Including

EXAMINATION QUESTIONS

PROFITS AND GAINS
OF
BUSINESS OR PROFESSION
"PGBP"
SECTION 28 TO 44DB

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THEORY QUESTION

Q1. [Imp.] What are the incomes chargeable to tax under the head business/profession?

Q2. What is meant by speculation business? What are the transactions not deemed to be speculative transactions?

Q3. Write a note on deductibility of expenditures relating to buildings, plant and machinery and furniture and fixtures.

Q4. Write a note on rates of depreciation.

Q5. [V. Imp.] Write a note on computation of depreciation.

Q6. Write a note on depreciation in case of Amalgamation, Demerger, Conversion of Proprietary Concern or Partnership Firm into a Company or Conversion of Private Limited Company or Unlisted Public Company into Limited Liability Partnership Firm.

Q7. Write a note on computation of Written Down Value.

Q8. Write a note on depreciation in case of Power Generating Units.

Q9. Write a note on Additional Depreciation.

Q10. State the situations under which written down value of the block of assets will be reduced to nil.

Q11. What are the basic conditions laid down for claiming depreciation under the Income-Tax Act

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Q12. Is it mandatory to claim depreciation?

Q13. Explain allowability of depreciation in case of assets not owned by the assessee.

Q14. Write a note on Tea, Coffee or Rubber Development Account. (Self Reading)

Q15. Write a note on Site Restoration Fund. (Self Reading)

Q16. [V. Imp.] Write a note on expenditure on Scientific Research.

Q17. [Imp.] Discuss the provisions of the Income Tax Act that relate to amortisation of expenses for obtaining a license to operate Telecommunication Services.

Q18. Write a note on expenditure on Eligible Projects.

Q19. Write a note on specified business.

Q20. Write a note on contribution for the purpose of Rural Development.

Q21. Write a note on expenditure on agricultural extension project Section 35CCC

Q22. Write a note on expenditure on skill development project Section 35CCD

Q23. [Imp.] Explain briefly the provisions of amortisation of preliminary expenses.

Q24. Write a note on expenditure in connection with amalgamation/ demerger.

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Q27. [Imp.] Write a note on payment of interest.

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Q31. [Imp.]: Write note on deduction of bad debts of a business.

Q32. Write a note on provision for bad debts.

Q33. [Imp.] Write a brief note on deductibility of family planning expenditure under section 36(1)(ix) of the Income Tax Act, 1961.

Q34. Write a note on Securities Transaction Tax.

Q35. [V. Imp.] State the conditions to be satisfied for claiming deduction under section 37(1) of the Act.

Q36. Write a note on deductibility of expenditures in connection with advertisement in the newspaper etc. of a political party.

Q37. [Imp.] Explain deductibility of expenditure in connection with assets which are partly in business use and partly in personal use section 38.

Q38. [V. Imp.] Write a note on deductibility of expenditure on which tax has not been deducted at source.

Q39. Write a note on deductibility of salary paid without deducting tax at source.

Q40. [V. Imp.] Explain deductibility of Income Tax or Wealth Tax or Securities Transaction Tax.

Q41. [V. Imp.] Write a note on payment to relative/related person.

Q42. [V. Imp.] Discuss provisions relating to cash payments in excess of limit prescribed under section 40A(3) Rule 6DD.

Q43. Write a note on deductibility in respect of provision for Gratuity Fund.

Q44. Write a note on employer's contribution to various funds.

Q45. [V. Imp.] What are the exceptions to the rule that income from business can be assessed only if the business is carried on during the previous year?

Q46. [Imp.] Write a note on actual cost. Sec 43(1)

Q47. Write a note on the method of accounting as per section 145.

Q48. [V. Imp.] Write a note on section 43B.

Q49. [V. Imp.] Discuss the provisions of the Income Tax Act 1961, regarding compulsory maintenance of accounts.

Q50. [V. Imp.] Write short note on Compulsory Tax Audit.

Q51. [V. Imp.]. Briefly describe provisions of Income Tax Act for computing profit and gains of business on presumptive basis.

Q52. [V. Imp.]. Describe the provisions for computing profit and gains of business of plying, hiring or leasing goods carriages.

Q53. Write a note on special provision for computing profits and gains of shipping business in the case of non-residents. Section 44B

Q54. Write a note on special provision for computing profits and gains of the business of operation of aircraft in the case of non-residents Section 44BBA

Question 1 [Imp.]: What are the incomes chargeable to tax under the head Business/Profession?
Answer:
Incomes chargeable to tax under the head Business/ Profession Section 28
As per section 28, the following income shall be chargeable to income-tax under the head "Profits and gains of business or profession", —

Profits and Gains of Business/Profession
The profits and gains of any business or profession which was carried on by the assessee at any time during the previous year.

Business – Section 2(13) – "Business" includes any **trade**, **commerce** or **manufacture** or **any adventure** or **concern** in the nature of trade, commerce or manufacture.

Profession – Section 2(36) – "Profession" includes **vocation.**

Receipt by way of Compensation
In general, compensation received for breach of contract is considered to be capital receipt but as per section 28, certain compensations as listed below shall be considered to be income under the head business/ profession:

(a) Compensation received by any person, managing affairs of an Indian company, in connection with the termination of his management or the modification of the terms and conditions.

(b) Compensation received by any person, managing the affairs in India of any other company, in connection with the termination of his office or the modification of the terms and conditions.

(c) Compensation received by any person, holding an agency in India relating to the business of any other person, in connection with the termination of the agency or the modification of the terms and conditions.

(d) Compensation received by any person, in connection with the vesting in the Government, or in any corporation owned or controlled by the Government, of the management of any property or business.

Income of Trade or Professional Association
Income derived by a trade, professional or similar association from specific services performed for its members are taxable under the head business/profession.

Under section 10(23A), some of the incomes of the trade or professional associations are exempt from income tax provided such organizations have the object of control, supervision or encouragement of the profession of law, accountancy, medicine etc, however if these organizations are rendering specific services to their members, their income shall be chargeable to tax under the head Business/Profession under section 28.

Export Incentives
Export incentives received by an assessee shall be considered to be his income under the head business/profession. Export incentives are:

(i) Profits on sale of an import entitlement licence.

Government may issue special licences for importing certain goods without payment of custom duty to the exporters as an incentive and such exporters are allowed to sell these licences. The profit derived by them shall be called profits on sale of import entitlement licence and is considered to be an export incentive and considered to be income under the head business/profession.

(ii) Cash assistance received in connection with exports.

(iii) Duty drawback of excise and custom.

If any manufacturer has paid excise duty or custom duty in connection with the purchase of raw materials etc and subsequently goods manufactured by him have been exported, in such cases the Government may pay him back the excise duty and custom duty paid by him as per the scheme of the Government. It will be called duty drawback and shall be considered to be export incentive and considered to be income under the head business/profession.

Example

ABC Ltd. has computed its income to be `20,00,000 and some of the entries noted from profit and loss account are as given below:

1. Company has debited the amount of opening stock `33,00,000 which is overvalued by 10%.

2. Company has received duty drawbacks of `7,00,000 but the amount has not been credited to the profit and loss account.

3. The company has received import entitlement licence from the Government and it was sold it at a profit of `3,00,000. The amount has not been credited to the profit and loss account.

Solution:

In this case company's tax liability shall be:

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Net profit as per profit and loss account	20,00,000
Add:	
• Opening stock overvalued (33,00,000 /110 x 10)	3,00,000
• Duty drawback received	7,00,000
• Sale of import entitlement licence	3,00,000
Income under the head business/profession	33,00,000
Total Income	33,00,000
Tax Liability (30% + 2% + 1%)	10,19,700

<u>Gifts or Perquisites from Clients</u>

The value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession.

If any person has received any gift or perquisite or benefit either in cash or in kind from any of his clients, it will be considered to be business receipt and shall be taken into consideration while computing income under the head business/ profession.

Example

ABC Ltd. has engaged one Advocate with regard to its legal proceedings. The company has provided him facilities of free travelling, boarding/lodging and has incurred `25,000, it will be considered to be professional receipt of the Advocate.

<u>Payments received by a partner from a Partnership Firm</u>

Any interest, salary, bonus, commission or remuneration, by whatever name called, received by partner of a firm from such firm, shall be considered to be his income under the head Business/Profession.

Provided that where any interest, salary, bonus, commission or remuneration, by whatever name called, or any part thereof has not been allowed to be deducted under clause (b) of section 40, the income under this clause shall be adjusted to the extent of the amount not so allowed to be deducted.

Payments received for not carrying out any Business Activity

(a) Any sum, received in cash or kind, under an agreement for not carrying out any activity in relation to any business.

Example

ABC Ltd. has received `30,00,000 for not carrying out a particular business activity, in this case, the amount so received shall be considered to be income of the assessee.

(b) Any sum, received in cash or kind, under an agreement for not sharing any know-how, patent, copyright, trade-mark, licence, franchise or any other business or commercial right of similar nature shall be considered to be his income under the head business/profession.

Example

ABC Ltd. has received ` 10,00,000 for not sharing a particular patent, in this case, it will be considered to be income under the head business/profession.

Payment under Keyman Insurance Policy

Any payment received by the employer under keyman insurance policy shall be considered to be income under the head Business/Profession.

As per section 10(10D), keyman insurance policy means life policy taken by the employer on the life of the employee who is considered to be a keyman for the employer.

Similarly a policy may be taken in the name of any other person who is considered to be very important for the business of the employer, such policy is also called keyman insurance policy.

Premium under keyman insurance policy is paid by the employer and payments received by the employer is considered to be his income under the head Business/ Profession as per section 28.

If any payment has been received by the employee, it will be considered to be income under the head salary and as per section 17(3), it is called profit in lieu of salary.

If payment has been received by any other person, it will be considered to be his income under the head other sources as per section 56.

Question 2: What is meant by Speculation Business? What are the transactions not deemed to be Speculative Transactions?

Answer:

Income from Speculative Business Section 28

As per section 28, where an assessee carries on speculative transactions which constitute a business, such business shall be considered a separate and distinct business and its income shall be chargeable to tax under the head business/profession.

Meaning of speculative business Section 43(5)

A **speculative transaction is defined under section 43(5)** to mean a transaction in which a contract for purchase or sale of a commodity including stocks or shares is **periodically or ultimately settled otherwise than by actual delivery or transfer of the commodity or scrips.**

The following shall not be treated as speculative transactions:

(a) A contract in respect of raw materials or merchandise entered in the normal course of business to guard against loss due to price fluctuations.

(b) A contract in respect of stocks and shares entered into by a dealer or investor to guard against loss through price fluctuations.

(c) A contract entered into by a member of forward market or a stock exchange in the course of jobbing or arbitrage to guard against loss in the ordinary course.

Explanation to section 73

Where any part of the business of a company other than a company whose gross total income consists mainly of income which is chargeable under the heads "Income from house property", "Capital gains" and "Income from other sources", or a company the principal business of which is the business of banking or the granting of loans and advances consists in the purchase and sale of shares of other companies, such company shall, for the purposes of this section, be deemed to be carrying on a speculation business to the extent to which the business consists of the purchase and sale of such shares.

Income from profits and gains of business or profession, how computed Section 29

The income referred to in section 28 shall be computed in accordance with the provisions contained in sections 30 to 43D.

Question 3: Write a note on deductibility of expenditures relating to Buildings, Plant and Machinery and Furniture and Fixtures.

Answer:

Rent, Rates, Taxes, Repairs and Insurance for Buildings Section 30

1. If the premises are owned by the assessee himself, he will be allowed to debit the following amounts–

(i) Current repairs i.e. accumulated repairs relating to the earlier years is not allowed

(ii) Municipal tax or local tax or land revenue (but on payment basis as per section 43B)

(iii) Premium for insurance of house

If the building is owned by the assessee, he is not allowed to debit rent on notional basis

(No income shall be computed with regard to this house property under the head house property).

2. If the building has been taken on rent, the assessee shall be allowed to debit the following expenses –

(i) Rent for the premises

(ii) If he has undertaken to bear the cost of repairs, the amount of such repairs

(iii) Municipal tax or local tax or land revenue (but on payment basis as per section 43B), if borne by the lessee.

(iv) Premium for insurance of house, if borne by the lessee.

Repairs and insurance of machinery, plant and furniture Section 31

In respect of repairs and insurance of machinery, plant or furniture used for the purposes of the business or profession, the following deductions shall be allowed—

(i) the amount paid on account of current repairs.

(ii) any premium paid for insurance.

Question 4: Write a note on rates of Depreciation.
Answer:
Depreciation Section 32

The rates of depreciation are asunder –
Tangible Assets

I. Building

1. Buildings which are used mainly for residential purposes except hotels and boarding houses	5%
2. Buildings other than those used mainly for residential purposes and not covered above	10%
3. Purely temporary erections such as wooden structures	100%

"**Buildings**" include **roads, bridges, culverts, wells and tube wells**.

II. Furniture and Fittings

Furniture and fittings including electrical fittings	10%

"Electrical fittings" include electrical wiring, switches, sockets, other fittings and fans, etc.

III. Machinery and Plant

Plant: Section 43(3): "Plant" includes ships, vehicles, books, scientific apparatus and surgical equipment used for the purposes of the business or profession but does not include tea bushes or livestock or buildings or furniture and fittings**.**

1. Machinery and plant other than those mentioned below (like air-conditioner, generator, fire-extinguisher etc.)	15%
2. Motor cars, other than those used in a business of running them on hire	15%
3. Aeroplanes – Aero engines	40%
4. Motor buses, motor lorries and motor taxis used in a business of running them on hire	30%
5. Computers including computer software	60%
6. Books owned by assessees carrying on business in running lending libraries	100%
7. Books owned by assessees carrying on a profession—	
(*a*) Books, being annual publications	100%
(*b*) Books, other than those covered above	60%

Intangible Assets

Know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature	25%

Question 5 [V. Imp.]: Write a note on computation of Depreciation.
Answer:
Computation of Depreciation
Under section 32(1)(ii), depreciation under income tax is allowed on the basis of written down value method. It is not computed on the basis of individual assets rather on the basis of a group of assets called Block of Assets which means a group of similar type of assets having same rate of depreciation.

Block of Assets: Under section 2(11), "Block of assets" means a group of assets falling within a class of assets comprising

(i) Tangible assets, being buildings, machinery, plant or furniture.
(ii) Intangible assets, being know-how, patents, copyrights, Trademarks, licences, franchises or any other business or commercial rights of similar nature, in respect of which the same percentage of

depreciation is prescribed.

Each class of assets has been further divided into blocks with a particular rate of depreciation for each block. Intangible assets, however, have been grouped into one block only with a depreciation rate of 25%.

Assets purchased during the year and put to use for less than 180 days

If any particular asset is purchased during the year and it has been put to use for less than 180 days during the year, in that case, depreciation is allowed at half the normal rate. If it is purchased during the year and is not at all put to use, depreciation shall not be allowed. But in the subsequent year whenever the asset is put to use, full depreciation shall be allowed irrespective of period of use.

"Put to use" do not mean putting the asset to actual use rather it means making an asset ready for use.

Example

ABC Ltd. has purchased one plant and machinery on 01.07.2012 for `30,00,000, it was installed on 01.10.2012, but it was brought into actual use w.e.f. 01.03.2013, in this case, depreciation allowed shall be `4,50,000, because the asset was put to use for 180 days or more, but if the asset was installed on 10.10.2012, depreciation allowed shall be `2,25,000. If the asset was not at all installed in the year 2012-13, depreciation allowed in 2012-13 shall be nil. If the asset was installed on 31.03.2014, depreciation allowed in 2012-13 shall be nil, but the depreciation allowed in the year 2013-14, shall be `4,50,000.

If any asset has been sold at any time during the year, in that case, depreciation is not allowed for that year.

Example

ABC Ltd. purchased one plant and machinery on 01.10.2008, its written down value on 01.04.2012 is `20,00,000 but it was sold on 31.03.2013, in this case, no depreciation is allowed in the previous year 2012-13.

Clarification from ICAI

One of the conditions for claim of depreciation is that the asset must be "used for the purpose of business or profession". Courts have held that, in certain circumstances, an asset can be said to be in use even when it is **"kept ready for use"**. For example, depreciation can be claimed by a transport company on spare engines kept in store in case of need, though they have not actually been used by the company. Hence, in such cases, the term "use" embraces both active use and passive use. However, such passive use should also be for business purposes.

The Delhi High Court, in *CIT v. Insilco Ltd. (2009) 179 Taxman 55,* observed that the expression "used for the purposes of business" appearing in section 32 also takes into account emergency spares, which, even though ready for use, yet are not consumed or used during the relevant period. This is because these spares are specific to a fixed asset, namely plant and machinery, and form an integral part of the fixed asset. These spares will, in all probability, be useless once the asset is discarded and will also have to be disposed of. In this sense, the concept of passive use which applies to standby machinery will also apply to emergency spares. Therefore, once the spares are considered as emergency spares required for plant and machinery, the assessee would be entitled to capitalize the entire cost of such spares and claim depreciation thereon.

Depreciation in case of foreign made motor cars: Depreciation shall be allowed at the normal rates. (Earlier depreciation was not allowed in some cases)

Computation of depreciation

Under Income Tax Act, depreciation shall be computed in the manner given below:

1. Take opening written down value of the particular block of asset as on 1st day of April of the relevant year.

2. Add purchases during the year.

3. Deduct sale value in case of sale and amount of insurance claim in case of fire or theft etc. or scrap value in case of discarded assets.

4. Apply depreciation on the balance amount as on the last day of the year.

5. If any asset was put to use for less than 180 days, depreciation shall be allowed at half the normal rate and for this purpose its actual cost shall be separated from the total written down value of the block and if total written down value is less than the actual cost, depreciation shall be applied on the written down value of the block at half the normal rate.

6. If there is a negative balance at the end of the year, it will be considered to be short term capital gain as per section 50 and no depreciation is allowed.

7. If there is no asset at the end of the year but still there is some balance, it will be considered to be short term loss as per section 50 and no depreciation is allowed.

Computation of depreciation can be illustrated in the manner given below:

Situation 1:

Asset purchased and put to use for 180 days or more

In such case, depreciation shall be provided at full rate on total value.

	`
Written down value of plants A, B, C on 01.04.2012	70,00,000
Add: purchased plant D on 05.05.2012 and put to use on 05.05.2012	20,00,000
Less: sale of plant A	18,00,000
	72,00,000
Less: depreciation for the year @ 15%	10,80,000
Written down value of plant B, C, D as on 01.04.2013	61,20,000

Situation 2:

Asset purchased and put to use for less than 180 days.

In such case depreciation on plant purchased shall be provided at half the normal rate, and depreciation on rest of the assets will be at full rate.

	`
Written down value of plants A, B, C on 01.04.2012	70,00,000
Add: purchased plant D on 05.05.2012 and put to use on 01.12.2012	20,00,000
Less: sale of plant A	18,00,000
	72,00,000
Less: depreciation [15% on 52 Lakhs & 7.5% on 20 Lakhs]	9,30,000
Written down value of plants B, C, D as on 01.04.2013	62,70,000

Situation 3:

Asset put to use for less than 180 days and the value on which depreciation is to be provided is less than the actual cost of asset purchased

In such a case, the depreciation on the residual value will be provided at half the rate.

	`
Written down value of plants A, B, C on 01.04.2012	70,00,000
Add: purchased plant D on 05.05.2012 and put to use on 01.12.2012	20,00,000
Less: sale of plant A	75,00,000
	15,00,000
Less: depreciation [7.5% on 15 Lakhs]	1,12,500
Written down value of plants B, C, D as on 01.04.2013	13,87,500

Situation 4:

Where any of the asset is sold at a price more than the written down value of the block of assets

In this case, there will be short-term capital gain. No depreciation shall be provided and written down value of remaining assets at the end of the year shall be taken to be NIL.

	`
Written down value of plants A, B, C on 01.04.2012	70,00,000
Less: Sale of plant A	75,00,000
Short term capital gain under section 50	5,00,000
Depreciation for the year	Nil
Written down value of plants B, C as on 01.04.2013	Nil

Situation 5:

When all the assets of block are sold at a price less than the w.d.v of the block of assets

In this case, there will be short term capital loss. Depreciation for the year shall be NIL.

	`
Written down value of plants A, B, C on 01.04.2012	70,00,000
Less: Sale of plant A, B, C	20,00,000
Short term capital loss under section 50	50,00,000
Depreciation for the year	Nil

Illustration 1: Mr. Nitin started his business on 01.04.2012 and purchased various assets as given below:

1. He purchased one plant and machinery on 07.04.2012 for `11,00,000 and it was put to use on 10.05.2012.

2. He purchased furniture and fixtures on 07.06.2012 for `3,00,000 and it was put to use on the same date.

3. He purchased one motor car on 01.09.2012 for `2,50,000 and it was put to use on the same date.

4. He purchased three computers on 01.10.2012 for `1,50,000 and it was put to use on 07.10.2012.

5. He purchased two mobile phones on 01.11.2012 for `15,000 and they were put to use on the same date.

6. He purchased one scooter to be used by the staff on 01.03.2013 for `35,000 and it was put to use on 31.03.2013.

7. He purchased one residential building on 01.03.2013 for `5,00,000 and it was put to use on same date.

Compute depreciation allowed for the assessment year 2013-14.

Solution: `

Block I

Plant and machinery, depreciation @ 15%

Purchased on 07.04.2012, put to use on 10.05.2012		11,00,000
Purchased on 01.11.2012, put to use on same date		15,000
Purchased on 01.03.2013, put to use on 31.03.2013		35,000
Written down value as on 31.03.2013		11,50,000
Depreciation @ 7.5% on `50,000		3,750
Depreciation @ 15% on `11,00,000	1,65,000	

Block II

Furniture and fixture, depreciation @ 10%

Purchased on 07.06.2012, put to use on same date	3,00,000
Depreciation @ 10%	30,000

Block III

Motor car, depreciation @ 15%

Purchased on 01.09.2012, put to use on same date	2,50,000
Depreciation @ 15%	37,500

Block IV
Computer, depreciation @ 60%

Purchased on 01.10.2012, put to use on 07.10.2012	1,50,000
Depreciation @ 30%	45,000

Block V
Residential building, depreciation @ 5%

Purchased on 01.03.2013, put to use on same date	5,00,000
Depreciation @ 2.5%	12,500
Total Depreciation for previous year 2012-13	2,93,750

Illustration 2: Mr. Ramaswami has an existing business as on 01.04.2009. He has plants P1, P2 and P3 with written down value ` 70,00,000 and rate of depreciation is 15%.

He has purchased plant P4 on 01.07.2009 which was put to use on 01.09.2009 for `35,00,000.

He sold plant P1 on 01.01.2010 for ` 11,00,000.

He purchased plant P5 on 31.03.2010 and was put to use on 01.11.2010 for `26,00,000.

He purchased plant P6 on 01.12.2010 and was put to use on 31.03.2011 for `20,00,000.

He purchased plant P7 on 01.03.2011 and put to use on 10.12.2011 for `10,00,000.

He sold plant P2 on 31.03.2012 for ` 9,00,000.

He purchased plant P8 on 01.07.2012 and was put to use on 01.01.2013 for `27,00,000.

He purchased plant P9 on 31.03.2013 and was put to use on 01.04.2013 `26,00,000.

Determine depreciation for various years.

Solution: `
Plant and Machinery, Depreciation @ 15%
Previous Year 2009-10

Written down value P1, P2 and P3 as on 01.04.2009	70,00,000.00
Purchased P4 on 01.07.2009, put to use on 01.09.2009	35,00,000.00
Sale P1 on 01.01.2010	(11,00,000.00)
Written down value P2, P3 and P4 on 31.03.2010	94,00,000.00
Depreciation @ 15%	14,10,000.00

Previous Year 2010-11

Written down value P2, P3 and P4 on 01.04.2010	79,90,000.00
Purchased P5 on 31.03.2010, put to use on 01.11.2010	26,00,000.00
Purchased P6 on 01.12.2010, put to use on 31.03.2011	20,00,000.00
Written down value P2, P3, P4, P5 and P6 on 31.03.2011	1,25,90,000.00
Depreciation @ 15% on `1,05,90,000	15,88,500.00
Depreciation @ 7.5% on `20,00,000	1,50,000.00

Previous Year 2011-12

Written down value P2, P3, P4, P5 and P6 on 01.04.2011	1,08,51,500.00
Purchased P7 on 01.03.2011, put to use on 10.12.2011	10,00,000.00
Sale P2 on 31.03.2012	(9,00,000.00)
Written down value P3, P4, P5, P6 and P7 on 31.03.2012	1,09,51,500.00
Depreciation @ 15% on `1,09,51,500	16,42,725.00

Previous Year 2012-13

Written down value P3, P4, P5, P6 and P7 on 01.04.2012		93,08,775.00
Purchased P8 on 01.07.2012, put to use on 01.01.2013		27,00,000.00
Written down value P3, P4, P5, P6, P7 and P8 on 31.03.2013		1,20,08,775.00
Depreciation @ 15% on `93,08,775	13,96,316.25	
Depreciation @ 7.5% on `27,00,000		2,02,500.00

Illustration 3: Mr. X, a resident individual (date of birth 31.03.1948) has business income of ` 5 lakhs after debiting depreciation of ` 64,000 in connection with the following assets.

1 One computer purchased on 31.03.2012 and put to use on 31.03.2013 for `40,000 and one printer purchased on 31.03.2013 for `10,000 and put to use on 01.04.2013.

2 One building purchased on 04.10.2012 and put to use on 05.10.2012 for `4,00,000 and the building was used for business purpose.

3. Mr. X has purchased NSC of `20,000.

Compute his tax liability for the assessment year 2013-14.

Solution:

	`
Income under the head Business Profession	5,00,000
Depreciation of computer 40,000 x 60% = `24,000	
Depreciation of building 4,00,000 x 5% = `20,000	
Total depreciation = `44,000	
Excessive depreciation added back	20,000
Income under the head Business Profession	5,20,000
Gross Total Income	5,20,000
Less: Deduction u/s 80C	20,000
Total Income	5,00,000

Computation of Tax Liability

Tax on `5,00,000 at slab rate	25,000
Add: Education cess @ 2%	500
Add: SHEC @ 1%	250
Tax Liability	25,750

Illustration 4: Mr. X has following assets with him as on 01.04.2012

Details of Assets	Written Down Value
1. Motor Car	1,60,000
2. Laptop	23,000

3. Furniture Fixture 11,000

Due to a fire in the office premises, laptop and furniture-fixture were destroyed and he has received a claim of `19,000 for laptop and `12,000 for furniture.

He has computed income from business `3,00,000 before taking into consideration depreciation or capital gains with regard to the above assets. Compute his tax liability for assessment year 2013-14.

Solution:

Block I

Motor Car

	`
Written down value	1,60,000
Depreciation @ 15%	24,000

Block II

Laptop/Computers

Written down value	23,000
Less: Insurance claim	19,000
Short term capital loss	4,000

Block III

Furniture and Fixture

Written down value	11,000
Less: Insurance claim	12,000
Short term capital gain	1,000
Income from Business/Profession	3,00,000
Less: Total Depreciation	24,000
Income under the head Business/Profession	2,76,000

Computation of Total Income

Income under the head Business/Profession	2,76,000
Income under the head Capital Gains	Nil
{Loss of `1,000 adjusted from gain}	
Gross Total Income	2,76,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	2,76,000

Computation of Tax Liability

Tax on `2,76,000 at slab rate	7,600
Add: Education cess @ 2%	152
Add: SHEC @ 1%	76
Tax Liability	7,828
Rounded off u/s 288B	7,830
Short term capital loss Carried forward	3,000

{Short term capital loss can be set off either from Short term capital gain or from Long term capital gain but it can not be set off from income of any other head}

Illustration 5:

Block I	Plant and machinery (Consisting of 10 looms) Rate of depreciation 15%	w.d.v.	6,50,000
Block II	Buildings (Consisting of 3 buildings) Rate of depreciation 10%	w.d.v.	14,50,000

Acquired on 05.07.2012 and put to use on 01.09.2012 – 5 looms for	4,20,000
Sold on 07.12.2012 – 15 looms for	13,50,000
Acquired on 10.01.2013 and put to use on 15.03.2013 – 2 looms for	5,80,000

Compute depreciation claim for the assessment year 2013-14.

Solution:

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Computation of depreciation

Block I

Plant and machinery, depreciation @ 15%

Opening written down value of 10 looms on 01.04.2012	6,50,000
Purchase 5 looms on 05.07.2012, put to use on 01.09.2012	4,20,000
Purchase 2 looms on 10.01.2013, put to use on 15.03.2013	5,80,000
Sale of 15 looms on 07.12.2012	(13,50,000)
Written down value of 2 looms as on 31.03.2013	3,00,000
Depreciation @ 7.5%	22,500

Block II

Building, depreciation @ 10%

Opening written down value on 01.04.2012	14,50,000
Depreciation @ 10% for financial year	1,45,000
Total Depreciation	1,67,500

Illustration 6: Mr. X, a citizen of India and non-resident submits the following information with regard to the assets purchased in India during the year 2012-13. Compute depreciation allowed and also his tax liability for the assessment year 2013-14.

Details of Assets	Actual Cost	Date of Purchase	Date of putting to use
1. Motor Car	3,45,000	01.01.2013	01.03.2013
2. Computer	45,000	31.03.2013	01.04.2013
3. Office tables and chairs	23,000	25.03.2013	26.03.2013
4. Trademark	2,30,000	01.10.2012	03.10.2012

Mr. X has income under the head business/profession `7,00,000 after debiting depreciation of `1,93,725 in connection with the above assets and received rent of `1,20,000 from a house in USA which was let out to a person Mr. Y who has deposited the rent in the branch of an Indian bank in New York in the account of Mr. X and subsequently this amount was remitted in India.

Mr. X also has income from a business in USA ` 2,50,000 and this income was received directly in India.

Solution:

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Computation of Depreciation

Block I	
Motor Car @ 15%	
Purchase on 01.01.2013, put to use on 01.03.2013	3,45,000.00
Depreciation @ 7.5%	25,875.00
Block II	
Furniture and fixture @ 10%	
Purchase on 25.03.2013, put to use on 26.03.2013	23,000.00
Depreciation @ 5%	1,150.00
Block III	
Trademark @ 25%	
Purchase on 01.10.2012, put to use on 03.10.2012	2,30,000.00
Depreciation @ 25%	57,500.00
Total Depreciation	84,525.00
Income under the head Business/Profession	8,09,200.00
(Excessive depreciation of `1,09,200 added back)	
Income from a business in USA	2,50,000.00
Gross Total Income	10,59,200.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	10,59,200.00

Computation of Tax Liability

Tax on `10,59,200 at slab rate	1,47,760.00
Add: Education cess @ 2%	2,955.20
Add: SHEC @ 1%	1,477.60
Tax Liability	1,52,192.80
Rounded off u/s 288B	1,52,190.00

Note: Rent received in USA is not taxable because Mr. X is non-resident.

Question 6: Write a note on depreciation in case of Amalgamation, Demerger, Conversion of Proprietary Concern or Partnership Firm into a Company or Conversion of Private Limited Company or Unlisted Public Company into Limited Liability Partnership Firm.

Answer:

As per section 32, depreciation shall be computed considering that no such amalgamation etc. has taken place and the depreciation so computed shall be apportioned between the predecessor and successor in the ratio of number of days the asset was used by each one of them

Example

M/s Dinesh & Co., a sole proprietary concern is converted into a company, Dinesh Co. Ltd. with effect from December 29, 2012. The written down value of assets as on April 1st, 2012 is as follows:

Items	**Rate of Dep.**	**WDV as on 1st April, 2012**
Building	10%	`3,50,000
Furniture	10%	` 50,000
Plant and Machinery	15%	`2,00,000

Further, on October 15, 2012, M/s Dinesh & Co. purchased a plant for `1,00,000 (rate of depreciation 15%). After conversion, the company added another plant worth `50,000 (rate of depreciation 15%).

Compute the depreciation available to (i) M/s Dinesh & Co. and (ii) Dinesh Co. Ltd. for assessment year 2013-14.

Solution:

Fifth proviso to section 32 is applicable while determining depreciation, if there is change of ownership of assets because of conversion of sole proprietary concern into company. In respect of assets transferred to the company, depreciation will be calculated asunder: `

Building	
Depreciated value on April 1st, 2012	3,50,000
Depreciation @ 10%	35,000
Furniture	
Depreciated value on April 1st, 2012	50,000
Depreciation @ 10%	5,000
Plant and Machinery	
Depreciated value on April 1st, 2012	2,00,000
Add: Cost of new plant and machinery	1,00,000
Written down value	3,00,000
Depreciation @ 15% on `2,00,000	30,000
Depreciation @ 7.5% on `1,00,000	7,500
Number of days when assets are used by	
Sole Proprietors	272 days
Company	93 days
Depreciation available to the sole proprietary Concern	
(i.e. 272 / 365 of `70,000)	52,164.38
(i.e. 75 / 168 of `7,500)	3,348.21
Depreciation available to the company	
(i.e. 93 / 365 of `70,000)	17,835.62
(i.e. 93 / 168 of `7,500)	4,151.79
Depreciation to the company on plant purchased for `50,000	
50,000 x 7.5%	3,750.00
Total depreciation allowed to the company	25,737.41

Note: (i) It is presumed that the plant and machinery which was purchased on 15.10.2012 was put to use on the same date.

(ii) The depreciation on the plant which was purchased after conversion shall be allowed to the company and further it is presumed that the plant was put to use on the date of purchase.

Question 7: Write a note on computation of Written Down Value.

Answer:

<u>Computation of Written Down Value</u>   <u>Section 43(6)</u>

"Written down value" means—

In the case of any block of assets, w.d.v shall be computed in the following steps.

(i) Written down value of the block of the asset at the beginning of the year.

(ii) Add the actual cost of any asset of that block, acquired during the previous year.

(iii) Less amount received in respect of any asset which is sold or discarded or demolished or destroyed during the year together with the amount of the scrap value, if any.

Question 8: Write a note on depreciation in case of Power Generating Units.
Answer:
Depreciation in case of Power Generating Units
Under section 32(1)(i), depreciation shall be allowed on the basis of SLM to the assessees who are engaged in the business of **generation** or **generation and distribution of power** provided that the assets have been acquired on or after 01.04.1998.

For this purpose the assessee shall have an option to claim depreciation on straight line method on the basis of individual asset or on the basis of written down value method and the option will be an irrevocable undertaking. If no option has been exercised, depreciation shall be allowed on the basis of SLM.

Depreciation shall be allowed as the rates given in Appendix 1A.
Sale of asset
(a) Sale in the year in which the asset has been acquired
If the asset is sold in the previous year in which it was acquired, then there will be short-term capital gain/(loss) on sale of such asset.

(b) Sale in the subsequent years
Terminal depreciation
If the asset is sold in the subsequent years, any loss on their sale shall be considered to be terminal depreciation and shall be allowed to be debited to the profit and loss account.

Balancing Charge Section 41(2)
If any asset has been sold or destroyed etc. and depreciation was claimed on SLM basis, any amount received on sale etc. shall be considered to be income under the head business/profession and shall be called balancing charge but only to the extent depreciation was debited to the profit and loss account.

If the amount is received after closing down of the business, still it will be considered to be income under the head business/profession i.e. it will be a case of having income under the head business/profession but without any business/ profession.

The excess over it shall be taxable as capital gains under section 50A.

Example
ABC Ltd. is a power generating unit and the company has purchased one plant and machinery on 01.07.2009 for `20 lakhs and it was put to use on 01.11.2009 and rate of depreciation is 7.8%, in this case depreciation allowed shall be

2009-10	20,00,000 x 7.8% x ½	= ` 78,000
2010-11	20,00,000 x 7.8%	= `1,56,000
2011-12	20,00,000 x 7.8%	= `1,56,000.

If this plant is sold on 01.10.2012
1. For ` 7,00,000
2. For `19,00,000
3. For `23,00,000

The tax treatment shall be as given below:

1. Written down value of the asset as on 01.04.2012 is `16,10,000 but it was sold for `7,00,000, in this case terminal depreciation is 7,00,000 – 16,10,000 = `9,10,000 and it will be allowed to be debited to profit and loss account.

2. If the asset is sold for `19,00,000, there will be profit of 19,00,000 – 16,10,000 = `2,90,000 and it will be called ‘balancing charge’ under section 41(2) and shall be considered to be deemed income under the head business/profession.

3. There will be gain of 23,00,000 – 16,10,000 = `6,90,000. There will be balancing charge to the extent depreciation has been debited i.e. 3,90,000 and balance amount i.e. `3,00,000 shall be short term capital gain as per section 50A.

Question 9: Write a note on Additional Depreciation.
Answer:
Additional Depreciation Section 32(1)(iia)
In the case of any **new machinery or plant** which has been acquired and installed after the 31.03.2005, by an assessee engaged in the business of **manufacture** or **production**, or in the business of generation or generation and distribution of power, additional depreciation at the rate of 20% of the actual cost of such machinery or plant shall be allowed.

Additional depreciation is not allowed in the following cases:

(i) Any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person or

(ii) Any **machinery or plant installed in any office premises or any residential accommodation**, including accommodation in the nature of a guest-house or

(iii) Any **office appliances** or **road transport vehicles** or **ships and aircraft**

(iv) Any **machinery** or **plant**, the **whole of the actual cost** of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head “Profits and gains of business or profession” of any one previous year.

If the asset is purchased and put to use for less than 180 days, additional depreciation shall be allowed at 10% and remaining additional depreciation shall not be allowed in the subsequent year.

Illustration 7: From the following data calculate the depreciation admissible to an individual carrying on business for the assessment year 2013-14.

1. Factory Building – Written down value on 01.04.2012 was `12,00,000.

2. Plant and Machinery (Rate 15%) – Written down value on 01.04.2012 is `8,70,000.

3. Purchase of new plant (eligible for additional depreciation) on 30.06.2012 (Put to use on 01.07.2012) `1,20,000.

4. Purchase of new plant (eligible for additional depreciation) on 31.12.2012 (Put to use on 01.01.2013) `1,10,000.

5. Sale of old Plant on 01.12.2012 `6,40,000.

6. Motor Car (Rate 15%) – Written down value on 01.04.2012 was `1,20,000.

7. Sale of Car on 30.09.2012 `1,50,000.

Solution:

	`
Factory Building, Depreciation @ 10%	
Written down value on 01.04.2012	12,00,000
Depreciation @ 10%	1,20,000
Plant and Machinery, Depreciation @ 15%	
Written down value on 01.04.2012	8,70,000
Purchase on 30.06.2012, put to use on 01.07.2012	1,20,000
Purchase on 31.12.2012, put to use on 01.01.2013	1,10,000
Sale of old plant on 01.12.2012	(6,40,000)
Written down value on 31.03.2013	4,60,000
Depreciation @ 15% on `3,50,000	52,500
Depreciation @ 7.5% on `1,10,000	8,250
Additional depreciation	
1,20,000 x 20%	24,000
1,10,000 x 10%	11,000
Motor Car, Depreciation @ 15%	
Written down value on 01.04.2012	1,20,000
Sale on 30.09.2012	(1,50,000)
Short term capital gain	30,000

Illustration 8: ABC Ltd. an industrial undertaking has started manufacturing on 01.05.2012 and the company has purchased the following asset:

1. Plant and machinery for use in the factory `30 lakhs, purchased on 01.07.2012 and put to use on 15.07.2012.

2. Air-conditioner and generator for `2,00,000, purchased on 01.08.2012 and put to use on 10.08.2012 for use in office premises.

3. One motor car for `10 lakhs for use of business, purchased on 01.09.2012 and put to use on 10.09.2012.

4. One T.V. and one fridge for `50,000, purchased and put to use on 01.05.2012.

5. Furniture and fixture for use in factory `5,00,000, purchased and put to use on 01.06.2012.

Depreciation and additional depreciation shall be allowed in the manner given below:

Solution:

Computation of Depreciation

Block –I

	`
Plant and machinery, depreciation @ 15%	
Plant and Machinery purchased on 01.07.2012, put to use on 15.07.2012	30,00,000
Air-conditioner and generator purchased on 01.08.2012, put to use on 10.08.2012	2,00,000
One T.V. and one fridge purchased and put to use on 01.05.2012	50,000
	32,50,000
Depreciation @ 15%	4,87,500
Additional depreciation on plant and machinery for use in factory [30,00,000 x 20%]	6,00,000

Block –II
Motor Car, depreciation @ 15%

Motor Car purchased on 01.09.2012 and put to use on 10.09.2012	10,00,000
Depreciation @ 15%	1,50,000

Block –III
Furniture and Fixtures, depreciation @ 10%

Furniture and fixture for use in factory, purchased and put to use on 01.06.2012	5,00,000
Depreciation @ 10%	50,000

Question 10: State the situations under which written down value of the block of assets will be reduced to nil.
Answer:
Situations under which written down value of the block of assets will be reduced to nil
There are three situations under which the written down value of a block of assets will be zero. Section 50 provides for this.

Situation 1: Written down value of the block of asset shall be considered to be Nil if the full value of the consideration received for transferring the assets of the block exceeds the following amounts

(i) Expenditure incurred in connection with transfer of the asset.
(ii) The written down value of the block of assets at the beginning of the previous year; and
(iii) The actual cost of any asset of the same block acquired during the previous year,

Since entire written down value of the block has been recovered, w.d.v shall be considered to be Nil and no depreciation is allowed, further such excess shall be deemed to be the capital gains arising from the transfer of short term capital assets as per section 50.

Situation 2: If in the above case entire written down value of the block has been recovered but no excess is left, in this case also written down value shall be considered to be Nil and no depreciation is allowed and also there are no capital gains.

Situation 3: If all the assets of the block are sold, written down value shall be considered to be Nil and if any balance is left, it will be considered to be short term loss as per section 50 and no depreciation is allowed.

Question 11: What are the basic conditions laid down for claiming depreciation under the Income-Tax Act 1961?
Answer:
Basic conditions for claiming depreciation
For the purpose of claiming depreciation, the assessee must satisfy the following conditions:

(a) The assessee must be the owner of the asset. The ownership may be whole or fractional.

(b) The asset must be used for the purpose of carrying on the business or profession of the assessee.

(c) In the year of acquisition, if the asset is put to use for less than 180 days, then it is eligible for only 50% of the normal depreciation.

(d) The asset in respect of which depreciation is claimed should fall within the eligible classification of assets- i.e.

Tangible assets–being buildings, machinery, plant and furniture.

Intangible assets–being know–how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of a similar nature.

Question 12: Is it Mandatory to Claim Depreciation?
Answer:
As per explanation 5 to section 32(1), it is mandatory for every assessee to claim depreciation.

Explanation 5.—For the removal of doubts, it is hereby declared that the provisions of this sub-section shall apply whether or not the assessee has claimed the deduction in respect of depreciation in computing his total income.

Question 13: Explain allowability of depreciation in case of assets not owned by the assessee.
Answer:
Depreciation in case of assets not owned by the assessee
If the business or profession of the assessee is carried on in a building not owned by him but in respect of which the assessee holds a lease right of occupancy and any capital expenditure is incurred by the assessee on the construction, renovation, extension, improvement etc. to the building, the assessee shall be eligible for depreciation in the normal manner and it do not matter that the assessee is not the owner i.e. the depreciation shall be allowed even for the building taken on lease but only with regard to the capital expenditure incurred by the assessee.

Question 14: Write a note on Tea, Coffee or Rubber Development Account. (Self Reading)
Answer:
Tea, Coffee or Rubber Development Account Section 33AB
Deduction is allowed to all the assessee who are engaged in growing and manufacturing tea, coffee or rubber and deduction is allowed equal to the amount deposited in an account opened with National Bank for Agricultural or Rural Development and assessee is allowed maximum deduction upto 40% of the profit before charging any amount under section 33AB and the amount in this account should be utilised as per the scheme of Tea Board of India, Coffee Board of India, Rubber Board of India.

Amount shall be deposited within 6 months from the end of the previous year or before the due date of furnishing of return of income whichever is earlier.

Deduction is allowed subject to the condition that the accounts of the assessee have been audited by a Chartered Accountant.

The amount deposited in this account can be utilised in accordance with the scheme specified for this purpose. However, amount cannot be utilised for any of the purposes given below:

1. Expenditure on plant and machinery to be installed in any office premises or residential accommodation or guest house.

2. Any office appliances (except computers)

3. Expenditure on any machinery or plant the cost of which has been debited to the profit and loss account either as depreciation or otherwise.

4. Any new machinery or plant to be installed in an industrial undertaking for the purpose of business of construction, manufacture or production of any article or thing specified in the list in the Eleventh Schedule.

If the assessee has already taken deduction and subsequently the amount was utilised for any of the above mentioned purposes, in that case the amount so utilised shall be considered to be income of the previous year in which the amount has been so utilised.

The amount deposited in the special account is allowed to be withdrawn in the circumstance mentioned below:
(i) Closure of business
(ii) Dissolution of a firm
(iii) Death of an assessee
(iv) Partition of a Hindu Undivided Family
(v) Liquidation of a company

If the amount has been withdrawn on the closure of the business or on the dissolution of the firm, it will be considered to be income of the year in which the amount has been withdrawn but in other cases mentioned above, it will not be considered to be income.

Question 15: Write a note on Site Restoration Fund. (Self Reading)
Answer:
Site Restoration Fund   Section 33ABA
Deduction is allowed to the persons who are engaged in extraction or production of mineral oil and natural gas. Deduction is allowed to the extent the amount has been deposited with State Bank and maximum deduction allowed shall be upto **20%** of the profit before charging any amount under this section and the amount in this account shall be utilised for restoring the site from where mineral etc. has been extracted.

Question 16 [V. Imp.]: Write a note on expenditure on Scientific Research.
Answer:
Expenditure on Scientific Research   Section 35
If any person has incurred expenditure whether revenue or capital in connection with scientific research relating to business, such expenditure is allowed to be debited without any restriction however expenditure incurred on land is not allowed. If the assessee has incurred expenditure on purchase/construction of building, expenditure is allowed excluding the value of land.

Example
ABC Ltd. engaged in manufacturing of cement has incurred `3 lakhs on scientific research, in this case, expenditure is allowed, but if the research is not related to the business of the assessee, expenditure is not allowed.

Example
ABC Ltd. has purchased one plant and machinery on 01.07.2012 for the purpose of scientific research for ` 30 lakhs, in this case, entire amount is allowed to be debited to the profit and loss account in the year 2012-13. But if the company has purchased land for the purpose of scientific research, expenditure is not allowed.
Similarly if a building has been purchased for ` 40,00,000 and cost of land is `25,00,000, expenditure allowed shall be `15,00,000.

If expenditure is incurred before commencement of business but within 3 years, capital expenditure is allowed without any limit in the year of commencement of business but revenue expenditure is allowed only to the extent permitted by prescribed authority. Similarly payment of salary except perquisite (facilities) are allowed only to the extent permitted by the prescribed authority.

Example
ABC Ltd. has commenced its business on 01.07.2012, but before commencement, the company has incurred revenue expenditure of `2 lakhs on scientific research from 01.07.2009 onwards and the prescribed authority has certified expenditure of `1.5 lakhs, in this case ` 1.5 lakhs shall be allowed in the pervious year 2012-13, but if any expenditure has been incurred prior to 01.07.2009, expenditure is not allowed.

<u>Donation/contribution to research association</u>

As per section 35(1)(ii), an amount equal to **1.75 times** of any sum paid to an **<u>approved research association which is engaged in scientific research</u>** or to an **<u>approved university</u>**, **<u>college</u>** or **<u>other institution</u>** shall be allowed.

As per section 35(1)(iia), if donation is given to an **<u>Indian company</u>** approved by prescribed authority for the purpose of scientific research, deduction allowed shall be **<u>1.25 times</u>** of the donation.

As per section 35(1)(iii), deduction allowed shall be **<u>1.25 times</u>** of the donation if donation is given to any approved institution for the purpose of research in social science or statistical research.

As per section 35(2AA), where the assessee pays any sum to a **<u>National Laboratory</u>** or **<u>a University</u>** or **<u>an Indian Institute of Technology</u>** or specified persons as approved by the prescribed authority with a specific direction that the said sum shall be used for scientific research undertaken under a programme approved in this behalf by the prescribed authority then there shall be allowed a deduction of a sum equal to **2 times** of the sum paid.

<u>Further there is no condition that the research should be related to the business or profession of the assessee.</u>

<u>Special provision with regard to companies</u> **<u>Section 35(2AB)</u>**
Where a company engaged in the business of **<u>bio-technology</u>** or in any business of **<u>manufacture</u>** or **<u>production of any article or thing</u>** not being an article or thing specified in the list of the eleventh schedule incurs any expenditure on scientific research on in-house research and development facility as approved by the prescribed authority, then, there shall be allowed a deduction of a sum equal to **<u>two times</u>** of the expenditure so incurred. In case of expenditure on purchase or construction of building, expenditure shall be allowed to the extent of 100%. Expenditure incurred on land shall not be allowed.

If the expenditure has been incurred prior to the year of commencement of business, expenditure shall be allowed only to the extent of 100%.

No company shall be entitled for deduction unless it enters into an agreement with the prescribed authority for co-operation in such research and development facility and for audit of the accounts maintained for that facility. The prescribed authority shall submit its report in relation to the approval of the said facility to the Director General in such form and within such time as may be prescribed.

No deduction shall be allowed in respect of such expenditure which are incurred after the 31.03.2017.
Example
ABC Ltd. is engaged in manufacturing chemicals and the company has incurred ` 30 lakhs on purchasing raw materials for the purpose of research and the company has incurred ` 20 lakhs on purchasing land and `12 lakhs on purchasing the plant and machinery for the purpose of scientific research and the research programme is approved by the prescribed authority, in this case, expenditure allowed shall be ` 84 lakhs. (42 lakhs x 2)

<u>Sale of assets used for scientific research</u> **<u>Section 41(3)</u>**
Where an asset representing expenditure of a capital nature on scientific research, is sold, without having been used for other purposes, the sale proceeds maximum to the extent of capital expenditure debited to the profit and loss account shall be chargeable to income-tax as income of the business or profession of the previous year in which the sale took place and it do not matter that business or profession has been closed down at that time.

Example

ABC Ltd. purchased one plant and machinery for ` 20 lakhs on 01.10.2005 for scientific research and entire amount was debited to the Profit and loss account, subsequently the asset was sold for ` 23 lakhs in the year 2012-13, in this case deemed income under section 41(3), shall be ` 20 lakhs i.e. the amount recovered on sale maximum to the extent of the amount debited. (Capital gains shall be computed in the normal manner in this case.)

Transfer of asset to the normal business

If any asset was used for scientific research and subsequently it was transferred to the normal business, in such cases, it will be entered in the respective block of assets and its w.d.v shall be taken to be nil.

Illustration 9: On 01.04.2012 ABC Ltd. owns plants A, B, C and D (rate of depreciation 15%) depreciated value of the block as on 01.04.2012 is `5,40,000. On 14.06.2012 plant E which was initially purchased for `96,000 for conducting scientific research is transferred from laboratory to the factory. No other asset is purchased or sold. Find out depreciation allowed for the previous year 2012-13.

Solution:

Computation of written down value as on 31st March 2013

	`
Written down value as on April 1st, 2012	5,40,000
Add: Cost of plant E transferred from laboratory to factory on June 14th, 2012	
[i.e. ` 96,000–Deduction of ` 96,000 claimed under section 35]	Nil
Written down value as on 31.03.2013 before charging depreciation	5,40,000
Depreciation @ 15%	81,000

Carry forward of capital expenditure of scientific research

The provisions of section 32(2) shall be applicable with regard to the capital expenditure of scientific research as they apply to unabsorbed depreciation i.e. carry forward shall be allowed for unlimited period and brought forward expenditure can be adjusted from any income under any head except casual income.

Allowability of expenditure in case of amalgamation

Where, in a scheme of amalgamation, the amalgamating company sells or otherwise transfers to the amalgamated company (being an Indian company) any asset representing expenditure of a capital nature on scientific research, the provisions of this section shall, apply to the amalgamated company as they would have applied to the amalgamating company if the latter had not so sold or otherwise transferred the asset.

Meaning of scientific research Section 43(4)

(i) "Scientific research" means any activities for the extension of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries and expenditure incurred on scientific research shall include all expenditure incurred for the prosecution, of scientific research.

References to scientific research related to a business shall include any scientific research which may lead to or facilitate an extension of that business and any scientific research of a medical nature which has a special relation to the welfare of workers employed in that business.

Example

(i) ABC Ltd. has incurred `2,00,000 on purchase of plant and machinery for the purpose of scientific research relating to his business, in this case entire expenditure can be debited to the profit and loss account instead of permitting depreciation but if the research is not related to the business of the assessee, expenditure is not allowed.

(ii) ABC Ltd. has purchased one building for `50,00,000 out of which value of land is `40,00,000. The building shall be used for the purpose of setting up a laboratory for the purpose of scientific research relating to the business of the assessee, in this case company can debit `10,00,000 to the profit and loss account being the cost of building. (Cost of land is not allowed)

(iii) ABC Ltd. has commenced its business on 01.06.2012 and the company has incurred expenses before commencement of business as given below:

(a) `5,00,000 during May 2009, being capital expenditure in connection with scientific research.

(b) `3,00,000 during May 2011, being capital expenditure in connection with scientific research.

(c) `1,00,000 during April 2009 on raw materials for scientific research.

(d) `1,00,000 during June 2009 on raw materials for scientific research. (amount permitted by the prescribed authority `75,000)

(e) `40,000 in connection with perquisites given to the staff engaged in the scientific research.

In this case, amount allowed to be debited shall be `3,75,000 (`3,00,000 + `75,000) Expenditure incurred before the period of 3 years is not allowed.

(iv) ABC Ltd. has donated `1,00,000 to an approved scientific research association which is conducting research not connecting to the business of the company, in this case, amount allowed to be debited shall be `1,75,000.

(v) ABC Ltd. has income under the head Business/Profession `3,00,000 before debiting capital expenditure of `5,00,000 relating to scientific research, in this case, amount allowed to be debited shall be `3,00,000 and unadjusted capital expenditure on scientific research shall be allowed to be set off and carried forward just like unabsorbed depreciation.

(vi) ABC Ltd. is engaged in manufacturing chemicals and its research programme has been approved by the prescribed authority and the company has incurred the following expenses in connection with scientific research.

(a) Expenditure on purchasing a land `10,00,000.

(b) Expenditure on construction of building on land `5,00,000.

(c) Plant and machinery `10,00,000.

(d) Raw materials `2,00,000.

In this case, company shall be allowed weighted deduction of 2 times of 12,00,000 i.e. `24,00,000 Plus `5,00,000 in connection with building.

Question 17 [Imp.]: Discuss the provisions of the Income Tax Act that relate to amortisation of expenses for obtaining a license to Operate Telecommunication Services.
Answer:
<u>Amortisation of Telecom Licence Fees</u> **<u>Section 35ABB</u>**
From assessment year 1996-97 onwards, this section provides for amortisation of capital expenditure incurred and actually paid by an assessee for acquiring any right to operate telecommunication services over the period of licence. The amortisation will be allowable in the previous year in which the licence fee is actually paid and the subsequent previous years, during which the licence is in force.

Example
ABC Ltd. has taken one licence for telecommunication services and payment of `25 lakhs has made on

01.04.2012 and the licence shall expire on 31.03.2017, in this case expenditure shall be allowed in the manner given below:

Year	2012-13	2013-14	2014-15	2015-16	2016-17
Instalment allowed	25/5	25/5	25/5	25/5	25/5

If the payment is made in instalment, the amount shall be allowed starting from the year in which the payment has been made and ending with the year in which the licence expires.

Example
If in the above case, the company has paid `10 lakhs in 2012-13 and again `10 lakhs in 2013-14 and the balance amount of `5 lakh in the year 2014-15, the expenditure shall be allowed in the manner given below:

Year	2012-13	2013-14	2014-15	2015-16	2016-17
	10/5	10/5	10/5	10/5	10/5
		10/4	10/4	10/4	10/4
			5/3	5/3	5/3
Total	2,00,000	4,50,000	6,16,667	6,16,667	6,16,667

Loss on sale of licence
If the licence is transferred and the proceeds of transfer are less than the expenses remaining unallowed, a deduction equal to the unallowed expenses as reduced by the proceeds of the transfer will be allowed in the previous year in which the licence is transferred.

Example
ABC Ltd. has purchased one licence for telecommunication on 01.04.2010 for `25 lakhs and this licence shall expire on 31.03.2016 but the assessee has sold it on 01.10.2012 for `6 lakh, in this case loss of `10,66,667 shall be debited to the profit and loss account. (Value of the licence in the year 2012-13 shall be 25,00,000 – (25/6 +25/6) = 16,66,667, hence there will be a loss of `10,66,667)

Profit on sale of licence
Where the licence is transferred and the proceeds of the transfer exceed the amount of the expenditure incurred remaining unallowed, so much of the excess as does not exceed the difference between the expenditure incurred to obtain the licence and the amount of such expenditure remaining unallowed shall be chargeable to income tax as profits and gains of the business in the previous year in which the licence has been transferred.
Example
If in the above case, the licence has been transferred for 18 lakhs, in this case, there is business income of 18,00,000 – 16,66,667 = `1,33,333 and if the licence has been sold for ` 27 lakhs, there will be business income of `8,33,333 (`25,00,000 – 16,66,667).

Capital gains shall also be computed in all the above 3 situations in the normal manner.
Deduction in case of amalgamation
If the amalgamating company has transferred licence to the amalgamated company which is an Indian company, remaining instalments shall be allowed to the amalgamated company and in case of transfer of licence, amalgamated company shall have the same treatment as in case of amalgamating company.

Deduction in case of demerger
In case of demerger, remaining instalments shall be allowed to the resulting company which is an Indian company and in case of transfer of licence, resulting company shall have the same treatment as in case of parent company.
Question 18: Write a note on expenditure on Eligible Projects.
Answer:

Expenditure on eligible Projects or Schemes Section 35AC

Where an assessee incurs any expenditure by way of payment of any sum to a public sector company or a local authority or to an association or institution approved by the National Committee for carrying out any eligible project or scheme, the assessee shall, be allowed a deduction of the amount of such expenditure incurred during the previous year.

Provided that a company may incur expenditure either by way of payment of any sum as aforesaid or directly on the eligible project or scheme.

Where an association or institution is approved by the National Committee and subsequently—

(i) that Committee is satisfied that the project or the scheme is not being carried on in accordance with all or any of the conditions subject to which approval was granted; or

(ii) such association or institution, to which approval has been granted, has not furnished to the National Committee, after the end of each financial year, a report in such form and setting forth such particulars and within such time as may be prescribed, the National Committee may, at any time, after giving a reasonable opportunity of showing cause against the proposed withdrawal to the concerned association or institution, withdraw the approval.

(a) **"National Committee"** means the Committee constituted by the Central Government, from amongst persons of eminence in public life, in accordance with the rules made under this Act.

(b) **"Eligible project or scheme"** means such project or scheme for promoting the social and economic welfare of, or the uplift of, the public as the Central Government may, specify.

Question 19: Write a note on specified business.
Answer:

Deduction in respect of expenditure on Specified Business Section 35AD

In case of certain business, the assessee shall be allowed to debit even the capital expenditure to the profit and loss account and such business shall be called **specified business** and further amount allowed to be debited shall be 1.5 times of the expenditure incurred provided the business is commenced w.e.f 01.04.2012 onwards and such business are as given below:

1. Setting up and operating a **cold chain facility**. "Cold chain facility" means a chain of facilities for storage or transportation of agricultural and forest produce, meat and meat products, poultry, marine and dairy products, products of horticulture, floriculture and apiculture and processed food items under scientifically controlled conditions including refrigeration and other facilities necessary for the preservation of such produce.

2. Setting up and operating a **warehousing facility** for storage of agricultural produce.

3. Building and operating, anywhere in India, a **Hospital with at least one hundred beds for patients**.

4. Developing and building a **housing project under a scheme for slum redevelopment or rehabilitation** framed by the Central Government or a State Government, as the case may be, and which is notified by the Board in this behalf in accordance with guidelines as may be prescribed.

5. Production of fertilizer including increase in installed capacity of an existing plant.

In the following cases amount allowed to be debited shall be equal to the expenditure incurred instead of 1.5 times.

1. on or after the 1st day of April, 2007, where the specified business is in the nature of Laying and operating a cross-country natural gas or crude or petroleum oil **pipeline network** for distribution, including storage facilities being an integral part of such network.

2. Building and operating, anywhere in India, a **Hotel of two star or above category** as classified by the Central Government. Such business should commence its operations on or after 01.04.2010.

3. on or after the 1st day of April, 2011, where the specified business is in the nature of developing and building a **housing project under a scheme for affordable housing framed by the Central Government or a State Government**, as the case may be, and notified by the Board in this behalf in accordance with the guidelines as may be prescribed.

4. on or after the 1st day of April, 2012, where the specified business is in the nature of setting up and operating an **inland container depot or a container freight station** notified or approved under the Customs Act, 1962;

5. on or after the 1st day of April, 2012, where the specified business is in the nature of **bee-keeping and production of honey and beeswax;**

6. on or after the 1st day of April, 2012, where the specified business is in the nature of setting up and operating a **warehousing facility for storage of sugar**.

The capital expenditure incurred before commencement of business shall also be allowed to be debited in the year in which the business has commenced.

The following capital expenditure shall not be allowed

- Acquisition of any land; or
- Goodwill; or
- Financial instrument

Therefore, expenditure on acquisition of land, goodwill and any financial instrument is not eligible for deduction under section 35AD whether such expenditure is incurred before or after the commencement of business.

The assessee shall not be allowed deductions under chapter VI-A under the heading 'C' i.e. the following deductions are not allowed.
Section 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID, 80-IE, 80JJA, 80JJAA, 80QQB, 80RRB.

If any capital asset which was debited to profit and loss account, has been sold, amount received on sale shall be considered to be income under the head business/profession as per section 28.

As per section 73A, loss of specified business can be set off only from profits and gains of any other specified business and carried forward is allowed for unlimited periods and in the subsequent years also, the loss can be set off only from income of specified business.

Illustration 10: An Assessee starts business of setting up and operating a warehousing facility for agricultural produce on 01.06.2012. Following information is given to you:

(i) Profits from operating warehousing facility `35,00,000

The following assets have been purchased for warehousing facility and the profit of `35,00,000 is computed without giving effect to the following:

(i) Machinery purchased on 30.06.2011	` 9,00,000
(ii) Land purchased on 30.06.2011	`15,00,000
(iii) Machinery purchased on 31.12.2012	` 9,00,000
(iv) Building purchased on 31.12.2011	`10,00,000
(v) Building Constructed on 31.05.2012	`19,00,000
(vi) Goodwill purchased on 31.05.2012	` 9,00,000

<u>Solution:</u>

<u>Deduction allowable under section 35AD</u>

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Machinery purchased on 30.06.2011 (9,00,000 x 1.5)	13,50,000
Machinery purchased on 31.12.2012 (9,00,000 x 1.5)	13,50,000
Building purchased on 31.12.2011 (10,00,000 x 1.5)	15,00,000
Building constructed on 31.05.2012 (19,00,000 x 1.5)	28,50,000
Total	70,50,000
Profit of specified business	35,00,000
Less: Deduction under section 35AD	70,50,000
Loss to be carried forward indefinitely	35,50,000

The loss of `35,50,000 can be set-off only against the profits of specified business in current year and next years. Such loss can be carried forward indefinitely.

Question 20: Write a note on contribution for the purpose of Rural Development.

Answer:

<u>Expenditure by way of payment to associations and institutions for carrying out Rural Development Programmes</u> <u>Section 35CCA</u>

If an assessee incurs any expenditure by way of payment of any sum—

(a) to an association or institution, which has as its object the undertaking of any programme of rural development, to be used for carrying out any programme of rural development approved by the prescribed authority or

(b) to an association or institution, which has as its object the training of persons for implementing programmes of rural development or

(c) to a rural development fund set up and notified by the Central Government in this behalf or

(d) to the National Urban Poverty Eradication Fund set up and notified by the Central Government in this behalf,
the assessee shall, be allowed a deduction of the amount of such expenditure incurred during the previous year.

Question 21: Write a note on expenditure on agricultural extension project. Section 35CCC

Answer:

<u>Expenditure on agricultural extension project</u> <u>Section 35CCC</u>

Where an assessee incurs any expenditure on agricultural extension project notified by the Board in this behalf in accordance with the guidelines as may be prescribed, then, there shall be allowed a deduction of a sum equal to **one and one-half times** of such expenditure.

Question 22: Write a note on expenditure on skill development project. Section 35CCD
Answer:
Expenditure on skill development project Section 35CCD
Where a company incurs any expenditure (not being expenditure in the nature of cost of any land or building) on any skill development project notified by the Board in this behalf in accordance with the guidelines as may be prescribed, then, there shall be allowed a deduction of a sum equal to **one and one-half times** of such expenditure.

Question 23 [Imp.]: Explain briefly the provisions of amortisation of Preliminary Expenses.
Answer:
Amortisation of certain Preliminary Expenses Section 35D

- **Assessee**
  Deduction shall be allowed to an **Indian company or a person who is resident** in India (i.e. deduction is not allowed to a foreign company and also deduction is not allowed to non-residents) provided he has incurred the expenditure before the commencement of his business, or after the commencement of his business, in connection with the extension of his undertaking or in connection with his setting up a new unit.

- **Mode of deduction**
  Expenditure shall be allowed in **5 annual equal instalments** starting from the year in which the business has commenced.

- **Notified expenditure**
  The expenditures covered under this section are as given below:

1. Expenditure in connection with—

    (i) preparation of feasibility report.

    (ii) preparation of project report.

    (iii) conducting market survey or any other survey necessary for the business of the assessee.

    (iv) engineering services relating to the business of the assessee.

    Provided that the work in connection with the preparation of the feasibility report or the project report or the conducting of market survey or of any other survey or the engineering services is carried out by the assessee himself or by a concern which is approved by the Central Board of Direct Taxes.

2. Legal charges for drafting any agreement between the assessee and any other person for purpose of the business of the assessee.

3. Where the assessee is a company, also expenditure—

    (i) by way of legal charges for drafting the Memorandum and Articles of Association of the company.

    (ii) on printing of the Memorandum and Articles of Association.

(iii)by way of fees for registering the company under the provisions of the Companies Act.

(iv)in connection with the issue of shares or debentures of the company, being underwriting commission, brokerage and charges for drafting, typing, printing and advertisement of the prospectus.

4. Such other items of expenditure as may be prescribed.

- **Maximum expenditure allowed Section 35D(3)**
Maximum expenditure allowed shall be upto **5% of the project cost** but an Indian company has the option to take **5% of the capital employed.**

Example
ABC Ltd. has incurred expenditure of `30,00,000 and its project cost is `100,00,000 and capital employed is `120,00,000, instalment allowed to the company shall be
`30,00,000 but subject to a maximum of (120,00,000 x 5%) i.e. `6,00,000
Instalment allowed shall be = 6,00,000 / 5 = `1,20,000

- **Meaning of cost of project and capital employed**
"Cost of the project" means
(i) in a case of **new business**, the actual cost of the fixed assets, being land, buildings, leaseholds, plant, machinery, furniture, fittings and railway sidings (including expenditure on development of land and buildings), which are shown in the books of the assessee as on the last day of the previous year in which the business of the assessee commences.

(ii) in a case of **extension of undertaking**, the actual cost of the fixed assets, being land, buildings, leaseholds, plant, machinery, furniture, fittings and railway sidings (including expenditure on development of land and buildings), which are shown in the books of the assessee as on the last day of the previous year in which the extension of the undertaking is completed or, as the case may be, the new unit commences production or operation, in so far as such fixed assets have been acquired or developed in connection with the extension of the undertaking or the setting up of the new unit of the assessee.

"Capital employed" means
(i) in a case of **new business**, the aggregate of the issued share capital, debentures and long-term borrowings as on the last day of the previous year in which the business of the company commences.

(ii) in a case of **extension of undertaking**, the aggregate of the issued share capital, debentures and long-term borrowings as on the last day of the previous year in which the extension of the undertaking is completed, or, as the case may be, the new unit commences production or operation, in so far as such capital, debentures and long-term borrowings have been issued or obtained in connection with the extension of the undertaking or the setting up of the new unit of the company.

"Long-term borrowings" means
(i) any moneys borrowed by the company from the Government or the Industrial Finance Corporation of India or the Industrial Credit and Investment Corporation of India or any other financial institution or any banking institution.

(ii) any moneys borrowed or debt incurred by it in a foreign country in respect of the purchase outside India of capital plant and machinery, where the repayment thereof during a period of not less than **seven years**.

- **Deduction in case of amalgamation/Demerger**
In case of amalgamation, the provisions of this section shall, apply to the amalgamated company as they would have applied to the amalgamating company if the amalgamation had not taken place.

In case of demerger, the provisions of this section shall, apply to the resulting company, as they would have applied to the demerged company, if the demerger had not taken place.

Illustration 11: ABC Ltd. (an Indian Company) was incorporated on 01.07.2011 and it commenced its business w.e.f. 01.04.2012 and it was registered under DVAT, 2005 and the project cost of the company was ` 3 crores and capital employed is ` 4 crores. The company has incurred ` 25 lakh on preparation of feasibility report and project report and the work was taken up by an approved institution in the year 2011-12. The company has submitted the information as given below:

Purchased Raw Material for ` 100 lakhs and paid Excise Duty @ 10% plus EC plus SHEC and DVAT @ 4% and incurred processing charges of `10 lakhs and all the goods were sold for ` 150 lakhs plus DVAT @ 12.5%.

Compute Income and tax liability of the Company for assessment year 2013-14 and also show the treatment for VAT.

Solution:

	`
Gross Sales	150,00,000
Less cost of Raw Material	110,30,000
(CENVAT Credit for Excise Duty is not allowed because as per Notification No. 8/2003, output Excise Duty is exempt on first 150 lakhs))	
Less: processing charges	10,00,000
Less: Expenses u/s 35D	
Actual Expense 25,00,0000	
5% of Capital Employed 20,00,000	
Installment Allowed	
20,00,000/ 5 = 4,00,000	4,00,000
Income under the head Business/Profession	25,70,000

Computation of Tax Liability

Tax on `25,70,000 @ 30%	7,71,000
Add: Education Cess @ 2%	15,420
Add: SHEC @ 1%	7,710
Tax Liability	7,94,130

<u>Calculation of VAT Liability</u>

Output VAT	150 lakh x 12.5% =	18.75 lakhs
Less VAT Credit		4.412 lakhs
(Cost of Goods Purchased	= 100 Lakhs	
Plus Excise Duty	= 10.3 lakhs	
Total Cost Before VAT	= 110.3 lakhs	
VAT paid on Purchases		
	110.3 x 4% = 4.412 lakhs)	
Net Tax Payable		14.338 lakhs

Illustration 12: ABC Ltd. an Indian company has incurred expenditure before the commencement of business asunder:

1. Expenditure on advertisements `3 lakhs.

2. Expenditure on preparation of project report and the report was prepared by a concern which is approved by the Board `85,000.

3. Expenditure in connection with travelling and stay in hotels `45,000.

4. Expenditure on drafting and printing of memorandum and articles of associations `4 lakhs.

All the above expenditures have been debited to the profit and loss account and the company has computed income to be ` 7 lakh.

The company has commenced its business on 01.06.2012.

Company's project cost is `50 lakhs and capital employed is 57 lakhs.

Compute company's tax liability for assessment year 2013-14.

Solution:

	`
Net profit as per profit and loss account	7,00,000
Add:	
• Expenditure on advertisement	3,00,000
• Expenditure in connection with travelling and stay in hotels	45,000
• Excessive expenditure under section 35D	4,28,000

Working Note:	`
Eligible expenditure under section 35D	
1. Expenditure on preparation of project report	85,000
2. Expenditure on drafting and printing of memorandum and articles of associations	4,00,000
Total =	4,85,000

Expenditure allowed under section 35D can not exceed 5% of the capital employed
57,00,000 x 5% = 2,85,000
Instalment allowed 2,85,000/5 = 57,000
Expenditure disallowed = 4,85,000 – 57,000 = 4,28,000

Income under the head Business/Profession	14,73,000
Total Income	14,73,000

Computation of Tax Liability

Tax on `14,73,000 @ 30%	4,41,900
Add: Education cess @ 2%	8,838
Add: SHEC @ 1%	4,419
Tax Liability	4,55,157
Rounded off u/s 288B	4,55,160

Question 24: Write a note on expenditure in connection with Amalgamation/ Demerger.
Answer:
<u>Amortisation of expenditure in case of Amalgamation or Demerger</u> <u>Section 35DD</u>
If an assessee, being an Indian company, incurs any expenditure, for the purposes of amalgamation or demerger of an undertaking, the assessee shall be allowed a deduction of an amount equal to **<u>one-fifth</u>** of such expenditure for each of the **<u>five</u>** successive previous years beginning with the previous year in which the amalgamation or demerger takes place.

No deduction shall be allowed in respect of the expenditure mentioned above under any other provision of this Act.

Meaning of Amalgamation Section 2(1B)
"Amalgamation", means the merger of one or more companies with an existing company or the merger of two or more companies to form a new company.

The company which is so merged is called the amalgamating company and the company with which it is merged is called amalgamated company.

The merger should be in such a manner that—

(i) All the property of the amalgamating company should become the property of the amalgamated company.

(ii) All the liabilities of the amalgamating company should become the liabilities of the amalgamated company.

(iii) Shareholders holding not less than **75% of the shares in terms of value** in the amalgamating company become shareholders of the amalgamated company.

Meaning of Demerger Section 2(19AA)
"Demerger", means the transfer, by a demerged company of its one or more undertakings to any resulting company in such a manner that—

(i) all the property of the undertaking, being transferred should become the property of the resulting company.

(ii) all the liabilities relatable to the undertaking, being transferred should become the liabilities of the resulting company.

(iii) the property and the liabilities of the undertaking are transferred at values appearing in its books of account immediately before the demerger.

(iv) the shareholders holding not less than **75%** of the shares in term of value in the demerged company become shareholders of the resulting company.

(v) the resulting company issues, in consideration of the demerger, its shares to the shareholders of the demerged company on a proportionate basis.

Question 25: Write a note on amortization of expenditure under Voluntary Retirement Scheme.
Answer:
Amortisation of expenditure incurred under Voluntary Retirement Scheme Section 35DDA
If an assessee incurs any expenditure in any previous year by way of payment of any sum to an employee at the time of his voluntary retirement, in accordance with any scheme of voluntary retirement, **one-fifth** of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal instalments for each of the **four** immediately succeeding previous years.

Treatment in case of amalgamation
In case of amalgamation, the provisions of this section shall, apply to the amalgamated company as they would have applied to the amalgamating company if the amalgamation had not taken place.

Treatment in case of demerger
In case of demerger, the provisions of this section shall, apply to the resulting company, as they would have

applied to the demerged company, if the demerger had not taken place.

<u>Treatment in case of succession by a company</u>

Where there has been reorganisation of business, whereby a firm is succeeded by a company a proprietary concern is succeeded by a company, the provisions of this section shall, as far as may be, apply to the successor company, as they would have applied to the firm or the proprietary concern, if reorganisation of business had not taken place.

Where there has been reorganisation of business, whereby a private company or unlisted public company is succeeded by a limited liability partnership fulfilling the conditions laid down in the proviso to clause (*xiiib*) of section 47, the provisions of this section shall, as far as may be, apply to the successor limited liability partnership, as they would have applied to the said company, if reorganisation of business had not taken place.

Question 26: Explain deductibility of Insurance Premium.

Answer:

<u>Deductibility of insurance premium</u>

<u>Payment of premium for the insurance of stocks</u> **<u>Section 36(1)(i)</u>**

The amount of any premium paid in respect of insurance against risk of damage or destruction of stocks or stores used for the purposes of the business or profession, shall be allowed to be debited.

<u>Payment of premium in connection with medi claim policy</u> **<u>Section 36(1)(ib)</u>**

The amount of any premium paid by any mode of payment other than cash by the assessee as an employer for an insurance on the health of his employees under a scheme framed in this behalf by the General Insurance Corporation of India or any other insurer approved by IRDA i.e. payment towards medi-claim policy is allowed.

Question: write a note on Bonus and Commission.

Answer:

<u>Bonus and Commission</u> **<u>Section 36(1)(ii)</u>**

Any sum paid to an employee as bonus or commission for services rendered, where such sum would not have been payable to him as profits or dividend if it had not been paid as bonus or commission shall be allowed.

Example

ABC Pvt. Ltd. has paid bonus of `1 lakh to each of its shareholders Mr. A, Mr. B and Mr. C and this bonus would have been otherwise paid to them as dividend if it has not been distributed as bonus, in this case, bonus is not allowed.

As per section 43B, payment of bonus or commission is allowed only on actual payment basis.

Question 27 [Imp.]: Write a note on payment of interest.

Answer:

<u>Payment of Interest</u> **<u>Section 36(1)(iii)</u>**

The amount of the interest paid in respect of capital borrowed for the purposes of the business or profession shall be allowed. Further assessee is allowed to borrow to any extent and also he can pay interest at any rate.
Loan can be taken either to incur revenue expenditure or to incur capital expenditure.

<u>Loan for acquiring capital asset</u>

Any amount of the interest paid, in respect of capital borrowed for acquisition of an asset for **<u>extension of existing business or profession</u>** for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use, shall not be allowed as deduction, rather interest has to be capitalised but interest subsequent to the date of putting the asset to use shall be allowed under section 43(1).

Example
ABC Ltd. is an existing company and it has borrowed `20 lakhs @ 10% on 01.07.2012 for purchase of one plant and machinery which was put to use on 01.01.2013, in this case, interest for the period 01.07.2012 to 31.12.2012 shall be capitalised and any interest subsequent to 31.12.2012 shall be debited to the profit and loss account.

Discount on Zero Coupon Bonds Section 36(1)(iiia)
Zero Coupon Bond means a bond

(a) issued by any infrastructure capital company or infrastructure capital fund or public sector company.

(b) in respect of which no payment and benefit is received or receivable before maturity or redemption from infrastructure capital company or infrastructure capital fund or public sector company and

(c) which the Central Government may, by notification in the Official Gazette, specify in this behalf.

The pro rata amount of discount on a zero coupon bond having regard to the period of life of such bond calculated in the manner as may be prescribed shall be allowed to be debited.

(i) **"Discount"** means the difference between the amount received by the infrastructure capital company or infrastructure capital fund or public sector company or scheduled bank issuing the bond and the amount payable by such company or fund or public sector company or scheduled bank on maturity.

(ii) **"Period of life of the bond"** means the period commencing from the date of issue of the bond and ending on the date of the maturity.

The minimum period shall be 10 years and maximum period shall be 20 years.

Question 28: Explain deductibility of employer's contribution towards Recognised Provident Fund etc.
Answer:
Employer's contribution to Recognised Provident Fund or Approved Superannuation Fund Section 36(1)(iv)
Any sum paid by the assessee as an employer by way of contribution towards a recognised provident fund or an approved superannuation fund, subject to such limits as may be prescribed and subject to such conditions as the Board may think fit to specify in cases where the contributions are not in the nature of annual contributions of fixed amounts or annual contributions fixed on some definite basis by reference to the income chargeable under the head "Salaries" or to the contributions or to the number of members of the fund.

Employer's contribution towards a Pension Scheme Section 36(1)(iva)
Any sum paid by the assessee as an employer by way of contribution towards a pension scheme, as referred to in section 80CCD, on account of an employee to the extent it does not exceed ten per cent of the salary of the employee in the previous year.

"Salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

Employer's contribution towards approved Gratuity Fund Section 36(1)(v)
Any sum paid by the assessee as an employer by way of contribution towards an approved gratuity fund created by him for the exclusive benefit of his employees under an irrevocable trust.
Question 29: Explain deductibility of employee's contribution received by the employer.
Answer:

<u>Employee's contribution received by the employer</u>

<u>As per section 36(1)(va),</u> If the employer has received contribution from the employee towards provident fund or Superannuation Fund or Employees State Insurance or towards any other welfare scheme of employees, it will be considered to be income of the employer under the head business/profession but if the employer has credited the amount to the relevant account within the time allowed in the relevant Act, employer can debit the amount to the profit and loss account otherwise expenditure is disallowed.

As per paragraph 38 of The Employees' Provident Funds Scheme, 1952, the employer should pay within 15 days of the subsequent month and also 5 days grace period is allowed i.e. payment can be made upto 20th of the subsequent month.

As per section 31 of Employees' State Insurance (General) Regulations, 1950, ESI contribution should be deposited maximum upto 21st of subsequent month.

Question 30: Explain the deductibility of expenditure incurred in connection with purchase of animals.

Answer:

<u>Expenditure incurred in connection with purchase of animals</u>

<u>As per section 36(1)(vi),</u> In respect of animals which have been used for the purposes of the business or profession otherwise than as stock-in-trade and have died or become permanently useless for such purposes, the difference between the actual cost to the assessee of the animals and the amount, if any, realised in respect of the carcasses or animals.

Question 31 [Imp.]: Write note on deduction of Bad Debts of a Business.

Answer:

<u>Deduction for Bad Debts of a Business</u> **<u>Section 36(1)(vii)</u>**

If any assessee has written off bad debts as irrecoverable in the books of accounts, he will be allowed to debit such bad debts to the profit and loss account.

If any assessee was allowed provision for bad debts under section 36(1)(viia), bad debts shall be first debited to the provision for bad debts and only after that balance amount shall be debited to the profit and loss account.

Example

If a particular bank has provision for bad debts ` 20 lakhs and actual bad debts are ` 21 lakhs, in this case only ` 1 lakh can be debited to the profit and loss account as bad debt.

If any amount was debited as bad debts with regard to particular debt and subsequently some amount was received in final settlement of the debt, in this case any deficiency shall be allowed as bad debt and any excess shall be considered to be deemed income under section 41(4).

Example

Mr. X has sold goods on credit amounting to `3,00,000 and has debited `50,000 as bad debts subsequently but in final settlement he has received `2,10,000, in this case deficiency of `40,000 shall be allowed as bad debt and if amount received is `2,60,000, excess of `10,000 shall be considered to be income under section 41(4).

Question 32: Write a note on provision for Bad Debts.

