

INTERMEDIATE EXAMINATION

December 2023

P-7(DTX)

Syllabus 2016

DIRECT TAXATION

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.
Wherever necessary, candidates may make appropriate assumption(s)
and state the same clearly in the answer.*

Working notes should form part of the relevant answer.

All questions relate to the Income-tax Act, 1961.

All the questions relate to Assessment Year 2023-24, unless otherwise stated.

*Answer Question No.1 which is compulsory and any five from
Question No. 2 to Question No.8*

Part - A

1. (a) Choose the most appropriate answer:

1×10=10

- (i) Ganesh (age 62 years), a resident in India, has total income of ₹ 4,70,000 and agriculture income of ₹ 2,40,000. He has not opted for section 115BAC. How much is the income-tax liability of Ganesh for the assessment year 2023-24?
- (A) ₹ 54,080
(B) ₹ 35,360
(C) ₹ 22,860
(D) ₹ 17,680
- (ii) Maruti Industries engaged in manufacture of electronic spare parts acquired a machinery for ₹ 3,00,000 plus GST @ 18% on 05.11.2022. The machinery was put to use from 10.12.2022. How much is the eligible amount of depreciation (including additional depreciation) for the assessment year 2023-24? Assume Maruti Industries has claimed GST input on machinery.
- (A) ₹ 52,500
(B) ₹ 61,950
(C) ₹ 1,05,000
(D) ₹ 1,23,900
- (iii) Chitra (age 33 years) received ₹ 5,00,000 by way of arrear rent from a nationalized bank in April, 2022. The arrear rent relates to assessment year 2021-22 and 2022-23. How much of arrear rent is chargeable to tax for the assessment year 2023-24?
- (A) NIL
(B) ₹ 1,75,000
(C) ₹ 3,50,000
(D) ₹ 5,00,000

- (iv) Baby Priya (age 15 years) is a talented singer who earned ₹ 3,00,000 in previous year 2022-23 by giving performance in various places. The income was deposited in bank and interest income for the previous year 2022-23 was ₹ 21,000. How much of minor's income is liable for clubbing for the assessment year 2023-24?
- (A) NIL
(B) ₹ 21,000
(C) ₹ 3,00,000
(D) ₹ 3,21,000
- (v) Sunil, employed in a bank, availed housing loan in the financial year 2019-20. The interest on money borrowed for construction of residential house (self-occupied by him) for the previous year 2022-23 was ₹ 2,20,000. He has opted for section 115 BAC. How much of interest on housing loan is deductible?
- (A) NIL
(B) ₹ 30,000
(C) ₹ 2,00,000
(D) ₹ 2,20,000
- (vi) Chopra Industries borrowed term loan of ₹ 30 lakhs for purchase of machinery in the previous year 2021-22. For the previous year 2022-23, it paid term loan interest of ₹ 1,70,000 and has arrear of ₹ 2,40,000. Assume that it would not be able to pay arrear interest till the date of filing of ITR for assessment year 2023-24. How much of interest on term loan is deductible while computing the total income of Chopra Industries for the assessment year 2023-24?
- (A) NIL
(B) ₹ 1,70,000
(C) ₹ 2,40,000
(D) ₹ 4,10,000

- (vii) Suresh (age 66 years) has income by way of fixed deposit interest from SBI ₹ 1,10,000 and savings account interest from SBI of ₹ 13,000. How much of interest income is eligible for deduction under section 80 TTB while computing the total income of Suresh? Assume he has opted for section 115 BAC.
- (A) NIL
 - (B) ₹ 10,000
 - (C) ₹ 40,000
 - (D) ₹ 50,000
- (viii) Govind has agricultural land measuring 3 acres in a village with aerial distance of 5 kms from the local limits of Surat Municipality whose population exceeded 12 lakhs. He wants to sell the agricultural land. What would be the tax consequence of such transaction?
- (A) It is not a capital asset and therefore no capital gains on sale of such agricultural land.
 - (B) It is a capital asset and therefore upon sale gain if any would be liable to tax as 'capital gains'.
 - (C) It is not a capital asset but the profit is chargeable to tax as income under the head 'business or profession'.
 - (D) It is not a capital asset but the profit is chargeable to tax as income under the head 'other sources'.
- (ix) Bala paid annual premium of ₹ 1,60,000 in respect of a life insurance policy taken on life of his wife on 05.06.2020 whose capital sum assured was ₹ 12 lakhs. How much of the premium paid by Bala is deductible under section 80C for the assessment year 2023-24?
- (A) ₹ 1,50,000
 - (B) ₹ 1,20,000
 - (C) ₹ 1,60,000
 - (D) NIL, since the annual premium exceeded 10% of capital sum assured.
- (x) Palani has loss of ₹ 4 lakhs from speculation business. For how many subsequent assessment years he is eligible to carry forward such loss for set off ?
- (A) Not eligible for carry forward
 - (B) 4 subsequent assessment years
 - (C) 8 subsequent assessment years
 - (D) No time limit

