Q 1 a

Answer

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

(Amount in Rs.)

Particulars		
Income from Business or Profession		
Net Profit as per Profit & Loss account		135,000
Less: Income Credited to Profit & Loss Account to be assessed under other heads separately		
Gift of cash from a friend	25,000	
Sale of Car	17,000	
Interest on income-tax refund	3,000	
	45,000	45,000
		90,000
Add: Expenditure debited to Debited to Profit & Loss Account to be disallowed		
Repair of Car	750	
(Being 1/4 th of car was used for personal purpose)		
Wealth tax	5,000	
(Sec.40(a) (iia))		
Medical Expenses	4,500	
(Being Personal expenses)		
Driver salary	4,500	
(Being 1/4 th of car was used for personal purpose)		
Depreciation on Car	3,000	
(Section 50(2) when block is empty, then)		
Advance income-tax	1,500	
(Sec.40(a) (ii))		
Arrears of rent paid in cash Under section 40A(3)	0	
	19,250	19,250
Income from Business or Profession		**109,250**
Income from House property		
Annual Letting out value (Given in problem)	250,000	

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Actual rent	300,000	
Whichever is higher is to be considered as Gross annual value		
Gross Annual value	300,000	
Less: Municipal Taxes paid by owner during the year	0	
Net Annual value	300,000	
Less: Deductions under section 24		
i). 30% of Net Annual value	90,000	
ii). Interest on Borrowed Capital	20,000	
Taxable income from let out portion	190,000	190,000
Income from Capital Gains		
Full value of Consideration (under section 48)	17,000	
Less: Cost of acquisition	20,000	
Short term capital loss on transfer of Car	-3,000	
Income from Other Sources		
Gift of cash from a friend (Note 1)	0	
Interest on Income tax Refund	3,000	3,000
Clubbing of minor daughter interest income (Note 2)	10,000	
Less: Exemption under section 10(32)	1,500	8,500
Gross total Income		
Less: Deduction under Chapter VI A		
Deduction on maintenance and medical treatment of a dependent disable person under section 80DD (Severe Disability i.e disability is 80% or more)	100,000	
Interest paid on education loan of his son under section 80E of Income tax Act, 1961	10,000	110,000
Net Total Income		**200,750**

Note 1

According section 56(2)(vii) if aggregate amount of sum of money received by an individual/HUF without any consideration from one or more persons during a previous year (on or after October 1, 2009) exceeds Rs. 50000/-, the whole such aggregate value will be chargeable to tax, in the given situation Mr. Aditya received cash from friend less than Rs. 50000/-(i.e Rs.25000/-) in not chargeable to tax.

Note 2

As per section 64(1A), the income of minor child is to be clubbed in the total income of parent whose total income (excluding the income of minor child to be so clubbed) is greater, but in case income earned by minor child is on account of any activity involving application of any skill or talent, then such income shall not be included in the income of the parent , but shall be taxable in the hands of minor child. In the given case Mr. Aditya minor daughter received Rs.75000/- from stage acting shall not be included in Aditya's income.

Note 3

As per section 40A(3) where a payment or aggregate of payments made to a person in a day exceeds Rs. 20000/-(Rs. 35000/- in the case of payment made to transporter operators) and such payment is made otherwise than by an account payee cheque/bank draft, then 100% of such payment will be disallowed. But for applicability of this expenditure and payment both should exceed Rs. 20000/-.

In the given problem Arrears of rent paid in cash on 01.11.2012 assumed to be consisting of different invoices raised for each month, hence accumulated arrears paid in cash is not disallowed under Section 40A(3). If we assume that for all months arrears only one invoice is issued hence Rs. 35,000/-(5000*7) is to be disallowed as per section 40A(3), then Answer (i.e Total Income) would be Rs. 235750/-

Note 4

Medical expenses incurred for wife is personal expenditure, so as per Section 37 of Income tax Act, 1961 it will be disallowed.

