

# TAXBOOK<sup>+</sup>

## Hints to solutions

### Basic Concepts

### BYC & MCQ

#### OVERVIEW OF INCOME TAX LAW

**M1. A person has derived income of Rs. 10 lakh from retail business, Rs. 20 lakh from agriculture and.....**  
Constitution of India empowers the Parliament to levy taxes on income (other than agricultural income), i.e., 10 lakh + 1 lakh.

**M3. Mr. X earned income of Rs. 1 lakh from certain activities carried aboard a ship situated in territorial .....**  
Income Tax Act extends to India which includes its territorial waters.

#### ASSESSMENT YEAR & PREVIOUS YEAR

**M18. Mr. X, employed with Z Ltd., resigned on 31.12.2021. He earned salary for the period of service. He has.....**  
PY is 2021-22 and AY is 2022-23 which begins on 1.4.2022

**M19. Mr. Y has filed his return of income for the assessment year 2022-23. Income for which year has.....**  
PY is the FY immediately preceding the AY

**M21. Mr. Z decided to start his manufacturing business. He acquired plant and machinery on 5.3.2021.....**  
PY for business newly set up begins from date of setting up and ends with 31 March of the FY.

**M26. Mr. US, a citizen of US, is residing in India since the last 10 years. During the assessment proceedings for.....**  
U/s 174

**M27. On the basis of information received, the AO wants to make assessment in the relevant year itself in.....**  
A: Not valid u/s 174 as he will return  
B: Valid u/s 174A  
C: Not valid u/s 175 as he will sell property in the ordinary course of business, not to avoid payment of tax  
D: Not valid u/s 176 as AO has discretion and in this case accelerated assessment may not be necessary to safeguard interest of revenue

**M31. AO has discretion to either charge income in the PY itself or in the usual AY in case of.....**  
AO has discretion only u/s 176 to tax the income in the current AY or regular AY. There is no discretion in other sections.

**M32. Rs. 5 lakh was found to have been credited in the books of Mr. Q. He could not provide any.....**  
U/s 68

**M33. Mr. V invested Rs. 50 lakh in the shares of UB Pvt. Ltd. This amount was not recorded in the books.....**

U/s 69. Unexplained investment can be taxed.

**M34. During a search, Mr. C, carrying on a business, was found to be the owner of jewellery whose market.....**  
Nil u/s 69A as nature and source satisfactorily explained.

**M36. During the FY 2021-22, Mr. K incurred Rs. 1 crore as expenditure on marriage ceremony of his.....**  
Nil u/s 69C as nature and source not satisfactorily explained for Rs. 40 lakh.

#### PERSON & ASSESSEE

**M42. Which of the following assessments is valid?.....**  
Assessment of minor can be made on guardian as representative assessee

**M44. Which of the following persons is not an assessee?.....**  
Master V does not fall in any category of section 2(7)

**M45. Which of the following persons is not an assessee?.....**  
Mr. Poor does not fall in any category of section 2(7)

#### INCOME

**M49. Which of the following is income?.....**  
A: Pure reimbursement; B: Pin money is not income; C: Not income on ground of mutuality

**M53. Rohit earned Rs. 20,000 as interest on his savings bank account with State Bank of India. Under.....**  
As IFOS since it does not fall under any other head of income

**M54. Rahul computed income of Rs. 50,000 under each of the five heads of income, after allowing exemption.....**  
Income tax is computed on total income

**M56. Total income of Rs. 10,050 will be rounded off as.....**  
Already rounded off to multiple of 10

**M57. Total income of Rs. 10,051.10 will be rounded off as.....**  
Ignore paise = 10,051. Last figure is less than 5. Reduce to next lower multiple of 10.

**M59. Rohit needs to compute his total income earned during the period 1.4.2021 to 31.3.2022 and tax.....**  
Total income and tax liability is computed based on provisions of the Act as on 1<sup>st</sup> April of the AY.

**M60. Through an amendment in the Rules, it is provided that application for an exemption needs to be made.....**  
Change in a procedure is applicable from the date the amendment is effective



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### Rates of Tax

### Build Your Confidence (BYC)

#### B1. Mrs. Super Senior.....

Computation	Rs.
<b>Total income</b>	
First 5,00,000 @ Nil	0
Next 5,00,000 @ 20%	1,00,000
Next 2,00,000 @ 30%	60,000
<b>Tax on total income</b>	<b>1,60,000</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh	-
	1,60,000
Add: Surcharge: Nil since TI ≤ 50 lakh	-
	1,60,000
Add: HEC @ 4%	6,400
<b>Tax liability</b>	<b>1,66,400</b>

#### B2. Mr. PK is a non-resident .....

Computation	Rs.
First 2,50,000 @ Nil	Nil
Next 2,50,000 @ 5%	12,500
Next 5,00,000 @ 20%	1,00,000
Next 5,00,000 @ 30%	1,50,000
<b>Tax on total income</b>	<b>2,62,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh	-
	2,62,500
Add: Surcharge: Nil since TI ≤ 50 lakh	-
	2,62,500
Add: HEC @ 4%	10,500
<b>Tax liability</b>	<b>2,73,000</b>

#### B3. Mr. Senior, a resident, turns 60 years of age .....

Computation	Rs.
First 3,00,000 @ Nil	Nil
Next 2,00,000 @ 5%	10,000
Next 5,00,000 @ 20%	1,00,000
Next 10,00,000 @ 30%	3,00,000

<b>Tax on total income</b>	<b>4,10,000</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh	-
	4,10,000
Add: Surcharge: Nil since TI ≤ 50 lakh	-
	4,10,000
Add: HEC @ 4%	16,400
<b>Tax liability</b>	<b>4,26,400</b>

**B4. Mr. Young, aged 42 years, has total income of 60 lakh .....**

<b>Total income</b>	<b>Rs.</b>
First 2,50,000 @ Nil	Nil
Next 2,50,000 @ 5%	12,500
Next 5,00,000 @ 20%	1,00,000
Next 50,00,000 @ 30%	15,00,000
<b>Tax on total income</b>	<b>16,12,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh	-
	16,12,500
Add: Surcharge @ 10% as TI > 50 lakh and up to 1 crore	1,61,250
	17,73,750
Add: HEC @ 4%	70,950
<b>Tax liability</b>	<b>18,44,700</b>

**B5. MASTER QUESTION - Mrs. Taxing, turns 60 years of age on 1<sup>st</sup> April 2022. ....**

A person born on 1 April of a particular year is said to have completed a particular age on 31 March on the preceding day of his/her birthday. However, the question does not state that Mrs. Taxing was born on 1 April. Rather, it states that she turns 60 years of age on 1 April 2022. Therefore, she is not a senior citizen for PY 2021-22.

<b>Total income</b>	<b>Rs.</b>	<b>Rs.-</b>
First 2,50,000 @ Nil		Nil
Next 2,50,000 @ 5%		12,500
Next 5,00,000 @ 20%		1,00,000
Next 1,91,00,000 @ 30%		57,30,000
<b>Tax on total income</b>		<b>58,42,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh		-
		58,42,500
Add: SC @ 25% as TI > 2 crore and up to 5 crore		14,60,625
<b>Tax after SC</b>		<b>73,03,125</b>
Tax and SC cannot exceed "Tax+SC on 2 Cr + (TI – 2 Cr)" = 66,84,375 + (2,01,00,000 - 2,00,00,000)	67,84,375	
Marginal Relief	73,03,125 - 67,84,375	(5,18,750)
<b>Tax after SC and marginal relief</b>		<b>67,84,375</b>

Add: HEC @ 4%		2,71,375
<b>Tax liability</b>		<b>70,55,750</b>

**B5A. CA2021(JAN) - Compute the tax liability of Ms. Payal for AY 2022-23, a female resident aged 40 years where her.....**

<b>Total income</b>	<b>Rs.</b>	<b>Rs.</b>
First 2,50,000 @ Nil		Nil
Next 2,50,000 @ 5%		12,500
Next 5,00,000 @ 20%		1,00,000
Next 4,90,50,000 @ 30%		1,47,15,000
<b>Tax on total income</b>		<b>1,48,27,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh		-
		1,48,27,500
Add: SC @ 37% as TI > 5 crore		54,86,175
<b>Tax after SC</b>		<b>2,03,13,675</b>
Tax and SC cannot exceed " <b>Tax+SC on 5 Cr + (TI – 5 Cr)</b> " = 1,85,15,625 + (5,00,50,000 - 5,00,00,000)	1,85,65,625	
Marginal Relief	2,03,13,675 – 1,85,65,625	(17,48,050)
<b>Tax after SC and marginal relief</b>		<b>1,85,65,625</b>
Add: HEC @ 4%		7,42,625
<b>Tax liability</b>		<b>1,93,08,250</b>

**B6. Mr. Taxing, aged 56 years, has furnished the following details of his total income for PY 2021-22. ....**

Total income = Rs. 50,50,000

<b>Computation</b>	<b>Rs.</b>	<b>Rs.</b>
First 2,50,000 @ Nil		Nil
Next 2,50,000 @ 5%		12,500
Next 5,00,000 @ 20%		1,00,000
Next 40,50,000 @ 30%		12,15,000
<b>Tax on total income</b>		<b>13,27,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh		-
		58,42,500
Add: Surcharge @ 10% as TI > 50 lakh and up to 1 crore		1,32,750
<b>Tax after SC</b>		<b>14,60,250</b>
Tax and SC cannot exceed " <b>Tax on 50 L + (TI – 5 L)</b> " = 13,12,500 + (50,50,000 - 50,00,000)	13,62,500	
Marginal Relief	14,60,250 - 13,62,500	(97,750)

<b>Tax after SC and marginal relief</b>		<b>13,62,500</b>
Add: HEC @ 4%		54,500
<b>Tax liability</b>		<b>14,17,000</b>

**B7. Mr. Hero, aged 45 years, has total income of Rs. 5,01,00,000 .....**

<b>Total income</b>	<b>Rs.</b>	<b>Rs.</b>
First 2,50,000 @ Nil		Nil
Next 2,50,000 @ 5%		12,500
Next 5,00,000 @ 20%		1,00,000
Next 4,91,00,000 @ 30%		1,47,30,000
<b>Tax on total income</b>		<b>1,48,42,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh		-
		1,48,42,500
Add: SC @ 25% as TI > 2 crore and up to 5 crore		54,91,725
<b>Tax after SC</b>		<b>2,03,34,225</b>
Tax and SC cannot exceed " <b>Tax+SC on 5 Cr + (TI – 5 Cr)</b> " = 1,85,15,625 + (5,01,00,000 - 5,00,00,000)	1,86,15,625	
Marginal Relief	2,03,34,225 - 1,86,15,625	(17,18,600)
<b>Tax after SC and marginal relief</b>		<b>1,86,15,625</b>
Add: HEC @ 4%		7,44,625
<b>Tax liability</b>		<b>1,93,60,250</b>

**B8. Mrs. Mature, a resident, was born on 1<sup>st</sup> April 1962. ....**

Age of Mrs. Mature is 60 years as on 31.3.2022 as per Circular 28/2016. Since she is a resident, she is a senior citizen for PY 2021-22.

<b>Total income</b>	<b>Rs.</b>
First 3,00,000 @ Nil	Nil
Next 2,00,000 @ 5%	10,000
<b>Tax on total income</b>	<b>10,000</b>
Less: Rebate u/s 87A = Lower of (a) 10,000 or (b) 12,500	(10,000)
<b>Tax after rebate</b>	<b>Nil</b>
Add: HEC @ 4%	Nil
<b>Tax liability</b>	<b>Nil</b>

**B9. Mr. PK is a non-resident and 35 years of age. ....**

<b>Computation</b>	<b>Rs.</b>
--------------------	------------

First 2,50,000 @ Nil	Nil
Next 50,000 @ 5%	2,500
<b>Tax on total income</b>	<b>2,500</b>
Less: Rebate u/s 87A: Nil since he is a non resident	-
<b>Tax after rebate</b>	<b>2,500</b>
Add: HEC @ 4%	100
<b>Tax liability</b>	<b>2,600</b>

**B10. Mr. Hero, resident aged 30 years, has total income of Rs. 4 lakh .....**

Computation	Rs.
First 2,50,000 @ Nil	Nil
Next 1,50,000 @ 5%	7,500
<b>Tax on total income</b>	<b>7,500</b>
Less: Rebate u/s 87A = Lower of Rs. 7,500 or Rs. 12,500	(7,500)
<b>Tax after rebate</b>	<b>Nil</b>
Add: HEC @ 4%	Nil
<b>Tax liability</b>	<b>Nil</b>

**B11. Mr. X, resident aged 36 years, has total income of Rs. 1.51 crore for PY 2021-22 comprising business income of....**

Particulars	Rs.
Tax on long term capital gain u/s 112A (exceeding Rs. 1 lakh) @ 10% of Rs. 15 lakh	1,50,000
Tax on short term capital gain u/s 111A @ 15% of Rs. 10 lakh	1,50,000
Tax on other income of Rs. 1.25 crore	35,62,500
Tax on total income	38,62,500
Less: Rebate u/s 87A: Not available as TI > Rs. 5 lakh	-
	38,62,500
Add : SC @ 15% as TI is > Rs. 1 crore and up to Rs. 2 crore	5,79,375
Tax and SC	44,41,875
Add : HEC @ 4%	1,77,675
<b>Tax liability</b>	<b>46,19,550</b>

**B12. Mr. Q, resident aged 66 years, has total income of Rs. 4 crore for PY 2021-22 comprising business income of....**

Particulars	Rs.
Tax on long term capital gain u/s 112 @ 20%	10,00,000
Tax on short term capital gain u/s 111A @ 15%	3,75,000
Tax on other income	95,60,000
Tax on total income	1,09,35,000
Less: Rebate u/s 87A: Not available as TI > Rs. 5 lakh	-

	1,09,35,000
Add : SC @ 15% on tax u/s 111A and @ 25% of tax on other income since TI > Rs. 2 crore and income, other than that u/s 111A, is > Rs. 2 crore	26,96,250
Tax and SC	1,36,31,250
Add : HEC @ 4%	5,45,250
<b>Tax liability</b>	<b>1,41,76,500</b>

**B13. MASTER QUESTION - Mr. B, resident aged 85 years, has total income of Rs. 60 lakh for PY 2021-22 comprising.....**

Particulars	Rs.
Tax on long term capital gain u/s 112 @ 20%	2,00,000
Tax on short term capital gain u/s 111A @ 15%	1,50,000
Tax on winning from lottery u/s 115BB @ 30%	3,00,000
Tax on other income	7,00,000
Tax on total income	13,50,000
Less: Rebate u/s 87A: Not available as TI > Rs. 5 lakh	-
	13,50,000
Add : SC @ 10% as TI > Rs. 50 lakh and up to Rs. 1 crore	1,35,000
Tax and SC	14,85,000
Add : HEC @ 4%	59,400
<b>Tax liability</b>	<b>15,44,400</b>

**B14. MASTER QUESTION - Compute the tax liability of Mr. Jacob in the following cases .....**

Particulars	I	II	III	IV	V
Residential status	Resident	Non resident	Resident	Resident	Resident
Age	36	66	86	45	61
Total income	4,50,000	3,85,000	65,00,000	3,65,00,000	4,70,000
Nature of income	Business income	Salary	Salary	Business income	Lottery prize
<b>Tax on total income (30% in Case V u/s 115BB)</b>	10,000	6,750	17,50,000	1,07,62,500	1,41,000
Less: Rebate u/s 87A for resident individual if TI ≤ 5 lakh	(10,000)	-	-	-	(12,500)
	-	6,750	17,50,000	1,07,62,500	1,28,500
Add: Surcharge if TI > 50 lakh (@ 10% in Case III; @ 25% in Case IV)	-	-	1,75,000	26,90,625	-
	-	6,750	19,25,000	1,34,53,125	1,28,500
Add: HEC @ 4%	-	270	77,000	5,38,125	5,140
<b>Tax liability</b>	-	<b>7,020</b>	<b>20,02,000</b>	<b>1,39,91,250</b>	<b>1,33,640</b>

# TAXBOOK<sup>+</sup>

## Hints to solutions

### Rates of Tax

### MCQ

**M1. Suhani, a resident aged 30 years and having a total income of Rs. 4,90,000 for the PY 2021-22, computed.....**

Correct sequence is tax on total income, rebate u/s 87A, SC, HEC

**M5. Romit is a resident in India of age 60 years. He wants to know the maximum total income he can have.....**

Romit is senior citizen. Tax on TI of 5L = 10,000 – Rebate u/s 87A 10,000 = Nil. Rebate not available over TI of 5L.

**M6. Mrs. Sharma is a resident in India of age 80 years. She wants to know the maximum total income she can.....**

BEL for super senior citizen is 5L. Rebate u/s 87A is not available if TI > 5L.

**M7. Mr. John is a non-resident individual of age 70 years as on 31.3.2022. He wants to know the maximum.....**

BEL is 2.5L and rebate u/s 87A is not available to non resident.

**M8. Basic exemption limit for AY 2022-23 for Mrs. World, a non-resident, who turns 60 years of age on.....**

Non resident is not a senior citizen. BEL of 2.5L will apply.

**M9. Basic exemption limit for AY 2022-23 for Mr. World, a resident, who turns 80 years of age on 1<sup>st</sup> April.....**

He is not a super senior citizen at any time during PY 2021-22. He is a senior citizen.

**M10. Ruma, an individual of age 40 years having total income of Rs. 2.5 lakh, wants to know the highest tax.....**

Tax is not leviable upto TI of 2.5L

**M11. Rocky is a non-resident individual of age 60 years having total income of Rs. 3 lakh for the PY....**

Rocky is not a senior citizen as he is a non resident. Normal tax rate slab will apply @ 5% for TI upto 5L

**M12. Mr. Jagan is a resident individual of age 80 years having total income of Rs. 10 lakh for the PY.....**

Super senior citizen is chargeable at 20% rate for TI exceeding 5L and up to 10L.

**M13. Mr. Jain is an elderly individual resident in India. He wants to know whether, based on his date of birth.....**

Resident individual born on 1.4.1962 will be 60 years of age on 31.3.2022 and will thus be a senior citizen for PY 2021-22 entitled to BEL of 3L. Similarly, a resident individual born on 1.4.1942 will be 80 years of age on 31.3.2022 and will thus be a super senior citizen for PY 2021-22 entitled to BEL of 5L. Thus, date of birth should be 1.4.1962 or before to become a senior citizen or super senior citizen for PY 2021-22.

**M14. Rashmi, aged 40 years, has total income of Rs. 50 lakh for PY 2021-22. Her tax liability would be.....**

Tax = 13,12,500 + 4% HEC of 52,500 = 13,65,000. SC Nil up to TI of 50L.

**M16. Roma, aged 35 years, has a total income of Rs. 6.5 crore which includes dividend income and income.....**

SC in respect of dividend/111A/112A cannot exceed 15%. 37% SC on tax on other income since it exceeds 5 crore.

**M17. Rishi, aged 50 years, has a total income of 5 crore, comprising business income, for the PY....**

Tax on 5 Cr = 1,48,12,500. SC @ 25% = 37,03,125. HEC @ 4% on Tax+SC = 7,40,625. Total = 1,92,56,250.

**M22. Kapil, resident of age 55 years, has a total income of Rs. 55 lakh for PY 2021-22. Compute the amount.....**

Tax + SC = 14,62,500 + 1,46,250 = 16,08,750. HEC @ 4% = 64,350.

**M24. Compute the tax liability of Mrs. Z, a resident of age 55 years, having a total income of Rs. 102 lakh for....**

Tax on TI = 28,72,500. SC @ 15% = 4,30,875.

A: Tax and SC = 33,03,375

B: Tax+SC on 1 Cr + (TI – 1 Cr) = 30,93,750 + 2,00,000 = 32,93,750

Marginal relief = A – B = 9,625

Tax after SC and marginal relief = 32,93,750

HEC @ 4% = 1,31,750

Total = 34,25,500

**M25. Compute the tax liability of Mr. Y, a resident of age 65 years, having a total income of Rs. 2,08,00,000.....**

Tax on TI = 60,50,000. SC @ 25% = 15,12,500.

A: Tax and SC = 75,62,500

B: Tax+SC on 2 Cr + (TI – 2 Cr) = 66,81,500 + 8,00,000 = 74,81,500

Marginal relief = A – B = 81,000

Tax after SC and marginal relief = 74,81,500

HEC @ 4% = 2,99,260

Total = 77,80,760

**M26. Compute the amount of marginal relief from surcharge available to Mr. Q, a resident of age 85.....**

STCG from sale of plots of land is not covered u/s 111A or 112A.

Tax on TI = 1,57,00,000. SC @ 37% = 58,09,000.

A: Tax and SC = 2,15,09,000

B: Tax+SC on 5 Cr + (TI – 5 Cr) = 1,85,00,000 + 30,00,000 = 2,15,00,000

Marginal relief = A – B = 9,000

**M27. Compute the amount of marginal relief from surcharge available to Mr. T, a resident of age 45.....**

Tax on TI = 13,87,500. SC @ 10% = 1,38,750.

A: Tax and SC = 15,26,250

B: Tax+SC on 50 lakh + (TI – 50 lakh) = 13,12,500 + 2,50,000 = 15,62,500

Marginal relief = A – B = Nil

**M28. Total income of an artificial juridical person is Rs. 4,10,000 for PY 2021-22. Income-tax, rebate u/s 87A.....**

Tax on TI = 8,000. Rebate u/s 87A = Nil as not allowed to AJP. SC = Nil as TI ≤ 50L.

**M31. An assessee has total income of Rs. 1,000 for the PY 2021-22. Under which of the following options.....**

BEL for co-operative society is 10,000. It is Nil for LLP, firm, company, local authority.

**M32. Rate of tax is not 30% for AY 2022-23 in which of the following cases.....**



Rate for foreign company is 40% (50% on royalty/FTS in certain cases).  
 Rate for BCD Ltd. is 30% as total turnover of PY 2019-20 > 400 crore.

**M33. Delhi Municipal Corporation, BNP & Co. partnership firm and Vadodara co-operative society are.....**

SC is leviable @ 12% for TI > 1 crore.

**M34. Which of the following is not true?.....**

Rate of SC is based on total income, not on total turnover.

