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SUGGESTED SOLUTION

INTER MAY 2019 EXAM

SUBJECT - DT

Test Code – PIN 5046

BRANCH - () (Date :)

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Answer 1: **(30* 1 = 30 Marks)**

1) A
2) B
3) B
4) C
5) B
6) D
7) A
8) B
9) C
10) B
11) B
12) D
13) B
14) D
15) A
16) B
17) C
18) B
19) C
20) D
21) A
22) C
23) C
24) D
25) D
26) D
27) C
28) D
29) B
30) D

Answer 2:

Computation of total income and tax liability of Ms. Purvi for the A.Y. 2019-20

Particulars	Rs.	Rs.
Income from house property **(See Working Note 1)**		57,820
Profit and gains of business or profession **(See Working Note 2)**		9,20,200
Income from other sources **(See Working Note 3)**		15,800
Gross Total Income		**9,93,820**
Less: Deductions under Chapter VI-A **(See Working Note 4)**		10,000
Total Income		**9,83,820**
Tax on total income		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 @5%	12,500	
Rs. 5,00,001 - Rs. 9,83,820 @20%	96,764	1,09,264
Add: Health and Education cess @ 4%		4,371
Total tax liability		**1,13,635**
Tax Payable		**1,13,640**

(2 marks)

Working Notes:

(1) Income from House Property

Particulars	Rs.	Rs.
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction under section 24 @ 30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent. **(1 mark)**

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	Rs.	Rs.
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs. 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of Indian companies	10,524	
(ii) Income from UTI	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% **(See Note (i) below)**		12,000
		9,20,200

(2 marks)

Notes :

(i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

(ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).

(iii) Repairs and maintenance paid in advance for the period 1.4.2019 to 30.9.2019 i.e. for 6 months amounting to Rs. 1,000 is allowable since Ms. Purvi is following the cash system of accounting.

(iv) 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required. **(2 marks)**

(3) Income from other sources **(1 mark)**

Particulars	Rs.	Rs.
Dividend on shares of Indian companies	10,524	
Less: Exempt under section 10(34)	10,524	Nil
Income from UTI	7,600	
Less: Exempt under section 10(35)	7,600	Nil
Honorarium for valuation of answer papers		15,800
		15,800

(4) Deduction under Chapter VI-A :

Particulars	Rs.
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	**10,000**

Notes:

(i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.

(ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash. **(2 marks)**

Answer 3:

(A)

Computation of long term capital gain of Mr. Dinesh for the A.Y. 2019-20

Particulars	Rs.	Rs.
Full value of consideration **(Note 1)**		65,00,000
Less: Indexed cost of acquisition-land (Rs. 7,00,000 x 280/117) **(Note 2 & 3)**	16,75,214	
Indexed Cost of acquisition-building (Rs. 15,00,000 x 280/ 167) **(Note 3)**	25,14,970	

Indexed Cost of improvement-building (Rs. 5,00,000x 280/200)	7,00,000	48,90,184
Long-term capital gain		**16,09,816**

(4 marks)

Notes:

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration will be Rs. 65 lakhs in this case since the stamp duty value exceeds 105% of the sales consideration.

2. Since Dinesh has acquired the asset by way of gift, therefore, as per section 49(1), cost of the asset to Dinesh shall be deemed to be cost for which the previous owner acquired the asset i.e., Rs. 3,00,000, in this case.

3. Indexation benefit is available since both land and building are long-term capital assets. However, as per the definition of indexed cost of acquisition under clause (iii) of Explanation below section 48, indexation benefit for land will be available only from the previous year in which Mr. Dinesh first held the land i.e., P.Y. 2005-06.

<u>Alternative view:</u> In the case of CIT v. Manjula J. Shah 16 Taxmann 42 (Bom.), the Bombay High court held that indexation cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset.

As per this view, the indexation cost of acquisition of land would be Rs. 18,66,667 and long term capital gain would be Rs. 14,18,363. **(4 marks)**

(B)

Voluntary retirement compensation received	Rs. 7,00,000
Less: Exemption under section 10(10C) [**See Note below**]	Rs. 5,00,000
Taxable voluntary retirement compensation	Rs. 2,00,000

Note: Exemption is to the extent of least of the following:

(i) Compensation actually received = Rs. 7,00,000

(ii) Statutory limit = Rs. 5,00,000

(iii) 3 months' salary × completed years of service
= (Rs. 20,000 + Rs. 5,000) × 3 × 30 years = Rs. 22,50,000

(iv) Last drawn salary × remaining months of service left
= (Rs. 20,000 + Rs. 5,000) × 6 × 12 months = Rs. 18,00,000

