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**SUGGESTED SOLUTION**

**CA INTERMEDIATE NOV'19**

**SUBJECT- DT**

**Test Code - CIM 8302**

**BRANCH - () (Date :)**

**Head Office : Shraddha, 3<sup>rd</sup> Floor, Near Chinai College, Andheri (E), Mumbai – 69.**

**Tel : (022) 26836666**

**Answer 1:**

In this case, Shraddha has more than one house property for self-occupation. As per section 23(4), Shraddha can avail the benefit of self-occupation (i.e., benefit of “Nil” Annual Value) only in respect of one of the house properties, at her option. The other house property would be treated as “deemed let-out” property, in respect of which the expected rent would be the gross annual value. Shraddha should, therefore, consider the most beneficial option while deciding which flat should be treated by her as self-occupied. (1 mark)

**OPTION 1 [Flat at Goregaon – Self-occupied and Flat at Navi Mumbai – Deemed to be let out]**

If Flat at Goregaon is opted to be self-occupied, Shraddha's income from house property for A.Y.2019-20 would be –

Particulars	Amount in Rs.
Flat at Goregaon (Self-occupied) [Annual value is Nil]	Nil
Flat at Navi Mumbai (Deemed to be let-out) [ <i>See Working Note below</i> ]	42,660
<b>Income from house property</b>	<b>42,660</b>

(2 marks)

**OPTION 2 [Flat at Goregaon – Deemed to be let out and Flat at Navi Mumbai – Self-occupied]**

If Flat at Navi Mumbai is opted to be self-occupied, Shraddha's income from house property for A.Y.2019-20 would be –

Particulars	Amount in Rs.
Flat at Goregaon (Deemed to be let-out) [ <i>See Working Note below</i> ]	98,000
Flat at Navi Mumbai (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of Rs. 30,000. In case of money borrowed for <b>repair of self-occupied property</b> , the interest deduction would be restricted to Rs. 30,000, irrespective of the date of borrowal].	(30,000)
<b>Income from house property</b>	<b>68,000</b>

(2 marks)

Since Option 1 is more beneficial, Shraddha should opt to treat Flat at Goregaon as Self-occupied and Flat at Navi Mumbai as Deemed to be let out, in which case, her income from house property would be Rs. 42,660 for the A.Y. 2019-20.

(1 mark)

**Working Note:**

**Computation of income from Flats at Goregaon & Navi Mumbai assuming that both are deemed to be let out**

Particulars	Amount in Rupees	
	Flat at Goregaon	Flat at Navi Mumbai
<b>Gross Annual Value (GAV)</b>		
Expected Rent is the GAV of house property Expected Rent = Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,40,000	1,80,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	16,200
<b>Net Annual Value (NAV)</b>	<b>1,40,000</b>	<b>1,63,800</b>
<b>Less: Deductions under section 24</b>		
(a) 30% of NAV	42,000	49,140
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	72,000
<b>Income from deemed to be let-out house property</b>	<b>98,000</b>	<b>42,660</b>

**(4 marks)****Answer 2:****A. Determination of residential status of Mr. Soham**

As per section 6(1), an individual is said to be resident in India in any previous year if he satisfies the conditions:-

- (i) He has been in India during the previous year for a total period of 182 days or more, or He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the case of an Indian citizen leaving India for the purposes of employment outside India during the previous year or an Indian citizen, who being outside India, comes on a visit to India in relevant previous year, the period of stay during the previous year in condition (ii) above, to qualify as a resident, would be 182 days instead of 60 days.

In this case, Mr. Soham is an Indian citizen who left India to set up a software firm in Singapore on 20.04.2016. Therefore, he is an Indian citizen living in Singapore, who comes on a visit to India during the P.Y. 2018-19. His stay in India during the period of his visit is only 99 days (i.e., 17+30+31+21 days). Since his stay in India during the previous year 2018-19 is only 99 days, he does not satisfy the minimum criterion of 182 days stay in India for being a resident. Hence, his residential status for A.Y. 2019-20 is Non-Resident.

