

Answer 1

Tax Implications under section 56(2)

- (i) Under section 56(2) (x), where an individual received any; property other than immovable property without consideration, the aggregate fair market value of which exceeds ` 50,000, such value of property would be chargeable to tax under the head "Income from other sources".
As per Explanation to section 56(2) (x), paintings are included in the definition of 'property'.
Therefore, ` 65,000, being the fair market value of painting, would be taxable in the hands of Mr. Anaimudi, since he received such painting without any consideration from his nephew', who is not included in the definition of 'relative' as per Explanation to section 56(2) (x) thereunder, and its fair market value exceeds ` 50,000.
- (ii) Any property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Dodabetta's son is a member of Dodabetta HUF, he is a "relative" of the HUF.
Therefore, if Dodabetta HUF receives any property (shares, in this case) from its member, i.e., Dodabetta's son, without consideration, then, the fair market value of such shares will not be chargeable to tax in the hands of the HUF even though its fair market value exceeds ? 50,000, since such shares are received from a "relative" by HUF.
- (iii) As per section 56(2)(x), in this case, the difference of ` 1,44,000 [i.e., (` 90 — 7 72) x 8,000] is taxable under section 56(2)(x), in the hands of ABC Private Ltd.

Answer 2

Solution:

Assessing Officer has assessed total income under section 143(3) under general provisions at ₹1,10,00,000 and assessed book profits at ₹2,10,00,000. Presume that addition of ₹30,00,000 made to the total income under general provisions and ₹10,00,000 additions made to book profits are on different account. Under-reported income shall be:

$$(A-B) + (C-D)$$

A = Total income assessed by A.O. under general provisions of I.T. Act. = ₹1,10,00,000

$$B = \left[\begin{array}{l} \text{Total income assessed by A.O. under} \\ \text{general provisions of the I.T. Act} \end{array} \right] - \text{Under-reported Income}$$

$$= [1,10,00,000 - 30,00,000] = ₹ 80,00,000$$

C = Book profits assessed by Assessing Officer under section 115JB = ₹2,10,00,000

$$D = \left[\begin{array}{l} \text{Book profits assessed by Assessing} \\ \text{Officer under section 115JB} \end{array} \right] - \text{Under-reported Income}$$

$$= ₹ 2,10,00,000 - ₹10,00,000 = ₹2,00,00,000$$

$$\text{Under-reported income} = (₹1,10,00,000 - ₹80,00,000) + (₹2,10,00,000 - ₹ 2,00,00,000)$$

$$= ₹ 40,00,000$$

Tax on under-reported Income:

(i) Tax on (₹80,00,000 + ₹30,00,000) - Tax on ₹80,00,000
Tax on ₹1,10,00,000 - Tax on ₹80,00,000
@30% + 7% + 3% @ 30% + 3%
₹ 36,36,930 - ₹ 24,72,000 = ₹ 11,64,930

(ii) Tax on (₹10,00,000 + ₹2,00,00,000) - Tax on ₹2,00,00,000
 @18.5% + 7% + 3% @18.5% + 7% + 3%
 = ₹ 2,03,889

(iii) Tax on under-reported income = ₹ 13,68,819

Penalty for under-reporting = 50% of ₹ 13,68,819

Answer 3

Interest under section 234A

Since the return of income has been furnished by PA Consulting Ltd. on 15th October, 2018, i.e., 15 days after the due date for filing return of income (30.9.2018), interest under section 234A will be payable for 1 month @ 1% on the amount of tax payable on the total income, as reduced by tax reliefs and prepaid taxes.

Particulars	₹
Tax on total income (₹10,50,000 x 30.9%)	3,24,450
Less: Advance tax paid	2,67,000
Less: Tax deducted at source	24,450
Less: Relief of tax allowed under section 90	10,000
Tax payable on self-assessment	
Interest = ₹23,000 x 1% = ₹ 230	23,000

Interest under section 234B

Where the advance tax paid by the assessee is less than 90% of the assessed tax, the Assessee would be liable to pay interest under section 234B.

Computation of Assessed Tax:	₹
Tax on total income (₹10,50,000 x 30.9%)	3,24,450
Less: Tax deducted at source	24,450
Less: Relief of tax allowed under section 90	10,000
Assessed tax	2,90,000
90% of assessed tax = ₹ 2,90,000 x 90% = ₹ 2,61,00	

Since the advance tax paid by PA Consulting Ltd. (₹2,67,000) is more than 90% of the assessed tax (₹2,61,000), it is not liable to pay interest under section 234B.

