income		1,02,000
	Less: Deduction under chapter VI-A – U/s 80C – LIC premium paid		10,000
	Total Income		92,000

Statement of losses to be carried forward to A.Y. 2013-14

Particulars	Rs.
Business loss of A.Y. 2010-11 to be carried forward under section 72	50,000
Long term capital loss of A.Y. 2012-13 to be carried forward under section 74	35,000

Notes:

(1) Share of profit from firm of Rs.16,550 is exempt under section 10(2A).

(2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Answer 6

Reference to Valuation Officer With a view to ascertaining the fair market value of a capital asset, the Assessing Officer may refer valuation of the capital asset to the Valuation Officer, in the following cases:

(1) Where the value of the asset, as claimed by the assessee, is in accordance with the estimate made by the registered valuer but the Assessing Officer is of the opinion that the value so claimed is less than its fair market value;

(2) Where the Assessing Officer is of the opinion that the fair market value of the asset exceeds the value of the asset as claimed by the assessee by more than 15% of the value of the asset as so claimed or by more than Rs.25,000.

(3) Where the Assessing Officer is of opinion that, having regard to the nature of the asset and relevant circumstances, it is necessary to make a reference to the Valuation Officer.

Answer 7

Reverse Mortgage Scheme and its tax implications

(i) The Reverse Mortgage scheme is for the benefit of senior citizens, who own a residential house property. In order to supplement their existing income, they can mortgage their house property with a scheduled bank or housing finance company, in return for a lump-sum amount or for a regular monthly/quarterly/annual income. The senior citizens can continue to live in the house and receive regular income, without the botheration of having to pay back the loan.

(ii) The borrower can use the loan amount for renovation and extension of residential property, family's medical and emergency expenditure etc., amongst others. However, he cannot use the amount for speculative or trading purposes.

(iii) Clause (xvi) of section 47 clarifies that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government would not amount to a transfer for the purpose of capital gains.

(iv) Clause (43) of section 10 provides that any amount received by an individual as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax.

Answer 8

Carry forward and set off of losses in cases of change in constitution of firm or on succession [Section 78]

(i) Where there is a change in the constitution of firm, so much of the loss proportionate to the share of a retired or deceased partner remaining unabsorbed, shall not be allowed to be carried forward by the firm.

(ii) Where any person carrying on any business or profession has been succeeded in such capacity by another person otherwise than by inheritance, such other person shall not be allowed to carry forward and set off against his income, any loss incurred by the predecessor.

(iii) Where there is a succession by inheritance, the legal heirs (assessable as BOI) are entitled to set off the business loss of the predecessor. Such carry forward and set off is possible even if the legal heirs constitute themselves as partnership firm. In such a case, the firm can carry forward and set off the business loss of the predecessor.

Answer 9

Computation of total income of Dinesh Karthik for A.Y.2012-13

Particulars	Detail	Amount	Amount
Income from House Property			
Receipt of Arrear Rent		75,000	
Less: Standard Deduction u/s 24(a) [being 30% of above]		22,500	52,500
Profit & Gains of Business or Profession			
Net profit as per Profit & Loss A/c from Prop. Business		4,32,000	
Add: Expenses disallowed but debited to Profit & Loss A/c			
Advance Tax	70,000		
Depreciation as per Profit and Loss A/c [Rs.3,00,000 + Rs.1,25,000]	4,25,000		
Unpaid Bonus (assumed not paid till 30/09/12)	33,000		
Personal Expenses relating to Car	10,000	5,38,000	
		9,70,000	
Less: Expenses allowable under the head but not debited to Profit & Loss A/c			
Depreciation as per the Act	2,74,750		
Less: Income not taxable under the head but credited to Profit & Loss A/c			

