

**INTERMEDIATE EXAMINATION
GROUP I
(SYLLABUS 2016)**

**SUGGESTED ANSWERS TO QUESTIONS
JUNE 2019**

Paper- 7: DIRECT TAXATION

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate the full marks.
Question No. 1 is compulsory. Answer any five from the rest.

Wherever necessary, you may make suitable assumptions
and state them clearly in your of the answer.
Working notes should form part of the answer.
All questions relate to the Income-tax Act, 1961
and pertain to the AY-2019-20, unless stated otherwise.

1. (a) Choose the most appropriate alternative for the following (option to be given only in capital letter A, B, C or D; entire answer need not be reproduced): 1x10=10
- (i) In the case of a domestic company (turnover/gross receipts ₹ 70 crores), the basic rate of income-tax applicable for computing as per normal provisions would be _____, when the turnover of the company has been ₹ 45 crores in the previous year relevant to the assessment year 2017-18. (Note: Ignore surcharge, education cess, etc.)
- (A) 30%
(B) 29%
(C) 25%
(D) 35%
- (ii) The maximum marginal rate of tax applicable for individual taxpayer having total income of ₹ 1.5 crore (including surcharge and health & education cess) is _____.
- (A) 34.32%
(B) 35.88%
(C) 34.944%
(D) 29.12%
- (iii) When a charitable trust registered u/s 12AA pays ₹ 50,000 towards rent to a resident for the premises occupied by it without deduction of tax at source for the entire previous year 2018-19, the amount of rental expenditure liable for disallowance would be _____.
- (A) Nil
(B) ₹ 6,00,000
(C) ₹ 4,20,000
(D) ₹ 1,80,000

Suggested Answers_Syl16_June2019_Paper 7

- (iv) The lock-in-period for capital gain bonds issued by National Highway Authority of India for the purpose of deduction under section 54EC is _____.
- (A) 5 years
(B) 3 years
(C) 7 years
(D) 1 year
- (v) The TDS rate for payments made to a non-resident sportsman is _____ %.
- (A) 20
(B) 20.8
(C) 30
(D) Nil
- (vi) Where a partner of a firm transfers any capital asset to the firm by way of capital contribution, for the purpose of computing capital gain in the hands of the partner, the amount of deemed consideration is
- (A) cost to the partner.
(B) fair market value of the asset on the date of transfer.
(C) the amount recorded in the books of the firm.
(D) value as determined by the Stamp valuation authority.
- (vii) When the gross receipts from profession exceed ₹ _____ lakhs, it is liable for audit under section 44AB and the provisions of section 44ADA will not apply.
- (A) 50
(B) 25
(C) 100
(D) 20
- (viii) Medical insurance premium incurred for senior citizen is eligible for deduction up to ₹ _____ under section 80D.
- (A) 30,000
(B) 50,000
(C) 1,00,000
(D) 60,000
- (ix) When a resident senior citizen having gross total income of ₹ 5,56,000, has derived interest from savings account in a nationalized bank of ₹ 8,200 and fixed deposit interest of ₹ 47,000 from such bank, he is eligible for deduction of ₹ _____ from the gross total income.
- (A) 55,200
(B) 8,200
(C) 47,000
(D) 50,000
- (x) Seshan, a retired civil servant received monthly pension of ₹ 60,000 during the previous year 2018-19. The amount of pension liable to tax after standard deduction would be ₹ _____.
- (A) 7,10,000
(B) 7,00,000

Suggested Answers_Syl16_June2019_Paper 7

- (C) 6,80,000
(D) 6,30,000

(b) Match the following (Sufficient to give the corresponding item in column 3 for column 1; reproducing columns 2 and 4 are not required): 1x5=5

1	2	3	4
(i)	ICDS IX	A	Quoting of Aadhaar number
(ii)	Section 139AA	B	₹ 1500 per child u/s 10(32)
(iii)	Minor son/daughter clubbing	C	Borrowing cost
(iv)	Sec 45(2)	D	Exempted from tax u/s 10(17)
(v)	Any allowance received by MP/MLA	E	Conversion of Capital asset into Stock in trade

(c) State whether the following are True or False: 1x5=5

- (i) In applicable situations of TDS, such TDS is to be deducted on amount including GST component.
- (ii) Contribution made to political party by way of cash to the extent of ₹ 10,000 is allowed as business expenditure.
- (iii) Unabsorbed depreciation can be carried forward for any number of years.
- (iv) Interest on normal compensation/enhanced compensation is fully chargeable to tax in the year of receipt.
- (v) Long-term capital gain arising from sale of listed shares (STT paid) is not fully exempted from tax.

