

INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER - 2019

Paper - 7 : DIRECT TAXATION

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.

Question No. 1 is compulsory. Answer any five from the rest.

Wherever necessary, the candidate may make suitable assumptions and state them clearly in the answer.

Working notes should form part of the answer.

All questions relate to the Income-tax Act, 1961 and pertain to the AY-2019-20, unless stated otherwise in the question.

1. (a) Choose the most appropriate alternative for the following (Option to be given only in capital letter A, B, C or D; entire answer need NOT be reproduced): 1x10=10
- (i) Mr. Atul (aged 63), a resident Indian, paid for himself through account payee cheque, health insurance premium of ₹ 2,10,000 for 5 years in one lump sum on 28.03.2019. The eligible amount of deduction under section 80-D for the assessment year 2019-20 would be ₹ _____ .
- (A) 50,000
(B) 30,000
(C) Nil
(D) 42,000
- (ii) Ramesh Tea Ltd., acquired a motor car for ₹6,20,000 on 30.08.2018. The company is engaged in manufacture of tea in India. The amount of depreciation allowable on such motor car would be ₹ _____ .
- (A) 93,000
(B) 37,200
(C) 46,500
(D) Nil

Suggested Answers_Syl16_December 2019_Paper 7

- (iii) When an individual non-resident has total income exceeding ₹ 50 lakhs, the amount of surcharge payable on income-tax would be _____.
- (A) 17%
(B) 15%
(C) 12%
(D) 10%
- (iv) When a charitable trust registered under section 12AA paid rent of ₹ 50,000 per month throughout the previous year 2018-19 and no tax was deducted at source, the amount of expenditure to be considered for computing the application of income by the trust would be ₹ _____.
- (A) 6,00,000
(B) Nil
(C) 3,00,000
(D) 4,20,000
- (v) Manoj, a resident, employed in ABC Ltd., an Indian company, has gross annual salary income of ₹ 20,60,000. The standard deduction available under section 16(1) would be ₹ _____.
- (A) Nil
(B) 30,000
(C) 40,000
(D) 50,000
- (vi) Shares in unlisted companies, in order to be treated as long-term capital asset, should be held for a minimum period of _____ immediately prior to the date of transfer.
- (A) 365 days
(B) 12 months
(C) 24 months
(D) None of the above
- (vii) Padmaja Power Co. (P) Ltd. is engaged in generation and distribution of electrical power. It avails deduction under section 80-IA. The gross receipts of the company is ₹ 89 lakhs. The last date for filing the return of income in order to be eligible to avail deduction under section 80-IA is _____.
- (Note: Assume there is no extension of time for filling the return of income)
- (A) 30.09.2019
(B) 31.07.2019
(C) 30.11.2019
(D) 31.03.2020

Suggested Answers_Syl16_December 2019_Paper 7

- (viii) Mr. Harivallabh incurred medical expenditure of ₹1,20,000 in respect of the disease specified in rule 11DD for his father (aged 66) who is wholly dependent on him. The amount eligible for deduction from his gross total income would be ₹ ____.
- (A) 40,000
 (B) 60,000
 (C) 80,000
 (D) 1,00,000
- (ix) When Mr. Avinash earned long-term capital gain of ₹ 1,80,000 on sale of listed shares, his total income being ₹ 10 lakhs, the amount of income-tax (including cess) on the said long-term capital gain would be ₹ _____ .
- (A) Nil
 (B) 18,720
 (C) 8,320
 (D) 10,400
- (x) Mr. Seshan received a loan of ₹2 lakhs from Seshan Trading (P) Ltd. in which he has 35% equity shareholding (with voting power). The accumulated profits of the company on the date of loan was ₹10 lakhs. The amount of tax (ignore cess) payable on such loan would be
- (A) @ 10% by Mr. Seshan
 (B) @ 20% by the company
 (C) @ 30% by the company
 (D) depended upon other income earned by Mr. Seshan.

