

Note : All Questions are compulsory

Question 1 (4 marks)

Significant Differences between TDS and TCS

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants licence or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.
(3)	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in certain cases, tax is required to be deducted at the time of payment. For e.g., in case of payment of salary, payment in respect of life insurance policy	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicle of the value exceeding ` 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

Question 2 (8 marks)

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 [See Note (3) below]		52,000	-
Income from other sources			
Interest on Mr. A's fixed deposit with Bank of India ($5,00,000 \times 9\%$) [See Note (1) below]	45,000		-

Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below]	25,000	70,000	-	-
Income before including income of minor son under section 64(1A)		2,42,000	2,40,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		2,60,500	2,40,000	20,000

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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.

Question 3 (4 marks)

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2018-19 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
Capital as at 1.4.2016	3,00,000	-	3,00,000
Investment on 10.04.2016 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2016-17 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2016	1,50,000		1,50,000
Capital employed as at 1.4.2017	4,50,000	2,00,000	6,50,000
Profit for F.Y.2017-18 to be apportioned on the basis of capital employed as at 1.4.2017 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2018- 19 is 1,20,000.

Question 4 (4 marks)

Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2017-18	Deduction u/s 80C for A.Y.2018-19	Remark (restricted to % of sum assured)

(i)	1/4/2011	Self	3,00,000	40,000	40,000	20%
(ii)	1/5/2014	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2015	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
				Total	1,15,000	

Question 5 (5 marks) Deduction allowable under section 80D for the A.Y. 2018-19

	Particulars	Actual Payment	Maximum deduction allowable
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid and medical expenditure incurred for father, who is a senior citizen		
(i)	Medi-claim premium paid for father, who is over 60 years of age	27,000	27,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		31,000	30,000
Total deduction under section 80D (25,000 + 30,000)			55,000

Question 6 (8 marks)

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
	Total			5,40,000	5,90,000

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. (7 marks)

Question 7 (12 marks)

Computation of total income of Mr. Gurnam for the Assessment Year 2018-19

Particulars			
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500
Less: Deduction under Chapter VIA			
Under section 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
- major son	25,000		
- self 22,500 restricted to 10% of ` 2,00,000	20,000	45,000	
Under section 80D (See Note 2)			
Premium paid for health insurance of self and wife by cheque	22,000		
Payment made for health check-up:			
- Self 1,500			
- His Parents <u>4,500</u>			
<u>6,000</u> restricted to	5,000	27,000	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80TTA (See Note 4)			
Interest on savings bank account ` 14,500 restricted to		10,000	88,500
Total Income			4,76,000

Notes:

- As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependent or not. Therefore, no deduction is allowable in respect

of 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam. In respect of insurance policy issued after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured. Therefore, in the present case, deduction of 25,000 is allowable in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of 1,75,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of 2,00,000 since, the policy was issued after 01.04.2012 and the premium amount exceeds 10% of sum assured

2. As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to 25,000. Further, deduction up to 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash. Therefore, in the present case, deduction of 22,000 is allowed in respect of premium paid for health insurance of self and wife. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is 23,500 (22,000 + 1,500), which is less than 25,000. Further, deduction up to a maximum of 5,000 is allowable in respect of health check-up of self and his parents. This implies that 3,500 is allowable for health check-up of parents which falls within the additional limit of 30,000 for mediclaim premium and expenditure on preventive health check-up of parents who are senior citizens.
3. No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding 2,000. Therefore, no deduction is allowed under section 80G in respect of donation made to institution approved therein
4. As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings 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. Gurnam, though the interest from savings bank account is 14,500.
(10 marks)

Question 8 (5 marks)

Since Ms. Geetha has income only under the heads "Salaries", "Income from house property" and "Income from other sources", she does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961. Therefore, the due date of filing return for A.Y.2018-19 under section 139(1), in her case, is 31st July, 2018. Since Ms. Geetha had submitted her return only on 29.9.2018, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised, if she discovers any omission or wrong statement therein. Thus, a belated return under section 139(4) can also be revised. Therefore, Ms. Geetha can revise the return of income filed by her under section 139(4) in February 2019, to claim deduction under section 80D, since the time limit for filing a revised return is upto the end of the relevant assessment year, which is 31.03.2019.

However, she cannot revise return had she discovered this omission only on 02-04-2019, since it is beyond 31.03.2019, being the end of A.Y. 2018-19.
