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SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

DIRECT TAX

Test Code - I N J1 1 1 5

BRANCH - (MUMBAI) (Date :24.07.2016)

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Answer-1 :

Computation of Taxable Income for the Assessment Year 2016-17

Rule	Nature of Business	Agl Inc.	Non-Agl. Inc.
7A	Sale of centrifuged latex or cenex manufactured from rubber [65% is Agricultural Income]	3,25,000	1,75,000
7B	Sale of grown and cured coffee by seller in India [75% is Agricultural Income]	2,62,500	87,500
8	Growing and Manufacturing Tea [60% is Agricultural Income]	4,20,000	2,80,000
	Sale of plants from nursery	1,00,000	—
	Total	**11,07,500**	**5,42,500**

(3 Marks)

Computation of Tax Liability :

		Rs.
(a)	Total Income (Agricultural Income + Non-agricultural Income)	16,50,000
(b)	Tax on (a) above	3,20,000
(c)	Total of (Agricultural Income + Basic Exemption Limit)	13,57,500
(d)	Tax on (c) above	2,32,250
(e)	Tax Payable (b) – (d)	87,750
	Add: Education Cess @ 2%	1,755
	Add: SHEC @ 1%	878
	Total Tax Liability	90,383
	Tax payable rounded off u/s 288B	90,380

(3 Marks)

Answer-2 :

Computation of Gross Total Income for the Previous Year 2015-16

	Particulars	ROR	RNOR	NR
(i)	Profits from a business at Mumbai, managed from France: Income from business accrues at the place where the business is done, place of management being of no relevance. Hence, it is taxable in all cases.	5,20,000	5,20,000	5,20,000
(ii)	Pension for services rendered in Kenya, received there: – Pension is deemed to accrue or arise at a place where services are rendered	1,80,000	—	—
(iii)	Rent of house property, situated in Kuwait, but received in India	1,85,000	1,85,000	1,85,000
(iv)	Profits from business in Nepal and deposited in Bank there: Income accruing or arising outside India	12,000	—	—
(v)	Income from profession in Oman which was set up in India, received there, managed from there: Foreign Income accruing or arising outside India from a Profession set up in India is taxable in case of ROR and RNOR. Its control and management is not relevant	1,50,000	1,50,000	—
(vi)	Profit on sale of machinery in India but received in Italy: Income from asset situated in India is deemed to accrue or arise in India. Hence, it is taxable in all cases	1,26,000	1,26,000	1,26,000
(vii)	Profits from foreign business	2,00,000	1,00,000	1,00,000
(viii)	Depreciation of foreign business It can be set off first from business profits and thereafter against the income of any other head u/s 32(2)	(2,50,000)	(1,25,000)	(1,25,000)
(ix)	Income of a minor child is included in total income of that parent whose income, before including such income is greater [Sec.64(1A)], however, an exemption upto Rs. 1,500 is to be			

	allowed u/s 10(32)	1,68,500	1,68,500	1,68,500
(x)	Commission from German company received outside India is deemed to accrue or arise in India because of business connection in India u/s 9(1)(i)	1,75,000	1,75,000	1,75,000
(xi)	Commission earned and received outside India on export orders collected in India is deemed to accrue or arise in India [Explanation 2 of Sec.9(1)(i) w.e.f. A.Y. 2007-08]	2,30,000	2,30,000	2,30,000
(xii)	Dividends from foreign company received outside India	1,80,000	—	—
	Gross Total Income	**18,76,500**	**15,29,500**	**13,79,500**

(10 Marks)

Answer-3 :

Taxable Income from house property
(For the assessment year 2016-17)

		Rs.	Rs.
Gross annual value of full house			
(i)	Municipal value	30,000	
(ii)	FRV	43,200	
(iii)	Actual rent 4,000 x 3	12,000	
Annual value			43,200
Less: Municipal taxes paid			6,000
Net annual value			37,200
Less: Deduction u/s 24			
Standard deduction @ 30%		11,160	
Interest for the pre-construction period i.e. 1.4.2010 to 31.3.2012 (1/5)		2,000	
Current year interest		4,000	17,160
Net income from House Property			**20,040**

(6 Marks)

Answer-4 :

Let out Unit II of Prop Y

Gross annual value (a) Expected rent			
50% of municipal value i.e. Rs.45,000			
(b) Actual rent received or receivable			
excluding for vacancy period 4,000 x 11 = 44,000			44,000
Less: Municipal taxes			8,000
			36,000
Less: Deductions			
(a)	Standard deduction @ 30%	10,800	
(b)	Interest on money borrowed	18,000	28,000
			7,200

Assume both as deemed to be let out

(4 Marks)

	Prop X	**Unit I of Prop Y**
Annual value	60,000	48,000 (Fair rent)
Less: Municipal tax paid	10,000	8,000
Net annual value	50,000	40,000
Less: Deductions u/s 24		
(a)Standard deduction @ 30%	15,000	12,000
(b)Interest on money borrowed	20,000	18,000
	15,000	10,000
Assuming Prop X to be self-occupied	Rs.	
Income from Prop X	(-) 20,000	(due to interest)
Income from Prop Y (10,000 + 7,200)	17,200	
Income from House Property	(-) 2,800	

Assuming Unit I of Prop Y to be self occupied

Income from Prop X	15,000	
Income from Prop Y		
(Unit I (-) 18,000 (due to interest), Unit II 7,200)	(-) 10,800	
	4,200	

If property X is opted as self occupied, income under the head house property is Rs.(-) 2,800. On the other hand, if he opts for unit I, as self-occupied, income under the head house property will be Rs.4,200.
He should opt for property X as self-occupied.