Answer:

<u>Provision for Bad Debts</u> **<u>Section 36(1)(viia)</u>**

In general any provision for bad debts is not allowed, however provision is allowed to the limited extent in the following cases:

<u>1. Provision in case of scheduled bank incorporated in India.</u>

Provision shall be allowed for bad debts in case of a scheduled bank not being a bank incorporated under the laws of a country outside India or a non-scheduled bank, an amount **not exceeding seven and one-half per cent** of the total income computed before making any deduction under this clause and Chapter VIA and an amount **not exceeding ten per cent of the aggregate average advances** made by the rural branches of such bank.

2. Foreign banks

Provision is allowed in case of a bank, being a bank incorporated under the laws of a country outside India, an amount **not exceeding five per cent of the total income** (computed before making any deduction under this clause and Chapter VIA).

3. Public financial institutions etc.

Provision is allowed in case of a **public financial institution** or a **State financial corporation** or a **State industrial investment corporation**, an amount **not exceeding five per cent of the total income** (computed before making any deduction under this clause and Chapter VI-A):

Question 33 [Imp.]: Write a brief note on deductibility of Family Planning Expenditure under section 36(1)(ix) of the Income Tax Act, 1961.

Answer:

Expenditure on Family Planning   Section 36(1)(ix)

Any expenditure incurred by a company for the purpose of promoting family planning among its employees is allowable as deduction. If, however, such expenditure is of a capital nature, **one –fifth of such expenditure is allowable as deduction** for the previous year in which it was incurred and the balance is deductible in equal instalments in the next four years. Any family planning expenditure which is not allowed as deduction due to inadequacy of profit, shall be carried forward and set off in the same manner as unabsorbed depreciation i.e. expenditure can be set off from any income under any head except casual income and carry forward is allowed for unlimited period.

If any capital asset has been purchased for the purpose of promotion of family planning norms among the employees and subsequently the asset was sold, the sale proceeds shall be considered to be income under the head business/profession as per section 41(3) but maximum to the extent of the amount debited to the profit and loss account. If the business is not in existence at that time, even then it will be considered to be income under the head business/profession.

If subsequently there is any amalgamation or demerger, the above provisions shall apply in case of amalgamated company or the resulting company as they would have applied to the amalgamating company or the parent company.

Question 34: Write a note on Securities Transaction Tax.

Answer:

Securities Transaction Tax   Section 36(1)(xv)

If the assessee has paid securities transaction tax in connection with taxable securities transaction which are part of his business, STT shall be allowed to be debited to the profit and loss account.

Question 35 [V. Imp.]: State the conditions to be satisfied for claiming deduction under section 37(1) of the Act.

Answer:

Conditions for claiming deduction under section 37(1)

As per section 37(1), any expenditure (not being expenditure of the nature described in sections 30 to 36 and not being in the nature of capital expenditure or personal expenses of the assessee), laid out or expended wholly and exclusively for the purposes of the business or profession shall be allowed in computing the income chargeable under the head "Profits and gains of business or profession".

If any expenditure has been incurred by an assessee for any purpose which is an offence or which is prohibited by law shall not be deemed to have been incurred for the purpose of business or profession and no deduction or allowance shall be made in respect of such expenditure. i.e. expenditure can be claimed as deduction under section 37(1) provided the following conditions are satisfied.

(i) The expenditure must be in the nature of revenue expenditure and not a capital expenditure.

(ii) The expenditure must be laid out or expended wholly and exclusively for the purposes of business or profession.

(iii) The expenditure must not be in the nature of expenditure described in sections 30 to 36.

(iv) The expenditure should not be in the nature of personal expenditure of the assessee.

(v) It has been further provided by the explanation to the section that any expenditure incurred by the assessee for any purpose which is an offence or which is prohibited by law will not be allowed as deduction.

Various expenditure which may be allowed under section 37(1) are as given below:

1. Expenditure in connection with advertisement

Example

ABC Ltd. has incurred `20,000 on printing of diaries and calendars, the expenditure is allowed under section 37(1). Similarly, if an assessee has distributed audio systems for the purpose of publicity, the expenditure is allowed. If the expenditure incurred is capital nature, depreciation is allowed.

2. Expenditure on travelling including the expenses of boarding and lodging.

3. Salary paid to the staff.

4. Expenditure in connection with entertainment of the employees or the customers.

5. Expenditure in connection with opening ceremony (Mahurat) of the business/profession.

Example

ABC Ltd. has incurred `50,000 in connection with ‘shamiana’ and refreshments on occasion of opening ceremony.

6. Security under own your telephone scheme or tatkal telephone scheme. Similarly, if any security has been paid in connection with telex, it is allowed and any refund shall be considered to be income.

7. Expenditure on occasion of Diwali provided the expenses are not of religious nature or personal nature.

8. Interest on late payment of VAT / Excise Duty / Service Tax.

9. Expenditure in connection with legal proceedings.

10. Legal charges for obtaining a loan from bank or financial institution etc.

11. Damages paid to a worker in connection with his termination from the job.

12. Damages for failure to complete a contract in time.

13. Professional tax paid by a person carrying on business or profession.

14. If there are expenditures like the expenditure on the filing of return of income, filing of appeal, payment of salary to the expert staff for handling income tax or wealth tax matters or there is any audit fee, expenditure is allowed.

15. Expenses on registration of trade marks.

16. Payment of gratuity to an employee who died abroad while on business tour – **CIT v Laxmi Cement Distributors (P) Ltd., (1976) 104 ITR 711 (Guj.)**

17. Fees to an architect for valuation of building – **CIT v Asiatic Oxygen and Acetylene Co. Ltd. (1981) 132 ITR 506 (Cal).**

18. Legal charges in connection with amendment to Articles of Association.

19. Replacement of worn out parts of machineries – **CIT v. Darbhanga Sugar Co. Ltd. (1956) 29 ITR 21 (Pat.)**

20. Interest on overdraft utilised for payment of dividend – **CIT v. Sri Changedeo Sugar Mills Ltd. (1983) 143 ITR 469 (Bom).**

21. Contribution to Government for construction of health centre – **CIT v. Rupsa Rice Mills (1976) 104 ITR 249 (Ori).**

22. Payment made to suggest improved method of production – **CIT v. Aluminum Corporation of India Ltd. (1973) 92 ITR 563 (Cal).**

23. Retrenchment compensation and notice pay at the time of closure of one of the units of the business – **Sassoon J. David & Co. (P) Ltd. v. CIT (1979) 118 ITR 261 (SC).**

24. Expenditure on issue of bonus shares is revenue expenditure and is accordingly allowed to be debited to profit and loss account as decided in **CIT v. General Insurance Corporation (2006) 156 Taxman 96 (SC).** The court held that issuance of bonus shares does not result in inflow of fresh funds rather it is merely a reallocation of company's funds, hence it cannot be said that company has acquired a benefit or advantage of enduring nature. The expenditure is revenue in nature.

25. Any other expenditure which is revenue in nature and it is related to business or profession.

The following expenditure shall not be allowed under section 37(1).

1. Payment of income tax in foreign countries

2. Cost of erecting the statue of the founder-chairman – **Saru Smelting & Refining Corporation (P) Ltd. v. CIT (1979) 116 ITR 766 (All).**

3. Any fine or penalty for violating the provisions of law.

4. Interest on late payment of income tax.

Question 36: Write a note on deductibility of expenditures in connection with advertisement in the newspaper etc. of a Political Party.

Answer:

<u>Expenditure in connection with advertisement in the newspaper etc. of a Political Party Section 37(2B)</u>

No allowance shall be made in respect of expenditure incurred by an assessee on advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party.

Question 37 [Imp.]: Explain deductibility of expenditure in connection with assets which are partly in business use and partly in personal use section 38.

Answer:

<u>Expenditure in connection with assets which are partly in business use and partly in personal use Section 38</u>

If any person has any asset in business or profession as well as in personal use, expenditure is allowed only to the extent the asset is in the use of the business or profession.

Example

If Mr. X has one motor car which is used to the extent of 60% in business and 40% for personal use, all expenditures shall be allowed to be debited to the extent of 60%.

Question 38 [V. Imp.]: Write a note on deductibility of expenditure on which tax has not been deducted at source.

Answer:

<u>Tax deduction at source for payment of interest, royalty etc. outside India</u> <u>Section 40(a)(i)</u>

If any person has paid any interest, royalty or technical fee or other sum chargeable to income tax and the amount is being paid outside India or it has been paid in India to a non-resident or to any foreign company and such amount was subject to TDS but the person has not deducted tax at source during the relevant previous year or after deducting the tax he has not paid it to the government during the previous year or in the subsequent year within the time allowed under section 200(1), such payments shall not be allowed to be debited to the profit and loss account.

If the tax has been deducted in the subsequent year or it was deducted in the previous year but was paid in the subsequent year after the expiry of the time allowed under section 200(1), it will be allowed to be debited in the year in which such tax has been paid.

<u>Time allowed under section 200(1)</u>

Time allowed shall be 7 days from the end of the month in which the tax was deducted, but if the tax has been deducted in the month of March, tax should be deposited on or before 30^{th} April.

Example

Determine the year in which deduction shall be allowed in the following cases if the assessee is a company

S. No.	Nature of Expenditure	Date of payment	Date on which tax was deducted at source	Actual date of deposit	Previous year in which deduction will be allowed
1.	Fees for Technical Services	22-01-2013	31-01-2013	Not Deposited	Not Allowed
2.	Interest on loan	31-01-2013	10-02-2013	29-03-2013	2012-13
3.	Rent	31-03-2013	31-03-2013	01-05-2013	2013-14
4.	Interest	31-03-2013	31-03-2013	15-04-2013	2012-13
5.	Legal Fee	10-03-2013	20-03-2013	10-04-2013	2012-13
6.	Audit Fee	18-11-2012	18-11-2012	07-03-2013	2012-13

7.	Royalty	30-03-2013	30-03-2013	30-04-2013	2012-13

Tax deduction at source for payment of interest, commission, brokerage etc. in India Section 40(a)(ia)

In case of payment of interest, commission, brokerage, rent, royalty, professional fees, technical fees, payment to a contractor and the payment is being made to a resident and tax has to be deducted at source as per provisions of Income Tax Act and the person making payment has deducted tax at source, the expenditure shall be allowed if tax has been paid to the government on or before the due date of filing of return of income specified in sub-section (1) of section 139 and in such cases amount shall be allowed to be debited in the relevant previous year.

Where an assessee fails to deduct the whole or any part of the tax in accordance with the provisions of Chapter XVII-B on any such sum but is not deemed to be an assessee in default under section 201, then, it shall be deemed that the assessee has deducted and paid the tax on such sum on the date of furnishing of return of income.

If in respect of any such sum, tax has been deducted in any subsequent year, or has been deducted during the previous year but paid after the due date specified in sub-section (1) of section 139, such sum shall be allowed as a deduction in computing the income of the previous year in which such tax has been paid.

Example

Determine the year in which deduction shall be allowed in the following cases if the assessee is a company.

S. No.	Nature of Expenditure	Date of payment	Date on which tax was deducted at source	Actual date of deposit	Whether the assessee was deemed to be an assessee in default under section 201	Previous year in which deduction will be allowed
1.	Fees for Technical Services	22-01-2013	31-03-2013	30-09-2013	Not applicable	2012-13
2.	Interest on loan	31-01-2013	31-01-2013	29-03-2013	Not applicable	2012-13
3.	Rent	31-03-2013	31-03-2013	30-09-2013	Not applicable	2012-13
4.	Interest	31-03-2013	31-03-2013	15-04-2014	Yes	2014-15
5.	Legal Fee	10-03-2013	20-03-2013	05-06-2013	Not applicable	2012-13
6.	Audit Fee	18-11-2012	18-11-2012	05-12-2012	Not applicable	2012-13
7.	Royalty	31-03-2013	31-03-2013	10-10-2013	Yes	2013-14

Question 39: Write a note on deductibility of salary paid without deducting tax at source.

Answer:

Payment of salary etc. outside India Section 40(a)(iii)

If there is any payment which is chargeable under the head "Salaries" and it is payable **outside India** or **to a non-resident**, and the tax has not been paid thereon nor deducted the expenditure is not allowed. E.g. ABC Ltd. has paid salary outside India on 31.01.2013 without deducting tax at source and also tax has not been deposited with the Government, in this case expenditure is not allowed.

Question 40 [V. Imp.]: Explain deductibility of Income Tax or Wealth Tax or Securities Transaction

Tax.

Answer:

<u>Deductibility of Income Tax or Wealth Tax or Securities Transaction Tax</u>

<u>Under section 40(a)(ii) and (iia),</u> payment of income tax and wealth tax is not allowed because these are considered to be personal liability, however as per section 43B, sales tax, custom duty, excise duty, service tax, municipal tax, licence fee etc. is allowed because these are considered to be business liability.

If any interest has been paid for the loan taken for payment of income tax or wealth tax, interest is not allowed.

If interest has been paid for the loan taken for the payment of sales tax, custom duty, excise duty etc., interest is allowed under section 36(1)(iii).

If there is any income tax refund or wealth tax refund, it will not to be considered income but if there is sales tax refund or excise duty refund etc., it will be considered to be income as per section 41(1).

If any interest has been received in connection with income tax refund or wealth tax refund or sales tax refund etc., it will be considered to be income.

If any person has paid any fine or penalty in connection with income tax, wealth tax, sales tax etc., it will not be allowed.

If any interest has been paid for late payment of income tax or wealth tax, interest is not allowed but if interest has been paid for late payment of sales tax, custom duty or excise duty etc., interest is allowed under section 37(1).

<u>Under section 40(a)(v), income tax paid by the employer on behalf of the employee in connection with non-monetary perquisites covered under section 10(10CC), shall not be allowed to be debited.</u>

<u>Under section 36(1)(xv), securities transaction tax shall be allowed to be debited.</u>

Question 41 [V. Imp.]: Write a note on payment to Relative/Related person.

Answer:

<u>Payment to Relative/Related Person</u> <u>Section 40A(2)</u>

If the assessee incurs any expenditure and payment has been given to any person mentioned below and such expenditure is **<u>excessive</u>** or **<u>unreasonable</u>** having regard to the fair market value of the goods, services or facilities, so much of the expenditure as is so considered to be excessive or unreasonable shall not be allowed as a deduction.

Provided that no disallowance, on account of any expenditure being excessive or unreasonable having regard to the fair market value, shall be made in respect of a specified domestic transaction referred to in section 92BA, if such transaction is at arm’s length price as defined in clause (*ii*) of section 92F.

The persons covered in this category are –

1. If the assessee is an individual any relative of the assessee.

2. If the assessee is a company, firm, association of persons or Hindu Undivided Family any director of the company, partner of the firm, or member of the association or family, or any relative of such director, partner or member.

3. Any individual who has a substantial interest in the business or profession of the assessee, or any relative of such individual.

4. A company, firm, association of persons or Hindu Undivided Family having a substantial interest in the business or profession of the assessee or any director, partner or member of such company, firm, association or family, or any relative of such director, partner or member or any other company carrying on business or profession in which the first mentioned company has substantial interest.

5. A company, firm, association of persons or Hindu Undivided Family of which a director, partner or member, as the case may be, has substantial interest in the business or profession of the assessee; or any director, partner or member of such company, firm, association or family or any relative of such director, partner or member.

6. Any other person covered under section 40A(2).

Question 42 [V. Imp.]. Discuss provisions relating to cash payments in excess of limit prescribed under section 40A(3) Rule 6DD.
Answer:
Cash payment in excess of `20,000 Section 40A(3) Rule 6DD
If an assessee has incurred any revenue expenditure and the payment or the aggregate of the payments made to a person with regard to such expenditure on any single day **exceeds `20,000** and payment was made otherwise than **through account payee cheque or account payee bank draft**, in such cases entire expenditure is disallowed.

In case of payment made for plying, hiring or leasing goods carriages, the ceiling of twenty thousand rupees shall be enhanced to thirty-five thousand rupees.
Example
Mr. X has incurred an expenditure of ` 45,000. Mr. X makes separate payments of ` 15,000, ` 18,000 and ` 12,000 all by cash, to the person concerned in a single day. The aggregate amount of payment made to a person in a day, in this case, is ` 45,000. Since, the aggregate payment by cash exceeds ` 20,000, `45,000 will not be allowed as a deduction in computing the total income of Mr. X.
Example
1. Mr. X purchases goods worth `75,000 on 01.01.2013 and payment was made `50,000 on 03.01.2013 by account payee cheque and `15,000 in cash on 03.01.2013 and `10,000 in cash on 05.01.2013, in this case expenditure is allowed.

2. Mr. X purchases goods worth `18,000 and `15,000 against two bills from Mr. Y and makes the payment `33,000 in cash in a single day, in that case entire expenditure is allowed.

3. Mr. X purchases goods worth `35,000 from Mr. Y against one bill but makes payment of `17,500 and `17,500 at different times on the same date, in that case entire expenditure is disallowed.

4. Mr. X pays a salary to his employee `25,000 by crossed cheque, in this case entire expenditure is disallowed.

If any person has claimed expenditure on due basis but in the subsequent year the payment was not made by account payee cheque or draft, in that case it will be considered to be income of the year in which the payment has been made.
Example
During the previous year 2012-13 ABC Ltd. has incurred `1,00,000 on advertisement and the company has not made the payment till 30.09.2013 and the expenditure was claimed on due basis and the company has filed the return of income. The company made the payment on 01.01.2014 in cash, in this case `1,00,000 shall be considered to be income of the company in the previous year 2013-14.

The above provisions are applicable only with regard to revenue expenditure and not for capital

expenditure.

Example

(i) If ABC Ltd. has paid `65,000 in cash, expenditure disallowed shall be `65,000.

(ii) If Mr. X has paid `21,000 by a bearer cheque, amount disallowed shall be `21,000.

(iii) If ABC Ltd. has paid `20,050 by a crossed cheque, amount disallowed shall be `20,050.

(iv) ABC Ltd. has purchased one plant for `1,00,000 and the payment was made in cash, in this case nothing is disallowed because section 40A(3) is not applicable in case of capital expenditure.

(v) ABC Ltd. has paid `35,000 by an account payee cheque, entire amount is allowed.

Exceptions under rule 6DD

Rule 6DD however, permits certain relaxation to the above. As per the said rule, the provisions under section 40A(3) will not apply for the following:

1. Payment made to Reserve Bank of India, State Bank of India or other banking institutions, LIC, UTI, etc.

2. Payments made to Central/State Government, which as per rules has to be made in legal tender.

3. Where the payment is made in a **village** or **town**, which on the date of such payment is **not served by any bank,** to any person who **ordinarily resides**, or is **carrying on any business**, **profession or vocation**, in any such village or town.

4. Where any payment is made to an employee of the assessee or the heir of any such employee, on or in connection with the retirement, retrenchment, resignation, discharge or death of such employee, on account of gratuity,' retrenchment compensation or similar terminal benefit and the aggregate of such sums payable to the employee or his heir does not exceed fifty thousand rupees

5. Where the payment is made for the purchase of—
   (i) **agricultural or forest produce** ; or
   (ii) the produce of **animal husbandry** (including hides and skins) or **dairy** or **poultry farming** ; or
   (iii) **fish or fish products** ; or
   (iv) the products of **horticulture or apiculture**,
   to the **cultivator**, **grower or producer** of such articles, produce or products.

6. Where the payment is made for the purchase of the **products manufactured or processed without the aid of power in a cottage industry**, to the producer of such products.

7. Where the payment was required to be made on a day on which the banks were closed either on account of holiday or strike.

8. Where the payment is made by—
   (i) any letter of credit arrangements through a bank;
   (ii) a mail or telegraphic transfer through a bank;
   (iii) a book adjustment from any account in a bank to any other account in that or any other bank;
   (iv) a bill of exchange made payable only to a bank;
   (v) the use of electronic clearing system through a bank account;
   (vi) a credit card;

(vii) a debit card.

9. Where the payment is made by an assessee by way of salary to his employee after deducting the income-tax from salary in accordance with the provisions of section 192 of the Act, and when such employee—
   (a) is temporarily posted for a continuous period of fifteen days or more in a place other than his normal place of duty or on a ship; and
   (b) does not maintain any account in any bank at such place or ship.

10. Any other situation given under Rule 6DD.

Illustration 13: Mr. X has started a business w.e.f 01.04.2012 and has submitted informations as given below:

1. Purchased goods in April' 2012 for `5,00,000 plus Delhi VAT @ 12.5%

2. Purchased goods in May' 2012 for `3,00,000 plus Delhi VAT @ 12.5%

3. Sold all the goods upto 31st May' 2012 for `10,00,000

He has taken registration under Delhi VAT w.e.f 01.06.2012 and has opted for composition scheme and purchased/sold goods as given below:

1. Purchased goods from 01.06.2012 to 31.12.2012 for `30,00,000 plus Delhi VAT @ 12.5%

2. Sold all such goods upto 31.12.2012 for `40,00,000

Rate of composition tax is 1%.

Since his turnover upto 31.12.2012 is `50,00,000, he has shifted to the normal system and his purchases from 01.01.2013 upto 31.03.2013 is `20,00,000 plus Delhi VAT @ 12.5% and the goods were sold for `30,00,000 plus Delhi VAT @ 12.5%.

Other expenses incurred are `4,00,000 which includes rent of own building `1,20,000 and premium for Medi-claim policy `10,000 paid by cheque and purchase of one motor car - NANO for `1,50,000 for business use. It was purchased and put to use on 01.01.2013. 30% use was for personal purpose.

Purchase bill of `5,00,000 plus VAT of April' 2012 was paid by bearer cheque and a purchase bill of `1,00,000 plus VAT in May' 2012 was paid in cash.

Compute income tax liability for Assessment Year 2013-14 and show the working for VAT.

Solution:

	`
Gross Sales	80,00,000.00
Less: Cost of goods sold	56,00,000.00
(9,00,000 + 33,75,000 + 20,00,000)	
(62,75,000 – 6,75,000)	
`6,75,000 has been disallowed under section 40A(3).	
Less: Composition tax	40,000.00
(1% of `40,00,000)	
Less: Other expenses	1,20,000.00
(4,00,000 – 1,20,000 – 10,000 – 1,50,000)	
Less: Depreciation on motor car	7,875.00
(1,50,000 x 7.5% x 70%)	
Income under the head Business/Profession	22,32,125.00

Gross Total Income		22,32,125.00
Less: Deduction u/s 80D		10,000.00
Total Income		22,22,125.00
Rounded off u/s 288A		22,22,130.00

Computation of tax liability

Tax on `22,22,130 at slab rate	4,96,639.00	
Add: Education cess @ 2%		9,932.78
Add: SHEC @ 1%		4,966.39
Tax Liability		5,11,538.17
Rounded off u/s 288B		5,11,540.00

Working for VAT

Composition tax (40,00,000 x 1%)	40,000
Output tax (30,00,000 x 12.5%)	3,75,000
Less: Input tax credit (20,00,000 x 12.5%)	2,50,000
Net Tax	1,25,000

Question 43: Write a note on deductibility in respect of provision for Gratuity Fund.
Answer:
<u>Deductibility in respect of provision for Gratuity Fund</u> <u>Section 40A(7)</u>

(*a*) Subject to the provisions of clause (*b*), no deduction shall be allowed in respect of any provision (whether called as such or by any other name) made by the assessee for the payment of gratuity to his employees on their retirement or on termination of their employment for any reason.

(*b*) Nothing in clause (*a*) shall apply in relation to any provision made by the assessee for the purpose of payment of a sum by way of any contribution towards an approved gratuity fund, or for the purpose of payment of any gratuity, that has become payable during the previous year.

Explanation.—For the removal of doubts, it is hereby declared that where any provision made by the assessee for the payment of gratuity to his employees on their retirement or termination of their employment for any reason has been allowed as a deduction in computing the income of the assessee for any assessment year, any sum paid out of such provision by way of contribution towards an approved gratuity fund or by way of gratuity to any employee shall not be allowed as a deduction in computing the income of the assessee of the previous year in which the sum is so paid.

Question 4: Write a note on employer's contribution to various funds.
Answer:
<u>Employer's contribution to various funds</u> <u>Section 40A(9)</u>
If the employer has contributed to the recognised provident fund, approved superannuation fund, approved gratuity fund or any other similar fund required under any other Act, such contribution is allowed, but payment has to be made upto the last date of filing of return of income as per section 43B.

If the employer has contributed to any other fund like unrecognised provident fund, unapproved gratuity fund, unapproved superannuation fund etc., expenditure shall not be allowed.

Question 45 [V. Imp.]: What are the exceptions to the rule that income from business can be assessed

only if the business is carried on during the previous year?
Answer:
<u>Exceptions to the rule that income from business can be assessed only if the business is carried on during the previous year</u>
The exceptions to the rule that income from business can be assessed only if it is carried on during the previous year are: –

41. (1) Where any **<u>loss, expenditure or trading liability</u>** has been debited to the profit and loss account and subsequently during any previous year, such person has obtained, any amount in respect of such loss or expenditure or some benefit in respect of such trading liability by way of remission or cessation thereof, the amount so obtained shall be deemed to be profits and gains of business or profession and shall be chargeable to income-tax as the income of that previous year, whether such business or profession is in existence in that year or not.

Example
Mr. X paid excise duty of `7 lakhs in 2003-04 but he lodged a claim for refund of ` 3 lakhs, being the excess excise charged by the department, the department has allowed the refund because of intervention of court in the year 2012-13, in this case the refund so received is deemed income under section 41(1), in the year 2012-13 even if the assessee has already closed down his business.

Example
A Ltd. is purchasing goods from a number of suppliers on credit and expenditure is claimed on due basis and subsequently payment is made on production of proof of delivery of goods (i.e. challan form and bills etc.). The company finds that an expenditure of ` 5 lakh was claimed in the year 2005-06, but so far no bills etc. have not been submitted even after repeated reminders and accordingly, the company has written off the liability in the year 2012-13, in this case it will be considered to be deemed income of the company under section 41(1), because it is a case of **cessation of liability through unilateral act of the assessee**.

Similarly if the successor in business has obtained any amount in respect of which loss or expenditure etc. was incurred by the predecessor, it will be chargeable to income-tax as the income of that previous year.

"Successor in business" means,—
(i) where there has been an amalgamation of a company with another company, the amalgamated company.
(ii) where there has been a demerger, the resulting company.
(iii)where a firm carrying on a business or profession is succeeded by another firm, the other firm.
(iv)where the first-mentioned person is succeeded by any other person in that business or profession, the other person.

Example
ABC Ltd. has paid sales tax of ` 4 lakhs in 2005-06 and a refund claim was lodged, ABC Ltd. was merged into Z Ltd. in 2009-10, and subsequently refund was granted to Z Ltd. in the year 2012-13, it will be considered to be deemed income of Z Ltd. of the year 2012-13.

<u>Balancing Charge</u> **<u>Section 41(2)</u>**
In case of power generating unit if any asset has been sold or destroyed etc. and depreciation was claimed on SLM basis, any amount received on sale etc. shall be considered to be income under the head business/profession and shall be called balancing charge but only to the extent depreciation was debited to the profit and loss account.

If the amount is received after closing down of the business, still it will be considered to be income under the head business/profession i.e. it will be a case of having income under the head business/profession but without any business/ profession.
<u>Illustration 14:</u> ABC Ltd. a power generating unit has purchased one lightning arrestor for ` 10 lakhs on

01.10.2010 and it was put to use on 01.01.2011 and depreciation was allowed on SLM @ 7.84%, it was sold on 01.07.2012, for `11 lakhs, in this case amount of balancing charge shall be:

Solution:

Sale price = ` 11 lakhs, profit on sale ` 11,00,000 – 8,82,400 = 2,17,600

Out of which balancing charge shall be `1,17,600/- i.e. excess to the extent of difference between the actual cost and the written down value (10,00,000 – 8,82,400 = 1,17,600) and any excess over the actual cost shall be considered to be capital gains under section 50A

41. (3) Where an asset representing expenditure of a capital nature on scientific research, is sold, without having been used for other purposes, the sale proceeds maximum to the extent of capital expenditure debited to the profit & loss account shall be chargeable to income-tax as income of the business or profession of the previous year in which the sale took place.

If the amount is received after closing down of the business, still it will be considered to be income under the head business/profession i.e. it will be a case of having income under the head business/profession but without any business/profession.

Example

ABC Ltd. purchased one plant & machinery for ` 20 lakhs on 01.10.2005 for scientific research and entire amount was debited to the profit & loss account, subsequently the asset was sold for ` 23 lakhs in the year 2012-13, in this case deemed income under section 41(3), shall be ` 20 lakhs i.e. the amount recovered on sale maximum to the extent of the amount debited. (Capital gains shall be computed in the normal manner in this case.)

41. (4) If any amount was allowed as bad debt and subsequently it was recovered in the subsequently years, in such cases the amount so recovered shall be considered to be income under the head business/profession of the year in which the amount has been recovered.

If the amount is received after closing down of the business, still it will be considered to be income under the head business/profession i.e. it will be a case of having income under the head business/profession but without any business/profession.

Example

ABC Ltd. has claimed bad debts of ` 7 lakhs in the year 2007-08, but the Assessing Officer has allowed ` 5 lakhs, subsequently there was a recovery of ` 3 lakhs in the year 2012-13, in this case deemed income shall be ` 1 lakh.

Special Provision for set off and carry forward of losses of discontinued business/profession Section 41(5)

If the business or profession is no longer in existence and there is income chargeable to tax under section 41(1), 41(3), 41(4) in respect of that business or profession, any loss, not being a loss sustained in speculation business, which arose in that business or profession during the previous year in which it ceased to exist and which could not be set off against any other income of that previous year shall, so far as may be, be set off against the income chargeable to tax under the sections aforesaid.

Example

ABC Ltd. has closed down its business in the year 2005-06 and there was a loss of ` 10 lakhs relating to this business of the year 2005-06 and the loss could not be set off till 2021-22, however there was deemed income of ` 13 lakhs of this business in the year 2021-22, in this case loss of 10 lakhs can be set off from this income even if the period of 8 years has expired. (This provision is not applicable for any loss prior to the year in which the business or profession has been closed down)

Deemed income under other sections:

Similarly if any person has sold any patent right or copy right under section 35A or has sold technical know-how under section 35AB or has sold a licence for telecommunication under section 35ABB, any amount received to the extent the amount has been debited, shall be considered to be deemed income of the assessee.

Question 46 [Imp.]: Write a note on actual cost. Sec 43(1)
Answer:
Actual Cost Section 43(1)
In case of depreciable assets, depreciation is allowed on actual cost and as per section 43(1), actual cost means total expenses incurred upto the date of putting the asset to use.

If ABC Ltd. has taken a loan of ` 40 lakhs @ 10% p.a. on 01.01.2012 for purchasing a particular plant and machinery and the company has made additional payment asunder:

1. Transportation charges `2 lakh.
2. Loading and unloading expenses `25,000
3. Payments for the expert staff to install the plant and machinery `3 lakh.
4. Company has incurred ` 4 lakh for construction of a platform for installing the plant and machinery.

The asset was put to use on 01.01.2013, in this case actual cost of the asset shall be ` 53,25,000 (40,00,000 + interest 4,00,000 + 2,00,000 + 25,000 + 3,00,000 + 4,00,000)

If the assessee has received any subsidy from the Government or other similar agency, the subsidy so received shall be deducted and only the balance amount shall be considered to be the actual cost.
Example
If in the above case, the assessee has received a subsidy of ` 2 lakh in connection with plant and machinery because it was a non-polluting plant, in this case, actual cost of asset shall be `51,25,000.

Buildings in personal use subsequently used in business/profession
Where a building previously the property of the assessee is brought into use for the purpose of the business or profession, the actual cost to the assessee shall be the actual cost of the building to the assessee, as reduced by an amount equal to the depreciation that would have been allowable had the building been used for the business/profession since the date of its acquisition.

Transfer of asset by amalgamating company to amalgamated company
Where any capital asset is transferred by the amalgamating company to the amalgamated company and the amalgamated company is an Indian company, the actual cost of the transferred capital asset to the amalgamated company shall be taken to be the same as it would have been if the amalgamating company had continued to hold the capital asset for the purposes of its own business.

Treatment of interest subsequent to putting the asset to use
Any interest in connection with the acquisition of an asset relating to any period after such asset is first put to use shall not be included, in the actual cost of such asset, rather it is revenue expenditure and is allowed to be debited to profit and loss account but interest prior to putting the asset to use shall be added in the actual cost.

Treatment of subsidy or grant
Any subsidy, grant or reimbursement granted by the Central Government or a State Government or any authority towards a portion of cost of the asset acquired by the assessee shall be reduced from the actual cost of the asset for the purpose of allowing depreciation. If the subsidy, grant or reimbursement is of such a nature that it is not directly relatable to any particular asset, the amount so received shall be apportioned in a manner that such portion of the subsidy, grant, etc. that is in the same proportion that such asset bears to all the assets in respect of or with reference to which the subsidy, grant etc. is so received, shall not be included in the actual cost of the asset.

Where the income of an assessee is derived, in part from agriculture and in part from business chargeable to income-tax under the head "Profits and gains of business or profession", for computing the written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire income is derived from the business of the assessee under the head "Profits and gains of business or profession" and the depreciation so computed shall be deemed to be the depreciation actually allowed under this Act.

Illustration 15: Dr. Prakash purchased a residential building on 01.12.2010 for `12,00,000 and it was put to use on the same date. Till 01.12.2012 the same was self-occupied as residence. On this date, the building was brought into use for the purpose of his medical profession (it was used as residential building). What would be the depreciation allowable for the assessment year 2013-14?

Solution: `

Computation of depreciation for the assessment year 2013-14

In this case notional depreciation shall be allowed as per explanation No.5 to section 43(1) and depreciation allowable for the assessment year 2013-14 shall be computed in the manner given below:

Cost of building as on December 1st, 2010	12,00,000
Less: depreciation for the previous year 2010-11 (2.5% of ` 12,00,000) (As building purchased during the year 2010-11 is put to use for less than 180 days during the year)	30,000
Written down value as on 01.04.2011	11,70,000
Less: depreciation for previous year 2011-12 @ 5%	58,500
Written down value as on 01.04.2012	11,11,500
Depreciation for the previous year 2012-13 @ 5%	55,575

Original Text

Explanation 5 to section 43(1).—Where a building previously the property of the assessee is brought into use for the purpose of the business or profession, the actual cost to the assessee shall be the actual cost of the building to the assessee, as reduced by an amount equal to the depreciation calculated at the rate in force on that date that would have been allowable had the building been used for the aforesaid purposes since the date of its acquisition by the assessee.

Explanation 9 provides that the amount of duty of excise or the additional duty leviable under section 3 of the Customs Tariff Act, 1975 on an asset acquired on or after 01.03.1994 will be reduced from the actual cost of the asset in respect of which credit is claimed and allowed on such asset under the Cenvat Credit Rules, 1944. It will similarly be reduced from the actual cost of the asset for the purpose of allowing depreciation in relation to assessment year 1994–95 and onwards.

Example

ABC Ltd. has purchased one plant and machinery for ` 16 lakh, which includes excise duty of ` 4 lakh, but the company has taken CENVAT credit of ` 4 lakh, in this case actual cost shall be ` 12 lakh.

Question 47: Write a note on the Method of Accounting as per Section 145.

Answer:

Method of Accounting Section 145

(1) Income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” shall, be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee.

(2) The Central Government may notify in the Official Gazette from time to time accounting standards to be followed by any class of assessees or in respect of any class of income.

(3) Where the Assessing Officer is not satisfied about the correctness or completeness of the accounts of the assessee, or where the method of accounting provided in sub-section (1) or accounting standards as notified under sub-section (2), have not been regularly followed by the assessee, the Assessing Officer may make an assessment in the manner provided in section 144.

Question 48 [V. Imp.]: Write a note on Section 43B.
Answer:
Certain deductions to be only on actual payment Section 43B
Under section 145, every assessee is allowed to maintain the books of accounts either on cash basis or on the basis of mercantile system of accounting. If the books are maintained on mercantile system, then all the expenditures are allowed on due basis. But the expenditures listed under section 43B are allowed only on actual payment basis.

These expenditures are: -

(a) any sum payable by the assessee by way of **tax**, **duty**, **cess** or **fee**, by whatever name called, under any law like **Municipal Tax**, **Professional Tax** , **Composition Tax** etc.

(b) **Employer's contribution to any provident fund** or **superannuation fund** or **gratuity fund**, **ESI** or **any other fund** for the welfare of employees.

(c) **Bonus** or **commission** to the employee.

(d) **Interest on any loan or borrowing from any Public Financial Institution or a State Financial Corporation or a State Industrial Investment Corporation**.

(e) Interest on any **loans and advances from a scheduled bank.**

(f) **Leave salary** to the employees

The assessee is allowed to make the payment till the last date of filing of return of income relating to the previous year in which the expenditure was incurred. The assessee has also to furnish the proof of having made the payment, with the return of income.

If the payment is made after the last date of filing of return of income, expenditure is allowed in the year in which the assessee has made the payment.

Due date for filing of return of income (Sec 139(1))
Due date **in general shall be 31st July of the Assessment year**, however in the following cases, the last date shall be 30th September of the Assessment Year.

1. Company assessee
2. Any person (other than a company) whose accounts are required to be audited.
3. A working partner of a firm whose accounts are required to be audited.

Example
ABC Ltd has debited bonus of `3,00,000 to the Profit/Loss A/c for the previous year 2012-13 and the company paid the bonus on 07-12-2013, in this case expenditure is not allowed in the previous year 2012-13. Rather expenditure is allowed in the previous year 2013-14. Similarly if the payment is made by the company on 07.05.2014, expenditure shall be allowed in the previous year 2014-15.

Interest payable shall be allowed if such interest has been actually paid and any interest which has been converted into a loan or borrowing shall not be deemed to have been actually paid.

Circular No 496 dt: 25.09.1987

Some of the State Governments have introduced sales tax deferred payment scheme as part of incentives for setting up the industries in the backward area, accordingly, these units are allowed to retain the sales tax collected by them for certain period. In such cases, the sales tax shall be considered to have been paid for the purpose of section 43B.

Circular No. 674 dt: 29.12.1993

Some of the State Governments, instead of amending the Sales Tax Act, have issued orders that sales tax shall be deemed to have been collected and subsequently disbursed as loan, Board has clarified that even in these cases, deduction of sales tax shall be allowed to the assessee on due basis.

Illustration 16: Mr. X (age 82 years) has one house which is 50% in business/profession and 50% is let out @ 10,000 p.m. and municipal taxes for the entire house are `7,000 which were paid on 10.04.2013 and business income of Mr. X before debiting any expense of house property is `7,80,000. Compute tax liability for the assessment year 2013-14.

Solution: `

Income under the head business/profession shall be		
`7,80,000 – `3,500	7,76,500.00	
Income under the head House Property		
Gross annual value		1,20,000.00
Less: Municipal taxes (allowed only on actual payment basis)		Nil
Net annual value		1,20,000.00
Less: 30% of NAV u/s 24(a)		36,000.00
Less: Interest on capital borrowed u/s 24(b)		Nil
Income under the head House Property		84,000.00
Gross Total Income		8,60,500.00
Less: Deduction u/s 80C to 80U		Nil
Total Income		8,60,500.00
Computation of Tax Liability		
Tax on `8,60,500 at slab rate		72,100.00
Add: Education cess @ 2%		1,442.00
Add: SHEC @ 1%		721.00
Tax Liability		74,263.00
Rounded off u/s 288B		74,260.00

Illustration 17: Mr. X has computed his income ` 3,50,000 and some of the amounts debited to the profit and loss account are as given below:

1. Household expense `5,000

2. Rent for own building `1,20,000 (half of the building is in personal use and balance half in business use).

3. Municipal tax of the building `3,000 (amount was paid on 01.04.2013)

4. Expenditure on repairs of the building `4,000.

5. Premium paid for insurance of the building `2,000.

6. Mr. X has purchased one motor car for `3,00,000 on 01.01.2013 and it was put to use on the same date. The car was use for personal purpose as well as official use (50% official and 50% personal). Assessee has also debited petrol expenses of `5,000.

7. He has debited `20,000 being the amount invested in public provident fund.

His tax liability for the assessment year 2013-14 shall be computed in the manner given below:

Solution:

	`
Net income as per profit and loss account	3,50,000.00
Add:	
1. Household expenses	5,000.00
2. Rent of the own building	1,20,000.00
3. Municipal tax	1,500.00
4. Repairs	2,000.00
5. Insurance	1,000.00
6. Capital expenditure on motor car	3,00,000.00
7. Petrol	2,500.00
8. Public Provident Fund	20,000.00
Less:	
Depreciation of motor car	
3,00,000 x 15% x ½ x ½	(11,250.00)
Income under the head Business/Profession	7,90,750.00
Gross Total Income	7,90,750.00
Less: Deduction u/s 80C	20,000.00
Total Income	7,70,750.00

Computation of Tax Liability

Tax on `7,70,750 at slab rate	84,150.00
Add: Education cess @ 2%	1,683.00
Add: SHEC @ 1%	841.50
Tax Liability	86,674.50
Rounded off u/s 288B	86,670.00

Question 49 [V. Imp.]: Discuss the provisions of the Income Tax Act 1961, regarding compulsory maintenance of accounts.

Answer:

Compulsory maintenance of accounts Section 44AA Rule 6F

For the purpose of maintaining books of accounts, various persons shall be divided into four categories:

1. Persons having specified profession

The person having specified profession have to maintain such books of accounts as may enable the Assessing Officer to compute his total income and further the quantum of their income/receipts do not matter.

They have to maintain prescribed books of accounts if gross receipt exceeds `1,50,000 in all the three years immediately preceding the previous year.

Example

Mr. X is engaged in medical profession and his gross receipt during the various years is asunder:

1. 2011-12 1,40,000
2. 2010-11 1,70,000
3. 2009-10 1,25,000

In this case, during the previous year 2012-13, Mr. X is not required to maintain prescribed books of accounts because gross receipt has not exceeded `1,50,000 during all the three years immediately preceding the relevant previous year. But if receipt during 2011-12 is `1,75,000 and during 2009-10 it is `1,55,000, he has to maintain prescribed books of accounts during 2012-13.

If profession has been newly setup in the previous year and gross receipt are likely to exceed `1,50,000, he should maintain prescribed books of accounts.

Specified Profession shall include
1. Legal profession 2. Medical profession 3. Engineering profession 4. Architectural profession 5. Profession of accountancy 6. Technical consultancy 7. Interior decoration 8. Authorised representatives 9. Film artists 10. Company Secretary 11. Information Technology.

The persons required to maintain prescribed books of accounts have to maintain the following books of accounts
(a) Cash book (b) Journal (c) Ledger (d) Carbon copies of bills issued. However if the amount of bill does not exceed `25, then carbon copies are not required (e) Original bills received. However if the amount of bill does not exceed `50, then payment vouchers should be prepared.

A person carrying on medical profession shall, in addition to the above books of accounts and documents, keep and maintain the following:–
(i) a daily case register in Form No. 3C;
(ii) an inventory under broad heads, as on the first and the last day of the previous year, of the stock of drugs, medicines and other consumable accessories used for the purpose of his profession.

Preservation of the books of accounts
The books of accounts are to be kept and maintained for the period of atleast **6 years** from the end of the relevant assessment year.

Books of accounts of current year are to be kept at the place of business/profession and if any person has more than one place of business, in that case, books are to be kept at the principal place of business.

2. Persons carrying on business or any profession, not specified above
Such persons are required to maintain accounts if their **income from business or profession exceeds one lakh twenty thousand rupees or their total sales turnover or gross receipts as the case may be, in business or profession exceeds ` 10 lakhs in any one of the three years immediately preceding the previous year.**

In case of business or profession newly set up in any previous year, obligation to maintain accounts will arise if the income is likely to exceed `1,20,000 or total sales turnover or gross receipts as the case may be in business or profession are likely to exceed ` 10 lakhs during such previous year.

3. Persons whose business income is to be computed on presumptive basis under section 44AD
If income of any person is to be computed under section 44AD but he has rejected such presumptive income and income claimed by him is more than the income exempt from income tax, such person shall maintain such books of account and other documents as may enable the Assessing Officer to compute his total income.

4. Persons whose business income is to be computed on presumptive basis under section 44AE
If any such persons have opted not to compute their income on presumptive basis, they are required to maintain any books of accounts that may help the Assessing officer in computing their income.

Failure to keep, maintain or retain books of account, documents, etc. Section 271A
If any person fails to keep and maintain any such books of account and other documents as required by section 44AA or the rules made thereunder, in respect of any previous year or to retain such books of

account and other documents for the period specified in the said rules, the Assessing Officer or the Commissioner (Appeals) may direct that such person shall pay, by way of penalty, a sum of **`25,000.**

Question 50 [V. Imp.]: Write short note on Compulsory Tax Audit.
Answer:
Compulsory Tax Audit
Audit of accounts of certain persons carrying on business or profession Section 44AB

The following persons have to get their accounts audited.

1. Every person carrying on business, if his total sales turnover or gross receipts, in business exceeds **`100 lakh** during the previous year.

2. Every person carrying on profession if his gross receipts in profession exceed **`25 lakh** during the previous year.

3. Every person carrying on the business if the profits and gains from the business are deemed to be the profits and gains of such person under section 44AE and he has claimed his income to be lower than the profits or gains so deemed to be the profits and gains of his business, in any previous year.

4. Every person carrying on the business if the profits and gains from the business are deemed to be the profits and gains of such person under section 44AD and he has claimed such income to be lower than the profits and gains so deemed to be the profits and gains of his business and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year.

The accounts should be audited by a Chartered Accountant and audit report should be submitted latest by the specified date in the prescribed form.

If any such person gets the accounts audited under any other law, it will be a sufficient compliance with provisions of this section.

"Specified date", means the due date for furnishing the return of income under section 139(1).

Circular No. 452, Dated: 17.03.1986
Kachha Arahtia/Pacca Arahtia
The Board has clarified that pacca arahtias (person doing business) will be covered in business and kachha arahtias (commission agent) will be covered in non-specified profession.

Since kachha arahtia is effecting sale on behalf of some other person, hence in his case sales shall not be taken into consideration, rather commission received by him shall be taken into consideration.

Since pacca arahtia is effecting sale on his on behalf, hence sales shall be taken into consideration and accordingly if sales are exceeding 100 lakhs, in that case auditing is required.

Penalty for violating provisions of Section 44AB Section 271B
If any person fails to get his accounts audited as per the provisions of this section, penalties may be imposed under section 271B equal to ½% of total turnover or gross receipt subject to a maximum of `1,50,000.

Example
Mr. X has turnover of his business `105 lakhs but he has failed to get his accounts audited, in this case penalties may be imposed amounting to `52,500 but if his turnover was ` 300 lakhs, penalties imposable shall be `1,50,000.

Judicial Decisions
Abhay Kumar & Co. v Union of India, (1987) 164 ITR 148 (Raj)
If the commission agent acts only as broker, bringing the parties together, then he is not considered to be having business rather he has non-specified profession and auditing is required only if gross receipt is exceeding ` 25 lakhs.

Question 51 [V. Imp.]. Briefly describe provisions of income tax act for computing profit and gains of business on Presumptive Basis.
Answer:
Special provision for computing profits and gains of business on presumptive basis. Section 44AD

Notwithstanding anything to the contrary contained in section 28 to 43C, in the case of an **eligible assessee** engaged in an **eligible business**, a sum equal to **eight per cent** of the total turnover or gross receipts of the assessee in the previous year on account of such business or, as the case may be, a sum higher than the aforesaid sum claimed to have been earned by the eligible assessee, shall be deemed to be the profits and gains of such business chargeable to tax under the head "Profits and gains of business or profession".

Any deduction allowable under the provisions of section 30 to 38 shall be deemed to have been already given full effect to and no further deduction under those sections shall be allowed:

Provided that where the eligible assessee is a firm, the salary and interest paid to its partners shall be deducted from the income so computed subject to the conditions and limits specified in section 40(b).

The written down value of any asset of an eligible business shall be deemed to have been calculated as if the eligible assessee had claimed and had been actually allowed the deduction in respect of the depreciation for each of the relevant assessment years.

Notwithstanding anything contained in the foregoing provisions of this section, an eligible assessee who claims that his profits and gains from the eligible business are lower than the profits and gains specified above and whose total income exceeds the maximum amount which is not chargeable to income-tax, shall be required to keep and maintain such books of account and other documents as required under section 44AA and get them audited and furnish a report of such audit as required under section 44AB.

The provisions of this section, notwithstanding anything contained in the foregoing provisions, shall not apply to—

(*i*) a person carrying on profession as referred to in sub-section (*1*) of section 44AA;

(*ii*) a person earning income in the nature of commission or brokerage; or

(*iii*) a person carrying on any agency business.

Explanation.—For the purposes of this section,—

(a)**"Eligible assessee"** means,—

(i) an individual, Hindu Undivided Family or a partnership firm, who is a resident, but not a limited liability partnership firm.

(ii) who has not claimed deduction under any of the sections 10A, 10AA, 10B, 10BA or deduction under any provisions of Chapter VIA under the heading "C. - Deductions in respect of certain incomes" in the relevant assessment year i.e. the following deductions should not be taken.-

Section 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID, 80-IE, 80JJA, 80JJAA, 80QQB, 80RRB.

(b)"eligible business" means,—

(i) any business except the business of plying, hiring or leasing goods carriages referred to in section 44AE; and

(ii) whose total turnover or gross receipts in the previous year does not exceed an amount of **100 lakh rupees.**

Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.

Illustration 18: XY Partnership firm is engaged in a business and turnover from business is `60,00,000 and the firm has paid salary of `10,000 p.m., to each of the partner and has paid interest @ 13% p.a. to each of the partner on the capital of `5,00,000 of each of the partner. The firm has LTCG of `3,00,000.

The firm has donated `40,000 to National Children's Fund paid by cheque

The firm has complied with all the conditions of section 184 and salary and interest is allowed as per the instrument.

Compute the tax liability of the firm and also that of the partners for A.Y.2013-14

Solution:

Computation of income under the head Business/Profession

	`
Presumptive income u/s 44AD (60,00,000 x 8%)	4,80,000
Less: interest paid to partners	
Mr. X 5,00,000 x 12%	60,000
Mr. Y 5,00,000 x 12%	60,000
Book Profit	3,60,000
Less: Salary Paid	

Working Note: Salary Payable	`
(a) 3,00,000 x 90%	2,70,000
(b) 60,000 x 60%	36,000
Total	3,06,000

Mr. X 10,000 x 12	1,20,000
Mr. Y 10,000 x 12	1,20,000
Income under the head Business and Profession	1,20,000

Computation of Long Term Capital Gain

Long Term Capital Gain	3,00,000

Computation of Total Income

Gross Total Income	4,20,000
Less: Deductions u/s 80G	20,000
Total Income	4,00,000

Computation of Tax Liability

Tax on `3,00,000 @ 20%	60,000
Tax on `1,00,000 @ 30%	30,000
Add: Education cess @ 2%	1800
Add: SHEC @ 1%	900
Tax Liability	92,700

Computation of income under the head Business / Profession of Mr. X

Interest received	60,000
Salary	1,20,000
Income under the head Business/Profession	1,80,000
Total Income	1,80,000
Tax Liability	Nil

Computation of income under the head Business/Profession of Mr. Y

Interest received	60,000
Salary	1,20,000
Income under the head Business/Profession	1,80,000
Total Income	1,80,000
Tax Liability	Nil

Example

Mr. X is a dealer registered in Delhi VAT and his turnover during the financial year 2012-2013 was `40,00,000 and he has opted for composition scheme and rejected presumptive income under section 44AD and tax payable under composition scheme is @1%. He has purchased the goods for ` 30,00,000 plus DVAT @ 10%. He has paid composition Tax (Sales Tax) on 01.11.2013, in this case his income and tax liability shall be

	`
Gross Sales	40,00,000
Less: Cost of Goods sold	33,00,000
Income under the head Business/Profession	7,00,000

Computation of Tax Liability

Tax on `7,00,000 at slab rate	70,000
Add: Education cess @ 2%	1,400
Add: SHEC @ 1%	700
Tax Liability	72,100

Note: In this case last date of filing the Return of Income shall be 30.09.2013 and the composition tax has been paid after the due of filing of Return of Income thus disallowed for A.Y. 2013-14. Further it shall be allowed in the A.Y.2014-15.

(b) Presume in the above question he has opted for presumptive income under section 44AD, his tax liability shall be

	`
Business Income	
As per section 44AD	
8% of `40,00,000	3,20,000
Income under the head Business/Profession	3,20,000

Computation of Tax Liability

Tax on `3,20,000 at slab rate	12,000
Add: Education cess @ 2%	240
Add: SHEC @ 1%	120

Tax Liability	12,360

<u>Illustration 19:</u> XY partnership firm is engaged in a business and turnover of business is ` 55 lakhs and the firm has paid interest @13% to the partners on capital of ` 5 lakhs to each of the partners and has allowed a salary of ` 10,000 p.m. to each of the partners & both of the partners are working partner & salary & interest is allowed as per the instrument.

The firm has LTCG of ` 3 lakhs & has donated ` 50,000 to Prime minister National Relief fund by cheque and the firm has brought forward business loss of ` 20,000 of P.Y 2011-12.

Compute tax liability of firm and also that of partners for the A.Y 2013-14.

Solution:

	`
Computation of Business Income	
Gross Receipts	55,00,000
Presumptive Income u/s 44AD	
(` 55,00,000 x 8 %)	4,40,000
Less: Interest on partners capital as per section 40(b)	
Mr. X ` 5,00,000 x 12%	(60,000)
Mr. Y ` 5,00,000 x 12%	(60,000)
Book profits	3,20,000
Maximum salary allowed shall be	
` 3,00,000 x 90% = ` 2,70,000	
` 20,000 x 60% = ` 12,000	
Maximum salary allowed ` 2,82,000	
Since salary paid to partners is below the limit u/s 40(b),	
hence it is allowed to the extent of salary paid.	
Less: Salary allowed as per section 40(b)	
Mr. X	1,20,000
Mr. Y	1,20,000
Income under head Business/ Profession	80,000
Less: Brought forward loss	(20,000)
Income under head Business /Profession	60,000
LTCG	3,00,000
Gross Total Income	3,60,000
Less: Deduction u/s 80G	50,000
Total Income	3,10,000

Computation of Tax Liability

Tax on ` 10,000 @ 30%		3,000
Tax LTCG ` 3,00,000 @ 20%	60,000	
Tax before Education Cess		63,000
Add: Education cess@ 2%		1,260
Add: SHEC@ 1%		6,30
Tax Liability		64,890

Computation of Income and Tax of Partners

	Mr. X	**Mr. Y**
	Income under the head B/P	Income under the head B/P
Interest on capital	60,000	60,000
Salary	1,20,000	1,20,000
Gross Total Income	1,80,000	1,80,000
Deduction u/s 80C to 80U	NIL	NIL
Total Income	1,80,000	1,80,000
Tax Liability	NIL	NIL

Question 52 [V. Imp.]. Describe the provisions for computing profit and gains of business of Plying, Hiring or Leasing Goods Carriages.

Answer:

Special provision for computing profits and gains of business of plying, hiring or leasing goods carriages Section 44AE

(1) Notwithstanding anything to the contrary contained in section 28 to 43C, in the case of an assessee, who owns not more than ten goods carriages at any time during the previous year and who is engaged in the business of plying, hiring or leasing such goods carriages, the income of such business chargeable to tax under the head "Profits and gains of business or profession" shall be deemed to be the aggregate of the profits and gains, from all the goods carriages owned by him in the previous year, computed in accordance with the provisions of sub-section (2).

(2) For the purposes of sub-section (1), the profits and gains from each goods carriage,—

(i) being a heavy goods vehicle, shall be an amount equal to **five thousand rupees** for every month or part of a month during which the heavy goods vehicle is owned by the assessee in the previous year or an amount claimed to have been actually earned from such vehicle, whichever is higher;

(ii) other than a heavy goods vehicle, shall be an amount equal to **four thousand five hundred rupees** for every month or part of a month during which the goods carriage is owned by the assessee in the previous year or an amount claimed to have been actually earned from such vehicle, whichever is higher.

(3) Any deduction allowable under the provisions of section 30 to 38 shall, for the purposes of sub-section (1), be deemed to have been already given full effect to and no further deduction under those sections shall be allowed :

Provided that where the assessee is a firm, the salary and interest paid to its partners shall be deducted from the income computed under sub-section (1) subject to the conditions and limits specified in clause (*b*) of section 40.

(4) The written down value of any asset used for the purpose of the business referred to in sub-section (1) shall be deemed to have been calculated as if the assessee had claimed and had been actually allowed the deduction in respect of the depreciation for each of the relevant assessment years.

(5) The provisions of section 44AA and 44AB shall not apply in so far as they relate to the business referred to in sub-section (1) and in computing the monetary limits under those sections, the gross receipts or, as the case may be, the income from the said business shall be excluded.

(7) Notwithstanding anything contained in the foregoing provisions of this section, an assessee may claim lower profits and gains than the profits and gains specified in sub-sections (1) and (2), if he keeps and maintains such books of account and other documents as required under sub-section (2) of section 44AA and gets his accounts audited and furnishes a report of such audit as required under section 44AB.

Explanation.—For the purposes of this section,—

(*a*)the expressions “goods carriage”and “heavy goods vehicle”shall have the meanings respectively assigned to them in section 2 of the Motor Vehicles Act, 1988 (59 of 1988);

(*b*)an assessee, who is in possession of a goods carriage, whether taken on hire purchase or on instalments and for which the whole or part of the amount payable is still due, shall be deemed to be the owner of such goods carriage.

Illustration 20: Mr. Gagan retired from Govt. service in March 2012. He got `20,00,000 on account of retirement benefits. Out of the aforesaid sum, he purchased on 23rd April 2012 a few motor vehicles and got their delivery on that date.

The particulars of the vehicles are given below–

Vehicle	***Number***	***Cost of the vehicle***
Heavy goods vehicle	2	`9,00,000
Medium goods vehicle	4	`4,50,000
Light commercial Vehicle	3	`3,20,000

He formed GM and Associates (A sole proprietorship concern) along with his son Mahinder as an employee on 01.06.2012 and started plying the vehicles from 04.06.2012. On an average every vehicle remains off the road for about a week for repairs and maintenance. GM and Associates maintains no accounts and vouchers, as per section 44AA. However, it maintains a rough record of its’ receipts and outgoings which is given below –

Receipts	`3,70,000
Less: Expenses (Excluding depreciation and salaries to M)	` 60,000
	`3,10,000

You are required to compute the total income of GM and Associates from the business of goods carriage for the previous year 2012-13 assuming rate of depreciation is 40% and salary to Mahinder is `1,00,000 p.a.

Solution:

Computation of Business Income

	`
As per section 44AE	
Heavy goods vehicle (`5,000 x 2 x 12)	1,20,000
Medium goods vehicle (`4,500 x 4 x 12)	2,16,000
Light commercial vehicles (`4,500 x 3 x 12)	1,62,000
Business Income	4,98,000
Total Income	4,98,000

Taxability in case of Partnership Firm

Assessment as a firm Section 184

(1) A firm shall be assessed as a firm for the purposes of this Act, if—

(*i*) the partnership is evidenced by an instrument ; and
(*ii*) the individual shares of the partners are specified in that instrument.

(2) A certified copy of the instrument of partnership referred to in sub-section (1) shall accompany the return of income of the firm of the previous year in respect of which assessment as a firm is first sought.

Explanation.—For the purposes of this sub-section, the copy of the instrument of partnership shall be certified in writing by all the partners (not being minors) or, where the return is made after the dissolution of the firm, by all persons (not being minors) who were partners in the firm immediately before its dissolution and by the legal representative of any such partner who is deceased.

Payment of salary, bonus, commission or any other remuneration to the partner Section 40(b)

Interest to the partner is allowed but maximum @ 12% p.a. simple interest.

Payment of salary, bonus, commission etc. is allowed but only to the working partner.

Maximum amount of salary, bonus, commission etc. allowed to a partner shall be computed in the manner given below:

Maximum amount of remuneration allowed shall be as given below:

* First `3,00,000 of the book profits	**90%** of the book profit or **`1,50,000** whichever is more
* On **balance** amount of book profit	**60%** of book profit

Example
There is a partnership firm carrying on specified profession and its book profits are 5 lakhs, in this case maximum amount of salary etc. allowed to all the partners shall be

Upto `3,00,000	90% of 3,00,000 or `1,50,000 whichever is more		2,70,000
Next `2,00,000	60% of 2,00,000	1,20,000	
			3,90,000

Example
There is a partnership firm engaged in business and its book profits are `1,35,000, in this case maximum amount of remuneration allowed to all the partners shall be `1,50,000.

Meaning of Book Profits
Book profit means profit and gains of business profession but before charging any salary, bonus, commission etc. to the partners and further if the assessee has any brought forward depreciation, it will be adjusted while computing the book profits but if there are brought forward business loss, such business loss shall not be adjusted.

Example
XYZ are the partners in a firm with profit sharing ratio 5:3:2 and profit and loss account of the partnership firm is as given below:

Particulars	Amount `	Particulars	Amount `
Purchases	90,00,000	Sales	102,00,000
Salary and bonus to partners X Y Z	 3,00,000 2,50,000 1,50,000	Discount	10,000
Municipal tax payable	30,000	Interest from Indian company	60,000
General expenses	1,00,000	Interest on drawings	10,000
Expenditure on technical know-how (purchased and put to use on 01.01.2013)	40,000	Income tax refund	5,000
Advance Income Tax	70,000		
Expenses on VAT proceedings	10,000		
Expenses on income tax proceedings	8,000		
Advertisements	50,000		
Interest on capital to partners @ 13% p.a. X Y Z	 65,000 39,000 26,000		
Rent of building owned by partnership firm	1,20,000		
Net Profit	27,000		
	102,85,000		**102,85,000**

Additional information:

The partnership firm has complied all the conditions of section 184 and also salary to the partners is allowed as per partnership deed but interest is allowed @ 10% p.a. and capital contributed by Mr. X is `5,00,000 and by Mr. Y `3,00,000 and by Mr. Z `2,00,000.

1. Salary paid to Mr. X is `3,00,000 and to Mr. Y `2,50,000 and to Mr. Z `1,50,000.

2. The partnership firm has brought forward business loss for assessment year 2010-11 amounting to `1,00,000.

3. Municipal tax was paid on 01.11.2013.

Personal incomes of partners:

(i) Mr. X has income from house property `5,00,000 and amount invested in National Saving Certificate `80,000.

(ii) Mr. Y has income from house property `2,00,000 and amount invested in National Saving Certificate `1,00,000.

(iii) Mr. Z has loss from house property `2,00,000.

Compute tax liability of the partnership firm and also that of its partners for the assessment year 2013-14.

Solution :

	`
Net Profit as per profit and loss account	27,000.00

Add:	
• Salary and bonus to partners	
X `3,00,000	
Y `2,50,000	
Z `1,50,000	7,00,000.00
• Municipal tax payable (Sec 43B)	30,000.00
• Technical Know-how	40,000.00
• Income Tax (Sec 40(a))	70,000.00
• Interest on capital	
X (65,000 x 3/13)	15,000.00
Y (39,000 x 3/13)	9,000.00
Z (26,000 x 3/13)	6,000.00
• Rent of own building (Sec 30)	1,20,000.00
Less:	
• Depreciation on technical know-how (40,000 x 25% x ½)	5,000.00
• Interest from Indian company	60,000.00
• Income tax refund	5,000.00
Book Profit	9,47,000.00
• Salary and bonus allowed to partners	
X (6,58,200 x 3/7)	2,82,085.71
Y (6,58,200 x 2.5/7)	2,35,071.43
Z (6,58,200 x 1.5/7)	1,41,042.86

Working note:

Computation of remuneration allowed to partners

3,00,000 x 90% = ` 2,70,000
6,47,000 x 60% = ` 3,88,200
Total remuneration = ` 6,58,200
Salary allowed to partners maximum to `6,58,200

Income under the head Business/Profession	2,88,800.00
Less: Brought forward business loss	1,00,000.00
Income under the head Business/Profession	1,88,800.00

Income under the head Other Sources

Interest from Indian company	60,000.00
Income under the head Other Sources	60,000.00
Gross Total Income	2,48,800.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	2,48,800.00

Computation of Tax Payable

Tax on `2,48,800 @ 30%	74,640.00
Add: Education cess @ 2%	1,492.80
Add: SHEC @ 1%	746.40
Tax Liability	76,879.20
Less: Income tax paid	70,000.00
Tax Payable	6,879.20
Rounded off u/s 288B	6,880.00

Computation of total income and tax liability of Mr. X

Salary from partnership firm	2,82,085.71
Interest from partnership firm	50,000.00

Income under the head Business/Profession	3,32,085.71
Income from house property	5,00,000.00
Gross Total Income	8,32,085.71
Less: Deduction u/s 80C {National Saving Certificate}	80,000.00
Total Income (rounded off u/s 288A)	7,52,090.00
Tax on `7,52,090 at slab rate	80,418.00
Add: Education cess @ 2%	1,608.36
Add: SHEC @ 1%	804.18
Tax Liability	82,830.54
Rounded off u/s 288B	82,830.00

Computation of total income and tax liability of Mr. Y

Salary from partnership firm	2,35,071.43
Interest from partnership firm	30,000.00
Income under the head business/profession	2,65,071.43
Income from house property	2,00,000.00
Gross Total Income	4,65,071.43
Less: Deduction u/s 80C {National Saving Certificate}	1,00,000.00
Total Income (rounded off u/s 288A)	3,65,070.00
Tax on `3,65,070 at slab rate	16,507.00
Add: Education cess @2%	330.14
Add: SHEC @ 1%	165.07
Tax Liability	17,002.21
Rounded off u/s 288B	17,000.00

Computation of total income and tax liability of Mr. Z

Salary from partnership firm	1,41,042.86
Interest from partnership firm	20,000.00
Income under the head Business/Profession	1,61,042.86
Loss from house property	(2,00,000.00)
Carry forward house property loss	(38,957.14)

Question 53: Write a note on special provision for computing Profits and Gains of Shipping Business in the case of Non-Residents. Section 44B

Answer:

<u>Special provision for computing profits and gains of shipping business in the case of non-residents Section 44B</u>

If any non-resident is engaged in the business of operation of ships, his income shall be presumed to be 7.5% of the following amounts:

(i) Amount paid or payable to the assessee on account of the carriage of passengers, livestock, mail or goods shipped at any port in India; and

(ii) Amount received or deemed to be received in India on account of the carriage of passengers, livestock, mail or goods shipped at any port outside India.

It will also include any amount by way of handling charges or any other amount of similar nature.

<u>Illustration 21:</u> Z Ltd. is a non-resident shipping company and the company was supposed to receive 200 lakhs in connection with carriage of passengers or goods shipped outside India out of which ` 50 lakhs were received in India and ` 75 lakhs outside India and balance is yet to be received.

The company was also supposed to receive `300 lakhs in connection with goods etc. shipped in India and the company has received ` 60 lakhs in India and `75 lakhs outside India and balance is yet to be received.

Compute income of the company under the head business profession and also tax liability of the company for the assessment year 2013-14.

Solution:

Computation of income u/s 44B

	`
Income received in India	50 Lakhs
Income accruing and arise in India	300 Lakhs
Income under the head Business/Profession	
= 350 lakhs x 7.5%	26.25 Lakhs
Tax on `26,25,000 @ 40%	10,50,000.00
Add: Education cess @ 2%	21,000.00
Add: SHEC @ 1%	10,500.00
Tax liability	10,81,500.00

Illustration 22: Z Ltd. in a NR shipping company and during the year the company was supposed to receive 200 lakhs in connection with goods etc. loaded outside India out of which ` 75 lakhs were received in India and ` 85 lakhs outside India and balance is yet to be received.

The company was also supposed to receive ` 300 lakhs in connection with goods etc. loaded in India out of which `150 lakhs were received in India and ` 50 lakhs outside India and balance is yet to receive, compute the income and tax liability of the company for the assessment year 2013-14.

Solution:

	`
Income received in India	75 Lakhs
Add: Income accruing/arising in India	300 Lakhs
Total Income	375 Lakhs
Taxable income @ 7.5%	28.125 Lakhs
Tax on `28,12,500 @ 40%	11,25,000.00
Add: Education cess @ 2%	22,500.00
Add: SHEC @ 1%	11,250.00
Tax Liability	11,58,750.00

Question 52: Write a note on special provision for computing Profits and Gains of the business of operation of Aircraft in the case of Non-Residents Section 44BBA

Answer:

Special provision for computing profits and gains of the Business of Operation of Aircraft in the case of Non-Residents Section 44BBA

If any non-resident is engaged in the business of operation of aircrafts, his income under the head business/profession shall be 5% of the following amounts:

(a) Amount paid or payable to the assessee on account of the carriage of passengers, livestock, mail or goods shipped at any port in India; and

(b) Amount received or deemed to be received in India on account of the carriage of passengers, livestock, mail or goods shipped at any port outside India.

It will also include any amount by way of demurrage charges or handling charges or any other amount of similar nature.

Illustration 23: Mr. Vimal, a non-resident, operates an Aircraft between New York to Chennai. For the financial year ended on 31.03.2013, he received the amounts asunder:

(i) For carrying passengers from Chennai `65,00,000.

(ii) For carrying passengers from New York `95,00,000 received in India.

(iii) For carrying of goods from Chennai `45,00,000

The total expenditure incurred by Mr. Vimal for the purpose of business for the financial year 2012-13 was `1.60 crores.

Compute the income of Mr. Vimal under the head "Profits and Gains from business or profession" for the financial year ended on 31.03.2013 relevant to assessment year 2013-14.

Solution:

Computation of taxable income of Mr. Vimal

As per section 44BBA

	`
For carrying passengers from Chennai	65,00,000
For carrying passengers from NewYork received in India	95,00,000
For carrying of goods from Chennai	45,00,000
Total Gross receipts	2,05,00,000
Presumptive income under section 5% of `2,05,00,000	10,25,000

Cash Credits Section 68

Where any sum is found credited in the books of an assessee maintained for any previous year, and the assessee offers no explanation about the nature and source thereof the sum so credited may be charged to income-tax as the income of the assessee of that previous year.

Unexplained Investments Section 69

Where in the financial year immediately preceding the assessment year the assessee has made investments which are not recorded in the books of account, and the assessee offers no explanation about the nature and source of the investments the value of the investments may be deemed to be the income of the assessee of such financial year.

Unexplained Money, Etc Section 69A

Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and such money, bullion, jewellery or valuable article is not recorded in the books of account, and the assessee offers no explanation about the nature and source of acquisition of the money, bullion, jewellery or other valuable article, the money and the value of the bullion, jewellery or other valuable article shall be deemed to be the income of the assessee for such financial year.

Amount of Investments, etc., not fully disclosed in books of account Section 69B

Where in any financial year the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article, and the Assessing Officer finds that the amount expended on making such investments or in acquiring such bullion, jewellery or other valuable article exceeds the amount recorded in this behalf in the books of account maintained by the assessee for any source of income, and the assessee offers no explanation about such excess amount or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the excess amount may be deemed to be the income of the assessee for such financial year.

Unexplained Expenditure, Etc. Section 69C

Where in any financial year an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure such expenditure shall be deemed to be the income of the assessee for such financial year:

Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as a deduction under any head of income.

Illustration 24: Mr. X, aged 75 years, has submitted his profit and loss account for the year ending 31.03.2013 as given below:

Particulars	Amount (`)	Particulars	Amount (`)
Opening Stock	13,50,000	Sales	105,00,000
Purchases	75,00,000	Gift from friend	1,200
Franchises	1,00,000	Bad debts recovered	2,900
Advertisement	9,000	Rental income from House Property	1,40,000
Income Tax of previous year 2010-11	7,000	Income tax refund	700
Income tax (advance)	1,200	Dividends from a foreign company	3,000
Addition to the office building	45,000	Closing stock	1,80,000
Investment in public provident fund	70,000		
Net Profit	17,45,600		
	108,27,800		**108,27,800**

Additional information:

1. Opening and closing stocks are undervalued by 10%.

2. Franchises were purchased on 01.07.2012 and were put to use on 03.10.2012.

3. Advertisement expenditure relates to a neon sign board which was purchased and put to use on 01.08.2012.

4. Office building has written down value of ` 56,00,000 as on 01.04.2012 and addition was made to the building by constructing additional room on the roof. Construction was completed on 01.11.2012 and it was put to use on the same date. The expenditure of `45,000 includes cost of wiring and switches of `4,500. No depreciation has been debited with regard to the building.

5. Sale includes sale of `1,20,000 to the proprietor and the cost of these goods was `1,00,000 and market price `1,25,000.

6. Bad debts recovered were allowed earlier.

Compute his tax liability for the assessment year 2013-14.

Solution:

	`
Net Profit as per profit & loss account	17,45,600.00
Add: inadmissible expenses	
1. Franchises, being capital expenditure	1,00,000.00
2. Advertisement, being capital expenditure	9,000.00
3. Income tax (income tax and wealth tax not allowed as per sec 40(a))	8,200.00
4 Addition to office building, being capital expenditure	45,000.00
5. Investment in public provident fund (not a revenue expenditure)	70,000.00
Add: incomes not credited to profit & loss account	
Closing stock undervalued by 10% (1,80,000 x 10/90)	20,000.00

Deduct expenditures not debited to profit & loss account

Opening stock undervalued by 10% (13,50,000 x 10/90)	1,50,000.00
Depreciation	5,88,150.00

Working Note:	`
1. Franchises 1,00,000 x 25%	25,000
2. Furniture/fixture @ 10%	
- Neon sign board 9,000 x 10%	900
- Wirings etc. in the building 4,500 x 5%	225
3. Office building 56,00,000 x 10%	5,60,000
Addition 40,500 x 5%	2,025
Total Depreciation	5,88,150

Deduct amounts credited to profit & loss, but not considered to be incomes

1. Gift from friend (any gift is not considered to be income except gift received from client or gift received from any person in excess of `50,000 w.e.f 01.04.2006 onwards)	1,200.00
2. Rental income from House Property	1,40,000.00
3. Income tax refund	700.00
4. Dividends from a foreign company (to be taxed under the head other sources)	3,000.00
5. Sale to the proprietor should be at cost price	20,000.00
Income under the head business/profession	10,94,750.00
Income under the head other sources	3,000.00

Income under the head house property

Gross Annual Value	1,40,000.00
Less: Municipal taxes	Nil
Net Annual Value	1,40,000.00
Less: 30% of NAV u/s 24(a)	42,000.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	98,000.00
Gross Total Income	11,95,750.00
Less: Deduction u/s 80C	70,000.00
Total Income	11,25,750.00

Computation of Tax liability

Tax on `11,25,750 at slab rate	1,62,725.00
Add: Education cess @ 2%	3,254.50
Add: SHEC @ 1%	1,627.25
Tax Liability	1,67,606.75
Rounded off u/s 288B	1,67,610.00

Illustration 25: Mr. X is an Advocate in the Supreme Court and he keeps his books of accounts on cash basis and his receipts and payments a/c for the year 2012-13 is as given below:

Receipts	**Amount** `	**Payments**	**Amount** `
Balance b/f	4,50,000	Rent of building in the use of profession	2,20,000
Legal consultancy fee	9,20,000	Office expenses	30,000
Interest on units of UTI	12,000	New computer purchased on 01.11.2012 and put to use on the same date	35,000
Remuneration from Delhi University for setting one paper for LLB exams	4,000	Computer purchased on 10.11.2012 and put to use on the same date	25,000
Honorarium for delivering lectures as guest speaker	3,000	Motor car purchased on 01.12.2012 and put to use on the same date	4,00,000

Sales proceeds of an old computer with w.d.v as on 01.04.2012 `2,300	7,000	Legal books purchased on 01.01.2013 and put to use on the same date	9,000
Sale proceeds of one house which was purchased on 01.04.2011 for `6,70,000	9,80,000	Income tax paid being advance tax under section 207 to 219	12,000
		Subscription to Bar Association	3,000
		Deposit in public provident fund in the name of major son	12,000
		Balance carried forward	16,30,000
	23,76,000		**23,76,000**

Compute tax liability for the assessment year 2013-14.

Solution:

`

Computation of income under the head Business/Profession

Legal consultancy fees	9,20,000.00
Less:	
• Rent of building	2,20,000.00
• Office expenses	30,000.00
• Depreciation on computer	16,590.00

Working Note:	`
Computer – w.d.v	2,300
Sale of computer	7,000
New computer purchased and put to use on 01.11.2012	35,000
Computer purchased and put to use on 10.11.2012	25,000
Balance	55,300
Depreciation @ 30%	16,590

• Depreciation on car	30,000.00

Working Note:	`
Motor car – Purchase and put to use on 01.12.2012	4,00,000
Depreciation @ 7.5% on `4,00,000	30,000

• Depreciation on books	2,700.00

Working Note:	`
Books purchased and put to use on 01.01.2013	9,000
Depreciation @ 30% on `9,000	2,700

• Subscription to bar association	3,000.00
Income under the head Business/Profession	6,17,710.00

Computation of income under the head Capital Gains on sale of house

Full Value of Consideration	9,80,000.00
Less: Cost of acquisition	6,70,000.00
Income under the head Capital Gains (STCG)	3,10,000.00

Computation of income under the head Other Sources

Remuneration from Delhi University	4,000.00
Honorarium for delivering lectures	3,000.00
Interest from UTI [exempt u/s 10(35)]	Nil
Income under the head Other Sources	7,000.00

Computation of Total Income

Income under the head Business/Profession	6,17,710.00
Income under the head Capital Gains (STCG)	3,10,000.00

Income under the head Other Sources	7,000.00
Gross Total Income	9,34,710.00
Less: Deduction u/s 80C	12,000.00
Total Income	9,22,710.00

Computation of Tax Liability

Tax on `9,22,710 at slab rate	1,14,542.00
Add: Education cess @ 2%	2,290.84
Add: SHEC @ 1%	1,145.42
Tax Liability	1,17,978.26
Rounded off u/s 288B	1,17,980.00

Illustration 26: Mr. X submits the profit and loss account for the year ending 31.03.2013 asunder–

Particulars (Debits)	Amount `	Particulars (Credits)	Amount `
Household expense	20,000	Gross Profit	3,28,500
Interest on loan taken from Mrs. X	2,000	Income tax refund	3,000
Income tax	12,000	Interest on income tax refund	300
Interest on loan for payment of income tax	1,200	Sales tax refund	1,000
Contribution to Unrecognised Provident Fund	4,000	Interest on sales tax refund	400
Expenditure on advertisement (revenue)	25,000	Bad debts recovered (earlier not allowed)	5,000
Public provident fund contribution	7,000	Dividends from foreign company	3,000
Investment in post- office saving bank account	12,000	Net Loss	45,000
Purchase of car	2,45,000		
Purchase of computer	35,000		
Purchase of plant	23,000		
	3,86,200		**3,86,200**

Addition Information:

Car, computer and plant and machinery were purchased on 01.10.2012 and were put to use on the same date. Compute tax liability of Mr. X for assessment year 2013-14.

Solution:

Computation of income under the head Business/Profession

	`
Net Loss as per profit and loss account	(45,000)
Add:	
• Household expenses	20,000
• Income tax	12,000
• Interest on loan for payment of income tax	1,200
• Contribution to Unrecognised provident fund	4,000
• Contribution to public provident fund	7,000
• Contribution to post office saving bank account	12,000
• Purchase of car	2,45,000
• Purchase of computer	35,000
• Purchase of plant	23,000
Less:	
• Income tax refund	3,000
• Interest on refund	300

• Bad debts recovered	5,000
• Dividends	3,000
• Depreciation @ 15% on car (2,45,000 x 15%)	36,750
• Depreciation @ 60% on computer (35,000 x 60%)	21,000
• Depreciation @ 15% on plant (23,000 x 15%)	3,450
Income under the head Business/Profession	2,41,700

Computation of income under the head Other Sources

Interest on income tax refund	300
Dividends from foreign company	3,000
Income under the head Other Sources	3,300
Income under the head Business/Profession	2,41,700
Gross Total Income	2,45,000
Less: Deductions u/s 80C	7,000
Total Income	2,38,000

Computation of Tax Liability

Tax on `2,38,000 at slab rates	3,800
Add: Education cess @ 2%	76
Add: SHEC @ 1%	38
Tax Liability	3,914
Rounded off u/s 288B	3,910

{Interest on income tax refund has been taxed under the head other sources, because as per section 56 – income by way of interest on securities, is chargeable under the head other sources, if it is not taxable under the head Business/Profession}

Illustration 27: Mr. Rajat submits his profit & loss account for year ending 31st March 2013.

	`
Computed net profit after debiting the following amounts to	87,000
1. Provisions for doubtful debts	16,000
2. Depreciation reserve	21,000
3. Household expenses	20,000
4. Donations to poor persons and	10,000
Other charitable donations	20,000
5. Cash payment for purchases	80,000

6. Advertisement expenses ` 5,000 spent on a neon sign board purchased and put to use on 01.07.2012 and advertisement gifts to 50 customers at a cost of ` 100 each.

7. Audit fee charged ` 5,000, including expenses on income-tax assessment `3,000.

8. Patents purchased for `70,000 on 01.10.2012 and put to use on 07.10.2012.

9. Preliminary expenses covered under section 35D: Market survey expenses `5,000; feasibility report expenses `10,000. Project cost `10,00,000.

Incomes credited to profit and loss account were:

(i) Interest on company's deposit ` 50,000.

(ii) Opening stock is valued at cost plus 15% basis, whereas closing stock was valued at cost minus 15% basis. Opening stock valued was `1,15,000; closing stock valued was `1,70,000.

Compute his tax liability for the assessment year 2013-14.