- (b) Match the following (Sufficient to give the corresponding item in column 3 for column 1; reproducing columns 2 and 4 are not required): 1x5=5

1	2	3	4
(i)	Threshold limit for TDS deduction on commission/brokerage under section 194H.	(A)	₹ 18,000
(ii)	Rate of tax on royalty from registered patent in India.	(B)	₹ 2,000
(iii)	Rate of tax deduction at source for participating in a Television channel game show in case of residents.	(C)	10%
(iv)	Cash donation exceeding this amount is not admissible under section 80G.	(D)	30%
(v)	Taxable amount where enhanced compensation of ₹36,000 has been received.	(E)	₹ 15,000

Suggested Answers_Syl16_December 2019_Paper 7

(c) State whether the following statements are True or False: 1x5=5

- (i) Income from sale of seeds derived from a nursery adjacent to agricultural lands is an agricultural income.
- (ii) Unabsorbed depreciation can be carried forward for a maximum period of eight assessment years.
- (iii) Cash gift of ₹1,00,000 received from uncle's son by a resident individual is taxable as income from other sources.
- (iv) A firm, resident in India, having total income of ₹1,46,000 is eligible to claim deduction u/s 80D.
- (v) For adjusting brought forward business loss with current year business income, one of the conditions is that such business must be continued during the current year.

(d) Fill in the blanks: 1x5=5

- (i) A resident Indian aged 62, who has received interest of ₹12,000 from savings bank account and ₹43,000 as interest on bank fixed deposits, is eligible to a deduction of ₹_____ from his gross total income.
- (ii) Daily allowance received by a member of parliament is _____.
- (iii) An expenditure, for which cash payment is made for a sum exceeding ₹_____ on a single day is disallowed u/s 40A(3).
- (iv) If a return of income for the AY 2019-20 is not filed within the due date prescribed in section 139(1), such return can be filed on or before _____, provided assessment is not completed.
- (v) Maximum amount of exemption under section 10(10C) in respect of compensation received for voluntary retirement is ₹_____.

Answer:

1. (a)
- (i) (D) 42,000
 - (ii) (A) 93,000
 - (iii) (D) 10%
 - (iv) (D) 4,20,000
 - (v) (C) 40,000
 - (vi) (C) 24 months
 - (vii) (A) 30.09.2019
 - (viii) (D) 1,00,000
 - (ix) (C) 8,320
 - (x) (C) @ 30% by the company

Suggested Answers_Syl16_December 2019_Paper 7

(b)

1	2	3	4
(i)	Threshold limit for TDS deduction on commission/brokerage under section 194H.	(E)	₹ 15,000
(ii)	Rate of tax on royalty from registered patent in India.	(C)	10%
(iii)	Rate of tax deduction at source for participating in a Television channel game show in case of residents.	(D)	30%
(iv)	Cash donation exceeding this amount is not admissible under section 80G.	(B)	₹ 2,000
(v)	Taxable amount where enhanced compensation of ₹36,000 has been received.	(A)	₹ 18,000

- (c)
- (i) True
 - (ii) False
 - (iii) True
 - (iv) False
 - (v) False

- (d)
- (i) 50,000
 - (ii) Exempt
 - (iii) 10,000
 - (iv) 31-03-2020
 - (v) 5,00,000

2. (a) Mr. Arun furnishes the following details relating to three house properties at Erode, Tamil Nadu, let out by him during the previous year 2018-19:

Particulars	House-1	House-2	House-3
Gross municipal value	2,10,000	3,30,000	2,40,000
Fair rent (₹)	2,40,000	3,60,000	3,00,000
Standard rent (₹)	2,20,000	—	—
Let out period (months)	9	12	11
Vacant during the year for (Months)	3	—	1
Actual rent received (₹)	1,60,000	2,40,000	3,30,000
Interest on moneys borrowed (₹)	1,05,000	—	2,10,000
Land lease rent (₹)	—	—	24,000
Municipal tax paid being 2 months municipal value			

Suggested Answers_Syl16_December 2019_Paper 7

Compute the chargeable income from house property for the assessment year 2019-20. 9

(b) With brief reasons, state whether the following constitute capital or revenue expenditure/ receipt: 6

- (i) Compensation paid to customer for defect in goods supplied.
- (ii) Outright purchase of patent by paying ₹ 25 lakhs.
- (iii) Construction of building on land taken on lease basis.
- (iv) Arrear wages to employees for earlier years after entering into agreement with Labour Union.
- (v) Painting expenditure for company's registered office building.
- (vi) Liquidated damages received from supplier for delay in supply of machinery.

