

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B9

#### Computation of Total Income & Tax Payable

#### Build Your Confidence (BYC)

**B1. CA2021(JUL) – Mr. Arun is working as a Senior Manager in ABCD Bank, a listed commercial bank, in Delhi since....**

*Note: It is assumed that Mr. Arun is not a senior citizen*

*Computation of total income of Mr. Arun for AY 2022-23 (as per regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Salaries</b>			
Basic salary @ 20,000 p.m.		2,40,000	
Dearness allowance @ 5,000 p.m.		60,000	
House rent allowance @ 15,000 p.m.	1,80,000		
Less: Exempt u/s 10(13A) = Lower of:			
• HRA received Rs. 1,80,000			
• Rent paid – 10% of salary = 6,00,000 (@ 50,000 p.m.) – 27,000 (10% of 2,70,000 (basic 2,40,000 + DA forming part of retirement benefits 30,000)) = 5,73,000			
• 50% of salary = 1,35,000	(1,35,000)		
		45,000	
Personal accident policy premium: Exempt		-	
Taxable value of sweat equity shares:			
• FMV on date of exercise of option @ 1,500 per share	30,00,000		
• Less: Amount paid @ 1,300 per share	(26,00,000)		
		4,00,000	
Gross salary		7,45,000	
Less: Standard deduction u/s 16(ia)		(50,000)	
			6,95,000
<b>Income from house property (Kanpur)</b>			
Expected rent = Higher of municipal valuation or fair rent but not exceeding standard rent	2,40,000		
Actual rent	2,64,000		
Gross annual value = Higher of expected rent or actual rent		2,64,000	
Less: Municipal taxes paid by Mr. Arun during the PY @ 10% of municipal valuation		(26,000)	
Net annual value		2,38,000	
Less: Deduction u/s 24(a) @ 30% of NAV		(71,400)	
			1,66,600
<b>Capital gains</b>			
Full value of consideration @ 2,100 per share for 2,000 shares		42,00,000	
Less: COA being FMV taken for valuation of perquisite		(30,00,000)	
Short term capital gain (since shares not held for more than 12 months)			12,00,000
<b>Income from other sources</b>			
Interest income of minor son: Clubbed u/s 64(1A) assuming total income of Mr. Arun, before such clubbing, is greater than this spouse. <sup>1</sup>	43,750		
Less: Exempt u/s 10(32)	(1,500)		
		42,250	

<sup>1</sup> Alternatively, interest income of Rs. 50,000 p.a. given in the question can also be taken. Suitable note should be given in the answer.

Gold chain from friend: Taxable u/s 56(2)(x) since FMV > 50,000		70,000	
LED TV set: Not taxable u/s 56(2)(x) as not a specified property therein		-	
Cash from married sister of wife: Not taxable u/s 56(2)(x) since received from a relative		-	
			1,12,250
<b>Gross total income</b>			<b>21,73,850</b>
Less: Deductions under Chapter VIA			-
<b>Total income</b>			<b>21,73,850</b>

*Computation of tax liability of Mr. Arun for AY 2022-23 (as per regular provisions)*

Particulars	Rs.
Tax on STCG u/s 111A @ 15% of 12,00,000	1,80,000
Tax on balance total income of 9,73,850	1,07,270
	2,87,270
Add: HEC @ 4%	11,491
<b>Tax liability</b>	<b>2,98,761</b>
<b>Tax liability (rounded off)</b>	<b>2,98,760</b>

*Computation of total income of Mr. Arun for AY 2022-23 (as per section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	21,73,850
Add: Exemption for HRA not allowed	1,35,000
Add: Standard deduction u/s 16(ia) not allowed	50,000
Add: Exemption u/s 10(32) not allowed	1,500
<b>Total income u/s 115BAC</b>	<b>23,60,350</b>

*Computation of tax liability of Mr. Arun for AY 2022-23 (as per section 115BAC)*

Particulars	Rs.
Tax on STCG u/s 111A @ 15% of 12,00,000	1,80,000
Tax on balance total income of 11,60,350	1,07,070
	2,87,070
Add: HEC @ 4%	11,483
<b>Tax liability</b>	<b>2,98,553</b>
<b>Tax liability (rounded off)</b>	<b>2,98,550</b>

Tax liability of Mr. Arun u/s 115BAC is marginally lower. Thus, he can opt to be governed by section 115BAC.

*Mistake by students:*

- *Incorrect computation in respect of sweat equity shares – Both as perquisite and as capital gains.*
- *No computation u/s 115BAC even when the question required computation in a manner most beneficial to Mr. Arun.*

**B1a. CA2021(JULY) – Ashish, a resident individual, aged 43 years, provides professional services in the field of interior.....**

*Computation of total income of Ashish for AY 2022-23*

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Excess of income over expenditure		39,43,000	
<b>Add: Items debited but not deductible:</b>			
Family planning expenditure: Not deductible as deduction u/s 36(1)(ix) is allowed only to a company	20,000		
Salary to sister-in-law which is excessive or unreasonable: Not disallowed u/s 40A(2) as sister-in-law is not relative under that section. Hence, no adjustment required.	-		
Employees' contribution to EPF: Not deductible u/s 36(1)(va) since deposited after the due date under the EPF law	10,000		
Medical expenses on treatment of father: Not deductible u/s 37(1) as not incurred for purpose of business or profession	80,000		
Commission paid without deducting TDS: 30% disallowed u/s 40(a)(ia) assuming Anjaleem is a resident. TDS is deductible u/s 194H (para 215) since gross receipts of Ashish exceed 50 lakh in the preceding FY and amount of commission > 15,000.	7,500		