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Q 2 a

Answer

Computation of income from house property of Mr. Krishna for the A.Y 2013-14

	Particulars		Amount in Rs.
A	**Rented unit (50% of Total area)**		
	Step I Computation of Annual letting value		
	Municipal Valuation	122,000	
	Fair Rent	117,500	
	Standard Rent	**110,000**	
	Annual letting value is higher of municipal valuation or fair rent, but restricted to Standard rent	110,000	
	Step II Actual rent		
	Rent receivable for the whole year (12000*12months)	144,000	
	Step III Computation of Gross Annual value Actual Rent Received owing to vacancy (12000*9Months)	108,000	
	Since owing to vacancy the actual rent received is lower than the annual letting value, the actual rent received is the gross annual value		
	Gross Annual value		108,000
	Less: Municipal Taxes (12% of (244000/2)		14,640
	Net Annual value		**93,360**
	Less: Deductions under section 24		
	i). 30% of Net Annual value	28,008	
	ii). Interest on Borrowed Capital	12,000	40,008

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	Taxable income from let out portion		53,352
B	**Self occupied unit (50% of total area)**		
	Annual Value	Nil	
	Less: Deduction under section 24		
	Interest on borrowed capital	12,000	-12,000
	Income from House property		**41,352**

Note 1 No deduction will be allowed separately for light and water charges, insurance charges, and painting expenses

Note 2 One house consisting of two identical (similar) units i.e area occupied by both the units is same 1:1, so Municipal value, Fair rent, Standard rent, Interest on borrowed capital is to be apportioned in the ratio of 1:1

Q 3 a

Answer

Computation of Income from Salary of Mr. Anand for the A.Y. 2013-14

Amount in Rs.

Particulars		
Basic Salary (25000*11Months) (27500*1Months)		302,500
Dearness Allowance (forms part of retirement benefits) [(302500+40000)*15%]		45,375
Bonus (27500*1 1/2Months)		41,250
Employers contribution to Recognised Provident Fund in excess of 12% of Salary (302500+51375)*(18-12)		20,873

Medical Treatment bill reimbursed by employer incurred for Daughter	40,000	
Less: Exempted value of Perquisite in aggregate per year	15,000	25,000
Housekeepers Salary reimbursed by employer is taxable in the hands of all employees		24,000
Telephone Allowance		12,000
Gift given on the occasion of wedding anniversary Rs. 4700/- is exempt, since its value is less than Rs. 5000/-		0
Medical Insurance premium paid or reimbursed by employer is not chargeable to Income tax		0
Taxable value of Perquisite in respect of Motor car	36,600	
Less: (1800*12)	21,600	15,000
Taxable value of Perquisite in respect of Rent free accommodation (Note 1)		60,169
Lunch Provided during office hours is (Note 3)		0
Income from Salary or Taxable Salary		**546,167**

Note 1 Calculation of Taxable value of unfurnished Rent free Accommodation

Particulars	**Amount in Rs.**
Basic Salary	302,500
Dearness Salary	45,375
Bonus	41,250
Telephone Allowance	12,000
	401,125
15% of Salary	60,169
Actual Rent paid (15000*12Months)	180,000

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out of the above two whichever is lower is the taxable value of perquisite in respect of Rent free Accommodation provided by employer

Note 2 Calculation of Taxable value of Motor car (cubic capacity is below 1.60 litres) running and maintenance charges paid by employer (Car is owned by employee and used for both official and personal purpose)

Particulars	**Amount in Rs.**
Running and maintenance charges paid by employer	36,600
Less: (1800*12 Months)	21,600
Taxable value of Perquisite in respect of Motor car	**15,000**

Note 3

Meals (lunch and/or dinner) in office hours is not taxable if cost to the employer is Rs. 50/-(or less) per meal, so it is assumed that Value of free lunch provided by employer does not exceed Rs. 50/- per meal

Q 4 a

Answer

Computation of Capital Gains of Ms. Vaibhav for the A.Y. 2013-14

Amount in Rs.

Particulars	**Land**	**Building**
Full value of consideration [See Notes (1) & (2) below]	220,000	1300000
Less: Indexed Cost of acquisition/Cost of Acquisition [See Note (3) below]		
Indexed cost of land (5,19,000×852/519)	852000	0
Cost of building	0	1400000
Long term Capital Gain on Transfer of Land	**1348000**	
Short term Capital Loss on Transfer of Building		**-100000**
Total Long term capital gain chargeable to tax in the hands of Mr. Vaibhav (Note 4)	**1248000**	

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Note 1

As per section 50C(1) of Income tax Act, 1961 where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration would be Rs.45 lakhs in this case.