(d) Fill up the blanks: 1x5=5

- (i) Payment of royalty to a person resident in India requires deduction of tax at source at the rate of _____.
- (ii) The amount of wages paid to eligible new workmen by an assessee engaged in non-seasonal manufacturing activity is deductible u/s 80JJAA @ _____ % of the wages so paid.
- (iii) An expenditure, for which cash payment is made for a sum exceeding ₹ _____ on a single day is disallowed.
- (iv) If a return of income is not furnished within the due date prescribed in section 139(1), such return can be filed on or before _____, provided the assessment is not completed.
- (v) Maximum amount of exemption under section 10(10C) in respect of compensation received for voluntary retirement is ₹ _____.

Answer:

1. (a)

- (i) (C) 25%
(ii) (B) 35.88%
(iii) (D) ₹ 1,80,000
(iv) (A) 5 years

Suggested Answers_Syl16_June2019_Paper 7

- (v) (B) 20.8
- (vi) (C) The amount recorded in the books of the firm
- (vii) (A) 50
- (viii) (B) 50,000
- (ix) (D) 50,000
- (x) (C) 6,80,000

1. (b)

(i)	ICDS IX	C	Borrowing cost
(ii)	Section 139AA	A	Quoting of Aadhar number
(iii)	Minor son/daughter clubbing	B	₹ 1500 per child u/s 10(32)
(iv)	Sec 45(2)	E	Conversion of Capital asset into Stock in trade
(v)	Any allowance received by MP/MLA	D	Exempted from tax u/s 10(17)

1. (c)

- (i) False
- (ii) False
- (iii) True
- (iv) False
- (v) True

1. (d)

- (i) 10%
- (ii) 30
- (iii) 10,000
- (iv) 31st March, 2020/ end of relevant assessment year
- (v) ₹ 5,00,000

2. (a) Mohit left India on 07.04.2018 to United Kingdom for employment. He returned to India on 07.11.2018, after resigning his job. 9

He commenced a business on 01.12.2018 and his turnover was ₹ 32 lakhs up to 31.03.2019. All payments for the sales were received through crossed account payee cheques. He wants to declare income under section 44AD.

His salary income in the United Kingdom was ₹ 6,56,000. When he remained outside India, he invested in equity shares of Vodafone UK Inc. He earned dividend from Vodafone UK Inc. (foreign company) ₹ 60,000 during the previous year 2018-19. He borrowed ₹ 2,00,000 from Mr. Narain of Chennai to invest in the shares of the foreign company and paid interest of ₹ 20,000 for the year ended 31.03.2019.

Determine his residential status for the assessment year 2019-20 and compute his total income.

(b) Tarun, employed in a private company, commenced construction of a commercial complex in July, 2017. He borrowed ₹ 50 lakhs from a bank @ 9% per annum. Interest

Suggested Answers_Syl16_June2019_Paper 7

up to 31.03.2018 was ₹ 2,20,000 and for the period from 01.04.2018 to 31.12.2018 ₹ 2,30,000. ₹ 1,40,000 towards interest for the balance three months remained unpaid. 6 The construction of the building was completed on 31st December, 2018. The building was let out w.e.f. 01.01.2019 for a monthly rent of ₹ 90,000. Municipal tax of ₹ 1,20,000 was paid by cash on 10.01.2019. He repaid ₹ 1,90,000 towards principal during the previous year 2018-19, of which he paid ₹ 1,20,000 up to 31.12.2018.

The municipal value of the property is ₹ 9,00,000.

