

Computation of Total Income and Tax Payable

Question 1

Ms. Vaishali, employed in a private sector company, furnishes following information for the year ended 31.03.2013.

Particulars	₹
Income from salary (computed)	3,45,000
Bank interest (Fixed Deposit)	15,000
Tax on non-monetary perquisite paid by employer	20,000
Amount contributed by her during the year are given below:	
Contribution to recognized provident fund	60,000
Health insurance premium-on self (paid by crossed cheque)	7,000
Medical expenditure for dependent sister with disability	20,000

Compute the total income of Ms. Vaishali for the assessment year 2013-14.

Answer

Computation of total income of Ms. Vaishali for the A.Y. 2013-14

Particulars	₹	₹
Income from salary (computed)		3,45,000
Income from other sources		
Bank Interest (Fixed Deposit)		<u>15,000</u>
Gross Total Income		3,60,000
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to recognized provident fund	60,000	
Section 80D		
Medical insurance premium (Note -2)	7,000	
Section 80DD		
Medical expenditure for dependent sister with disability (flat deduction irrespective of expenditure incurred)	<u>50,000</u>	<u>1,17,000</u>
Total income		<u>2,43,000</u>

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Note:

1. Tax on non-monetary perquisite paid by employer is exempt in the hands of employee under section 10(10CC).
2. Medical insurance premium paid by cheque for self is allowed as deduction under section 80D.

Question 2

Dr. Gurumoorthy, a resident individual at Madurai, aged 50 years is running a clinic. His Income and Expenditure Account for the year ending March 31st 2013 is as under :

Expenditure	₹	Income	₹
To Medicine consumed	8,40,000	By Consultation and Medical charges	21,00,000
To Staff salary	4,25,000		
To clinic consumables	1,55,000	By Income-tax refund (principal ₹ 15,000, interest ₹ 1,500)	16,500
To Rent paid	1,20,000		
To Administrative expenses	3,00,000	By Dividend from Indian companies	27,000
To Donation to IIT Delhi for Research approved under section 35(2AA)	1,00,000	By Winning from lottery	
To Net Profit	2,92,500	Net of TDS	35,000
		By Rent	54,000
	<u>22,32,500</u>		<u>22,32,500</u>

- (i) Rent paid includes ₹ 36,000 paid by cheque towards rent for his residence.
- (ii) Clinic equipments are :
- | | |
|----------------------------|------------|
| 01.04.2012 Opening WDV | ₹ 4,50,000 |
| 07.02.2013 Acquired (cost) | ₹ 1,00,000 |
- (iii) Rent received relates to property let out at Madurai. Gross Annual Value ₹ 54,000. The municipal tax of ₹ 9,000, paid in January 2013 has been included in "administrative expenses".
- (iv) Dr. Gurumoorthy availed a loan of ₹ 5,50,000 from a bank for higher education of his daughter. He repaid principal of ₹ 50,000, and interest thereon ₹ 65,000 during the year 2012-13.
- (v) He paid ₹ 60,000 as tuition fee to the university for full time education of his son.

From the above, compute the total income of Dr. Gurumoorthy for the assessment year 2013-14.

Answer

Computation of total income of Dr. Gurumoorthy for the A.Y. 2013-14

	Particulars	₹	₹	₹
I	Income from profession			
	Net profit as per Income and Expenditure account		2,92,500	
	Less: Items of income to be treated separately			
	(i) Income tax refund (including interest)	16,500		
	(ii) Dividend from Indian companies	27,000		
	(iii) Winning from lottery (net of TDS)	35,000		
	(iv) Rent received	<u>54,000</u>	<u>1,32,500</u>	
			1,60,000	
	Add: Expenditure debited but not allowable			
	(i) Rent for his residence	36,000		
	(ii) Municipal tax paid relating to residential house at Madurai included in administrative expenses	<u>9,000</u>	<u>45,000</u>	
			2,05,000	
	Less: Expenditure allowed but not debited			
	Depreciation on Clinic equipments u/s 32			
	- on ₹ 4,50,000 @ 15%	67,500		
	- on ₹ 1,00,000 @ 7.5% (i.e.50% of 15%)	<u>7,500</u>		
	Additional deduction of 100% in respect of amount paid to IIT [since weighted deduction of 200% is available in respect of such payment under section 35(2AA)]	75,000		
		<u>1,00,000</u>	<u>1,75,000</u>	30,000
II	Income from house property			
	Gross Annual Value (GAV)		54,000	
	Less : Municipal taxes paid		<u>9,000</u>	
	Net Annual Value (NAV)		45,000	
	Less : Deduction under section 24 @ 30%		<u>13,500</u>	31,500
III	Income from other sources			
	Interest on Income-tax refund		1,500	
	Dividend from Indian companies	27,000		
	Less: Exempt under section 10(34)	<u>27,000</u>	Nil	
	Winnings from lottery (See Note 1)		<u>50,000</u>	<u>51,500</u>
	Gross Total Income			1,13,000

8.4 Income-tax

Less: Deductions under Chapter VI A:			
- Under section 80C			
Tuition fee paid to university for full time education of his son		60,000	
- Under section 80E			
Interest on loan taken for higher education of daughter		<u>65,000</u>	
		1,25,000	
but restricted to (See Note 2)			<u>63,000</u>
Total income			<u>50,000</u>

Notes:

1. Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". The applicable rate of TDS is 30%. Gross income from lottery, would, therefore, be ₹ 35000/70% = ₹ 50,000
2. Deduction under Chapter VI-A cannot exceed Gross Total Income. Further, no deduction is allowable from income by way of winning from lottery. Therefore the maximum deduction allowable would be ₹ 63,000.

	₹
Gross Total Income	1,13,000
Less: Winnings from lottery	<u>50,000</u>
Maximum deduction under Chapter VI-A	<u>63,000</u>

The total income of ₹ 50,000 would, therefore, represent winnings from lottery taxable at a flat rate of 30%, without any basic exemption limit.

3. Dr. Gurumoorthy is staying in a rented premises in Madurai itself. Hence, he would not be eligible for deduction under section 80GG, since he owns a house in Madurai which he has let out.

Question 3

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2013 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	5,50,000	Fees earned:		
Stipend to articled assistants	37,000	Audit	7,88,000	
Incentive to articled		Taxation services	5,40,300	
		Consultancy	<u>2,70,000</u>	15,98,300

assistants	3,000	Dividend on shares of		
Office rent	24,000	Indian companies		10,524
		(Gross)		
Printing and stationery	22,000	Income from Unit Trust		
		of India		7,600
Meeting, seminar and		Honorarium received		
Conference	31,600	from various institutions		
Purchase of car	80,000	for valuation of answer		
		papers		15,800
Repair, maintenance				
and petrol of car	4,000			
Travelling expenses	35,000	Rent received from		
Municipal tax paid in		residential flat let out		85,600
respect of house				
property	3,000			
Net Profit	9,28,224			
	17,17,824			17,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹2,000 for the period from 1-10-2012 to 30-09-2013.
- (v) Salary include ₹30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The total travelling expenses incurred on foreign tour was ₹32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹5,000 and ₹10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹10,000 in National Saving Certificate.

Compute the total income and tax payable of Ms. Purvi for the assessment year 2013-2014.

Answer

Computation of total income and tax liability of Ms. Purvi for the A.Y. 2013-14

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820

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Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		<u>15,800</u>
Gross Total Income		9,93,820
Less: Deductions under Chapter VI-A (See Working Note 4)		<u>10,000</u>
Total Income		<u>9,83,820</u>
Tax on total income		
Upto ₹ 2,00,000	Nil	
₹ 2,00,001 – ₹ 5,00,000 @10%	30,000	
₹ 5,00,001 - ₹ 9,83,820 @20%	<u>96,974</u>	1,26,764
Add: Education cess @ 2%		2,535
Secondary and higher education cess @ 1%		<u>1,268</u>
Total tax liability		<u>1,30,567</u>

Working Notes :

(1) Income from House Property

Particulars	₹	₹
Gross annual value under section 23(1)	85,600	
Less: Municipal taxes paid	<u>3,000</u>	
Net Annual Value (NAV)	82,600	
Less: Deduction under section 24 @ 30% of NAV	<u>24,780</u>	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head “Profits & Gains of Business or Profession”

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 20,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal Taxes paid in respect of residential flat let out	<u>3,000</u>	<u>1,13,000</u>
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		<u>10,500</u>
		10,51,724

Less: Income credited but not taxable under this head:		
(i) Dividend on shares of Indian companies	10,524	
(ii) Income from UTI	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	<u>85,600</u>	<u>1,19,524</u>
		9,32,200
Less: Depreciation on motor car @15% (See Note 1 below)		<u>12,000</u>
		<u>9,20,200</u>

Notes :

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note : Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2013 to 30.9.2013 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹	₹
Dividend on shares of Indian companies	10,524	
Less: Exempt under section 10(34)	<u>10,524</u>	Nil
Income from UTI	7,600	
Less: Exempt under section 10(35)	<u>7,600</u>	Nil
Honorarium for valuation of answer papers		<u>15,800</u>
		<u>15,800</u>

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	<u>Nil</u>
Total deduction under Chapter VI-A	<u>10,000</u>

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Question 4

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2013 revealed the following information :

- (1) *The net profit was ₹11,20,000.*
- (2) *The following incomes were credited in the profit and loss account :*
 - (a) *Dividend from UTI ₹22,000.*
 - (b) *Interest on debentures ₹17,500.*
 - (c) *Winnings from races ₹15,000.*
- (3) *It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:*
Opening stock ₹8,000.
Closing stock ₹12,000.
- (4) *₹1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).*
- (5) *Salary includes ₹20,000 paid to his brother which is unreasonable to the extent of ₹2,500.*
- (6) *Advertisement expenses include 15 gift packets of dry fruits costing ₹1,000 per packet presented to important customers.*
- (7) *Total expenses on car was ₹78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.*
- (8) *Miscellaneous expenses included ₹30,000 paid to A & CO., a goods transport operator in cash on 31-1-2013 for distribution of the company's product to the warehouses.*
- (9) *Depreciation debited in the books was ₹55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹50,000.*
- (10) *Drawings ₹10,000.*
- (11) *Investment in NSC ₹15,000.*

Compute the total income of Mr. Y for the assessment year 2013-14.

Answer

Computation of total income of Mr.Y for the A.Y. 2013-14

Particulars	₹
Profits and gains of business or profession (<i>See Working Note 1 below</i>)	10,46,500
Income from other sources (<i>See Working Note 2 below</i>)	<u>32,500</u>
Gross Total Income	10,79,000
Less: Deduction under section 80C (Investment in NSC)	<u>15,000</u>
Total Income	<u>10,64,000</u>

Working Notes :

1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add : Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable (₹ 78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	<u>15,000</u>	<u>1,02,000</u>
		12,22,000
Add : Under statement of closing stock		<u>12,000</u>
		12,34,000
Less: Under statement of opening stock		<u>8,000</u>
		12,26,000
Less: Contribution to a University approved and notified under section 35(1)(ii) is eligible for weighted deduction@175%. Since only the actual contribution (100%) has been debited to profit and loss account, the additional 75% has to be deducted.		<u>75,000</u>
		11,51,000
Less : Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [Exempt under section 10(35)]	22,000	
Interest on debentures (taxable under the head "Income	17,500	

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from other sources")		
Winnings from races (taxable under the head "Income from other sources")	<u>15,000</u>	<u>54,500</u>
		10,96,500
Less : Depreciation allowable under the Income-tax Rules, 1962		<u>50,000</u>
		<u>10,46,500</u>

Notes :

- (i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- (ii) Disallowance under section 40A(3) is not attracted in respect of cash payment of ₹ 30,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 40A(3))
- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.

2. Computation of "Income from other sources"

Particulars	₹
Interest on debentures	17,500
Winnings from races	<u>15,000</u>
	<u>32,500</u>

Note:

The following assumptions have been made in the above solution:

1. The figures of interest on debentures and winnings from races represent the gross income (i.e., amount received plus tax deducted at source).
2. In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

Question 5

Ms. Rachna was gifted a land by her father in December, 2001 at the occasion of her marriage. The land was allotted to her father in November, 1991 at cost of ₹ 6 lac by DDA for commercial purpose. She set up a nursery on land, earns profit of ₹ 2 lacs during the year 2012-13 from seedlings grown in nursery. She sold the nursery to her friend at ₹ 50 lacs in October, 2012. Her friend paid ₹ 20 lacs in cash and ₹ 30 lacs in the form of shares. Market

value of land on date of sale was ₹ 90 lacs and shares ₹ 70 lacs. Rachna, with an intention to earn profit, invested ₹ 20 lacs in shares by purchasing shares for ₹ 15 lacs from National Stock Exchange and ₹ 5 lacs in subscription to equity shares forming part of eligible issue of capital by a public company. She spent ₹ 60,000 on purchase of computers, ₹ 20,000 on net connectivity and ₹ 2 lacs toward salary and other expenses. She paid monthly rent ₹ 2,500 for a shop which was taken in October 2012, for trading in shares. Depreciation rate on computers is 60%.

The value of shares purchased and sold during the year are as follows:

Purchases including received from friend	₹ 80,00,000
Sales	₹ 1,00,00,000

The market value of shares remains unsold as on 31.03.2013 is ₹ 40 lakhs. Ms. Rachna

- Made contribution of ₹ 20,000 to approved pension fund.
- Paid ₹ 25,000 to LIC for medical insurance premium of self and spouse.
- Repaid loan ₹ 1,00,000 and interest ₹ 20,000 to SBI taken in February, 2013 for her son's admission in Sri Ram College of Commerce B.Com.
- Contributed ₹ 25,000 to a research association, which has as its object undertaking of scientific research.

Rachna did not earn any short term capital gain during the year. Rachna has not celebrated her 40th birthday yet. Compute the total income of Ms. Rachna and tax thereon payable by her for the Assessment Year 2013-14. Cost inflation index for financial year 1991-92 is 199, 2001-02 is 426 and 2012-13 is 852.

Answer

Computation of total income of Ms. Rachna for A.Y. 2013-14

Particulars	₹	₹
Business Income (Refer Note -1)		17,03,250
Capital Gain on Sale of land		
Sale consideration (Refer Note- 2)	90,00,000	
Less: Indexed Cost of Acquisition (₹ 6,00,000 × 852/426) (Refer Note – 3)	<u>12,00,000</u>	<u>78,00,000</u>
Gross Total Income		95,03,250
Less: Deduction under Chapter VI-A		
Section 80CCC		
Contribution to approved pension fund	20,000	
Section 80D		
Medical insurance premium paid for self and spouse ₹ 25,000, deduction limited to ₹ 15,000	15,000	

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Section 80E		
Interest paid on education loan for studies of son	<u>20,000</u>	<u>55,000</u>
Total Income		<u>94,48,250</u>

Computation of tax liability of Ms. Rachna for the Assessment Year 2013-14

Particulars	₹	₹
Agricultural income (Profit from nursery business)	2,00,000	
Non-agricultural income	<u>94,48,250</u>	
	<u>96,48,250</u>	
Step 1 Tax on ₹ 96,48,250 (aggregate of agricultural and non-agricultural income)		
Long term Capital Gain (₹ 78,00,000 x 20%)	15,60,000	
Tax on balance income of ₹ 18,48,250	<u>3,84,475</u>	19,44,475
Step -2 Tax on ₹ 4,00,000 (aggregate of agricultural income and basic exemption limit of ₹ 2,00,000)		20,000
Step-3 Tax on non-agricultural income (Difference of step 1 & Step 2)		19,24,475
Add: Education Cess @ 2%		38,490
Add: Secondary and Higher Education Cess @1%		<u>19,245</u>
Total Tax Liability		<u>19,82,210</u>

Notes:

(1) Computation of Business Income

Trading Account for the year ended 31.03.2013

Particulars	₹	Particulars	₹
To Purchases (₹ 80 lacs - ₹ 30 lacs + ₹ 70 lacs)	1,20,00,000	By Sales	1,00,00,000
To Gross Profit	<u>20,00,000</u>	By Closing stock (Assuming Market value is less than cost of shares)	<u>40,00,000</u>
	<u>1,40,00,000</u>		<u>1,40,00,000</u>

Particulars	₹	₹
Gross Profit as per Trading Account		20,00,000
Less: Expenses on net connectivity	20,000	
Salary	2,00,000	

Rent (₹ 2500 x 6)	15,000	
Depreciation on Computers (₹ 60,000×60%×50%) (Assuming used for less than 180 days in the year)	<u>18,000</u>	<u>2,53,000</u>
		17,47,000
Less: Contribution to Scientific Research Institution under section 35(1) (₹ 25,000 x 175%)		<u>43,750</u>
Business Income		<u>17,03,250</u>

(2) **Computation of consideration on sale of land**

Particulars	₹
Value of cash received	20,00,000
Market value of shares received	<u>70,00,000</u>
Total Sale consideration	<u>90,00,000</u>

- (3) Since the property was acquired by Ms. Rachna by way of gift, the cost of acquisition will be cost to the previous owner.

As per the definition of indexation cost of acquisition under clause (iii) of *Explanation* below section 48, indexation benefit will be available only from the previous year in which Rachna first held the asset i.e. P.Y. 2001-02.

However, as per the view expressed by Bombay High court, in the case of *CIT v. Manjula J. Shah 16 Taxmann 42*, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is taken, the indexation cost of acquisition would be ₹ 25,68,844 and long term capital gain would be ₹ 64,31,156.