Interest under section 234C

Particulars	₹
Tax on total income (₹ 10,50,000 x 30.9%)	3,24,450
Less: Tax deducted at source	24,450
Less: Relief of tax allowed under section 90	10,000
Tax due on returned income	2,90,000

Calculation of interest payable under section 234C

The PA Consulting Ltd. should have paid advance tax an under:

- By 15.06.2017: 2,90,000 x 12% = 34,800 (Actually paid 40,000)
- By 15.09.2017: 2,90,000 x 36% = 1,04,400 (Actually paid 1,05,000)
- By 15.12.2017: 2,90,000 x 75% = 2,17,500 (Actually paid 2,05,000)
- By 15.03.2018: 2,90,000 x 100%= 2,90,000 (Actually paid 2,67,000)

Interest under section 234C

(i) NIL	
(ii) NIL	
(iii) $(2,17,500 - 2,05,000) \times 3 \text{ month} \times 1\%$	= 375
(iv) $(2,90,000 - 2,67,000) \times 1 \text{ month} \times 1\%$	= 230
	<u>605</u>

Notes:

- Since the advance tax paid by PA Consulting Ltd. on 15th June, 2017 is more than 12% of the tax due on returned income (i.e. ₹ 2,90,000) and the advance tax paid on 12th September, 2017 is more than 36% of the tax due on returned income, it is not liable to pay any interest under section 234C in respect of these two quarters.
- Fee of ₹ 5,000 under section 234F is also payable as per new section 234F inserted by Finance Act, 2017.

Answer 4

Taxability of various transactions are discussed as under:

- Fees for technical services is taxable under section 9(1)(vii). In this case, the separate payments made towards drawings and designs (described as "engineering fee") are in the nature of fee for technical services and, therefore, it is taxable in India by virtue of section 9(1)(vii).

As per Explanation to section 9, where income is deemed to accrue or arise in India under section 9(1)(vii), such income shall be included in the total income of the nonresident German company, regardless of whether it has a residence or place of business or business connection in India. This is taxable @ 10% under section 115A.

- The Barrister of U.K. has rendered professional services in India and therefore the fee for professional services is taxable in India. It falls in definition of royalty and is taxable @ 10% under section 115A.
- As per section 9(1)(vi), income by way of royalty payable by the Government of India is deemed to accrue or arise in India. "Royalty" means consideration for, inter alia, use of patent. Therefore, the amount paid by Government of India for use of patent developed by Mr. A, a non-resident, is deemed to accrue or arise in India. Hence, it is taxable in India @ 10% under section 115A.
- ₹ 20 lakhs, being the value of debentures issued by an Indian company in consideration of providing technical know-how, is in the nature of fee for technical services, deemed to accrue or arise in India to Sai Engineering, a non-resident foreign company, under section 9(1)(vii). Hence, it is taxable in India @ of 10% under section 115A.
- Further, as per section 9(1)(v), income by way of interest payable by a person who is a resident of India is deemed to accrue or arise in India. Therefore, interest income from debentures of an Indian company is deemed to accrue or arise in India in the hands of Sai Engineering by virtue of section 9(1)(v). Hence, it is taxable in India.

Answer 5

	₹
Indian income	6,52,000
Foreign income	70,000
Total income	<u>7,22,000</u>
Tax on net income	56,900
Add: Education cess (@ 3% of tax)	1,707
Tax liability in India	<u>58,607</u>
Rate of Tax in India [i.e., ₹ 58,607/ ₹7,22,000]	8.117%
Rate of Tax in foreign country X	20%
Doubly Taxed Income	40,000
Rebate under section 91 on 40,000 @ 8.117%	3,247
Rate of Tax in India [i.e., ₹ 58,607/ ₹7,22,000]	8.117%
Rate of Tax in foreign country Y	5%
Doubly Taxed Income	30,000
Rebate under section 91 @ 5%	1,500
Total Rebate	4,747
Tax Payable	53,860

Answer 6

Answer:

- (i) Anush Motors Ltd. and Rida Ltd. are Associated Enterprises since Rida Ltd. holds 30% shares of Anush Motors Ltd.
- (ii) Kyoto Ltd. and Anush Motors Ltd. are Associated Enterprises since the manufacturing of cars by Anush Motors Ltd. is dependent on the know-how provided by Kyoto Ltd.
- (iii) Loan advanced by Dorf Ltd. = Euro 1000 crores X ₹ 55 = ₹ 55,000 crores. Since loan advanced by Dorf Ltd. is not less than 51% of the book value of assets of Anush Motors Ltd., Dorf Ltd. and Anush Motors Ltd. are Associated Enterprises.