Compute the income from house property of Tarun for the assessment year 2019-20.

Answer:

2. (a) Determination of residential status:

An individual is said to be resident in India in any previous year if he is in India for a period or periods amounting in all to 182 days or more; or
Was in India for 60 days or more during the previous year and has remained in India in 4 previous years preceding the previous years in aggregate for 365 days or more.
Extended time in the case of citizens of India, who leaves India for the purpose of employment outside India, the time limit is 182 days instead of 60 days given above.
When a person satisfies both the conditions, he is a resident. If he does not satisfy any of the conditions given above, he is non-resident.
In this case, Mohit remained in India for 151 days (6+24+31+31+28+31)
He has not stayed in India for 182 days or more and hence does not satisfy both the basic conditions.
His status is non-resident.

Computation of Total Income of Mohit for the assessment year 2019-20:

	Reason	₹
Income from Salary		
Earned outside India	Does not accrue in India and hence not taxable since he is a non resident	Nil
Income from business		
On ₹ 32 lakhs @ 6%	Accrued in India hence taxable	1,92,000
Income from Other Sources		
Income from dividend	Accrued outside India and hence not taxable since he is a non-resident	Nil
Interest on moneys borrowed	Being not a taxable income in India, it is not deductible.	Nil
	Total Income	1,92,000

2. (b) Computation of Income from House Property of Mr. Tarun for the Asst. Year 2019-20:

Suggested Answers_Syl16_June2019_Paper 7

Particulars	₹	₹
Rent received ₹ 90,000 X 3		2,70,000
Municipal value ₹ 9,00,000 × 3 /12 months		2,25,000
Since the rent received is more than proportionate municipal value, the rent received is taken as annual value		2,70,000
Less: Municipal tax (though paid in cash, it is eligible for deduction)		1,20,000
Net Annual Value		1,50,000
Less: Interest on moneys borrowed for construction		
Up to 31.03.2018 ₹2,20,000. It is deductible in 5 equal annual installments ₹ 2,20,000 × 1/5	44,000	
Interest from 01.04.2018 to 31.03.2019 [Interest paid for whole year is deductible]	3,70,000	
		4,14,000
Income from house property		(2,64,000)

3. (a) Ms. Poorvisha is the HR Manager in Poorni Textiles Ltd. She gives you the following particulars for the year ended 31-03-2019: 10

- Basic Salary ₹ 1,00,000 p.m.
- Dearness Allowance ₹ 24,000 p.m. (30% of which forms part of retirement benefits).
- Bonus ₹ 21,000 p.m.
- Her employer-company has provided her with an accommodation on 1st April, 2018 at a concessional rent. The house was taken on lease by the company for ₹12,000 p.m. Ms. Poorvisha occupied the house from 1st November 2018, ₹ 4,800 p.m is recovered from the salary of Ms. Poorvisha.
- The employer gave her a gift voucher of ₹ 10,000 on her birthday.
- She contributes 18% of her salary (Basic Pay plus DA) towards recognised provident fund and the company contributes the same amount.
- Uniform allowance ₹ 24,000.

The company pays medical insurance premium to effect insurance on the health of Ms. Poorvisha ₹ 20,000.

Motor car owned by the employer (Cubic capacity of engine exceeds 1.6 liters) provided to Ms. Poorvisha from 1st November, 2018 which is used for both official and personal purposes. Repair and running expenses of ₹ 70,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Poorvisha. Brief note on treatment of each item is required.

Suggested Answers_Syl16_June2019_Paper 7

(b) Ashok, Surat furnishes you the following information for the previous year 2018-19:	5
	₹
(i) Income from coffee grown and cured in Coorg, Karnataka	3,00,000
(ii) Income from tea grown and manufactured in Jorhat, Assam	2,50,000
(iii) Income from Rubber estates in Kerala by sale of field latex obtained from rubber plants grown there.	4,00,000
(iv) Income from nursery by name 'Soundarya Nursery', Chennai	2,00,000
(v) Rent from a dwelling house in agricultural land in Coorg, Karnataka (It is occupied by the coffee estate labourers).	90,000
Compute the agricultural income of Ashok.	

