

PAPER – 7 : DIRECT TAX LAWS

PART I: NOTIFICATIONS & CIRCULARS

SIGNIFICANT NOTIFICATIONS AND CIRCULARS ISSUED BETWEEN 1ST JULY, 2012 TO 31ST OCTOBER, 2012

I. NOTIFICATIONS

1. Notification No. 36/2012 dated 30-8-2012

Advance Pricing Agreement Scheme for the purpose of section 92CC prescribed

Section 92CC has been inserted by the Finance Act, 2012 to empower the CBDT to enter into an advance pricing agreement with any person for determining the arm's length price or specifying the manner in which arm's length price is to be determined, in relation to an international transaction to be entered into by such person. However, the CBDT can do so only with the approval of the Central Government.

Section 92CC(9) empowers the CBDT to prescribe a scheme, specifying the manner, form, procedure and any other matter generally in respect of the advance pricing agreement.

Accordingly, in exercise of the powers conferred in section 92CC(9) read with section 295 of the Income-tax Act, 1961, the CBDT has prescribed rules specifying an Advance Pricing Agreement (APA) Scheme. Some of the important provisions of the scheme are briefed hereunder -

(1) Persons eligible to apply

Any person who has undertaken an international transaction or is contemplating to undertake an international transaction, shall be eligible to enter into an agreement under these rules.

(2) Pre-filing Consultation

- (a) Every person proposing to enter into an agreement under these rules shall, by an application in writing, make a request for a pre-filing consultation in the prescribed form to the Director General of Income-tax (International Taxation).
- (b) The pre-filing consultation shall, among other things,-
 - (i) determine the scope of the agreement;
 - (ii) identify transfer pricing issues;
 - (iii) determine the suitability of international transaction for the agreement;

- (iv) discuss broad terms of the agreement.
- (c) The pre-filing consultation shall -
 - (i) not bind the Board or the person to enter into an agreement or initiate the agreement process;
 - (ii) not be deemed to mean that the person has applied for entering into an agreement.

(3) Application for advance pricing agreement

- (a) Any person, who has entered into a pre-filing consultation may, if desires to enter into an agreement shall furnish an application in the prescribed form along with proof of payment of requisite fee as specified, to the Director General of Income-tax (International Taxation) in case of unilateral agreement and to the competent authority in India in case of bilateral or multilateral agreement.
- (b) The application may be filed at any time -
 - (i) before the first day of the previous year relevant to the first assessment year for which the application is made, in respect of transactions which are of a continuing nature from dealings that are already occurring; or
 - (ii) before undertaking the transaction in respect of remaining transactions.

Note - The applicant may withdraw the application for agreement at any time before the finalisation of the terms of the agreement.

- (4) The agreement shall be entered into by the Board with the applicant after its approval by the Central Government.

(5) Terms of the agreement

- (a) An agreement may among other things, include -
 - (i) the international transactions covered by the agreement;
 - (ii) the agreed transfer pricing methodology, if any;
 - (iii) determination of arm's length price, if any;
 - (iv) definition of any relevant term to be used in item (ii) or (iii);
 - (v) critical assumptions i.e. the factors and assumptions that are so critical and significant that neither party entering into an agreement will continue to be bound by the agreement, if any of the factors or assumptions is changed ;
 - (vi) the conditions, if any, other than provided in the Act or these rules.

- (b) The agreement shall not be binding on the Board or the assessee if there is a change in any of critical assumptions or failure to meet conditions subject to which the agreement has been entered into.
- (c) The binding effect of agreement shall cease only if any party has given due notice of the concerned other party or parties.
- (d) In case there is a change in any of the critical assumptions or failure to meet the conditions subject to which the agreement has been entered into, the agreement can be revised or cancelled, as the case may be.

(6) Furnishing of Annual Compliance Report

The assessee shall furnish an annual compliance report in quadruplicate in the prescribed form to Director General of Income-tax (International Taxation) for each year covered in the agreement, within 30 days of the due date of filing income-tax return for that year, or within 90 days of entering into an agreement, whichever is later.

(7) Compliance Audit of the agreement

- (a) The Transfer Pricing Officer having the jurisdiction over the assessee shall carry out the compliance audit of the agreement for each of the year covered in the agreement. For this purpose, the Transfer Pricing Officer may require -
 - (i) the assessee to substantiate compliance with the terms of the agreement, including satisfaction of the critical assumptions, correctness of the supporting data or information and consistency of the application of the transfer pricing method;
 - (ii) the assessee to submit any information, or document, to establish that the terms of the agreement has been complied with.
- (b) The compliance audit report shall be furnished by the Transfer Pricing Officer within six months from the end of the month in which the Annual Compliance Report is received by the Transfer Pricing Officer.

(8) Revision of an agreement

- (a) An agreement, after being entered, may be revised by the Board either *suo moto* or on request of the assessee or the competent authority in India or the Director General of Income-tax (International Taxation), if -
 - (i) there is a change in critical assumptions or failure to meet a condition subject to which the agreement has been entered into;
 - (ii) there is a change in law that modifies any matter covered by the agreement but is not of the nature which renders the agreement to be non-binding ; or

- (iii) there is a request from competent authority in the other country requesting revision of agreement, in case of bilateral or multilateral agreement.
- (b) Except when the agreement is proposed to be revised on the request of the assessee, the agreement shall not be revised unless an opportunity of being heard has been provided to the assessee and the assessee is in agreement with the proposed revision.
- (c) The revised agreement shall include the date till which the original agreement is to apply and the date from which the revised agreement is to apply.

(9) Cancellation of an agreement

- (a) An agreement shall be cancelled by the Board for any of the following reasons:
 - (i) the compliance audit has resulted in the finding of failure on the part of the assessee to comply with the terms of the agreement;
 - (ii) the assessee has failed to file the annual compliance report in time;
 - (iii) the annual compliance report furnished by the assessee contains material errors; or
 - (iv) the assessee is not in agreement with the revision proposed in the agreement.
 - (b) The Board shall give an opportunity of being heard to the assessee, before proceeding to cancel an application.
 - (c) The order of cancellation of the agreement shall be in writing and shall provide reasons for cancellation and for non-acceptance of assessee's submission, if any.
 - (d) The order of cancellation shall also specify the effective date of cancellation of the agreement, where applicable.
 - (e) The order under the Act, declaring the agreement as *void ab initio*, on account of fraud or misrepresentation of facts, shall be in writing and shall provide reason for such declaration and for non-acceptance of assessee's submission, if any.
- (10)** Mere filing of a application for an agreement under these rules shall not prevent the operation of Chapter X of the Act for determination of arms' length price under that Chapter till the agreement is entered into.
- (11)** The negotiation between the competent authority in India and the competent authority in the other country or countries, in case of bilateral or multilateral agreement, shall be carried out in accordance with the provisions of the tax treaty between India and the other country or countries".

2. Notification No. 38/2012 dated 17.09.2012**Notification of Cost Inflation Index for F.Y.2012-13**

Clause (v) of *Explanation* to section 48 defines "Cost Inflation Index", in relation to a previous year, to mean such Index as the Central Government may, by notification in the Official Gazette, specify in this behalf, having regard to 75% of average rise in the Consumer Price Index for urban non-manual employees.

Accordingly, the Central Government has, in exercise of the powers conferred by clause (v) of *Explanation* to section 48, specified the Cost Inflation Index for the financial year 2012-13 as 852.

S. No.	Financial Year	Cost Inflation Index
1.	1981-82	100
2.	1982-83	109
3.	1983-84	116
4.	1984-85	125
5.	1985-86	133
6.	1986-87	140
7.	1987-88	150
8.	1988-89	161
9.	1989-90	172
10.	1990-91	182
11.	1991-92	199
12.	1992-93	223
13.	1993-94	244
14.	1994-95	259
15.	1995-96	281
16.	1996-97	305
17.	1997-98	331
18.	1998-99	351
19.	1999-2000	389
20.	2000-01	406
21.	2001-02	426
22.	2002-03	447
23.	2003-04	463
24.	2004-05	480

25.	2005-06	497
26.	2006-07	519
27.	2007-08	551
28.	2008-09	582
29.	2009-10	632
30.	2010-11	711
31.	2011-12	785
32.	2012-13	852

3. Notification No. 39/2012 dated 17.09.2012

Tax Residence Certificate – Form & Contents prescribed

Sections 90 and 90A have been amended by the Finance Act, 2012 to insert sub-section (4) in both sections providing that the non-resident to whom the agreement referred to in section 90(1) and section 90A(1) applies, shall be allowed to claim the relief under such agreement if a Tax Residence Certificate (TRC) obtained by him from the Government of that country or specified territory is furnished, containing such particulars as may be prescribed, declaring his residence of the country outside India or the specified territory outside India, as the case may be.

