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**SUGGESTED SOLUTION**  
**IPCC NOVEMBER 2016 EXAM**  
**TAXATION**

**Test Code - I N J 1 0 2 8**

**BRANCH - (Mumbai) (Date : 19.06.2016)**

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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	<u>366 days</u>
	<u>716 days</u>

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
		<b>2,66,000</b>	<b>2,48,000</b>	<b>2,28,000</b>

**Answer-3 :**

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		
3/4 <sup>th</sup> of commuted	4,50,000	
Hence 1/3 of pension $\frac{(450000 \times 100 \times 1/3)}{75}$	<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-4 :**

**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	-	<u>2,11,000</u>
		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	<u>15,000</u>	<u>27,000</u>
Book profit		3,94,000
Less : Remuneration to partner :		
On Rs.3,00,000 @ 90%	2,70,000	
On next Rs.94,000 @ 60%	<u>56,400</u>	
	3,26,400	
Remuneration as per deed Rs.1,84,000		
Whichever is less		<u>1,84,000</u>
Income from Business		<u>2,10,000</u>

**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.

**Answer-5:**

**Computation of income from business for Mr. Rahul Bose for A.Y. 2016-17**

Particulars	Amount	Amount
Net profit as per profit and loss account		63,000
<b>Add: Expenses debited to P &amp; L a/c but disallowed</b>		
Reserve for future losses	20,000	
Reserve for bad debts	12,000	
Reserve for payment of advance income-tax	17,000	
Depreciation as per books	30,000	
Advertisement expenses to Indian National Congress, disallowed u/s. 37(2B)	4,000	
Unpaid sales tax	7,000	
Unpaid bonus	10,000	
Unpaid interest on bank loan	12,000	
Unreasonable payment to relative, disallowed u/s. 40A(2) [12,000-9,000]	3,000	
Cash payment for miscellaneous items, assumed to be paid on a single day, disallowed u/s. 40A(3)	22,000	1,37,000

<b><u>Less: Expenses not debited to P &amp; L a/c but allowed</u></b>			
Actual bad debts, assuming it has been written off in books		10,000	
<b><u>Depreciation u/s. 32:</u></b>			
(a) Machinery (42,000 x 15%)	6,300		
(b) Motor car (18,750 x 15%)	2,813		
(c) Furniture (12,000 x 10%)	<u>1,200</u>	10,313	(20,313)
<b><u>Less: Incomes credited to P &amp; L a/c but exempt/ taxable under different head</u></b>			
Dividend from Indian company, exempt		4,000	
Interest on fixed deposits, taxable as IFOS		15,000	
Capital gains on sale of long term investments		6,000	(25,000)
<b>TAXABLE INCOME FROM BUSINESS</b>			<b>1,54,687</b>

#### Notes

1. The rent income from employees is taxable as income from business as the employees are part of the business. The property of the employer is indirectly used for business purposes and hence will not be classified as a "house property."
2. Advertisement expenses paid to Indian National Congress shall be allowed as a deduction under section 80GGC from Gross Total Income and hence the same has been disallowed while computing income from business.

#### Answer-6 :

##### The statement is not correct.

As per section 32, 50% of the additional depreciation on new plant and machinery acquired and used for less than 180 days in the year of acquisition and installation which has not been allowed as deduction in that previous year, shall be allowed in the immediately succeeding previous year.

Hence, the balance additional depreciation of 10% (i.e. 50% of 20%) can be claimed in the immediately succeeding previous year i.e., P.Y. 2016-17

(1 mark for correct/incorrect, 1 mark for explanation and 1 marks for conclusion)

(i)The statement is not correct.

If an undertaking is set up in any notified backward area in the states of Andhra Pradesh or Bihar or Telangana or West Bengal by a company, it shall be eligible to claim deduction under section 32AC as well as under section 32AD, if it fulfills the conditions specified in section 32AC and the conditions specified in section 32AD.

In the given case, a manufacturing company set up in Ananda i.e., a notified backward area in the State of Telangana, acquires and installs new plant and machinery for Rs.40 crores in P.Y. 2015-16. Hence, it will be entitled to deduction under section 32AC (since the investment in new plant and machinery exceeds Rs.25 crores) as well as under section 32AD (since the undertaking is set-up in a notified backward area in the State of Bihar), assuming that it fulfills the other conditions specified thereunder.

(1 mark for correct/incorrect, 1 mark for explanation and 1 marks for conclusion)