Answer:

2. (a)

Computation of income from house property

Particulars	House - 1	House - 2	House - 3
Gross municipal value or fair rent whichever is higher but limited to standard rent (A)	2,20,000	3,60,000	3,00,000
Figure after adjustment of above for vacant period	1,65,000	3,60,000	2,75,000
Actual rent received (B)	1,60,000	2,40,000	3,30,000
Annual value whichever is more	1,65,000	3,60,000	3,30,000
less: Municipal tax paid	35,000	55,000	40,000
	1,30,000	3,05,000	2,90,000
less: Deduction U/s.24@ 30%	39,000	91,500	87,000
	91,000	2,13,500	2,03,000
Less : Interest on moneys borrowed	1,05,000	—	2,10,000
land lease rent (Not deductible)	—	—	Nil
Chargeable Income from house property	(14,000)	2,13,500	(7,000)
Chargeable income from house property (Total)	1,92,500		

Suggested Answers_Syl16_December 2019_Paper 7

(b) Capital or revenue expenditure / receipt

(i)	Revenue expenditure. As the compensation was paid to customer for defect in goods supplied is incidental to the regular business activities.
(ii)	Capital expenditure. Outright purchase of patent by paying ₹25 lakhs is capital expenditure.
(iii)	Capital expenditure. In view of Explanation to section 32 construction of building on land taken on lease basis would be deemed that the assessee is the owner of the building and is eligible for depreciation thereon.
(iv)	Revenue expenditure. Arrear wages to employees for earlier years after entering into agreement with Labour Union is a normal business expenditure which crystallizes upon entering into the agreement.
(v)	Revenue expenditure. As painting expenditure for company's registered office building would provide better business image to the business entity.
(vi)	Capital receipt. Liquidated damages received from supplier for delay in supply of machinery would go to reduce the cost of asset.

3. (a) Mr. Subramani is the Chief Finance Manager of M/S LHW Ltd. based at Chennai. He has given the following particulars relating to salary:

(i)	Basic Salary (₹ 60,000 x 12) = 7,20,000
(ii)	D.A. (₹ 25,000 x 12) = ₹ 3,00,000 (forms part of pay for retirement benefits)
(iii)	Bonus - 2 months of basic pay.
(iv)	Commission - 0.1% of the turnover of the company. The turnover of the company for previous year 2018-19 is ₹ 20 crores.
(v)	Contribution of the employer and employee to the recognized provident fund ₹3,50,000 each.
(vi)	Interest credited to Recognized Provident Fund Account at 9.5% ₹ 65,000.
(vii)	Rent-free unfurnished accommodation provided by the company for which the company has paid annual rent of ₹ 80,000.
(viii)	Entertainment Allowance ₹ 30,000.
(ix)	Hostel allowance for three children ₹ 5,000 each.

Compute the income chargeable under the head "Salaries" in the hands of Mr. Subramani for the Assessment Year 2019-20. 9

(b) Parikshit (aged 25 years) is engaged in growing and manufacturing tea in India. His profit for the previous year 2018-19 amounts to ₹10,00,000 which includes profit of ₹2,00,000 from sale of green leaves plucked in his own garden.

He has no other income during the year.

Compute the total income and total tax payable by Parikshit. 6

Suggested Answers_Syl16_December 2019_Paper 7

Answer:

3. (a)

Computation of income under the head "salaries" of Mr. Subramani for the
Assessment Year 2019-20

Particulars	₹	₹
Basic salary		7,20,000
Dearness Allowance		3,00,000
Bonus		1,20,000
Commission (₹ 2,00,00,000 x 0.1%)		2,00,000
Employer's contribution in excess of 12%		
Employer's contribution	₹ 3,50,000	
Less: 12% of basic salary, dearness allowance and commission	₹ 1,46,400	2,03,600
Interest credited to Recognised Provident Fund (Exempt)		Nil
Value of rent-free unfurnished accommodation As per working note		80,000
Entertainment Allowance		30,000
Hostel allowance for three children	15,000	
Less Exemption (₹ 300 x 12 x 2)	7,200	7,800
Gross Salary		16,61,400
Less: Standard Deduction under section 16		40,000
Taxable Salary		16,21,400

Working Note for value of unfurnished accommodation

Basic salary	₹ 7,20,000
Dearness Allowance	₹ 3,00,000
Bonus	₹ 1,20,000
Commission @ 0.1% of turnover	₹ 2,00,000
Children Hostel Allowance	₹ 7,800
Entertainment allowance	₹ 30,000
Salary for valuation of rent-free accommodation	₹ 13,77,800
15% of salary	₹ 2,06,670
Actual rent paid by the employer	₹ 80,000
The least of the above is taxable perquisite	

(b) If the assessee himself grows tea leaves and manufactures tea in India, then, as per Rule 8 40% of profit on sale of tea is taxable as business income under the head "profits and gains from business or profession" and the balance 60% is agricultural income, which is exempt from income-tax under section 10(1).