Depreciation as per books	90,000		
Purchase of furniture: Disallowed as it is a capital expenditure. Depreciation allowed separately.	48,000		
		2,55,500	
<b>Less: Depreciation</b>			
Books @ 40% of 90,000	36,000		
Computers @ 40% of 35,000	14,000		
Furniture @ 10% of 19,000 as put to use for ≥ 180 days. Payment in cash of 18,000 and 11,000 not added to actual cost since made to a person in a day, exceeding 10,000, otherwise than by a specified mode.	1,900		
Car @ 15% of 3,35,000. Actual purchase price is taken to be the actual cost.	50,250		
		(1,02,150)	
<b>Less: Items credited but not taxable or taxable under another head of income</b>			
Interest on PPF: Exempt u/s 10	60,000		
Interest on savings bank account: Taxable as IFOS	20,000		
Interest on NSC VIII issue: Taxable as IFOS	21,000		
		(1,01,000)	
			39,95,350
<b>Income from other sources</b>			
Interest on savings bank account		20,000	
Interest on NSC VIII issue		21,000	
			41,000
<b>Gross total income</b>			<b>40,36,350</b>
<b>Less: Deductions under chapter VIA:</b>			
U/s 80C: Contribution to PPF of 1,00,000 + Interest on NSC of 21,000 (accrued interest is deemed reinvested)		1,21,000	
U/s 80D: Medical treatment on health of father (senior citizen, assuming he is a resident) as no health insurance premium has been paid for him. Deductible up to 50,000 since paid by a mode other than cash.		50,000	
U/s 80TTA: Interest on savings bank account deductible up to 10,000		10,000	
			(1,81,000)
<b>Total income</b>			<b>38,55,350</b>

*Computation of tax liability of Ashish for AY 2022-23*

Particulars	Rs.
Tax on total income of 38,55,350	9,69,105
Add: HEC @ 4%	38,764
Tax liability	10,07,869
<b>Tax liability (rounded off)</b>	<b>10,07,870</b>

*Mistake by students:*

- Family planning expenditure allowed as deduction to Ashish though it is available only to company.
- Disallowance u/s 40A(2) wrongly made for payment to sister-in-law even though she is not a relative.
- Failure to make disallowance u/s 40(a)(ia) in respect of commission payment made without deducting TDS.
- Failure to provide exemption for interest on PPF.

**B1b. CA2021(JULY) – Rohini, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1997.....**

Visit rule applies to Rohini since she is a citizen of India or person of Indian origin who comes on a visit to India during the PY. Threshold to become a resident is 182 days. Since her stay of 60 days is < 182 days, she is not a resident. She is a non-resident. Accordingly, her total income and tax liability is computed below.

*Computation of total income of Rohini for AY 2022-23*

Particulars	Rs.	Rs.
<b>Salaries</b>		
Pension received from Russian Government: Not taxable since it accrues/arises outside India and is received outside India		-
<b>Income from house property</b>		
Annual value (rent received) in respect of house property in New Delhi: Taxable in India. It is deemed	90,000	

to accrue/arise in India as property is situated in India.		
Less: Standard deduction u/s 24(a) of 30%	(27,000)	
		63,000
<b>Capital gains</b>		
Long term capital gain on sale of land at New Delhi (computed) – U/s 112. Taxable in India. It is deemed to accrue/arise in India as transfer is of capital asset situated in India.	3,00,000	
Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed) – U/s 111A. Taxable in India. It is deemed to accrue/arise in India as transfer is of capital asset situated in India.	60,000	
		3,60,000
<b>Gross total income</b>		<b>4,23,000</b>
Less: Deduction u/s 80C in respect of premium paid to Russian Life Insurance Corporation at Russia (assuming it is on the life of self, spouse or child and premium is within the specified % limit of sum assured). However, deduction is not allowable from LTCG u/s 112 or STCG u/s 111A. Thus, it is restricted to income from house property only.		(63,000)
<b>Total income</b>		<b>3,60,000</b>

*Computation of tax liability of Rohini for AY 2022-23*

Particulars	Rs.
Tax on LTCG u/s 112 @ 20% of 3,00,000. Benefit of unexhausted basic exemption limit is not available to a non-resident.	60,000
Tax on STCG u/s 11A @ 15% of 60,000. Benefit of unexhausted basic exemption limit is not available to a non-resident.	9,000
	69,000
Less: Rebate u/s 87A: Not available to a non-resident	-
	69,000
Add: HEC @ 4%	2,760
<b>Tax liability</b>	<b>71,760</b>

**Mistake by students – Allowed deduction u/s VIA (80C in this case) on LTCG u/s 112 and STCG u/s 111A.**

**B1c. CA2021(J) (modified) - Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of Rs. 5,64,20,700....**

*Computation of total income of Mr. Krishna for AY 2022-23 (as per regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Net profit as per profit and loss account		5,64,20,700	
Add: Items debited but not deductible:			
• Donation to Gurudwara in cash: Not deductible u/s 37(1) as not for purpose of business or profession	20,000		
• Interest on loan for purchase of e-vehicle: Not deductible u/s 37(1) as it is for personal purpose	1,67,000		
• Contribution to a university approved and notified u/s 35(1)(ii): Allowed. No adjustment required.	-		
• Sale of furniture to brother below FMV: No adjustment required. Section 40A(2) applies to expenditure.	-		
		1,87,000	
Less: Items credited but not taxable or taxable under other heads:			
• Royalty on patent: Taxable as IFOS since Krishna is engaged in manufacturing business and not in business of earning royalty	4,00,000		
• Recovery of bad debt: Deemed business income taxable u/s 41(1) = Recovery of 3,00,000 – (Amount of debt 5,00,000 – Deduction allowed u/s 36(1)(vii) 3,00,000) = 1,00,000. Excess credited is to be reduced (3,00,000 – 1,00,000)	2,00,000		
		(6,00,000)	
Less: Depreciation on cars (put to use > 180 days) @ 15% (assuming general rate is applicable) of 24 lakh. Additional depreciation is not allowed on cars.		(3,60,000)	
			5,56,47,700
<b>Capital gains</b>			
Withdrawal of 25 lakh from CGAS: Not taxable since used to acquire new asset			-