- (4) Deduction under section 80C is not provided in respect of ₹ 5 lacs subscription to equity shares forming part of eligible issue of capital by a public company, assuming it has been sold in the current year.
- (5) Repayment of principal portion of education loan does not qualify for deduction under Section 80E.
- (6) Income from seedlings grown in nursery is exempt under section 10(1) as it is agricultural income. However, the same would be aggregated for rate purposes.

Question 6

Mrs. Deepali (aged 40 years), working with M/s Good Company Ltd., a manufacturer of tyres based at Mumbai, has received the following payments during the financial year 2012-13 from her employer:

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Basic salary ₹ 60,000 per month.

Dearness allowance 40% of basic salary.

Her employer has taken on rent her own house on a monthly rent of ₹ 15,000 and the same has been provided for residence of Mrs. Deepali. Company is recovering ₹ 2,000 per month as rent of house.

Mrs. Deepali has further furnished the following details:

- (i) She has paid professional tax of ₹ 6,000 during financial year 2012-13.
- (ii) She is owning only one house and payment of interest of ₹ 1,75,000 and principal of ₹ 1,00,000 was made for housing loan taken for purchase of house.
- (iii) She has also taken a loan of ₹ 2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered ₹ 10,000 as interest from her salary for such loan during the year.

Compute taxable income and tax liability for assessment year 2013-14.

Answer

Computation of taxable income of Mrs. Deepali for A.Y. 2013-14

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 60,000 x 12)		7,20,000
Dearness Allowances (40% of basic salary)		2,88,000
Perquisite value of Concessional Accommodation taken on hire.	1,08,000	
Lower of:		
(i) actual rent (₹ 15,000 x 12)	₹ 1,80,000	
(ii) 15% of salary (15% of ₹ 7,20,000)	₹ 1,08,000	
(assuming that dearness allowance does not form part of pay for retirement benefits)		
Less: Rent recovered (₹ 2,000 x 12)	<u>24,000</u>	84,000
Perquisite value of concessional loan [Rule 3(7)(i)] [₹ 20,000 (10% of ₹ 2,00,000) – ₹ 10,000]		<u>10,000</u>
Gross Salary		11,02,000
Less: Deduction under section 16(iii) - Professional tax paid		<u>6,000</u>
Net Salary		10,96,000
Income from house property		
Gross Annual Value (GAV) (Rental income has been taken as GAV in the absence of other information)	1,80,000	

Less: Deduction under section 24		
(a) 30% of ₹ 1,80,000 = ₹ 54,000		
(b) Interest on loan = ₹ <u>1,75,000</u>	<u>2,29,000</u>	<u>(49,000)</u>
Gross Total Income		10,47,000
Less: Deductions under Chapter – VIA		
80C – Repayment of housing loan		<u>1,00,000</u>
Total Income		<u>9,47,000</u>

Computation of tax liability for A.Y. 2013-14

Tax on ₹ 9,47,000	₹
Upto ₹ 2,00,000	Nil
200,001 -5,00,000 - 10%	30,000
5,00,001 – 9,47,000 - 20%	<u>89,400</u>
	1,19,400
Add: Education cess @ 2%	2,388
Secondary and higher education cess @ 1%	<u>1,194</u>
Total Tax Liability	<u>1,22,982</u>
Total Tax Liability (Rounded off)	1,22,980

Note: Mrs. Deepali cannot claim benefit of self-occupation (i.e. taking the annual value as nil and claiming a higher loss of ₹ 1,50,000) in respect of the house property owned and occupied by her since the same has been given on rent to her employer who has allotted the same as residence for Mrs. Deepali.

Question 7

Shri Madan (age 61 years) gifted a building owned by him to his son's wife Smt. Hema on 01.10.2012. The building fetched a rental income of ₹ 10,000 per month throughout the year. Municipal tax for the first half-year of ₹ 5,000 was paid in June 2012 and the municipal tax for the second half-year was not paid till 30.09.2013.

Incomes of Shri Madan and Smt. Hema other than income from house property are given below:

Name	Business income (₹)	Capital gain (₹)	Other sources (₹)
Shri Madan	1,00,000	50,000 (long term)	1,50,000
Smt. Hema	(75,000)	2,00,000 (short term)	50,000

Note: Capital gain does not relate to gain from shares and securities.

Compute the total income of Shri. Madan and Smt. Hema taking into account income from property given above and also compute their income-tax liability for the assessment year 2013-14.

8.16 Income-tax

Answer

Computation of total income and tax liability of Shri Madan for A.Y. 2013-14

Particulars	₹	₹
Income from house property (Refer Note 1)		80,500
Business Income		1,00,000
Long-term Capital Gains		50,000
Income from Other Sources		<u>1,50,000</u>
Total Income		<u>3,80,500</u>
Computation of tax liability		
Long-term Capital Gain of ₹ 50,000 @ 20%		10,000
Other income of ₹ 3,30,500		
(₹ 3,30,500 – ₹ 2,50,000) × 10% (Refer Note 2)		<u>8,050</u>
		18,050
Add: Education Cess @ 2%	361	
Secondary and Higher Education Cess @ 1%	<u>181</u>	<u>542</u>
Tax liability		<u>18,592</u>
Tax liability (Rounded Off)		18,590

Computation of Total Income and Tax Liability of Smt. Hema for A.Y. 2013-14

Particulars	₹	₹
Short-term Capital Gains	2,00,000	
Less: Business loss	<u>75,000</u>	1,25,000
Income from Other Sources		<u>50,000</u>
Total Income		<u>1,75,000</u>
Tax liability (Since total income is less than basic exemption limit of ₹ 2,00,000)		Nil

Note:

- As per section 64(1)(vi), the income arising to the son's wife of an individual, directly or indirectly, from assets transferred to her, otherwise than for adequate consideration, by such individual, shall be included in the total income of the individual.

Therefore, the rental income from building transferred by Shri Madan to his son's wife Smt. Hema without consideration on 01.10.2012 is includible in the hands of Shri Madan.

Computation of Income from House Property

Particulars	Madan (₹)	Hema (₹)
	Period (01.04.2012- 30.09.2012)	Period (01.10.2012- 31.03.2013)
Gross Annual Value (₹ 10,000 × 6 months) (Rental income taken as GAV in the absence of information relating to Municipal Value, fair value and standard rent)	60,000	60,000
Less: Municipal taxes paid (paid in June for first half year only)	<u>5,000</u>	<u>Nil</u>
Net Annual Value (NAV)	55,000	60,000
Less: Deduction under section 24(a), 30% of NAV	<u>16,500</u>	<u>18,000</u>
Income from House Property	38,500	<u>42,000</u>
Income from House Property of Hema to be clubbed in the hands of Madan as per section 64(1)(vi)	<u>42,000</u>	
Income from house property	<u>80,500</u>	

2. The basic exemption limit for A.Y. 2013-14 in respect of an individual who is of the age of 60 years or more during the relevant previous year is ₹ 2,50,000. The same has been considered while calculating Madan's tax liability.

Question 8

Mr. Chandran (aged 38) owned 6 heavy goods vehicles as on 01.04.2012. He acquired 2 more heavy goods vehicles on 1.7.2012. He is solely engaged in the business of plying goods vehicles on hire since financial year 2008-09.

He did not opt for presumptive provision contained in section 44AE for the financial year 2011-12. His books were audited under section 44AB and the return of income was filed on 5.8.2012. He has unabsorbed depreciation of ₹ 70,000 and business loss of ₹ 1,00,000 for the financial year 2011-12.

Following further information is provided to you:

- (i) Deposited ₹ 20,000 in Tax Saver Deposit with UCO Bank in the name of married son.
- (ii) Paid medical insurance premium of ₹ 23,000 for his parents (both aged above 70) by means of bank demand draft.
- (iii) Paid premium on life insurance policy of his married daughter ₹ 25,000. The policy was taken on 1.04.2012 and the minimum sum assured is ₹ 2,00,000.
- (iv) Repaid principal of ₹ 40,000 and interest of ₹ 15,000 to Canara Bank towards education loan of his daughter, who completed B.E. two years ago. She is employed after completion of her studies.

8.18 Income-tax

Assuming that Mr. Chandran has opted for presumptive provision contained in section 44AE of the Income-tax Act, 1961, compute the total income of Mr. Chandran for the assessment year 2013-14.

Answer

Computation of total income of Mr. Chandran for the A. Y. 2013-14

Particulars	₹	₹
Income from business of plying goods vehicle (Refer Note 1)		4,50,000
Less: Brought forward business loss of financial year 2011-12 (Refer Note 2 & 3)		<u>1,00,000</u>
Gross Total Income		3,50,000
Less: Deduction under Chapter VI-A		
Section 80C:-		
Life insurance premium paid for insurance of married daughter (Refer Note 5)	20,000	
Section 80D:-		
Medical insurance premium paid for insurance of parents (Refer Note 6)	20,000	
Section 80E:-		
Interest paid towards education loan taken for studies of his daughter (Refer Note 7)	<u>15,000</u>	<u>55,000</u>
Total Income		<u>2,95,000</u>

Working Notes:

- (1) **Computation of income from business of plying goods vehicles under section 44AE.**

Particulars	₹
6 heavy goods vehicle held throughout the year (₹ 5,000×6×12)	3,60,000
2 heavy goods vehicle – held for 9 months (₹ 5,000×2×9)	<u>90,000</u>
Income under section 44AE	<u>4,50,000</u>

- (2) As per section 44AE, any deduction allowable under the provisions of sections 30 to 38 shall be deemed to have been already allowed. Therefore, the unabsorbed depreciation of ₹ 70,000 shall not be allowed as a deduction since it is covered by section 32.
- (3) Brought forward business loss of ₹ 1,00,000 shall be allowed as deduction, by virtue of section 72, as it is allowed to be carried forward for 8 assessment years following the assessment year to which it relates, since the return for A.Y. 2012-13 was filed before the due date specified under section 139(1).
- (4) Fixed deposit in the name of married son does not qualify for deduction under section 80C.

- (5) Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction under section 80C. In respect of policies issued on or after 1.04.2012, only premium paid to the extent of 10% of "minimum capital sum assured" qualifies for deduction under section 80C. Therefore, out of the life insurance premium of ₹ 25,000 paid for insurance policy of married daughter, only ₹ 20,000 (being 10% of ₹ 2,00,000) is allowed as deduction under section 80C.
- (6) Deduction is allowed under section 80D for payment made for medical insurance of parents. Medical insurance premium paid for insuring the health of a person who is a senior citizen i.e. of age 60 years or more, qualifies for deduction under section 80D, subject to a maximum of ₹ 20,000. Hence, deduction of ₹ 20,000 is provided to Mr. Chandran, as his parents are senior citizens.
- (7) It is only the payment of interest on education loan which qualifies for deduction under section 80E. Deduction under section 80E is allowed in respect of interest on loan taken for education of children of the individual even if they are not dependent. Principal repayment of the education loan is not eligible for deduction under section 80E.

Question 9

Mr. Vidyasagar, a resident individual aged 64, is a partner in Oscar Musicals & Co., a partnership firm. He also runs a wholesale business in medical products. The following details are made available for the year ended 31.3.2013:

Sl. No.	Particulars	₹	₹
(i)	Interest on capital received from Oscar Musicals & Co., at 15%		1,50,000
(ii)	Interest from bank on fixed deposit (Net of TDS ₹ 1,500)		13,500
(iii)	Income-tax refund received relating to assessment year 2011-12 including interest of ₹ 2,300		34,500
(iv)	Net profit from wholesale business		5,60,000
	Amounts debited include the following:		
	Depreciation as per books	34,000	
	Motor car expenses	40,000	
	Municipal taxes for the shop	7,000	
	(For two half years; payment for one half year made on 12.6.2013 and for the other on 14.11.2013)		
	Salary to manager for whom single cash payment was made for	21,000	
(v)	The WDV of the assets (as on 1.4.2012) used in above wholesale business is as under:		
	Computers	1,20,000	
	Motor car (20% used for personal use)	3,20,000	

8.20 Income-tax

(vi)	LIP paid for major son	60,000	
	PPF of his wife	70,000	

Compute the total income of the assessee for the assessment year 2013-14. The computation should show the proper heads of income. Also compute the WDV of the different blocks of assets as on 31.3.2013.

Answer

Computation of total income of Mr. Vidyasagar for the A.Y.2013-14

Particulars	₹	₹
Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books		5,60,000
Add: Depreciation as per books	34,000	
Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return (₹ 7,000/2)	3,500	
Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹ 20,000	21,000	
20% of car expenses for personal use	<u>8,000</u>	<u>66,500</u>
		6,26,500
Less: Depreciation allowable (Note 1)		<u>1,10,400</u>
		5,16,100
Income from firm		
Interest on capital from partnership firm (Note 2)		<u>1,20,000</u>
		6,36,100
Income from other sources		
Interest on bank fixed deposit (Gross)	15,000	
Interest on income-tax refund	<u>2,300</u>	<u>17,300</u>
Gross total income		6,53,400
Less: Deductions under Chapter VIA (Note 3)		<u>1,00,000</u>
Total Income		<u>5,53,400</u>

Notes:

(1) Depreciation allowable under the Income-tax Rules, 1962

		Opening WDV	Rate	Depreciation	Closing WDV
Block 1	Computers	1,20,000	60%	72,000	48,000
Block 2	Motor Car	3,20,000	15%	48,000	

Less: 20% disallowance for personal use	<u>9,600</u>	<u>38,400</u>	2,81,600
		<u>1,10,400</u>	

- (2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Maximum interest allowable as deduction in the hands of the firm is 12% p.a. It is assumed that the partnership deed provides for the same and hence is allowable to this extent in the hands of the firm. Therefore, interest @12% p.a. amounting to ₹ 1,20,000 would be treated as the business income of Mr. Vidyasagar.

(3) **Deduction under Chapter VI-A**

Particulars	₹	₹
Under section 80C		
LIP for major son	60,000	
PPF paid in wife's name	<u>70,000</u>	
	1,30,000	
As per section 80CCE, deduction is restricted to		<u>1,00,000</u>
Total deduction		<u>1,00,000</u>

Question 10

Balamurugan furnishes the following information for the year ended 31-03-2013:

Particulars	₹
Income from business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	3,00,000
Speculation business income	1,00,000
Income by way of salary	60,000
Long term capital gain	70,000

Compute his total income, tax liability and advance tax obligations.

Answer

Computation of total income of Balamurugan for the year ended 31.03.2013

Particulars	₹	₹
Salaries	60,000	
Less: Loss from house property	<u>(15,000)</u>	

8.22 Income-tax

Net Salary (after set off of loss from house property)		45,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss set-off	<u>(1,35,000)</u>	
Net business loss to be set-off against long-term capital gain	(35,000)	
Capital Gains		
Long term capital gain	70,000	
Less: Business loss set-off	<u>(35,000)</u>	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		<u>3,00,000</u>
Total Income		<u>3,80,000</u>

Computation of tax liability

Particulars	₹
On total income of ₹ 80,000 (excluding lottery winning)	Nil
On lottery winnings of ₹ 3,00,000 @ 30%	90,000
Add: Education Cess @ 2% and Secondary and higher education cess@1%	<u>2,700</u>
Total tax liability	<u>92,700</u>

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 2,700 (₹ 92,700 – ₹ 90,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note:

- (1) The basic exemption limit of ₹ 2,00,000 has to be first exhausted against salary income of ₹ 45,000. The unexhausted basic exemption limit of ₹ 1,55,000 can be adjusted against long-term capital gains of ₹ 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% under section 115BB.
- (2) The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining installments of advance tax which are due. Where no such installment is due, the entire tax should be paid by 31st March, 2013. The first proviso to section 234C(1) would be attracted in case of non-deduction or short-deduction of tax at source under section 194B.

Question 11

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes

you the receipts and payments account for the financial year 2012-13.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2012)		Staff salary, bonus and stipend to articled clerks	1,50,000
Cash on hand and at Bank	12,000	Other administrative expenses	48,000
Fee from professional services	9,38,000	Office rent	30,000
Rent	50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
Motor car loan from Canara Bank (@ 9% per annum)	2,50,000	Life insurance premium	24,000
		Motor car (acquired in Jan. 2013)	4,25,000
		Medical insurance premium (for self and wife)	18,000
		Books bought (annual publications)	20,000
		Computer acquired on 1.11.2012 (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2013)	15,000
		Cash on hand and at Bank	
	<u>12,50,000</u>		<u>12,50,000</u>

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2012 are given below:

Furniture & Fittings	= ₹ 60,000
Plant & Machinery	= ₹ 80,000

8.24 Income-tax

(Air-conditioners, Photocopiers, etc.)

Computers = ₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the assessment year 2013-14.

Answer

Computation of total income of Mr. Rajiv for the assessment year 2013-14

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b)			
Interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to	<u>30,000</u>		
Loss from self occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions under section 24			
(a) 30% of Net Annual Value	18,000		
(b) Interest on housing loan (50% of ₹ 88,000)	<u>44,000</u>	<u>62,000</u>	<u>(2,000)</u>
Loss from house property			(32,000)
Profits and gains of business or profession			
Fees from professional services		9,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	1,50,000		
Other administrative expenses	48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	<u>Nil</u>	<u>2,36,000</u>	
		7,02,000	
Less: Depreciation			
Motor car ₹ 4,25,000 x 7.5% x 4/5	25,500		

Books being annual publications @ 100%	20,000		
Furniture and fittings @ 10% of ₹ 60,000	6,000		
Plant and machinery @ 15% of ₹ 80,000	12,000		
Computer @ 60% of ₹ 50,000	30,000		
Computer (New) ₹ 30,000 @ 60% x ½ thereon	<u>9,000</u>	<u>1,02,500</u>	<u>5,99,500</u>
Gross Total income			5,67,500
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	<u>24,000</u>		
Total ₹ 1,44,000 but limited to		1,00,000	
Deduction under section 80D			
Medical insurance premium paid ₹ 18,000 but limited to		<u>15,000</u>	<u>1,15,000</u>
Total income			<u>4,52,500</u>

Question 12

State under which heads the following incomes are taxable:

- (i) Rental income in case of dealer in property
- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary by a partner from his partnership firm
- (iv) Rental income of machinery
- (v) Winnings from lotteries by a person having the same as business activity
- (vi) Salaries payable to a Member of Parliament
- (vii) Receipts without consideration
- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.