Accordingly, the Central Board of Direct Taxes has, through this notification, inserted new Rule 21AB which shall come into force on 1.4.2013. The said Rule provides that the Certificate for claiming relief by a non-resident under an agreement referred to in sections 90 and 90A should contain the following particulars:

- (i) Name of the assessee;
- (ii) Status (individual, company, firm etc.) of the assessee;
- (iii) Nationality (in case of individual);
- (iv) Country or specified territory of incorporation or registration (in case of others);
- (v) Assessee's tax identification number in the country or specified territory of residence or in case there is no such number, then, a unique number on the basis of which the person is identified by the Government of the country or the specified territory;
- (vi) Residential status for the purposes of tax;
- (vii) Period for which the certificate is applicable; and
- (viii) Address of the applicant for the period for which the certificate is applicable;

Such certificate should be duly verified by the Government of the country or the specified territory of which the person claims to be a resident for the purposes of tax.

In addition, the CBDT has also prescribed the form for an assessee, who is a resident in India, to make an application to the Assessing Officer for obtaining a certificate of residence for the purposes of an agreement referred to in section 90 and 90A. It has also prescribed the form in which the Assessing Officer, on receipt of such an application by the assessee and on being satisfied in this regard, shall issue a certificate of residence to such an assessee.

4. Notification No. 40/2012 dated 20.09.2012

Investment in debt instruments issued by any infrastructure Finance Company registered with the Reserve Bank of India is an approved investment under section 11(5)

Section 11(5) provides the permitted modes of investment by a charitable trust or institution for claiming exemption under section 11. Clause (xii) of section 11(5) specifies that investment can be made by any other mode as may be prescribed. Rule 17C of the Income-tax Rules, 1962 specifies such other modes of investment.

In exercise of the powers conferred by section 295 and section 11(5)(xii), the Central Government has, through this notification, inserted a new clause (viii) in Rule 17C of the Income-tax Rules, 1962 to provide that investment in debt instruments issued by any infrastructure finance company registered with the Reserve Bank of India is also a permitted mode of investment under section 11(5).

5. Notification No. 42/2012 dated 4.10.2012

Notification of class of cases, where compulsory issue of notice for assessing or reassessing the total income of immediately preceding six assessment years is not required

The Finance Act, 2012 has amended sections 153A and 153C w.e.f. 1-07-2012 to provide that the Central Government may notify the class or classes of cases (except the cases where any assessment or reassessment has abated) in which the Assessing Officer shall not be required to issue notice for initiation of assessment or reassessment of the total income for six assessment years immediately preceding the assessment year relevant to the previous year in which search was conducted or requisition was made.

As a result of the amendment in section 153A and section 153C, the assessment proceedings in the class or classes of cases so notified shall be carried out only for the assessment year relevant to the previous year in which search was conducted or requisition was made, except in cases where any assessment or reassessment in respect of any of the earlier six years has abated.

Accordingly, in exercise of the powers conferred by section 153A and 153C, the Central Government has, through this notification, inserted a new Rule 112F which shall come into force from the 1st July, 2012.

The said Rule provides that the Assessing Officer is not required to issue notice for assessing or reassessing the total income for six assessment years immediately preceding the assessment year relevant to the previous year in which search is conducted or requisition is made, in the following cases:

- (i) where as a result of a search under section 132(1) or a requisition made under section 132A, a person is found to be in possession of any money, bullion, jewellery or other valuable articles or things, whether or not he is the actual owner of the same, **and**
- (ii) where, such search is conducted or such requisition is made in the territorial area of an assembly or parliamentary constituency in respect of which a notification has been issued under section 30 read with section 56 of the Representation of the People Act, 1951, or where the assets so seized or requisitioned are connected in any manner to the ongoing election in an assembly or parliamentary constituency.

However, this Rule is not applicable to cases where such search under section 132 or such requisition under section 132A has taken place after the hours of poll so notified.

II. CIRCULARS

1. Circular No. 5/2012 dated 1-8-2012

Inadmissibility of expenses incurred in providing freebees to medical practitioner by pharmaceutical and allied health sector industry

Section 37(1) provides for deduction of any revenue expenditure (other than those falling under sections 30 to 36) from the business income if such expense is laid out or expended wholly or exclusively for the purpose of business or profession. However, the *Explanation* below section 37(1) denies claim of any such expenses, if the same has been incurred for a purpose which is either an offence or prohibited by law.

The Central Board of Direct Taxes, considering the fact that the claim of any expense incurred in providing freebees to medical practitioner is in violation of the provisions of Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002, has clarified that the expenditure so incurred shall be inadmissible under section 37(1) of the Income-tax Act, 1961, being an expense prohibited by the law. The disallowance shall be made in the hands of such pharmaceutical or allied health sector industry or other assessee which has provided aforesaid freebees and claimed it as a deductible expense in its accounts against income.

This circular has also clarified that a sum equivalent to value of freebees enjoyed by the aforesaid medical practitioner or professional associations is also taxable as business income or income from other sources, as the case may be, depending on the facts of each case.

2. Circular No. 07/2012 dated 21.09.2012

Approval of loan agreements/long term infrastructure bonds and rate of interest for the purpose of section 194LC

The Finance Act, 2012 had inserted section 194LC in the Income-tax Act, 1961 to provide for lower rate of tax deduction at source @ 5% on gross interest payments made by an Indian company to a non-corporate non-resident or to a foreign company on borrowings made in foreign currency, subject to approval of the Central Government, by way of loan agreement or through long-term infrastructure bonds issued during the period from 01.07.2012 to 30.06.2015. The section further provides that interest to the extent the same does not exceed the interest calculated at the rate approved by the Central Government, taking into consideration the terms of the loan or the bond and its repayment, will be subject to tax at a concessional rate of 5%.

Therefore, the approval of the Central Government is required in respect of both the loan agreement or bond issue and the rate of interest to be paid on such borrowings.

With a view to mitigate the compliance burden on the borrower by providing a mechanism involving approval in each and every case, the CBDT, through this circular, conveys the approval of the Central Government, for the purposes of section 194LC in respect of loan agreements and issue of long-term infrastructure bonds by Indian Companies subject to satisfaction of following conditions:

(a) In respect of agreements for loan

1. The borrowing of money should be under a loan agreement.
2. The monies borrowed under the loan agreement by the Indian company should comply with section 6(3)(d) of the Foreign Exchange Management Act, 1999 read with *Notification No. FEMA3/2000-RB* viz. Foreign Exchange Management (Borrowing or Lending in Foreign exchange) Regulations 2000, dated May 3, 2000, as amended from time to time, (hereafter referred to as "ECB regulations"), either under the automatic route or under the approval route.
3. The borrowing company should have obtained a Loan Registration Number (LRN) issued by the Reserve Bank of India (RBI) in respect of the Agreement.
4. No part of the borrowing has taken place under the said agreement

before 1st July, 2012.

5. The agreement should not be restructuring of an existing agreement for borrowing in foreign currency solely for taking benefit of reduced rate of tax deduction at source.
6. The end use of the funds and other conditions as laid out by the RBI under ECB regulations should be followed during the entire term of the loan agreement under which the borrowing has been made.

(b) In respect of issue of Bonds

1. The bond issued by the Indian company should be authorized under ECB regulations either under the automatic route or under the approval route.
2. The bond issue should have a loan Registration Number issued by the RBI.
3. The term “long term” means that the bond to be issued should have original maturity term of three years or more.
4. The bond issue proceeds should be utilized in the “infrastructure sector” only.
5. The term “infrastructure sector” shall have same meaning as is assigned to it by RBI under the ECB regulations.

(c) Rate of interest

Further, the Central Government has also approved the interest rate for the purpose of section 194LC as any rate of interest which is within the All-in-cost ceilings specified by the RBI under ECB regulations as is applicable to the borrowing by loan agreement or through a bond issue, as the case may be, having regard to the tenure thereof.

In view of the above, any loan agreement or bond issue, which satisfies the above conditions would be treated as approved by the Central Government for the purposes of section 194LC.

The circular has further clarified that in case of other long term infrastructure bonds where the Indian company received subscription of such bonds in foreign currency and such bond issue is not covered under ECB regulations, the approval for the purpose of section 194LC shall be on case-to-case basis for which application has to be given in writing to Member (IT), CBDT with the relevant details of the purpose, period and rate of interest.

3. Circular No. 9/2012 dated 17.10.2012

Deduction of tax at source on payment of gas transportation charges by the purchaser of natural gas to the seller of gas

In response to the representations received by CBDT, on the difficulties being faced in the matter of tax deduction at source on Gas Transportation Charges paid by the

purchasers of Natural gas to the owners/sellers of gas, CBDT has, through this Circular, clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in Section 194C. Therefore, in such circumstances, the provisions of Chapter XVIIIB are not applicable on the component of Gas Transportation Charges paid by the purchaser to the Owner/Seller of the gas. Further, the use of different modes of transportation of gas by Owner/Seller will not alter the position.

