



# INTER CA – MAY 2018

Sub –DIRECT TAXATION

Topic: Agriculture Income, non- taxable income, income from salaries, income from business and profession, Capital Gains, Income from other sources, clubbing, set – off and carry forward, Deduction from gross total income, assessment Procedure, Advance Tax, TDS, Provision of Filing Return of income and self-assessment, Computation of Total income

Test Code – M23

Branch: DADAR Date:14.1.2018

(50 Marks)

*Note: All questions are compulsory.*

Question 1 (16 marks)

. Assesse: Dr. Shashank Previous Year: 2017 – 2018 Assessment Year: 2018 – 2019

## Computation of Total Income

Particulars			
Profits and Gains of Business and Profession: (4 marks)			
Income as per & Expenditure A/c			6,58,700
Particulars	Deduct	Add	
Depreciation as per Books		1,25,000	
Depreciation as per Income Tax Act, 1961	75,000		
Medicines for Personal use [Note: Cost of Medicine consumed for treating poor patients is an admissible expenditure u/s 37.]		18,000	
Salary disallowed u/s 40A(3) – Paid in cash, hence disallowed		30,000	
Donations to National Children’s Fund		51,000	
Items considered under “Income from Other Sources”			
LIC Policy Matured	1,15,000		
Winnings from TV Game Show (net of TDS)	35,000		
Income from Honorarium for giving Lectures at Seminars	24,000		
Sub – Total	(2,49,000)	2,24,000	(25,000)
Income from Other Sources: (3 marks)			6,33,700
Receipts on LIC Policy	1,15,000		
Less: Exempt u/s 10 (10D)	(1,15,000)		
Income from Honorarium for giving Lectures at Seminars		24,000	
Winnings from TV Game Show (TDS at 30% hence received = 70%)			
Add: TDS = Demand Income = 35,000 x 30/70	35,000		
	15,000	50,000	74,000
Gross Total Income			7,07,700
Less: Deduction under Chapter VI A - (5 marks)			
80 C – LIC Premium (subject to 10% of Sum Assured = 10% of ` 2,00,000)		(20,000)	
Premium exceeding 10% of Sum Assured is not eligible for deduction u/s 80C.			
80 C – PPF		(1,20,000)	
80 CCG – Eligible Investment = 50% of ( ` 30,000 + ` 40,000) = ` 35,000,			

restricted to maximum of ₹ 25,000	(25,000)	
80E – Interest on Loan taken for higher education of his daughter	(10,000)	
80G – Donation to National Children’s Fund – 100% of Amount paid, on Ceiling Limit	(51,000)	
80G – Donation to Charitable Trusts (as per Note below)	(26,635)	(2,52,635)
Total Income		4,55,065
Total Income (Rounded Off)		4,55,070
Total Tax Payable (4 marks)		
Special Rates – Winnings from TV Game Show	15,000	
Normal Rates – [ (4,55,070 – 50,000 – 2,50,000) x 5% ]	7,754	
Total Income Tax Payable		22,754
Add: Education Cess @ 2%		455
Add: Secondary and Higher Education Cess @ 1%		278
Total Tax Payable (Round off)		23,487
Less: Tax Deducted at Source on TV Game Show		-15000
Balance Tax Payable		8487
Tax Payable (Rounded Off)		8490

Note:

Computation of 10% of Adjusted Total Income

Particulars	
Gross Total Income	707700
Less: Deduction u/s 80C to 80U, excluding Sec, 80G (20,000 + 1,20,000 + 25,000 + 10,000)	175000
Adjusted Total Income	532700
10% of Adjusted Total Income (10% x ₹ 5,32,700)	53270
Deduction u/s 80G = 50% of (Amount Contributed or 10% of Adjusted Total Income whichever is less = (50% x ₹ 53,270)	26635

Question 2 (4 marks)(2 marks each)

. Principle: In case of Interest paid by a Bank / Co – op Society / Public Company, no TDS

Limit of ₹ 10,000 / ₹ 5,000 is computed with respect to the payer Entity (not Branch thereof), where the Payer Entity has adopted Core Banking Solutions (CBS).

2. Analysis and Conclusion:

Situation	With CBS	Without CBS
(a) No TDS Limit considered from perspective of	Payer Entity, i.e. Bank as a whole	Each Branch of the Bank
(b) Applicability of TDS u/s 194 A	Total Interest ₹ 17,000 > ₹ 10,000 So, TDS @ 10% on ₹ 17,000 = ₹ 1,700.	Total Interest of each Branch is less than ₹ 10,000. Hence, no TDS obligation u/s 194 A.