Answer

	Particulars	Head of Income
(i)	Rental income in case of dealer in property	Income from house property
(ii)	Dividend on shares in case of a dealer in shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profit and gains of business or profession
(iv)	Rental income of machinery (See Note below)	Income from other sources/ Profits and gains of business or

8.26 Income-tax

(v)	Winnings from lotteries by a person having the same as business activity	profession Income from other sources
(vi)	Salaries payable to a Member of Parliament	Income from other sources
(vii)	Receipts without consideration	Income from other sources
(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

Question 13

Dr. Shuba is a medical practitioner. Her age is 64 as on 1st January, 2013. The receipts and payments account of 2012-13 of her is as under:

To	₹	By	₹
Balance B/f	10,000	Purchase of commercial vehicle before 30 Sep. 2012	4,00,000
Receipts from sale of medicine	2,50,000	Drawings	2,50,000
Consultation fee	50,000	Deposit in bank for 5 years	1,50,000
Visiting fee	2,00,000	Surgical instrument purchased before 30 Sep. 2012	50,000
Lecture fees	5,000	Installment of loan paid (including interest ₹ 22,333)	1,21,000
Family pension	2,80,000	Medical insurance premium	32,000
Savings bank interest	1,000	Installment of housing loan (Principal component ₹ 48,000)	1,08,000
Loan from bank	3,00,000	Advance tax paid	20,000
Share from HUF	50,000	Purchase of medicine	47,000
Agricultural income	1,00,000	Payment for medical journal	5,000
Income from lottery (net after deduction of TDS@30%)	35,000	Vehicle expenses	50,000
		Balance C/f	48,000
	12,81,000		12,81,000

Other relevant information is as under:

- (i) She resides in her own house which was constructed in 1998 with a loan from LIC Housing of ₹ 10,00,000 out of which ₹ 6,00,000 was still due. She got it refinanced from SBI on 01-04-2012 at the rate of 10%. One-fourth portion of the house is used for clinic purposes.

- (ii) She invested in term deposit ₹ 1,50,000 in Bank of Baroda on 01-07-2012 for a period of 5 years in the name of her minor daughter at 9% interest p.a.
- (iii) She purchased a commercial vehicle on 1st July 2012 at ₹ 4,00,000. A loan of ₹ 3,00,000 was taken to buy the vehicle. One fourth use of vehicle is estimated to be personal.
- (iv) She paid medical insurance premium for herself of ₹ 16,000 and for mother ₹ 16,000. Her mother is dependent on her.
- (v) She got her share from HUF's income of ₹ 50,000.

Compute total income of Dr. Shuba, ignoring depreciation on building.

Answer

Computation of total income of Dr. Shuba for A.Y. 2013-14

Particulars	₹	₹	₹	₹
Income from house property:				
Annual value of self-occupied house		Nil		
Less: Interest on loan [₹ 45,000, being 3/4 th of ₹ 60,000] (Restricted to ₹ 30,000)		<u>(30,000)</u>	(30,000)	
Income from profession:				
Sale of medicine	2,50,000			
Consultation fees	50,000			
Visiting fee	<u>2,00,000</u>			
Total income		5,00,000		
Less: Expenses				
Medicine purchases	47,000			
Medical journal	5,000			
Vehicle expenses (3/4 th)	37,500			
Interest on loan (3/4 th)	16,750			
Interest on housing loan (1/4 th)	15,000			
Depreciation				
Surgical instrument (15% of ₹ 50,000)	7,500			
Vehicle (3/4 th of 15% of ₹ 4,00,000)	<u>45,000</u>			
Total expenses		<u>1,73,750</u>		
			3,26,250	
Income from other sources				
Family Pension	2,80,000			
Less : 33 $\frac{1}{3}$ % or ₹ 15,000, whichever is lower	<u>15,000</u>	2,65,000		

8.28 Income-tax

Lecture fees		5,000		
Savings bank interest		1,000		
Interest on bank FD in the name of minor daughter [$1,50,000 \times 9\% \times 9/12$]	10,125			
Less : Exempt under section 10(32)	<u>1,500</u>	8,625		
Winnings from lottery		<u>50,000</u>		
			<u>3,29,625</u>	
Gross Total Income				6,25,875
Less: Deductions under Chapter VI-A				
Under section 80C				
Repayment of housing loan ($48,000 \times \frac{3}{4}$)			36,000	
Under section 80D				
Medical Insurance Premium				
Own (Senior Citizen, hence fully allowed)		16,000		
Mother (Senior Citizen, hence fully allowed since premium is less than ₹ 20,000)		16,000		
Under section 80TTA				
Interest on deposit in a saving account of bank		<u>1,000</u>	<u>33,000</u>	
Total deduction				<u>69,000</u>
Total income				<u>5,56,875</u>

Notes:

1. Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to ₹ 30,000.
2. Since $\frac{1}{4}$ th portion of house is used for business purposes, therefore, $\frac{1}{4}$ th share of interest paid is deductible while computing business income.
3. Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
4. Term deposit of ₹ 1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan ($\frac{3}{4}$ th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be ₹ 36,000 (i.e. $\frac{3}{4}$ th of ₹ 48,000).
5. Depreciation@15% has been provided on surgical instruments. It is also possible to assume that the surgical instruments mentioned in the question are life-saving medical equipment (for example, surgical laser) and therefore, eligible for depreciation@40%.

Question 14

Explain the tax treatment of Limited Liability Partnership under the Income-tax Act, 1961.

Answer

The taxation scheme of LLPs is on the same lines as applicable for general partnership firms.

The definition of the terms “partner”, “firm” and “partnership” have been amended to include a limited liability partnership.

Since the tax treatment accorded to a LLP and a general partnership is the same, the conversion from a general partnership to an LLP will have no tax implications if the rights and obligations of the partners remain the same after conversion and there is no transfer of asset or liability after conversion.

An LLP is eligible for deduction of remuneration paid to working partners, if the same is authorized by the partnership deed, and subject to the limits specified in section 40(b)(v), i.e., on the first ₹ 3 lakh of book profit or in case of loss, the limit would be the higher of ₹ 1,50,000 or 90% of book profit and on the balance of book profit, the limit would be 60%.

An LLP is entitled to deduction of interest paid to partners if such payment is authorized by the partnership deed and the rate of interest does not exceed 12% simple interest per annum.

Question 15

State with reasons the taxability/deductibility of the following items in the context of Income-tax Act, 1961:

- (i) *Agricultural income to a resident of India from a land situated in Malaysia.*
- (ii) *Bad debt of ₹ 50,000 written off and allowed in the financial year 2010-11 recovered in the financial year 2012-13.*
- (iii) *Allowance received by an employee working in a transport system at ₹ 10,000 per month to meet his personal expenditure while in duty. He is not receiving any daily allowance.*
- (iv) *Amount withdrawn from Public Provident Fund as per relevant rules.*
- (v) *Telephone provided at the residence of employee and the bill aggregating to ₹ 25,000 paid by the employer. Determine the perquisite value taxable in the hands of employee.*
- (vi) *Payment of ₹ 50,000 to an electoral trust by an Indian company.*

Assume that all the facts given above relate to financial year 2012-2013.

Answer

- (i) Agricultural income from a land in any foreign country is taxable in the case of resident taxpayers as income under the head “Income from other sources”. Exemption under section 10(1) is not available in respect of such income.
- (ii) As per section 41(4), any amount recovered by the assessee against bad debt earlier allowed as deduction shall be taxed as income in the year in which it is received. Therefore, in this case, ₹ 50,000 would be taxable in the F.Y.2012-13 (A.Y.2013-14).

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- (iii) Under section 10(14), any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., ₹ 7,000 per month, being 70% of ₹ 10,000) or ₹ 10,000 per month, whichever is less. Hence, ₹ 84,000 (i.e., 7,000 × 12) is allowable as deduction under section 10(14). Balance ₹ 36,000 (₹ 1,20,000 - ₹ 84,000) shall be taxable.
- (iv) Any amount withdrawn from public provident fund as per relevant rules is not exigible to tax. Such exemption is provided in section 10(11).
- (v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.
- (vi) Amount paid by an Indian Company to an electoral trust is eligible for deduction under section 80GGB from gross total income.

Question 16

Mr. Raghu, Marketing Manager of KL Ltd., based at Mumbai furnishes you the following information for the year ended 31.03.2013:

Basic salary -	₹ 1,00,000 per month
Dearness allowance (Forming part of salary for retirement benefits) -	₹ 50,000 per month
Bonus -	2 Months basic salary
Contribution of employer to Recognized Provident Fund -	15% of basic salary plus dearness allowance

Rent free unfurnished accommodation was provided by the company at Mumbai (accommodation owned by the company).

Particulars	₹
(i) Recognised Provident Fund contribution made by Raghu	1,50,000
(ii) Health insurance premium for insurance of his wife's health	20,000
(iii) Health insurance premium in respect of parents (senior citizens)	28,000
(iv) Medical expenses of dependent brother with 'severe disability' (covered by Section 2(o) of National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999).	6,000
(v) Interest on loan taken for education of his son studying B.Com (full-time) in a recognized college.	24,000
(vi) Interest on loan taken for education of a student for whom Mr. Raghu is the legal guardian for pursuing B.Sc. (Physics) (full-time) in a recognized university.	20,000

Compute the total income of Mr. Raghu for the assessment year 2013-14.

Answer

Computation of total income of Mr. Raghu for the A.Y. 2013-14

Particulars	₹	₹
Basic salary		12,00,000
Dearness allowance		6,00,000
Bonus		2,00,000
Employer contribution to recognized provident fund in excess of 12% is taxable (3% of 18,00,000)		54,000
Rent free accommodation @ 15% of ₹ 20 lakh (basic salary + dearness allowance + bonus)		<u>3,00,000</u>
		23,54,000
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to recognized provident fund ₹ 1,50,000 restricted to	1,00,000	
Section 80D – Health insurance premium		
Wife ₹ 20,000 restricted to	15,000	
Parents (Senior Citizens) ₹ 28,000 restricted to	<u>20,000</u>	35,000
Section 80DD		
Medical treatment of dependent brother with severe disability (flat deduction irrespective of expenditure incurred)	1,00,000	
Section 80E – Interest on loan taken for full-time education of		
- his son studying B.Com.	24,000	
- a student studying B.Sc. for whom he is the legal guardian	<u>20,000</u>	<u>44,000</u>
Total income		<u>20,75,000</u>

Question 17

Determine the total income of Mr. Chand from the following information for the Assessment Year 2013-14:

Particulars	₹
(i) Interest received on enhanced compensation (It relates to transfer of land in the financial year 2007-08. Out of the above, ₹ 65,000 relates to financial year 2012-13 and the balance relate to preceding years)	4,00,000
(ii) Business loss relating to discontinued business of the assessment year 2007-08 brought forward and eligible for set off	1,50,000
(iii) Current year business income (i.e. financial year 2012-13) (computed)	1,10,000

Answer

Computation of total income of Mr. Chand for A.Y.2013-14

Particulars	₹	₹
Profits and gains of business or profession		
Current year business income	1,10,000	
Less: Brought forward business loss of discontinued business ₹ 1,50,000 set-off to the extent of current year business income as per section 72	<u>1,10,000</u>	Nil
Income from other sources		
Interest on enhanced compensation taxable on receipt basis under section 56(2)(viii)	4,00,000	
Less: Deduction under section 57(iv) @ 50%	<u>2,00,000</u>	<u>2,00,000</u>
Total Income		<u>2,00,000</u>

The unabsorbed business loss of ₹ 40,000 (₹ 1,50,000 – ₹ 1,10,000) of A.Y.2007-08 relating to discontinued business will be carried forward for set-off against income from any business in the next year i.e. A.Y.2014-15.

Question 18

Mr. Dinesh Karthik, a resident individual aged 45, furnishes the following information pertaining to the year ended 31.3.2013:

- (i) He is a partner in Badrinath & Co. He has received the following amounts from the firm:
- Interest on capital at 15% : ₹ 3,00,000
- Salary as working partner (at 1% of firm's sales) (allowed fully to the firm) : ₹ 90,000
- (ii) He is engaged in a business of manufacturing wheat flour from wheat. The Profit and Loss account pertaining to this business (summarised form) is as under:

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

Opening WDV of assets are as under:

Particulars	₹
Car	3,00,000
Machinery (Used during the year for 170 days)	6,50,000
Additions to machinery:	
New purchased on 23.9.2012	2,00,000
New purchased on 12.11.2012	3,00,000
Old purchased on 12.4.2012	1,25,000

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

Of the total bonus amount, ₹15,000 was paid on 11.10.2012.

One-fifth of the car expenses are towards estimated personal use of the assessee.

- (iii) In March, 2011, he had sold a house at Chennai. Arrears of rent relating to this house amounting to ₹75,000 was received in February, 2013.
- (iv) Details of his Savings and Investments are as under:

Particulars	₹
Life insurance premium for policy in the name of his major son employed in LMN Ltd. at a salary of ₹6 lacs p.a. (Sum assured ₹2,00,000) (Policy taken on 1.07.2012)	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 12.3.2006 Principal component ₹55,000 and Interest ₹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 2013-14 and the tax payable by him. Also indicate whether interest, if any, under sections 234A and 234B are payable, assuming that the return was filed on 28th July, 2013.

Computation of interest, if any, is NOT required.

Answer

Computation of total income of Mr. Dinesh Karthik for the A.Y. 2013-14

Particulars		₹	₹
Income from house property			
Arrears of rent received in respect of the Chennai	Note 2	75,000	

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house taxable under section 25B			
Less: Deduction @ 30%		<u>22,500</u>	52,500
Profits and gains of business or profession			
(a) Own business	Note 3		5,33,250
(b) Income from partnership firm (See Note 1)			
Interest on capital		2,40,000	
[As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]			
Salary of working partner		<u>90,000</u>	3,30,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		<u>50,000</u>	<u>74,000</u>
Gross Total Income			9,89,750
Less: Deductions under Chapter VIA			
Section 80C			
Life insurance premium for policy in the name of major son not dependent on the assessee, restricted to 10% of sum assured i.e. 10% of ₹ 2,00,000.	20,000		
Contribution to pension fund of National Housing Bank	<u>70,000</u>	90,000	
Section 80D			
Mediclaime premium for father, a senior citizen (qualifies for deduction, even though the father is not dependent on the assessee)	22,000		
Maximum amount allowable		<u>20,000</u>	<u>1,10,000</u>
Total Income			<u>8,79,750</u>
Computation of tax payable			
Tax on aggregate of non-agricultural income and agricultural income i.e., ₹ 9,39,750 (being, ₹ 8,79,750 + ₹ 60,000)			1,17,950
Less: Tax on the aggregate of agricultural income and basic exemption limit i.e., ₹ 2,60,000 (i.e., ₹ 60,000 + ₹ 2,00,000)			<u>6,000</u>
			1,11,950
Add: Education cess@2%			2,239
Secondary and higher education cess@1%			<u>1,120</u>
			1,15,309
Less: Advance tax		70,000	
TDS		<u>5,000</u>	<u>75,000</u>
Tax payable			<u>40,309</u>

Interest under section 234A

Mr. Dinesh Karthik receives salary of ₹ 90,000 from the firm, Badrinath & Co., which is given as 1% of the firm's sales. Therefore, the turnover of the firm is ₹ 90 lakh, being 90,000/1%. Since the turnover of the firm does not exceed ₹ 100 lakhs, the firm is not subject to tax audit. Since Mr. Dinesh Karthik is a working partner in a partnership firm whose accounts are not subject to tax audit, his due date for filing of return would be 31st July, 2013. Since the return was filed before the due date, no interest is payable under section 234A.

Interest under section 234B

Under section 208, obligation to pay advance tax arises in every case where the advance tax payable is ₹ 10,000 or more. Interest under section 234B is attracted for non-payment of advance tax or payment of advance tax of an amount less than 90% of the assessed tax. Therefore, in this case, interest under section 234B would be attracted on the balance tax payable.

Notes:

- (1) The income by way of interest on capital and salary of Mr. Dinesh Karthik from the firm, Badrinath & Co., in which he is a partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, ₹ 3,30,000 [i.e., ₹ 90,000 (salary) + ₹ 2,40,000 (interest@12%)] should be included in his business income.
- (2) As per section 25B, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee remains the owner of the house property.