However, transportation charges paid to a third party transporter of gas, either by the Owner/Seller of the gas or purchaser of the gas or any other person, shall continue to be governed by the appropriate provisions of the Act and tax shall be deductible at source on such payment to the third party at the applicable rates.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Basic Concepts

1. ABC (P) Ltd. has credited a sum of ₹ 11 lakh in its books in March 2013 as share application money received from its resident shareholders Mr. Abhinav, Mr. Bansal and Mr. Chauhan. These shareholders claimed that they had made such investment out of their winnings from lotteries and horse races in the month of December 2012. The Assessing Officer found that there was no such credit entry in the shareholders' bank accounts in December 2012 or thereafter. Further, no tax was proved to have been deducted at source from such winnings. Discuss the tax treatment of such sum in the hands of ABC (P) Ltd.

What would be your answer if the books of account of the company showed an amount of ₹ 15 lakh towards share application money received from a Venture Capital Fund registered with SEBI?

Incomes which do not form part of total income

2. (i) XYZ Inc., a foreign company having a branch in India, has received payment of ₹ 12 lakh in India from sale of crude oil to ABC Ltd., an Indian company, during the P.Y.2012-13. Explain the conditions to be fulfilled by XYZ Inc. to claim income-tax exemption in respect of such receipt.
- (ii) "Relief Centre Charitable trust" has its main object as "advancement of object of general public utility". Its trading receipts during the P.Y.2012-13 is ₹ 29 lakh. The trust contended that it was entitled to the benefit of exemption under section 11 for the P.Y. 2012-13, since it is registered under section 12AA and the registration is

not cancelled. Discuss the correctness of contention of the charitable trust.

Profits and gains of business or profession

3. Gamma limited is a company engaged in the business of manufacture of agricultural implements. The net profit of the company for the financial year ended 31.03.2013 is ₹ 22,36,370 after debiting the following items:

S.No.	Particulars	₹
1.	Expenditure incurred on notified agricultural extension project	3,25,000
2.	Expenditure on notified skill development project:	
	(i) Purchase of land	3,00,000
	(ii) Expenditure on training for skill development	2,15,000
3.	Expenditure incurred on advertisement in the souvenir published by a political party	1,25,000
4.	Purchase price of raw material used for the purpose of in-house research and development	2,25,000
5.	Purchase price of asset used for in-house research and development wrongly debited to profit and loss account:	
	(i) Land	8,00,000
	(ii) Building	6,00,000

Compute the income under the head “Profits and gains of business or profession” for the A.Y. 2013-14 of Gamma Ltd.

4. Mr. Vallish commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2012. He incurred capital expenditure of ₹ 120 lakh, ₹ 100 lakh and ₹ 80 lakh, respectively, on purchase of land and building during the period January, 2012 to March, 2012 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2012. The cost of land included in the above figures are ₹ 80 lakh, ₹ 70 lakh and ₹ 55 lakh, respectively. Further, during the P.Y.2012-13, it incurred capital expenditure of ₹ 25 lakh, ₹ 20 lakh & ₹ 15 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head “Profits and gains of business or profession” for the A.Y.2013-14 and the loss to be carried forward, assuming that Mr. Vallish has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C. – Deductions in respect of certain incomes”. The profits from the business of setting up a warehousing facility for food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2013-14 is ₹ 23 lakhs, ₹ 21 lakhs and ₹ 35 lakhs, respectively.

Capital Gains

5. Mr. Raghuvir sold his residential property on 13th March, 2013 for ₹ 125 lakh and paid brokerage@2% of sale price. He had purchased the said property in February 2001 for ₹ 35,76,000. In August, 2013, he invested ₹ 87 lakh in equity of Xansa (P) Ltd., a newly incorporated SME manufacturing company, which constituted 58% of share capital of the said company. Xansa (P) Ltd. utilized the said sum for the following purposes –
- (a) Purchase of new plant and machinery during September 2013 – ₹ 72 lakh
 - (b) Included in (a) above are ₹ 8 lakh for purchase of laptops and ₹ 7 lakh for purchase of vans.
 - (c) Air-conditioners purchased for ₹ 2 lakh, included in the (a) above, were installed at the guest house.
 - (d) Amount deposited in specified institution on 26.9.2013 – ₹ 15 lakh

Compute the chargeable capital gain for the A.Y.2013-14. Mr. Raghuvir is required to file his return of income on or before 30th September, 2013 and he files his return on that date.

Cost Inflation Index for F.Y. 2012-13 is 852 and F.Y. 2001-02 is 406.

6. On 1.2.2013, Mrs. A transferred gold jewellery inherited by her from her mother in full settlement of personal loan (with interest) taken by Mr. A from Mr. B. Mrs. A claimed the loan amount was much higher than the value of gold jewellery and that Mr. B has accepted the gold jewellery in full settlement considering her weak financial status after the death of Mr. A. She further contended that in this case, the sale consideration was not ascertainable and hence, the capital gains arising from transfer of jewellery is not chargeable to tax. Discuss the correctness of contention of Mrs. A.

Income from other sources

7. Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(vii) of the Income-tax Act, 1961 -
- (i) Ms. Avantika purchased a land from ABC Co. a partnership concern for ₹ 5,50,000. The stamp duty value of the same was ₹ 10,00,000.
 - (ii) Vardhan HUF gifted a computer to the son of Karta for scoring good marks in Olympiad examination. The fair market value of the computer is ₹ 80,000.
 - (iii) Mr. Harish received 50 shares of Luma Ltd. from his friend as a gift on occasion of his birthday. The fair market value on that date was ₹ 300 per share. He also received jewellery worth ₹ 37,000 (FMV) from his niece on the same day.
 - (iv) Sowmya, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 12,00,000.
 - (v) Sridhar HUF received ₹ 1 lakh in cash from nephew of Sridhar (i.e., son of Sridhar's sister). Sridhar is the Karta of the HUF.

8. Discuss the applicability of the provisions of section 56(2)(viib) in the hands of the following closely-held companies -

Company	Consideration received for issue of a share (₹)	Face value of a share (₹)	Fair Market Value (FMV) of a share (₹)	Number of shares issued
A (P) Ltd.	280	200	250	10,000
B (P) Ltd.	230	200	250	20,000
C (P) Ltd.	195	200	180	30,000
D (P) Ltd.	210	200	175	40,000

Deductions from Gross Total Income

9. Mr. Hari, aged 52 years, paid medical insurance premium of ₹ 8,000 during the P.Y.2012-13 to insure his health as well as the health of his wife, Preethi. He also paid medical insurance premium of ₹ 18,000 during the year to insure the health of his mother, Smt. Lakshmi, aged 75 years, who is not dependent on him. He contributed ₹ 5,200 to Central Government Health Scheme during the year. He has incurred ₹ 4,500 in cash on preventive health check-up of himself and his spouse and ₹ 5,000 by cheque on preventive health check-up of his mother. Compute the deduction allowable under section 80D for the A.Y.2013-14.
10. Mr. Vignesh, aged 61 years, earned business income (computed) of ₹ 4,25,000 during the year ended 31.03.2013. He has earned interest of ₹ 17,000 on the saving bank account with Oriental bank of Commerce during the year. Compute the total income of Mr. Vignesh for the assessment year 2013-14 from the following particulars:
- A sum of ₹ 23,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.
 - Contribution ₹ 12,000 made in cash to an electoral trust.
 - Paid interest of ₹ 8,000 on loan taken from bank for Engineering course pursued by his son.
 - Premium of ₹ 17,000 paid by cheque for health insurance of self and his wife.
 - ₹ 2,000 paid in cash for his health check-up and ₹ 4,000 paid in cheque for health check-up for his parents.
 - Life insurance premium paid to Max Life Insurance in cash amounting to ₹ 21,000 for insurance of life of his dependent parents. The insurance policy was taken on 7.8.2002 and the sum assured on life of his dependent parents is ₹ 1,50,000.
 - Life insurance premium of ₹ 30,000 paid for the insurance of his life. The sum assured is ₹ 2,50,000 and the life insurance policy was taken on 1.5.2011.

- (viii) Life insurance premium paid by cheque of ₹ 18,000 for insurance of life of his major son who is not dependent on him. The insurance policy was taken on 1.10.2012 and the sum assured is ₹ 1,50,000.

Assessment of individuals

11. Mr. Shane Watson, a non-resident, received ₹ 60 lakhs in India for participation in IPL cricket matches held in December, 2012, ₹ 15 lakh for promoting "Munnar Tea", a popular tea brand and ₹ 1 lakh for contributing an article relating to cricket in a newspaper "The Cochin Daily". He also received ₹ 6,91,000 (net) towards winnings from lottery.

His brother, Mr. Fredrick Watson, is a singer who accompanied him on his tour to India this year. He performed in a music show organized during the premier of an IPL match and received ₹ 5 lakh. Both of them came to India only in December, 2012 for the first time.

Compute the tax liability of the two brothers under the Income-tax Act, 1961 for the A.Y.2013-14. Are the above income subject to deduction of tax at source? Do the two brothers have to file their return of income for A.Y.2013-14? Discuss with reference to the provisions of the Income-tax Act, 1961.

12. Mr. Arun, a resident individual aged 58 years, has income of ₹ 52 lakh under the head "Profits and gains of business or profession". One of his businesses is eligible for deduction@100% of profits under section 80-IA for A.Y.2013-14. The profit from such business included in the business income is ₹ 32 lakh. Compute the tax payable by Mr. Arun, assuming that he has no other income during the P.Y.2012-13.

