

SOLUTION

Q1

Computation of Gross Total Income of Mr. X for A.Y. 2020-21

| Particulars | |
|---|-----------------|
| Basic Salary = ₹ 20,000 x 10 | 2,00,000 |
| Dearness Allowance = 50% of basic salary | 1,00,000 |
| Gift Voucher (See Note - 1) | 6,000 |
| Transfer of car (See Note - 2) | 56,000 |
| Gratuity (See Note - 3) | 80,769 |
| Leave encashment (See Note - 4) | 1,30,000 |
| Uncommuted pension (₹ 5000 x 2) | 10,000 |
| Commuted pension (See Note - 5) | 1,50,000 |
| Gross Salary | 7,32,769 |
| Less: Standard deduction u/s 16(ia) | 50,000 |
| Taxable Salary /Gross Total Income | 6,82,769 |

Notes:

- (1) **As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.**

Therefore, the entire amount of ₹ 6,000 is liable to tax as perquisite.

Note – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 1,000 and gross taxable income would be ₹ 7,27,769.

- (2) Perquisite value of transfer of car: As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

| Particulars | |
|----------------------------|----------|
| Purchase price (30.1.2017) | 5,00,000 |
| Less: Depreciation @ 20% | 1,00,000 |
| WDV on 29.1.2018 | 4,00,000 |
| Less: Depreciation @ 20% | 80,000 |
| WDV on 29.1.2019 | 3,20,000 |
| Less: Depreciation @ 20% | 64,000 |
| WDV on 29.1.2020 | 2,56,000 |
| Less: Amount recovered | 2,00,000 |
| Value of perquisite | 56,000 |

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. X.

- (3) Taxable gratuity

| Particulars | |
|-------------------|----------|
| Gratuity received | 6,00,000 |

| | |
|--|-----------|
| Less: Exempt under section 10(10) - Least of the following: | |
| (i) Notified limit = | 20,00,000 |
| (ii) Actual gratuity = | 6,00,000 |
| (iii) $15/26 \times$ last drawn salary \times no. of completed years of services or part in excess of 6 months | |
| $15/26 \times 30,000 \times 30 =$ | 5,19,231 |
| Taxable Gratuity | 80,769 |

Note: As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption under section 10(10).

- (4) Taxable leave encashment

| Particulars | |
|---|----------|
| Leave Salary received | 3,30,000 |
| Less: Exempt under section 10(10AA) - Least of the following: | |
| (i) Notified limit | 3,00,000 |
| (ii) Actual leave salary | 3,30,000 |
| (iii) 10 months \times 20,000 | 2,00,000 |
| (iv) Cash equivalent of leave to his credit | 2,20,000 |
| $\left(\frac{330}{30} \times 20,000 \right)$ | 2,00,000 |
| Taxable Leave encashment | 1,30,000 |

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

- (i) **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.

- (ii) **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. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

- (iii) **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.

- (iv) **The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ` 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ` 5,000.**

Therefore, the entire amount of ` 10,000 is liable to tax as perquisite.

Note- An alternate view possible is that only the sum in excess of ` 5,000 is taxable. In such a case, the value of perquisite would be ` 5,000

- (v) **Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.**
- (vi) **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 $10\% - 6\% = 4\%$

Total value of this perquisite 20,880

Q 3

| Particulars | ₹ | ₹ |
|---|-----------|----------|
| Block 1 Plant and Machinery (15% rate) WDV as on 1.4.2019 | 12,00,000 | |
| Depreciation@15% | | 1,80,000 |
| Block 2 Building (10% rate) WDV as on 1.4.2019 | 25,00,000 | |
| Depreciation@10% | | 2,80,000 |
| Total depreciation for the year | | 4,30,000 |
| Proportionate depreciation allowable to Mr. Gopi for 91 days (i.e., from 1.4.2019 to 30.6.2019) [i.e., $91/366 \times ₹ 4,30,000$] | | 1,06,913 |

Computation of depreciation allowable to Gopi Pipes (P) Ltd. for A.Y.2020-21

| Particulars | ₹ |
|---|----------|
| (i) Depreciation on building and plant and machinery Proportionately for 275 days (i.e. from 1.7.2019 to 31.3.2020) ($275/366 \times ₹ 4,30,000$) | 3,23,087 |
| (ii) Depreciation@ 50% of 15% on ₹ 10 lakh, being the value of plant and machinery purchased after conversion, which was put to use for less than 180 days during the P. Y. 2019-20 | 75,000 |
| Depreciation allowable to Gopi Pipes (P) Ltd. | 3,98,087 |