(3) Computation of income from own business

Particulars	₹	₹
Net profit as per profit and loss account		4,32,000
Less: Items credited to profit and loss account not treated as business income		
Interest on bank FD (net of TDS ₹ 5,000)	45,000	
Agricultural income	60,000	
Pension from LIC Jeevan Dhara	<u>24,000</u>	<u>1,29,000</u>
		3,03,000
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance tax	70,000	
Depreciation:		
Car	3,00,000	
Machinery	1,25,000	

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Car expenses disallowed	<u>10,000</u>	<u>5,05,000</u>
		8,08,000
Less: Depreciation (See Working Note below)		<u>2,74,750</u>
Income from own business		<u>5,33,250</u>

Working Note

Computation of depreciation allowable under the Income-tax Act, 1961

Particulars	₹	₹
On Car-		
15% on 3,00,000	45,000	
Less: 1/5 th for personal use	<u>9,000</u>	36,000
On Machinery-		
Opening WDV	6,50,000	
Additions during the year (Used for more than 180 days)	<u>3,25,000</u>	
Depreciation at 15% on	9,75,000	1,46,250
Additions during the year (used for less than 180 days)		
Hence, depreciation at 7.5% on	3,00,000	<u>22,500</u>
Total normal depreciation (A)		2,04,750
Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.		
Additional depreciation		
New machinery		
Used for more than 180 days at 20% ₹ 2,00,000	40,000	
Used for less than 180 days at 10% ₹ 3,00,000	<u>30,000</u>	
Total additional depreciation (B)		<u>70,000</u>
Total permissible depreciation (A) + (B)		<u>2,74,750</u>

(4) Withdrawal from Post Office Time Deposit

The deduction under section 80C is allowable in respect of any sum deposited in a five year time deposit in an account under Post Office Time Deposit Rules, 1981 w.e.f. A.Y.2008-09. Clause (xxiv) was inserted by the Finance Act, 2008 in section 80C(2) providing this deduction with effect from A.Y.2008-09. Simultaneously, sub-section (6A) was inserted in section 80C w.e.f. A.Y.2008-09 to bring to tax pre-mature withdrawal (before five years) of the amount so deposited and interest thereon. In the question, it is

clearly mentioned that the deposit was made on 12.3.2006. Therefore, no deduction under section 80C would have been allowable in the P.Y.2005-06 in respect of such deposit, since clause (xxiv) providing for deduction was inserted by the Finance Act, 2008 only w.e.f. A.Y.2008-09. Consequently, sub-section (6A) bringing to tax the withdrawal would not apply in respect of such deposit for which no deduction was allowed under section 80C.

Question 19

From the following details, compute the total income of Siddhant of Delhi and tax payable for the A.Y.2013-14:

Particulars	₹
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 purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 1990, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000 @ 15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- (a) Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- (b) Insurance ₹ 860
- (c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- (d) In the year 2007-08, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.
- (e) Siddhant received a gift of ₹ 25,000 each from four friends.
- (f) He contributed ₹ 5,600 to Public Provident Fund and ₹ 4,000 to Unit Linked Insurance Plan.
- (g) He received national award for humanitarian work from the Central Government in the form of a land whose fair market value is ₹ 5,00,000 as on 31st March, 2013.

Answer

Computation of total income and tax liability of Siddhant for the A.Y. 2013-14

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	<u>11,000</u>	<u>23,000</u>
		3,69,000
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	<u>4,300</u>	
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]	₹ <u>24,000</u>	
	<u>35,310</u>	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss from cotton speculation business	<u>4,200</u>	
Net Loss	<u>1,500</u>	
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)	<u>1,500</u>	
	2,300	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(vii) as the aggregate amount received during the year exceeds ₹ 50,000)		

	<u>1,00,000</u>	<u>1,08,000</u>
Gross Total Income		4,79,390
Less: Deduction under section 80C		
Contribution to Public Provident Fund	5,600	
Unit Linked Insurance Plan	<u>4,000</u>	<u>9,600</u>
Total Income		<u>4,69,790</u>

Particulars	₹
Tax on total income	26,979
Add: Education cess@2%	540
Add: Secondary and higher education cess@1%	<u>270</u>
	<u>27,789</u>
Tax liability (rounded off)	27,790

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) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2013; and
- (3) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi, 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 section 80GG is that the assessee should not own any residential accommodation in the same place.

Question 20

Mr. Janak, working as Finance Manager in Thilagam Realty Ltd., Jaipur, retired from the company on 31.10.2012 at the age of 60. The following amounts were received from the employer from 1st April, 2012 to 31st October, 2012:

Basic Salary	₹ 30,000 p.m.
Dearness Allowance	₹ 20,000 p.m. (40% reckoned for superannuation benefits)
Ex-gratia (lump sum)	₹ 15,000

In addition to the above –

- (i) *The company had taken on lease a residential house at Jaipur, paying a lease rent of ₹ 9,000 p.m. Mr. Janak, who was paying to the company ₹ 6,000 p.m. towards aforesaid rent, vacated the said premises on 31.10.2012.*

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- (ii) The company had also provided to Mr. Janak a cooking range and micro-wave oven owned by it. The original cost of these assets was ₹ 40,000 and the written down value as on 1.4.2012 was ₹ 22,000.
- (iii) Mr. Janak has two sons. His second son was studying in a school run by the employer-company throughout the financial year 2012-13. The education facility was provided free of cost. The cost of such education in a similar school is ₹ 1,800 p.m.
- (iv) The employer-company was contributing ₹ 7,000 p.m. to Central Government Pension Scheme. Mr Janak contributed an equal amount.
- (v) Professional tax paid by the employer ₹ 3,000.
- (vi) Subsequent to his retirement, Mr. Janak started his own business on 15-11-2012. The results of the said business from 15.11.2012 to 31.3.2013 were:
- (i) Business loss (excluding current depreciation) ₹ 90,000
- (ii) Current year's depreciation ₹ 60,000
- (vii) Mr. Janak won a prize in a TV game show. He received a sum of ₹ 42,000 after deduction of tax at source to the tune of ₹ 18,000.
- (viii) Mr. Janak furnishes the under-mentioned data relating to savings, investments and out-goings :
- A. Life insurance premium, with a private insurance company ₹ 30,000 for his son and ₹ 20,000 for his married daughter.
- B. Medical insurance premium of ₹ 12,000 for himself and ₹ 16,000 for his father (aged 82), paid by credit card. His father is however not dependent on him.

You are required to compute the total income of Mr. Janak (showing clearly the computation under various heads of income) and tax payable by him for the assessment year 2013-14.

Answer

Computation of total income of Mr. Janak for A.Y. 2013-14

Particulars	₹	₹
Basic salary = ₹ 30,000 x 7	2,10,000	
Dearness Allowance = ₹ 20,000 x 7	1,40,000	
Ex-gratia	15,000	
Employers' contribution to Central Government Pension Scheme = ₹ 7,000 x 7	49,000	
Professional tax paid by employer	3,000	
Concessional accommodation (See Notes 1 & 2)	150	
Value of furniture (See Note 3)	2,333	
Value of concessional educational facility = (1,800 x 7) (See Note 4)	12,600	
Gross salary	4,32,083	

Less : Deduction under section 16(iii)		
Professional tax	3,000	
Net salary		4,29,083
Income from other sources		
Winnings from TV Game Show (₹ 42,000 + ₹ 18,000)		60,000
Gross Total Income		4,89,083
Less : Deductions under Chapter VI-A		
80C Life insurance premium (30,000 + 20,000)	50,000	
80CCD(1) (See Notes 5)		
Employee's contribution to pension scheme (to be restricted to 10% of salary)	26,600	
Salary = (30,000 + 8,000) × 7 = ₹ 2,66,000		
Total deduction under section 80C & 80CCD(1)	76,600	
Employer's Contribution to pension scheme(to be restricted to 10% of salary) [Section 80CCD(2)] [See Note 5]	26,600	
80D (₹ 12,000 + 16,000) (See Note 6)	28,000	1,31,200
Total Income		3,57,883
Total income (rounded off)		3,57,880

Computation of tax liability of Mr. Janak for the A.Y. 2013-14

Particulars	₹	₹
Tax @ 30% on winnings of ₹ 60,000 from game show (See Note 8)		18,000
Tax on balance income of ₹ 2,97,880		4,788
		22,788
Add : Education cess @ 2%	456	
Secondary and higher education cess @ 1%	228	684
Total Tax Liability		23,472
Less : TDS		18,000
Net Tax Payable		5,472

Notes:

- (1) For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. ₹ 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be ₹ 2,81,000 [i.e., (₹ 30,000 + ₹ 8,000) × 7 + 15,000].
- (2) In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of

lease rental paid or payable by the employer [i.e. ₹ 63,000, being $9,000 \times 7$] and 15% of salary [i.e., ₹ 42,150, being 15% of ₹ 2,81,000]. This value (i.e. ₹ 42,150) would be reduced by the rent paid by the employee (i.e., ₹ 42,000, being $6,000 \times 7$).

The value of concessional accommodation is ₹ 150 [i.e. ₹ 42,150 – ₹ 42,000].

- (3) The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to ₹ 2,333 [i.e. 10% of $40,000 \times 7/12$].

It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.

- (4) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds ₹ 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of ₹ 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be ₹ 12,600 (i.e. $₹ 1,800 \times 7$).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 5,600. The gross salary in that case shall be ₹ 4,25,083 and net salary would be ₹ 4,22,083. The total income and tax liability shall accordingly vary.

- (5) The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD(2) should be restricted to 10% of salary. As per Amendment made by Finance Act, 2011, employer's contribution to pension scheme would be outside the overall limit of ₹ 1 lakh stipulated under section 80CCE. Also the deduction for the employee's contribution to the pension scheme is restricted to 10% of salary.
- (6) The deduction for medical insurance premium of ₹ 16,000 paid for father is allowable in full under section 80D, as the maximum limit is ₹ 20,000, since his father is a senior citizen. Therefore, the total deduction under section 80D would be ₹ 12,000 (for self) + ₹ 16,000 (for father) = ₹ 28,000.
- (7) Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB. No loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.
- (8) As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the assessee has income chargeable under the head "Salaries", the assessee shall not be entitled to have such loss set-off against such income. From a plain reading of the provisions of section 71(2A), it is possible to take a view that even

depreciation cannot be set-off against salary income. Therefore, both business loss and current depreciation cannot be set-off against salary income.

Question 21

Mr. Mahesh, a production manager working in ABC Ltd., New Delhi, receives the following emoluments during the previous year 2012-13:

	₹		₹
Basic salary	1,75,000	Bonus	8,000
D.A. (not forming part of salary)	1,40,000	Medical allowance	5,000
Commission on extra production	12,000	Special allowance	18,000

Education Allowance (including allowance for hostel expenditure) for two sons who are engineering students at Mumbai - ₹16,000.

- (i) *His employer has provided rent free house to him in New Delhi. The house is owned by the employer.*
- (ii) *Electricity bills paid by ABC Ltd. for him during the previous year are of ₹11,500.*
- (iii) *On 1.1.2013, his employer company has given him a CD player for domestic use and a laptop for office and personal use. Ownership of both the assets have not been transferred. The cost of CD player is ₹20,000 and that of laptop is ₹40,000.*
- (iv) *His investments during the previous year are:*
 - (1) *Notified mutual fund ₹25,000*
 - (2) *PPF ₹15,000*
- (v) *He has paid tuition fees of his sons on 17.12.2012 of ₹60,000.*
- (vi) *He has deposited ₹10,000 in Five Year Time Deposit Scheme in Post Office on 25.3.2013.*
- (vii) *His agricultural income during the year is ₹45,000.*
- (viii) *He has received gift of ₹25,000 from his grandfather on 10.6.2012.*
- (ix) *He has gifted his car to his wife on 15.5.2012. She has earned income of ₹30,000 from hiring the same during the previous year.*

Compute the total income and tax payable of Mr. Mahesh for the A.Y. 2013-14.

Answer

Computation of total income of Mr. Mahesh for the A.Y. 2013-14

Particulars	₹
Income from salary (as per note 3)	4,10,053

8.44 Income-tax

Business Income (assuming that his wife carries on the business of hiring of cars) [Income of wife from hiring of car clubbed under section 64(1)(iv)]	<u>30,000</u>
Gross Total Income	4,40,053
Less: Deduction under section 80C (as per note 5)	<u>1,00,000</u>
Total income	3,40,053
Total income (rounded off)	3,40,050

Computation of tax liability of Mr. Mahesh for the A.Y.2013-14

Step 1	₹	₹
Add: Agricultural income and Non-agricultural income (₹ 45,000 + ₹ 3,40,050)		
Tax on ₹ 3,85,050	18,505	
Step 2		
Add: Basic exemption limit to agricultural income (₹ 2,00,000 + ₹ 45,000)		
Tax on ₹ 2,45,000	4,500	
Step 3		
Tax on non-agricultural income (Tax under step 1 – Tax under step 2) (₹ 18,505 – ₹ 4,500)		14,005
Add: Education cess @2% and Secondary and higher education cess @ 1%		<u>420</u>
Total tax liability		<u>14,425</u>
Rounded off		14,430

Notes:

1. Valuation of rent free house

Particulars	₹
Basic salary	1,75,000
D.A. (not to be considered as it is not forming part of salary)	Nil
Commission on extra production	12,000
Bonus	8,000
Special allowance	18,000
Education allowance (See Note 4)	6,400
Medical allowance	<u>5,000</u>
Salary for the purpose of valuation of rent-free house	<u>2,24,400</u>
Value of rent-free house = 15% of ₹ 2,24,400	33,660

2. Valuation of perquisite of CD Player given for use by the employee

Taxable value of this perquisite is 10% p.a. of cost of the CD player w.e.f. 1.1.2013 (i.e. for 90 days)

$$10\% \text{ of ₹ } 20,000 = 2,000 \times 90/365 = ₹ 493$$

Provision of laptop by the employer is a tax-free perquisite.

3. Income from salary

Particulars	₹	₹
Basic pay		1,75,000
D.A.		1,40,000
Bonus		8,000
Commission		12,000
Special Allowance		18,000
Taxable education allowance (See Note-4 below)		6,400
Medical Allowance		<u>5,000</u>
Total		3,64,400
<i>Add : Taxable perquisites :</i>		
1. Rent free accommodation (Note 1)	33,660	
2. Electricity Bill paid by employer	11,500	
3. CD Player given by employer (Note 2)	<u>493</u>	<u>45,653</u>
Taxable salary		<u>4,10,053</u>

4. Education allowance exempt under section 10(14)

Education allowance of ₹ 100 per month per child for a maximum of 2 children plus hostel allowance of ₹ 300 per month per child for a maximum of 2 children is exempt.

$$\text{i.e. } (100 \times 2 \times 12) + (300 \times 2 \times 12) = 2400 + 7200 = ₹ 9,600$$

Therefore, taxable education allowance would be ₹ 16,000 – ₹ 9,600 = ₹ 6,400.

5. Investments/payments deductible under section 80C

Particulars	₹
Investment in notified mutual fund	25,000
Investment in PPF	15,000
Investment in 5 year Time Deposit in Post Office	10,000

8.46 Income-tax

Tuition fees of children (assumed to be paid to an eligible educational institution – hence qualifies for deduction under section 80C)	<u>60,000</u>
	<u>1,10,000</u>

However, the total deduction under section 80C cannot exceed ₹ 1,00,000. This restriction is contained in section 80CCE.

Therefore, the permissible deduction under section 80C would be ₹ 1,00,000

6. Taxability of gift received from grandfather

Gift from a relative is not taxable under section 56(2)(vii). Grandfather is a relative as per the definition of “relative” given in the Explanation to section 56(2)(vii) and hence ₹ 25,000, being gift received from grandfather, is not taxable.

Question 22

Rajat is a Chartered Accountant in practice. He maintains his accounts on cash basis. He is a Resident and ordinarily resident in India. His income and expenditure account for the year ended March 31, 2013 reads as follows:

Expenditure	₹	Income		₹
Salary to staff	5,25,000	Fees earned:		
Stipend to articled assistants	18,000	Audit	6,65,800	
Incentive to articled assistants	5,000	Taxation services	4,68,600	
Office rent	24,000	Consultancy	<u>3,82,000</u>	15,16,400
Printing and stationery	6,600	Dividend on shares of Indian companies (gross)		9,635
Meeting, seminar and conference	38,600	Income from Unit Trust of India		6,600
Repairs, maintenance and petrol of car	22,400	Profit on sale of shares (STT paid)		15,620
Subscription and periodicals	15,000	Honorarium received from various institutions for valuation of answer papers		16,350
Postage, telegram and fax	32,500	Rent received from residential flat let out		84,000
Depreciation	29,500			
Travelling expenses	55,000			

Computation of Total Income and Tax Payable 8.47

Municipal tax paid in respect of house property	1,000		
Net profit	<u>8,76,005</u>		
	<u>16,48,605</u>		<u>16,48,605</u>

Other information:

- (i) The total travelling expenses incurred on foreign tour was ₹ 20,000 which was within the RBI norms.
- (ii) Incentive to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (iii) Repairs and maintenance of car includes ₹ 1,600 for the period from 1.10.2012 to 30.09.2013.
- (iv) Salary include ₹ 30,000 to a computer specialist in cash for assisting Mr. Rajat in one professional assignment.
- (v) ₹ 1,500, interest on loan paid to LIC on the security of his Life Insurance Policy and utilised for repair of computer, has been debited to the drawing account of Mr. Rajat.
- (vi) Medical Insurance Premium on the health of:

Particulars	₹	Mode of payment
Self	10,000	By Cheque
Dependent brother	5,000	By Cheque
Major son dependent on him	3,000	By Cash
Minor married daughter	2,000	By Cheque
Wife dependent on assessee	6,000	By Cheque

- (vii) Shares sold were held for 10 months before sale.
- (viii) Rajat paid life membership subscription of ₹ 1,000 to Chartered Accountants Benevolent Fund. The amount was debited to his drawings account. The Chartered Accountants Benevolent Fund is an approved fund under section 80G of Income-tax, 1961.
- (ix) Depreciation debited to income and expenditure account is as per the rates of Income-tax Rules, 1962.

Compute the total income and tax payable of Rajat for the Assessment year 2013-14.