within 3 years from 30.3.2019.			
Long term capital gain on sale of residential house	50,00,000		
Less: Exemption u/s 54 = Lower of capital gain (50 lakh) or cost of new asset (1 crore – 25 lakh, i.e., 75 lakh)	(50,00,000)	-	
			Nil
<b>Income from other sources</b>			
Royalty on patent			4,00,000
<b>Gross total income</b>			<b>5,60,47,700</b>
Less: Deduction u/c VIA			
U/s 80D:			
• Lump sum premium: Deduction for each PY = 30,000 / 6 (beginning with PY 2021-22 in which amount is paid and subsequent PYs during which insurance will be in force, i.e., till PY 2026-27)	5,000		
• Preventive health-check: Eligible upto 5,000	5,000		
		10,000	
U/s 80EEB for interest on loan to purchase e-vehicle: Allowed up to 1,50,000 as loan sanctioned in PY 2021-22 (within the eligible period)		1,50,000	
U/s 80G for donation to Gurudwara: Not allowed for donation > 2,000 in cash			-
U/s 80RRB for royalty on patent: Up to 3,00,000		3,00,000	
			(4,60,000)
<b>Total income</b>			<b>5,55,87,700</b>

*Computation of tax liability of Mr. Krishna for AY 2022-23 (as per regular provisions)*

Particulars	Rs.
Tax on total income of 5,55,87,700 (assuming he is resident and, thus, a senior citizen)	1,64,86,310
Add: SC @ 37% since total income > 5 crore	60,99,935
	2,25,86,245
Add: HEC @ 4%	9,03,450
<b>Tax liability</b>	<b>2,34,89,695</b>

*Computation of tax liability of Mr. Krishna for AY 2022-23 (as per AMT provisions as he has claimed deduction u/s 80RRB, provided he does not opt for section 115BAC)*

Particulars	Rs.
<b>Computation of Adjusted Total Income</b>	
Total income	5,55,87,700
Add: Deduction u/s 80RRB	3,00,000
	5,58,87,700
AMT applicable? Deduction claimed u/s 80RRB, ATI > 20 lakh and (in case) he has not opted for 115BAC	Yes
<b>Computation of Alternate Minimum Tax</b>	
AMT @ 18.5% of ATI	1,03,39,225
Add: SC @ 37% since ATI > 5 crore	38,25,513
	1,41,64,738
Add: HEC @ 4%	5,66,590
<b>AMT liability</b>	<b>1,47,31,328</b>
Since regular Tax is not less than AMT, Mr. Krishna will not pay tax under AMT provisions	

*Computation of tax liability of Mr. Krishna for AY 2022-23 (as per section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	5,55,87,700
Add: Contribution to a university approved and notified u/s 35(1)(ii) not allowed	48,000
Add: Deductions u/s 80D, 80EEB, 80RRB not allowed	4,60,000
<b>Total income u/s 115BAC</b>	<b>5,60,95,700</b>
Tax on total income @ 115BAC rates	1,65,66,210
Add: SC @ 37% since total income > 5 crore	61,29,498
	2,26,95,708
Add: HEC @ 4%	9,07,828
<b>Tax liability u/s 115BAC</b>	<b>2,36,03,536</b>

Tax liability of Mr. Krishna under regular provisions is less than that u/s 115BAC. Tax payable is determined below.

Particulars	Rs.	Rs.
Tax liability as per regular provisions		2,34,89,695
Less: TDS/TCS		
• U/s 206C(1) for timber obtained under forest lease @ 2.5% of 20 lakh (assuming that Mr. Krishna did not furnish declaration to the seller that goods are to be utilized for manufacturing and not for trading; if it is assumed that he furnished the declaration, the seller would not collect TCS)	(50,000)	
• U/s 206C(1F) for sale of motor car of value > 10 lakh: Assumed that seller is covered u/s 206C(1F). TCS @ 1% of 12 lakh. No TCS on cars of value ≤ 10 lakh.	(12,000)	
• U/s 194-IA on sale of house since consideration ≥ 50 lakh. TDS @ 1% of 1 crore	(1,00,000)	
		(1,62,000)
Tax payable		2,33,27,695
<b>Tax payable (rounded off)</b>		<b>2,33,27,700</b>

**B2. CA2021(J) - Given below are the details provided to you by Mr. Rayan, a resident individual aged 54 years, engaged....**

*Computation of total income of Mr. Rayan for AY 2022-23 (as per regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Net profit as per profit and loss account		75,21,000	
Add: Items debited but not allowable as deduction:			
• Depreciation	17,50,000		
• Interest on loan for purchase of plant and machinery till date asset is first put to use: Added to actual cost = 11% of 55 lakh for 5 months. Not deductible u/s 36(1)(iii).	2,52,083		
• Bonus of 5% of net profit not deductible u/s 36(1)(ii) as it is payable as share of profit	3,76,050		
• VRS compensation: Amortized u/s 35DDA in 5 instalments starting from year of payment. Hence, 4/5 <sup>th</sup> of 9 lakh added back.	7,20,000		
		30,98,133	
Less: Items not taxable or taxable under other heads of income:			
• Income tax refund: Not taxable	10,000		
• Interest on income tax refund: Taxable as IFOS	4,850		
		(14,850)	
Less: Depreciation ( <b>Note</b> )		(26,22,729)	
			79,81,554
<b>Income from other sources:</b>			
Interest on income tax refund			4,850
<b>Gross total income</b>			<b>79,86,404</b>
Less: Deduction u/s 80C			
• Life insurance premium on life of father: Not eligible			-
• Life insurance premium on life of daughter: Up to 10% of sum assured		45,000	
			(45,000)
Total income			79,41,404
<b>Total income (rounded off)</b>			<b>79,41,400</b>