(6 marks)

(C)

The provisions of TCS on sale of motor vehicle exceeding Rs. 10 lakhs is not dependent on mode of payment. Any sale of motor vehicle exceeding Rs. 10 lakhs would attract TCS@1%. **(2 marks)**

(D)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds Rs. 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of Rs. 3,00,000. His tax liability is computed in the following manner:

Step 1 : Rs.3,80,000+Rs.1,10,000 = Rs. 4,90,000

Tax on Rs. 4,90,000 = Rs. 9,500 (i.e. 5% of Rs. 1,90,000)

Step 2 : Rs. 1,10,000 + Rs. 3,00,000 = Rs. 4,10,000
Tax on Rs. 4,10,000 = Rs. 5,500 (i.e. 5% of Rs. 1,10,000)

Step 3 : Rs. 9,500 – Rs. 5,500 = Rs. 4,000

Step 4 & 5: Total tax payable = Rs. 4,000
= Rs. 4,000 + 4% of Rs. 4,000 = Rs. 4,160. **(4 marks)**

Answer : 4

(A)

Assessee: Mr. Mahesh Previous Year: 2018 -2019 Assessment Year: 2019 – 2020

Computation of Income from House Property (Amounts in Rs.)

Particulars	**Option I**		**Option II**	
SOP – assumed **Self Occupied** **DLOP** – assumed **Deemed Let out**	**Flat 1 SOP**	**Flat 2 DLOP**	**Flat 1 DLOP**	**Flat 2 SOP**
Determination of Annual value u/s 23(1)(a)/(b)/23(2) [Note 1]				
Step 1 : Municipal Rent or Fair Rent whichever is Higher	Nil	42,000	34,000	Nil
Step 2 : Step 1 or Standard Rent whichever is Lower	Nil	42,000	30,000	Nil
Step 3 : Step 2 or Actual Rent whichever is Higher – Since Actual Rent is not given Step 2 value = Gross Annual Value	Nil	42,000	30,000	Nil
Less : Municipal Taxes and Taxes on Services paid **[Note 1]**	Nil	(8,000)	(6,000)	Nil
Net Annual Value	**Nil**	**34,000**	**24,000**	**Nil**
Less : Deductions u/s 24				
(a) 30% of Net Annual Value	Nil	(10,200)	(7,200)	Nil
(b) Interest **[Note 2]**	(12,000)	(60,000)	(12,000)	(30,000)
Income /(Loss) from House Property	**(12,000)**	**(36,200)**	**4,800**	**(30,000)**
Income /(Loss) from House Property	**(48,200)**		**(25,200)**	

Conclusion : Since Net Loss from House Property is higher, Option I treating Flat 1 as Self occupied and Flat 2 as Deemed Let out is advisable.

Note :

1. Gross Annual Value for Self Occupied property is Nil. Municipal Taxes paid for Self Occupied Property shall not be allowed as deduction.
2. For Loan taken before 01.04.1999, Interest on Housing Loan shall be allowed as deduction u/s 24 up to a maximum of Rs. 30,000 in case of Self Occupied Property.

[8 Marks]

(B)

Particulars	Rs.
1. Total Income = Income from Cloth Business Rs. 8,10,000 + Income from Other Sources Rs. 2,70,000	10,80,000
2. Tax thereon = [(10,80,000 – 10,00,000) × 30% + 1,12,500]	1,36,500
3. **Add :** HEC at 4%	5,460
4. Total Tax and Cess Payable (2 + 3)	1,41,960
5. Tax Deducted at Source	25,000
6. Assessed Tax	**1,16,960**
7. Advance Tax paid on 14.03.2019	1,03,000
8. Balance Payable before considering Interest	13,960
9. **Computation of Interest u/s 234B** : 90% of Assessed Tax = 90% of Rs. 1,16,960 = Rs. 1,05,264 Since Advance Tax Rs. 1,03,000 is less than 90% of Assessed Tax, Sec, 234B Interest applicable. Interest u/s 234B = Shortfall, i.e. (1,16,960 – 1,03,000) × 1% × 9 months (Apr to Dec 2017)	1,257

(5 Marks)

(C)

Assessee : Mr. Tularam   Previous Year : 2018 – 2019   Assessment Year : 2019 – 2020

Taxability of Sums received from Insurance Policies

No.	Date of Issue of Policy	Bonus during P.Y. 2018 – 2019	Taxability
1.	20.10.2011	60,000	Exempt u/s 10 (10D), as the policy is issued on or before 31.3.2012 and the Annual Premium does not exceed 20% of the Actual Capital sum Assured.
2.	10.06.2015	15,000	Sum received is taxable, as the policy is issued after 1.4.2012, and the annual premium exceeds 10% of the Actual Capital Sum Assured.
3.	11.04.2018	18,000	Sum received is exempt u/s 10(10D), as the policy is issued after 1.4.2013 for insuring the Life of the handicapped daughter, being a person with Sec. 80U disability, and the Annual Premium does not exceed 15% of the Actual Capital Sum Assured.