Solution:

	`
Computation of Business Income	
Net Profit as per profit and loss account	87,000.00
Add: inadmissible expenses	
• Provision for doubtful debts	16,000.00
• Depreciation Reserve	21,000.00
• Household Expenses	20,000.00
• Donations	30,000.00
• Cash purchases in excess `20,000	80,000.00
• Cost of neon sign board (capital expenditure)	5,000.00
• Patents purchased	70,000.00
• Instalment for preliminary expenses under section 35D (15,000 – 3,000)	12,000.00

Working Note:
`15,000 but subject to a maximum of
`10,00,000 x 5%
`50,000, instalment allowed `15,000/5 = `3,000

• Opening stock overvalued 1,15,000 x 15/115	15,000.00
• Closing stock undervalued 1,70,000 x 15/85	30,000.00
Less:	
• Interest on company deposit	50,000.00
• Depreciation on neon sign @ 10% on `5,000	500.00
• Depreciation on patents @ 12.5% on `70,000	8,750.00
Income under the head Business/Profession	3,26,750.00
Income under the head Other Sources {Interest on company deposit}	50,000.00
Gross Total Income	3,76,750.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,76,750.00
Computation of Tax Liability	
Tax on ` 3,76,750 at slab rate	17,675.00
Add: Education Cess @ 2%	353.50
Add: SHEC @ 1%	176.75
Tax Liability	18,205.25
Rounded off u/s 288B	18,210.00

Illustration 28: The profit and loss account of Mr. Dharmender for the previous year ending 31st March, 2013 is as follows:

Particulars	Amount `	Particulars	Amount `

Cost of Goods Sold	105,45,000	Sales	109,70,000
Remuneration to Prop.	3,00,000	Dividend from Indian Company	30,000
Remuneration to Employees	1,70,000	Long term capital gain	1,90,000
Interest to proprietary	40,000		
Other Expenses	1,00,000		
Sale tax outstanding	10,000		
Net Profit	25,000		
	111,90,000		**111,90,000**

Additional information is given below:

(1) Other expenses include the following:

(i) Entertainment expenses incurred for business purpose `20,000

(ii) V.I.P bags, Costing `1,500 each, given to ten dealers who exceeded the sales target under the sales promotion scheme.

(iii) Employer's contribution to recognized provident fund amounting to `10,000 was paid on 20.04.2013.

(iv) `30,000 paid in cash to a supplier who refused to accept payment by a cheque.

(2) Outstanding sales tax was paid on 14.11.2013.

(3) Other income of Mr. Dharmender is under the head house property of `90,000.

You are required to compute tax liability for the assessment year 2013-14.

Solution:

	`
Computation of total income of Mr. Dharmender	
Net profits as per profit and loss account	25,000
Add: Inadmissible Expenses	
• Remuneration given to proprietor, not allowed	3,00,000
• Interest given to proprietor, not allowed	40,000
• Cash payment to a supplier	30,000
• Outstanding amount of sale-tax (as it was paid after due date of return)	10,000
Total	4,05,000
Less:	
• Dividend from Indian company	30,000
• Long Term Capital Gains	1,90,000
Income under the head Business/Profession	1,85,000
Income under the head House Property	90,000
Income from Capital Gains (Long Term Capital Gains)	1,90,000
Income from Other Sources	Nil
{Dividend from Indian company is exempt u/s 10(34)}	
Gross Total Income	4,65,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,65,000

Computation of Tax Liability

Tax on Long term capital gain `1,90,000 @ 20%	38,000
Tax on normal income `2,75,000 at slab rate	7,500

Tax before education cess	45,500
Add: Education cess @ 2%	910
Add: SHEC @ 1%	455
Tax Liability	46,865
Rounded off u/s 288B	46,870

Illustration 29: ABC Ltd. has net profits of `7,00,000 after debiting `50,000 being sales tax relating to previous year 2011-12 and it was paid on 30.09.2012 and municipal taxes of `10,000 relating to the previous year 2012-13, which were paid on 20.09.2013. Municipal taxes are related to a building which is owned by the company, the ground floor and first floor (which is 2/3rd of the complete building) was being used by company. The company has debited market rent of ` 20,000 p.m. to the profit & loss account for using the building and credited rent of `10,000 p.m. to the profit & loss account for the second floor of the building which has been let out to some person during the previous year 2012-13.

Compute tax liability of the company for the assessment year 2013-14.

Solution:

	`
Computation of Business Income	
Net Profit	7,00,000.00
Add: Inadmissible Expenses	
• Municipal Taxes (10,000 x 1/3)	3,333.33
• Market Rent	2,40,000.00
• Sales tax	50,000.00
Total	9,93,333.33
Less:	
• Rent Received	1,20,000.00
Business Income	8,73,333.33
Computation of Income under the head House Property	
Gross Annual Value (10,000 x 12)	1,20,000.00
Less: Municipal Taxes (Not paid during the year)	Nil
Net Annual Value	1,20,000.00
Less: 30% of NAV u/s 24(a)	36,000.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	84,000.00
Computation of Total Income	
Income under the head Business	8,73,333.33
Income under the head House Property	84,000.00
Gross Total Income	9,57,333.33
Less: Deduction u/s 80C to 80U	Nil
Total Income	9,57,333.33
Rounded off u/s 288A	9,57,330.00
Computation of Tax Liability	
Tax on `9,57,330 @ 30%	2,87,199.00
Add: Education cess @ 2%	5,743.98
Add: SHEC @ 1%	2,871.99
Tax Liability	2,95,814.97
Rounded off u/s 288B	2,95,810.00

Illustration 30: Dr. Karan furnishes you the following information:

Income and Expenditure account for the year ended 31st March, 2013.

Expenditure	Amount `	Income	Amount `
To Medicines Consumed	2,52,000	By Fee Receipts	8,49,500
To Staff Salary	1,55,000	By Rental income from house property	29,000
To Hospital Consumables	48,500	By Dividend from Indian companies	15,000
To Rent Paid	60,000		
To Administrative Expenses	1,28,000		
To Net Income	2,50,000		
	8,93,500		**8,93,500**

(i) Rent paid includes rent for his residential accommodation of ` 38,000 (paid in cash).

(ii) Hospital equipments (eligible for depreciation @ 15%)
01.04.2012 opening written down value `5,50,000
07.12.2012 acquired (cost), put to use on the same date `2,50,000

(iii)Medicines consumed include medicines (cost) `12,000 used for Dr. Karan's family.

(iv)Rent received–relates to a property situated at Mysore. The municipal tax of ` 3,500 paid in December, 2012 has been included in the "administrative expenses."

(v) He received ` 6,000 per month as salary from 'Full Cure Hospital'. This has not been included in the "Fee Receipts" credited to income and expenditure account.

Compute Dr. Karan's taxable income for the year ended 31.03.2013 and also his tax liability.

Solution:

	`
Computation of Income of Dr. Karan	
Net profit as per profit and loss account	2,50,000.00
Add: Inadmissible expenses	
• Rent for residential accommodation	38,000.00
• Medicines for personal use	12,000.00
• Municipal taxes	3,500.00
Less:	
• Depreciation on hospital equipment	1,01,250.00

Working Note:	`
Depreciation on `5,50,000 @ 15%	82,500
Depreciation on `2,50,000 @ 7.5%	18,750

Rental income from house property	29,000.00
Dividend from Indian companies	15,000.00
Income under the head Business/Profession	1,58,250.00
Income from Salary	
Salary (6,000 x 12)	72,000.00
Gross Salary	72,000.00

Income under the head Salary	72,000.00

Income from House Property

Gross Annual Value	29,000.00
Less: Municipal Taxes	3,500.00
Net Annual Value	25,500.00
Less: 30% of NAV u/s 24(a)	7,650.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	17,850.00
Income under the head Other Sources	
Dividend from Indian company {Exempt u/s 10(34)}	Nil
Gross Total Income	2,48,100.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,48,100.00

Computation of Tax Liability

Tax on `2,48,100 at slab rate	4,810.00
Add: Education cess @ 2%	96.20
Add: SHEC @ 1%	48.10
Tax Liability	4,954.30
Rounded off u/s 288B	4,950.00

Illustration 31: Versa Ltd. presents the following information to you pertaining to the year ending March 31st, 2013:

1. A Machinery costing `50,000 is purchased for which a single payment is made in cash.

2. Having regard to the vast purchase of a particular chemical by the company, the supplier of the chemical presents a car worth ` 2,50,000, which is used for business purposes by the company.

3. Expenditure towards acquisition of technical know-how paid to a foreign company in a lump sum `6 lakhs.

4. The company has paid income–tax of ` 60,000 being the tax in respect to non–monetary perquisites of an employee.

5. The company wanted to start a new plant for manufacturing of a new product. Y Ltd., paid to the company ` 10 lakh in order not to start the same and not to compete with it.

6. The company has paid ` 20 lakh to four employees at the time of their voluntary retirement, in accordance with the approved scheme of voluntary retirement.

7. The company has borrowed ` 15 lakh for acquiring a machinery. Interest paid is `90,000. The machinery is not put to use during the year.

8. Payment of ` 40,000 is made to a Don for ensuring that the employees will not indulge in strike.

9. The company has incurred expenditure of ` 34,000 in respect of exempt income. This forms part of administrative expenses.

You are requested to briefly state with reasons as to how the above are to be dealt with in computing the total income of the company for the assessment year 2013-14. The total income need not be computed.

Solution:

1. No disallowance is applicable under section 40A(3) as the provision of this section are not applicable in case of purchase of capital asset.

2. As per the provisions of section 28, the value of any benefit or perquisite, whether convertible into money or not, arising from business (or the exercise of a profession) is chargeable to tax under the head “profit and gains of business or profession”. `2,50,000 is chargeable to tax as business income in the present situation. “Actual cost” of car for depreciation purposes will be cost of car to the previous owner, i.e., `2,50,000 [Sec. 43(1)].

3. ` 6 lakh qualifies for depreciation under section 32 @ 25%.

4. As per section 40(a), while calculating income of the employer, the tax paid by the employer on non-monetary perquisites to employees is not deductible.

5. As per section 28, any sum received (or receivable) in cash or in kind under an agreement for not carrying out any activity in relation to any business is chargeable to tax as business income. Thus, ` 10 lakh is taxable as business income.

6. Section 35DDA provides that where an assessee incurs any expenditure in any previous year by way of payment of any sum to an employee at the time of his voluntary retirement under any scheme of voluntary retirement, one fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal instalments for each of the four immediately succeeding previous years. In view of the aforesaid provisions, ` 4 lakh shall be allowable as deduction in the assessment year 2013-14.

7. ` 90,000 should be capitalised. Depreciation can be claimed by Versa Ltd. and “actual cost” for this purpose will include ` 90,000. Since the asset is not put to use, deduction is not available under section 36(1)(iii).

8. As per section 37(1), in order to claim deduction the expenditure should not have been incurred for any purpose, which is an offence or is prohibited by any law. Since the payment of `40,000 to Don is unlawful, it is not allowable as deduction.

9. As per section 14A, no deduction shall be made in respect of expenditure incurred by the assessee in relation to income which does not form part of the total income. ` 34,000 is, therefore, not allowable as deduction.

PRACTICE PROBLEMS
TOTAL PROBLEMS 42

Problem 1.

Mr. Mohanty started his business on 01.04.2012 and purchased various assets asunder: –

1. He purchased land on 01.05.2012 for `20,00,000 and it was put to use on the same date.

2. He purchased one commercial building on 01.06.2012 for `11,00,000 and it was put to use on 01.07.2012.

3. He purchased one plant and machinery P1 on 01.09.2012 for `11,00,000 and was put to use on 10.10.2012 and purchased one more plant P2 on 01.10.2012 for ` 20,00,000 and it was put to use on 01.11.2012.

4. He purchased one generator on 01.11.2012 for ` 25,000 and it has not been put to use during the year.

5. He purchased three computers on 01.12.2012 for ` 1,50,000 and were put to use on 31.03.2013.

6. He purchased one scooter on 10.12.2012 for ` 20,000 to be used by his staff and it was put to use on 01.01.2013.

7. He purchased one imported motor car on 01.01.2013 for ` 25,00,000 and it was put to use on the same date.

8. He purchased three mobile phones on 10.01.2013 for ` 35,000 and were put to use on the same date.

9. He purchased chairs and tables for the office use on 01.03.2013 for `25,000 and were put to use on the same date.

10. He purchased one air conditioner on 31.03.2013 for ` 35,000 and was put to use on 01.05.2013.

Compute depreciation allowed for the previous year 2012-13.

Answer = `5,80,375

Problem 2.

Mr. Mohit starts a business on May 10th, 2012 and he purchases the following assets during May–June 2012 and were put to use during June–July 2012.

	Cost (` in lakh)
Building A – Office building	30.10
Building B – Residential building for employees	20.30
Building C – Factory building	40.10
Plant and machinery A – Office computer	1.10
Plant and machinery B – Fax machine	0.60
Plant and machinery C – cars	4.10
Plant and machinery E – PABX telephone system	1.10
Plant and machinery F – Air conditioners	6.80
Plant and machinery G – Scooters for business	1.90
Furniture – Office furniture	2.85
Furniture – Furniture for welfare centre of employees	4.10

Intangible assets – Trade marks 3.10

Compute depreciation allowed for the Assessment Year 2013-14.

Answer = `12,34,000

Problem 3.

G Ltd. furnishes you the following information:

Block I: Plant and machinery (consisting of 3 plants), rate of depreciation 15%.
w.d.v. on April 1st, 2012: `2,70,000.

Block II: Buildings (two buildings), rate of depreciation 10%
w.d.v. on April 1st, 2012 `6,50,000.

Acquired on June 2nd, 2012, 2 plants for ` 2,10,000 and put to use on the same date.

Sold on November 30th, 2012 all the five plants for ` 5,00,000.

Acquired on December 15th, 2012 two plants for ` 1,60,000 and put to use on the same date.

Admissible rate of depreciation in relation to all acquired plants is 15%.

Compute the amount of depreciation admissible to G Ltd. for the Assessment Year 2013-14.

Answer = `75,500

Problem 4.

X Ltd. is a manufacturing company. On April 1st, 2012, it owns plant A and plant B (depreciation rate: 15 per cent; depreciated value of block being `2,40,000). Plant C (depreciation rate: 15 per cent) is purchased by the company on June 10th, 2012 for `60,000 and it was used in the office premises. It is put to use on the same day.

Find out the tax consequences in the following different situations:

1. Plant B is destroyed by fire on January 25th, 2013. ` 10,000, being the compensation, is paid by the insurance company on February 10th, 2013;
2. If the insurance compensation in situation (1) is ` 3,70,000;
3. Plant A, B And C is destroyed by fire on January 25th, 2013. Compensation paid by insurance company on February 10th, 2013 is ` 20,000;
4. If the insurance compensation in situation (3) is ` 4 lakhs.

Answer =

Situation 1: Depreciation: `43,500 and Short term capital gain/loss: Nil;

Situation 2: Depreciation: Nil and Short term capital gain: `70,000;

Situation 3: Depreciation: Nil and Short term capital Loss: `2,80,000;

Situation 4: Depreciation: Nil and Short term capital gain: `1,00,000

Problem 5.

Compute depreciation from the information given below relating to ABC Ltd.

Block I

Consisting of Plant & Machinery with rate of depreciation 15%
P1, P2 and P3, written down value `75 lakhs as on 01.04.2012

Block II

Consisting of Furniture and Fixtures with rate of depreciation 10%
F1, F2, F3 with written down value `45 lakhs as on 01.04.2012

Block III

Consisting of Building with rate of depreciation 10%
B1, B2, B3 with written down value `10 lakhs as on 01.04.2012

The company has purchased the following assets –

Details of Assets	***Actual cost***	***Date of Purchase/Construction***	***Date of Putting to Use***
Hotel building B4	32,00,000	30.09.2012	16.12.2012
Construction of road within premises	1,00,000	12.03.2013	31.03.2013
Electrical fittings	35,000	31.03.2013	01.04.2013
(Including electrical wiring, switches, sockets, other fittings)			
Land	2,00,000	30.04.2012	21.07.2012
Computer	60,000	25.03.2012	09.10.2012
Motor Car	3,40,000	02.10.2012	03.10.2012
Building for residence	8,76,000	01.04.2012	10.04.2012

The assessee has sold the following assets

		Sale Price	Date of Sale
Furniture	F1	46,00,000	31.03.2013
Plant	P1, P2, P3	20,00,000	07.04.2012
Building	B1	2,00,000	20.04.2012

Compute depreciation allowed.
{Hint –
1. Electrical fittings shall be included in furniture and fixtures
2. Roads are considered to be buildings and rate of depreciation is 10%}

Answer = `3,75,800

Problem 6.

The following is the receipts and payments account of a medical practitioner for the year ending 31.03.2013.

Receipts	**Amount** `	**Payments**	**Amount** `
Balance b/d	1,30,000	Clinic expenses	1,24,000
Visiting fees	5,75,000	Medical books purchased and put to use on 01.07.2012	15,000
Consultation fees	9,15,000	Surgical equipment	90,000
Sale of medicines	28,000	Motor car expenses	36,000

Payment received for using Operation Theatre	18,000	Indian Medical Association membership fees	7,000
Dividend from domestic company	22,000	Payment to C.A. firm for filing return of income	4,000
Bank loan for purchasing a flat	2,00,000	Entertainment expenses	24,000
Life insurance policy (maturity proceeds)	1,00,000	Medical purchases	33,000
Rental income from flat	60,500	Purchase of flats	2,80,000
		Bank interest on loan	30,000
		Balance c/d	14,05,500
	20,48,500		**20,48,500**

Additional information:

1. A cash payment of `75,000 was given to him by a patient in appreciation of his medical services but was not recorded in books.

2. Flat was purchased on 01.04.2012 and was self occupied for residence for a month from the date of its purchase. Thereafter it was let out @ `5,500 p.m., the municipal value of the flats is `66,000 p.a. and municipal taxes assessed, though not paid, is `4,500.

3. One–third of motor car expenses relate to his personal use. Depreciation on car allowable under Income Tax Act for professional use is `12,000.

4. The rate of depreciation on surgical equipment is 15%. The written down value of equipment on 01.04.2012 is `60,000. He sold some of the equipment for `30,000 during the year. New equipment was purchased on 01.11.2012 for `90,000 and was put to use on the same date.

Compute his Total Income and Tax Liability for the Assessment Year 2013-14.

Answer = Total Income: `13,78,950; Tax Liability: `2,51,000

Problem 7.

Mr. Avinash is an advocate in Delhi High Court. He keeps his books on cash basis. His receipts and payments account for the financial year 2012-13 is given below:

Receipts	Amount `	Payments	Amount `
Balance b/d	44,000	Rent Paid	1,44,000
Consultancy fee	2,20,000	Office expenses	28,000
Remuneration from university as evaluator of LLB exams	7,000	New car purchased and put to use on 01.05.2012	3,00,000
Sale proceeds of residential house (it was purchased on 01.07.2011 for `3,00,000)	5,00,000	Magazines and journals subscribed	18,000
Salary from law faculty for working as part time lecturer	45,000	Computer purchased and put to use on 01.04.2012	50,000
Special commission for providing consultancy	15,500	Legal books purchased	30,000
Dividend from UTI	5,200	Car expenses	42,000
		Advance Income tax paid	22,000
		Electricity and water charges for the entire house	16,000

		Son's college tuition fee paid	54,000
		Gift to daughter	25,000
		Life insurance premium paid on own life (sum assured `50,000)	12,000
		Balance c/f	95,700
	8,36,700		**8,36,700**

Additional information:

1. On 31.03.2013 legal fees outstanding amounted to `22,000
2. Rent is payable @ `12,000 p.m.
3. 70% of the use of the car is for official purpose and 30% for personal purpose.
4. Legal books for `12,000 was purchased on 01.05.2012 and put to use on the same date and for `18,000 on 01.11.2012 and put to use on the same date.
5. Half of the house taken on rent is being used for residential purposes.

Compute the Total Income and Tax Liability and Tax Payable of Mr. Avinash for the Assessment Year 2013-14.

Answer = Total Income: `1,99,000; Tax Liability: Nil; Tax Payable: Nil; Refund: `22,000

Problem 8.

Mr. Mukesh Kumar is a Chartered Accountant and has prepared the following income and expenditure account as on 31.03.2013.

Income and Expenditure Account

Expenditure	**Amount `**	**Income**	**Amount `**
Office expenses	12,000	Professional fee	15,00,000
Employee's salary	20,000	Consultancy Fee	55,000
Magazines and newspapers	800	Dividend from Indian co.	8,500
Entertainment Expenses (Personal)	17,500	Profit on sale of debentures (STCG)	8,450
Donation for a charity show	600	Gift from father in-law	6,050
Interest on loan for professional purpose	800		
Income Tax (advance tax)	5,000		
Car Expenses	2,500		
Purchase of books	2,000		
Stationery	21,000		
Diwali gift to employees	1,000		
Rent for own building	60,000		
Municipal tax	1,000		
White washing and Painting of building	2,000		
Expenses incurred on the Opening ceremony (refreshments)	3,000		
Net profit	14,28,800		
	15,78,000		**15,78,000**

You are required to compute his Total Income and Tax Liability for the Assessment Year 2013-14 considering the following points –

1. The car is used equally for official and personal purposes.

2. ` 1,500 for domestic servant's salary is included in employee's salary.

3. Books were purchased on 01.09.2012 and were put to use on the same date.

4. Payment of stationery `20,500 was made by a bearer cheque and ` 500 was paid in cash.

5. Mukesh is owner of a building. Its written down value is ` 90,000 on 01.04.2012. The building is used for official purposes. No depreciation is claimed.

6. Furniture having written down value of ` 30,000 as on 01.04.2012 is also used for profession. Office chairs and tables were purchased and put to use on 30.03.2013 for the purpose of a new office which has been inaugurated on 31.03.2013. No depreciation has been debited to the profit and loss account. Actual cost `20,000

7. Employee's salary includes bonus of `5,000 which was paid to one of the employees on 01.07.2013.

Answer = Total Income: `15,08,900; Tax Liability: `2,91,150

Problem 9.
The following is the profit and loss account of Mr. Ankur for the Assessment Year 2013-14.

Particulars (Debits)	**Amount `**	**Particulars (Credits)**	**Amount `**
Opening stock	25,000	Sales	101,96,000
Purchases	100,60,000	Closing Stock	30,000
Wages	12,000	Gift from brother	10,000
Rent	7,000	Income tax refund	3,000
Repairs of car	500		
Wealth tax paid	4,000		
Medical expenses	1,500		
Depreciation of car	3,000		
Net Profit	1,26,000		
	102,39,000		**102,39,000**

Following further information is given:

1. Ankur bought one air conditioner for ` 25,000 on 01.05.2012 and it was put to use on the same date and no depreciation was claimed by him.

2. Medical expenses were incurred for treatment of Mrs. Ankur and also it includes premium of ` 300 of medi claim policy taken in the name of one of employees and the payment was made by a cheque.

3. Wages include `2,500 on account of Ankur's salary.

4. Opening and closing stock are overvalued by 5%.

5. Sales include a sale of `50,000 being goods withdrawn by Mr. Ankur (Cost price `45,000, market price `47,000).

Mr. Ankur was employed in a private firm upto 30.06.2012 and was getting a salary of `6,000 p.m. and his employer has not yet paid salary for the month of June 2012.

He has paid tuition fees of `200 p.m. per child for his two children to a public school.

Compute his Total Income and also his Tax Liability for Assessment Year 2013-14.

Answer = Total Income: `1,24,910; Tax Liability: Nil

<u>Problem 10.</u>
Shri. Bishambar Dayal (age 79 years) is running a shop at Chandni Chowk and has submitted the following profit and loss account for the Assessment Year 2013-14.

Particulars (Debits)	**Amount `**	**Particulars (Credits)**	**Amount `**
Opening stock	10,00,000	Sales	110,00,000
Purchases	95,70,000	Closing stock	4,00,000
Salaries	1,50,000		
Market rent (building is owned by the assessee himself)	1,00,000		
Municipal taxes of the building (due)	5,000		
Loss by theft	19,000		
Donation for Ram Lila celebration	1,500		
Provision for bad debts	11,000		
Gifts to relatives	400		
Presents to clients for advertisements	300		
Public provident fund	12,000		
Interest on loan for business	13,000		
Interest on capital	4,000		
Addition to business premises	2,00,000		
Repairs of business premises	600		
Wealth tax	2,000		
Fine for violation of traffic rules	100		
Net Profit	3,11,100		
	114,00,000		**114,00,000**

Additional information:
1. Purchases includes purchase of `1,00,000 from a relative and it is excessive by `20,000 and payment was made in cash.

2. Salary includes `14,000 paid outside India without deducting tax at source and `7,000 were paid to one of the relatives which is more than the market rate by `1,000.

3. Business is being run in a commercial building which is owned by the assessee and its written down value on 01.04.2012 is `10 lakhs and addition was made to the building on 01.01.2013 and brought into immediate use and no depreciation has been debited to profit and loss account.

Compute his Total Income and Tax Liability for the Assessment Year 2013-14.

Answer = Total Income: `6,40,100; Tax Liability: `54,610

Problem 11.
Mrs. Himali Khanna submitted the following profit & loss account for the Assessment Year 2013-14.

Particulars (Debits)	Amount `	Particulars (Credits)	Amount `
Salary (including proprietor's salary of `15,000)	46,000	Gross Profit	1,22,000
General Expenses	6,000	Bad debts recovered (not allowed earlier due to lack of evidence)	2,000
Advertisements	39,000	Interest on company deposit	5,000
Interest on proprietor's capital	2,000	Long term capital gains	5,00,000
Provision for bad debts	2,000		
Depreciation	4,000		
Reserve for VAT	10,000		
Advance income tax	2,000		
Donation to scientific research institution	1,000		
Motor car expenses	1,000		
Wealth tax paid	3,500		
Income Tax	4,000		
Stationery	1,900		
Net Profit	5,06,600		
	6,29,000		**6,29,000**

Other information:

1. General expenses include ` 300 given to a poor student to enable him to pursue his studies.
2. Motor car expenses include `300 for personal purposes.
3. Scientific institution is an approved institution.

Compute her Tax Liability and Tax Payable for the Assessment Year 2013-14.

Answer = Tax Liability: `70,647.70 Tax Payable: `64,650

Problem 12.
Mr. Santosh Kumar a Chartered Accountant submits his receipt and payment account for assessment year 2013-14.

Receipts	Amount `	Payments	Amount `
Balance b/d	1,00,000	Stipend to articled clerks	12,000
Audit Fees	2,40,000	Office Expenses	24,000
Payment received for appearing before Income Tax Appellate Tribunal	25,000	Office Rent	18,000
Misc. receipts	20,000	Salaries and Wages	20,500
Rent received for house property	24,000	Printing and Stationery	4,000
Present from clients	10,000	Subscription to ICAI	1,500

		Purchased books for professional purposes on 01.07.2012 and put to use on the same date	15,000
		Travelling Expenses	5,000
		Interest on loan for payment of income tax	12,000
		Donation to poor persons	5,000
		Drawings for personal use	1,02,000
		Balance c/f	2,00,000
	4,19,000		**4,19,000**

Compute his Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `1,830

Problem 13.
ABC Ltd. submits the profit & loss account for the year ending 31st March 2013.

Particulars (Debits)	**Amount `**	**Particulars (Credits)**	**Amount `**
Salary to staff	3,00,000	Gross Profit	5,27,000
Capital expenditure for promotion of family planning amongst employee	14,000	Rent of flats given to staff	24,000
Sales-Tax (paid on 01.11.2013)	24,000	Sundry receipts	7,000
Gratuity paid to staff	24,000	Capital gains on sale of land which was purchased two years ago	60,000
Reserve for future losses	30,000		
Reserve for bad debts	14,000		
Payment of advance income-tax	17,000		
Car expenses	20,000		
Depreciation	30,000		
Office expenses	12,000		
Repair of flats given to staff	24,000		
Sundry expenses	46,000		
Net Profit	63,000		
	6,18,000		**6,18,000**

Determine the Total Income and Tax Liability of company for the Assessment yeAr 2013-14.

Answer = Total Income: `1,59,200; Tax Liability `49,190

Problem 14.
From the following profit and loss account of Mr. Narang for the year ending March 31st, 2013, compute his Total Income and Tax Liability for the Assessment Year 2013-14.

Particulars (Debits)	**Amount `**	**Particulars (Credits)**	**Amount `**
Opening stock	4,40,000	Sales	101,00,000
Purchases	90,35,000	Closing stock	4,97,000
Salaries	8,50,000	Rental income from house property	84,000

Rent rate & taxes	1,25,000	Dividends from an Indian company	12,000
Legal charges	45,000	Income from owning and maintaining of race camels	20,000
Miscellaneous expenses	22,000		
Provision for bad debts	32,000		
Provision for gratuity	22,000		
Provision for Income Tax	43,000		
Salary to Mrs. Narang	36,000		
Depreciation	40,000		
Net Profit	23,000		
	107,13,000		**107,13,000**

Additional information:

(i) Purchases include `1,10,000 paid in cash to a cultivator for purchase of an agricultural produce.

(ii) Purchases also include ` 15,000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finance.

(iii) Opening stock was overvalued by 25% and closing stock was undervalued by 25%.

(iv) Salary includes ` 25,000 paid as customary bonus on the occasion of Diwali over and above the bonus payable under the Payment of Bonus Act 1965.

(v) Rent, rates and taxes include
(a) `3,000 on account of municipal taxes for property let out and payment was made on 31.03.2013.
(b) Penalty imposed by custom department `25,000.

(vi) An amount of ` 22,000 from a customer was written off from the provision for bad debts.

(vii) An employee was retired on 28.03.2013. Gratuity payable to him was ` 22,000. A provision was created for the same this year and it was paid on 02.04.2013.

(viii) Mrs. Narang is a law graduate and actively working in the assessee firm and salary paid is reasonable.

(ix) He has invested `1,00,000 in equity shares of infrastructure development companies.

(x) He has loss from owning and maintaining of race horses `20,000.

Answer = Total Income: `2,18,370; Tax Liability `1,890

<u>Problem 15.</u>

Net profit as per the profit and loss account of Mr. X is ` 7,70,000 for the year ending 31st March, 2013.

The following information is noted from the accounts:

(a) Advertisement expenditure debited to profit and loss account includes the following:

(i) Expenditure incurred outside India: ` 56,000 (Tax has been deducted at source and paid during the year)

(ii) Articles presented by way of advertisement (60 articles cost of each being `700, and 36 articles cost of each being `1,500);

(iii)`20,000 being the cost of advertisement which appeared in a newspaper owned by a political party;
(iv)`14,400 being capital expenditure on advertisement; (eligible for dep. @ 25%)

(v) `15,000 paid in cash

(vi) `9,000 paid to a concern in which X has substantial interest (amount is excessive to the extent of `1,800)

(b) Out of salary to the employees debited to the profit and loss account:

(i) `60,000 is employee's contribution to the recognized provident fund, `47,500 of which is credited in the employee's account in the relevant fund before the due date for provident fund;

(ii) `58,000 is bonus which is paid on 13th November, 2013;

(iii)`44,000 is commission which is paid on 1st December, 2013;

(iv)`25,000 is incentive to workers, which is paid on 10th December, 2013.

(v) `46,000 is paid outside India in respect of which tax is not deducted at source;

(vi)`6,000 being capital expenditure for promoting family planning amongst employees; and

(vii) `55,000 being entertainment allowance given to employees.

(c) Entertainment expenses debited to profit and loss account is ` 12,000.

Determine the Total Income and Tax Liability of Mr. X for the Assessment Year 2013-14.

Answer = Total Income: `9,69,100; Tax Liability `1,27,530

Problem 16.

The profit and loss account of Jitender for the year ending 31st March, 2013 discloses net profit of `90,000.

Travelling expenses debited to the profit and loss account include the following:

(i) `1,80,000 being expenditure incurred on a foreign tour, out of which `15,000 is incurred in Indian currency and `1,65,000 in foreign currency for a visit of 8 days to Germany; out of 8 days, 2 days are utilized by Jitender for attending personal work.

(ii) `45,000 being expenditure on air–fare in India by a sales manager.

(iii) `6,500 incurred for purchasing a machine for factory. (Put to use for more than 180 days)

(iv) `66,000 being hotel expenses as follows:

(a) 4 days visit to Madras	:	` 18,000
(b) 3 days visit to Bombay	:	` 8,000
(c) 17 days visit to Bangalore	:	` 40,000

Salary to employees include the following:

(1) Own salary of Jitender: ` 26,000

(2) Commission on purchases to employees
(which is actually paid on 1st November, 2013): `42,000

Find out the Total Income and Tax Liability of Jitender for the Assessment Year 2013-14.

Answer = Total Income: `2,08,530; Tax Liability `880

Problem 17.

From the following profit and loss account of Mr. Rameshwar for the year ended 31st March, 2013, compute his Total Income and Tax Liability for the Assessment Year 2013-14:

Particulars (Debits)	Amount `	Particulars (Credits)	Amount `
Opening Stock	9,50,000	Sales	101,06,000
Purchases	80,50,000	Closing Stock	3,60,000
Salaries	7,00,000	Long term capital gain on sale of house property	36,000
Rent, rates and taxes	1,25,000	Dividends from foreign company	12,000
Deposit in National Saving Certificate	42,000	Winnings of a lottery (gross)	5,00,000
Miscellaneous Expenses	21,000		
Provision for bad debts	31,000		
Provision for gratuity	24,000		
Provision for VAT	45,000		
Salary to Mrs. Rameshwar	48,000		
Purchased one computer on 01.11.2012 and put to use on the same date	40,000		
Net Profit	9,38,000		
	110,14,000		**110,14,000**

Additional information:

(i) Purchases include
(a) Purchase of ` 1,00,000 from a relative (market price `80,000) and payment was made in cash.
(b) Purchase of `25,000 being the products manufactured without aid of power in a cottage industry and the payment was made to its producer and payment was made in cash.
(c) Purchases of `35,000 from a person who is residing in a village having no bank and payment was made in cash.

(ii) Opening and closing stock were overvalued by 10%.

(iii) Salary includes ` 25,000 being bonus paid to the staff on 01.11.2013 on the occasion of Diwali.

(iv) Rent, rates and taxes include
(a) Municipal tax paid on 01.11.2013 `30,000

(v) An employee was retired on 28th March, 2013 and Gratuity payable to him was ` 24,000 and a provision was created for the same.

(vi) Mrs. Rameshwar is a housewife and payment is excessive by `48,000.

Answer = Total Income: `12,98,640; Tax Liability `2,46,920

Problem 18.

The profit and loss account of Marc Ltd. for the year ended 31st March, 2013 showed a net profit of `8,00,000 and some of the debits and credits are as given below:

(A) Debit side of profit and loss account included the following:

(i) The depreciation provided in the books `60,000, however the amount computed under the Income Tax Act `1,20,000.

(ii) `30,000 was paid to the company's lawyer for arguing appeals of the company before the Income Tax Appellate Tribunal against levy of penalty for some earlier cases where appeals have been dismissed by the tribunal.

(iii) `2,000 being fine imposed by the municipality for violating their regulations.

(iv) Reserve for bad debts `35,000.

(B) The credit side of the profit and loss account included the following:

(i) Income from units of UTI `35,000

(ii) Dividend from Indian company `20,000

(C) It is also observed that both the opening stock of `90,000 and closing stock of `1,08,000 are undervalued by 10% on cost.

Compute the Total Income and Tax Liability of the company for the Assessment Year 2013-14.

Answer = Total Income: `7,24,000; Tax Liability: `2,23,720

Problem 19.

Prakash is a leading lawyer of Mumbai. He deposits in the bank all the receipts and always pays all the expenses by cheque. The analysis of his bank account for the year ended 31st March, 2013 is asunder:

Receipts	**Amount `**	**Payments**	**Amount `**
Balance b/f	15,000	Salaries	5,00,000
Professional Fees	16,75,000	Rent of chamber	2,55,000
Dividend from Indian Co.	8,000	Telephone Expenses	26,000
Rent from house property which is let out	60,000	Magazine Subscription	3,000
Dividend from UTI	10,000	Motor car expenses	10,000
Interest from a company (gross)	8,000	Motor car (purchased and put to use on 01.12.2012)	3,00,000
Gift from his son from outside India	6,000	Misc. office expenses	5,500
Honorarium for delivering lectures in C.A. institute	5,000	Advance payment of income-tax	38,000
Honorarium for writing articles in	1,000	Personal expenses	48,500

Hindustan Times			
		House property expenses: Municipal taxes 6,000 Repairs 1,000 Insurance 2,000 Collection Charges 1,000	10,000
		Subscription to Bar Association	1,500
		Balance c/f	5,90,500
	17,88,000		**17,88,000**

Compute his Total Income, Tax Liability and Tax Payable after taking into account the following information:

(i) 10% of the motor car expenses relate to personal use.

(ii) Salaries include employer's contribution to Recognised Provident Fund of `18,000 which was credited on 01.07.2013.

(iii) Prakash stays in his house, the gross annual value of which is ` 16,800.

Following are the expenses which have been included in the above account in respect of this house:

(a) Municipal taxes: ` 2,000.

(b) Repairs: `500

(c) Insurance premium: `500

(iv)He has loss under the head house property `31,200 and the loss can be set off as per section 71B.

Answer = Total Income: `8,76,750; Tax Liability: `1,08,510.50; Tax Payable: `70,510

Problem 20.

Alpha Ltd., a manufacturing company, which maintains accounts under mercantile system has disclosed a net profit of `12.50 lakhs for the year ending 31st March, 2013. You are required to compute the total Income and Tax Liability of the company for the Assessment Year 2013-14, after considering the following information, duly explaining the reasons for each item of adjustment:

(i) Advertisement expenditure includes the sum of `60,000 paid in cash to the sister concern of a director, the market value of which is `52,000.

(ii) Legal charges include a sum of `45,000 paid to consultant for framing a scheme of amalgamation duly approved by the Central Government.

(iii)Repairs of plant and machinery includes `1.80 lakhs towards replacement of worn out parts of machineries.

(iv)A sum of `6,000 on account of liability foregone by a creditor has been taken to general reserve. The same was charged to the revenue account in the Assessment Year 2007-08.

(v) Sale proceeds of import entitlements amounting to ` 1 lakh has been credited to profit and loss account, which the company claims as capital receipt not chargeable to income tax.

(vi)The company has donated `2,00,000 to National Urban Poverty Eradication Fund. The amount has been debited to the profit and loss account.

(vii) Being also engaged in the biotechnology business, the company incurred the following expenditure on in-house research and development as approved by the prescribed authority:

(a) Research equipment purchased `1,50,000.

(b) Remuneration paid to scientists ` 50,000.

The total amount of `2,00,000 is debited to the profit and loss account.

Answer = Total Income: `11,52,000; Tax Liability: `3,55,970

Problem 21.

(i) Gross total income of Mrs. X, aged 60, a resident of Delhi for the financial year 2012-13 is `3,00,000. It includes an income of `20,000 from the business of dealing in shares on which she has paid securities transaction tax of `1,800 and it has not been debited to the profit and loss account. She has also deposited `10,000 in her public provident fund account with the State Bank of India.

Compute her Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `3,930

(ii) ABC Ltd. is engaged in the business of sale/purchase of shares and the company has computed its income `11,00,000 after debiting securities transaction tax of `1,85,000.

Compute Tax Payable by the company for the Assessment Year 2013-14.

Answer = `3,39,900

(iii) Mr. X is engaged in the business of sale/purchase of shares and he has computed its income `18,00,000 after debiting securities transaction tax of `2,10,000.

Compute Tax Payable by Mr. X.

Answer = `3,81,100

Problem 22.

Determine the previous year in which the expenditure is allowable in the following cases (TDS is supposed to be deducted with regard to all the payments and all the payments are in India):

(i) ABC Ltd. has made payment of interest on 10th, June 2012 and has deducted tax at source on the same date and has deposited the amount on 08.07.2012.

(ii) The company has paid commission on 10.03.2013 and has deducted tax on the same date but it was paid on 05.04.2013.

(iii) The company has paid fees for professional services on 31.03.2013 and deducted tax at source on the same date but the tax was paid on 07.04.2013.

(iv)The company has paid to a contractor on 31.03.2013 and tax was deducted on the same date but it was paid on 01.06.2013.

(v) The company has paid technical fees on 01.01.2013 and no tax has been deducted at source.

(vi) The company has paid brokerage on 01.04.2013 and has deducted the tax on the same date and has paid it on 07.04.2013.

Problem 23.

Following is the profit & Loss account of Mr. A, a dealer in shares and securities for the year ended on 31st March, 2013:

Particulars (Debits)	**Amount `**	**Particulars (Credits)**	**Amount `**
To Trading Expenses	103,60,000	By Sales	113,54,000
To Administrative Expenses	1,15,000	By Interest on fixed deposit with bank	18,500
To Financial Expenses	50,265	By Dividend from Indian company	66,360
To Demat and Delivery charges	5,350	By Interest on sales tax refund (Assessment Year 2012-13)	330
To Securities Transaction Tax	6,500		
To Net profit before depreciation	9,02,075		
	114,39,190		**114,39,190**

Compute Total Income and Tax Liability of Mr. A for Assessment Year 2013-14.

Answer = Total Income: `8,35,720; Tax Liability: `1,00,060

Problem 24.

Mr. Dinesh Kumar is engaged in the business of plying goods carriages. On 1st April, 2012, he owns 10 trucks (out of which 6 are heavy goods vehicles). On 2nd May, 2012, he sold two of the heavy goods vehicle and purchased two light goods vehicles on 6th May, 2012. Those new vehicles could however be put to use only on 15th June, 2012.

Compute the Total Income and Tax Liability of Mr. Dinesh Kumar for the Assessment Year 2013-14, taking note of the following data in two situations i.e. presumptive basis and normal basis.

	`	`
Freight charges collected		9,90,000
Less: operational expenses	7,25,000	
Depreciation as per sec 32	1,85,000	
Other office expenses	15,000	9,25,000
Net Profit		65,000
Other business and non-business income		1,00,000

Answer = Presumptive Basis: Total Income: `6,75,000; Tax Liability: `66,950
Non-presumptive Basis: Total Income: `1,65,000; Tax Liability: Nil

Problem 25.

Profit and loss account of Mr. A for the previous year 2012-13 is asunder:

Particulars (Debits)	**Amount `**	**Particulars (Credits)**	**Amount `**
Salaries & Wages	6,00,000	Gross Profit	14,50,000
Advertisement	1,00,000	Long term capital gains	4,00,000

Travelling Expenses	2,00,000	Recovery of bad debts (earlier it was allowed)	50,000
Depreciation on business assets	50,000		
Donation to an approved institution for eligible project	70,000		
Interest paid	2,30,000		
General Expenses	3,50,000		
Net Profit	3,00,000		
	19,00,000		**19,00,000**

Additional informations:

(i) Salaries and wages include the sum of `1,60,000 paid to Mr. A

(ii) Payment of interest includes:

(a) Interest to his major son 'X' amounting to `30,000 @ 15% on a deposit of `2,00,000

(b) Interest to Mr. A amounting to `30,000 @ 12% p.a..

(c) Interest of `20,000 paid on loan taken for the payment of income tax liability.

(iii) The amount of depreciation allowable is `40,000.

(iv) Mr. A has purchased National Saving Certificate VIII issue on 31.03.2013 for `40,000 and has deposited `60,000 in public provident fund account during the year 2012-13.

Compute Tax Liability of Mr. A for the Assessment Year 2013-14.

Answer = Tax Liability: `45,320

Problem 26.

Profit and loss account of Mr. A for the Previous Year 2012-13 is as given below:

Profit and Loss Account

Particulars (Debits)	**Amount `**	**Particulars (Credits)**	**Amount `**
To Purchases	95,00,000	By Sales	102,71,000
To Salaries and bonus	2,70,000	By Discount	10,000
To Sales tax payable	30,000	By Interest (gross) from Indian companies	70,000
To General expenses	1,00,000		
To Expenditure on technical know-how	36,000		
To Expenses on sales tax proceedings	15,000		
To Advertisements	50,000		
To Interest on capital	20,000		
To Rent of buildings owned by Mr. A	30,000		
To Net profit	3,00,000		
	103,51,000		**103,51,000**

Additional information is given below:

1. Purchases include a cash purchase of `20,000 from a farmer who lives in a village which is not served by any bank.

2. Advertisements include presentation of 50 VIP bags in Jan 2013 costing `350 each.

3. Salaries and bonus includes the following payments.
   - Salary paid to Mr. A `52,000
   - Bonus paid to Mr. A `30,000
   - Commission paid to Mr. A `23,000

4. The proprietor has carried forward business loss from the assessment year 2009-10 amounting to `1,00,000.

5. The written down value of buildings on 01.04.2012 was `2,50,000.

6. Technical know-how was purchased and put to use on 01.07.2012.

Compute the Total Income and Tax Liability of Mr. A for the Assessment Year 2013-14.

Answer = Total Income: `3,87,000; Tax Liability: `19,260

Problem 27.
The Profit & Loss account of Mr. X for the previous year ending 31.03.2013 is as given below:

Particulars (Debits)	Amount `	Particulars (Credits)	Amount `
To Purchases	90,00,000	By Sales	102,00,000
To Business expenses	6,00,000	By Stock	1,50,000
To Depreciation	50,000	By Dividend from foreign company (gross)	30,000
To Salary to Mr. X	3,60,000	By Sundry receipts	20,000
To Interest on capital	1,89,000	By Long term capital gain	1,00,000
To Sundry expenses	1,01,000		
To Net profit	2,00,000		
	105,00,000		**105,00,000**

You are further informed that –
1. Purchases include cash purchases of `1,00,000

2. Bonus of `1,07,000 for the previous year 2011-12 was paid on 31.12.2012 but not included in the profit and loss account.

3. Recovery of bad debts during the year from a discontinued business of `1,00,000 but not included in the profit and loss account. Deduction was allowed in respect of bad debts.

4. Written down value of machinery as on 01.04.2012 was `5,00,000. Rate of depreciation being 15%.

   a. Machinery sold during the year for `1,00,000

   b. Machinery acquired and put to use in December 2012 for `4,00,000

5. Loss and allowances carried forward

   - Business loss – Assessment Year 2009-10 = `3,00,000

- Depreciation – Assessment Year 2010-11 = `2,00,000

Compute Total Income and Tax Liability for the Assessment Year 2013-14.

Answer = Total Income: `3,02,000; Tax Liability: `20,810

Problem 28.

Mr. P is exporting computer software outside India. The profit & loss account for the previous year ending 31.03.2013.

Particulars (Debits)	Amount `	Particulars (Credits)	Amount `
To Purchases	80,00,000	By Total sales	101,60,000
To Salaries	4,10,000	By Profit on sale of land held for the last 2 ½ years	6,00,000
To Interest to Mr. P	1,50,000		
To Salary to Mr. P	6,00,000		
To Depreciation on plant and machinery	2,00,000		
To Purchase of trade marks	2,00,000		
To Net profit	12,00,000		
	107,60,000		**107,60,000**

You are further informed that –

1. Trade marks purchased and put to use on 01.07.2012.

2. Written down value of plant and machinery as on 01.04.2012 is `12,00,000. Rate of depreciation being 15%.

3. Employer contribution to recognized provident fund of `4,00,000 for the previous year 2011-12 was paid on 31.12.2012 but not included in the above profit and loss account.

4. The proprietor has brought forward depreciation and long term capital loss amounting `2,36,000 and `2,00,000 from the Assessment Year 2010-11 respectively.

You are required to compute the Total Income and Tax Liability for the Assessment Year 2013-14.

Answer = Total Income: `14,84,000; Tax Liability: `2,83,460

Problem 29.

Mr. X is engaged in the business of civil construction including repairs of dams and supply of labour for civil construction. The Profit and Loss account of Mr. X for the year ending 31.03.2013 is as follows:

Particulars (Debits)	Amount `	Particulars (Credits)	Amount `
Opening stock of raw material	21,700	Receipt from business of civil construction	63,70,700
Depreciation	2,39,430	Rental income from Godown	48,000
Salary to employees	1,30,000	Interest on company deposits (gross)	2,60,000
Purchase of raw material	44,10,210	Closing Stock of raw material	1,31,600
Interest on loan taken to make deposit in	13,800		

companies			
Interest on loan taken for business purposes	74,400		
Travelling, entertainment and advertisement expenses	57,800		
Other expenses	7,42,000		
Municipal tax (6,000) and insurance (1,200) of Godown	7,200		
Salary to Mr. X	1,80,000		
Interest to Mr. X	69,000		
Net profit	8,64,760		
	68,10,300		**68,10,300**

Other information:

(i) Out of other expenses debited to profit and loss account ` 20,000 is not deductible under section 37(1).

(ii) Out of travelling, advertisement and entertainment expenses ` 25,000 is not deductible under section 37(1).

(iii) On 01.04.2012, Mr. X owns the following depreciable assets:

- ❖ Plants A, B and C, depreciated value: ` 3,70,000, rate of depreciation 15%.
- ❖ Plants D and E, depreciated value: ` 1,98,000, rate of depreciation 40%.

On 01.01.2013 Mr. X sells plant D for `9,10,000 and purchases plant F and put to use on the same date (rate of depreciation 15%) for ` 4,86,000.

(iv) Mr. X wants to set-off the following losses brought forward from earlier years:

	Assessment Year	
	2011-12 `	**2012-13** `
Business loss	20,000	xxxxx
Capital loss (short-term)	2,000	1,000

Find out Total Income and Tax Liability of Mr. X for the Assessment Year 2013-14.

Answer = Total Income: `19,83,840; Tax Liability: `4,37,910

Problem 30.

Rajeev Kapoor furnishes the following information relevant for the Assessment Year 2013-14.

Particulars (Debits)	**Amount `**	**Particulars (Credits)**	**Amount `**
General expenses	23,400	Gross profit	3,21,300
Bad debts	8,000	Commission	9,500
Provision for VAT and excise duty	10,000	Brokerage	1,200
Advance tax	11,000	Sundry receipts	2,500
Legal expenses (paid to a Chartered Accountant for preparation of income	4,000	Dividend from Indian companies	12,500

tax return)			
Insurance of stocks	1,600	Income from Unit Trust of India	6,500
Salary to staff	25,000		
Leave encashment to staff (paid during the year)	5,000		
Salary to Rajeev Kapoor	24,000		
Interest on overdraft	6,000		
Interest on loan to Mrs. Rajeev Kapoor	32,000		
Interest on capital to Rajeev Kapoor	22,000		
Expenditure on account of Deepawali (being gift given to customers)	8,000		
Depreciation	45,000		
Advertisement expenses	7,000		
Contribution to employees recognised provident fund (credited within due date)	12,000		
Net profit	1,09,500		
	3,53,500		**3,53,500**

1. The amount of depreciation allowable is `52,500 as per the Income Tax Act, 1961.

2. Income of `25,000 received on January 20th, 2013 on units of mutual fund specified under section 10(23D) is not recorded in profit and loss account.

3. Loan from Mrs. Rajeev was taken for payment of arrears of income tax.

4. Salary to staff includes payment of `9,000 to a relative, which is unreasonable to the extent of `4,000.

5. General expenses include `5,000 incurred for payment of school fees of Rajeev's son.

6. Mr. Rajeev Kapoor has paid insurance premium of `70,000 on the life policy (sum assured `3,40,000) of his major son on March 25th, 2013 and he invested `20,000 in Industrial Development Bank of India (IDBI) Infrastructure Bonds notified under section 80C on March 30th, 2013.

Determine the Total Income and Tax Liability of Rajeev Kapoor for the Assessment Year 2013-14.

Answer = Total Income: ` 1,32,000; Tax Liability: Nil

<u>Problem 31.</u>
Mrs. Sonia is a company secretary in practice. She was born on 01.02.1951 in India. Her income and expenditure account for the year ended 31.03.2013 is as follows:

Expenditure	**Amount** `	**Income**		**Amount** `
Salaries paid to staff	17,10,000	Fees earned: Secretarial audit Taxation services Consultancy Services	 4,30,800 4,20,000 17,50,000	26,00,800
Stipends to apprenticeship trainees	22,500	Dividend on shares of Indian companies		10,500
Incentives to apprenticeship trainees	10,000	Income from Unit Trust of India		6,500
Rent for the building in the use of profession	20,000	Profit on sale of equity shares on which STT has been paid (short term)		20,800

Printing and stationery	9,600	Honorarium received from various institutions for evaluation work	6,600
Contribution to recognised provident fund	35,000	Rent received from residential flat let out	62,000
Meeting, seminar and conference expenses	40,000		
Interest on loan	60,000		
Journals, magazines, newspaper, income tax report	15,000		
Courier, telephone and fax	2,90,400		
Repairs, maintenance and petrol for car	16,500		
Depreciation: Car 8,500 Computer 14,000 Typewriter 5,000 Furniture 3,000	30,500		
Travelling Expenses	57,000		
Municipal tax paid in respect of house property	2,000		
Net Profit	3,88,700		
	27,07,200		**27,07,200**

Other information:

(i) A sum of `15,000 incurred for entertaining various clients in hotels and clubs is already included in the meeting, seminar and conference expenses.

(ii) Incentives to apprentices represent amount paid to two apprentices for passing the company secretaries intermediate examination at first attempt.

(iii) One fifth of use of car is attributable to personal purposes.

(iv) 50% of loan was used for the purpose of construction of house property and 50% of loan was used for other business purpose.

(v) Mrs. Sonia follows accrual basis of accounting

(a) cost of stationery items for `3,000 purchased in accounting year 2011-12 which was not provided for in that year due to oversight, has been included in printing and stationery for the year 2012-13; and

(b) amount of `5,000 for the month of March, 2013 of provident fund contribution could not be paid upto 05.11.2013.

(vi) The written down value of various assets as on 01.04.2012 as follows:

(a) Car (Acquired on 01.04.2008) `85,840

(b) Typewriter (Acquired on 01.04.2008) `15,000

(c) Furniture (Acquired on 01.04.2008) `25,000

(d) Computer (Acquired on 15.12.2012 at cost of `1,50,000 and put to use on the same date)

(vii) Salaries include `30,000 paid to a computer specialist in cash for assisting Mrs. Sonia in one professional assignment.

(viii) Mrs. Sonia has deposited `60,000 in her public provident account and invested `20,000 in infrastructure bonds of the ICICI Ltd. notified under section 80C.

Compute Total Income and Tax Liability of Mrs. Sonia for the Assessment Year 2013-14.

Answer = Total income: ` 2,85,450; Tax Liability: `4,720

Problem 32.

Mr. X has computed his income under the head business/profession `10,00,000 and he has debited the following amount.

(1) Cost of goods sold ` 7,00,000, out of which ` 4,00,000 paid to a relative for purchasing stock and its market value is ` 3,00,000 and Mr. X has paid ` 2,00,000 by account payee cheque and ` 2,00,000 in cash.

(2) He has debited ` 45,000 in connection with purchase of a computer which was purchased on 27.10.2012 and was put to use on the same date and payment was made in cash.

(3) He has purchased one generator from his relative for ` 45,000 and payment was made in cash and market value was ` 40,000 and it was purchased on 01.10.2012 and was put to use on 07.10.2012.

(4) He has paid advance tax being income tax ` 45,000 on 01.10.2012.

(5) He has paid ` 21,000 to a Chartered Accountant for filing a return of income, out of which `19,500 was paid in cash and balance by an account payee cheque.

(6) He has donated ` 20,000 to an approved research association and research work taken up by such association is not related to the business/profession of assessee.

(7) He has purchased household furniture for `12,000 for personal use.

(8) He has paid ` 20,000 in cash in connection with his medical treatment.

(9) Salary paid to the proprietor is ` 36,000.

(10) Interest on capital ` 9,000.

(11) He has invested ` 25,000 in National Saving Certificate.

(12) He has invested ` 10,000 in public provident fund in the name of his minor child.

(13) He has debited rent of ` 35,000 in connection with his own building which is being used in his business/profession.

(14) Opening stock debited is ` 4,50,000 which is overvalued by 10%.

(15) He has incurred ` 7,000 on printing and distribution of diaries and calendars.

Compute his Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `2,74,930

Problem 33.
Mr. X furnishes the following trading, profit and loss account for the previous year ending on 31.03.2013.

Particulars (Debits)	**Amount `**	**Particulars (Credits)**	**Amount `**
To Stocks	11,000	By Sales	100,84,500
To Purchases	94,80,000	By Maturity proceeds of National Saving Certificate	19,500
To Freight and duty	5,000	By Maturity proceeds of Bank Fixed Deposit	24,000
To Manufacturing wages	25,000	By Maturity proceeds of Public provident fund	13,000
To Factory, rent, rates and taxes	30,000	By Rent of staff quarters built in 2006	19,000
To Office salaries	27,000	By Refund of income tax penalty	1,100
To Establishment expenses	6,100	By Sale of an old machinery	25,000
To Cost of computer	24,000	By Recovery of bad debts (Not allowed earlier)	6,000
To Interest on capital	3,300	By Income tax refund (it includes interest- `400)	2,400
To Donation to an orphan	1,000	By Gift from friends and relatives	3,600
To Fire insurance	200	By Sundry receipts	5,000
To Bad debts	6,000	By Maturity proceeds of LIC policy	24,000
To Income Tax	6,000	By Refund of deposit from a supplier who could not supply the machine in time (includes interest- `255)	1,00,255
To National Urban Poverty Eradication Fund	2,000	By Closing stocks	26,400
To Employer's contribution to Recognised provident fund	8,000		
To Service charge for air-conditioner	21,000		
To Expenses on sales tax proceedings	2,000		
To Expenses on income tax proceedings	3,000		
To Diwali expenses	4,000		
To Legal Expenses	4,000		
To Medical expenses of proprietor	3,000		
To Staff welfare fund	2,000		
To Repairs of staff quarters	4,000		
To Security deposit for telephone connection	3,000		
To Bonus payable to employees	5,000		
To Provision for VAT and excise duty	25,000		
To Municipal taxes for staff quarters	4,000		
To General reserve	5,000		

To Entertainment expenses	6,000		
To Net Profit	6,28,155		
	103,53,755		**103,53,755**

You are required to compute Tax Liability after taking the following into consideration:

1. Purchases include a purchase of ` 20,100. Its payment was made by a bearer cheque and also includes a purchase from a relative of `23,000 and the payment was made in cash and market price of the purchases is `22,000.

2. Factory rent, rates and taxes includes municipal tax of the factory building, which was paid on 31.07.2013.

3. Assessee has always valued the stocks at cost price but since 2012-13 he has valued it at market price, which was in excess of the cost price by 10%.

4. Office salaries paid include `12,400 to the proprietor of the business.

5. Diwali expenses include gifts of `1,000 made to the relatives.

6. The written down value of the block consisting of machinery as on 01.04.2012 is ` 59,000

7. The written down value of the block consisting of factory building as on 01.04.2012 is ` 85,000. An addition was made to building on 01.08.2012 at a cost of `12,000.

8. Service charge for air-conditioner were paid in two instalment of ` 20,000 and ` 1,000 on 10.01.2013 and 11.01.2013 in cash.

9. Employer's contribution was made through an account payee cheque on 10.04.2013 and the cheque realised on 20.04.2013 and the due date for the purpose of provident fund was 15.04.2013.

10. Computer was purchased on 31.03.2012 and it was put to use on 31.03.2013.

Answer = Tax Liability: `32,790

Problem 34.

Mr. X started manufacturing activity w.e.f 01.04.2012 and purchased one plant and machinery for `5,00,000 plus excise duty @ 10% plus EC @ 2% plus SHEC @ 1% plus DVAT @ 12.5% (payment was made in cash) and he purchased raw material `3,00,000 plus excise duty @ 8% plus EC @ 2% plus SHEC @ 1% plus DVAT @ 4% (half of the amount was paid in cash).

Other processing charges `1,00,000 and all the goods were sold for `10,00,000 as on 30.04.2012.

He has taken registration under Delhi Value Added Tax Act 01.05.2012 and purchased raw material for `50,00,000 plus Excise duty @ 10% plus EC @ 2% plus SHEC @ 1% plus DVAT @ 4% and purchased one plant and machinery on 15.05.2012 for `20,00,000 plus excise duty @ 10% plus EC @ 2% plus SHEC @ 1%.

He sold the goods from 01.05.2012 to 31.12.2012 for `140,00,000 exclusive of DVAT @ 12.5%.

He has taken registration under Central Excise Act on 01.01.2013 and raw material purchased from 01.01.2013 to 31.03.2013 was for `30,00,000 plus excise duty @ 8% plus EC @ 2% plus SHEC @ 1% and he sold the goods from 01.01.2013 to 31.03.2013 for `70,00,000 plus excise duty @ 10% plus EC @ 2% + SHEC @ 1% + DVAT @ 12.5%.

Since plant and machinery was purchased for the purpose of manufacturing, he is allowed additional depreciation on plant and machinery.

Show the working of Cenvat credit and VAT credit under consumption variant and also compute his income Tax Liability for Assessment Year 2013-14.

Answer = Tax Liability: `36,30,860

Problem 35.

Mr. X started business of retail trade on 01.04.2012 and purchased goods A of `2,00,000 plus Delhi VAT @ 12.5% on 10.04.2012 and half of the payment was made in cash and balance half by account payee cheque. He purchased goods B of `3,00,000 plus DVAT @ 12.5% on 10.05.2012 and sold all the goods upto 31.05.2012 for `10,00,000.

He has taken registration under DVAT Act on 01.06.2012 and has opted for composition scheme and purchased goods C of `22,00,000 plus DVAT @ 12.5% from 01.06.2012 to 31.12.2012 and the goods were sold for `40,00,000 and he has paid composition tax @ 1%.

He has been shifted to the normal system w.e.f 01.01.2013 because he has crossed the limit of `50 lakhs.

He purchased goods D of `10 lakhs plus DVAT @ 12.5% from 01.01.2013 to 31.03.2013 and sold the goods for `18,00,000 plus DVAT @ 12.5%

He paid advance income tax `2,000 on 15.09.2012 and `3,000 on 15.12.2012 and `4,000 on 15.03.2013 and he has filed his return of income on 15.12.2013 and balance amount of income tax was also paid on 15.12.2013.

He has paid penalty of `1,000 for violation of provision of DVAT Act.

He has rejected presumptive income under section 44AD.

Compute his Income Tax Liability and interest under section 234A, 234B and 234C for the Assessment Year 2013-14 and also show the working for VAT.

Answer = Tax Liability: `6,91,920; Interest under section 234C: `25,630; Interest under section 234B: `62,271; Interest under section 234A: `20,757

Problem 36.

ABC Ltd an Indian company commenced its business on 01.04.2012 and purchased one plant & machinery on 10.04.2012 for `10,00,000 + excise duty @ 10% + EC/SHEC @ 3% + DVAT @ 4% and purchased Raw material for 3,00,000 + excise duty @ 8% + EC/SHEC @ 3% + DVAT @ 4%. The plant & Machinery was used in manufacturing and additional depreciation is allowed and it was put to use on the same date.

100% of tax credit for plant and machinery is allowed in the first year itself.

All the goods manufactured by the companies were sold up to 30.04.2012 for `10,00,000 and the company has taken registration under DVAT Act on 01.05.2012.

Company purchased raw material from 01.05.2012 to 30.09.2012 for `60,00,000 + excise duty @ 8% + EC/SHEC @ 3% + DVAT @ 4%. And the goods manufactured were sold up to 30.09.2012 for 140,00,000 + DVAT @ 12.5%.

The company purchased raw material from 01.10.2012 to 31.03.2013 for `100,00,000 + excise duty @ 8% + EC/SHEC @ 3% + DVAT @ 4% and the goods sold for `170,00,000 + excise duty @10% + EC/SHEC @ 3% + DVAT @ 12.5%.

The company has incurred following expenses before commencement of business

1. Incorporation Fee `5,00,000

2. Expenditure on capital issue `3,00,000

3. Expenditure on advertisement of the product to be manufactured by the company `8,00,000.

Project cost `200,00,000 and capital employed `220,00,000.

Compute Income Tax Liability for the Assessment Year 2013-2014 also show working of VAT.

Answer = Tax Liability: `47,50,740

<u>Problem 37.</u>
Mr. X is a manufacturer and is registered under Central Excise Act, 1944 and also under Central Sales Tax Act, 1956 and Delhi Value Added Tax Act, 2004 and he has submitted the particulars as given below:

1. Purchased raw material R1 on 01.04.2012 for `5,00,000 and paid Central Excise duty @ 8% plus EC and Delhi VAT @ 4%.

2. Purchased raw material R2 from Punjab on 01.04.2012 for `6,00,000 and its inclusive of Central Excise duty @ 10% plus CST @ 2%.

3. He has purchased raw material R3 from one of the related persons in the state of Delhi for `11 lakhs and paid excise duty @ 8% plus Delhi VAT @ 4% and payment was made by account payee cheque `10 lakhs and balance in cash and the payment is excessive by `1,00,000.

4. Taken a loan of `7,00,000 for meeting the working capital requirement @ 10% p.a. from State Bank. Interest to state bank was paid on 01.04.2013.

5. He has taken a loan of `10,00,000 from Punjab National Bank on 01.05.2012 @ 10% for purchasing one plant and machinery for manufacturing purpose and amount was sent directly to the supplier and supplier has issued a bill of `10 lakhs dated 01.05.2012 which includes excise duty @ 10% and Central Sales Tax @ 2% and the supplier has its office in Maharashtra. The plant and machinery was put to use on 01.11.2012. Interest to Punjab National Bank was paid on 31.03.2013. He has received subsidy of `1,00,000 for plant and machinery purchased by him. Tax credit for plant and machinery shall be allowed in the first year itself.

   He had one plant and machinery on 01.04.2012 with WDV `70,00,000.

6. He purchased one commercial building on 01.04.2012 for `12 lakhs and it was put to use on 31.05.2012 and half of the building is being used as office for business and remaining half is let out @ `12,000 p.m. Municipal tax for the building due for financial year 2012-13 is `10,000 and it was paid on 01.04.2013.

7. He has paid advance income tax `1,00,000 on 15.09.2012 and has paid Income Tax of one of his employee `30,000. He has donated `1,00,000 to an approved Scientific Research Association.

8. He has paid technical fee outside India `1,80,000 (gross) on 10.01.2013 (tax was deducted at source @ 10%). It was paid to the government on 31.03.2013.

9. He has received export incentives of `60,000.

10. He has donated `30,000 to Prime Minister National Relief Fund and `15,000 to a temple by cheque notified under section 80G. He has deposited `30,000 in NSC and `40,000 in PPF.

11. He has sold one land on 01.07.2012 and there is long term capital gains of `6,00,000.

12. He has sold all the goods manufactured by him for ` 110,00,000 during the year and charged excise duty @ 10% plus Delhi VAT @ 12.5% and all the expenditures are yet to be debited.

Compute his Income and Tax Liability and also show working of VAT under consumption variant of VAT. Also compute interest under section 234A, 234B and 234C and also interest under section 201. Return of income was filed on 10.12.2013 and paid difference of the tax on the same date.

Answer = Total Income: `78,46,330; Tax Liability: `21,87,620; Interest under section 234C: `73,937; Interest under section 234B: `1,87,884; Interest under section 234A: `62,628; Interest under section 201: `810

Problem 38.
Presume all the goods were exported by him.
Answer = Total Income: `78,46,330; Tax Liability: `21,87,620; Interest under section 234C: `73,937; Interest under section 234B: `1,87,884; Interest under section 234A: `62,628; Interest under section 201: `810

Problem 39.
Presume the goods manufactured by him were exempt from output excise duty and output VAT.
Answer = Total Income: `77,12,540; Tax Liability: `21,46,270; Interest under section 234C: `72,407; Interest under section 234B: `1,84,158; Interest under section 234A: `61,386; Interest under section 201: `810

Problem 40.
Mr. X is a trader in Delhi and he has started a shop of general merchant w.e.f. 01.04.2012 and he has purchased goods of `3,00,000 in April, 2012 and goods of `4,00,000 in May' 2012 and has paid Delhi VAT @ 12.5% and all the goods were sold by him upto May' 2012 for `10,00,000.

He has taken registration under Delhi VAT Act on 01.06.2012 and goods purchased by him from June' 2012 to March' 2013 were `25,00,000 and paid Delhi VAT @ 12.5% and all the goods were sold by him for `38,00,000 and charged Delhi VAT @ 12.5%

He has taken a shop on rent w.e.f 01.04.2012 @ `20,000 p.m. and the owner of the shop has charged service tax also on the amount of rent. He has incurred `1,00,000 on maintenance of VAT accounts.

He has rejected presumptive income under section 44AD.

Compute his Income and Tax Liability and also show the working for VAT. He has not deducted tax at source discuss consequences under the section 40(a) and also under section 201.

Answer = Total Income: ` 11,42,840; Tax Liability: `1,78,040

Problem 41.

Presume he has opted for composition scheme and tax was paid by him @ 1% on the sales effected by him and he has saved `1,00,000 which was incurred on maintaining VAT accounts

Answer = Total Income: ` 8,92,340; Tax Liability: `1,11,720

Problem 42.

ABC Ltd. an Indian company has started manufacturing w.e.f 01.04.2012 and it was registered under DVAT Act and purchased raw material as given below:

(i) April' 2012 `20,00,000
(ii) May' 2012 `30,00,000
(iii) June' 2012 `20,00,000
(iv) July' 2012 `40,00,000
(v) Aug' 2012 `20,00,000
(vi) Sept' 2012 `30,00,000
(vii) Oct' 2012 `40,00,000
(viii) Nov' 2012 `10,00,000
(ix) Dec' 2012 `30,00,000
(x) Jan' 2013 `20,00,000
(xi) Feb' 2013 `10,00,000
(xii) March' 2013 `20,00,000

Total Purchases = 290,00,000

ABC Ltd. has paid excise duty @ 10% plus EC plus DVAT @ 4%.

The company has effected sales as given below:

(i) April' 2012 `50,00,000
(ii) May' 2012 `70,00,000
(iii) June' 2012 `30,00,000
(iv) July' 2012 `20,00,000
(v) Aug' 2012 `30,00,000
(vi) Sept' 2012 `20,00,000
(vii) Oct' 2012 `10,00,000
(viii) Nov' 2012 `20,00,000
(ix) Dec' 2012 `30,00,000
(x) Jan' 2013 `20,00,000
(xi) Feb' 2013 `30,00,000
(xii) March' 2013 `20,00,000

Total Sales = 350,00,000

The company was not registered under Central Excise Act till 30.06.2012 and turnover upto `150 lakh is exempt from excise duty and no excise duty was charged but DVAT was charged @ 12.5%. upto 30.06.2012 and thereafter excise duty was charged @ 10% plus EC and also DVAT @ 12.5%.

The company has project cost of `500 lakhs and capital employed `550 lakhs and expenses incurred as per section 35D before commencement of business are ` 40 lakhs.

Compute Total Income and Tax Liability and also show the working of VAT.

Answer = Total Income: ` 47,29,000; Tax Liability: `14,61,260

SOLUTIONS
TO
PRACTICE PROBLEMS

Solution 1:

	`
Block I	
Commercial building, depreciation @ 10%	
Purchased on 01.06.2012, put to use on 01.07.2012	11,00,000
Written down value as on 31.03.2013	11,00,000
Depreciation @10% on `11,00,000	1,10,000
Block II	
Plant and machinery, depreciation @ 15%	
Purchased P1 on 01.09.2012, put to use on 10.10.2012	11,00,000
Purchased P2 on 01.10.2012, put to use on 01.11.2012	20,00,000
Purchased Scooter on 10.12.2012, put to use on 01.01.2013	20,000
Purchased 3 Mobile Phones on 10.01.2013, put to use on same date	35,000
Written down value as on 31.03.2013	31,55,000
Depreciation @ 7.5% on `31,55,000	2,36,625
Block III	
Motor car, depreciation @ 15%	
Purchased on 01.01.2013, put to use on same date	25,00,000
Depreciation @ 7.5% on `25,00,000	1,87,500
Block IV	
Computer, depreciation @ 60%	
Purchase on 01.12.2012, put to use on 31.03.2013	1,50,000
Depreciation @ 30% on `1,50,000	45,000
Block V	
Furniture and fixtures, depreciation @ 10%	
Purchased on 01.03.2013, put to use on same date	25,000
Depreciation @ 5% on `25,000	1,250
Total depreciation for previous year 2012-13	5,80,375

Solution 2:

`

Block I

Commercial building, depreciation @ 10%	
Purchase of building A	30,10,000
Purchase of building C	40,10,000
Written down value as on 31.03.2013	70,20,000
Depreciation @ 10% on `70,20,000	7,02,000
Block II	
Residential building, depreciation @ 5%	
Purchase of building B	20,30,000
Depreciation @ 5%	1,01,500
Block III	
Plant and machinery, depreciation @ 15%	
Purchased plant B – Fax Machine	60,000
Purchased plant E – PABX Telephone system	1,10,000
Purchased plant F – Air Conditioners	6,80,000
Purchased plant G – Scooters	1,90,000
Written down value as on 31.03.2013	10,40,000
Depreciation @ 15% on `10,40,000	1,56,000
Block IV	
Computer, depreciation @ 60%	
Purchased plant A – Computer	1,10,000
Depreciation @ 60% on `1,10,000	66,000
Block V	
Motor car, depreciation @ 15%	
Purchased Cars	4,10,000
Depreciation @ 15% on `4,10,000	61,500
Block VI	
Furniture and Fixtures, depreciation @ 10%	
Purchased Office Furniture	2,85,000
Purchased Furniture for welfare centre of employees	4,10,000
Written down value on 31.03.2013	6,95,000
Depreciation @ 10% on `6,95,000	69,500
Block VII	
Trade Marks depreciation @ 25%	
Purchased trade marks	3,10,000
Depreciation @ 25% on `3,10,000	77,500
Total depreciation for Assessment Year 2013-14	12,34,000

Solution 3:

	`
Block I	
Plant and machinery, depreciation @ 15%	
Written down value as on 1st, April 2012	2,70,000
Add: Purchases of 2 Plants on June 2nd, 2012 and put to use on the same date	2,10,000
Less: Sale of Plants on 30.11.2012	(5,00,000)
Add: Purchase of 2 Plants on Dec 15th, 2012	1,60,000
Written down value as on 31.03.2013	1,40,000
Dep. @ 7.5% on `1,40,000	10,500

Block II

Building, depreciation @ 10%

Written down value as on 1st, April 2012	6,50,000
Dep. @ 10% on `6,50,000	65,000
Total depreciation for Assessment Year 2013-14	75,500

Solution 4:

`

Situation 1

Written down value of Plant A and Plant B as on 01.04.2012	2,40,000
Add: Plant C purchased on 10.06.2012 and put to use on the same date	60,000
Less: Insurance claim of plant B	(10,000)
Written down value as on 31.03.2013	2,90,000
Depreciation @ 15% on `2,90,000	43,500

Situation 2

Written down value of Plant A and Plant B as on 01.04.2012	2,40,000
Add: Plant C purchased on 10.06.2012 and put to use on the same date	60,000
Less: Insurance claim of Plant B	(3,70,000)
Short term capital gain as per section 50	70,000
No depreciation is allowed	

Situation 3

Written down value of plant A and Plant B as on 01.04.2012	2,40,000
Add: Plant C purchased on 10.06.2012 and put to use on the same date	60,000
Less: Insurance claim of Plant A, B and C	(20,000)
Short term loss as per section 50	2,80,000
No depreciation is allowed	

Situation 4

Written down value of plant A and Plant B as on 01.04.2012	2,40,000
Add: Plant C purchased on 10.06.2012 and put to use on the same date	60,000
Less: Insurance claim of plant A, B and C	(4,00,000)
Short term capital gain as per section 50	1,00,000
No depreciation is allowed	

Solution 5:

`

Block I

Plant and Machinery, depreciation @ 15%

P1, P2 & P3	75,00,000
Sale of P1, P2 & P3 on 07.04.2012	(20,00,000)
Short term capital loss	55,00,000

Block II

Furniture and fixture @ 10%

F1, F2 & F3	45,00,000
Sale of F1 on 31.03.2013	(46,00,000)
Short term capital gain	1,00,000

Block III

Buildings @ 10%

B1, B2, B3	10,00,000
Purchased Hotel building B4 on 30.09.2012 and put to use on 16.12.2012	32,00,000
Construction of road on 12.03.2013 and put to use on 31.03.2013	1,00,000
Sale of B1 on 20.04.2012	(2,00,000)
	41,00,000
Dep. @ 5% on `33,00,000	1,65,000
Dep. @ 10% on `8,00,000	80,000

<u>Block IV</u>
<u>Computer @ 60%</u>

Purchased on 25.03.2012 and put to use on 09.10.2012	60,000
Dep. @ 60%	36,000

<u>Block V</u>
<u>Motor car @ 15%</u>

Purchased on 02.10.2012 and put to use on 03.10.2012	3,40,000
Dep. @ 15%	51,000

<u>Block VI</u>
<u>Residential building @ 5%</u>

Purchased on 01.04.2012 and put to use on 10.04.2012	8,76,000
Dep. @ 5%	43,800
Total depreciation for Assessment Year 2013-14	3,75,800

<u>Solution 6:</u>

	`
Computation of Total Income	
• Visiting fees	5,75,000.00
• Consultation fees	9,15,000.00
• Sale of medicines	28,000.00
• Operation theatre rent	18,000.00
• Cash payment not recorded in books	75,000.00
Less:	
• Clinic expenses	1,24,000.00
• Depreciation on medical books @ 60%	9,000.00
• Depreciation on surgical equipment	11,250.00

Working Note:	`
w.d.v as on 01.04.2012	60,000
Sale of surgical instruments	(30,000)
Purchase on 01.11.2012	90,000
Balance	1,20,000
Depreciation @ 7.5% on 90,000	6,750
Depreciation @ 15% on 30,000	4,500

• Motor car expenses (2/3rd of `36,000)	24,000.00
• Depreciation on car	12,000.00
• Indian Medical Association membership fees	7,000.00
• Payment to C.A. for filing return of income	4,000.00
• Entertainment expenses	24,000.00
• Medical purchases	33,000.00
Income under the head Business/Profession	13,62,750.00
Income under the head House Property	
Gross Annual Value	66,000.00

Working Note:	`
(a) Municipal valuation	66,000
(b) Rent received/receivable = 5,500 x 11 =	60,500
GAV = Higher of (a) or (b)	66,000

Less: municipal tax	Nil
Net Annual Value	66,000.00
Less: 30% of NAV u/s 24(a)	19,800.00
Less: Interest on capital borrowed u/s 24(b)	30,000.00
Income under the head House Property	16,200.00
Income under the head Business/Profession	13,62,750.00
Income under the head Other Sources	Nil
{Dividend exempt u/s 10(34)}	
Gross Total Income	13,78,950.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	13,78,950.00

Computation of Tax Liability

Tax on `13,78,950 at slab rate	2,43,685.00
Add: Education cess @ 2%	4,873.70
Add: SHEC @ 1%	2,436.85
Tax Liability	2,50,995.55
Rounded off u/s 288B	2,51,000.00

Note:

1. Maturity proceeds of life policy is exempt from tax under section 10(10D).
2. Membership fees given to the professional bodies is allowed.

Solution 7:

Computation of income under the head Business/Profession

	`
Consultancy fee	2,20,000
Special commission	15,500
Less:	
• Rent (50%)	72,000
• Office expenses	28,000
• Depreciation on car	31,500
{3,00,000 x 15% = 45,000}	
{ 45,000 x 70 % = 31,500}	
• Magazines and journals	18,000
• Depreciation on computer @ 60%	30,000
• Depreciation on legal books	12,600
{(12,000 x 60%) + (18,000 x 30%)}	
• Car expenses {70% x 42,000}	29,400
• Electricity and water charges (50%)	8,000
Income under the head Business/Profession	6,000

Computation of income under the head Other Sources

Dividend from UTI [exempt u/s 10(35)]	Nil
Payment from university as an evaluator	7,000
Income under the head other sources	7,000

Computation of income under the head salary

Gross Salary	45,000
Income under the head salary	45,000

Computation of Total Income

Income under the head Salary	45,000
Income under the head Business/Profession	6,000
Income under the head Capital Gains (STCG)	2,00,000
Income under the head Other Sources	7,000
Gross Total Income	2,58,000
Less: Deduction u/s 80C (54,000 + 5,000)	59,000
Total Income	1,99,000

Computation of Tax Liability

Tax Liability	Nil
Less: Tax Paid in Advance	22,000
Refund	22,000

Note: It is assumed that life insurance policy has been taken on or after 01.04.2012.

Solution 8:

Computation of professional income as per income & expenditure account

	`
Net profit as per profit and loss account	14,28,800.00
Add: inadmissible expenses	
• Domestic servant salary	1,500.00
• Entertainment expenses	17,500.00
• Donation for charity show	600.00
• Income tax	5,000.00
• Car expenses	1,250.00
• Books purchased	2,000.00
• Stationery	21,000.00
• Rent of own building	60,000.00
Less:	
• Dividend {Exempt u/s 10(34)}	8,500.00
• Profit on sale of debentures	8,450.00
• Gift from father in law	6,050.00
• Depreciation on building (`90,000 @ 10%)	9,000.00
• Depreciation on books (2,000 @ 60%)	1,200.00
• Depreciation on furniture	
(`30,000 @ 10%)	3,000.00
(`20,000 @ 5%)	1,000.00
Income under the head Business/profession	15,00,450.00
Income under the head Capital Gains (STCG)	8,450.00
Gross Total Income	15,08,900.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	15,08,900.00

Computation of Tax Liability

Tax on `15,08,900 at slab rate	2,82,670.00
Add: Education cess @ 2%	5,653.40
Add: SHEC @ 1%	2,826.70
Tax Liability	2,91,150.10

Rounded off u/s 288B	2,91,150.00

Note:
Expenses on opening ceremony are allowed under section 37(1).