Income of Anush Motors Ltd. shall be computed as under by applying the law of transfer pricing:

Declared Income	₹ 300 crores
Add: 10,000 cars X \$ 200 X ₹50 (Comparable Uncontrolled Price Method)	₹ 10 crores
Add: Royalty \$ 30,00,000 X ₹ 50 (Excess payment of Royalty CUP Method)	₹ 15 crores
Add: Interest excess charged 55,000 crores X 1% p.a.	₹ 550 crores
	<u>₹ 875 crores</u>

Answer 7

[May 2013]

Answer: Computation of Total Income of Mr. K for the A.Y. 2018-19

Particulars	₹	₹
Income from salaries		
Income from Other Sources (Interest on savings bank account)		6,80,000
Gross Total Income		16,000
Less: Deductions under Chapter VI-A		
Under section 80C (Life insurance premium paid)		6,96,000
Premium paid in respect of policy taken on life of son	25,000	
Premium paid in respect of policy taken on own life	<u>20,000</u>	15,000
Under section 80D (Medical insurance premium paid)		20,000
Under section 80TTA (Interest on savings bank account)	<u>10,000</u>	75,000
Total Income		<u>6,21,000</u>

Notes:

- (1) Mr. K can claim deduction under section 80C in respect of insurance premium paid by him in respect of a policy on the life of his son. Since the policy was issued before 1.4.2012, the premium paid shall be allowed as deduction upto 20% of sum assured (i.e. upto ₹ 36,000, being 20% of ₹ 1,80,000). Since the insurance premium of ₹25,000 paid is within this limit, the same is fully allowable as deduction under section 80C.
- (2) In respect of premium of ₹ 22,000 paid by Mr. K to LIC under an insurance policy taken on his own life, the deduction under section 80C would be restricted to 10% of sum assured, since the premium is paid in respect of a life insurance policy taken on or after 1.4.2012. Therefore, the deduction under section 80C in respect of this policy would be restricted to ₹20,000 being 10% of ₹ 2,00,000.
- (3) Deduction under section 80D is allowed in respect to health insurance premium paid by any mode other than cash and expenses on preventive health check-up (upto ₹ 5,000) paid by any mode, including cash. Therefore, both the premium of ₹15,000 paid by cheque and preventive health check-up of ₹ 5,000 paid by cash qualifies for deduction under section 80D.
- (4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual in respect of income by way of deposit in the savings bank account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, a deduction of ₹ 10,000 is allowable from the gross total income of Mr. K, even though his interest from savings bank account is ₹ 16,000.

Answer 8

Answer:

COMPUTATION OF TAXABLE INCOME

Net profit as per profit and loss account		22,86,500
Add:		
Depreciation as per books	7,16,000	
Donations to political party	2,500	
Income-tax	3,50,000	
Wealth-tax	8,000	

Outstanding custom duty	17,500	
Provision for unascertained liability	70,000	
Paid to Mafia Don	<u>90,000</u>	<u>12,54,000</u>
		35,40,500
Less:		
Depreciation [as per I.T. Act]	5,36,000	
Excise duty of 2001-02	<u>75,500</u>	<u>6,11,500</u>
		29,29,000
Less:		
Brought forward business loss		<u>11,80,000</u>
Gross total income		17,49,000
Less: Deductions		
Under section 80IB [i.e. 25% of ₹ 17,49,000]		4,37,250
Under section 80GGB for donation to Political Party		<u>2,500</u>
Net Income		<u>13,09,250</u>
Tax on ₹ 13,09,250 @ 35.535%		4,65,242
Or say		4,65,240

COMPUTATION OF ADJUSTED TOTAL INCOME

Taxable Income	13,09,250
Add: Deduction under section 80- IB	<u>4,37,250</u>
Adjusted Total Income	<u>17,46,500</u>

AMT is not applicable since the Adjusted Total Income does not exceed ₹20,00,000.

AMT is not applicable. However, as per sub-section (3) inserted in section 115JEE by Finance Act, 2014, AMT credit shall be allowed to the assessee.

Tax as per normal provisions	4,65,242
Less: Tax @ 19.055% on the Adjusted Total Income of ₹ 17,46,500	<u>3,32,796</u>
AMT credit available for set-off	<u>1,32,446</u>

The assessee shall pay tax of ₹ 3,32,796 after taking the AMT credit of ₹ 1,32,446. The assessee shall carry forward AMT credit of ₹ 6,67,554.