SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

DIRECT TAXES

Test Code - I N J1 0 2 2

BRANCH - (MUMBAI) (Date :31.07.2016)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

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Answer-1 :

	I Rs.	II Rs.	III Rs.
Gross Annual Value higher of			
(a) Expected rent			
(b) Actual rent received or receivable	45,000	9,000	Nil
Less: Municipal taxes	4,200	450	—
Net value	40,800	8,550	Nil
Less: Deductions u/s 24			
(a) Standard deduction @ 30%	12,240	2,565	—
(b) Interest	15,000	3,000	16,000
	13,560	2,985	(-) 16,000

(4 Marks)

Income from:	
House I	13,560
House II	2,985
House III	(-) 16,000
	545
Unrealised Rent Recovered	20,000
	20,545

(2 Marks)

Answer-2 :

Computation of taxable income from business

		Rs.	Rs.	Rs.
Profit as per P & L A/c				4,90,000
Add: Inadmissible, etc.				
1.	Depreciation considered separately		48,000	
2.	Interest on capital		12,000	
3.	Income-tax		11,000	
4.	Medical expenses of proprietor		11,000	
5.	Bonus payable: Deductible on actual payment u/s 43B		30,000	
6.	(i) Provision for sales-tax and excise duty	40,000		
	Less: Paid before the due date of furnishing the return u/s 43B	30,000	10,000	
	(ii) Municipal taxes for staff quarters deductible on actual payment u/s 43B		14,000	
7.	General reserve		11,000	
8.	Payment regarding purchase of more than Rs.20,000 by crossed cheque hence, 100% ofRs.28,000 disallowed [Section 40A(3)]		28,000	
9.	Proprietors salary		18,000	
10.	Diwali expenses to the extent of gifts to relatives		1,500	1,94,500
				6,84,500
Less: Items not being business income:				
1.	Refund of income-tax penalty		1,100	
2.	Sale price of machinery		25,000	
3.	Recovery of bad debts not allowed		6,000	32,100
				6,52,400
Less: Admissible deductions:				
Depreciation				20,150
Business income				6,32,25

(10 Marks)

1. Expenses on income tax proceedings and entertainment are fully deductible.
2. It appears that letting of staff quarters to the staff is incidental to the business of the assessee. Hence, the rental income is taxable under the head Profits and Gains of business or profession.
   The cost or the written down value of the Staff Quarters is not given in the question. Hence, depreciation on this could not be considered. From the business income of Rs.6,32,250 amount of depreciation will be deducted to arrive at the taxable income from business.

3. Admissible Depreciation has been worked out as under :

	s
W.D.V. of machinery on 1.4.2015	80,000
Less : Sale price of old machinery	25,000
	55,000
Depreciation on Rs.55,000 @ 15%	8,250
	46,750
W.D.V. of factory building on 1.4.2015	1,20,000
Add : Cost of addition to building on 1.8.2015	40,000
	1,60,000
Less : Compensation received from insurance company for building destroyed by fire	11,000
	1,19,000
Less : Depreciation @ 10%	11,900
	1,07,100

Hence, total depreciation Rs.8,250 + 11,900 = Rs.20,150.

(6 Marks)

Answer-3 :

	Rs.
Previous year 2015-16	
Consideration Price of share [M.V. on date of conversion]	18,00,000
Less: Indexed Cost of acquisition $\left(\text{Rs.}1,50,000 \text{ x } \frac{1081}{100}\right)$	16,21,500
Long-term capital gain	1,78,500
Less: Exemption under section 54F $\left(\text{Rs.}1,78,500 \text{ x } \frac{1000000}{1800000}\right)$	99,167
Taxable long-term capital gain	79,333
Business income	
Sale price	20,00,000
Less: Market value	18,00,000
Business income	2,00,000

(4 Marks)

