



IPCC – November 2017

DIRECT TAXATION

Test Code – I N J 8031

Branch (MULTIPLE) (Date : 25.06.2017)

(50 Marks)

Note: All questions are compulsory.

Question 1(6marks)

Since the unrealised rent was recovered in the P.Y.2016 -17, the same would be taxable in the A.Y.2017-18 under section 25A, irrespective of the fact that Mr. Aakarsh was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2016-17, and hence the same would also be taxable in the A.Y.2017-18 under section 25A, even though Mr. Aakarsh was not the owner of the house in that year. Both unrealised rent and arrears of rent would be taxable under the head "Income from house property". A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Aakarsh for A.Y.2017-18. **(3 marks)**

Computation of income from house property of Mr. Aakarsh for A.Y.2017-18 (3 marks)

Particulars		
(i)	Unrealised rent recovered	17,000
(ii)	Arrears of rent received	<u>28,000</u>
		45,000
Less:	Deduction@30%	<u>13,500</u>
	Income from house property	<u>31,500</u>

Question 2 (5 marks)

Computation of Income from house property of Mr. Krishna for A.Y. 2017-18

	Particulars		
(A)	Rented unit (50% of total area)		
	Step I - Computation of Expected Rent		
	Municipal valuation ($\text{₹ } 2,44,000 \times \frac{1}{2}$)	1,22,000	
	Fair rent ($\text{₹ } 2,35,000 \times \frac{1}{2}$)	1,17,500	
	Standard rent ($\text{₹ } 2,20,000 \times \frac{1}{2}$)	1,10,000	
	Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	1,10,000	
	Step II - Actual Rent		
	Rent receivable for the whole year ($\text{₹ } 12,000 \times 12$)	1,44,000	
	Step III – Computation of Gross Annual Value		
	Actual rent received owing to vacancy ($\text{₹ } 1,44,000 - \text{₹ } 36,000$)	1,08,000	
	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 (GAV) (2 mark)		1,08,000
Less: Municipal taxes (12% of ` 1,22,000)(1/2 mark)		<u>14,640</u>
Net Annual Value (NAV)		93,360
Less : Deductions under section 24 (1 mark)		
(a) 30% of NAV	28,008	
(b) Interest on borrowed capital (` 1,000 x 12)	<u>12,000</u>	<u>40,008</u>
Taxable income from let out portion		53,352
(B) Self occupied unit (50% of total area)(1 1/2 marks)		
Annual value	Nil	
Less : Deduction under section 24:		
Interest on borrowed capital (` 1,000 x 12)	<u>12,000</u>	<u>(12,000)</u>
Income from house property		<u>41,352</u>

Note: No deduction will be allowed separately for light and water charges, insurance charges and painting expenses.

Question 3 (12 marks)

Computation of taxable salary of Mr. X for A.Y. 2017-18

Particulars	
Basic pay [(` 20,000×9) + (` 21,000×3)] = ` 1,80,000 + ` 63,000 (1 mark)	2,43,000
Dearness allowance [10% of basic pay] (1 mark)	24,300
Bonus (1 mark)	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15%- 12% =3% of ` 2,67,300) [See Note 1 below] (2 marks)	8,019
Taxable allowances	
Telephone allowance (1mark)	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below](2marks)	44,145
Medical reimbursement (` 25,000 - ` 15,000) [See Note 4 below](2marks)	10,000
Reimbursement of salary of housekeeper (1 mark)	12,000
Gift voucher [See Note 6 below] (1mark)	<u>10,000</u>
Salary income chargeable to tax	<u>3,78,464</u>

Notes:

- It has been assumed that dearness allowance forms part of salary for retirement benefits and accordingly, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been worked out.
- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

- (i) Basic salary i.e., ` 2,43,000
- (ii) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. ` 24,300
- (iii) Bonus i.e., ` 21,000
- (iv) Telephone allowance i.e., ` 6,000

Therefore, salary works out to 2,43,000 + 24,300 + 21,000 + 6,000 = 2,94,300.