Suggested Answers_Syl16_December 2019_Paper 7

Computation of tax payable by Parikshit for the Assessment Year 2019-20

Particulars	₹
Profit	10,00,000
Less: profit on sale of green leaves being 100% agricultural income, exempted fully under section 10(1)	2,00,000
Composite business income	8,00,000
Less: 60% deemed to be agricultural income	4,80,000
Total income	3,20,000
The tax liability is to be computed applying the concept of partial integration since total income comprises of both agricultural income and non-agricultural income and agricultural income exceeds ₹ 5,000 and non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000	
Tax on aggregate of agricultural income and non-agricultural income (₹ 2,00,000 + ₹ 4,80,000 + ₹ 3,20,000)	1,12,500
Less: Tax on agricultural income and basic exemption limit (₹ 6,80,000 + ₹ 2,50,000) i.e. ₹ 9,30,000	98,500
	14,000
Health and education cess (4%)	560
Total tax liability (₹ 2,00,000 + ₹ 4,80,000 + ₹ 3,20,000)	14,560

4. (a) Mr. Sarath commenced business of operating goods vehicles on 01.04.2018. He purchased the following vehicles during the P.Y. 2018-19.

	Gross Vehicle Weight (in kilograms)	Number of vehicles	Date of purchase
1	7500	2	10.04.2018
2	5500	1	15.03.2019
3	10500	3	16.07.2018
4	11500	1	02.01.2019
5	15000	2	29.08.2018
6	17000	1	23.02.2019

Compute his income under section 44AE.

Would your answer change, if the goods vehicles purchased in April, 2018 were put to use only in September, 2018? 7

- (b) State with brief reason, the taxability or otherwise of the following in the hands of the recipients [except for (i), for which issue may be seen from the hands of the company], as per the provisions of the Income-tax Act, 1961:

- (i) Unicorn Capital Private Limited, a closely held company, issued 14,000 shares at ₹ 135 per share. (The face value of the share is ₹ 10 per share and the fair market value of the share is ₹ 120 per share).

Suggested Answers_Syl16_December 2019_Paper 7

- (ii) Mr. Srinivsan received an advance of ₹ 96,000 on 19.09.2018 against the sale of his house. However, due to non-payment of balance amount in time, the contract was cancelled and the amount of ₹ 96,000 was forfeited.
- (iii) Mr. Dhandapani, transferred a house property to his son Mr. Vignesh Karthik without consideration. The value of the house is ₹ 12 lakhs as per the stamp valuation authority.
- (iv) Mr. Shankar gifted a LED 4th Generation TV to his sister's daughter Manasa on 12.3.2019. The fair market value of the LED 4th generation TV on this date is ₹ 1,08,000. 8

Answer:

4. (a) Since Mr. Sarath does not own more than 10 vehicles at any time during the previous year 2018-19, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

1	2	3	4
Number of vehicles	Date of purchase	No. of months for which vehicle is owned	No. of month × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2018	8	16
1	23.02.2018	2	2
			18
For goods vehicle other than heavy good vehicle			
2	10.04.2018	12	24
1	15.03.2019	1	1
3	16.07.2018	9	27
1	02.01.2019	3	3
			55

The presumptive income of Mr. Sarath under section 44AE for A.Y. 2019-20 would be ₹6,86,500 i.e., $55 \times ₹ 7,500$, being for other than heavy goods vehicle + $[16 \times 1000 \times 15]$ $[2 \times 1000 \times 17]$ being for heavy goods vehicle.

The answer would remain the same.

Even if the two vehicles purchased in April, 2018 were put to use only in September 2018, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by the assessee. So there will be no change.

Suggested Answers_Syl16_December 2019_Paper 7

(b) (i) Taxable.

Since Unicorn Private Limited, a closely held company, issued 14,000 shares at a premium (i.e., issue price exceeds the face value of shares), the excess of the issue price of the shares over the fair market value would be taxable under section 56(2)(viib) in its hands under the head "Income from other sources".

Therefore, ₹ 2,10,000 [14,000 x ₹15 (₹ 135 - ₹ 120)] shall be taxable as income in the hands of Unicorn Capital Private Limited under the head "Income from other sources".

(ii) Taxable.

Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head "Income from other sources", if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2)(ix)].