Answer

Computation of Total Income of Mr. Rajat for Assessment Year 2013-14

Particulars	Working Note Nos.	₹
Income from House Property	1	58,100
Profit and gains of Business or Profession	2	7,73,300
Short-term capital gains	3	15,620
Income from other sources	4	<u>16,350</u>
Gross Total Income		8,63,370
Less: Deduction under Chapter VI-A	5	<u>15,500</u>
Total Income		8,47,870
Tax on total income		
Total Income		8,47,870
Less: Short-term capital gains (See Note 9 below)		<u>15,620</u>
Normal Income		<u>8,32,250</u>
Tax on normal income		96,450
Tax on short-term capital gains @15%		<u>2,343</u>
		98,793
Add: Education cess @ 2% and SHEC @ 1%		<u>2,964</u>
Total tax liability		<u>1,01,757</u>
Total tax liability (rounded off)		1,01,760

Notes :

(1) Income from House Property

Gross annual value	84,000	
Less: Municipal taxes paid by owner	<u>1,000</u>	
Net Annual Value (NAV)	83,000	
Less: Deduction under section 24 @ 30% of NAV	<u>24,900</u>	58,100

Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Net profit as per Profit & Loss Account	8,76,005
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<i>Add:</i> Expenses debited to the Profit & Loss Account but not allowable		
(i)	Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 20,000	30,000
(ii)	Municipal Taxes paid in respect of residential flat let out	<u>1,000</u>
		<u>31,000</u>
		9,07,005
<i>Less:</i> Expenses allowable but not debited to profit and loss account		
	Interest paid on loan taken from LIC used for repair of computer	<u>1,500</u>
		9,05,505
<i>Less:</i> Income credited to Profit & Loss Account but not taxable under this head:		
(i)	Dividend on shares of Indian companies	9,635
(ii)	Income from UTI	6,600
(iii)	Profit on sale of shares	15,620
(iv)	Honorarium for valuation of answer papers	16,350
(v)	Rent received from letting out of residential flat	<u>84,000</u>
		<u>1,32,205</u>
		<u>7,73,300</u>
(3)	Capital gains:	
	Short term capital gain on sale of shares	15,620
(4)	Income from other sources:	
	Dividend on shares of Indian companies	9,635
	Less: Exempt under section 10(34)	<u>9,635</u> Nil
	Income from UTI	6,600
	Less: Exempt under section 10(35)	<u>6,600</u> Nil
	Honorarium for valuation of answer papers	<u>16,350</u> 16,350
(5)	Deduction under Chapter VI-A :	
	Deduction under section 80D (Medical Insurance Premium)	
	Policy holder	Amount of Premium (₹) Amt. eligible for deduction (₹)
	Self	10,000 10,000

8.50 Income-tax

Dependent brother	5,000	Nil
Major son dependent on him	3,000	Nil
Minor married daughter	2,000	Nil
Wife dependent on assessee	<u>6,000</u>	<u>6,000</u>
		<u>16,000</u>
Amount of deduction is restricted to ₹ 15,000		15,000

Deduction under section 80G (Donation)

Donation to CA Benevolent Fund (50% of ₹ 1,000)	<u>500</u>
Total deduction under Chapter VI-A	<u>15,500</u>

Note – Premium paid to insure the health of brother is not eligible for deduction under section 80D. Premium paid to insure the health of son is not eligible for deduction since payment is made in cash. Premium paid to insure the health of minor married daughter is not eligible for deduction as she is not dependent on Mr. Rajat.

- (6) ₹ 20,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with his professional work. Therefore, it requires no further treatment.
- (7) Incentive to articled assistants passing IPCC examination in their first attempt is deductible under section 37(1).
- (8) Repairs and maintenance paid in advance for the period 1.4.2013 to 30.9.2013 i.e. for 6 months amounting to ₹ 800 will be allowed since Mr. Rajat is following the cash system of accounting.
- (9) Since securities transaction tax has been paid on the shares and the period of holding of these shares is less than 12 months, the profit arising there from is a short-term capital gain chargeable to tax at 15% under section 111A.
- (10) Since depreciation debited to income and expenditure account is as per the Income-tax Rules, 1962, no adjustment for the same has been made.

Question 23

Dr. Sparsh Kumar is running a clinic. His Income and Expenditure account for the year ending 31st March, 2013 is given below:

Expenditure	₹	Income	₹
To Staff Salary	4,30,000	By Fees Receipts	12,63,600
To Consumables	9,250	By Dividend from	

Computation of Total Income and Tax Payable 8.51

To Medicine consumed	3,64,800	Indian Companies	9,500
To Depreciation	91,000	By Winning from Lotteries (Net of TDS of ₹ 12,000)	28,000
To Administrative Expenses	1,46,000	By Income-tax refund	2,750
To Donation to Prime Minister's National Relief Fund	15,000		
To Excess of Income over expenditure	<u>2,47,800</u>		
Total	<u>13,03,850</u>	Total	<u>13,03,850</u>

- (i) Depreciation in respect of all assets has been ascertained at ₹ 50,000 as per Income-tax Rules, 1962.
- (ii) Medicines consumed include medicine of (cost) ₹ 16,000 used for his family.
- (iii) Fees Receipts include ₹ 14,000 honorarium for valuing medical examination answer books.
- (iv) He has also received ₹ 80,000 on account of Agricultural Income which had not been included in the above Income and Expenditure Account.
- (v) He has also received ₹ 57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.
- (vi) He received ₹ 6,000 per month as salary from a City Care Centre. This has not been included in the 'Fees Receipts' credited to Income and Expenditure Account.
- (vii) He has sold land in June, 2012 for ₹ 6,00,000 (valuation as per stamp valuation authority ₹ 11,00,000). The land was acquired by him in October, 1998 for ₹ 4,50,000.
- (viii) He has paid premium of ₹ 12,000 for another LIC Policy which was taken on 1.04.2011 (sum assured ₹ 50,000).
- (ix) He has paid ₹ 2,500 for purchase of lottery tickets.
- (x) Donation to Prime Minister Relief Fund has been made by way of an account payee cheque.

From the above, compute the income and tax payable of Dr. Sparsh Kumar for the A.Y. 2013-14.

Cost Inflation Index: F.Y. 1998-99 – 351; F.Y. 2012-13 - 852.

Answer

Computation of total income and tax liability of Dr. Sparsh Kumar for the A.Y. 2013-14

Particulars	₹
Income from salary (Working Note – 1)	72,000

8.52 Income-tax

Income from business (Working Note – 2)	2,65,550
Long-term capital gains (Working Note – 3)	7,692
Income from other sources (Working Note – 4)	<u>54,000</u>
Gross Total Income	3,99,242
Less: Deduction under Chapter VI-A (Working Note – 5)	<u>25,000</u>
Total Income	<u>3,74,242</u>
Tax on total income (Working Note - 6)	26,193
Add: Education cess @ 2% and SHEC @1%	<u>786</u>
Total tax liability	26,979
Less: Tax deducted at source (TDS)	<u>12,000</u>
Tax payable	<u>14,979</u>
Rounded off	<u>14,980</u>

Working Notes:

1. Computation of salary income

Particulars	₹
Gross Salary (6,000×12)	72,000
Less: Deduction under section 16	<u>Nil</u>
Net Salary	<u>72,000</u>

2. Computation of income under the head “Profits and gains of business or profession”

Particulars	₹	₹
Net Income as per Income and Expenditure Account		2,47,800
Add: Expenses disallowed:		
Depreciation (91,000 - 50,000)	41,000	
Cost of medicine for self-use	16,000	
Donation to Prime Minister’s Relief Fund	<u>15,000</u>	<u>72,000</u>
		3,19,800
Less: Dividend from Indian companies	9,500	
Income-tax refund	2,750	
Winning from Lotteries	28,000	
Honorarium for valuing answer books	<u>14,000</u>	<u>54,250</u>
		2,65,550

3. Computation of Capital Gains

Particulars	₹	₹
Sale consideration	6,00,000	
Valuation as per Stamp Valuation Authority (Value to be taken higher of actual sale consideration or valuation adopted for stamp duty purposes as per section 50C)	11,00,000	
Consideration for the purpose of capital gain		11,00,000
Less: Cost of acquisition = 4,50,000x852/351		<u>10,92,308</u>
Long term capital gain		<u>7,692</u>

4. Computation of income under the head "Income from other sources"

Particulars	₹	₹
Dividend from Indian Companies [Exempt u/s 10(34)]		-
Honorarium for valuing answer books		14,000
Winning from Lotteries (Net)	28,000	
Add: TDS	<u>12,000</u>	<u>40,000</u>
Income from other sources		<u>54,000</u>

Note : As per section 58(4), no expense or deduction is allowable in respect of winnings from lotteries.

5. Computation of deduction under Chapter VI-A

Particulars	₹
U/s 80C Life Insurance Premium (maximum 20% of sum assured)	10,000
U/s 80G Donation to Prime Minister's Relief Fund [See Note below]	<u>15,000</u>
Total deduction under Chapter VI-A	<u>25,000</u>

Note –The donation made to the Prime Minister's National Relief Fund qualifies for 100% deduction under section 80G.

6. Computation of tax on total income

Particulars	₹
Tax on agricultural income plus non-agricultural income i.e. tax on ₹ 4,54,242 (being ₹ 80,000 + 3,74,242) [See Note below]	34,193
Less: Tax on agricultural income plus basic exemption limit i.e. tax on ₹ 2,80,000, (being ₹ 80,000 + 2,00,000)	<u>8,000</u>
Tax on total income	<u>26,193</u>

Note : Tax on ₹ 3,74,242 plus agricultural income of ₹ 80,000 is computed hereunder :

8.54 Income-tax

Particulars	₹
Tax on long term capital gain ₹ 7,692 @ 20%	1,538
Tax on winnings from lotteries ₹ 40,000 @ 30%	12,000
Tax on balance income of (₹ 3,26,550+ 80,000)	<u>20,655</u>
	<u>34,193</u>

Note : Agricultural income is exempt from tax. It is considered for rate purpose only.

7. Any sum received under a life insurance policy is wholly exempt from tax under section 10(10D).

Question 24

Dr. Krishna furnishes you the following information:

Income and Expenditure Account for the year ended 31st March 2013

Particulars	₹	Particulars	₹
To Medicines consumed	2,42,000	By Fee receipts	8,47,500
To Staff salary	1,65,000	By Rent	27,000
To Hospital consumables	47,500	By Dividend from Indian companies	9,000
To Rent paid	60,000		
To Administrative expenses	1,23,000		
To Net Income	2,46,000		
	8,83,500		8,83,500

- (i) Rent paid includes rent for his residential accommodation of ₹ 30,000 (paid by cheque) at Bangalore.
- (ii) Hospital equipments (eligible for depreciation @ 15%)
01.04.2012 Opening WDV ₹ 5,00,000
07.12.2012 Acquired (Cost) ₹ 2,00,000
- (iii) Medicines consumed include medicines (cost) ₹ 10,000 used for Dr. Krishna's family.
- (iv) Rent received – relates to a property situated at Mysore (Gross Annual Value). The municipal tax of ₹ 2,000 paid in December, 2012 has been included in the "administrative expenses".

- (v) He received ₹ 5,000 per month as salary from Full Cure Hospital. This has not been included in the "fee receipts" credited to income and expenditure account.
- (vi) He sold a vacant site in July, 2012 for ₹ 5,00,000. It was inherited by him from his father in January, 1998. The site was acquired by his father in December, 1990 for ₹ 1,50,000.
(Cost inflation index 1990-91 = 182; 1997-98 = 331 and 2012-13 = 852)

Compute Dr. Krishna's taxable income for the year ended 31.03.2013.

Answer

Computation of taxable income of Dr.Krishna for the previous year ended 31.03.2013

Particulars	₹	₹
Income from Salaries		
Salary received @ ₹ 5,000 per month		60,000
Income from house property		
Gross annual value	27,000	
Less: Municipal tax	<u>2,000</u>	
Net annual value	25,000	
Less: Deduction under section 24 @ 30%	<u>7,500</u>	17,500
Income from business or profession		
Net income as per income & expenditure account	2,46,000	
Add: Rent paid to residence	30,000	
Medicines consumed – personal use	10,000	
Municipal tax relating to let out property included in administrative expenses – disallowed	<u>2,000</u>	
	2,88,000	
Less: Depreciation (See working note 2)	90,000	
Rent credited to income & expenditure account	27,000	
Dividend from Indian companies [Exempt under section 10(34)]	<u>9,000</u>	1,62,000
Capital Gains (Long term capital gains)		
Sale consideration	5,00,000	
Less: Indexed cost acquisition (1,50,000 x 852/331) (See Note 3)	<u>3,86,103</u>	<u>1,13,897</u>
Gross Total income		3,53,397
Less: Deduction under chapter VIA – Section 80GG		

8.56 Income-tax

Under section 80GG, rent paid would be allowable as a deduction to the extent of the last of the following		
(i) 25% of total income = 25% of ₹ 2,39,500 (See Note 1)	59,875	
(ii) Excess of rent paid over 10% of total income (30,000 - 23,950)	6,050	
(iii) ₹ 2,000 per month	24,000	
Least of the above		<u>6,050</u>
Total Income		<u>3,47,347</u>

Note :

1. Deduction under section 80GG is to be made from Gross Total Income. Gross Total Income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross Total Income and Chapter VI-A deductions should be allowed as if the Gross Total income so reduced were the Gross Total Income of the assessee. Therefore, in this case, for the purpose of allowing deduction u/s 80GG, Gross Total Income = 3,53,397 – 1,13,897 = 2,39,500.
2. Depreciation on plant & machinery

	₹
On opening WDV of ₹ 5,00,000 @ 15%	75,000
On equipment acquired ₹ 2,00,000 @ 15% (50% thereon, since acquired in December)	15,000
	<u>90,000</u>

3. Since the property was acquired by Dr. Krishna through inheritance, the cost of acquisition to him will be the cost to the previous owner. However, indexation will be from the year in which the assessee (i.e., Dr. Krishna in this case) first held the asset i.e. F.Y. 1997-98.

Alternative view: In the case of *CIT v. Manjula J. Shah* 16 Taxmann 42 (Bom.), the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset.

As per this view, the indexation cost of acquisition of property would be ₹ 7,02,198 and long term capital loss would be ₹ 2,02,198.

Question 25

Mr. Pankaj, aged 58 years, who retired from the services of the Central Government on 30.6.2012, furnishes particulars of his income and other details as under:

- ♦ Salary @ ₹ 6,000 p.m.

- ◆ Pension @ ₹ 3,000 p.m. for July 2012 to Nov 2012.
- ◆ On 1.12.2012, he got 1/3rd of his pension commuted for ₹ 1,20,000.
- ◆ A house plot at Ernakulam sold on 1.2.2013 for ₹ 5,00,000 had been purchased by him on 3.11.1979 for ₹ 10,000. The stamp valuation authority had assessed the value of said house plot at ₹ 6,00,000 which was neither disputed by the buyer nor by him. The value of this house plot as on 1.4.1981 was ₹ 15,000 (The cost inflation index for the year 2012-13 is 852).
- ◆ Received interest on bank FDRs of ₹ 72,500, dividend on mutual fund units of ₹ 15,000 and interest on maturity of NSC of ₹ 50,000 out of which an amount of ₹ 40,000 was already disclosed by him on accrual basis in the returns upto assessment year 2012-13.
- ◆ Investment in purchase of NSC for ₹ 30,000 and payment for mediclaim insurance for self and wife of ₹ 12,500. Made investment in Tax Magnum units of Mutual Fund of SBI of ₹ 80,000.

Compute the total income of Mr. Pankaj for A.Y. 2013-14.

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

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

Answer

Computation of total income of Mr. Pankaj for A.Y.2013-14

Particulars	₹
Income from salaries (See Working Note 1)	41,000
Capital gains (See Working Note 2)	4,72,200
Income from other sources (See Working Note 3)	<u>82,500</u>
Gross Total Income	5,95,700
Less: Deductions under Chapter VI-A (See Working Note 4)	<u>1,12,500</u>
Total Income	<u>4,83,200</u>

Working Notes:

1. Income from salaries

Particulars	₹
Salary for 3 months received from Government of India (6000 x 3)	18,000
Pension for 5 months from July 2012 to Nov 2012 @ ₹ 3000 p.m. (3000 x 5)	15,000

8.58 Income-tax

Pension for 4 months from Dec 2012 to March 2013 @ ₹ 2,000 p.m. (2,000x4)	<u>8,000</u>
	<u>41,000</u>

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

2. Capital gains

Particulars	₹
Long term capital gains on sale of house plot at Ernakulam on 01.02.2013	
Sale consideration received is ₹ 5,00,000. However, since the value assessed by the stamp valuation authority (i.e. ₹ 6,00,000) is higher than the sale consideration, such value assessed is deemed to be the full value of the consideration received or accruing as a result of such transfer as per section 50C	6,00,000
Less: Indexed cost of acquisition ₹ 15000 x 852/100	<u>1,27,800</u>
	<u>4,72,200</u>

3. Income from other sources

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

4. Deductions under Chapter VI-A

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

Investment in approved modes

Section 54F (by constructing a new house)

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

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

Section 54EC

In order to avail maximum exemption under section 54EC, the assessee should invest the entire long-term capital gain arising from transfer of the house plot, i.e. ₹ 4,72,200, within six months from the date of sale of house plot, in bonds of National Highways Authority of India (NHAI) or Rural Electrification Corporation Ltd. (RECL). If only part of the capital gain is invested, then the exemption would be restricted to the amount invested in such bonds.