15% of salary = 2,94,300 × 15/100 = 44,145

Value of rent- free house = Lower of rent paid by the employer (i.e. ` 1,20,000) or 15% of salary (i.e., ` 44,145).

Therefore, the perquisite value is ` 44,145.

3. Facility of use of laptop is not a taxable perquisite.
4. Clause (v) of the proviso to section 17(2) exempts any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family to the extent of ` 15,000. Therefore, in this case, the balance of ` 10,000 (i.e., ` 25,000 – ` 15,000) is a taxable perquisite. Medical insurance premium paid by employer is exempt.
5. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
6. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ` 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ` 5,000.
Therefore, the entire amount of ` 10,000 is liable to tax as perquisite.

(Note - An alternate view possible is that only the sum in excess of ` 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ` 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 ` 5,000.)

7. Premium of ` 5,000 paid by the company for personal accident policy is not liable to tax.

Question 4(6 marks)

Computation of taxable capital gains of Mr. Aakash for the A.Y. 2017-18 (2 Marks)

Particulars	`
Sale consideration	12,00,000
Less: Indexed cost of acquisition (Working Note: 1)	<u>5,62,500</u>
	6,37,500
Less: Indexed cost of improvement (Working Note: 2)	<u>13,60,939</u>
Long term capital loss	<u>-7,23,439</u>

Working Note: 1(2 Marks)

Indexed cost of acquisition is determined as under:

Cost to the previous owner i.e., Mr. Rakesh is ` 1,05,000

Fair Market Value on 1st April, 1981 is ` 1,50,000

Cost to the previous owner or FMV on 1st April, 1981, whichever is more, is to be taken as cost of acquisition of Mr. Aakash ` 1,50,000

Less: Advance money forfeited by Mr. Aakash (as per section 51) ` 80,000

(Note: Advance forfeited by Mr. Rakesh, the previous owner, should, however, not be deducted)

Cost of acquisition ` 70,000

Indexed cost of acquisition ($` 70,000 \times 1125/140$) ` 5,62,500

140 is the CII for F.Y. 1986 -87, being the first year in which property is held by Mr. Aakash and 1125 is the CII for F.Y. 2016-17, being the year in which the property is sold.

Working Note: 2(2 Marks)

Indexed cost of Improvement is determined as under:

Expenditure incurred before 1st April, 1981 should not be considered NIL

Expenditure incurred on or after 1st April, 1981

During 1983-84: Indexed cost of

- Improvement [` 50,000 \times 1125/116] ` 4,84,914

During 1993-94: Indexed cost of

- Improvement [` 1,90,000 \times 1125/244] ` 8,76,025

Total indexed cost of improvement ` 13,60,939

(Alternative view: In the case of CIT v. Manjula J. Shah 16 Taxmann 42, the Bombay High Court held that the indexed 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 indexed cost of acquisition of house would be ` 7,87,500, taking CII of 100 for the F.Y. 1980-81 since F.M.V. as on 1st April, 1981 is taken as cost of acquisition of Mr. Aakash.

Note: Clause (ix) of Section 56(2), provides that the advance which is forfeited in the previous year 2014-15 relevant to A.Y. 2015-16 would be chargeable to tax under the head "Income from Other sources" and hence, such forfeited amount shall not be reduced from the cost of acquisition of the transferred capital asset. In the present case, the advance was forfeited in a previous year prior to P.Y. 2014-15. Therefore, such amount would be deductible from the cost of acquisition while determining the Capital gains on transfer of such asset.)

Question 5 (5 marks)

In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1). Therefore, the period beginning from 6th June, 2016 and ending on 9th December, 2016, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y.2016-17 would be

178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y.2016-17 is less than 182 days, he is a non-resident for A.Y.2017-18.

(Note - Since the residential status of Mr. Anand is “non-resident” for A.Y.2017-18 consequent to his number of days of stay in P.Y.2016-17 being less than 182 days, his period of stay in the earlier previous years become irrelevant.)