**Taxability of income**

As per section 5(2), in case of a non-resident, only income which accrues or arises or which is deemed to accrue or arise to him in India or which is received or deemed to be received in India in the relevant previous year is taxable in India.

In this case, Mr. Soham, a non-resident, charges fees from LK Ltd., an Indian company, for transfer of technical documents and designs to set up an automobile factory in Faridabad. He renders the requisite services in India for which he stays in India for 99 days during the P.Y. 2018-19.

Section 9(1)(vi) defines "royalty" to mean consideration for transfer of all or any rights in

respect of, *inter alia*, a design and also for the rendering of services in connection with such activity. Transfer of rights in the above definition includes transfer of right for use or right to use a computer software also. Therefore, the fees received by Mr. Soham for transfer of technical documents and designs and rendering of requisite services in relation thereto would fall within the meaning of “royalty”.

‘As per section 9(1)(vi), income by way of royalty payable by a person who is a resident (in this case, LK Limited, an Indian company) would be deemed to accrue or arise in India in the hands of the non-resident (Mr. Soham, in this case), except where such royalty is payable in respect of any right or property or information used or for services utilized for the purpose of a business carried on by such person outside India or for the purposes of making or earning income from any source outside India.

In this case, since the royalty is payable by an Indian company to Mr. Soham, a non-resident, in respect of services utilized for the purpose of business in India (namely, for setting up an automobile factory in Faridabad), the same is deemed to accrue or arise in India and is hence, taxable in India in the hands of Mr. Soham, a non-resident for the A.Y. 2019-20. **(5 marks)**

#### B. Computation of Income from house property for A.Y. 2019-20

Particulars		
<b>(A) Rented unit (50% of total area – See Note below)</b>		
<b>Step I - Computation of Expected Rent</b>		
Municipal valuation ( ` 1,90,000 x ½)	95,000	
Fair rent ( ` 1,85,000 x ½)	92,500	
Standard rent ( ` 1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
<b>Step II - Actual Rent</b>		
Rent receivable for the whole year ( ` 8,000 x 12)	96,000	
<b>Step III – Computation of Gross Annual Value</b>		
Actual rent received owing to vacancy ( ` 96,000 –Rs. 16,000)	80,000	
Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value		
Gross Annual Value		<b>80,000</b>
Less: Municipal taxes (15% of Rs. 95,000)		14,250
Net Annual value		<b>65,750</b>

Less : Deductions under section 24 -		
(i) 30% of net annual value	19,725	
(ii) Interest on borrowed capital (Rs. 750 x 12)	9,000	28,725
Taxable income from let out portion		<b>37,025</b>
(B) Self occupied unit (50% of total area – See Note below)		
Annual value	Nil	
Less : Deduction under section 24 -		
Interest on borrowed capital (Rs. 750 x 12)	9,000	9,000
Taxable income from self occupied portion		<b>(9,000)</b>
Income from house property		<b>28,025</b>

**Note:** No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

(5 marks)

**Answer 3:**

**Computation of income chargeable to tax under the head “Salaries” in the hands of Ms. Aarohi for A.Y.2019-20**

Particulars	Rs.
Basic Salary [Rs. 70,000 x 12]	8,40,000
Dearness allowance [Rs. 24,000 x 12]	2,88,000
Bonus [Rs. 21,000 x 12]	2,52,000
Perquisite value in respect of concessional rent <b>[See Working Note below]</b>	36,000
Gift voucher given by employer on Ms. Aarohi’s birthday (entire amount is taxable since the perquisite value exceeds Rs.5,000) <b>[See Note for Alternative view]</b>	10,000
Employer’s contribution to recognized provident fund in excess of 12% of salary = 18% x [(Rs. 70,000 + Rs. 24,000) x 12] – 12% x [(Rs. 70,000 + Rs. 7,200 (being 30% of Rs. 24,000)) x 12] = 2,03,040 – 1,11,168 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	91,872
Medical insurance premium of Rs. 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite	-

Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be Rs.2400/- p.m. [Rs.2,400 × 5 months]	<u>12,000</u>
<b>Gross salary</b>	<b>15,29,872</b>
<b>Less:</b> Standard deduction under section 16(ia)	<u>40,000</u>
<b>Salary chargeable to tax</b>	<b><u>14,89,872</u></b>

(7 marks)

**Working Note:**

Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% of salary, whichever is lower, **in respect of the period during which the house is occupied by the employee**, as reduced by the rent recoverable from the employee, is the value of the perquisite.

