SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

TAXATION

Test Code - I N J 1 0 2 7

BRANCH - (MUMBAI) (Date : 05.06.2016)

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Answer-1 :

In this case, U is neither a citizen of India nor a person of Indian origin, because neither he nor his parents nor his grandparents were born in undivided India.

Although in this case, he does, not satisfy the first condition of category A but he satisfies the second condition as he was in India for more than 60 days during the relevant previous year and his stay in the four preceding previous years was as under :

2014-15	Nil
2013-14	Nil
2012-13	350 days
2011-12	366 days
	716 days

He is therefore, Resident in India.

For determining whether he is "ordinarily resident in India", he has to satisfy both the conditions of category B. He is resident for more than one previous year in the preceding 10 years and the second condition is also satisfied as he is in India for 730 days or more in the 7 preceding previous years as prior to 16.3.2013 he was always in India. Hence, he is resident and ordinarily resident in India.

Answer-2 :

Sr.No.		Resident and ordinarily resident Rs.	Not ordinarily resident Rs.	Non-resident Rs.
(a)	Interest paid by an Indian company but received in London	2,00,000	2,00,000	2,00,000
(b)	Pension from former employer in India, received in USA	8,000	8,000	8,000
(c)	Profits earned from business in Paris which is controlled in India,	40,000	40,000	20,000
(d)	Income from agriculture in Bhutan and remitted to India	10,000	-	-
(e)	Income from property in England and received there	8,000	Nil	Nil
		2,66,000	**2,48,000**	**2,28,000**

Answer-3 :

Computation of business income of Nathan Aviation Ltd.

Particulars	**Rs. (in lacs)**
Total profit derived from Units S & N (Rs. 13 lacs + Rs. 4 lacs)	17
Less: Exemption under section 10AA [See Working Note below]	12
	5
Less: Brought forward business loss	2
	3

Working Note

Computation of exemption under section 10AA in respect of Unit S located in a SEZ

Particulars	**Rs. (in lacs)**
Domestic turnover of Unit S	10
Export turnover of Unit S	120
Total turnover of Unit S	130
Profit derived from Unit S	13
Exemption under section 10AA	
$\text{Profit of Unit S x } \frac{\text{Export turnover of unit S}}{\text{Total turnover of Unit S}} = 13 \text{ x } \frac{120}{130} =$	12

Answer-4 :

Income from Salaries for the assessment year 2016-17		
Basic Salary (RS.30,000 x 9)		2,70,000
Dearness Allowance (Rs.6,000 x 9)		54,000
House Rent Allowance (Rs.3,750 x 9)		33,750
Conveyance Allowance (rs.2,100 x 9) – (1,600 x 9)		4,500
Gratuity received	6,00,000	
Less : Exempt minimum of the following limits		
(a) Rs.6,00,000 – Actual amount		
(b) Rs.5,40,000 – ½ month average salary for 30 years (36,000/2 x 30)		
(c) Rs.10,00,000	<u>5,40,000</u>	60,000
Leave salary received	3,60,000	
Less : Exempt minimum of the following limits		
(a) Rs.3,60,000 (10 month average salary)		
(b) Rs.3,60,000 (amount actually received)		
(c) Rs.3,00,000 (amount specified by Government)		
(d) Rs.3,60,000 (cash equivalent to unavailed leave)	<u>3,00,000</u>	60,000
Pension		
3/4th of commuted	4,50,000	
Hence 1/3 of pension $\frac{(450000 \text{ x } 100 \text{ x } 1/3)}{75}$	<u>2,00,000</u>	
Taxable		2,50,000
Uncommuted Pension (3 x 3,750)		<u>11,250</u>
		7,43,500
Less : Employment Tax		<u>1,000</u>
Income from Salary		<u>7,42,500</u>

Note : In the absence of information, it is assumed that there was no change in the basic salary of last 10 months.

Answer-5 :

In this case, Nisha has more than one house property for self-occupation. As per section 23(4), Nisha can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of one of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the Expected rent would be the gross annual value. Nisha should, therefore, consider the most beneficial option while deciding which house property should be treated by her as self-occupied.

OPTION 1 [House I – Self-occupied and House II – Deemed to be let out]

If House I is opted to be self-occupied, Nisha's income from house property for A.Y.2016-17 would be –

Particulars	**Amount in Rs.**
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) [See Working Note below]	<u>54,060</u>
Income from house property	**54,060**

OPTION 2 [House I – Deemed to be let out and House II – Self-occupied]

If House II is opted to be self-occupied, Nisha's income from house property for A.Y.2016-17 would be –

Particulars	**Amount in Rs.**
House I (Deemed to be let-out) [See Working Note below]	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of Rs. 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to Rs. 30,000, irrespective of the date of borrowal].	<u>(30,000)</u>
Income from house property	**40,000**

Since Option 2 is more beneficial, Nisha should opt to treat House - II as Self occupied and House I as Deemed to be let out, in which case, her income from house property would be Rs. 40,000 for the A.Y. 2016-17.

Working Note:

Computation of income from House I and House II assuming that both are deemed to be let out

Particulars	**Amount in Rupees** House I	House II
Gross Annual Value (GAV)		
Expected rent is the GAV of house property		
Expected rent = Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,65,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	9,200
Net Annual Value (NAV)	**1,00,000**	**1,55,800**
Less: Deductions under section 24		
(a) 30% of NAV	30,000	46,740
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	55,000
Income from deemed to be let-out house property	**70,000**	**54,060**

Answer-6 :

Computation of income from Business :

		Rs.	**Rs.**
Net Profit as per profit and loss account			2,10,000
Add : Inadmissible Expenses / Disallowances :			
(i)	Salary paid to partner section 40 (b)	1,84,000	
(ii)	Municipal tax payable	8,000	
(iii)	Motor car Expense	12,000	
(iv)	Donation to charitable Institution	5,000	
(v)	Legal expenses in connection with litigation of partners property	2,000	
(vi)	Entertainment expenses fully allowed	-	2,11,000
			4,21,000
Less	Excise penalty must have been disallowed earlier, Hence, refund of it not to be treated as income u/s. 41 (1)	4,000	
	Income tax	8,000	
	Surplus on sale of shares is capital gain	15,000	27,000
	Book profit		3,94,000
Less :	Remuneration to partner :		
	On Rs.3,00,000 @ 90%	2,70,000	
	On next Rs.94,000 @ 60%	56,400	
		3,26,400	
Remuneration as per deed Rs.1,84,000			
Whichever is less			1,84,000
Income from Business			2,10,000

Notes :

1. Rent paid to the partner for premises occupied by the firm is an allowable expenditure.
2. Diwali Pooja expenses are treated as having been incurred wholly and exclusively for the purposes of the business and hence, they are allowable under section 37.
3. Litigation expenses on behalf of a partner cannot be allowed as business expenses.
4. Rs.1,000 interest on income tax shall be taxable under the head income from other sources.