Interest on Bank FD	45,000		
Pension from LIC Jeevandhara	24,000		
Agricultural Income	60,000	4,03,750	
Income from Proprietorship Business		5,66,250	
Add: Interest on Capital from Badrinath & Co. [Rs.3,00,000/15%*12%][Note 2]		2,40,000	
Add: Salary from Badrinath & Co. [Note 2]		90,000	8,96,250
Income from Other Sources			
Interest on Bank FD [Rs.45,000 + Rs.5,000 (TDS)]		50,000	
Pension from LIC Jeevandhara		24,000	
Withdrawal from Post Office Time Deposit		55,000	
Interest on Post Office Time Deposit		5,000	1,34,000
			10,82,750
Less: Deduction u/s 80C			
LIC (Maximum upto 20% of sum assured)	40,000		
Contribution to Pension Fund of National Housing Bank	70,000	1,10,000	
Subject to maximum of		1,00,000	
Less: Deduction u/s 80D			
Medical Insurance Premium for father, a senior citizen [Maximum Limit]		20,000	1,20,000
Total Income (Rounded off u/s 288A)			9,62,750

Notes:

1. Computation of Depreciation as per Income-tax Act

Particulars	Details	Amount
Block 1: Plant and Machinery @ 15%		
W.D.V. as on 1/4/2011	6,50,000	
Add: Purchase during the year		
– On 12/04/2011	1,25,000	
– On 23/09/2011	2,00,000	
– On 12/11/2011	3,00,000	
	12,75,000	
Less: Sale during the year	-	
	12,75,000	
Depreciation @ 15% [Rs.3,00,000 * 15% * ½ + Rs.9,75,000 * 15%]		1,68,750
Additional depreciation @ 20% [Rs.2,00,000 * 20% + Rs.3,00,000 * 10%]		70,000
		2,38,750
(No additional depreciation is available on second-hand machinery)		
Block 2: Car @ 15%		
W.D.V. as on 1/4/2011	3,00,000	
Add : Purchase during the year	-	
	3,00,000	
Less: Sale during the year	-	
	3,00,000	
Depreciation @ 15% [Rs.3,00,000 * 15%]*4/5		36,000
Depreciation allowed u/s 32		2,74,750

2. Interest and remuneration to partner shall be taxable in the hands of partner, to the extent it is

exempted in the hands of firm. Interest @ 12% is exempted in hands of firm. Further, it is assumed that salary to Mr. Karthik is an allowable expenditure in hands of Badrinath & Co.

Computation of tax liability of Mr. Dinesh Karthik for A.Y. 2012-13

Particulars	Amount
Tax on Rs.10,22,750 (i.e. agro income Rs.60,000 + non-agro income Rs.9,62,750)	1,58,825.00
Less: Tax on Rs.2,40,000 (i.e. agro income Rs.60,000 + Rs.1,80,000)	6,000.00
Tax liability	1,52,825.00
Add: Education cess & SHEC @ 3%	4,584.75
Tax and cess liability	1,57,409.75
Less: TDS	5,000.00
Advance tax payable	1,52,409.75
Less: Advance tax paid	70,000.00
Tax & cess payable	82,409.75
Tax & cess payable (R/o)	82,410.00

Levy of interest u/s 234A and 234B

Interest u/s 234A: Mr. Dinesh Karthik receives salary of Rs.90,000 from the firm, Badrinath & Co., which is given as 1% of the firm's sales. Therefore, the turnover of the firm is Rs. 90 lakhs, being 90,000/1%. Since the turnover of the firm exceeds Rs.40 lakhs, the firm is subject to tax audit. Since Mr. Dinesh Karthik is a working partner in a partnership firm whose accounts are subject to tax audit, his due date for filing of return would be 30th September, 2012. Since the return was filed before the due date, no interest is payable under section 234A.

Interest u/s 234B: Under this section interest is payable if at least 90% of the advance tax due has not been paid till 31st March of the previous year. In this case Mr. Dinesh is liable to pay advance tax of Rs.1,52,410 but he has paid only Rs.70,000, which is less than 90% of Rs.1,52,410. Therefore, he is liable to pay interest u/s 234B @ 1% on Rs.82,410 for 6 months i.e. April to September, 2012.