Question 3 (5 marks)

(A) (3 marks)

1. Provision:

(a) Due date of filing Returns for Assesses subject to Tax Audit is 30<sup>th</sup> September. Due date of filing of returns by other Assesses is 31<sup>st</sup> July.

(b) U/s 139(5), any Return filed within the due date u/s 139(1) can be revised before the end of the relevant Assessment year (or) completion of assessment whichever is earlier.

2. Analysis & Conclusion: Vineet is an Assessee not subject to Tax Audit. Hence, due date for filing Return u/s 139(l) is 31<sup>st</sup> July. However, he submits his Return on 12 – 09 – 2018, which is after the due date of

31<sup>st</sup> July. A Belated Return can be revised u/s 139(5). Hence, Vineet can revise his return before 31.03.2019.

(B)(2 marks)

False. As per Sec.140, in an HUF when 'Karta' is absent from India or is mentally incapacitated, any other Adult Member of family can sign the return. In the given case, if the Male member of the HUF is adult then they can sign the return.

Question 4 (8 marks)

Assessee: Mr. Prem Previous Year: 2017 – 2018 Assessment year: 2018 – 2019

Computation of Total Income and Tax Payable

Particulars		
1. Income from Salaries (1/2 mark)		4,50,000
2. Income from House Property (Loss) (1/2 mark)		(90,000)
3. Profits from Gains of Business or Profession (1/2 mark)		1,50,000
4. Capital Gains – (1/2 mark)		
Short Term Capital Gains	75,000	
Long Term Capital Gains	1,20,000	1,95,000
5. Income from Other Sources – (1/2 mark)		
Winnings from Lotteries	30,000	
Interest on Government Securities	45,000	75,000
Gross Total Income		7,80,000
Less: Deduction under chapter VI – A – (2 ½ marks)		
- u/s 80C NSC & PPF (60,000 + 40,000)	1,00,000	
- u/s 80D Medical Insurance Premium	10,000	
- u/s 80DD Maintenance of dependant son with disability	75,000	
- u/s 80E Repayment of Interest on Education Loan [W.N.2]	20,000	
- u/s 80G Donations [W.N.1]	7,000	(2,12,000)
TOTAL INCOME (Rounded Off)		5,68,000
Tax on Above		
i. On Winnings from Lotteries ( ₹ 30,000 x 30%)	9,000	
ii. On Long Term Capital Gains ( ₹ 1,20,000 x 20%)	24,000	
iii. On Balance Income 1 ( ₹ 4,18,000 - ₹ 2,50,000) x 5%)	8,400	41,400
Add: Education Cess @ 2%		828
Secondary and Higher Education Cess @ 1%		414
Net Tax payable		42642
Net Tax payable (Rounded off) (3 marks)		42640

Working Notes:

1. Computation of Deduction u/s 80G

Particulars		
Donations allowed @ 100% without qualifying Limit		
National Fund for Communal Harmony	3,000	
Prime Minister's National Relief Fund	1,000	4,000
Donations allowed @ 50% without qualifying Limit		
Prime Minister's Drought Relief Fund	1,000	
Jawaharlal Nehru Memorial Fund	2,000	3,000

Total Deduction u/s 80G

7,000

2. Note: Deduction u/s 80E is available for a maximum of 8 A.Y or until payment of Interest whichever is earlier.

Question 5 (6 marks)

Based on Mohini Thapar Vs CIT and R.Ganesan Vs CIT case decisions, the amount of profit to the extent of gifted amount to total capital on the first day of the previous year must be clubbed in the hands of Mr. John's wife.

2. Income accruing or arising from transferred assets only will be clubbed. Any income earned out of such income should not be clubbed, e.g. dividend from Bonus Shares.

[MSS Rajan 252 ITR 126(Mad.)]