Solution 9:

`

Computation of income under the head business/profession

Net Profit as per profit & loss account	1,26,000.00
Add: inadmissible expenses	
• Wealth tax paid	4,000.00
• Medical expenses	1,200.00
(Payment of medi claim insurance is allowed u/s 36(1)(ib))	
• Opening stock adjustment (25,000 x 5/105)	1,190.48
• Ankur's salary	2,500.00
Total	1,34,890.48
Less:	
• Gift from brother	10,000.00
• Income tax refund	3,000.00
• Depreciation on Air conditioner @ 15%	3,750.00
• Adjustment for sales (50,000 – 45,000)	5,000.00
• Closing stock adjustment (30,000 x 5/105)	1,428.57
Business income	1,11,711.91

Computation of income under the head Salary

Basic Salary	18,000.00
(6,000 x 3)	
Gross Salary	18,000.00
Income under the head Salary	18,000.00
Gross Total Income	1,29,711.91
Less: Deduction u/s 80C	4,800.00
Total Income (Rounded off u/s 288A)	1,24,910.00
Tax Liability	Nil

Solution 10:

`

Computation of Total Income

Income from business	
Net Profit as per profit and loss account	3,11,100.00
Add: inadmissible expenses	
• Excessive payment to relatives {Sec. 40A(2)}	20,000.00
• Payment disallowed {Sec. 40A(3)	80,000.00
• Salary paid outside India without TDS {Sec. 40(a)}	14,000.00
• Salary paid to relatives {Sec. 40A(2)}	1,000.00
• Market rent (rent for own building is not allowed) Sec. 30	1,00,000.00
• Municipal taxes of building (due)	5,000.00
• Donation for Ram Lila	1,500.00
• Provision for bad debts	11,000.00
• Gift to relatives	400.00
• Public provident fund	12,000.00

• Interest on capital	4,000.00
• Addition to business premises	2,00,000.00
• Wealth tax	2,000.00
• Fine for violation of traffic rules	100.00
Less:	
• Depreciation for building @ 10%	1,10,000.00
10,00,000 x 10% = 1,00,000	
2,00,000 x 5% = 10,000	
Income from business	6,52,100.00
Gross Total Income	6,52,100.00
Less: Deduction u/s 80C {Public Provident Fund}	12,000.00
Total Income	6,40,100.00

Computation of Tax Liability

Tax on `6,40,100 at slab rate	53,020.00
Add: Education cess @ 2%	1,060.40
Add: SHEC @ 1%	530.20
Tax Liability	54,610.60
Rounded off u/s 288B	54,610.00

Solution 11:

`

Computation of Total Income

Income under the head Business/Profession

Profit as per profit and loss account	5,06,600.00
Add: Inadmissible expenses	
• Proprietor's salary	15,000.00
• Charity to poor student	300.00
• Interest on proprietor capital	2,000.00
• Provision for bad debts	2,000.00
• Reserve for sales-tax	10,000.00
• Advance income-tax	2,000.00
• Out of motor car expenses	300.00
• Wealth tax paid	3,500.00
• Income tax	4,000.00
Total	5,45,700.00
Less:	
• Bad debts recovered	2,000.00
• Interest on company's deposit	5,000.00
• Donation to scientific institution	750.00
• Long term capital gains	5,00,000.00
Income from business	37,950.00
Income under the head Other Sources	5,000.00
Income under the head Capital Gains (LTCG)	5,00,000.00
Gross Total Income	5,42,950.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	5,42,950.00

Computation of Tax Liability

Tax on LTCG `3,42,950 (`5,00,000 – 1,57,050) @ 20% u/s 112	68,590.00
Tax on ` 42,950 at slab rate	Nil

Add: Education cess @ 2%	1,371.80
Add: SHEC @ 1%	685.90
Tax Liability	70,647.70
Less: Income tax paid	6,000.00
Tax Payable	64,647.70
Rounded off u/s 288B	64,650.00

<u>Solution 12:</u>

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Computation of income from profession

Gross receipts:	
• Audit fee	2,40,000.00
• Appellate tribunal appearance	25,000.00
• Misc. Receipt	20,000.00
• Presents from client	10,000.00
Total	2,95,000.00
Payments:	
• Stipend	12,000.00
• Office expenses	24,000.00
• Office rent	18,000.00
• Salary and wages	20,500.00
• Printing and stationery	4,000.00
• Subscription to C.A. institute	1,500.00
• Depreciation on books @ 60%	9,000.00
• Travelling expenses	5,000.00
Income from profession	2,01,000.00

Computation of income from house property

Gross Annual Value	24,000.00
Less: Municipal Tax	Nil
Net Annual Value	24,000.00
Less: 30% of NAV u/s 24(a)	7,200.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	16,800.00

Computation of Total Income

Income from profession	2,01,000.00
Income from house property	16,800.00
Gross total income	2,17,800.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,17,800.00

Computation of Tax Liability

Tax on `2,17,800 at slab rate	1,780.00
Add: Education cess @ 2%	35.60
Add: SHEC @ 1%	17.80
Tax Liability	1,833.40
Rounded off u/s 288B	1,830.00

<u>Solution 13:</u>

`

Computation of Total Income

Income under the head Business/Profession

Net profit as per profit and loss account	63,000.00
Add: inadmissible expenses	
• Out of capital expenditure on promotion of family planning amounting to `14,000 one fifth is allowed	11,200.00
• Sales–tax	24,000.00
• Reserve for future losses	30,000.00
• Reserve for bad debts	14,000.00
• Payment of advance Income tax	17,000.00
	1,59,200.00
Less:	
• Capital gain	60,000.00
Income under the head Business/Profession	99,200.00
Income under the head Capital Gains (STCG)	60,000.00
Gross Total Income	1,59,200.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,59,200.00

Computation of Tax Liability

Tax on `1,59,200 @ 30%	47,760.00
Add: Education cess @ 2%	955.20
Add: SHEC @ 1%	477.60
Tax Liability	49,192.80
Rounded off u/s 288B	49,190.00

<u>Solution 14:</u>

`

Computation of Total Income

Income from Business

Net profit as per profit & loss account		23,000.00
Add: Inadmissible expenses		
• Provision for bad debts (` 32,000–` 22,000)		10,000.00
• Provision for income tax		43,000.00
• Under valuation of closing stock [25/75 of ` 4,97,000]	1,65,666.67	
• Overvaluation of opening stock [25/125 of ` 4,40,000]		88,000.00
• Municipal tax		3,000.00
• Penalty		25,000.00
Total		3,57,666.67
Less:		
• Rental income from house property		84,000.00
• Dividends received from companies		12,000.00
Income from Business		2,61,666.67

Income from house property

Gross Annual Value	84,000.00
Less: municipal taxes	3,000.00
Net Annual Value	81,000.00
Less: 30% of NAV u/s 24(a)	24,300.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	56,700.00
Gross Total Income	3,18,366.67
Less: Deduction u/s 80C	1,00,000.00

Total Income (rounded off u/s 288A)	2,18,370.00

Computation of Tax Liability

Tax on `2,18,370 at slab rate	1,837.00
Add: Education cess @ 2%	36.74
Add: SHEC @ 1%	18.37
Tax Liability	1,892.11
Rounded off u/s 288B	1,890.00

Solution 15:

Computation of Total Income

	`
Net profit as per profit and loss account	7,70,000.00
Add: inadmissible items	
• Advertisement in a newspaper owned by a political party (Sec 37(2B))	20,000.00
• Capital expenditure on advertisement	14,400.00
• Excess amount paid to a concern in which ‘X’ has substantial interest	1,800.00
• Employee contribution to recognised provident fund (to the extent not deposited before the due date)	12,500.00
• Bonus being paid to employee after the due date of filing the return	58,000.00
• Commission to employee after the due date of filing the return	44,000.00
• Salary paid outside India in respect of which tax is not deducted at source	46,000.00
• Capital expenditure for promoting family planning amongst employees (allowed only to a company assessee)	6,000.00
Total	9,72,700.00
Less:	
• Depreciation on capital expenditure on advertisement @ 25% of `14,400 (assuming used for 180 days or more)	3,600.00
Income under the head Business/Profession	9,69,100.00
Gross Total Income	9,69,100.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	9,69,100.00

Computation of Tax Liability

Tax on `9,69,100 at slab rate	1,23,820.00
Add: Education cess @ 2%	2,476.40
Add: SHEC @ 1%	1,238.20
Tax Liability	1,27,534.60
Rounded off u/s 288B	1,27,530.00

Solution 16:

Computation of Total Income

	`
Net profit as per profit & loss account	90,000.00
Add: inadmissible items	
• Travelling expenses incurred on foreign tour to the extent not admissible [1,80,000 – (6/8 of ` 1,80,000)]	45,000.00
• Travelling expenses incurred for purchasing a machine for factory	6,500.00
• Own salary of Jitender	26,000.00
• Commission to employee’s paid after the due date of furnishing return of income under section 139(1) of the Act; hence not allowed u/s 43B	42,000.00
Less:	

• Depreciation on machinery @ 15%	975.00
Income under the head Business/Profession	2,08,525.00
Gross Total Income	2,08,525.00
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	2,08,530.00

Computation of Tax Liability

Tax on `2,08,530 at slab rate	853.00
Add: Education cess @ 2%	17.06
Add: SHEC @ 1%	8.53
Tax Liability	878.59
Rounded off u/s 288B	880.00

Note: It is assumed that machinery is not used for manufacturing purpose, so additional depreciation is not allowed.

<u>Solution 17:</u>

	`
Net profit as per profit & loss account	9,38,000.00
Add: expenses debited to profit & loss account but not allowable	
• Deposit in NSC (not an expenditure)	42,000.00
• Provision for bad debts	31,000.00
• Provision for VAT	45,000.00
• Salary to Mrs. Rameshwar (Sec 40A(2))	48,000.00
• Purchase of computer (capital expenditure)	40,000.00
• Purchase from relative (Sec 40A(2))	20,000.00
• Payment in cash (Sec 40A(3))	80,000.00
• Adjustment for opening stock (9,50,000 x 10 / 110)	86,363.64
• Bonus paid after due date (Sec 43B)	25,000.00
• Municipal tax paid after due date (Sec 43B)	30,000.00
Total	13,85,363.64
Less:	
• Depreciation on computer (40,000 x 60% x ½)	12,000.00
• Closing stock overvalued (3,60,000 x 10/110)	32,727.27
• Long term capital gain	36,000.00
• Dividend from foreign company	12,000.00
• Winnings of lottery	5,00,000.00
Business income	7,92,636.37

Income from Other Sources

Dividend from foreign company	12,000.00
Winnings from lottery	5,00,000.00
Income from Other Sources	5,12,000.00
Income under the head Capital Gains (LTCG)	36,000.00
Gross Total Income	13,40,636.37
Less: Deduction u/s 80C	42,000.00
{Deposit in NSC}	
Total Income (rounded off u/s 288A)	12,98,640.00

Computation of Tax Liability

Tax on Long term capital gain `36,000 @ 20% u/s 112	7,200.00
Tax on `5,00,000 @ 30% u/s 115BB	1,50,000.00

Tax on `7,62,640 at slab rate	82,528.00
Tax before education cess	2,39,728.00
Add: Education cess @ 2%	4,794.56
Add: SHEC @ 1%	2,397.28
Tax Liability	2,46,919.84
Rounded off u/s 288B	2,46,920.00

<u>Solution 18:</u>

Computation of Total Income of Marc Ltd. for the Assessment Year 2013-14

Income under the head Business/Profession

	`
Net profit as per profit and loss account	8,00,000
Add: inadmissible expenses	
• Fine imposed by the municipality for violation of regulation	2,000
• Reserve for bad debts	35,000
• Under valuation of closing stock (1,08,000 x 1/9)	12,000
• Total	8,49,000
Less:	
• Income from units of UTI	35,000
• Dividend from Indian company	20,000
• Under valuation of opening stock	10,000
• Depreciation (1,20,000 – 60,000)	60,000
Business income	7,24,000

Income under the head Other Sources

Dividend from Indian company {exempt u/s 10(34)}	Nil
Income from UTI {exempt u/s 10(35)}	Nil
Income under the head Other Sources	Nil
Gross Total Income	7,24,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	7,24,000

Computation of Tax Liability

Tax on `7,24,000 @ 30%	2,17,200
Add: Education cess @ 2%	4,344
Add: SHEC @ 1%	2,172
Tax Liability	2,23,716
Rounded off u/s 288B	2,23,720

<u>Note:</u>

1. Amount paid to the lawyer of `30,000 for arguing appeals before the Tribunal is an allowable expense.

<u>Solution 19:</u>

Computation of income from profession of Mr. Prakash for the Assessment Year 2013-14

Professional incomes

	`
Professional fees	16,75,000.00
Less:	
• Salaries	5,00,000.00
• Rent of chamber	2,55,000.00

• Telephone expenses	26,000.00
• Magazines subscription	3,000.00
• 9/10 of motor car expenses	9,000.00
• Dep. on motor car (3,00,000 x 7.5% x 90%)	20,250.00
• Misc. office expenses	5,500.00
• Subscription to Bar Association	1,500.00
Income from profession	8,54,750.00

Computation of income from house property

Let out house

Gross Annual Value	60,000.00
Less: municipal taxes (6,000 – 2,000)	4,000.00
Net annual value	56,000.00
Less: 30% of NAV u/s 24(a)	16,800.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	39,200.00

Self occupied house

Annual value	Nil
Income from house property	39,200.00
Loss under the head House Property	31,200.00
Income under the head House Property	8,000.00

Computation of income under the head Other Sources

Honorarium for delivering lectures in C.A. Institute	5,000.00
Honorarium for writing articles in Hindustan Times	1,000.00
Dividend from Indian company {exempt u/s 10(34)}	Nil
Dividend from UTI {exempt u/s 10(35)}	Nil
Interest from a company	8,000.00
Income under the head Other Sources	14,000.00

Computation of Total Income of Mr. Prakash

Income under the head House Property	8,000.00
Income under the head Business/Profession	8,54,750.00
Income under the head Other Sources	14,000.00
Gross Total Income	8,76,750.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,76,750.00

Computation of Tax Payable

Tax on `8,76,750 at slab rate	1,05,350.00
Add: Education cess @ 2%	2,107.00
Add: SHEC @ 1%	1,053.50
Tax Liability	1,08,510.50
Less: Advance Income Tax Paid	38,000.00
Tax Payable	70,510.50
Rounded off u/s 288B	70,510.00

Note:

1. Annual value of self occupied house is taken as nil and no deduction except interest on loan is permissible

Solution 20:

`

Computation of Total Income of Alpha Ltd.

Net profit as per profit and loss account		12,50,000
Add:		
(i) Payment of advertisement expenditure of ` 60,000		
(a) `8,000, being the excess payment to a related disallowed under section 40A(2)		
(b) As the payment is made in cash and since the remaining amount of `52,000 exceeds `20,000, shall be disallowed under section 40A(3)		60,000
(ii) Legal charges for framing amalgamation scheme (deductible under section 35DD in five years). 1/5th of `45,000 i.e. `9,000 to be allowed in the current year. Balance `36,000 (`45,000–`9,000) is to be added back	36,000	
(iii) Under Section 31, expenditure relatable to repairs of plant, machinery or furniture is allowed.		-----------
(iv) Liability foregone by creditor [Taxable under section 41(1)]		6,000
(v) Sale proceeds of import entitlement licence. The sale of the rights gives rise to profits or gains taxable under section 28. As the amount has already been credited to profit and loss a/c, no further adjustment is necessary.		
(vi) Donation to National Urban Poverty Eradication Fund is allowed u/s 35CCA		-----------
Less:		
(vii) Expenditure on in house research and development is entitled to a weighted deduction of two times of the expenditure (both capital and revenue) under section 35 = 2,00,000 x 2 = 4,00,000 Expenditure `2,00,000 already debited to profit and loss account, additional deduction of `2 lakh is further allowed		2,00,000
Income under the head business/profession		11,52,000
Gross Total Income		11,52,000
Less: Deduction u/s 80C to 80U		Nil
Total Income		11,52,000

Computation of Tax Liability

Tax on `11,52,000 @ 30%	3,45,600
Add: Education cess @ 2%	6,912
Add: SHEC @ 1%	3,456
Tax Liability	3,55,968
Rounded off u/s 288B	3,55,970

<u>Solution 21:</u>

(i)

	`
Income under the head Business/Profession	3,00,000.00
Less: Securities transaction tax	1,800.00
Income under the head Business/Profession	2,98,200.00
Gross Total Income	2,98,200.00
Less: Deduction u/s 80C	10,000.00
Total Income	2,88,200.00
Tax on `2,88,200 at slab rate	3,820.00
Add: Education cess @ 2%	76.40
Add: SHEC @ 1%	38.20
Tax Liability	3,934.60
Rounded off u/s 288B	3,930.00

(ii)

	`
Income under the head Business/Profession	11,00,000

Gross Total Income	11,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	11,00,000
Tax on `11,00,000 @ 30%	3,30,000
Add: Education cess @ 2%	6,600
Add: SHEC @ 1%	3,300
Tax Liability	3,39,900

(iii)

		`
Income under the head Business/Profession		18,00,000
Total Income		18,00,000
Tax on `18,00,000 at slab rate	3,70,000	
Add: Education cess @ 2%		7,400
Add: SHEC @ 1%		3,700
Tax Liability		3,81,100

Solution 22:

(i) Previous year 2012-13;
(ii) Previous year 2012-13;
(iii) Previous year 2012-13;
(iv) Previous year 2012-13;
(v) Not allowed;
(vi) Previous year 2013-14

Solution 23:

	`
Income under the head business/profession	
Net Profit as per profit and loss account	9,02,075.00
Less:	
• Interest on Fixed deposit with bank	18,500.00
• Dividend from Indian company	66,360.00
Income under the head business/profession	8,17,215.00
Income under the head other sources	
Interest on Fixed deposit	18,500.00
Dividend from Indian company {exempt u/s 10(34)}	Nil
Income under the head Other Sources	18,500.00
Gross Total Income	8,35,715.00
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	8,35,720.00
Computation of Tax Liability	
Tax on `8,35,720 at slab rate	97,144.00
Add: Education cess @ 2%	1,942.88
Add: SHEC @ 1%	971.44
Tax Liability	1,00,058.32
Rounded off u/s 288B	1,00,060.00

Solution 24:

	`
Computation of Total Income	
As per section 44AE	

Heavy goods vehicle	2,60,000.00
[(`5,000 x 4 x 12) + (`5,000 x 2 x 2)]	
Light goods vehicle	3,15,000.00
[(`4,500 x 4 x 12) + (`4,500 x 2 x 11)]	
Other business and non business income	1,00,000.00
Income under the head Business/Profession	6,75,000.00
Gross Total Income	6,75,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	6,75,000.00

Computation of Tax Liability

Tax on `6,75,000 at slab rate	65,000.00
Add: Education cess @ 2%	1,300.00
Add: SHEC @ 1%	650.00
Tax Liability	66,950.00

The assessee has the option to reject the presumptive taxation and can compute the income in the normal manner but the assessee has to maintain books of accounts and also he should get his accounts audited as per section 44AB. In such case tax liability of the assessee shall be as given below:

Gross Receipt	9,90,000
Less: Operational expenses	7,25,000
Less: Depreciation as per section 32	1,85,000
Less: Other office expenses	15,000
	65,000
Add: Other business and non- business income	1,00,000
Total Income	1,65,000
Tax Liability	Nil

<u>Solution 25:</u>

Computation of Income under the head Business/profession

	`	`
Net Profit as per profit and loss account		3,00,000
Add:		
• Salary to the proprietor		1,60,000
• Interest to Mr. A		30,000
• Interest for income tax liability		20,000
• Depreciation		10,000
Less:		
• Long term capital gains		4,00,000
Income under the head Business/Profession		1,20,000
Income under the head Capital Gains (LTCG)		4,00,000
Gross Total Income		5,20,000
Less: Deduction u/s 80C		1,00,000
National Saving Certificate	40,000	
Public provident fund	60,000	
Total Income		4,20,000

Computation of Tax Liability

Tax on `2,20,000 (`4,00,000 – `1,80,000) @ 20% u/s 112	44,000
Tax on `20,000 at slab rate	Nil
Add: Education cess @ 2%	880
Add: SHEC @ 1%	440
Tax Liability	45,320

Solution 26:

Computation of Income under the head Business/profession

	`
Net Profit as per profit and loss account	3,00,000
Add:	
• Salaries and bonus	1,05,000
• Sales tax payable	30,000
• Expenditure on technical know-how	36,000
• Interest on capital	20,000
• Rent of own building	30,000
Less:	
• Depreciation on technical know-how {u/s 32} (36,000 x 25%)	9,000
• Depreciation on building (2,50,000 x 10%)	25,000
• Interest from Indian companies	70,000
Income under the head Business/Profession	4,17,000
Less: Brought forward business loss of assessment year 2009-10	1,00,000
Income under the head Business/Profession	3,17,000
Income under the head Other Sources {Interest from Indian companies}	70,000
Gross Total Income	3,87,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	3,87,000

Computation of Tax Liability

Tax on `3,87,000 at slab rate	18,700
Add: Education cess @ 2%	374
Add: SHEC @ 1%	187
Tax Liability	19,261
Rounded off u/s 288B	19,260

Solution 27:

Computation of Income under the head Business/profession

	`
Net Profit as per profit and loss account	2,00,000
Add:	
• Cash purchases {u/s 40A(3)}	1,00,000
• Recovery of bad debts {as per sec 41(4)}	1,00,000
• Salary of Mr. X	3,60,000
• Interest on capital	1,89,000
Less:	
• Bonus paid	1,07,000
• Depreciation on machinery	40,000

Working Note:

		`
Written down value		5,00,000
Less: Sale		1,00,000
Add: Purchase		4,00,000
		8,00,000
Depreciation		
7.5% on `4,00,000 =	30,000	
15% on `4,00,000 =		60,000

Total	90,000
Already provided in profit & loss A/c	50,000
Balance	40,000

• Dividend from foreign company	30,000
• Long term capital gains	1,00,000
Income under the head Business/Profession	6,72,000
Less: b/f Business Loss	3,00,000
Less: Unabsorbed depreciation	2,00,000
Income under the head Business/Profession	1,72,000
Income under the head Capital Gains (LTCG)	1,00,000
Income under the head Other Sources {Dividend from foreign company}	30,000
Gross Total Income	3,02,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,02,000

Computation of Tax Liability

Tax on `1,00,000 @ 20% u/s 112	20,000
Tax on `2,02,000 at slab rate	200
Tax before education cess	20,200
Add: Education cess @ 2%	404
Add: SHEC @ 1%	202
Tax Liability	20,806
Rounded off u/s 288B	20,810

<u>Solution 28:</u>

Computation of Income under the head Business/profession

	`
Net Profit as per profit and loss account	12,00,000.00
Add:	
• Interest to Proprietor	1,50,000.00
• Salary to Proprietor	6,00,000.00
• Purchase of trademark	2,00,000.00
• Depreciation on plant and machinery	20,000.00
Less:	
• Short term capital gains	6,00,000.00
• Depreciation on trade mark	50,000.00
• Employer contribution to recognized provident fund	4,00,000.00
Income under the head Business/Profession	11,20,000.00
Less: Brought forward depreciation	2,36,000.00
Income under the head Business/Profession	8,84,000.00
Income under the head Capital Gains (STCG)	6,00,000.00
Gross Total Income	14,84,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	14,84,000.00

Computation of Tax Liability

Tax on `14,84,000 at slab rate	2,75,200.00
Add: Education cess @ 2%	5,504.00
Add: SHEC @ 1%	2,752.00
Tax Liability	2,83,456.00
Rounded off u/s 288B	2,83,460.00

Solution 29:

	`
Net profit as per profit and loss account	8,64,760.00
Add:	
• Other expenses	20,000.00
• Travelling, advertisement and entertainment expenses	25,000.00
• Depreciation	1,47,480.00

Working Note:	`
Written down value as on 01.04.2012	3,70,000
Add: Purchased of plant F on 01.01.2013	4,86,000
	8,56,000
Depreciation @ 15% on `3,70,000	55,500
Depreciation @ 7.5% on `4,86,000	36,450
Total	91,950
Excessive depreciation (2,39,430 – 91,950)	

• Interest on loan taken to make deposit in companies	13,800.00
• Municipal tax and insurance of godown	7,200.00
• Salary to Proprietor	1,80,000.00
• Interest to Proprietor	69,000.00
Less:	
• Rental income from Godown	48,000.00
• Interest on company deposits	2,60,000.00
Income under the head Business/Profession	10,19,240.00
Less: Brought forward business loss	20,000.00
Income under the head Business/Profession	9,99,240.00

Computation of income under the head house property

Gross Annual Value	48,000.00
Less: Municipal Taxes	6,000.00
Net Annual Value	42,000.00
Less: 30% of NAV u/s 24(a)	12,600.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	29,400.00
Income under the head Other Sources (2,60,000 – 13,800)	2,46,200.00

Computation of income under the head Capital Gains

Income under the head Capital Gains (STCG) (9,10,000 – 1,98,000)	7,12,000.00
Less: Brought forward short term capital loss for the assessment year 2011-12	2,000.00
Less: Brought forward short term capital loss for the assessment year 2012-13	1,000.00
Income under the head Capital Gains (STCG)	7,09,000.00

Computation of Total Income

Gross Total Income	19,83,840.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	19,83,840.00

Computation of Tax Liability

Tax on `19,83,840 at slab rate	4,25,152.00
Add: Education cess @ 2%	8,503.04
Add: SHEC @ 1%	4,251.52

Tax Liability		4,37,906.56
Rounded off u/s 288B		4,37,910.00

Solution 30:

	`	`
Computation of Total Income of Rajeev Kapoor		
Net profit as per profit and loss account		1,09,500
Add: inadmissible expenses		
• Provision for VAT and excise duty		10,000
• Advance tax		11,000
• Salary to Rajeev		24,000
• Interest to Rajeev		22,000
• Interest to Mrs. Rajeev		32,000
• Salary to relative {Sec 40A(2)}		4,000
• School fees for Rajeev's son		5,000
Total		2,17,500
Less:		
• Dividend from Indian companies		12,500
• Income from UTI		6,500
• Depreciation [52,500-45,000]		7,500
Income under the head Business/Profession		1,91,000
Income under the head Other Sources		
Dividend from Indian company {exempt u/s 10(34)}		Nil
Income from mutual fund {exempt u/s 10(35)}		Nil
Gross Total Income		1,91,000
Less: deduction u/s 80C		59,000
Life insurance premium	34,000	
(Maximum 10% of sum assured)		
Tuition fees of Rajeev's son	5,000	
Investment in infrastructure bonds	20,000	
Total Income		1,32,000
Tax Liability		Nil

Solution 31:

	`	`
Computation of Total Income of Mrs. Sonia		
Income under the head Business/Profession		
Net profit as per profit and loss account		3,88,700.00
Add: inadmissible items		
• One fifth of car maintenance		3,300.00
• Interest on loan (50%)		30,000.00
• Municipal tax		2,000.00
• Depreciation as per books		
• (8,500 + 14,000 + 5,000 + 3,000)		30,500.00
• Printing bill for 2011-12		3,000.00
• Provident fund (Section 43B)		5,000.00
• Payment made in cash in excess of `20,000 {Sec 40A(3)}		30,000.00
Less:		
• Honorarium received from various institutions		6,600.00
• Dividend on shares		10,500.00

• Income from Unit Trust of India		6,500.00
• Profit on sale of equity shares		20,800.00
• Rent received		62,000.00
• Depreciation as per Income Tax Act		
• Car (85,840 x 15% x 4/5)	10,300.80	
• Computer (1,50,000 x 60% x 1/2)	45,000.00	
• Typewriter (15,000 x 15%)	2,250.00	
• Furniture (25,000 x 10%)	2,500.00	60,050.80
Income under the head business/profession		3,26,049.20

Income under the head House Property

Gross annual value	62,000.00
Less: Municipal Taxes	2,000.00
Net annual value	60,000.00
Less: 30% of NAV u/s 24(a)	18,000.00
Less: Interest on capital borrowed u/s 24(b)	30,000.00
Income from house property	12,000.00
Income from capital gain (STCG)	20,800.00

Income under the head Other Sources

Honorarium received from various institutions		6,600.00
Dividend from Indian company {exempt u/s 10(34)}		Nil
Income from UTI {exempt u/s 10(35)}		Nil
Income under the head Other Sources		6,600.00
Gross Total Income		3,65,449.20
Less: Deduction u/s 80C		80,000.00
Public provident fund contribution	60,000	
Infrastructure bonds of ICICI	20,000	
Total Income (rounded off u/s 288A)		2,85,450.00

Computation of Tax Liability

Tax on STCG `20,800 @ 15% u/s 111A	3,120.00
Tax on `2,64,650 at slab rate	1,465.00
Tax before education cess	4,585.00
Add: Education cess @ 2%	91.70
Add: SHEC @ 1%	45.85
Tax Liability	4,722.55
Rounded off u/s 288B	4,720.00

<u>Solution 32:</u>

Computation of Total Income

	`
Net profit as per profit & loss account	10,00,000.00
Add: inadmissible expenses	
• Excess payment to relative u/s 40A(1) & (2)	1,00,000.00
• Excess payment in cash u/s 40A(3)	1,00,000.00
• Capital expenditure debited in the profit and loss account (computer)	45,000.00
• Capital expenditure debited in the profit and loss account (generator)	45,000.00
• Income tax u/s 40(a)	45,000.00
• Household furniture	12,000.00
• Medical treatment	20,000.00
• Salary paid to proprietor	36,000.00

• Interest on capital	9,000.00
• Amount invested in National Saving Certificate	25,000.00
• Amount invested in public provident fund	10,000.00
• Rent paid	35,000.00
• Opening balance (4,50,000 x 10/110)	40,909.09
Total	15,22,909.09
Less:	
• Dep. on computer @ 30% on `45,000 u/s 32	13,500.00
• Dep. on generator @ 7.5% on `40,000 [`45,000–`5,000 (u/s 40A(1) & (2)]	3,000.00
• Donation given for scientific research u/s 35 (20,000 x 0.75)	15,000.00
Business Income	14,91,409.09
Gross Total Income	14,91,409.09
Less: Deduction u/s 80C	35,000.00
Total Income (rounded off u/s 288A)	14,56,410.00

Computation of Tax Liability

Tax on `14,56,410 at slab rate	2,66,923.00
Add: Education cess @ 2%	5,338.46
Add: SHEC @ 1%	2,669.23
Tax Liability	2,74,930.69
Rounded off u/s 288B	2,74,930.00

<u>Solution 33:</u>

Computation of income under the head Business/Profession

	`
Net profit as per profit & loss account	6,28,155.00
Add: inadmissible expenses	
• Payment of purchases in excess of `20,000 {Sec 40A(3)}	20,100.00
• Payment of purchases in excess of `20,000 {Sec 40A(3)}	22,000.00
• Payment of purchases {Sec 40A(2)}	1,000.00
• Salary to proprietor	12,400.00
• Cost of computer	24,000.00
• Interest on capital	3,300.00
• Donation to orphan	1,000.00
• Income tax	6,000.00
• Gift to relative	1,000.00
• Medical expenses of proprietor	3,000.00
• Staff welfare fund	2,000.00
• Bonus payable {Sec 43B}	5,000.00
• Provision for VAT and excise duty	25,000.00
• General reserve	5,000.00
Less:	
• Maturity proceeds of National Saving Certificate	19,500.00
• Maturity proceeds of bank Fixed Deposit	24,000.00
• Maturity proceeds of public provident fund	13,000.00
• Income tax penalty refund	1,100.00
• Sale of machinery	25,000.00
• Recovery of bad debts	6,000.00
• Income tax refund	2,400.00

• Gift from relatives	3,600.00
• Maturity proceeds of LIC	24,000.00
• Closing Stock{`26,400 x 10 / 110}	2,400.00
• Refund of deposit from supplier	1,00,000.00
• Depreciation:	
Computer = 60% on `24,000	14,400.00
Machinery - w.d.v = `59,000	
Less: sale = `25,000	
Written down value `34,000	
Dep. @ 15%	5,100.00
Factory building – w.d.v = `85,000	
Add: purchase = `12,000	
Dep. @ 10% on `97,000	9,700.00
Income under the head business/profession	5,08,755.00

Computation of income under the head Other Sources

Interest on income tax refund	400.00
Income under the head other sources	400.00
Income under the head business/profession	5,08,755.00
Gross Total Income	5,09,155.00
Deductions u/s 80C to 80U	Nil
Total Income {Rounded off u/s 288A}	5,09,160.00

Computation of Tax Liability

Tax on `5,09,160 at slab rates	31,832.00
Add: Education cess @ 2%	636.64
Add: SHEC @ 1%	318.32
Tax liability	32,786.96
Rounded off u/s 288B	32,790.00

<u>Solution 34:</u>

	`
Sales (10,00,000 + 140,00,000 + 70,00,000)	220,00,000.00
Less: Material Purchased (i) Raw material 1,68,854.40 (Ref WN-1) (ii) Raw material 55,15,000.00 (Ref WN-2) (iii) Raw material 30,00,000.00 (Ref WN-3)	86,83,854.40
Less: Processing charges	1,00,000.00
Less: Depreciation on plant and machinery (Ref WN-4) (5,68,937.50 x 15%)	85,340.62
Less: Additional Depreciation (Section 32(1)(iia)) (5,68,937.50 x 20%)	1,13,787.50
Less: Depreciation on plant and machinery purchased on 15.05.2012 (Ref WN-5) (20,00,000 x 15%)	3,00,000.00
Less: Additional Depreciation (Section 32(1)(iia)) (20,00,000 x 20%)	4,00,000.00
Income under the head Business/Profession	123,17,017.48
Gross Total Income	123,17,017.48
Less: Deduction u/s 80C to 80U	Nil
Total Income	123,17,017.48
Rounded off u/s 288A	123,17,020.00

Computation of Tax Liability

Tax on `123,17,020 at slab rate	35,25,106.00
Add: Education cess @ 2%	70,502.12
Add: SHEC @ 1%	35,251.06
Tax Liability	36,30,859.18
Rounded off u/s 288B	36,30,860.00

Working for VAT/CENVAT

	Excise Duty / Service Tax	**EC**	**SHEC**	**DVAT**
Output				
Sales from 01.05.2012 to 31.12.2012 (140,00,000 x 12.5%)	-	-	-	17,50,000
Sales from 01.01.2013 to 31.03.2013 (Ref WN-6)	7,00,000	14,000	7,000	9,65,125
Total Output Tax	**7,00,000**	**14,000**	**7,000**	**27,15,125**
Input Tax Credit				
Raw material (Ref WN-1)	-	-	-	-
Raw material (Ref WN-2)	-	-	-	2,20,600
Raw material (Ref WN-3)	2,40,000	4,800	2,400	-
Plant and machinery (Ref WN-4)	50,000	1,000	500	-
Plant and machinery (Ref WN-5)	2,00,000	4,000	2,000	-
Total Tax Credit	**4,90,000**	**9,800**	**4,900**	**2,20,600**
Net Tax payable	2,10,000	4,200	2,100	24,94,525

Working Note-1

Raw material	3,00,000.00
Add: Excise duty @ 8%	24,000.00
Add: EC @ 2%	480.00
Add: SHEC @ 1%	240.00
	3,24,720.00
Add: DVAT @ 4%	12,988.80
	3,37,708.80
Half amount is disallowed under section 40A(3)	1,68,854.40

Working Note-2

Raw material	50,00,000.00
Add: Excise duty @ 10%	5,00,000.00
Add: EC @ 2%	10,000.00
Add: SHEC @ 1%	5,000.00
	55,15,000.00
Add: DVAT @ 4%	2,20,600.00
	57,35,600.00
Cost of raw material	55,15,000.00

Working Note-3

Raw material	30,00,000.00
Add: Excise duty @ 8%	2,40,000.00
Add: EC @ 2%	4,800.00
Add: SHEC @ 1%	2,400.00
	32,47,200.00
Cost of raw material	30,00,000.00

Working Note-4

Purchase price of Plant and machinery	5,00,000.00
Add: Excise duty @ 10%	50,000.00
Add: EC @ 2%	1,000.00
Add: SHEC @ 1%	500.00
	5,51,500.00
Add: DVAT @ 12.5%	68,937.50
	6,20,437.50
Cost of plant and machinery on which depreciation to be charged (5,00,000 + 68,937.50)	5,68,937.50

Working Note-5

Purchase price of Plant and machinery	20,00,000.00
Add: Excise duty @ 10%	2,00,000.00
Add: EC @ 2%	4,000.00
Add: SHEC @ 1%	2,000.00
	22,06,000.00
Cost of plant and machinery on which depreciation to be charged	20,00,000.00

Working Note-6

Sale Price	70,00,000.00
Add: Excise duty @ 10%	7,00,000.00
Add: EC @ 2%	14,000.00
Add: SHEC @ 1%	7,000.00
	77,21,000.00
Add: DVAT @ 12.5%	9,65,125.00

Note:

1. Section 40A(3) shall not be applicable in case of capital expenditure.

2. CENVAT credit for Excise duty paid on capital goods shall be allowed even if the unit is availing SSI exemption but CENVAT credit for raw material etc is not allowed so long as the unit is availing SSI exemption.

3. VAT credit for DVAT paid on capital goods is not allowed if the unit is not charging output VAT.

4. Turnover upto 150 lakhs is exempt from excise duty as per Notification No. 8/2003 of Central Excise.

Solution 35:

	`
Goods A Purchased	2,00,000
Add: DVAT @ 12.5%	25,000
	2,25,000
Goods B Purchased	3,00,000
Add: DVAT @ 12.5%	37,500
	3,37,500
Sold = 10 lakhs	
Goods C Purchased	22,00,000
Add: DVAT @ 12.5%	2,75,000
	24,75,000
Goods sold = 40 lakhs	

Composition Tax = 40,00,000 x 1% = 40,000

Goods D Purchased	10,00,000
Add: DVAT @ 12.5%	1,25,000
	11,25,000

Good sold	18,00,000
Add: DVAT @ 12.5%	2,25,000
	20,25,000

Goods sold = [10 lakhs + 40 lakhs + 18 lakhs]	68,00,000
Less: Purchases	
(i) Goods A	1,12,500
(ii) Goods B	3,37,500
(iii) Goods C	24,75,000
(iv) Goods D	10,00,000
Composition scheme	40,000
	28,35,000
Gross Total Income	28,35,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	28,35,000

Computation of Tax Payable

Tax on `28,35,000 at slab rate	6,80,500
Add: Education Cess @ 2%	13,610
Add: SHEC @ 1%	6,805
Tax Liability	7,00,915
Less: Advance tax	9,000
Tax payable	6,91,915
Rounded of u/s 288B	6,91,920

Interest u/s 234A

6,91,900 x 1% x 3 — 20,757

Interest u/s 234B

6,91,900 x 1% x 9 — 62,271

Interest u/s 234C

(7,00,915 x 30% - 2,000) = 2,08,274.50
Rounded off 2,08,200
Interest = 2,08,200 x 1% x 3 — 6,246

(7,00,915 x 60% - 5,000) = 4,15,549
Rounded off = 4,15,500
Interest = 4,15,500 x 1% x 3 — 12,465

(7,00,915 x 100% - 9,000) = 6,91,915
Rounded off = 6,91,900
Interest = 6,91,900 x 1% x 1 — 6,919

Total interest	1,08,658
Rounded off u/s 288B	1,08,660

Computation of VAT Payable

Output tax	2,25,000
Less: Input tax credit	1,25,000
Net VAT Payable	1,00,000

Solution 36:

		`
Gross Sales (10,00,000 + 140,00,000 +170,00,000)		320,00,000.00
Less: Expenditure		
1. Raw material 1	(Working note 1)	3,37,709.00
2. Raw material 2	(Working note 2)	64,94,400.00
3. Raw material 3	(Working note 3)	100,00,000.00
4. Depreciation (1,56,618 + 2,08,824)	(Working note 4)	3,65,442.00
5. Expenditure u/s 35D	(Working note 5)	1,60,000.00
Income under the head business/profession		146,42,449.00
Gross Total Income		146,42,449.00
Less: Deduction u/s 80C to 80U		Nil
Total Income		146,42,449.00
Rounded off u/s 288A		146,42,450.00
Tax on 146,42,450 @ 30%		43,92,735.00
Add: Surcharge @ 5%		2,19,636.75
		46,12,371.75
Add: Education cess @ 2%		92,247.44
Add: SHEC @ 1%		46,123.72
Tax Liability		47,50,742.91
Rounded off 288B		47,50,740.00

Working note 1

Raw material	3,00,000.00
Excise duty @ 8%	24,000.00
EC/SHEC @ 3%	720.00
DVAT @ 4%	12,989.00
	3,37,709.00

Working note 2

Raw material	60,00,000.00
Excise duty @ 8%	4,80,000.00
EC/SHEC @ 3%	14,400.00
DVAT @ 4%	2,59,776.00

Working note 3

Raw material	100,00,000.00
Excise duty @ 8%	8,00,000.00
EC/SHEC @ 3%	24,000.00
DVAT@ 4%	4,32,960.00
Goods sold 1	10,00,000.00
Goods sold 2	140,00,000.00
DVAT @ 12.5%	17,50,000.00

Goods sold 3	170,00,000.00
Excise duty @ 10%	17,00,000.00
EC/SHEC @ 3%	51,000.00
DVAT@ 12.5%	23,43,875.00

Working note 4

Plant and Machinery	10,00,000.00
Excise duty @10%	1,00,000.00
EC/SHEC @ 3%	3,000.00
DVAT @ 4%	44,120.00
Cost of plant & machinery	10,44,120.00
Depreciation @15%	1,56,618.00
Additional Depreciation @ 20%	2,08,824.00

Working note 5

Expenses incurred	8,00,000.00
Capital Employed (220,00,000 x 5%)	11,00,000.00
Installment (8,00,000/5)	1,60,000.00

CENVAT/VAT ACCOUNT

	EXCISE DUTY	EC/SHEC	DVAT
Output Tax	17,00,000	51,000	17,50,000 + 23,43,875 = 40,93,875
Less: Input Tax			
Plant & Machinery	1,00,000	3,000	-
Raw Material	8,00,000	24,000	2,59,776 + 4,32,960 = 6,92,736
Net Tax	8,00,000	24,000	34,01,139

Solution 37:

Computation of income under the head Business/Profession

Sales	110,00,000.00
Less:	
Raw material R1	5,00,000.00
Raw material R2 (5,33,305 + 11,765)	5,45,070.00
Raw material R3	10,00,000.00
Interest on loan taken from Punjab National Bank for plant and machinery (10,00,000 x 10% x 5/12)	41,667.00
Interest on loan taken from State Bank for working capital (7,00,000 x 10%)	70,000.00
Depreciation on Plant and machinery (8,38,841 + 19,608 = 8,58,449 x15% x ½ + 70,00,000 x 15%) = (64,384 + 10,50,000)	11,14,384.00
Additional depreciation on plant and machinery (8,58,449 x 20% x ½)	85,845.00
Municipal taxes	5,000.00
Depreciation on Building (12,00,000 x ½ x 10%)	60,000.00
Donation to approved scientific research (1,00,000 x 1.75)	1,75,000.00
Employee income tax paid	30,000.00
Technical fee paid outside India	1,80,000.00
	71,93,034.00
Add:	
Export incentives	60,000.00
Income under the head Business/Profession	72,53,034.00

Computation of income under the head House Property

Gross Annual Value (12,000 x 12)	1,44,000.00
Less: Municipal Taxes	Nil
Net Annual Value	1,44,000.00
Less: 30% of NAV u/s 24(a)	43,200.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	1,00,800.00

Computation of income under the head Capital Gains

Long term capital gains	6,00,000.00
Income under the head Capital Gains	6,00,000.00
Gross Total Income	79,53,834.00
Less: Deduction u/s 80C	
NSC	30,000.00
PPF	40,000.00
Less: Deduction u/s 80G	
Prime Minister National Relief Fund	30,000.00
Notified temple	7,500.00

Working Note:
AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)
= 79,53,834 – 6,00,000 – 70,000 = 72,83,834
Qualifying amount = 10% of AGTI or donation whichever is less
= 7,28,383 or 15,000
= 15,000
50% of the qualifying amount = 7,500

Total Income	78,46,334.00
Rounded off u/s 288A	78,46,330.00

Computation of Tax Liability

Tax on LTCG ` 6,00,000 @ 20% u/s 112		1,20,000.00
Tax on `72,46,330 at slab rate	20,03,899.00	
Tax before education cess		21,23,899.00
Add: Education cess @ 2%		42,477.98
Add: SHEC @ 1%		21,238.99
Tax Liability		21,87,615.97
Rounded off u/s 288B		21,87,620.00

<u>Raw Material R1</u>

Cost	5,00,000
Excise duty @ 8%	40,000
EC @ 2%	800
SHEC @ 1%	400
	5,41,200
VAT @ 4%	21,648

<u>Raw Material R2</u>

Cost + excise duty + CST	6,00,000
Amount of CST (6,00,000 / 102% x 2%)	11,765
Amount of central excise duty (6,00,000 – 11,765 = 5,88,235 / 110.3% x 10%)	53,330
EC @ 2% (5,88,235 / 110.3% x 0.2%)	1,067
SHEC @ 1% (5,88,235 / 110.3% x 0.1%)	533
Cost excluding excise duty and CST	5,33,305

Raw material R3 from related person

Cost	11,00,000
Excise duty @ 8%	88,000
EC @ 2%	1,760
SHEC @ 1%	880
	11,90,640
VAT @ 4%	47,626

Plant and machinery

Cost + excise duty + CST	10,00,000
Amount of CST (10,00,000 / 102% x 2%)	19,608
Amount of central excise duty (10,00,000 – 19,608 = 9,80,392 / 110.3% x 10%)	88,884
EC @ 2% (9,80,392 / 110.3% x 0.2%)	1,778
SHEC @ 1% (9,80,392 / 110.3% x 0.1%)	889
Cost	8,88,841
Less: amount of subsidy	1,00,000
	7,88,841
Add: Interest for the period 01.05.2012 to 31.10.2012 (10,00,000 x 10% x 6/12)	50,000
	8,38,841

Finished Product

Sale	110,00,000
Excise duty @ 10%	11,00,000
EC @ 2%	22,000
SHEC @ 1%	11,000
	121,33,000
VAT @ 12.5%	15,16,625

Tax Credit

Excise Duty = 40,000 (R1) + 53,330 (R2) + 88,000 (R3) + 88,884 (Plant & Machinery) = 2,70,214
EC @ 2% = 800 (R1) + 1,067 (R2) + 1,760 (R3) + 1,778 (Plant & Machinery) = 5,405
SHEC @ 1% = 400 (R1) + 533 (R2) + 880 (R3) + 889 (Plant & Machinery) = 2,702
DVAT = 21,648 (R1) + 47,626 (R3) = 69,274

	Excise Duty	**EC @ 2%**	**SHEC @ 1%**	**DVAT**
Output Tax	11,00,000	22,000	11,000	15,16,625
Less: Tax Credit	2,70,214	5,405	2,702	69,274
Tax Payable	8,29,786	16,595	8,298	14,47,351

Computation of interest under section 234C

15.09.2012 30% of \`21,87,620 – \`1,00,000 = \`5,56,286 Rounded off \`5,56,200 x 1% x 3 = \`16,686
15.12.2012 60% of \`21,87,620 – \`1,00,000 = \`12,12,572 Rounded off \`12,12,500 x 1% x 3 = \`36,375
15.03.2013 100% of \`21,87,620 – \`1,00,000 = \`20,87,620 Rounded off \`20,87,600 x 1% x 1 = \`20,876
Interest liability under section 234C = \`73,937

Computation of interest under section 234B

20,87,600 x 1% x 9 = \`1,87,884

Computation of interest under section 234A

20,87,600 x 1% x 3 = \`62,628

Total interest = 73,937 + 1,87,884 + 62,628 = \`3,24,449 Rounded off \`3,24,450

<u>Interest under section 201</u>

Interest paid for late payment of TDS
= 18,000 x 3 x 1.5% = 810

<u>Solution 38:</u>

	`
Gross Total Income	79,53,834.00
Less: Deduction u/s 80C	
NSC	30,000.00
PPF	40,000.00
Less: Deduction u/s 80G	
Prime Ministry National Relief Fund	30,000.00
Notified temple	7,500.00

Working Note:
AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)
= 79,53,834 – 6,00,000 – 70,000 = 72,83,834
Qualifying amount = 10% of AGTI or donation whichever is less
= 7,28,383 or 15,000
= 15,000
50% of the qualifying amount = 7,500

Total Income	78,46,334.00
Rounded off u/s 288A	78,46,330.00

Computation of Tax Liability

Tax on LTCG ` 6,00,000 @ 20% u/s 112		1,20,000.00
Tax on `72,46,330 at slab rate	20,03,899.00	
Tax before education cess		21,23,899.00
Add: Education cess @ 2%		42,477.98
Add: SHEC @ 1%		21,238.99
Tax Liability		21,87,615.97
Rounded off u/s 288B		21,87,620.00

<u>Raw Material R1</u>

Cost	5,00,000
Excise duty @ 8%	40,000
EC @ 2%	800
SHEC @ 1%	400
	5,41,200
VAT @ 4%	21,648

<u>Raw Material R2</u>

Cost + excise duty + CST	6,00,000
Amount of CST (6,00,000 / 102% x 2%)	11,765
Amount of central excise duty (6,00,000 – 11,765 = 5,88,235 / 110.3% x 10%)	53,330
EC @ 2% (5,88,235 / 110.3% x 0.2%)	1,067
SHEC @ 1% (5,88,235 / 110.3% x 0.1%)	533
Cost excluding excise duty and CST	5,33,305

<u>Raw material R3 from related person</u>

Cost	11,00,000
Excise duty @ 8%	88,000
EC @ 2%	1,760

SHEC @ 1%	880
	11,90,640
VAT @ 4%	47,626

Plant and machinery

Cost + excise duty + CST	10,00,000
Amount of CST (10,00,000 / 102% x 2%)	19,608
Amount of central excise duty (10,00,000 – 19,608 = 9,80,392 / 110.3% x 10%)	88,884
EC @ 2% (9,80,392 / 110.3% x 0.2%)	1,778
SHEC @ 1% (9,80,392 / 110.3% x 0.1%)	889
Cost	8,88,841
Less: amount of subsidy	1,00,000
	7,88,841
Add: Interest for the period 01.05.2012 to 31.10.2012	
(10,00,000 x 10% x 6/12)	50,000
	8,38,841
Sale	110,00,000

Tax Credit

Excise Duty = 40,000 (R1) + 53,330 (R2) + 88,000 (R3) + 88,884 (Plant & Machinery) = 2,70,214
EC @ 2% = 800 (R1) + 1,067 (R2) + 1,760 (R3) + 1,778 (Plant & Machinery) = 5,405
SHEC @ 1% = 400 (R1) + 533 (R2) + 880 (R3) + 889 (Plant & Machinery) = 2,702
DVAT = 21,648 (R1) + 47,626 (R3) = 69,274

Output Tax

	Excise Duty	**EC @ 2%**	**SHEC @ 1%**	**DVAT**
Tax Credit Balance	2,70,214	5,405	2,702	69,274

Computation of interest under section 234C

15.09.2012 30% of `21,87,620 – `1,00,000 = `5,56,286 Rounded off `5,56,200 x 1% x 3 = `16,686
15.12.2012 60% of `21,87,620 – `1,00,000 = `12,12,572 Rounded off `12,12,500 x 1% x 3 = `36,375
15.03.2013 100% of `21,87,620 – `1,00,000 = `20,87,620 Rounded off `20,87,600 x 1% x 1 = `20,876
Interest liability under section 234C = `73,937

Computation of interest under section 234B

20,87,600 x 1% x 9 = `1,87,884

Computation of interest under section 234A

20,87,600 x 1% x 3 = `62,628

Total interest = 73,937 + 1,87,884 + 62,628 = `3,24,449 Rounded off `3,24,450

Interest under section 201

Interest paid for late payment of TDS
= 18,000 x 3 x 1.5% = 810

Solution 39:

Computation of income under the head Business/Profession

	`
Sales	110,00,000.00
Less:	
Raw material R1	5,62,848.00
Raw material R2	6,00,000.00
Raw material R3	10,00,000.00

Interest on loan taken from Punjab National Bank for plant and machinery (10,00,000 x 10% x 5/12)	41,667.00
Interest on loan taken from State Bank for working capital (7,00,000 x 10%)	70,000.00
Depreciation on Plant and machinery (9,50,000 x15% x ½ + 70,00,000 x 15%) (71,250 + 10,50,000)	11,21,250.00
Additional depreciation on plant and machinery (9,50,000 x 20% x ½)	95,000.00
Municipal taxes	5,000.00
Depreciation on Building (12,00,000 x 10% x ½)	60,000.00
Donation to approved scientific research (1,00,000 x 1.75)	1,75,000.00
Employee income tax paid	30,000.00
Technical fee paid outside India	1,80,000.00
	70,59,235.00
Add:	
Export incentives	60,000.00
Income under the head Business/Profession	71,19,235.00

Computation of income under the head House Property

Gross Annual Value (12,000 x 12)	1,44,000.00
Less: Municipal Taxes	Nil
Net Annual Value	1,44,000.00
Less: 30% of NAV u/s 24(a)	43,200.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	1,00,800.00

Computation of income under the head Capital Gains

Long term capital gains	6,00,000.00
Income under the head Capital Gains	6,00,000.00
Gross Total Income	78,20,035.00
Less: Deduction u/s 80C	
NSC	30,000.00
PPF	40,000.00
Less: Deduction u/s 80G	
Prime Ministry National Relief Fund	30,000.00
Notified temple	7,500.00

Working Note:

AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)
= 78,20,035 – 6,00,000 – 70,000 = 71,50,035

Qualifying amount = 10% of AGTI or donation whichever is less
= 7,15,004 or 15,000
= 15,000

50% of the qualifying amount = 7,500

Total Income	77,12,535.00
Rounded off u/s 288A	77,12,540.00

Computation of Tax Liability

Tax on LTCG ` 6,00,000 @ 20% u/s 112		1,20,000.00
Tax on `71,12,540 at slab rate	19,63,762.00	
Tax before education cess		20,83,762.00
Add: Education cess @ 2%		41,675.24
Add: SHEC @ 1%		20,837.62
Tax Liability		21,46,274.86
Rounded off u/s 288B		21,46,270.00

<u>Raw Material R1</u>

Cost	5,00,000
Excise duty @ 8%	40,000
EC @ 2%	800
SHEC @ 1%	400
	5,41,200
VAT @ 4%	21,648
	5,62,848

<u>Raw Material R2</u>

Cost + excise duty + CST	6,00,000

<u>Raw material R3 from related person</u>

Cost	11,00,000
Excise duty @ 8%	88,000
EC @ 2%	1,760
SHEC @ 1%	880
	11,90,640
VAT @ 4%	47,626
	12,38,266

<u>Plant and machinery</u>

Cost + excise duty + CST	10,00,000
Less: amount of subsidy	1,00,000
	9,00,000
Add: Interest for the period 01.05.2012 to 31.10.2012 (10,00,000 x 10% x 6/12)	50,000
	9,50,000

<u>Finished Product</u>

Sale	110,00,000

Computation of interest under section 234C

15.09.2012 30% of `21,46,270 – `1,00,000 = `5,43,881 Rounded off `5,43,800 x 1% x 3 = `16,314
15.12.2012 60% of `21,46,270 – `1,00,000 = `11,87,762 Rounded off `11,87,700 x 1% x 3 = `35,631
15.03.2013 100% of `21,46,270 – `1,00,000 = `20,46,270 Rounded off `20,46,200 x 1% x 1 = `20,462
Interest liability under section 234C = `72,407

Computation of interest under section 234B

20,46,200 x 1% x 9 = `1,84,158

Computation of interest under section 234A

20,46,200 x 1% x 3 = `61,386

Total interest = 72,407 + 1,84,158 + 61,386 = `3, 17,951 Rounded off `3, 17,950

<u>Interest under section 201</u>

Interest paid for late payment of TDS
= 18,000 x 3 x 1.5% = 810
Note: Since the finished product is exempt from excise duty and DVAT, no tax credit is allowed.

<u>Solution 40:</u>

Computation of Total Income and Tax Liability

Particulars	**Amount**	**Particulars**	**Amount**
Purchased goods in April’ 2012	3,37,500	Sale (10,00,000 + 38,00,000)	48,00,000

Purchased goods in May’ 2012	4,50,000		
Purchased goods in June’ 2012	25,00,000		
Rent of a shop [(20,000 x 12) + (20,000 x 12 x 12.36%)]	2,69,664		
Expenses of maintaining VAT accounts	1,00,000		
Net Profit	11,42,836		
	48,00,000		48,00,000

Computation of Tax Liability

Tax on `11,42,840 at slab rate	1,72,852.00
Add: Education cess @ 2%	3,457.04
Add: SHEC @ 1%	1,728.52
Tax Liability	1,78,037.56
Rounded off u/s 288B	1,78,040.00

VAT Credit

Goods purchased in June’ 2012 = 25,00,000 x 12.5% = 3,12,500

Output Tax

Sales of goods = 38,00,000 x 12.5% = 4,75,000

Net VAT Payable = 4,75,000 – 3,12,500 = 1,62,500

Note: TDS provisions is not applicable to Mr. X as he is not liable to tax audit under section 44AB in preceding financial year.

Solution 41:

Computation of Total Income and Tax Liability

Particulars	**Amount**	**Particulars**	**Amount**
Purchased goods in April’ 2012	3,37,500	Sale (10,00,000 + 38,00,000)	48,00,000
Purchased goods in May’ 2012	4,50,000		
Purchased goods in June’ 2012	28,12,500		
Rent of a shop [(20,000 x 12) + (20,000 x 12 x 12.36%)]	2,69,664		
Tax paid under composition scheme @ 1% of `38,00,000	38,000		
Net Profit	8,92,336		
	48,00,000		48,00,000

Computation of tax liability

Tax on `8,92,340 at slab rate	1,08,468.00
Add: Education cess @ 2%	2,169.36
Add: SHEC @ 1%	1,084.68
Tax Liability	1,11,722.04
Rounded off u/s 288B	1,11,720.00

Note: TDS provisions are not applicable to Mr. X as he is not liable to tax audit under section 44AB in preceding financial year.

Solution 42:

Tax credit

April to June’ 2012

DVAT @ 4%

April	88,240
May	1,32,360
June	88,240
	3,08,840

Since assessee is exempt from charging excise duty upto 150 lakhs hence CENVAT credit for excise duty is not allowed.

July to Sept' 2012

	Excise Duty	EC @ 2%	SHEC @ 1%	DVAT @ 4%
July	4,00,000	8,000	4,000	1,76,480
Aug	2,00,000	4,000	2,000	88,240
September	3,00,000	6,000	3,000	1,32,360
	9,00,000	18,000	9,000	3,97,080

Oct to Dec' 2012

Oct	4,00,000	8,000	4,000	1,76,480
Nov	1,00,000	2,000	1,000	44,120
Dec	3,00,000	6,000	3,000	1,32,360
	8,00,000	16,000	8,000	3,52,960

Jan to March' 2013

Jan	2,00,000	4,000	2,000	88,240
Feb	1,00,000	2,000	1,000	44,120
March	2,00,000	4,000	2,000	88,240
	5,00,000	10,000	5,000	2,20,600

Output tax

April to June' 2012

	DVAT @ 12.5%
April	6,25,000
May	8,75,000
June	3,75,000
	18,75,000

Upto turnover of `150 lakhs, excise duty is exempt.

July to Sept' 2012

	Excise Duty @ 10%	EC @ 2%	SHEC @ 1%	DVAT @ 12.5%
July	2,00,000	4,000	2,000	2,75,750
Aug	3,00,000	6,000	3,000	4,13,625
September	2,00,000	4,000	2,000	2,75,750
	7,00,000	14,000	7,000	9,65,125

Oct to Dec' 2012

Oct	1,00,000	2,000	1,000	1,37,875
Nov	2,00,000	4,000	2,000	2,75,750
Dec	3,00,000	6,000	3,000	4,13,625
	6,00,000	12,000	6,000	8,27,250

Jan to March' 2013

Jan	2,00,000	4,000	2,000	2,75,750
Feb	3,00,000	6,000	3,000	4,13,625

March	2,00,000	4,000	2,000	2,75,750
	7,00,000	14,000	7,000	9,65,125

Net Tax Payable

April to June ‘ 2012

	DVAT
Output tax	18,75,000
Input tax	3,08,840
Net tax Payable	15,66,160

July to Sept’ 2012

	Excise Duty @ 10%	EC @ 2%	SHEC @ 1%	DVAT
Output tax	7,00,000	14,000	7,000	9,65,125
Less: Input tax credit	9,00,000	18,000	9,000	3,97,080
Net tax Payable	-	-	-	5,68,045
Tax Credit Balance	2,00,000	4,000	2,000	

Oct to Dec’ 2012

Output tax	6,00,000	12,000	6,000	8,27,250
Less: Input tax credit	8,00,000	16,000	8,000	3,52,960
Net tax Payable	-	-	-	4,74,290
Tax Credit Balance	2,00,000	4,000	2,000	
B/F Tax Credit	2,00,000	4,000	2,000	
Total Tax Credit	4,00,000	8,000	4,000	

Jan to March’ 2013

Output tax	7,00,000	14,000	7,000	9,65,125
Less: Input tax credit	5,00,000	10,000	5,000	2,20,600
Less: B/F Tax credit bal.	4,00,000	8,000	4,000	
Balance Tax credit	2,00,000	4,000	2,000	

Computation of total income and tax liability

Particulars	Amount	Particulars	Amount
Purchase goods in April’ 2012 (20,00,000 + 2,00,000 + 4,000 + 2,000)	22,06,000	Sale of goods in April’ 2012	50,00,000
Purchase goods in May’ 2012 (30,00,000 + 3,00,000 + 6,000 + 3,000)	33,09,000	Sale of goods in May’ 2012	70,00,000
Purchase goods in June’ 2012 (20,00,000 + 2,00,000 + 4,000 + 2,000)	22,06,000	Sale of goods in June’ 2012	30,00,000
Purchase goods in July’ 2012	40,00,000	Sale of goods in July’ 2012	20,00,000
Purchase goods in Aug’ 2012	20,00,000	Sale of goods in Aug’ 2012	30,00,000
Purchase goods in Sept’ 2012	30,00,000	Sale of goods in Sept’ 2012	20,00,000
Purchase goods in Oct’ 2012	40,00,000	Sale of goods in Oct’ 2012	10,00,000
Purchase goods in Nov’ 2012	10,00,000	Sale of goods in Nov’ 2012	20,00,000
Purchase goods in Dec’ 2012	30,00,000	Sale of goods in Dec’ 2012	30,00,000
Purchase goods in Jan’ 2013	20,00,000	Sale of goods in Jan’ 2013	20,00,000
Purchase goods in Feb’ 2013	10,00,000	Sale of goods in Feb’ 2013	30,00,000
Purchase goods in March’ 2013	20,00,000	Sale of goods in March’ 2013	20,00,000
Expenses allowed u/s 35D	5,50,000		
Net Profit	47,29,000		
	350,00,000		350,00,000

Working of section 35D

Expenses before commencement = 40,00,000

Expenses allowed under section 35D cannot exceed 5% of the capital employed
= 550,00,000 x 5% = 27,50,000
Instalment allowed = 27,50,000 / 5 = 5,50,000

Tax on `47,29,000 @ 30%	14,18,700
Add: EC @ 2%	28,374
Add: SHEC @ 1%	14,187
Tax Liability	14,61,261
Rounded off u/s 288B	14,61,260

EXAMINATION QUESTIONS

IPCC NOV – 2012

Question No. 1 (a) **(10 Marks)**

Mr. Hari provides the following information for the year ending 31.03.2013:

	`
(i) Rent from vacant site let on lease	1,12,000
(ii) Rent from house property at Delhi	20,000 per month
(iii) Turnover from retail trade in grains (No books of account maintained)	24,37,500
(iv) Arrears of salary received from ex-employer	40,000
(v) Purchase of 10,000 shares of X Co. Ltd., on 01.01.2009	1,00,000
He received a 1:1 bonus on 01.01.2010. Sale of 5,000 bonus shares in September, 2012	2,20,000

(vi) Received ` 1,50,000 on 12.02.2013 being amount due from Mr. A relating to goods supplied by Hari's father, which was written off as bad debt by his father in Assessment Year 2011-12 and allowed as deduction. Hari's father died in July 2011.

(vii) Brought forward business loss relating to discontinued textile business of Hari relating to the Assessment Year 2011-12.	1,97,500
(viii) Brought forward depreciation relating to discontinued textile business of Hari.	1,50,000

(ix) Hari contributed ` 30,000 to Prime Minister's National Relief Fund and ` 40,000 to Charitable Trust enjoying exemption u/s 80G by cheque.

Compute the Total Income and the Tax thereon of Mr. Hari for the Assessment Year 2013-14. (Modified)

Answer:

<u>Computation of total income of Mr. Hari for the A.Y. 2013-14</u>

Particulars	`
<u>Income under the head Salary</u>	40,000
<u>Income from House Property</u>	
Gross Annul Value (20,000X12)	2,40,000
Less: Municipal Taxes	Nil
Net Annual Value	2,40,000

Less: 30% of NAV u/s 24(a)		72,000
Less: Interest on capital borrowed u/s 24(b)		Nil
Income under the head House Property		1,68,000
<u>Income under the head Business Profession</u>		
Income from retail trade u/s 44AD (`24,37,500 X 8%)	1,95,000	
Less: b/f business from father's business `1,97,500 but set off is restricted to `1,95,000. Balance of `2,500 shall be c/f.	1,95,000	NIL
<u>Income under the head Capital Gains</u>		
LTCG (Working Note: 4)		NIL
<u>Income From Other Sources</u>		
Rent from vacant site		1,12,000
Gross Total Income		3,20,000
Less: Deduction u/s 80G(on account of donation)		
Prime Minister National Relief Fund (30,000 x 100%)	30,000	
Charitable Trust (Working Note:1)	16,000	(46,000)
Total Income		2,74,000

Computation of Tax Liability

Tax on `2,74,000 at slab rates	7,400
Add: Education Cess @ 2%	148
Add: SHEC @ 1%	74
Tax liability	**7,622**
Rounded off u/s 288B	7,620

Working Notes:

(1) **Deduction u/s 80G**

Donation to charitable trust is allowed upto 50% of the qualifying amount. Qualifying amount = (10% of adjusted GTI or donation whichever is less

AGTI = 3,20,000

Qualifying amount = 10% of 3,20,000 = (32,000 or 40,000) whichever is less = `32,000

50% of 32,000 = 16,000

(2) **Bad Debts** recovered by Hari is not taxable as per section 41(4) of Income Tax Act, 1961.

(3) **C/f of business loss** of A.Y. 2011-12=` 2,500

(4) Assume the bonus shares are sold through recognized stock exchange and hence long term capital gain on sale of shares are exempt u/s 10(38). If the shares are not listed on recognized stock exchange then whole sale consideration is taxable and COA is nil.

Question No. 4(a) **(8 Marks)**

Following is the profit and loss account of Mr. Q for the year ended 31.03.2013:

Particulars	`	Particulars	`
To Repair on Building	1,81,000	By Gross Profit	6,01,000
To Amount paid to IIT Mumbai for an approved Scientific research programme	1,00,000	By Income Tax Refund	8,100
To Interest	1,10,000	By Interest on Company Deposits	6,400

To Travelling	1,30,550		
To Net Profit	93,950		
	6,15,500		**6,15,500**

Following additional informations are furnished:

(1) Repairs on building includes `1,00,000 being cost of laying a toilet roof.

(2) Interest payment include `50,000 on which TDS has not been deducted and penalty for contravention of Central Sales Tax Act of `24,000.

Compute the income chargeable under the head "Profits and gains of Business or Profession" of Mr. Q for the year ended 31.03.2013 ignoring depreciation. (Modified)

Answer:

Computation of Income From Business/ Profession for the A.Y. 2013-14

Net profit as per P & L A/c		93,950
Add: Expenses Disallowed		
(i) Repair of building(capital expenditure)	1,00,000	
(ii) Interest paid without TDS	50,000	
(iii)Sales tax Penalty	24,000	1,74,000
		2,67,950
Less: Incomes not taxable		
(i) IT Refund (not an income)	8,100	
(ii) Interest on deposit (taxable u/h other sources)	6,400	14,500
		2,53,450
Less: Deduction u/s 35 (amount paid to IIT)	1,00,000	
Income from PGBP		**1,53,450**

IPCC MAY – 2012

Question 1. **(10 Marks)**

Mrs. Purvi 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 Assistants	3,000	Taxation Services	5,40,300	
Office rent	24,000	Consultancy	2,70,000	15,98,300
Printing and Stationery	22,000	Dividend on shares of Indian Companies(Gross)		10,524
Meeting, Seminar and Conference	31,600	Income from unit Trust of India		7,600
Purchase of car	80,000	Honorarium received from Various Institutions for valuation of answer papers		15,800

Repair, Maintenance And petrol of car	4,000	Rent Received from Residential flat let out		85,600
Travelling expenses	35,000			
Municipal Tax paid in 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 the passing IPCC Examination at first attempt.

(iv) Repairs and maintenances of car include ` 2,000 for the period from 01.10.2012 to 30.09.2013.

(v) Salary include `30,000 to a computer specialist in cash for assisting Mrs. 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 Mrs. Purvi for the Assessment Year 2013-2014. (Modified)

Answer:

	`
Computation of Total Income of Mrs. Purvi	
Income under the head business/profession	
Net profit as per profit and loss account	9,28,224.00
Add: Value of benefit received	10,500.00
Add: inadmissible items	
• Purchase of car	80,000.00
• Municipal tax	3,000.00
• Payment made in cash in excess of `20,000 {Sec 40A(3)}	30,000.00
Less:	
• Dividend on shares	10,524.00
• Income from Unit Trust of India	7,600.00
• Honorarium received	15,800.00
• Rent received	85,600.00
• Depreciation on Car (80,000 x 15%)	12,000.00
Income under the head business/profession	9,20,200.00
Income under the head House Property	
Gross annual value	85,600.00
Less: Municipal Taxes	3,000.00
Net annual value	82,600.00

Less: 30% of NAV u/s 24(a)	24,780.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	57,820.00

Income under the head Other Sources

Dividend from Indian company {exempt u/s 10(34)}	Nil
Income from UTI {exempt u/s 10(35)}	Nil
Honorarium received	15,800.00
Gross Total Income	9,93,820.00
Less: Deduction u/s 80C NSC	10,000.00
Total Income	9,83,820.00

Computation of Tax Payable

Tax on `9,83,820 at slab rate	1,26,764.00
Add: Education cess @ 2%	2,535.28
Add: SHEC @ 1%	1,267.64
Tax Liability	1,30,566.92
Less: TDS	Nil
Tax Payable	1,30,566.92
Rounded off u/s 288B	1,30,570.00

Question 4 **(8 Marks)**

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31.03.2013 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. 3/4th is for business purposes.

(8) Miscellaneous expenses included `30,000 paid to A & Co., a good transport operator in cash on 31.01.2013 for distribution of the company's product to the warehouses.

(9) Depreciation debited in the books was `55,000. Depreciation allowed as per IT rules was `50,000.

(10) Drawing `10,000

(11) Investment in NSC `15,000.

Compute the Total Income of Mr. Y for the Assessment Year 2013-14. (Modified)

Answer:

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

Income under the head Business/Profession

	`
Net profit as per profit and loss account	11,20,000
Add: inadmissible expenses	
• Car used for personal purpose (78,000 x 1/4)	19,500
• Under valuation of closing stock	12,000
• Salary disallowed u/s 40A(2)	2,500
• Depreciation (55,000 – 50,000)	5,000
• Drawing	10,000
• Investment in NSC	15,000
• Total	11,84,000
Less:	
• Dividend from units of UTI	22,000
• Interest on debentures	17,500
• Winning From Races	15,000
• Under valuation of opening stock	8,000
• Contribution to approved university section 35(1)(ii)	75,000
Business income	10,46,500

Income under the head Other Sources

Dividend from units of UTI exempt u/s 10(35)	Nil
Interest on debentures	17,500
Winning From Races	15,000
Income under the head Other Sources	32500
Gross Total Income	10,79,000
Less: Deduction u/s 80C	15,000
Total Income	10,64,000

Question 6 **(8 Marks)**

MNP Ltd. Commenced operations of the business of a new four-star hotel in Chennai on 01.04.2012. The company incurred capital expenditure of `40 lakh during the period January, 2012 to March, 2012 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2012. Further, during the Previous Year 2012-13, it incurred capital expenditure of ` 2.5 crore (out of which ` 1 crore was for acquisition of land) exclusively for the above business. Compute the income under the heading "profit and gains of business or profession" for the assessment year 2013-14, assuming that MNP Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C-Deductions in respect of certain incomes". The profits from the business of running this hotel (before claiming deduction under section 35AD) for the assessment year 2013-14 is ` 80 lakhs. Assume that the company also has another existing business of running a four-star hotel in Kanpur, which commenced operations 5 years back, the profits from which was `130 lakhs for Assessment Year 2013-14. (Modified)

Answer:

<u>Deduction allowable under section 35AD</u>	`
Capital Expenditure before commencement	40,00,000
Capital Expenditure during the year	150,00,000
Total	190,00,000
Profit of specified business	80,00,000
Less: Deduction under section 35AD	190,00,000
Loss to be carried forward indefinitely	110,00,000

The loss of `110,00,000 can be set-off only against the profits of specified business in current year and next years. Such loss can be carried forward indefinitely. Therefore Profit from other business cannot be used for set-off the loss of specified business.

The hotel at Kanpur was commenced before 01.04.2010, so the business at Kanpur cannot be specified business.

Capital Expenditure on Land shall not be allowed u/s 35AD

Income under the head business or profession

Income from four star hotel at Kanpur 1,30,00,000

PCC MAY – 2012

Question 5 **(12 Marks)**

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	By Income tax refund (Principal `15,000, interest `1,500)	16,500
To Clinic consumables	1,55,000	By Dividend from Indian companies	27,000
To Rent paid	1,20,000	By Wining from lottery Net of TDS	35,000
To Administrative expenses	3,00,000	By Rent	54,000
To Donation (to IIT, Delhi for Research approved under section 35(2AA)	1,00,000		
To Net profit	2,92,500		
	22,32,500		**22,32,500**

(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- put to use on the same date)	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 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 2013-2014.

(Modified)

Answer.

Computation of Total Income of Dr. Gurumoorthy for A.Y. 2013-14

	`
Income from house property	
Gross Annual Value (GAV)	54,000
Less : Municipal taxes paid	(9,000)
Net Annual Value (NAV)	45,000
Less : Deduction under section 24(a) (30% of ` 45,000)	(13,500)
Income under the head House Property	31,500
Income from profession	
Net profit as per Income and Expenditure account	2,92,500
Less :	
Rent received	54,000
Dividend from Indian Companies	27,000
Winning from lottery (net of TDS)	35,000
Income tax refund	16,500
Depreciation on Clinic equipments	
on `4,50,000 @ 15%	67,500
on `1,00,000 @ 7.5%	7,500
Additional deduction of 100% for amount paid to IIT, Delhi For Research approved (Since weighted deduction of 200% is available in respect of such payment)	1,00,000
Add:	
Rent for his residential accommodation included in Income and Expenditure A/c	36,000
Municipal tax paid relating to residential house at Surat included in administrative expenses	9,000
Income under the head Business/Profession	30,000
Income from other sources	
Interest on income-tax refund	1,500
Dividend from Indian Company (Exempt u/s 10(34))	Nil
Winnings from lottery (`35,000 + `15,000)	50,000
Income under the head Other Sources	51,500
Gross Total Income	**1,13,000**
Less: Deductions under Chapter VI A	
Deduction under section 80C	
Tuition fee paid to university for full time education of his daughter	60,000
Deduction under section 80E	

Interest on loan taken for higher education is deductible	3,000
Total Income	**50,000**

Notes:

(i) 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".

(ii) Winnings from Lottery 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.

(iii) As per section 58(4) deduction under Chapter VIA is not allowed from casual income, Therefore Deduction u/s 80E is allowed upto `3,000.

Question 6 **(4 Marks)**

A car purchased by Dr. Soman on 10.08.2010 for `5,25,000 for the personal use is brought into professional use on 01.07.2012 by him, when its market value was `2,50,000.

Compute the actual cost of the car and amount of depreciation for the assessment year 2013-14 assuming the rate of depreciation to be 15%. (Modified)

Answer:

<u>Computation of Actual Cost of the Car and Depreciation for the A.Y.2013-14</u>

Actual cost of the car =	`5,25,000
Depreciation [`5,25,000 x 15%]	`78,750

Question 7 **(8 Marks)**

Sanjay engaged in various types of activities gives the following information for the year ended 31.03.2013.

	`
Loss from automobile business (Total turnover `6,00,000)	1,10,000
Profit from wholesale trade in furniture items at the prescribed percentage of turnover as per section 44AD	4,00,000
Brought forward loss relating to discontinued textile business (discontinued w.e.f. 01.06.2008)	2,00,000
Short term capital loss on sale of vacant site during the year	70,000
Profit from speculation business related to oil seeds	1,10,000
Loss from speculation business brought forward and related to cotton (brought forward from assessment year 2012-13)	50,000
Brought forward unabsorbed depreciation of trade in furniture items related to assessment year 2012-13	60,000

Note: Aggregate total business turnover of Sanjay to be assumed as below limit prescribed under section 44AB.

Compute the Total Income of Sanjay for the Assessment Year 2013-14. (Modified)

Answer:

Computation of Total Income of Mr. Sanjay for the assessment year 2013-14

`

Income under the head Business/Profession

Income from wholesale trade in furniture	4,00,000
Less: Loss from automobile business (current year)	(1,10,000)
Less: Brought forward loss relating to discontinued textile business (P.Y. 2008-09)	(2,00,000)
Income from wholesale trade in furniture	90,000
Income from Speculation Business	1,10,000
Less: Loss from speculation business brought forward and related to cotton	(50,000)
Income from Speculation Business	60,000
Income under the head Business/Profession	1,50,000
Gross Total Income	1,50,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,50,000

Note:

(i) Brought forward unabsorbed depreciation of trade in furniture items related to Assessment Year 2012-13 is not allowed to be adjusted from presumptive income under section 44AD

(ii) Short Term Capital Loss on sale of vacant site A.Y. 2013-14 `70,000 to be carried forward for 8 years starting from Assessment Year 2014-15.

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Question 1 **(5 Marks)**

X & Y, a partnership firm consisting of two partners, reports a net profit of `7,00,000 before deduction of the following items:

(1) Salary of `20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).

(2) Depreciation on plant and machinery under section 32 (computed) `1,50,000.

(3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest `5,00,000

Compute:

(i) Book-profit of the firm under section 40(b) of the Income-Tax Act 1961.

(ii) Allowable working partner salary for the Assessment Year 2013-2014 as per section 40(b) of the Income-tax Act, 1961. (Modified)

Answer:

(i) Computation of Book- Profits under section 40(b) of Income Tax Act 1961 `

Net Profit	7,00,000.00
Less: Depreciation u/s 32	1,50,000.00
Less: Interest on capital (5,00,000 x 12%)	60,000.00
Book Profit as per section 40(b)	4,90,000.00

(ii) Calculation of allowable salary to partners

Book Profit	4,90,000.00
Allowable Salary	
On first 3,00,000 of book profit	
90% of book profits or 1,50,000 whichever is higher	2,70,000.00

On balance book profit
60% on balance book profit (1,90,000 x 60/100) 1,14,000.00
Hence, salary as per section 40(b) would be 3,84,000.00

Question 4 **(8 Marks)**
Ramji Ltd., engaged in manufacture of medicines (pharmaceuticals) furnishes the following information for the year ended 31.03.2013:

(i) Municipal tax relating to office building `51,000 not paid till 30.09.2013.

(ii) Patent acquired for `20,00,000 on 01.09.2012 and used from the same month.

(iii) Capital expenditure on scientific research `10,00,000 which includes cost of land `2,00,000.

(iv) Amount due from customer X outstanding for more than 3 years written off as bad debt in the books `5,00,000.

(v) Income tax paid `90,000 by the company in respect of non-monetary perquisites provided to its employees.

(vi) Provident fund contribution of employees `5,50,000 remitted in July 2013.

(vii) Expenditure towards advertisement in souvenir of a political party `1,50,000.

(viii) Refund of sales tax `75,000 received during the year, which was claimed as expenditure in an earlier year.

State with reasons the taxability or deductibility of the items given above under the Income-tax Act, 1961.
Note: Computation of Total Income is not required. (Modified)

Answer:
(i) Municipal taxes relating to office building not paid till the last date of filing of the return is not allowed as deduction as per sec 43B.

(ii) Patent acquired for 20,00,000
Depreciation shall be allowed @ 25% of 20,00,000 = `5,00,000.00

(iii) Capital expenditure on scientific research shall be allowed `8,00,000 u/s 35.
Further deduction allowed shall be 200%. No deduction shall be allowed for land.

(iv) Amount written off as bad debts shall be allowed as deduction as per section 36(1).

(v) Income Tax paid `90,000 shall not be allowed as deduction u/s 40(a).

(vi) Provident fund paid in July 2013 shall be treated as the income of the employer under section 36(1)(va) and the employer is not allowed to debit the amount to the profit and loss account because as per paragraph 38 of The Employees' Provident Funds Scheme, 1952, the employer should pay such contribution within 15 days of the subsequent month plus 5 days grace period. In this case, amount is being remitted in July 2013 hence expenditure is not allowed.

(vii) Expenditure towards advertisement in souvenir of political party shall not be allowed as deduction as per section u/s 37(2B).

(viii) As per section 41(1), refund of Sales Tax shall be treated as income since it was claimed as an expenditure in an earlier year.

Question 5 **(5 Marks)**

Mr. Chandran (aged 38) owned 6 heavy goods vehicles as on 01.04.2012. He acquired 2 more heavy goods vehicles on 01.07.2012. 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 05.08.2012. 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.

(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.

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. (Modified)

Answer:

Computation of total income Mr. Chandran	`
Presumptive income u/s 44 AE (5,000 x 6 x 12) + (5, 000 x 2 x 9)	4,50,000.00
Less: Business loss to be adjusted	(1,00,000.00)
Less: Unabsorbed Depreciation (Not allowed) (since covered u/s 32 (2))	Nil
Gross Total Income	3,50,000.00
Less: Deduction u/s 80C	25,000.00
Less: Deduction u/s 80D	20,000.00
(Maximum deduction allowed is `20,000)	
Less: Deduction u/s 80E	15,000.00
Total Income	2,90,000.00

Question 7 **(4 Marks)**

(i) State any four of the specified business eligible for deduction under section 35AD of the Income-tax Act, 1961.

(ii) State with reasons whether you agree or disagree with the following statements:

Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of `45 lakhs for the year ended 31.03.2013, whether or not opting to offer presumptive income under section 44AD is 30th September 2013.