Question 26

The broad break-up of tax and allied details of Mrs. Rinku, born on 30th March, 1948 are as under:

Particulars	₹
Long-term capital gains on sale of house	2,00,000
Short-term capital gains on sale of shares in B Pvt. Ltd.	30,000
Prize winning from a T.V. show	20,000
Business income	2,20,000
Net agricultural income	40,000
Mrs. Rinku has paid the following:	
LIC premium of self	40,000
LIC premium of husband	20,000

Compute the tax payable by Mrs. Rinku for the assessment year 2013-14.

Answer

Computation of tax payable by Mrs. Rinku for the A.Y.2013-14

	Particulars	₹	₹
	Step 1		
Add	Agricultural income and Non-agricultural income (₹ 40,000 + ₹ 4,10,000) [For computation of non-agricultural income, see Note 1 below]		4,50,000

8.60 Income-tax

	Tax on the above income		
(i)	Tax on long-term capital gain of ₹ 1,80,000 @ 20% [2,00,000 – 20,000 (unexhausted basic exemption limit)]	36,000	
(ii)	Tax on winnings of ₹ 20,000 from a T.V. show @ 30%	6,000	
(iii)	Tax on balance income of ₹ 2,30,000	<u>Nil</u>	
	Total tax on ₹ 4,50,000		42,000
Step 2			
Add	Basic exemption limit to agricultural income (₹ 2,50,000 + ₹ 40,000)		2,90,000
	Tax on ₹ 2,90,000		4,000
Step 3			
	Tax on non-agricultural income (Tax under step 1 – Tax under step 2) (₹ 42,000 – ₹ 4,000)		38,000
	Add: Education cess @ 2%		760
	Add: Secondary and higher education cess @ 1%		<u>380</u>
	Tax payable by Mrs. Rinku		<u>39,140</u>

Notes :

1. Computation of total income of Mrs. Rinku for the A.Y.2013-14

Particulars	₹	₹
Business income		2,20,000
Long term capital gains on sale of house		2,00,000
Short term capital gains on sale of shares in B Pvt. Ltd		30,000
Prize winnings from a T.V. show		<u>20,000</u>
Gross Total Income		4,70,000
Less: Deduction under section 80C		
Life insurance premium of self	40,000	
Life insurance premium of husband	<u>20,000</u>	<u>60,000</u>
Total Income		<u>4,10,000</u>

- Mrs. Rinku is of 65 years of age during the P.Y.2012-13. Therefore, she is a senior citizen entitled to the higher basic exemption limit of ₹ 2,50,000.
- Short-term capital gains on sale of shares in B Pvt. Ltd. is taxable at normal rates.

Question 27

Ramdin working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2013:

- Basic Salary ₹ 15,000 p.m.
- DA (50% of it is meant for retirement benefits) ₹ 12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company ₹ 50 lacs
- Bonus ₹ 50,000
- Gratuity ₹ 30,000
- Own Contribution to R.P.F. ₹ 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a.. ₹ 15,000
- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2012 by the company for ₹ 85,000 and was given to him for personal use.
- Two old heavy goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs, dividend of ₹ 1,260 from shares of Indian Companies and interest of ₹ 7,540 from the debentures of Indian Companies.
- Made payment by cheques of ₹ 15,370 towards premium of Life Insurance policies and ₹ 12,500 for Mediclaim Insurance policy.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for the A.Y. 2013-14.

Answer

Computation of Total Income for the A.Y. 2013-14

Particulars	₹	₹
Income from Salaries		
Basic Salary (15,000 x 12)		1,80,000
Dearness Allowance (12,000 x 12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (Note 1)		30,000

8.62 Income-tax

Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (Note 2)	<u>33,240</u>	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	<u>9,500</u>	5,500
Gift of gold ring worth ₹ 10,000 on 25 th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		<u>8,500</u>
		4,55,760
Profits and Gains of Business or Profession		
Lease of 2 trucks on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 5,000 p.m. for each of the two trucks (5,000x 2 x12). He cannot claim lower profits and gains since he has not maintained books of account.		1,20,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest from debentures	7,540	
Dividend on shares [Exempt under section 10(34)]	<u>Nil</u>	<u>13,400</u>
Gross total Income		5,89,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	<u>30,000</u>	
Total	<u>1,25,370</u>	
Limited to	1,00,000	
Section 80D - Mediclaim Insurance	12,500	
Section 80G (Note 4)	<u>10,600</u>	<u>1,23,100</u>
Total Income		4,66,060
Tax on total income		
Income-tax		26,606
Add: Education cess @ 2%		532

Add: Secondary and higher education cess @ 1%		266
Total Tax Payable		27,404
Tax Payable (rounded off)		27,400

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)

$$= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$$

$$= 12\% \text{ of } 2,77,000$$

$$= \text{₹ } 33,240$$
- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of *Circular No.15/2001 dated 12.12.2001* that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,50,760.
- Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Gross Total Income i.e. ₹ 47,666, whichever is lower)	<u>5,500</u>
Total deduction	<u>10,600</u>

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D = ₹ 5,89,160 – ₹ 1,12,500 = ₹ 4,76,660.

Question 28

Dr. Niranjana, a resident individual, aged 60 years is running a clinic. Her Income and Expenditure Account for the year ending March 31st, 2013 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	5,38,400	By Consultation and Medical charges	18,85,850
To Staff salary	3,80,000	By Income-tax refund (Principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI	10,500
To Rent paid	90,000	By winning from game show on	

8.64 Income-tax

		T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved under section 35	1,50,000		
To Net profit	<u>4,40,400</u>		
	<u>19,63,800</u>		<u>19,63,800</u>

- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
- | | | |
|-----------|-----------------|--------------|
| 1.4.2012 | Opening W.D.V. | - ₹ 5,00,000 |
| 7.12.2012 | Acquired (cost) | - ₹ 2,00,000 |
- (iii) Rent received relates to property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2012, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the year 2012-13.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 18,000 has also been paid by cheque on 27th March, 2013 for her medical insurance premium.

From the above, compute the total income and tax payable thereon by Dr. Smt. Niranjana for the Assessment year 2013-14.

Answer

Computation of total income and tax liability of Dr. Niranjana for A.Y. 2013-14

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 x 12)			90,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less : Municipal taxes paid		<u>2,000</u>	
	Net Annual Value (NAV)		25,000	

	Less : Deduction under section 24 @ 30% of ₹ 25,000		<u>7,500</u>	17,500
III	Income from profession			
	Net profit as per Income and Expenditure account		4,40,400	
	Less : Items of income to be treated separately			
	(i) Rent received	27,000		
	(ii) Dividend from units of UTI	10,500		
	(iii) Winning from game show on T.V. (net of TDS)	35,000		
	(iv) Income tax refund	<u>5,450</u>	<u>77,950</u>	
			3,62,450	
	Less : Allowable expenditure			
	Depreciation on Clinic equipments			
	on ₹ 5,00,000 @ 15%	75,000		
	on ₹ 2,00,000 @ 7.5%	15,000		
	(On equipments acquired during the year after September 2012 she is entitled to depreciation @ 50% of normal depreciation)			
	Additional deduction of 75% for amount paid to scientific research association (Since weighted deduction of 175% is available in respect of such payment)	<u>1,12,500</u>	<u>2,02,500</u>	
			1,59,950	
	Add: Items of expenditure not allowable while computing business income			
	(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	<u>2,000</u>	<u>32,000</u>	1,91,950
IV	Income from other sources			
	(a) Interest on income-tax refund		450	
	(b) Dividend from UTI	10,500		
	Less : Exempt under section 10(35)	<u>10,500</u>	Nil	
	(c) Winnings from the game show on T.V. (₹ 35,000 + ₹ 15,000)		<u>50,000</u>	<u>50,450</u>
	Gross Total Income			3,49,900
	Less: Deductions under Chapter VI A:			

8.66 Income-tax

(a) Section 80C - Tuition fee paid to university for full time education of her daughter	1,00,000	
(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)	18,000	
(c) Deduction under section 80E - Interest on loan taken for higher education is deductible	<u>55,000</u>	<u>1,73,000</u>
Total income		<u>1,76,900</u>
Tax Payable		
Tax @ 30% on winnings of ₹ 50,000 from T.V. game show		15,000
Tax on balance income of ₹ 1,26,900		<u>Nil</u>
Add: Education cess @ 2%		15,000
Add: Secondary and higher education cess @ 1%		300
Total Tax payable		<u>150</u>
Less: TDS		15,450
Net Tax Payable		<u>15,000</u>
		450

Notes:

- The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- Since Dr. Niranjana is staying in a rented premise in Surat itself, she would not be eligible for deduction u/s 80GG, since she owns a house in Surat which she has let out.

Question 29

Mr. X is a resident individual. His Profit and Loss account for the year ending 31st March, 2013 is given below:

To	₹	By	₹
General charges	35,650	Gross Profit	5,25,860
Insurance	3,500	Commission	6,800
Staff Salary	1,12,560	Rent received	37,500
Donation to political party	1,000	Interest on debentures (Net	

Computation of Total Income and Tax Payable 8.67

		amount ₹ 22,500 plus TDS ₹ 2,500)	25,000
Depreciation	1,25,656	Agricultural income	45,000
Administrative expenses	42,500	Short term capital gain on sale of investment	29,000
Advance tax	17,000	Dividend from Indian Company	16,000
Net Profit	<u>3,47,294</u>		
	<u>6,85,160</u>		<u>6,85,160</u>

- (i) Depreciation has been calculated as per the Income-tax Rules, 1962 at ₹75,000
- (ii) He has deposited ₹ 35,000 in a notified scheme under Post Office Time Deposit Rules, 1981 for a five year time period.
- (iii) He had bought 200 shares of AB Co. Ltd. on 5.12.2011 @ ₹75 each, 150 shares of PQ Co. Ltd. on 3.8.2012 @ ₹112 each and 150 shares of AB Co. Ltd. on 05.09.2012 @ ₹60 each. He sold all the shares of AB Co. Ltd. on 15.12.2012 @ ₹98 each and sold the shares of PQ CO. Ltd. on 10.3.2013 @ ₹102 each. All shares were sold in National Stock Exchange through a registered broker.
- (iv) One of his life insurance policies matured on 14.6.2012. The sum assured was ₹1,00,000 and amount received on maturity was ₹1,62,850.
- (v) Donation to the political party represented the contribution made to a political party registered under section 29A of the Representation of the People Act, 1951.
- (vi) Income tax department refunds ₹ 42,580 (including interest of ₹ 1,470) which was directly credited in his personal savings account.
- (vii) He incurred expenditure of ₹ 40,000 on treatment of his dependent father who was suffering from specified disease as defined in rule 11DD of Income-tax Rules, 1962. The payment of medical expenses was made by cheque and an amount of ₹ 7,500 was reimbursed to him by an insurance company.
- (viii) Bad debt of a business which was discontinued in earlier years, recovered during the year ₹15,000.

Compute total income and tax payable thereon by Mr. X for the assessment year 2013-14.

Answer

Computation of taxable income of Mr. X for the A.Y. 2013-14

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

8.68 Income-tax

Less : Deductions under Chapter VIA			
(i) Deduction under section 80C (Note 5)		35,000	
(ii) Deduction under section 80DDB in respect of expenditure on medical treatment incurred on treatment of his father	40,000		
Less: Expenditure reimbursed by insurance company	<u>7,500</u>	32,500	
(iii) Deduction under section 80GGC in respect of contribution to the Political Party (Note 11)		<u>1,000</u>	<u>68,500</u>
Total income			<u>2,95,870</u>
Components of total income			
Special Income			
Short-term capital gains from sale of shares (chargeable at a special rate of 15% u/s 111A)		4,200	
Normal income		<u>2,91,670</u>	
		<u>2,95,870</u>	

Computation of tax payable by Mr. X for the A.Y. 2013-14

Particulars	₹	₹
Tax on short-term capital gains from sale of shares @ 15% of ₹ 4,200		630
Tax on agricultural income plus non-agricultural income aggregating to ₹ 3,36,670		
First ₹ 2,00,000	NIL	
Next <u>₹ 1,36,670 @ 10%</u>	<u>13,667</u>	
<u>₹ 3,36,670</u>	13,667	<u>13,667</u>
		14,297
Less: Tax on agricultural income plus basic exemption limit aggregating to ₹ 2,45,000		
First ₹ 2,00,000	NIL	
Next <u>₹ 45,000 @ 10%</u>	<u>4,500</u>	
<u>₹ 2,45,000</u>	4,500	<u>4,500</u>
Income tax payable		9,797
Add : Education cess @ 2%		196
Secondary and higher education cess@1%		<u>98</u>
Total tax		10,091

Less : Tax deducted at source	2,500
	7,591
Less: Advance tax paid	17,000
Tax refundable	<u>9,409</u>

Notes:

1. Computation of Income from House Property

Particulars	₹
Gross Annual Value (GAV)	37,500
Rent received is taken as the GAV in the absence of other information	
Less: Municipal taxes paid	Nil
Net Annual Value (NAV)	37,500
Less: Deduction under section 24 @ 30% of NAV	<u>11,250</u>
	<u>26,250</u>

2. Computation of Profits and gains of business or profession

Particulars	₹	₹
Net profit as per Profit & Loss account		3,47,294
Add : Inadmissible expenses		
Depreciation charges	1,25,656	
Advance tax (Note 9)	17,000	
Donation to political party	<u>1,000</u>	
		1,43,656
Add: Recovery of bad debt (Note 8)		<u>15,000</u>
		5,05,950
Less: Income chargeable under any other head / exempt income		
Rent received	37,500	
Interest on debentures (gross)	25,000	
Agricultural income (Note 10)	45,000	
Short term capital gain on sale of investment	29,000	
Dividend from Indian Company (Note 10)	<u>16,000</u>	
		1,52,500
		3,53,450
Less: Depreciation as per Income-tax Rules, 1962		<u>75,000</u>
		<u>2,78,450</u>

3. Computation of Capital Gains

Particulars	₹	₹
Short term capital gains on sale of investment		29,000
Short term capital gains on sale of shares		
Shares of AB Co. Ltd.		
Sale consideration 150 shares @ ₹ 98 each	₹ 14,700	
Less: Cost of 150 shares @ ₹ 60 each	₹ <u>9,000</u>	5,700
Shares of PQ Co. Ltd.		
Sale consideration 150 shares @ ₹ 102 each	₹ 15,300	
Less: Cost of 150 shares @ ₹ 112 each	₹ <u>16,800</u>	<u>(1500)</u>
		<u>4,200</u>
		33,200
Long term capital gains on sale of shares		
Since the holding period of 200 shares of AB Co. Ltd. is more than 12 months, the capital gain on sale of such shares is a long-term capital gain and hence, exempt from income-tax under section 10 (38).		
Capital Gains		<u>Nil</u>
		33,200

4. Computation of Income from other sources

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

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

Question 30

Dr. Parekh is a resident individual. His Income and Expenditure Account for the year ending 31st March, 2013 is given below:

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

- (i) He has deposited ₹ 70,000 in PPF.
- (ii) He received salary of ₹ 1,50,000 and commission of ₹ 50,000 from a nursing home in which Dr. (Mrs.) Parekh is also an equal partner.
- (iii) He received fees of ₹ 50,000 from University of Trinidad as lecturer.
- (iv) Received pension of ₹ 84,000 from LIC Jeevan Suraksha.
- (v) Paid ₹ 22,500 by cheque as mediclaim insurance premium for his medical treatment.
- (vi) He paid LIC premium of ₹ 80,000 for his own life.
- (vii) Cost of administration includes ₹ 3,000 paid for municipal tax for the house let out to a tenant.
- (viii) Depreciation as per Income-tax Rules, 1962 to be computed as follows:

WDV as on 1.4.2012	Rs 3,00,000
Rate of depreciation	@ 15%
- (ix) Cost of lottery tickets amounting to ₹ 350 has not been debited to Income and Expenditure account.

You are required to compute the total income and tax payable thereon by Dr. Parekh for the assessment year 2013-14.