Assessment of firms

13. M/s. XYZ Industries, a partnership firm, submits the following profit and loss account for computation of its business income for the assessment year 2013-14.

Profit and loss account for the year ending 31.03.2013

Particulars	₹	Particulars	₹
To Salaries	5,27,000	By Gross profit	11,26,000
To Rent	43,000	By Dividend from UTI	13,000
To Printing and stationery	7,300		
To Telephone	5,200		
To Conveyance	18,000		
To Travelling	15,000		
To Interest	65,000		
To Depreciation	33,000		
To Auditor's fees	28,000		

To PF contribution	33,000		
To Other expenses	2,00,000		
To Net profit	1,64,500		
Total	11,39,000	Total	11,39,000

Additional information:

- (i) Salaries include ₹ 1,25,000, ₹ 1,30,000 and ₹ 1,45,000 paid to working partners X, Y and Z (authorized by the partnership deed)
- (ii) Interest paid includes ₹ 48,000, being interest paid on loan given by partner Z at the rate of 16% simple interest authorised by the partnership deed.
- (iii) Out of provident fund contribution debited to profit and loss account, ₹ 18,000 is outstanding beyond the due date of filing of return.
- (iv) Other expenses include –
 - (1) Capital expenditure of ₹ 1,00,000 incurred for the purpose of promoting family planning amongst its employees.
 - (2) ₹ 1,00,000 paid for advertisement in souvenir published by a political party on 26th January, 2013.
- (v) The firm purchased goods by issuing account payee drafts except in the case of one bill for ₹ 60,000 for which payment has been made by cash. This has been debited to trading account as part of purchases.
- (vi) Depreciation amounting to ₹ 20,000 on motor car bought and used exclusively for business purposes, but not registered in the name of the firm.

Assessment of companies

14. The net profit of Excel Ltd. as per profit and loss account for the previous year 2012-13 is ₹ 250 lakh after debiting/crediting the following items:
 - (i) Provision for income-tax : ₹ 30 lakh
 - (ii) Interest on income-tax : ₹ 1 lakh
 - (iii) Dividend distribution tax : ₹ 3 lakh
 - (iv) Provision for deferred tax : ₹ 12 lakh
 - (v) Transfer to special reserve : ₹ 2 lakh
 - (vi) Proposed dividend : ₹ 18 lakh
 - (vii) Preference dividend: ₹ 6 lakh
 - (viii) Provision for gratuity based on actuarial valuation : ₹ 4 lakh

- (ix) Depreciation debited to profit and loss account is ₹ 14 lakh. This includes depreciation on revaluation of asset to the tune of ₹ 3 lakh.
- (x) Profit from unit established in Special Economic Zone : ₹ 25 lakh.
- (xi) Provision for permanent diminution in value of investments : ₹ 3 lakh.

Brought forward losses and unabsorbed depreciation as per books of the company are as follows:

Previous year	Brought forward loss (₹ in lakh)	Unabsorbed Depreciation (₹ in lakh)
2009-10	3	7
2010-11	5	-
2011-12	12	8

Compute book profit of the company under section 115JB for Assessment Year 2013-14.

Assessment Procedure/Double Taxation Avoidance Agreement

15. What is the time limit for completing assessment in the following cases –
 - (i) Best judgment assessment under section 144 in respect of A.Y.2012-13.
 - (ii) Reassessment under section 147, in respect of which notice under section 148 was served on 1.5.2011.
 - (ii) Assessment under section 143(3) in respect of A.Y.2011-12, where reference under section 92CA(1) is made on 1.12.2012.
16. Mr. Rajesh, a resident and ordinarily resident in India, owns rubber estates and house property in a country outside India. He is also a resident of that other country. He came to India for the first time on 1.4.2005 after staying in the other country for 20 years. He purchased a house in India for self-occupation. From the year 2005-06, he has been living in India for six months (183 days) and in the other country for six months (182 days). Mr. Rajesh earned interest of ₹ 1,50,000 from fixed deposits with banks in India, which was his only source of income in India for A.Y.2013-14.

Article 4 of the Double Taxation Avoidance Agreement between India and the foreign country where Mr. Rajesh is a resident, provides that “where an individual is a resident of both the Contracting States, then 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)”.

Mr. Rajesh is of the opinion that he need not file his return of income for A.Y.2013-14, since his income from fixed deposits is lower than the basic exemption limit of

₹ 2,00,000. He has not been filing his return of income for A.Y. 2006-07 and thereafter. From the information given above, you are required to advise Mr. Rajesh as to –

- (i) Whether his income from rubber estates in the foreign country is taxable in India?
- (ii) Is Mr. Rajesh required to file his return of income for A.Y.2013-14?
- (iii) Can income be deemed to have escaped assessment for the purpose of section 147? If so, what is the time limit for issue of notice under section 148? Discuss.

Transfer Pricing

17. Discuss whether transfer pricing provisions under the Income-tax Act, 1961 are attracted in respect of the following transactions –

- (i) Provision of marketing management services by XYZ Inc. to its Indian subsidiary XYZ Ltd.
- (ii) Lease of transportation vehicle by ABC Ltd. from X Inc. X Inc. guarantees 15% of the borrowings of ABC Ltd.
- (iii) Sale of industrial design by A Ltd. to LMN Inc., a Dutch company, which holds 29% of the shares of A Ltd.
- (iv) Mr. Ganesh, a resident Indian, holds 25% equity share capital in Alpha Ltd, a domestic company. Alpha Ltd. hires trucks owned by Mr. Ganesh's son and pays rent of ₹ 2 lakh.
- (v) Beta Ltd., a domestic company, has two units A & B. Unit A, which commenced business two years back, is engaged in the business of developing a toll road. Unit B is carrying on the business of trading in cement. Unit B transfers cement to the value of ₹ 5 lakh to Unit A for ₹ 3 lakh.

Deduction, Collection and Recovery of tax

18. Discuss whether tax is liable to be deducted at source in the following circumstances. If so, compute the amount of tax to be deducted.

- (i) Interest of ₹ 2,300 paid by A Ltd. to Mr.X and ₹ 4,500 to his HUF on 1.6.2012, by way of account payee cheque on account of debentures of the company held by them separately. A Ltd. is a company in which public are substantially interested. Debentures of A Ltd. are listed in Bombay Stock Exchange.
- (ii) Interest of ₹ 6,200 paid by B Ltd. to Ms. Y and ₹ 3,300 to Z HUF on 12.2.2013, by way of account payee cheque on account of debentures of the company held by them. B Ltd. is a company in which public are substantially interested. Debentures of B Ltd. are not listed on a recognised stock exchange in India.
- (iii) Interest of ₹ 12,300 on recurring deposit credited to Mr. M.
- (iv) MNO Ltd. paid ₹ 3,25,000 to a non-resident entertainer on 1.8.2012 for music performance in an event for promotion of a new product.

- (v) Sitting fees of ₹ 18,000 paid to director of the company on 19.9.2012.
- (vi) ₹ 1,95,000 paid to Mr. X on 1.2.2013 by Kerala State Government on compulsory acquisition of his urban land.

Wealth-tax

19. Strong Build Constructions Ltd. furnishes the following particulars of its wealth for the valuation date as on 31.3.2013:

		₹ (in lacs)
Assets		
(i)	Land in urban area (held as stock in trade since 1998).	108
(ii)	Motor cars (including an imported car, worth ₹ 22 lacs used for hiring)	42
(iii)	Guest house and land appurtenant thereto in a rural area	15
(iv)	Residential flats of 1000 sq feet each provided to six employees (salary of two employees exceed ₹ 10 lacs per annum)	42
(v)	Farm house of 5 acre at a remote village beyond 25 kms from the local limits of Municipality	12
(vi)	Bank balance	11
(vii)	Cash in hand as per cash book	4
Liabilities:		
(i)	Loan for purchase of land at urban area	60
(ii)	Loan for purchase of guest house	10
(iii)	Wealth-tax liability for assessment year 2012-13	8
(iv)	Loan for construction of residential flats	12

Compute the net wealth of the company as on the valuation date 31.03.2013.

20. Ms. Vidhya has a house property at Calcutta, which she has rented out to Ms. Ramya from 1st October, 2012. The cost of acquisition of the property (acquired in the year 2000) is ₹ 48 lacs. Determine the value of her property chargeable to wealth-tax as on the valuation date 31.3.2013, from the following particulars –
- (i) The annual value of the property as per municipal records is ₹ 8 lacs.
- (ii) The monthly rent which the property fetches is ₹ 51,000.
- (iii) Half yearly municipal tax is ₹ 50,000, paid partly by Ms. Ramya (30%) and partly by Ms. Vidhya (70%).

- (iv) The cost of repairs of the house property is entirely borne by Ms. Ramya.
- (v) Ms. Ramya has given an interest-free deposit of ₹ 2 lakh to Ms. Vidhya.
- (vi) The property is constructed on leasehold land and the unexpired period of lease on the valuation date is 21 years.