Answer 10

Computation of income of Mr. Tenzingh for A.Y. 2012-13

Particulars	Rs.	Rs.
Sale value of cured Coffee		22,00,000.00
Less:		
Expenses incurred for growing Coffee	3,10,000	
Expenditure for curing Coffee	3,00,000	
Expenses on running & maintaining car incurred in business [Rs.50,000 - Rs.10,000]	40,000	
Depreciation on Car [Note 1]	36,000	
Depreciation on machine	1,91,250	8,77,250.00
		13,22,750.00
Less: Agricultural Income [75% of above]		9,92,062.50
Profit and Gains of Business or Profession		3,30,687.50

Computation of Written Down Value as on 31.03.2012

Particulars	Car	Machine
WDV as on 31.3.2011	-	15,00,000
Less: Depreciation actually allowed for PY 2010-11 [1500000*15%]	-	2,25,000
W.D.V. as on 1/4/2011	3,00,000	12,75,000
Add: Purchase	-	-
	3,00,000	12,75,000
Less: Sale	-	-

WDV as on 31.03.2012	3,00,000	12,75,000
Less : Depreciation for the year ending on 31.03.2012		
(12,75,000*15%)		1,91,250
(3,00,000*15%*80%)	36,000	

Notes:

1. Depreciation on car is Rs. 45,000 but only 80% of this would be considered as a business expense.
2. As per amendment to section 43(6), where the income of the assessee is derived, partly from agriculture and partly from business and asset are used for both of said purposes then amount of depreciation shall be calculated as if entire income is derived from the business of the assessee under the head of Profit and Gains of Business or Profession and depreciation so computed shall be deemed to be the depreciation actually allowed.

Answer 11

Tax Treatment in hands of Mr. Dhuruv

No tax implications.

Tax Treatment in hands of Mr. Raj Kumar

Computation of Capital Gain for A.Y.2012-13

Particulars	Land	Building
Sale consideration	22,00,000	10,00,000
Less : Expenses on transfer	-	-
Net sale consideration	22,00,000	10,00,000
Less: Indexed cost of acquisition (5,51,000 * 785/551)	7,85,000	-
Less: Cost of acquisition	-	14,00,000
Less: Indexed cost of improvement	-	-
Less: Cost of improvement	-	-
Long term capital gain	14,15,000	-
Short term capital gain	-	(4,00,000)
Net Taxable long-term capital gains		10,15,000

Note: It is to be noted that in the given case land is a long term capital asset however building is a short term capital asset.

Answer 12

Computation of total income of Mr. Anirudh for the A.Y.2012-13

Particulars	ROR	RNOR	NR
Profit on sale of shares in Indian Company received in Germany	15,000	15,000	15,000
Dividend from a Japanese Company received in Japan	10,000	-	-
Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels (75,000 – 30%)	52,500	-	-
Dividend from RP Ltd., an Indian Company	-	-	-
Agricultural income from lands in Gujarat	-	-	-
Income liable to tax in India	77,500	15,000	15,000

Notes:

1. Dividend from an Indian company is exempt u/s 10(34)
2. Agricultural income from a land situated in India is exempt u/s 10(1).

Answer 13

Conditions for applicability of sections 11 and 12 [Section 12A]

The exemption provisions contained in sections 11 and 12 shall not apply in relation to the income of any trust or institution unless the following conditions are fulfilled -

(a) An application for registration of the trust or institution in the prescribed form and in the prescribed manner should be made to the Commissioner and the trust or institution should be registered under section 12AA.

(b) The requirement of filing an application for registration within one year of creation of the religious or charitable trust or institution has been removed. The application can be filed at any time now.

(c) Accordingly, in respect of applications made on or after 1st June, 2007, the provisions of sections 11 and 12 shall apply from the assessment year relevant to the financial year in which the application is made i.e. the exemption would be available only with effect from the assessment year relevant to the previous year in which the application is filed. It would not be available in respect of any earlier assessment year.

(d) Where the total income of the trust or institution, without giving effect to the provisions of sections 11 and 12, exceeds the maximum amount which is not chargeable to income- tax in any previous year, the accounts of the trust or institution must be audited by a Chartered Accountant and the report of such audit in the prescribed form duly signed and verified by such accountant setting forth such prescribed particulars, should be furnished along with the return of income.