Answer

Computation of total Income and tax payable by Dr. Parekh for the A. Y. 2013-14

Particulars	₹	₹
Income from House Property (Note 1)		11,900
Profits and gains of business or profession (Note 2)		8,71,000
Income from other sources (Note 3)		<u>2,60,400</u>
Gross Total income		11,43,300
Less: Deductions under Chapter VIA		
(i) Deduction under section 80C		
Investment in PPF	70,000	
Life insurance premium paid	<u>80,000</u>	
	<u>1,50,000</u>	
Deduction restricted to	1,00,000	
(ii) Deduction under section 80D		
Mediclaim premium of ₹ 22,500 paid by cheque for himself. However, deduction restricted to	<u>15,000</u>	<u>1,15,000</u>
Total income		<u>10,28,300</u>
Components of Total Income		
Special income :		
Winning from lotteries (chargeable at special rate @ 30% under section 115BB)		10,000
Normal income		<u>10,18,300</u>
		<u>10,28,300</u>
Computation of Tax		
Tax on winnings from lotteries @ 30%		3,000
Tax on normal income (₹ 10,18,300)		
First ₹ 2,00,000 Nil	NIL	
Next ₹ 3,00,000 10%	30,000	
Next ₹ 5,00,000 20%	1,00,00	
Balance ₹ 18,300 30%	<u>5,490</u>	<u>1,35,490</u>
<u>₹ 10,18,300</u>		
Income tax payable		1,38,490
Add: Education cess @2%		2,770
Secondary and higher education cess @1%		<u>1,385</u>
Total Tax Payable		<u>1,42,645</u>
Total Tax Payable (Rounded off)		1,42,650

Less: Tax deducted at source		
From Interest	3,000	
From lottery income	<u>3,000</u>	<u>6,000</u>
		1,36,650
Less : Advance tax paid		<u>2,40,000</u>
Refund		<u>(-) 1,03,350</u>

Notes:

1. Computation of Income from House Property

Particulars	₹
Gross Annual Value – Rent received (treated as fair rent)	20,000
Less : Municipal taxes paid	<u>3,000</u>
Net Annual Value (NAV)	17,000
Less : Statutory deduction under section 24 @ 30% of NAV	<u>5,100</u>
Income from House Property	<u>11,900</u>

2. Computation of Profits and gains of business or profession

Particulars	₹	₹
Net Profit as per Income & Expenditure Account		5,70,900
Add : Depreciation charged	42,500	
Municipal Taxes paid	3,000	
Advance Tax (See Note-4)	<u>2,40,000</u>	<u>2,85,500</u>
		8,56,400
Less: Rent received	20,000	
Interest on Post Office MIS	86,400	
Interest on Term Deposit with bank (Net of TDS)	27,000	
Winning from lotteries (Net of TDS)	7,000	
Depreciation as per Income-tax Act, 1961	<u>45,000</u>	<u>1,85,400</u>
		6,71,000
Salary from Nursing Home as partner	1,50,000	
Commission from Nursing home as partner	<u>50,000</u>	<u>2,00,000</u>
Income from business		<u>8,71,000</u>

3. Computation of Income from Other Sources

Particulars	₹
Interest Post Office MIS	86,400
Interest on Term Deposit with Bank (Gross)	30,000
Winning from lotteries (Gross)	10,000
Fees from University of Trivlad	50,000
Pension from LIC Jeevan Suraksha	<u>84,000</u>
Income from Other Sources	<u>2,60,400</u>

4. Advance Tax is not allowable as deduction.

5. Depreciation of Apparatus :

	₹
WDV as on 1.4.2012	3,00,000
Depreciation @15%	<u>45,000</u>
WDV as on 31.3.2013	<u>2,55,000</u>

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

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

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

Question 31

From the following particulars furnished by Mr. X for the year ended 31.3.2013, you are requested to compute his total income and tax payable for the assessment year 2013-14.

- Mr. X retired on 31.12.2012 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Mumbai.*
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.*
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was not covered by the payment of Gratuity Act. His average salary in this regard may be taken as ₹ 24,500. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.*
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.*

- (e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2013.
- (f) Mr. X has invested ₹ 62,500 in public provident fund and ₹ 37,500 in National Savings Certificates.

Answer

Computation of total income of Mr. X for A.Y.2013-14

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance		
Actual amount received	54,000	
Less : Exemption under section 10(13A)(Note 1)	<u>36,000</u>	18,000
Gratuity		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(iii) (Note 2)	<u>3,06,250</u>	43,750
Leave encashment		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	<u>2,45,000</u>	<u>70,000</u>
Gross Salary		3,56,750
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		<u>Nil</u>
Gross Total income		3,56,750
Less : Deduction under section 80C		
Investment in public provident fund	62,500	
Investment in NSC	<u>37,500</u>	<u>1,00,000</u>
Total income		2,56,750
Tax on total income		5,675
Add : Education cess @ 2% and Secondary and higher education cess @ 1%		<u>170</u>
Tax payable		<u>5,845</u>
Tax payable (rounded off)		5,850

Note :

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

8.76 Income-tax

- (i) HRA actually received (6,000 x 9) 54,000
- (ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months 36,000
- (iii) 50% salary 1,12,500
- (2) Gratuity of ₹ 3,06,250 is exempt under section 10(10)(iii), being the minimum of the following amounts :
- (i) Actual amount received 3,50,000
- (ii) Half month average salary for each year of completed service (1/2 x 24,500 x 25) 3,06,250
- (iii) Statutory limit 10,00,000
- (3) Leave encashment is exempt upto the least of the following:
- (i) Actual amount received 3,15,000
- (ii) 10 months average salary (24,500 x 10) 2,45,000
- (iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (see note 4 below) 3,06,250
- (iv) Statutory limit 3,00,000
- (4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr.X on the basis of
30 days for every year of actual service
rendered by him to the employer = 30 days/year x 25 = 750 days

Less: Leave taken /availed by Mr.X during
the period of his service = 15 days/year x 25 = 375 days

Earned leave to the credit of Mr.X at the
time of his retirement 375 days

Cash equivalent of earned leave to the
credit of Mr.X at the time of his retirement = $375 \times 24,500 / 30 = ₹ 3,06,250$

Question 32

- (i) Smt. Savita Rani was born on 01.07.1944. She is a Deputy Manager in a Company in Mumbai. She is getting a monthly salary and D.A. of ₹ 45,000 and ₹ 12,000 respectively. 50% of DA forms part of pay. She also gets a House Rent Allowance of ₹ 6,000 per month. She is a member of Recognised P.F. wherein she contributes 15% of her salary of ₹ 51,000 p.m. (45,000 + 6,000, being 50% of DA). Her employer also contributes an equal amount.
- (ii) She is living in the house of her minor son in Mumbai.

- (iii) During the previous year 2012-13, her minor son has earned an income of ₹ 30,000 (computed) as rent from a House Property, which had been transferred to him by Smt. Savita Rani without consideration a few years back.
- (iv) During the previous year 2012-13, she sold Government of India Capital Indexed Bonds for ₹ 1,50,000 on 30.09.2012, which she purchased on 01.07.2001 for ₹ 80,000 (Cost inflation index – F.Y. 2001-2002: 426 and for the F.Y. 2012-13: 852).
- (v) Her employer gave her an interest free loan of ₹ 1,50,000 on 01.10.2012 to one of her son's wife for the purchase of an Alto Maruti Car. Nothing has been repaid to the company towards the loan. The lending rate on SBI for a similar loan is 8% as on 01.04.2012.
- (vi) During the previous year 2012-13 she paid ₹ 15,000 by cheque to GIC towards Medical Insurance Premium of her dependent mother.

Compute the taxable income and tax liability of Mrs. Savita Rani for the A.Y. 2013-14.

Answer

Computation of taxable income and tax liability of Smt. Savita Rani for A.Y. 2013-14

Particulars	₹	₹
Income from salary		
Basic salary (₹ 45,000 x 12)		5,40,000
Dearness Allowance (₹ 12,000 x 12)		1,44,000
House Rent allowance (fully taxable)		72,000
Employer's contribution to recognized provident fund in excess of 12% is taxable as salary income		
12% of salary is ₹ 73,440. Employer's contribution is 15% of salary, which is ₹ 91,800		
Excess contribution is (₹ 91,800 – ₹ 73,440)		18,360
Perquisite in respect of interest free loan (₹ 1,50,000 x 8% x ½)		<u>6,000</u>
Net Salary		7,80,360
Income from house property (See Note below)		30,000
Long term Capital Gain:		
Sale consideration of GOI capital indexed bonds	1,50,000	
Less: Indexed cost of acquisition (₹ 80,000 x 852/426)	<u>1,60,000</u>	
Long-term capital loss (to be carried forward)	<u>10,000</u>	
Gross Total Income		8,10,360
Deduction under section 80C – in respect of recognized provident fund contribution	91,800	
Deduction under section 80D – Mediclaim	<u>15,000</u>	<u>1,06,800</u>
Total Income		<u>7,03,560</u>

8.78 Income-tax

Tax Payable on ₹ 7,03,560		65,712
Add : Education cess and Secondary and higher education cess @ 3%		<u>1,971</u>
Total tax payable		<u>67,683</u>
Total tax payable (rounded off)		67,680

Note: As per section 27, any property transferred to the minor child without adequate consideration would be deemed to be the property of the assessee. Therefore, the income from house property of ₹ 30,000 (computed) is to be assessed in the hands of Smt. Savita Rani.

Question 33

Ramesh retired as General manager of XYZ Co. Ltd. on 30.11.2012 after rendering service for 20 years and 10 months. He received ₹ 3,00,000 as gratuity from the employer. (He is not covered by Gratuity Act, 1972).

His salary particulars are given below :

Basic pay	₹ 10,000 per month up to 30.6.2012
Basic pay	₹ 12,000 per month from 1.7.2012
Dearness allowance (Eligible for retirement benefits)	50% of basic pay
Transport allowance	₹ 1,500 per month

He resides in his own house. Interest on monies borrowed for the self occupied house is ₹ 24,000 for the year ended 31.03.2013.

From a fixed deposit with a bank, he earned interest income of ₹ 18,000 for the year ended 31.03.2013.

Compute taxable income of Ramesh for the year ended 31.03.2013.

Answer

Computation of taxable income of Ramesh for the A.Y. 2013-14

Particulars	₹	₹
Income from salary		
Basic pay : April to June (10,000 x 3)		30,000
Basic pay : July to November (12,000 x 5)		60,000
Dearness allowance @ 50% basic pay		45,000
Transport allowance (₹ 1500 x 8) less exemption @ ₹ 800 per month (12,000 – 6,400)		5,600
Gratuity		
(i) Statutory limit ₹ 10,00,000		
(ii) Half month average salary [See Note below] ₹ 8,100 x 20 yrs = ₹ 1,62,000		

(iii) Actual amount received = ₹ 3,00,000		
Least of the above i.e. ₹ 1,62,000 is exempt. Balance is taxable (₹ 3,00,000 – ₹ 1,62,000)		1,38,000
		2,78,600
Income from house property:		
Self occupied – ALV	Nil	
Less: Interest on monies borrowed under section 24(b)	24,000	(24,000)
Income from other sources:		
Fixed deposit interest		18,000
Total income		2,72,600

Note :

Average salary of 10 months preceding the date of retirement is to be computed :

	₹
Basic pay ₹ 10,000 x 6	60,000
Basic pay ₹ 12,000 x 4	48,000
Total	1,08,000
Add: 50% of Dearness Allowance—eligible for retirement benefits	54,000
	<u>1,62,000</u>
Average salary : ₹ 1,62,000/10	16,200
Half month average salary ₹ 16,200 / 2	8,100

Question 34

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2013:

S.No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	10,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	50,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,00,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	10,000	--

8.80 Income-tax

7.	Mediclaime policy premium paid	--	5,000
8.	Tax saving bond purchased in March, 2013	30,000	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income of Mrs. Rosy and Mrs. Mary for the Assessment Year 2013-14 and tax thereon.

Answer

Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y.2013-14

S. No.	Particulars	Mrs. Rosy	Mrs. Mary
		₹	₹
(I)	Salaries Pension received from State Government Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India		10,000
			<u>10,000</u>
(II)	Income from house property Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent) Less: Deduction under section 24(a) @ 30%	60,000 <u>18,000</u> 42,000	30,000 <u>9,000</u> 21,000
(III)	Capital gains Long-term capital gain on sale of land at Mumbai Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	1,00,000 <u>20,000</u> 1,20,000	50,000 <u>2,00,000</u> 2,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	2,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	10,000	
	3. Tax Saving Bond (assuming that they are notified infrastructure bonds eligible for deduction under section 80C)	<u>30,000</u>	<u>20,000</u>
		40,000	30,000

2.	Deduction under section 80D – Medici claim premium paid (assuming that the same is paid by cheque)	<u>40,000</u>	<u>5,000</u> 35,000
(B)	Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112	<u>40,000</u>	<u>31,000</u>
(C)	Total income (A-B)	<u>1,22,000</u>	<u>2,50,000</u>
	Tax liability of Mrs. Rosy for A.Y. 2013-14		
	Tax on long-term capital gains @ 20%	20,000	Nil
	Tax on short-term capital gains @ 15%	<u>3,000</u>	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2013-14		
	Tax on short-term capital gains @ 15% of ₹ 50,000 [i.e. ₹ 2,00,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A]		7,500
	Education cess @ 2% & SHEC@ 1%	<u>690</u>	<u>225</u>
	Total tax payable	<u>23,690</u>	<u>7,725</u>

Note :

- (1) Long-term capital gains is chargeable to tax @ 20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @ 15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains/short-term capital gains will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15% respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can set-off unexhausted basic exemption limit against long-term capital gains and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,00,000 against long-term capital gains of ₹ 50,000 and the balance limit of ₹ 1,50,000 (i.e., 2,00,000 – 50,000) against short-term capital gains.

Question 35

Mr. Rajesh is serving in a public limited company as General Manager (Finance). His total emoluments for the year ended 31st March, 2013 are as follows:

Basic Salary	₹ 5,40,000
HRA (Computed)	₹ 1,80,000
Transport allowance	₹ 12,400

8.82 Income-tax

Apart from the above, his employer has sold the following assets to him on 1st January, 2013:

- (i) Laptop computer for ₹ 20,000 (Acquired in September, 2011 for ₹ 1,20,000)
- (ii) Car 1800 cc for ₹ 3,20,000 (purchased in April, 2010 for ₹ 8,50,000)

He also owns a residential house, let out for a monthly rent of ₹ 15,000. The fair rental value of the property for the let out period is ₹ 1,50,000. The house was self-occupied by him from 1st January, 2013 to 31st March, 2013. He has taken a loan from Bank of ₹ 20 lacs for the construction of the property, and has repaid ₹ 1,05,000 (including interest ₹ 40,000) during the year.

Mr. Rajesh sold shares of different Indian companies on 14th April, 2012:

Name	Sale value (per share)	Purchase price (per share)	Acquired on	No. of shares
A Ltd.	₹ 150	₹ 120	2 nd May, 2007	200
B Ltd.	₹ 82	₹ 65	16 th April, 2011	125

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration. He received income-tax refund of ₹ 5,750 (including interest ₹ 750) relating to the assessment year 2011-12.

Compute the total income of Mr. Rajesh for the Assessment Year 2013-14.

Answer

Computation of total income of Mr. Rajesh for the A.Y. 2013-14

Particulars	₹
Income from salaries (Working note 1)	9,86,800
Income from house property (Working note 2)	1,00,000
Capital gains	
Short-term capital gains (Working note 3)	2,115
Income from other sources: Interest on Income-tax refund	750
Gross Total Income	10,89,665
Less: Deduction under Chapter VIA	
Deduction under section 80C	
Repayment of housing loan (principal) [See Note below]	65,000
Total Income	10,24,665
Total Income (rounded off)	10,24,670

Working Notes :

	Particulars	₹	₹
1.	Income from salaries		
	Basic Salary		5,40,000
	HRA (computed)		1,80,000
	Transport allowance	12,400	
	Less: Exempt under section 10(14) [₹ 800 × 12]	<u>9,600</u>	2,800
	Perquisites (relating to sale of movable assets by employer)		
	<i>Laptop Computer</i>		
	Cost [September, 2011]	1,20,000	
	Less: Depreciation at 50% for one completed year	<u>60,000</u>	
	WDV [September, 2012]	60,000	
	Less: Amount paid to the employer	<u>20,000</u>	
	Perquisite value of laptop (A)	<u>40,000</u>	
	<i>Car</i>		
	Cost [April, 2010]	8,50,000	
	Less: Depreciation for the 1 st year (April'10 to March'11) @ 20% of WDV	<u>1,70,000</u>	
	WDV [April, 2011]	6,80,000	
	Less: Depreciation for the 2 nd year (April'11 to March'12) @ 20% of WDV	<u>1,36,000</u>	
	WDV [April, 2012]	5,44,000	
	Less: Amount paid to the employer	<u>3,20,000</u>	
	Perquisite value of car (B)	<u>2,24,000</u>	
	Perquisite value (A) + (B)		<u>2,64,000</u>
	Income chargeable under the head "Salaries"		<u>9,86,800</u>
2.	Income from house property		
	Section 23(2) provides that the annual value of a self-occupied house shall be taken as Nil. However, section 23(3) provides that the benefit of self-occupation would not be available if the house is actually let during the whole or part of the previous year. This implies that the benefit of taking the annual value as nil would be available only if the house is self-occupied for the whole year. In this case, therefore, the benefit of taking annual value as Nil is not available since the house is self-occupied only for 3 months. In such a case, the gross annual value has to be computed as per section 23(1). Accordingly, the fair rent for the whole year should be compared with the actual rent for the let-out period and whichever is higher shall be adopted as the Gross Annual Value.		

Particulars	₹	₹
Gross Annual Value (higher of fair rent for the whole year and actual rent for the let-out period)		2,00,000
Fair rent for the whole year = ₹ 1,50,000 × 12/9	2,00,000	
Actual rent received = ₹ 15,000 × 9	1,35,000	
Less: Municipal taxes		Nil
Net Annual Value (NAV)		2,00,000
Less: Deductions under section 24		
30% of NAV	60,000	
Interest on loan [See Note below]	<u>40,000</u>	<u>1,00,000</u>
Income from house property		<u>1,00,000</u>
Note : It is presumed that the interest of ₹ 40,000 paid on housing loan represents the interest actually due for the year.		
3. Income chargeable as "Capital Gains"		
Section 10(38) exempts long-term capital gain on sale of equity shares of a company, if such transaction is chargeable to securities transaction tax. Since Mr. Rajesh has held shares of A Ltd. for more than 12 months, the gains arising from sale of such shares is a long-term capital gain, which is exempt under section 10(38), since securities transaction tax has been paid on such sale.		
Shares in B Ltd. are held for less than 12 months and hence the capital gains arising on sale of such shares is a short-term capital gain chargeable to tax @15% as per section 111A, since the transaction is subject to securities transaction tax. It may be noted, however, that securities transaction tax is not a deductible expenditure.		
Short-term capital gains arising from sale of shares of B Ltd.		
Sale consideration (82 × 125)	10,250	
Less: Brokerage @ 0.1%	<u>10</u>	
Net sale consideration	10,240	
Cost of acquisition (65 × 125)	<u>8,125</u>	
Short-term capital gains	<u>2,115</u>	

Question 36

Mr. Ram, who does not maintain books of account for the year ended 31.3.2013, requests you to compute his total income and the tax payable thereon for the assessment year 2013-14 from the following:

₹

- (i) Basic Salary - 20,000 p.m.
CCA - 1,000 p.m.