*Note:*

Particulars	Building	P&M
Opening WDV	5,45,000	9,00,000
Add: Actual cost of assets acquired during the PY		
• P&M acquired on 1.4.2021 on hire purchase (put to use ≥ 180 days): As per Circular 9/1943, in case of hire purchase, depreciation is allowed to lessee on cash value (sale price as on date on agreement) and hire charges are deductible over the term of agreement. In absence of information regarding hire charges component comprised in the instalments, the entire cost of asset of 12 lakh is taken to be the initial value or capital outlay entitled to depreciation. Since cash payment in a day ≤ 10,000, no disallowance is made on this count.		12,00,000

• P&M acquired on 1.5.2019 (put to use ≥ 180 days): 55,00,000 + interest on loan till date it is first put to use 2,52,083		57,52,083
WDV of Block (as on 31.3.2022) for depreciation	5,45,000	78,52,083
Normal depreciation = 10% on building and 15% on P&M	54,500	11,77,812
Additional depreciation on P&M (as Mr. Rayan is engaged in manufacture) = 20% of actual cost of new P&M acquired and installed during the year = 20% of 69,52,083	-	13,90,417
Total = 26,22,729	54,500	25,68,229

*Computation of total income of Mr. Rayan for AY 2022-23 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	79,41,404
Add: Additional depreciation not allowed	13,90,417
Add: Deductions u/s 80C not allowed	45,000
Total income u/s 115BAC	93,76,821
Total income u/s 115BAC (rounded off)	93,76,820

*Computation of tax liability of Mr. Rayan for AY 2022-23*

Particulars	Regular rates	115BAC rates
Total income	79,41,400	93,76,820
Tax on total income	21,94,920	25,50,546
Less: Rebate u/s 87A (N/A as total income > 5 lakh)	-	-
	21,94,920	25,50,546
Add: Surcharge @ 10% as total income > 50 lakh and up to 1 crore	2,19,492	2,55,055
	24,14,412	28,05,610
Add: HEC @ 4%	96,576	1,12,224
Tax liability	25,10,988	29,17,825
Less: TDS u/s 194N @ 2% of 2 crore. It is assumed that Mr. Rayan has filed ROI for all of the 3 immediately preceding PYs, for which time limit to file ROI u/s 139(1) has expired, immediately preceding the PY 2021-22 and, hence, rate of 2% applies. <sup>2</sup>	(4,00,000)	(4,00,000)
Tax payable	21,10,988	25,17,825
<b>Tax payable (rounded off)</b>	<b>21,10,990</b>	<b>25,17,830</b>
Mr. Rayan should not opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax payable will be Rs. 21,10,990.		

**B3. CA2021(J) - Mr. Xavier, an Indian resident individual, set up a unit in SEZ in the FY 2017-18 for production of.....**

*Computation of total income and tax liability of Mr. Xavier for AY 2022-23 (as per regular provisions)*

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Profit from SEZ unit	50,00,000	
Less: Deduction u/s 10AA = 50 lakh × (90 lakh / 150 lakh). 100% deduction being 5 <sup>th</sup> year of manufacturing.	(30,00,000)	
		20,00,000
Profit from warehousing facility	1,10,00,000	
Less: Deduction u/s 35AD = 100% of capital expenditure incurred prior to commencement of operations since it is capitalized in books on that date = 93 lakh – exp on land 13 lakh	(80,00,000)	
		30,00,000
<b>Total income</b>		<b>50,00,000</b>
Tax on total income (assuming he is not a senior citizen)		13,12,500
Less: Rebate u/s 87A (N/A as total income > 5 lakh)		-
		13,12,500
Add: Surcharge Nil as total income ≤ 50 lakh		-
		13,12,500

<sup>2</sup> As per an alternative view, TDS u/s 194N applies to excess over the threshold limit. Pending CBDT clarification, this view is not followed in this book, in view of express language of the Act.



Add: HEC @ 4%	52,500
<b>Tax liability</b>	<b>13,65,000</b>

*Computation of tax liability of Mr. Xavier for AY 2022-23 (as per AMT provisions, assuming he has not opted for section 115BAC)*

Particulars	Rs.
<b>Computation of Adjusted Total Income</b>	
Total income	50,00,000
Add: Deduction u/s 10AA	30,00,000
Add: Deduction u/s 35AD	80,00,000
Less: Depreciation allowable u/s 32 on assets in respect of which depreciation claimed = 10% of 80 lakh, assuming entire capital expenditure is on building	(8,00,000)
	<b>1,52,00,000</b>
AMT applicable? Deduction claimed u/s 10AA/35AD, ATI > 20 lakh and he has not opted for 115BAC	Yes
<b>Computation of Alternate Minimum Tax</b>	
AMT @ 18.5% of ATI	28,12,000
Add: SC @ 15% since ATI > 1 crore and upto 2 crore	4,21,800
	<b>32,33,800</b>
Add: HEC @ 4%	1,29,352
AMT liability	<b>33,63,152</b>
<b>AMT liability (rounded off)</b>	<b>33,63,150</b>
Is Regular Tax < AMT?	Yes
Since regular tax < AMT, ATI is deemed to be the total income and AMT is the tax liability.	

*AMT credit to be carried forward u/s 115JEE*

Particulars	Rs.
Tax liability u/s 115JC	33,63,150
Less: Tax liability under regular provisions	(13,65,000)
	<b>19,98,150</b>

**B4. CA2021(J) - Rajesh was employed in Axis Ltd., Mumbai. He received a salary of Rs. 45,000 p.m. from 1.4.2021 to.....**

Citizen of India, who leaves India during the PY for purpose of employment outside India is a resident if he is in India  $\geq$  182 days in the PY. Since Rajesh was in India for 181 days (1.4.2021 to 28.9.2021), he is a non-resident for PY 2021-22.