Answer:**3. (a)**

Computation of Income chargeable to tax under the head "Salaries" in the hands of
Ms. Poorvisha for A.Y 2019-20

Particulars	₹
Basic Salary [₹ 1,00,000 × 12]	12,00,000
Dearness allowance [₹ 24,000 × 12]	2,88,000
Bonus [₹ 21000 × 12]	2,52,000
Perquisite value in respect of concessional rate [See working note below]	36,000
Gift voucher given by employer on Ms. Poorvisha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [see note for Alternative view]	10,000
Employer's contribution to recognized provident fund in excess of 12% of salary $18\% \times (\text{₹ } 1,00,000 + \text{₹ } 24,000) \times 12] - 12\% \times \{[\text{₹ } 1,00,000 + \text{₹ } 7,200 \text{ (being } 30\% \text{ of } 24000) \times 12\%] = \text{₹ } 2,67,840 - \text{₹ } 1,54,368$	1,13,472
[Salary = Basic salary + Dearness allowance, to extent it forms part of pay for retirement benefits	
Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on health of an employee is an exempt perquisite	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be ₹ 2,400/- p.m. [₹ 2,400 × 5 months]	12,000
Gross Salary	19,11,472
Less: Standard deduction under section 16(ia)	40,000
Salary Chargeable to tax	18,71,472

Working Note:

- Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer of 15% of salary whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of perquisite.

Suggested Answers_Syl16_June2019_Paper 7

Actual rent paid by the employer from 01.11.2018 to 31.03.2019 = ₹60,000
[₹12,000×5 months]

15% of salary = ₹ 96,150 [15% × (₹ 100000 + ₹ 7200 + ₹ 21000) × 5 months]

Salary = Basic salary + Dearness allowance, to extent it forms part of pay for retirement benefits + Bonus

Lower of the above is ₹ 60,000 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 60,000 - ₹ 24,000 [₹ 4,800 × 5 months]

= ₹ 36,000

2. As per Rule 3(7) (iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasion or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).
In this case, the gift voucher of ₹ 10,000 was received by Ms. Poorvisha from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹5,000, the entire amount of ₹10,000 is liable to tax as perquisites
3. In case of uniform allowance, it is assumed here that total amount of allowance is incurred for that purpose and hence it is fully exempted from tax.

3. (b)

Computation of agricultural Income of Ashok for the Asst. Year 2019-20

Particulars	Agricultural Income	Non-agricultural income
Coffee grown and cured in Coorg, Karnataka [75% agri income and 25% of non-agri income]	2,25,000	75,000
Income from tea grown and manufactured in Jorhat, Assam [60% agri income and 40% non-agri income]	1,50,000	1,00,000
Income from Rubber estates in Kerala [65% agri income and 35% non agri income]	2,60,000	1,40,000
Income from nursery at Chennai is fully agricultural income	2,00,000	Nil
Rent from dwelling house in agricultural land in Coorg, Karnataka	90,000	Nil
Total	9,25,000	3,15,000

4. (a) Vipul held a plot of land in Haryana as capital asset till 31st March, 2017. The land was acquired by him in the previous year 2013-14 for ₹ 20,00,000. It was converted

Suggested Answers_Syl16_June2019_Paper 7

into stock-in-trade on 1st April, 2017 of real estate business carried on by him. The fair market value of the land on the said date was ₹ 35,00,000. 10

Vipul sold the land to Vinod for ₹ 45,00,000 on 31st January, 2019. The stamp duty assessed on the said date in respect of the land amounted to ₹ 50,00,000.

Vipul purchased a flat for ₹ 15,00,000 on 31st March, 2019 for his residential purpose. He has no other residential property.

- (i) Compute the income arising from the above transactions under appropriate heads of income in the hands of Vipul.
- (ii) What is the effect on assessment of Vinod, if Vinod had bought the land for constructing a residential property?

