



J.K. SHAH[®]
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SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- DIRECT TAX

Test Code – CIM 8599

BRANCH - () (Date :)

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ANSWER 1

Q.NO	ANS	MARKS
1.1	B	1
1.2	D	1
1.3	C	1
1.4	D	1

ANSWER 2

Q.NO	ANS	MARKS
2.1	C	2
2.2	B	2
2.3	D	2

ANSWER 3

Particulars	Amt. (Rs.)	Amt. (Rs.)
(a) Salary @ Rs. 20,000 per month	2,40,000	
(b) Dearness allowance	12,000	
(c) City Compensatory allowance @ Rs. 100 p.m.	1,200	
(d) Bonus at 20% of 2,52,000 (2,40,000 + 12,000)	50,400	
(e) House rent allowance @ Rs. 750	9,000	
(f) Use of car (1,800 × 12)	21,600	
Gross Salary	3,34,200	
Less : Standard deduction	50,000	2,84,200
Income from House Property		
Annual Value of self – occupied house	Nil	
Interest on borrowings allowed	2,400	
Loss from property		(-) 2,400
Profits and gains from business or profession		
(a) Share of profit is not taxable in his hands		
(b) Salary and commission (80,000 + 20,000)		1,00,000
Income From Other Sources		
(a) Bank Interest	10,700	
(b) Interest on public deposit to minor son (35,000 – 1,500)	33,500	44,200
Gross Total Income		4,26,000
(i) Deduction u/s 80C	20,000	
(ii) Deduction u/s 80G : Donation for National Foundation for Communal Harmony	25,000	
(iii) U/s 80TTA interest on saving bank	10,000	55,000
Total Income		3,71,000
Amount on which deduction u/s 80C is allowed		
• Employee's contribution to Provident Fund		12,000
• Employee's contribution to superannuation fund		4,800
• Life Insurance Premium		3,200
		20,000

1. Since the assessee live in his own house, house rent allowance is taxable.
2. Share of profit from the Association of Persons in this case will not be taxed in the hands of Chakarvarti as the AOP has paid tax at the maximum marginal rate, It will also not be included in Total Income.
3. Gifts upto Rs. 5000 p.a. in aggregate is Not taxable.

4. Personal accident policy premium paid by Employer is not chargeable in hands of Employee.
5. Employers contribution to Recognized Provident Fund is exempt upto 12% of salary and contribution to superannuation fund is exempt upto Rs. 1,50,000.

(14 MARKS)

ANSWER 4(A)

Particulars	(Rs.)	(Rs.)	(Rs.)
Income from Salary		68,000	
Less : Loss under the head house property		10,000	58,000
Income from House property			
Income from House A		36,000	
Loss from House B		(-) 24,000	
Loss from House C		(-) 22,000	Nil
		(-) 10,000	
Set off from salary		10,000	Nil
Income from Business			
Business A		60,000	
Business B		70,000	1,30,000
Profit from speculation business	82,000		
Less : Loss from speculation business	(-) 94,000		
Carried forward speculation loss	(-) 12,000		
Capital Gains			
Long term capital gain*	22,000		22,000
Less : Short term capital loss	(-) 44,000		
Capital loss carried forward	(-) 44,000		
Income from other sources			
Income from card games		22,000	
Winning from lotteries		60,000	
Income from House races		40,000	1,22,000
Gross Total Income			3,32,000

Loss from horse race in Bangalore cannot be set off against any income.

*Note : Relaxation under Section 112A is given upto Rs. 1 lakhs. Hence , it will be included in total income but tax is not payable upto Rs. 1 lakhs.

(10 MARKS)

ANSWER 4(B)

The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any installment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining installments of advance tax, which are due.

Where no such installment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @30% under section 194B and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is Rs. 10,000 or more.

(4 MARKS)

ANSWER 5(A)

TDS implications

- (i) **On payment of LIC maturity proceeds** - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs. 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Varsha. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.
- (ii) **On payment of sale consideration for purchase of residential house property**
- Since the sale consideration of house property is less than Rs. 50 lakhs, Mr. Karan is not required to deduct tax at source u/s 194-IA, irrespective of the fact that the stamp duty value is more than the sale consideration as well as the threshold limit of Rs.50 lakhs.
- (iii) **On payment of fee for professional services and royalty** – Under section 194J, the threshold limit of Rs. 30,000 is specified separately for, *inter alia*, fees for professional services and royalty. Therefore, XYZ Private Limited is not required to deduct tax at source under section 194J either on fee of Rs. 22,000 for professional services or on royalty of Rs. 18,000 paid to Mr. Narayan, since the payment under each category does not exceed the independent threshold Rs. 30,000 specified thereunder.
- (iv) **On payment for purchase of calendar according to specifications** - As per section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer.
- Therefore, M/s ABC Limited is not required to deduct tax at source in respect of payment of Rs. 1,75,000 to Mr. Vaibhav, for purchase of calendar according to its specifications, since it did not supply the material for such calendar. Hence, the contract is a contract for ‘sale’ and not a works contract.
- (v) **On payment of sitting fees to the director** - Talent Private Limited is required to deduct tax at source @10% on sitting fees of Rs. 12,000 paid to its director, since the threshold limit of Rs. 30,000 u/s 194J is not applicable in respect of fees paid to a director of a company.
- (vi) **On payment of call centre service charges** - Since Radha Limited is engaged only in the business of operation of call centre, Shyam Limited is required deduct tax at source@2% on the amount of Rs. 70,000 u/s 194J on 18.3.2020 i.e., at the time of credit of call centre service charges to the account of Radha Limited, since the said date is earlier than the payment date i.e., 28.3.2020.

ANSWER 5(B)

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

Particulars	Rs.	Rs.
Gross Total Income		7,75,000
Less : Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value Rs. 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		
		87,500
Total income		5,12,500

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (Rs.)	% of deduction	Deduction u/s 80G (Rs.)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Jawaharlal Nehru Memorial Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit	
			(See Note	

			below)	10,000
				87,500

Note - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., Rs. 6,00,000, in this case.

Rs. 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of Rs. 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of Rs. 50,000 to public charitable trust is restricted to 20,000 (being, Rs. 60,000 - Rs. 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be Rs. 10,000, which is 50% of Rs. 20,000.

(4 MARKS)

ANSWER 5(C)

Fee for default in furnishing return of income u/s 234F

Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of –

Fee	Circumstances
Rs.5,000	If the return is furnished on or before the 31 st December of the assessment year;
Rs.10,000	In any other case
Note - However, if the total income of the person does not exceed Rs. 5 lakhs, the fees payable shall not exceed Rs. 1,000	

(2 MARKS)