Answer 7(i):

Deduction under section 35AD is available to assessee carrying on the **"Specified Business".**

(i) Setting up and operating a cold chain facility. “Cold chain facility” means a chain of facilities for storage or transportation of agricultural and forest produce, meat and meat products, poultry, marine and dairy products, products of horticulture, floriculture and apiculture and processed food items under scientifically controlled conditions including refrigeration and other facilities necessary for the preservation of such produce.

(ii) Setting up and operating a warehousing facility for storage of agricultural produce.

(iii) Laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network.

(iv) Building and operating, anywhere in India, a new hotel of two star or above category as classified by the Central Government. Such business should commence its operations on or after 01.04.2010.

Answer 7(ii):
Disagree. As per section 44AB an assessee whose turnover for the F.Y.2012-13 exceeds 100 lakhs, due date for filing of income tax return shall be 30th September, 2013 otherwise the due date shall be 31st July 2013.

In this case, due date shall be 31st July’ 2013 but if he has not opted for presumptive income under section 44AD, in that case audit is required and last date shall be 30th September 2013.

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Question 2 **(12 Marks)**
Ms. Rachna was gifted a land by her father in December, 2002 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 `2 lacs during the year 2012-13 from seedling 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 on 10.10.2012 and was put to use on the same date. She has spent `20,000 on internet connectivity and `2 lacs towards 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 and purchase price is taken `30,00,000)	` 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 by cheque.

- Repay loan `1,00,000 and interest `20,000 to SBI taken in February, 2012 for her son's admission in Sri Ram College of Commerce in B.Com (Hons).

- contributed `25,000 to research association has its object to undertake 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 2012-2013 is 852. (Modified)

Answer:

	`
Computation of income under the head Capital gains	
Full value of consideration	90,00,000.00
Less: Indexed cost of acquisition	
= 6,00,000 / 199 x 852	25,68,844.22
Long term capital gains	64,31,155.78
Income under the head Capital Gains	64,31,155.78

Computation of income under the head Business/Profession	
Sales	1,00,00,000.00
Add: Closing Stock	40,00,000.00
	1,40,00,000.00
Less:	
Purchases (70,00,000 + 20,00,000 + 30,00,000)	1,20,00,000.00
Depreciation (60,000 x 60% x ½)	18,000.00
Internet Connectivity	20,000.00
Salary	2,00,000.00
Rent (2,500 x 6)	15,000.00
Scientific research donation (25,000 x 175%)	43,750.00
Income under the head Business/Profession	17,03,250.00

Computation of Total Income	
Income under the head Business/Profession	17,03,250.00
Income under the capital gains	64,31,155.78
Gross Total Income	81,34,405.78
Less: Deduction u/s	
80CCC- Pension fund	20,000.00
80D- Mediclaim Insurance Premium (Restricted to `15,000)	15,000.00
80E- Interest	20,000.00
Total Income	80,79,405.78
Normal Income	16,48,250.00
LTCG	64,31,155.78
Rounded off u/s 288A	64,31,160.00
Agricultural Income	2,00,000.00

Computation of Tax Liability		
Tax on long term capital gains	`64,31,160 @ 20%	12,86,232.00
Normal income	`16,48,250	

Partial integration

Tax on (Agricultural Income + Non-Agricultural Income)	
Tax on (2,00,000 + 16,48,250) at slab rate	3,84,475.00
Tax on (agricultural income + 2,00,000)	
Tax on (2,00,000 + 2,00,000)	20,000.00
Tax on normal income (3,84,475 – 20,000)	3,64,475.00
Tax before education cess	16,50,707.00
Add: Education Cess @ 2%	33,014.14
Add: SHEC @ 1%	16,507.07
Tax Liability	17,00,228.21
Rounded off u/s 288B	17,00,230.00

Question 5 **(7 Marks)**

State with reasons the allowability of the following expenses under Income-Tax Act, 1961 while computing income from business or profession for the Assessment Year 2013-14:

(i) Provision made on the basis of actuarial valuation for payment of gratuity `5,00,000. However, no payment on account of gratuity was made before due date of filing return.

(ii) Purchase of oil seeds of `50,000 in cash from a farmer on a banking day.

(iii) Tax on non monetary perquisite provided to an employee `20,000.

(iv) Payment of `50,000 by using credit card for fire insurance.

(v) Salary payment of `2,00,000 by a company outside India without deduction of tax.

(vi) Sales Tax deposited in cash `50,000 with State Bank of India.

(vii) Payment made in cash `30,000 to a transporter in a day for carriage of goods. (Modified)

Answer:

(i) Allowed, provision made on the basis of actuarial valuation is allowed as business expense.

(ii) Allowed, cash payment of `50,000 for purchase of oil seeds is allowed as business expense.

(iii) Not allowed, tax on non-monetary perquisite is not deductible u/s 40(a)

(iv) Allowed, payment through credit card is allowed.

(v) If tax is neither deducted nor paid, it is not allowed. In the given question it is not mentioned that tax is paid hence it is presumed that tax is not paid and in that case it is disallowed.

(vi) Allowed, payment of Sales Tax in cash shall be allowed and deductible as per Rule 6DD.

(vii) Allowed, as per section 40A(3), payment in cash to a transporter upto `35,000 is allowed

Question 6 **(6 Marks)**

Mr. X is having a trading business and his Trading and Profit & Loss Account for the financial year 2012-13 is asunder:

Particulars	**Amount (`)**	**Particulars**	**Amount (`)**
To Opening stock	1,00,000	By Sales	110,00,000

To Purchases	89,00,000	By Closing stock	50,000
To Gross profit	20,50,000		
Total	110,50,000	Total	110,50,000
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund by cheque	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest of bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income Tax	1,00,000		
To Net profit	11,50,000		
Total	**20,50,000**	**Total**	**20,50,000**

Other information:

(i) Depreciation allowable `40,000 as per Income Tax Rules.

(ii) No deduction of tax at source on payment of interest on bank loan has been made.

(iii) Payment of bonus to workers made in September 2013.

(iv) Out of salary, `25,000 pertains to his contributions to recognized provident fund which was deposited after the due date. Further, employees contribution of `25,000 was also deposited after the due date

Computation Total Income and Tax Liability of Mr. X for the Assessment Year 2013-14. (Modified)

Answer:

Computation of Total Income of Mr. X `

Net profit as per profit and loss account	11,50,000
Add: inadmissible expenses	
• Employees' contribution deposited after due date of provident fund	25,000
• Employer's contribution deposited after due date of filing of return of income	25,000
• Donation to Prime Minister Relief Fund	1,00,000
• Provision for bad debt	50,000
• Family planning expenses	20,000
• Depreciation as per books	30,000
• Income-tax	1,00,000
Less:	
• Depreciation as per Income Tax Act	40,000
Gross Total Income	14,60,000
Less: Deduction u/s 80G	1,00,000
Total Income	13,60,000

Computation of Tax Liability

Tax on `13,60,000 at slab rate	2,38,000	
Add: Education cess @ 2%		4,760
Add: SHEC @ 1%		2,380
Tax Liability		2,45,140

Question 7 **(4 Marks)**

M/s Dollar Ltd. a manufacturing concern furnishes the following particulars:-

	`
(i) Opening writing down value under Income Tax of block plant and machinery	5,00,000
(ii) Purchase of plant and machinery (put to use before 01.10.2012)	2,00,000
(iii) Sale proceeds of plant and machinery which became obsolete- the plant and machinery was purchased on 01.04.2010 for `5,00,000.	5,000

Further, out of purchase of plant and machinery:

(a) Plant and machinery of `20,000 has been installed in office.

(b) Plant and machinery of `20,000 was used previously for the purpose of business by the seller.

Compute depreciation and additional depreciation as per Income-Tax Act for the Assessment Year 2013-14. (Modified)

Answer:

<u>Block – Plant and Machinery</u>	`
Opening writing down value	5,00,000
Add: Purchases	2,00,000
Less: Sales	5,000
W.d.v	6,95,000
Depreciation @ 15%	1,04,250
Additional depreciation (2,00,000 – 20,000 – 20,000) x 20%	32,000
(full depreciation because put to use for 180 days or more)	

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Question 2 **(4 Marks)**

Mr. Praveen Kumar has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2013:

	(` in lacs)
(i) Payments made to K Research Ltd.	20
(ii) Payment made to LMN College	15
(iii) Payment made to OPQ College	10
Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.	
(iv) Payment made to National Laboratory	8
(v) Machinery purchased for in-house scientific research	25
(vi) Salaries to research staff engaged in in-house scientific research	12

Compute the amount of deduction available under section 35 of the Income-tax Act, 1961 while arriving at the business income of the assessee. (Modified)

Answer.

Computation of deduction allowable under section 35

Particulars	**Amount**		**% of**	**Amount of**

	(`in lacs)		weighted deduction	deduction (` in lacs)
Payment for scientific research				
K Research Ltd.	20		125%	25.00
LMN College	15		175%	26.25
OPQ College [See Note 1]	10		Nil	Nil
National Laboratory	8		175%	14.00
In-house research [See Note 2]				
Capital expenditure	25		100%	25.00
Revenue expenditure	12		100%	12.00
Deduction allowable under section 35				**102.25**

Notes :-

1. Payment to OPQ College

Since the note in the question below item (iii) clearly mentions that only K Research Ltd. and LMN College (mentioned in item (i) and (ii), respectively) are approved research institutions, it is a logical conclusion that OPQ College mentioned in item (iii) is not an approved research institution. Therefore, payment to OPQ College would not qualify for deduction under section 35.

2. Deduction for in-house research and development

Only company assessee are entitled to weighted deduction @ 200% under section 35(2AB) in respect of in-house research and development. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction @ 100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35, assuming that such expenditure is laid out or expended on scientific research related to his business.

Question 3 **(8 Marks)**

Mr. Vidyasagar, 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 31.03.2013:

	`	`
(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) I.T. refund received relating to asst. 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 12.06.2013 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 01.04.2012) used in above wholesale Business is as under:		
Computers	1,20,000	
Motor car	3,20,000	
(20% used for personal use)		

(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 31.03.2013.

(Modified)

Answer.

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

Particulars	`	`
Profits and gains of business or profession		
Income from own 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	8,000	66,500
Less:		6,26,500
Depreciation allowable (Note 1)		**1,10,400**
		5,16,100
Income from firm		
Interest on capital from partnership firm (Note 2)		1,20,000
		6,36,100
Income from other sources		
Interest on bank fixed deposit (Gross)	15,000	
Interest on income-tax refund	2,300	17,300
Gross Total Income		**6,53,400**
Less: Deductions under Chapter VI-A (Note 3)		1,00,000
Total Income		**5,53,400**

Notes:

(1) **Depreciation allowable under the Income-Tax Act, 1961**

		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			9,600	38,400	2,81,600
					1,10,400	

(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	70,000	
	1,30,000	
As per section 80CCE, deduction is restricted to		1,00,000
Total deduction		**1,00,000**

Question 7 **(4 Marks)**

During the financial year 2012-13, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.03.2012 was `59 lacs):

(i) Interest of `12,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;

(ii) Interest of `4,000 was paid as interest to Mr. R.D. Burman, a non-resident, without deduction of tax at source;

(iii) `3,00,000 was paid as salary to a resident individual without deduction of tax at source;

(iv) He had sold goods worth `5 lacs to Mr. Deva. He gave Mr. Deva a cash discount of `12,000 later. Commission of `15,000 was paid to Mr. Vidyasagar on 02.07.2012. In none of these transactions, tax was deducted at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(i)/40(a)(ia) of the Income tax Act, 1961.

Answer.

Disallowance under section 40(a)(i)/40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

The assessee is a resident individual, who was not subjected to tax audit during the immediately preceding previous year i.e., P.Y.2011-12 (as his turnover is less than the prescribed limit u/s 44AB) and the TDS obligations have to be considered bearing this in mind.

(i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, only where he was subject to tax audit under section 44AB in the immediately preceding previous year, i.e., P.Y.2011-12. From the data given, it is clear that he was not subject to tax audit under section 44AB in the P.Y.2011-12. Hence, disallowance under section 40(a)(ia) is not attracted in this case.

(ii) In the case of interest paid to a non-resident, there is obligation to deduct tax at source under section 195, hence non-deduction of tax at source will attract disallowance under section 40(a)(i).

(iii) Disallowance under section 40(a)(ia) is not attracted for failure to deduct tax at source under section 192 from salaries.

(iv) The obligation to deduct tax at source under section 194-H from commission paid in excess of `5,000 w.e.f. 01.07.2011 to a resident arises in the case of an individual, only where he was subject to tax audit under section 44AB in the immediately preceding previous year. From the data given, it is clear that he was not subject to tax audit under section 44AB in the P.Y.2011-12. Hence, there is no obligation to deduct tax at source under section 194H during the P.Y. 2012-13. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

PCC MAY – 2011

Question 1. **(5 Marks)**

Mr. Praveen engaged in Retails Trade, reports a turnover of `58,50,000 for the financial year 2012-13. His income from the said business as per books of account is computed at `2,90,000. Retail trade is the only source of income for Mr. Praveen.

(i) Is Mr. Praveen eligible to opt for presumptive determination of his income chargeable to tax for the Assessment Year 2013-14?

(ii) Is so, determine his income from retail trade as per the applicable presumptive provision.

(iii) In case, Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?

(iv) What is the 'due date' for filing his return of income, under both the options?

Answer.

(i) Yes. Since his total turnover for the F.Y.2012-13 is below `100 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be `4,68,000, being 8% of ` 58,50,000.

(iii) In case he does not opt for the presumptive taxation scheme under section 44AD, and claims that his income is `2,90,000 (which is lower than the presumptive business income of ` 4,68,000), he has to maintain books of account as required under section 44AA(2) and also get them audited and furnish a report of such audit under section 44AB, since his total income exceeds the basic exemption limit of ` 2,00,000.

(iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2013.

In case he does not opt for the presumptive taxation scheme and claims that his income is `2,90,000 as per books of account, then he has to get his books of account audited under section 44AB, in that case the due date for filing of return would be 30th September, 2013.

Question 2 **(12 Marks)**

Mr. Rajiv 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 (01.04.2012) Cash on hand and at Bank	2,000	Staff salary, bonus and stipend to articled clerks	1,50,000
Fee from professional services	9,38,000	Other administrative expenses	48,000
Rent	60,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% per annum)	2,50,000	Housing loan repaid to SBI (includes interest of `88,000)	1,88,000
		Life insurance premium	24,000
		Motor car (acquired in Jan. 2013)	4,25,000
		Medical insurance premium (for self and wife) paid by cheque	18,000
		Books bought of annual publications	20,000

		Computer acquired on 01.11.2012 and put to use on the same date (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.03.2013) Cash on hand and at Bank	15,000
	12,50,000		**12,50,000**

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 1998-99.

(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 01.04.2012 are given below:

Furniture & fittings	`60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	`80,000
Computers	`50,000

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

Compute the Total Income and Tax Liability of Mr. Rajiv for the Assessment Year 2013-14. (Modified)

Answer.

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

	`	`
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		30,000.00
Loss from self occupied property		(30,000.00)
Let out property		
Gross Annual value		60,000.00
Less: Municipal Tax		Nil
Net Annual Value		60,000.00
Less: Deductions under section 24		
(a) 30% of Net Annual Value		(18,000.00)
(b) Interest on housing loan (50% of ` 88,000)		(44,000.00)
Loss from let out house property		(2,000.00)
Total loss under the head House Property		(32,000.00)
Profits and gains of business or profession		
Fees from professional services		9,38,000.00

***Less:* Expenses**		
Staff salary, bonus and stipend		1,50,000.00
Other administrative expenses		48,000.00
Office rent		30,000.00
Motor car maintenance (10,000 x 4/5)		8,000.00
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)		Nil
Depreciation on Motor car ` 4,25,000 x 7.5% x 4/5		25,500.00
Depreciation on Books being annual publications @ 100%		20,000.00
Depreciation on Furniture and fittings @ 10% of ` 60,000		6,000.00
Depreciation on Plant and machinery @ 15% of `80,000		12,000.00
Depreciation on Computer @ 60% of `50,000		30,000.00
Depreciation on Computer (New) `30,000 @ 60% x ½ thereon		9,000.00
Income under the head Business/Profession		5,99,500.00
Gross Total Income		**5,67,500.00**
***Less:* Deduction under Chapter VI-A**		
Section 80C		
Housing loan principal repayment	1,00,000	
PPF subscription	20,000	
Life insurance premium	24,000	
Total ` 1,44,000 but limited to		1,00,000.00
Section 80D		
Medical insurance premium paid `18,000 but limited to		15,000.00
Total Income		**4,52,500.00**
Computation of Tax Liability		
Tax on `4,52,500 at slab rate		25,250.00
Add: Education cess @ 2%		505.00
Add: SHEC @ 1%		252.50
Tax Liability		26,007.50
Rounded off u/s 288B		26,010.00

Question 6 **(4 Marks)**

Ramamurthy had 4 heavy goods vehicles as on 01.04.2012. He acquired 7 heavy goods vehicles on 27.06.2012. He sold 2 heavy goods vehicles on 31.05.2012.

He has brought forward business loss of ` 50,000 relating to Assessment Year 2009-10 of a discontinued business. Assuming that he opts for presumptive taxation of income as per section 44AE, compute his Total Income chargeable to tax for the Assessment Year 2013-14.

Answer.

Computation of Total Income of Mr. Ramamurthy for A.Y.2013-14

Particulars	`
Presumptive business income under section 44AE	
2 heavy goods vehicles for 2 months (2 x ` 5,000 x 2)	20,000
Balance 2 heavy goods vehicles for 12 months (2 x `5,000 x 12)	1,20,000
7 heavy goods vehicles for 10 months (7 x ` 5,000 x10)	3,50,000
Business Income	4,90,000
Less: Brought forward business loss of discontinued business	50,000
Gross Total Income	4,40,000
Less: Deduction u/s 80C to 80U	Nil

Total Income	**4,40,000**

Note: The assessee is eligible for computing the income from goods carriages applying the presumptive provisions of section 44AE, since he did not own more than 10 goods carriages at any time during the previous year.

Question 6 **(4 Marks)**

Win Limited commenced the business of operating a three star hotel in Tirupati on 01.04.2012. It furnishes you the following information:

(i) Cost of land (acquired in June 2010) ` 60 lakhs

(ii) Cost of construction of hotel building
 Financial year 2010-11 ` 30 lakhs
 Financial year 2011-12 `150 lakhs

(iii) Plant and machineries (all new)
 Acquired during financial year 2011-12 ` 30 lakhs

[All the above expenditures were capitalized in the books of the company]

Net profit before depreciation for the financial year 2012-13 ` 80 lakhs

Determine the amount eligible for the deduction under section 35AD of the Income-tax Act, 1961, for the Assessment Year 2013-14. (Modified)

Answer.

Under section 35AD, 100% of the capital expenditure incurred during the previous year, wholly and exclusively for the specified business, which includes the business of building and operating a hotel of two-star or above category anywhere in India which commences its operations on or after 01.04.2010, would be allowed as deduction from the business income. However, expenditure incurred on acquisition of any land, goodwill or financial instrument would not be eligible for deduction.

Further, the expenditure incurred, wholly and exclusively, for the purpose of specified business prior to commencement of operation would be allowed as deduction during the previous year in which the assessee commences operation of his specified business. A condition has been inserted that such amount incurred prior to commencement should be capitalized in the books of account of the assessee on the date of commencement of its operations.

Accordingly, the deduction under section 35AD for the A.Y. 2013-14 in the case of Win Ltd. would be calculated as follows, assuming that the expenditures were capitalised in the books of the company on 01.04.2012, being the date of commencement of operations-

Particulars	**` (in lakhs)**
Cost of land (not eligible for deduction under section 35AD)	Nil
Cost of construction of hotel building (`30 lakhs + ` 150 lakhs)	180
Cost of plant and machinery	30
Deduction under section 35AD	**210**

Note – For A.Y.2013-14, the loss from specified business of operating a three star hotel would be `130 lakhs (i.e. ` 210 lakhs – ` 80 lakhs). As per section 73A, any loss computed in respect of the specified business referred to in section 35AD shall be set off only against profits and gains, if any, of any other specified business. The unabsorbed loss, if any, will be carried forward for set off against profits and gains of any specified business in the following assessment year.

Question 7 **(4 Marks)**
X Co. Ltd. paid `120 lakhs as compensation as per approved Voluntary Retirement Scheme (VRS) during the financial year 2012-13.

How much is deductible under section 35 DDA for the assessment year 2013-14?

Answer.
It is deductible in 5 equal annual instalments commencing from the previous year of payment. `24 lakhs, being 1/5th of ` 120 lakhs, is deductible under section 35DDA for the A.Y.2013-14.

Question 7 **(4 Marks)**
Bad debts claim disallowed in an earlier assessment year, recovered subsequently. Is the sum recovered, chargeable to tax?
Answer.
Recovery of a bad debt claim disallowed in the earlier year cannot be brought to tax under section 41(4). Section 41(4) can be invoked only in a case where bad debts or part thereof has been allowed as deduction earlier under section 36(1)(vii).

Question 7 **(4 Marks)**
What are the conditions to be satisfied for the allowability of expenditure under section 37 of the Income-tax Act, 1961?
Answer.
The following conditions are to be fulfilled for the allowability of expenditure under section 37 –

(1) The expenditure should not be of the nature described in section 30 to 36;

(2) It should not be in the nature of personal expenditure of the assessee;

(3) It should have been incurred by the assessee during the previous year.

(4) The expenditure should have been laid out or expended wholly or exclusively for the purposes of the business or profession.

(5) It should not be in the nature of a capital expenditure.

(6) It should not have been incurred for any propose which is an offence or which is prohibited by law.

Question 7 **(4 Marks)**
Tax deducted at source on salary paid to employees not remitted till the ‘due date’ for filing the return prescribed in section 139. Is the expenditure to be disallowed under section 40a(ia)?
Answer.
The salary expenditure is allowable while computing the income of the employer even though TDS has not been deposited within the due date under section 139(1). The disallowance under section 40(a)(ia) will not apply for non-deduction of tax at source from income chargeable under the head “Salaries”.

IPCC NOV – 2010

Question 3 **(8 Marks)**
Dr. Shuba is medical practitioner. Her age is 64 as on 1 Jan 2013. Her Receipts and Payments account of 2012-13 is asunder:

Receipt	`	Payment	`

Balance B/f:	10,000	Purchase of motor car on 01.07.2012	4,00,000
Receipts from sale of Medicine	2,50,000	Drawing	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	Instalment of motor car loan paid (including interest `18,000)	1,18,000
Family pension	2,80,000	Medical insurance premium	32,000
Saving bank interest	1,000	Instalment of housing loan (Principal component `48,000 and interest `60,000)	1,08,000
Loan from bank for purchase of motor car @ 8% p.a.	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	Motor car expenses	50,000
		Balance C/f:	51,000
Total	**12,81,000**	**Total**	**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 a loan from SBI of `6,00,000 on 01.04.2012 at the rate of 10% and repaid the original loan.
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 motor car on 1 July 2012 and put to use on the same date at `4,00,000. A loan of `3,00,000 was taken to buy the motor car at 8% p.a. interest.
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. (Modified)

Compute her Total Income and Tax Liability for Assessment Year 2013-14.

Answer.

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

	`	`
Income from house property:		
Annual value of self-occupied house		Nil
Less: Interest on loan [`45,000, being 3/4th of `60,000]		
(Restricted to `30,000)		(30,000.00)
Loss under the head House Property		(30,000.00)
Income from profession:		
Sale of medicine		2,50,000.00
Consultation fees		50,000.00

Visiting fee		2,00,000.00
***Less*: Expenses**		
Medicine purchases		47,000.00
Medical journal		5,000.00
Depreciation on Surgical instrument(15% of `50,000)		7,500.00
Depreciation on Vehicle (15% of `4,00,000) x ¾		45,000.00
Vehicle expenses (3/4th)		37,500.00
Interest on loan (18,000 x 3/4)		13,500.00
Interest on housing loan (60,000 x 1/4)		15,000.00
Income under the head Business/Profession		3,29,500.00
Income from other sources		
Family Pension	2,80,000	
Less : 33⅓% or `15,000, whichever is lower	15,000	2,65,000.00
Lecture fees		5,000.00
Savings bank interest		1,000.00
Interest on bank FD in the name		
of minor daughter [1,50,000 × 9% × 9/12]	10,125	
Less: Exempt u/s 10(32)	(1,500)	8,625.00
Winnings from lottery		50,000.00
Income under the head Other Sources		3,29,625.00
Gross Total Income		6,29,125.00
Less: Deductions under Chapter VI-A		
Section 80C		
Repayment of housing loan (48,000 × ¾)		36,000.00
Section 80D Medical Insurance Premium		
Own		16,000.00
Mother (Senior Citizen, hence fully allowed since		
premium is less than `20,000)		16,000.00
Section 80TTA		1,000.00
Total income		**5,60,125.00**
Rounded off u/s 288A		**5,60,130.00**
Agricultural Income		1,00,000.00
Computation of Tax Liability		
Tax on agricultural income + non-agricultural income		
Tax on `1,00,000 + 5,10,130 at slab rate		47,026.00
Tax on agricultural income + `2,50,000		
Tax on `1,00,000 + `2,50,000 at slab rate		10,000.00
Tax on normal income (47,026 – 10,000)		37,026.00
Tax on `50,000 @ 30%		15,000.00
Tax before education cess		52,026.00
Add: Education cess @ 2%		1,040.52
Add: SHEC @ 1%		520.26
Tax Liability		53,586.78
Less: TDS		15,000.00
Less: Advance Tax		20,000.00
Tax Payable		18,586.78

Rounded off u/s 288B	18,590.00

Notes:

(i) Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to `30,000.

(ii) Since ¼th portion of house is used for business purposes, therefore, ¼th share of interest paid is deductible while computing business income.

(iii) Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).

(iv) 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 (3/4th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be `36,000 (i.e. 3/4th of `48,000).

(v) Depreciation @15% has been provided on surgical instruments.

Question 6 **(8 Marks)**

Sai Ltd. has a block of assets carrying 15% rate of depreciation, whose written down value on 01.04.2012 was `40 lacs. It purchased another asset of the same block on 01.11.2012 for `14.40 lacs and put to use on the same day. Sai Ltd. was amalgamated with Shirdi Ltd. with effect from 01.01.2013.

You are required to compute the depreciation allowable to Sai Ltd. & Shirdi Ltd. for the previous year ended on 31.03.2013 assuming the assets transferred to Shridi Ltd. at `60 lacs. (Modified)

Answer.

Statement showing computation of depreciation allowable to Sai Ltd. & Shirdi Ltd. for P.Y. 2012-13

Particulars	**Amount** `
Written down value (WDV) as on 01.04.2012	40,00,000
Addition during the year (used for less than 180 days)	14,40,000
Total	**54,40,000**
Depreciation on `40,00,000 @ 15%	6,00,000
Depreciation on `14,40,000 @ 7.5%	1,08,000
Total depreciation for the year	**7,08,000**

Apportionment between two companies:

(a)	Amalgamating company, Sai Ltd.	
	`6,00,000 × 275/365	4,52,054.79
	`1,08,000 × 61/151	43,629.14
		4,95,683.93
(b)	Amalgamated company, Shirdi Ltd.	
	`6,00,000 × 90/365	1,47,945.21
	`1,08,000 × 90/151	64,370.86
		2,12,316.07

Notes:

(i) The aggregate deduction, in respect of depreciation allowable to the amalgamating company and amalgamated company in the case of amalgamation shall not exceed in any case, the deduction calculated at the prescribed rates as if the amalgamation had not taken place. Such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.

(ii) The price at which the assets were transferred, i.e., `60 lacs, has no implication in computing eligible depreciation.

Question 7 **(4 Marks)**

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 profession
(v)	Winnings from lotteries by a person having the same as business activity	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".

PCC NOV – 2010

Question 2 **(12 Marks)**

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2013.

	`		`

To Opening Stock	71,000	By Sales	32,00,000
To Purchase of Raw materials	16,99,000	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross profit	10,60,000		
	34,00,000		**34,00,000**
To Administrative charges	3,26,000	By Gross profit	10,60,000
To State VAT penalty paid	5,000	By Dividend from domestic companies	15,000
To General Expenses	1,64,000	By Income from agriculture (net)	1,80,000
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		**12,55,000**

Following are the further information relating to the financial year 2012-13:

(i) Administrative charges include `46,000 paid as commission to brother of the assessee. The commission amount at the market rate is `36,000.

(ii) The assessee paid `33,000 in cash to a transport carrier on 29.12.2012. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment.)

(iii) A sum of `4,000 per month was paid as salary to a staff throughout the year and this has not been debited in the books of account.

(iv) Bank term loan interest actually paid upto 31.03.2013 was `20,000 and the balance was paid in October 2013.

(v) Housing loan principal repaid during the year was `50,000 and it relates to residential property occupied by him. Interest on housing loan was `23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.

(vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	`
Opening WDV (as on 01.04.2012)	12,00,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Note : Ignore additional depreciation

Compute the Total Income of Mr. Raju for the Assessment Year 2013-14.

He has rejected presumptive income under section 44AD and his accounts were audited. (Modified)

Answer.

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

Particulars	`	`
Profits and gains of business or profession		
Net profit as per profit and loss account		5,00,000
Add:		

Excess commission paid to brother disallowed under section 40A(2)		10,000
Disallowance under section 40A(3) is not attracted since the limit for cash payment has been increased from `20,000 to `35,000 w.e.f. 01.10.2010 in respect of payment to transport operators. Therefore, amount of `33,000 paid in cash to a transport carrier is allowable as deduction.		Nil
Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B		40,000
State VAT penalty paid disallowed		5,000
Depreciation debited to profit and loss account		2,00,000
		7,55,000
Less:		
Salary paid to the staff not debited to profit and loss account		48,000
Dividend from domestic companies [Exempt under section 10(34)]		15,000
Income from agriculture [Exempt under section 10(1)]		1,80,000
Depreciation under the Income-tax Act, 1961 (As per working note)		2,25,000
		2,87,000
Income from house property		
Annual value of self-occupied property	Nil	
Less: Deduction under section 24(b) – interest on housing loan	23,000	(23,000)
Gross Total Income		**2,64,000**
Less: Deduction under section 80C in respect of Principal repayment of housing loan		50,000
Total Income		**2,14,000**

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	`
Depreciation @15% on `14 lakh (Opening WDV of `12 lakh plus assets purchased during the year and used for more than 180 days `2 lakh)	2,10,000
Depreciation @7.5% on `2 lakh (Cost of assets used for less than 180 days)	15,000
	2,25,000

Question 4 **(5 Marks)**

M/s Arora Ltd., submits the following details of expenditures pertaining to the financial year 2012-13:

(i) Payment of professional fees to Mr. Mani `50,000. Tax not deducted at source.

(ii) Interior works done by Mr. Hari for `2,00,000 on a contract basis. Payment made in the month of March 2013. Tax deducted in March 2013, was paid on 30.06.2013.

(iii) Factory Rent paid to Mrs. Rao `15,00,000. Tax deducted at source and paid on 01.10.2013.

(iv) Interest paid on Fixed Deposits `2,00,000. Tax deducted on 31.12.2012 and paid on 28.09.2013.

(v) Payment made to M/s Green & Co. towards import of Raw Materials `25,00,000. No tax was deducted at source. The supplier Green & Co. is located in London.

Examine the above with reference to allowability of the same in the Assessment Year 2013-14 under the Income Tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant tax deduction at source provisions. (Modified)

Answer.

Allowability of expenses of M/s. Arora Ltd for the A.Y. 2013-14

(i) Payment of professional fees is subject to TDS under section 194J. Since no tax is deducted at source, the expenditure of `50,000 is disallowed under section 40(a).

(ii) Since the tax was deducted in March, 2013 and paid on or before the due date of filing the return (i.e., on or before September 30th, 2013), the expenditure on interior works will be allowed as deduction. Hence, disallowance under section 40(a) is not attracted.

(iii) The maximum time allowable for deposit of tax deducted at source is upto the due date of filing of return i.e., 30th September, 2013. In this case, since tax deducted under section 194-I was paid after the due date of filing the return, the expenditure can be claimed only in the subsequent year i.e., P.Y. 2013-14. Hence, for the P.Y. 2012- 13, the expenditure of `15,00,000 is disallowed under section 40(a).

(iv) Since the tax was deducted in December, 2012 and paid on or before the due date of filing the return (i.e., on or before September 30th, 2013), the interest paid on fixed deposits will be allowed as deduction. Hence, disallowance under section 40(a) is not attracted.

(v) Since payment towards import of raw materials does not attract the provisions of deduction of tax at source, the expenditure will be allowed as deduction. Hence, no disallowance is attracted under section 40(a).

Question 5 **(4 Marks)**

State the conditions for deductibility of bad debt written off under the Income-tax Act, 1961.

Answer.

The conditions for deductibility of bad debts written off under the Income-tax Act, 1961 are –

(1) There must be a debt – i.e., a bad debt presupposes the existence of a debt and relationship of a debtor and creditor.

(2) The debt must be incidental to the business or profession of the assessee.

(3) The debt must have been taken into account in computing the assessable income – No such deduction shall be allowed unless such debt or part thereof was taken into account in computing the income of the assessee of the previous year in which it was written off or of an earlier previous year or it represents money lent in the ordinary course of business of banking or money lending carried on by the assessee.

(4) The debt must have been written off as irrecoverable in the books of account of the assessee.

(5) Where the amount ultimately recovered is less than the difference between the debt and the amount deducted, the deficiency shall be deductible in the previous year in which the ultimate recovery is made.

Question 6 **(2 Marks)**

Bad debt written off and allowed in the financial year 2010-11 of `50,000 recovered in the financial year 2012-13.

Answer.

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).

IPCC MAY – 2010

Question 1 **(16 Marks)**

Mr. Dinesh Karthik, a resident individual aged 45, furnished the following information pertaining to the year ended 31.03.2013:

(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)	` 90,000

(ii) He is engaged in a business in which he manufactures 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 (Net of TDS 5,000)	45,000
Car expenses	50,000	Agricultural income	60,000
Machinery repairs	2,34,000	Pension from LIC Jeevan Dhara	24,000
Advance tax	70,000		
Depreciation			
Car	3,00,000		
Machinery	1,25,000		
Net profit	4,32,000		
	13,79,000		13,79,000

Opening WDV of assets are as under:	`
Car	3,00,000
Machinery	6,50,000
(Used during the year for 170 days)	
Additions to machinery	
New purchased on 23.09.2012	2,00,000
New purchased on 12.11.2012	3,00,000
(New machinery is purchased for manufacturing purpose)	
Old purchased on 12.04.2012	1,25,000
(All assets added during the year were put to use immediately after purchase)	

Bonus amount 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: `

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)	50,000

Contribution to Pension Fund of National Housing Bank	70,000
Medical Insurance Premium for his father aged 70, who is not dependent on him	22,000

You are required to compute the income of Mr. Dinesh Karthik for the Assessment Year 2013-14 and the Tax Payable by him. Also indicate whether interest, if any, under section 234A and 234B are payable, assuming that the return was filed on 28th September, 2013.

Computation of interest, if any, is NOT required. (Modified)

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 house taxable under section 25B	75,000	
Less: Deduction @ 30%	22,500	
Income under the head House Property		52,500

(iii) Computation of income from own business

Particulars	`	`
Net profit as per profit and loss account		4,32,000
Less:		
Interest on bank FD (net of TDS 5,000)		(45,000)
Agricultural income		(60,000)
Pension from LIC Jeevan Dhara		(24,000)
Depreciation (See Working Note below)		(2,74,750)
Add:		
Advance tax		70,000
Depreciation		
Car		3,00,000
Machinery		1,25,000
Car expenses disallowed		10,000
Income from own business		**5,33,250**
Add: Salary from partnership firm (Assumed as fully allowed in firm's hands)		90,000
Add: Interest from partnership firm (3,00,000 / 15% x 12%)		2,40,000
Income under the head Business/Profession		8,63,250

Working Note:

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

Block I Car	
3,00,000 x 15%	45,000
Less: 1/5th for personal use	(9,000)
	36,000
Block II Machinery	
Opening WDV	6,50,000
Additions during the year (Used for more than 180 days)	3,25,000
Additions during the year (used for less than 180 days)	3,00,000
Total	12,75,000
9,75,000 x 15%	1,46,250
3,00,000 x 7.5%	22,500

Additional depreciation

New machinery			
Used for more than 180 days 2,00,000 x 20%			40,000
Used for less than 180 days 3,00,000 x 10%			30,000
Total depreciation (36,000 + 1,46,250 + 22,500 + 40,000 + 30,000)			2,74,750

Income from other sources

LIC Jeevan Dhara pension	24,000
Interest from bank FD (gross)	50,000
Income under the head Other Sources	74,000

Computation of Total income and Tax Liability

Income under the head House Property			52,500
Income under the head Business/Profession			8,63,250
Income under the head Other Sources			74,000
Gross Total Income			9,89,750
Less: **Deductions under Chapter VI-A**			
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 NHB	70,000		
Total			90,000
Section 80D			
Mediclaim premium for father, a senior citizen (qualifies for deduction, even though the father is not dependent on the assessee)	22,000		
Maximum amount allowable			20,000
Total Income			**8,79,750**

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)			1,17,950.00
Less: Tax on the aggregate of agricultural income and basic exemption limit i.e., `2,60,000 (i.e., `60,000 + `2,00,000)			6,000.00
			1,11,950.00
Add: Education cess @ 2%			2,239.00
Secondary and higher education cess @ 1%			1,119.50
			1,15,308.50
Less: Advance Income Tax		70,000	
TDS		5,000	75,000.00
Tax Payable (Rounded Off u/s 288B)			**40,310.00**

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.

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 exceeds `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 after the due date, interest is payable under section 234A. (40,300 x 1% x 2 = `806)

Question 2 **(6 Marks)**

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) Coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.03.2013 are given below:

	(`)
WDV of Car as on 01.04.2012	3,00,000
WDV of machinery as on 31.03.2012 (15% rate)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing Coffee	3,00,000
Sale value of cured Coffee	22,00,000

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

Compute the income arising from the above activities for the Assessment Year 2013-14. Show the WDV of the assets as on 31.03.2013. (Modified)

Answer.

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962. As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

	`
Sale value of cured coffee	22,00,000
Less:	
Expenses for growing coffee	3,10,000
Car expenses (80% of `50,000)	40,000
Depreciation on car (80% of 15% of `3,00,000)	36,000
Expenditure for coffee curing operations	3,00,000
Depreciation on machinery (15% of 15,00,000) (See Note below)	2,25,000
Total profits from composite activities	12,89,000
Amount regarded as business income (25% of above)	3,22,250
Amount treated as agricultural income (75% of above)	9,66,750

Computation of value of depreciable assets as on 31.03.2013

Particulars	`	`	`

Car Opening value as on 01.04.2012		3,00,000	
Depreciation thereon at 15%	45,000		
Less: Disallowance @ 20% for personal use	9,000		
Depreciation actually allowed		36,000	
Closing value as on 31.03.2013			2,64,000

Machinery Opening value as on 01.04.2012	15,00,000	
Less: Depreciation @ 15%	2,25,000	
Closing value as on 31.03.2013		12,75,000

Explanation 7 has been inserted in section 43(6) to provide that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Note – It has been assumed that the written down value of machinery as on 31.03.2012 i.e., `15 lakh given in the question represents the closing balance after providing depreciation for the previous year 2011-12. It is also possible to assume that the written down value of `15 lakh as on 31.03.2012 represents the written down value on which depreciation has to be charged for the previous year 2011-12 and solve the problem accordingly.

Question 4 **(2Marks)**

State the concessions granted to transport operators from 1st October, 2009 onwards in the context of cash payments under section 40A(3).

Answer.

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds `20,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft.

This limit of `20,000 has been raised to `35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages. Therefore, payment or aggregate of payments up to `35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft, without attracting disallowance under section 40A(3).

PCC MAY – 2010

Question 3 **(7 Marks)**

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

01.04.2009	WDV of plant 'X' and Plant 'Y'	`2,00,000
10.12.2012	Acquired a new plant 'Z' for	`2,00,000
22.01.2013	Sold plant 'Y' for	`4,00,000
Expenditure incurred in connection with transfer		` 10,000

Compute eligible depreciation claim/chargeable capital gain if any, for the Assessment Year 2013-14.

(Modified)

Answer.

Computation of depreciation and capital gains of Mr. Prakash for the A.Y. 2013-14

`

W.D.V. of Plant ‘X’ & Plant ‘Y’ as on 01.04.2009	2,00,000
Less: Depreciation @ 15% for the assessment year 2010-11	(30,000)
W.D.V. of Plant ‘X’ & Plant ‘Y’ as on 01.04.2010	1,70,000
Less: Depreciation @ 15% for the assessment year 2011-12	(25,500)
W.D.V. of Plant ‘X’ & Plant ‘Y’ as on 01.04.2011	1,44,500
Less: Depreciation @ 15% for the assessment year 2012-13	(21,675)
W.D.V. of Plant ‘X’ & Plant ‘Y’ as on 01.04.2012	1,22,825
Add : Cost of new Plant ‘Z’ acquired during the previous year ending on 31.03.2013	2,00,000
	3,22,825
Less: Sale consideration of Plant ‘Y’ `4,00,000 (restricted to)	(3,22,825)
W.D.V. of Plant ‘X’ and ‘Z’ as on 01.04.2013	Nil
Depreciation	Nil
Sale proceeds of Plant ‘Y’	4,00,000
Less: Deduction under section 50	
W.D.V of the block	(3,22,825)
Expenditure incurred in connection with transfer	(10,000)
Short term Capital Gains	**67,175**

PCC NOV – 2009

Question 1 **(2 Marks)**

The benefit of weighted deduction of 125% under section 35 of the Income-tax Act, 1961 has now been extended to contribution made to a company, for scientific research approved under Section 35(1)(iia) to an assessee.

Answer.

True: The benefit of weighted deduction has now been extended to contribution made to companies for scientific research. Under section 35, an assessee is entitled to claim weighted deduction of 125% under section 35, who has made contribution to company for scientific research.

Question 2 **(20 Marks)**

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

Expenditure	**Amount** `	**Income**	**Amount** `
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 Monthly Income Scheme	86,400
Advance income tax	2,40,000	Interest on Term 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	5,70,900		
	21,35,400		**21,35,400**

(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 also an equal partner.

(iii) He received fees of `50,000 from University of Calcutta 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 to be computed as follow:

WDV as on 01.04.2012	`3,00,000
Rates 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. (Modified)

Answer.

Computation of Total Income and Tax Payable by Dr. Parekh for the A. Y. 2013-14

	`	`
Salary from University of Calcutta		**50,000.00**
Computation of Income from House Property		
Gross Annual Value		20,000
Less : Municipal taxes paid		3,000
Net Annual Value		17,000
Less : Statutory deduction under section 24(a) @ 30% NAV		5,100
Income from House Property		**11,900**
Computation of Profits and gains of business or profession		
Net Profit as per Income & Expenditure Account		5,70,900
Add :		
Depreciation charged		42,500
Municipal Taxes paid		3,000
Advance Tax		2,40,000
Salary from Nursing Home as partner		1,50,000
Commission from Nursing home as partner		50,000
Less:		
Rent received		20,000
Interest on Post Office Monthly Income Scheme		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.		45,000
Depreciation of Apparatus :		
WDV as on 01.04.2012	3,00,000	
Depreciation @15%	45,000	
Income from business		**8,71,000**

Computation of Income from Other Sources

Interest Post Office Monthly Income Scheme		86,400
Interest on Term Deposit with Bank (Gross)		30,000
Winning from lotteries (Gross)		10,000
Pension from LIC Jeevan Suraksha		84,000
Income from Other Sources		**2,10,400**
Gross Total Income		**11,43,300.00**
Less: Deductions under Chapter VIA		
(i) Deduction under section 80C		
Investment in PPF	70,000	
Life insurance premium paid	80,000	
Deduction restricted to		1,00,000.00
(ii) Deduction under section 80D		
Mediclaim premium paid by cheque for himself	22,500	
Deduction restricted to		15,000.00
Total income		**10,28,300.00**

Computation of Tax Liability

Casual income `10,000 @ 30% u/s 115BB)	3,000.00
Normal income `10,18,300 at slab rate	1,35,490.00
Tax before education cess	1,38,490.00
Add: Education cess @ 2%	2,769.80
Secondary and Higher Education cess @ 1%	1,384.90
Tax Liability	**1,42,644.70**
Less: Tax deducted at source	
from Interest	3,000.00
from lottery income	3,000.00
Less : Advance tax paid	2,40,000.00
Refund (rounded off u/s 288B)	**(-) 1,03,360.00**

Note (i)

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

Note (ii)

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.

Note (iii)

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

Question 5 **(4 Marks)**

Are there any restrictions on deduction allowable to the partnership firm in respect of salary and interest to its partners under section 40(b) of the Income-tax Act, 1961?

Answer.

Restrictions on deduction allowable to the Partnership Firm in respect of salary and interest to its partners under section 40(b) of the Income tax Act, 1961.

In the case of a partnership firm, there are following restrictions:

(i) The remuneration payable to its working partners and interest payable to partners should be authorized by and in accordance with the partnership deed and should fall after the date of execution of the deed.

(ii) The payment of interest to partners is allowable up to 12% simple interest if it is authorized in the partnership deed and must fall after the date of the deed.

(iii) Maximum amount of salary, bonus, commission etc. allowed to a partner shall be computed in the manner given below:

* First `3,00,000 of the book profits	**90%** of the book profit or **`1,50,000** whichever is more
* On **balance** amount of book profit	**60%** of book profit

PCC JUNE – 2009

Question 2 **(20 Marks)**

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

To	**Amount** `	**By**	**Amount** `
General charges	35,650	Gross Profit	5,25,860
Insurance	3,500	Commission	6,800
Salary	1,14,960	Rent received for letting out house property	37,500
Donation to political party	1,000	Interest on debentures (Net amount `22,500 plus TDS `2,500)	25,000
Depreciation	1,25,656	Agricultural income	45,000
Administrative expenses	42,500	Short-term Profit on sale of investment	29,000
Advance Tax (Income Tax)	17,000	Dividend from Indian Company	16,000
Net Profit	3,44,894		
	6,85,160		6,85,160

(i) Depreciation has been calculated as per the Income Tax Act at `75,000.

(ii) He has deposited `35,000 in a notified scheme under Post Office Time Deposit Rules, 1981 for five year time.

(iii) He had bought 200 shares of AB Co. Ltd. on 05.12.2009 @ `75 each. 150 shares of PQ Co. Ltd. on 03.08.2012 @ `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 10.03.2013 @ `102 each. All shares were sold in National Stock Exchange through a registered broker and securities transaction tax is paid.

(iv) One of his life insurance policy was matured on 14.06.2012. 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 2013-2014. (Modified)

Answer.

Computation of Taxable Income and Tax Payable by Mr. X for the Assessment Year 2012-13

Particulars	`	`	`
1. Income from House Property (Note (i))			26,250
2. Profits and gain of business or profession (Note (ii))			2,76,050
3. Capital gains (Note (iii))			33,200
4. Income from other sources (Note (iv))			26,470
Gross Total Income			**3,61,970**
Less : Deductions under Chapter VI-A			
(i) Deduction under section 80C (Note (v))			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		7,500	32,500
(iii) Deduction under section 80GGC in respect of contribution to the Political Party (Note (xi))			1,000
Total Income			**2,93,470**
Short term capital gains u/s 111A `4,200 @ 15%			630
Normal income `2,89,270			
Partial integration			
Step 1			
45,000 + 2,89,270 = 3,34,270	13,427		
Step 2			
45,000 + 2,00,000 = 2,45,000	4,500		8,927.00
Tax before education cess			9,557.00
Add : Education cess @ 2%			191.14
Add: SHEC @ 1%			95.57
Tax Liability			9,843.71
Less : Tax deducted at source			(2,500.00)
Less: Advance tax paid			(17,000.00)
Tax Refundable			**9,656.29**
Rounded off u/s 288B			**9,660.00**

Notes:

(i) Computation of Income from House Property

Gross Annual Value (GAV)	
Rent received is taken as the GAV in the absence of other information	37,500
Less: Municipal taxes paid	Nil
Net Annual Value (NAV)	**37,500**
Less: Deduction under section 24 @ 30% of NAV	11,250
Income from House Property	**26,250**

(ii) Computation of Profits and gains of business or profession

Net profit as per Profit & Loss account	3,44,894

Add : Inadmissible expenses				
Depreciation charges			1,25,656	
Advance Income tax (Note (ix))			17,000	
Donation to political party			1,000	
				1,43,656
Add: Recovery of bad debt (Note (viii))				15,000
				5,03,550
Less : Income chargeable under any other head / exempt income				
Rent received			37,500	
Interest on debentures (gross)			25,000	
Agricultural income (Note (x))			45,000	
Short term capital gain on sale of investment			29,000	
Dividend from Indian Company (Note (x))			16,000	1,52,500
				3,51,050
Less: Depreciation as per Income-tax Act				75,000
Profits and gains of business or profession				**2,76,050**

(iii) Computation of Capital Gains

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

(iv) Computation of Income from other sources

Interest on debentures	25,000
Interest on refund from IT authority (Note (vii))	1,470
Income from other sources	**26,470**

(v) The Finance Act, 2008 has amended section 80C to include within its fold, five year time deposit in an account under Post Office Time Deposit Rules, 1981.

(vi) 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.

(vii) Refund of income tax is not taxable**.** However, interest on refund is chargeable to tax under the head "Income from other sources".

(viii) 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.

(ix) Advance income tax is not allowable as deduction.

(x) Agricultural income is exempt under section 10(1) and dividend from an Indian company is exempt from tax under section 10(34).

(xi) Contribution to a Political Party registered under section 29A of the Representation of the People Act, 1951 is deductible under section 80GGC.

PCC NOV – 2008

Question 1 **(2 Marks)**

Depreciation is allowed only when it is claimed.

Answer.

The statement is false.

The statement is false.

According to section 32, depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating business income, whether or not the assessee has claimed the deduction in respect of depreciation in computing his total income.

Question 1 **(2 Marks)**

Rural branches of the co-operative banks are not allowed to claim provision for bad and doubtful debts.

Answer.

The statement is false.

Sub-clause (a) of section 36(1)(viia) allows the cooperative banks to claim deduction for provision for bad and doubtful debts in respect of advances made by rural branches of such banks. However, the deduction should not exceed 10% of the aggregate average advances made by the rural branches of such banks computed in the prescribed manner.

Question 2 **(20 Marks)**

Dr. Smt. Niranjana, a resident individual, aged 59 years is running a clinic. Her Income and Expenditure Account for the year ending March 31st, 2013 is as under

Expenditure	**Amount** `	**Income**	**Amount** `
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 consumable	1,10,000	By Dividend from units of UTI	10,500
To Rent paid	90,000	By Wining from game show on T.V. net of TDS (TDS `15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	19,63,800		**19,63,800**

(i) Rent paid includes `30,000 paid by cheque towards rent for her residential house.

(ii) Clinic equipments are:

01.04.2012 Opening W.D.V. – `5,00,000

07.12.2012 Acquired and put to use (cost) – `2,00,000

(iii) Rent received relates to a 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 `7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".

(v) Dr. Niranjana availed 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 2013-2014. (Modified)

Answer.

Computation of Total Income and Tax Payable of Dr. Niranjana for A.Y. 2013-14

Particulars	**Amount (`)**	**Amount (`)**	**Amount (`)**
Income from Salary			
Basic Salary (`7,500 x 12)			90,000
Income from house property			
Gross Annual Value (GAV)		27,000	
Less : Municipal taxes paid		2,000	
Net Annual Value (NAV)		25,000	
Less : Deduction under section 24 (@ 30% of ` 25,000)		7,500	17,500
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	5,450	77,950	
		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		
Additional deduction of 75% for amount paid to scientific research association (Since weighted deduction of 175% is available in respect of such payment)	1,12,500	2,02,500	
		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	2,000	32,000	1,91,950

Income from other sources			
(a) Interest on Income-Tax Refund		450	
(b) Dividend from UTI	10,500		
Less : Exempt under section 10(35)	10,500	Nil	
(c) Winnings from the game show on T.V.			
(`35,000 + `15,000)		50,000	
			50,450
Gross Total Income			**3,49,900**
Less: Deductions under Chapter VI A			
(a) Deduction under section 80C			
Tuition fee paid to university for full time education of her daughter		1,00,000	
(b) Deduction under section 80D			
Medical insurance premium (maximum allowable upto `15,000)		15,000	
(c) Deduction under section 80E			
Interest on loan taken for higher education is deductible		55,000	1,70,000
Total Income			**1,79,900**

Tax Payable		
Tax @ 30% on winnings of `50,000 from T.V. game show	15,000	
Tax on balance income of `1,29,900	Nil	15,000
Add: Education cess @ 2%		300
Add: Secondary and higher education cess @ 1%		150
Tax Liability		**15,450**
Less: TDS		15,000
Tax Payable		**450**

Notes:

(i) 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".

(ii) 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.

Question 5 **(4 Marks)**

Can an Assessing Officer make a request for withdrawal of approval which was granted to an institution by the National Committee for carrying out any eligible project or scheme, under section 35AC of the Income-tax Act, 1961?

Answer.

The National Committee can withdraw the approval to an association or institution if it is satisfied that the project or the scheme (notified as an eligible project or scheme) is not being carried on in accordance with all or any of the conditions subject to which approval was granted or if the association/institution has failed to furnish to the National Committee, after the end of each financial year, a progress report within the prescribed time in the prescribed form. The National Committee should, however, give a reasonable opportunity to the concerned association or institution of showing cause against the proposed withdrawal.

A copy of the order withdrawing the approval or notification should be forwarded to the Assessing Officer having jurisdiction over the concerned association or institution. Therefore, the Assessing Officer is not empowered to make a request for withdrawal of the approval which was granted to an institution by the National Committee under section 35AC.

PCC MAY – 2008

Question 5 **(4 Marks)**

List six items of expenses which otherwise are deductible shall be disallowed, unless payments are actually made within the due date for furnishing the return of income under Section 139(1). When can the deduction be claimed, if paid after the said date?

Answer.

Section 43B provides that the following expenses shall not be allowed as deduction unless the payments are actually made within the due date for furnishing the return of income under section 139(1):

(i) Any tax, duty, cess or fees under any law in force.

(ii) Employer's contribution to provident fund or superannuation fund or gratuity fund or any other fund for the welfare of the employees;

(iii) Any bonus or commission paid to employees;

(iv) Any interest on any loan borrowings from any public financial institution or State financial corporation or State industrial investment corporation.

(v) Interest on loans and advances from a scheduled bank;

(vi) Any sum paid as an employer in lieu of earned leave at the credit of his employee.

In case the payment is made after the due date of filing of return of income, deduction can be claimed only in the year of actual payment.

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Question 1 **(2 Marks)**

Discuss with brief reasons, whether true or false:

(i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.

(ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a resident as rent or royalty, will result in disallowance while computing the business income.

Answer.

(i) True: It is mandatory to write off the amount due from a debtor as not receivable, in order to claim the same as bad debt under section 36(1)(vii).

(ii) True: As per section 40(a), expenditure is disallowed if the assessee has failed to deduct tax at source but if the assessee is not deemed to be an assessee in default under section 201, in that case expenditure is allowed i.e. it will be presumed that the assessee has deducted tax at source.

Question 3 **(7 Marks)**

Vivitha Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

Year ended	**Item**	**Amount (`)**
31.03.2010	Land	10,00,000
(Incurred after 01.09.2009)	Building	25,00,000

31.03.2011	Plant and machinery	5,00,000
31.03.2012	Raw materials	2,20,000

The business was commenced on 01.09.2012 and expenditure incurred on raw materials and salaries is `1,80,000

In view of availability of better model of plant and machinery, the existing plant and machinery were sold for ` 8,00,000 on 01.03.2013.

Discuss the implications of the above for the Assessment Year 2013-14 along with brief computation of deduction permissible under section 35 assuming that necessary conditions have been fulfilled. You are informed that the assessee's line of business is eligible for claiming deduction under Section 35 at 200% on eligible items. (Modified)

Answer.

1. As per section 35, where a company engaged in manufacture of bio-medical items incurs any expenditure on scientific research during the current year, it is eligible for claiming weighted deduction of a sum equal to 200% of the eligible expenditure.

The eligible expenditure and quantum of deduction will be:

(a) Current year capital or revenue expenditure incurred for scientific research (weighted deduction @ 200%).

(b) Any expenditure incurred during earlier 3 years immediately preceding the date of commencement of business on payment of salary or purchase of materials, or capital expenditure incurred other than expenditure on acquisition of land (actual expenditure qualifies for deduction).

The deduction available under section 35 for scientific research will, therefore, be:

	Particulars	`
(a)	Land	Nil
(b)	Building	25,00,000
(c)	Revenue expenses of last 3 years	2,20,000
(d)	Capital expenditure of last 3 years: Plant and machinery	5,00,000
(e)	Current year revenue expenditure ` 1,80,000 (200% of ` 1,80,000)	3,60,000
Deduction under section 35		**35,80,000**

<u>Tax treatment on sale of Plant and Machinery</u>

Section 41(3) provides that where a capital asset used for scientific research is sold, without having been used for other purposes, the sale proceeds shall be considered to be income under the head business/profession but only to the extent amount was debited to the profit and loss account hence there will income under the head business/profession `5,00,000 and balance amount of `3,00,000 shall be considered to be short term capital gain.

Question 4 **(2 Marks)**

Mr. Achal, a hotelier, claimed expenditure on replacement of Linen and carpets in his hotel as revenue expenditure.

Answer.

The expenditure on replacement of linen and carpets in a hotel are in the nature of expenses incurred for the business and are allowable as revenue expenses under section 37(1).

Question 4 **(8 Marks)**

Mr. B.A. Patel, a non-resident, operates an Aircraft between London to Ahmedabad. For the Financial year ended on 31st March, 2013, he received the amounts as under:

(i) For carrying passengers from Ahmedabad ` 50 lacs.

(ii) For carrying passengers from London ` 75 lacs received in India.

(iii) For carrying of goods from Ahmedabad ` 25 lacs.

The total expenditure incurred by Mr. B.A. Patel for the purposes of the business for the financial year 2012-13 was ` 1.4 crores.

Compute the income of Mr. B.A. Patel under the head "Profits and Gains from business or profession" for the financial year ended on 31st March 2013 relevant to Assessment Year 2013-14. (Modified)

Answer.

Under section 44BBA, in case of an assessee, being a non-resident, engaged in the business of operation of aircraft, a sum equal to 5% of the aggregate of the following amounts shall be deemed to be his business income:

(a) the amount paid or payable, whether in or out of India, to the assessee on account of carriage of passengers, goods etc. from any place in India; and

(b) the amount received or deemed to be received in India by the assessee on account of carriage of passengers, goods etc. from any place outside India.

Hence, the income of Mr. B.A. Patel chargeable to tax in India under the head "Profits and Gains of business or profession" is determined as under:

Particulars	`
(i) For carrying passengers from Ahmedabad	50,00,000
(ii) For carrying passengers from London, amount received in India	75,00,000
(iii) For carrying goods from Ahmedabad	25,00,000
Total	**1,50,00,000**

Hence, income from business computed on presumptive basis as per section 44BBA is ` 7,50,000, being 5% of `1,50,00,000.

Note: No deduction is allowable in respect of any expenditure incurred for the purpose of the business.

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Question 1 **(2 Marks)**

Payment made in respect of a business expenditure incurred on 16th February, 2013 for `25,000 through a cheque duly crossed as "& Co." is hit by the provisions of section 40A(3).

Answer.

True: In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a cheque crossed as "& Co." will attract disallowance under section 40A(3).

Question 3 **(6 Marks)**

Swadeshi Ltd., which follows mercantile system of accounting, obtained licence on 01.06.2011 from the Department of telecommunication for a period of 10 years. The total licence fee payable is `18,00,000. The relevant details are:

Year ended 31st March	**Licence fee payable for the year**	**Payments made**	
		Date	**Amount**
	`		`
2012	10,00,000	30.03.2012	3,70,000

		15.05.2012	6,30,000
2013	8,00,000	28.02.2013	5,40,000

Balance of `2,60,000 is pending as on 31.03.2013.

Compute the amount of deduction available to the assessee under section 35ABB for the Assessment Years 2012-13 and 2013-14. Can any deduction be claimed under section 32 also? (Modified)

Answer.

As per section 35ABB, any amount actually paid for obtaining licence to operate telecommunication services, shall be allowed as deduction in equal installments during the number of years for which the licence is in force. Therefore, the year of actual payment is relevant and not the previous year in which the liability for the expenditure was incurred according to the method of accounting regularly employed by the assessee.

1. `3,70,000 paid on 30.03.2012 [P.Y. 2011-12]

Unexpired period of licence 10 years

Hence `37,000 [i.e. `3,70,000/10] can be claimed under section 35ABB for period of 10 years commencing from A.Y.2012-13.

2. `11,70,000 paid during year ended 31.03.2013 [P.Y. 2012-13]

Unexpired period of licence 9 years

Hence `1,30,000 [i.e. `11,70,000/9] can be claimed under section 35ABB for a period of 9 years commencing from A.Y.2013-14.

3. Amount of deduction u/s 35ABB

Assessment Year	**Amount (`)**
2012-13	37,000
2013-14	37,000 + 1,30,000 = 1,67,000

Question 4 **(8 Marks)**

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2012-13 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y. 2013-14:

Sl. No.	**Description**	**Date of acquisition**	**Date when put to use**	**Amount `**
1.	Computer	27 Sept., 2012	2 Oct., 2012	35,000
2.	Computer software	1 Oct., 2012	1 Oct., 2012	8,500
3.	Computer printer	1 Oct., 2012	3 Oct., 2012	12,500
4.	Books (of which books being annual publications are of `12,000)	1 Apr., 2012	1 Apr., 2012	13,000
5.	Office furniture (Acquired from practising C.A.)	1 Apr., 2012	1 Apr., 2012	3,00,000
6.	Laptop	26 Sept., 2012	1 Oct., 2012	43,000
7.	Fire extinguisher	1 Apr., 2012	1 Apr., 2012 (No instance arose to use during F.Y. 2012-13)	2,500
8.	Purchased practising CA's office in April' 2012 who had run it for 4 years, for `5 lacs which includes `2 lacs for goodwill and `3 lacs for cost of furniture (included in 5 above)			

Note: Depreciation is to be provided at the applicable rates. (Modified)

Answer.

Computation of depreciation allowable for A.Y. 2013-14

	Asset	**Rate**	**Depreciation**
Block 1	Furniture	10%	30,000
Block 2	Plant (Computer, computer software, laptop)	60%	51,900
Block 3	Plant (Books)	60%	600
Block 4	Plant (Books)	100%	12,000
Block 5	Plant (Fire Extinguisher and Printer)	15%	2,250
Block 6	Goodwill	25%	50,000
Total depreciation allowable			**1,46,750**

Notes -

Computation of depreciation

Block of Assets `

Block 1: Furniture – rate 10%

`3,00,000 @ 10%		30,000

Block 2: Plant – rate 60%

Computer	35,000	
Computer software	8,500	
Laptop	43,000	
Total	86,500 @ 60%	51,900

Block 3: Plant – Rate 60%

Books (other than annual publications)

1,000 @ 60%	600

Block 4: Plant – Rate 100%

Books (being annual publications)

12,000 @100%	12,000

Block 5: Plant – Rate 15%

Computer printer	12,500	
Fire extinguisher	2,500	
Total	15,000 @ 15%	2,250

As per decided case of Smifs Securities Ltd vs CIT (SC) Goodwill is an intangible asset.

Block 6: Intangible Asset– Rate 25%

Goodwill	2,00,000
2,00,000 @ 25%	50,000

INCOME UNDER THE HEAD SALARY

SECTION 15 TO 17

PARTICULARS	SECTIONS
Meaning of salary	**17(1)**
Basis of charge/chargeability of salaries	**15**
House rent allowance	**10(13A) Rule 2A**
Special allowances	**10(14) Rule 2BB**
Foreign allowances	**10(7)**
Deductions from salaries	**16**
Deduction on account of entertainment allowance	**16(ii)**
Deduction on account of tax on employment/ professional tax	**16(iii)**
‘Salary’, ‘Perquisite’ and ‘Profits in lieu of salary’	**17**
Inclusive definition of ‘Salary’	**17(1)**
Rent free accommodation	**17(2)(i) Rule 3(1)**
Accommodation at concessional rent	**17(2)(ii) Rule 3(1)**
Motor Car Facility	**17(2)(iii) Rule 3(2)**
Gardener/Watchmen/Sweeper or any other servant	**17(2)(iii) Rule 3(3)**
Gas/Electricity/Water	**17(2)(iii) Rule 3(4)**
Education facility	**17(2)(iii) Rule 3(5)**
Transport facility	**17(2)(iii) Rule 3(6)**
Obligation of the employee met by employer	**17(2)(iv)**
Payment of insurance premium on behalf of the employee	**17(2)(v)**
Specified securities or Sweat equity allotted/transferred to employees by an employer	**17(2)(vi)**
Any contribution to an approved superannuation fund by the employer in respect of an employee	**17(2)(vii)**
Any other fringe benefit –	
Loan to the employee either at concessional rate or free of interest	**17(2)(viii)Rule 3(7)(i)**
Expenditure in connection with travelling, touring or accommodation to the employee	**17(2)(viii)Rule 3(7)(ii)**
Free refreshment or foods to the employees	**17(2)(viii)Rule 3(7)(iii)**
Any gift, voucher or token	**17(2)(viii)Rule 3(7)(iv)**
Expenses on credit cards	**17(2)(viii)Rule 3(7)(v)**
Club Membership and expenses incurred in a club	**17(2)(viii)Rule 3(7)(vi)**
Use of moveable assets	**17(2)(viii)Rule 3(7)(vii)**
Transfer of any moveable assets	**17(2)(viii)Rule 3(7)(viii)**
Any other benefit	**17(2)(viii)Rule 3(7)(ix)**
Medical facilities	**Proviso to 17(2)**
Leave travel concession	**10(5) Rule 2B**
Death–cum–retirement gratuity	**10(10)**
Treatment of commuted pension	**10(10A)**
Treatment of leave salary	**10(10AA)**
Provident Fund	**10(11), 10(12), 10(13)**
Retrenchment compensation	**10(10B)**
Compensation received on voluntary retirement	**10(10C) Rule 2BA**
Profits in lieu of salary	**17(3)**

THEORY QUESTION

Q1. Explain Basic Pay/Pay Scale/Dearness Allowance/Bonus/Fees/Commission.
Q2. [V. Imp.] Discuss the taxability of House Rent Allowance given by the employer to his employee?
Q3. [V. Imp.] Write a note on special allowances section 10(14) Rule 2BB.
Q4. What are the deductions permitted under the Income Tax Act, 1961 in the computation of income under the head "Salaries"? Discuss.
Q5. [V. Imp.] Write a note on chargeability of Salary.
Q6. Write a note on relief under section 89.
Q7. [V. Imp.]Discuss the taxability of Rent Free Accommodation given to an employee by his employer?
Q8. Write a short note on Specified Employee.
Q9. Discuss the taxability of motor car facility given to an employee by his employer?
Q10. Discuss the taxability of Gardener/Watchman/Sweeper or any other servant.
Q11. Write a note on taxability of Gas/Electricity or Water Facility.
Q12. [V. Imp.] Write a note on taxability of Educational Facility.
Q13: Write a note on taxability of transport facility.
Q14. Write a note on obligation of the employee met by employer.
Q15. Explain taxability of payments of insurance premium by the employer on behalf of the employee.
Q16. [V. Imp.] Write a note on fringe benefits under section 17(2)(viii) Rule 3(7).
Q17. [V. Imp.] Write a note on medical facility.
Q18. [V. Imp.] Write a note on Leave Travel Concession.
Q19. What are perquisites taxable only in case of specified employees?
Q20. What are perquisites taxable in case of all categories of employees?
Q21. What are the tax-free perquisites?
Q22. [V. Imp.] Write a note on taxability of Gratuity.
Q23. [V. Imp.] Write a note on taxability of Pension.
Q24. [V. Imp.] Write a note on taxability of Leave Salary/ Encashment of leave.
Q25. [V. Imp.] Discuss the provisions relating to taxability of Provident Funds?
Q26. Write a note on Voluntary Retirement Scheme.
Q27. What is Profit in Lieu of Salary and under what head it is chargeable to tax?
Q28. What are the incomes taxable under the head salary?

COMPONENTS OF SALARY

Part – A

(i) Basic pay
(ii) Dearness allowance
(iii) Bonus
(iv) Commission/Fees etc.

Part – B Allowances

Allowance means a fixed sum paid to an employee for a specific purpose without confirming the end utilization and allowance can be divided into four categories.

1. **House Rent Allowance Sec. 10(13A) Rule 2A**
2. **Special Allowance Sec. 10(14) Rule 2BB**

Special allowances can be divided into two categories

(i) Personal Allowance

(a) Children Education Allowance
(b) Hostel Allowance
(c) Transport Allowance

(d) Outstation Allowance
(e) Tribal Area Allowance
(f) Underground Allowance
(g) Composite Hill and fuel Allowance/High Altitude Allowance/Uncongenial climate Allowance/Snow Bound Area Allowance
(h) Border Area Allowance/Remote Area Allowance/Difficult Area Allowance/Disturbed Area Allowance.
(i) Other allowance like Compensatory Field Area Allowance, Compensatory Highly Active Field Area Allowance etc.

(ii) Allowance for official Duty

(a) Any allowance granted to meet the cost of travel on tour or on transfer.
(b) Daily allowance
(c) Conveyance allowance
(d) Helper allowance
(e) Academic allowance/research allowance
(f) Uniform allowance

3. Foreign Allowance Sec. 10(7)

4. Any other Allowance

- City Compensatory Allowance.
- Cash Allowance.
- Split Duty Allowance.
- Overtime Allowance.
- Medical Allowance.
- Servant Allowance.
- Tiffin Allowance.
- Deputation Allowance.
- Officiating Allowance.
- Closing Allowance.
- Non-practicing Allowance.
- Entertainment Allowance (Subject to deduction u/s 16(ii)).
- Similarly there may be any number of other personal allowances.

Part – C Perquisites (Facilities)

- Rent Free Accommodation Sec. 17(2)(i) Rule 3(1)
- Accommodation at concessional rent Sec. 17(2)(ii) Rule 3(1)
- Motor Car Facility Sec. 17(2)(iii) Rule 3(2)
- Gardener/Watchmen/Sweeper or any other servant Sec.17(2)(iii) Rule 3(3)
- Gas/Electricity/Water Sec. 17(2)(iii) Rule 3(4)
- Education Facility Sec. 17(2)(iii) Rule 3(5)
- Free transport Sec. 17(2)(iii) Rule 3(6)
- Payment by the employer on behalf of the employee Sec. 17(2)(iv)
- Payment of insurance premium on behalf of the employee Sec. 17(2)(v)
- Specified securities or Sweat equity allotted/transferred to employees by an employer Sec. 17(2)(vi)
- Any contribution to an approved superannuation fund by the employer in respect of an employee Sec. 17(2)(vii)
- Any other fringe benefit Sec. 17(2)(viii)
  - Loan to the employee either at concessional rate or free of interest Rule 3(7)(i)
  - Expenditure in connection with travelling, touring or accommodation to the employee Rule 3(7)(ii)
  - Free refreshment or foods to the employees Rule 3(7)(iii)
  - Any gift, voucher or token Rule 3(7)(iv)

- Expenses on credit cards Rule 3(7)(v)
- Club Membership and expenses incurred in a club Rule 3(7)(vi)
- Use of moveable assets Rule 3(7)(vii)
- Transfer of any moveable asset Rule 3(7)(viii)
- Any other benefit Rule 3(7)(ix)

- Medical Facility Proviso to Sec. 17(2)
- Leave travel Concession Sec. 10(5) Rule 2B

Part – D Superannuation Benefits

(a) Gratuity Sec. 10(10)
(b) Pension Sec. 10(10A)
(c) Leave Salary Sec. 10(10AA)
(d) Provident Fund Sec. 10(11), 10(12), 10(13), Part A of Fourth Schedule to Income Tax Act
(e) Retrenchment Compensation Sec. 10(10B)
(f) Voluntary Retirement Sec. 10(10C) Rule 2BA

Part – E Any Other Payment

Profits in lieu of salary Sec. 17(3)

Question 1: Explain Basic Pay/Dearness Allowance/ Bonus/Commission/Fees.
Answer:
Basic Pay/Dearness Allowance/Bonus/Commission/Fees

Basic Pay: Basic Pay is the essential component of salary. It is given by employer to employee for his basic qualities like qualification, experience and expertise in particular field and it is generally given in the form of a pay scale 2,000 – 100 – 2,500 – 200 – 3,500 – 300 – 5,000 – 400 – 7,000. The pay scale has in general 20 increments. Basic pay is always fully taxable.

Dearness Allowance: Dearness Allowance is given to an employee to compensate him for increase in prices and it is generally allowed as certain percentage of basic pay and it is linked to consumer price index and it is revised on quarterly basis. Dearness allowance of an employee is always fully chargeable to tax.

Illustration 1: Mr. X is employed in ABC Ltd. since 01.07.2000 in the pay scale of 11,000 – 500 – 14,500 – 900 – 19,900 – 1,100 – 27,600. The employer has paid dearness allowance @ 6% of his basic pay from 01.04.2012 to 30.09.2012 and thereafter dearness allowance was allowed @ 10% of basic pay.

Compute employee's Tax Liability for Assessment Year 2013-14.

Solution: `

Basic Pay [(18,100 x 3) + (19,000 x 9)] 2,25,300.00

Working Note:	`
01.07.2000 – 30.06.2001 =	11,000 p.m.
01.07.2001 – 30.06.2002 =	11,500 p.m.
01.07.2002 – 30.06.2003 =	12,000 p.m.
01.07.2003 – 30.06.2004 =	12,500 p.m.
01.07.2004 – 30.06.2005 =	13,000 p.m.
01.07.2005 – 30.06.2006 =	13,500 p.m.
01.07.2006 – 30.06.2007 =	14,000 p.m.
01.07.2007 – 30.06.2008 =	14,500 p.m.
01.07.2008 – 30.06.2009 =	15,400 p.m.
01.07.2009 – 30.06.2010 =	16,300 p.m.
01.07.2010 – 30.06.2011 =	17,200 p.m.
01.07.2011 – 30.06.2012 =	18,100 p.m.
01.07.2012 – 30.06.2013 =	19,000 p.m.

Dearness Allowance	18,078.00

Working Note:	`
From April to September	
(18,100 x 3) x 6% =	3,258
(19,000 x 3) x 6% =	3,420
From October to March	
(19,000 x 6) x 10% =	11,400

Gross Salary	2,43,378.00
Gross Total Income	2,43,378.00
Less: Deduction u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	2,43,380.00

Computation of Tax Liability

Tax on `2,43,380 at slab rate	4,338.00
Add: Education cess @ 2%	86.76
Add: SHEC @ 1%	43.38
Tax Liability	4,468.14
Rounded off u/s 288B	4,470.00

Illustration 2: Mr. X joins ABC Ltd. on 1st July' 2003 in the pay scale of 10,000 – 500 – 13,000 – 700 – 16,500 – 1,000 – 25,500. The company has allowed him dearness allowance @ 5% of the basic pay from 01.04.2012 upto 30.06.2012 and thereafter dearness allowance was allowed @ 11% of the basic pay but upto 31.12.2012 and after that dearness allowance was allowed @ 18% of the basic pay.

Compute employee's Tax Liability for the Assessment Year 2013-14.

Solution:

	`
Basic Pay [(14,400 x 3) + (15,100 x 9)]	1,79,100.00

Working Note:	`
01.07.2003 – 30.06.2004 =	10,000 p.m.
01.07.2004 – 30.06.2005 =	10,500 p.m.
01.07.2005 – 30.06.2006 =	11,000 p.m.
01.07.2006 – 30.06.2007 =	11,500 p.m.
01.07.2007 – 30.06.2008 =	12,000 p.m.
01.07.2008 – 30.06.2009 =	12,500 p.m.
01.07.2009 – 30.06.2010 =	13,000 p.m.
01.07.2010 – 30.06.2011 =	13,700 p.m.
01.07.2011 – 30.06.2012 =	14,400 p.m.
01.07.2012 – 30.06.2013 =	15,100 p.m.

Dearness Allowance	20,280.00

Working Note:	`
From April to June	
(14,400 x 3) x 5% =	2,160
From July to December	
(15,100 x 6) x 11% =	9,966
From January to March	
(15,100 x 3) x 18% =	8,154

Gross Salary	1,99,380.00
Gross Total Income	1,99,380.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,99,380.00

Tax Liability Nil

Bonus: It is the part of the profits of the employer, which is given to an employee and it is fully taxable.

Fees/Commission: Extra payment for extra work is called commission or fees and it is always fully taxable.

Allowances

1. House Rent Allowance Sec. 10(13A) Rule 2A

2. Special Allowance Sec. 10(14) Rule 2BB

Special allowances can be divided into two categories

(i) Personal Allowance

(a) Children Education Allowance
(b) Hostel Allowance
(c) Transport Allowance
(d) Outstation Allowance
(e) Tribal Area Allowance
(f) Underground Allowance
(g) Composite Hill and fuel Allowance/High Altitude Allowance/Uncongenial climate Allowance/ Snow Bound Area Allowance
(h) Border Area Allowance/Remote Area Allowance/Difficult Area Allowance/Disturbed Area Allowance.
(i) Other allowance like Compensatory Field Area Allowance, Compensatory Highly Active Field Area Allowance etc.

(ii) Allowance for official Duty

(a) Any allowance granted to meet the cost of travel on tour or on transfer.
(b) Daily allowance
(c) Conveyance allowance
(d) Helper allowance
(e) Academic allowance/research allowance
(f) Uniform allowance

3. Foreign Allowance Sec. 10(7)

4. Any other Personal Allowance

- City Compensatory Allowance.
- Cash Allowance.
- Split Duty Allowance.
- Overtime Allowance.
- Medical Allowance.
- Servant Allowance.
- Tiffin Allowance.
- Deputation Allowance.
- Officiating Allowance.
- Closing Allowance.
- Non-practicing Allowance.
- Entertainment Allowance (Subject to deduction u/s 16(ii)).
- Similarly there may be any number of other personal allowances.

Question 2 [V. Imp.]: Discuss the taxability of house rent allowance given by the employer to his employee?

Answer:

House Rent Allowance Section 10(13A) Rule 2A

Payment in cash by the employer to the employee for a specific purpose is called allowance e.g. If Mr. X is employed in ABC Ltd. and the employer has paid him `5,000 p.m. for taking a house on rent, it will be called house rent allowance.

House rent allowance is exempt to the extent of the least of the following:
(i) House rent allowance received.
(ii) Rent paid over **10%** of retirement benefits salary due to the assessee for the relevant period.
(iii) **50%** of retirement benefit salary in case of **Bombay**, **Calcutta**, **Madras** or **Delhi**.
40% of retirement benefit salary in case of any other place.

Meaning of Retirement Benefit Salary

Retirement Benefit Salary shall include:
(i) Basic pay
(ii) Dearness allowance if the terms of employment so provided
(iii) Commission if it is paid as a fixed percentage of the turnover as decided in **Gestetner Duplicators Pvt. Ltd v CIT, (1979) 117 ITR 1 (SC).**

- **Salary shall be computed on due basis i.e. any arrear or advance shall not be included.**
- **If employee is not paying any rent, no exemption shall be allowed.**
- **If there is any change in house rent allowance, rent paid, retirement benefits salary or the place of posting during the year, there will be separate calculation for each of such change.**

Illustration 3: Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m., dearness allowance `7,000 p.m. and half of the dearness allowance forms the part of salary for the purpose of retirement benefits.

The employer has paid bonus @ `500 p.m., commission @ 1% on the sales turnover of `20 lakhs. The employer paid him house rent allowance `6,000 p.m. Employee has paid rent `7,000 p.m. and was posted at Agra.

Compute his Tax Liability for the Assessment Year 2013-14.

Solution:

	`
Computation of Gross Salary	
Basic Pay (20,000 x 12)	2,40,000.00
Dearness Allowance (7,000 x 12)	84,000.00
Bonus (500 x 12)	6,000.00
Commission (1% of `20,00,000)	20,000.00
House rent allowance {Sec 10(13A) Rule 2A}	18,200.00

Working Note:
Least of the following is exempt:
1. `72,000
2. `84,000 – `30,200 = 53,800
3. 40% of retirement benefit salary = `1,20,800
(Retirement benefit salary = 2,40,000 + 42,000 + 20,000 = 3,02,000)
Received = `72,000
Exempt = `53,800
Taxable = `18,200

Gross Salary	3,68,200.00

Gross Total Income	3,68,200.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,68,200.00

Computation of Tax Liability

Tax on `3,68,200 at slab rate	16,820.00
Add: Education cess @ 2%	336.40
Add: SHEC @ 1%	168.20
Tax Liability	17,324.60
Rounded off u/s 288B	17,320.00

Illustration 4: Compute taxable amount of house rent allowance in the following cases:

Name of the employee	Mr. A	Mr. B	Mr. C	Mr. D
Basic Pay	20,000 p.m.	20,000 p.m.	20,000 p.m.	20,000 p.m.
House rent allowance	5,000 p.m.	5,000 p.m.	5,000 p.m.	5,000 p.m.
Rent paid	1,500 p.m.	12,000 p.m.	14,000 p.m.	Nil
Place of residence	Delhi	Delhi	Delhi	Delhi

Solution:

Situation 1: (Mr. A)

Computation of taxable amount of House rent allowance	`
1. House Rent allowance received (5,000 x 12)	60,000
2. Rent paid over 10% of retirement benefit salary (`18,000 – `24,000)	Nil
3. 50% of retirement benefit salary	1,20,000
(Retirement benefit salary = 2,40,000)	
Received	60,000
Exempt	Nil
Taxable	60,000

Situation 2: (Mr. B)

1. House Rent allowance received (5,000 x 12)	60,000
2. Rent paid over 10% of retirement benefit salary (`1,44,000 – `24,000)	1,20,000
3. 50% of retirement benefit salary	1,20,000
(Retirement benefit salary = 2,40,000)	
Received	60,000
Exempt	60,000
Taxable	Nil

Situation 3: (Mr. C)

1. House Rent allowance received (5,000 x 12)	60,000
2. Rent paid over 10% of retirement benefit salary (`1,68,000 – `24,000)	1,44,000
3. 50% of retirement benefit salary	1,20,000
(Retirement benefit salary = 2,40,000)	
Received	60,000
Exempt	60,000
Taxable	Nil

Situation 4: (Mr. D)

1. House Rent allowance received (5,000 x 12)	60,000
2. Rent paid over 10% of retirement benefit salary	Nil
3. 50% of retirement benefit salary	1,20,000
(Retirement benefit salary = 2,40,000)	
Received	60,000

Exempt	Nil
Taxable	60,000

Illustration 5: Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m. but it was increased to `30,000 p.m. w.e.f. 01.09.2012. The employer was paying him house rent allowance `6,000 p.m. but it was decreased to `3,000 p.m. w.e.f. 01.11.2012. The employee was paying rent `4,000 p.m. but it was increased to `7,000 p.m. w.e.f. 01.12.2012. The employee was posted at Amritsar but was transferred to Calcutta w.e.f. 01.02.2013. The employee has resigned w.e.f. 01.03.2013.