Note 2

As per section 50C(3) of Income tax Act, 1961 where the valuation is referred by the Assessing Officer to Valuation Officer and the value ascertained by such Valuation Officer is less than the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, the value adopted by the Valuation Officer shall be taken as the full value of the consideration received or accruing as a result of the transfer. Since the value ascertained by the Valuation Officer (i.e.35 lakhs) is less than the value adopted by the Stamp Valuation Authority (i.e.45 lakhs), the full value of consideration in this case would be Rs.35 lakhs.

Note 3

Since the cost of land acquired by Mr.Vaibhav on 1.06.2006 is Rs. 516000/-, Indexation benefit is available since land is long-term capital asset, as it was held by Mr. Vaibhav for more than 36 months, and in case of building indexation benefit is not available since building construction was completed on 01.10.2010 and cost of construction was Rs.1400000/-

Note 4

Short-term capital loss on sale of Building during the year can be set-off against the current year long-term capital gains on sale of land but vice versa is not possible.

Q.4.b.

Answer

Sl.No.	Taxable/ Not taxable	Amount liable to tax	Reason
I	Taxable	48000	As per section 56(2)(viii), interest on enhanced compensation is taxable in the year in which it is received. Deduction of 50% in respect the said Income is allowed under section 57(iv). Therefore, Rs. 48,000 (i.e., 96,000 – 48,000) is taxable in the hands of recipient in the F.Y.2012-13 under the head Income from Other Sources.
ii	Taxable	72000	Rent received for letting out agricultural land for a movie shooting is not Agricultural income, because conditions mentioned in section.2(1A)(a) not satisfied, those are 1. Rent or revenue should be derived from land 2. The Land is one which is situated in India and 3. The land is used for agricultural purposes. So Rs.72000/- is taxable in the hands of recipient in the F.Y.2012-13 under the head Income from Other Sources.

Q.5.a. Briefly explain the exemption available under section 10(48) of the Income Tax Act, 1961 in respect of income received by certain foreign companies from sale of crude oil

Answer

Exemption in respect of income received by certain foreign companies [Section 10(48)] [W.e.f. 1.4.2012]

A new clause (48) has been inserted in section 10 of the Income-tax Act to provide for exemption in respect of any income of a foreign company received in India in Indian currency on account of sale of crude oil to any person in India subject to the following conditions being satisfied:

(i) The receipt of money is under an agreement or an arrangement which is either entered into by the Central Government or approved by it.

(ii) The foreign company, and the arrangement or agreement has been notified by the Central Government having regard to the national interest in this behalf.

(iii) The receipt of the money is the only activity carried out by the foreign company in India.

Q 5 b

Answer

Computation of Depreciation allowable of Mr. Abhimanyu for the A.Y 2013-14

Amount Rs. in Lacs

	Particulars	Cost/WDV of Asset	Normal Depreciation	Additional Depreciation
I	Opening WDV of block (15% rate)	42	6.30	Nil
Ii	New Machinery Purchased on 12.10.2012	10	0.75	1.00
Iii	Machinery imported from Colombo as on 12.04.2012	9	1.35	Nil
Iv	New Computer installed in generation wing of the unit on 15.07.2012	2	1.20	0.40
	Depreciation allowable under Income tax Act, 1961		**9.60**	**1.40**

Note 1

Under Section 32(1)(iia) Additional depreciation is available @ 20% in respect of **new Plant & Machinery** which has been acquired and installed on or after 01.04.2005 by an assessee engaged in the business of manufacture or production of any article or thing or in the business of **generation/generation and distribution of power and following WDV basis for accounting depreciation**

Now new machinery purchased on 12.10.2012 was used less than 180 days, so 50% of normal depreciation/additional depreciation will be available i.e 10*15%*50%=Rs. 0.75 Lacs and 10*20%*50%=Rs. 1.00 Lacs

Note 2 No additional depreciation allowed on Colombo plant as it is a 2nd hand plant.i.e Second hand Plant & Machinery

Note 3 No additional depreciation allowed on any Office Appliances i.e Computers or Air Conditioners used in Office premises, but in the given problem Computer is used in Power generation wing so additional depreciation is available in respect of Computer
Normal Depreciation on Car = 2*60%=Rs. 1.2 Lacs
Additional depreciation on car =2*20%=Rs. 0.40 Lacs

Q 6 a

Answer

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

Amount in Rs.