*Computation of taxable income of Rajesh for AY 2022-23 (under regular provisions)*

Particulars	Rs.	Rs.
<b>Income from salaries</b>		
For 1.4.2021 to 20.9.2021 = (45,000 $\times$ 5 months) + (45,000 $\times$ 20/30 days): Taxable as received in India and accrued/arose in India (services rendered in India).	2,55,000	
For October to December: Taxable as received in India	2,70,000	
For January to March: Not taxable as received outside India and is not deemed to accrue/arise in India u/s 9(1)(ii) (since services rendered outside India)	-	
Gross salary income	5,25,000	
Less: Standard deduction u/s 16(ia)	(50,000)	
		4,75,000
<b>Income from other sources</b>		
Cost of air tickets funded by sister: Not taxable u/s 56(2)(x), as sister is a relative	-	
Cost of initial stay in Dubai funded by friend: Not taxable u/s 56(2)(x), as amount $\leq$ 50,000	-	
Interest on fixed deposits with Mumbai bank	10,500	
Interest on savings a/c with Mumbai bank	7,500	
		18,000
<b>Gross total income</b>		<b>4,93,000</b>
Less: Deductions u/c VIA		
• U/s 80C for LIC premium for self and spouse (assuming it is within permissible limit of sum assured); not eligible for mother.	25,000	
• U/s 80TTA on interest on savings account upto limit of Rs. 10,000 (since Rajesh is not a senior	7,500	



citizen)		
		(32,500)
<b>Total income</b>		<b>4,60,500</b>

*Computation of total income of Rajesh for AY 2022-23 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	4,60,500
Add: Standard deduction u/s 16(ia)	50,000
Add: Deduction u/s 80C and 80TTA	32,500
<b>Total income u/s 115BAC</b>	<b>5,43,000</b>

**B5. CA2020(N) – From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for the PY....**

*Computation of total income of Mr. Ganesh for AY 2022-23 (as per regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
<i>Let out portion (assuming ground and first floors are of equal area):</i>			
• Gross annual value (rent taken in absence of further information)	2,28,000		
• Less: Municipal taxes paid (50% of Rs. 60,000)	(30,000)		
• Net annual value	1,98,000		
• Less: Standard deduction u/s 24(a) @ 30% of NAV	(59,400)	1,38,600	
<i>Self occupied portion:</i>			
• Income from house property from self occupied portion: Annual value is Nil and no deduction is allowed for municipal taxes paid.		Nil	
			1,38,600
<b>Profits and gains from business or profession</b>			
Profit of business of SEZ unit		25,00,000	
Share of profit from AOP ( <b>Note</b> )		47,000	
			25,47,000
<b>Capital gains</b>			
Full value of consideration = SDV u/s 50C as it is > 110% of consideration		15,12,000	
Indexed cost of acquisition = COA × (CII of 2021-22/CII of 2001-02) = 4,00,000 × (317/100). COA = Higher of Rs. 1,90,000 (1,80,000 + 10,000) or Rs. 4,00,000 FMV as on 1.4.2001		(12,68,000)	
Long term capital gain (since land held for more than 24 months)			2,44,000
<b>Income from other sources</b>			
Royalty received	2,88,000		
• Less: Expenditure	(40,000)	2,48,000	
Interest on saving bank deposits		40,000	
			2,88,000
<b>Gross total income</b>			<b>32,17,600</b>
<i>Less: Deduction u/s VIA</i>			
• U/s 80C: Life insurance premium for son (not eligible for father) 39,000 + Tuition fee up to 2 children Rs. 28,000		(67,000)	
• U/s 80QQB: Gross royalty up to 15% (2.4 lakh); gross royalty repatriated till 30.9.2022 (1.9 lakh). Lower of both = 1.9 lakh. Deduction = Lower of 1.9 lakh or 3 lakh limit, restricted to net royalty (included in gross total income) of 2.48 lakh		(1,90,000)	
• U/s 80TTA: On saving bank interest up to Rs. 10,000		(10,000)	
			(2,67,000)
<i>Less: Deduction u/s 10AA: Since SEZ undertaking commenced operations during FY 2019-20, deduction for AY 2022-23 (being 3<sup>rd</sup> year of operations) = 100% of profits derived from export = Profit of Unit × (Export turnover of unit / Total turnover of unit) = 25L × (140L / 200L)</i>			(17,50,000)
<b>Total income</b>			<b>12,00,600</b>

*Computation of tax liability of Mr. Ganesh for AY 2022-23 (as per regular provisions)*

Particulars	Rs.
Tax on LTCG of 2,44,000 @ 20%	48,800
Tax on balance total income of 9,56,600 @ normal rates	1,03,820
	1,52,620
Add: HEC @ 4%	6,105
Tax liability	1,58,725
<b>Tax liability (rounded off)</b>	<b>1,58,730</b>

*Computation of tax liability of Mr. Ganesh for AY 2022-23 (as per AMT provisions)*

Particulars	Rs.
<b>Computation of Adjusted Total Income</b>	
Total income	12,00,600
Add: Deduction u/s 10AA	17,50,000
Add: Deduction u/s 80QQB	1,90,000
	31,40,600
AMT applicable? Deduction claimed u/s 10AA/80QQB, ATI > 20 lakh and (in case) he has not opted for 115BAC	Yes
<b>Computation of Alternate Minimum Tax</b>	
AMT @ 18.5% of ATI	5,81,011
Add: HEC @ 4%	23,240
AMT liability	6,04,251
Is Regular Tax < AMT?	Yes
<b>Tax liability under AMT provisions (rounded off)</b>	<b>6,04,250</b>

*Computation of tax liability of Mr. Ganesh for AY 2022-23 (as per section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	12,00,600
Add: Deduction u/s 10AA: Not allowed u/s 115BAC	17,50,000
Add: Deduction u/s 80C, 80QQB, 80TTA: Not allowed u/s 115BAC	2,67,000
Total income u/s 115BAC	32,17,600
Tax on LTCG of 2,44,000 @ 20%	48,800
Tax on balance total income of 29,73,600 @ 115BAC rates	6,29,580
	6,78,380
Add: HEC @ 4%	27,135
Tax liability	7,05,515
<b>Tax liability (rounded off)</b>	<b>7,05,520</b>
Since tax liability u/s 115BAC is more than AMT tax liability, Mr. Ganesh should not opt for section 115BAC. He will pay tax payable under AMT provisions and carry forward the AMT credit for being set off in a subsequent year against regular tax liability.	