Compute his Tax Liability for the Assessment Year 2013-14.

Solution:

	`
Basic Pay [(20,000 x 5) + (30,000 x 6)]	2,80,000
House rent allowance {Sec 10(13A) Rule 2A}	32,000

Working Note:

From April to August

Least of the following is exempt:

1. `30,000
2. `20,000 – `10,000 = `10,000
3. 40% of retirement benefit salary = `40,000

(Retirement benefit salary = `1,00,000)
Received = `30,000
Exempt = `10,000
Taxable = `20,000

From September to October

Least of the following is exempt:

1. `12,000
2. `8,000 – `6,000 = `2,000
3. 40% of retirement benefit salary = `24,000

(Retirement benefit salary = `60,000)
Received = `12,000
Exempt = ` 2,000
Taxable = `10,000

For November

Least of the following is exempt:

1. `3,000
2. `4,000 – `3,000 = `1,000
3. 40% of retirement benefit salary = `12,000

(Retirement benefit salary = `30,000)
Received = `3,000
Exempt = `1,000
Taxable = `2,000

From December to January

Least of the following is exempt:

1. `6,000
2. `14,000 – `6,000 = `8,000
3. 40% of retirement benefit salary = `24,000

(Retirement benefit salary = `60,000)
Received = `6,000
Exempt = `6,000
Taxable = Nil

For February

Least of the following is exempt:
1. `3,000
2. `7,000 – `3,000 = `4,000
3. 50% of retirement benefit salary = `15,000
(Retirement benefit salary = `30,000)
Received = `3,000
Exempt = `3,000
Taxable = Nil
Total = 20,000 + 10,000 + 2,000 + Nil + Nil = `32,000

Gross Salary	3,12,000
Gross Total Income	3,12,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,12,000

Computation of Tax Liability

Tax on `3,12,000 at slab rate	11,200
Add: Education cess @ 2%	224
Add: SHEC @ 1%	112
Tax Liability	11,536
Rounded off u/s 288B	11,540

Question 3 [V. Imp.]: Write a note on special allowances Section 10(14) Rule 2BB.
Answer:
<u>Special Allowance</u> <u>Section 10(14) Rule 2BB</u>
<u>Official allowance</u> <u>Section 10(14)(i)</u>
Any such special allowance or benefit, not being in the nature of a perquisite, specifically granted to meet expenses wholly, necessarily and exclusively incurred in the performance of the duties of an office or employment of profit, as may be prescribed, to the extent to which such expenses are actually incurred for that purpose shall be exempt.

<u>Personal allowance</u> <u>Section 10(14)(ii)</u>
Any such allowance granted to the assessee either to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides, or to compensate him for the increased cost of living, as may be prescribed and to the extent as may be prescribed, shall be exempt:

<u>Official allowance</u> <u>Section 10(14)(i) Rule 2BB</u>
The special allowances or benefits of the following types are exempt from tax under Rule 2BB read with section 10(14)(i), however any saving is chargeable to tax.

(a) **<u>Travelling Allowance:</u>** Any allowance granted to meet the **<u>cost of travel on tour or transfer</u>** shall be exempt but saving is chargeable to tax. Travelling allowance shall also include any amount paid in connection with transfer, packing and transportation of person effects.

(b) **<u>Daily Allowance:</u>** Any allowance granted to meet the **<u>ordinary daily charges</u>** incurred by an employee on account of absence from his normal place of duty, whether granted on tour or for the period of journey in connection with transfer.

(c) **<u>Conveyance Allowance:</u>** Any allowance granted to meet the expenditure incurred on **<u>conveyance</u>** in the performance of duties of an office or employment of profit–provided free conveyance is not provided by the employer.

(d) **<u>Helper Allowance:</u>** Any allowance granted to meet the expenditure incurred on a **<u>helper</u>** where such a helper is engaged for the performance of duties of office or employment.

(e) **Academic Allowance:** Any allowance granted for **encouraging academic research** and **training pursuits** in educational and research institutions.

(f) **Uniform Allowance:** Any allowance granted to meet the expenditure incurred on the purchase **or maintenance of uniforms** for wear during the performance of the duties of an office or employment.

The conditions to be satisfied in order to qualify for the exemption are:
(i) The allowance should be granted to meet expenses incurred in the performance of duties.
(ii) The expenditure is allowable only to the extent to which it is incurred.

Personal allowance Section 10(14)(ii) Rule 2BB
The special allowances or benefits of the following types are exempt to the extent of the amount of allowance or the amount specified in Rule 2BB whichever is lower, as per section 10(14)(ii).

(1) Children Education Allowance
Children education allowance is **exempt upto `100 p.m. per child upto two child.**
Example
Mr. X is employed in ABC Ltd. and the employer has paid him children education allowance of `175 p.m. per child for three children. In this case, taxable amount shall be

I	II	III
175	175	175
100	100	
75	75	175 = 325 x 12 = 3,900

Similarly, if the employer has paid children education allowance of `45 p.m. per child for three children, taxable amount shall be

I	II	III
45	45	45
45	45	
Nil	Nil	45 = 45 x 12 = 540

- **Under section 2(15B) child shall include even a step child and an adopted child** of that individual but it will not include grand child.

- **Exemption is allowed irrespective of the expenditure incurred.**

Example
Mr. X is employed in ABC Ltd. and is getting children education allowance of `75 p.m. per child for three children and Mr. X has incurred `500 p.m. on the education of each of the child, in this case taxable amount shall be 75 x 12 = 900

- **Exemption can be availed for any two children i.e. it is not compulsory that exemption is allowed only for first two children.**

- **Exemption is not allowed for the third child even if it is a case twins after the birth of one child.**

(2) Hostel Allowance
Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto **`300 p.m. per child upto two children**. Remaining provisions are similar to children education allowance.

(3) Transport Allowance
Allowance given to an employee to meet his expenditure for the purpose of commuting between the place of

his residence and the place of his duty is called transport allowance and it is exempt upto **800 p.m**., **irrespective of the expenditure incurred**.

Example

Mr. X is employed in ABC Ltd. as sales manager. The employer has paid him transport allowance of `1,000 p.m. He has incurred expenditure of `1,500 p.m. In this case, taxable amount shall be = 200 x 12 = 2,400

Transport allowance granted to an employee, who is blind or orthopaedically handicapped with disability of lower extremities, to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty is exempt upto **`1,600 p.m**.

(4) Outstation Allowance

Any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place is called outstation allowance. Such allowance is given in lieu of daily allowance. It is exempt to the extent of least of the following:

(i) **70% of the allowance**

(ii) **`10,000 p.m.**

Example

Mr. X is employed in Indian Airlines and is getting outstation allowance of `10,000 p.m. In this case, exemption allowed shall be (10,000 x 12 x 70%) or (10,000 x 12) whichever is less i.e. `84,000 and taxable amount shall be `36,000

If the transport system has provided daily allowance as well as outstation allowance, in such cases, daily allowance is fully exempt and outstation allowance is fully taxable.

Transport system shall include Railways, Roadways, Shipping company etc. It will also include any other private transporter.

(5) Underground Allowance

Underground Allowance granted to an employee who is working in uncongenial, unnatural climate in underground mines is exempt upto **`800 p.m.**

(6) Special Compensatory (Tribal Areas/Schedule Areas/Agency Areas) Allowance is exempt upto **`200 p.m.**

(7) Any Special Compensatory Allowance in the nature of Special Compensatory (Hilly Areas) Allowance or High Altitude Allowance or Uncongenial Climate Allowance or Snow Bound Area Allowance or Avalanche Allowance is exempt from **`800 p.m. to 7,000 p.m**.

(8) Any special allowance in the nature of high altitude (uncongenial climate) allowance granted to the member of the armed forces operating in high altitude areas is exempt upto **`1,060 to 1,600 p.m.**

(9) Any Special Compensatory Allowance in the nature of Border Area Allowance, Remote Locality Allowance or Difficult Area Allowance or Disturbed Area Allowance is exempt from **` 200 p.m. to 1,300 p.m.**

(10) Compensatory Field Area Allowance is exempt upto **`2,600 p.m.**

(11) Any special allowance granted to the member of the armed forces in the nature of special compensatory highly active field area allowance is exempt upto **`4,200 p.m.**

(12) Any special allowance granted to the member of the armed forces in the nature of Island (duty) allowance **`3,250 p.m.**

(13) Compensatory Modified Field Area Allowance is exempt upto **`1,000 p.m**.

Illustration 6: Mr. X is employed in Central Government getting basic pay `18,000 p.m., dearness allowance `6,000 p.m. Employer has paid children education allowance `700 p.m. per child w.e.f. 01.09.2012 and hostel allowance of `1,000 p.m. for one child w.e.f. 01.10.2012.

Employer has paid transport allowance `900 p.m. w.e.f. 01.11.2012. Employer has paid house rent allowance `5,000 p.m. w.e.f 01.01.2013.

The employee has resigned from 01.02.2013 and has taken up a new job w.e.f. 01.03.2013. He is getting basic pay `27,000 p.m. and house rent allowance `4,000 p.m.

Compute his Tax Liability for the Assessment Year 2013-14.

Solution:

	`
Basic Pay [(18,000 x 10) + (27,000 x 1)]	2,07,000.00
Dearness Allowance (6,000 x 10)	60,000.00
House rent allowance {Sec 10(13A) Rule 2A}	9,000.00

Working Note:
For January
Least of the following is exempt:
1. `5,000
2. Nil
3. 40% of retirement benefit salary = `7,200
(Retirement benefit salary = `18,000)
Received = `5,000
Exempt = Nil
Taxable = `5,000
For March
Least of the following is exempt:
1. `4,000
2. Nil
3. 40% of retirement benefit salary = `10,800
(Retirement benefit salary = `27,000)
Received = `4,000
Exempt = Nil
Taxable = `4,000
Total = `5,000 + `4,000 = `9,000

Children Education Allowance {Sec 10(14) Rule 2BB}	3,000.00

Working Note:	`
Received = `700 x 5 x 1 =	3,500
Exempt = `100 x 5 x 1 =	500
Taxable =	3,000

Hostel Allowance {Sec 10(14) Rule 2BB}	2,800.00

Working Note:	`
Received = `1,000 x 4 x 1 =	4,000
Exempt = ` 300 x 4 x 1 =	1,200
Taxable =	2,800

Transport Allowance {Sec 10(14) Rule 2BB}	300.00

Working Note:	`
Received = `900 x 3 =	2,700

Exempt = `800 x 3 =		2,400
Taxable	=	300

Gross Salary	2,82,100.00
Gross Total Income	2,82,100.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,82,100.00

Computation of Tax Liability

Tax on `2,82,100 at slab rate	8,210.00
Add: Education cess @ 2%	164.20
Add: SHEC @ 1%	82.10
Tax Liability	8,456.30
Rounded off u/s 288B	8,460.00

Question: What is tax incidence on allowance and perquisites provided by the Govt. to its employees posted abroad?
Answer:
<u>Allowances and perquisites provided by the government to its employees posted abroad</u> <u>Section 10(7)</u>
Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India are exempt from income tax.
Example
Mr. X is an I.F.S. and is a Citizen of India and is getting Medical Allowance, Servant Allowance, Education Allowance and some other allowance outside India, and is posted in U.S.A in Indian Embassy. All these allowances are fully exempt from income tax under section 10(7).

Similarly, any perquisite allowed to such employees shall be fully exempt from tax.

Question: Explain other allowances.
Answer:
<u>Other Allowances</u> <u>Section 17(1)</u>
Any other allowance is fully chargeable to tax and such allowances may be:
- City Compensatory Allowance.
- Cash Allowance
- Split Duty Allowance.
- Overtime Allowance.
- Medical Allowance.
- Servant Allowance.
- Tiffin Allowance.
- Deputation Allowance.
- Officiating Allowance.
- Closing Allowance.
- Non-practicing Allowance.
- Entertainment Allowance (Subject to deduction under section 16(ii))
- Similarly there may be any number of other personal allowances.

<u>Illustration 7:</u> Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m. and employer has paid him following allowances.

1. Servant allowance `500 p.m. but the employee has saved `100 p.m.
2. Lunch allowance `300 p.m.
3. Split duty allowance `300 p.m.
4. Project allowance `1,000 p.m.
5. Regularity allowance `300 p.m.

6. Cash allowance `500 p.m.
7. Overtime allowance `400 p.m.
8. Outstation allowance `700 p.m.
9. Transport allowance `900 p.m.
10. Conveyance allowance (personal use) `200 p.m.
11. Officiating allowance `300 p.m.
12. Deputation allowance `150 p.m.

Compute employee's Gross Salary and Tax Liability for the Assessment Year 2013-14.

Solution:	`
Basic Salary (20,000 x 12)	2,40,000
Servant Allowance (500 x 12)	6,000
Lunch Allowance (300 x 12)	3,600
Split Duty Allowance (300 x 12)	3,600
Project Allowance (1,000 x 12)	12,000
Regularity Allowance (300 x 12)	3,600
Cash Allowance (500 x 12)	6,000
Overtime Allowance (400 x 12)	4,800
Outstation Allowance (700 x 12)	8,400
Transport Allowance [(900 – 800) x 12]	1,200
Conveyance Allowance (200 x 12)	2,400
Officiating Allowance (300 x 12)	3,600
Deputation Allowance (150 x 12)	1,800
Gross Salary	2,97,000
Gross Total Income	2,97,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,97,000

Computation of Tax Liability

Tax on `2,97,000 at slab rate	9,700
Add: Education cess @ 2%	194
Add: SHEC @ 1%	97
Tax Liability	9,991
Rounded off u/s 288B	9,990

Question 4: What are the deductions permitted under the Income Tax Act, 1961 in the computation of income under the head "salaries"? Discuss.
Answer:
Deductions Section 16
The deductions permitted under section 16 are:
Standard deduction Section 16(i) – Omitted w.e.f assessment year 2006-07.

Entertainment allowance Section 16(ii) – In the case of a **Government employee**, the deduction will be the least of the following:

(i) 20% of basic salary

(ii) ` 5,000

(iii)The actual allowance received by the employee

Deduction is allowed only if the employee is State Government or Central Government employee i.e. in case of employees of Local Authority, Statutory Corporation, Public Sector Undertaking etc, deduction is not allowed.

If the employee has saved any amount, it will not be taken into consideration.

Professional Tax/Employment Tax   Section 16(iii)

A deduction of any sum paid by the assessee on account of a tax on employment within the meaning of clause (2) of article 276 of the Constitution, leviable by or under any law.

If the amount has been paid by the employer on behalf of the employee, it will be first included in gross salary under section 17(2)(iv) and subsequently deduction is allowed under section 16(iii).

If the amount is due but not paid, deduction is not allowed.

Example

Professional tax of `2,000 was due in case of Mr. X on 27.03.2013 but it was paid on 10.04.2013. In this case, no deduction is allowed in the previous year 2012-13 but deduction shall be allowed in the previous year 2013-14.

If the person paying professional tax is engaged in his own business or profession, he will be allowed to debit the amount to his profit and loss account.

Relevant extract from Constitution Article 276: Taxes on professions, trades, callings and employment—

(1) Notwithstanding anything in article 246, no law of the Legislature of a State relating to taxes for the benefit of the State or of a municipality, district board, local board or other local authority therein in respect of professions, trades, callings or employments shall be invalid on the ground that it relates to a tax on income.

(2) The total amount payable in respect of any one person to the State or to any one municipality, district board, local board or other local authority in the State by way of taxes on professionals, trades, callings or employments shall not be exceed two thousand and five hundred rupees per annum.

(3) The power of the Legislature of a State to make laws as aforesaid with respect to taxes on professions, trades, callings and employments shall not be construed as limiting in any way the power of Parliament to make laws with respect to taxes on income accruing from or arising out of professions, trade, callings and employments.

Illustration 8: Mr. X is employed in Central Government getting basic pay `11,000 p.m., dearness allowance `5,000 p.m., House rent allowance `4,000 p.m. w.e.f. 01.07.2012. However, employee is residing in the house of his parents. Employer has paid cash allowance `300 p.m., medical allowance `250 p.m. and entertainment allowance `400 p.m. Employer has paid professional tax `75 p.m. on behalf of the employee.

Employee has saved `35 p.m. out of entertainment allowance. Employee is a member of a club and is paying a membership fee of `300 p.m.

Compute employee’s income under the head Salary and Tax Liability for the Assessment Year 2013-14.

Solution:	`
Basic Pay (11,000 x 12)	1,32,000.00
Dearness allowance (5,000 x 12)	60,000.00
House rent allowance {Sec 10(13A) Rule 2A}	36,000.00

Working Note:
Least of the following is exempt:

1. `36,000
2. Nil
3. 40% of retirement benefit salary = `39,600
(Retirement benefit salary = `99,000)
Received = `36,000
Exempt = Nil
Taxable = `36,000

Cash Allowance (300 x 12)	3,600.00
Medical Allowance (250 x 12)	3,000.00
Entertainment Allowance (400 x 12)	4,800.00
Professional tax paid by employer (75 x 12)	900.00
Gross Salary	2,40,300.00
Less: 16(ii) Entertainment Allowance	4,800.00

Working Note:
Least of the following is deductible:
1. Entertainment allowance received `4,800
2. `5,000
3. 20% of `1,32,000 = `26,400

Less: 16(iii) Professional Tax	900.00
Income under the head Salary	2,34,600.00
Gross Total Income	2,34,600.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,34,600.00

Computation of Tax Liability

Tax on `2,34,600 at slab rate	3,460.00
Add: Education cess @ 2%	69.20
Add: SHEC @ 1%	34.60
Tax Liability	3,563.80
Rounded off u/s 288B	3,560.00

Question 5 [V. Imp.]: Write a note on chargeability of Salary.
Answer:
<u>Chargeability of Salary</u> <u>Section 15</u>
The following income shall be chargeable to income tax under the head "Salaries"—
(a) any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not.

Example
Mr. X is employed in ABC Ltd. and is getting basic pay of `10,000 p.m. during the previous year 2012-13 and the employer has made the payment in time upto February 2013 but salary for the month of March 2013 was paid in April 2013, in this case his gross salary shall be considered to be `1,20,000.

(b) any salary paid or allowed to him in the previous year by employer or a former employer though not due or before it became due to him.
Example
Mr. X is employed in ABC Ltd. and is getting basic pay of `10,000 p.m. during the previous year 2012-13 and he has being receiving payment in time however he has taken salary for the month of April and May 2013 in the month of March 2013, in this case his gross salary shall be considered to be `1,40,000.

(c) any arrears of salary paid or allowed to him in the previous year by the employer, if not charged to income-tax for any earlier previous year.

Example

Mr. X is employed in ABC Ltd. getting basic pay `10,000 p.m. but the employer has increased his basic pay to `12,000 p.m. on 01.07.2012 but the increase is w.e.f 01.01.2012, in this case arrears of salary amounting to `6,000 shall be taxable in the year 2012-13 and accordingly his gross salary shall be considered to be `1,50,000.

Explanation 1. —Where any salary paid in advance is included in the total income of any person for any previous year it shall not be included again in the total income of the person when the salary becomes due.

Explanation 2. —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 regarded as "salary" for the purposes of this section, rather as per section 28, any such salary is income of the partner under the head Business/Profession.

Example

Mr. X is partner in a partnership firm XY and he has received a salary of `10,000 p.m. from such partnership firm, it will be considered to be his income under the head Business/Profession.

Advance Salary/Advance Against Salary

If any employee has taken advance salary, it is taxable in the year in which the advance has been received but if the employee has taken advance against salary, it will not be taxable because it is simply a loan and a loan cannot be considered to be income. If the loan has been given at concessional rate or free of interest, in such cases, there will be a perquisite value as per section 17(2)(viii) Rule 3(7)(i).

Question 6: Write a note on relief under section 89.

Answer:

<u>Relief under Section 89</u>

If any person has received arrears of salary or advance of salary and because of this reason his tax liability has increased, he may claim relief under section 89 and such relief shall be computed as per rule 21A/21AA in the manner given below:

1. Compute tax liability for the previous year in which the arrear or advance of salary has been received including the amount of such arrear or advance.

2. Compute tax liability for the previous year in which the arrear or advance has been received excluding such arrear or advance.

3. Tax at step no. 1 minus tax at step no. 2 shall be the tax on such arrear or advance.

4. Compute tax liability of the previous year to which the arrear or advance relates including such arrear or advance.

5. Compute tax liability of the previous year to which arrear or advance relates excluding such arrear or advance.

6. Tax at step no. 4 minus tax at step no. 5 shall be tax on the arrears or advance in the year to which such arrear or advance relates.

7. Tax at step no. 3 minus tax at step no. 6 shall be the relief under section 89.

If there is no excess, no relief is admissible.

<u>Illustration 9:</u> Mr. X is employed in ABC Ltd. getting gross salary `1,20,000, but it is increased to `1,90,000 in previous year 2012-13 w.e.f. previous year 2011-12.

Compute Tax Liability and relief under section 89.

<u>Tax Rate of Previous Year 2011-12 for individual</u>

If total income is upto `1,80,000	NIL
On next `3,20,000	10%
On next `3,00,000	20%
On Balance amount	30%

<u>Solution:</u>

	`
Step 1. **Previous Year 2012–13**	
Salary	1,90,000
Add: Arrears for previous year 2011-12	70,000
Gross Salary	2,60,000
Income under the head Salary	2,60,000
Tax before education cess	6,000
Add: Education cess @ 2%	120
Add: SHEC @ 1%	60
Tax Liability	6,180
Step 2. **Previous Year 2012–13**	
Salary	1,90,000
Gross Salary	1,90,000
Income under the head Salary	1,90,000
Tax Liability	Nil
Step 3. Difference between Step 1 and Step 2	6,180
Step 4. **Previous Year 2011–12**	
Salary	1,20,000
Add: Arrears	70,000
Gross Salary	1,90,000
Income under the head Salary	1,90,000
Tax before education cess	1,000
Add: Education cess @ 2%	20
Add: SHEC @ 1%	10
Tax Liability	1,030
Step 5. **Previous Year 2011–12**	
Salary	1,20,000
Gross Salary	1,20,000
Income under the head Salary	1,20,000
Tax Liability	Nil
Step 6. Difference between Step 4 and Step 5	1,030
Step 7. Relief under section 89 Step 3 – Step 6	5,150
Tax after adjusting relief u/s 89 [6,180 – 5,150]	1,030

Question: Define salary under section 17(1).

Answer:

<u>Meaning of Salary</u> **<u>Section 17(1)</u>**

For the purposes of sections 15 and 16 and of this section,—

<u>"Salary" includes—</u>

(i) wages;

(ii) any annuity or pension;

(iii)any gratuity;

(iv)any fees, commissions, perquisites or profits in lieu of or in addition to any salary or wages;

(v) any advance of salary;

(va) any payment received by an employee in respect of any period of leave not availed of by him;

(vi) the annual accretion to the balance at the credit of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax under rule 6 of Part A of the Fourth Schedule; and

(vii) the aggregate of all sums that are comprised in the transferred balance as referred to in the Fourth Schedule to the extent to which it is chargeable to tax under fourth schedule.

(viii) the contribution made by the Central Government in the previous year, to the account of an employee under a pension scheme referred to in section 80CCD.

<u>When is salary due :</u>

<u>Last day of the month/first of the next month</u>

Salary is due on the last day of the month or on the first day of the next month depending upon the relationship between the employee and the employer.

If salary is due on the last day of the month, salary from April to March shall be due during the particular year but if salary is due on the first of next month, salary from March to February shall be due during the relevant previous year.

The calculations can be shown as given in the following illustrations:

<u>Illustration 10:</u> Mr. X joined ABC Ltd. on 01.07.2005 in the pay scale of 21,000 – 1,200 – 28,200 – 1,400 – 39,400 – 1,600 – 49,000. The employer has allowed him 3 increments in advance at the time of joining. The employee's salary is due on the 1st of next month.

Employee was allowed dearness allowance @ `7,000 p.m., during the previous year 2011-12 and @ `9,000 p.m. in 2012-13. The employee has resigned w.e.f. 01.03.2013. The employee was allowed pension @ `9,000 p.m. and his pension is due on the last day of the month.

Compute Tax Liability for the Assessment Year 2013-14.

<u>Solution:</u>

	`
Computation of income under the head Salary	
Basic Pay [(32,400 x 4) + (33,800 x 8)]	4,00,000

Working Note:	`
01.07.2005 – 30.06.2006 =	24,600 p.m.
01.07.2006 – 30.06.2007 =	25,800 p.m.
01.07.2007 – 30.06.2008 =	27,000 p.m.
01.07.2008 – 30.06.2009 =	28,200 p.m.
01.07.2009 – 30.06.2010 =	29,600 p.m.

01.07.2010 – 30.06.2011 =	31,000 p.m.
01.07.2011 – 30.06.2012 =	32,400 p.m.
01.07.2012 – 30.06.2013 =	33,800 p.m.

Dearness allowance [(7,000 x 1) + (9,000 x 11)]	1,06,000
Pension	9,000
Gross Salary	5,15,000
Income under the head Salary	5,15,000
Gross Total Income	5,15,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	5,15,000

Computation of Tax Liability

Tax on `5,15,000 at slab rate	33,000
Add: Education cess @ 2%	660
Add: SHEC @ 1%	330
Tax Liability	33,990

Taxability of Perquisites

- ***Rent Free Accommodation Sec. 17(2)(i) Rule 3(1)***
- ***Accommodation at concessional rent Sec. 17(2)(ii) Rule 3(1)***
- ***Motor Car facility Sec. 17(2)(iii) Rule 3(2)***
- ***Gardener/Watchmen/Sweeper or any other servant Sec.17(2)(iii)Rule 3(3)***
- ***Gas/Electricity/Water Sec. 17(2)(iii) Rule 3(4)***
- ***Education Facility Sec. 17(2)(iii) Rule 3(5)***
- ***Transport facility Sec. 17(2)(iii) Rule 3(6)***
- ***Payment by the employer on behalf of the employee Sec. 17(2)(iv)***
- ***Payment of insurance premium on behalf of the employee Sec. 17(2)(v)***
- ***Specified securities or sweat equity shares allotted/ transferred to employees by an employer Sec. 17(2)(vi)***
- ***Any contribution to an approved superannuation fund by the employer in respect of an employee Sec. 17(2)(vii)***
- ***Any other fringe benefit Sec. 17(2)(viii)***
  - ***Loan to the employee either at concessional rate or free of interest Rule 3(7)(i)***
  - ***Expenditure in connection with travelling, touring or accommodation to the employee Rule 3(7)(ii)***
  - ***Free refreshment or foods to the employees Rule 3(7)(iii)***
  - ***Any gift, voucher or token Rule 3(7)(iv)***
  - ***Expenses on credit cards Rule 3(7)(v)***
  - ***Club Membership and expenses incurred in a club Rule 3(7)(vi)***
  - ***Use of moveable assets Rule 3(7)(vii)***
  - ***Transfer of any moveable asset Rule 3(7)(viii)***
  - ***Any other benefit Rule 3(7)(ix)***
- ***Medical Facility Proviso to Sec. 17(2)***
- ***Leave travel Concession Sec. 10(5) Rule 2B***

Meaning of Perquisite

If the employer has allowed the facilities to the employees, it is called perquisite, but if the payment is given in cash for a specific purpose, it is called allowance. e.g. If the employer has provided the facility of rent free accommodation or gardener/watchman/sweeper facility etc., it will be called perquisite but if the employer has given the payment in cash for taking a house on rent, it will be called allowance.

The term perquisite has an extended meaning under Income Tax Act and accordingly if the employer has made any payment on behalf of the employee or has reimbursed any amount to the employee in connection with employee's obligation, it will also be called perquisite e.g. one employee has taken himself the facilities of gas, electricity and water and the employer has made the payment on behalf of the employee, it will also be called perquisite.

Question 7 [V. Imp.]: Discuss the taxability of rent free accommodation given to an employee by his employer?

Answer:

Taxability of rent free accommodation given to an employee by his employer Section 17(2)(i) Rule 3(1)

In case of Rent Free Accommodation, perquisite value shall depend upon the category of employee and for this purpose, employees may be divided into two categories: -

(1) Government Employees: In case Central or State Government provides the accommodation to their employees, perquisite value shall be the licence fee determined as per Government rules.

If furniture is also provided alongwith house

If employer has also provided furniture (including T.V., refrigerators, other household appliances, air conditioning plant or equipment), in such a case value determined above shall be increased by **10% p.a. of cost of furniture.** And if such **furniture is hired** from a third party, the value of unfurnished accommodation shall be increased by the **actual hire charges** payable.

Illustration 11: Mr. X is employed in Central Government getting basic pay `73,000 p.m. Employer has provided him rent free accommodation and the rent determined as per Government rules is `6,000 p.m. The employer has provided him furniture with actual cost `1,00,000 and written down value `65,000. The employer has provided one air-conditioner also during April and May' 2012. Rent paid by the employer for the air-conditioner is `1,000 p.m.

Compute employee's Tax Liability for the Assessment Year 2013-14.

Solution:

	`
Basic Pay (73,000 x 12)	8,76,000
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	84,000

Working Note:	`
Perquisite value of unfurnished house (6,000 x 12)	72,000
Add: 10% of cost of furniture (1,00,000 x 10%)	10,000
Add: Rent of air-conditioner (1,000 x 2)	2,000
Perquisite value of furnished house	84,000

Gross Salary	9,60,000
Income under the head Salary	9,60,000

Computation of Tax Liability

Tax on `9,60,000 at slab rate	1,22,000
Add: Education cess @ 2%	2,440
Add: SHEC @ 1%	1,220
Tax Liability	1,25,660

(2) Other Employees:

A. Where the accommodation is owned by the employer

(i) If the population is upto 10 lakhs	7.5% of rent free accommodation salary
(ii) If the population is more than 10 lakhs but upto 25 lakhs	10% of rent free accommodation salary
(iii) If the population is more than 25 lakhs	15% of rent free accommodation salary

Example

Compute perquisite value in the following situations:
(i) Mr. X is employed in ABC Ltd. getting basic pay `50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 2,00,000.

(ii) Mr. X is employed in ABC Ltd. getting basic pay `50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 10,00,000.

(iii) Mr. X is employed in ABC Ltd. getting basic pay `50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 22,00,000.

(iv) Mr. X is employed in ABC Ltd. getting basic pay `50,000 p.m. and the employer has provided him a rent free accommodation which is owned by the employer himself at a place with population of 32,00,000 (accommodation was provided only for three months).

Solution:
(i) Computation of Perquisite value
7.5% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 12 = 6,00,000
7.5% of `6,00,000 = 45,000
Perquisite value of rent free accommodation = `45,000

(ii) Computation of Perquisite value
7.5% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 12 = 6,00,000
7.5% of `6,00,000 = 45,000
Perquisite value of rent free accommodation = `45,000

(iii) Computation of Perquisite value
10% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 12 = 6,00,000
10% of `6,00,000 = 60,000
Perquisite value of rent free accommodation = `60,000

(iv) Computation of Perquisite value
15% of rent free accommodation salary
Rent free accommodation salary = 50,000 x 3 = 1,50,000
15% of `1,50,000 = 22,500
Perquisite value of rent free accommodation = `22,500

B. Where the accommodation is taken on lease or rent by the employer
Amount of lease rent paid or payable or 15% of rent free accommodation salary whichever is lower.

If furniture is also provided alongwith house
If employer has also provided furniture (including T.V., refrigerators, other household appliances, air conditioning plant or equipment), in such a case value determined above shall be increased by 10% p.a. of cost of furniture. And if such furniture is hired from a third party, the value of unfurnished accommodation shall be increased by the actual hire charges payable.
Example
Compute perquisite value in the following situations:
(i) Mr. X is employed in ABC Ltd. getting basic pay `50,000 p.m. and the employer has provided him a rent free accommodation at a place with population of 2,00,000. Rent paid by the employer is `2,000 p.m.

(ii) Mr. X is employed in ABC Ltd. getting basic pay `50,000 p.m. and the employer has provided him a rent free accommodation at a place with population of 14,00,000. Rent paid by the employer is `5,000 p.m.

(iii) Mr. X is employed in ABC Ltd. getting basic pay `50,000 p.m. and the employer has provided him a rent free accommodation at a place with population of 26,00,000. Rent paid by the employer is `10,000 p.m.

(iv) Mr. X is employed in ABC Ltd. getting basic pay `50,000 p.m. and the employer has provided him a rent free accommodation at a place with population of 22,00,000 (accommodation was provided only for three months). Rent paid by the employer is `20,000 p.m.

Solution:
(i) Computation of Perquisite value
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 50,000 x 12 = 6,00,000
15% of `6,00,000 = 90,000
Rent paid = 2,000 x 12 = 24,000
Perquisite value of rent free accommodation = `24,000

(ii) Computation of Perquisite value
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 50,000 x 12 = 6,00,000
15% of `6,00,000 = 90,000
Rent paid = 5,000 x 12 = 60,000
Perquisite value of rent free accommodation = `60,000

(iii) Computation of Perquisite value
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 50,000 x 12 = 6,00,000
15% of `6,00,000 = 90,000
Rent paid = 10,000 x 12 = 1,20,000
Perquisite value of rent free accommodation = `90,000

(iv) Computation of Perquisite value
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 50,000 x 3 = 1,50,000
15% of `1,50,000 = 22,500
Rent paid = 20,000 x 3 = 60,000
Perquisite value of rent free accommodation = `22,500

Accommodation provided at two places
If accommodation is provided to an employee on account of his transfer from one place to another, at a new place of posting while retaining the accommodation at the old place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value (calculated according to the above provisions) **for a period not exceeding 90 days** and thereafter the value of perquisite shall be charged for both such accommodations.
Example
Mr. X is employed in ABC Ltd. and is getting a basic pay of `30,000 p.m., dearness allowance `10,000 p.m. He was posted at Delhi and employer has provided him a rent free accommodation at a place with population of 4,00,000 which is owned by the employer himself. The employee was transferred to some other place having population 13,00,000 w.e.f. 01.11.2012 and the employer has provided him accommodation at the new place also and for which rent paid by the employer is `2,000 p.m. Compute his Tax Liability for Assessment Year 2013-14.

Solution: `

Basic Pay (30,000 x 12)	3,60,000.00
Dearness Allowance (10,000 x 12)	1,20,000.00
Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}	30,250.00

Working Note:	`
From 01.04.2012 to 31.10.2012	
7.5% of rent free accommodation salary	
Rent free accommodation salary	2,10,000
7.5% of rent free accommodation salary	15,750
Perquisite value of rent free accommodation	15,750
Computation of perquisite value for rent free accommodation in old place	
From 01.11.2012 to 31.01.2013	
7.5% of rent free accommodation salary	
Rent free accommodation salary	90,000
7.5% of rent free accommodation salary	6,750
(a) Perquisite value of rent free accommodation	6,750
Computation of perquisite value for rent free accommodation in new place	
From 01.11.2012 to 31.01.2013	
15% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation salary	90,000
15% of rent free accommodation salary	13,500
Rent paid (2,000 x 3)	6,000
(b) Perquisite value of rent free accommodation	6,000
Perquisite value of rent free accommodation from 01.11.2012 to 31.01.2013	
= Least of (a) or (b)	6,000
Computation of perquisite value for rent free accommodation in old place	
From 01.02.2013 to 31.03.2013	
7.5% of rent free accommodation salary	
Rent free accommodation salary	60,000
7.5% of rent free accommodation salary	4,500
Computation of perquisite value for rent free accommodation in new place	
From 01.02.2013 to 31.03.2013	
15% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation salary	60,000
15% of rent free accommodation salary	9,000
Rent paid (2,000 x 2)	4,000
Perquisite value of rent free accommodation	4,000
Total taxable amount = 15,750 + 6,000 + 4,500 + 4,000 = 30,250	

Gross Salary	5,10,250.00
Income under the head Salary	5,10,250.00
Gross Total Income	5,10,250.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	5,10,250.00

Computation of Tax Liability

Tax on `5,10,250 at slab rate	32,050.00
Add: Education cess @ 2%	641.00
Add: SHEC @ 1%	320.50
Tax Liability	33,011.50

Rounded off u/s 288B	33,010.00

Accommodation provided in a hotel

Where accommodation is provided by the employer in a hotel except where the employee is provided such accommodation for a period not exceeding in aggregate **15 days on the transfer** from one place to another, in such a case perquisite value shall be **24% of salary paid or payable** for the period during which the accommodation was provided or the **actual charges paid or payable** to such hotel, **whichever is lower**.

Example

Mr. X is employed in ABC Ltd. and is getting basic pay of `50,000 p.m. and the employer has provided him accommodation in a hotel and expenditure incurred during the year is `1,60,000, in this case taxable amount shall be `1,44,000.

Accommodation provided in remote area

If the accommodation is provided to an employee working at a minning site, onshore oil exploration site, project execution site, dam site, power generation site or offshore site, the facility shall be exempt if the facility has been provided at any of the following places:

(i) being of a temporary nature and having plinth area not exceeding 800 square feet, is located not less than eight kilometers away from the local limits of any municipality or a cantonment board or

(ii) is located in a remote area.

Remote Area

"Remote area", means an area that is located at least 40 kilometres away from a town having a population not exceeding 20,000 based on latest published all-India census.

Accommodation to cabinet ministers/Judges of Supreme Court or High Court

If accommodation is provided to a Judge of a High Court or to a Judge of the Supreme Court, it is not taxable. A similar exemption is extended to an official of Parliament, a Union Minister and a Leader of Opposition in Parliament.

Meaning of Salary

Rent free accommodation salary shall include:

(i) Basic pay

(ii) Dearness Allowance/Dearness Pay. If it forms part of salary for retirement benefits as per service agreement.

(iii) Taxable portion of all allowances.

(iv) Bonus /Commission /Fees etc.

(v) Any other payment in cash like regular pension or leave salary (in lieu of leave due for the period for which the accommodation is occupied).

- Salary only for the period for which rent free accommodation is provided shall be taken into consideration.

Example

If rent free accommodation is provided from 01.05.2012 to 31.12.2012, Salary only for this period shall taken into consideration.

- While computing rent free accommodation salary, perquisite value of any perquisite (whether monetary or non-monetary) shall not be taken into consideration.

- Rent free accommodation salary shall be computed on accrual basis. i.e. any arrear or advance shall not be taken into consideration.

- If the employee is working with two or more employers, payments from all the employers shall be taken into consideration.

- If the employee is getting any pension from any other employer, it will also be taken into consideration.

Illustration 12: Mr. X is employed in ABC Ltd. getting basic pay `37,000 p.m., dearness allowance `32,000 p.m. The employer has provided him rent free accommodation at a place with population of 13 lakhs and the rent paid by the employer is `10,000 p.m. The employer has provided him furniture with original cost `1,50,000. However, the employer has discontinued the facility of rent free accommodation and furniture both w.e.f. 1st March, 2013. He has paid him house rent allowance `7,000 p.m. The employee has shifted in his own house w.e.f. 01.03.2013.

Compute Tax Liability for the Assessment Year 2013-14.

(b) Presume in the above illustration the accommodation is owned by the employer.

Solution:	`
Basic Pay (37,000 x 12)	4,44,000.00
Dearness allowance (32,000 x 12)	3,84,000.00
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	74,800.00

Working Note:	`
15% of rent free accommodation salary or rent paid whichever is less.	
Rent free accommodation Salary (37,000 x 11)	4,07,000
15% of rent free accommodation salary	61,050
Rent Paid = 10,000 x 11	1,10,000
Value of unfurnished house	61,050
Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)	13,750
Perquisite value of furnished house	74,800

House rent allowance {Sec 10(13A) Rule 2A}	7,000.00

Working Note:
Least of the following is exempt:
1. `7,000
2. Nil
3. 40% of retirement benefit salary = `14,800
(Retirement benefit salary = `37,000)
Received = `7,000
Exempt = Nil
Taxable = `7,000

Gross Salary	9,09,800.00
Income under the head Salary	9,09,800.00
Gross Total Income	9,09,800.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	9,09,800.00

Computation of Tax Liability

Tax on `9,09,800 at slab rate	1,11,960.00
Add: Education cess @ 2%	2,239.20
Add: SHEC @ 1%	1,119.60
Tax Liability	1,15,318.80
Rounded off u/s 288B	1,15,320.00

Solution (b): `

Basic Pay (37,000 x 12)	4,44,000.00
Dearness allowance (32,000 x 12)	3,84,000.00
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	54,450.00

Working Note: `

10% of rent free accommodation salary	
Rent free accommodation Salary (37,000 x 11)	4,07,000
10% of rent free accommodation salary	40,700
Value of unfurnished house	40,700
Add: 10% of cost of furniture (1,50,000 x 10% x 11/12)	13,750
Perquisite value of furnished house	54,450

House rent allowance {Sec 10(13A) Rule 2A} 7,000.00

Working Note:
Least of the following is exempt:
1. `7,000
2. Nil
3. 40% of retirement benefit salary = `14,800

(Retirement benefit salary = `37,000)
Received = `7,000
Exempt = Nil
Taxable = `7,000

Gross Salary	8,89,450.00
Income under the head Salary	8,89,450.00
Gross Total Income	8,89,450.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,89,450.00

Computation of Tax Liability

Tax on `8,89,450 at slab rate	1,07,890.00
Add: Education cess @ 2%	2,157.80
Add: SHEC @ 1%	1,078.90
Tax Liability	1,11,126.70
Rounded off u/s 288B	1,11,130.00

Accommodation at concessional rent Section 17(2)(ii) Rule 3(1)

If the accommodation is not provided free of cost, rather employer has charged some concessional rent from the employee, in that case perquisite value shall be calculated in the similar manner as in case of rent free accommodation however amount paid by the employee to the employer shall be deducted from the perquisite so computed.

Illustration 13: Compute tax liability in the following situations:

Name of the Employee	Mr. A	Mr. B	Mr. C	Mr. D
Basic Pay	20,000 p.m.	20,000 p.m.	20,000 p.m.	20,000 p.m.
Accommodation provided by the employer	Owned by the employer	Owned by the employer	Owned by the employer	Hired by the employer

Rent paid by the employer	Nil	Nil	Nil	4,000 p.m.
Population of the place	10 lakhs	25 lakhs	35 lakhs	10 lakhs
Rent recovered from the employee	500 p.m.	500 p.m.	500 p.m.	500 p.m.

Solution:

Computation of Tax Liability

Situation 1 (Mr. A):

	`
Basic Salary (20,000 x 12)	2,40,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	12,000

Working Note:	`
Rent free accommodation Salary	2,40,000
7.5% of rent free accommodation salary	18,000
Value of unfurnished house	18,000
Less: Amount recovered from the employee (500 x 12)	6,000
Perquisite value of accommodation at concessional rent	12,000

Gross Salary	2,52,000
Income under the head Salary	2,52,000
Tax on `2,52,000 at slab rate	5,200
Add: Education cess @ 2%	104
Add: SHEC @ 1%	52
Tax Liability	5,356
Rounded off u/s 288B	5,360

Situation 2 (Mr. B):

	`
Basic Salary (20,000 x 12)	2,40,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	18,000

Working Note:	`
Rent free accommodation Salary	2,40,000
10% of rent free accommodation salary	24,000
Value of unfurnished house	24,000
Less: Amount recovered from the employee (500 x 12)	6,000
Perquisite value of accommodation at concessional rent	18,000

Gross Salary	2,58,000
Income under the head Salary	2,58,000
Tax on `2,58,000 at slab rate	5,800
Add: Education cess @ 2%	116
Add: SHEC @ 1%	58
Tax Liability	5,974
Rounded off u/s 288B	5,970

Situation 3 (Mr. C):

	`
Basic Salary (20,000 x 12)	2,40,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	30,000

Working Note:	`
Rent free accommodation Salary	2,40,000
15% of rent free accommodation salary	36,000
Value of unfurnished house	36,000
Less: Amount recovered from the employee (500 x 12)	6,000
Perquisite value of accommodation at concessional rent	30,000

Gross Salary	2,70,000
Income under the head Salary	2,70,000

Tax on `2,70,000 at slab rate	7,000
Add: Education cess @ 2%	140
Add: SHEC @ 1%	70
Tax Liability	7,210

Situation 4 (Mr. D):	`
Basic Salary (20,000 x 12)	2,40,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	30,000

Working Note:	`
Rent paid or 15% of rent free accommodation salary whichever is less	
Rent free accommodation Salary	2,40,000
15% of rent free accommodation salary	36,000
Rent paid (4,000 x 12)	48,000
Value of unfurnished house	36,000
Less: Amount recovered from the employee (500 x 12)	6,000
Perquisite value of accommodation at concessional rent	30,000

Gross Salary	2,70,000
Income under the head Salary	2,70,000
Tax on `2,70,000 at slab rate	7,000
Add: Education cess @ 2%	140
Add: SHEC @ 1%	70
Tax Liability	7,210

Question 8: Write a short note on Specified Employee.
Answer:
Specified Employee Section 17(2)(iii)
The following are specified employees
(i) An employee of a company who is also a director thereof. It is immaterial whether he is a full time director or a part-time director, whether he is a nominee of management, workers, Govt. or financial institution. It is also not material whether or not he is a director throughout the previous year.

(ii) An employee who has a substantial interest in the company. A person has a substantial interest in a company if he is a beneficial owner of equity shares carrying 20% or more of the voting power of the company. In order to determine whether a person has a substantial interest in a company, it is the beneficial ownership that is relevant rather than the legal ownership.

(iii)An employee (not covered by above) whose monetary income chargeable under the head 'Salaries' exceeds `50,000.

Monetary income shall include:
(i) Basic Pay

(ii) Dearness Allowance/Dearness Pay

(iii) Bonus/commission/fees etc.

(iv) Taxable portion of all allowances

(v) Monetary perquisites

(vi) Any other payment in cash like gratuity, pension, leave salary etc. but it will not include contribution of employer or employee to provident fund or interest of provident fund.

- Any arrears of salary or advance salary shall also be taken into consideration.
- Where salary is received from more than one employer during the relevant previous year, the aggregate salary from these employers is to be taken into account in determining the above ceiling limit of ` 50,000.
- Deduction under section 16(ii) and 16(iii) shall also be allowed.

Example

Mr. X is employed in ABC Ltd. getting basic pay `2,500 p.m., dearness allowance `500 p.m. Employer has paid children education allowance `300 p.m. for one child, entertainment allowance `35 p.m. Employer has also paid professional tax of `100 p.m. on behalf of the employee. Employer has provided him rent free accommodation with perquisite value `35,000 p.a.

The employee has received arrears of salary `4,000 and advance salary `3,000.

Compute employee's monetary income to determine whether he is the specified employee or non-specified employee.

<u>Solution:</u>

Computation of Monetary Income

	`
Basic Pay (2,500 x 12)	30,000
Dearness Allowance (500 x 12)	6,000
Children Education Allowance {Sec 10(14), Rule 2BB}	2,400

Working Note:	`
Received = `300 x 12 =	3,600
Exempt = `100 x 12 =	1,200
Taxable =	2,400

Entertainment Allowance (35 x 12)	420
Professional Tax (100 x 12)	1,200
Arrears of Salary {Sec 15}	4,000
Advance Salary {Sec 15}	3,000
Gross Salary	47,020
Less: 16(iii) Professional Tax	1,200
Monetary Income	45,820

So, he is non-specified employee.

Question: What does the term "Substantial Interest" denotes under Income-Tax Act?

Answer:

<u>Substantial Interest</u> **<u>Section 2(32)</u>**

Under section 2(32), a person who has a substantial interest in relation to a company means a person who is the beneficial owner of shares, not being shares entitled to a fixed rate of dividend, whether with or without a right to participate in profits, carrying not less than 20% of the voting power. In the case of non-corporate entity, a person can be said to have substantial interest if 20% or more share in profits is held by him.

Question 9: Discuss the taxability of motor car facility given to an employee by his employer?

Answer:

<u>Motor Car Facility</u>

Motor car or any other vehicle provided by the employer is a perquisite only for the **<u>specified employees.</u>**

(1) <u>Motor car owned or hired by the employer</u> <u>Section 17(2)(iii), Rule 3(2)</u>

(a) <u>Car used exclusively for the official purposes</u> – Value shall be NIL if the specified documents are maintained by the employer.

(b) <u>Car used exclusively for the personal purposes</u> – If the employer has provided motor car for personal use of the employee or the members of his household, value shall be **<u>actual expenditure incurred by the employer plus 10% p.a. of the actual cost</u>** of the car. If the employer has recovered any amount from the employee for use of the motor car, it will be deducted and only balance amount shall be taxable.

(c) <u>Car used partly for official and partly for personal purposes</u> –

(i) **<u>In case expenses are met or reimbursed by the employer,</u>** perquisite value shall be **<u>`1,800 p.m.</u>** where cubic capacity of engine does not exceed 1.6 litres and **<u>`2,400 p.m.</u>** where cubic capacity of the engine exceeds 1.6 litres. Further, perquisite value shall be increased by **<u>` 900 p.m.,</u>** if chauffeur (driver) is also provided to run the motor car. **<u>Part of the month shall be ignored.</u>**

(ii) **<u>In case expenses are fully met by the assessee,</u>** perquisite value shall be **<u>`600 p.m.</u>** where cubic capacity of engine does not exceed 1.6 litres and **<u>`900 p.m.</u>** where cubic capacity of the engine exceeds 1.6 litres. Further, perquisite value shall be increased by **<u>` 900 p.m.,</u>** if chauffeur is also provided to run the motor car. **<u>Part of the month shall be ignored.</u>**

<u>Meaning of month</u>

The term 'calendar month' will mean a month reckoned according to the British calendar i.e., the period from any day upto and inclusive of the day preceding the corresponding day in the succeeding calendar month. Thus, the periods **<u>28th Jan. to 27th Feb., 29th May to 28th June or 28th Feb. to 27th March</u>** will all represent one calendar month. In the computation of calendar month for evaluating the perquisite, only full calendar months must be considered and fractions of calendar months must be ignored.

<u>More than one motor car is provided to the employee for official/personal use</u>

If the employer has provided more than one motor car for official/personal use, in that case only one of the motor cars shall be considered to be for official/personal use and all other motor cars shall be considered to be for personal use and perquisite value shall be computed accordingly.

<u>Explanation to Section 17(2)(iii)</u>: Motor car for going to office and coming back to residence is exempt from income tax.

(2) <u>Motor car owned by the employee and expenses are met or reimbursed by the employer</u> <u>Section 17(2)(iii) Rule 3(2)</u>

(a) <u>Car used exclusively for the official purposes</u> – Value shall be NIL if the specified documents are maintained by the employer.

(b) <u>Car used partly for official and partly for personal purposes</u> – Value shall be actual amount of expenditure incurred as reduced by **<u>`1,800 p.m.</u>** where cubic capacity of engine does not exceed 1.6 litres or **<u>`2,400 p.m.</u>** where cubic capacity of the engine exceeds 1.6 litres. It will be further reduced by **<u>` 900 p.m.</u>** if the employee has provided driver also.

A higher amount can be claimed by the assessee if the specified documents are maintained to prove the claim.

<u>Any other automotive conveyance</u>

If employee owns any other automotive conveyance and actual running and maintenance expenditure are met or reimbursed by the employer, in such case, perquisite value shall be: -

<u>If vehicle is used wholly for official purpose</u>: - The perquisite value shall be NIL if specified documents are maintained by the employer.

<u>If vehicle is used both for official and personal purpose</u>: - Perquisite value shall be actual amount of expenditure incurred by the employer as reduced by an amount of **<u>`900 p.m.</u>**. A higher amount can be claimed by the assessee if the specified documents are maintained to prove the claim.

Personal purpose includes the benefit of **<u>employee's household</u>**, which means **<u>spouse(s)</u>**, **<u>children</u>** and **<u>their spouses</u>**, **<u>parents</u>**, **<u>servants</u>** and **<u>dependants</u>**.

<u>Specified documents</u>

Specified documents means the following documents: -

(1) The employer has maintained complete **<u>details of journey</u>** undertaken for official purpose which may include **<u>date of journey</u>**, **<u>destination,</u>** **<u>mileage</u>**, and **<u>the amount of expenditure incurred thereon;</u>**

(2) The employer gives a certificate that the expenditure was incurred wholly and exclusively for the performance of his official duty;

(3) The supervising authority of the employee, wherever applicable, gives a certificate to the effect that the expenditure was incurred for the performance of official duties.

<u>Obligation of the employee met by the employer</u> **<u>Section 17(2)(iv)</u>**

If motor car is owned by employee and it is used for his personal purpose and payment or reimbursement is given by employer, it is covered u/s 17(2)(iv) and entire amount paid or reimbursed is taxable in case of specified as well as non specified employees.

<u>Illustration 14:</u> Mr. X is employed in ABC Ltd. getting basic pay `15,000 p.m. and the employee has paid professional tax `200 p.m. and the employer has provided him motor car for official as well as personal use and its engine capacity is 1.2 litres and it is a chauffeur driven car and all expenses are met by the employer himself. However, the employer has recovered `100 p.m. from the employee for use of motor car.

Compute Tax Liability for the Assessment Year 2013-14.

<u>Solution:</u>	`
Basic Pay (15,000 x 12)	1,80,000
Motor Car {Sec 17(2)(iii) Rule 3(2)} [(1,800 + 900) x 12]	32,400
Gross Salary	2,12,400
Less: 16(iii) Professional Tax	2,400
Income under the head Salary	2,10,000

Computation of Tax Liability

Tax on `2,10,000 at slab rate	1,000
Add: Education Cess @ 2%	20
Add: SHEC @ 1%	10
Tax Liability	1,030

<u>Illustration 15:</u> Mr. X is employed in ABC Ltd. getting basic pay `22,000 p.m. Employer has paid professional tax of `75 p.m. on behalf of the employee and employee himself has paid professional tax of `25 p.m. The employer has provided him rent free accommodation which is owned by the employer himself and it is provided at a place with population of 5,00,000.

The employer has provided him three motor cars for official as well as personal use with particulars as given below:

	I	II	III
Actual cost	4,00,000	3,00,000	2,50,000
Engine capacity	1.8 litres	1.6 litres	1.4 litres
Petrol expenses	3,000	10,000	15,000
Repairs	5,000	4,000	3,000
Driver	4,000 p.m.	3,000 p.m.	3,000 p.m.

All the expenses met by the employer himself. Employee has income from gambling activities `11,000 and also he has long-term capital gains `5,000. Compute his Tax Liability for the Assessment Year 2013-14.

Solution:

	`
Basic Pay (22,000 x 12)	2,64,000.00
Professional Tax paid by employer (75 x 12)	900.00
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	19,800.00

Working Note:	`
7.5% of rent free accommodation salary	
Rent free accommodation salary	2,64,000
7.5% of rent free accommodation salary	19,800
Perquisite value of rent free accommodation	19,800

Motor Car {Sec 17(2)(iii) Rule 3(2)}	1,98,600.00

Working Note:

Option I

{Presuming Car I is for official and personal purposes and Car II and Car III for personal purposes, perquisite value shall be:

Car I = `3,300 x 12 = `39,600

Car II = `30,000 + `10,000 + `4,000 + `36,000 = `80,000

Car III = `25,000 + `15,000 + `3,000 + `36,000 = `79,000

Perquisite value = `1,98,600

Option II

Presuming Car II is for official and personal purpose and Car I and Car III is for personal use, perquisite value shall be:

Car I = `40,000 + `3,000 + `5,000 + `48,000 = `96,000

Car II = `2,700 x 12 = `32,400

Car III = `79,000

Perquisite Value = `2,07,400

Option III

Presuming Car III is for official and personal purpose and Car I and Car II is for personal use, perquisite value shall be:

Car I = `96,000

Car II = `80,000

Car III = 2,700 x 12 = `32,400

Perquisite Value = `2,08,400

So, 1st Option is better.

Perquisite value of motor car = `1,98,600

Gross Salary	4,83,300.00
Less: 16(iii) Professional Tax	1,200.00
Income under the head Salary	4,82,100.00

Income under the head Capital Gains (LTCG)	5,000.00
Income under the head Other Sources (Gambling activities)	11,000.00
Gross Total Income	4,98,100.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,98,100.00

Computation of Tax Liability

Tax on LTCG `5,000 @ 20%	1,000.00
Tax on Gambling activities income of `11,000 @ 30%	3,300.00
Tax on normal income `4,82,100 at slab rate	28,210.00
Tax before education cess	32,510.00
Add: Education cess @ 2%	650.20
Add: SHEC @ 1%	325.10
Tax Liability	33,485.30
Rounded off u/s 288B	33,490.00

Question 10: Discuss the taxability of Gardener/ Watchman/Sweeper or Any Other Servant.
Answer:
<u>Taxability of gardener/watchman/ sweeper or any other servant</u>   <u>Section 17(2)(iii) Rule 3(3)</u>
The value of benefit to the employee or any member of his household resulting from the provision by the employer of services of a sweeper, a gardener, a watchman or a personal attendant, shall be the actual cost to the employer. The actual cost in such a case shall be the total amount of salary paid or payable by the employer for such services as reduced by any amount paid by the employee for such services.

Since the facility is covered under section 17(2)(iii), it is taxable only in case of **<u>specified employees.</u>**

<u>Obligation of the employee met by the employer</u>   <u>Section 17(2)(iv)</u>
If the facility has been availed by the employee himself and payment or reimbursement has been given by the employer, entire amount paid or reimbursed shall be taxable in case of specified as well as non-specified employees, as per section 17(2)(iv).

Question 11: Write a note on taxability of Gas/ Electricity or Water Facility.
Answer:
<u>Taxability of Gas/Electricity or Water Facility</u>   <u>Section 17(2)(iii) Rule 3(4)</u>
The value of the benefit to the employee resulting from the supply of gas, electric energy or water for his household consumption shall be determined as the sum equal to the amount paid on that account by the employer to the agency supplying the gas, electric energy or water. Where such supply is made from **<u>resources owned by the employer</u>**, without purchasing them from any other outside agency, the value of perquisite would be the **<u>manufacturing cost per unit</u>** incurred by the employer. Where the employee is paying any amount in respect of such services, the amount so paid shall be deducted from the value so arrived at.

Since the facility is covered under section 17(2)(iii), it is taxable only in case of **<u>specified employees</u>**.

<u>Obligation of the employee met by the employer</u>   <u>Section 17(2)(iv)</u>
If the facility has been availed by the employee himself and payment or reimbursement has been given by the employer, entire amount paid or reimbursed shall be taxable in case of specified as well as non-specified employees, as per section 17(2)(iv).
Example
Mr. X is employed in Indian Oil Corporation and the company has provided him free gas facility for which manufacturing cost of the company is `1,000 and its market value is `1,100, in this case, perquisite value shall be `1,000.

Question 12: [V. Imp.] Write a note on taxability of educational facility.
Answer:
Taxability of Educational Facility Section 17(2)(iii) Rule 3(5)

- If the employer has provided free education or training facility to the employee, there is no perquisite value.

- If education facility is provided to the members of the employees household except children, entire amount incurred by the employer shall be taxable.

- If education facility is provided to the children of the employee, it is exempt to the extent of `1,000 p.m. per child. (irrespective of the number of children)

- If education facility is provided in employer's own institution, it is taxable in case of members of household but in case of children, it is exempt upto `1,000 p.m. per child. Value for this purpose shall be the cost of similar type of education in a similar type of institution in the same locality.

- If any amount has been recovered from the employee, it will be deducted and only the balance amount shall be taxed.

- Child shall include even **step child** or **adopted child**.

- Since the facility is covered under section 17(2)(iii), it is taxable only in case of **specified employees**.

Obligation of the employee met by the employer Section 17(2)(iv)
If the facility has been availed by the employee himself and payment or reimbursement has been given by the employer, entire amount paid or reimbursed shall be taxable in case of specified as well as non-specified employees as per section 17(2)(iv).

- If the employer has given children education allowance, it is exempt upto `100 p.m. per child.

Example
Mr. X is employed in ABC Ltd. and is a specified employee. Compute perquisite value of educational facilities in the following situations:

(i) The employer has deputed him on one day seminar on Industrial Finance and Corporate Taxation and has paid participation fees of `3,000.

(ii) The employer has made arrangements for the education of his three childrens in his own school and has incurred `1,500 per month per child and has recovered `300 per month per child from the employee.

(iii) If the employee himself has made arrangements of the education of his three children in a public school and the employer has reimbursed `1,500 per month per child.

Solution:
(i) There is no perquisite value.
(ii) Perquisite value shall be `7,200.
(iii) Perquisite value shall be `54,000.

Example
Compute perquisite value in the following situations:

1. Mr. X is employed in ABC Ltd. and is getting salary of `4,000 p.m. The employer has incurred `1,500 p.m. on the education of his one son, perquisite value shall be __________.

2. Mr. X is employed in ABC Ltd. and is getting a salary of `4,200 p.m. and the employer has incurred `1,500 p.m. on the education of his one adopted son, perquisite value shall be ___________.

3. Mr. X is employed in ABC Ltd. and is getting a salary of `5,000 p.m. and employer has spent `500 p.m. on the education of his daughter in law, perquisite value shall be __________.

4. Mr. X is employed in ABC Ltd. and is getting a salary of `4,000 p.m. and he has incurred `700 p.m. on the education of his one son, in this case perquisite value shall be ___________.

Solution:
1. Nil
2. `6,000
3. `6,000
4. Nil

Question 13: Write a note on taxability of Transport Facility.
Answer:
Transport Facilities Section 17(2)(iii), Rule 3(6)
If the employer is **engaged in the business of carriage of goods or passengers** and the employer has provided facilities of free transport to the employee or to the members of his household, perquisite value shall be the amount charged by the employer from other person for similar facility.

If the employer has recovered any amount from the employee for such facility, it will be deducted and only balance amount shall be taxable.

The facility is exempt in case of employees of Airlines and Railways.
Since the facility is covered u/s 17(2)(iii), it is taxable only in case of specified employees.

Question 14: Write a note on obligation of the employee met by employer.
Answer:
Obligation of the employee met by employer Section 17(2)(iv)
Any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee.

If the employer has paid any amount on behalf of the employee or has given any reimbursement to the employee i.e. obligation of the employee has been met by the employer, it will also be called perquisites as per section 17(2)(iv) and entire amount paid or reimbursed by the employer shall be chargeable to tax.

Example
Mr. X is employed in ABC Ltd. and he has taken one electricity connection in his name and the electricity bill amounting to ` 5,000 has been paid by the employer on behalf of the employee, it will be called perquisite and the amount so paid shall be added to the gross salary of the employee.

Similarly, if the employee has paid the bill but subsequently the employer has reimbursed the amount to him, it will also be called perquisite.

Subtle distinction between sections 17(2)(iii) and 17(2)(iv)
If the employer is providing direct facility, it is called **non-monetary perquisite**, but if the employer is making payment on behalf of the employee or is reimbursing any amount to him, it is called **monetary perquisite**.

For example, **<u>if a domestic servant is engaged by an employee and the employer reimburses the salary paid to the servant, it becomes an obligation which the employee would have discharged</u>**, this perquisite will be covered by section 17(2)(iv) and will be taxable in the hands of all employees.

On the other hands, **<u>if a domestic servant is provided by the employer to the employee as a part of the salary package, the perquisite will not be covered by section 17(2)(iv)</u>** since it cannot be considered as an obligation which would be met by the employee. If the employer did not provide a servant as part of the salary package, the employee might choose not to have a domestic servant. In this case, the perquisite will be covered by section 17(2)(iii) and become chargeable only in the hands of specified employees. Perquisites in the nature of obligation of employees met by the employer can take a variety of forms. Reimbursement of education expenses, payment of income-tax/professional tax etc. on behalf of the employees or payment of personal debts of employees may be cited as some of the examples.

Question 15: Explain taxability of payments of insurance premium by the employer on behalf of the employee.
Answer:
<u>Taxability of payments of insurance premium by the employer on behalf of the employee Section 17(2)(v)</u>
Any sum payable by the employer, whether directly or through a fund, to effect an assurance on the life of the assessee or to effect a contract for an annuity, shall be taxable. However, premium paid for personal accident policy, staff group insurance scheme shall be exempt.

<u>Specified securities or sweat equity shares allotted/ transferred to employees by an employer Section 17(2)(vi)</u>
If the employer has issued shares or securities to the employees, perquisite value shall be market value of such shares or securities and if employer has recovered some amount from the employee, it will be deducted and only difference amount shall be taxed. E.g. Mr. X is employed in ABC Ltd. and employer has issued 100 equity shares to the employee free of cost on 01.07.2012 and market value is `150 per share, in this case, taxable amount shall be 100 x 150 = `15,000 and if the shares have been sold by the employee, as per section 49(2AA), cost of acquisition shall be the market value which was taken into consideration under the head salary i.e. `15,000.

If the employee sold the above shares on 01.11.2012 for `270 per share, capital gains shall be computed in the manner given below:

Full value of consideration (100 x 270)	27,000
Less: Cost of acquisition	15,000
Short term capital gain	12,000

If shares were issued by the employer @ `40 per share, perquisite value under the head salary shall be (150 - 40 = 110) x 100 = 11,000 and capital gains shall be

Full value of consideration (100 x 270)	27,000
Less: Cost of acquisition	15,000
Short term capital gain	12,000

<u>Any contribution to an approved superannuation fund by the employer in respect of an employee Section 17(2)(vii)</u>
The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds one lakh rupees.

Question 16 [V. Imp.]: Write a note on fringe benefits under Section 17(2)(viii) Rule 3(7).
Answer:
<u>Fringe Benefits under Section 17(2)(viii)</u>

Fringe Benefits covered under section 17(2)(viii) are asunder:

(1) Interest free or concessional loans Rule 3(7)(i)
The value of the benefit to the assessee resulting from the provision of **interest-free** or **concessional loan** for any purpose made available to the employee or any member of his household during the relevant previous year by the employer or **any person on his behalf** shall be determined as the sum equal to the interest computed at the rate charged **per annum by the State Bank of India**, as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it on the **maximum outstanding monthly balance** as reduced by the interest, if any, actually paid by him or any such member of his household.

However, **no value** would be charged if such loans are made available for medical treatment in respect of diseases specified in **rule 3A** or where the amount of **loans are petty not exceeding in the aggregate `20,000** :

Provided that where the benefit relates to the loans made available for medical treatment referred to above, the **exemption** so provided **shall not apply to so much of the loan as has been reimbursed to the employee under any medical insurance scheme.**

Circular 15/2001, Dated 12/12/2001 Even outstanding loan taken earlier will be covered.
Example
(i) Mr. X is employed in ABC Ltd. and he has taken interest free loan of `3,00,000 on 10.07.2012 for personal purpose for a period of 3 years and the loan is to be repaid in monthly instalments of `10,000 and repayment shall start with effect from 21.09.2012, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate 12%):

Months	Outstanding balance at the end (in `)	Amount of interest (in `)
July	3,00,000	3,00,000 x 12% x 1/12 = 3,000
August	3,00,000	3,00,000 x 12% x 1/12 = 3,000
September	2,90,000	2,90,000 x 12% x 1/12 = 2,900
October	2,80,000	2,80,000 x 12% x 1/12 = 2,800
November	2,70,000	2,70,000 x 12% x 1/12 = 2,700
December	2,60,000	2,60,000 x 12% x 1/12 = 2,600
January	2,50,000	2,50,000 x 12% x 1/12 = 2,500
February	2,40,000	2,40,000 x 12% x 1/12 = 2,400
March	2,30,000	2,30,000 x 12% x 1/12 = 2,300
Total		24,200

So, perquisite value of interest free loan = `24,200

(ii) Mr. X is employed in ABC Ltd. and he has taken interest free loan of `3,00,000 (term loan) on 10.07.2012 for purchasing a new motor car in Delhi and the loan is to be repaid in monthly instalments of `10,000 and repayment shall start with effect from 21.09.2012, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate 10%):

Months	Outstanding balance at the end (in `)	Amount of interest (in `)
July	3,00,000	3,00,000 x 10% x 1/12 = 2,500.00
August	3,00,000	3,00,000 x 10% x 1/12 = 2,500.00

September	2,90,000	2,90,000 x 10% x 1/12 = 2,416.67
October	2,80,000	2,80,000 x 10% x 1/12 = 2,333.33
November	2,70,000	2,70,000 x 10% x 1/12 = 2,250.00
December	2,60,000	2,60,000 x 10% x 1/12 = 2,166.67
January	2,50,000	2,50,000 x 10% x 1/12 = 2,083.33
February	2,40,000	2,40,000 x 10% x 1/12 = 2,000.00
March	2,30,000	2,30,000 x 10% x 1/12 = 1,916.67
Total		20,166.67

So, perquisite value of interest free loan = `20,166.67

(iii) Mr. X is employed in ABC Ltd. and he has taken interest free loan of `3,00,000 on 10.07.2012 for treatment of specified disease and the assessee has received a claim of `1,20,000 under medi-claim policy on 07.01.2013 and he has repaid `70,000 on 31.03.2013, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate 12%):

Months	**Outstanding balance at the end (in `)**	**Amount of interest (in `)**
January	1,20,000	1,20,000 x 12% x 1/12 = 1,200.00
February	1,20,000	1,20,000 x 12% x 1/12 = 1,200.00
March	50,000	50,000 x 12% x 1/12 = 500.00
Total		2,900.00

So, perquisite value of interest free loan = `2,900

(iv) Mr. X is employed in ABC Ltd. and he has taken interest free loan of `13,000 on 10.07.2012 for personal purpose and the loan is to be repaid in monthly instalments of `1,300 and repayment shall start with effect from 21.09.2012, in this case perquisite value for the loan shall be computed in the manner given below:

Perquisite value of interest free loan = Nil (because it is a petty loan)

(2) Facility of travelling, touring, accommodation (holiday home) etc. Rule 3(7)(ii)
If the employer has provided facilities of travelling, touring or accommodation, it is taxable but it will not include leave travel concession under section 10(5)Rule 2B.

Perquisite value shall be actual expenditure incurred by the employer less amount recovered from the employee.

If the facility is maintained by the employer, perquisite value shall be the market value of the such facility.

If the employee is on official tour and any member of his household has accompanied him and the employer has incurred expenditure for such member, the amount so incurred shall be taxable.

If the employee is on official tour and the tour was extended for personal purpose, expenditure for the extended part of the tour shall be taxable.

(3) Free food or refreshment Rule 3(7)(iii)
If the employer has provided free refreshments to the employees at the place of work during office hours, it will be exempt.

If the employer has provided free meals to the employees at the place of work during office hours, it will be exempt if the value per meal is upto `50. Excess over `50 shall be taxable e.g. Mr. X is employed in the office of Chartered Accountant and during the year he was given free lunch on many occasions and value per lunch is `125, in this case `75 per lunch is taxable.

(4) Gifts to the employees Rule 3(7)(iv)

Gift given by the employer in kind upto `5,000 in aggregate during a particular year is exempt and excess over it is taxable. If the employer has given any voucher or token in lieu of which such gift may be received, it will also be exempt in the similar manner.

Gifts in cash or gifts convertible into cash i.e. gift cheques etc. shall be fully chargeable to tax.

Circular No. 15/2001, dated: 12.12.2001

Gift, voucher or token in lieu of gift - It is customary in India, as it is in other parts of the world, to provide presents directly or indirectly in the form of vouchers or tokens to employees on social and religious occasions like Diwali, Christmas, New Year, the anniversary of the organization etc. Such gifts upto ` 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. However, gifts made in cash or convertible into cash, like gift cheques etc. do not fall in the purview of this sub-rule.

(5) Credit card facility Rule 3(7)(v)

If the employer has provided facilities of credit card for personal purpose, it is taxable. It will include any add-on-card also.

If the credit card is for official purpose, it is exempt.

(6) Club facilities Rule 3(7)(vi)

If the employer has provided club facilities for personal purpose, it is taxable but if it is for official purpose, it is exempt.

However, where the employer has obtained corporate membership of the club and the facility is enjoyed by the employee or any member of his household, the value of perquisite shall not include the initial fee paid for acquiring such corporate membership.

Facilities of health club, sports and similar facilities provided uniformly to all employees by the employer.

Example

Mr. X is an employee of Mr. Y and is getting basic pay of `25,000 p.m. and the employer has made arrangements for membership of health club of the employee and has incurred `1,000 p.m., in this case facility shall be exempt from Income Tax. Similarly if the membership is of sports club, the facility shall be exempt from Income Tax.

(7) Use of employer's assets by the employees Rule 3(7)(vii)

The value of benefit to the employee resulting from the use by the employee or any member of his household of any movable asset (other than assets already specified in this rule and other than laptops and computers) belonging to the employer or hired by him shall be determined at **10% per annum** of the actual cost of such asset or **the amount of rent or charges paid** or payable by the employer, as the case may be, as reduced by the amount, if any recovered from the employee for such use.

(8) Sale of assets by employer to the employee Rule 3(7)(viii)

The value of benefit to the employee arising from the transfer of any **movable asset** belonging to the employer directly or indirectly to the employee or any member of his household shall be determined to be the amount representing the actual cost of such asset to the employer as reduced by the cost of normal wear and tear calculated at the rate of **10% of such cost for each completed year** during which such asset was put to use by the employer and as further reduced by the amount, if any, paid or recovered from the employee being the consideration for such transfer:

Provided that in the case of **computers and electronic items**, the normal wear and tear would be calculated at the rate of **50%** and in the case of **motor cars** at the rate of **20%** by the reducing balance method.

Circular No. 15/2001 Dated 12/12/2001 Electronic items in this case means **data storage and handling devices like computer, digital diaries and printers**. Further they do not include household appliances like **washing machine, mixers, hot plates, ovens, microwave ovens** etc.

Example

Asset	**Furniture**	**Microwave oven**	**Motor car**	**Washing machine**	**Computer**
Original cost	75,000	25,000	2,40,000	20,000	55,000
Date of purchase by the employer	07.03.2008	01.06.2010	10.07.2009	01.10.2002	01.01.2010
Date of putting to use	31.03.2008	01.06.2010	11.07.2009	01.11.2002	10.01.2010
Date of sale of asset to the employee	01.07.2012	01.04.2012	01.07.2012	31.12.2012	09.01.2013
Payment made by the employee	25,000	Gift to the employee	95,000	1,000	30,000

Solution:

Computation of perquisite value of Furniture

Cost of the furniture	75,000
Less: Depreciation on straight line method @ 10% from 31.03.2008 to 30.03.2009	7,500
Less: Depreciation on straight line method @ 10% from 31.03.2009 to 30.03.2010	7,500
Less: Depreciation on straight line method @ 10% from 31.03.2010 to 30.03.2011	7,500
Less: Depreciation on straight line method @ 10% from 31.03.2011 to 30.03.2012	7,500
Written down value	45,000
Less: Amount paid by the assessee	25,000
Perquisite value of Furniture	20,000

Computation of perquisite value of Microwave oven

Cost of Microwave oven	25,000
Less: Depreciation on straight line method @ 10% from 01.06.2010 to 31.05.2011	2,500
Written down value	22,500
Less: Gift to the employee	5,000
Perquisite value of microwave oven	17,500

Computation of perquisite value of Motor car

Cost of the motor	2,40,000
Less: Depreciation on reducing balance method @ 20% from 11.07.2009 to 10.07.2010	48,000
Written down value	1,92,000
Less: Depreciation on reducing balance method @ 20% from 11.07.2010 to 10.07.2011	38,400
Written down value	1,53,600
Less: Amount paid by the assessee	95,000
Perquisite value of motor car	58,600

Computation of perquisite value of Washing Machine

Cost of the washing machine	20,000
Less: Depreciation on straight line method @ 10% from 01.11.2002 to 31.10.2003	2,000
Written down value	18,000
Less: Depreciation on straight line method @ 10% from 01.11.2003 to 31.10.2004	2,000
Written down value	16,000

Less: Depreciation on straight line method @ 10% from 01.11.2004 to 31.10.2005	2,000
Written down value	14,000
Less: Depreciation on straight line method @ 10% from 01.11.2005 to 31.10.2006	2,000
Written down value	12,000
Less: Depreciation on straight line method @ 10% from 01.11.2006 to 31.10.2007	2,000
Written down value	10,000
Less: Depreciation on straight line method @ 10% from 01.11.2007 to 31.10.2008	2,000
Written down value	8,000
Less: Depreciation on straight line method @ 10% from 01.11.2008 to 31.10.2009	2,000
Written down value	6,000
Less: Depreciation on straight line method @ 10% from 01.11.2009 to 31.10.2010	2,000
Written down value	4,000
Less: Depreciation on straight line method @ 10% from 01.11.2010 to 31.10.2011	2,000
Written down value	2,000
Less: Depreciation on straight line method @ 10% from 01.11.2011 to 31.10.2012	2,000
Written down value	Nil
Less: Amount paid by the assessee	1,000
Perquisite value of washing machine	Nil

Computation of perquisite value of Computer

Cost of the Computer	55,000
Less: Depreciation on reducing balance method @ 50% from 10.01.2010 to 09.01.2011	27,500
Written down value	27,500
Less: Depreciation on reducing balance method @ 50% from 10.01.2011 to 09.01.2012	13,750
Written down value	13,750
Less: Depreciation on reducing balance method @ 50% from 10.01.2012 to 09.01.2013	6,875
Written down value	6,875
Less: Amount paid by the assessee	30,000
Perquisite value of computer	Nil

(9) Any other benefit Rule 3(7)(ix)

The value of any other benefit provided by the employer to the employee is chargeable to tax and its value shall be determined on the basis of cost to the employer under an arms' length transaction as reduced by the employees' contribution.

If the employer has provided telephone facility including the mobile phone, it will be exempt. If the facility has been taken by the employee himself and the employer has made payment or reimbursement, still it is exempt from tax.

If the employer has given telephone allowance, it will be chargeable to tax.

Question 17 [V. Imp.]: Write a note on Medical Facility.

Answer:

Medical Facility Proviso to Section 17(2)

Medical facility provided by the employer shall be exempt in the following situations:

1. The expenditure incurred on the medical treatment of an employee or any member of his family in **any hospital maintained by the employer.**

2. The expenditure incurred on the medical treatment of an employee or any member of his family in any hospital maintained by the **Government** or any **local authority** or any **other hospital approved by the Government**.

3. The expenditure incurred on the medical treatment of an employee or any member of his family in respect of the prescribed diseases or ailments, **in any hospital approved by the Chief Commissioner** having regard to the prescribed guidelines, however, in this case, the employee shall attach with his return of income a certificate from the hospital specifying the disease or ailment for which medical treatment was required and the receipt for the amount paid to the hospital.

4. Any sum paid by the employer in respect of any premium paid by the employee to effect or to keep in force an insurance on **his health** or **the health of any member of his family**.

If the employer has incurred expenditure on the treatment of the employee or his family members in any other manner, exemption shall be allowed upto **`15,000 per year** for the employee including his family (limit of `15,000 is not per member rather it is combined limit for the employee and family). It do not matter whether the facility was provided by the employer or it was availed by the employee himself and the employer has given payment or reimbursement.

Medical facilities outside India

(i) If the employer has incurred expenditure on the treatment of the employee or any member of his family outside India, it is exempt to the extent permitted by Reserve Bank of India.

(ii) If the employer has incurred expenditure on the stay abroad of the patient including one attendant, it is exempt to the extent permitted by Reserve Bank of India.

(iii) If the employer has incurred expenditure on the travelling of the patient including one attendant, it is exempt provided gross total income of the employee do not exceed `2,00,000 before taking into consideration the expenditure incurred on travelling.

(iv) Explanation. —
"Hospital" includes a **dispensary** or a **clinic** or a **nursing home.**

"Family", shall include

(i) The spouse and children of the individual and

(ii) The parents, brothers and sisters of the individual provided they are dependent on the individual.

"Gross Total Income" As per section 80B(5), "gross total income" means the total income under all the five heads before making any deduction u/s 80C to 80U.

❖ If the employer has paid medical allowance, it is fully taxable.
❖ If expenditure has been incurred by the employer on the treatment of any other person like mother in law, father in law, independent father etc., facility is taxable.

Example

Compute taxable part in case of employees Mr. A, Mr. B, Mr. C and Mr. D who are employed in XYZ Ltd.

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Medical Allowance	2,000	3,000	4,000	1,000
Expenditure on treatment through a private doctor incurred by the employer	7,000	20,000	11,000	2,000
Treatment of	Son	Mother	Son-in-law	Dependant brother
Expenditure in government hospital incurred by the employer	20,000	11,000	9,000	6,000

Reimbursement of medical expenditure in a private hospital for treatment of self	5,000	4,000	7,000	14,000

Solution:

Computation of Taxable part in case of Mr. A

	`
Medical allowance	2,000
Expenditure on treatment through a private doctor of son	Nil
Expenditure in government hospital of son	Nil
Reimbursement of medical expenditure for treatment of self	Nil
Taxable value	2,000

Computation of Taxable part in case of Mr. B

Medical allowance	3,000
Expenditure on treatment through a private doctor of mother	20,000
Expenditure in government hospital of mother	11,000
Reimbursement of medical expenditure for treatment of self	Nil
Taxable value	34,000

Since mother is not dependant on assessee hence expenditure incurred on treatment through a private doctor and expenditure in government hospital are taxable.

