SUGGESTED SOLUTION

CS EXECUTIVE JUNE 2019 EXAM

SUBJECT- DIREECT TAX

Test Code - CSE 2026

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

Answer 1:

(A)

Income Tax is charged in respect of the total income of the previous year of every person. Hence, it is important to know the definition of the word person. As per section 2(31), person include :

- An individual
- A Hindu Undivided Family
- A company
- A firm
- An association of persons or a body of individual whether incorporated or not
- A local authority
- Every artificial, judicial person, not falling within any of the above categories. **(2 marks)**

(B)

The entire interest of Rs. 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2018-19.

Particulars	**Rs.**
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
Interest chargeable under the head "Income from other sources"	2,50,000

(3 marks)

(C)

Voluntary retirement compensation received	Rs. 7,00,000
Less: Exemption under section 10(10C) [See Note below]	Rs. 5,00,000
Taxable voluntary retirement compensation	Rs. 2,00,000

Note: Exemption is to the extent of least of the following:

(i) Compensation actually received = Rs. 7,00,000

(ii) Statutory limit = Rs. 5,00,000

(iii) 3 months' salary × completed years of service

= (Rs. 20,000 + Rs. 5,000) × 3 ×30 years = Rs. 22,50,000

(iv) Last drawn salary × remaining months of service left

= (Rs. 20,000 + Rs. 5,000) × 6 ×12 months = Rs. 18,00,000

(5 marks)

Answer 2:

Computation of income from house property of Ganesh for A.Y. 2019-20

Particulars		**Amount in Rs.**
Computation of GAV		
Step 1	Compute ER	
	ER = Higher of MV of Rs. 2,50,000 p.a. and FR of Rs. 2,00,000 p.a., but restricted to SR of Rs. 2,10,000 p.a.	2,10,000
Step 2	Compute Actual rent received/ receivable	

	Actual rent received/ receivable for let out period *less* unrealized rent as per Rule 4 = Rs. 2,00,000 – Rs. 20,000	1,80,000	
Step 3	Compare ER and Actual rent received/ receivable		
Step 4	In this case the actual rent of Rs. 1,80,000 is lower than ER of Rs. 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs. 2,20,000 (Rs. 1,80,000 + Rs. 40,000, being notional rent for February and March 2019). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)			1,80,000
Less:	Municipal taxes (paid by the owner during the previous year) = 8% of Rs. 2,50,000		20,000
Net Annual Value (NAV)			1,60,000
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of Rs. 1,60,000	48,000	
	(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property			47,000

(10 marks)

Answer 3:
(A)

(i) Receipt in substitution of a source of income is a capital receipt. Therefore, the amount received by AB & Co. from CD & Co. for premature termination of an agency contract is a capital receipt though the same is taxable u/s 28(ii)©.

(ii) Amount spent by a company for sending its production manager abroad to study new methods of production is a revenue expenditure to be allowed as a deduction. Because the new knowledge and exposure of that manager will assist the company in improving its existing methods of production.

(iii) This is a capital expenditure, as any expenditure incurred by a person to free himself from a capital liability is a capital expenditure. In the given case, the payment of Rs.50000 for cancelling the order for purchase of the machinery, has helped the assessee to become free from an unnecessary capital liability.

(iv) Receipt of lumpsum royalty in lieu of future royalties is a revenue receipt, as it is income from royalty. **(1 mark x 4 = 4 marks)**

(B)

(i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of Rs. 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali.

(ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".

(iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case. **(2 marks x 3 = 6 marks)**

Answer 4:

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 = Rs. 1,500 × 12 = Rs. 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 Rs. 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 Rs. 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 Rs. 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds Rs. 1,000 per month. The taxable perquisite value would be Rs. 14,400 (Rs. 1,200 × 12).

Note – An alternate view possible is that only the sum in excess of Rs. 1,000 per month is taxable. In such a case, the value of perquisite would be Rs. 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 Rs. 1,10,000.

The perquisite value would be 10% of the actual cost i.e., Rs. 11,000, being 10% of Rs. 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 Rs. 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 Rs. 5,000.

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

Note- An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001. Gifts upto Rs. 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be Rs. 5,000.

(v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite. **(1 mark x 5 = 5 marks)**

(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%

Month	**Maximum outstanding balance as on last date of month (Rs.)**	**Perquisite value at 4% for the month (Rs.)**
April, 2018	5,88,000	1,960
May, 2018	5,76,000	1,920
June, 2018	5,64,000	1,880
July, 2018	5,52,000	1,840
August, 2018	5,40,000	1,800
September, 2018	5,28,000	1,760
October, 2018	5,16,000	1,720
November, 2018	5,04,000	1,680
December, 2018	4,92,000	1,640
January, 2019	4,80,000	1,600
February, 2019	4,68,000	1,560
March, 2019	4,56,000	1,520
Total value of this perquisite		20,880

(3 marks)

Total value of taxable perquisite
= Rs. 74,280 [i.e. Rs. 18,000 + Rs. 14,400 + Rs. 11,000 + Rs. 10,000 + Rs. 20,880]. **(2 marks)**

Note - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be Rs. 57,280 [i.e., Rs. 18,000 +Rs. 2,400 +Rs. 11,000 +Rs. 5,000 + Rs. 20,880].

Answer 5:

There are two units of the house. Unit I with 2/3rd area is used by Prem for self- occupation throughout the year and no other benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y. 2019-20

Particulars	**Amount in Rs.**	
Unit I (2/3rd area – self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 2/3rd of Rs. 1,20,000		80,000
Income from Unit I (self-occupied)		(80,000)
Unit II (1/3rd area – let out)		

Computation of GAV Step I Compute ER ER = Higher of MV and FR, restricted to SR However, in this case, SR of Rs. 1,10,000 (1/3rd of Rs. 3,30,000) is more than the higher of MV of Rs. 1,00,000 (1/3rd of Rs. 3,00,000) and FR of Rs. 90,000 (1/3rd of Rs. 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2 Compute actual rent received/ receivable Rs. 8,000 x 12 = Rs. 96,000	96,000	
Step 3 Compare ER and Actual rent received/ receivable		
Step 4 GAV is the higher of ER and actual rent received/ receivable i.e. higher of Rs. 1,00,000 and Rs. 96,000	1,00,000	
Gross Annual Value(GAV)		1,00,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of Rs. 3,00,000) = Rs. 30,000/3 = Rs.10,000		10,000
Net Annual Value(NAV)		90,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of Rs. 90,000	27,000	
(b) Interest paid on borrowed capital (relating to let out portion) 1/3rd of Rs. 1,20,000	40,000	67,000
Income from Unit II (let-out)		23,000
Loss under the head "Income from house property" = (Rs. 80,000) + Rs. 23,000 = (Rs. 57,000)		

(10 marks)