Actual rent paid by the employer from 1.11.2018 to 31.3.2019 = Rs. 60,000 [ Rs. 12,000 x 5 months]

15% of salary = Rs. 73,650 [15% x (Rs. 70,000 + Rs. 7,200 + Rs. 21,000) x 5 months]

Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus

Lower of the above is Rs. 60,000 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = Rs. 60,000 – Rs.24,000 [Rs. 4,800 x 5 months] = Rs.36,000

(3 marks)

**Note:** As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below Rs. 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).

In this case, the gift voucher of Rs. 10,000 was received by Ms. Aarohi from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of Rs. 5,000, the entire amount of Rs. 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

**Alternative view** - An alternate view is also 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, which states that such 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. The salary chargeable to tax, in this case, would be Rs. 14,84,872.

**Answer 4:**

(A)

Taxable allowance in the hands of Mr. Srikant is computed as under - Children Education Allowance:

Elder son [(Rs. 150 – Rs. 100) p.m. × 12 months] =	Rs. 600
Younger son [(Rs. 70 – Rs. 70) p.m. × 12 months] =	<u>Nil</u>
Rs. 600 Transport allowance (Rs.1,800 p.m. × 12 months) =	Rs. 21,600
Tribal area allowance [(Rs. 500 – Rs. 200) p.m. × 12 months]	<u>Rs. 3,600</u>
<b>Taxable allowances</b>	Rs. <b><u>25,800</u></b>

(3 marks)

(B)

There are two units of the house. Unit I with  $\frac{2}{3}^{\text{rd}}$  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  $\frac{1}{3}^{\text{rd}}$  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.	
<b>Unit I (<math>\frac{2}{3}^{\text{rd}}</math> area – self-occupied)</b>		
Annual Value		Nil
Less: Deduction under section 24(b) $\frac{2}{3}^{\text{rd}}$ of Rs. 1,20,000		80,000
<b>Income from Unit I (self-occupied)</b>		<b>(80,000)</b>
<b>Unit II (<math>\frac{1}{3}^{\text{rd}}</math> area – let out)</b>		
<b>Computation of GAV</b>		
Step I Compute ER ER = Higher of MV and FR, restricted to SR However, in this case, SR of Rs. 1,10,000 ( $\frac{1}{3}^{\text{rd}}$ of Rs. 3,30,000) is more than the higher of MV of Rs. 1,00,000 ( $\frac{1}{3}^{\text{rd}}$ of Rs. 3,00,000) and FR of Rs. 90,000 ( $\frac{1}{3}^{\text{rd}}$ 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	
<b>Gross Annual Value(GAV)</b>		<b>1,00,000</b>
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion $\frac{1}{3}^{\text{rd}}$ of (10% of Rs. 3,00,000) = Rs. 30,000/3 = Rs.10,000		10,000
<b>Net Annual Value(NAV)</b>		<b>90,000</b>
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) 1/3 <sup>rd</sup> of Rs. 1,20,000	40,000	67,000
		<b>23,000</b>
<b>Income from Unit II (let-out)</b>		
<b>Loss under the head "Income from house property" = (Rs. 80,000) + Rs. 23,000 = (Rs. 57,000)</b>		

(7 marks)

**Answer 5:**

(1 mark x 10 = 10 marks)

- 1) C
- 2) D
- 3) B
- 4) C
- 5) A
- 6) B
- 7) D
- 8) C
- 9) C
- 10) D