Question 6 (5 marks) (1 mark for each)

Computation of gross total income of Mr. Suhaan for the A.Y. 2017-18

	Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
		R`	`	`
(a)	Income earned from business in France which is controlled from Mumbai, out of which ` 65,000 is received in India	90,000	90,000	65,000
(b)	Pension for services rendered in India but received in France	14,000	14,000	14,000
(c)	Dividend received in France from a Titanium Inc., a French company	25,000	-	-
(d)	Rent from property in France deposited in a bank in France	59,500	-	-
(e)	Dividend from Sunset Ltd., an Indian Company	-	-	-
Gross Total Income		1,88,500	1,04,000	79,000

Notes:

(a) As per section 5(1), global income is taxable in case of a resident. However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or deemed to accrue or arise in India.

Further, the income which accrues or arise outside India would be chargeable to tax in case of resident but not ordinarily resident in India, only if such income is derived from a business controlled in India.

Accordingly, the entire income earned from business in France which is controlled from Mumbai would be chargeable to tax in the hands of Mr. Suhaan if he is a resident in India or resident but not ordinarily resident. However, if he is non -resident then only that part of income which is received in India would be taxable in his hands.

- (b) Pension for services rendered in India but received in France would be taxable in all cases, since it has accrued or arisen in India.
- (c) Dividend received in France from a French company would be taxable in the hands of Mr. Suhaan, only if he is resident and ordinarily resident in India. If he is a resident but not

ordinarily resident or a non-resident, the same would not be taxable in his hands in India since it has neither accrued or arisen in India nor is it received in India.

- (d) Likewise, rental income from property in France would also be taxable only if he is resident in India. It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining the gross total income of a resident and ordinarily resident.

Rent received (assumed as gross annual value)	85,000
Less: Deduction under section 24 (30% of ` 85,000)	25,500
Income from house property	<u>59,500</u>

- (e) Dividend from Indian company is exempt under section 10(34), whether the recipient is a resident, resident but not-ordinarily resident or non-resident.

Question 7 (5 marks)

‘Accrue’ refers to the right to receive income, whereas ‘due’ refers to the right to enforce payment of the same. For e.g. salary for work done in December will ‘accrue’ throughout the month, day to day, but will become ‘due’ on the salary bill being passed on 31st December or 1st January. Similarly, on Government securities, interest payable on specified dates arise during the period of holding, day to day, but will become ‘due’ for payment on the specified dates.

Income which has been taxed on accrual basis cannot be assessed again on receipt basis, as it will amount to double taxation. For example, when interest on bank deposit is offered on accrual basis, amounts received on maturity of such deposit including interest thereon cannot be treated as income again.

Question 8 (6 marks)

Computation of Capital Gains Chargeable to tax for A.Y. 2017-18

Particulars	Rs.	Rs.
Sale consideration (i.e. Stamp Duty Value) (Note 1)(1 mark)		80,00,000
Less: Indexed Cost of Acquisition (1 mark)		
Rs. 10,00,000 × 1125/389	28,92,031	
Indexed Cost of Improvement(1 mark)		
Rs. 2,00,000 × 1125/480	<u>4,68,750</u>	<u>33,60,781</u>
		46,39,219
Less: Exemption under section 54 (Note 2) (2 marks)		<u>25,00,000</u>
Taxable Capital Gains(1 mark)		<u>21,39,219</u>

Notes:

- As per the provisions of section 50C, in case the stamp duty value adopted by the stamp valuation authority is higher than the actual sale consideration, the stamp duty value shall be deemed as the full value of consideration.
- Exemption under section 54 is available if a new residential house is purchased within one year before or two years after the date of transfer. Since the cost of new residential house is less than the capital gain, capital gain to the extent of cost of new asset is exempt under section 54.

3. Exemption under section 54EC is available in respect of investment in bonds of National Highways Authority of India only if the investment is made within a period of six months after the date of such transfer. In this case, since the investment is made after six months, exemption under section 54EC would not be available.
