



J.K. SHAH[®]
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SUGGESTED SOLUTION

INTERMEDIATE MAY 2019 EXAM

SUBJECT- DIRECT TAX

Test Code - CIM 8052

BRANCH - () (Date :)

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Answer 1:

- | | |
|-------------|-----------|
| 1) B | (1 MARK) |
| 2) B | (1 MARK) |
| 3) Rs.41352 | (2 MARKS) |
| 4) C | (1 MARK) |
| 5) D | (1 MARK) |
| 6) A | (2 MARKS) |
| 7) D | (1 MARK) |
| 8) A | (1 MARK) |
| 9) A | (1 MARK) |
| 10) D | (1 MARK) |
| 11) A | (1 MARK) |
| 12) A | (1 MARK) |
| 13) D | (1 MARK) |

Answer 2:**Computation of total income for the A.Y. 2019-20**

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non- resident
	Rs.	Rs.	Rs.
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term Capital gains on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which Rs. 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company received in London	12,000	12,000	12,000

Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai managed from London	26,000	26,000	26,000
Pension for services rendered in India but received in Burma	4,000	4,000	4,000
Income from property situated in Pakistan received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company [Exempt under section 10(34)]	-	-	-
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,51,000	2,17,000	1,82,000
<i>Less:</i> Deduction under section 80TTA [Interest on savings bank account subject to a maximum of Rs.10,000]	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Total Income	<u>3,41,000</u>	<u>2,07,000</u>	<u>1,72,000</u>

(15 MARKS)

Answer 3:

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income Tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The Balance 75% will be treated as agricultural income.

Particulars	Rs.	Rs.	Rs.
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee		3,10,000	
Car expenses (80% of Rs. 50,000)		40,000	
Depreciation on car (80% of 15% of Rs. 3,00,000) [See Computation below]		36,000	
Total cost of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of Rs. 15,00,000) [See Computation below]	2,25,000		
Total cost of the curing operations		5,25,000	
Total cost of composite operations			9,11,000
Total profits from composite activities			12,89,000
Business income (25% of above)			3,22,250
Agricultural income (75% of above)			9,66,750

(7 MARKS)**Computation of value of depreciable assets as on 31.3.2019**

Particulars	Rs.	Rs.	Rs.
Car			
Opening value as on 1.4.2018		3,00,000	
Depreciation thereon at 15%	45,000		
Less: Disallowance @20% for personal use	9,000		
Depreciation actually allowed		36,000	
WDV as on 1.4.2019			2,64,000
Machinery			

Opening value as on 1.4.2018		15,00,000	
Less: Depreciation @ 15%		2,25,000	
WDV as on 1.4.2019			12,75,000

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee. **(3 MARKS)**

Answer 4:

(A)

- (i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	Rs.
Fair market value of 1000 sweat equity shares @ Rs. 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ Rs. 200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	1,00,000

(3 MARKS)

- (ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). *(The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter)*

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be Rs. 3,00,000. **(2 MARKS)**

(B)

The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

- (i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
- (ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.
- (iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.

- (iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.
- (v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year. **(5*1 = 5 MARKS)**

Answer 5:

(A)

- (i) As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.

It is stated that the construction is completed only in May, 2019. Hence, deduction under section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2019-20.

(1.5 MARKS)

(ii) **Deduction under section 80C cannot be claimed**

Clause (xviii) of section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

However, deduction is *prima facie* eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2019-20, there is no such income chargeable under this head. Hence, deduction under section 80C cannot be claimed for A.Y. 2019-20.

Deduction under section 80EE can be claimed

As per section 80EE, interest payable on loan taken for the purpose of acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of Rs. 50,000, provided following conditions are satisfied –

- (i) Such loan is sanctioned during the P.Y. 2017-18
- (ii) The value of the house does not exceed Rs. 50 lakhs
- (iii) The amount of loan sanctioned does not exceed Rs. 35 lakhs and
- (iv) the assessee does not own any residential house on the date of sanction of loan

Section 80EE does not pose any restriction regarding the chargeability of the income from such property under the head "Income from House Property. Therefore, in this case, since Mr. Kailash satisfies all the conditions stipulated under section 80EE, interest on such loan would qualify for deduction under section 80EE, subject to a maximum of Rs. 50,000.

(3.5 MARKS)

(B)

Since the unrealised rent was recovered in the P.Y. 2018-19, the same would be taxable in the A.Y. 2019-20 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y. 2018-19, and hence the same would be taxable in the

A.Y. 2019-20 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y. 2019-20.

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

Particulars	Rs.
(i) Unrealised rent recovered	10,000
(ii) Arrears of rent received	69,000
	79,000
<i>Less:</i> Deduction@30%	23,700
Income from house property	55,300

(5 MARKS)