Answer 14

Particulars to be furnished with the return of income [Section 139(6)]

As per section 139(6), the prescribed form of return of income, shall in certain prescribed cases, require the assessee to furnish the particulars of:

(i) income exempt from tax;

(ii) assets of the prescribed nature and value, belonging to the assessee,

(iii) details of bank account and credit card held by the assessee;

(iv) expenditure exceeding the prescribed limits incurred by the assessee under prescribed heads; and

(v) such other outgoings, as may be prescribed.

Answer 15

The scope of total income of a non-resident as per section 5(2) includes following incomes:

(i) any income which is received or is deemed to be received in India during the relevant previous year by or on behalf of such person; or

(ii) any income which accrues or arises or is deemed to accrue or arise to him in India during the relevant previous year.

Answer 16

As per Section 9(1)(iii), salaries payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India. Hence, salary received by Mr. X, a citizen of India, from the Government of India for services rendered outside India is chargeable to tax under the head 'Salaries'. But all allowances or perquisites paid outside India by the Government to Indian citizens for their rendering services outside India are exempt under section 10(7).

Answer 17

Mr. Anil is not correct in claiming the entire income as agricultural income. As per rule 7B, in the case of income derived from the sale of coffee grown and cured (processed) by the seller in India, 25% of such income is taxable as business income under the head 'Profits and gains from business or profession' and the balance (i.e. 75%) is exempt from tax. Hence, only Rs. 3,75,000 (75% of

Rs.5,00,000) being agricultural income is exempt from tax.

Answer 18

Section 12AA requires that the person in receipt of income should make an application for registration of the charitable trust or institution in the prescribed form and prescribed manner to the Commissioner of Income-tax.

If the application is made on or after 1st June, 2007 the provisions of section 11 and 12 shall apply in relation to income of such trust and institution from the assessment year immediately following the financial year in which such application is made. The application can therefore be filed at any time.

Answer 19

As per section 2(23), the term 'firm' shall also include a limited liability partnership (LLP) as defined in Limited Liability Partnership Act, 2008.

Therefore, LLP will be treated just like any other partnership firm for the purposes of Income-tax Act, 1961.

The rate of tax, in case of LLP, for A.Y. 2012-13 is 30% plus education cess @ 2% and secondary and higher education cess @ 1% on the whole of the total income of the firm. Hence, the effective rate is 30.9% for the assessment year 2012-13.

Answer 20

Computation of taxable income of HUF and tax payable for the assessment year 2012 – 13

						Rs.
1.	Income from House Property (See Note 1)					1,15,200
2.	Profit and gains of business or profession (See Note 2)					4,50,000
3.	Income from Other Sources (See Note 3)					71,100
	Gross Total Income					6,36,300
	Less: Deductions under Chapter VI A:					
	(i) Deduction u/s 80C					
	Contribution to PPF			20,000		
	Principal Repayment of housing loan			30,000	50,000	50,000
	Taxable income					5,86,300
	Components of Total Income					
	Special income:					
	Income from horse racing (chargeable at special rate @30% u/s 115BB)				30,000	
	Normal Income				5,56,300	
	Computation of Tax					
	Tax on Income from horse racing @ 30%					9,000
	Tax on normal income of		5,56,300			
	First		1,80,000	Nil	0	
	Next		3,20,000	10%	32,000	
	Balance		56,300	20%	11,260	43,260
						52,260.00
	Add: Education cess @ 2%					1,045.20
	Secondary and Higher Education cess @ 1%					522.60
	Total tax payable					53,827.80
	Total tax payable (R/o)					53,830.00

Note 1

Computation of Income from House Property

	Rs.	Rs.
Annual Value of Self occupied (Unit 1 & 2) (See Note 4)	Nil	

Less: Interest on housing loan (two –third)	24,000	-24,000
Gross Annual value (GAV) – Rent received (treated as fair rent)	96,000	
Less: Municipal taxes (paid by tenant) (See Note 7)	-	
Net annual value (NAV)	96,000	
Less: Statutory deduction u/s 24 @ 30% NAV	28,800	
Less: Interest on housing loan (One –third)	12,000	55,200
		31,200
Add: Arrears of rent realised taxable u/s 25B less 30% (See Note 8)		84,000
Income under the house property		1,15,200

Note 2

Computation of Profit and gains of business or profession

Income from Poultry business	4,00,000	
Net Profit from business of dealing in equity shares (See Note 5)	88,500	
	4,88,500	
Less: Loss from discontinued automobile business (See Note 6)	38,500	4,50,000

Note 3

Computation of Income from Other Sources

Interest on Company deposit	15,100	
Income from horse racing	30,000	
Rent of furniture (clubbed under section 60) (See Note 9)	26,000	71,100

Note 4

Unit 1 & Unit 2 are self-occupied by the members for their residential purposes. Annual value is to be taken as Nil.