- (b) Match the following (sufficient to give the corresponding item in column 3 for 1; reproducing column 2 and 4 not required) 1×5=5

1	2	3	4
(i)	Rate of TDS for call centre	(A)	Nil
(ii)	Maximum monetary limit of aggregate receipts for educational institution under section 10(23C)(iiiad)	(B)	₹ 50 lakhs
(iii)	Maximum monetary limit of turnover for opting section 44AD	(C)	2%
(iv)	Rate of depreciation for vacant land	(D)	₹ 200 lakhs
(v)	Monetary limit for TDS out of payment for purchase of immovable property other than agricultural land	(E)	₹ 500 lakhs

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

- (i) For a non-resident, income earned outside India is not taxable.
- (ii) Loss from house property is eligible for set off against long-term capital gain.
- (iii) Time limit for rectification under section 154 is 3 years from the end of relevant assessment year.
- (iv) CSR expenditure is not eligible for deduction under section 37.
- (v) Amount received on closure of Public Provident Fund is fully exempt from tax.

- (d) Fill up the blanks: 1×5=5

- (i) Rate of tax for unexplained investment (including surcharge and cess) is _____ %.
- (ii) Pre-construction interest on housing loan is eligible for _____ annual instalments.
- (iii) Standard deduction for an employee who has opted for section 115BAC is _____.
- (iv) Gift received from friends on the occasion of wedding anniversary is not liable to tax if it does not exceed _____.
- (v) Preliminary expenses incurred for expansion of business is deductible in _____ annual instalments.

PART-B

Answer any five questions. Each question carries 15 marks. 15×5=75

2. (a) With brief reason state the tax treatment/consequence for the following transactions:
- Maintenance amount of ₹ 20,000 paid every month by Vittal out of salary to his divorced wife as per court decree.
 - Insurance claim received by Suri, an individual employed in private sector at Salem for his residential building damaged by fire.
 - Income from let out property ₹ 3,00,000. The property was received by way of gift from father by a married daughter Uma.
 - Royalty of ₹ 30 lakhs paid by Sky (P) Ltd, Kolkata to Danish LLC of Canada for use of patent in India to manufacture a product. 2×4=8

- (b) Vignesh owns a house property at Chennai whose annual municipal value, fair rent and standard rent are ₹ 4,20,000; ₹ 4,80,000 and ₹ 3,60,000 respectively. Vignesh occupied 1/3rd of the building for residential purpose and let out 2/3rd of the building for a monthly rent of ₹ 40,000. Municipal tax paid at 10% of municipal value.

Vignesh borrowed ₹ 40 lakhs in April, 2020 for construction of the said building and it was completed in March, 2022. The pre-construction interest was ₹ 3,30,000.

During the previous year 2022-23, Vignesh paid interest on borrowing of ₹ 78,000 and a sum of ₹ 33,600 was outstanding. 7

Compute income from house property of Vignesh for Assessment year 2023-2024.

3. (a) Srivatsan joined Mercury Ltd. on 1st July 2022 as General Manager. He furnishes below his salary details for the year ended 31st March, 2023.

Particulars	₹
Basic salary	18,00,000
Dearness allowance (50% eligible for retirement benefits)	12,00,000
Reimbursement of actual medical expenditure of the employee's family.	60,500
Gymkhana club membership fee paid by the employer	39,500
Laptop and mobile phone provided by the employer (cost ₹ 90,000 and ₹ 60,000 respectively) to be used both for personal and official use.	
Mobile phone bills paid by the employer	29,400

Particulars	₹
Tax on non-monetary perquisite paid by the employer	35,000
Rent-free accommodation at Delhi owned by the employer provided for a monthly rent of ₹ 15,000 to the employee Srivatsan.	
Furniture provided in the accommodation costing ₹ 5 lakhs was taken on hire by the employer and actual hire charges are ₹ 1,20,000 per annum.	
Motor car owned by the employer was used both for official and personal use. Entire running expenditure met by the employer being ₹ 1,40,000.	
Actual cost of motor car was ₹ 6 lakhs which was acquired on 01.07.2021 by the company.	