SUGGESTED ANSWERS/HINTS

1. Section 68 brings to tax any sum found credited in the books of an assessee, in respect of which the assessee does not offer any explanation about the nature and source of money so credited or the explanation offered by the assessee is not found to be satisfactory by the Assessing Officer.

The proviso to section 68 provides that any explanation offered by a closely held company in respect of any sum credited as share application money, share capital, share premium or such amount, by whatever name called, in the accounts of such company shall be deemed to be not satisfactory unless the person, being a resident, in whose name such credit is recorded in the books of such company also explains, to the satisfaction of the Assessing Officer, the source of sum so credited as share application money, share capital, etc. in his hands. Otherwise, the explanation offered by the assessee-company shall be deemed as not satisfactory, consequent to which the sum shall be treated as income of the company.

In this case, the amount of ₹ 11 lakh credited in the books of ABC (P) Ltd. as share application money received from the shareholders Mr. Abhinav, Mr. Bansal and Mr. Chauhan would be treated as income of the company, since the shareholders were not able to explain to the satisfaction of the Assessing Officer, the source of such sum in their hands. The said sum of ₹ 11 lakh would be chargeable to tax@30% under section 115BBE and no allowance or expenditure shall be allowed to the company under any provision of the Income-tax Act, 1961 in computing such deemed income.

However, the proviso to section 68 would not apply if the person in whose name such sum is recorded in the books of the closely held company is a Venture Capital Fund (VCF) or a Venture Capital Company (VCC) registered with SEBI. Therefore, if ₹ 15 lakh is credited in the books of the company as share application money received from a Venture Capital Fund registered with SEBI, the same would not be treated as income in the hands of the company.

2. (i) A mechanism has been devised, in the national interest, to make payment to certain foreign companies in India in Indian currency for import of crude oil.

In order to provide exemption in respect of such income in the hands of the foreign company, especially since the payment is made in the interest of the nation, new clause (48) has been inserted in section 10 to exempt any income of a foreign

company received in India in Indian currency on account of sale of crude oil to any person in India.

The following conditions have to be fulfilled for claim of such exemption –

- (a) The money has been received under an agreement or arrangement which is either entered into, or approved by, the Central Government;
- (b) The foreign company, as well as the arrangement or agreement, are notified by the Central Government having regard to the national interest.
- (c) The foreign company is not engaged in any other activity in India, except receipt of income under such arrangement or agreement.

If XYZ Inc. fulfills the above conditions, then the amount of ₹ 12 lakh received by it in India from ABC Ltd. would be exempt under section 10(48).

- (ii) The contention of the charitable trust is not correct.

Under sections 11 and 12, income of any charitable trust or institution is exempt if such income is applied for charitable purposes in India and such institution is registered under section 12AA.

The definition of “charitable purpose” under section 2(15) includes “advancement of any other object of general public utility” as charitable purpose provided that it does not involve carrying on of any activity in the nature of trade, commerce or business.

However, as per the second proviso to section 2(15), “advancement of any other object of general public utility” would continue to be a “charitable purpose” in the relevant previous year even if it carries on a trading activity, if the total receipts from any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business does not exceed ₹ 25 lakhs in that year. However, if such receipts exceed ₹ 25 lakhs in the next year, then the trust will lose its charitable status for that year.

Thus, a charitable trust or institution pursuing “advancement of object of general public utility” may be a charitable trust in one year and not a charitable trust in another year depending on the aggregate value of receipts from commercial activities.

Therefore, no exemption would be available to a trust or institution for the previous year in which the receipts from commercial activities exceed ₹ 25 lakhs. However, this temporary excess in one year may not be treated as altering the very nature of the trust or institution so as to lead to cancellation of its registration.

The denial of exemption where the trading receipts exceed the specified threshold of ₹ 25 lakh would be compulsory by operation of law and would not be dependent on the registration being cancelled. Accordingly, section 13 has been amended by the Finance Act, 2012 to ensure that such trust and institution does not get benefit of tax exemption under section 11 or 12 in the year in which its receipts from commercial activities exceed the specified threshold of ₹ 25 lakh, whether or not the

registration is cancelled.

Therefore, "Relief Centre Charitable Trust" whose main object is "advancement of general public utility" would not be entitled to tax exemption under section 11 for A.Y.2013-14, since its receipts from commercial activities for the P.Y.2012-13 exceeded ₹ 25 lakhs, irrespective of whether its registration is cancelled or not.

3. Computation of income under the head "Profits and gains of business or profession" of Gamma Ltd. for the A.Y.2013-14.

Particulars		₹	₹
Net profit as per profit and loss account			22,36,370
Add:	Items debited to profit and loss account, but to be disallowed		
	Expenditure incurred on notified agricultural extension project (to be treated separately)	3,25,000	
	Expenditure incurred on notified skill development project - Purchase of land - being capital expenditure not qualifying for deduction under section 35CCD	3,00,000	
	Expenditure incurred on notified skill development project - Expenditure on training for skill development (to be treated separately)	2,15,000	
	Expenditure incurred on advertisement in the souvenir published by a political party not allowed as deduction as per section 37(2B)	1,25,000	
	Purchase price of building used in in-house research and development - being capital expenditure, 100% of which is allowable as deduction under section 35(1)(iv) read with section 35(2)	-	
	Purchase price of land used in in-house research and development - being capital expenditure not allowable as deduction under section 35	<u>8,00,000</u>	<u>17,65,000</u>
			40,01,370
Less:	Purchase price of raw material used for in-house research and development qualifies for 200% deduction under section 35(2AB). Since, it is already debited to profit and loss account, balance 100% is allowed. It is assumed that the in-house research and development facility is approved by the prescribed authority.	2,25,000	
	Expenditure incurred on notified agricultural extension project qualifies for 150% deduction under section 35CCC.	4,87,500	

Expenditure incurred on training for skill development in a notified skill development project qualifies for 150% deduction under section 35CCD.	3,22,500	10,35,000
Profit and gains from business		29,66,370

4. **Computation of profits and gains of business or profession for A.Y.2013-14**

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	35
Less: Depreciation under section 32 10% of ₹ 40 lakh, being (₹ 80 lakh – ₹ 55 lakh + ₹ 15 lakh)	4
Income chargeable under “Profits and gains from business or profession”	31

Computation of income/loss from specified business under section 35AD

Particulars		Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD) Less: Deduction under section 35AD	23	21	44
(B)	Capital expenditure incurred prior to 1.4.2012 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2012 (excluding the expenditure incurred on acquisition of land) = ₹ 40 lakh (₹ 120 lakh – ₹ 80 lakh) and ₹ 30 lakh (₹ 100 lakh – ₹ 70 lakh)	40	30	70
(C)	Capital expenditure incurred during the P.Y.2012-13	25	20	45
(D)	Total capital expenditure (B + C)	65	50	115
(E)	Deduction under section 35AD 150% of capital expenditure (food grains)	97.50		

	100% of capital expenditure (sugar)		50	
	Total deduction u/s 35AD for A.Y.2013-14	97.50	50	147.50
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(74.50)	(29)	(103.50)

Notes:

- (1) Weighted deduction@150% of the capital expenditure is available under section 35AD for A.Y.2013-14 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2012. Food grains constitute agricultural produce and therefore, the capital expenditure incurred for setting up a warehousing facility for storage of food grains is eligible for weighted deduction@150% under section 35AD.
- (2) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2013-14 in respect of specified business of setting up and operating a warehousing facility for storage of sugar, where operations are commenced on or after 01.04.2012.
- (3) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. Vallish is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- (4) However, Mr. Vallish can claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2012-13.
- (5) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 103.50 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 31 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

5. Computation of taxable capital gains of Mr. Raghuvir for the A.Y.2013-14

Particulars	₹
Gross consideration	1,25,00,000
Less: Expenses on transfer (2% of the gross consideration)	<u>2,50,000</u>
Net consideration	1,22,50,000
Less: Indexed cost of acquisition (₹ 35,76,000 × 852/406)	<u>75,04,315</u>
	47,45,685
Less: Exemption under section 54GB (See Note below) (₹ 47,45,685 × ₹ 70,00,000 / ₹ 1,22,50,000)	<u>27,11,820</u>
Taxable capital gains	<u>20,33,865</u>

Deemed cost of new plant and machinery for exemption under section 54GB

	Particulars	₹	₹
(1)	Purchase cost of new plant and machinery acquired in September, 2013		72,00,000
	Less: Cost of office appliances, i.e., laptops	8,00,000	
	Cost of vehicles, i.e., vans	7,00,000	
	Cost of air-conditioners installed at the guest house	<u>2,00,000</u>	<u>17,00,000</u>
			55,00,000
(2)	Amount deposited in the specified institution before the due date of filing of return		<u>15,00,000</u>
	Deemed cost of new plant and machinery for exemption under section 54GB		<u>70,00,000</u>

Note:

Section 54GB has been inserted to exempt long term capital gains on sale of a residential property (house or plot of land) owned by an individual or a HUF in case of re-investment of sale consideration in the equity shares of an eligible company being a newly incorporated SME company engaged in the manufacturing sector, which is utilized by the company for the purchase of new plant and machinery.