**M35. Mr. Y, a resident of age 75 years, won a lottery prize of Rs. 60 lakh on 15.9.2021. He has no other source.....**

Tax = 30% of 60 lakh = 18,00,000. SC @ 10% = 1,80,000. HEC @ 4% on Tax+SC = 79,200. Total = 20,59,200

**M36. Mr. P, a resident of age 65 years, has total income for AY 2022-23 comprising long term capital gain u/s.....**

Tax = 1,20,00,000 (20% of 6 crore) + 1,10,000 (tax on 10 lakh) = 1,21,10,000. SC @ 37% = 44,80,700. Tax + SC = 1,65,90,700. Tax/SC + HEC = 1,72,54,328.

**M37. Mr. Q, a resident of age 55 years, has total income for AY 2022-23 comprising short term capital gain.....**

Tax = 90,00,000 (15% of 6 crore) + 1,12,500 (tax on 10 lakh) = 91,12,500. SC @ 15% = 13,66,875, as TI > Rs. 2 crore and income, other than u/s 111A, is up to Rs. 2 crore. Tax + SC = 1,04,79,375. Tax/SC + HEC = 1,08,98,550.

**M39. Mr. Swindle is found to be the owner of two gold chains of 30 gms each (market value of both.....**

Income taxable u/s 69B = Unexplained excess	2,90,000 – 50,000 = 2,40,000
Tax on 2,40,000 @ 60%	1,44,000
Add: SC @ 25%	36,000
	<b>1,80,000</b>
Add: HEC @ 4%	7,200
<b>Tax liability u/s 115BBE</b>	<b>1,87,200</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B35 to End

#### Residential Status & Scope of Total Income

#### Build Your Confidence (BYC)

#### COMPREHENSIVE QUESTIONS

**B35. Compute the gross total income in the hands of Vatsal, aged 45 years, if he is a ROR, RNOR or NR for AY 2022-23.**

Particulars	Rs.	ROR	RNOR	NR
Interest on Hong Kong Development Bonds (40% of interest is received in India)	20,000	20,000	8,000	8,000
Income from a business carried on in Ahmedabad (30% income is received in India)	30,000	30,000	30,000	30,000
Long term capital gain on sale of shares of Tata Ltd., an Indian company. Income was received in Hong Kong	10,000	10,000	10,000	10,000
Dividend from a UK based company. It was credited in bank account maintained in London.	15,000	15,000	-	-
Short term capital gain on sale of building in Sri Lanka (70% of profits were received in India)	50,000	50,000	35,000	35,000
Income earned from business in Denmark. Business was controlled from Jaipur (Rs. 60,000 were received in India)	90,000	90,000	90,000	60,000
Profits from a business carried on in Jodhpur. It was wholly managed from Jakarta.	25,000	25,000	25,000	25,000
Income from house property situated in Canberra (computed). Income was deposited in a bank at Canberra and then remitted to India.	70,000	70,000	-	-
Interest on debentures in BCD Ltd., an Indian company. Interest was credited in bank account held in Poland.	22,000	22,000	22,000	22,000
Fees received in London for technical services rendered in India to the Government of India	17,000	17,000	17,000	17,000
Profits earned from a business carried on in Bangalore. Business was managed from Hong Kong.	35,000	35,000	35,000	35,000
Income from a house situated in Beijing. Income was received in Beijing (computed)	25,000	25,000	-	-
Past foreign untaxed income brought to India during the PY 2021-22	10,000	-	-	-
Income from agricultural land situated in Bhutan. Income was received in Bhutan and then remitted to India through authorized banking channel.	36,000	36,000	-	-
Income from a profession carried on in South Africa. The profession was setup in India. Income was received in South Africa but later spent in India.	45,000	45,000	45,000	-
Interest on savings bank deposit in Coimbatore branch of SBI	34,000	34,000	34,000	34,000
Income from a business carried on in Moscow and received there. The business was controlled from London.	20,000	20,000	-	-
Dividend from Reliance Petro Ltd., an Indian company, received in bank account held in London.	16,000	16,000	16,000	16,000
Agricultural income from a land situated in Rajasthan, received in Jaipur	15,000	-	-	-
<b>Gross total income</b>		<b>5,60,000</b>	<b>3,67,000</b>	<b>2,92,000</b>

**B35a. CA2021(JUL) – Mr. Pratap earned following incomes during the FY 2021-22. He settled in Singapore in the year.....**

Since Mr. Pratap settled in Singapore in the year 1997 and no further information is given regarding his stay in India during the PY, it is assumed that he is a non-resident.

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

#	Particulars	Rs.	Comment
1	Interest on Singapore Development Bonds (only 50% of interest received in India)	17,500	Taxable to the extent received in India. Balance not taxable as it accrues/arises and is received outside India.
2	Dividend from German company received in Germany	-	Not taxable as it accrues/arises and is received outside India.
3	Profits from a business in Kanpur, which is managed directly from Singapore	1,00,000	Taxable as deemed to accrue/arise in India.
4	Short term capital gain on sale of shares of an Indian company received in India	60,000	Taxable as deemed to accrue/arise in India since capital asset is situated in India (being shares of an Indian company) and further it is received in India
5	Income from business in Mumbai	80,000	Taxable as deemed to accrue/arise in India.
6	Fees for technical services rendered in India, but received in Singapore	1,00,000	Taxable as deemed to accrue/arise in India since services rendered in India
7	Agricultural income from land situated in Punjab	-	Exempt u/s 10(1)
8	Rent received from house property at Lucknow	70,000	Deemed to accrue/arise in India as property situated in India. Amount is taxable after providing standard deduction of 30% u/s 24(a) (para 80.5)
	<b>Total income</b>	<b>4,27,500</b>	

**B35b. CA2021(J) - Discuss the taxability of the following items in the hands of different persons briefly explaining the....**

1. Taxable in India as income from transfer of capital asset situate in India is deemed to accrue or arise in India u/s 9(1)(i).
2. Taxable in India as income from property in India is deemed to accrue or arise in India u/s 9(1)(i). This will be the case whether Mr. Arpit is a non-resident or resident.
3. Taxable in India as income from interest payable by Government is deemed to accrue or arise in India u/s 9(1)(v).
4. Not taxable in India as Mr. Bhavesh is a non-resident and salary is received outside India. It is not deemed to accrue or arise in India u/s 9(1)(ii) as services are rendered outside India.

**B36. CA2013(M) (modified) – Devesh and Siddhant are brothers and they earned the following .....**

Since Devesh < 60 days in India during PY 2021-22 and < 365 days in preceding 4 PYs, he is a NR\*. Since Siddhant is in India for 11 months every year, he is a ROR.

*Computation of gross total income of Devesh and Siddhant for AY 2022-23*

#	Particulars	Devesh	Siddhant	Comment
1	Interest on American Development Bonds, 50% of interest received in India	23,000	18,000	Taxable for Devesh on receipt basis. Global income taxable for Siddhant.
2	Dividend from a Japanese company received in America	-	15,000	Not taxable for Devesh since accrual/receipt is outside India. Global income taxable for Siddhant.
3	Profit on sale of shares of an Indian company received in India	45,000	75,000	Accrues/arises and is received in India
4	Profit from a business in Mumbai but managed directly from America	10,000	-	Accrues/arises in India since business in India
5	Income from a business in Mumbai	32,000	28,000	Accrues/arises in India since business in India
6	Fees for technical services rendered in America and received in America. The services were, however, utilized in India	1,50,000	-	Deemed to accrue/arise in India since services utilized in India
7	Interest on savings bank deposit in State Bank of India, Mumbai	4,500	12,000	Accrues/arises in India
8	Rent received in respect of house property at Mumbai	67,200	38,500	Accrues/arises in India. Income from house property will be computed after providing 30% standard deduction u/s 24(a) (para 80.5)
	<b>Gross total income</b>	<b>3,31,700</b>	<b>1,86,500</b>	

\*Stateless rule will not apply to Devesh.

**B37. CA2019(M) – Mr. Bachhan has provided the following details of his income .....**

Particulars	ROR	RNOR	NR	Comments
Short term capital gains on sale of shares in Indian company received in Japan	85,000	85,000	85,000	Accrues/arises in India as capital asset situated in India
Dividend from a Chinese company received in China	30,000	-	-	Accrues/arises outside India. Taxable on global basis for ROR
Rent from property in Bangladesh deposited in a bank at Dhaka, later on remitted to India through approved banking channels	67,200	-	-	Accrues/received outside India. Subsequent remittance not relevant. Taxable only for ROR. Income under head IHP needs to be computed after giving standard deduction of 30% u/s 24(a) (para 80.5)
Dividend from ABC Ltd., an Indian company	22,000	22,000	22,000	Accrues/arises in India.
<b>Total income</b>	<b>2,04,200</b>	<b>1,07,000</b>	<b>1,07,000</b>	

**B38. CA2020(N) - Mr. Vinod, aged 45 years, earned the following incomes during the year ended on 31.3.2022.....**

Particulars	ROR	RNOR	Comment
Agricultural income from Sri Lanka	25,000	-	Taxable only for ROR since accrues/arises outside India and assumed it is not received in India and that activity is not controlled in India. Also, not exempt u/s 10(1) since land situated outside India (para 28).
Long term capital gain on sale of property in Mumbai but received in Burma	30,000	30,000	Capital asset is situated in India; income deemed to accrue/arise in India. Taxable in India.
Profit from business in Dubai controlled from India	2,50,000	2,50,000	Accrues/arises outside India and is derived from business controlled from India. Taxable in India.
Rent from house property in Thailand received in India	70,000	70,000	Received in India. Taxable in India. Income from house property will be computed after giving standard deduction of 30% u/s 24(a) (para 80.5)
Interest on Savings account from bank in India	8,000	8,000	Bank account in India; income accrues/arises in India; taxable in India.
Past untaxed foreign income brought into India during the year	-	-	Remittance of past untaxed foreign income not taxable.
Gross total income	3,83,000	3,58,000	
Less: Deduction u/s 80TTA	(8,000)	(8,000)	Deduction is allowable u/s 80TTA on account of saving bank interest (para 203)
<b>Total income</b>	<b>3,75,000</b>	<b>3,50,000</b>	

**B39. CA2015(M) - Explain with reasons whether the following transactions attract tax in India in the .....**

#	Transaction	Taxable?	Reason
1	Salary paid to David, a citizen of India, of Rs. 15 lakh, by the Central Government for services rendered in Canada	Yes	Salary payable by Government to citizen of India for services rendered outside India is deemed to accrue or arise in India u/s 9(1)(iii).
2	Legal charges of Rs. 7.5 lakh paid to Johnson, a lawyer of London, who visited India to represent a case in the Supreme Court.	Yes	It accrues or arises and is received in India
3	Royalty paid to Rajeev, a non resident, by Mukesh, a resident, for a business carried on in Sri Lanka	No	Royalty payable by a resident is not deemed to accrue or arise in India u/s 9(1)(vi) where used for purposes of business carried on by resident outside India. It is assumed that royalty is received by non-resident outside India.
4	Interest received of Rs. 1 lakh, on money borrowed in France, By Dyana, a non resident, for the business at Bangalore.	Yes	Interest payable by NR is deemed to accrue or arise in India u/s 9(1)(v) if used for purposes of business carried on in India.

**B40. CA2019(M) - Following are the incomes of Subhash, a citizen of India for PY 2021-22. Compute his GTI .....**

Particulars	ROR	RNOR	Comments
Income from business in India of Rs. 2 lakh. Business is controlled from London and Rs. 60,000 were remitted to London.	2,00,000	2,00,000	Income accrues or arises from a business in India. Control of business from London not relevant
Profits from business earned in Japan of Rs. 70,000 of which Rs. 20,000 were received in India. Business is controlled from India.	70,000	70,000	<ul style="list-style-type: none"> <li>Global income taxable for ROR.</li> <li>Income accruing or arising outside India from business controlled in India, taxable for RNOR.</li> </ul>
Untaxed income of Rs. 1.3 lakh for the year 2020-21 of a business in England which was brought in India on 3 March 2021.	-	-	Income does not pertain to PY 2021-22
Royalty of Rs. 4 lakh received from Ramesh, a resident, for technical service provided to run a business outside India.	4,00,000	-	<ul style="list-style-type: none"> <li>Global income taxable for ROR.</li> <li>Not deemed to accrue or arise in India u/s 9(1)(vii) as such income paid by resident for technical services used for purpose of business carried out by the payer outside India. Also, not received in India (assumed) or accrued in India (assumed that services rendered outside India). Hence, not taxable for RNOR.</li> </ul>
Agricultural income of Rs. 90,000 in Bhutan.	90,000	-	Taxable only for ROR since accrues outside India. Also, not exempt u/s 10(1) (para 28)
Income of Rs. 73,000 from house property in Dubai, which was deposited in bank at Dubai.	51,100	-	<ul style="list-style-type: none"> <li>Since income accrues/arises outside India and is also received outside India, only taxable for ROR.</li> <li>Since 73,000 is deposited, it is assumed to be rent received. Hence, IHP is computed after giving standard deduction of 30% u/s 24(a) (para 80.5). Alternatively, words in question 'Income from house property' can also be taken to be computed amount under the head IHP in which case entire 73,000 can also be stated to be taxable.</li> </ul>
<b>Gross total income</b>	<b>8,11,100</b>	<b>2,70,000</b>	

**B41. CA2018(N) - Following incomes are derived by Krishna Kumar during the year ended 31 March 2022. ....**

#	Income	Amount	Resident	Non-resident
1	Pension received from US Government	3,20,000	Taxable for ROR, since global income is taxable. Not taxable for RNOR assuming it is received outside India and is for services rendered outside India.	Not taxable, since accrues or arises outside India, assuming it is received outside India.
2	Agricultural income from lands in Malaysia	2,70,000	Taxable for ROR, since global income is taxable. Not taxable for RNOR as it accrues or arises outside India and assuming it is received outside India. Further, it is not exempt u/s 10(1) as land is outside India (para 28).	Not taxable, since accrues or arises outside India, assuming it is received outside India.
3	Rent received from let out property in Colombo	4,20,000	Taxable for ROR, since global income is taxable. Standard deduction of 30% will be allowed u/s 24(a) (para 80.5). Not taxable for RNOR as it accrues or arises outside India and assuming it is received outside India.	Not taxable, since accrues or arises outside India, assuming it is received outside India.

*Examiner comment – Many examinees could not substantiate their answers with proper reasoning.*

**B41a. Rupali, aged 60 years, is a citizen of Canada. She is employed with XYZ Ltd. in Mumbai since 2005. During the PY.....**

During the PY 2021-22, stay in India is 110 days (365 – 179 – 76). She is present in India  $\geq 60$  days in PY 2021-22 and  $\geq 365$  days in preceding 4 PYs. Hence, she is a resident. Since her stay in India  $\leq 729$  days in preceding 7 PYs, she is a RNOR.

*Computation of gross total income of Rupali for AY 2022-23*

Particulars	Rs.	ROR
Salary from XYZ Ltd. (computed)	4,80,000	Received in India
Interest on deposits with Mumbai branch of Bank of India	20,000	Accrued and received in India
Dividend from French company received in France	-	Accrued and received outside India
Gross total income	5,00,000	

**B42. CA2018(M) - Compute the GTI in the hands of an individual .....**

Particulars	Rs.	ROR	NR	Comment
Interest from German Derivative Bonds (1/3 <sup>rd</sup> received in India)	21,000	21,000	7,000	Global income taxable for ROR. Taxable for NR to the extent received in India.
Income from agricultural land situated in Malaysia, remitted to India	51,000	51,000	-	Global income taxable for ROR. Not taxable for NR since accrues/arises outside India. Subsequent remittance immaterial.
Income earned from business in Dubai, controlled from India (Rs. 20,000 received in India)	75,000	75,000	20,000	Global income taxable for ROR. Taxable for NR to the extent received in India since income accrues/arises outside India.
Profits from business in Mumbai, controlled from Australia	1,75,000	1,75,000	1,75,000	Taxable in India since accrues/arises in India.
Interest received from Ashok (NRI) on loan provided to him for business in India	35,000	35,000	35,000	Global income taxable for ROR. Taxable for NR since loan used for business in India, regardless of residential status of Ashok; deemed to accrue or arise in India u/s 9(1)(v).
Dividend from Brown Ltd., an Indian company	30,000	30,000	30,000	Taxable in India since paid by Indian company; deemed to accrue or arise in India u/s 9(1)(iv).
Profit from business in Canada controlled from Mumbai (60% deposited in bank in Canada and 40% remitted to India)	60,000	60,000	-	Global income taxable for ROR. Not taxable for NR since accrued/received outside India. Subsequent remittance immaterial.
Amount received from NRI for use of know-how for his business in Singapore	8,00,000	8,00,000	-	Global income taxable for ROR. Not taxable for NR since know-how used for business outside India, regardless of residential status of Ashok; not deemed to accrue or arise in India u/s 9(1)(vi).
Dividend received from a foreign company in India	25,000	25,000	25,000	Global income taxable for ROR. Taxable for NR as received in India.
Past years untaxed foreign income brought to India	50,000	-	-	Not taxable as does not relate to current AY. Subsequent remittance not relevant.
<b>Gross total income</b>		<b>12,72,000</b>	<b>2,92,000</b>	

**B43. CA2016(N) – Rajneesh, a citizen of India, serving in the Ministry of Finance in India, was transferred .....**

Since Rajneesh did not stay throughout the PY 2021-22, he is a non-resident. His gross total income is computed below:

Particulars	Rs.	Comments
Salary from Government of India	7,20,000	Salary, for service rendered outside India, paid by Government to citizen of India, is deemed to accrue/arise in India u/s 9(1)(iii).
Foreign allowance from Government of India	-	Exempt u/s 10(7)
Less: Standard deduction u/s 16(ia)	(50,000)	Refer para 73
Income from salary	6,70,000	
Rent from a house situated at London, received in London	-	Not taxable in India since income does not accrue/arise in India (or is deemed to be so) and is not received in India.
Interest accrued on National Saving Certificate during the year 2021-22	45,000	Taxable in India since income accrues/arises in India
<b>Gross total income</b>	<b>7,15,000</b>	

**B44. CA2014(N) (modified) – Geetha and Leena are sisters and they earned the following income .....**

Since Geetha is < 60 days in India during PY 2021-22 and < 365 days in preceding 4 PYs, she is a NR\*. Since Leena is in India since 1995, she is a ROR.

*Computation of gross total income of Geetha and Leena for AY 2022-23*

#	Particulars	Geetha	Leena	Comment
1	Income from profession in Malaysia (set up in India) received there	Nil	-	Accrues or arises outside India
2	Profit from business in Delhi, but managed directly from Malaysia	40,000	-	Accrues or arises in India
3	Rent (computed) from property in Malaysia deposited in a bank at Malaysia, later on remitted to India through approved banking channels	Nil	-	Accrues or arises and is received outside India. Subsequent remittance not relevant.
4	Dividend from PQR Ltd., an Indian company	5,000	9,000	Accrue or arises in India
5	Dividend from a Malaysian company received in Malaysia	Nil	8,000	Accrues or arises outside India. Global income taxable for Leena.
6	Agricultural income from land in Maharashtra	Nil	Nil	Accrues or arises in India but exempt u/s 10(1) (para 28)
7	Past foreign untaxed income brought to India	Nil	-	Not pertaining to current AY. Subsequent repatriation not relevant.
8	Fees for technical services rendered in India received in Malaysia	25,000	-	Accrues or arises in India since service rendered in India
9	Income from a business in Pune (Geetha receives 50% of income in India)	12,000	15,000	Accrues or arises in India since business in India
10	Interest on debentures in an Indian company (Geetha received the same in Malaysia)	18,500	14,000	Accrues or arises in India
11	Short term capital gain on sale of shares of an Indian company	15,000	25,500	Accrues or arises in India
12	Interest on savings account with SBI in India	12,000	8,000	Accrues or arises in India
<b>Gross total income</b>		<b>1,27,500</b>	<b>79,500</b>	

\*Stateless rule will not apply to Geetha.

**B45. CA2018(N) (modified) - Surya, an Indian citizen, travelled frequently out of India for his business .....**

Stay in India during PY is only 59 days. Hence, he is NR.\*

*Computation of gross total income of Surya for AY 2022-23*

Particulars	Amount	Comment
Short term capital gain	58,000	Accrued/arisen in India as capital asset situated in India
Dividend	-	Neither accrued nor received in India
Interest on FD	9,500	Accrued and received in India
<b>Gross total income</b>	<b>67,500</b>	

\*Stateless rule will not apply to Surya.

**B46. CA2020(N) - Mr. Thomas, a non resident and citizen of Japan, entered into .....**

#	Item	Tax implications
1	Interest received from Mr. Marshal	Not deemed to accrue or arise in India u/s 9(1)(v) since funds not used for the purpose of a business or profession carried on by the payer in India. Not taxable.
2	Grant of license	Consideration for use or right to use computer software (including granting of license) is treated as royalty. Taxable in India since it is payable by a resident (business enterprise in India) and license is not used in or for the purposes of a business or profession carried on by the payer outside India; or for the purposes of making or earning any income from any source outside India. Hence, deemed to accrue or arise in India u/s 9(1)(vi).
3	News agency	Not deemed to accrue or arise in India u/s 9(1)(i) since activities confined to the collection of news and



		views in India for transmission out of India. Not taxable
4	Set up services	Rs. 10 lakh taxable in India since it represents royalty/FTS payable by a resident and service is not used in or for the purposes of a business or profession carried on by the payer outside India; or for the purposes of making or earning any income from any source outside India. Hence, deemed to accrue or arise in India u/s 9(1)(vii).

**B47. MASTER QUESTION** - Compute the gross total income in the hands of Raghav, aged 45 years, if he is a ROR, RNOR or NR for AY 2022-23.