Therefore, the amount of ₹ 96,000 received as advance would be chargeable to tax in the hands of Mr. Srinivasan under the head "Income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.

(iii) Not taxable

As per section 56(2)(x), immovable property received without consideration by any person from his relative is not taxable.

In the present case, since Mr. Dhadapani is the father of Mr. Vignesh Karthik, ₹ 12 lakhs, being the stamp duty value of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Vignesh Karthik.

(iv) Not taxable.

LED 4th generation TV is not included in the definition of "property", for the purpose of taxability under section 56(2)(x) in the hands of the recipient under the head "Income from other sources".

5. (a) **Madhav is a sole proprietor of Hari Silks. He reports turnover of ₹ 240 lakhs for the previous year 2018-19 and a net profit of ₹ 8,10,000 as per books of account. The following items are debited and credited to Profit and Loss Account.** 9

- (i) **Bonus to employees ₹ 60,000. Provision made on 31.03.2019 and was paid on 30.11.2019 after the due date for filing the return.**
- (ii) **Interest on private loan ₹ 12,000 was paid by account payee crossed cheque on 10.08.2018. No tax was deducted at source. Turnover of Raghav for the previous year 2017-18 also exceeded ₹ 200 lakhs.**
- (iii) **Dividend from Indian Companies (listed in recognized stock exchange) received during the year ₹ 21,000.**

Suggested Answers_Syl16_December 2019_Paper 7

- (iv) PPF interest credited ₹ 27,000 and savings bank interest ₹ 13,500 from UCO Bank.
- (v) One Generator was purchased for ₹ 90,000 on 10.01.2019. Subsidy received from Government @ 20%. The subsidy is credited to P&L Account. No depreciation is charged in the books for generator.
- (vi) Rent received from let out property ₹ 1,65,000 credited to profit and loss account. Municipal tax to the said property ₹ 15,000 was paid on 10.03.2019 which is debited to profit and loss account.
- (vii) Salary paid to wife ₹ 30,000 per month during the year 2018-19. (Reasonable monthly salary considering her qualification and experience is ₹ 20,000 per month.)

You are requested to compute the income from business of Madhav taking note to the above adjustments. Brief reason is to be given for treatment of each item given above.

- (b) With brief reasons compute the quantum of eligible deduction in the following independent cases: 2x3=6

- (i) Ranjit made tax saver deposit in SBI of ₹ 80,000 in his wife's name and paid life insurance premium of ₹ 25,000 on a sum assured policy of ₹ 2,00,000 taken on 01.06.2016.
- (ii) Vikas having basic pay and DA (forming part of retirement benefits) of ₹ 4,50,000 contributed ₹ 50,000 to a pension scheme notified under section 80CCD and repaid education loan of SBI of ₹ 60,000 for son's education outside India. The education loan was taken in the financial year 2013-14.
- (iii) Ms. Madhuri engaged in manufacturing activity paid ₹ 30,000 to National Urban Poverty Eradication Fund on 31.12.2018. She also paid rent for residential premises @ ₹ 25,000 per month. She does not own any house property. Her gross total income (computer) is ₹ 6,50,000. She has not claimed any other deduction under Chapter VI-A.

Answer:

5. (a) Computation of Income from Business of Madhav for Asst. Year 2019-20

	Add	Less	₹
Net Profit as per Profit and Loss Account			8,10,000
Bonus paid to employees on 30.11.2019 being after the "due date" for filing the return of income hence not allowable U/s. 43B.	60,000		
Interest on private loan ₹12,000 paid without deduction of tax at source. Hence 30% is disallowed under section 40(a)(ia).	3,600		
Dividend from Indian companies credited to profit and loss account, being exempt income to be excluded		21,000	
PPF interest credited to P&L account being exempt income, hence excluded		27,000	

Suggested Answers_Syl16_December 2019_Paper 7

Savings bank account interest credited to P&L account, to be considered under the head 'other sources', hence excluded		13,500	
Subsidy received from Government for generator, credited to P&L account to be adjusted against actual cost, hence excluded		18,000	
Depreciation on generator cost ₹72,000 @ 15% × ½ thereon =		5,400	
Rent from let out property ₹1,50,000 to be considered under the head 'income from house property' hence excluded		1,50,000	
Salary to wife in excess of the fair market value considering her qualification and experience to be disallowed ₹10,000 × 12	1,20,000		
	1,83,600	2,34,900	(51,300)
Income from Business			7,58,700