**Note:** Since taxable income of Ganesh (excluding share from AOP) is more than BEL, AOP will be taxable at maximum marginal rate by virtue of section 167B and in such case, share of profit will not be included in the total income of Ganesh by virtue of section 86, even if the AOP may have actually paid tax at the normal rates though it is taxable at maximum marginal rate. An alternative view can also be taken that since the AOP has paid tax at normal rates, share of profit will be included in total income of Ganesh by virtue of section 86. Since the former adjustment is not within the scope of CA Intermediate syllabus, the latter view has been adopted in the solution.

**B6. CA2020(N) – Mr. Jayaprakash, aged about 40 years, is an authorized wholesale distributor of Fertilizers Ltd. dealing.....**

*Computation of total income of Mr. Jayaprakash for AY 2022-23 (under regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
GAV/NAV (rent from Mr. Z taken in absence of any other information; assuming it is for house property and, thus, taxable under the head 'Income from house property)		7,20,000	
Less: Standard deduction u/s 24(a) @ 30%		(2,16,000)	
			5,04,000
<b>Profits and gains of business or profession</b>			
Net profit as per Trading and Profit & Loss A/c		75,43,815	

Add: Expenses debited but not allowed			
• Income tax paid		3,45,000	
• Fee u/s 234F for late filing of return: Disallowed u/s 40(a)(ii)		1,000	
• Salary paid in cash exceeding Rs. 10,000: Disallowed u/s 40A(3)		25,000	
• Interest paid to NBFC on loan attributable to personal purpose = Rs. 1,20,000 × (2 lakh / 10 lakh)		24,000	
• Interest paid to NBFC without deduction of TDS u/s 194A: Disallowed u/s 40(a)(ia) @ 30% of Rs. 1,20,000 = Rs. 36,000. 8/10 <sup>th</sup> for business purposes. TDS to be deducted since his turnover for preceding FY > 1 crore. It is assumed that interest is paid without deducting TDS though language of question is not clear.		28,800	
• Advertisement in souvenir of political party: Disallowed u/s 37(2B)		20,000	
• Interest paid on late filing of GST: Compensatory interest is allowed; it is not for infraction of law		-	
			4,43,800
Add: Undervaluation of closing stock (assuming 'previous year' mentioned in the question is the current previous year 2021-22) <sup>3</sup>			45,000
Less: Income credited but not taxable or taxable under other head			
• Dividend from Indian companies (taxable under the head IFOS)	17,20,000		
• Interest received on FDs (taxable under the head IFOS)	1,08,000		
• Rent received (taxable under the head IHP)	7,20,000		
• Income tax refund: Not taxable	18,000		
			(25,66,000)
Less: Depreciation on Maruti Van @ 15% of Rs. 2,10,000 assuming it is put to use for ≥ 180 days during the year			(31,500)
			54,35,115
<b>Income from other sources</b>			
Dividend (gross of TDS)		17,20,000	
Interest received on FDs: Gross interest = Rs. 1,08,000 × (100/10) since TDS deducted @ 10% u/s 194A		1,20,000	
Interest on income tax refund		2,000	
			18,42,000
<b>Gross total income</b>			<b>77,81,115</b>
Less: Deduction u/s 80D for health insurance premium: Allowed up to Rs. 25,000			(25,000)
<b>Total income</b>			<b>77,56,115</b>
<b>Total income (rounded off)</b>			<b>77,56,120</b>

*Computation of total income of Mr. Jayaprakash for AY 2022-23 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	77,56,115
Add: Deductions u/s 80D not allowed	25,000
Total income u/s 115BAC	77,81,115
Total income u/s 115BAC (rounded off)	77,81,120

*Computation of tax liability of Mr. Jayaprakash for AY 2022-23*

Particulars	Regular rates	115BAC rates
Total income	77,56,120	77,81,120
Tax on total income	21,39,336	20,71,836
Less: Rebate u/s 87A (N/A as total income > 5 lakh)	-	-
	21,39,336	20,71,836
Add: Surcharge @ 10% since total income > Rs. 50 lakh and up to Rs. 1 crore	2,13,934	2,07,184
	23,53,270	22,79,020
Add: HEC @ 4%	94,131	91,161
Tax liability	24,47,401	23,70,181
Less: TDS on dividend @ 10% u/s 194	(1,72,000)	(1,72,000)
Less: TDS on FD interest @ 10% u/s 194A	(12,000)	(12,000)
Less: TDS on rent from Mr. Z: Assuming Mr. Z is not covered u/s 194-I and, thus, it is	(36,000)	(36,000)

<sup>3</sup> If previous year is taken as the earlier previous year (denoting opening stock of current previous year), it will be reduced instead of being added.

deducted u/s 194-IB @ 5% since monthly rent > Rs. 50,000		
Less: Advance tax	(15,00,000)	(15,00,000)
Tax liability	7,27,401	6,50,181
<b>Tax liability (rounded off)</b>	<b>7,27,400</b>	<b>6,50,180</b>
Mr. Jayaprakash can opt for section 115BAC (but he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax payable will be 6,50,180.		