Particulars	Rs.	ROR	RNOR	NR
Interest on German Development Bonds (40% of interest is received in India)	10,000	10,000	4,000	4,000
Income from business carried out in Tokyo and controlled from Delhi. Income is received in Tokyo.	20,000	20,000	20,000	-
Income from profession carried out in Hong Kong and set up in India. 30% income is received in Gurgaon.	30,000	30,000	30,000	9,000
Interest credited on fixed deposits in bank account in London, later remitted to India.	15,000	15,000	-	-
Employer's contribution to recognized provident fund in India @ 15% of salary (deemed to be received u/s 7 in excess of 12%)	30,000	6,000	6,000	6,000
Income from business carried out in Germany and received there and further taken into account in the group balance sheet prepared in India. Business is controlled from Germany.	50,000	50,000	-	-
Rent from house property in Mumbai, received in Sydney and rent agreement executed in Sydney	14,000	14,000	14,000	14,000
Agricultural income from land situated in Malaysia, received in Malaysia	35,000	35,000	-	-
Income from sale of shares of Wipro Ltd., an Indian company, to a non-resident where consideration is received in the bank account in Japan	43,000	43,000	43,000	43,000
Salary received in US from Zed Ltd. for services rendered while in Chennai	45,000	45,000	45,000	45,000
Salary received in Tokyo from Government of India for working in Japan. Assume that Raghav is a citizen of India.	36,000	36,000	36,000	36,000
Dividend received from Tata Steel Ltd., an Indian company, in bank account in Canberra.	26,000	26,000	26,000	26,000
Dividend received from JSW, a US based company, in bank account held in London	14,000	14,000	-	-
Interest received from Government of India on money borrowed to fund project in Uganda. Interest was received in Dubai.	46,000	46,000	46,000	46,000
Interest received from Piyush, a resident, on loan taken which he used in his business carried out in France	23,000	23,000	-	-
Interest received from John, a non resident, on loan taken which he used to purchase a house property in Kolkata to gain from appreciation in value of property	65,000	65,000	-	-
Fees received from Government of India for providing engineering services for a project being carried out in Maldives	34,000	34,000	34,000	34,000
Royalty received from Suraj, a resident, for grant of license to use patent in production process in his factory in Chennai. Royalty was received in Thailand.	37,000	37,000	37,000	37,000
Fees received from Abraham, a non resident, for providing management consultancy which he used in the business carried on by him in South Korea. Services were rendered from UK and fee was received in UK.	40,000	40,000	-	-
<b>Gross total income</b>		<b>5,89,000</b>	<b>3,41,000</b>	<b>3,00,000</b>



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B15

#### Residential Status & Scope of Total Income

#### Build Your Confidence (BYC)

#### RESIDENTIAL STATUS

##### B1. 182/60 DAY RULE - Determine the residential status of Mr. French, a citizen .....

Special rule applies?	No since he is not a COI and assuming he is not a PIO either. Check general rules.
182 day rule – Stay condition of $\geq 182$ days in current PY	Stay for 182 days is $\geq 182$ days; satisfied. No need to check 60 day rule.
Resident under general rule?	Yes
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	Not satisfied
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	Not satisfied
<b>Residential status</b>	<b>ROR</b>

##### B2. 182/60 DAY RULE – CA2011(N) – Brett Lee, an Australian cricket player, visits .....

Particulars	Result
Special rule applies?	No, since he is neither COI or PIO. Check general rules.
Period of stay during the previous year 2021-22	100 days
Period of stay during the preceding 4 previous years	400 days
Period of stay during the preceding 7 previous years	700 days
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
• First basic stay condition of $\geq 60$ days in current PY	Satisfied since stay is of 100 days
• Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Satisfied since stay is of 400 days
Resident under general rule?	Yes
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	Details not available. Assumed not satisfied.
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	Satisfied since stay is of 700 days
<b>Residential status</b>	<b>Resident but not ordinarily resident</b>

##### B3. 182/60 DAY RULE - Mr. US is a US citizen. He visited India for the first time .....

Particulars	Result
Special rule applies?	No since he is not a COI and assuming he is not a PIO either. Check general rules.
Period of stay during the previous year 2021-22	75 days
Period of stay during the preceding 4 previous years	355 days
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
• First basic stay condition of $\geq 60$ days in current PY	Satisfied
• Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Not satisfied
Resident under general rule?	No
<b>Residential status</b>	<b>Non-resident*</b>

\*Stateless rule cannot apply as he is not a COI.

India includes its territorial waters. Hence, period of stay in India will not change if he stayed for 15 days during FY 2021-22 on the ship located in the territorial waters of India and the answer will remain the same.

**B4.182/60 DAY RULE – CA2019(N) (modified) - Bansuri, a Chinese national, got married to Keshav of India .....**

Particulars	She returned on 20 Feb 2022
Stay during PY 2021-22	1 April 2021 to 11 August 2021 = 133 days 20 Feb 2022 to 31 Mar 2022 = 40 days <b>Total = 173 days</b>
Special rule applies?	No, as she is a foreign national. Check general rules.
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
• First basic stay condition of $\geq 60$ days in current PY	173 days $\geq 60$ days. Satisfied
• Second basic stay condition of $\geq 365$ days in preceding 4 PY's	14 Feb 2021 to 31 Mar 2021 = 47 days. Not satisfied
Resident under general rule?	No
<b>Residential status</b>	<b>Non-resident*</b>

\*Stateless rule cannot apply as she is not a COI.

Particulars	She returned on 20 Jan 2022
Stay during PY 2021-22	1 April 2021 to 11 August 2021 = 133 days 20 Jan 2022 to 31 Mar 2022 = 71 days <b>Total = 204 days</b>
Special rule applies?	No, as she is a foreign national. Check general rules.
182 day rule – Stay condition of $\geq 182$ days in current PY	204 days $\geq 182$ days. Satisfied
Resident under general rule?	Yes
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	Satisfied, since she stayed only for 47 days during PY 2020-21 and did not visit India earlier
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	Satisfied, since stay is 47 days
<b>Residential status</b>	<b>Resident but not ordinarily resident</b>

**B5. SHIP CREW RULE – CA2017(M) (modified) - During the last 4 years preceding the PY 2021-22, Damodhar.....**

Where an Indian citizen leaves India as a member of crew of an Indian ship, he will be resident in India only if he stays in India for 182 days or more during the previous year.

As per Rule 126, in case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of an eligible voyage, not include the period commencing from the date entered into the CDC in respect of joining the ship by the said individual for the eligible voyage and ending on the date entered into the CDC in respect of signing off from the ship in respect of such voyage.

Eligible voyage includes a voyage undertaken by an Indian ship in the carriage of passengers in international traffic, originating from any port in India and having its destination at a port outside India.

In this case, voyage is undertaken by a foreign bound Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India and having its destination at a port outside India. Hence, the voyage is an eligible voyage.

Particulars	Singapore/Malaysia trip
Special rule applies?	Ship crew rule as he is COI who leaves India in PY as member of crew of an Indian ship
Stay during PY 2021-22	Period from 12 August 2021 to 21 January 2022, i.e., 163 days, has to be excluded for computing period of stay of Damodhar in India. Further, 29 days with respect to the private tour outside India will also be excluded. Hence, Damodhar is in India during the previous year 2021-22 for 173 days.
Ship crew rule - Condition of $\geq 182$ days in current	Not satisfied

PY	
Resident under special rule?	No
<b>Residential status</b>	<b>Non-resident*</b>

\*Assuming stateless rule does not apply

Particulars	No Singapore/Malaysia trip
Special rule applies?	Ship crew rule as he is COI who leaves India in PY as member of crew of an Indian ship
Stay during PY 2021-22	Period of 29 days will not be excluded from stay in India during PY 2021-22 which will then be 173 + 29 = 202 days.
Ship crew rule - Condition of $\geq 182$ days in current PY	202 days $\geq 182$ days. Satisfied
Resident under special rule?	Yes
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	NR in 3 out of 10 preceding years. Not satisfied
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	Not satisfied, since stay is 830 days in preceding 7 PY's
<b>Residential status</b>	<b>Resident and ordinarily resident</b>

#### B6. SHIP CREW, EMPLOYMENT RULE – MASTER QUESTION - Suraj is a citizen of India. He has been .....

Particulars	Left for purposes of employment
Special rule applies?	Employment rule since he is a COI who leaves India in PY for the purposes of employment outside India.
Stay during PY 2021-22	1 Apr to 22 Sep = 175 days
Employment rule – Stay condition of $\geq 182$ days in current PY	Not satisfied since $< 182$ days
Resident under special rule?	No
<b>Residential status</b>	<b>Non-resident*</b>

\*Assuming stateless rule does not apply

Particulars	Left on personal tour
Special rule applies?	No, as he leaves India on personal tour. Check general rules.
Stay during PY 2021-22	1 Apr to 22 Sep = 175 days
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
• First basic stay condition of $\geq 60$ days in current PY	Satisfied since $\geq 60$ days
• Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Satisfied since he did not leave India before PY 2021-22
Resident under general rule?	Yes
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	Not satisfied since he did not leave India before PY 2021-22
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	Not satisfied since he did not leave India before PY 2021-22
<b>Residential status</b>	<b>ROR</b>

Particulars	Left as ship crew member
Special rule applies?	Ship crew rule, as he is a COI leaving India in PY as a member of crew of an Indian ship
Stay during PY 2021-22	Period from 25 Sep to 31 Dec of 98 days is to be excluded under Rule 126. Stay during PY = 267 days
Ship Crew – Stay condition of $\geq 182$ days in current PY	Satisfied since $\geq 182$ days
Resident under special rule?	Yes
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	Not satisfied since he did not leave India before PY 2021-22
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	Not satisfied since he did not leave India before PY 2021-22
<b>Residential status</b>	<b>ROR</b>

#### B7. CA2015(M) (modified) – Bindu, a non-resident, residing in New York since 1992, .....

Particulars	Result
Period of stay during the previous year 2021-22	365 days
Period of stay during the preceding 4 previous years	365 days
Condition of $\geq 182$ days in current PY for becoming a resident	Satisfied
Resident?	Yes

First RNOR condition of NR in 9 out of 10 preceding 10 PY's	Satisfied since she was not at all in India for 9 out of 10 preceding PYs
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	Satisfied since stay was only of 365 days
<b>Residential status</b>	<b>Resident but not ordinarily resident</b>

**B8. VISIT RULE - Shalu is a citizen of India living in Singapore. She wants to .....**

**Assessment year 2022-23**

Since Shalu is an Indian citizen who comes on a visit to India and has Total Income from Indian sources  $\leq 15$  lakh in the PY, Visit Rule will apply and she will be resident in India only if stay in India is 182 days or more during the previous year. Thus, if Shalu comes to India on 2 October 2021, she would stay in India for 181 days during the previous year 2021-22 and would be a non-resident. Stateless rule will not apply since Total Income from Indian Sources is not  $> 15$  lakh, even if she is not liable to tax abroad.

**Assessment year 2023-24**

For the preceding 4 previous years, i.e., 2018-19 to 2021-22, Shalu would stay for  $100 + 181$  days = 281 days. This is less than 365 days. Thus, she would not qualify as resident under the 60 day rule even if her stay in India during the previous year is 60 days or more. She should, however, ensure that her stay is not  $\geq 182$  days. Thus, she should leave India on 28 September 2022 to limit her stay to 181 days.

Thus, in all, her stay can be 362 days without a break.

It is assumed that the law to determine residential status for AY 2022-23 is the same for AY 2023-24. It is also assumed that her Total Income from Indian sources is not more than 15 lakh during the previous year 2022-23 as well. Hence, stateless rule will not apply, even if she is not liable to tax abroad.

**B9. VISIT, VISIT & INCOME RULE – MASTER QUESTION - Shalu, a citizen of India, lives with her family .....**

As per visit rule, where an Indian citizen comes on a visit to India, he/she will be resident in India only if stay in India is 182 days or more during the previous year, provided the total income (other than income from foreign sources) is not more than Rs. 15 lakh during the previous year. However, where the total income (other than income from foreign sources) is more than Rs. 15 lakh during the previous year, Visit & Income rule will apply and the person will become a resident if stay in India is 120 days or more during the previous year and 365 days or more during the 4 preceding previous years. Further, the person will be treated as a resident but not ordinarily resident in such case if stay in India is less than 182 days.

Particulars	TI (other than IFS) $\leq 15$ lakh	TI (other than IFS) $> 15$ lakh
Period of stay during the previous year 2021-22	1 April to 28 September = 181 days	1 April to 28 September = 181 days
Special rule applicable	Visit rule	Visit & Income rule
Visit rule – Stay condition of $\geq 182$ days in current PY	Not satisfied	-
Visit & Income rule -		
• First basic stay condition of $\geq 120$ days in current PY	-	Satisfied
• Second basic stay condition of $\geq 365$ days in preceding 4 PY's	-	Satisfied since stay is of 400 days
Resident under special rule?	No	Yes
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	Not applicable	Not applicable
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	Not applicable	Not applicable
<b>Residential status</b>	<b>Non-resident*</b>	<b>RNOR since stay is 120 days or more and less than 182 days</b>

\*Stateless rule cannot apply since TI (other than IFS) is not  $> 15$  lakh.

**B10. VISIT, VISIT & INCOME RULE - Mr. Happy, a US citizen, came to India on an assignment .....**

Stay during preceding 4 PY's:

PY 2017-18	11 Jan 2018 to 31 Mar 2018	81 days
PY 2018-19	1 Apr 2018 to 9 Oct 2018	192 days
PY 2019-20	-	-
PY 2020-21	5 July 2020 to 31 Mar 2021	270 days
<b>Total</b>		<b>543 days</b>

182/60 day rule (general rules) will apply since Mr. Happy is not a citizen of India and assuming he is also not a PIO and, thus, none of the special rules apply. He qualifies the second basic condition of 60 day rule, i.e., stay of  $\geq 365$  during preceding 4 PY's. To qualify as NR, Mr. Happy should stay for a maximum of 59 days during PY 2021-22. Period from 1 April 2021 to 26 May 2021 = 56 days. He can stay for 3 more days to limit his stay to 59 days, i.e., till 29 May 2021. In this case, stateless rule will not apply to make Mr. Happy a deemed resident as he is not a citizen of India.

*If Mr. Happy is a PIO and has total income (other than income from foreign sources) of Rs. 18 lakh:* Since a grandparent of Mr. Happy was born in undivided India, he would be a person of Indian origin. In such case, Mr. Happy will become a resident if he stays for 120 days or more during the previous year 2021-22 and is in India for 365 days or more during the preceding 4 previous years. This is because the Visit & Income rule will apply. He is in India for 543 days during the preceding 4 previous years. Thus, he should leave India latest by 28 July 2021 to limit his stay to 119 days. In this case, stateless rule will not apply to make Mr. Happy a deemed resident as he is not a citizen of India.

**B11. VISIT, VISIT & INCOME RULE – Saurabh is an Indian citizen, who resides in Finland. ....**

Particulars	Case 1	Case 2
Special rule applies?	Visit rule since he is a COI who comes on a visit to India during PY and total income from Indian sources is not > 15 lakh	Visit rule since he is a COI who comes on a visit to India during PY and total income from Indian sources is > 15 lakh
Period of stay during the previous year 2021-22	100 days	120 days
Period of stay during the preceding 4 previous years	400 days	480 days
Period of stay during the preceding 7 previous years	700 days	840 days
Visit rule – Stay condition of $\geq 182$ days in current PY	Not satisfied since stay < 182 days	-
Visit & Income rule -		
• First basic condition of $\geq 120$ days in current PY	-	Satisfied since stay $\geq 120$ days
• Second basic condition of $\geq 365$ days in preceding 4 PY's	-	Satisfied since stay is of 480 days
<b>Resident under special rule?</b>	<b>No</b>	<b>Yes</b>
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	-	-
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	-	-
<b>Residential status</b>	<b>Non-resident*</b>	<b>Resident but not ordinarily resident since stay &lt; 182 days</b>

\*Stateless rule cannot apply as his total income from Indian sources is not > 15 lakh.

**B12. STATELESS RULE – MASTER QUESTION - Mr. Rakesh lives abroad and he is not liable to tax .....**

**Situation 1**

Special rule applies?	Visit & Income rule since he is a COI who comes on visit to India in PY and his Total Income from Indian sources > 15 lakh
Visit & Income rule -	
• First stay condition of $\geq 120$ days in current PY	Not satisfied
• Second stay condition of $\geq 365$ days in preceding 4 PY's	Satisfied
Resident under special rule?	No
Stateless rule applies?	Yes, since he is COI having Total Income from Indian sources > 15 lakh and is not liable to tax in any other country or territory by reason of his domicile, residence or any other criteria of similar nature
<b>Residential status</b>	<b>Deemed resident (RNOR)</b>

### Situation 2

Special rule applies?	No since he is neither a COI nor PIO. Check general rules.
182 day rule – Stay condition of $\geq 182$ days in current PY	Stay of 100 days < 182 days; not satisfied
60 day rule -	
• First basic stay condition of $\geq 60$ days in current PY	Stay of 100 days is $\geq 60$ days – Satisfied.
• Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Stay is $\geq 365$ days in preceding 4 years (400 days) – Satisfied
Resident under general rule?	Yes
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	Not satisfied
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	Satisfied
<b>Residential status</b>	<b>RNOR</b>

### B13. STATELESS RULE - Mr. Zen lives abroad and he is not liable to tax in any other country .....

*Situation (a)* - Since Mr. Zen is a citizen of India having total income (other than income from foreign sources) of more than Rs. 15 lakh during the previous year and he is not liable to tax in any other country by reason of his residence, domicile or any other relevant criteria, he would be deemed to be a resident, irrespective of his stay in India, since he is not a resident under any other rule (as stay in India during PY 2021-22 is only 10 days). Further, he would become a resident but not ordinarily resident due to express provisions of the Act.

*Situation (b)* - Since Mr. Zen is not a citizen of India or a PIO, special rules would not apply. The general 182 day or 60 day rule would apply.

Particulars	Result
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
• First basic stay condition of $\geq 60$ days in current PY	Not satisfied
• Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Not satisfied
<b>Resident under general rule?</b>	<b>No</b>
First RNOR condition of NR in 9 out of 10 preceding 10 PY's	-
Second RNOR condition of $\leq 729$ days in preceding 7 PY's	-
<b>Residential status</b>	<b>Non-resident*</b>

\*Stateless rule cannot apply since he is not a citizen of India.

### B14. HUF – CA2020(N) – MASTER QUESTION - Determine residential status of Sundaram (HUF) .....

Since affairs of HUF are partly controlled from India, it is resident. Since Mr. Sundaram is NR in 9 out of 10 preceding PYs and he is in India for  $\leq 729$  days in the preceding 7 PYs, the HUF is RNOR.

### B15. HUF - Gaurav HUF carries on trading business in Mexico. The business .....

Since the control and management of the affairs of the HUF is situated wholly outside India, it is a non-resident for the assessment year 2022-23.

In the second scenario, if the control and management of the affairs of the HUF is situated partly in India, the HUF would become a resident. In order for the HUF to be a resident but not ordinarily resident, Gaurav needs to (a) be a non-resident in 9 out of 10 preceding previous years, or (b) be in India for 729 days or less during the preceding 7 previous years. Since he has come to India after 15 years, he satisfies both the conditions. Hence, the HUF would be a resident but not ordinarily resident for the assessment year 2022-23.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B18 to B34A

#### Residential Status & Scope of Total Income

#### Build Your Confidence (BYC)

#### SCOPE OF TOTAL INCOME

#### B18. SCOPE OF TOTAL INCOME - Determine whether the following incomes will be taxable in the hands of Rahul .....

#	Income	Category	ROR	RNOR	NR
1	Interest received in the fixed deposit account maintained with Pune branch of ICICI Bank	Receipt – India Accrual – India	Yes	Yes	Yes
2	Rent received in China from a house property situated in India	Receipt – China Accrual – India	Yes	Yes	Yes
3	Salary received in India for services rendered in US	Receipt – India Accrual – US	Yes	Yes	Yes
4	Income from sale of building situated in France and received in Canada	Receipt – Canada Accrual – Australia	Yes	No	No
5	Income received in Thailand from a business carried on in Canada, controlled in India	Receipt – Thailand Accrual – Canada Control – India	Yes	Yes	No
6	Income received in Thailand from a business carried on in Canada, controlled in Thailand	Receipt – Thailand Accrual – Canada Control – Thailand	Yes	No	No
7	Income received in USA from a profession carried on in USA, but set up in India	Receipt – USA Accrual – USA Setup – India	Yes	Yes	No
8	Income received in Sri Lanka from a profession carried on in India and set up in India	Receipt – Sri Lanka Accrual – India Setup – India	Yes	Yes	Yes

#### B19. INCOME ACCRUING/ARISING IN INDIA - Determine whether the following incomes will be .....

Income	Category	ROR	RNOR	NR
Income received in UK from a business carried on in UK, controlled in UK, but included in the group balance sheet prepared in India	Accrual – UK Receipt – UK Control – UK	Yes	No	No
Income arises from professional services rendered in UK and is received in India. Profession is set-up in India.	Accrual – UK Receipt – India Setup – India	Yes	Yes	Yes

#### B20. BUSINESS CONNECTION – MASTER QUESTION - Swamy is a non-resident based out of Brazil .....

#	Situation	Income deemed to accrue or arise in India?
1	He purchases raw cloth from Indian suppliers and exports to Mexico for being processed in a factory situated in Mexico. It is then sold to the customers in Mexico.	No, as operations confined to purchase of goods in India for the purpose of export
2	He publishes a law journal in Brazil for which he collects news and views from various sources located in India	No, as activity is confined to the collection of news and views in India for transmission out of India



3	He visited India for 20 days during the year to shoot a cinematographic film in Jodhpur. He later sold the film to a film distributor in Brazil.	No, as operations confined to the shooting of cinematograph film in India by an individual not a citizen of India
4	He is in the diamond business in connection with which he displayed uncut and unsorted diamonds in the special notified zone for 35 days.	Yes, since he is not a foreign company

**B21. BUSINESS CONNECTION - CA2017(N) - Daisy Ltd., a foreign company, incorporated in USA .....**

Since all major decisions were taken through Board meetings held in USA, POEM is outside India. Hence, Daisy Ltd. is a non-resident. Branch office constitutes business connection in India u/s 9(1)(i). Income from business connection is deemed to accrue or arise in India. However, export exclusion applies in this case as operations are confined to purchase of goods in India for the purpose of export. Hence, profits from export are not taxable in India.

**B22. PROPERTY/ASSET/SOURCE IN INDIA - State whether the following items of income can be deemed to accrue or.....**

#	Particulars	Deemed to accrue/arise in India?
1	Hire charges or rent paid outside India for the use of the machinery or buildings situated in India.	Yes u/s 9(1)(i), since property, asset or source of income is in India
2	Deposits with an Indian company for which interest is received outside India	Yes u/s 9(1)(i), since property, asset or source of income is in India
3	Rental income from a property situated in India	Yes u/s 9(1)(i), since property, asset or source of income is in India
4	Dividends received from shares or securities of an Indian company	Yes u/s 9(1)(iv) since dividend is paid by an Indian company
5	Interest from deposits held in Indian bank accounts	Yes u/s 9(1)(i), since property, asset or source of income is in India

**B23. PROPERTY/ASSET/SOURCE IN INDIA - CA2016(N) – Mr. Federer, a non resident residing in Sweden.....**

No, since income from any property, asset or source of income in India is deemed to accrue or arise in India u/s 9(1)(i). Hence, it is taxable in India.