(b) Quantum of eligible deduction under Chapter VI-A

(i)	Tax Saver Deposit in the name of wife is not eligible for deduction under section 80C.
	Premium paid on insurance policy taken on or after 01.04.2013 is deductible up to 10% of the capital sum assured. Therefore the deduction under section 80C is limited to ₹ 20,000. The balance premium of ₹ 5,000 is not deductible.
(ii)	Amount contributed to pension scheme of section 80CCD is deductible up to a maximum of 10% of basic pay plus DA (eligible for retirement benefits). Though the amount contributed is ₹ 50,000, the claim is limited to ₹ 45,000 under section 80CCD.
	From Assessment Year 2006-07, no deduction will be available u/s 80E in respect of repayment of educational loan. Hence, total deduction for Mr. Vikash would be ₹ 45,000 under chapter VI-A
(iii)	When a person is engaged in business, the amount of donation given for National Urban Poverty Eradication Fund is not deductible under section 80GGA.
	As per sec. 80GG, deduction will be least of the following: (A) ₹ 5,000 × 12 = ₹ 60,000 (B) 25% of total income = ₹ 1,62,500 (C) Excess rent paid over 10% of total income = ₹ 3,00,000 – ₹ 65,000 = ₹ 2,35,000. Hence, deduction allowable u/s 80GG is ₹ 60,000.

6. (a) Ram Balaji is engaged in manufacture of electronic spares which are used in computers. His aggregate turnover for the year ended 31.03.2019 was ₹ 1,71,00,000. His profit as per profit and loss account extracted from the books is ₹ 12,45,000. His sale proceeds were realized as under:

Suggested Answers_Syl16_December 2019_Paper 7

	Up to the end of previous year	From 01.04.2019 and up to the 'due date' for filing return under section 139(1)
Sales realized in cash	40,00,000	73,00,000
Sale realized through banking channel	11,00,000	26,00,000

- (i) Current year depreciation under section 32 allowable ₹ 2,75,000.
- (ii) Cash payment made exceeding ₹ 10,000 per day and the aggregate payment for the year in such manner ₹ 4,11,000.
- (iii) Interest on term loan debited in profit and loss account of the assessee for the year ended 31.03.2019 ₹ 1,05,000. Amount actually up to 31.03.2019 ₹ 15,000 and amount paid from 01.04.2019 and up to the 'due date' for filing the return under section 139(1) ₹ 40,000.
- (iv) He has brought forward business loss of the assessment year 2015-16 of ₹1,40,000 and unabsorbed depreciation of ₹ 50,000 of the assessment year 2018-19.

Compute his income from business for the assessment year 2019-20 under section 44AD and as per regular provisions. 10

- (b) Mr. Bhat acquired a generator for ₹ 3 lakhs on 30.11.2018 by taking a bank loan of ₹ 2 lakhs. Interest on bank loan payable for the year ₹ 7,500 and it was not paid up to the 'due date' for filing the return specified in section 139(1). He paid salary to operator @ ₹ 12,000 per month in cash for 4 months. Hire charges received up to 31.03.2019 was ₹2,25,000. Compute income of Mr. Bhat from the generator for the year ended 31.03.2019. 5

Answer:

6. (a)

Computation of Income of Ram Balaji business income under section 44AD

	₹	₹
Sales realized in cash up to 31.03.2019 ₹40,00,000 X 8%	3,20,000	
Sales realized in cash up to the due date for filing the return under section 139(1). ₹73,00,000 @ 8%	5,84,000	
Sales realized through banking channel up to 31.03.2019 ₹ 11,00,000 X 6%	66,000	
Sales realized through banking channel from 01.04.2019 to the due date for filing the return ₹26,00,000 X 6%	1,56,000	
Balance sales ₹ 21,00,000 not realized up to the due date for filing the return @ 8%.	1,68,000	
		12,94,000
Less: Brought forward business loss		1,40,000
Brought forward unabsorbed depreciation deemed to		Nil

Suggested Answers_Syl16_December 2019_Paper 7

have been allowed		
Current year depreciation deemed to have been allowed		Nil
Income from business		11,54,000
Note:		
Expenditure incurred in contravention of section 40A(3), is not liable for disallowance while computing the income under section 44AD.		
Also interest on term loan deductible under section 43B on actual payment basis will not impact computation of income under section 44AD.		