**B7. CA2019(N) – Mrs. Mitul, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own.....**

*Computation of total income of Mrs. Mitul for AY 2022-23 (under regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries:</b>			
Basic pay: Rs. 13,000 × 12 months		1,56,000	
Transport allowance: Rs. 2,000 × 12 months; fully taxable		24,000	
Medical treatment of son (family) in employer's hospital is exempt u/s 17(2), proviso		-	
Gross salary		1,80,000	
Less: Standard deduction u/s 16(ia)		(50,000)	1,30,000
<b>Income from house property:</b>			
Let out portion (first floor): Assumed that both floors are of equal area			
• Gross annual value: Annual rent taken in absence of information on expected rent: Rs. 10,000 × 6 months		60,000	
• Less: Municipal taxes actually paid during the PY = Rs. 10,000/2		(5,000)	
• Net annual value		55,000	
• Less: Deductions u/s 24			
o Standard deduction @ 30% of NAV	16,500		
o Interest on housing loan for reconstruction: (Rs. 60,000 + Rs. 40,000)/2	50,000	(66,500)	
		(11,500)	
Self occupied portion (ground floor)			
• Annual value	Nil		
• Less: Deduction u/s 24			
o Interest on loan taken for reconstruction: (Rs. 60,000 + Rs. 40,000)/2, i.e., Rs. 50,000, but limited to Rs. 30,000	(30,000)	(30,000)	
Loss from house property: Set off against income from salary u/s 71 (alternatively, it can also be set off against business income and/or income from other sources)			(41,500)
			88,500
<b>Profits and gains of business or profession:</b>			
Net income as per Income & Expenditure Account		8,59,000	
Less: Items covered under other heads of income			
• Salary received from True Care Hospitals (P) Ltd	1,80,000		
• Rent from house property	78,000		
• Dividend from foreign companies	10,000	(2,68,000)	
		5,91,000	
Less: Expenditure deductible			
• Depreciation on clinic equipments: WDV for depreciation = Opening WDV Rs. 1,00,000 + Actual cost of asset acquired NIL (as paid in cash > 10,000). Depreciation @ 15% general rate.	15,000	(15,000)	
		5,76,000	
Add: Items debited but not allowed			
• Interest on housing loan for residential house (not business expense)	1,00,000		
• Interest on education loan for son (not business expense)	26,000		
• Conveyance expense in relation to employment (not business expense)	12,000		
• Power & fuel incurred for tenant (not business expense)	6,000		
• Municipal taxes paid for residential house (not business expense)	10,000	1,54,000	
Mrs. Mitul is eligible for section 44ADA under which her presumptive income would be 50% of gross receipts of 12 lakh, i.e., Rs. 6 lakh and no deduction of any expenditure will		7,30,000	7,30,000

be allowed. Since she has maintained books of account, she can claim the higher sum of Rs. 7,30,000 as business income. <sup>4</sup>			
<b>Income from other sources:</b>			
Power back up charges from tenant @ Rs. 3,000 pm for 6 months (in case of letting of building along with services, rent for building is taxable as IHP and charges of services are taxable under IFOS)	18,000		
Less: Expenses incurred for generator fuel	(6,000)	12,000	
Dividend from foreign companies (assuming no tax deducted at source)		10,000	
			22,000
<b>Gross total income</b>			<b>8,40,500</b>
Less: Deduction under Chapter VIA			
• U/s 80C: Tuition fee paid for grand daughter: Not eligible			-
• U/s 80E: Interest on loan taken for higher education of son (principal repayment is not deductible)		26,000	
• U/s 80EEA: Not available since housing loan not taken for acquisition			(26,000)
<b>Total income</b>			<b>8,14,500</b>

*Computation of total income of Mrs. Mitul for AY 2022-23 (under section 115BAC)*

Particulars	Rs.	Rs.
Total income as per regular provisions		8,14,500
Add: Allowance and deductions not allowed u/s 115BAC:		
• Standard deduction u/s 16(ia)		50,000
• Loss from house property: Interest u/s 24(b) for self occupied portion is not allowed u/s 115BAC; inter-head set off loss from let out portion is also not allowed but this loss can be carried forward to AY 2022-23.		41,500
• Payment to scientific research association u/s 35		25,000
• Deduction u/s 80E		26,000
<b>Total income u/s 115BAC</b>		<b>9,57,000</b>

*Computation of tax liability of Mrs. Mitul for AY 2022-23*

Particulars	Regular rates	115BAC rates
Total income	8,14,500	9,57,000
Tax on total income	72,900	68,550
Less: Rebate u/s 87A (N/A as total income > 5 lakh)	-	-
	72,900	68,550
Add: Surcharge (N/A as total income ≤ 50 lakh)	-	-
	72,900	68,550
Add: HEC @ 4%	2,916	2,742
Tax liability	75,816	71,292
<b>Tax liability (rounded off)</b>	<b>75,820</b>	<b>71,290</b>
Mrs. Mitul can opt for section 115BAC (she should note the restrictive conditions of opting in/out of section 115BAC since she has income from business/profession). Tax liability will be Rs. 71,290.		

*Mistake by students – Treating power back up charges as IHP instead of IFOS. In some cases, not even including this income in the computation.*

**B8. CA2019(N) – Kanchan, a resident individual aged 61 years, provides the following information for FY 2021-22.....**

*Computation of total income of Kanchan for AY 2022-23 (under regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries:</b>			
Salary for 2 months @ Rs. 30,000 p.m.		60,000	
Less: Standard deduction u/s 16(ia)		(50,000)	10,000
<b>Income from house property:</b>			
Office: Annual value (in absence of any other information, rent of office taken as		1,44,000	

<sup>4</sup> Alternatively, she can claim the sum of Rs. 6 lakh as presumptive business income.