Computation of Taxable part in case of Mr. C

Medical allowance	4,000
Expenditure on treatment through a private doctor of son-in-law	11,000
Expenditure in government hospital son-in-law	9,000
Reimbursement of medical expenditure for treatment of self	Nil
Taxable value	24,000

Computation of Taxable part in case of Mr. D

Medical allowance	1,000
Expenditure on treatment through a private doctor of dependant brother	Nil
Expenditure in government hospital of dependant brother	Nil
Reimbursement of medical expenditure for treatment of self	1,000
Taxable value	2,000

Illustration 16: Mr. Anil, finance manager of KLM Ltd. Mumbai, furnishes the following particulars for the financial year 2012-13:

(i) Salary `46,000 per month

(ii) Value of medical facility in a hospital maintained by the company `7,000

(iii) Rent free accommodation owned by the company

(iv) Housing loan of `6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) (Presume SBI Rate 10.5% p.a.)

(v) Gifts made by the company in kind on the occasion of wedding anniversary of Mr. Anil `4,750

(vi) A wooden table and 4 chairs were provided to Mr. Anil at his residence. These were purchased on 01.05.2009 for ` 60,000 and put to use on 01.06.2009 and sold to Mr. Anil on 01.08.2012 for `30,000

(vii) Personal purchases through credit card provided by the company amounting to `10,000 was paid by the company. No part of the amount was recovered from Mr. Anil.

(viii) An ambassador car which was purchased by the company on 16.07.2009 for `2,50,000 and put to use on the same date. It was sold to the assessee on 14.07.2012 for `80,000.

Compute the Total Income of Mr. Anil and the tax thereon for the Assessment Year 2013-14.

Solution:

Computation of Taxable Income of Mr. Anil for the Assessment Year 2013-14

	`
Salary (46,000 x 12)	5,52,000.00
Medical Facility {Proviso Sec 17(2)}	Nil
{In the hospital maintained by the company is exempt}	
Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}	84,800.00

Working Note:	`
15% of rent free accommodation salary	
Rent Free Accommodation salary = `5,52,000	
Value of unfurnished house	82,800
Add: 10% of cost of furniture (60,000 x 10% x 4/12)	2,000
Perquisite value of furnished house	84,800

Perquisite of interest on loan {Sec 17(2)(viii) Rule 3(7)(i)}	33,000.00

Working Note:
10.5% is taxable which is to be reduced by actual rate of interest charged i.e.[10.5%-5% = 5.5%]
(6,00,000 x 5.5%) = `33,000

Gift given on the occasion of wedding anniversary	Nil
Sale of Table and Chairs {Sec 17(2)(viii) Rule 3(7)(viii)}	12,000.00

Working Note:	`
Perquisite on sale of table and chairs	
Cost	60,000
Less: Dep. on straight line method @ 10% for 3 years	18,000
Written down value	42,000
Less: Amount paid by the assessee	30,000
Perquisite value of Table and chairs	12,000

Credit Card Facility	10,000.00
Sale of Ambassador Car {Sec 17(2)(viii) Rule 3(7)(viii)}	80,000.00

Working Note:	`
Original cost of Car	2,50,000
Less: Dep. from 16.07.2009 to 15.07.2010	50,000
Less: Dep. from 16.07.2010 to 15.07.2011	40,000
Written down value	1,60,000
Less: amount received from the assessee	80,000
Perquisite value of Ambassador car	80,000

Gross Salary	7,71,800.00
Income under the head Salary	7,71,800.00
Gross Total Income	7,71,800.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	7,71,800.00

Computation of tax liability

Tax on `7,71,800 at slab rate	84,360.00
Add: Education cess @ 2%	1,687.20
Add: SHEC @ 1%	843.60

Tax Liability	86,890.80
Rounded off u/s 288B	86,890.00

Note: It is assumed that furniture (wooden table and 4 chairs) were provided to Mr. Anil at his residence on April 1st, 2012 or earlier.

Question 18 [V. Imp.]: Write a note on Leave Travel Concession.

Answer:

Leave Travel Concession   Section 10(5) Rule 2B

Sometimes the employer may permit the employee or his family member to go to any place in India and travelling expenditure are incurred by the employer, such facility is called leave travel concession or leave fare concession.

Example

Mr. X is employed in ABC Ltd. and is posted in Delhi and the employer has allowed him to travel from Delhi to Goa and travelling expenditure has been incurred by the employer, in this case it will be called leave travel concession.

Computation of exemption:

Exemption shall be allowed in the manner given below:

1. If the employee has travelled **by air**, exemption allowed shall be **the air economy fare** of the national carrier by the shortest route to the place of destination or the actual expenditure incurred, whichever is less.

2. If the places are **connected by rail** and the employee has travelled by any mode of transport other than by air, exemption allowed shall be **the air-conditioned first class rail fare** by the shortest route or the actual expenditure incurred whichever is less.

3. If the places are not connected by rail

(i) If **a recognised public transport system exists**, exemption allowed shall be the **1st class or deluxe class fare**, of such recognised transport by the shortest route or the actual expenditure incurred whichever is less.

(ii) If **no recognised public transport system exists**, exemption allowed shall be the **air-conditioned first class rail fare**, for the distance of the journey by the shortest route or actual expenditure incurred whichever is less.

Ceiling on number of journeys

The exemption shall be available to an individual two times **in a block of four calendar years** starting from the calendar year 1986.

Carry forward of leave travel concession

If the employee has not availed any leave travel concession or has availed only one leave travel concession during a particular block, carry forward shall be allowed but only for one leave travel concession and such LTC must be availed during very first year of the next block otherwise the LTC shall lapse.

Meaning of Family

"Family", shall include—

(i) the **spouse** and **children** of the individual and

(ii) the **parents**, **brothers** and **sisters** of the individual or any of them, wholly or mainly **dependent** on the individual.

The exemption **shall not be available to more than two surviving children of an individual after 1st October, 1998:**

Provided, that rule is not applicable in respect of **children born before 1st October, 1998**, and also in case of **multiple births after one child.**

- If the employer has paid leave travel allowance and employee has not travelled to any place, entire amount paid by the employer is taxable.
- Exemption allowed cannot exceed the expenditure incurred by the employee.
- It is not necessary that the family members should perform journey alongwith the employee.
- The exemption is allowed only in respect of fare i.e. expenses incurred on porterage, conveyance from residence to the railway station/airport/ bus stand etc. and back shall be taxable.

Example

(i) Mr. X is employed in ABC Ltd. and the employer has allowed him to travel from Delhi to Bombay by air (business class) and has reimbursed `12,000 per ticket but economy class air fare is `7,000 per ticket, in this case taxable amount per ticket shall be `5,000.

If in the above case the employee has travelled alongwith Mrs. X, two children and one independent brother and the employer has reimbursed five tickets, taxable amount shall be `32,000.

(ii) Mr. Y is employed in ABC Ltd. and he has travelled from place ‘A’ to place ‘B’ by a private bus because there is no rail link and also there is no recognised transport and the employer has reimbursed him `3,000 per ticket but first class A/C fare of the railways is `2,800 per ticket, in this case taxable amount shall be `200 per ticket.

(iii) Mr. X has travelled from Delhi to Bombay by second class railways and the employer has paid him `5,000 per ticket being first class A/C fare. The employee has incurred `1,000 per ticket, in this case taxable amount shall be `4,000 per ticket.

Illustration 17: Mrs. Roma, an employee of XYZ Ltd., submits the following information for the assessment year 2013-14:

Salary: `1,86,000; City compensatory allowance: `8,000; Bonus: `10,200; Education allowance: `4,000 (for her grand children); Income tax penalty paid by the employer: `2,000: Medical expenses reimbursed by the employer: `12,000; Leave travel concession: `1,000 (expenditure incurred by the employee nil); Free residential telephone: `4,000; Free refreshment during office hours `4,000; reimbursement of electricity bill by the employer: ` 1,060; reimbursement of gas bills: `1,000; Professional tax paid by the employer: `300 on behalf of Mrs. Roma; Professional tax paid by Mrs. Roma: `150.

Determine the Total Income and Tax Liability of Mrs. Roma for the Assessment Year 2013-14.

Solution:

Computation of Income under the head Salary

	`
Salary	1,86,000.00
City Compensatory Allowance	8,000.00
Bonus	10,200.00
Education Allowance {Sec 10(14) Rule 2BB}	4,000.00
Income tax penalty paid by employer {Sec 17(2)(iv)}	2,000.00
Medical Reimbursement {Proviso to Sec 17(2)}	Nil
Leave Travel Concession {Sec 10(5) Rule 2B}	1,000.00
Free Refreshment	Nil
Free Residential Telephone	Nil

Payment of electricity bills by employer {Sec 17(2)(iv)}	1,060.00
Reimbursement of gas bills {Sec 17(2)(iv)}	1,000.00
Professional tax paid by employer {Sec 17(2)(iv)}	300.00
Gross Salary	2,13,560.00
Less: Entertainment Allowance u/s 16(ii)	Nil
Less Professional Tax u/s 16(iii)	450.00
Income under the head Salary	2,13,110.00
Gross Total Income	2,13,110.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	2,13,110.00

Computation of Tax Liability

Tax on `2,13,110 at slab rate	1,311.00
Add: Education cess @ 2%	26.22
Add: SHEC @ 1%	13.11
Tax Liability	1,350.33
Rounded off u/s 288B	1,350.00

Question: Define 'Members of Employee's Household' and 'Family'.
Answer:
'Members of employee's Household' and 'Family'

"Member of household" shall include—

(a) spouse(s)
(b) children and their spouses
(c) parents
(d) any person dependant on the employee
(e) servants

"Family", in relation to an individual, means—

(i) the spouse and children of the individual and
(ii) the parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.

Question 19: What are perquisites taxable only in case of Specified Employees?
Answer:
Perquisites taxable only in case of Specified Employees
The following perquisites are taxable in the hands of specified employees.

1. Motor Car facility [Sec. 17(2)(iii) Rule 3(2)].

2. Gardener, Watchmen, Sweeper or Any other personal attendant [Sec. 17(2)(iii) Rule 3(3)].

3. Gas, Electricity or Water facility [Sec. 17(2)(iii) Rule3(4)].

4. Educational facility [Sec. 17(2)(iii) Rule 3(5)].

5. Transport facility [Sec. 17(2)(iii) Rule 3(6)].

Question 20: What are perquisites taxable in case of all categories of employees?
Answer:

Perquisites taxable in case of all categories of employees

The following perquisites are taxable in the hands of all the employees i.e. whether specified or non-specified.

1. Rent free accommodation [Sec. 17(2)(i) Rule 3(1)].

2. Accommodation at concessional rate [Sec. 17(2)(ii) Rule 3(1)].

3. Employee's obligation met by employer if not taxed in the hands of the employer [Sec. 17(2)(iv)].

4. Amount payable by employer to effect an assurance on the life of employee [Sec. 17(2)(v)].

5. Specified securities or sweat equity shares allotted/ transferred to employees by an employer [Sec.17(2)(vi)]

6. Any contribution to an approved superannuation fund by the employer in respect of an employee [Sec. 17(2)(vii)]

7. Notified fringe benefits [Sec. 17(2)(viii) Rule 3(7)]

(a) Loan to the employee either at concessional rate or free of interest [Sec. 17(2)(viii) Rule 3(7)(i)]

(b) Expenditure in connection with travelling, touring or accommodation to the employee [Sec. 17(2)(viii) Rule 3(7)(ii)]

(c) Free refreshment or foods to the employee [Sec. 17(2)(viii) Rule 3(7)(iii)]

(d) Any gift, voucher or token [Sec. 17(2)(viii) Rule 3(7)(iv)]

(e) Expenses on credit cards [Sec. 17(2)(viii) Rule 3(7)(v)]

(f) Club Membership and expenses incurred in a club [Sec. 17(2)(viii) Rule 3(7)(vi)]

(g) Use of employer's moveable assets by the employee [Sec. 17(2)(viii) Rule 3(7)(vii)]

(h) Transfer of any moveable asset [Sec. 17(2)(viii) Rule 3(7)(viii)]

(i) Any other benefit [Sec. 17(2)(viii) Rule 3(7)(ix)]

8. Medical facility [Proviso to Sec. 17(2)].

9. Leave travel concession [Sec. 10(5) Rule 2B].

Question: Explain the taxability of income tax paid by the employer on behalf of the employee in connection with non-monetary perquisites.

Answer:

Payment of income tax in connection with non-monetary perquisites Section 10(10CC)

In the case of an employee, being an individual deriving income in the nature of a perquisite, not provided for by way of monetary payment, within the meaning of clause (2) of section 17, the tax on such income actually paid by his employer, at the option of the employer, on behalf of such employee, shall be exempt from income tax.

Illustration 18: During the previous year 2012-13, ABC Ltd. pays `60,000 p.m. as salary to Mr. X and provides a rent free unfurnished house (lease rent being `15,000 p.m.). ABC Ltd. has also paid income tax of `12,000 on behalf of Mr. X in connection with rent free accommodation provided to Mr. X.

Compute Tax Liability of Mr. X for the Assessment Year 2013-14. Also discuss whether income tax paid by the company shall be considered to be income of Mr. X.

<u>Solution:</u>	`
Salary (60,000 x 12)	7,20,000
Rent free accommodation {Sec 17 (2)(i) Rule 3(1)}	1,08,000

Working Note:
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 7,20,000
15% of rent free accommodation salary = 1,08,000
Rent paid = 15,000 x 12 = 1,80,000
Perquisite value of rent free accommodation = 1,08,000

Gross salary	8,28,000
Gross Total Income	8,28,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,28,000

Computation of Tax Liability

Tax on `8,28,000 at slab rate	95,600
Add: Education cess @ 2%	1,912
Add: SHEC @ 1%	956
Tax Liability	98,468
Less: Tax Paid by the company	12,000
Tax Payable	86,468
Rounded off u/s 288B	86,470

Since tax has been paid by the company in connection with non-monetary perquisite, it will not be considered to be income of Mr. X. If the company has paid income tax upto `12,844 it will not be considered to be income of Mr. X but any excess over it shall be considered to be income of Mr. X. The tax liability with regard to rent free accommodation shall be `12,844, as shown below:
98,468 / 8,28,000 x 1,08,000 = 12,843.65 = 12,844

(b) Presume in the above question ABC Ltd. has paid income tax of `20,000 instead of `12,000. Tax Liability and Tax Payable shall be computed in the manner given below:

Solution:	`
Salary (60,000 x 12)	7,20,000.00
Rent free accommodation {Sec 17 (2)(i) Rule 3(1)}	1,08,000.00

Working Note:
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 7,20,000
15% of rent free accommodation salary = 1,08,000
Rent paid = 15,000 x 12 = 1,80,000
Perquisite value of rent free accommodation = 1,08,000

Payment of income tax on behalf of employee {Sec 17(2)(iv)} (20,000 – 12,844)	7,156.00
Gross salary	8,35,156.00
Gross Total Income	8,35,156.00

Less: Deduction u/s 80C to 80U	Nil
Total Income	8,35,156.00
Rounded off u/s 288A	8,35,160.00

Computation of Tax Liability

Tax on `8,35,160 at slab rate	97,032.00
Add: Education cess @ 2%	1,940.64
Add: SHEC @ 1%	970.32
Tax Liability	99,942.96
Less: Tax Paid by the company	20,000.00
Tax Payable	79,942.96
Rounded off u/s 288B	79,940.00

Question 21: What are the Tax-Free Perquisites?
Answer:
<u>Tax-Free Perquisites</u>
The following perquisites are tax free in the hands of all the employees.

1. Perquisite allowed outside India by the Government to an employee who is a citizen of India for rendering service outside India [Sec 10(7)].

2. Rent-free official residence provided to a Judge of High Court or of the Supreme Court.

3. Rent-free furnished residence (including maintenance thereof) provided to an official of Parliament, a Union Minister or a Leader of Opposition in Parliament.

4. Accommodation provided on transfer of an employee in a hotel for not exceeding 15 days in aggregate [Sec 17(2)(i) Rule 3(1)].
5. Accommodation provided in a ‘remote area’ to an employee working at a mining site or an onshore oil exploration site, or a project execution site or an accommodation provided in an offshore site of similar nature. [Sec 17(2)(i) Rule 3(1)].

6. Conveyance facility provided to an employee to cover the journey between office and residence. [Explanation to Sec 17(2)(iii)]

7. Free education to children with expenditure upto `1,000 p.m. [Sec 17(2)(iii) Rule 3(5)].

8. Amount spent on training of employees or fees paid for refresher/ management course. [Sec 17(2)(iii) Rule 3(5)].

9. Payment of annual premium by employer on personal accident policy effected by him on his employee. [Sec 17(2)(v)].

10. Interest-free/concessional loan of an amount not exceeding `20,000. [Sec 17(2)(viii) Rule 3(7)(i)].

11. Refreshment provided by an employer to all employees during working hours in office premises.

12. Health club facility /Sports club facility.

13. Computer/laptop given to an employee for official/personal use (which is owned or hired by the employer) [Sec 17(2)(viii) Rule 3(7)(vii)].

14. Medical facility upto `15,000. [Proviso to Sec 17(2)].

15. Telephone facility provided to the employee.

16. Recreational facilities provided to employees.

17. Employer's contribution to staff group insurance scheme.

18. Periodicals and journals required for discharge of work.

19. Conveyance facility provided to High Court Judges and Supreme Court Judges.

<u>Illustration 19:</u> Mr. X is offered an employment by ABC Ltd. Mumbai with the following two alternatives:

	I	**II**
	`	`
Basic Salary	68,000	68,000
Bonus	6,000	6,000
Education allowance for 2 children	10,200	xxxx
Education facility for 2 children in an Institution maintained by employer	xxxx	10,200
Sweeper allowance / Free Sweeper	10,000	10,000
Entertainment allowance/Club facility	6,000	6,000
Conveyance allowance for personal use	12,000	xxxx
Free car facility for personal use (Employer's expenditure)	xxxx	12,000
Medical Allowance	18,000	xxxx
Medical facility for Mr. X and family member in its own hospital	xxxx	18,000
Allowance for gas, electricity and water supply	4,500	xxxx
Free gas, electricity and water supply	xxxx	4,500
A rent free unfurnished house (Rent paid by employer)	24,000	24,000

Which of the two alternatives Mr. X should opt?

<u>Solution:</u>

Computation of income under the head Salary

Alternative I

	`
Basic Salary	68,000.00
Bonus	6,000.00
Education Allowance {Sec 10(14) Rule 2BB}	7,800.00

Working Note:	`
Received =	10,200
Exempt = 100 x 2 x 12 =	2,400
Taxable =	7,800

Sweeper Allowance	10,000.00
Entertainment Allowance	6,000.00
Conveyance Allowance	12,000.00
Medical Allowance	18,000.00
Allowance for gas/electricity/water	4,500.00
Rent free unfurnished house {Sec 17(2)(i) Rule 3(1)}	19,845.00

Working Note: `

15% of rent free accommodation salary or rent paid whichever is less

<u>Rent free accommodation Salary</u>

= Basic Salary + Bonus + Education allowance + Sweeper Allowance + Entertainment Allowance + Conveyance Allowance + Medical Allowance +

Gas/Electricity/Water Allowance	
= 68,000 + 6,000 + 7,800 + 10,000 + 6,000 + 12,000 + 18,000 + 4,500	
= 1,32,300	
15% of rent free accommodation salary	19,845
Rent Paid	24,000
Perquisite value of rent free accommodation	19,845

Gross Salary	1,52,145.00
Income under the head Salary	1,52,145.00
Gross Total Income	1,52,145.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	1,52,145.00
Rounded off u/s 288A	1,52,150.00
Tax Liability	Nil

Alternative II

Basic Salary	68,000
Bonus	6,000
Education Facility {Sec 17(2)(iii) Rule 3(5)}	Nil
Sweeper Facility {Sec 17(2)(iii) Rule 3(3)}	10,000
Club Facility {Sec 17(2)(viii)Rule 3(7)(vi)}	6,000
Car Facility {Sec 17(2)(iii)Rule 3(2)}	12,000
Medical Facility {Proviso to Sec 17(2)}	Nil
Gas/electricity/water facility {Sec 17(2)(iii) Rule 3(4)}	4,500
Rent free unfurnished house {Sec 17(2)(i) Rule 3(1)}	11,100

Working Note:	`
15% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation Salary = Basic Salary + Bonus	
= 68,000 + 6,000 =	74,000
15% of rent free accommodation salary	11,100
Rent Paid	24,000
Perquisite value of rent free accommodation	11,100

Gross Salary	1,17,600
Income under the head Salary	1,17,600
Tax Liability	Nil

Mr. X should opt any alternative because his tax liability is Nil in both alternatives.

<u>Note:</u> (1) Medical facility in employer's own hospital is exempt.

TAXABILITY OF SUPERANNUATION BENEFITS

- ***Gratuity Sec. 10(10)***
- ***Pension Sec. 10(10A)***
- ***Leave Salary Sec. 10(10AA)***
- ***Provident Fund Sec. 10(11), 10(12), 10(13)***
- ***Retrenchment Compensation Sec. 10(10B)***
- ***Voluntary Retirement Sec. 10(10C) Rule 2BA***

Question 22 [V. Imp.]: Write a note on Taxability of Gratuity.
Answer:
<u>Taxability of Gratuity</u>
Gratuity means a **<u>gratuitous payment</u>** made by the employer to the employee at the time of his leaving the

job in recognition of the meritorious services and the association of the employee with the institution. With the enactment of **Payment of Gratuity Act 1972**, gratuity has become a statutory obligation on the part of the employer.

Under section 17(1), any gratuity is fully chargeable to tax if it is given during continuity of the job.

Death cum retirement gratuity Section 10(10)
Tax treatment of gratuity is asunder:

A –Employees of State Government/Central Government/Local Authority
B –Employees covered under payment of Gratuity Act 1972
C –Any other employee.

A – Employees of State Government/Central Government/Local Authority:
Any death cum retirement gratuity received by Central or State Government employees including employees of a local authority is fully exempt from tax.

B – Employees covered under payment of Gratuity Act 1972:
Any gratuity received by the employees covered under payment of Gratuity Act 1972, shall be exempt to the extent of the least of the following:

(i) Gratuity received
(ii) ` 10,00,000
(iii) 15 days salary for each completed year of service or part thereof in excess of six month.

In case of employees of a **seasonal establishment**, in place of 15 days, only **7 days** salary will be taken.

Salary here means last drawn salary and includes only Basic Pay and Dearness Allowance
However, in case of piece rated employees, salary shall be computed on the basis of average of the total wages received by them for a period of three months immediately preceding the termination of their employment but, it will not include any overtime.

15 days or 7 days wages shall be calculated by dividing monthly rate of wages by 26 and multiplying the quotient by fifteen or seven.

Example
Mr. X is the piece rated employee who is retired on 10.03.2013 and wages received by him from 11.12.2012 to 10.03.2013 are `33,000. In this case, one month salary shall be `33,000/3 = `11,000 and 15 days salary shall be = 11,000/26 x 15 = `6,346.15

Who is covered under Payment of Gratuity Act, 1972
Under Section 1(3) of Payment of Gratuity Act, 1972, it shall apply to:

(a) every **factory**, **mine**, **oil field**, **plantation**, **port** and **railway company**.

(b) every **shop** or **establishment** in a state in which ten or more persons are employed or were employed on any day of the preceding twelve months.

(c) such other establishment or class of establishment, in which ten or more employees are employed or were employed on any day of the preceding twelve months as the Central Government may by notification specify in this behalf.

C – Any other employee:

The least of the following will be exempt

(i) Gratuity received

(ii) ` 10,00,000

(iii) Half month's salary for each completed year of service.

Salary here means **<u>average salary for ten months immediately preceding the month of retirement</u>** and will consist of Basis pay + Dearness allowance (if provided) + Commission on sales turnover achieved by the employee and paid at fixed rate.

If an employee has already received any gratuity, the limit of `10,00,000 will be reduced by the amount of gratuity exempted from tax in the earlier years.

No exemption from gratuity is allowed if the relationship of employer and employee does not exist. e.g. Gratuity paid by LIC to its insurance agents is chargeable to tax.

<u>Illustration 20:</u> Mr. X was employed in ABC Ltd. getting basic pay `20,000 p.m., dearness allowance `5,000 p.m. The employee was retired on 10.01.2013 after serving the employer for 20 years and 6 months. The employer has paid him gratuity of `9,10,000 and the employee was covered under Payment of Gratuity Act, 1972.

Compute taxable portion of gratuity and also Tax Liability.

<u>Solution:</u>

	`
Basic Pay [(20,000 x 9) + (20,000 x 10/30)]	1,86,666.67
Dearness Allowance [(5,000 x 9) + (5,000 x 10/30)]	46,666.67
Gratuity {Sec 10(10)}	6,21,538.46

Working Note:
Least of the following is exempt:
1. `9,10,000
2. `10,00,000
3. 15/26 x 25,000 x 20 = `2,88,461.54

Received = `9,10,000.00
Exempt = `2,88,461.54
Taxable = `6,21,538.46

Gross Salary	8,54,871.80
Income under the head Salary	8,54,871.80
Gross Total Income	8,54,871.80
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,54,871.80
Rounded off u/s 288A	8,54,870.00

Computation of Tax Liability

Tax on `8,54,870 at slab rate	1,00,974.00
Add: Education cess @ 2%	2,019.48
Add: SHEC @ 1%	1,009.74
Tax Liability	1,04,003.22
Rounded off u/s 288B	1,04,000.00

<u>Illustration 21:</u> Mr. X is retired from ABC Ltd. w.e.f. 11.11.2012 after serving the employer for 20 years and 11 months. The employer has paid him gratuity of `3,75,000. At the time of retirement, employee's basic pay was `18,000 p.m. However upto 31.07.2012 it was `11,000 p.m. and the employee was getting dearness allowance `5,000 p.m. but it was `3000 p.m. upto 31.07.2012. 30% of dearness allowance forms part of salary.

Compute taxable part of gratuity and employee's Tax Liability.

Solution:

	`
Basic Pay [(11,000 x 4) + (18,000 x 3) + (18,000 x 10/30)]	1,04,000.00
Dearness Allowance [(3,000 x 4) + (5,000 x 3) + (5,000 x 10/30)]	28,666.67
Gratuity {Sec 10(10)}	2,33,200.00

Working Note:
Least of the following is exempt:
1. `3,75,000
2. `10,00,000
3. ½ x 14,180 x 20 = `1,41,800

Received = `3,75,000
Exempt = `1,41,800
Taxable = `2,33,200

Calculation of Average Salary
Basic Pay
From January to July `11,000 x 7 = ` 77,000
From August to October `18,000 x 3 = ` 54,000
Total = `1,31,000
Dearness Allowance
From January to July ` 900 x 7 = ` 6,300
From August to October `1,500 x 3 = ` 4,500
Total = `10,800
Average Salary = (1,31,000 + 10,800) ÷ 10 = `14,180

Gross Salary	3,65,866.67
Income under the head Salary	3,65,866.67
Gross Total Income	3,65,866.67
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,65,866.67
Rounded off u/s 288A	3,65,870.00

Computation of Tax Liability

Tax on `3,65,870 at slab rate	16,587.00
Add: Education cess @ 2%	331.74
Add: SHEC @ 1%	165.87
Tax Liability	17,084.61
Rounded off u/s 288B	17,080.00

Question 23 [V. Imp.]: Write a note on taxability of pension.
Answer:
Taxability of Pension
Uncommuted pension Section 17(1)(ii)
Pension is a periodical payment received by an employee after his retirement and is taxable as salary under section 17(1)(ii) in case of all categories of employees.

Commuted pension Section 10(10A)
1. Commuted Pension received by employees of Central Government, State Government, Local Authority or Statutory Corporation.

It is wholly exempt from tax under section 10(10A).

2. <u>Commuted pension received by any other employee</u>

(a) In case where any other employee receives gratuity, the commuted value of **<u>1/3rd of the pension is exempt from tax.</u>**

(b) If the employee has **<u>not received gratuity</u>**, the **<u>commuted value of ½ of such pension is exempt from tax.</u>**

<u>Family pension</u> **<u>Section 56</u>**
If any employee is expired and pension is being received by his family members, such pension shall be called family pension and **<u>as per section 56, it is taxable under the head other sources</u>** and the assessee **<u>shall be allowed deduction under section 57 equal to 1/3 of gross pension or `15,000, whichever is less.</u>**

Example
Mrs. X is getting family pension of `4,000 p.m. after the death of Mr. X. In this case, her taxable income shall be `33,000.

<u>Illustration 22:</u> Mr. X is employed in ABC Ltd. getting basic pay `22,000 p.m., dearness allowance `5,000 p.m. He was retired on 21.12.2012. The employer has allowed him pension of `9,000 p.m. and the employee has requested for commutation of 52% of his pension. The employer has allowed him such commutation on 01.02.2013 and has paid `5,61,600. The employer has paid him gratuity of `6,95,000 and employee has completed service of 20 years and 11 months.

Compute Tax Liability for the Assessment Year 2013-14.

<u>Solution:</u>

	`
Basic Pay [(22,000 x 8) + (22,000 x 21/30)]	1,91,400.00
Dearness Allowance [(5,000 x 8) + (5,000 x 21/30)]	43,500.00
Gratuity {Sec 10(10)}	4,75,000.00

Working Note:
Least of the following is exempt:
1. Gratuity received `6,95,000
2. `10,00,000
3. ½ x 22,000 x 20 = `2,20,000

Received = `6,95,000
Exempt = `2,20,000
Taxable = `4,75,000

Uncommuted Pension {Sec 17(1)(ii)}	20,340.00

Working Note:	`
<u>For December' 2012</u>	
9,000 x 9/30 =	2,700
<u>For January' 2013</u>	
9,000 x 1 =	9,000
<u>From February to March' 2013</u>	
9,000 x 48% x 2 =	8,640
Total = `2,700 + `9,000 + `8,640 =	20,340

Commuted Pension {Sec 10(10A)}	2,01,600.00

Working Note:	`
Received =	5,61,600.00

Exempt = 5,61,600 / 52% x 1/3	3,60,000.00
Taxable =	2,01,600.00

Gross Salary		9,31,840.00
Income under the head Salary		9,31,840.00

Computation of Tax Liability

Tax on `9,31,840 at slab rate	1,16,368.00
Add: Education cess @ 2%	2,327.36
Add: SHEC @ 1%	1,163.68
Tax Liability	1,19,859.04
Rounded off u/s 288B	1,19,860.00

Pension by winners of gallantry award Section 10(18)

Pension received by individuals who are winners of **Param Vir Chakra, Maha Vir Chakra or Vir Chakra** or such other gallantry awards shall be fully exempt from income tax.

Similarly, pension received by the family members of an individual mentioned above shall be exempt from income tax.

Family pension received by family members of the persons who died in the course of operational duties Section 10(19)

Any family pension received by the widow or children etc. of the members of armed forces including para-military forces of the union shall be exempt from income tax provided death of such member has occurred in the course of operational duties.

Question 24 [V. Imp.]: Write a note on taxability of Leave Salary/Encashment of Leave.

Answer:

Taxability of Leave Salary/ Encashment of Leave

Sometimes an employee may surrender his leave and may get equivalent payment in cash, it is called leave salary.

Exemption in respect of encashment of leave salary Section 10(10AA)

(1) Any leave salary received by an employee while he is in service is fully taxable under section 17(1).

(2) If he gets encashment at the time of leaving the service (including resignation) he can avail the exemption under section 10(10AA).

The provisions of the exemption are as follows: -

(i) **In the case of Government employees:** Any amount received as leave salary at the time of retirement whether on superannuation or otherwise, is exempt from tax, in case of employees of State Government/Central Government.

(ii) **In case of other employees** including the employees of local authority and public sector undertakings: Leave salary is exempt from tax to the extent of the least of the following:

(a) Leave salary received
(b) Amount specified by the Government [` 3,00,000]
(c) 10 months average salary
(d) average salary x Leave at the credit

Leave at the credit = Leave entitlement
Less: (i) Leave availed during entire service
Less: (ii) Leave encashed during entire service

While computing leave entitlement, **maximum leave allowed shall be 30 days for each completed year of service (part of the year shall not be taken into consideration)**

Meaning of average Salary

Average salary is to be calculated on the basis of the average salary drawn by the employee during the period of 10 months immediately preceding his retirement.

If any employee has received leave salary from two or more employers, exemption for each of the employers shall be computed separately, however, total exemption allowed can not exceed `3,00,000.

Meaning of 'Salary'

'Salary' includes basic salary plus dearness allowance to the extent the terms of employment so provide plus fixed percentage of commission on the turnover achieved by the assessee.

Circular: F 35/1/65 – IT (B), 5/11/65
Salary paid to legal heirs of the deceased employee in respect of privilege leave standing to the credit of such employee at the time of his/her death is not taxable as salary.

Illustration 23: Mr. X is retired from ABC Ltd. w.e.f. 01.12.2012 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of `3,75,000. The employee was entitled for 20 days leave per year of service. During entire service, he has availed 35 days of leave and has encashed 10 days of leave. The employee was getting basic pay `27,000 p.m. at the time of retirement. The employer has allowed him pension of `6,000 p.m. and employee was allowed commutation of 1/3rd of his pension on 01.03.2013 amounting to `2,40,000.

Compute his Tax Liability for the Assessment Year 2013-14.

Solution:

	`
Basic Pay [(27,000 x 8)	2,16,000.00
Uncommuted Pension {Sec 17(1)(ii)}	22,000.00

Working Note:	`
From December to February	
6,000 x 3 =	18,000
For March	
6,000 x 2/3 =	4,000
Total = 18,000 + 4,000 =	22,000

Commuted Pension {Sec 10(10A)}	Nil
Leave Salary {Sec 10(10AA)}	1,05,000.00

Working Note:
Least of the following is exempt:
1. `3,75,000
2. 10 x 27,000 = `2,70,000
3. `3,00,000
4. 355/30 x 27,000 = `3,19,500

Received = `3,75,000
Exempt = `2,70,000
Taxable = `1,05,000

Computation of leave at the credit
Leave Entitlement = 20 x 20 = 400 days
Less: Leave availed = 35 days

Less: Leave Encashed	= 10 days
Leave at the credit	= 355 days

Gross Salary	3,43,000.00
Income under the head salary	3,43,000.00
Gross Total Income	3,43,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,43,000.00

Computation of Tax Liability

Tax on `3,43,000 at slab rate	14,300.00
Add: Education cess @ 2%	286.00
Add: SHEC @ 1%	143.00
Tax Liability	14,729.00
Rounded off u/s 288B	14,730.00

Question 25 [V. Imp.]: Discuss the provisions relating to taxability of Provident Funds?
Answer:
Provisions relating to taxability of Provident Funds
Statutory provident fund Section 10(11) (Provident Fund Act 1925):
Any amount contributed by the employer to statutory provident fund of the employee and any interest credited to such provident fund is fully exempt from income tax.

Further, the lump sum payment from such provident fund at the time of retirement or termination of service is also exempt from tax.

Recognised provident fund Section 17(1)(vi)/Part A of fourth schedule/ Section 10(12)
Employer's contribution **upto 12% of the employee's retirement benefit salary** shall be exempt from income tax.

Interest credited to the provident fund account **upto 9.5% p.a. shall be exempt from income tax**.

Example
Mr. X is employed in ABC Ltd. getting basic pay `25,000 p.m. and dearness allowance `10,000 p.m. (forming part of salary). The employer and employee both are contributing @ 13% of the salary to the recognised provident fund, in this case taxable amount shall be computed in the manner given below:

Solution:	`
Basic Pay (25,000 x 12)	3,00,000
Dearness allowance (10,000 x 12)	1,20,000
Employer's contribution to recognised provident fund in excess of 12% of retirement benefit salary (4,20,000 x 1%)	4,200
Taxable amount of Provident Fund	4,200

Example
Presume in the above question, employer and employee both are contributing @ 13% of the basic pay, taxable amount shall be computed in the manner given below:

Solution:	`
Basic Pay (25,000 x 12)	3,00,000
Dearness allowance (10,000 x 12)	1,20,000
Employer's contribution to recognised provident fund in excess of 12% of retirement benefit salary [(3,00,000 x 13%) – (4,20,000 x 12%)]	Nil
Taxable amount of Provident Fund	Nil

Example
Taxable amount of recognised provident fund in different situations shall be as given below:

Name of the employee	Mr. A	Mr. B	Mr. C
Basic Pay (p.m.)	12,000	18,000	15,000
Dearness Allowance (p.m.)	5,000 (forming part of salary)	7,000 (not forming part of salary)	4,000 (50% of forming part of salary)
Commission	4% of 20,00,000	3% of 20,00,000	2% of 10,00,000
Sales/Purchase	Sale	Purchase	Sale
Employer's contribution to recognised provident fund	15% of salary	20% of basic pay	`5,000 p.m.
Interest credited to recognised provident fund	`30,000 @ 8.5% p.a.	`39,000 @ 8.5% p.a.	`24,000 @ 8% p.a.
Taxable amount of recognised provident fund (employer's contribution + interest)	`8,520	`17,280	`33,120

Illustration 24: Mr. X is employed in ABC Ltd. getting basic pay `12,000 p.m. and dearness allowance `5,000 p.m. forming part of salary. He has contributed `3,000 p.m. to the recognised provident fund and employer has also contributed an equal amount. During the year interest of `25,000 was credited @ 8.5% p.a.

Employer has provided rent free accommodation to the employee for which rent paid by the employer is `5,000 p.m.

The employee has encashed one month leave and was allowed leave salary of `17,000.

Compute his income under the head salary for the previous year 2012-13.

Solution:

	`
Basic Pay (12,000 x 12)	1,44,000
Dearness Allowance (5,000 x 12)	60,000
Leave Salary	17,000
Rent free accommodation {Sec 17(2)(i) Rule 3(1)}	33,150

Working Note:	`
15% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation salary	
= Basic Pay + Dearness Allowance + Leave Salary	
= 1,44,000 + 60,000 + 17,000 = 2,21,000	
15% of rent free accommodation salary	33,150
Rent paid = 5,000 x 12	60,000
Perquisite value of rent free accommodation	33,150

Employer's contribution to recognised provident fund in excess of 12% of retirement benefit salary {Rule 6 of Part A of schedule IV} (36,000 – 24,480)	11,520
Gross Salary	2,65,670
Income under the head Salary	2,65,670

Payments From Recognised Provident Funds

The lump sum payment from such accumulated provident fund at the time of retirement or termination of service is also exempt from tax under section 10(12) if any of the conditions listed under **rule 8 of part A of the fourth schedule** as given below, is complied with:

Rule 8

Balance from recognised provident fund shall be exempt from income tax

(i) If the employee has rendered continuous service for a period of **5 years** or more, or

(ii) If he has not rendered such continuous service, the service has been terminated by reason of the employee's ill-health, or by the contraction or discontinuance of the employer's business or other cause beyond the control of the employee, or

(iii) If the employee obtains employment with any other employer and the provident fund has been transferred to such employer and the total service with the former employer and the current employer is of 5 years or more.

If the employee has not complied with even a single condition, in that case amount received shall be taxable but only that part which was exempt earlier. Employer contribution and interest on employer contribution shall be taxable under the head Salary and shall be called profits in lieu of salary. Interest on employee contribution shall be taxable under the head Other Sources.

Unrecognised Provident Fund

Any amount contributed by the employer to such fund and any interest credited to such provident fund on the accumulated balance is fully exempt from income tax.

From the lump sum payment received at the time of retirement or termination of service, the amount representing contribution of employee is fully exempt, interest on such amount is taxable under the head other sources. The employer's contribution and interest thereon is taxable under the head salary and shall be called profits in lieu of salary.

Illustration 25: Mr. Lamba, a resident individual, retires from C Ltd. Delhi w.e.f. 1st February, 2013 after 25 years of service. He joined T Ltd. on the same day i.e. 1st February, 2013.

The following information is provided by him about his incomes/outgoing during the Previous Year 2012-13:

(a)	Salary/allowances/perquisites/other payment from 01.04.2012 to 31.01.2013 from C Ltd.	`
(i)	Basic salary	12,000 p.m.
(ii)	Dearness allowance (One-half includible for superannuation benefits)	3,000 p.m.
(iii)	Commission, 5% on turnover achieved by him	6,000
(iv)	House accommodation, rent paid by company	5,000 p.m.
(v)	Best suggestion award for total quality management scheme (in kind)	12,000
(vi)	Lunch Facility (cost per meal is upto `50)	500 p.m.
(vii)	Gratuity under Gratuity Act, 1972	3,35,000

(viii) Pension 3,000 p.m.

(ix) Commuted value of one-half pension w.e.f. 01.02.2013 2,25,000

(x) Refund of employer contribution from unrecognised provident fund (Including interest of `1,00,000) 2,50,000

(xi) Refund of employee contribution from unrecognised provident fund (Including interest of `1,00,000) 2,50,000

(b) Salary/allowances/perquisites etc. from 01.02.2013 to 31.03.2013 from T Ltd.

(i) Salary 8,000 p.m.

(ii) House rent allowance 1,500 p.m.

(iii) Free use of motorcar (exceeding 1.6 litres engine capacity) (expenses met by employer)

(iv) Rent paid by assessee 2,000 p.m.

You are required to compute his income under the head Salary and Tax Liability for the Assessment Year 2013-14.

Solution: `

Computation of income under the head Salary in C Ltd.

Basic Pay (12,000 x 10)	1,20,000.00
Dearness Allowance (3,000 x 10)	30,000.00
Commission	6,000.00
Rent free accommodation {Sec 17(2)(i), Rule 3(1)}	21,150.00

Working Note: `

15% of rent free accommodation salary or rent paid whichever is less

Rent free accommodation salary

= Basic Pay + Dearness Allowance + Commission

= 1,20,000 + 15,000 + 6,000 = 1,41,000

15% of rent free accommodation salary	21,150
Rent paid = 5,000 x 10	50,000
Perquisite value of rent free accommodation	21,150

Best suggestion award (Gift) (12,000 – 5,000)	7,000.00
Lunch Facility	Nil
Gratuity {Sec 10(10)}	1,18,653.85

Working Note:

Least of the following is exempt:

1. `3,35,000
2. `10,00,000
3. 15/26 x 25 x 15,000 = `2,16,346.15

Received = `3,35,000.00

Exempt = `2,16,346.15

Taxable = `1,18,653.85

Uncommuted Pension {Sec 17(1)(ii)} {3,000 x 50% x 2}	3,000.00

Commuted Pension {Sec 10(10A)}	75,000.00

Working Note: `

Received	=	2,25,000
Exempt = 1/3 x 4,50,000	=	1,50,000
Taxable	=	75,000

Refund of employer's contribution (including interest)	2,50,000.00

In T Ltd.

Basic Pay (8,000 x 2)	16,000.00
House Rent Allowance {Sec 10(13A) Rule 2A}	600.00

Working Note:
Least of the following is exempt:
1. `3,000
2. `4,000 – `1,600 = `2,400
3. 40% of retirement benefit salary = `6,400

(Retirement benefit salary = `16,000)
Received = `3,000
Exempt = `2,400
Taxable = ` 600

Motor Car (2,400 x 2)	4,800.00
Gross Salary	6,52,203.85
Income under the head Salary	6,52,203.85
Income under the head Other Sources	1,00,000.00
{interest on employee's contribution to unrecognised provident fund}	
Gross Total Income	7,52,203.85
Less: Deduction u/s 80C to 80U	Nil
Total Income {Rounded u/s 288A}	7,52,200.00

Computation of Tax Liability

Tax on `7,52,200 at slab rate	80,440.00
Add: Education cess @ 2%	1,608.80
Add: SHEC @ 1%	804.40
Tax Liability	82,853.20
Rounded off u/s 288B	82,850.00

Question: Are receipts in the nature of retrenchment compensation received by a person at the time of retrenchment of his service taxable? Discuss.
Answer:
<u>**Retrenchment Compensation**</u> <u>**Section 10(10B)**</u>

Any compensation received by a workman under the Industrial Disputes Act, 1947, or under other Acts or rules, orders or notifications issued thereunder or under any standing orders or under any award, contract of service or otherwise, at the time of retrenchment, is exempt from tax to the extent of least of the following:

(a) Retrenchment compensation received

(b) An amount calculated in accordance with the provisions of section 25F(b) of the Industrial Disputes Act, 1947 or

(c) The amount as specified by the Government (i.e. `5,00,000).

Section 25F(b) of the Industrial Disputes Act provides for payment of retrenchment compensation equivalent to 15 days' average pay for every year of continuous service or any part thereof in excess of six months.

For this purpose, retrenchment includes the situation of closing down of the undertaking and transfer of the ownership or management of the undertaking provided the service of the workman has been interrupted by transfer, or the new terms and conditions of services are less favorable to him; or the new employer is, under the terms of transfer or otherwise, legally not liable to pay to the workman, in the event of his retrenchment, compensation on the basis that his service has been continuous and has not been interrupted by the transfer.

Question 26: Write a note on voluntary retirement scheme.
Answer:
Voluntary Retirement Scheme Section 10(10C) Rule 2BA
As per section 10(10C) of the Income tax Act, compensation received at the time of voluntary retirement is exempt upto ` 5,00,000, if the scheme for voluntary retirement is in accordance with the following requirements laid down in **Rule 2BA: —**

(i) It applies to an employee who has completed **10 years of service** or completed **40 years of age**; however this requirement would not be applicable in case of amount received by an employee of a public sector company under the scheme of voluntary separation framed by such public sector company.

(ii) It applies to all employees including workers and executives of a company or of an authority or of a co-operative society, as the case may be, excepting directors of a company or of a co-operative society.

(iii) The scheme of voluntary retirement has been drawn to result in overall reduction in the existing strength of the employees.

(iv) The vacancy caused by the voluntary retirement is not to be filled up.

(v) The retiring employee of a company shall not be employed in another company or concern belonging to the same management.

(vi) The amount receivable on account of voluntary retirement of the employee does not exceed

1. the amount equivalent to **three months' retirement benefit salary for each completed year of service**.

2. retirement benefit salary at the time of retirement multiplied by the **balance months of service left before the date of his retirement on superannuation.**

Illustration 26: Mr. X has taken voluntary retirement from ABC Ltd. on 31.10.2012 after serving the employer for 23 years and 2 months. The employer has paid him `2,10,000 in connection with voluntary retirement, a gratuity of `1,80,000 and leave salary of `1,50,000.

The employee was getting the basic pay `15,000 p.m. at the time of retirement. The employer has unrecognised provident fund and has contributed `3,000 p.m. to the unrecognised provident fund. The employee has also contributed an equal amount. The employer has credited interest of `27,000 to the unrecognised provident fund @ 11% p.a. on the date of retirement. After retirement the employer has paid him provident fund balance of `5,00,000, out of which employee's contribution is `2,00,000. The employer's contribution is also `2,00,000 and balance is the interest on employee's and employer's contribution. The employee has taken voluntary retirement after completion of the age 50 years though he was to be retired at the age of 58.

The employer has allowed him one month leave per year of service. The employee has availed seven months leave throughout his service and has encashed six months leave.

Compute employee’s Tax Liability for the Assessment Year 2013-14.

Solution:

	`
Basic Pay (15,000 x 7)	1,05,000.00
Employer’s contribution to unrecognised provident fund	2,00,000.00
Interest on employer’s contribution to unrecognised provident fund	50,000.00
Gratuity {Sec 10(10)}	7,500.00

Working Note:
Least of the following is exempt:
1. `1,80,000
2. `10,00,000
3. ½ x 15,000 x 23 = `1,72,500

Received = `1,80,000
Exempt = `1,72,500
Taxable = ` 7,500

Leave Salary {Sec 10(10AA)}	Nil

Working Note:
Least of the following is exempt:
1. `1,50,000
2. `3,00,000
3. 10 x 15,000 = `1,50,000
4. 10 x 15,000 = `1,50,000

Received = `1,50,000
Exempt = `1,50,000
Taxable = Nil

Computation of leave at the credit
Leave Entitlement = 23 months
Less: Leave availed = 7 months
Less: Leave Encashed = 6 months
Leave at the credit = 10 months

Voluntary Retirement {Sec 10(10C) Rule 2BA}	Nil

Working Note:
Least of the following is exempt:
1. 15,000 x 3 x 23 = `10,35,000
2. 15,000 x 12 x 8 = `14,40,000
3. `2,10,000

Received = `2,10,000
Exempt = `2,10,000
Taxable = Nil

Gross Salary	3,62,500.00
Income under the head Salary	3,62,500.00
Income under the head Other Sources	50,000.00
{Interest on employee’s contribution to unrecognised provident fund }	
Gross Total Income	4,12,500.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,12,500.00

Computation of Tax Liability

Tax on `4,12,500 at slab rate	21,250.00
Add: Education cess @ 2%	425.00
Add: SHEC @ 1%	212.50
Tax Liability	21,887.50

Rounded off u/s 288B 21,890.00

Question 27: What is profit in lieu of salary and under what head it is chargeable to tax?
Answer:
Profit in lieu of Salary
As per section 17(3), certain payments given by the employer to the employee are called profit in lieu of salary because it is not appropriate to call such payments as salary and are as given below:

1. Taxable portion of Retrenchment Compensation or Voluntary Retirement.

2. Taxable portion of Gratuity, Commuted Pension and Provident Fund.

3. Amount received by the employee under Keymen Insurance Policy.

4. Amount received before taking up the employment or after termination of the employment.

5. Any other payment notified for this purpose.

Question: Distinguish between Foregoing of Salary and Surrender of Salary?
Answer:
Foregoing of Salary / Surrender of Salary
Foregoing of Salary
If any salary has accrued to an employee, it is chargeable to tax even if he foregoes his salary. Waiver by an employee of his salary is foregoing of salary. Once salary accrues, subsequent waiver does not absolve him from liability to income tax.

Surrender of Salary
If any employee surrenders his salary to the **Central Government under the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961**, the surrendered salary would not be included in computing his taxable income, whether he is a private sector/public sector or Government employee.

Question: The question whether a particular income is "Income from Salary". or is "Income from Business" depends upon whether the contracts is a 'Contract of Service' or is a 'Contract for Service'. Discuss.
Answer:
Contract of Service / Contract for Service
In order to constitute a 'contract of service' the relationship of employer–employee is vital. In other words, the employee does the work for his master. Control and supervision vests in the master and the servant is bound to follow the master's directions. A servant works for remuneration which may be paid monthly or in lump sum or on any suitable basis as per the agreement between the employer and the employee.

Example
A, an actress is an employee of Raj Kapoor Studios. She gets a monthly remuneration of ` 1,00,000 per month. She acts in several films but the fees for those services are directly paid by the producers to the Studios. In this case, there exists the relationship of employer–employee between A and Raj Kapoor Studios. Hence, the remuneration will be assessed as salary income in her hands.

A 'contract for service', on the other hand, is one, in which a person offers his services to any person who is willing to pay the prescribed charges. He has discretion to do the work in his own way. He is entitled to the fruits of his labour and liable for its losses. He is answerable only for the work to be carried out which must be in accordance with the terms of contract entered into with the person awarding the contract. He, however, enjoys a large measure of discretion in executing the contract. The day-to-day control is normally absent in the case of contract for service. Such receipts constitute income from business in his hands.

Example

A is a job worker, who runs a small engineering concern. He has got an HMT lathe. A machine tool factory gives him job order for manufacturing gears. This is a contract for service and the income therefrom will be assessed in the hands of A as business income.

Question 28: What are the incomes taxable under the head Salary?

Answer:

Incomes chargeable under the head Salary

Payments must be out of employer/employee relationship

The amount received by an individual shall be treated as salary only if the relationship between payer and payee is that of an employer and employee or master and servant. The employee may be a full time employee or part-time employee.

The important point is that payment received by an individual from a person other than his employer cannot be termed as salary. e.g. Commission received by a director from a company is salary if the director is an employee of the company and if the director is not an employee of the company, commission will be taxable under the head "Profits and gains of business or profession" or "Income from other sources."

Payments received by a college lecturer from a university

Emoluments received by a college lecturer from his college are salary, irrespective of the fact whether it is received for academic work or otherwise. If lecturer is paid for setting question paper by university, the remuneration is not salary, as it is not received from the employer and is taxable under the head "Income from other sources". The deciding factor is that what is not received from employer cannot be treated as salary.

Board's Circular Letter [F. No.40/ 29/ 67- IT (A- I)], dated May 22, 1967:

A Member of Parliament or State Legislature is not treated as an employee of the Government, hence salary and allowances received by him are, not chargeable to tax under the head "Salaries" but are chargeable to tax under head "Income from other sources".

Payments received by a partner from the partnership

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 regarded as "salary" for the purposes of this section, rather as per section 28, any such salary is income of the partner under the head business/profession.

Contract of service/ contract for service

Contract of service

Income is taxable under the head salary, if there is a 'contract of service' i.e. the relationship is that of employer–employee. In other words, the employee does the work for his master. Control and supervision vests in the master.

Contract for service

A 'contract for service', on the other hand, is one, in which a person offers his services to any person who is willing to pay the prescribed charges. He has discretion to do the work in his own way. He is entitled to the fruits of his labour and liable for its losses. Such receipts constitute income from business in his hands.

PRACTICE PROBLEMS

TOTAL PROBLEMS 29

Problem 1.

Mr. X has joined ABC Ltd. on 01.07.2002 in the pay scale of 7,000 – 500 – 10,000 – 800 – 15,600 – 1,000 – 22,600. The employer has allowed him dearness allowance @ 7% of his basic pay from 01.04.2012 to 30.06.2012 and thereafter dearness allowance was allowed @ 10% of the basic pay.

Compute employee's Gross Salary, Total Income and Tax Liability for the Assessment Year 2013-14.

Answer = Gross Salary: `1,70,484; Total Income: `1,70,480; Tax Liability: Nil

Problem 2.

Mr. X has joined ABC Ltd. on 01.10.1999 in the pay scale of 10,000 – 900 – 16,300 – 1,100 – 25,100 – 1,500 – 32,600. The employer has allowed him dearness allowance @ 4.35% of the basic pay from 01.04.2012 to 30.09.2012, @ 7.5% upto 31.12.2012. Thereafter it was allowed @ 10.5% of the basic pay.

Compute employee's Gross Salary, Total Income and Tax Liability for the Assessment Year 2013-14.

Answer = Gross Salary: `2,86,255.80; Total Income: `2,86,260; Tax Liability: `8,880

Problem 3.

Mr. X is employed in ABC Ltd., Calcutta and is getting basic pay `10,000 p.m., dearness allowance `4,000 p.m. (50% of dearness allowance forms part of salary for the purpose of retirement benefits).

The employee was allowed bonus `1,000 p.m. and commission @ 2.5% on the sales turnover of `60,00,000. The employer has paid him house rent allowance `4,000 p.m. The employee has paid rent `4,500 p.m.

Compute his Gross Salary and Tax Liability for the Assessment Year 2013-14.

Answer = Gross Salary: `3,53,400; Tax Liability: `15,800

Problem 4.

Mr. X is employed in ABC Ltd. getting basic pay `11,500 p.m., dearness allowance `5,000 p.m. (half of it is taken into consideration for retirement benefit).

Employer has allowed him house rent allowance with effect from 01.10.2012 @ 3,000 p.m. and the employee has paid rent `3,500 p.m. throughout the year. Employer has paid him children education allowance `75 per month per child for four children and has also paid him hostel allowance `500 per month for one child, the actual expenses incurred by the employee is `1,000 per month per child.

Employer has paid him transport allowance `900 per month with effect from 01.07.2012 and the employee has incurred `1,500 p.m.

Compute his Gross Salary and Tax Liability for the Assessment Year 2013-14.

Answer = Gross Salary: `2,08,500; Tax Liability: `880

Problem 5.

Mr. X is employed in Indian Airlines as pilot and is getting basic pay of `25,000 p.m. and dearness allowance @ 10% of basic pay.

Employer has paid him children education allowance of `750 per month for one of his adopted child. The employer has also paid transport allowance of `1,000 per month. The employee has incurred `2,000 per month. The employer has paid him flight allowance in lieu of daily allowance `10,000 p.m.

Compute his Gross Salary and Tax Liability for the Assessment Year 2013-14.

Answer = Gross Salary: `3,76,200; Tax Liability: `18,150

Problem 6.

Mr. X is employed in Central Government getting basic pay `9,000 p.m. and dearness allowance @ 60% of basic pay. Employer has paid children education allowance `600 per month per child for 3 children and has paid hostel allowance `1,000 per month per child for one child. Employer has paid professional tax of `175 p.m. on behalf of the employee and has allowed him entertainment allowance `200 p.m. out of which he has saved ` 100 p.m. The employer has paid medical allowance `300 p.m. but employee's expenditure is `500 p.m.

Compute his income under the head Salary and Tax Liability for the Assessment Year 2013-14.

Answer = Income under the head Salary: `2,04,000; Tax Liability: `410

Problem 7.

Mr. X is employed in ABC Ltd. since 01.07.1996 in the pay scale of 9,000 – 300 – 10,500 – 500 – 13,000 – 750 – 17,500 – 1000 – 21,500. The employer has given him two increments in advance at the time of his taking up the job.

During the previous year 2012-13, he was allowed dearness allowance @ 11% of the basic pay. The employer has allowed him house rent allowance @ `3,000 p.m. Entertainment allowance `600 p.m. but the employee has saved `100 p.m. which was donated by him to a charitable institution.

The employer has paid Professional tax of `2,400 on his behalf on 02.04.2012 though it was due on 31.03.2012. The employer has paid conveyance allowance of `500 p.m. The employee has incurred `100 p.m. for official purpose, `150 p.m. for personal purpose and balance has been saved by the employee.

Compute his income under the head Salary and Tax Liability for the Assessment Year 2013-14.

Answer = Income under the head salary: `3,04,410; Tax Liability: `10,750

Problem 8.

Mr. X joined ABC Ltd. on 01.07.2005 in the pay scale of 25,000 – 1,500 – 31,000 – 1,600 – 39,000 – 1,800 – 49,800. The employer has allowed him 3 increments in advance at the time of taking up the job. The employee's salary is due on the 1^{st} of next month.

Employee was allowed dearness allowance @ `10,000 p.m., during the previous year 2011-12 and @ `12,000 p.m. in 2012-13. The employee has resigned w.e.f. 01.03.2013. The employee was allowed pension @ `10,000 p.m. and his pension is due on the last day of the month.

Compute Tax Liability for the Assessment Year 2013-14.

Answer = `58,590

Problem 9.
Mrs. X is employed in ABC Ltd. getting gross salary `1,40,000, but it is increased to `2,20,000 in previous year 2012-13 w.e.f. previous year 2011-12. Compute Tax Liability and relief under section 89.

Tax Rate of Previous Year 2011-12 for resident woman

If total income upto `1,90,000	Nil
On Next 3,10,000	10%
On Next 3,00,000	20%
On Balance amount	30%

Answer = Tax Liability: `5,150; Relief: `5,150

Problem 10.
Mr. X is employed in ABC Ltd. getting basic pay `11,000 p.m., dearness allowance `7,000 p.m. (10% of the dearness allowance forms part of salary for retirement benefits).

The employer has paid commission of `3,000 p.m. and has allowed him medical allowance `400 p.m. The employee was paid house rent allowance `4,000 p.m. The employee has paid rent of `3,000 p.m.

The employer has discontinued payment of house rent allowance with effect from 01.09.2012 and has provided him rent free accommodation with effect from 01.11.2012. The accommodation was owned by the employer and the population of the place is 4,00,000. The employee was allowed arrears of salary `10,000 and advance salary `20,000. The employee was also provided furniture with effect from 01.01.2013. Its original cost is `1,00,000 and written down value is `35,000.

Compute employee's Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `10,900

Problem 11.
Mr. X is employed in ABC Ltd. getting basic pay `13,000 p.m. and dearness allowance 5,000 p.m. Commission `3,500 p.m. Employer has paid overtime allowance with effect from 01.05.2012 @ `1,000 p.m. and has allowed him house rent allowance `2,000 p.m. The employee has paid rent `500 p.m.

The employer has discontinued payment of house rent allowance with effect from 01.06.2012 and has allowed him rent free accommodation with effect from 01.09.2012. The accommodation was owned by the employer itself at Calcutta. Employer has also provided him furniture from the same date with original cost `1,50,000 and has also paid professional tax `200 p.m. on behalf of the employee.

The employee has received arrears of salary `35,000.

Compute his Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `13,920

Problem 12.
Mr. X is employed in ABC Ltd. getting basic pay `11,000 p.m., dearness allowance `5,000 p.m. and 30% of it forms part of salary.

The employee is also getting dearness pay `1,000 p.m. and 10% of it forms part of salary. He is getting bonus `1,200 p.m. The employer has provided him one accommodation in Delhi for which rent paid by the employer is `1,200 p.m.

The employee was transferred to Bombay with effect from 01.01.2013 and the employer has provided him rent free accommodation at Bombay also which is owned by the employer himself.

The employee has received arrears of salary `32,000 and advance salary of `11,000.

Compute employee's Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `7,810

<u>Problem 13.</u>
Mr. X is employed in ABC Ltd getting basic pay `20,000 p.m. Salary for the month of March 2012 was paid to the employee on 03.04.2012.

The employer has paid house rent allowance `5,000 p.m. with effect from 01.11.2012 and the employee has paid rent `6,000 p.m.

Prior to 01.11.2012 the employer has provided him an accommodation and rent paid by the employer was `7,000 p.m.

Employee has also received advance salary `20,000.

Compute his Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `8,860

<u>Problem 14.</u>
Mr. X has taken four loans from his employer –

(i) `7,00,000 (term loan) on 23.09.2012 @ 3% p.a. for the purpose of purchasing a new motor car (in Delhi). The loan was repaid in monthly instalments of ` 25,000 each starting from 10.12.2011. (Presume SBI Rate 10%)

(ii) `10,00,000 on 11.05.2012 @ 5% p.a. for purchasing a house. The loan was repaid in annual instalments of ` 55,000 each starting from 31.03.2013. (Presume SBI Rate 10.5%)

(iii) The employee has taken a loan of `3,00,000 for the treatment of specified disease on 28.11.2012 and has received insurance claim of `2,50,000 on 28.02.2013. He has repaid `1,00,000 on 01.03.2013. (Presume SBI Rate 12%)

(iv) He has taken a personal loan of `18,000 on 30.03.2013 for a period of 2 years. (Presume SBI Rate 12%)

Compute perquisite value of the loan given to the employee.

Answer = Total Perquisite Value: `81,469.57

<u>Problem 15.</u>
Find out the perquisite value in the following cases:

Asset	Furniture	Air-conditioner	Video camera	Motor car	Computer
Original cost	1,00,000	45,000	50,000	3,40,000	55,000
Date of purchase by the employer	07.03.2009	01.07.2011	10.07.2010	01.10.2008	01.01.2010
Date of putting to use by employer	31.03.2009	01.07.2011	11.07.2010	01.10.2008	10.01.2010
Date of sale of asset to the employee	01.09.2012	01.08.2012	01.08.2012	01.01.2013	09.01.2013
Payment made by the employee	40,000	15,000	20,000	1,50,000	25,000

Answer: Furniture: `30,000; Air-Conditioner: `25,500; Video Camera: `20,000; Motor Car : Nil; Computer: Nil

Problem 16.

Mr. X is employed in ABC Ltd. getting basic pay of `8,000 p.m. Employer has provided him treatment outside India and has incurred a sum of `3,60,000 but Reserve Bank of India has permitted `3,50,000. Employer incurred `1,50,000 on stay but Reserve Bank of India has permitted `1,05,000; employer has incurred `97,000 on travelling and Reserve Bank of India has permitted `60,000.

Employer has paid medical allowance of `10,000 during the year and has incurred `7,000 on the treatment of father in law of Mr. X in India. The treatment was provided in a Government hospital and father in law of Mr. X is dependent on him.

The employee has been provided with a motor car of 1.8 litre engine capacity for official as well as personal use and all expenses are met by the employee himself but driver has been provided by the employer.

Mr. X has income under the head house property `1,000 and income under the head business profession `500 and deductions allowed under section 80C to 80U are `3,500.

Compute his Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: Nil

Problem 17.

Mr. X is retired from ABC Ltd. on 11.09.2012 after serving the employer for 11 years 10 months and 20 days. At the time of retirement his basic pay was `27,000 p.m. but it was `23,000 p.m. upto 31.05.2012. The employee was getting dearness allowance ` 4,000 p.m. but upto 31.05.2012 it was `3,000 p.m. The employer has paid him gratuity of `3,10,000. Half of the dearness allowance forms part of the salary for retirement benefits.

Compute his tax liability in two situations –

(a) He is covered under Payment of Gratuity Act 1972;
(b) He is not covered under Payment of Gratuity Act 1972.

Answer = Tax Liability: (a) `5,330; (b) `12,790

Problem 18.

Mr. X is retired from ABC Ltd. with effect from 18.09.2012 after serving the employer for 20 years and 6 months. At the time of his retirement his basic pay was `9,000 p.m. and dearness allowance `3,000 p.m.

The employee was covered under Payment of Gratuity Act 1972. The employer has paid him gratuity of `2,70,000 and has allowed him pension of `5,000 p.m. The employer has also allowed him commutation of pension on 01.01.2013 for 48% of the pension and has paid `2,88,000.

Compute employee’s Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `11,460

Problem 19.
Mr. X is retired from ABC Ltd. on 27.11.2012 after serving the employer for 11 years 11 months and 11 days. The employer has paid him gratuity of `2,50,000. At the time of his retirement his basic pay was `12,500 p.m.

The employer has allowed him pension of `6,200 p.m., the employee has requested for commutation of pension on 01.02.2013 and employer has allowed him commutation @ 52% of his pension and has paid `3,86,880.

Compute his Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `24,500

Problem 20.
Mr. X joined ABC Ltd. in the pay scale of ` 10,800 – 400 – 16,400 – 500 – 19,400 on 01.07.1994 and he resigned on 15.09.2012. He was allowed dearness allowance @ 50% of his basic pay, forming part of salary for retirement benefits.

On retirement, he received gratuity of ` 2,60,000. He was allowed pension of `6,000 per month with effect from 16.09.2012. He was allowed commutation of 75% of his pension on 01.01.2013 and received a sum of `6,00,000 as commuted pension.

Compute his Tax Liability for Assessment Year 2013-14.

Answer = Tax Liability: `36,130

Problem 21.
Mr. X is retired from ABC Ltd. on 31.03.2013 after serving the employer for 30 years and 11 months and the employer has paid him leave salary of `5,00,000. At the time of retirement, he was getting basic pay `25,000 p.m. but it was `22,000 p.m. upto 31.07.2012. Further, the employee was getting dearness allowance `6,000 but it was `4,000 p.m. upto 31.07.2012 and 50% of the dearness allowance forms the part of salary for retirement benefits.

The employee was entitled for 3 months leave for every year of service, but the employee has availed 7 months leave throughout the service and has encashed 4 months leave.

Compute employee’s Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `47,380

Problem 22.
Mr. X is retired from ABC Ltd. on 28.02.2013 after serving the employer for 21 years and 10 months. At the time of his retirement his basic pay was `13,000 p.m. but upto 30.09.2012 it was `9,500 p.m. The employer has allowed him dearness allowance @ 10% of his basic pay.

The employee was entitled for 45 days leave per year of service. During entire service the employee has availed 65 days leave and has encashed 45 days leave. The employer has paid him leave salary of `3,10,000 at the time of retirement.

Employer has also paid him gratuity of `2,50,000, pension of `6,000 p.m. and the employee was allowed commutation of 40% of his pension amounting to ` 2,88,000.

Compute his Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `34,780

Problem 23.
Mr. X is retired from ABC Ltd. with effect from 01.12.2012 after serving the employer for 16 years. At the time of his retirement his basic pay was `13,000 p.m. The employee was entitled for 65 days leave per year of service. The employee has 780 days leave at his credit at the time of retirement (as per employer's record) which were encashed by the employer. An amount of `3,12,000 was paid by the employer.

Compute his Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `12,430

Problem 24.
Mr. X is employed in ABC Ltd. getting basic pay `10,000 p.m. and dearness allowance `5,000 p.m. (half of the dearness allowance forms part of salary for retirement benefit salary). The employee was working in sales deptt. and employer has allowed him commission @ 1.5% on the sales turnover of `20,00,000.

Employee has contributed `3,000 p.m. to the recognized provident fund. The employer has also contributed an equal amount. During the year interest of `20,000 was credited on 30.06.2012 @ 8.5% p.a.

The employer has provided him rent free accommodation which is owned by the employer himself and the population of the place is 14,00,000.

Compute his income under the head Salary.

Answer = Income under the head Salary: `2,42,400

Problem 25.
Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m., dearness allowance `7,000 p.m. The employer has provided him rent free accommodation for which rent paid by the employer is `3,000 p.m. The employer has contributed `4,000 p.m. to recognised provident fund and the employee has also contributed equal amount. The interest of `16,000 @ 8.5% was credited to the provident fund account on 30.06.2012 for the period 01.07.2011 upto 30.06.2012.

Compute employee's Total Income for the Assessment Year 2013-14.

Answer = Total Income: `3,31,200

Problem 26.
Mr. X is employed in ABC Ltd. getting basic pay `20,000 p.m., dearness allowance `7,000 p.m. The employer has contributed `3,500 to the unrecognised provident fund and the employee has also contributed equal amount. The employee was retired on 31.10.2012 after serving the employer for 20 years and 6 months and employer has credited interest `21,000 to the provident fund account on 31.10.2012 and interest rate is 12% p.a.

The employer has paid provident fund balance `10,00,000 to the employee on 01.11.2012 out of which employee's contribution is `4,00,000 and employer's contribution is also `4,00,000 and balance is interest. Employer has paid gratuity `2,60,000 and allowed him pension `5,000 p.m. The employee was allowed commutation of pension on 01.01.2013 for 40% of the pension and has paid `2,40,000.

Compute employee's Tax Liability for the Assessment Year 2013-14.

Answer = Tax Liability: `1,14,950

Problem 27.
Mrs. X, Finance Manager in Z Ltd. New Delhi has furnished the particulars of her incomes as under:

Basic pay `45,000 p.m., employer has provided medical facilities to her father in law in a government hospital and has incurred a sum of `15,000. The employer has also incurred a sum of `1,50,000 on the treatment of Mrs. X outside India and Reserve Bank of India has permitted `1,23,000. ` 45,000 were incurred in connection with travelling for her treatment outside India.

Employer has provided her rent free accommodation for which rent paid by the employer is `4,500 p.m. The company has given a housing loan of `7,00,000 at a rate of 7% on 01.04.2012 which is repayable within one year and the employee has repaid half of the loan amount on 10.09.2012 and balance on 27.02.2013. (The employer is notified for deduction under section 80C) (Presume SBI Rate 8%)

The company has made a gift of `4,750 in kind in connection with silver jubilee celebrations of the company.

A dinning table and six chairs were provided to Mrs. X at her residence and this furniture was purchased on 01.07.2008 for `48,000. It was gifted to the employee for her excellent performance on 01.11.2012.

The company has provided a credit card to the employee and she has made personal purchases of `3,700, which was paid by the company besides service charge of `300.

The company has purchased one motor car of 1.8 litres engine capacity on 10.06.2008 for `2,50,000. It was brought into use by the company w.e.f. 01.11.2008 and was provided to the assessee for official/personal use during 2012-13, but was sold to the assessee on 01.01.2013 for `1,00,000.

The employer has paid her entertainment allowance of `700 p.m. but Mrs. X has saved `300 p.m.

The employer has paid professional tax of `2,500 on her behalf on 02.04.2012, but it was due on 31.03.2012.

The employer and employee both have contributed `3,500 p.m. each to the recognized provident fund.

Mrs. X was retired on 28.02.2013 after serving the employer for 25 years and 6 months and one day. The employer has paid gratuity of `3,67,000 and has allowed her pension of `8,000 p.m. but it will be due on the first of next month and employee was allowed commutation of 40% of her pension and has received `3,84,000 on 01.03.2013.

Compute her Total Income, Tax Liability and Tax Payable for Assessment Year 2013-14.

Answer = Total Income: `6,66,930; Tax Liability: `65,290

Problem 28.
Dr. Vimil, a civil surgeon was in Government service till 30.06.2012. He joined as an adviser (part time)

from 1st October, 2012 in a charitable dispensary on an honorarium of ` 32,000 per month. He owns a house property which is self occupied. From the following further information, furnished for the year ending 31st March, 2013, you are requested to

(a) compute his income under the head Salary for the Assessment Year 2013-14

(b) calculate the Tax Liability.

	`
(a) Salary from Government service	30,000
(b) House rent allowance	5,000
(c) Gratuity Received	1,20,000
(d) Leave at credit (encashment)	50,000
(e) Provident fund	78,000
(f) Commuted pension	35,000
(g) Uncommuted Pension	20,000
(h) Repayment to Housing Development Finance Corporation Ltd. (Paid in June, 2013 – Principal `10,000 + Interest `14,000 on loan taken for construction of house)	24,000
(i) Deposit in public provident fund account	32,000

Answer = (a) `2,01,000; (b)Tax Liability: `100

<u>Problem 29.</u>

Mr. X, a resident individual is retired from XY Co. Ltd. w.e.f. 1st February, 2013, after 20 years and 9 months of service. He joined LM Co. Ltd. on the same day, i.e. 1st February, 2013 and remained in service till 31st March, 2013.

He furnished the following information:

Salary and allowances from 01.04.2012 to 31.01.2013 from XY Co. Ltd.		`
Basic salary		10,000 p.m.
Dearness allowance		1,500 p.m.
Commission calculated @ 4% on turnover achieved by Mr. X	4,000	
Gratuity received (not covered by the Payment of Gratuity Act, 1972)	1,25,000	
Salary and allowance from LM Co. Ltd.		
Basic Salary		7,000 p.m.
Entertainment allowance		1,000 p.m.
Fixed medical allowance		500 p.m.
House rent allowance		600 p.m.
Leave salary received (During the service)	5,000	

Other information:

Mr. X resides in his own house throughout the year.

Mr. X paid a premium of `12,000 on the policy of `70,000 on life of his minor child. Contribution to an approved superannuation fund and the Jeevan Dhara Scheme of the LIC covered under section 80C amounted to `8,000 and `5,000 respectively.

Compute Mr. X's Total Income and Tax Liability for Assessment Year 2013-14.

Answer = Total Income: `1,43,200; Tax Liability: Nil

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1: `

Computation of Gross Salary

Basic Pay [(12,400 x 3) + (13,200 x 9)]	1,56,000.00

Working Note:	`
01.07.2002 – 30.06.2003 =	7,000 p.m.
01.07.2003 – 30.06.2004 =	7,500 p.m.
01.07.2004 – 30.06.2005 =	8,000 p.m.
01.07.2005 – 30.06.2006 =	8,500 p.m.
01.07.2006 – 30 06.2007 =	9,000 p.m.
01.07.2007 – 30.06.2008 =	9,500 p.m.
01.07.2008 – 30.06.2009 =	10,000 p.m.
01.07.2009 – 30.06.2010 =	10,800 p.m.
01.07.2010 – 30.06.2011 =	11,600 p.m.
01.07.2011 – 30.06.2012 =	12,400 p.m.
01.07.2012 – 30.06.2013 =	13,200 p.m.

Dearness Allowance	14,484.00

Working Note:	`
From April to June	
7% of (12,400 x 3) =	2,604
From July to March	
10% of (13,200 x 9) =	11,880
Total = ` (2,604 +11,880) =	14,484

Gross Salary	1,70,484.00
Income under the head Salary	1,70,484.00
Gross Total Income	1,70,484.00
Less: Deduction u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A) 1,70,480.00	

Computation of Tax Liability

Tax on `1,70,480 at slab rate	Nil
Tax Liability	Nil

Solution 2:

Computation of Gross Salary

	`
Basic Pay [(21,800 x 6) + (22,900 x 6)]	2,68,200

Working Note:

	`
01.10.1999 – 30.09.2000 =	10,000 p.m.
01.10.2000 – 30.09.2001 =	10,900 p.m.
01.10.2001 – 30.09.2002 =	11,800 p.m.
01.10.2002 – 30.09.2003 =	12,700 p.m.
01.10.2003 – 30.09.2004 =	13,600 p.m.
01.10.2004 – 30.09.2005 =	14,500 p.m.
01.10.2005 – 30.09.2006 =	15,400 p.m.
01.10.2006 – 30.09.2007 =	16,300 p.m.
01.10.2007 – 30.09.2008 =	17,400 p.m.
01.10.2008 – 30.09.2009 =	18,500 p.m.
01.10.2009 – 30.09.2010 =	19,600 p.m.
01.10.2010 – 30.09.2011 =	20,700 p.m.
01.10.2011 – 30.09.2012 =	21,800 p.m.
01.10.2012 – 30.09.2013 =	22,900 p.m.

Dearness Allowance	18,055.80

Working Note:

	`
From April to September	
4.35% of (21,800 x 6) =	5,689.80
From October to December	
7.5% of (22,900 x 3) =	5,152.50
From January to March	
10.5% of (22,900 x 3) =	7,213.50
Total	18,055.80

Gross Salary	2,86,255.80
Income under the head Salary	2,86,255.80
Gross Total Income	2,86,255.80
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	2,86,260.00

Computation of Tax Liability

Tax on `2,86,260 at slab rate	8,626.00
Add: Education cess @ 2%	172.52
Add: SHEC @ 1%	86.26
Tax Liability	8,884.78
Rounded off u/s 288B	8,880.00

Solution 3:

Computation of Gross Salary

	`
Basic Pay (10,000 x 12)	1,20,000.00
Dearness Allowance (4,000 x 12)	48,000.00
Bonus	12,000.00

(1,000 x 12)

Commission (2.5% of 60,00,000)	1,50,000.00
House Rent Allowance {Sec 10 (13A), Rule 2A}	23,400.00

Working Note:
Least of the following is exempt:
1. `48,000
2. `54,000 – 29,400 = `24,600
3. 50% of retirement benefit salary = `1,47,000
(Retirement benefit salary = `2,94,000)
Received = `48,000
Exempt = `24,600
Taxable = `23,400

Gross Salary	3,53,400.00
Income under the head Salary	3,53,400.00
Gross Total Income	3,53,400.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,53,400.00

Computation of Tax Liability

Tax on `3,53,400 at slab rate	15,340.00
Add: Education cess @ 2%	306.80
Add: SHEC @ 1%	153.40
Tax Liability	15,800.20
Rounded off u/s 288B	15,800.00

Solution 4:

Computation of Gross Salary

	`
Basic Pay (11,500 x 12)	1,38,000.00
Dearness Allowance (5,000 x 12)	60,000.00
House Rent Allowance {Sec 10(13A), Rule 2A}	5,400.00

Working Note:
From October to March
Least of the following is exempt
1. `18,000
2. `21,000 – `8,400 = `12,600
3. 40% of retirement benefit salary = `33,600
(Retirement benefit salary = `84,000)
Received = `18,000
Exempt = `12,600
Taxable = ` 5,400

Children Education Allowance {Sec 10(14), Rule 2BB} 1,800.00

Working Note:	`
Received = `75 x 4 x 12 =	3,600

Exempt = `75 x 2 x 12 =	1,800
Taxable =	1,800

Hostel Allowance {Sec 10(14), Rule 2BB}	2,400.00

Working Note:	`
Received = `500 x 12 =	6,000
Exempt = `300 x 12 =	3,600
Taxable =	2,400

Transport Allowance {Sec 10(14), Rule 2BB}	900.00

Working Note:	`
Received = `900 x 9 =	8,100
Exempt = `800 x 9 =	7,200
Taxable =	900

Gross Salary	2,08,500.00
Income under the head Salary	2,08,500.00
Gross Total Income	2,08,500.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,08,500.00

Computation of Tax Liability

Tax on `2,08,500 at slab rate	850.00
Add: Education cess @ 2%	17.00
Add: SHEC @ 1%	8.50
Tax Liability	875.50
Rounded off u/s 288B	880.00

Solution 5:

Computation of Gross Salary

	`
Basic Pay (25,000 x 12)	3,00,000.00
Dearness Allowance (10% of Basic pay)	30,000.00
Children Education Allowance {Sec 10(14), Rule 2BB}	7,800.00

Working Note:	`
Received = `750 x 12 =	9,000
Exempt = `100 x 12 =	1,200
Taxable =	7,800

Transport Allowance {Sec 10(14), Rule 2BB}	2,400.00

Working Note:	`
Received = `1,000 x 12 =	12,000
Exempt = ` 800 x 12 =	9,600
Taxable =	2,400

Flight Allowance {Sec 10(14), Rule 2BB}	36,000.00

Working Note:
Least of the following is exempt:
1. 70% of allowance received
= 70% of (10,000 x 12) = `84,000

2. 10,000 x 12 = `1,20,000
Received = `1,20,000
Exempt = ` 84,000
Taxable = ` 36,000

Gross Salary	3,76,200.00
Income under the head Salary	3,76,200.00
Gross Total Income	3,76,200.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,76,200.00

Computation of Tax Liability

Tax on `3,76,200 at slab rate	17,620.00
Add: Education cess @ 2%	352.40
Add: SHEC @ 1%	176.20
Tax Liability	18,148.60
Rounded off u/s 288B	18,150.00

<u>Solution 6:</u>

Computation of income under the head Salary

	`
Basic Pay (9,000 x 12)	1,08,000.00
Dearness Allowance (60% of 1,08,000)	64,800.00
Children Education Allowance {Sec 10(14), Rule 2BB}	19,200.00

Working Note:

	`
Received = `600 x 3 x 12 =	21,600
Exempt = `100 x 2 x 12 =	2,400
Taxable =	19,200

Hostel Allowance {Sec 10(14), Rule 2BB}	8,400.00

Working Note:

	`
Received = 1,000 x 1 x 12 =	12,000
Exempt = 300 x 1 x 12 =	3,600
Taxable =	8,400

Entertainment Allowance (200 x 12)	2,400.00
Professional Tax (175 x 12)	2,100.00
Medical Allowance (300 x 12)	3,600.00
Gross Salary	2,08,500.00
Less: 16(ii) Entertainment Allowance	2,400.00

Working Note:
Least of the following is deductible:
1. `2,400
2. `5,000
3. 20% of `1,08,000 = `21,600

So, Deductible = `2,400

Less: 16(iii) Professional Tax	2,100.00
Income under the head Salary	2,04,000.00
Gross Total Income	2,04,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,04,000.00

Computation of Tax Liability

Tax on `2,04,000 at slab rate	400.00
Add: Education cess @ 2%	8.00
Add: SHEC @ 1%	4.00
Tax Liability	412.00
Rounded off u/s 288B	410.00

Solution 7: `

Computation of income under the head Salary

Basic Pay	2,31,000.00

[(18,500 x 3) + (19,500 x 9)] = `2,31,000

Working Note: `

01.07.1996 – 30.06.1997 =	9,600 p.m.
01.07.1997 – 30.06.1998 =	9,900 p.m.
01.07.1998 – 30.06.1999 =	10,200 p.m.
01.07.1999 – 30.06.2000 =	10,500 p.m.
01.07.2000 – 30.06.2001 =	11,000 p.m.
01.07.2001 – 30.06.2002 =	11,500 p.m.
01.07.2002 – 30.06.2003 =	12,000 p.m.
01.07.2003 – 30.06.2004 =	12,500 p.m.
01.07.2004 – 30.06.2005 =	13,000 p.m.
01.07.2005 – 30.06.2006 =	13,750 p.m.
01.07.2006 – 30.06.2007 =	14,500 p.m.
01.07.2007 – 30.06.2008 =	15,250 p.m.
01.07.2008 – 30.06.2009 =	16,000 p.m.
01.07.2009 – 30.06.2010 =	16,750 p.m.
01.07.2010 – 30.06.2011 =	17,500 p.m.
01.07.2011 – 30.06.2012 =	18,500 p.m.
01.07.2012 – 30.06.2013 =	19,500 p.m.

