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CA INTERMEDIATE NOV'19

SUBJECT- TAXATION

Test Code – CIM 8339

BRANCH - () (Date :)

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ANSWER-1

i. B (2 M)
ii. D (2 M)
iii. B (2 M)
iv. C (2 M)
v. D (2 M)
vi. D (1 M)
vii. C (1 M)
viii. D (1 M)
ix. D (1 M)
x. B (1 M)

ANSWER-2

ANSWER-A

Since Mr. Jai Prakash does not own more than 10 vehicles at any time during the previous year 2018-19, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs. 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs. 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	**(2)**	**(3)**	**(4)**
Number of Vehicles	**Date of purchase**	**No. of months for which vehicle is owned**	**No. of months × No. of vehicles [(1) × (3)]**
For Heavy goods vehicle			
1	21.07.2018	9	9
2	23.01.2019	3	6
			15
For goods vehicle other than heavy goods vehicle			
3	11.5.2018	11	33
1	16.3.2019	1	1
1	21.9.2018	7	7
2	12.1.2019	3	6
			47

The presumptive income of Mr. Jai Prakash under section 44AE for A.Y.2019-20 would be-

Rs. 5,77,500, i.e., Rs. 3,52,500 (47 × Rs. 7,500, being for other than heavy goods vehicle) + Rs. 2,25,000 (15 x Rs. 1,000 x 15 ton, being for heavy goods vehicle).

The answer would remain the same even if the two vehicles purchased in January, 2019 were put to use only in July, 2019, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Jai Prakash.

(6 MARKS)

ANSWER-B

Computation of capital gain on slump sale of Unit RS for A.Y. 2019-20

Particulars	Rs.
Full value of consideration	15,40,00,000
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [***Refer Working Note below***]	8,70,00,000
Long-term capital gain [Since the Unit is held for more than 36 months]	**6,70,00,000**

Working Note: Net worth of Unit-RS

Particulars	Rs.
Cost of Land (Revaluation not to be considered)	90,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	6,30,00,000
Other Assets (book value)	4,90,00,000
	12,10,00,000
Less: Liabilities	3,40,00,000
Net worth	**8,70,00,000**

(4 MARKS)

Notes: **(2 MARKS)**

(1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.

(2) "Net worth" of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.

However, any change in the value of assets on account of revaluation shall not be considered for this purpose.

(3) For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.

(4) Since Unit RS is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.

(5) Indexation benefit is not available in case of slump sale.

ANSWER-3

ANSWER-A

Computation of income under the head "Capital Gains" of Mr. Martin for A.Y. 2019-20

Particulars	Rs.	Rs.
Long-term capital gain Full value of consideration [As per section 50C, in case the actual sale consideration (i.e., Rs. 70 lakhs, in this case) is less than the stamp duty value (i.e., Rs. 100 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp	1,00,00,000	
duty value shall be deemed as the full value of consideration since it exceeds 105% of the sale consideration]		
Less: Expenses in connection with transfer (brokerage paid for sale of property)	**1,00,000**	
	99,00 ,000	
Less: Indexed cost of acquisition [Rs. 20,50,000 x 280/122]	**47,04,918**	51,95,082
Less: Exemption under section 54:		
- Purchase of new residential house property within two years from the date of sale of residential house	**15,00,000**	
- Deposit in Capital Gains Accounts Scheme on or before the due date of filing of return of income u/s 139(1) for construction of additional floor on such house property.	**10,00,000**	
Exemption under section 54EC:	**25,00,000**	

- Investment in capital gains bond of NHAI within 6 months from the date of transfer (i.e., before 8.12.2018)	**5,00,000**	30,00,000
Taxable Capital Gains/Total Income		**21,95,082**
Total Income (rounded off)		**21,95,080**

Computation of tax liability for A.Y. 2019-20

Particulars	Rs.
Tax on Rs. 19,45,080 @20% [i.e. long term capital gain less basic exemption limit (Rs. 21,95,080 - Rs.2,50,000)]	3,89,016
Add: Health and education cess@4%	15,561
Tax payable	4,04,577
Tax payable (rounded off)	**4,04,580**

Note: Exemption under section 54 is available in respect of reinvestment of capital gains on sale of residential house in one residential house in India. In this case, exemption would be available for amount invested in purchase of new residential house and amount deposited for construction of additional floor in the same house, since they together constitute one residential house.

