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CA INTERMEDIATE

SUBJECT- TAXATION

Test Code – CIM 8468

BRANCH - () (Date :)

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ANSWER -1**Computation of taxable income of Mr. Madhvan for A.Y. 2020-21**

Particulars	Rs.	Rs.	Rs.
<u>Salaries</u>			
Basic Salary = Rs. 30,000 x 12		3,60,000	
Rent free accommodation		54,000	
[Lower of lease rental paid or payable by the employer (or) 15% of salary i.e., lower of Rs. 65,000 or Rs.54,000, being 15% of Rs.3,60,000]			
Gross Salary		4,14,000	
Less: Standard deduction u/s 16(ia)			
[Actual salary or Rs.50,000, whichever is less]		<u>50,000</u>	
Net Salary			3,64,000
<u>Income from house property</u>	<u>House 1</u>	<u>House 2</u>	
Municipal value (A)	74,000	1,90,000	
Fair rent (B)	75,000	1,95,000	
Higher of (A) and (B) = (C)	75,000	1,95,000	
Actual rent received	65,000	2,85,000	
Gross Annual Value	75,000	2,85,000	
[Higher of (C) and Actual rent]			
Less: Municipal tax paid	<u>18,000</u>	<u>70,000</u>	
Net Annual Value (NAV)	57,000	2,15,000	
Less: Deductions u/s 24			
30% of NAV	17,100	64,500	
Interest on loan	<u>Nil</u>	<u>17,000</u>	
	<u>39,900</u>	<u>1,33,500</u>	
Income from house property			1,73,400
[Rs. 39,900 + Rs.1,33,500]			
Total Income			<u>5,37,400</u>
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			

(8 MARKS)

ANSWER -2

Computation of "Total Salary" of Miss Shanti for P.Y. : 19 – 20, A.Y. : 20 – 21

Particulars	Rs.	Rs.
1. Basic	$30,000 \times 12$	3,60,000
2. D.A. (forming Part)	$3.6 \text{ lacs} \times 50\% \times 60\%$	1,08,000
(not forming Part)	$3.6 \text{ Lacs} \times 50\% \times 40\%$	72,000
3. Commission	1000×12	12,000
4. Bonus (Note – 1)	Not received	–
5. H.R.A.	$(6000 \times 12) = 72000$	
(-) Exemption u/s 10(13A) (Note 2)	<u>(13200)</u>	58,800
6. Entertainment allowance (fully Taxable)	500×12	6,000
7. Transport allowance (Note 3)	$4000 \times 12 = 48000$	
(-) Exempt u/s 10(14)(ii)	$3200 \times 12 = (38400)$	9,600
8. Computer given for use [Not taxable]	–	–
9. Motor car [perquisite] > 1600 CC : 2400 p.m. Add : 900 p.m. (Driver)	28800 <u>10800</u>	39,600
10. Telephone allowance (Fully taxable)	500×12	6,000
11. Mobile given for use (not taxable perquisite)	–	–
Gross salary		6,72,000
12.(-) Deduction u/s 16		
16(ia) → Std. deduction		(50,000)
16(ii) → Entertainment allowance (Note 4)		(5,000)
Total Salary		6,17,000

(8 MARKS)

Working Note

1. Bonus is taxable on receipt Basis
2. H.R.A. Exemption u/s 10(13A)
Salary = Basic + D.A. (% forming Part) + Commission (% of Turnover)
 $= 3,60,000 + 10,8000$
 $= 46,8000$

Lower of following is exempt :

a) Actual HRA Received	72,000
b) 50% of salary (metro city)	
= $50\% \times 4,68,000$	2,34,000
c) Rent paid – 10% of salary	
$(5,000 \times 12) - (10\% \text{ of } 4,68,000)$	
$60,000 - 46,800$	13,200

∴ Exemption = 13,200

3. U/s 10(14)(ii) Transport allowance is exempt upto 3,200 p.m. if employee is disabled / blind / handicap. Here, Miss Shanti is blind. So, exemption is available.