Particulars	Financial Year 2016 – 2017 ( ) (3 marks)	Financial Year 2017 – 2018 ( ) (3 marks)
(a) Profit Earned	3,00,000	4,40,000
(b) Total Capital	Opening Capital 6,00,000 + Gifts 2,00,000 = 8,00,000	B/fwd 8,00,000 + Last Year Profit 3,00,000 = 11,00,000
(c) Amount of Clubbed Income (Taxable in the hands of Mrs. John)	$\frac{\text{Profit Earned} \times \text{Gifted Amount}}{\text{Total Capital}}$ = $3,00,000 \times \frac{2,00,000}{8,00,000}$ = ₹ 75,000	$\frac{\text{Profit Earned} \times \text{Gifted Amount}}{\text{Total Capital}}$ = $4,40,000 \times \frac{2,00,000}{11,00,000}$ = ₹ 80,000
(d) Amount Taxable in the hands of Mrs. John = Total Profit – Clubbed Amount = (a – c)	= ₹ 2,25,000	= ₹ 3,60,000

Note: Amount to be clubbed in the hands of Mr. John's Wife for AY 2018 – 2019 is ₹ 80,000. (The Closing Capital of PY 2016 – 2017 Plus Profit for that year is taken as the Capital for PY 2017 -2018 on the assumption that Mr. John did not withdraw any money from business and that all Profits in the first year were re-invested into the business.

3. Computation if Total Income of Mr John (3 marks)

Assesse: Mr. John Previous Year: 2017 – 2018 Assessment Year: 2018 – 2019

Particulars	₹
Profits and Gains from Business or Profession	3,60,000
Long Term Capital Gains	5,00,000
Gross Total Income	8,60,000
Less: Deduction under Chapter VI A	NIL
Total Income	8,60,000

Question 6 (6 marks)

Assessee: Rudra Ltd.

Previous Year: 2017-2018

Assessment Year: 2018-2019

Particulars	Rs.Lakhs	Rs.Lakhs
1. Commencement in Previous Year	2011-2012	2015-2016

Profit derived from Unit in SEZ Computation u/s 10AA	Total 80-DTA 20=60	Total 80-DTA 20=60
$\text{Profit of Business} \times \frac{\text{Export Turnover}}{\text{Total Turnover}} = 60 \times$	45	45
$\frac{460 - 160}{600 - 200}$		
2. Exemption u/s 10AA 100% for first 5 Years 50% for next 5 Years	PY 2011-2012 to 2015-2016 PY 2016-2017 to 2020-2021	PY 2015-2016 to 2019-2020 PY 2020-2021 to 2024-2025
3. Exemption for PY 2017-2018	50% of Pfts =50% of 45=22.5	100% of PFTS =100% of 45=45

Notes:

1. No deduction is available for unit in Domestic Tariff Area (DTA) as it is not covered u/s 10AA.
2. Figures relating to SEZ are computed as Total (for Rudra Ltd.) less amount for unit in DTA.
3. For the first 5 consecutive A.Y s commencing from relevant P.Y. in which unit has begun to manufacture or produce articles or things, Deduction shall be 100% of Profits from Export .For the next 5 A.Ys. Deduction shall be 50%.

Question 7(4 marks)

Particulars	Applicability	Rs.	Reasons
1. Wining by way of Jackpot in a Horse Race Rs.1,00,000	Applicable	1,00,000 x 30% =30,000	Winnings from Horse Races is subject to TDS u/s 194BB.Rate of Deduction =30%.
2. Payment by Firm to Sub-Contractor Rs. 3,00,000 with o/s Balance on 31.03.2018 Rs. 1,20,000	Applicable	4,20,000 x 1% =4,200	1. U/s 194C, TDS shall be deducted at the time of payment or credit , whichever falls earlier. 2. For the payment and also for the credit ,TDS will have to be deducted , hence the TDS should be deducted for Rs. 4,20,000.
3. Rent paid for Plant & Machinery Rs. 1,50,000 by a Partnership Firm	Applicable	Nil	1. U/s 194-I, all Assesseees except Individual & HUF, who are not subject to Tax Audit u/s 44AB during the preceding FY are liable to deduct tax. Thus ,a Firm is mandatorily required to deduct TDS, whether or not it is subject to Tax Audit. 2. However, since the payment is less than Rs. 1,80,000, no TDS needs to be deducted .
4. Payment to Australian Cricketer by a Newspaper for Contribution of Afircles Rs. 25,000	Applicable	25,000 x 20% =5,000	1. U/s 194E, TDS is deductible on payment of any sum to a Non-Resident which is chargeable to Tax in India. 2. Rate of Tax for payment to Non-Resident Sportsman for Contribution of Articles is 20%.

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