In order to qualify as an "eligible company" under section 54GB the company should be –

- (1) incorporated in the financial year in which the capital gain arises or in the following year on or before the due date of filing return of income by the individual or HUF;
- (2) engaged in the business of manufacture of an article or thing;

- (3) a company in which the individual or HUF holds more than 50% of the share capital or 50% of the voting rights, after the subscription in shares by the individual or HUF; and
- (4) a company which qualifies to be a Small or Medium Enterprise (SME) under the Micro, Small and Medium Enterprises Development Act, 2006 i.e., investment in the equipment is more than ₹ 25 lakhs but less than ₹ 10 crore.

Quantum of exemption under section 54GB

Since the cost of new plant and machinery (i.e. ₹ 70 lakh) is lower than the net consideration of residential house, only proportionate capital gains would be exempt i.e.

$$\text{LTCG} \times \frac{\text{Amount invested in new plant and machinery}}{\text{Net consideration}}$$

6. The contention of Mrs. A is not correct.

New section 50D has been inserted by the Finance Act, 2012 providing that, in case where the consideration received or accruing as a result of the transfer of a capital asset by an assessee is not ascertainable or cannot be determined, then, for the purpose of computing income chargeable to tax as capital gains, the **fair market value of the said asset on the date of transfer** shall be deemed to be the full value of consideration received or accruing as a result of such transfer.

Therefore, in this case, the fair market value of gold jewellery on the date of transfer shall be the full value of consideration and accordingly, the capital gains arising on transfer of jewellery would be subject to income-tax.

7. **Taxability of receipts under section 56(2)(vii)**

	Taxable/ Not-taxable	Amount liable to tax (₹)	Reason
(i)	Not taxable	Nil	Immovable property acquired for inadequate consideration is not taxable under section 56(2)(vii).
(ii)	Not taxable	Nil	Computer is not included in the definition of "property" for the purpose of section 56(2)(vii), and therefore, the same shall not be taxable.
(iii)	Taxable	52,000	As per provisions of section 56(2)(vii), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 15,000) and jewellery (₹ 37,000) exceeds

			₹ 50,000. Hence, the entire amount of ₹ 52,000 shall be taxable. Note: Niece is not included in the definition of "relative" under section 56(2)(vii).
(iv)	Not taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(vii). Since Sowmya is a member of the HUF, she is a relative of the HUF.
(v)	Taxable	1,00,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(vii). Son of Mr. Sridhar's sister is not a relative of Sridhar HUF, since he is not a member of Sridhar HUF.

8. **Applicability of the provisions of section 56(2)(viib)**

Co.	Face value of shares (₹)	FMV of shares (₹)	Consideration received (₹)	Applicability of section 56(2)(viib)
A (P) Ltd.	200	250	280	The provisions of section 56(2)(viib) are attracted in this case since the shares are issued at a premium (i.e., issue price exceeds the face value of shares). The excess of the issue price of the shares over the FMV would be taxable under section 56(2)(viib). i.e., ₹ 3,00,000, being ₹ 30 (₹ 280 - ₹ 250) per share × 10,000 shares, shall be treated as income in the hands of A (P) Ltd.
B (P) Ltd.	200	250	230	The provisions of section 56(2)(viib) are attracted since the shares are issued at a premium. However, no sum shall be chargeable to tax under the said section in the hands of B (P) Ltd. as the shares are issued at a price less than the FMV of shares.
C (P) Ltd.	200	180	195	Section 56(2)(viib) is not attracted since the shares are issued at a discount, though the issue price is greater than the FMV.

D (P) Ltd.	200	175	210	The provisions of section 56(2)(viib) are attracted in this case since the shares are issued at a premium. The excess of the issue price of the shares over the FMV would be taxable under section 56(2)(viib). Therefore, ₹ 14 lakh, being ₹ 35 (₹ 210 - ₹ 175) per share × 40,000 shares, shall be treated as income in the hands of D (P) Ltd.
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9. Deduction allowable under section 80D for the A.Y.2013-14

	Particulars	₹	₹
		Actual Payment	Maximum deduction allowable
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	8,000	8,000
(ii)	Contribution to CGHS	5,200	5,200
(iii)	Exp. on preventive health check-up of self & spouse	4,500	1,800
		17,700	15,000
B.	Premium paid and medical expenditure incurred for mother, aged 75 years, being a senior citizen		
(i)	Mediclaime premium paid for mother, who is over 60 years of age	18,000	18,000
(ii)	Expenditure on preventive health check-up of mother	5,000	2,000
		23,000	20,000
	Total deduction under section 80D (15,000 + 20,000)		35,000

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above cannot exceed ₹ 15,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,800, being (₹ 15,000 - ₹ 8,000 - ₹ 5,200).
- (2) The total deduction under B. (i) and (ii) above cannot exceed ₹ 20,000. Therefore, the expenditure on preventive health check-up for mother would be restricted to ₹ 2,000, being (₹ 20,000 - ₹ 18,000).

- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and mother is ₹ 3,800 (i.e., ₹ 1,800 + ₹ 2,000), which is less than the maximum permissible limit of ₹ 5,000.

10. Computation of total income of Mr. Vignesh for the Assessment Year 2013-14

Particulars	₹	₹	₹
Business Income (computed)			4,25,000
Interest on saving bank deposit			<u>17,000</u>
Gross Total Income			4,42,000
Less: Deduction under Chapter VIA			
Under section 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
- self	30,000		
- major son ₹ 18,000 restricted to 10% of ₹ 1,50,000	<u>15,000</u>	45,000	
Under section 80D (See Note 2)			
Premium paid for health insurance of self and wife by cheque	17,000		
Payment made for health check-up:			
- Self ₹ 2,000			
- His Parents ₹ <u>4,000</u>			
₹ <u>6,000</u> restricted to	<u>5,000</u>	22,000	
Under section 80E			
For payment of interest on loan taken from bank for Engineering course of his son		8,000	
Under section 80GGC (See Note 3)			
Contribution to electoral trust		12,000	
Under section 80TTA (See Note 4)			
Interest on savings bank account ₹ 17,000 restricted to		<u>10,000</u>	<u>97,000</u>
Total Income			<u>3,45,000</u>

Notes:

- (1) As per the amendment made by Finance Act, 2012, deduction under section 80C shall be allowed in respect of premium paid for life insurance only to the extent of 10% of sum assured in respect of insurance policy issued after 01.04.2012. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of ₹ 30,000 is allowable under section 80C in respect of life insurance of Mr. Vignesh since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 2,50,000. However, in respect of premium paid for life insurance policy of Mr. Vignesh's son, deduction is allowable only up to 10% of ₹ 1,50,000 since, the policy was issued after 01.04.2012 and the premium amount exceeds 10% of sum assured.

Further, as per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 21,000 paid as premium for life insurance of dependent parents of Mr. Vignesh.

- (2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person who is a senior citizen i.e., aged 60 years or more, deduction shall be allowed up to ₹ 20,000. Further, as per amendment made by Finance Act, 2012, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, deduction of ₹ 17,000 is allowed in respect of premium paid for health insurance of self and wife, since Mr. Vignesh is a senior citizen and the payment is made by cheque. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is ₹ 19,000 (₹ 17,000 + ₹ 2,000), which is less than ₹ 20,000. Further, deduction up to a maximum of ₹ 5,000 is allowable in respect of health check-up of self and his parents. This implies that ₹ 3,000 is allowable for health check-up of parents which falls within the additional limit of ₹ 20,000 for mediclaim premium and expenditure on preventive health check-up of parents.

- (3) The Finance Act, 2012 has amended section 80G to provide that no deduction shall be allowable thereunder in case the donation is made in cash of a sum exceeding ₹ 10,000. Therefore, no deduction is allowable under section 80G in respect of cash donation exceeding ₹ 10,000 made to institution approved therein. However, there is no such restriction for contribution to an electoral trust which qualifies for deduction under section 80GGC.
- (4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, a deduction of ₹ 10,000 is allowable from the gross total income of Mr. Vignesh, though the interest from savings bank account is ₹ 17,000.

11. (i) Computation of tax liability of Shane Watson for the A.Y.2013-14

	₹	₹
Income taxable under section 115BBA		
Income from participation in matches in India	60,00,000	
Advertisement of product	15,00,000	
Contribution of articles in newspaper	1,00,000	
	<u>76,00,000</u>	
Tax@20% under section 115BBA on ₹ 76,00,000		15,20,000
Tax@30% under section 115BB on income of ₹ 10,00,000 (₹ 6,91,000 + ₹ 3,09,000) by way of winnings from lottery		<u>3,00,000</u>
		18,20,000
Add: Education cess@2% and Secondary and higher education cess@1%		<u>54,600</u>
Total tax liability		18,74,600

Mr. Fredrick Watson is a non-resident entertainer, whose income of ₹ 5 lakh from a music show is taxable@20% under section 115BBA. Therefore, his tax liability is ₹ 1,03,000 (being 20% of ₹ 5 lakh plus education cess@2% and secondary and higher education cess@1%)

(ii) Yes, the above income are subject to deduction of tax at source.