(4 Marks)

Answer-5 :

Computation of taxable income of Mr. Vignesh for the Assessment Year 2016-17

	Particulars		**Rs.**	**Rs.**
(a)	Income from salaries (See Working Note below)			7,62,800
(b)	Income from other sources			
	(i)	Interest on fixed deposit with a company	5,000	
	(ii)	Income from specified mutual fund exempt undersection 10(35)	Nil	
(iii)	Interest on Fixed Deposit received by minor daughter(Rs. 3,000 - Rs. 1500)		1,500	6,500
	Gross total income			**7,69,300**
Less: Deductions under Chapter VI-A				
Section 80C – PPF			40,000	
Section 80CCC			1,00,000	1,40,000
Total Income				**6,29,300**
Tax on total income				50,860
Add : Education cess @ 2%				1,017
Add : Secondary and Higher Education cess @ 1%				509
Total tax liability				**52,386**
Total tax liability (rounded off)				**52,390**

(6 Marks)

Working Note:

Computation of salary income of Mr. Vignesh for the Assessment Year 2016-17

Particulars		**Rs.**
Income under the head "salaries"		
Salary [Rs. 46,000 x 12]		5,52,000
Medical facility [in the hospital maintained by the company is exempt]		-
Rent free accommodation		
15% of salary is taxable (i.e. Rs. 5,52,000 × 15% as per Rule 3(1))		82,800
Use of dining table for 4 months		
[Rs. 60,000 x 10 /100 x 4 /12]		2,000
Valuation of perquisite of interest on loan		
[Rule 3(7)(i)] – 10% is taxable which is to be reduced by actual rate of interest charged i.e. [10% - 6% = 4%]		24,000
Gift given on the occasion of wedding anniversary Rs.4,750 is exempt, since its value is less than Rs. 5,000		-
Perquisite on sale of dining tables		
Cost	60,000	
Less: Depreciation on straight line method @ 10% for 3 years	18,000	
Written Down Value	42,000	
Less: Amount paid by the assessee	30,000	12,000
Purchase through credit card – not being a privilege but covered by section 17(2)(iv)		10,000

Perquisite on sale of car

Original cost of car	2,50,000	
Less: Depreciation from 16.7.2012 to 15.7.2013 @ 20%	50,000	
	2,00,000	
Less: Depreciation from 16.7.2013 to 15.7.2014 @ 20%	40,000	
Value as on 14.07.2015- being the date of sale to employee	1,60,000	
Less : Amount received from the assessee on 14.07.2015	80,000	80,000
Income from Salaries		**7,62,800**

(6 Marks)

Note: Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employeearising from the transfer of any movable asset, the normal wear and tear is to be calculated inrespect of each completed year during which the asset was put to use by the employer. In thegiven case the third year of use of ambassador car is completed on 15.7.2015 where as thecar was sold to the employee on 14.7.2015. The solution worked out above provides for wearand tear for only two years.

Answer-6 :

Computation of total income of Mr. Narendra for A.Y. 2016-17

Particulars	**Rs.**	**Rs.**
Income from Salaries		
Gross salary received during 1.4.2015 to 31.1.2016 @		
Rs. 16,000 p.m. (Rs. 16,000 x 10)		1,60,000
Pension for 2 months @ 30% of the basic salary of Rs. 10,000 p.m.		6,000
Leave Salary	75,000	
Less: Exempt under section 10(10AA) (Note1)	50,000	25,000
Gratuity	50,000	
Less: Exempt under section 10(10) (Note2)	25,000	25,000
Total Income		**2,16,000**

Notes : **(2 Marks)**

1. Leave encashment is exempt to the extent of least of the following:

	Particulars	**Rs.**
(i)	Statutory limit	3,00,000
(ii)	Cash equivalent of leave for 30 days for 5 years (Rs. 10,000 ×150/30)	50,000
(iii)	10 months average salary (10 x Rs. 10,000)	1,00,000
(iv)	Actual amount received	75,000

Therefore, Rs. 50,000 is exempt under section 10(10AA). **(2 Marks)**

2. Assuming that the employee is not covered under the Payment of Gratuity Act, 1972,Gratuity is exempt to the extent of least of the following :

	Particulars	**Rs.**
(i)	Statutory limit	10,00,000
(ii)	Half month's salary for 5 years of service (5 x Rs. 5,000)	25,000
(iii)	Actual gratuity received	50,000

Therefore, Rs. 25,000 is exempt under section 10(10). **(2 Marks)**

3. It has been assumed that dearness allowance does not form part of salary for retirementbenefits and therefore, not included in "Salary" for the purpose of computation of leaveencashment and gratuity.

(2 Marks)