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SUBJECT- TAXATION

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BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

ANSWER-1**Computation of total income of Mr. Satish for the A.Y. 2019 -20**

Particulars	Rs.
Income from salaries [Working Note (1)]	9,66,000
Income from house property [Working Note (2)]	1,00,000
Capital gain [(Working Note 3)]	
Long-term capital gains	5,970
Short-term capital gains	2,490
Income from other sources: Interest on income-tax refund	750
Gross Total Income	10,75,210
Less: Deduction under Chapter VIA	
Deduction under section 80C	
- Public Provident Fund	1,30,000
- 5 years Term deposit (not allowed as deduction in the name of minor son)	-
- Repayment of housing loan (principal)	65,000
Restricted to	1,95,000
Deduction under section 80D [Working Note (4)]	25,000
Total Income	9,00,210

(4 MARKS)

Computation of tax payable by Mr. Satish for the A.Y. 2019 -20

Particulars	Rs.
Tax on LTCG of Rs.5,970 [Exempt u/s 112A]	-
Tax on STCG of Rs.2,490 u/s 111A @15%	374
Tax on balance income of Rs.8,91,750	90,850
	91,224
Add: Health and Education cess@4%	3,649
Total tax payable	94,873
Tax liability (Rounded off)	94,870

(2 MARKS)

Working Notes:

(8 MARKS)

(1) Income from salaries

Particulars	Rs.	Rs.
Basic Salary		5,40,000
HRA (computed)		1,80,000
Transport allowance		22,000

Perquisites (relating to sale of movable assets by employer)		
Laptop		
Cost [September, 2017]	1,20,000	
<i>Less:</i> Depreciation at 50% for one completed year	60,000	
WDV [September, 2018]	60,000	
<i>Less:</i> Amount paid to the employer	20,000	
Perquisite value of laptop (A)	40,000	
Car		
Cost [April, 2016]	8,50,000	
<i>Less:</i> Depreciation for the 1 st year (April,16 to March,17) @ 20% of WDV	1,70,000	
WDV [April, 2017]	6,80,000	
<i>Less:</i> Depreciation for the 2 nd year (April,17 to March,18) @ 20% of WDV	1,36,000	
WDV [April, 2018]	5,44,000	
<i>Less:</i> Amount paid to the employer	3,20,000	
Perquisite value of car (B)	2,24,000	
Perquisite value (A) + (B)		2,64,000
Gross Salary		10,06,000
<i>Less:</i> Standard Deduction under section 16(ia)		40,000
Income chargeable under the head "Salaries"		9,66,000

(2) Income from house property

Section 23(2) provides that the annual value of a self-occupied house shall be taken as Nil. However, section 23(3) provides that the benefit of self-occupation would not be available if the

house is actually let during the whole or part of the previous year. This implies that the benefit of taking the annual value as „Nil“ would be available only if the house is self-occupied for the whole year.

In this case, therefore, the benefit of taking annual value as „Nil“ is not available since the house is self-occupied only for 3 months. In such a case, the gross annual value has to be computed as per section 23(1). Accordingly, the fair rent for the

whole year should be compared with the actual rent for the let-out period and whichever is higher shall be adopted as the Gross Annual Value.

Particulars	Rs.	Rs.
Gross Annual Value (higher of fair rent for the whole year and actual rent for the let-out period)		2,00,000
Fair rent for the whole year = Rs.1,50,000 X 12/9	2,00,000	
Actual rent received = Rs.15,000 X 9	1,35,000	
Less: Municipal taxes		Nil
Net Annual Value (NAV)		2,00,000
Less: Deductions under section 24		
30% of NAV	60,000	
Interest on loan [See Note below]	40,000	1,00,000
Income from house property		1,00,000

Note: It is presumed that the interest of Rs.40,000 paid on housing loan represents the interest actually due for the year.

(3) Income chargeable as “Capital Gains”

Section 112A exempts long-term capital gain on sale of equity shares of a company upto Rs.1 lakh, if securities transaction tax is paid both at the time of sale and acquisition of such shares. Such long-term capital gain in excess of Rs.1 lakh is taxable @10%. Since Mr. Satish has held shares of A Ltd. for more than 12 months and securities transaction tax has been paid on such sale and at the time of acquisition of shares, the gains arising from sale of such shares is a long-term capital gain and the same would be taxable under section 112A. As per section 48, the benefit of indexation would not be applicable on such equity shares.

The long term capital gain arising from sale of shares of A Ltd.

Particulars	Rs.
Sale consideration (Rs.150 x 200)	30,000
Less: Brokerage @ 0.1%	30
Net sale consideration	29,970
Less: Cost of acquisition (Rs.120 x 200)	24,000
long-term capital gains	5,970

Since, the long term capital gain do not exceed Rs.1 lakh, the same would be exempt under section 112A.

Shares in B Ltd. are held for less than 12 months and hence the capital gains arising on sale of such shares is a short-term capital gain chargeable to tax @15%

as per section 111A, since the transaction is subject to securities transaction tax. It may be noted, however, that securities transaction tax is not a deductible expenditure.

Short-term capital gains arising from sale of shares of B Ltd.