**B24.. PROPERTY/ASSET/SOURCE IN INDIA - Determine whether the following are taxable in the hands of Sonu.....**

#	Particulars	ROR	RNOR	NR	Comment
1	Winning from lottery run by Brazilian Government, received in Mexico and remitted to India	Yes	No	No	Income accrues/arises and is received outside India. Subsequent remittance not relevant. However, global income taxable for ROR.
2	Interest on FD made in branch of State Bank of Colombo in Sri Lanka	Yes	No	No	Income accrues/arises outside India and is received outside India. However, global income taxable for ROR.
3	Loan from bank in Mexico credited in the bank account in Mexico	No	No	No	Loan is not in the nature of income.
4	Interest in money lending business carried out in UK, received in UK, where business is controlled from India	Yes	Yes	No	Accrues/arises and is received outside India, but business controlled in India. Taxable for ROR and RNOR.

**B25. CAPITAL ASSET IN INDIA - Determine whether the following are taxable in the hands of Johnny.....**

#	Particulars	ROR	RNOR	NR	Comment
1	Johnny owns a residential house property in India. He transfers the property to Bony, a non-resident, and receives the sale consideration outside India.	Yes	Yes	Yes	Capital asset is situate in India. Income deemed to accrue/arise in India u/s 9(1)(i).
2	Johnny is a real estate dealer. He sells a flat, forming part of his stock-in-trade, located in	Yes	Yes	No	Flat is not capital asset as it is stock-in-trade. Hence, income is business income, not capital gain.

	France, to Bony who lives in UK. Johnny's business is controlled from India.				Business income accrues/arises outside India but is controlled in India. Taxable for ROR and RNOR.
3	Johnny buys gold bars in India and then takes them to US where he sells these to Bony, a non-resident. Sale proceeds are credited to his bank account in the US.	Yes	No	No	It is transfer of capital asset situated outside India at the time of transfer. Receipt is outside India. Not deemed to accrue/arise in India. Thus, taxable only for ROR as global income.

**B26. SALARY - Determine whether the following incomes will be taxable in the hands of Siddharth, .....**

#	Income	Citizen of India	Citizen of US	Comment
1	Salary received in India from ABC Pvt. Ltd. for services rendered in India	Yes	Yes	Receipt in India. Also, income deemed to accrue/arise in India u/s 9(1)(ii) as services rendered in India.
2	Salary received in US from ABC Pvt. Ltd. for services rendered in India	Yes	Yes	Income deemed to accrue/arise in India u/s 9(1)(ii) as services rendered in India.
3	Salary received in US from ABC Pvt. Ltd. for services rendered in US	No	No	Receipt outside India. Also, income not deemed to accrue/arise in India u/s 9(1)(ii) as services rendered outside India.
4	Salary received in India from Government of India for services rendered in US while working in Indian embassy	Yes	Yes	Receipt in India. Also, income deemed to accrue/arise in India u/s 9(1)(iii) for citizen of India as it is payable by Government.
5	Salary received in US from Government of India for services rendered in US while working in Indian embassy	Yes*	No	Income deemed to accrue/arise in India u/s 9(1)(iii) for citizen of India as it is payable by Government.
6	Pension received in US from ABC Pvt. Ltd. for services rendered in India	Yes	Yes	Income deemed to accrue/arise in India u/s 9(1)(ii) as services rendered in India.

\*Allowance or perquisites will be exempt u/s 10(7).

**B27. SALARY - Simran, a Chartered Accountant, is presently working in a firm in India.....**

- Employment rule will apply. Stay in India  $\geq$  182 stay required to become resident. Should leave latest by 28 Sep 2021 to make her non-resident for PY 2021-22. In such case, income in the form of salary received outside India for services rendered outside India will not be taxable.
- Direct credit should be avoided as it will get taxed on receipt basis. Salary should be received abroad and then remitted.
- Stay in India  $\geq$  182 stay required to become a resident. She should ensure her overall stay during PY 2021-22 within this limit. Moreover, she should not visit again during current PY.

**B28. DIVIDEND - Determine whether the following dividend will be taxable in the hands of Zen, a non-resident, for.....**

#	Dividend from Reliance Ltd., an Indian company, received in India	Taxable?
1	Dividend from Reliance Ltd., an Indian company, received in China	Yes, as deemed to accrue/arise in India u/s 9(1)(iv) since paid by an Indian company outside India
2	Dividend from ByteDance Ltd., a Chinese company, received in China	No, as received outside India and not deemed to accrue/arise in India u/s 9(1)(iv)
3	Dividend from ByteDance Ltd., a Chinese company, received in India	Yes, as received in India, though not deemed to accrue/arise in India u/s 9(1)(iv)

**B29. INTEREST - Determine whether the following interest incomes will be taxable in the hands of Johnny, for the PY.....**

#	Particulars	ROR	RNOR	NR	Comments
1	Interest of Rs. 1 lakh is received from the Government of India which is used in a project being executed in Japan in collaboration with the Japanese Government.	Yes	Yes	Yes	Deemed to accrue/arise in India u/s 9(1)(v) as payable by Government
2	Interest of Rs. 2 lakh is received from Bony, a resident, in respect of loan given, which Bony uses to purchase plant and machinery for his	Yes	Yes	Yes	Deemed to accrue/arise in India u/s 9(1)(v) as payable by resident and loan is not used for business or profession carried on by the payer

	business in India. Loan agreement is executed in USA.				outside India or for earning any income from any source outside India.
3	Interest of Rs. 3 lakh is received from Mony, a non-resident, in respect of loan given, which Mony uses to set up a new office for his profession in Australia.	Yes	No	No	Not deemed to accrue/arise in India u/s 9(1)(v) as payable by non-resident and loan is not used for business or profession carried on by the payer in India. However, taxable for ROR on global basis.
4	Interest of Rs. 4 lakh is received (in USD) from Mony, a non-resident, in respect of loan given, which Mony uses to invest in shares of an Indian company.	Yes	No	No	Not deemed to accrue/arise in India u/s 9(1)(v) as payable by non-resident and loan is not used for business or profession carried on by the payer in India. However, taxable for ROR on global basis.

### B30. ROYALTY/FTS - Determine if the following are royalty or FTS.

#	Particulars	Royalty/FTS	Comments
1	Royalty to author holding copyright in a book	Royalty	Transfer of all or any rights in respect of IPRs (including grant of a license)
2	Imparting of technical knowledge to use a machine installed in the factory	Royalty	Imparting of any information concerning IPR or know-how
3	Payment for use of a surgical robotic equipment belonging to another person	Royalty	Use of any IPR or right to use certain equipment
4	Outright sale of a patent	Not royalty	Royalty excludes consideration taxable as Capital Gains
5	License to download and use data analytics software	Royalty	Consideration for use or right to use computer software (including granting of license)
6	Management of a complex project	FTS	Yes. It is managerial services.
7	Buying a manual of how to use engineering techniques to work a machine	Not FTS	No. It is purchase of a product rather than a service.
8	Installation of equipment by an engineer	FTS	Yes. It is technical services.

### B31. ROYALTY/FTS - Determine whether the following royalty and FTS incomes will be taxable .....

#	Particulars	ROR	RNOR	NR	Comment
1	Mr. Pro provides mechanical engineering services to the branch in Greece of JK Ltd., an Indian company. JK Ltd. makes payment of FTS to Mr. Pro in Greece. Service contract is entered into in India.	Yes	No	No	Service used by resident payer for business carried on by payer outside India. Not deemed to accrue/arise in India u/s 9(1)(vii). Also, receipt outside India. However, global income taxable for ROR.
2	Mr. Pro provides software development services to US Co, a US company. US Co utilizes the services at its branch office in India. Services are rendered in US and payment is made in USD.	Yes	Yes	Yes	Services used by non resident payer for business carried on by payer in India. Deemed to accrue/arise in India u/s 9(1)(vii).
3	Mr. Pro divulges a secret formula to C Co, a Japanese company, which uses it in manufacture of beverages in its factory set up in China. C Co pays royalty to Mr. Pro outside India.	Yes	No	No	Information used by non resident payer for business carried outside India. Not deemed to accrue/arise in India u/s 9(1)(vi). Also, receipt outside India. However, global income taxable for ROR.

#### B31a. CA2021(J) – ROYALTY - Discuss the taxability of the following transaction giving reasons, in light of relevant.....

Consideration for transfer of right to use the manufacturing process is royalty u/s 9(1)(vi). It is not taxable for Pratham as it is not deemed to accrue or arise in India since it is payable by a resident in respect of right used for the purpose of business carried on by the payer outside India.

#### B32. CA2015(N) – ROYALTY - Soham, an Indian citizen, left India on 20 April 2019 for the first time to .....

Where an Indian citizen comes on a visit to India, he will be resident in India only if stay in India is 182 days or more during the previous year. In this case, his stay in India from 15 May to 21 August is of 99 days. Hence, he is a non-resident.

Section 9(1)(vi) defines 'royalty' to mean consideration for transfer of all or any rights in respect of a design and also for the rendering of services in connection with such activity. Transfer of rights also includes transfer of right for use or right to use a computer software. Therefore, fees received by Soham is in the nature of 'royalty'.

Since royalty is paid by LK Ltd, which is a resident, royalty would be deemed to accrue or arise in India, as the rights are used for the purposes of its business carried on in India. Thus, royalty would be taxable in India.

**B33. CA2011(M) – FTS - Vivitha paid a sum of 5,000 USD to Kulasekhara, a management consultant .....**

Payment to a management consultant relating to project financing is in the nature of consultancy services. Hence, it is fees for technical services (FTS).

The residential status of Vivitha is not stated. However, since the payment is for services utilized in the business carried on in India, FTS shall be deemed to accrue or arise in India u/s 9(1)(vii) and, hence, taxable in India in the hands of Kulasekhara. This will be the position whether or not services are rendered in India or whether or not Kulasekhara has a residence or place of business or business connection in India.

**B34. CA2017(M) – ROYALTY/FTS - A Korean company, Damjung Ltd., entered into the following .....**

#	Particulars	Taxability
1	Rs. 20 lakh from a non-resident for use of patent for a business in India	Royalty is taxable since patent is used for purpose of business carried on by payer in India. Hence, deemed to accrue/arise in India u/s 9(1)(vi).
2	Rs. 15 lakh from a NRI for use of know-how for a business in Sri Lanka and this amount was received in Japan	Royalty is not taxable as know-how is used for purpose of business carried on by payer outside India, whether NRI is resident or NR. Hence, not deemed to accrue/arise in India u/s 9(1)(vi). Also, received outside India.
3	Rs. 7 lakh from CC Ltd., an Indian company for providing technical know-how in India	Royalty is taxable since know-how is used for purpose of business carried on by payer in India. Hence, deemed to accrue/arise in India u/s 9(1)(vi).
4	Rs. 5 lakh from B & Co., Mumbai, for conducting feasibility study for a new project in Nepal. Payment was made in Nepal.	FTS is not taxable as services are used for purpose of business carried on by payer outside India. Hence, not deemed to accrue/arise in India u/s 9(1)(vi). Also, received outside India.

**B34A. CA2021(J) - Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for.....**

Interest, royalty or FTS is included in the total income of a non-resident, whether or not,—

- the non-resident has a residence or place of business or business connection in India; or
- the non-resident has rendered services in India.

Thus, only status of payer and utilization is relevant for source rule. Territorial nexus of NR is not relevant.

#### RESIDENTIAL STATUS

**M1. Mr. Raj has determined his total income for the PY 2021-22 at Rs. 5,00,000. As the next step, he wants to ascertain.....**  
Total income is to be determined based on residential status

**M2. The following categories of persons have claimed residential status of RNOR for AY 2022-23. The claim of which.....**  
Only individual and HUF can be RNOR

**M3. BCD LLP has declared its residential status as RNOR and, consequently, not offered its foreign incomes to tax in.....**  
LLP cannot be RNOR

**M5. Yuvaraj was present in India throughout the PY 2021-22. He earned salary income of Rs. 5 lakh (computed) from.....**  
Residential status is determined for each PY for a person. It is same for all sources of income. Yuvaraj will need to offer Rs. 6 lakh to tax (being his global income) based on his status as ROR.

**M6. Janki was NR in India for PY 2020-21 and ROR in India for PY 2021-22. She earned interest of Rs. 5 lakh on bonds.....**  
Residential status is determined for each PY. She is resident for PY 2021-22 (as stay in India  $\geq$  182 days) and, thus, taxable on salary of Rs. 15 lakh.

**M7. Shobha, born in Chandigarh on 1.5.1973, has been living in the US since 1990 and has not visited India. She.....**  
Residential status is not based on place of birth. Shobha is a NR for PY 2021-22 as stay in India is of zero days. Property is situated outside India and income is received outside India. Not taxable in India.

**M8. Kapil, a resident of a foreign country under its laws, stayed in India for 185 days during the PY 2021-22. Kapil.....**  
A person can be resident of more than one country. Double taxation in both countries can be avoided by taking resort to tax treaty, if applicable, between India and the foreign country (tax treaties are not within scope of CA Intermediate).

**M9. Jack, a UK national, came on a visit to India during the PY 2021-22. He landed at Mumbai airport on 15.6.2021.....**  
Days of arrival and departure are included.

**M10. In which of the following cases will Mr. C not be treated as a Person of Indian Origin?.....**  
Neither Mr. C or any of his parents or grand-parents was born in undivided India.

**M11. Rachel, a national of Germany, visited India for the first time during the PY 2021-22. She was in Bangalore.....**  
182 day rule applicable. Presence in India = 182 days. She is resident. Being NR in 9 out of 10 preceding PYs and  $\leq$  729 days in preceding 7 PYs, she is RNOR.

**M12. Gaurav, a citizen of India, left India on 1.9.2021 for purpose of employment in Japan. He was in India throughout.....**  
Employment rule applies. He is in India for 154 days being  $<$  182 days. He is NR. 60 day rule is not relevant.

**M13. Sushmita, a citizen of US and living there, came to India for the first time on 1.4.2019 and left India for the.....**  
Stay  $\geq$  182 days. Hence, resident.  
Stay from 1.4.2019 to 31.3.2021 is 731 days, i.e.,  $>$  729 days in the preceding 7 PYs. She is in India  $\geq$  182 days in PY 2019-20 and PY 2020-21. Hence, not a NR in 9 out of 10 preceding PYs. Hence, she is ROR.

**M14. Suresh, employed with Z Ltd. in Hyderabad is a frequent flyer. During the PY 2021-22, he had to visit.....**

Continuous stay not necessary. Stay in India = 190 days. He is resident. Not being NR in 9 out of 10 preceding PYs or not being  $\leq 729$  days in preceding 7 PYs, he is ROR.

**M15. Ramesh left India on 28.5.2021 to stay with his children in Australia for a period of one year. He had never been.....**

182 day or 60 day rule applicable. Stay in India = 58 days. Ramesh is NR.

**M16. Gunjan has stayed in India for 200 days each in PYs 2017-18 to 2020-21. She would be a resident in India for.....**

A: NR under ship crew rule as stay in India  $< 182$  days

B: NR under employment rule as stay in India  $< 182$  days

D: NR under visit rule as stay in India  $< 182$  days

C: Resident under visit & income rule as stay in India  $\geq 120$  days +  $\geq 365$  days in preceding 4 PYs. RNOR as stay in India  $< 182$  days.

**M17. Sush was born in India in 1990. Her father was born in India in 1960 and mother was born in Pakistan in 1962.....**

Neither she nor her parents or grandparents was born in undivided India – she is not PIO. She is also not citizen of India.

**M18. Shane, a national of Mexico, has been visiting India every year for 90 days since the last ten years. Determine.....**

182/60 days rule applies. He is in India  $< 182$  days. Further, he is in India  $\geq 60$  days in current year but  $< 365$  days in preceding 4 PYs. Hence, he is NR.

**M19. Mr. X left India during the PY 2021-22 as a member of the crew of a foreign bound ship. He has been in India for.....**

A & D: Ship crew rule and Rule 126 does not apply as he is not a citizen of India. 182/60 days rule applies. 1.4.2021 to 21.9.2021 is 174 days, i.e.,  $< 182$  days. But he is in India  $\geq 60$  days in current year and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident.

B: Ship crew rule and Rule 126 applies: 1.4.2021 to 20.9.2021 is 173 days, i.e.,  $< 182$  days. Mr. X is NR.

C: Ship crew rule does not apply as ship is not Indian but Rule 126 applies as he is citizen of India. 182/60 days rule applies. 1.4.2021 to 20.9.2021 is 173 days, i.e.,  $< 182$  days. But he is in India  $\geq 60$  days in current year and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident.

**M20. Manav has been in India for 300 days every year for the two years preceding PY 2021-22. In which of the.....**

A: Employment rule applies. Stay is 181 days, i.e.,  $< 182$  days. He is NR.

B, C, D: 182/60 days rule applies. Stay is 181 days, i.e.,  $< 182$  days. But he is in India  $\geq 60$  days and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident.

**M21. Romil is a citizen of India based out of Australia. During the PY 2021-22, his total income from sources in.....**

TI from Indian sources  $> 15$  lakh. Visit and income rule applies. Stay in India is 117 days which is  $< 120$  days. He is NR.

**M22. Romil is a citizen of Canada based out of Canada. He is not a PIO. During the PY 2021-22, his total income.....**

Visit & Income rule not applicable as he is not a COI or PIO. 182/60 days rule applies.

Stay is 117 days, i.e.,  $< 182$  days. But he is in India  $\geq 60$  days and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident. As he is in India  $\leq 729$  days in preceding 7 PYs, he is RNOR.

**M23. Donald, a US national, has stayed in India during PY 2021-22 for 181 days. He is non-resident in 9 out of 10.....**

182/60 days rule applies. Stay is  $< 182$  days. But he is in India  $\geq 60$  days and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident. As he is NR in 9 out of 10 preceding PYs and also in India  $\leq 729$  days in preceding 7 PYs, he is RNOR.

**M24. Ms. Y, a citizen of India, has been living in Singapore for the last 12 years. She earns rental income of Rs. 3 lakh.....**

Ms. Y is COI who comes on visit to India and has total income (other than income from foreign sources)  $> 15$  lakh. Visit and Income Rule applies. She is in India  $\geq 120$  days and  $\geq 365$  days in preceding 4 PYs. Stay in India  $< 182$  days in PY 2021-22. Hence, she is RNOR.

**M25. Mr. Square, an Indian citizen, currently resides in Dubai. He came to India on a visit and his total stay in India.....**

Ms. Square is COI who comes on visit to India and has total income (other than income from foreign sources) ≤ 15 lakh. Visit Rule applies. He is < 182 days in PY. He is NR.

**M26. Mr. Q is an Indian citizen who runs his business in UK. He also carries on business in India which he manages.....**

He is Indian citizen who comes on visit to India during the PY and has total income (other than income from foreign sources) > 15 lakh.

Stay in India during PY 2021-22 ≥ 120 days and < 182 days and is ≥ 365 days during preceding 4 PYs. Hence, he is RNOR. Indian income will be taxable.

**M27. Mr. V came to India on a visit during the PY 2021-22 for 100 days. He was in India for 125 days in PY 2020-21.....**

A & D: He is not a COI or PIO. 182/60 days rule applies. He is ≥ 60 days in current PY and ≥ 365 days during preceding 4 PYs. Hence, resident.

B: He is PIO and total income from Indian sources > 15 lakh. Visit & income rule applies. He is ≥ 120 days in current PY and ≥ 365 days during preceding 4 PYs. Hence, resident. He is < 182 days. He is RNOR.

C: He is PIO and total income from Indian sources ≤ 15 lakh. Visit rule applies. He is < 182 days in current PY. Hence, NR.

**M32. In which of the following cases relating to PY 2021-22 will Mr. Z, a citizen of India, be treated as a RNOR? Mr. Z.....**

A: Stateless rule applies. He is deemed resident and RNOR.

B/C/D: Since stay in India is zero, he is NR. Stateless rule is not applicable.

**M33. Saurabh, an Indian citizen, is a business development professional whose work involves travel across the.....**

He is COI who comes on a visit to India and income, other than income from foreign sources is 20 lakh (> 15 lakh). Not a resident under visit & income rule as stay < 120 days. Stateless rule applies as not liable to tax in any country. He is RNOR. Indian income of 20 lakh is taxable.

**M34. A person is resident but not ordinarily resident in which of the following cases.....**

A: RNOR under visit and income rule.

B: Resident under visit rule who further fulfills RNOR conditions

C: Deemed resident (RNOR) under stateless rule

**M35. The affairs of Ramesh HUF are controlled and managed wholly from London. Ramesh, the Karta, is a non.....**

Control and management wholly outside India. Hence, NR.

**M37. Shyam HUF runs a business from Patna. All its decisions are taken from Patna. After a gap of 10 years, Shyam.....**

Control and management situated in India. Hence, HUF is resident.

Karta is NR in 9 out of 10 preceding PYs and also in India for ≤ 729 days in preceding 7 PYs. Hence, HUF is RNOR.

**M38. Raj Narain HUF, comprising of Raj Narain, his wife and his son, carries on a business from Hyderabad. Raj Narain.....**

Control and management wholly outside India. Hence, NR.

**M39. BCD & Co, a partnership firm, has three partners, B, C and D. While B and C are based out of Mumbai, D is.....**

Firm is resident unless control and management is wholly situated outside India. ROR/RNOR status applies only to individual or HUF.

**M40. XYZ Pvt. Ltd. is incorporated under the Indian Companies Act, 2013 with its registered office in Dehradun. Its place.....**

Indian company is always resident

**M42. The key management and commercial decisions of ABC Ltd., a multi-national foreign company registered in.....**

Though POEM is in India, TO/GR does not exceed 50 crore. Hence, it is NR.

## SCOPE OF TOTAL INCOME

**M44. Sushma has provided the following details of her income for the PY 2021-22: Salary of Rs. 6,00,000.....**

Salary taxable as received in India; income from property taxable as property situated in India (income accrues/arises in India); dividend from Indian companies is deemed to accrue/arise in India.

**M45. Govind, citizen of India, left India for the first time on 15.3.2022 to take up employment in the UK. During.....**

As stay in India  $\geq$  182 days, he is resident. Since he is not NR in 9 out of 10 preceding PYs or  $\leq$  729 days in preceding 7 PYs, he is ROR. Hence, global income is taxable.