Compute salary income of Srivatsan for the assessment year 2023-24. Give brief reasons to support your calculations. 9

(b) State with reasons whether the following are agricultural income or not:

- Interest on arrears of rent in respect of leased agricultural land
- Income from cultivation of jute in the State of West Bengal
- Income from sale of grass grown spontaneously
- Income from fishery
- Income from sale of saplings and seedlings grown in a nursery
- Income from salt produced by flooding the land with sea water

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4. (a) Mr. Rajasekar purchased a House Property on 14th April 1999 for ₹ 2,30,000. He entered into an agreement with Mr. Bharath for sale of the house on 21st September, 2005 and received an advance of ₹ 25,000. However, since Mr. Bharath did not remit the balance amount, Mr. Rajasekar forfeited the advance. Later on, he gifted the House Property to his friend Mr. Anantharaman on 15th June 2004.

Following renovations were carried out by Mr. Rajasekar and Mr. Anantharaman to the House Property—

Particulars	Amount ₹
By Mr. Rajasekar during FY 1999-2000	1,00,000
By Mr. Anantharaman during FY 2009-2010	1,00,000
By Mr. Anantharaman during FY 2011-2012	2,50,000

The Fair Market Value of the Property as on 01.04.2001 is ₹ 2,25,000.

Mr. Anantharaman entered into an agreement with Mr. Chandrasekhar for sale of the House on 1st June 2019 and received an advance of ₹ 1,00,000. The said amount was forfeited by Mr. Anantharaman since Mr. Chandrasekhar could not fulfil the terms of the agreement. Finally, the House was sold by Mr. Anantharaman to Mr. Swaminathan on 2nd January 2023 for a consideration of ₹ 17,85,000.

Compute the Capital Gains chargeable to tax in the hands of Mr. Anantharaman for the AY 2023-2024.

Cost inflation Index : FY2001-02 100; FY2022-23 331.

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(b) With brief reasons state the eligibility of deduction in the following cases:

- (i) Amount due to a supplier of raw material ₹ 2,10,000 was waived by him.
- (ii) Contract payment made by a firm to a company ₹ 22,000 without deduction of tax at source.
- (iii) Amount due from a customer ₹45,000 written off as bad debt.
- (iv) Demerger expenses incurred during the year ₹12 lakhs.
- (v) Salary to wife of managing director ₹4,80,000 who has no qualification or experience.
- (vi) Provident Fund contribution of employees recovered out of their salaries during the previous year 2022-23 ₹ 4,50,000 and was remitted in May, 2023.
- (vii) Donation to scientific research association ₹1,00,000 given by a company. 7

5. (a) Jaishankar is the sole proprietor of RGP & Co. Following is the Profit and Loss account for the year ended 31st March, 2023:

	₹		₹
To Salary & Bonus	12,50,000	By Gross profit	35,78,000
" Rent to wife	1,40,000	" Agriculture income	1,80,000
" Interest on loan	60,000	" PPF interest	62,300
" Depreciation	41,200	" Bad debt recovery (written off in Assessment year 2017-18)	36,000
" Income tax	85,100		
" Travelling expenses	4,45,000	" Discount	40,000
" Medical expenses	3,45,000		
" Administrative expenses	4,50,000		
" Net Profit	10,80,000		
	38,96,300		38,96,300

Following additional information is provided:

- (i) Salary & Bonus includes payment of ₹ 95,000 to married daughter on the occasion of Diwali. It has no business connection.

- (ii) Discount credited to Profit and Loss account includes discount @ 2% being ₹ 20,000 allowed on supply of goods by brother and whereas other suppliers allowed discount for similar goods @ 5%.
- (iii) Rent paid to wife is excess by ₹ 50,000 considering the prevailing market conditions.
- (iv) Interest on loan was paid to Rickson ₹ 60,000 for which no tax was deducted at source.
- (v) Travelling expenses include ₹ 2,15,000 for leisure trip of assessee and wife to Malaysia for 1 week.
- (vi) Medical expenses include hospital expenses of parents (senior citizens) ₹ 60,000 paid by cheque. Balance relates to staff medical expenditures incurred by employer.
- (vii) Depreciation debited includes one mobile phone bought for ₹ 12,000 by making payment in cash. The balance represents correct depreciation as per section 32 of the Act.
- (viii) The total turnover of Jaishankar for previous year 2021-22 was ₹ 210 lakhs. The turnover in previous year 2022-23 was ₹ 95 lakhs.

Compute income under the head 'Profits and gains of business or profession' of Jaishankar for the assessment year 2023-24. 10

- (b) Mrs. Anandhi started the business in 2020. Her capital in the business as on 1.4.2021 stood at ₹ 3,00,000. Mr. Anand (her husband) gifted a sum of ₹ 4,00,000 to Mrs. Anandhi on 10.12.2021, which was also invested in the aforesaid business on the same date. She earned a profit of ₹ 1,50,000 and ₹ 3,90,000 during the previous year 2021-22 and 2022-23 respectively.