Income referred to in section 115BBA is subject to deduction of tax at source@20% under section 194E.

Income referred to in section 115BB (i.e., winnings from lottery) is subject to deduction of tax at source@30% under section 194BB.

Since Shane Watson and Fredrick Watson are non-residents, the amount of tax to be deducted calculated at the prescribed rates mentioned above, would be increased by education cess@2% and secondary and higher education cess@1%.

(iii) Section 115BBA provides that if the total income of the non-resident sportsman or non-resident entertainer comprises of only income referred to in that section and tax deductible at source has been fully deducted, it shall not be necessary for him to file his return of income.

In this case, although Mr. Shane Watson is a non-resident sportsman, he has winnings from lotteries as well. Therefore, he cannot avail the benefit of exemption from filing of return of income as contained in section 115BBA. Hence, he would be liable to file his return of income for A.Y.2013-14.

However, since Mr. Fredrick Watson's income comprises of only income referred to in section 115BBA, in respect of which tax is deductible under section 194E, he need not file his return of income for A.Y.2013-14, if tax has been so deducted.

12. Computation of regular income-tax payable under the provisions of the Act

Particulars	₹
Profits and gains of business or profession	52,00,000
Less: Deduction under section 80-IA	<u>32,00,000</u>
Total Income	<u>20,00,000</u>
Tax payable	
Up to ₹ 2,00,000	Nil
10% on next ₹ 3,00,000	30,000
20% on next ₹ 5,00,000	1,00,000
30% on balance ₹ 10,00,000	<u>3,00,000</u>
	<u>4,30,000</u>

Computation of Alternate Minimum Tax (AMT)

Particulars	₹
Total Income as per the Income-tax Act, 1961	20,00,000
Add: Deduction under section 80-IA	<u>32,00,000</u>
Adjusted Total Income	<u>52,00,000</u>
AMT = 18.5% × 52,00,000 =	<u>9,62,000</u>

Since the regular income-tax payable as per the provisions of the Act is less than the AMT, the adjusted total income of ₹ 52 lakhs would be deemed to be the total income of Mr. Arun and he would be liable to pay tax @18.5% thereof. The tax payable by Mr. Arun for the A.Y.2013-14 would, therefore, be ₹ 9,62,000 plus education cess@2% and secondary and higher education cess@1%, totaling ₹ 9,90,860.

Note - Mr. Arun would be eligible for credit to the extent of ₹ 5,47,960 [₹ 9,90,860 – ₹ 4,42,900 (i.e. 4,30,000 + 3% cess)] to be set-off in the year in which tax on total income computed under the regular provisions of the Act exceeds the AMT. Such credit can be carried forward for succeeding 10 assessment years.

13. Computation of business income of M/s. XYZ Industries for the A.Y 2013-14

Particulars	₹	₹
Net profit as per profit and loss account		1,64,500
Add : Remuneration to partners (considered separately)		<u>4,00,000</u>
		5,64,500
Add: Inadmissible expenses :		
Interest [₹ 48,000 – ₹ 36,000 (calculated@12%)]	12,000	

Provident fund payment outstanding as on due date of filing of return - disallowed under section 43B	18,000	
Capital expenditure incurred in promoting family planning amongst employees is allowable under section 36(1)(ix) only in case of companies and not firms	1,00,000	
Expenditure on advertisement in a souvenir published by a political party is not allowable as deduction as per section 37(2B)	1,00,000	
Cash purchases [disallowed under section 40A(3)], since it exceeds ₹ 20,000	<u>60,000</u>	<u>2,90,000</u>
		8,54,500
Less : Amount credited but exempt : Dividend from UTI [exempt under section 10(35)]		<u>13,000</u>
Book Profit		8,41,500
Less: Remuneration to partners deductible [See Note (i) below]		<u>4,00,000</u>
Taxable business income		<u>4,41,500</u>

Notes:**(i) Computation of remuneration allowable as deduction as per 40(b)(v)**

Particulars	Percentage allowable	₹
On first 3,00,000 of book profit	90%	2,70,000
On the balance book profit of ₹ 5,41,500	60%	<u>3,24,900</u>
Remuneration allowable as per 40(b)(v)		<u>5,94,900</u>

Since the actual remuneration of ₹ 4,00,000 is less than the allowable limit of ₹ 5,94,900, the entire remuneration of ₹ 4,00,000 is deductible.

- (ii) As per section 40(b)(iv), interest@12% p.a. to partners on loan taken is permissible. Therefore, the amount in excess of sum calculated @12% p.a. has to be disallowed under section 40(b)(iv).
- (iii) Depreciation on motor car bought and used exclusively for the purposes of business is allowable though not registered in the name of the firm in view of the ratio of the decision of the Supreme Court in *Mysore Minerals Ltd. v. CIT* (1999) 239 ITR 775.

14. Computation of book profit of Excel Ltd. under section 115JB for A.Y. 2013-14

Particulars	₹ (in lacs)
Net profit as per profit and loss account	250

Add: Net profit to be increased by the following amounts as per Explanation 1 to section 115JB		
Income-tax payable or provision therefor		
Provision for income tax	30	
Interest on income-tax	1	
Dividend distribution tax	3	34
Provision for deferred tax		12
Transfer to special reserve		2
Dividend paid or proposed		
Proposed dividend	18	
Preference dividend	6	24
Depreciation		14
Provision for diminution in value of investment		<u>3</u>
		<u>89</u>
		339
Less: Net profit to be reduced by the following amounts as per Explanation 1 to section 115JB		
Depreciation (excluding depreciation on revaluation of assets)		11
Lower of brought forward loss or unabsorbed depreciation, as per books (on overall basis)		<u>15</u>
		<u>26</u>
Book Profit		<u>313</u>

Notes:

- (1) A sunset clause has been inserted by the Finance Act, 2011 to remove MAT exemption to SEZ units and developers with effect from A.Y. 2012-13. Therefore, profit from unit established in SEZ cannot be excluded for computation of book profit.
- (2) Provision for gratuity based on actuarial valuation is a provision for meeting an ascertained liability. Therefore, it should not be added back for computing book profit.

15. The time limits for completion of such assessments are given in section 153.

- (i) 31st March, 2015, being two years from the end of A.Y.2012-13, which is the assessment year in which the income was first assessable.
- (ii) 31st March, 2013, being one year from the end of F.Y.2011-12, the year in which notice under section 148 was served.
- (iii) 31st March, 2015, being three years from the end of A.Y.2011-12, which is the assessment year in which the income was first assessable.

16. (i) Section 90(1) of the Income-tax Act, 1961 empowers the Central Government to enter into an agreement with the Government of any country outside India for avoidance of double taxation of income under the Indian law and the corresponding law of that country. Section 90(2) provides that where the Central Government has entered into an agreement with the Government of any other country for granting relief of tax or for avoidance of double taxation, then, in relation to the assessee to whom such agreement applies, the provisions of the Income-tax Act, 1961 shall apply to the extent they are more beneficial to that assessee.

Rajesh has a residential house both in India and the foreign country. Thus, he has a permanent home in both the countries. However, he has no permanent establishment of his business in India. The Double Taxation Avoidance Agreement (DTAA) with the foreign country provides that where an individual is a resident of both the countries, he shall be 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 shall be 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.

Rajesh owns rubber estates in a foreign country from which he derives business income. However, Rajesh has no permanent establishment of his business in India. Therefore his personal and economic relations with foreign country are closer, since foreign country is the place where –

- (a) the property is located and
- (b) the permanent establishment (PE) has been set-up

Therefore, he shall be deemed to be resident of the foreign country for A.Y. 2013-14.

The fact of the case and issues arising therefrom are similar to that of *CIT vs. P.V.A.L. Kulandagan Chettiar (2004) 267 ITR 654*, where the Supreme Court held that if an assessee is deemed to be a resident of a contracting State where his personal and economic relations are closer, then in such a case, the fact that he is a resident in India to be taxed in terms of sections 4 and 5 would become irrelevant, since the DTAA prevails over sections 4 and 5.

However, as per section 90(4) inserted by Finance Act, 2012, Rajesh has to obtain a certificate [Tax Residence Certificate (TRC)] from the Government of that country containing such particulars as may be prescribed, declaring the residence of the country outside India, in order to claim relief under the agreement. The submission of TRC containing the prescribed particulars shall be necessary but not a sufficient condition for availing benefits of the agreement. In effect, further conditions can be stipulated for claiming treaty benefits in addition to the requirement of submission of the TRC.

Therefore, in this case, Rajesh would not be liable to income-tax in India for assessment year 2013-14 in respect of his income from rubber estates arising in the

foreign country provided he furnishes the Tax Residence Certificate and fulfils such other conditions as may be prescribed for claiming the treaty benefits.