Additional Information:

Financial Year	Cost Inflation Index
2013-14	200
2017-18	254
2018-19	264

- (b) Krishna is employed in XYZ Limited. He gets a basic salary of ₹ 80,000 per month and dearness allowance equal to 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Krishna and XYZ Limited contribute 12% of basic salary to new pension scheme referred to in section 80CCD. 5
Examine the tax treatment of employer's contribution and own contribution in the hands of Krishna.

Answer:

4. (a)

- (i) In the hands of Vipul:

Computation of capital gain for Assessment Year 2019-20

Particulars	₹
Consideration, being fair market value of land on the date of conversion into stock-in-trade	35,00,000
Less: indexed cost of acquisition ($₹ 20,00,000 \times 254/200$)	25,40,000
Long-term capital gain	9,60,000
Less: exemption u/s 54F for investment in residential flat ($₹ 9,60,000 \times ₹ 15,00,000 / ₹ 35,00,000$)	4,11,429
Taxable long-term capital gain	5,48,571

Computation of business income for Assessment Year 2019-20

Particulars	₹
Consideration, being stamp duty value on the date of sale [Under section 43C, actual consideration or stamp duty value, whichever is more is to be taken as consideration]	50,00,000
Less: Cost of acquisition, being fair market value on the date of conversion	35,00,000

Suggested Answers_Syl16_June2019_Paper 7

Business income	15,00,000
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(ii) Effect on assessment of Vinod for Assessment Year 2019-20:

As per section 56(2)(x), where immovable property in the nature of capital asset is received for a consideration less than the stamp duty value, the difference between the stamp duty value and actual consideration shall be taxed as income from other sources, if such difference exceeds ₹ 50,000.

In the instant case, Vinod purchased the land for constructing residential property meaning thereby that the land is his capital asset. So, the difference between the stamp duty value and actual purchase price i.e. ₹ 5,00,000 is taxable in his hands under the head "income from other sources".

4. (b)

Tax treatment of employer's contribution in the hands of Krishna

Employer's contribution to pension scheme referred to in section 80CCD would be treated as salary because it is specifically included in the definition of "salary" under section 17(1)(viii). Accordingly, ₹ 1,15,200, being 12% of basic salary of ₹ 9,60,000 is to be included in the salary of Krishna.

Tax treatment of Krishna's own contribution in the hands of Krishna:

(i) Krishna's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, deduction is restricted to 10% of salary. Salary for this purpose - basic salary plus DA, if it forms part of pay for retirement benefit.

So, salary for this purpose = ₹ 9,60,000 + (50% of 40% of ₹ 9,60,000) = ₹ 11,52,000.

Deduction under section 80CCD(1) restricted to 10% of salary = ₹ 1,15,200

(ii) As per section 80CCD(1B), no deduction is permissible as the whole amount of contribution (i.e. ₹ 1,15,200) is exhausted under section 80CCD(1)

Above deduction of ₹ 1,15,200 will be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE.

(iii) Employer's contribution would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Hence, deduction under section 80CCD(2) would be ₹ 1,15,200.

This deduction of employer's contribution of ₹ 1,15,200 is outside the overall limit of ₹ 1,50,000 under section 80CCE.

5. (a) Explain with brief reasons, the allowability or taxability of the following expenditure/income in computation of income under the head "Profits and gains of business or profession": **2x5=10**

(i) **Compensation of ₹ 30 lakhs received by Mr. Jain, a businessman, under an agreement for not carrying on business of software development.**

(ii) **Vikram Ltd., engaged in growing and manufacturing tea in India, deposits ₹ 10 lakhs in NABARD. Profit before considering such deposit is ₹ 15 lakhs.**

(iii) **Construction of toilets in a rural area by Sigma Ltd. for ₹ 10 lakhs in compliance with Corporate Social Responsibility (CSR) under the Companies Act, 2013.**

Suggested Answers_Syl16_June2019_Paper 7

- (iv) Plot purchased for ₹ 20 lakhs and construction of a building for ₹ 82 lakhs by Mr. Madhusudan for storing sugar, in the course of business of warehousing of sugar. Expenditure has been capitalized in the books.
- (v) Depreciation on a machine acquired for business purpose by Mr. Anand for ₹2,50,000, out of which an amount of ₹ 50,000 was paid in cash.