Dearness Allowance {11% of Basic Pay}	25,410.00
House Rent Allowance {Sec 10(13A), Rule 2A}	36,000.00

Working Note:

<u>From 01.04.2012 To 30.06.2012</u>

Least of the following is exempt:

1. `9,000
2. Nil
3. 40% of retirement benefit salary = `22,200
 (Retirement benefit salary = `55,500)

Received = `9,000

Exempt = Nil

Taxable = `9,000

<u>From 01.07.2012 To 31.03.2013</u>

Least of the following is exempt:

1. `27,000
2. Nil
3. 40% of retirement benefit salary = `70,200
(Retirement benefit salary = 1,75,500)
Received = `27,000
Exempt = Nil
Taxable = `27,000
Total = 9,000 + 27,000 = `36,000

Entertainment Allowance (600 x 12)	7,200.00
Professional Tax	2,400.00
Conveyance Allowance	4,800.00

Working Note:
Conveyance incurred for official purpose is only `100 p.m. Hence taxable is 400 x 12 = `4,800

Gross Salary	3,06,810.00
Less: 16(iii) Professional Tax	2,400.00
Income under the head Salary	3,04,410.00
Gross Total Income	3,04,410.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,04,410.00
Computation of Tax Liability	
Tax on `3,04,410 at slab rate	10,441.00
Add: Education cess @ 2%	208.82
Add: SHEC @ 1%	104.41
Tax Liability	10,754.23
Rounded off u/s 288B	10,750.00

Solution 8:

Computation of income under the head Salary

	`
Basic Pay [(39,000 x 4) + (40,800 x 8)]	4,82,400.00

Working Note:

	`
01.07.2005 – 30.06.2006 =	29,500 p.m.
01.07.2006 – 30.06.2007 =	31,000 p.m.
01.07.2007 – 30.06.2008 =	32,600 p.m.
01.07.2008 – 30.06.2009 =	34,200 p.m.
01.07.2009 – 30.06.2010 =	35,800 p.m.
01.07.2010 – 30.06.2011 =	37,400 p.m.
01.07.2011 – 30.06.2012 =	39,000 p.m.
01.07.2012 – 30.06.2013 =	40,800 p.m.

Dearness allowance [(10,000 x 1) + (12,000 x 11)]	1,42,000.00
Pension	10,000.00
Gross Salary	6,34,400.00
Income under the head Salary	6,34,400.00
Gross Total Income	6,34,400.00
Less: Deduction u/s 80C to 80U	Nil

Total Income	6,34,400.00

Computation of Tax Liability

Tax on `6,34,400 at slab rate	56,880.00
Add: Education cess @ 2%	1,137.60
Add: SHEC @ 1%	568.80
Tax Liability	58,586.40
Rounded off u/s 288B	58,590.00

Solution 9: `

Step 1. **Previous Year 2012–13**

Salary	2,20,000
Add: Arrears for previous year 2011-12	80,000
Gross Salary	3,00,000
Income under the head Salary	3,00,000
Tax before education cess	10,000
Add: Education cess @ 2%	200
Add: SHEC @ 1%	100
Tax Liability	10,300

Step 2. **Previous Year 2012–13**

Salary	2,20,000
Gross Salary	2,20,000
Income under the head Salary	2,20,000
Tax before education cess	2,000
Add: Education cess @ 2%	40
Add: SHEC @ 1%	20
Tax Liability	2,060

Step 3. Difference between Step 1 and Step 2	8,240

Step 4. **Previous Year 2011–12**

Salary	1,40,000
Add: Arrears	80,000
Gross Salary	2,20,000
Income under the head Salary	2,20,000
Tax before education cess	3,000
Add: Education cess @ 2%	60
Add: SHEC @ 1%	30
Tax Liability	3,090

Step 5. **Previous Year 2011–12**

Salary	1,40,000
Gross Salary	1,40,000
Income under the head Salary	1,40,000
Tax Liability	Nil

Step 6. Difference between Step 4 and Step 5	3,090

Step 7. Relief under section 89 Step 3 – Step 6	5,150
Tax after adjusting relief u/s 89 [10,300 – 5,150]	5,150

Solution 10: `

Computation of income under the head Salary

Basic Pay (11,000 x 12)	1,32,000.00
Dearness Allowance (7,000 x 12)	84,000.00
Commission (3,000 x 12)	36,000.00
Medical Allowance (400 x 12)	4,800.00
House Rent Allowance {Sec 10(13A), Rule 2A}	10,850.00

Working Note:
From April to August
1. `20,000
2. `15,000 – `5,850 = `9,150
3. 40% of retirement benefit salary = `23,400
(Retirement benefit salary = (11,000 + 700) x 5 = 58,500)
Received = `20,000
Exempt = ` 9,150
Taxable = `10,850

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	8,162.50

Working Note:
From November to March
Perquisite value = 7.5% of rent free accommodation salary = `5,662.50
<u>Rent free accommodation Salary</u>
= Basic Pay + Dearness Allowance + Commission + Medical Allowance
= `55,000 + `3,500 + `15,000 + `2,000 = `75,500
Perquisite value of furniture = 10% of (1,00,000 x 3/12) = `2,500
Taxable Amount = `5,662.50 + `2,500 = `8,162.50

Arrears of Salary	10,000.00
Advance Salary	20,000.00
Gross Salary	3,05,812.50
Income under the head Salary	3,05,812.50
Gross Total Income	3,05,812.50
Less: Deductions u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	3,05,810.00

Computation of Tax Liability

Tax on `3,05,810 at slab rate	10,581.00
Add: Education cess @ 2%	211.62
Add: SHEC @ 1%	105.81
Tax Liability	10,898.43
Rounded off u/s 288B	10,900.00

<u>Solution 11:</u> `

Computation of income under the head Salary

Basic Pay (13,000 x 12)	1,56,000.00
Dearness Allowance (5,000 x 12)	60,000.00
Commission (3,500 x 12)	42,000.00
Overtime Allowance (1,000 x 11)	11,000.00
House Rent Allowance {Sec 10(13A), Rule 2A}	4,000.00

Working Note:
From April to May 2012
1. `4,000
2. `1,000 – `2,600 = Nil
3. 50% of retirement benefit salary = `13,000
(Retirement benefit salary = 13,000 x 2 = `26,000)
Received = `4,000
Exempt = Nil
Taxable = `4,000

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	27,125.00

Working Note:
From September to March
15% of rent free accommodation salary = `18,375
Rent free accommodation Salary
= Basic Pay + Commission + Overtime Allowance
= `91,000 + 24,500 + 7,000 =`1,22,500
Add: cost of furniture = `1,50,000 x 7/12 x 10% = `8,750
Perquisite value of furnished house = `18,375 + `8,750 = `27,125

Professional Tax (200 x 12)	2,400.00
Arrears of Salary {Sec 15}	35,000.00
Gross Salary	3,37,525.00
Less: 16(iii) Professional Tax	2,400.00
Income under the head Salary	3,35,125.00
Gross Total Income	3,35,125.00
Less: Deductions u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	3,35,130.00

Computation of Tax Liability

Tax on `3,35,130 at slab rate	13,513.00
Add: Education cess @ 2%	270.26
Add: SHEC @ 1%	135.13
Tax Liability	13,918.39
Rounded off u/s 288B	13,920.00

Solution 12:

Computation of income under the head Salary

	`
Basic Pay (11,000 x 12)	1,32,000.00
Dearness Allowance (5,000 x 12)	60,000.00
Dearness Pay (1,000 x 12)	12,000.00
Bonus (1,200 x 12)	14,400.00
Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	14,400.00

Working Note:

<u>From April To December</u>

15% of Rent free accommodation Salary or rent paid whichever is less

<u>Rent free accommodation Salary</u>

= Basic Pay + Dearness Allowance + Dearness Pay + Bonus

= 99,000 + 13,500 + 900 + 10,800 = `1,24,200

15% of rent free accommodation Salary = `18,630

Rent Paid = `1,200 x 9 = `10,800

(A) Perquisite value of unfurnished house = `10,800

<u>From January To March</u>

<u>Rent free accommodation Salary of Delhi</u>

= Basic Pay + Dearness Allowance + Dearness Pay + Bonus

= 33,000 + 4,500 + 300 + 3,600 = `41,400

15% of Rent free accommodation Salary = `6,210

Rent paid = `3,600

Perquisite value of Rent free accommodation of Delhi = `3,600

<u>Rent free accommodation of Bombay</u>

<u>Rent free accommodation Salary</u>

= Basic Pay + Dearness Allowance + Dearness Pay + Bonus

= 33,000 + 4,500 + 300 + 3,600 = `41,400

15% of Rent free accommodation Salary = `6,210

Perquisite value of rent free accommodation of Bombay = `6,210

(B) Perquisite value of unfurnished house {least is in Delhi} = `3,600

Total Amount = A + B = `10,800 + 3,600 = `14,400

Arrears of Salary {Sec 15}	32,000.00
Advance of Salary {Sec 15}	11,000.00
Gross Salary	2,75,800.00
Income under the head Salary	2,75,800.00
Gross Total Income	2,75,800.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	2,75,800.00

Computation of Tax Liability

Tax on `2,75,800 at slab rate	7,580.00
Add: Education cess @ 2%	151.60

Add: SHEC @ 1%	75.80
Tax Liability	7,807.40
Rounded off u/s 288B	7,810.00

Solution 13: `

Computation of income under the head Salary

Basic Pay (20,000 x 12)	2,40,000
House rent allowance {Sec 10(13A), Rule 2A}	5,000

Working Note:
From November 2012 to March 2013
1. `25,000
2. `30,000 – `10,000 = `20,000
3. 40% of retirement benefit salary = `40,000
(Retirement Benefit Salary = 20,000 x 5 = `1,00,000)
Received = `25,000
Exempt = `20,000
Taxable = ` 5,000

Advance Salary {Sec 15}	20,000
Rent Free Accommodation {Sec 17(2) (ii), Rule 3(1)}	21,000

Working Note:
15% of Rent free accommodation salary or Rent paid whichever is less
Rent free accommodation salary = Basic Pay = `1,40,000
15% of Rent free accommodation Salary = `21,000
Rent paid = `7,000 x 7 = `49,000
Perquisite value of unfurnished house = `21,000

Gross Salary	2,86,000
Income under the head Salary	2,86,000
Gross Total Income	2,86,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	2,86,000

Computation of Tax Liability

Tax on `2,86,000 at slab rate	8,600
Add: Education cess @ 2%	172
Add: SHEC @ 1%	86
Tax liability	8,858
Rounded off u/s 288B	8,860

Solution 14:

(i) Computation of perquisite value of the loan

Months	Outstanding balance at the end (in `)	Amount of interest (in `) Rate = 10% - 3% = 7%
September	7,00,000	7,00,000 x 7% x 1/12 = 4,083.33
October	7,00,000	7,00,000 x 7% x 1/12 = 4,083.33
November	7,00,000	7,00,000 x 7% x 1/12 = 4,083.33
December	6,75,000	6,75,000 x 7% x 1/12 = 3,937.50

January	6,50,000	6,50,000 x 7% x 1/12 = 3,791.67
February	6,25,000	6,25,000 x 7% x 1/12 = 3,645.83
March	6,00,000	6,00,000 x 7% x 1/12 = 3,500.00
Total		27,124.99

So, perquisite value of interest free loan = `27,124.99

(ii) Computation of perquisite value of the loan	`
`10,00,000 x 5.5% x 10/12	45,833.33
` 9,45,000 x 5.5% x 1/12	4,331.25
Perquisite value of interest free loan	50,164.58

(iii) Computation of perquisite value of the loan	
`2,50,000 x 12% x 1/12	2,500.00
`1,50,000 x 12% x 1/12	1,500.00
Perquisite value of interest free loan	4,000.00

(iv) Computation of perquisite value of the loan	
`18,000 x 12% x 1/12	180.00
Total perquisite value	81,469.57

<u>Solution 15:</u>

Computation of perquisite value of Furniture	`
Cost of the furniture	1,00,000
Less: Depreciation on straight line method @ 10% from 31.03.2009 to 30.03.2010	10,000
Less: Depreciation on straight line method @ 10% from 31.03.2010 to 30.03.2011	10,000
Less: Depreciation on straight line method @ 10% from 31.03.2011 to 30.03.2012	10,000
Written down value	70,000
Less: Amount paid by the assessee	40,000
Perquisite value of Furniture	30,000

Computation of perquisite value Air-conditioner	
Cost of the Air-conditioner	45,000
Less: Depreciation on straight line method @ 10% from 01.07.2011 to 30.06.2012	4,500
Written down value	40,500
Less: Amount paid by the assessee	15,000
Perquisite value of Air-conditioner	25,500

Computation of perquisite value Video Camera	
Cost of the Video Camera	50,000
Less: Depreciation on straight line method @ 10% from 11.07.2010 to 10.07.2011	5,000
Written down value	45,000
Less: Depreciation on straight line method @ 10% from 11.07.2011 to 10.07.2012	5,000
Written down value	40,000
Less: Amount paid by the assessee	20,000
Perquisite value of Video Camera	20,000

Computation of perquisite value Motor car	
Cost of the motor	3,40,000
Less: Depreciation on reducing balance method @ 20% from 01.10.2008 to 30.09.2009	68,000
Written down value	2,72,000
Less: Depreciation on reducing balance method @ 20% from 01.10.2009 to 30.09.2010	54,400
Written down value	2,17,600
Less: Depreciation on reducing balance method @ 20% from 01.10.2010 to 30.09.2011	43,520

Written down value	1,74,080
Less: Depreciation on reducing balance method @ 20% from 01.10.2011 to 30.09.2012	34,816
Written down value	1,39,264
Less: Amount paid by the assessee	1,50,000
Perquisite value of motor car	Nil

Computation of perquisite value Computer

Cost of the Computer	55,000
Less: Depreciation on reducing balance method @ 50% from 10.01.2010 to 09.01.2011	27,500
Written down value	27,500
Less: Depreciation on reducing balance method @ 50% from 10.01.2011 to 09.01.2012	13,750
Written down value	13,750
Less: Depreciation on reducing balance method @ 50% from 10.01.2012 to 09.01.2013	6,875
Written down value	6,875
Less: Amount paid by the assessee	25,000
Perquisite value of computer	Nil

<u>Solution 16:</u> `

Computation of income under the head Salary

Basic Pay (8,000 x 12) 96,000.00

Medical Facilities {Proviso to Sec 17(2)} 62,000.00

Working Note: `

Expenses on treatment	=	3,60,000
Exempt = Permitted by RBI	=	3,50,000
(A)Taxable	=	10,000
Expenses on Stay	=	1,50,000
Exempt = Permitted by RBI	=	1,05,000
(B)Taxable	=	45,000
Treatment of father in law	=	7,000
Total = 10,000 + 45,000 +7,000	=	62,000

Medical Allowance 10,000.00

Motor Car {Sec 17(2) (iii), Rule 3(2)} 21,600.00

Working Note:
Since basic pay is `96,000 so monetary income is more than `50,000 hence, he is a specified employee (1,800 x 12)

Gross Salary	1,89,600.00
Income under the head Salary	1,89,600.00
Income under the head House Property	1,000.00
Income under the head Business/Profession	500.00
Gross Total Income	1,91,100.00
Less: Deductions u/s 80C to 80U	3,500.00
Total Income	1,87,600.00

Tax Liability Nil

<u>Note:</u> Since Gross total income before taking into consideration travelling expenses is not exceeding `2 lakhs. Hence travelling is exempt.

Solution 17:

(a) He is covered under Payment of Gratuity Act, 1972

	`
Basic Salary	1,36,900.00

Working Note:	`
From April to May	
23,000 x 2 =	46,000
From June to August	
27,000 x 3 =	81,000
For September	
11/30 x 27,000 =	9,900
Total = `46,000 + 81,000 + 9,900 =	1,36,900

Dearness Allowance	19,466.67

Working Note:	`
From April to May	
3,000 x 2 =	6,000.00
From June to August	
4,000 x 3 =	12,000.00
For September	
11/30 x 4,000 =	1,466.67
Total = `6,000 +12,000 + 1,466.67 =	19,466.67

Gratuity {Sec 10(10)}	95,384.62

Working Note:
Least of the following is exempt:
1. `3,10,000
2. `10,00,000
3. 15/26 x (27,000 + 4,000) x 12 = `2,14,615.38

Received = `3,10,000.00
Exempt = `2,14,615.38
Taxable = ` 95,384.62

Gross Salary	2,51,751.29
Income under the head Salary	2,51,751.29
Gross Total Income / Total Income (Rounded off u/s 288A)	2,51,750.00

Computation of Tax Liability

Tax on `2,51,750 at slab rate	5,175.00
Add: Education cess @ 2%	103.50
Add: SHEC @ 1%	51.75
Tax Liability	5,330.25
Rounded off u/s 288B	5,330.00

(b) He is not covered under Payment of Gratuity Act, 1972

Basic Salary	1,36,900.00

Working Note:	`
From April to May	
23,000 x 2 =	46,000
From June to August	
27,000 x 3 =	81,000
For September	

11/30 x 27,000 =	9,900
Total = `46,000 + 81,000 + 9,900 =	1,36,900

Dearness Allowance	19,466.67

Working Note:	`
<u>From April to May</u>	
3,000 x 2 =	6,000.00
<u>From June to August</u>	
4,000 x 3 =	12,000.00
<u>For September</u>	
11/30 x 4,000 =	1,466.67
Total = `6,000 +12,000 + 1,466.67 =	19,466.67

Gratuity {Sec 10(10)}	1,67,825.00

Working Note:	`
Least of the following is exempt	
1. `3,10,000	
2. `10,00,000	
3. ½ x 25,850 x 11 = `1,42,175	
Received = `3,10,000	
Exempt = `1,42,175	
Taxable = `1,67,825	
<u>Calculation of Average Salary</u>	
<u>Basic Pay</u>	
From November to May `23,000 x 7 =	1,61,000
From June to August `27,000 x 3 =	81,000
Total =	2,42,000
<u>D.A.</u>	
From November to May `1,500 x 7 =	10,500
From June to August `2,000 x 3 =	6,000
Total =	16,500
Average Salary = (2,42,000 + 16,500)/10 =	25,850

Gross Salary	3,24,191.67
Income under the head Salary	3,24,191.67
Gross Total Income / Total Income (Rounded off u/s 288A)	3,24,190.00

Computation of Tax Liability

Tax on `3,24,190 at slab rate	12,419.00
Add: Education cess @ 2%	248.38
Add: SHEC @ 1%	124.19
Tax Liability	12,791.57
Rounded off u/s 288B	12,790.00

<u>Solution 18:</u> `

Computation of income under the head Salary

Basic Pay [(9,000 x 5) + (9,000 x 17 /30)]	50,100.00
Dearness Allowance [(3,000 x 5) + (3,000 x 17/30)]	16,700.00

Gratuity {Sec 10(10)}	1,31,538.46

Working Note:
1. `2,70,000
2. `10,00,000
3.15/26 x 12,000 x 20 = `1,38,461.54
Received = `2,70,000
Exempt = `1,38,461.54
Taxable = `1,31,538.46

Uncommuted Pension {Sec 17(1)(ii)}	24,966.67

Working Note: `

From September	
5,000 x 13/30 =	2,166.67
From October to December	
5,000 x 3 =	15,000.00
From January to March	
5,000 x 52% x 3 =	7,800.00
Total = `2,166.67 + `15,000 + ` 7,800 =	24,966.67

Commuted Pension {Sec 10(10A)}	88,000.00

Working Note: `

Received	=	2,88,000
Exempt = 2,88,000 / 48% x 100% x 1/3	=	2,00,000
Taxable	=	88,000

Gross Salary	3,11,305.13
Income under the head Salary	3,11,305.13
Gross Total Income	3,11,305.13
Less: Deductions u/s 80C to 80U	Nil
Total Income (Rounded Off u/s 288A)	3,11,310.00

Computation of Tax Liability

Tax on `3,11,310 at slab rate	11,131.00
Add: Education cess @ 2%	222.62
Add: SHEC @ 1%	111.31
Tax Liability	11,464.93
Rounded off u/s 288B	11,460.00

Solution 19:

Computation of income under the head Salary `

Basic Pay [(12,500 x 7) + (12,500 x 27/30)]	98,750.00
Gratuity {Sec 10(10)}	1,81,250.00

Working Note:
Least of the following is exempt:
1. `2,50,000
2. `10,00,000
3. ½ x 1,25,000/10 x 11 = `68,750
Received = `2,50,000
Exempt = ` 68,750
Taxable = `1,81,250

Uncommuted Pension {Sec 17(1)(ii)}	18,972.00

Working Note:	`
From November	
6,200 x 3/30 =	620
From December and January	
6,200 x 2 =	12,400
From February to March	
6,200 x 2 x 48% =	5,952
Total = `620 +12,400 + 5,952 =	18,972

Commuted Pension {Sec 10(10A)}	1,38,880.00

Working Note:	`
Received =	3,86,880.00
Exempt = 3,86,880 / 52% x 1/3 =	2,48,000.00
Taxable =	1,38,880.00

Gross Salary	4,37,852.00
Income under the head Salary	4,37,852.00
Gross Total Income	4,37,852.00
Less: Deductions u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	4,37,850.00

Computation of Tax Liability

Tax on `4,37,850 at slab rate	23,785.00
Add: Education cess @ 2%	475.70
Add: SHEC @ 1%	237.85
Tax Liability	24,498.55
Rounded off u/s 288B	24,500.00

Solution 20:

Computation of income under the head Salary

	`
Basic Pay [(17,900 x 3) + (18,400 x 2) + (18,400 x 15/30)]	99,700.00

Working Note:	`
01.07.1994 – 30.06.1995 =	10,800 p.m.
01.07.1995 – 30.06.1996 =	11,200 p.m.
01.07.1996 – 30.06.1997 =	11,600 p.m.
01.07.1997 – 30.06.1998 =	12,000 p.m.
01.07.1998 – 30.06.1999 =	12,400 p.m.
01.07.1999 – 30.06.2000 =	12,800 p.m.
01.07.2000 – 30.06.2001 =	13,200 p.m.
01.07.2001 – 30.06.2002 =	13,600 p.m.
01.07.2002 – 30.06.2003 =	14,000 p.m.
01.07.2003 – 30.06.2004 =	14,400 p.m.
01.07.2004 – 30.06.2005 =	14,800 p.m.
01.07.2005 – 30.06.2006 =	15,200 p.m.
01.07.2006 – 30.06.2007 =	15,600 p.m.
01.07.2007 – 30.06.2008 =	16,000 p.m.
01.07.2008 – 30.06.2009 =	16,400 p.m.
01.07.2009 – 30.06.2010 =	16,900 p.m.
01.07.2010 – 30.06.2011 =	17,400 p.m.
01.07.2011 – 30.06.2012 =	17,900 p.m.

01.07.2012 – 30.06.2013 =	18,400 p.m.

Dearness Allowance	49,850.00
Gratuity {Sec 10(10)}	17,000.00

Working Note:
Least of the following is exempt:
1. `2,60,000
2. `10,00,000
3. ½ x 27,000 x 18 = `2,43,000

Calculation of average salary

Basic Pay
[(17,900 x 8) + (18,400 x 2)] = 1,80,000

Dearness Allowance
50% of `1,80,000 = 90,000
Average Salary = 2,70,000/10
= 27,000

Received = `2,60,000
Exempt = `2,43,000
Taxable = ` 17,000

Uncommuted Pension {Sec 17(1)(ii)}	25,500.00

Working Note:	`
From September	
6,000 x 15/30 =	3,000
From October to December	
6,000 x 3 =	18,000
From January to March	
6,000 x 3 x 25% =	4,500
Total = `3,000 +18,000 + 4,500 =	25,500

Commuted Pension {Sec 10(10A)}	3,33,333.33

Working Note:	`
Received =	6,00,000.00
Exempt = (6,00,000 x 4/3 x 1/3) =	2,66,666.67
Taxable =	3,33,333.33

Gross Salary	5,25,383.33
Income under the head Salary	5,25,383.33
Gross Total Income	5,25,383.33
Less: Deductions u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	5,25,380.00

Computation of Tax Liability

Tax on `5,25,380 at slab rate	35,076.00
Add: Education cess @ 2%	701.52
Add: SHEC @ 1%	350.76
Tax Liability	36,128.28
Rounded off u/s 288B	36,130.00

Solution 21:

	`
Basic Salary	2,88,000.00

[(22,000 x 4) + (25,000 x 8)]

Dearness Allowance [(4,000 x 4) + (6,000 x 8)]	64,000.00
Leave Salary {Sec 10(10AA)}	2,28,000.00

Working Note:
1. ` 5,00,000
2. ` 3,00,000
3. ` 10 x 2,72,000/10 = ` 2,72,000
4. 2,72,000 /10 x 19 = ` 5,16,800

Received = `5,00,000
Exempt = `2,72,000
Taxable = `2,28,000

Calculation of average salary

Basic Pay

[(22,000 x 2) + (25,000 x 8)] = 2,44,000

Dearness Allowance

[(2,000 x 2) + (3,000 x 8)] = 28,000
Average Salary = 2,72,000/10
= 27,200

Computation of leave at credit

Leave Entitlement	=	30
Less: Leave Availed	=	(7)
Less: Leave Encashed	=	(4)
Leave at Credit	=	19

Gross Salary	5,80,000.00
Income under the head Salary	5,80,000.00

Computation of Tax Liability

Tax on `5,80,000 at slab rate	46,000.00
Add: Education cess @ 2%	920.00
Add: SHEC @ 1%	460.00
Tax Liability	47,380.00

Solution 22: `

Computation of income under the head Salary

Basic Pay	1,22,000.00

Working Note:
[(9,500 x 6) + (13,000 x 5)]

Dearness Allowance (10% of basic pay)	12,200.00
Gratuity {Sec 10(10)}	1,35,550.00

Working Note:
Least of the following is exempt:
1. `2,50,000
2. `10,00,000
3. ½ x 1,09,000/10 x 21 = `1,14,450

Received = `2,50,000
Exempt = `1,14,450

Taxable = `1,35,550

Calculation of Average Salary

Computation of Basic Pay

[(9,500 x 6) + (13,000 x 4)] = 1,09,000

Average Salary = 1,09,000/10 = 10,900

Commuted Pension {Sec 10(10A)}	48,000.00

Working Note: `

Received	=	2,88,000
Exempt = 2,88,000 / 40% x 100% x 1/3	=	2,40,000
Taxable	=	48,000

Uncommuted Pension {Sec 17(1)(ii)}	3,600.00

Working Note:

(6,000 x 60%) x 1 = `3,600

Leave Salary {Sec 10(10AA)}	1,97,500.00

Working Note:

Least of the following is exempt:

1. `3,10,000
2. `3,00,000
3. 10 x 1,12,500/10 = `1,12,500
4. `1,12,500/10 x 520/30 = `1,95,000

Received = `3,10,000

Exempt = `1,12,500

Taxable = `1,97,500

Computation of leave at credit

Leave Entitlement = 30 x 21 = 630

Less: Leave Encashed = 45

Less: Leave Availed = 65

Leave at Credit = 520

Calculation of Average Salary

Computation of Basic Pay

[(9,500 x 5) + (13,000 x 5)] = 1,12,500

Average Salary = 1,12,500/10 = 11,250

Gross Salary	5,18,850.00
Income under the head Salary	5,18,850.00
Gross Total Income	5,18,850.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	5,18,850.00

Computation of Tax Liability

Tax on `5,18,850 at slab rate	33,770.00
Add: Education cess @ 2%	675.40
Add: SHEC @ 1%	337.70
Tax Liability	34,783.10
Rounded off u/s 288B	34,780.00

<u>Solution 23:</u> `

Computation of income under the head Salary

Basic Pay	1,04,000.00
(13,000 x 8)	

Leave Salary {Sec 10(10AA)}	2,16,666.67

Working Note:
Computation of leave availed and encashed by the employee

Leave entitlement at the rate of 30 days (30 x 16)	= 480 days
Leave availed and encashed by the employee	= 260 days
Leave at the credit	= 220 days
Leave allowed by employer (65 x 16)	= 1040 days
Less: Leave encashed by the employee at the time of retirement	= 780 days
Hence leave availed/encashed while in service	= 260 days
Average salary of 10 months ending November 30, 2012	= 13,000

Least of the following is exempt: –

(1) Cash equivalent of leave at the credit of the employee at the time of retirement (i.e. 13,000 x 220/30) = 95,333.33
(2) 10 Months Average Salary = 13,000 x 10 = 1,30,000
(3) ` 3,00,000
(4) ` 3,12,000
Received = ` 3,12,000.00
Exempt = ` 95,333.33
Taxable = ` 2,16,666.67

Gross Salary	3,20,666.67
Income under the head Salary	3,20,666.67
Gross Total Income	3,20,666.67
Less: Deductions u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	3,20,670.00

Computation of Tax Liability

Tax on `3,20,670 at slab rate	12,067.00
Add: Education cess @ 2%	241.34
Add: SHEC @ 1%	120.67
Tax Liability	12,429.01
Rounded off u/s 288B	12,430.00

Solution 24:

Computation of income under the head Salary

	`
Basic Pay (10,000 x 12)	1,20,000
Dearness Allowance (5,000 x 12)	60,000
Commission (1.5% of 20,00,000)	30,000
Employer's contribution to provident fund {Rule 6 of Part A of schedule IV}	14,400

Working Note:
Retirement benefit salary = `1,20,000 + 30,000 + 30,000 = `1,80,000
12% of retirement benefit salary = `21,600
Employer contribution = `36,000
Allowed = 12% of retirement benefit salary = `21,600
Taxable = `14,400

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	18,000

Working Note:
10% of rent free accommodation salary = `18,000
Rent free accommodation Salary = `1,80,000

Gross Salary	2,42,400
Income under the head Salary	2,42,400

Solution 25:

Computation of Taxable Income

	`
Basic Pay (20,000 x 12)	2,40,000
Dearness Allowance (7,000 x 12)	84,000
Employer's contribution in excess of 12% of salary {Rule 6 of Part A of schedule IV} (48,000-28,800)	19,200
Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)}	36,000

Working Note:
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = Basic Pay = `2,40,000
15% of rent free accommodation salary = `36,000
Rent Paid = `36,000
Perquisite value = `36,000

Gross Salary	3,79,200
Income under the head Salary	3,79,200
Gross Total Income	3,79,200
Less: Deduction u/s 80C {Employee's contribution in recognised provident fund}	48,000
Total Income	3,31,200

Solution 26:

Computation of income under the head Salary

	`
Basic Pay (20,000 x 7)	1,40,000
Dearness Allowance (7,000 x 7)	49,000
Refund of employer's contribution in unrecognised provident fund	4,00,000
Refund of Interest on employer's contribution in unrecognised provident fund	1,00,000
Gratuity {Sec 10(10A)}	60,000

Working Note:
Least of the following is exempt:
1. `2,60,000
2. `10,00,000
3. ½ x 20,000 x 20 = ` 2,00,000

Received = `2,60,000
Exempt = ` 2,00,000

Taxable = ` 60,000

Uncommuted Pension {Sec 17(1)(ii)}	19,000

Working Note:	`
<u>For November to December</u>	
5,000 x 2 =	10,000
<u>For January to March</u>	
5,000 x 60% x 3 =	9,000
Total = `10,000 + `9,000 =	19,000

Commuted Pension {Sec 10(10A)}	40,000

Working Note:	`
Received =	2,40,000
Exempt = 2,40,000 / 40% x 100% x 1/3 =	2,00,000
Taxable =	40,000

Gross Salary	8,08,000
Income under the head Salary	8,08,000
Income under the head Other Sources	1,00,000
(Interest on employee's contribution)	
Gross Total Income	9,08,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	9,08,000

Computation of Tax Liability

Tax on `9,08,000 at slab rate	1,11,600
Add: Education cess @ 2%	2,232
Add: SHEC @ 1%	1,116
Tax Liability	1,14,948
Rounded off u/s 288B	1,14,950

<u>Solution 27:</u>

Computation of income under the head Salary

	`
Basic Pay	4,95,000.00
(45,000 x 11)	
Medical Facilities {Proviso to Sec 17(2)}	87,000.00

Working Note:		`
(a) To father in law	=	15,000
(b) Outside India	=	1,50,000
Less: Permitted by RBI	=	1,23,000
Taxable	=	27,000
(c) Travelling Expenses	=	45,000
Taxable Amount = (a) + (b) + (c) =		87,000

Rent Free Accommodation {Sec 17(2)(i), Rule 3(1)}	52,300.00

Working Note: `

15% of Salary or rent paid whichever is less

<u>Rent free accommodation salary</u>

= Basic Pay + Entertainment Allowance

= `4,95,000 + `7,700 = `5,02,700

15% of rent free accommodation = `75,405	
Rent Paid = ` (4,500 x 11) = `49,500	
Perquisite value of unfurnished house	49,500
Add: Value of furniture (48,000 x 10% x 7/12)	2,800
Perquisite value of furnished house	52,300

Value of housing loan {Sec 17(2)(viii), Rule 3(7)(i)} 4,375.00

Working Note:
[(7,00,000 x 1% x 5/12) + (3,50,000 x 1% x 5/12)]
= `2,916.67 + `1,458.33 = `4,375

Gift to Mrs. X {Sec 17(2)(viii), Rule 3(7)(iv)} 28,550.00

Working Note:
(a) In Kind = `4,750
(b) Furniture = `(48,000 – 10% x 48,000 x 4) = `28,800
Total Value = a + b = `33,550
Exempt = ` 5,000
Taxable = `28,550

Perquisite value of credit card {Sec 17(2)(viii) Rule 3(7)(vi)} 4,000.00

Perquisite value of motor car {Sec 17(2)(iii), Rule 3(2)} 21,600.00
(2,400 x 9)

Value of motor car {Sec 17(2)(viii) Rule 3(7)(viii)} 2,400.00

Working Note:		`
Sale of motor car on 01.01.2013		
Depreciation @ 20% of w.d.v		
I Year = `2,50,000 x 20%	=	50,000
II Year = `2,00,000 x 20%	=	40,000
III Year = `1,60,000 x 20%	=	32,000
IV Year = `1,28,000 x 20%	=	25,600
Total	=	1,47,600
Balance = `2,50,000 – `1,47,600 =		1,02,400
Less: Amount recovered	=	1,00,000
Taxable	=	2,400

Entertainment Allowance 7,700.00
{700 x 11}

Professional Tax 2,500.00

Employer's Contribution to recognised provident fund {Sec 10 (12)} Nil

Working Note:	`
Retirement benefit salary =	4,95,000
12% of retirement benefit salary =	59,400
Employer's Contribution = `3,500 x 11 =	38,500
Taxable =	Nil

Uncommuted Pension {Sec 17(1)(ii)} Nil
{Since it is due on first of next month so taxable portion in this year is nil}

Commuted Pension {Sec 10 (10A)}			64,000.00

Working Note:	`
Received =	3,84,000
Exempt = 3,84,000 / 40% x 100% x 1/3 =	3,20,000
Taxable =	64,000

Gratuity {Sec 10 (10)}			Nil

Working Note:
Least of the following is exempt:
1. `3,67,000
2. 10,00,000
3. ½ x (4,50,000/10) x 25 = `5,62,500

Recd = `3,67,000
Exempt = `3,67,000
Taxable = Nil

Gross Salary		7,69,425.00
Less: 16 (iii) Professional Tax		2,500.00
Income under the head salary		7,66,925.00
Gross Total Income		7,66,925.00
Less: Deduction u/s 80C		1,00,000.00
Employee's contribution to Recognised Provident Fund (3,500 x 11)	38,500	
Repayment of housing Loan	7,00,000	
Total	7,38,500	
But maximum upto `1,00,000		
Total Income		6,66,925.00
Rounded off u/s 288A		6,66,930.00

Computation of Tax Liability

Tax on `6,66,930 at slab rate	63,386.00
Add: Education cess @ 2%	1,267.72
Add: SHEC @ 1%	633.86
Tax Liability	65,287.58
Rounded off u/s 288B	65,290.00

Solution 28:

Computation of income under the head Salary of Dr. Vimil

	`	`
Salary		30,000
House Rent Allowance (As he owns a house where he resides, this is taxable)		5,000
Gratuity (Exempt u/s 10(10) - Government Employee)		Nil
Leave encashment at the time of retirement (Exempt u/s 10(10AA) - Government employee)		Nil
Provident Fund (Exempt u/s 10 (11)		Nil
Commuted Pension (Exempt u/s 10(10A))		Nil
Pension from Government		20,000

Honorarium from charitable dispensary (Assuming he is in part time employment) (32,000 x 6)		1,92,000
Gross Salary		2,47,000
Income under the head Salary		2,47,000

Computation of income under the head House Property

Gross Annual Value		Nil
Less: Municipal Taxes		Nil
Net Annual Value		Nil
Less: 30% of NAV u/s 24(a)		Nil
Less: Interest on capital borrowed u/s 24(b)		14,000
Income under the head House Property		(14,000)
Gross Total Income		2,33,000
Less: Deduction u/s 80C		32,000
Public Provident Fund Contribution	32,000	
Repayment of loan taken from HDFC (As loan is paid after 31.03.2013, it is not qualified for deduction u/s 80C for the previous year 2012-13)	Nil	
Total Income		2,01,000

Computation of Tax Liability

Tax on `2,01,000 at slab rate		100
Add: Education cess @ 2%		2
Add: SHEC @ 1%		1
Tax Liability		103
Rounded off u/s 288B		100

<u>Solution 29:</u>

	`	`
Computation of Income of X, an individual		
Salary From XY Co. Ltd.		
Basic Salary (10,000 x 10)		1,00,000.00
Dearness Allowance (1,500 x 10)		15,000.00
Commission		4,000.00
Gratuity		21,000.00

Working Note:
Least of the following is exempt:
1. ` 1,25,000
2. ` 10,00,000
3. ½ x 10,400 x 20 = ` 1,04,000

Received = `1,25,000
Exempt = `1,04,000
Taxable = ` 21,000

Salary From LM Co. Ltd.		
Basic Salary (7,000 x 2)		14,000.00

Entertainment Allowance (1,000 x 2)		2,000.00
Medical Allowance (500 x 2)		1,000.00
House Rent Allowance (600 x 2) (Exemption is not available at X resides in his own house)		1,200.00
Leave Salary		5,000.00
Gross Salary		1,63,200.00
Income under the head Salary		1,63,200.00
Gross Total Income		1,63,200.00
Less: Deduction u/s 80C		20,000.00
Insurance premium on life of minor child	7,000	
Approved Superannuation Fund	8,000	
Jeevan Dhara Scheme	5,000	
Total Income		1,43,200.00
Tax Liability		Nil

EXAMINATION QUESTIONS

IPCC NOV – 2012

Question No. 6(a) **(2 Marks)**

Discuss whether the following receipts are taxable and also indicate the head of income under which the same is taxable:

(i) Bonus shares received by equity shareholder and preference shareholder.

(ii) Loan advanced by a company in which public are not substantially interested to a person holding 15% of the beneficial ownership of the share capital of the company.

(iii) Medical allowance received by an employee, the entire amount of which has been spent by him for medical treatment.

(iv) Receipt of cash gift of `60,000/- from a friend on the occasion of wedding anniversary.

(v) Contribution to provident fund recovered from an employee by an employer/

(vi) Gift of a plot of land given to a chartered accountant by one of his clients. The chartered accountant has been fully compensated for his services and this gift has been given in appreciation of his personal qualities.

(vii) A lawyer closed down his profession. Subsequently he accepted a case on the insistence of his friend but advised his friend to pay the fee payable to him directly to a charitable trust.

(viii) Payment from unrecognised provident fund at the time of retirement which consists of employee's contribution, employer's contribution and interest on both contributions.

(Modified)

Answer:

(i) Bonus shares received by equity shareholders is not taxable. Bonus share is deemed dividend in the hands of preference shareholder only and it is covered under the head Other Sources

However, it is tax free u/s 10(34) as company is liable to pay additional income tax on it.

(ii) Such loan is deemed dividend in the hand of shareholder u/s 2(22)(e). He is liable to tax thereon under the head other sources.

(iii) Fully taxable under the head salary.

(iv) `60,000 taxable as gift under the head other Sources.

(v) Taxable under the head Business/Profession.

(vi) Perquisites under section 28 taxable as PGBP

(vii) Taxable as income under the head Business/Profession.

(viii) Employer's contribution & interest is taxable as salary. Employee's contribution is not taxable. However, interest on his contribution is taxable as Income from other Sources.

IPCC MAY – 2012

Question 1 (a) **(5 Marks)**

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

	`
Income from salary (computed)	3,45,000
Bank interest on savings bank account	15,000
Tax on non-monetary perquisite paid by employer	20,000
Amount contributed by her during the year of 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. (Modified)

Answer:

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

	`
Income under the head Salary	3,45,000
Income under the head Other Sources (Bank Interest)	15,000
Gross Total Income	3,60,000
Less: Deduction u/s 80C – Contribution to Recognized Provident Fund	60,000
Less: Deduction u/s 80D – Health Insurance Premium	7,000
Less: Deduction u/s 80DD – Medical expenditure for dependent sister with disability	50,000
Less: Deduction u/s 80TTA (10,000 or 15,000 whichever is less)	10,000
Total Income	2,33,000

Note: Tax on non-monetary perquisite paid by employer is exempt u/s 10(10CC)

Question 7 **(8 Marks)**

Mr. Mohit is employed with XY Ltd. on a basic salary of `10,000 p.m. He is also entitled to Dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ` 6,000 p.m. which was increased to ` 7,000 p.m. with effect from 01.01.2013. He also got an increment of ` 1,000 p.m. in his basic salary with effect from 01.02.2013. Rent paid by him during the previous year 2012-13 is as under:

April and May, 2012	-	Nil, as he stayed with his parents.
June to October, 2012	-	` 6,000 p.m. for an accommodation in Ghaziabad.
November, 2012 to March, 2013	-	` 8,000 p.m. for an accommodation in Delhi.

Compute the gross salary for Assessment Year 2013-14. (Modified)

Answer: `

Computation of Gross Salary for Assessment Year 2013-14.

Basic Pay [(10,000 x 10) + (11,000 x 2)]	1,22,000
Dearness Allowance	1,22,000
House rent allowance {Sec 10(13A) Rule 2A}	21,300

It is exempt to the extent of the least of following

1. Rent paid over 10% of salary
2. 50% of salary in metropolitan/40% of salary in other places
3. HRA received

April to May

Since rent paid is Nil hence entire HRA i.e. `12,000 is taxable

June to October

Least of the following is exempt:

1. `30,000 – `7,500 = `22,500
2. 40% of retirement benefit salary = `30,000
3. `30,000

(Retirement benefit salary = `75,000)

Received = `30,000

Exempt = `22,500

Taxable = `7,500NN

November to December

1. `16,000 – `3,000 = `13,000
2. 50% of retirement benefit salary = `15,000
3. `12,000

(Retirement benefit salary = `30,000)

Received = `12,000

Exempt = `12,000

Taxable = Nil

January

Least of the following is exempt:

1. `8,000 – `1,500 = `6,500
2. 50% of retirement benefit salary = `7,500
3. `7,000

(Retirement benefit salary = `15,000)

Received = `7,000

Exempt = `6,500

Taxable = `500

February to March

Least of the following is exempt:

1. `16,000 – `3,300 = `12,700
2. 50% of retirement benefit salary = `16,500
3. `14,000

(Retirement benefit salary = `33,000)

Received = `14,000

Exempt = `12,700

Taxable = `1300

Total = 12,000 + 7,500 + Nil + 500 + 1300 = `21,300

Gross Salary	2,65,300

PCC MAY – 2012

Question 3 **(8 Marks)**

Mr. Harish is Production Manager of XYZ Ltd. From the following details, compute the Total Income for the Assessment Year 2013-14.

Basic salary	`50,000 per month
Dearness allowance	40% of basic salary
Transport allowance(for commuting between Place of residence and office)	`3,000 per month
Motor car running and maintenance charges fully paid by employer	` 60,000

The motor car is owned by the company and driven by the employee. The engine cubic capacity is above 1.60 litres. The motor car is used for both official and personal purpose by the employee.

Expenditure on accommodation in hotels while touring on official duties met by the employer	`80,000
Loan from recognized provident fund (maintained by the employer)	`60,000
Lunch provided by the employer during office hours. Cost to the employer	`24,000
Computer (cost `35,000) kept by the employer in the residence of Mr. Harish from 01.06.2012	

Mr. Harish made the following payments:

Medical insurance premium: Paid in cash	`4,800	
Paid by account payee crossed cheque	`15,200	(Modified)

Answer:

	`
Basic Pay [(50,000 x 12)	6,00,000.00
Dearness Allowance (50,000 x 40% x 12)	2,40,000.00
Transport Allowance {Sec 10(14) Rule 2BB}	26,400.00

Working Note:	`
Received = `3,000 x 12 =	36,000
Exempt = `800 x 12 =	9,600
Taxable =	26,400

Motor Car Facility {Section 17(2)(iii) Rule 3(2)} [2,400 x 12]	28,800.00
Gross Salary	8,95,200.00
Gross Total Income	8,95,200.00
Less: Deduction u/s 80D-Medical Insurance Premium	15,000.00
Total Income	8,80,200.00

Notes:

1. Expenditure on accommodation in hotels while touring on official duties met by the employer is not taxable.
2. Lunch provided by the employer during office hours is not taxable as per Section 17(2)(viii) Rule 3(7)(iii). It is assumed that expenditure per meal is upto `50.
3. Computer provided at the residence of Mr. Harish is not taxable as per section 17(2)(viii)Rule 3(7)(vii)

Question 4 **(8 Marks)**

Mr. Ashok, an employee of a PSU, furnishes the following particulars for the previous year ending 31.03.2013

	`
(i) Salary income for the year	7,25,000
(ii) Arrear of Salary for previous year 2011-12 received during the year	80,000
(iii) Assessed income for the previous year 2011-12	2,40,000

You are requested by the assessee to compute relief under section 89 of the Income-tax Act, 1961 in terms of tax payable for assessment year 2013-14:

The rates of income tax for the previous year 2011-12 are

	Tax rate (%)	
On first `1,80,000	Nil	
On `1,80,000- `5,00,000	10	
On `5,00,000-`8,00,000	20	
Above `8,00,000	30	
Education cess	3	(Modified)

Answer:

Computation of Relief under section 89 for the Assessment Year 2013-14

	`
Step 1. **Previous Year 2012-13**	
Salary	7,25,000
Add: Arrears for previous year 2011-12	80,000
Gross Salary	8,05,000
Income under the head Salary	8,05,000
Tax before education cess	91,000
Add**:** Education cess @ 2%	1,820
Add: SHEC @1%	910
Tax Liability	93,730
Step 2. **Previous Year 2012-13**	
Salary	7,25,000
Gross Salary	7,25,000
Income under the head Salary	7,25,000
Tax before education cess	75,000
Add: Education cess @ 2%	1,500
Add: SHEC @ 1%	750
Tax Liability	77,250
Step 3. Difference between Step 1 and Step 2	16,480
Step 4. **Previous Year 2011-12**	
Salary	2,40,000
Add: Arrears	80,000
Gross Salary	3,20,000
Income under the head Salary	3,20,000
Tax before education cess	14,000
Add: Education cess @ 2%	280
Add: SHEC @ 1%	140
Tax Liability	14,420

Step 5. **Previous Year 2011-12**

Salary	2,40,000
Gross Salary	2,40,000
Income under the head Salary	2,40,000
Tax before education cess	6,000
Add: Education cess @ 2%	120
Add: SHEC @ 1%	60
Tax Liability	6,180

Step 6. Difference between Step 4 and Step 5	8,240
Step 7. Relief under section 89 Step 3 – Step 6	8,240
Tax after adjusting relief u/s 89 [93,730 – 8,240]	85,490

IPCC NOV – 2011

Question 2 **(8 Marks)**

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2013:

(i) Basic salary upto 31.10.2012. `50,000 p.m.
Basic salary from 01.11.2012. `60,000 p.m.

Note: Salary is due and paid on the last day of every month.

(ii) Dearness allowance @ 40% of basic salary.

(iii) Bonus equal to one month salary. Paid in October 2012 on basic salary plus dearness allowance applicable for that month.

(iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.

(v) Professional tax paid `3,000 of which `2,000 was paid by the employer.

(vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ` 45,000 and computer ` 35,000 were acquired by the company on 01.12.2012.

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2012 meant for both official and personal use. Repair and running expenses of `45,000 from 01.11.2012 to 31.03.2013 were fully met by the employer. The motor car was self-driven by the employee.

(viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons- aged 3). Cost of air tickets (economy class) reimbursed by the employer `30,000 for adults and `45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income and also tax liability of Mr. Balaji for the assessment year 2013-14. (Modified)

Answer:

Computation of Salary chargeable to tax of Mr. Balaji for A.Y. 2013-14	**`**
Basic Salary (50,000 x 7)+ (60,000 x 5)	6,50,000.00
Dearness Allowance (40% x 6,50,000)	2,60,000.00

Bonus (50,000 + 20,000)	70,000.00
Contribution to recognized provident fund (6,50,000 x 4%)	26,000.00
Professional Tax paid by the employer	2,000.00
Facility of Laptop/computer	NIL
Perquisite value of use of motor car (2,400 x 5)	12,000.00
Leave Travel concession	NIL
Gross Salary	10,20,000.00
Less: Deduction of professional tax u/s 16(iii)	(3,000.00)
Income under the head Salary	10,17,000.00
Gross Total Income	10,17,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	10,17,000.00

Computation of Tax Liability

Tax on `10,17,000 at slab rate	1,35,100.00	
Add: Education Cess @ 2%		2,702.00
Add: SHEC @ 1%		1,351.00
Tax Liability		1,39,153.00
Rounded off u/s 288B		1,39,150.00

PCC NOV – 2011

Question 3 **(8 Marks)**

Mrs. Deepali (aged 40 years) is 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:

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 from SBI 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 Total Income and Tax Liability for Assessment Year 2013-14. (Modified)

Answer:

Computation of Taxable Income of Mrs. Deepali for the A.Y. 2013-14 `

Computation of income under the head Salary

Basic salary (60,000 x 12)	7,20,000
Dearness Allowance (7,20,000 x 40%)	2,88,000
Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)}	84,000

Working Note:
15% of rent free accommodation salary or rent paid whichever is less
Rent free accommodation salary = 7,20,000
15% of `7,20,000 = `1,08,000
(assuming that dearness allowance does not form part of pay for retirement benefits)
Rent Paid = `15,000 x 12 = `1,80,000

Value of unfurnished house	1,08,000
Less: Amount recovered from the employee (2,000 x 12)	24,000
Perquisite value of accommodation at concessional rent	84,000

Perquisite of Interest on loan {Sec 17(2)(viii) Rule 3(7)(i)} [(2,00,000 x 10%) – 10,000]	10,000
Gross Salary	11,02,000
Less: Professional Tax u/s 16(iii)	6,000
Income under the head Salary	10,96,000

Computation of income under the head House Property

Gross Annual Value (15,000 x 12)	1,80,000
Less: Municipal Tax	Nil
Net Annual Value	1,80,000
Less: 30% of NAV u/s 24(a)	54,000
Less: Interest on capital borrowed u/s 24(b)	1,75,000
Loss under the head House Property	(49,000)
Gross Total Income	10,47,000
Less: Deduction u/s	
80C-Repayment of principal	1,00,000

Total Income	9,47,000

Computation of Tax Liability

Tax on `9,47,000 at Slab rate	1,19,400
Add: Education cess @ 2%	2,388
Add: SHEC @ 1%	1,194
Tax Liability	1,22,982
Rounded off u/s 288B	1,22,980

Question 4 **(8 Marks)**

Mr. X retired from the services of M/s Y Ltd. on 31.01.2013 after completing service of 30 years and one month. He had joined the company in 1982 at the age of 30 years and received the following on his retirement:

(i) Gratuity `6,00,000. He was covered under the Payment of Gratuity Act, 1972.

(ii) Leave encashment of `3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.

(iii) As per the scheme of the company, he was offered a car which was purchased on 01.02.2010 by the company for `5,00,000. Company has recovered `2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.

(iv) An amount of `3,00,000 as commutation of 2/3 of his pension.

(v) Company presented him a gift voucher worth `6,000 on his retirement.

(vi) His colleagues also gifted him a Television (LCD) worth `50,000 from their own contribution.

Following are the other particulars:

(i) He has drawn a Basic Salary of `20,000 and 50% Dearness allowance per month for the period from 01.04.2012 to 31.01.2013.

(ii) Received pension of `5,000 per month for the period 01.02.2013 to 31.03.2013 after commutation of pension.

Compute his total income from the above for Assessment Year 2013-14. (Modified)

Answer:

Computation of Gross Total Income

	`
Basic Salary (20,000 x 10)	2,00,000
DA (2,00,000 x 50%)	1,00,000
Gift voucher (6,000-5,000)	1,000
Motor Car (Sec 17(2)(viii) Rule 3(7)(viii))	56,000

Working Note:	
Cost	5,00,000

Less: Depreciation @ 20%	
01.02.2010-31.01.2011	1,00,000
01.02.2011-31.01.2012	80,000
01.02.2012-31.01.2013	64,000
WDV	2,56,000
Less: Amount Recovered	2,00,000
Perquisite value of car	56,000

Uncommuted Pension {Sec 17(1)} (5,000 x 2)	10,000
Commuted pension {Sec 10(10A)}	1,50,000

Working Note:	
Amount received	3,00,000
Less: exempted (3,00,000 x 3/2 x 1/3)	1,50,000
Taxable	1,50,000

Gratuity {Sec 10(10)} 80,769

Working Note:
Least of the following is exempt
1. Gratuity received `6,00,000
2. `10,00,000
3. 15/26 x 30,000 x 30 = 5,19,231

Received = `6,00,000
Exempt = `5,19,231
Taxable = ` 80,769

Leave Salary {Sec 10(10A)} 1,30,000

Working Note:
Least of the following is exempt
1. `3,30,000
2. `10 x 20,000 = `2,00,000
3. `3,00,000
3. 330/30 x 20,000 = 2,20,000

Received = `3,30,000
Exempt = `2,00,000
Taxable = `1,30,000

Gross Salary	7,27,769
Income under the head Salary	7,27,769
Income under the head Other Sources (Since LCD is not covered under the definition of kind as given under section 56)	Nil
Gross Total Income	7,27,769
Less: Deduction u/s 80C to 80U	Nil
Total Income (rounded off u/s 288A)	7,27,770

PCC MAY – 2011

Question 3 **(8 Marks)**

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2012-13:

(i) Medical facility given to his family in a hospital maintained by the company. The estimated value of benefit because of such facility is `40,000.

(ii) Domestic servant was provided at the residence of Bala. Salary of domestic servant is `1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer). In case, the company has employed the domestic servant, what is the value of perquisite?

(iii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at `900 per month and for Ashok at `1,200 per month. No amount was recovered by the company for such education facility from Bala.

(iv) The employer has provided movable assets such as television refrigerator and air conditioner at the residence of Bala. The actual cost of such assets provided to the employee is `1,10,000.

(v) A gift voucher worth `10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employee above certain grade.

State the taxability or otherwise of the above said perquisites and compute the total value of taxable perquisites.

Answer.

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

(i) Medical facility to employees' family in a hospital maintained by the employer is not a taxable perquisite. Regardless of the estimated value of benefit arising from such facility to the employee, it is exempt from tax. Therefore, the value of perquisite is Nil.

(ii) Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees.
Taxable perquisite value = `1,500 × 12 = ` 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be `18,000.

(iii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality.

However, there would be no perquisite if the cost of such education per child does not exceed `1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed `1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds `1,000 per month.

Only the sum in excess of ` 1,000 per month is taxable. The value of perquisite would be `2,400.

(iv) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is `1,10,000.

The perquisite value would be 10% of the actual cost i.e., `11,000, being 10% of `1,10,000.

(v) 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.

Total value of taxable perquisite = ` 36,400 [i.e. `18,000 + 2,400 + 11,000 + 5,000].

IPCC NOV – 2010

Question 5 **(8 Marks)**

From the following details find out the salary chargeable to tax for the assessment year 2013-14.

Mr. X is a regular employee of Rama & Co. in Gurgaon. He was appointed on 01.01.2012 in the scale of 20000-1000-30000. He is paid 10% D.A. (forms part for retirement benefits salary) & Bonus equivalent to one month pay. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount.

He is provided free housing facility which has been taken on rent by the company at ` 10,000 per month. He is also provided with following facilities.

(i) Facility of laptop costing `50,000.

(ii) Company reimbursed the medical treatment bill of his brother of `25,000, who is dependent on him.

(iii) The monthly salary of `1,000 of a house keeper is reimbursed by the company.

(iv) A gift voucher of `10,000 on the occasion of his marriage anniversary.

(v) Conveyance allowance of `1,000 per month is given by the company towards actual reimbursement.

(vi) He is provided personal accident policy for which premium of `5,000 is paid by the company.

(vii) He is getting telephone allowance @ `500 per month.

(viii) Company pays medical insurance premium of his family of `10,000. (Modified)

Answer.

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

Particulars	`
Basic pay [(20,000×9) + (21,000×3)] = 1,80,000 + 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus [See Note (1) below]	21,000
Employer's contribution to RPF in excess of 12% (15%-12% =3% of `2,67,300)	8,019
Taxable allowances	

Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note (2) below]	44,145
Medical reimbursement (25,000 - 15,000) [See Note (4) below]	10,000
Reimbursement of salary of housekeeper	12,000
Gift voucher (10,000 – 5,000)	5,000
Salary income chargeable to tax	**3,73,464**

Notes:

(1) Bonus has been taken as one month's basic pay as at the end of the year i.e. `21,000. In the alternative, the problem can also be worked out by taking bonus as `20,000, being one month's basic pay upto 31.12.2012.

(2) Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:
(i) Basic salary i.e., `2,43,000
(ii) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. `24,300
(iii) Bonus i.e., `21,000
(iv) Telephone allowance i.e., `6,000

Therefore, salary works out to
2,43,000 + 24,300 + 21,000 + 6,000 = 2,94,300.

15% of salary = 2,94,300 × 15/100 = 44,145

Value of rent-free house = Lower of rent paid by the employer (i.e. `1,20,000) or 15% of salary (i.e., `44,145).

Therefore, the perquisite value is `44,145.

(3) Facility of laptop is not a taxable perquisite.

(4) Proviso to section 17(2) exempts any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family to the extent of `15,000.
Therefore, in this case, the balance of `10,000 (i.e., `25,000 – `15,000) is a taxable perquisite. Medical insurance premium paid by employer is exempt.

(5) Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.

(6) Premium of `5,000 paid by the company for personal accident policy is not liable to tax.

(7) As per Circular No.15/2001, dated: 12.12.2001, Gift, voucher or token in lieu of gift - It is customary in India, as it is in other parts of the world, to provide presents directly or indirectly in the form of vouchers or tokens to employees on social and religious occasions like Diwali, Christmas, New Year, the anniversary of

the organization etc. Such gifts upto ` 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. However, gifts made in cash or convertible into cash, like gift cheques etc. do not fall in the purview of this sub-rule.

Question 7 **(4 Marks)**

Mr. Shah, an Accounts Manager, has retired from JK Ltd. on 15.01.2013 after rendering services for 30 years 7 months. His salary is `25,000/- p.m. upto 30.09.2012 and ` 27,000 p.m. thereafter. He also gets `2,000/- p.m. as dearness allowance (55% of it is a part of salary for computing retirement benefits).

He is not covered by the payments of Gratuity Act, 1972.

He has received ` 8 Lacs as gratuity from the employer company. (Modified)

Answer.

Computation of gratuity taxable in the hands of Mr. Shah for the P.Y. 2012-13

As per section 10(10), gratuity received by an employee would be exempt upto the least of the following limits –

`

(i) Gratuity received = ` 8,00,000

(ii) Half-month's salary for every year of completed service

= ½ x 26,700 x 30 = `4,00,500

(iii) Monetary limit = `10,00,000

Received	8,00,000
Less: Exempt	4,00,500
Taxable	3,99,500

Note:

(1) One of the limits for calculation of gratuity exempt under section 10(10) is one-half-month's salary for each year of completed service (fraction of a year to be ignored), calculated on the basis of average salary for the ten months immediately preceding the month of retirement. In this case, the month of retirement is January, 2013. Therefore, average salary for the months of March 2012 to December 2012 have to be considered. The salary is `25,000 p.m. upto 30.09.2012 and `27,000 p.m. from 01.10.2012. Hence, average salary would be `26,700[(`25,000 × 7) + (`27,000 × 3) + (2000× 55%×10)]/10.

Further, half-month's salary should be multiplied by the number of years of completed service and any fraction of a year has to be ignored. Therefore, in this case, half-month's salary should be multiplied by 30 and the fraction of 7 months should be ignored.

(2) PS – The requirement of the question has not been specified. Having regard to the information given in the question, the taxable gratuity has been computed**.**

PCC NOV – 2010

Question 5 **(8 Marks)**

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	-	`50,000 per month (forming part for retirement benefit salary)
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).

		`
(i)	Recognized Provident Fund contribution made by Raghu.	1,50,000
(ii)	Health insurance premium for his family paid by cheque.	20,000
(iii)	Health insurance premium in respect of parents (senior citizens) paid by cheque.	28,000
(iv)	Medical expenses of dependent brother with 'severe disability' (covered by Section 2(o) of National Trust of Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999).	60,000
(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. (Modified)

Answer.

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

Particulars		`	`
Basic salary			12,00,000
Dearness allowance			6,00,000
Bonus			2,00,000
Employer contribution to RPF in excess of 12% is taxable (3% of 18,00,000) [See Note below]			54,000
Rent free accommodation @ 15% of `20 lakh (basic salary + dearness allowance + bonus) [See Note below]			3,00,000
			23,54,000
Less: **Deductions under Chapter VI-A**			
Section 80C			
Contribution to RPF `1,50,000 restricted to		1,00,000	
Section 80D – Health insurance premium			
Family `20,000 restricted to	15,000		
Parents (Senior Citizens) `28,000 restricted to	20,000	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	20,000		
		44,000	2,79,000
Total income			**20,75,000**

Question 6 **(2 Marks)**

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.

Answer.

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).

Question 6 **(2 Marks)**

Amount withdrawn from Public Provident Fund as per relevant rules.

Answer.

Any amount withdrawn from public provident fund as per relevant rules is not exigible to tax. Such exemption is provided in section 10(11).

Question 6 **(2 Marks)**

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.

Answer.

Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite as per section 17(2)(viii) Rule 3(7)(ix).

Question 7 **(4 Marks)**

AB Co. Ltd., allotted 1000 sweat equity shares to Shri Chand in June 2012. The shares were allotted at `200 per share as against the fair market value of `300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

(i) What is the perquisite value of sweat equity shares allotted to Sri Chand?

(ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares? (Modified)

Answer.

(i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	`
Fair market value of 1,000 sweat equity shares @ `300 each	3,00,000
Less: Amount recovered from Sri Chand 1,000 shares @ `200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	**1,00,000**

(ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi).

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be `s3,00,000.

PCC MAY – 2010

Question 3 **(6 Marks)**

Following benefits have been granted by Ved Software Ltd. to one of its employees Mr. Badri:

(i) Housing loan @ 6% per annum. Amount outstanding on 01.04.2012 is ` 6,00,000. Mr. Badri pays `12,000 per month, on 5th of each month.
(ii) Air-conditioners purchased 4 years back for ` 2,00,000 have been given to Mr. Badri for ` 90,000.

Compute the chargeable perquisite in the hands of Mr. Badri for the Assessment Year 2013-14.

The lending rate of State Bank of India as on 01.04.2012 for housing loan may be taken as 10.50%.

(Modified)

Answer.
Perquisite value for housing loan

The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

"Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is 10.50% - 6% = 4.5%

Month	**Maximum outstanding balance as on last date of month**	**Perquisite value at 4.5% for the month**
April, 2012	5,88,000	5,88,000 x 4.5% x 1/12 = 2,205
May, 2012	5,76,000	5,76,000 x 4.5% x 1/12 = 2,160
June, 2012	5,64,000	5,64,000 x 4.5% x 1/12 = 2,115
July, 2012	5,52,000	5,52,000 x 4.5% x 1/12 = 2,070
August, 2012	5,40,000	5,40,000 x 4.5% x 1/12 = 2,025
September, 2012	5,28,000	5,28,000 x 4.5% x 1/12 = 1,980
October, 2012	5,16,000	5,16,000 x 4.5% x 1/12 = 1,935
November, 2012	5,04,000	5,04,000 x 4.5% x 1/12 = 1,890
December, 2012	4,92,000	4,92,000 x 4.5% x 1/12 = 1,845
January, 2013	4,80,000	4,80,000 x 4.5% x 1/12 = 1,800
February, 2013	4,68,000	4,68,000 x 4.5% x 1/12 = 1,755
March, 2013	4,56,000	4,56,000 x 4.5% x 1/12 = 1,710
	Total value of this perquisite	23,490

Perquisite Value of Air Conditioners:	`
Original cost	2,00,000
Depreciation on SLM basis for 4 years @10% i.e. `2,00,000 x 10% x 4	80,000
Written down value	**1,20,000**
Amount recovered from the employee	90,000
Perquisite value	**30,000**

Chargeable perquisite in the hands of Mr. Badri for the assessment year 2013-14	`
Housing loan	23,490
Air Conditioner	30,000
Total	**53,490**

Note: It is assumed that payment of `12,000 is excluding interest.

IPCC NOV – 2009

Question 1 **(16 Marks)**

From the following details compute the total income of Siddhant of Delhi and tax liability for the Assessment Year 2013-14:

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

Siddhant was provided with company's car engine capacity 1.6 litre (self driven) also for personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer.

Siddhant purchased a flat in a Co-operative Housing Society for `4,75,000 in April, 2006, in Delhi, 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 nationalised bank for `2,50,000 to whom this flat was given on lease for ten years. The rent payable was `20,000 per month. The following particulars are relevant:

		`
(a)	Municipal taxes paid	4,300 (per annum)
(b)	Society charges for passage lights, watchman's salary	1,900 (per annum)
(c)	Insurance	860

(d) He earned `2,700 in share speculation business and lost `4,200 in cotton speculation business.

(e) In the year 2006-07 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.

(f) Siddhant received a gift of `25,000 each from four friends.

(g) He contributed `5,600 to public provident fund and `4,000 to Unit Linked Insurance Plan.

(h) He received national award for humanitarian work from the Central Government in the form of a land whose fair market value is `5,00,000 as on 31st March, 2013. (Modified)

Answer.

Computation of Total Income and Tax Liability of Siddhant for the A.Y. 2013-14

	`	`
Salary Income		
Salary including dearness allowance		3,35,000

Bonus			11,000
Value of perquisites:			
(i) Salary of servant		12,000	
(ii) Car (1,800 x 12)		21,600	
(iii) Free gas, electricity and water		11,000	44,600
			3,90,600
Income from house property			
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (20,000 × 12)		2,40,000	
Less: Municipal taxes paid [See Note (ii)(a)]		4,300	
Net Annual Value (NAV)		2,35,700	
Less: Deductions under section 24			
(i) 30% of NAV	70,710		
(ii) Interest on loan from LIC @ 15% of 1,60,000 [See Note (ii)(b)]	24,000	94,710	1,40,990
Income from speculative business			
Income from share speculation business		2,700	
Less: Loss from cotton speculation business		4,200	
Net Loss		1,500	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.			
Income from Other Sources			
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)		3,800	
Less: Exempt under section 10(32)		1,500	
		2,300	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)		5,700	
(iii) Gift received from four friends (taxable under section 56(2) as the aggregate amount received during the year exceeds `50,000)		1,00,000	
			1,08,000
Gross Total Income			**6,39,590**
Less: Deduction under section 80C			
Contribution to Public Provident Fund		5,600	
Unit Linked Insurance Plan		4,000	9,600
Total Income			**6,29,990**

Particulars	`
Tax on total income	55,998.00
Add: Education cess@ 2%	1,119.96
Add: Secondary and higher education cess @ 1%	559.98
	57,677.94
Tax Liability (rounded off u/s 288B)	**57,680.00**

Notes:

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

(ii) The following assumptions have been made while computing income under the head “Income from house property” –

(a) It is the owner, namely, Mr. Siddhanth, who has paid the municipal taxes;

(b) The entire loan of `1,60,000 is outstanding as on 31.03.2013; and

(c) Society charges of `1,900 p.a. is not included in the rent of `20,000 p.m. payable by the tenant. Such charges have either been paid directly by Mr. Siddhant or recovered separately from the tenant.

PCC JUNE – 2009

Question 3 **(7 Marks)**

Mr. Ashok Kumar, an employee of a PSU, furnishes the following particulars for the previous year ending 31.03.2013:

	`
i. Salary income for the year	5,25,000
ii. Salary for Previous Year 2011-12 received during the year	40,000
iii. Assessed Income for the Previous Year 2011-12	1,40,000

You are requested by the assessee to compute relief under section 89 of the Income-tax Act, 1961, in terms of tax payable for assessment year 2013-14.

The rates of Income-tax for the Assessment Year 2012-13 are:

	Tax Rate (%)
On first ` 1,80,000	Nil
On ` 1,80,000 - ` 5,00,000	10
On ` 5,00,000 - ` 8,00,000	20
Above ` 8,00,000	30
Education cess	2
SHEC	1

(Modified)

Answer.

Computation of Relief under section 89 for the Assessment Year 2013-14

Particulars		`	`
Salary Income for the year excluding the arrears			5,25,000
Add: Arrears relating to Previous Year 2011-12			40,000
Total Income			5,65,000
Tax on `5,65,000			
First `2,00,000	Nil	0	
Next `3,00,000	10%	30,000	
Balance `65,000	20%	13,000	
5,65,000		43,000	
Add**:** Education cess @ 2%		860	
Secondary and higher education cess @1%		430	
Total	**(A)**	**44,290**	

Total Income excluding arrears 5,25,000

Tax on `5,25,000			
First `2,00,000	Nil	0	
Next `3,00,000	10%	30,000	
Balance ` 25,000	20%	5,000	
5,25,000		35,000	
Add : Education cess @ 2%		700	
Secondary and higher education cess @ 1%		350	
Total	**(B)**	**36,050**	
Difference between A & B	**I**		8,240
Assessment Year 2012-13			
Total Income assessed			1,40,000
Add: Arrears relating to Previous year 2011-12			40,000
Total income (including arrears)			1,80,000
Tax on `1,80,000		Nil	
Add: Education Cess @ 2%		Nil	
Add: SHEC @ 1%		Nil	
Total	**(C)**	**Nil**	
Total Income excluding arrears			1,40,000
Tax on `1,40,000		Nil	
Total	**(D)**		Nil
Difference between C & D	**II**		Nil
Relief under section 89	**(I – II)**		**8,240**

PCC NOV – 2008

Question 3 **(6 Marks)**

Mr. M is an area manager of M/s N. Steels Co. Ltd. During the financial year 2012-13, he gets the following emoluments from his employer:

Basic Salary	
Up to 31.08.2012	` 20,000 p.m.
From 01.09.2012	` 25,000 p.m.
Transport allowance	` 2,000 p.m.
Contribution to Recognised Provident Fund by employer and employee	15% of basic salary (each)
Children education allowance	` 500 p.m. for two children
City compensatory allowance	` 300 p.m.
Hostel expenses allowance	` 380 p.m. for two children
Tiffin allowance (actual expenses ` 3,700)	` 5,000 p.a.

Tax paid on employment ` 2,500

Compute Tax Liability of Mr. M for the Assessment Year 2013-14. (Modified)

Answer.

Computation of Taxable Salary of Mr. M. for the Assessment Year 2013-14

Particulars	**Amount (`)**	**Amount (`)**
Basic Salary (`20,000 x 5) + (`25,000 x 7)		2,75,000.00
Transport allowance (`2,000 x 12)	24,000	
Less : Exempt under section 10(14) (`800 x 12)	9,600	14,400.00
Children education allowance (`500 x 12)	6,000	
Less: Exempt under section 10(14) (`100 x 2 x 12)	2,400	3,600.00
City Compensatory Allowance (`300 x 12)		3,600.00
Hostel Expenses Allowance (`380 x 12)	4,560	
Less: Exempt under section 10(14) (`300 x 2 x 12 i.e. `7,200 but restricted to the actual allowance of `4,560)	4,560	Nil
Tiffin allowance (fully taxable)		5,000.00
Tax paid on employment		2,500.00
Employer's contribution to Recognised Provident Fund in excess of 12% of salary (i.e. 3% of `2,75,000)		8,250.00
Gross Salary		**3,12,350.00**
Less : Tax on employment under section 16(iii)		2,500.00
Taxable salary		**3,09,850.00**

Computation of Total Income

Gross Total Income	3,09,850.00
Less: Deduction u/s 80C	
Employee's contribution in Recognised Provident Fund	41,250.00
Total Income	2,68,600.00

Computation of Tax Liability

Tax on `2,68,600 at slab rate	6,860.00
Add: Education Cess @ 2%	137.20
Add: SHEC @ 1%	68.60
Tax Liability	7,065.80
Rounded off u/s 288B	7,070.00

Notes:

Professional tax paid by employer should be included in the salary of Mr. M as a perquisite since it is discharge of monetary obligation of the employee by the employer. Thereafter, deduction of professional tax paid is allowed to the employee from his gross salary.

PCC MAY – 2008

Question 4 **(6 Marks)**

Mr. Narendra, who retired from the services of Hotel Samode Ltd., on 31.01.2013 after putting on service for 5 years, received the following amounts from the employer for the year ending on 31.03.2013:

- Salary @ ` 16,000 p.m. comprising of basic salary of ` 10,000, Dearness allowance of ` 3,000, City compensatory allowance of ` 2,000 and Night duty allowance of ` 1,000.

- Pension @ 30% of basic salary from 01.02.2013.

- Leave salary of ` 75,000 for 225 days of leave accumulated during 5 years @ 45 days leave in each year.

- Gratuity of ` 50,000.

Compute the Total Income of Mr. Narendra for the Assessment Year 2013-14. (Modified)

Answer.

Computation of Total Income of Mr. Narendra for A.Y. 2013-14

Particulars	**Amount (`)**	**Amount (`)**
Income from Salaries		
Gross salary received during 01.04.2012 to 31.01.2013 @ ` 16,000 p.m. (` 16,000 x 10)		1,60,000
Pension for 2 months @ 30% of the basic salary of `10,000 p.m.		6,000
Leave Salary	75,000	
Less: Exempt under section 10(10AA) (Note (i))	50,000	25,000
Gratuity	50,000	
Less: Exempt under section 10(10) (Note (ii))	25,000	25,000
Income under the head Salary		**2,16,000**
Total Income		**2,16,000**

Notes:

(i) Leave encashment is exempt to the extent of least of the following:

Particulars	**Amount (`)**
(i) Statutory limit	3,00,000
(ii) Cash equivalent of leave (10,000 x 150 / 30)	50,000
(iii) 10 months average salary (10 x ` 10,000)	1,00,000
(iv) Actual amount received	75,000

Therefore, ` 50,000 is exempt under section 10(10AA).

(ii) Gratuity is exempt to the extent of least of the following:

	Particulars	**Amount (`)**
(i)	Statutory limit	10,00,000
(ii)	Half month's salary for 5 years of service (5 x ` 5,000)	25,000
(iii)	Actual gratuity received	50,000

Therefore, ` 25,000 is exempt under section 10(10).

Question 5 **(4 Marks)**

How is advance salary taxed in the hands of an employee? Is the tax treatment same for loan or advance against salary?

Answer.

Advance Salary

Advance salary is taxable when it is received by the employee, irrespective of the fact whether it is due or not.

It may so happen that when advance salary is included and charged in a particular previous year, the rate of tax at which the employee is assessed may be higher than the normal rate of tax to which he would have been assessed. Section 89(1) provides for relief in these type of cases.

Loan or Advance against Salary

Loan is different from salary. When an employee takes a loan from his employer, which is repayable in certain specified installments, the loan amount cannot be brought to tax as salary of the employee.

Similarly, advance against salary is different from advance salary. It is an advance taken by the employee from his employer. This advance is generally adjusted against his salary over a specified time period. It cannot be taxed as salary.

PCC NOV – 2007

Question 2 **(20 Marks)**

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 @ 8.5% p.a.	` 15,000

- Gold Ring worth `10,000 was given by employer on his 25th wedding anniversary.

- Music System purchased on 02.04.2012 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 cheque of `15,370 towards premium of Life Insurance policies and `12,500 by cheque for Mediclaim Insurance policy.

- Invested in 6 years NSC `30,000 and in FDR of SBI for 7 years ` 50,000.

- Donations of `11,000 by cheque to an institution approved u/s 80G and of `5,100 to Prime Minister's National Relief Fund were given during the year.

Compute the Total Income and Tax Payable thereon for the A.Y. 2013-14. (Modified)

Answer.

Computation of Total Income for the Assessment year 2013-14

Particulars	`	`
Income from Salaries		
Basic Salary (15,000 x 12)		1,80,000
DA (12,000 x12)		1,44,000
Commission on Turnover (0.5% of ` 50 lacs)		25,000
Bonus		50,000
Gratuity (Note (i))		30,000
Employer's contribution to RPF		
Actual contribution [20% of ` 1,80,000]	36,000	
Less: Exempt (Note (ii))	33,240	2,760
Gift of gold ring worth `10,000 on 25th wedding anniversary		5,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ` 85,000		8,500
		4,45,260
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 (5,000 x 2 x 12). 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)]	Nil	13,400
Gross Total Income		**5,78,660**
Less: Deductions under Chapter VI-A		
Section 80C		
LIC	15,370	
NSC	30,000	
FDR of SBI for 7 years	50,000	
Employee's contribution to R.P.F.	30,000	

Total	1,25,370	
Limited to	1,00,000	
Section 80D Mediclaim Insurance (amount actually paid or `15,000, whichever is less)	12,500	
Section 80G (Note (iii))	10,600	1,23,100
Total Income		**4,55,560**

Tax on total income	
Income-tax	25,556.00
Add: Education Cess @ 2%	511.12
Add: SHEC @ 1%	255.56
Total Tax Payable	**26,322.68**
Tax Payable (rounded off u/s 288B)	**26,320.00**

Notes:

(i) Gratuity received during service is fully taxable.

(ii) Employer's contribution in the R.P.F. is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
= 12% of (` 1,80,000+ (50% of `1,44,000) + ` 25,000)
= 12% of 2,77,000
= ` 33,240

(iii) Deduction under section 80G is computed as under:	`
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. ` 46,616, whichever is lower)	5,500
Total deduction	10,600

Adjusted Gross Total Income = Gross Total Income - Deductions under section 80C and 80D
= `5,78,660 - `1,12,500 = `4,66,160

PCC MAY – 2007

Question 2 **(20 Marks)**

Mr. Pankaj, aged 58 years, who retired from the services of the Central Government on 30.06.2012, 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 01.12.2012, he got 1/3rd of his pension commuted for `1,20,000.

- A house plot at Ernakulam sold on 01.02.2013 for `5,00,000 had been purchased by him on 03.11.2010 for `1,17,750. 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.

- Received interest on bank FDRs of `72,500 (gross), 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 Asst. Year 2012-13.

- Investment in purchase of NSC for `30,000 and payment for mediclaim insurance for self and wife of `12,500 by cheque. Made investment in Tax Magnum units of Mutual Fund of SBI of `80,000.

Compute the Total Income and Tax Liability 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. (Modified)

Answer.

Computation of Total Income of Mr. Pankaj for A.Y. 2013-14

	`	`
Income from salaries		
Salary for 3 months received from Government of India (6,000 x 3)		18,000.00
Pension for 5 months from July’2012 to Nov’2012 @ `3,000 p.m. (3,000 x 5)		15,000.00
Pension for 4 months from Dec’2012 to March’2013 @ `2,000 p.m.(2,000 x 4)		8,000.00
		41,000.00
Capital gains		
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		6,00,000.00
Less: Cost of acquisition		(1,17,750.00)
Short Term Capital Gains		**4,82,250.00**
Income from other sources		
Interest on bank FDRs		72,500.00
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	40,000	10,000.00
		82,500.00
Gross Total Income		**6,05,750.00**
Less: Deductions		
Under section 80C		
Purchase of NSC	30,000	
Tax Magnum units of Mutual Fund of SBI	80,000	
Total	1,10,000	
Maximum deduction available under section 80C		1,00,000.00
Under section 80D		
Medical insurance premium paid `12,500/- and maximum allowable is `15,000/-		12,500.00
Total Income		**4,93,250.00**
Computation of Tax Liability		
Tax on `4,93,250 at slab rate		29,325.00
Add: Education cess @ 2%		586.50
Add: SHEC @ 1%		293.25
Tax Liability		30,204.75
Rounded off u/s 288B		30,200.00