- (ii) Section 139(1) requires every resident and ordinarily resident having any asset located outside India to file a return of income compulsorily whether or not he has income chargeable to tax. Therefore, Mr. Rajesh has to file his return of income mandatorily for the A.Y.2013-14, even though his total income of ₹ 1,50,000, comprising solely of interest on fixed deposits with banks, is less than the basic exemption limit.
- (iii) Income chargeable to tax shall be deemed to have escaped assessment for the purpose of section 147, where a person is found to have any asset (including financial interest in any entity) located outside India. Accordingly, the Assessing Officer can serve a notice under section 148 on such assessee requiring him to furnish a return of income within the specified period, for the purpose of making an assessment, reassessment or recomputation under section 147.

Further, an extended time limit of sixteen years would be available for issue of notice under section 148 for an assessment or reassessment, in case income in relation to such assets located outside India has escaped assessment.

Therefore, in this case, since Mr. Rajesh has rubber estates and a house property in a foreign country, income is deemed to have escaped assessment and notice under section 148 can be issued to Mr. Rajesh within the extended time limit of sixteen years from the end of the relevant assessment year.

17. (i) The scope of the term “international transaction” has been amplified by the Finance Act, 2012 by insertion of *Explanation* to section 92B. According to the said *Explanation*, international transaction includes, *inter alia*, provision of marketing management services. XYZ Inc and XYZ Ltd. are associated enterprises, since XYZ Inc., being the holding company, satisfies the condition of holding shares carrying not less than 26% of the voting power in XYZ Ltd. Since the provision of marketing management services by XYZ Inc. to XYZ Ltd. is an “international transaction” between associated enterprises, transfer pricing provisions are attracted in this case.
- (ii) Lease of tangible property falls within the scope of “international transaction”. Tangible property includes “transportation vehicle”. X Inc. and ABC Ltd. are associated enterprises, since X Inc. guarantees more than 10% of the total borrowings of ABC Ltd. Therefore, lease of a transportation vehicle by ABC Ltd. from X Inc. is an international transaction with an associated enterprise, and consequently, the provisions of transfer pricing are attracted in this case.
 - (iii) The scope of the term “intangible property” has been amplified to include, *inter alia*, industrial design, which is an engineering intangible. Sale of intangible property falls within the scope of the term “international transaction”. Since LMN Inc. holds

shares of A Ltd. carrying not less than 26% of the voting power, LMN Inc. and A Ltd. are associated enterprises. Therefore, since sale of industrial design by A Ltd. to LMN Inc. is an international transaction between associated enterprises, the provisions of transfer pricing are attracted in this case.

- (iv) This transaction falls within the meaning of "specified domestic transaction" under new section 92BA, since the rental payment has been made to a related person referred to in section 40A(2)(b) i.e. relative (i.e. son) of Mr. Ganesh, who has substantial interest in the business of Alpha Ltd., since he is the beneficial owner of shares carrying not less than 20% voting power. However, such a transaction would be treated as a "specified domestic transaction" to attract transfer pricing provisions only if the aggregate of such transactions during the year as specified in section 92BA exceeds a sum of ₹ 5 crore.
- (v) Unit A is eligible for deduction@100% of the profits derived from its eligible business (i.e., the business of developing a toll road) under section 80-IA. However, Unit B is not engaged in any "eligible business". Since Unit B has transferred cement to Unit A at a price lower than the fair market value, it is an inter-Unit transfer of goods between eligible business and other business, where the consideration for transfer does not correspond with the market value of goods. Therefore, this transaction would fall within the meaning of "specified domestic transaction" to attract transfer pricing provisions, if the aggregate value of transactions during the year specified in section 92BA exceed ₹ 5 crore.

18. Applicability of provisions relating to deductibility of tax at source

	Tax deductible or not	Amount of tax to be deducted at source (₹)	Reason
(i)	Not deductible	Nil	As per the proviso to section 193, the company shall not be liable to deduct tax at source on the interest less than ₹ 2,500 paid to a resident individual in respect of listed debentures by way of account payee cheque before 1.7.2012. Therefore, no tax shall be deducted at source on the interest paid to Mr. X by A Ltd. provided Mr. X is a resident in India during the year.
	Deductible	450 (₹ 4,500×10%)	Tax shall be deducted at source on interest paid by A Ltd. to the HUF of Mr. X on 1.06.2012 under section 193.
(ii)	Deductible	620 (₹ 6,200×10%)	B Ltd. is liable to deduct tax at source on the interest paid to Ms. Y on account of

	Not deductible	Nil	debentures under section 193, since the payment exceeds ₹ 5,000. As per the proviso to section 193, a company shall not be liable to deduct tax at source on the interest paid to a resident individual or Hindu Undivided Family in respect of debentures, whether or not listed on a recognized stock exchange in India, if such payment made does not exceed ₹ 5,000 during the year and the same is paid by way of account payee cheque on or after 1.7.2012. Therefore, B Ltd. is not liable to deduct tax at source on interest paid to Z HUF, provided Z HUF is resident in India.
(iii)	Not deductible	Nil	As per the provisions of section 194A, tax shall not be deducted at source on interest paid on account of recurring deposit.
(iv)	Deductible	66,950 (₹ 3,25,000 × 20.60%)	As per the provisions of section 194E, any person making payment to a non-resident entertainer on or after 1.7.2012, which is taxable under section 115BBA, shall deduct tax at source@20% plus education cess 2% and secondary and higher education cess@1%.
(v)	Deductible	1,800 (₹ 18,000 × 10%)	According to section 194J, the company shall be liable to deduct tax at source@10% under this section on any fees paid to a director on or after 1.7.2012, on which the tax is not deductible under section 192.
(vi)	Not deductible	Nil	No tax shall be deducted at source under section 194LA in case the consideration or enhanced consideration during the year does not exceed ₹ 2,00,000.

19. Computation of Net Wealth of M/s Strong Build Constructions Ltd. as on valuation date 31.03.2013

Particulars	₹ (in lacs)	₹ (in lacs)
Assets [as per the definition of assets under section 2(ea)]		
(i) Land in urban area (held as stock in trade since 1998) – taxable since it is held as stock-in-trade for more than 10 years		108

(ii)	Motor cars (excluding imported car not being an asset, since it is used for hiring) [₹ 42 Lacs – ₹ 22 Lacs]		20
(iii)	Guest house and land appurtenant thereto in a rural area (guest house is always an asset, whether situated in an urban area or rural area)		15
(iv)	(a) Residential flats provided to four employees drawing salary less than ₹ 10 lacs per annum – not an asset		Nil
	(b) Residential flat provided to two employees drawing salary exceeding ₹ 10 lacs per annum is an asset [42 × 2/6]		14
(v)	Farm house situated beyond 25 kms from municipal limits - not an asset		Nil
(vi)	Bank balance is not an asset under section 2(ea)		Nil
(vii)	Cash in hand as per cash book is not an asset since it represents cash recorded in the books		Nil
			157
Less: Liabilities			
(i)	Loan for purchase of land in urban area – deductible, since it is incurred in relation to land in urban area, which is an asset chargeable to wealth-tax.	60	
(ii)	Loan for purchase of guest house in rural area - deductible, since it is incurred in relation to an asset chargeable to wealth-tax	10	
(iii)	Wealth tax liability for Assessment year 2012-13 – wealth tax liability is not deductible	Nil	
(iv)	Loan for construction of residential flats - the portion relating to taxable asset (2/6) is deductible i.e. $\frac{2}{6} \times 12$ lacs	<u>4</u>	<u>74</u>
Net Wealth			83

20. Valuation of house property at Mumbai of Ms. Vidya on valuation date 31.3.2013

Particulars	₹
Actual Rent (₹ 51,000 × 6)	3,06,000
Add: (i) Municipal taxes borne by the tenant (30% of ₹ 50,000)	15,000
(ii) Repairs borne by the tenant - 1/9 th of actual rent received	34,000
(iii) 15% of amount of deposit of ₹ 2 lakh (15%×₹ 2,00,000 × 6/12)	15,000
	3,70,000
Annual Rent (₹ 3,70,000 × 12/6)	7,40,000

The annual rent so worked out has to be compared with the municipal value and the

higher of the two has to be adopted as the Gross Maintainable Rent. The municipal value is ₹ 8,00,000 and the annual rent works out to ₹ 7,40,000. Therefore, ₹ 8,00,000 shall be the Gross Maintainable Rent.

Computation of Net Maintainable Rent (NMR)		₹	₹
Gross Maintainable Rent			8,00,000
Less: Corporation Tax (annual)		1,00,000	
15% of Gross Maintainable Rent		1,20,000	2,20,000
Net Maintainable Rent (NMR)			5,80,000
Capitalised value of NMR			
Capitalised value (₹ 5,80,000 × 8) [See Note below]		46,40,000	
Cost of acquisition		48,00,000	
Capitalised value is the higher of the above			48,00,000
Note : Where the unexpired lease period is less than 50 years, capitalisation value is NMR × 8.			
Therefore, the value of house property chargeable to tax on valuation date 31.3.2013 is ₹ 48 lakh.			