(5 MARKS)

ANSWER-B

Agricultural income is exempt from tax as per section 10(1). However, aggregation of agricultural and non-agricultural income is to be done to determine the rate at which the non-agricultural income shall be chargeable to tax. In case the agricultural income is not more than Rs. 5,000 or the tax-payer has non-agricultural income less than the basic exemption limit, then no such aggregation needs to be done.

Further, such aggregation has to be done only if the tax-payer is an individual, HUF, AOP, BOI or an artificial juridical person, since the Finance Act prescribes slab rates of income-tax for these assessees.

In the case of other assessees such as partnership firms, companies etc., whose income is chargeable to tax at a flat rate, aggregation of agricultural income would have no effect.

Since the second part of the question requires the manner of computation of income where an individual derives agricultural and non-agricultural income, the same can be answered on the basis of Rules 7A, 7B and 8 of the Income-tax Rules, 1962 dealing with composite income.

Rule	Particulars	Business Income	Agricultural Income
Rule 7A	Income from manufacture of rubber in India	35%	65%
Rule 7B	Income from manufacture of coffee		

	- grown and cured by the seller in India	25%	75%
	- grown, cured, roasted and grounded by the seller in India	40%	60%
Rule 8	Income from manufacture of tea in India	40%	60%

Thereafter, income-tax shall be computed by aggregating the agricultural income and the non-agricultural income in the manner described below:

(1) Aggregate the agricultural income with non-agricultural income and determine tax payable on such amount.

(2) Aggregate the agricultural income with the basic exemption limit of the assessee i.e., Rs. 2,50,000/ Rs. 3,00,000/ Rs. 5,00,000, as the case may be, and determine tax on such amount.

(3) Compute the difference between the tax computed in Step (1) and Step (2), which shall be the tax payable in respect of non-agricultural income.

(4) The tax payable so computed in step (3) shall be increased by surcharge, if applicable or reduced by rebate under section 87A, if the total income does not exceed Rs. 3.5 lakh. Thereafter, health and education cess@4% has to be added to compute the total tax liability.

(5 MARKS)

ANSWER-4

ANSWER-A

Computation of business income of Mr. Sivam for the A.Y. 2019-20

Particulars	Rs.	Rs.
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
Printing and stationery -whole amount of printing& stationary paid in cash would be disallowed, since such amount exceeds Rs. 10,000 [Section 40A(3)]	23,200	
Depreciation **(considered separately)**	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
Less: Deductions items:		

	Under valuation of opening stock	9,000	
	Income from UTI **[Exempt under section 10(35)]**	2,400	11,400
	Business income before depreciation		1,96,900
Less:	Depreciation (**See Note 1)**		66,000
			1,30,900

Computation of business income as per section 44AD -

As per section 44AD, where the amount of turnover is received, *inter alia,* by way of account payee cheque or use of electronic clearing system through bank, the presumptive business income would be 6% of turnover, i.e., Rs. 1,12,11,500 x 6 /100 = Rs.6,72,690

(5 MARKS)

Notes: **(2 MARKS)**

1. **Calculation of depreciation**

Particulars	Rs.
WDV of the block of plant & machinery as on 1.4.2018	4,20,000
Add : Cost of new plant & machinery	70,000
	4,90,000
Less : Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2019	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

ANSWER-B

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or Rs.1,500, whichever is lower. The remaining income would be included in the hands of the parent.

(2 MARKS)

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma:

	Particulars	Rs.
(i)	Income of one daughter	9,000
	Less: Income exempt under section 10(32)	1,500
	Total (A)	7,500
(ii)	Income of two sons (Rs. 6,200 + Rs. 4,300)	10,500
	Less: Income exempt under section 10(32) (Rs. 1,500 + Rs.1,500)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	**15,000**

Note: It has been assumed that:

(1) All the four children are minor children;

(2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;

(3) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and

(4) This is the first year in which clubbing provisions are attracted.

(4 MARKS)