Compute the amount of the income to be clubbed in the hands of Mr. Anand. 5

6. (a) Prakash (age 35 years) furnishes the following information for the financial year 2022-23:

I.	Details relating to Business:
	Sale of readymade garments ₹ 155 lakhs. Wants to admit income as per section 44AD.
	Sale proceeds realised during the financial year 2022-23 = ₹ 90 lakhs. Of which amounts realised through banking channel viz; by RTGS, NEFT etc. ₹ 40 lakhs and balance by cash.

	Sale proceeds of financial year 2022-23 realised from 1st April, 2023 and up to the 'due date' for filing the return of income ₹ 50 lakhs of which ₹ 20 lakhs by cash and balance through banking channel.
	Depreciation computed under section 32 = ₹ 7,60,000.
	Brought forward business loss ₹ 2,30,000 of the assessment year 2021-22 relating to discontinued business of wholesale trade in sugar.
II.	<i>Income under the head 'Other Sources'.</i>
	Gift from grandfather ₹ 60,000
	Cash gift from friends (non-relatives) ₹ 40,000 on the occasion of birthday.
	Loss from Horse race ₹ 15,000.
III.	<i>Investments and payments:</i>
	Life insurance policy on self ₹ 20,000; Parents ₹ 50,000
	Children school tuition fees ₹ 60,000; Sukanya Samruddhi scheme deposit ₹ 10,000.
	Housing loan principal repaid ₹ 30,000 (in respect of self-occupied house property).
	Education loan interest paid during the year ₹ 18,000. Loan repayment started in April, 2012.
	Medical insurance premium paid ₹ 90,000 for 3 years up to 30.06.2025.

Compute total income of Prakash for the assessment year 2023-24 by giving reasons for treatment of each item. 10

- (b) Balaji Mills is a partnership firm consisting of four equal partners. Each partner contributed ₹ 5 lakhs towards capital. The deed of partnership authorised interest on capital @15% per annum and working partner's monthly salary of ₹ 20,000 to three partners.

The firm has net profit of ₹ 9 lakhs after debiting all expenses and interest on capital and working partner's salary. The opening stock (1.4.2022) was ₹ 9,90,000 and closing stock (31.3.2023) was ₹ 13,50,000 and both were undervalued by 10%.

Compute the total income of the firm for Assessment Year 2023-24. 5

7. (a) Suresh, an individual, reported the following relating to financial year 2022-23:

- (i) Gross receipt from interior decoration ₹ 28,00,000. He wants to admit income by opting presumptive provision.
- (ii) Dividend from Indian companies ₹ 1,40,000 (gross).
- (iii) Interest on loan obtained for purchase of shares (in respect of which dividend income was earned referred to above) ₹ 45,000.
- (iv) Purchased vacant land from Anil for ₹ 13 lakhs. Stamp duty value ₹ 15,20,000. Anil is not a relative of Suresh.
- (v) Let out a generator on hire for a monthly rent of ₹ 48,000 from 1st November, 2022. Acquired the generator for ₹ 11 lakhs of which ₹ 2 lakhs was paid by cash and balance by account payee crossed cheque.
- (vi) Gifted one let out buildings to son's wife on 1st October, 2022. The building fetched monthly rent of ₹ 19,000 throughout the previous year.
- (vii) Gifted a let out vacant land to grandson (aged 11 years) in previous year 2019-20. Rental income thereon ₹ 8,000 per month.
- (viii) Lottery winnings during the year ₹ 60,000. Cost of lottery tickets acquired during the year ₹ 75,000.

Compute the total income of Suresh for the assessment year 2023-24.

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(b) State in the following cases whether TDS / TCS provisions are applicable and if so, the quantum of TDS /TCS:

- (i) Ottaeri Ravi & Co. (firm) had to pay ₹ 30,000 as interest on loan to Mr. A (resident Indian).
- (ii) Basu (P) Ltd. paid ₹ 1,28,000 (in aggregate) as contract charges to Sivam & Co. (P) Ltd. for works contract.
- (iii) Chittode LLP paid ₹ 20,000 as commission to Gobi (individual).
- (iv) Mantri & Co. (firm) paid rent of ₹ 2,40,000 to Aachi during the financial year 2022-23.
- (v) Shenbaga Ltd engaged in manufacture produced scrap which was purchased for ₹ 5 lakhs for use as raw material for manufacture of another product by Sakura & Co.
- (vi) Padmavathy has lottery winning of ₹ 3 lakhs.

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

5×3=15

- (a) Updated return u/s 139(8A)
- (b) Return of Loss u/s 139(3)
- (c) Best Judgement Assessment u/s 144
- (d) Deduction u/s 80EEB-in respect of electric vehicles.