(3 Marks)

(D)

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head "Capital Gains" to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation can be carried forward even if return of loss has not been filed as required under section 139(3). **(4 marks)**

Answer : 5

(A)

Person	Obligation to file Return and Reasons
Research Association having Total Income of Rs. 2,60,000	**Yes.** As per Sec. 139(4C), Return of Income should be filed, if the Total Income exceeds the maximum amount not chargeable to tax, before giving effect to provisions of Sec. 10.
Trade Union having Total Income of Rs. 1,00,000	**No.** As per Sec. 139(4C), Return of Income should be filed, if the Total Income exceeds the maximum amount not chargeable to tax, before giving effect to the provisions of Sec. 10. Here, the Income is only Rs. 1,00,000.
Charitable Trust registered u/s 12AA, having total Income of Rs. 2,70,000	**Yes.** As per Sec. 139 (4A), Return of Income should be filed, if the Total Income exceeds the maximum amount not chargeable to tax, before giving effect to the provisions of Sec. 11 and 12. When the accounts are subject to audit, the return filing obligation becomes mandatory and the due date for filing income is 30th September of the relevant Assessment Year.
Limited Liability Partnership (LLP) with Business Loss of Rs. 1,30,000	**Yes.** As per Sec. 139(1), every Company and Partnership Firm should furnish Return of Income in respect of its Income or Loss for every previous year. Firm includes Limited Liability Partnership.
University having Total Income Rs. 46,00,000 before giving effect to Sec. 10 (23C)	**Yes.** As per Sec. 139 (4C), Return of Income should be filed, if the Total Income exceeds the maximum amount not chargeable to tax, before giving effect to provisions of Sec. 10.

(5 Marks)

(B)

Particulars	Arun	Bala
1.(a) Tax on Total Income	1,12,500 + (1,01,00,000 – 10,00,000) × 30% = 28,42,500	1,10,000 + (1,01,00,000 – 10,00,000) × 30% = 28,40,000
(b) Surcharge at 15%	4,26,375	4,26,000

Total of above	**32,68,875**	**32,66,000**
2.(a) Tax if Income = Rs. 1 Crore **Add :** Surcharge at 10% **Total**	1,12,500 + (1,00,00,000 – 10,00,000) × 30% = 28,12,500 + 2,81,250 **30,93,750**	1,10,000 + (1,00,00,000 – 10,00,000) × 30% = 28,10,000 + 2,81,000 **30,91,000**
(b) Amount of Income exceeding Rs. 1 Crore	1,00,000	1,00,000
Total of above	**31,93,750**	**31,91,000**
3. Marginal Relief (1 – 2)	**75,125**	**75,000**
4. Tax Payable (1 – 3)	**31,93,750**	**31,91,000**
5. HEC at 4% on (4)	1,27,750	1,27,640
6. Tax Payable	**33,21,500**	**33,18,640**

(6 Marks)

(C)

Assessee : Jardine Ltd. P.Y. : 2018 – 2019 AY : 2019 – 2020 Status : Indian Company

1. **Actual preliminary Expenses =**

   Project Report (4,00,000) + Market Survey (5,00,000) + Legal Charges (2,00,000) = Rs. 11,00,000

2. **Maximum Permissible Amount to be amortized :** Least of (a) or (b)

   (a) Higher of the following, i.e. Rs. 2,00,000

   5% of Cost of the Project = Rs. 30,00,000 × 5% = Rs. 1,50,000,

   5% of Capital Employed = Rs. 40,00,000 × 5% = Rs. 2,00,000

   (b) Actual Preliminary Expenses Rs. 11,00,000

3. **Amount eligible for Amortisation** : Rs. 2,00,000

4. **Deduction for A.Y. 2019 – 2020 : 1/5th of Eligible Amount –** 1/5 × Rs. 2,00,000 = Rs. 40,000. The balance will be allowed in the next four assessment years. **(3 Marks)**

(D)

Gross Total Income of Mr. F for the A.Y. 2019-20

Particulars	Rs.	Rs.
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short term capital gains		56,000
Gross Total Income		**2,93,000**

(4 marks)

Note:

(1) Dividend from Indian companies is exempt from tax under section 10(34) to the extent of Rs. 10 lakh.