HRA - 5,000 p.m.

- (ii) Ram resides in Chennai, paying a rent of ₹ 6,000 per month.
- (iii) Ram is paid an education allowance of ₹ 500 per month per child for all the three of his children. Actual expenses (tuition fees only) amounts to ₹ 15,000, ₹ 10,000 and ₹ 5,000 respectively.
- (iv) He bought a heavy goods vehicle on 7.6.2012 and has been letting it on hire from the same date. He declares an income of ₹ 34,900 from the same.
- (v) Interest from company deposits is ₹ 15,000 and bank interest from saving bank account is ₹ 5,000.
- (vi) Interest is payable on bank loans availed for buying the truck and making company deposits as follows:-

Purpose	Date of loan	Amount	Interest rate
Truck purchase	1.4.2012	5 lakhs	10% p.a.
Company deposit	1.10.2012	1 lakh	9 % p.a.

- (vii) Loss carried forward arising from speculating in shares during the preceding previous year and eligible for set-off is ₹ 1,00,000.
- (viii) Ram has invested ₹ 12,000 in notified equity linked saving scheme of UTI, ₹ 52,000 in PPF, ₹ 9,000 as premium on life insurance policy taken on 31.07.2012 on his own life (sum assured ₹ 40,000) and ₹ 15,000 towards pension fund of LIC.

Answer

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

Particulars	₹	₹
Income from Salary		
Basic Salary (₹ 20,000 × 12)		2,40,000
CCA (₹ 1,000 × 12)		12,000
HRA (₹ 5,000 × 12)	60,000	
Less: Exempt under section 10(13A) [See Note 1 below]	<u>48,000</u>	12,000
Education Allowance (₹ 500×12×3)	18,000	
Less: Exempt under section 10(14) (₹ 100×12×2)	<u>2,400</u>	<u>15,600</u>
Income from Salary		2,79,600
Profits and gains from business or profession		
Income from the business of letting on hire, a heavy vehicle under section 44AE (₹ 5,000×10) [See Note 2 below]		50,000

8.86 Income-tax

Income from Other Sources		
Interest from company deposits	15,000	
Interest from Saving Bank Account	<u>5,000</u>	
	20,000	
Less: Deduction under section 57		
₹ 1,00,000 @ 9% for 6 months—towards loan interest	<u>4,500</u>	<u>15,500</u>
Gross Total Income		3,45,100
Less: Deduction under Chapter VI-A		
Under section 80C [See Note 4 below]	93,000	
Under section 80CCC	<u>15,000</u>	
	<u>1,08,000</u>	
restricted to	1,00,000	
Under section 80TTA- Interest from Saving Bank Account	<u>5,000</u>	<u>1,05,000</u>
(See Note-7 below)		
Total Income		<u>2,40,100</u>
Computation of tax payable for the A.Y.2013-14		
Tax on ₹ 2,40,100		4,010
Add: Education cess @ 2% and SHEC @ 1%		<u>120</u>
Tax Payable		<u>4,130</u>

Notes :

- (1) HRA is exempt to the extent of the least of the following under section 10(13A)
 - (1) 50% of salary (as the city is Chennai) i.e. 50% of ₹ 2,40,000 = ₹ 1,20,000
 - (2) Excess of rent paid over 10% of salary = ₹ 72,000 – ₹ 24,000 = ₹ 48,000
 - (3) Actual HRA received = 5,000 × 12 = ₹ 60,000

Least of the above i.e. ₹ 48,000 is exempt under section 10(13A)
- (2) In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each heavy vehicle will be deemed to be ₹ 5,000/- for every month or part of the month during which the heavy vehicle is owned by the assessee during the previous year [Section 44AE].

Presumptive income = ₹ 5,000 × 10 = 50,000

If, however, the assessee declares a higher amount, such amount will be considered as income. In the instant case, since the assessee declares a lower amount, it cannot be considered, since no books of account are maintained. Also, interest is not deductible,

since under section 44AE, all deductions under sections 30 to 38 are deemed to have been allowed.

- (3) Brought forward loss from speculation business can be set off only against income from speculation business and not against other business income.

- (4) Deduction under section 80C:

Investment in notified equity linked saving scheme of UTI	12,000
Investment in PPF	52,000
Life insurance premium on own life restricted to 10% of sum assured	4,000
Tuition fees paid for two of his children (Most favourable to Ram)	25,000
	93,000

- (5) Contribution to pension fund of LIC ₹ 15,000 is deductible under section 80CCC.
- (6) Total deduction under sections 80C, 80CC and 80CCD is limited to ₹ 1,00,000 as per section 80CCE.
- (7) Deduction under section 80TTA is allowed in respect of interest from Saving Bank Account upto a maximum of ₹ 10,000. Therefore, interest from Saving Bank Account of ₹ 5,000 is allowed as deduction.

Question 37

Mr. Ashok owns a property consisting of two block of identical size. The first block is used for business purposes. The other block has been let out from 1.4.2012 to his cousin for ₹ 10,000 p.m. The cost of construction of each block is ₹ 5 lacs (fully met from bank loan), rate of interest on bank loan is 10% p.a. The construction was completed on 31.3.2012. During the year ended 31.3.2013, he had to pay a penal interest of ₹ 2,000 in respect of each block on account of delayed payments to the bank for the borrowings. The normal interest paid by him in respect of each block was ₹ 42,000. Principal repayment for each block was ₹ 23,000 made at the end of the year. An identical block in the same neighbourhood fetches a rent of ₹ 15,000 per month. Municipal tax paid in respect of each block was ₹ 12,000.

The income computed in respect of business prior to adjustment towards depreciation on any asset is ₹ 2,20,000.

Depreciation on equipments used for business is ₹ 30,000.

On 23.3.2013, he sold shares of B Ltd., a listed share in BSE for ₹ 2,30,000. The share had been purchased 10 months back for ₹ 1,80,000. Securities transaction tax paid may be taken as ₹ 220.

Brought forward business loss of a business discontinued on 12.1.2012 is ₹ 80,000. This loss has been determined in pursuance of a return of income filed in time and the current year is the seventh year.

The following payments were effected by him during the year :

8.88 Income-tax

- (i) LIP of ₹ 20,000 on his life and ₹ 12,000 for his son aged 22, engaged as a software engineer and drawing salary of ₹ 25,000 p.m.
- (ii) Medici claim premium of ₹ 6,000 for himself and ₹ 5,000 for above son. The premiums were paid by cheque.

You are required to compute the total income for the assessment year 2013-14 and the tax payable. The various heads of income should be properly shown. Ignore the interest on bank loan for the period prior to 1.4.2012, as the bank had waived the same.

Answer

Computation of total income of Mr. Ashok for the A.Y.2013-14

Particulars	₹	₹	₹
Income from house property [See Note I]			
House block 1 used for business, hence ALV		Nil	
House block 2 let out (higher of fair rent and rent receivable)		1,80,000	
Less: Municipal tax paid		<u>12,000</u>	
Net annual value (NAV)		1,68,000	
Less: Deductions under section 24			
(a) 30% of NAV	50,400		
(b) Interest on bank loan @ 10% on ₹ 5,00,000	<u>50,000</u>	<u>1,00,400</u>	
			67,600
Profits and gains of business or profession [See Note II]			
Income prior to adjustment for depreciation		2,20,000	
Less : Depreciation on equipments used for business	30,000		
Depreciation on building ₹ 5,00,000 @ 10%	<u>50,000</u>	<u>80,000</u>	
		1,40,000	
Less: Set off of brought forward business loss relating to discontinued business [See Note III]		<u>80,000</u>	60,000
Capital Gains [See Note IV]			
Short term capital gains from sale of listed shares			
Full value of consideration		2,30,000	
Less : Cost of acquisition		<u>1,80,000</u>	<u>50,000</u>
Gross Total Income			1,77,600
Less : Deduction under section 80C in respect of LIP ₹ 32,000 and housing loan repayment in respect of II block ₹ 23,000	55,000		

Deduction under section 80D (for self)	<u>6,000</u>		<u>61,000</u>
Total income			<u>1,16,600</u>
Tax on total income			Nil

Notes :

I – On computation of Income from house property

- (i) The annual value of the house property which is used for business would not fall under the head “Income from house property”. Therefore, the annual value of the first block is not chargeable to tax under the head “Income from house property”. However, depreciation there on at 10% has been claimed while computing the income from business.
- (ii) As regards the second block, the sum for which the property may be reasonably expected to be let is ₹ 15,000 per month. The Gross Annual Value (GAV) of the block is the higher of fair rent (i.e., ₹ 15,000 p.m.) or the actual rent received (₹ 10,000 p.m.) Hence, the GAV of the second block is ₹ 1,80,000 (i.e. ₹ 15,000 p.m.)
- (iii) Under section 24(b), interest on bank loan for construction of house is deductible. However, penal interest is not deductible. Interest due during the year in respect of the second block is ₹ 50,000 (i.e. 10% of ₹ 5 lakhs), which is allowable as deduction under section 24(b).

II – On computation of Profits and gains of business or profession

Mr. Ashok can claim depreciation @ 10% on the building used by him for business purposes. The depreciation on the first block is ₹ 50,000 (being 10% of ₹ 5,00,000) and depreciation on equipments used for business is ₹ 30,000. Hence the depreciation allowable during the year is ₹ 80,000.

III – On set off of business loss

As per section 72, business loss relating to discontinued business is eligible for set off.

IV – On treatment of short-term capital gains (STCG)

The listed shares have been sold and securities transaction tax is paid, hence it is taxable at 15% as per section 111A. For the purpose of providing deduction under Chapter VI-A, the gross total income should be reduced by the STCG on listed shares.

V – On computation of deductions under sections 80C and 80D

Deduction under section 80C can be claimed in respect of life insurance premium paid for major son, even though he is not dependent on the assessee. It is assumed Block 2 let out to cousin was used for residential purpose and accordingly principal repayment was considered for deduction under section 80C.

8.90 Income-tax

However, deduction under section 80D cannot be claimed in respect of mediclaim premium paid for non-dependant son. Mediclaim premium paid for self of ₹ 6,000 is eligible for deduction.

Question 38

Total income of Mrs. Priti, aged 59, a resident of Mumbai for the financial year 2012-13 is ₹ 2,10,500. It includes an income of ₹ 22,000 from the business of dealing in shares on which she has paid securities transaction tax of ₹ 1,500. She has also deposited ₹ 15,000 in her P.P.F. account with the State Bank of India. Compute her tax liability for the A.Y. 2013-14.

Answer

Computation of tax liability of Mrs. Priti for A.Y. 2013-14

Particulars	₹	₹
Total income other than business of dealing in shares (₹ 2,10,500 – ₹ 22,000) (before deduction under section 80C)		1,88,500
Income from business of dealing in shares – See Note		20,500
Gross Total Income		2,09,000
Less : Deduction under section 80C in respect of PPF deposit		15,000
Total income		1,94,000
Tax on total income	Nil	
Note: ₹ 22,000 less amount of ₹ 1,500 paid towards securities transaction tax eligible for deduction under section 36(1)(xv).		

Question 39

Mr. A, a senior citizen, has furnished the following particulars relating to his house properties:

Nature of occupation	House I Self occupied ₹	House II Let out ₹
Municipal valuation	60,000	1,20,000
Fair rent	90,000	1,50,000
Standard rent	75,000	90,000
Actual rent per month		9,000
Municipal taxes paid	6,000	12,000
Interest on capital borrowed	70,000	90,000

Loan for both houses were taken on 1.4.2007. House II remained vacant for 4 months.

Besides the above two houses, A has inherited during the year an old house from his grand father. Due to business commitments, he sold the house immediately for a sum of ₹ 250 lakhs. The house was purchased in 1960 by his grand father for a sum of ₹ 2 lakhs. However, the fair market value as on 1.4.1981 was ₹ 20 lakhs. With the sale proceeds, A purchased a new house in March, 2013 for a sum of ₹ 100 lakhs and the balance was used in his business.

The other income particulars of Mr. A besides the above are as follows (Assessment Year 2013-14)

Business loss	₹ 2 lakhs
Income from other sources (Fixed Deposit interest)	₹ 1 lakh
Investments made during the year : PPF	₹ 70,000
NABARD bonds	₹ 30,000
Cost inflation index (F.Y. 2012-13)	852

Compute total income of Mr. A and his tax liability for the assessment year 2013-14

Answer

Computation of Total Income and Tax liability of Mr. A for A.Y. 2013-14

Particulars	₹	₹
1. Income from house property – House I	(70,000)	
– House II	<u>(48,000)</u>	
(See working note 1)		(1,18,000)
2. Profits and gains of business		(2,00,000)
3. Capital gains – long term (See working note 2)		1,30,00,000
4. Income from other sources – Bank interest		<u>1,00,000</u>
Gross total income		1,27,82,000
Less : Deduction under chapter VI-A		
Deduction under section 80C (PPF and NABARD Bonds)		<u>1,00,000</u>
Total income		<u>1,26,82,000</u>
Tax liability		
Total income other than long term capital gain is Nil.		
Taxable long term capital gain is = 1,24,32,000		
[i.e. ₹ 1,30,00,000 – ₹ 3,18,000 – basic exemption limit of ₹ 2,50,000]		
On long term capital gains of ₹ 1,24,32,000 @ 20%		24,86,400
Education cess@2% and Secondary and higher education cess@1%		<u>74,592</u>
Total tax payable		<u>25,60,992</u>

Working notes:**1. Calculation of income from house property**

House I – Self occupied	₹
Annual value	Nil
Less : Interest as per section 24(b)	<u>70,000</u>
Loss from house property (House I)	<u>(70,000)</u>
House II - Let out	₹
Gross annual value (₹ 9,000 x 8)	72,000
Less :Municipal taxes	<u>12,000</u>
Net Annual Value (NAV)	60,000
Less : Deductions under section 24	
30% of NAV	18,000
Interest on borrowed capital	<u>90,000</u>
	<u>1,08,000</u>
Loss from house property (house II)	<u>(48,000)</u>

Note : Interest on capital borrowed will be allowed in full for let out properties. As per section 23(1)(c), where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the annual letting value, then the actual rent received or receivable would be the Gross Annual Value of the property. In this case, the actual rent received (i.e. ₹ 72,000) is lesser than the annual letting value on (i.e. ₹ 90,000) account of vacancy and therefore, the actual rent received is taken as the Gross Annual Value.

2. Computation of Capital Gains

Particulars	₹	₹
Sale consideration	2,50,00,000	
Less: Indexed Cost of acquisition (₹ 20,00,000 x 852/852)	<u>20,00,000</u>	
	2,30,00,000	
Less : Exemption under section 54	<u>1,00,00,000</u>	
Taxable long term capital gain		1,30,00,000

As per the definition of the indexed cost of acquisition under clause (iii) of *Explanation* below section 48, indexation benefit will be available only from the previous year in which Mr. A first held the asset i.e. P.Y. 2001-02. Since Mr. A sold the asset in the same year in which it was held by him, cost of acquisition and indexed cost of acquisition would be same.

Note: As per the view expressed by Bombay High Court, in the case of CIT v. Manjula J. Shah 16 Taxmann 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is taken, the indexed cost of acquisition would be ₹ 1,70,40,000 and long term capital gain (before exemption under section 54 would be ₹ 79,60,000. Therefore, exemption under section 54 would be restricted to ₹ 79,60,000.

3. It has been assumed that the loss from house property and business loss have been set-off fully against long term capital gains. Therefore, ₹ 1 lakh relating to section 80C investments are deducted against "Income from other sources". The taxable income represents long term capital gains only and the tax liability is computed accordingly.

EXERCISES

1. Income under the Income-tax Act, 1961, is to be computed under -
 - a) five heads
 - b) six heads
 - c) four heads
2. What is the basic exemption limit for a woman assessee below the age of 60 years at any time during the previous year 2012-13?
 - a) ₹ 1,80,000
 - b) ₹ 1,85,000
 - c) ₹ 2,00,000
3. What is the rate of surcharge applicable to individuals?
 - a) 10%
 - b) 2.5%
 - c) Nil
4. What is the basic exemption limit for Mrs. X, who is of the age of 60 years as on 30.3.2013?
 - a) ₹ 1,90,000
 - b) ₹ 2,40,000
 - c) ₹ 2,50,000
5. Share of profit of Mr. P, who is a partner in M/s PQR is –
 - a) exempt from tax
 - b) taxable as his business income

- c) taxable as his salary
6. Explain the meaning of total income under the Income-tax Act, 1961.
7. Explain briefly the tax treatment of the following income of Mr. X, who is a partner in the firm M/s. XYZ –
- (i) Salary received by Mr. X from M/s. XYZ.
- (ii) Interest (on loan) received from M/s. XYZ.
- (iii) Share of profit from the firm.
8. Discuss the tax treatment of the following income of Mr. A, who is a member of a HUF-
- (i) Share of income from HUF.
- (ii) Income from an impartible estate of the HUF.
- (iii) Income from self-acquired property converted into joint family property.
9. Explain the various steps involved in computation of total income and tax liability of individuals.

Answers

1. a; 2. c; 3. c; 4.c; 5. a