Answer-4 :	**Rs.**	**Rs.**
Income from Salary (Rs. 14,500 x 12)		1,74,000
Income from House Property		
Rent received Rs.5,000 x 12	60,000	
Less: Standard deduction @ 30%	18,000	42,000
Income from Other Sources		
Winnings from lotteries	25,000	
Interest on saving bank deposit	1,50,000	1,75,000
Gross total income		3,91,000
Less: Deductions u/s 80C to 80U		
(i) U/s 80C	15,000	
(ii) U/s 80D (allowed only for preventive health checkup)	5,000	
(iii) U/s 80DD	75,000	
(iv) 80TTA	10,000	1,05,000
Total income		2,86,000
(b) Computation of tax-liability: Tax on Rs.2,86,000		
(Winning from lottery Rs.25,000)		7,500
Balance total income Rs. 2,61,000		1,100
		8,600
Less: Rebate u/s 87A		2,000
		6,600
Add: Education cess&SHEC @ 3%		198
Net tax payable		6,798
Tax rounded off		6,800

(8 Marks)

Answer-5 (a) :

Computation of Gross Total Income of R
(For the assessment year 2016-17)

			Rs.	Rs.
1.	Income from House Property:			
	Rental value for 8 months (i.e., before transfer) (8 x 4,000)		32,000	
	Less: Standard deduction @ 30%		9,600	22,400
2.	Profit from Business:			
	(i)	Share from firm (Exempt)	Nil	
	(ii)	Minor Son's share in another firm (Exempt)	Nil	
	(iii)	Interest on minor's capital with firm (Rs.24,000 - Exemption u/s 10(32) Rs. 1,500)	22,500	22,500
3.	Income from other Sources:			
	(i)	Interest @ 14% on Rs.10,000 Debentures (only one-half of Rs.2,00,000 were bought by own funds)	14,000	
	(ii)	Interest received by his wife @ 10% on Rs.60,000 (being transferred without any consideration)	6,000	
	(iii)	Interest on Rs.6,000 from his trust (Interest income utilised for the benefit of son's wife)	6,000	26,000
		Gross total income		70,900

Computation of Gross Total Income of Mrs. R
(For the assessment year 2016-17)

		Rs.	Rs.
Income from House Property:			
Rental value for 4 months (i.e., after transfer) (4,000 x 4)		16,000	
Less: Standard deduction @ 30%		4,800	11,200
Income from business:			
Share from firm (Exempt)		Nil	
Income from Other Sources:			
(i)	Interest on Rs.1,00,000 14% Debentures	14,000	
(ii)	Interest on Rs.1,00,000 14% Debentures in husband's name but funds invested by her	14,000	
(iii)	Interest on Rs. 15,000 @ 10%	1,500	29,500
	(This interest is on accrued income of Rs.60,000, which have been transferred to her by the husband and interest on such accrued income is treated as the income of the transferee, although the income on the transferred amounts is treated as the income of the transferor as it was transferred without any consideration.)		----------
	Gross total income		**40,700**
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1. Shares of profit horn a firm, which is assessed as such, is fully exempt u/s 10(2A) in the hands of the partners, although husband and wife may be partners in the same firm Even in a case where one spouse gifts some amount to the other spouse to be invested as capital in the firm, the clubbing provisions though applicable, it will not affect the Total Income since the share of the profit is itself exempt However, if interest on capital contribution is received, it will be clubbed to the extent of the amount invested as capital contribution out of the transfer made without adequate consideration
2 Similarly, the minor son's income though clubbed, but as the share of the profit from the firm is exempt, will not affect the Total Income However, if interest on capital contribution is received, it will be clubbed to the extent of the amount invested as capital contribution out of the transfer made without adequate consideration
3 Where the asset is transferred to a Trust for the benefit of son's wife, the income from such asset is taxable in the hands of the transferor. However, income utilised for the benefit of son ' s minor son shall be clubbed in the hands of that parent of the son's minor son, whose income is greater It shall, therefore, not be clubbed in the hands of the transferor i.e. PI.

Answer-5 (b) :

		Rs.	Rs.
(1)	Profit from business		1,10,000
(2)	Income from house property		
	Rental value of property	48,000	

	Less: Municipal taxes	8,000	
		40,000	
	Less: Standard deduction @ 30%	12,000	28,000
(3)	Dividend (from UTI)		Exempt
(4)	Long Term Capital Gain		65,000
(5)	Lottery Income		10,000
	Gross total income		2,13,000
	Less: Deduction u/s 80G (50% of Rs.5,000)		2,500
	Total income		2,10,00

(4 Marks)