4. For government employee lower of following is deductible u/s 16(ii) for entertainment allowance:

a. Actual received (500 × 12)	6,000
b. Statutory limit	5,000
c. 20% of Basic salary [3,60,000 × 20%]	72,000

(4*1 = 4 MARKS)

ANSWER -3

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

Particulars	Rs.	Rs.
1. Income from let-out property in Singapore [See Note 1 below]		
¹ Gross Annual Value (SGD 4,000 p.m. x 12 months x Rs. 51)		24,48,000
Less: Municipal taxes paid during the year [SGD 2,000 (SGD 1,250 + SGD 750) x Rs. 51] ²		<u>1,02,000</u>
Net Annual Value (NAV)		23,46,000
Less: Deductions under section 24		
(a) 30% of NAV	7,03,800	
(b) Interest on housing loan	<u> -</u>	7,03,800
		16,42,200
2. Income from self-occupied property in Pune		
Annual Value [Nil, since the property is self-occupied]		NIL
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		
Less: Deduction in respect of interest on housing loan [See Note 2 below]		2,00,000
		(2,00,000)
Income from house property [Rs. 16,42,200 – Rs. 2,00,000]		14,42,200

¹ In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the GAV

² Both property tax and sewerage tax qualify for deduction from gross annual value

(6 MARKS)

Notes:

Since Mr. Vihaan is a resident but not ordinarily resident in India for A.Y. 2019 -20, income which is, *inter alia*, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in Singapore would be taxable in India since such income is received by him in India.

(2) **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24** Rs. 3,00,000

Interest for the current year (Rs. 25,00,000 x 12%)

Pre-construction interest

For the period 01.06.2014 to 31.03.2016 (Rs. Rs. 1,10,000
25,00,000 x 12% x 22/12) = Rs. 5,50,000 Rs. 4,10,000

Rs. 5,50,000 allowed in 5 equal installments (Rs. Rs. 2,00,000
5,50,000/5)

In case of self-occupied property, interest deduction to be restricted to

(2 MARKS)

ANSWER -4**ANSWER -A**

Mr. Dey is a resident in A.Y. 2019-20 and A.Y. 2020-21 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y. 2018-19 and P.Y. 2019-20, respectively.

As per section 6(6), a person will be "Not ordinarily Resident" in India in any previous year, if such person:

- (a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (b) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.

In the instant case, applying the above, the status of Mr. Dey for the previous year 2018-19 (A.Y. 2019-20) will be "Resident but not ordinarily resident".

For the previous year 2019-20 (A.Y. 2020-21) his status would continue to be Resident but not ordinarily resident since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2019-20 and also had stayed for less than 729 days in 7 previous years immediately preceding the P.Y. 2019-20.

Therefore, his status for

A.Y. 2019-20 – "Resident but not ordinarily resident"

(5 MARKS)**ANSWER –B**

This statement is correct.

As per *Explanation* to section 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not -

- (i) non-resident has a residence or place of business or business connection in India; or
- (ii) the non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty from services utilised in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the non-resident has a residence or place of business or business connection in India.

(3 MARKS)**ANSWER –C**

As per section 2(10), "**Average Rate of income-tax**" means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income.

Section 2(29C) defines "**Maximum marginal rate**" to mean the rate of income-tax (including surcharge on the income-tax, if any) applicable in relation to the highest slab of income in the case of an individual, AOP or BOI, as the case may be, as specified in Finance Act of the relevant year.

ANSWER –D**Computation of tax liability of Mr. D for the A.Y. 2020-21**

(A)	Tax payable including surcharge on total income of Rs. 5,01,00,000	
	Rs. 2,50,000 – Rs. 5,00,000 @ 5%	Rs. 12,500
	Rs. 5,00,000 – Rs. 10,00,000 @ 20%	Rs. 1,00,000
	Rs. 10,00,000 – Rs. 5,01,00,000 @ 30%	Rs. <u>1,47,30,000</u>
	Total	Rs. 1,48,42,500
	Add: Surcharge @ 37%	Rs. <u>54,91,725</u> Rs. 2,03,34,225
(B)	Tax Payable on total income of Rs. 5 crore [(Rs. 12,500 plus Rs. 1,00,000 plus Rs. 1,47,00,000) plus surcharge @ 25%]	Rs. <u>1,85,15,625</u>
(C)	Excess tax payable (A)-(B)	Rs. 18,18,600
(D)	Marginal Relief (Rs. 18,18,600 – Rs. 1,00,000, being the amount of income in excess of Rs. 5,00,00,000)	Rs. <u>17,18,600</u>
(E)	Tax payable (A) - (D)	Rs. <u>1,86,15,625</u>

ANSWER -5

Q- 1 to Q-4 -----(1* 4 = 4 MARKS)

1. A
2. D
3. D
4. B

Q- 5 to Q-7 -----(2* 3 = 6 MARKS)

5. A
6. D
7. A