**M46. Jasmine, a national of Denmark, has been coming to India for 100 days every year since the PY 2016-17.....**

60 days rule applies. She is  $\geq$  60 days in PY 2021-22 and  $\geq$  365 days in preceding 4 PYs. Hence, she is resident. She has been in India for 500 days in preceding 7 PYs, i.e.,  $\leq$  729 days. Hence, she is RNOR.

10,00,000: Taxable as income accrues or arises outside India and is derived from a business controlled in India.

6,00,000: Not taxable as income accrues or arises outside India and is derived from a profession set up outside India.

20,000: Taxable as deemed to accrue or arise in India since dividend is from an Indian company.

1,50,000: Taxable as received in India.

Total = 11,70,000

**M47. Charlie, a person of Indian origin, visited India for a period of 30 days during the PY 2021-22. During the year.....**

Since stay in India is 30 days, he is NR for PY 2021-22.

1,20,000: Taxable as income received in India though accrued outside India.

1,00,000: Taxable as income received outside India but accrued in India

5,00,000: Not taxable as income accrues or arises and is received out of India

2,00,000: Taxable as income accrued outside India and received outside India but deemed to accrue or arise in India as capital asset situated in India

**M48. During the PY 2021-22, Mr. Q earned salary income of Rs. 10 lakh (computed) for services rendered in.....**

All are taxable in India irrespective of residential status as received in India even though accrued/arisen outside India.

**M49. Mr. Zaidi left India on 1.5.2021 for deputation in Greece for the rest of the year in connection with a.....**

Mr. Zaidi is NR.

Inclusion in total income = 6,00,000 salary received in India + 18,000 employer's contribution to RPF deemed to be received in India (3% of 6,00,000, i.e., in excess of 12%) + 5,000 RPF interest in excess of 9.5% + NIL gain on sale of gold as accrued and received outside India = 6,23,000.

**M50. Govind, a non resident, lives in the US and is employed with a US company. He earns a salary of Rs. 1 lakh in.....**

Not taxable for NR as accrual and receipt outside India; subsequent remittance not relevant.

**M52. JK Ltd. prepared consolidated accounts for its businesses operating in different countries, including India. A.....**

Income accruing or arising outside India is not deemed to be received in India merely because it is taken into account in a balance sheet prepared in India.

**M53. Mr. X is the owner of a house property situated in South Africa. During the PY 2021-22, he received Rs. 12 lakh.....**

Income is accrued and received outside India. Taxable only for ROR.

**M54. Sahil was employed with JK Ltd. in Kochi. He received a salary of Rs. 40,000 p.m. from 1.4.2021 to 27.9.2021.....**

Sahil is in India for 184 days. Hence, he is a resident. Since he was present in India all the time up to PY 2020-21, he is ROR. Thus, his global income is taxable.

**M59. Kaushik, a non-resident, carries on business of manufacture of sale of computers in Portugal. For this purpose.....**

Since operations in India are not confined to purchase of goods in India for the purpose of export, income will be deemed to accrue/arise in India and that attributable to Indian operations will be taxable.

**M60. KJ Ltd. is a foreign company engaged in the business of production and distribution of feature films. It's crew.....**

A: Exemption not available as a shareholder is a citizen of India.

B: Exemption not available as a shareholder is resident in India.



C: Exemption not available as operations of KJ Ltd. are not confined to shooting of film in India.

**M61. In which of the following cases, will income arising to Zed Ltd., a foreign company, not be deemed to accrue or.....**

A and B: Exemption not available as activity not confined to purchase of goods in India for export or to the collection of news and views in India for transmission out of India.

**M63. Income through or from any property, asset or source of income in India is deemed to accrue or arise in India.....**

It is deemed to accrue/arise in India irrespective of place of receipt.

**M65. Kim, a citizen of Japan and a non-resident in India, owns a residential house property in India. It is given on rent.....**

Property is in India; income is deemed to accrue/arise in India

**M66. During PY 2021-22, Samar, a non-resident, received Rs. 75 lakh on account of sale of agricultural land in.....**

Land situated outside India and receipt outside India. Not taxable for NR. Remittance not taxable.

**M67. John is a resident of Australia and a non-resident in India. During the PY 2021-22, he earned income of Rs.....**

John is NR. Amount taxable = Nil for shares of Australian company as income is accrued/received outside India + 2 lakh for shares of Indian company as income is deemed to accrue/arise in India (since capital asset is situated in India).

**M68. Sushmita, a RNOR for PY 2020-21 and ROR for PY 2021-22 received rent from property in Canada amounting.....**

Rent not taxable for RNOR in PY 2020-21 as income accrued/received outside India. Remittance is not taxable.

**M70. Shares of BCD Ltd., a foreign company, derive value substantially from assets located in India. Mr. J, a .....**

No, as per Circular 4/2015

**M72. Warner, an Indian citizen and a Government employee, left India for the first time on 31.1.2021 on account.....**

He is NR. Salary paid by Govt to Indian citizen for services outside India is deemed to accrue/arise in India. Allowances are exempt u/s 10(7). Rent not taxable as property outside India and rent received outside India. Interest taxable as source and receipt in India.

**M73. Todd is a non-resident in India and a national of Finland. During the PY 2021-22, he received dividend of Rs.....**

50,000: Not taxable as accrued/received outside India

60,000: Taxable as received in India

70,000: Taxable as deemed to accrue/arise in India

80,000: Taxable as accrued/received in India

Total = 2,10,000

**M74. Dividend income from Australian company received in Australia in the year 2020, brought to India during.....**

Subsequent remittance not taxable

**M76. Money-wise Ltd., a non-resident company, earned interest income during the PY 2021-22 as per the.....**

Interest from GOI of 15 lakh: Deemed to accrue/arise in India as paid by Government

Interest from MK Pvt. Ltd. of 5 lakh: Not deemed to accrue/arise in India as paid by resident and loan used for business carried on by payer outside India

Interest from Mr. T of 1 lakh: Deemed to accrue/arise in India as paid by resident and loan used for profession carried on by payer in India

Interest from JM LLP of 3 lakh: Not deemed to accrue/arise in India as paid by non-resident and loan used for business carried on by payer outside India

Interest from Mr. Q of 2 lakh: Not deemed to accrue/arise in India as paid by non-resident and loan not used for business or profession carried on by payer in India

Total = 16 lakh

**M78. Mr. X, a non resident based out of Singapore, derived the following incomes during PY 2021-22: Rs. 2 lakh.....**

All amounts, except capital gain on sale of copyright, are in the nature of royalty. Since payment of royalty is made by a resident and the right/information is used in the business carried on by the payer in India, royalty is deemed to accrue/arise in India.

**M79. Which of the following services rendered by Mr. Y to his clients during the PY 2021-22 would not fall within.....**

A: Managerial service; C: Technical service; D: Consultancy service

**M80. Which of the following amounts received by Mr. Z during the PY 2021-22 would be classified as FTS?.....**

A: Salary is not FTS; B: Consideration for construction project is not FTS; D: It is royalty

**M83. During the PY 2021-22, Mr. Jack, a non-resident based out of Hong Kong, received the following incomes: Rs.....**

Mr. Yen 2 lakh: FTS is not deemed to accrue/arise in India as the non-resident payer uses services in business carried on by the payer outside India.

BKT Pvt. Ltd. 5 lakh: Royalty deemed to accrue/arise in India as the resident payer uses information in business carried on by the payer in India.

GOG 10 lakh: FTS deemed to accrue/arise in India as the payer is Government

Total = 15 lakh.

**M84. Gary is a non-resident based out of France. During the PY 2021-22 he earned Rs. 10 lakh as fees for technical.....**

FTS is deemed to accrue/arise in India as the non-resident payer uses services in business carried on by the payer in India. It is not relevant if Rocky is NR or services are rendered outside India. Status of payer and utilization of services is relevant.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### Incomes not part of Total Income

### Build Your Confidence (BYC)

#### AGRICULTURAL INCOME

#### B1. MASTER QUESTION - Are the following incomes exempt from tax as agricultural income?

#	Income	Exempt?	Comment
1	Rent of Rs. 3 lakh from land situated in Rajasthan which is used for growing paddy.	Yes	Rent from agricultural land in India
2	Income of Rs. 10 lakh from sale of urban agricultural land situated in Assam.	No	Taxable as capital gains.
3	Income from growing flowers and herbs	Yes	-
4	Income from sale of butter and cheese made using milk of cattle located on agricultural land	No	No operations on land
5	Income from poultry farming	No	No operations on land
6	Suraj produces cotton in his fields and uses it as raw material to make clothes for sale in the market.	Partly	Partly agricultural and partly business income. Apportionment will be done to arrive at exempt agricultural income and taxable business income.
7	Das grows tobacco which he first dries and then takes to the market for being sold.	Yes	Process is ordinarily employed to render the produce fit to be taken to the market (compulsory process).
8	Rama carries on the activity of growing sugarcane on her farm land situated in a rural area. She has a store house adjacent to the farm land where she stores sugarcane before taking to the market for being sold.	Yes	Building used for agriculture and it is not situated in urban area.
9	Jane owns a building situated on land which she uses to cultivate crops. The building is used for storing cans of milk used in the dairy business that she carries on. Income from dairy business is Rs. 4 lakh.	No	Building not used for agriculture by Jane.

#### B2. CA2017(M) – Discuss with brief reasons, whether rent received for letting out agricultural land .....

*Rent* – Not exempt since not derived from agriculture.

*Sale of seedlings* – Exempt since deemed agricultural income, whether or not any basic operations are carried out on land.

#### B2a. CA2021(JAN) - Discuss the taxability of the following transaction giving reasons, in light of relevant provisions, for....

Rajpal receives rent from land situated in India and used for agricultural purposes. It is agricultural income u/s 2(1A).

Ownership of land is not necessary. Expenditure incurred in relation to exempt income is not deductible u/s 14A (para 31).

#### B2b. CA2021(JAN) - Discuss the taxability of the following transaction giving reasons, in light of relevant provisions, for.....

Income from any process ordinarily employed to render the produce fit to be taken to the market (compulsory process) is agricultural income. This may involve both manual and mechanical operations. Thus, income entire income is exempt.

#### B3. CA2016(N) – MASTER QUESTION - Mr. Kamal grows paddy and uses the same for the purpose of .....

Particulars	Business income	Agricultural income
-------------	-----------------	---------------------

	Rs.	Rs.	Rs.
<b>SALE OF RICE</b>			
<b>Business income:</b>			
Sale proceeds of rice	30,00,000		
Less : Market value of paddy used as raw material (60%)	(-) 24,00,000		
Less: Manufacturing expenses	(-) 2,00,000		
<b>Agricultural income:</b>			
Market value of paddy (60%)		24,00,000	
Less : Cost of cultivation		(-) 12,00,000	
Balance			12,00,000
<b>SALE OF PADDY</b>			
Sale proceeds of paddy produce (40%)		15,00,000	
Less : Cost of cultivation		(-) 7,00,000	
Balance			8,00,000
<b>Total</b>	<b>4,00,000</b>		<b>20,00,000</b>

**B4. CA2018(M) - Miss Kavita, a ROR in India, has derived the following income for year ended 31.3.2022. ....**

Particulars	Rs.	Business income	Agricultural income	Comment
Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling	1,00,000	35,000	65,000	35:65 apportioned u/r 7A
Income from sale of coffee grown and cured in Yercaud, Tamil Nadu	2,00,000	50,000	1,50,000	25:75 apportioned u/r 7B
Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration received in Chennai.	5,00,000	5,00,000	-	Rule 7B applies when operations in India.
Income from sale of tea grown and manufactured in Shimla	10,00,000	4,00,000	6,00,000	40:60 apportioned u/r 8
Income from sapling and seedling grown in a nursery at Cochin. Basic operations are not carried out on land.	2,00,000	-	2,00,000	Deemed to be agricultural income
<b>Total</b>	<b>20,00,000</b>	<b>9,85,000</b>	<b>10,15,000</b>	

*Mistakes made by students – Apportioned 5 lakh though R. 7B is not applicable. No reasoning for exempting income from sapling and seedling.*

**B5. Mr. Rose sells tea grown and manufactured by him in Darjeeling, West Bengal. ....**

Total income comprises agricultural income and business income.

Particular	Rs.
Rule 8 applies?	Yes
Sale proceeds of tea	30,00,000
Less: Cost of growing tea leaves	(10,00,000)
Less: Cost of manufacturing tea	(15,00,000)
Business income (before apportionment)	5,00,000
Less: Agricultural income (60% exempt under Rule 8)	(3,00,000)
<b>Business income (40% Taxable)</b>	<b>2,00,000</b>

**B6. Examine whether the following incomes are chargeable to tax, and if so, compute the amount liable to tax.**

#	Income	Taxable?	Comment
1	Agricultural income of Rs. 1,27,000 earned by a resident of India from a land situated in Malaysia	Yes	Land not situated in India. Taxable assuming assessee is ROR.
2	CA2013(N) - Rent of Rs. 72,000 received for letting out agricultural land for a movie shooting	Yes	Land not put to agricultural use. Taxable.
3	Sale proceeds of raw tea leaves of Rs. 2 lakh. Cultivation	No	Agricultural income. R. 8 does not apply.

expenses of Rs. 50,000.

**B7. CA2018(M) – MASTER QUESTION - Mr. Avani, a resident aged 25 years, manufactures tea leaves from .....**

Computation of total income	Rs.
Rule 8 applies?	Yes
Sale proceeds of tea	40,00,000
Less: Cost of growing tea plants	(15,00,000)
Less: Cost of manufacturing	(10,00,000)
Business income (before apportionment)	15,00,000
Less: Agricultural income (60% exempt under Rule 8)	(9,00,000)
<b>Business income (40% Taxable)</b>	<b>6,00,000</b>

Computation of tax liability	Rs.	Rs.
Net agricultural income	9,00,000	
Non-agricultural income (total income)	6,00,000	
Is NAI > 5,000 and TI > 2,50,000?	Yes	
Tax on NAI + TI, i.e., 15,00,000		2,62,500
Less: Tax on NAI + 2,50,000, i.e., 11,50,000		(-) 1,57,500
Tax on total income		<b>1,05,000</b>
HEC @ 4%		4,200
<b>Tax liability</b>		<b>1,09,200</b>

**B8. Jagan is a resident and ordinarily resident in India. During the PY 2021-22, he manufactured rubber .....**

Computation of total income	Amount
Rule 7A applies?	Yes
Sale proceeds of rubber	50,00,000
Less: Cost of growing rubber plants	(25,00,000)
Less: Cost of manufacturing rubber	(10,00,000)
Business income (before apportionment)	15,00,000
Less: Agricultural income (65% exempt under Rule 7A)	(9,75,000)
<b>Business income (35% Taxable)</b>	<b>5,25,000</b>

Computation of tax liability	A. He is 34 years of age		B. He is 61 years of age	
Net agricultural income (NAI)	9,75,000		9,75,000	
Non-agricultural income (total income)	5,25,000		5,25,000	
Is NAI > 5,000 and TI > 2,50,000 (A) or 3,00,000 (B)?	Yes		Yes	
Tax on NAI + TI, i.e., 15,00,000		2,62,500		2,60,000
Less: Tax on NAI + 2,50,000, i.e., 12,25,000 (A) OR NAI + 3,00,000, i.e., 12,75,000 (B)		(1,80,000)		(1,92,500)
Tax on total income		<b>82,500</b>		<b>67,500</b>
HEC @ 4%		3,300		2,700
<b>Tax liability</b>		<b>85,800</b>		<b>70,200</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### Incomes not part of Total Income

### Build Your Confidence (BYC)

#### DEDUCTION U/S 10AA

**B9. CA2016(M) – Mr. Suresh has set up an undertaking in SEZ (Unit A) and another undertaking in DTA (Unit B.....)**

Particulars of SEZ unit	
PY 2021-22 is which year from the year Unit A begins manufacturing?	6 <sup>th</sup> year
Deduction available?	50% of profits derived from export of unit in SEZ
Profits of the business of Unit in SEZ × (Export Turnover of Unit in SEZ ÷ Total Turnover of Unit in SEZ)	60 lakh × (150 lakh ÷ 180 lakh) = Rs. 50 lakh.
Deduction	Deduction @ 50% = 25 lakh

Deduction is not available in respect of Unit B in DTA.

**B10. Softpack Ltd. has furnished the following particulars for year ended 31.3.2022.....**

Deduction is 100% of profits derived from export of unit located in SEZ during the first 5 years, beginning with the year in which the unit begins operations. AY 2022-23 falls within this period.

Particulars	Result
PY 2021-22 is which year from the year Unit A commenced operations?	4 <sup>th</sup> year
Deduction available?	100% of profits derived from export of unit in SEZ
Deduction = Profits of the business of Unit in SEZ × (Export Turnover of Unit in SEZ ÷ Total Turnover of Unit in SEZ)	50 × (100 ÷ 150) = Rs. 33.33 lakh.

No deduction u/s 10AA is allowable in respect of profits of business of Unit B located in DTA.

**B11. CA2018(N) – Mrs. Vibha Gupta, a resident individual, is running a SEZ unit as well as a unit in .....**

Particulars of SEZ unit	Situation 1	Situation 2
PY 2021-22 is which year from the year SEZ unit commenced operations?	9 <sup>th</sup> year	3 <sup>rd</sup> year
Deduction available?	50% of profits derived from export of unit in SEZ	100% of profits derived from export of unit in SEZ
Profits of the business of Unit in SEZ × (Export Turnover of Unit in SEZ ÷ Total Turnover of Unit in SEZ)	220 lakh × (1,000 lakh ÷ 1,100 lakh) = Rs. 200 lakh.	
Deduction	Deduction @ 50% = 100 lakh	Deduction @ 100% = 200 lakh

No deduction u/s 10AA is allowable in respect of unit located in DTA.

*Mistake by students – Did not mention that unit in DTA is not eligible for deduction u/s 10AA.*

**B12. CA2015(M) – MASTER QUESTION - Rudra Ltd. has one unit in SEZ and other unit in DTA. The .....**

Particulars	Situation 1	Situation 2
PY 2021-22 is which year from the year SEZ unit begins manufacturing?	7 <sup>th</sup> year	3 <sup>rd</sup> year
Deduction available?	50% of profits derived from export of unit in SEZ	100% of profits derived from export of unit in SEZ
Total sales of SEZ unit	6 crore – 2 crore = 4 crore	
Export sales	4.6 crore – 1.6 crore = 3 crore	

Net profit	80 lakh – 20 lakh = 60 lakh
Profits of the business of Unit in SEZ × (Export Turnover of Unit in SEZ ÷ Total Turnover of Unit in SEZ)	60 lakh × (300 lakh ÷ 400 lakh) = Rs. 45 lakh.
Deduction	Deduction @ 50% = 22.5 lakh      Deduction @ 100% = 45 lakh

No deduction u/s 10AA is allowable in respect of unit located in DTA.

**B13. CA2013(N), 2011(M) – Pranay is running two industrial undertakings, Unit A in SEZ and Unit B in a DTA. ....**

Computation	Working	Rs.
Total profit	13,00,000 + 4,00,000	17,00,000
Less: B/fd business loss set off u/s 72 (para 191)		(7,00,000)
Total income before giving effect to section 10AA		10,00,000
Less: Deduction u/s 10AA:		
• Export turnover of Unit A	1,20,00,000	
• Total turnover of Unit A	10,00,000 + 1,20,00,000 = 1,30,00,000	
• Profit derived from Unit A	13,00,000	
• Profits derived from export	13 lakh × (1.2 crore ÷ 1.3 crore) = 12 lakh.	
• Deduction u/s 10AA @100% (assuming AY 2021-22 is within first 5 years from the year in which operations began)	Deduction cannot exceed total income computed before allowed deduction	(10,00,000)
<b>Total income</b>		<b>Nil</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### Incomes not part of Total Income

### Build Your Confidence (BYC)

#### OTHER EXEMPTIONS

**B14. MASTER QUESTION - Examine whether the following incomes are chargeable to tax, and if so, compute the amount liable to tax.**

#	Income	Taxable?	Amount taxable	Comment
1	Raman received Rs. 20,000 as his share from the income of the HUF of which he is a member. HUF did not pay tax on its income, its total income being below the basic exemption limit.	No	-	Exempt u/s 10(2)
2	Vani is a partner of ABC LLP. During the year, the LLP earned profit of Rs. 10 lakh. Vani was entitled to 1/5 <sup>th</sup> share.	No	-	Exempt u/s 10(2A)
3	Jayesh is a partner in a firm engaged in agricultural activities whose income is exempt from tax. He received Rs. 1 lakh as his share in the income of the firm.	No	-	Exempt u/s 10(2A)
4	Charles, resident in India as per Income-tax Act but resident outside India as per FEMA, earned interest of Rs. 10,000 on NR(E) Account which was credited in such account maintained with State Bank of India.	No	-	Exempt u/s 10(4)(ii)
5	Mike, a national of Denmark, worked in India as an official of the embassy of Denmark. He received a remuneration of Rs. 15 lakh during the PY 2021-22. Officials of Indian embassy in Denmark were similarly exempted in Denmark. He did not have any other source of income in India.	No	-	Exempt u/s 10(6)(ii)
6	Jacky, a non-resident citizen of India, living in the US and employed with US Inc, a US based company, visited India during the PY 2021-22 for 35 days in connection with an assignment undertaken by US Inc. US Inc did not have any business in India and its income was not taxable in India. For this purpose, Jacky received a remuneration of Rs. 1 lakh.	Yes	1,00,000	Income accrues/arises in India; not exempt 10(6)(vi) as Jacky is citizen of India
7	Mahi's house, situated in Gujarat, was destroyed in a major earthquake in 2019, which qualified as a disaster under the Disaster Management Act. He received compensation of Rs. 14 lakh from the Gujarat Government during PY 2021-22.	No	-	Exempt u/s 10(10BC)
8	Brijesh had opened a Sukanya Samridhi Account in the name of his daughter. During the year, he received maturity proceeds of Rs. 25 lakh out of which Rs. 5 lakh was interest component.	No	-	Exempt u/s 10(11A)
9	Shaman was awarded scholarship of Rs. 1 lakh during the PY 2021-22 by the Central Government to pursue higher education. He spent Rs. 80,000 towards meeting the cost of education and used the rest for personal purpose.	No	-	Exempt u/s 10(16)
10	Shankar, aged 15 years, was awarded Rs. 50,000 as bravery award instituted by the State Government.	No	-	Exempt u/s 10(17A)
11	Virat Kohli received a prize of Rs. 5 lakh towards the 'Man of the Match' award from the Cricket Club of Mumbai.	Yes	5,00,000	Not exempt u/s 10(17A), since not from CG/SG
12	Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Life Insurance Corporation, received a pension of Rs. 2,20,000 during the FY 2021-22	Yes	2,20,000	Not exempt u/s 10(18), since not employee of CG or SG



13	Mrs. Bhutia, a Sikkimese, earned Rs. 2,40,000 as rent from house situated in Sikkim. She got married to Raktim, not a Sikkimese, on 1 June 2007. The couple stays in Mumbai.	No	-	Exempt u/s 10(26AAA) as she married non Sikkimese before 1.4.2008.
14	Mr. Ram purchased a ULIP on 1.5.2014 for a sum assured of Rs. 50 lakh at an annual premium of Rs. 2.6 lakh. He has received Rs. 55 lakh as maturity proceeds of the policy during the PY 2021-22.	No	-	Exempt u/s 10(10D); annual premium $\leq$ 10% of sum assured and it is not a ULIP issued on or after 1.2.2021 with annual premium > 2.5 lakh
15	Mr. Ram purchased a ULIP on 1.5.2021 for a sum assured of Rs. 50 lakh at an annual premium of Rs. 2.6 lakh. He is estimated to receive Rs. 55 lakh as maturity proceeds of the policy after 7 years. He will not acquire any other ULIP.	Yes	55,00,000	Not exempt u/s 10(10D); annual premium $\leq$ 10% of sum assured but it is a ULIP issued on or after 1.2.2021 with annual premium > 2.5 lakh
16	Mr. Solanki purchased a life insurance policy (not a ULIP) on 31.3.2012 for a sum assured of Rs. 20 lakh at an annual premium of Rs. 1.25 lakh. He has received Rs. 26 lakh as maturity proceeds during the PY 2021-22.	No	-	Exempt u/s 10(10D); annual premium $\leq$ 20% of sum assured and it is not a ULIP issued on or after 1.2.2021 with annual premium > 2.5 lakh

**B15. Examine with reasons in brief whether the following statements are true or false.**

#	Statement	True/False	Reason
1	Exemption is available to a Sikkimese individual only in respect of income from any source in the State of Sikkim	False	Also in respect of dividend or interest on securities
2	Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt.	True	Exempt u/s 10(18)
3	Mr. A, a member of HUF, received Rs. 10,000 from out of the income of HUF. Same is to be included in his chargeable income.	False	Exempt u/s 10(2)
4	<b>CA2016(M)</b> – Amount received by an individual or his legal heir as compensation for natural disaster from the Government, is taxable.	False	Exempt u/s 10(10BC)

#### AGRICULTURAL INCOME

**M1. During the PY 2021-22, Kaushik earned rent of Rs. 1,20,000 from plot of land meant for crop harvesting but.....**

Dairy farming: Not exempt as not used for agriculture; Nepal: Not exempt as land not in India; Andhra Pradesh: Exempt

**M2. During the PY 2021-22, Juhi earned Rs. 5,00,000 as rent from land situated in Tamil Nadu and used for.....**

Income from sale taxable as capital gain since land is urban agricultural land. Rest is exempt.