Computation of Business income of Ram Balaji as per regular provisions

	₹	₹
Net Profit as per Profit and loss account		12,45,000
Add: Expenditure incurred in contravention of section 40A(3)-disallowed		4,11,000
Interest on term loan debited in the books ₹ 1,05,000. Amount actually paid up to the end of the previous year and up to the due date for filing the return is deductible. The unpaid amount is liable for disallowance u/s 43B		50,000
		17,06,000
Less: Current year depreciation under section 32	2,75,000	
Unabsorbed depreciation	50,000	
		3,25,000
		13,81,000
Less: Brought forward business loss		1,40,000
Income from Business		12,41,000

(b) Computation of Income of Bhat for the Asst. Year 2019-20

When treated as income from other sources:

		₹
Generator hire charges		2,25,000
Less:		
Interest on bank loan is eligible for deduction even though it is not paid. Provisions of section 43B will not apply, where the income is assessed as income from other sources.	7,500	
Salary to operator ₹12000 per month paid for 4 months by cash ₹48,000. Since it is paid in contravention of section 40A(3) it is not deductible.	Nil	
Depreciation on generator ₹3,00,000 X 15% X 1/2	22,500	
		30,000
Income from generator		1,95,000

When assessed as business income:

The answer will change. When assessed as business income, section 43B will come into play. ₹ 7,500 being interest on bank loan remaining unpaid will be disallowed. Hence the income will be ₹ 1,95,000 + ₹ 7,500 = ₹ 2,02,500.

Suggested Answers_Syl16_December 2019_Paper 7

7. (a) Mr. Jayabrata gifted ₹ 10,00,000 to his wife, Mrs. Sangeeta on 1st January, 2018. Out of the same, Sangeeta lent ₹ 4,00,000 for 6 months to her friend, Bedabati on 1st April, 2018 bearing interest @ 20% p.a.

Sangeeta received half-yearly interest of ₹ 40,000 on such loan on 1st October, 2018.

The aforesaid interest was immediately invested in debentures of a company. These debentures were sold by Sangeeta for ₹ 70,000 on 31st January, 2019.

The balance amount of gift received from Mr. Jayabrata was invested as her capital in a sole proprietary business, which resulted in a loss of ₹ 50,000 for the previous year 2018-19.

Mr. Jayabrata's own income (computed) consisted of salary of ₹ 30,00,000 and income from other sources of ₹ 80,000.

The return of income is being filed on 21.12.2019.

Compute the total income of Mr. Jayabrata under suitable heads of income, indicating

brief reason for treatment of all the important items.

9

- (b) Examine the applicability of tax deduction at source provisions, rate of TDS and the amount of tax deduction (if any) in the following cases for the financial year 2018-19:

(i) Payment of ₹ 50,000 made to Mr. Peter, an England cricketer, by an Indian newspaper agency on 3rd August, 2018, for contribution of articles in relation to the sport of cricket.

(ii) Payment made on 1.02.2019 by a company to resident sub-contractor (individual) ₹ 4,00,000 with outstanding balance of ₹ 1,20,000 shown in the books of account, as on 31.03.2019.

(iii) Wining from horse race ₹ 1,00,000.

(iv) ₹ 2,00,000 paid to Mr. X, a resident individual on 20.02.2019 by the State of Karnataka on compulsory acquisition of his urban land (vacant site).

6

Answer:

7. (a)

Computation of total income of Mr. Jayabrata for Assessment Year 2019-20

Particulars	₹	₹
Salary (computed)		30,00,000
Income from other sources:		
Own (computed)	80,000	
Interest earned by wife, Sangeeta includible under section 64(1)(iv) [see Note 1]	40,000	
Less: Business loss of Sangeeta set off under section 71 (Note 2)	(50,000)	
Income chargeable under this head		70,000
Total income		30,70,000

Suggested Answers_Syl16_December 2019_Paper 7

Notes:

1. As per section 64(1)(iv), where an individual transfers any asset to his spouse otherwise than for adequate consideration, not being in connection with an agreement to live apart, then income arising from such asset is to be included in the total income of the individual. Therefore, interest income of Sangeeta amounting to ₹ 40,000 is included in Jayabrata's total income.

2. For the purpose of section 64, income includes loss as per the Explanation 2 to section 64. Therefore, loss incurred by Sangeeta in her business (in which balance of gifted amount was invested) can be set off against interest income of Jayabrata under section 71.
Such loss cannot be set off against salary income of Jatabrata because of restriction in section 71(2A).

