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**TEST SERIES**  
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**SUGGESTED SOLUTION**

**CA INTERMEDIATE**

**SUBJECT- TAXATION**

**Test Code – CIM 8682**

**BRANCH - () (Date :)**

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- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.  
 (2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.  
 (3) NEW QUESTION SHOULD BE ON NEW PAGE

**ANSWER – 1(A)**

Voluntary retirement compensation received	Rs. 7,00,000
Less: Exemption under section 10(10C) [See Note below]	Rs. <u>5,00,000</u>
<b>Taxable voluntary retirement compensation</b>	<b><u>Rs. 2,00,000</u></b>

**Note:** Exemption is to the extent of least of the following:

(i) Compensation actually received	=	Rs. 7,00,000
(ii) Statutory limit	=	Rs. 5,00,000
(iii) 3 months' salary × completed years of service		
= (Rs. 20,000 + Rs. 5,000) × 3 × 30 years	=	Rs. 22,50,000
(iv) Last drawn salary × remaining months of service left		
= (Rs. 20,000 + Rs. 5,000) × 6 × 12 months	=	Rs. 18,00,000

**(5 MARKS)**

**ANSWER – 1(B)**

**Computation of tax liability of Mr. D for the A.Y. 2020-21**

<b>(A)</b> Tax payable including surcharge on total income of Rs. 5,01,00,000		
Rs. 2,50,000 – Rs. 5,00,000 @ 5%	Rs. 12,500	
Rs. 5,00,000 – Rs. 10,00,000 @ 20%	Rs. 1,00,000	
Rs. 10,00,000 – Rs. 5,01,00,000 @ 30%	Rs. <u>1,47,30,000</u>	
Total	Rs. 1,48,42,500	
Add: Surcharge @ 37%	Rs. <u>54,91,725</u>	Rs. 2,03,34,225
<b>(B)</b> Tax Payable on total income of Rs. 5 crore [(Rs. 12,500 plus Rs. 1,00,000 plus Rs. 1,47,00,000) plus surcharge @ 25%]		Rs. <u>1,85,15,625</u>
<b>(C)</b> Excess tax payable (A)-(B)		Rs. 18,18,600
<b>(D)</b> Marginal Relief (Rs. 18,18,600 – Rs. 1,00,000, being the amount of income in excess of Rs. 5,00,00,000)		Rs. <u>17,18,600</u>
<b>(E)</b> Tax payable (A) - (D)		Rs. <u>1,86,15,625</u>
Add: Health and education cess @ 4%		Rs. 7,44,625
<b>Total tax liability</b>		<b>Rs. 1,93,60,250</b>

(5 MARKS)

ANSWER : 2 (A)

Particulars	Resident and ordinarily resident	Non resident
	Rs.	Rs.
<b>(1) Income deemed to accrue / arise in India</b>		
Interest from Indian Company	1,20,000	1,20,000
Pension from employer in India	1,80,000	1,80,000
<b>(2) Income received in Indian</b>		
50% of profits of business in Paris	1,00,000	1,00,000
<b>(3) Income earn and received outside India, from a business controlled from India</b>		
50% of profits of business in Paris	1,00,000	-
<b>(4) Income earned and received outside India other than (3)</b>		
Income from Agriculture in Bhutan	1,25,000	-
Income from Property in England	4,00,000	--
	<b>10,25,000</b>	<b>4,00,000</b>

(4 MARKS)

ANSWER – 2(B)

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions -

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2019-20, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, **he is a non-resident** for the A.Y. 2020-21.

(4 MARKS)

ANSWER : 3

Computation of Gross Total Income of Mr. X for A.Y. 2020-21

Particulars	Rs.
Basic Salary = Rs. 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (Rs. 5000 x 2)	10,000
Commuted pension (See Note - 5)	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	50,000

**Taxable Salary /Gross Total Income****6,82,769****(3 MARKS)****Notes:**

- (1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs. 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of Rs. 5,000.

Therefore, the entire amount of Rs. 6,000 is liable to tax as perquisite.

**Note** – An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 1,000 and gross taxable income would be Rs. 7,27,769.

**(1 MARK)**

- (2) **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	Rs.
Purchase price (30.1.2017)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2018	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2019	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2020	2,56,000
Less: Amount recovered	2,00,000
<b>Value of perquisite</b>	<b>56,000</b>

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. X.

**(3 MARKS)****(3) Taxable gratuity**

Particulars	Rs.
Gratuity received	6,00,000
Less : Exempt under section 10(10) - Least of the following:	
(i) Notified limit = Rs. 20,00,000	
(ii) Actual gratuity = Rs. 6,00,000	
(iii) $15/26 \times$ last drawn salary $\times$ no. of completed years of services or part in excess of 6 months $15/26 \times$ Rs. 30,000 $\times$ 30 = Rs. 5,19,231	5,19,231
<b>Taxable Gratuity</b>	<b>80,769</b>

**Note:** As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has

to be included within the meaning of salary for computation of exemption under section 10(10).

(2 MARKS)

**(4) Taxable leave encashment**

Particulars	Rs.
Leave Salary received	3,30,000
Less : Exempt under section 10(10AA) - Least of the following:	
(i) Notified limit	Rs. 3,00,000
(ii) Actual leave salary	Rs. 3,30,000
(iii) 10 months x Rs. 20,000	Rs. 2,00,000
(iv) Cash equivalent of leave to his credit ( $\frac{330}{30} \times 20,000$ )	Rs. 2,20,000
	2,00,000
<b>Taxable Leave encashment</b>	<b>1,30,000</b>

**Note** – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be Rs. 3,00,000 (i.e. 10 x Rs. 30,000) and the fourth limit Rs. 3,30,000, in which case, the taxable leave encashment would be Rs. 30,000 (Rs. 3,30,000 - Rs. 3,00,000). In such a case, the gross total income would be Rs. 6,32,769.

(2 MARKS)

**(5) Commuted Pension**

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of  $\frac{1}{3}^{\text{rd}}$  of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	Rs.
Amount received	3,00,000
Exemption under section 10(10A) = $\frac{1}{3} \times [3,00,000 \times \frac{3}{2}]$	1,50,000
<b>Taxable amount</b>	<b>1,50,000</b>

(1 MARK)

**ANSWER – 4**

4.1	C	1
4.2	D	1
4.3	A	1
4.4	C	1
4.5	C	2
4.6	B	2
4.7	A	2