**M3. Rahul owns four plots of land: Plot A in rural area used for rice farming, Plot B in rural area used for cattle.....**

Plot A NIL as rural agricultural land + Plot B 30 lakh not exempt as not rural agricultural land + Plot C 30 lakh not exempt as not rural agricultural land + Plot D 30 lakh not exempt as not rural agricultural land = 90 lakh.

**M4. Suman runs a nursery where he grows saplings and seedlings in pots. He does not carry out any operation on.....**

Income from saplings or seedlings grown in a nursery is deemed to be agricultural income.

**M6. Govind carries out farming activities on a plot of land owned by him. During the PY 2021-22 he earned income of.....**

Exempt = Pulses 3,00,000 as sold in raw form + Rice 6,00,000 as sold after compulsory processing + Rice milk Nil as it is not exempt

**M7. Which of the following is not a condition for claiming exemption in respect of income from building used.....**

It should be either be assessed to land revenue/be subject to local rate OR not be situated in urban area

**M8. The principal business of a rural society is to sell butter made by its member societies. They make butter from.....**

Taxable as no agricultural operations are carried out on land

**M9. Mr. Chai holds 40% shares of Chai Ltd. a tea company, whose 60% income is exempt as agricultural income under.....**

Mere indirect connection with agricultural income is not sufficient for exemption.

**M10. Raj is the managing agent of Saj Ltd. He is entitled to a commission of 10% on the annual net profits of Saj Ltd.....**

Mere indirect connection with agricultural income is not sufficient for exemption.

**M11. Yana uses a part of agricultural land as pasture for cows. Milk from the cows is regularly sold in the market.....**

Taxable as no agricultural operations are carried out on land

**M12. Mr. Junglee owns a patch of forest land. Several medicinal herbs and shrubs grow spontaneously without.....**

Taxable as no agricultural operations are carried out on land

**M13. Jane has invested in debt securities of Flowers Pvt. Ltd., a company deriving its main source of income from.....**

Mere indirect connection with agricultural income is not sufficient for exemption

**M14. Saurabh grows sugarcane in his farm and manufactures sugar in his factory. He sells both sugarcane and sugar in.....**

Agricultural income = 3,00,000 from direct sale (Sale proceeds of sugarcane 9,00,000 – Cost of cultivation (60%) 6,00,000) + 2,00,000 apportioned u/r 7 (Market value of sugarcane used in manufacture 6,00,000 – Cost of cultivation (40%) 4,00,000) = 5,00,000.

Business income = Sale proceeds 10,00,000 – Market value of raw material 6,00,000 – Cost of manufacturing 2,00,000 = 2,00,000.

**M15. Ramesh owns rubber plantations in Kerala and sells crepe rubber in the market. During the PY 2021-22, sales.....**

Rule 7A applies. Composite income = 25 lakh – 5 lakh – 12 lakh = 8 lakh. Business income @ 35% = 2,80,000.

**M16. Srishti owns coffee plantations in Tamil Nadu. During the PY 2021-22, she incurred Rs. 3,00,000 in growing.....**

Rule 7B applies. Composite income = 5,00,000 – 2,70,000 (90%) – 1,00,000 = 1,30,000. Business income @ 40% = 52,000.

**M17. Gurpreet carries on tea business. 40% of income from this business will be treated as business income where.....**

Rule 8 applies to sale of tea grown and manufactured by the seller in India

**M18. Sham Singh spends Rs. 1,00,000 on cultivation and harvesting of his agricultural produce. 50% of the production.....**

Agri income = 1,10,000 – 50,000 = 60,000

**M22. During the PY 2021-22, Dev, resident of age 30 years, has agricultural income of Rs. 3,30,000 and business income.....**

No tax liability and no partial integration of agricultural income as TI ≤ BEL of 2,50,000

**M23. Devina, a resident aged 81 years, has agricultural income of Rs. 4,50,000 and taxable income from business.....**

Tax on NAI + TI of 11,50,000 is 1,45,000. Tax on NAI + BEL of 5,00,000, i.e., on 9,50,000 is 90,000. Difference = 55,000. Tax liability = 55,000 + 2,200 HEC = 57,200

#### DEDUCTION U/S 10AA

**M25. DEF Pvt. Ltd. commenced manufacture of computer parts in a SEZ on 15.12.2020. The letter of approval was.....**

Used P&M is more than 20% of total value of P&M. Deduction not available.

**M26. Suresh commenced manufacture of products in his SEZ unit on 1.6.2020. He purchased plant and machinery for.....**

Year in which unit begins manufacture

**M27. Jacob set up Units A and B in a SEZ. While Unit A began manufacturing on 1.6.2010, Unit B began manufacturing.....**

Unit A: AY 2022-23 is 12<sup>th</sup> year. Deduction = Lower of 5 lakh (50% of 10 lakh) or NIL credit to SEZRRRA = NIL

Unit B: AY 2022-23 is 8<sup>th</sup> year. Deduction = 50% of 15 lakh = 7.5 lakh.

**M29. Mr. Z has set up a Unit in SEZ which began to manufacture goods for export on 12.7.2018. For the FY 2021-22.....**

AY 2022-23 is 4<sup>th</sup> year, hence, 100% deduction is available.

Deduction = Profits of SEZ Unit 15 lakh × [Export turnover of SEZ Unit 40 lakh (45 lakh – 5 lakh) / Total turnover of SEZ Unit 55 lakh (60 lakh – 5 lakh)] = 10,90,909

**M32. PQR Ltd. has two units, one in SEZ and other at DTA. SEZ unit was set up and started manufacturing from.....**

AY 2022-23 is 7<sup>th</sup> year from AY 2016-17.

Deduction = 50% of [70,00,000 × (2,80,00,000 ÷ 4,50,00,000)]

#### OTHER EXEMPTIONS

**M33. Mr. C received the following during the PY 2021-22: Rs. 5,00,000 received out of the income of HUF of which he is.....**

From HUF NIL as exempt u/s 10(2) + Share from firm NIL as exempt u/s 10(2A) + Salary from firm 6,00,000 taxable as PGBP = 6,00,000.

**M34. Mr. X, a non-resident in India, received interest of Rs. 2,00,000 on his Non-resident (External) Account.....**

NRE interest exempt u/s 10(4)(ii) + BD Pvt. Ltd. not taxable as accrued/received outside India + XYZ Ltd 2,50,000 as accrued/received in India = 2,50,000.

**M35. Which of the below incomes is not exempt in case of an individual, not being a citizen of India?.....**

A: Exempt u/s 10(6)(ii); B: Not exempt u/s 10(6)(viii) as total stay in India should not exceed 90 days; C: Exempt u/s 10(6)(xi)

**M37. During the PY 2021-22, JBL Inc, a foreign company, deputed Mr. Z, its employee and a citizen of Germany, to.....**

Remuneration not exempt u/s 10(6)(vi) as stay exceeds 90 days. Rs. 10 lakh taxable. Balance not taxable as Mr. Z is a NR and amount is accrued/received outside India.

**M38. Raman received the following amounts during the PY 2021-22: Salary of Rs. 12 lakh from the National.....**

Salary from NTRO not exempt 12,00,000 + Compensation exempt u/s 10(10BC) + Sukanya Samriddhi proceeds exempt u/s 10(11A) + FTS from GOI of 5,00,000 not exempt = 17,00,000

**M39. In which of the following cases is sum received under a life insurance policy exempt from tax?.....**

A: Exempt u/s 10(10D). Annual premium of 2.75 lakh  $\leq$  20% of sum assured as policy issued before 1.4.2012. Not a high premium ULIP as issued before 1.2.2021.

B: Not exempt u/s 10(10D). Annual premium of 2.75 lakh  $>$  10% of sum assured as policy issued after 31.3.2012.

C: Not exempt u/s 10(10D). High premium ULIP as issued on or after 1.2.2021 with annual premium  $>$  2.5 lakh

D: Not exempt u/s 10(10D): Keyman insurance policy

**M40. Rohan received Rs. 2 lakh as scholarship from Tata Education Trust to meet the cost of his higher education.....**

Exempt u/s 10(16). Amount actually spent is not relevant.

**M41. Mr. Shah, a Member of Parliament, earned the following during the PY 2021-22: Salary of Rs. 2,40,000.....**

Salary is taxable under the head IFOS. Daily/Constituency allowance exempt u/s 10(17).

**M42. Which of the following incomes is taxable?.....**

A: Exempt u/s 10(18); B: Exempt u/s 10(19). C: Taxable under the head 'Salaries'

**M43. Which of the following incomes is not exempt in case of a Sikkimese individual?.....**

Exempt = A: Income accruing/arising from source in Sikkim; B: Dividend; C: Interest on securities.

D: Not exempt as Sikkimese woman has married a non-Sikkimese on or after 1.4.2008

#### DISALLOWANCE UNDER SECTION 14A

**M47. Jagat is an agriculturist based in Madhya Pradesh. During the PY 2021-22, he sold maize for Rs. 10 lakh. He.....**

20 lakh – 5 lakh.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Salaries

#### Build Your Confidence (BYC)

#### BASIC CONCEPTS

**B1. BASIC CONCEPTS – Examine if the income would be chargeable under the head ‘Salaries’ in the following cases:**

#	Situation	Taxable as ‘Salaries’?	Comment
1	Shahrukh Khan contracts with Balaji Productions Ltd. to act for a film for a fee of Rs. 5 crore.	No	No EE relationship. Taxable as PGBP.
2	CA Ramji Kumar receives Rs. 1.5 lakh as fee for tax advise given to his clients	No	No EE relationship. Taxable as PGBP.
3	CA Ramji Kumar is employed with KPMG in its tax advisory division and receives Rs. 1.5 lakh as salary per month.	Yes	EE relationship. Taxable as salary.
4	Dhruv receives Rs. 50,000 as remuneration for setting question paper for CA examination.	No	No EE relationship. Taxable as IFOS.
5	Jacob instructs his employer to donate his salary to a charitable trust. Consequently, he does not receive salary.	Yes	Application of income post accrual.
6	Shubh receives salary from V&M, a partnership firm, in which he is a partner	No	No EE relationship. Covered under PGBP.
7	Shankar’s employer grants him advance against salary of Rs. 1 lakh to meet emergency expenses. This is repaid by deducting Rs. 10,000 every month from his salary.	No	In nature of loan. Not income. Taxable salary does not reduce by the amount of adjustment.

**B2. PAY SCALE – Meena was appointed with a Government undertaking on 1 June 2016 on a pay scale .....**

Period	Salary p.m.
1 June 2016 to 31 May 2017	50,000
1 June 2017 to 31 May 2018	65,000
1 June 2018 to 31 May 2019	80,000
1 June 2019 to 31 May 2020	1,05,000
1 June 2020 to 31 May 2021	1,30,000
1 June 2021 to 31 May 2022	1,55,000

Salary from 1 April 2021 to 31 March 2022 = 1,30,000 p.m. for 2 months + 1,55,000 p.m. for 10 months = 18,10,000.

**B3. BASIS OF CHARGE - Raju is employed with BCD Pvt. Ltd. He furnishes the following particulars .....**

*Computation of salary chargeable to tax for AY 2022-23*

Particulars	Rs.
Salary for April 2021 to February 2022 = 50,000 pm for 11 months (earlier of due or receipt)	5,50,000
Salary for March 2022 (earlier of due or receipt)	70,000

50% salary of May 2022 received on 10.3.2022 (earlier of due or receipt)	35,000
Salary of January 2021 received on 15.12.2021 (was taxed for PY 2020-21) (not again taxed)	-
Loan taken from employer on 15.2.2022 at market rate of interest (not taxable)	-
	<b>6,55,000</b>

#### DEARNESS & COMPENSATORY

**B4. DEARNESS & COMPENSATORY - Determine taxability of the following allowances provided to Josh, employed with Zap India Ltd. in Bangalore, during the PY 2021-22.**

Allowance	Amount	Spend details	Taxable	Comment
Basic salary	60,000 p.m.		7,20,000	Fully taxable
Dearness allowance	10,000 p.m.		1,20,000	Fully taxable
Overtime allowance	1,000 p.m.		12,000	Fully taxable
Tribal area allowance for working for 2 months in a remote tribal area (specified under Income Tax Rules)	6,000	5,000 spent	5,600	400 exempt @ 200 p.m.
Underground mine allowance for supervising a project in a mine in Rajasthan for 3 months	500 p.m.	1,000 spent	-	Entire amount exempt @ 800 p.m.
			<b>8,57,600</b>	

#### RETIREMENT BENEFITS

**B5. GRATUITY – CA2010(N) – Mr. Shah, an Accounts Manager, has retired from JK Ltd. on 15.1.2022 .....**

Particulars	Computation	Rs.	Rs.
Gratuity received at the time of retirement			8,00,000
Less: Exemption u/s 10(10) = Lower of the following:			
(a) Amount actually received as gratuity		8,00,000	
(b) Rs. 20 lakh		20,00,000	
(c) Half month salary for each year of service			
<ul style="list-style-type: none"> <li>Avg. salary of preceding 10 months (Mar to Dec 21)</li> </ul>	Basic + DA(T) = 2,56,000 (25,000 for 7 mth and 27,000 for 3 mth) + 11,000 (55% of 20,000) = 2,67,000 Avg salary of preceding 10 months = 2,67,000 ÷ 10 = 26,700		
<ul style="list-style-type: none"> <li>Half month salary</li> </ul>	Average salary of preceding 10 months ÷ 2 = 26,700 ÷ 2 = 13,350		
<ul style="list-style-type: none"> <li>Years of service</li> </ul>	Retirement date – Joining date = 30 years (Only completed years taken)		
<ul style="list-style-type: none"> <li>Half month salary for each year of service</li> </ul>	13,350 × 30	4,00,500	(4,00,500)
<b>Taxable gratuity</b>			<b>3,99,500</b>

**B6. GRATUITY - Sheena resigned from employment on 15 September 2021 after completing 6 years, 6 months .....**

*Situation A: Private sector + POGA*

Particulars	Computation	Rs.	Rs.
Basic salary	1,00,000 × 5.5 months		<b>5,50,000</b>
Dearness allowance	60% of basic salary		<b>3,30,000</b>
Commission	2% of 5 lakh		<b>10,000</b>
Bonus			<b>3,00,000</b>

Gratuity received			<b>10,00,000</b>
Less: Exemption u/s 10(10) = Lower of the following:			
(a) Amount actually received as gratuity		10,00,000	
(b) Rs. 20 lakh – Rs. 8 lakh exempted earlier		12,00,000	
(c) 15 days salary for each year of service			
• Salary	Basic salary + DA (last drawn) = 1,60,000		
• 15 days salary	$1,60,000 \times (15 \div 26) = 92,307.69$		
• Years of service	6 years (period up to 6 months ignored)		
• 15 days salary for each year of service	$92,307.69 \times 6$	5,53,846	(5,53,846)
<b>Gross salary income</b>			<b>16,36,154</b>

*Situation B: Government employee*

Particulars	Computation	Rs.
Basic salary	$1,00,000 \times 5.5$ months	5,50,000
Dearness allowance	60% of basic salary	3,30,000
Commission	2% of 5 lakh	10,000
Bonus		3,00,000
Gratuity received		21,00,000
Less: Exemption u/s 10(10)		(21,00,000)
<b>Gross salary income</b>		<b>11,90,000</b>

*Situation C: Private sector + Non POGA*

Particulars	Computation	Rs.
Basic salary	$1,00,000 \times 5.5$ months	5,50,000
Dearness allowance	60% of basic salary	3,30,000
Commission	2% of 5 lakh	10,000
Bonus		3,00,000
Gratuity received	<i>Working below</i>	3,92,400
Less: Gratuity exempt u/s 10(10)	<i>Working below</i>	(3,92,400)
<b>Gross salary income</b>		<b>11,90,000</b>

*Working:*

Particulars	Computation	Rs.
Exemption u/s 10(10) = Lower of the following:		
(a) Amount actually received as gratuity		XX
(b) Rs. 20 lakh – Rs. 8 lakh exempted earlier		12,00,000
(c) Half month salary for each year of service		
• Avg. salary of 10 months preceding Sep 2021 (Nov 20 to Aug 21)	<ul style="list-style-type: none"> <li>Apr 21 to Aug 21: Basic + DA(T) + C(TO) = 5,00,000 (1,00,000 × 5) + 2,10,000 (70% of 60% of Basic) + 10,000 (2% of 5,00,000) = 7,20,000</li> <li>Nov 20 to Mar 21: Basic + DA(T) + C(TO)) = 4,00,000 (80,000 × 5) + 1,68,000 (70% of 60% of Basic) + 20,000 (2% of 10,00,000) = 5,88,000</li> <li>Avg salary of 10 months = 13,08,000 (7,20,000 + 5,88,000) ÷ 10 = 1,30,800</li> </ul>	
• Half month salary	Average salary of preceding 10 months ÷ 2 = 1,30,800 ÷ 2 = 65,400	
• Years of service	6 years (Only completed years taken)	
• Half month salary for each year of	$65,400 \times 6$	3,92,400

service		
---------	--	--

**B7. PENSION – Rishi retired on 1.6.2021 with entitlement to receive Rs. 25,000 p.m. as pension. ....**

*Computation of taxable pension for AY 2022-23*

Particulars	A	B	C
Uncommuted pension received (June 21 to Mar 22) = 25,000 p.m. for 3 months (June to Aug) + 12,500 p.m. for 7 months (50% for Sep to Mar)	1,62,500	1,62,500	1,62,500
Committed pension received	8,00,000	8,00,000	8,00,000
Less: Exemption u/s 10(10A):			
• $1/3 \times (\text{Committed pension received} \div \text{Commutation \%}) \times 100\% = 1/3 \times (8,00,000 \div 50) \times 100$	(5,33,333)		
• $1/2 \times (\text{Committed pension received} \div \text{Commutation \%}) \times 100\% = 1/2 \times (8,00,000 \div 50) \times 100$		(8,00,000)	
• Fully exempt			(8,00,000)
<b>Taxable pension</b>	<b>4,29,167</b>	<b>1,62,500</b>	<b>1,62,500</b>

**B8. LEAVE SALARY - Mr. King retired from employment on 15 September 2021 after completing .....**

*Computation of gross salary income of Mr. King for PY 2021-22*

Particulars	Computation	Rs.	A	B
Basic salary	1,00,000 p.m. for 5.5 months		5,50,000	5,50,000
Dearness allowance	50% of basic salary		2,75,000	2,75,000
Sales commission	1% of 10 lakh		10,000	10,000
Fixed commission	5,000 p.m. for 5.5 months		27,500	27,500
Gratuity	Fully exempt in Case A and 1.5 lakh exempt in Case B		-	1,00,000
Pension	Uncommuted pension is taxable. For 6.5 months.		65,000	65,000
Leave encashment	Received		3,00,000	3,00,000
	Less : Exempt u/s 10(10AA):			
	Fully exempt for State Government employee		(3,00,000)	
	Lower of the following for private sector employee:			
	(A) Leave salary received	3,00,000		
	(B) Statutory limit = 3,00,000 - 50,000 exempted earlier	2,50,000		
	(C) 10 months × Average salary <b>Average salary</b> = [Basic + DA(T) + C(TO) of 10 months immediately preceding date of retirement (16 Nov 2020 to 15 Sep 2021)] ÷ 10 = $\{[(1,00,000 + 37,500) \times 10] + 10,000\} \div 10 = 1,38,500$ . <b>10 months × Average salary</b> = 10 × 1,38,500	13,85,000		
	(D) Leave credit (months) × Average salary <b>Leave credit</b> = (Leave entitlement* - Leave availed/lapsed/encashed) ÷ 30 days = [(6 years × 30 days) – 20 availed – 10 lapsed – 15 encashed] = 135 ÷ 30 = 4.5 months *Max 30 days for each completed year. <b>Leave credit (months) × Average salary</b> = 4.5 × 1,38,500	6,23,250		
				(2,50,000)
<b>Gross salary income</b>			<b>9,27,500</b>	<b>10,77,500</b>

**B9. PF - Compute the gross salary income of Shalini after taking into account the following particulars .....**

*Computation of gross salary income of Shalini for AY 2022-23*

Particulars	RPF	UPF	SPF	PPF
Basic salary @ 30,000 p.m.	3,60,000	3,60,000	3,60,000	3,60,000



Dearness allowance @ 1/3 of basic salary	1,20,000	1,20,000	1,20,000	1,20,000
Commission	60,000	60,000	60,000	60,000
Overtime allowance	12,000	12,000	12,000	12,000
Employer's contribution to PF account:	2,160	-	-	-
<ul style="list-style-type: none"> <li>Exempt for SPF/UPF. Employer does not contribute for PPF.</li> <li>Exempt up to 12% of salary (Basic + DA(T) + C(TO)) for RPF = 12% of (3,60,000 + 72,000 (60% of DA) + Nil) = 51,840. Taxable = 54,000 (15% of basic) – 51,840 = 2,160</li> </ul>				
Shalini's contribution to PF account: Deduction u/s 80C available for RPF, SPF, PPF.	-	-	-	-
Interest credited to PF account:	6,000	-	-	-
<ul style="list-style-type: none"> <li>Exempt for UPF/SPF/PPF</li> <li>Taxable for RPF in excess of 9.5% = 25,000 × (3 / 12.5)</li> </ul>				
<b>Gross salary income</b>	<b>5,60,160</b>	<b>5,52,000</b>	<b>5,52,000</b>	<b>5,52,000</b>

**B10. PF – Suhail is employed with JK Ltd. He is entitled to basic salary of Rs. 6 lakh per month. During the PY 2021-22.....**

*Computation of gross salary of Suhail for AY 2022-23*

Particulars	Rs.
Basic salary	72,00,000
Taxable allowances	10,00,000
Employer's contribution to RPF: Exempt up to 12% of salary	-
Interest on RPF: Exempt up to 9.5%	-
Employer's contribution to RPF in excess of 7.5 lakh = 8,64,000 – 7,50,000	1,14,000
Taxable annual accretion on employer's contribution to RPF computed as per Rule 3B (see Note)	8,655
<b>Gross salary</b>	<b>83,22,655</b>

In addition, interest accrued relating to contribution of Suhail exceeding Rs. 2,50,000, i.e., 6,14,000, will not be exempt and will be computed in the manner to be prescribed and taxed under the head IFOS.