Particulars		
Income from House property		
Gross Annual Value	432000	
Less: Municipal Taxes Paid During the year	32000	
Net Annual value	400000	
Less: Deductions under section 24 of Income Tax Act, 1961		
Standard Deduction @30%	120000	
Interest on Borrowed Capital	97000	183000
Income from Business or Profession (Note 1)		
Business Income	175000	
Less: Current Depreciation	40000	
Less: Business Loss Brought forward from A.Y 2011-12	70000	
Less: Unabsorbed Depreciation	65000	
		0
Income from Capital gains (Note 2)		
Full value of Consideration (under section 48)	640000	
Less: Cost of acquisition	410000	
Short term capital gain on transfer of Plot	230000	
Less: Unabsorbed Depreciation	90000	0
	140000	140000
Long term capital loss on sale of shares sold through recognised stock exchange (STT paid)	-75000	
Less: Exempt under section 10(38)	-75000	0

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Long term Capital Gain on sale of debentures	60000	60000
Income from Other Sources		
Dividend on shares held as stock in trade	22000	
Less: Exempt under section 10(34)	22000	0
Dividend from a company carrying on agri business	10000	
Less: Exempt under section 10(34)	10000	0
Gross total Income		
Less: Deduction under Chapter VI A		
Housing Loan Repayment under section 80C	70000	-70000
Net Total Income		**313000**

Note 1

Setoff order of priority

Current year Depreciation

Brought forward business loss

Unabsorbed depreciation

by following the above order of priority current year business income adjusted against brought forward losses

Note 2

Plot was purchased on 20.12.2009 and sold on 12.09.2012, holding period of plot in the hands of Mr. Krishna was less than 3 years, so capital gain/loss arising on transfer of plot is treated as Short term capital gain.

Note 3

As per section 10(34) of Income tax act 1961, dividend received from domestic companies is exempt from tax, so All dividends given in the problem assumed to be received from Indian Companies and exempt from tax.

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Q.7.a. Define the term "Assessee" as per Income tax Act, 1961.

Answer

Under Section 2 (7) of Income tax Act, 1961 Assessee" means a person by whom income tax or any other sum of money is payable under the Act. It includes every person in respect of whom any proceeding under the Act has been taken for the assessment of his income or loss or the amount of refund due to him. It also includes a person who is assessable in respect of income or loss of another person or who is deemed to be an assessee, or an assessee in default under any provision of the Act.

Representative or deemed Assessee – Every person who is deemed to be an assessee. As per section 160(2) every representative assessee shall be deemed to be as assessee for the purpose of this Act.

In certain cases, a person is liable not only for his own income or loss but also for the income or loss of other persons. In such cases, he is treated as 'deemed' or 'representative assessee'. The following are the situations:

- In the case of deceased person: If a person dies after waiting his will, the executors of the property are deemed assesses.
- In case of lunatic or minor or idiot: In case of these special individuals having taxable income, their guardian is deemed assessee.
- Non-residents: In case of non-residents having income in India, the person acting on his/her behalf is deemed as assessee.

Assessee in default – A person is said to be an assessee in default if he fails to comply with the duties imposed upon him under the Income tax Act, 1961.

If a person fails to fulfill his statutory obligation as per the income tax act he is called "Assessee in default'

- Employers: An employer paying salary has to deduct tax and remit it to the Govt. Treasury. If he fails to deduct or does not remit it to the treasury he is called assessee in default.
- A person paying interest: A person paying interest is under statutory obligation to deduct tax at source. If he does not deduct or does not remit it to the treasury, he is treated as assessee in default.

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Q 7 B

Answer

Computation of Business Income of Mr. Pranay for the A.Y 2013-14

Particulars	Amount Rs. (in Lacs)
Total Profit derived from Units A & B	18
Less: Exemption under section 10AA (See working note below)	12
	6
Less: Brought forward business loss of unit B	3.2
Business Income	**2.8**

Working Note

Computation of exemption under section 10AA in respect of Unit A located in SEZ

Particulars	Amount Rs. (in Lacs)
Domestic turnover of unit A	10
Export turnover of unit A	120
Total turnover of unit A	**130**
Profit derived from unit A	13
Exemption under section 10AA	
Profit of unit A x Export turnover of unit A/Total turnover of unit A	**12**

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Q. 7.b.What are the conditions to be fulfilled by a Charitable Trust under section 12A for applicability of exemption provisions contained in sections 11 and 12?

Answer

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

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

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

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

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

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

Dear students verify the solutions and let us know any queries/corrections to be made

Note: Answers are provided extensively for understand the reasoning, no need to write all the things in the exam.

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