(b) Shri Mayur has two minor children named Lakshmi (age 10) and Sarath (age 14). Following details pertain to the minor children for the year ended 31.03.2019: 1x5=5

- (i) Minor Lakshmi won Carnatic music competition in TV channel and was awarded cash prize of ₹ 2,00,000.
- (ii) Minor Lakshmi received cash gifts from friends of Mayur ₹ 43,000. No single gift exceeded ₹ 10,000.
- (iii) Minor Sarath received gift of gold chain whose fair market value was ₹ 80,000 from his maternal uncle on the occasion of his 14th birthday. He also received cash gift of ₹12,000 from friends of Mayur on his birthday.
- (iv) Out of accumulated savings of daughter Lakshmi, one vacant land was acquired. The stamp duty value of the land ₹ 3,60,000. The documented value of the land ₹3,20,000.

Compute the income of minor children of Mayur which is liable for clubbing.

Answer:

5. (a)

Sl. No.	Particulars
(i)	As per section 28, any sum whether received or receivable, under an agreement for not carrying out any activity in relation to any business or profession is chargeable to tax under the head "Profits and gains from business or profession". Therefore, compensation of ₹ 30 lakhs received by Mr. Jain under an agreement for not carrying out software development business is taxable as business income.
(ii)	As per section 33AB, in case of assessee engaged in growing and manufacturing tea in India, deduction allowed in respect of deposit in NABARD is lower of the amount of such deposit or 40% of profit of such business computed under the head "Profits and gains of business or profession" (before this deduction and before adjusting brought forward business loss). Therefore, ₹ 6 lakhs, being 40% of profit (lower than actual deposit) is allowable as deduction.
(iii)	Under section 37(1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction. In view of above, expenditure of ₹ 10 lakhs on construction of toilets in rural area shall not be allowed as deduction.
(iv)	Business of warehousing of sugar is a specified business under section 35AD. As per section 35AD, in case of specified business capital expenditure incurred for

Suggested Answers_Syl16_June2019_Paper 7

	<p>construction of building for storage of sugar is allowable as deduction, provided such expenditure is capitalized in the books. Land cost is not allowable as deduction.</p> <p>Therefore, the whole amount of ₹ 82 lakhs spent on building shall be allowed as deduction.</p>
(v)	<p>As per section 43(1), any payment exceeding ₹ 10,000 on a single day otherwise by account payee cheque or draft or by electronic mode towards acquisition of asset shall not form part of the actual cost.</p> <p>Therefore, depreciation shall be allowed on ₹ 2,00,000 (i.e. ₹ 2,50,000 - ₹ 50,000)</p>

5. (b)

Particulars	Reason	₹
Income of Minor Lakshmi		
Winning from Carnatic music competition in TV channel, not liable for clubbing	It is earned out of personal skill of minor child	Nil
Cash gifts from friends of Mayur	Liable for clubbing	43,000
Purchase of vacant land ₹ 3,20,000 and the stamp duty value is ₹ 3,60,000.	Since the difference is less than ₹ 50,000 it is not liable to tax. (Item (B) of sub-clause (b) of section 56(2)(x))	Nil
		43,000
Less: Exemption U/s 10(32)		1,500
Income liable for clubbing		41,500
Income of minor Sarath		
Gift from maternal uncle on the occasion of 14 th birthday	Not liable for clubbing since it is an exempted income	Nil
Cash gift from friends of Mayur	Liable for clubbing	12,000
Less: Exemption U/s.10(32)		1,500
Income liable for clubbing		10,500

6. (a) Compute the total income of Mr. Jagan, a resident, from the following details:

9

	Particulars	Amount (₹)
(i)	Income under head 'Salaries'	3,50,000
(ii)	Income from owning and maintaining race horses	(3,00,000)

Suggested Answers_Syl16_June2019_Paper 7

(iii)	Long-term capital gain from sale of house plot	(90,000)
(iv)	Income from house property-X	50,000
(v)	Business Income- Medicines	(5,00,000)
(vi)	Speculative business-A	2,00,000
(vii)	Business Income-Textile	3,50,000
(viii)	Speculative business-B	(1,00,000)
(ix)	Income from horse races	1,50,000
(x)	Income from house property-Y	(3,10,000)
(xi)	Short-term capital gain from sale of immovable property	1,00,000