annual value)			
• Less: Standard deduction @ 30% u/s 24(a)		(43,200)	
		1,00,800	
Arrears of rent: Taxable u/s 25A even if she is no longer the owner of property; assuming it was not taxed earlier on due basis	90,000		
• Less: Standard deduction @ 30% u/s 25A	(27,000)	63,000	1,63,800
<b>Profits and gains of business or profession:</b>			
<b>Income from firm:</b>			
• Share of profit from firm: Exempt u/s 10(2A)	-		
• Interest on capital: Deductible in hands of firm up to 12% and, hence, taxable for Kanchan: Rs. 2,85,000 × (12/15)	2,28,000		
• Salary as working partner: Taxable since fully allowed in the hands of firm	1,20,000	3,48,000	
<b>Income from boutique business:</b>			
• Net profit as per P&L Account	3,50,000		
• Add: Expenses debited but not allowed			
o Advance income tax paid: Disallowed u/s 40(a)(ii)	90,000		
o Personal drawings: Personal expenses not allowed u/s 37(1)	80,000		
	5,20,000		
• Less: Income chargeable as IFOS but credited to P&L account			
o Interest on savings bank account with PNB	(27,000)		
o Interest on savings account with post office	(11,000)		
o Interest on fixed deposits with Canara Bank	(25,000)	4,57,000	8,05,000
<b>Capital gains:</b>			
Full value of consideration on sale of house		80,00,000	
Less: Indexed cost of acquisition = COA × (CII of 2021-22/ CII of 2003-04) = 31.5 L × (317/109)		(91,61,009)	
Long term capital loss: Carried forward u/s 74 to next year		(11,61,009)	
<b>Income from other sources:</b>			
Interest on savings bank account with PNB		27,000	
Interest on savings account with post office	11,000		
• Less: Exempt u/s 10(15)	(3,500)	7,500	
Interest on fixed deposits with Canara Bank		25,000	59,500
<b>Gross total income</b>			<b>10,38,300</b>
<b>Less: Deductions under Chapter VIA</b>			
• U/s 80C: Life insurance premium: up to 10% of Rs. 8 lakh since policy taken after 31.3.2012		80,000	
• U/s 80D: Health insurance premium for mother aged 83 (even if not dependent): Allowed up to Rs. 50,000 (assuming she is resident and, thus, senior citizen)		50,000	
• U/s 80TTB: Interest of Rs. 59,500 up to limit of Rs. 50,000		50,000	(1,80,000)
<b>Total income</b>			<b>8,58,300</b>

*Computation of total income of Kanchan for AY 2022-23 (under section 115BAC)*

Particulars	Rs.	Rs.
Total income as per regular provisions		8,58,300
Add: Allowance and deductions not allowed u/s 115BAC:		
• Standard deduction u/s 16(ia)		50,000
• Deductions under Chapter VIA		1,80,000
Total income u/s 115BAC		10,88,300

*Computation of tax liability of Kanchan for AY 2022-23*

Particulars	Regular rates	115BAC rates
Total income	8,58,300	10,88,300
Tax on total income	81,660	92,660
Less: Rebate u/s 87A (N/A as total income > 5 lakh)	-	-
	81,660	92,660



Add: Surcharge (N/A as total income ≤ 50 lakh)	-	-
	81,660	92,660
Add: HEC @ 4%	3,266	3,706
Tax liability	84,926	96,366
Less: TDS u/s 194-IA for sale of house @ 1% of 80 lakh as it is ≥ 50 lakh	(80,000)	(80,000)
Less: Advance income tax paid	(90,000)	(90,000)
Tax payable/refundable	(85,074)	(73,634)
<b>Tax payable/refundable (rounded off)</b>	<b>(85,070)</b>	<b>(73,630)</b>

Kanchan should not opt for section 115BAC (she should also note the restrictive conditions of opting in/out of section 115BAC since she has income from business/profession). Tax refundable will be Rs. 85,070.

**B9. CA2019(N) – Mr. Jagdish, aged 61 years, has set up his business in Thailand and is residing in Thailand since last 20....**

*Residential status of Mr. Jagdish for AY 2022-23*

Mr. Jagdish should be in India ≥ 182 days in PY 2021-22 or should be in India ≥ 60 days in PY 2021-22 and in India ≥ 365 days in preceding 4 PYs. Since he does not satisfy any of these conditions, he is a non-resident.

*Computation of total income of Mr. Jagdish for AY 2022-23*

Particulars	Rs.	Rs.	Rs.
<b>Income from house property:</b>			
House property in Bangkok:			
• Income does not accrue or arise in India, it is not deemed to accrue or arise in India and it is not received in India. Hence, not taxable.			-
House property in Pune:			
• Accrues or arises in India, hence, taxable.			
• Gross annual value (annual rent taken in absence of information about expected rent) @ Rs. 27,500 p.m.		3,30,000	
• Less: Municipal taxes: Not deductible since not paid		-	
• Net annual value		3,30,000	
• Less: Deductions u/s 24:			
o Standard deduction @ 30% of NAV	(99,000)		
o Interest on capital borrowed: Deductible on due basis	(84,000)	(1,83,000)	
		1,47,000	
Arrears of rent received for house in Jaipur: Taxable u/s 25A (since not taxed earlier) even if he is no more the owner of house.	96,000		
• Less: Deduction @ 30%	(28,800)	67,200	2,14,200
<b>Profits and gains of business or profession:</b>			
Business in Thailand: Income does not accrue or arise in India, it is not deemed to accrue or arise in India and it is not received in India. Hence, not taxable.			-
<b>Income from other sources:</b>			
Interest on bonds of Japanese company: Taxable to the extent received in India		22,500	
Income from Apple Orchid in Nepal: Taxable as deposited directly in Kathmandu Branch of UBI in Mr. Jagdish's account maintained at branch in Pune (alternate view possible that amount is first received in Kathmandu and then remitted in India; in such case, income will not be taxable in India)		5,00,000	5,22,500
<b>Total income</b>			<b>7,36,700</b>

*Mistake by students – Absence of proper reasoning, especially for house property in Bangkok and profit from business in Thailand.*