Note 5

As per section 36(1)(xv) securities transaction tax paid by the assessee in respect of taxable securities is deductible, if the income from such taxable securities is included in the income computed under the head ‘Profits and gains of business and profession’.

Note 6

As per section 72 brought forward loss of discontinued automobile business can be set off against profits and gains of business or profession.

Note 7

Municipal Tax paid by tenant is not a deductible expense under section 23(4).

Note 8

Arrears of Rent received, as per court award not shown earlier, realised on 16.4.2011 for the period from 01.01.09 to 31.12.2010 shall be chargeable to tax under the head income from house property. As per section 25B, 30% of the amount of arrears shall be allowed as deduction. Hence, the taxable portion is Rs.1,20,000 less 30% which is Rs.84,000.

Note 9

The HUF confers the right to receive the rent of furniture of Rs. 26,000 to Mrs. Raman, a member of HUF without transferring the said furniture to her. Hence, the rental income of such furniture is to be clubbed in the hand of HUF under section 60.

Note 10
The deduction under section 80CCC in respect of contribution to Pension fund of LIC is permissible only to an individual assessee. Hence, the HUF is not entitled to claim the deduction under section 80CCC.

Note 11
The HUF is not entitled to claim the deduction of Rs. 22,500 under section 80C in respect of life insurance premium paid. The HUF can claim the deduction under section 80C in respect of life insurance premium paid on the life of any member of the family. Only an individual can make life insurance premium payment for self.

Answer 21

Computation of business income of Mr. John

	Rs.
Capital as on 01.04.2010	6,00,000
Add: Gift from wife (10.4.2010)	2,00,000
	8,00,000
Add: Profit for the year ended 31.3.2011	3,00,000
Capital as on 1.4.2011	11,00,000
Profit for the year ended 31.3.2012	4,40,000
Income proportionately assessable in the hands of Mr. John	
Rs. 4,40,000 x 9,00,000/11,00,000	3,60,000
Amount of income taxable in the hands of Mrs. John by virtue of clubbing provisions under section 64(1) - Rs.4,40,000 x2,00,000/11,00,000	80,000
Total Income of Mr. John:	
Income from Business	3,60,000
Long term capital gain	5,00,000
Total Income	8,60,000
Tax liability on normal income of Rs. 3,60,000	18,000
On LTCG @ 20% on Rs. 5,00,000	1,00,000
	1,18,000
Add : Education cess @ 2%	2,360
Secondary and Higher Education cess @ 1%	1,180
Tax Liability	1,21,540

Installments of Advance tax payable by Mr. John

Month	Busi. Income	LTCG	EC @ 2%	SHEC @ 1%		Total
15th Sept,11	5,400	-	108	54	=	5,562
15th Dec,11	5,400	-	108	54	=	5,562
15th Mar,12	7,200	1,00,000	2,144	1,072	=	1,10,416
	18,000	1,00,000	2,360	1,180	=	1,21,540

Answer 22

Computation of depreciation and capital gains of Mr. Prakash for the A.Y. 2012-13

		Rs.
Sale proceeds of Plant 'Y'		4,00,000
Less: Deduction under section 50(1) :		
Cost of new Plant 'Z' acquired during the previous year ending on 31.3.2012	2,00,000	
W.D.V. of Plant 'X' & Plant 'Y' as on 1.4.2011 (See note 2)	1,22,825	

Expenditure incurred in connection with transfer	10,000	3,32,825
Short term Capital Gains		67,175