(2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;

(3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of Rs. 90,000 brought forward from A.Y. 2018-19 cannot be set-off in the A.Y. 2019-20, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y. 2020-21. **(2 marks)**

Answer : 6

(A)

1. For the PY 2017 – 18 – If the Turnover exceeds Rs. 1 Crore, Tax Audit u/s 44AB will be applicable for the Assessee. Hence for the PY 2017 – 2018, Bhargav's Business is Liable for Tax Audit.

2. Since the Tax Audit is applicable for PY 2017 – 2018 (Preceding Financial Year), the Assessee is liable to deduct TDS in the current Previous Year 2018 – 2019.

3. **Computation of TDS Amount :**

Particulars	Rs.
Interest paid to Indian Bank is not liable for TDS at it is specifically excluded u/s 194A	NIL
Advertisement Expense paid to R. TDS has to be deducted for payment which exceeds Rs. 30,000. Hence, TDS Amount = 34,000 × 10% u/s 194J	340
Factory Rent paid Rs. 1,85,000. Since it exceeds Rs. 1,80,000, it is liable for TDS at 10% (1,85,000 × 10%) u/s 194I	18,500
Brokerage paid to B Rs. 6,000. Since it does not exceeds Rs. 15,000, it is not liable for TDS u/s 194H	Nil
Total	**18,840**

(4 Marks)

(B) **Assessee : Mr. Suresh Previous Year : 2018 – 19 Assessment Year : 2019 – 2020**

Computation of Business Income

Particulars	Rs. Lakhs
Profits derived from the Unit in SEZ	60.00
Less : Exemption u/s 10AA = Profit of Business of the Undertaking × $\frac{Export\ Turnover}{Total\ Turnover}$ = 60 × $\frac{150}{150+30}$ × 50%	(25.00)
Business Income	**35.00**

Note : Since Unit A has been set up in FY 2011 – 2012, it falls within **second 5 – year period**, for which Exemption is 50%. **(4 Marks)**

(C) **Mr. Singh** **Previous Year : 2018 – 2019** **Assessment Year : 2019 – 2020**

Computation of Total Income

Particulars	**Rs.**	**Rs.**
Profits and Gain of Business or Profession		90,000
Add : Income of Minor Children : (Note 1)		
(a) Interest on Company Deposits of Master Deep Singh	12,000	
Less : Exemption u/s 10(32)	(1,500)	10,500
(b) Lottery winnings of Master Dipendar Singh	6,000	
Less : Exemption u/s 10(32)	(1,500)	4,500
Total Income		**1,05,000**

Notes :

- U/s 64(1A), income of a Minor Child shall be clubbed in the hands of the Parent whose total income is greater before such clubbing, Exemption of Rs. 1,500 per child shall be allowed in respect of such income.
- If the Minor receives income by exercise of labour, hardwork, skill, knowledge or experience, then such income shall not be clubbed. Hence, Income of Dipali Singh, Minor Daughter of Mr. Singh is not clubbed in his hands.
- Since Mr. Singh does not have substantial interest in the School employing Mrs. Singh, provisions of Sec. 64(1)(ii) is not attracted. **(4 Marks)**

(D) **Computation of Deduction u/s 80QQB**

	A(Rs.)
Rate of Royalty as % of value of books (given)	18%
Royalty on Books covered by Sec. 80QQB	5,40,000
Less : Amount not brought into India within 6 months	(1,80,000)
Amount Eligible	3,60,000
Less : Royalty exceeding 15% (3% /18% × 3,60,000) for A	(60,000)
Less : Expenditure Incurred **(See Note)**	(1,20,000)
Net Royalty qualifying for deduction	1,80,000
Amount deductible u/s 80QQB [Least of Rs. 3,00,000 or Net Royalty as above]	1,80,000

(2 marks)

Note: **Computation of Expenditure Deductible**

Particulars	**A (Rs.)**
Amount of Royalty	5,40,000
Less : Royalty in Foreign Exchange Not Received	(1,80,000)
Amount Eligible	3,60,000
Expenditure incurred	1,80,000
Eligible Expenditure = $\frac{Amount\ Eligible \times Expenditure\ Incurred}{Amount\ of\ Royalty}$	1,20,000

(2 Marks)

(E)

Since the capital asset, in respect of which deduction of ` 50 lacs was claimed under section 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2018-19, the deeming provision under section 35AD(7B) is attracted during the A.Y.2019-20.

Particulars	Rs.
Deduction allowed under section 35AD for A.Y.2018-19	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2018-19 [10% of `50 lacs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

(2 marks)

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y.2019-20. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	Rs.
Actual cost to the assesse	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2018-19 [10% of `50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

(2 marks)