



# INTER CA – MAY 2018

Sub –DIRECT TAXATION

Topic: 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 – M30

Branch: MULTIPLE Date:21.1.2018

(50 Marks)

*Note: All questions are compulsory.*

Question 1 (16 marks)

Computation of Total Income and Taxability of Ms. Rekha for AY 2018-2019. (4 Marks)

Particulars	Rs.
Income from House Property (WN1)	63,000
Profits and Gains of Business or Profession	
• From AK & Co. –as Partner (WN2)	3,40,000
• From Rice Mill Business –as Proprietor (WN 3)	5,03,000
Income form Other Sources (WN 4)	13,500
Gross Total Income	9,19,500
Less Deduction under Chapter VI-A (WN5)	(90,000)
<b>Total Income (Round off)</b>	<b>8,29,500</b>
Tax on the above: $(8,29,500 - 5,00,000) \times 20\% + 25,000$	90,900
Add: Education Cess at 2% on income Tax	1,818
Add: Secondary and Higher Education Cess at 1% on Income Tax	909
<b>Total Tax and Cess Payable</b>	<b>93,627</b>

WN 1: Income from House Property : (2 Marks)

[Note :Arrears of Rent is taxable in the year of receipt , even if the Assessee is not the Owner of that Property at the time of receipt of Rent Arrears.]

Arrears of Rent Received	90,000
Less : Standard Deduction $= (30\% \times 90,000)$	(27,000)
Income from House Property	63,000

WN 2: Profit and Gains of Business or Profession –Income from Partnership Firm A K & Co. (2 Marks)

(a) Share of Profit from Partnership Firm =Exempt u/s 10(2A)	Nil
(b) Interest on Capital $\frac{3,00,000}{15\%} \times 12\%$ [Note]	2,40,000
(c) Salary as Working Partner (as allowed in the Assessment of the Firm )	1,00,000
<b>Total of above</b>	<b>3,40,000</b>

Note :In computing the Permissible Renunciation in the Firm 's Assessment ,Interest on Capital allowed as Expenditure in the hands of the Firm will be taxable in the Partners' assessment .

WN3: Profits and Gains of Business or Profession –Income from Rice Mill (4 Marks)

Particulars	Deductions	Additions
Net Profit as per P & L		4,50,000
Add: Advance Tax paid –disallowed u/s 40(a)(ii)		1,00,000
Add: Drawings –Personal Item not deductible u/s 37	(12,000)	50,000
Less: Interest on Saving Bank –considered under Income from Other Sources	(5,000)	
Less : Interest on PO Savings A/c –considered under Income from Other Sources	(80,000)	
Less :Dividend form Companies –Exempt u/s 10(34), hence not includible at all		
	(97,000)	6,00,000
Income from Rice Mill Business	5,03,000	

WN4 : Income from Other Sources (2 Marks)

1. Interest on Post Saving A/c	5,000	
Less :Exempt Interest u/s 10(15) upto Rs. 3,500 for an Individual Account	<u>(3,500)</u>	1,500
2. Interest on Saving Bank A/c		12,000
3. Dividend [exempt u/s 10(34)]		Nil
Total of above		13,500

WN 5: Deduction under Chapter VI-A (2 Marks)

80C Life Insurance Policy –issued after 31.03.2012 –deductible only upto 10% of Sum Assured 5,00,000	50,000
80D Health Insurance Premium in name of Parent (it is not necessary Parent has to be a "Dependent ".)	30,000
Even if amount paid is Rs. 35,000, maximum deduction for a Senior Citizen is Rs. 30,000 only	10,000
Total of above [Note : Maximum Deduction u/s 80C is within limits Rs. 1,50,000]	90,000

Question 2 (4 marks)

Particulars	Rs.
1. Toal 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) x 30% + 1,12,500]	1,36,500
3. Add: Education Cess at 2% on Income Tax	2,730
4. Add: Secondary and Higher Education Cess at 1% on income Tax	1,365
5. Total Tax and Cess Payable (2+3+4)	1,40,600
6. Tax Deducted at Source	25,000
7. Assessed Tax	1,15,600
8. Advance Tax paid on 14.03.2018	1,03,000
9. Balance Payable before considering Interest	12,600
10. Computation of Interest u/s 234B : 90% of Assessed Tax =90% of Rs. 1,15,600 =Rs. 1,04,040 .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. (1,15,600 -1,03,000) x 1% x 9 months (Apr to Dec 2017)	1,134
---	-------

Question 3 (5 marks) (1 mark each)

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 30 <sup>th</sup> 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.

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	4,000
Prime Minister's National Relief Fund	1,000	
Donations allowed @ 50% without qualifying Limit		
Prime Minister's Drought Relief Fund	1,000	3,000
Jawaharlal Nehru Memorial Fund	2,000	
<b>Total Deduction u/s 80G</b>		<b>7,000</b>

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	Amount
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 2011-2012	Rs. Lakhs 2015-2016
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
Profit of Business $\times \frac{\text{Export Turnover}}{\text{Total Turnover}} = 60 \times$  $\frac{460 - 160}{600 - 200}$	45	45
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.Y.s. 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

			<p>tax. Thus ,a Firm is mandatorily required to deduct TDS, whether or not it is subject to Tax Audit.</p> <p>2. However, since the payment is less than Rs. 1,80,000, no TDS needs to be deducted .</p>
4. Payment to Australian Cricketer by a Newspaper for Contribution of Afircles Rs. 25,000	Applicable	$25,000 \times 20\%$ $=5,000$	<p>1. U/s 194E, TDS is deductible on payment of any sum to a Non-Resident which is chargeable to Tax in India.</p> <p>2. Rate of Tax for payment to Non-Resident Sportsman for Contribution of Articles is 20%.</p>

\*\*\*\*\*