Particulars	Rs.
Sale consideration (Rs. 82 X 125)	10,250
Less: Brokerage @ 0.1%	10
Net sale consideration	10,240
Less: Cost of acquisition (Rs. 62 x 125)	7,750
Short-term capital gains	2,490

(4) Deduction under section 80D

As per section 80D, in a case where mediclaim premium is paid in lumpsum for more than one year by an individual, to effect or keep in force an insurance on his health or health of his spouse, then, the deduction allowable under this section for each of the relevant previous year would be equal to the appropriate fraction of such lump sum payment. Hence, deduction under section 80D would be Rs.20,000 i.e, Rs.80,000 x $\frac{1}{4}$ in respect of mediclaim and Rs.8,000 for preventive health check up, subject to maximum of Rs.5,000. Thus, overall deduction under section 80D would be Rs.25,000.

ANSWER-2

A. Deduction available to Mr. Darshan under Chapter VI -A for A.Y.2019-20

Section	Particulars	Rs.	Rs.
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid Rs. 62,000 (deduction restricted to Rs. 30,000, being 10% of Rs. 3,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	30,000	
	Five year term deposit with bank	55,000	
		2,35,000	
	Restricted to		1,50,000
80CCD(1)	Contribution to NPS of the Central Government, Rs. 1,45,000 [Rs. 1,95,000 – Rs. 50,000, being deduction under section 80CCD(1B)], restricted to		

	10% of salary [Rs.1,95,000 x 10/15] [See Note 1]		1,30,000
			2,80,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), Rs. 2,80,000, but restricted to		1,50,000
80CCD(1B)	Rs. 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,30,000
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to Rs. 47,000 (Rs. 27,000 + Rs. 20,000), being 1/4th of lumpsum premium, since policies would be in force for four previous years. (b) Preventive health check up Rs. 6,000 for wife restricted to Rs. 3,000 (Rs. 50,000 - Rs. 47,000, since maximum allowable deduction is Rs. 50,000 in case assessee or one of the family member is senior citizen)	47,000	
		<u>3,000</u>	
		50,000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name		
		<u>46,000</u>	
	Total of (i) and (ii)		96,000
80DD	Deduction of Rs. 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is Rs. 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of Rs. 75,000, deduction restricted to		50,000
Deduction under Chapter VI-A			6,01,000

Notes:

- (1) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs. 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Darshan to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 1,45,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. Rs.1,30,000.
- (2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of Rs. 1,50,000 under section 80CCE
- (ii) If the contribution towards NPS is Rs. 1,30,000, here again, it is beneficial for Mr. Darshan to first claim deduction of Rs. 50,000 under section 80CCD(1B) and the balance of Rs. 80,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of Rs. 1,50,000 under section 80CCE. In any case, the aggregate deduction of Rs. 2,30,000 [i.e., Rs. 1,50,000 under section 80C and Rs. 80,000 under section 80CCD(1)] cannot exceed the overall limit of Rs. 1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., Rs.6,01,000.

(8 MARKS)

- B. (i) **True** : Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.
- (ii) **False**: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

(2 MARKS)

ANSWER-3

A. Computation of Gross total income of Mr. Avinash for the A.Y.2019-20

Particulars	Rs.	Rs.
Salaries		
Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	<u>(1,90,000)</u>	2,28,000

[As per section 71(3A), loss from house property to the extent of Rs. 2,00,000 can be set-off against any other head of income. In case of Mr. Avinash, it is more beneficial to set-off the loss from house property against long-term capital gains, since LTCG would be taxable @ 20%. Accordingly, loss to the extent of Rs. 10,000 is set-off against LTCG (shown below) and Rs. 1,90,000 set-off against income under the head "Salaries"]		
Profits and gains of business or profession		
Income from trading business	2,80,000	
Less: Brought forward loss from trading business of A.Y. 2015-16 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	(12,000)	2,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO set-off as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y. 2016-17 as per section 73(2), can be set off to the extent of	(13,000)	-
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	(1,10,000)	
Less: Loss from house property	(10,000)	-
Income from owning and maintaining race horses	8,000	
Less: Set-off of brought forward losses from owning and maintaining race horses as per section 74A(3)	(8,000)	-
Gross Total Income		4,96,000

(4 MARKS)

Items eligible for carried forward to A.Y.2020-21

Particulars	Rs.
<p><u>Loss from house property</u></p> <p>As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2027-28, in this case.</p>	20,000
<p><u>Loss from speculative business MNO</u></p> <p>Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried</p>	5,000
<p><u>forward for a maximum of four assessment years i.e., upto A.Y. 2020-21, in this case, as specified under section 73(4).</u></p>	
<p>Loss from specified business under section 35AD</p> <p>Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .</p>	45,000
<p>Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2021-22, in this case, as specified under section 74A(3).</p>	4,000

(4 MARKS)

- B. As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, *inter alia*, Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Shivpal, a very senior citizen is required to file return of income, since his total income of Rs. 6,60,000 before giving effect to the deduction of Rs. 1,70,000 under Chapter VI-A, exceeds the basic exemption limit of Rs. 5,00,000 applicable in his case.

(4 MARKS)

- C. (i) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source @ 20%. Further, since John Smith, an Australian cricketer, is a non-resident, Health and education cess @4% on TDS should also be added.

Therefore, tax to be deducted = Rs.33,000 x 20.80% = **Rs. 6,864.**

(2 MARKS)

- (ii) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual or HUF.

The aggregate amount credited during the year is Rs.4,85,000, tax is deductible @ 1% on Rs.4,85,000.

Tax to be deducted = Rs.4,85,000 x 1% = **Rs.4,850**

(2 MARKS)

ANSWER-4

1. B
2. D
3. C
4. D
5. D
6. D
7. B