SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- D.T

Test Code – CIM 8541

BRANCH - () (Date :)

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ANSWER - 1

Computation of income chargeable under the head "Capital Gains" for A.Y. 2020 -21

Particulars	Rs.
Capital Gains on sale of residential house	
Actual sale consideration Rs. 80 lakhs	
Value adopted by Stamp Valuation Authority Rs. 90 lakhs	
Full value of sale consideration [Higher of the above]	90,00,000
[As per section 50C, where the actual sale consideration declared by the assessee on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 20% of Rs. 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Less: Indexed cost of acquisition of residential house	
[Rs. 20 lakhs x 289/100]	57,80,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	**32,20,000**
Less: **Exemption u/s 54**	20,00,000
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.	
Long term capital gains chargeable to tax	**12,20,000**

(8 MARKS)

Tax liability: Tax on LTCG @20%(Section 112)----- 12,20,000 * 20% = Rs. 244000

Tax on general income = Rs.2500

(300000- 250000 basic limit(NR)=50000*5%)

Rs. 246500

Plus: 4% Health & education cess ------- Rs 12325

Total tax liability Rs. 258825

Total tax liability(Rounded off) Rs. 258830

(2 MARKS)

ANSWER – 2

ANSWER – A

Computation of business income of Mr. Sivam for the A.Y. 2020-21

Particulars		Rs.	Rs.
Net Profit as per profit and loss account			50,000
Add:	Inadmissible expenses/ losses		
	Under valuation of closing stock	18,000	
	Professional fees to resident without deducting TDS- 30% disallowed. [Section 40(a)(ia)] (60000*30%)	18000	
	Transport charges -whole amount of transport charges paid in cash would be allowed, since such amount is not exceeding Rs. 35000(As paid to transport operator) [Section 40A(3)]	-	
	Depreciation **(considered separately)**	1,05,000	
	Short term capital loss on shares	8,100	
	Donation to public charitable trust	2,000	1,51,100
			2,01,100
Less:	Deductions items:		
	Under valuation of opening stock	9,000	
	Income from UTI **[Exempt under section 10(35)]**	2,400	11,400
	Business income before depreciation		1,89,700
Less:	Depreciation (**See Note 1)**		66,000
			1,23,700

Computation of business income as per section 44AD -

As per section 44AD, where the amount of turnover is received, *inter alia,* by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., Rs. 1,12,11,500 x 6 /100 = Rs.6,72,690

Notes:

1. **Calculation of depreciation**

Particulars	Rs.
WDV of the block of plant & machinery as on 1.4.2019	4,20,000
Add : Cost of new plant & machinery	70,000
	4,90,000
Less : Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2020	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

(10 MARKS)

ANSWER – B

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Vaibhav received a gift of Rs. 5,00,000 on 1.4.2019 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2020-21 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2019	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y. 2019-20 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2019 (3:5)	1,50,000 $\left(4,00,000\times\frac{3}{8}\right)$	2,50,000 $\left(4,00,000\times\frac{5}{8}\right)$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2020-21 is Rs. 2,50,000.

In case Mrs. Vaishaly gave the said amount of Rs. 5,00,000 as a *bona fide* loan, then, clubbing provisions would not be attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding Rs. 50,000 without consideration from a relative i.e., his wife.

(4 MARKS)

ANSWER – 3

ANSWER – A

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2016-17) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2019-20). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2019-20).

The long-term capital gains and business income for the A.Y.2020-21 are calculated as under:

Particulars	Rs.	Rs.
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (Rs. 50,000 x 264/109)	1,21,101	3,28,899

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

(3 MARKS)

ANSWER – B

(i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of Rs. 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds Rs. 50,000.

(1 MARK)

(ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".

(1 MARK)

(iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceedsRs. 50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

(1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".

(2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of "sum of money" received.

Income assessable as "Income from other sources"

If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be Rs. 51,000, being cash gift received from a friend on her Shastiaptha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs. 1,03,000 (Rs. 51,000 + Rs. 52,000).

(3 MARKS)

ANSWER – C

Computation of Income from "Profit and gains from business and profession" for P.Y.2019-20(A.Y.2020-21)

Particulars	**Amt.**
N.P. as per P/l	3600
Less: **Income tax refund(Not an income)**	(600)
Less: **Bad debt recovery** (Note: As per section 41-BDR is deemed income only upto amount which was allowed earlier as expense. As only 5000 was allowed earlier, balance is not deemed income)	(6000)
Less: Rent from staff quarters for employee (Note: As per section 22 if any building is occupied for business then it is not H.P. Here it is used for staff quarters so it is not H.P. So ,rent from quarters are taxable in PGBP itself)	-
Add: Interest to friend paid after due date (Note: Interest to friend and relatives are not covered within purview of section 43B.So even if paid after due date of ROI, tt will be allowed as deduction)	-
Add: Interest to NBFC paid after due date (Note: As per section 43B if interest is paid to NBFC after due date of ROI then it is disallowed in this year and allowed in the year in which it is paid)	5000
Add: Excess salary to brother (disallowed u/s 40A(2))	2000
Add: Excess salary to uncle (Not to be disallowed because "uncle" is not covered by definition of relative for section 40A(2))	-
Add: Printing expense paid in cash above Rs.10000 in cash (Note: Expense is paid on public holiday. As per rule 6DD if payment is made in cash on public holiday then section 40A(3) is not applicable)	-
PGBP income	**4000**

(8 MARKS)

ANSWER – 4

1. D
2. C
3. A
4. B
5. B (due to cash system it will be allowed in the year in which it is paid. Section 145)
6. B
7. C
8. A