Q 4

Computation of depreciation under section 32 for Mr. X for A.Y. 2020-21

| Particulars | ₹ (in crores) |
|--|---------------|
| Plant and machinery acquired on 01.06.2019 | 30.000 |
| Plant and machinery acquired on 01.11.2019 | 25.000 |
| WDV as on 31.03.2020 | 55.000 |
| Less: Depreciation @ 15% on ₹ 30 crore | 4.500 |
| Depreciation @ 7.5% (50% of 15%) on ₹ 25 crore | 1.875 |
| Additional Depreciation@35% on ₹ 30 crore | 10.500 |
| Additional Depreciation@17.5% (50% of 35%) on ₹ 20 crore | 3.500 |
| WDV as on 01.04.2020 | 34.625 |

Computation of deduction under section 32AD for Mr. X for A.Y. 2020-21

| Particulars | ₹ (in crores) |
|--|---------------|
| Deduction under section 32AD @ 15% on ₹ 50 crore | 7.50 |
| Total benefit | 7.50 |

Computation of profits and gains of business or profession for A.Y.2020-21

| Particulars | ₹ (in lakhs) |
|---|--------------|
| Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32) | 31 |
| Less: Depreciation under section 32 | |
| 10% of ₹ 30 lakh, being (₹ 50 lakh - ₹ 30 lakh + ₹ 10 lakh) | 3 |
| Income chargeable under "Profits and gains from business or profession" | 28 |

Computation of income/loss from specified business under section 35AD

| Particulars | Food Grains | Sugar | Total |
|--|--------------|-------------|-------------|
| | ₹ (in lakhs) | | |
| (A) Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD) | 16 | 14 | 30 |
| Less: Deduction under section 35AD | | | |
| (B) Capital expenditure incurred prior to 1.4.2019 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2019 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh - ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh - ₹ 40 lakh) | 30 | 20 | 50 |
| (C) Capital expenditure incurred during the P.Y. 2019-20 | 20 | 15 | 35 |
| (D) Total capital expenditure (B + C) | 50 | 35 | 85 |
| (E) Deduction under section 35AD | | | |
| 100% of capital expenditure (food grains/sugar) | 50 | 35 | 85 |
| Total deduction u/s 35AD for A.Y.2020-21 | 50 | 35 | 85 |
| (F) Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E) | (34) | (21) | (55) |

Q6

Computation of business income of Mr. Sivam for the A.Y. 2020-21

| Particulars | | | |
|--|---|----------|-----------------|
| Net Profit as per profit and loss account | | | 50,000 |
| <i>Add:</i> | Inadmissible expenses/ losses | | |
| | Under valuation of closing stock | 18,000 | |
| | Salary paid to brother - unreasonable [Section 40A(2)] | 2,000 | |
| | Printing and stationery -whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ` 10,000 [Section 40A(3)] | 23,200 | |
| | Depreciation (considered separately) | 1,05,000 | |
| | Short term capital loss on shares | 8,100 | |
| | Donation to public charitable trust | 2,000 | 1,58,300 |
| | | | 2,08,300 |
| <i>Less:</i> | Deductions items: | | |
| | Under valuation of opening stock | 9,000 | |
| | Income from UTI [Exempt under section 10(35)] | 2,400 | 11,400 |
| | Business income before depreciation | | 1,96,900 |
| <i>Less:</i> | Depreciation (See Note 1) | | 66,000 |
| | | | 1,30,900 |

Q7

Computation of income from house property of Mr. Raman for A.Y. 2020-21

| Particulars | | | |
|---|--|--------|----------|
| Gross Annual Value (See Note 1 below) | | | 1,80,000 |
| <i>Less:</i> Municipal taxes - paid by the tenant, hence not deductible | | | Nil |
| Net Annual Value (NAV) | | | 1,80,000 |
| <i>Less:</i> Deductions under section 24 | | | |
| (i) 30% of NAV | | 54,000 | |
| (ii) Interest on housing loan (See Note 2 below) | | | |
| - Interest on loan taken from bank | | 25,000 | |
| - Interest on fresh loan to repay old loan for this property | | 5,000 | 84,000 |
| Income from house property | | | 96,000 |
| 50% share taxable in the hands of Mr. Raman (See Note 3 below) | | | 48,000 |

Notes:

1. Computation of Gross Annual Value (GAV)

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

| Particulars | | | | | |
|-------------|--|----------|----------|----------|----------|
| (a) | Municipal value of property | 1,60,000 | | | |
| (b) | Fair rent | 1,50,000 | | | |
| (c) | Higher of (a) and (b) | | 1,60,000 | | |
| (d) | Standard rent | | 1,70,000 | | |
| (e) | Expected rent [lower of (c) and (d)] | | | 1,60,000 | |
| (f) | Actual rent [$15,000 \times 12$] | | | 1,80,000 | |
| (g) | Gross Annual Value [higher of (e) and (f)] | | | | 1,80,000 |

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.