Note:

Particulars	Amount	
<b>PY 2020-21</b>		
Aggregate of taxable employer's contribution (i.e., > 7.5 lakh) for each PY	PC1	50,000
Aggregate of Taxable Accretion u/s 17(2)(viiia) for each PY	TP1	3,500
<b>PY 2021-22</b>		
Taxable employer's contribution > 7.5 lakh	PC	1,14,000
Income accrued	I	3,15,000
Balance on 1 April of PY		30,00,000
Balance on 31 march of PY = 30,00,000 + 8,64,000 + 8,64,000 + 3,15,000		50,43,000
Average balance = (Balance on 1 April of PY + Balance on 31 march of PY) / 2	Favg	40,21,500
Return = I / Favg	R	
<b>Taxable accretion = [(PC/2) + [PC1+ TP1]] × R = [57,000 + 53,500] × (3,15,000/40,21,500)</b>		<b>8,655</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to B20

#### Salaries

#### Build Your Confidence (BYC)

**B11. VRS – Dev opted for voluntary retirement offered by his employer under a scheme framed .....**

Particulars	Rs.	Rs.
Voluntary retirement compensation received		10,00,000
Less : Exempt u/s 10(10C) = Lower of:		
(A) Amount received	10,00,000	
(B) Statutory limit	5,00,000	
(C) 3 month salary × Completed years of service = (50,000 × 3) × 20	30,00,000	
(D) Salary at the time of retirement × Months of service left = 50,000 × 48	24,00,000	(5,00,000)
<b>Taxable voluntary retirement compensation</b>		<b>5,00,000</b>

**B12. RETRENCHMENT – CA2013(M) - Mr. Gobind received retrenchment compensation of Rs. 10 lakh .....**

Particulars	Rs.	Rs.
Retrenchment compensation received		10,00,000
Less : Exempt u/s 10(10B) = Lower of:		
(E) Amount received	10,00,000	
(F) Statutory limit	5,00,000	
(G) Amount calculated under IDA = (15 ÷ 26) × Average pay of last 3 months × Completed years of service (period in excess of 6 months taken as a year) = (15 ÷ 26) × 25,000 × 30	4,32,692	(4,32,692)
<b>Taxable retrenchment compensation</b>		<b>5,67,308</b>

### HEALTH & LIFE

**B13. MEDICAL FACILITY – Determine the taxable amount of the following perquisites in respect of medical facilities received by Mr. Ganesh from his employer for the PY 2021-22.**

#	Particulars	Amount	Taxable	Comment
1	Medical premium paid for insuring health of Ganesh	7,000	-	Exempt
2	Treatment of Ganesh by his family doctor	5,000	5,000	Treatment not in specified hospital
3	Treatment of Ganesh's mother (68 years and dependant) by family doctor	8,000	8,000	Treatment not in specified hospital
4	Treatment of Ganesh's sister (dependant) in a private nursing home	3,000	3,000	Treatment not in specified hospital
5	Treatment of Ganesh for a prescribed disease in a private hospital (approved)	4,000	-	Treatment in approved hospital for prescribed disease
6	Treatment of Ganesh's brother (independent)	6,000	6,000	Independent brother not member of family
			<b>22,000</b>	

**B14. MEDICAL FACILITY – CA2014(M) – Rakhi is an employee in a private company. She receives the following medical benefits from the company during PY 2021-22. Determine the taxable amount of these benefits and allowances.**

Particulars	Amount	Taxable
-------------	--------	---------

Reimbursement of following medical expenses incurred by Rakhi		
• On treatment of her self-employed daughter in private clinic	4,000	4,000
• On treatment of herself by family doctor	8,000	8,000
• On treatment of her mother-in-law dependant on her, in a nursing home	5,000	5,000
Payment of premium on mediclaim policy taken on her health	7,500	-
Medical allowance	2,000 p.m.	24,000
Medical expenses reimbursed on her son's treatment in Government hospital	5,000	-
Expenses incurred by company on treatment of her minor son abroad	1,05,000	-
Expenses in relation to foreign travel (60,000) and stay of Rakhi and her son abroad (60,000) for medical treatment (limit prescribed by RBI for this is Rs. 2 lakh)	1,20,000	-
		<b>41,000</b>

**Note** – Treatment and stay of 1.65 lakh exempt since within RBI limit of 2 lakh. Travel exempt assuming GTI (before including travel expenses) is up to 2 lakh.

## HOUSING

**B15. HRA – Raj has received the following from his employer.....**

Particulars	Computation	Rs.	Rs.
HRA received			1,08,000
Less: Exempt u/s 10(13A) = Lower of:			
(A) Actual HRA received		1,08,000	
(B) Rent paid – 10% of salary	1,20,000 – 10% of 4,32,000 (3,60,000 + 72,000) = 1,20,000 – 43,200	76,800	
(C) 40% of salary	40% of 4,32,000	1,72,800	(76,800)
<b>Taxable HRA</b>			<b>31,200</b>

**B16. HRA – CA2012(M) - Mohit is employed with XY Ltd. on a basic salary of Rs. 10,000 p.m. He is also .....**

*Computation of gross salary for AY 2022-23*

Particulars	Rs.	Rs.
Basic salary (10,000 × 10) + (11,000 × 2)		1,22,000
Dearness allowance		1,22,000
HRA received = (6,000 × 9) + (7,000 × 3)	75,000	
Less : Exempt u/s 10(13A) (see Note)	(53,700)	21,300
<b>Gross salary</b>		<b>2,65,300</b>

**Note:**

Particulars	Apr-May	Jun-Oct	Nov-Dec	Jan	Feb-Mar
Basic salary	10,000	10,000	10,000	10,000	11,000
DA (50% of basic)	5,000	5,000	5,000	5,000	5,500
Salary for purpose of HRA exemption	15,000	15,000	15,000	15,000	16,500
Relevant period in months	2	5	2	1	2
Salary for relevant period	30,000	75,000	30,000	15,000	33,000
Rent paid for relevant period	Nil	30,000	16,000	8,000	16,000
HRA exempt is lower of:					
(a) HRA received	-	30,000	12,000	7,000	14,000
(b) Rent paid – 10% of salary	-	22,500	13,000	6,500	12,700
(c) 40% of salary (Gzb) for Jun to Oct and 50% of salary (Del) for Nov to Mar	-	30,000	15,000	7,500	16,500
<b>HRA exempt</b>	-	<b>22,500</b>	<b>12,000</b>	<b>6,500</b>	<b>12,700</b>
<b>Total HRA exempt = 53,700</b>					

**B17. ACCOMMODATION – Surabhi has been provided with residential accommodation by her employer. ....**

Since house is occupied for 6 months, value of perquisite will be computed based on salary of 6 months.

**Case A:**

Particulars	Rs.	Comment
Salary for period house occupied (6 months)		
• Basic salary	3,00,000	Included
• DA (50% of 1,50,000)	75,000	DA(T) included
• Commission @ 5% of Rs. 15 lakh	75,000	Included
• Tiffin allowance	30,000	Included
• Taxable perquisite for medical facilities	-	Perquisite excluded
• Arrears of salary	-	Not for current period
	4,80,000	
<b>Value of rent free unfurnished accommodation = 15% of salary as population of Delhi &gt; 25 lakh</b>	<b>72,000</b>	

**Case B:**

Particulars	Rs.
Value as if it is rent free unfurnished accommodation = 10% of salary of 4,80,000 (computed in Case A), since population of Jodhpur is > 10 lakh and up to 25 lakh	48,000
Less: Rent paid by Surabhi	(30,000)
<b>Value of unfurnished accommodation given at concessional rent</b>	<b>18,000</b>

**Case C:**

Particulars	Rs.
Value as if it is rent free unfurnished accommodation = Lower of:	
• Lease rental of 90,000, or	
• 15% of salary of 4,80,000 = 72,000	72,000
Less: Rent paid by Surabhi	(72,000)
<b>Value of unfurnished accommodation given at concessional rent</b>	<b>Nil</b>

**Case D:**

Particulars	Rs.
Value as if it is rent free furnished accommodation	
• Value of rent free unfurnished accommodation as computed in Case A (since facts are same)	72,000
• Wooden furniture = 10% p.a. of Rs. 60,000 for 1 month	500
• AC = Hire charges for 6 months = 6,000 × 6	36,000
	1,08,500
Less: Rent paid by Surabhi	(90,000)
<b>Value of furnished accommodation given at concessional rent</b>	<b>18,500</b>

**Case E:**

Particulars	Rs.
Value as if it is rent free furnished accommodation	
• Value of rent free unfurnished accommodation = 10,000 × 6	60,000
• Wooden furniture = 10% p.a. of Rs. 60,000 for 1 month	500
• AC = Hire charges for 6 months = 6,000 × 6	36,000
	96,500
Less: Rent paid by Surabhi	(90,000)
<b>Value of furnished accommodation given at concessional rent</b>	<b>6,500</b>

**B18. SPECIAL ALLOWANCES – Determine taxability of the following allowances received by Ram Kumar during the PY 2021-22 from his employer.**

#	Allowance	Amount	Spend details	Taxable	Comment
1	Travelling allowance for 5 day official tour to Rajkot	50,000	20,000 on travel expenses for tour and 10,000 on personal expenses on sightseeing.	30,000	Official expense exempt
2	Conveyance allowance	7,000 p.m.	50,000 spent on official duty and balance spent on commuting between residence and office	34,000	Spend on official duty exempt
3	<b>CA2018(N)</b> - Allowance received which has been granted to meet his personal expenditure while on duty (he is working in a transport system). He is not in receipt of any daily allowance from his employer.	12,000 p.m.	Not available	43,200	70% exempt up to max of 10,000 p.m.

**B19. LTC – Mr. Ghumo, employed with Fun India Ltd. in Delhi, received Rs. 1 lakh as leave travel .....**

Particulars	Case A	Case B
Is exemption available?	No, since destination is not in India, 2 journeys are already claimed in the block 2018-2021 and Ghumo did not travel	Yes
Who is entitled?	-	Ghumo, wife, twins and mother. Third child and father (not dependent) are not entitled.
Exemption	-	Lower of: (a) Amount spent = 30,000 (@ 6,000 per person) (b) Deluxe class but fare for shortest route = 30,000 (@ 6,000 per person)
<b>LTC taxable</b>	<b>1,00,000</b>	<b>1,00,000 – 30,000 = 70,000</b>

**B20. LTC - CA2016(N), 2013(M) – Compute the amount of LTC exemption in the following cases.....**

Restriction of 2 children is not applicable to multiple births after one child. Hence, LTC can be claimed for Suresh, his wife and 3 children. Since holiday is in India and journey is performed by Air India air economy class (assumed), the entire reimbursement met by employer is fully exempt.

In the second case, since twins are born first, exemption cannot be claimed for daughter. Hence, Rs. 10,000 towards daughter is not exempt. LTC exempt is only Rs. 70,000.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B21 to B30

#### Salaries

#### Build Your Confidence (BYC)

**B21. MOTOR CAR – Jay is in possession of a motor car, provided by Z Ltd., his employer. Maintenance and running....**

Case I: Exempt as car used wholly for official purpose. Assuming Z Ltd. maintains log book and issues certificate to Jay.

Case II: Taxable value = 15,000 + 24,000 (maintenance and chauffeur expenses borne by Z Ltd.) – 10,000 (recovered from Jay) = 29,000.

Case III: Taxable value = 39,000 (maintenance and chauffeur expenses borne by Z Ltd.) – 16,200 (2,700 p.m. (1,800 + 900) for 6 months) = 22,800. Higher amount, corresponding to 75% official use, can be deducted if Z Ltd. maintains log book and issues certificate to Jay.

Case IV: Exempt as car used wholly for official purpose. Assuming Z Ltd. maintains log book and issues certificate to Jay.

Case V: Taxable value = 30,000 (10% p.a. of cost of 4 lakh for 9 months) + 15,000 + 24,000 – 10,000 = 59,000.

Case VI: Taxable value = 3,300 p.m. (2,400 + 900) for 10 months – 20,000 = 13,000.

Case VII: No perquisite since no benefit arises to Jay as he owns the cars and bears expenses.

Case VIII: Taxable value = 600 p.m. for 6 months = 3,600.

### EDUCATION

**B22. SPECIAL ALLOWANCES – Determine taxability of the following allowances provided to Josh, employed with Zap India Ltd. in Bangalore, during the PY 2021-22.**

#	Allowance	Amount	Spend details	Taxable	Comment
1	Research allowance granted to complete a technical education course for official purpose	25,000	30,000 spent	-	Entire amount spent
2	Children education allowance	1,000 p.m.	1,000 p.m. on each of his 3 children	9,600	2,400 exempt @ 100 p.m. per child up to 2 children
3	Children hostel allowance	1,500 p.m.	No spend. All children stay with Josh at home	10,800	7,200 exempt @ 300 p.m. per child up to 2 children

**B23. EDUCATION FACILITY – Determine the value of taxable perquisite in the case of Seema, who is employed with Gyan Pvt. Ltd. as a manager.**

#	Case	Taxable	Comment
1	Seema attends a conference on recent management trends. Fee of Rs. 5,000 is paid by her employer.	-	Exempt
2	Daughter of Seema studies in a school owned by Gyan Pvt. Ltd. Cost of similar education in a nearby school is Rs. 1,000 p.m. Seema is charged Rs. 500 p.m.	-	Exempt up to 1,000 p.m.
3	Son of Seema studies in Ram Krishna school with which Gyan	12,000	18,000 (@ 1,500 p.m.) – 6,000 (@ 500

	Pvt. Ltd. has a tie up. Cost of similar education in a nearby school is Rs. 1,500 p.m. Seema is charged Rs. 500 p.m.		p.m.) is taxable As per alternate view, 6,000 (@ 1,500 p.m. – 1,000 p.m. exemption) – 6,000 (@ 500 p.m.), i.e., Nil is taxable
4	Gyan Pvt. Ltd. reimburses tuition fee of Rs. 10,000 p.m. for education of Seema's son in JK School. There is no tie up between Gyan Pvt. Ltd. and JK School.	1,20,000	Taxable

## ASSETS

### B24. USE OF MOVABLE ASSET – Compute the taxable value of perquisite in the following cases for PY 2021-22.

#	Case	Taxable	Comment
1	Raghav is given a laptop by his employer on 1 May 2021. Employer purchased laptop in 2019 for Rs. 50,000. Raghav uses laptop for official and personal purposes.	-	Exempt
2	Raghav is given a mobile phone by his employer on 1 October 2021. He uses it for making official and personal calls. Employer purchased the mobile in 2020 for Rs. 30,000.	1,500	10% p.a. of Rs. 30,000 for 6 months
3	The employer hired a TV for Rs. 2,000 p.m. and gave it to Raghav on 1 January 2022 for use at home. Raghav pays Rs. 500 p.m. on this account.	4,500	1,500 p.m. (2,000 – 500) for 3 months

### B25. TRANSFER OF MOVABLE ASSET – Jaggi is employed with Jag Ltd. During the PY 2021-22, Jag Ltd. sold a laptop.....

Particulars	Laptop	Car	WM
Actual cost	50,000	5,00,000	30,000
Less: Depreciation for every completed year of use (see Note)	(25,000)	(1,80,000)	(9,000)
Less: Amount paid by Jaggi	-	(50,000)	(22,000)
<b>Taxable value of perquisite</b>	<b>25,000</b>	<b>2,70,000</b>	<b>Nil</b>

Note:

Depreciated value	Laptop	Car	WM
Completed years of use	1 year (15.6.20 to 1.11.21)	2 years (15.6.19 to 1.11.21)	3 years (15.6.18 to 1.11.21)
Rate of depreciation	50% on reducing balance	20% on reducing balance	10% on SLM
Depreciation	25,000 (50% of 50,000)	1,00,000 for 1 <sup>st</sup> year (20% of 5 lakh) + 80,000 (20% of 4 lakh) = 1,80,000	10% of 30,000 for 3 years = 9,000

## OFFICE SUPPORT

### B26. SPECIAL ALLOWANCES – Determine taxability of the following allowances provided to Mr. X, employed with Z India Ltd. in Bangalore, during the PY 2021-22.

Allowance	Amount	Spend details	Taxable	Comment
Lunch allowance	500 p.m.	10,000 spent on lunch	6,000	Fully taxable
Helper allowance	3,000 p.m.	Helper employed for 2,500 p.m. to assist family at home	36,000	Expense not for official duty
Uniform allowance	20,000	25,000 (out of which 10,000 spent in purchasing school uniform of children)	5,000	Official spend exempt

### B27. F&B – Shaily was employed with JK Ltd. during the PY 2021-22. During the year, JK Ltd. spent Rs. 10,000 .....

Case	Taxable	Comment
Free, tea, coffee, snacks in office	-	Exempt



Subsidized lunch in office	6,000	$200 \times (100 - 50 - 20)$
Meals in remote area	-	Exempt
	<b>6,000</b>	

### FINANCIAL INCENTIVES

**B28. LOAN – Compute the taxable perquisite in the following cases where Raman has received loan facility from Growth Ltd., his employer, during the PY 2021-22.**

#	Case	Taxable	Comment
1	Growth Ltd. provides interest-free loans of Rs. 3,000, Rs. 10,000 and Rs. 7,000 during the PY, for personal purposes.	-	Aggregate does not exceed 20,000
2	Growth Ltd. provides a loan of Rs. 50,000 at interest rate of only 1% p.a. for treatment of Mrs. Raman for a disease prescribed under Rule 3A.	-	Exempt even if amount exceeds 20,000. Spouse is MOH.
3	Growth Ltd. provides interest-free loan of Rs. 1 lakh on 1 April 2021 for purchase of consumer durables. SBI lending rate on 1 April 2021 is 15% for personal loans. Loan is outstanding as on 31 March 2022.	15,000	15% of 1 lakh
4	Growth Ltd. provides housing loan on 1 October 2021 of Rs. 10 lakh at 3% interest rate. SBI lending rate on 1 April 2021 is 10% for housing loans. Loan remains unpaid for PY 2021-22.	35,000	7% of 10 lakh for 6 months

**B29. LOAN – Raman avails a car loan of Rs. 5 lakh from his employer during the PY 2021-22. Loan is given .....**

Month	Aggregate O/S balance on last day of each month
October 2021	5,00,000
November 2021	5,00,000
December 2021	5,00,000
January 2022	4,75,000
February 2022	4,50,000
March 2022	4,25,000
<b>Total</b>	<b>28,50,000</b>

*Taxable value of perquisite =  $4\% (10\% - 6\%) \times 28,50,000 \times (1/12) = \text{Rs. } 9,500$*

**B30. LOAN - Raman avails a loan of Rs. 5 lakh from his employer on 1 June 2021 for medical treatment .....**

*Taxable value of perquisite for the period June to December 2021 = Nil*

Taxable value of perquisite for the period January to March 2022 is computed below.

Month	Aggregate O/S balance on last day of each month
January 2022	$3,00,000 - 20,000 = 2,80,000$
February 2022	$2,80,000 - 20,000 = 2,60,000$
March 2022	$2,60,000 - 20,000 = 2,40,000$
<b>Total</b>	<b>7,80,000</b>

*Taxable value of perquisite =  $10\% \times 7,80,000 \times (1/12) = \text{Rs. } 6,500$*



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B31 to B40

#### Salaries

#### Build Your Confidence (BYC)

**B31. ESOP – SAP India Ltd. allotted 2,000 sweat equity shares to Madhav in June 2021. Allotment .....**

Particulars	Amount
FMV of 2,000 sweat equity shares @ 1,000 each	20,00,000
Less: Amount recovered from Madhav @ 500 per share	(10,00,000)
<b>Value of perquisite</b>	<b>10,00,000</b>

**B32. GIFT – Discuss the taxability of perquisite in the following cases for the PY 2021-22.**

#	Case	Taxable	Comment
1	Ganga received gift voucher worth Rs. 3,000 from her employer on completing 10 years of service and a gift token worth Rs. 1,500 on her birthday	-	Aggregate less than 5,000
2	During the PY, Ganga received gift voucher worth Rs. 3,000 from her employer on completing 10 years of service and a gift token worth Rs. 2,500 on her birthday	5,500	Alternatively, Rs. 500 (5,500 – 5,000 exempt) can be stated as taxable with a note in the answer.
3	During the PY, Ganga received gift cheque of Rs. 4,000 from her employer on her anniversary as well as various gifts worth Rs. 10,000 from her office colleagues on this occasion.	4,000	Cash gift fully taxable. Gift from colleagues not perquisite but covered in terms of section 56(2)(x) under IFOS (para 172)
4	During the PY, Ganga received a wrist watch worth Rs. 4,000 from her employer on her birthday along with cash gift of Rs. 2,000.	2,000	Cash gift fully taxable. Value of watch is < 5,000.