(b) Brindavan & Co. is a partnership firm consisting of 4 partners viz., Ram, Rahim, Robert and Rakesh. The firm made turnover exceeding ₹ 100 lakhs and the net profit of firm was ₹ 9,50,000 before considering the following items: 6

- (i) Shop rent paid for premises to partner Ram ₹ 17,500 per month. No tax was deducted at source.
- (ii) Depreciation as per Income-tax Rules ₹ 1,50,000.
- (iii) Interest on capital to partners @15% ₹1,50,000, as authorized by the deed of partnership.
- (iv) Working partner salary to each partner ₹ 15,000 per month, as per partnership deed.

You are required to compute the income of the firm for the assessment year 2019-20.

Answer:

6. (a)

Computation of Total Income of Jagan for the Asst. Year 2019-20:

	₹	₹
Income by way of Salaries		3,50,000
Income from house property:		
Property - X	50,000	
Property - Y	(3,10,000)	
Loss from Property	(2,60,000)	
But set off under the head house property limited to		(2,00,000)
Balance of property loss eligible for carry forward	(60,000)	
		1,50,000
Income from Business:		

Suggested Answers_Syl16_June2019_Paper 7

Textiles	3,50,000	
Medicines	(5,00,000)	
	(1,50,000)	
Less: Set off against speculation business income	1,00,000	
	(50,000)	
Less: Set off against capital gain	10,000	
To be carried forward for set off in subsequent 8 assessment years	(40,000)	
		Nil
Speculation Business:		
Business-A	2,00,000	
Business- B	(1,00,000)	
	1,00,000	
Business loss set off against this income	(1,00,000)	
Capital Gain:		
Short-term capital gain	1,00,000	
Long-term capital loss from sale of house plot	(90,000)	
	10,000	
Less: Business loss set off	10,000	
		Nil
Income from Other Sources:		
Income from horse race		1,50,000
Loss from owning and maintaining race horses ₹ 3 lakhs to be carried forward to subsequent years for set off.		
Total Income		3,00,000

6. (b)

Computation of Total income of Brindavan & Co for the Asst. Year 2019-20:

	₹
Net profit before adjustments	9,50,000
Add:	
Rent paid to partner ₹ 2,10,000. Since no tax was deducted at source,	63,000

Suggested Answers_Syl16_June2019_Paper 7

30% of the expenditure is disallowed under section 40(a)(ia)			
			10,13,000
Less: Depreciation as per Income-tax Rules		₹ 1,50,000	
Interest on capital @ 12% is allowed [₹ 1,50,000 × 12/15]		₹ 1,20,000	
			2,70,000
Book Profit			7,43,000
Working partner salary			
(1) Actually paid ₹ 15,000 × 4 × 12		₹ 7,20,000	
(2) On first ₹ 3 lakhs @ 90% =	₹ 2,70,000		
On the balance ₹ 4,43,000 @ 60%	₹ 2,65,800		
		₹ 5,35,800	
Least of the above is deductible			5,35,800
Income of the firm			2,07,200

7. (a) Ms. Renu has received the following gifts during the previous year 2018-19: 8
- (i) On the occasion of her marriage on 17th January, 2019, she has received ₹1,00,000 as gift, out of which ₹ 50,000 are from relatives and balance from friends.
- (ii) On 31st January, 2019, she has received gift of ₹ 55,000 from cousin of her mother.
- (iii) She has received a mobile phone worth ₹ 22,000 from her friend on 16th August, 2018.
- (iv) On 1st December, 2018, she acquired a vacant land from her friend for ₹ 1,50,000. Stamp duty value on that date ₹ 2,10,000.
- Compute the taxable income from the aforesaid gifts.
- (b) (i) State the provisions relating to deduction of tax at source from premature withdrawal from Employees Provident Fund. 4
- (ii) State the time of tax deduction at source and the threshold limits of such deduction in case of payment to contractors. 3

Answer:

7. (a)

	Taxable Amount	Reasons
(i)	Nil	Gifts received on the occasion of marriage are not taxable, whether they are received from relatives or friends
(ii)	55,000	Cousin of Ms. Renu's mother is not a relative. Hence, the gift is taxable.