3. Income arising from transferred asset alone is to be clubbed. Income earned by investing such income (arising from transferred asset) is not to be clubbed. Accordingly, short-term capital gain of ₹ 30,000 (i.e. ₹ 70,000 - ₹ 40,000) is not includible in the total income of Jayabrata.

(b)

(i)	As per section 194E the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source @ 20.8% (being non-resident) Hence, tax to be deducted = ₹ 50,000 x 20.80% = ₹ 10,400
(ii)	Provision of TDS under section 194C is attracted in respect of payment by a company to a sub-contractor. As per section 194C tax is deductible, where inter alia, the total payments exceeds ₹ 1 lakh at the time of credit or payment, whichever is earlier @ 1% if the payment is made to individual or HUF and 2% for others. As aggregate amount credited during the year is ₹5,20,000, tax to be deducted = ₹ 5,20,000 x 1% = ₹ 5,200
(iii)	As per section 194BB, tax is to be deducted at source, if the winnings from horse race exceed ₹ 10,000. The rate of deduction of TDS is 30% Tax to be deducted at source = ₹1,00,000 x 30% = ₹30,000
(iv)	As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10% if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000. In the instant case, there is no liability to deduct tax at source as the payment made to X does not exceed ₹ 2,50,000

Suggested Answers_Syl16_December 2019_Paper 7

8. Write short notes on any three out of the following questions:

5×3=15

- (a) Difference between TDS and TCS
- (b) Belated return under section 139(4)
- (c) Quoting of Aadhar number under section 139AA
- (d) Best Judgement Assessment under section 144

Answer:

8. (a) Difference between TDS and TCS:

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person making the payment is generally required to deduct tax at source at the prescribed rate.	Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer.
(3)	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier.	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier.
	However, in case of payment of salary, payment in respect of life insurance policy etc. tax is required to be deducted at the time of payment.	However, in case of sale of motor vehicle of the value exceeding ₹10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

(b) Belated return under section 139(4):

<p>If an assessee fails to file return of income</p> <ul style="list-style-type: none"> • within the time limit allowed u/s 139(1) or • within the time allowed under a notice issued u/s 142(1), <p>he can file a belated return.</p>
<p>Time limit: Assessee may file such return -</p> <ul style="list-style-type: none"> • before the end of the relevant assessment year; or • before the completion of assessment (u/s 144), <p>- whichever is earlier.</p>
<p>However, if an assessee files a belated return, he would be liable to pay late fee u/s 234F and interest u/s 234A.</p>

Suggested Answers_Syl16_December 2019_Paper 7

(c) Quoting of Aadhar number under section 139AA

Every person who is eligible to obtain Aadhaar number shall quote Aadhaar number:

- a. in the application form for allotment of permanent account number;
- b. in the return of income:

Note:

- Where the person does not possess the Aadhaar Number, the Enrolment ID of Aadhaar application form issued to him at the time of enrolment shall be quoted.
- Every person who has been allotted PAN before 01-07-2017 and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to such authority on or before specified date. In case of failure to intimate the Aadhaar number, the PAN allotted to the person shall be deemed to be invalid.
- The provisions of section 139AA shall not apply to notified persons or State.

(d) Best judgment assessment

Under section 144, assessment shall be made by the Assessing Officer to the best of his judgment, after considering all relevant materials which he has gathered.

Assessing Officer cannot reduce the tax liability of the assessee by assessment under this section.

A refund cannot be granted u/s 144.

Situation in which it is applicable: In the following situations assessment shall be made under this section -

- a. If the person fails to file the return u/s 139(1), 139(4) or 139(5); or
- b. If the person fails to comply with the terms of notice u/s 142(1); or
- c. If the person fails to comply with the directions u/s 142(2A) requiring him to get his accounts audited; or
- d. If the person fails to comply with the terms of notice u/s 143(2), requiring his presence or production of evidence and documents.

Note: In any of the given situation, the Assessing Officer is under an obligation to make an assessment under this section. In other words, Best judgment assessment is not the discretionary power of the Assessing Officer but mandatory in nature.

Opportunity of being heard

The assessment u/s 144 can only be made after giving the assessee a reasonable opportunity of being heard. Such opportunity shall be given by serving a "Show cause notice" calling upon the assessee to show cause(s), on a date and time specified in the notice, why the assessment should not be completed to the best of judgment of the Assessing Officer.

Exception: Such opportunity need not be given, where notice u/s 142(1) has already been issued.