

**Answer 1**

**Computation of depreciation allowable for the A.Y.2018-19 in the hands of Mr. Gamma**

Particulars	` in crore	
Total cost of plant and machinery	120.00	
Less: Used for Scientific Research ( <b>Note 1</b> )	15.00	
	105.00	
Normal Depreciation at 15% on ` 105 crore		15.75
<b>Additional Depreciation:</b>		
Cost of plant and machinery	120.00	
Less: Secondhand plant and machinery	20.00	
( <b>Note 2</b> )	15.00	
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction under section 35 ( <b>Note 2</b> )	35.00	
	85.00	
Additional Depreciation at 20%		17.00
<b>Depreciation allowable for A.Y.2018-19</b>		<b>32.75</b>

**Notes:**

1. As per section 35, no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since **deduction is allowable under section 35 in respect of such capital expenditure.**

2. As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, *inter alia*, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

**However, additional depreciation shall not be allowed in respect of, inter alia, –**

- (i) any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
- (ii) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.

**In view of the above provisions, additional depreciation cannot be claimed in respect of -**

- (i) Second hand plant and machinery;

New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35.

**Answer 2**

**Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2018-19**

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	<b>Total</b>			<b>5,40,000</b>	<b>5,90,000</b>

**Notes:**

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.

*Explanation 3* to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

**Answer 3**

**Computation of profits and gains of business or profession for A.Y.2018-19**

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
<b>Income chargeable under “Profits and gains from business or profession”</b>	<b>28</b>

**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

	<b>Less: Deduction under section 35AD</b>			
(B)	Capital expenditure incurred prior to 1.4.2017 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2017 (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.2017-18	20	15	35
<b>(D)</b>	<b>Total capital expenditure (B + C)</b>	<b>50</b>	<b>35</b>	<b>85</b>
<b>(E)</b>	<b>Deduction under section 35AD</b>			
	100% of capital expenditure (food grains)	50		
	100% of capital expenditure (sugar)		35	
	<b>Total deduction u/s 35AD for A.Y.2018-19</b>	<b>50</b>	<b>35</b>	<b>85</b>
	<b>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)</b>	<b>(34)</b>	<b>(21)</b>	<b>(55)</b>

**Notes:**

- (i) **Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2018-19 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012.**
- (iii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- (iv) Mr. A can, however, claim depreciation @ 10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2017-18.

Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ` 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ` 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business

**Answer 4**

**Computation of taxable capital gains of Mr. Dee for A.Y.2018-19**

Particulars		
Sale consideration		1,00,000
Less: Indexed cost of acquisition (See Note 4)	7,34,400	
Indexed cost of improvement (See Note 5)	4,66,569	12,00,969
Long-term capital gain		2,99,031

## Notes

1. As gifts are received prior to 1<sup>st</sup> October 2009, it is not taxable in the hands of Dee. So, applying Section 49(1), cost of acquisition will be taken of Mr Kay
2. As per judgement by Bombay High Court in the case of CIT vs Manjulaben Shah, benefit of indexation will also be available from the year of acquisition by previous owner.
3. As per Section 51, Advance money forfeited by assessee prior to 1/4/2014 will reduce cost of acquisition. In this case, as advance money is forfeited by previous owner, it will be reduced from Rs. 65000 and actual cost Rs. 5000 will be compared with FMV 270000.
4. Indexed cost of acquisition  $270000 \times 272/100$
5. Indexed cost of improvement  $235000 \times 272/137$

## Answer 5

### Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2018-19

Particulars	Mr. A	Mrs. A	Minor Son
Salary income (of Mrs. A)	-	2,40,000	-
Pension Income (of Mr. A) ( $10,000 \times 12$ )	1,20,000		
Income from House Property <b>[See Note (3) below]</b>	52,000	-	-
<b>Income from other sources</b>			
Interest on Mr. A's fixed deposit with Bank of India ( $5,00,000 \times 9\%$ ) <b>[See Note (1) below]</b>	45,000	-	-
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest <b>[See Note (2) below]</b>	25,000	70,000	-
<b>Income before including income of minor son under section 64(1A)</b>	<b>2,42,000</b>	<b>2,40,000</b>	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A <b>[See Note (4) below]</b>	18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent <b>[See Note (5) below]</b>	-	-	20,000
Total Income	2,60,500	2,40,000	20,000
<b>Total Income</b>	<b>2,60,500</b>	<b>2,40,000</b>	<b>20,000</b>

## Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- (2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

**In this case, the commission income of 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.**

- (3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

**Note:** The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.

- (4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of 1,500 per child.

Therefore, the income of 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of 2,42,000 (before including the income of the minor child) is greater than Mrs. A's income of 2,40,000. Therefore, 18,500 (i.e., 20,000 – 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

**Note –** The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding 50,000 without consideration from a relative i.e., his father.

- (5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

**Therefore, the income of 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.**

Answer 6

### Computation of "Income from other sources" of Mr. A for the A.Y.2018-19

	Particulars	₹
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000	75,000
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000

	consideration, is taxable under section 56(2)(x)	5,00,000
(4)	Difference of ` 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
<b>Particulars</b>		
(5)	Difference between the stamp duty value of ` 23 lakh on the date of booking and the actual consideration of ` 20 lakh paid is taxable under section 56(2)(x).	3,00,000
<b>Income from Other Sources</b>		<b>9,35,000</b>

#### Computation of "Capital Gains" of Mr. A for the A.Y.2018-19

Particulars		
	Sale Consideration	7,00,000
	Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
<b>Short-term capital gains</b>		<b>2,00,000</b>

**Note** – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

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