Suggested Answers_Syl16_June2019_Paper 7

(iii)	Nil	Mobile phone is not included in the definition of "property" as per Explanation to section 56(2)(vii)
(iv)	60,000	Purchase of land for inadequate consideration on 1 st December 2018 would attract the provision of section 56(2)(vii). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of individual. Hence, ₹ 60,000 is taxable in the hands of Ms. Renu.

7. (b)

- (i) If the employee makes withdrawal before continuous service of five years, the withdrawal would be subject to tax.
Section 192A provides for deduction of tax @ 10% on premature withdrawal from employees provident fund scheme.
Tax is to be deducted at the time of payment of accumulated balance due to the employee.
Tax deduction is not to be made if the amount of such payment or aggregate amount of such payment to the payee is less than ₹ 50,000.
- (ii) As per section 194C, in case of payment to contractors, tax is to be deducted at source at the time of crediting the account of the payee or at the time of payment, whichever is earlier.
No deduction is required to be made if the consideration for the contract does not exceed ₹ 30,000.
However, it is provided that tax will be required to be deducted at source where the amount credited or paid or likely to be credited or paid to a contractor or sub-contractor exceeds ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during a financial year.

8. Write short notes on any three out of the following:

5x3=15

- (a) Losses which cannot be carried forward for set off when the return of income is not filed within the 'due date' specified under section 139(1).
(b) Items to be excluded in determining the cost of inventories under ICDS-II.
(c) Verification of return of income for company assessee under section 140.
(d) Scrutiny assessment under section 143(3)

Answer:

- (a) Losses which cannot be carried forward where ROI is filed belatedly:

Section 80 says that certain losses cannot be carried forward when the return is not filed within the 'due date' specified under section 139(1) of the Act. They are as under:

- (i) Business Loss
(ii) Speculation Business Loss
(iii) Loss from Business specified in section 35AD

Suggested Answers_Syl16_June2019_Paper 7

(iv) Loss assessable under the head "Capital gain".

(v) Loss from owning and maintaining race horses.

(b) Items to be excluded in determining the cost of inventories under ICDS-II:

The cost of inventories is governed by ICDS-II not only for the purpose of valuation on the closing date but also when the inventories are purchased for the purpose of manufacture or trade.

The following costs shall be excluded in determining the cost of inventories:

- Abnormal amounts of wasted materials, labour or other production costs.
- Storage costs, unless those costs are necessary in the production process prior to a further production stage.
- Administrative overheads that do not contribute to bringing the inventories to their present location and condition.
- Selling costs.

(c) Verification of ROI for corporate assessee:

In general	Managing Director
If due to any reason it is not possible for MD to verify or where there is no MD	Any director
Where an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under Insolvency and Bankruptcy Code, 2016	Insolvency professional appointed by such Adjudicating Authority
Non-resident company	A person holding a valid power of attorney. Copy of such power of attorney must be attached with the return.
Company in the process of winding up	Liquidator of the company
Where the management of the company has been taken over by the Central or State Government.	Principal officer

(d) Where the Assessing Officer or the prescribed income-tax authority (here-in-after collectively referred to as 'Assessing Officer') considers it necessary to ensure that the assessee has not -

- understated his income; or
- declared excessive loss; or
- under paid the tax

Suggested Answers_Syl16_June2019_Paper 7

he can make a scrutiny in this regard and gather such information and evidence as he deems fit. And on the basis of such information and evidence so collected, he shall pass an assessment order. Such order shall be treated as regular assessment order.

Conditions for scrutiny assessment:

- A return has been furnished u/s 139 or in response to a notice u/s 142(1); and
- Assessing Officer considers it necessary or expedient to ensure that the assessee has not understated his income, declared excessive loss or under-paid the tax.