Note 1
No Depreciation is allowable for the assessment year 2012-13

Note 2

W.D.V. of Plant 'X' & Plant 'Y' as on 1.4.2008	2,00,000
Less: Depreciation @ 15% for the assessment year 2009-10	30,000
W.D.V. of Plant 'X' & Plant 'Y' as on 1.4.2009	1,70,000
Less: Depreciation @ 15% for the assessment year 2010-11	25,500
.D.V. of Plant 'X' & Plant 'Y' as on 1.4.2010	1,44,500
Less: Depreciation @ 15% for the assessment year 2011-12	21,675
W.D.V. of Plant 'X' & Plant 'Y' as on 1.4.2011	1,22,825
Add: Cost of new Plant 'Z' acquired during the previous year ending on 31.3.2012	2,00,000
	3,22,825
Less: Sale consideration of Plant 'Y' Rs.4,00,000 (restricted to)	3,22,825
W.D.V. of Plant 'X' & 'Y' as on 1.4.2012	Nil

Answer 23

(i) As per section 194D, any person paying insurance commission payable in excess of Rs. 20,000 to any resident person is liable to deduct tax at the rate of 10% in case of all assesses. Therefore, the insurance company must deduct tax at source @ 10% in respect of the insurance commission paid to Mr. Hari.

(ii) Section 194C provides for deduction of tax at source from the payment made to resident contractors and sub-contractors. Therefore, tax is deductible at source under section 194C for the contract payments made for the construction of godown building. The rate of TDS under section 194C on payments made to contractors shall be @ 1%. Hence, X & Co. (firm) must deduct tax at source on the contract payments made to Mr. Ravi.

(iii) Discount allowed to a customer for prompt payment is not covered by any of the tax deduction at source provisions of the Income tax Act, 1961. Therefore, AB Ltd. need not deduct any tax at source since no payment was involved in allowing discount to its customer viz. XY & Co.

(iv) In respect of lucky dip conducted by Y & Co., the provisions of Section 194B would apply. As per Section 194B, winning from lottery or crossword puzzle or card game of any sort exceeding Rs. 10,000 payable by any person to any other person, subject to tax deduction at the rate of 30%. Since the value of prize i.e. Maruti car would exceed Rs. 10,000 tax is deductible at source @ 30%. As the winning is in kind, the winner must deposit 30% of the prize value to Y & Co. for remitting the same as tax. Only after such deduction / recovery, the Maruti car is to be delivered to the prize winner.

Answer 24

Computation of total income of Mr. Banerjee for the Assessment year 2012-13

	Rs.	Rs.
Income (loss) House property		
House -I	36,000	
House-2 –Self occupied	(20,000)	
House-3	60,000	
Income from House Property		76,000

<u>Profits and gains of business and profession</u>		
Textile business	2,00,000	
Automobile business	(3,00,000)	
Speculation business	2,00,000	
Income from business or profession representing speculation business profit (after set off of loss of automobile business)		1,00,000
<u>Capital Gains</u>		
Long term capital gain from sale of shares (STT paid) Rs. 1,50,000 – exempt u/s. 10(38)	Nil	
Long term capital gain from sale of vacant site	2,00,000	
Short term capital loss from sale of building	(1,00,000)	
Long term capital gain-after set off of short term loss against long term capital gain		1,00,00
<u>Income from Other Sources</u>		
Gift from a friend (non-relative) on 05.06.2011	60,000	
Gift from maternal uncle (on 25.02.2012) Rs. 1,00,000, not taxable since maternal uncle is covered by the definition of the term' relative' given in explanation to section 56(2)(vi)	Nil	
Gift from grandfather's younger brother on 1.02.2012. This amount is taxable as grandfather's younger brother is not covered by the definition of 'relative'.	1,00,000	1,60,000
Total income		4,36,000

<u>Answer 25</u>

Manufacture [Section 2(29BA)]

The Finance (No.2) Act, 2009 has inserted clause (29BA) to section 2 and defined the term 'manufacture'.

'Manufacture' with its grammatical variations, shall mean a change in a non-living physical object or article or thing-

(a) resulting in transformation of the object or article or thing into a new and distinct object or article or thing having a different name, character and use; or

(b) bringing into existence of a new and distinct object or article or thing with a different chemical composition or integral structure.