### DEDUCTIONS U/S 16

**B33. DEDUCTIONS U/S 16 – Compute the income taxable under the head ‘Salaries’ for the AY 2022-23 in case of Rahul.....**

Particulars	CD Pvt. Ltd.	State Govt
Basic salary	2,00,000	48,000
Dearness allowance	50,000	-
Commission	60,000	-
Entertainment allowance	12,000	4,000
Taxable value of residential accommodation provided	35,000	-
Professional tax paid by employer	1,500	1,500
Gross salary	3,58,500	53,500
Less: Deductions u/s 16:		
• Standard deduction u/s 16(ia)	(50,000)	(50,000)
• Entertainment allowance u/s 16(ii) = Lower of (a) allowance received (4,000), (b) statutory amount (5,000), (c) 20% of basic salary (9,600). Only for Government employee.	-	(4,000)
• Professional tax paid: u/s 16(iii)	(2,500)	(2,500)
<b>Income from salary</b>	<b>3,06,000</b>	<b>Nil</b>

### COMPREHENSIVE QUESTIONS

**B34. – CA 2020(N) - Rohan is a Finance Manager in Surya Ltd. He gives you the following information. ....**

Particulars	Amount
Basic salary	9,00,000
Entertainment allowance	15,000
Housing loan ( <b>Note 1</b> )	40,125
Health insurance premium : Not taxable as perquisite	-
Gift voucher: Taxable since value $\geq$ Rs. 5,000. As per alternate view, excess of Rs. 5,000 can be taken as taxable value.	15,000
Sweat equity shares: FMV on date of exercise of option – Amount actually paid = $1,000 \times (700 - 415)$	2,85,000
Use of furniture: 10% p.a. of actual cost of Rs. 2,10,000 during PY 2021-22	21,000
Transfer of furniture: Actual cost Rs. 2,10,000 – Rs. 84,000 being depreciation @ 10% on SLM for 4 years (completed years of use)	1,26,000
Gross salary	14,02,125
Less: Deductions u/s 16	
• Standard deduction u/s 16(ia)	(50,000)
• Entertainment allowance: Deduction allowed only to Government employee	-
<b>Income under the head 'Salary'</b>	<b>13,52,125</b>

**Note 1: Housing loan**

Perquisite taxable since amount of loan  $>$  Rs. 20,000. Value =  $3\% (8\% - 5\%) \times$  aggregate outstanding balance on last day of each month =  $3\% \times 1,60,50,000 / 12 = 40,125$ . Date of payment every month is not given. It is assumed that outstanding balance on last day of each month is after payment of instalment for that month.

Month	Outstanding balance on last day
April 20	14,75,000
May 20	14,50,000
June 20	14,25,000
July 20	14,00,000
Aug 20	13,75,000
Sep 20	13,50,000
Oct 20	13,25,000
Nov 20	13,00,000
Dec 20	12,75,000
Jan 21	12,50,000
Feb 21	12,25,000
Mar 21	12,00,000
<b>Total</b>	<b>1,60,50,000</b>

**B35. CA2019(N) – Swaraj has provided the following particulars for the year ended 31.3.2022.....**

*Computation of income under the head 'Salaries' of Swaraj for AY 2022-23*

Particulars	Rs.	Rs.
Basic salary @ 25,000 p.m. for 9 months		2,25,000
HRA @ 6,000 p.m. for 9 months	54,000	
Less: Exempt u/s 10(13A) = Lower of:		
(a) HRA received = 54,000		
(b) Rent paid – 10% of salary = 58,500 (@ 6,500 p.m. for 9 months) – 22,500 (10% of 2,25,000) = 36,000		
(c) 50% of salary = 50% of 2,25,000 = 1,12,500	(36,000)	
		18,000
Gratuity	3,50,000	
Less: Exempt u/s 10(10) = Lower of:		
(a) Gratuity received = 3,50,000		
(b) Statutory limit = 20,00,000		
(c) 15 days salary for each year of service (period in excess of 6 months taken as one year) = $(15/26)$	(3,50,000)	

$\times 25,000 \times 26 = 3,75,000$		
Leave encashment	3,15,000	
Less: Exempt u/s 10(10AA) = Lower of:		
(a) Leave encashment received = 3,15,000		
(b) Statutory limit = 3,00,000		
(c) 10 months average salary = $10 \times 25,000 = 2,50,000$		
(d) Leave credit (months) $\times$ Average salary = $(375 \text{ days} / 30) \times 25,000 = 3,12,500$	(2,50,000)	
		65,000
Gift voucher: Exempt as value $< 5,000$		-
Gift of mobile phone: Not covered under salary as not received from employer		-
Gross salary		3,08,000
Less: Standard deduction u/s 16(ia)		(50,000)
<b>Income under the head 'Salaries'</b>		<b>2,58,000</b>

**B36. CA2018(N) – Nandini, a resident individual, aged 48 years, is an assistant manager of Dye Hard Ltd. ....**

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

Particulars	Rs.
Basic salary @ 32,000 p.m.	3,84,000
Dearness allowance @ 10% of basic pay	38,400
Bonus: Taxable assuming it was not subject to tax in PY 2020-21	32,000
Fixed medical allowance: Taxable	20,000
Medical bill of father in law: Taxable; father in law is not included in meaning of family	3,000
Use of laptop: Exempt	-
Domestic servant @ 1,000 p.m.	12,000
Value of equity shares = 500 shares @ Rs. 100 per share (FMV on date of exercise of option Rs. 250 – Amount paid Rs. 150)	50,000
Professional tax paid by employer	1,800
Gross salary	5,41,200
Less: Deductions u/s 16	
• Standard deduction	(50,000)
• Professional tax paid	(2,500)
<b>Total income</b>	<b>4,88,700</b>

**B37. CA2018(N), 2011(N) – Janakaraj, employed as General Manager in Rajus Refractories Pvt. Ltd., ....**

*Computation of taxable salary of Janakaraj for AY 2022-23*

Particulars	Rs.	Rs.
Basic salary = 70,000 p.m. for 8 months and 80,000 p.m. for 4 months		8,80,000
Dearness allowance @ 50% of basic salary		4,40,000
Bonus = 70,000 + 50% of 70,000		1,05,000
Employer's contribution to RPF @ 18% of 8,80,000	1,58,400	
Less: Exempt up to 12% of Basic + DA if terms of employment provide + Commission based on fixed percentage of turnover = 12% of 8,80,000	(1,05,600)	
		52,800
Profession tax paid by employer		3,000
Use of laptop: Exempt		-
LTC	45,000	
Less: Exempt = Economy class air fare (assumed it is for Air India for shortest route) for the entire family. Twins born after first child are considered as one child.	(45,000)	
		-
Gross salary		14,80,800
Less: Deductions u/s 16		
• Standard deduction		(50,000)
• Professional tax paid		(6,000)

<b>Taxable salary</b>	<b>14,24,800</b>
-----------------------	------------------

**B38. CA2018(M) - Mr. Honey is working with a domestic company having a production unit in USA for last .....**

Residential status of Mr. Honey = Resident and ordinarily resident, since stay in India  $\geq$  182 days during the PY. Thus, global income is taxable in India.

*Computation of taxable income from salary of Mr. Honey for AY 2022-23*

Particulars	Rs.	Rs.
Salary @ 50,000 p.m.		6,00,000
<b>Children education and hostel allowance</b>		
• Amount received	36,000	
• Less: Exemption = Nil since education and hostel outside India	Nil	36,000
<b>Perquisites</b>		
Rent free accommodation in USA = Lower of:		
• Lease rental = 15,000 $\times$ 12	1,80,000	
• 15% of salary (Basic + Taxable allowance) = 15% of 6,36,000	95,400	95,400
Guest house in India – Not taxable since provided for stay when he visits India wholly for official purpose		-
Lunch facility – Taxable on assumption that value exceeds Rs. 50 per meal. Assuming 6 month stay in India during PY and 26 working days per month, Rs. 7,800 (50 $\times$ 26 $\times$ 6) is considered exempt. Taxable = 48,000 – 7,800.		40,200
Motor car in USA = 2,400 $\times$ 6, assuming expenses met by employer, car is self driven and it is used by Honey for 6 months while he is in USA.		14,400
Motor car in India		
• 10% p.a. of 8 lakh for 6 months in India	40,000	
• Running and maintenance expenses for 6 months (assuming these are met by employer)	30,000	70,000
Education for elder son in India		12,000
Life insurance premium paid by employer		10,000
Personal accident policy premium paid by employer		-
Gross salary		8,78,000
Less: Standard deduction		(50,000)
<b>Taxable salary</b>		<b>8,28,000</b>

*Mistake by students – Wrongly allowed exemption u/s 10(14) for allowance of education and hostel.*

**B39. CA2017(N) – Jaya is the marketing manager in XYZ Ltd. She gives you the following particulars.....**

*Computation of taxable income from salary of Jaya for AY 2022-23*

Particulars	Rs.	Rs.
Basic salary @ 65,000 p.m.		7,80,000
Dearness allowance @ 22,000 p.m.		2,64,000
Bonus @ 17,000 p.m.		2,04,000
<b>Residential accommodation:</b>		
• Value of rent free accommodation (for 5 months) = Lower of (a) lease rental Rs. 60,000 or (b) 15% of salary (basic 65,000 + 30% of DA being 6,600 + bonus 17,000 = 88,600 p.m. for 5 months = 4,43,000) being Rs. 66,450	60,000	
• Less: Rent paid by Jaya	(24,000)	
		36,000
Gift voucher: Taxable as $\geq$ 5,000. <sup>1</sup>		8,000
Employee's contribution to RPF: Not taxable		-
Employer's contribution to RPF = 18% of (basic + DA)	1,87,920	
• Less: Exempt up to 12% of Basic + DA if terms of employment provide + Commission based on fixed percentage of turnover = 12% of 8,59,200 (7,80,000 + 79,200 being 30% of DA)	(1,03,104)	
		84,816

<sup>1</sup> Alternative, only value in excess of 5,000 can be said to be taxable.

Medical insurance premium: Exempt	-
Motor car = 2,400 p.m. for 5 months	12,000
Gross salary	13,88,816
Less: Standard deduction u/s 16(ia)	(50,000)
<b>Taxable salary</b>	<b>13,38,816</b>

**B40. CA2017(M) – Nambi, a salaried employee, furnishes the following details for FY 2021-22.....**

*Computation of taxable income from salary of Nambi for AY 2022-23*

<b>Particulars</b>	<b>Rs.</b>
Basic salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by employer: Assumed not in a specified hospital	21,000
Profession tax paid by employer	3,500
Health insurance premium paid by employer: Exempt	-
Gift voucher given by employer on his birthday: Taxable as $\geq 5,000$ . <sup>2</sup>	12,000
Life insurance premium of Nambi paid by employer: Taxable	34,000
Laptop provided for use at home: Exempt	-
Motor car: Assuming running and maintenance born by employer: 1,800 p.m.	21,600
Annual credit card fees paid by employer: Fully taxable as details of official usage not available	2,000
Gross salary	10,71,600
Less: Deduction u/s 16	
• Standard deduction	(50,000)
• Profession tax paid	(7,000)
<b>Taxable salary</b>	<b>10,14,600</b>

<sup>2</sup> Alternatively, only value in excess of 5,000 can be taken to be taxable.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B41 to End

#### Salaries

#### Build Your Confidence (BYC)

**B41. CA2014(N) - Anand, an employee of XYZ Co. Ltd. at Mumbai and not covered by Payment of Gratuity Act.....**

*Computation of taxable income from salary of Anand for AY 2022-23*

Particulars	Amount
Basic salary	7,20,000
Bonus	36,000
HRA (Note 1)	1,17,000
Employer's contribution to RPF in excess of 12% of salary (12% of 7,20,000) = 1,10,000 – 86,400	23,600
Gratuity (Note 2)	7,31,640
Accumulated balance of RPF: Exempt since more than 5 years service rendered	-
Uncommuted pension = (8,000 × 1) + (2,000 × 2)	12,000
Commuted pension (Note 3)	2,50,000
Gross salary	18,90,240
Less: Standard deduction	(50,000)
Less: Professional tax paid	(2,000)
<b>Taxable salary</b>	<b>18,38,240</b>

*Note 1 - HRA*

Computation	Amount	Amount
HRA received		1,35,000
Less: Exempt u/s 10(13A) = Lower of:		
(a) HRA received	1,35,000	
(b) Rent paid – 10% of salary = 90,000 – 10% of 7,20,000	18,000	
(c) 50% of salary	3,60,000	(18,000)
<b>Taxable HRA</b>		<b>1,17,000</b>

*Note 2 - Gratuity*

Computation	Amount	Amount
Gratuity received		20,51,640
Less: Exempt u/s 10(10) = Lower of:		
(a) Gratuity received	20,51,640	
(b) Statutory limit	20,00,000	
(c) Half month salary for each completed year of service = (Average salary of 10 month preceding retirement ÷ 2) × 33 = (80,000 ÷ 2) × 33	13,20,000	(13,20,000)
<b>Taxable gratuity</b>		<b>7,31,640</b>

*Note 3 - Pension*

Computation	Amount	Amount
Commuted pension received		4,50,000
Less: Exempt u/s 10(10A) = $\frac{1}{3} \times (4,50,000 \div 75\%) \times 100\%$		(2,00,000)
<b>Taxable amount</b>		<b>2,50,000</b>

**B42. CA2013(N), 2010(N) – From the following details, find out the salary chargeable to tax of Anand for AY 2022-23.....**



*Computation of taxable income from salary of Anand for AY 2022-23*

Particulars	Rs.	Rs.
Basic salary = 25,000 p.m. for 11 months + 27,500 p.m. for 1 month		3,02,500
Dearness allowance = 15% of basic pay		45,375
Bonus = 1.5 × 27,500		41,250
Own contribution to RPF		-
Employer's contribution to RPF = 18% of 3,47,875 (basic + DA)	62,618	
Less: Exempt = 12% of salary (12% of 3,47,875 being basic + DA forming part of salary for retirement benefits)	(41,745)	
		20,873
Rent free residential accommodation = Lower of:		
• Lease rent @ 15,000 p.m.	1,80,000	
• 15% of salary: Salary = Basic 3,02,500 + DA forming part of salary 45,375 + Bonus 41,250 + Telephone allowance 12,000 = 4,01,125.	60,169	60,169
Laptop: Exempt		-
Medical treatment bill of dependent daughter: Taxable assuming treatment not in specified hospital		25,000
House keeper: 2,000 p.m.		24,000
Telephone allowance		12,000
Conveyance allowance: Exempt as it is based on reimbursement of official expenses		-
Gift voucher: Exempt as < 5,000		-
Medical insurance premium: Exempt		-
Personal accident policy premium: Exempt		-
Motor car = R&M expenses born by employer of 36,600 – 21,600 (@ 1,800 p.m.)		15,000
Free lunch: Exempt assuming it is not exceeding Rs. 50 per meal		-
Gross salary		5,46,167
Less: Standard deduction		(50,000)
<b>Taxable salary</b>		<b>4,96,167</b>

**B43. CA2008(N) - Mr. M is an area manager of M/s N Steels Co. Ltd. During the FY 2021-22, he gets the following.....**

*Computation of taxable salary of Mr. M for AY 2022-23*

Particulars	Rs.	Rs.
Basic salary = 20,000 p.m. for 5 months + 25,000 p.m. for 7 months		2,75,000
Transport allowance		24,000
Contribution of employer to RPF: Taxable = 3% (15% - 12%) of 2,75,000		8,250
Children education allowance	6,000	
Less: Exempt 100 p.m. per child up to 2 children	(2,400)	
		3,600
City compensatory allowance		3,600
Hostel expenses allowance	3,600	
Less: Exempt 300 p.m. per child up to 2 children	(7,200)	
		-
Tiffin allowance: Fully taxable		5,000
Tax on employment paid by employer		2,500
Gross salary		3,21,950
Less: Deductions u/s 16		
• Standard deduction		(50,000)
• Tax on employment paid		(2,500)
<b>Taxable salary</b>		<b>2,69,450</b>

**B44. MASTER QUESTION - Suraj retired from the service of Saya Ltd., Delhi, on 31.1.2022 after completing .....**

*Computation of income chargeable under the head 'Salaries' for Suraj for AY 2022-23*

Amounts are computed based on 10 months of employment during PY 2021-22

Particulars	Rs.	Rs.	Rs.
Basic salary @ 50,000 p.m.			5,00,000
Dearness allowance @ 50% of basic salary			2,50,000
Commission @ 2.000 p.m.			20,000
Bonus @ 10,000 p.m.			1,00,000
Suraj's contribution to recognized provident fund: Not taxable			-
Employer's contribution to recognized provident fund = 15% of 7,50,000 (basic + DA)		1,12,500	
Less: 12% of salary (basic + DA as per terms + Commission based on fixed % of turnover) = 12% of 6,50,000 (5,00,000 + 60% of 2,50,000 + Nil)		(78,000)	
			34,500
Interest on recognized provident fund: Exempt up to 9.5%			-
Salary from partnership firm: Not taxable under the head Salaries but under PGBP			-
Accumulated balance of recognized provident fund: Exempt as ≥ 5 years of continuous service rendered			-
Gratuity		7,00,000	
Less: Exemption u/s 10(10) = Lower of the following:			
(a) Amount actually received as gratuity	7,00,000		
(b) Rs. 20 lakh – Rs. 2 lakh exempted earlier	18,00,000		
(c) 15 days salary for each year of service			
• Salary = Basic salary + DA (last drawn) = 75,000			
• 15 days salary = $75,000 \times (15 \div 26) = 43,269$			
• Years of service = 15 years (period up to 6 months ignored)			
• 15 days salary for each year of service = $43,269 \times 15$	6,49,035	(6,49,035)	
			50,965
Leave encashment		2,50,000	
Less : Exempt u/s 10(10AA): Lower of the following:			
(A) Leave salary received	2,50,000		
(B) Statutory limit	3,00,000		
(C) 10 months × Average salary	6,50,000		
Average salary = [Basic + DA (as per terms) + Commission (based on % of turnover) of 10 months immediately preceding date of retirement] ÷ 10 = 6,50,000 (5,00,000 + 1,50,000 + Nil) ÷ 10 = 65,000.			
10 months × Average salary = 10 × 65,000			
(D) Leave credit (months) × Average salary	2,60,000	(2,50,000)	
Leave credit = (Leave entitlement* - Leave availed/lapsed/encashed) ÷ 30 days = [(15 years × 30 days) – 280 availed – 50 lapsed] = 120 ÷ 30 = 4 months			
*Max 30 days for each completed year.			
Leave credit (months) × Average salary = 4 × 65,000			
			-
Uncommuted pension of 10,000 for 1 month and 4,000 for 1 month			14,000
Commuted pension		5,00,000	
Less: Exempt = $1/3 \times (\text{Commutated pension received} \div \text{Commutation \%}) \times 100\% = 1/3 \times (5,00,000 \div 60) \times 100$		(2,77,778)	
			2,22,222
<b>Allowances</b>			
Overtime allowance @ 2,000 p.m.			20,000
City compensatory allowance @ 3,000 p.m.			30,000
Project allowance @ 1,000 p.m.			10,000
Fixed medical allowance @ 900 p.m.			9,000
Conveyance allowance for commuting between residence and office @ 1,500 p.m.			15,000
Uniform allowance @ 1,000 p.m.		10,000	
Less: Official expense		(5,000)	
			5,000
House rent allowance received @ 6,000 p.m. for 5 months		30,000	
Less: Exempt u/s 10(13A) based on 4 months for which accommodation occupied = Lower of:			
(A) Actual HRA received	24,000		



(B) Rent paid – 10% of salary = 30,000 – 26,000. Salary p.m. = Basic 50,000 + 60% of DA 15,000 + Commission based on % of turnover Nil = 65,000. Salary for 4 months = 2,60,000.	4,000		
(C) 40% of salary = 40% of 2,60,000	1,04,000	(4,000)	26,000
Travelling allowance for tour		20,000	
Less: Exempt: Cost of travel		(15,000)	
			5,000
Daily allowance for tour		5,000	
Less: Exempt: Ordinary daily charges		(6,000)	
			-
Education allowance @ 500 p.m.		5,000	
Less: Exempt @ 100 p.m.		(1,000)	
			4,000
Hostel allowance @ 1,000 p.m.		10,000	
Less: Exempt @ 300 p.m.		(3,000)	
			7,000
<b>Perquisites</b>			-
Health insurance premium for Suraj and members of family: Exempt			-
Medical treatment of dependent father: Exempt as expenditure on member of family in approved hospital for prescribed disease			-
Medical treatment of son in a private clinic: Not exempt			10,000
Personal accident premium on life of Suraj: Exempt			-
Life insurance premium: Taxable			5,000
Leave travel concession received @ 10,000 for 5 persons		50,000	
Less: Exempt: Air India economy class air fare for 4 persons @ 7,000. Max 2 children born after 1.10.1998 are eligible.		(28,000)	
			22,000
Sweeper and personal attendant @ 4,000 p.m.			40,000
Free education for son in school maintained and owned by employer: Cost of such education in nearby school of 1,200 p.m. is taxable as it is > 1,000 p.m. <sup>1</sup>			12,000
Equity shares allotted at concessional rate: Value = 500 shares × 150 (FMV on date of exercise of option 250 – Amount paid 100)			75,000
Transport facility by employer for personal journey of self and member of household: Value = 15,000 – 2,000 paid by Suraj			13,000
Credit card expenses: Entire amount taxable in absence of details of official spend			12,000
Profession tax paid by employer			1,250
Motor car: Owned by employer and running and maintenance expenses born by employer. Value = 3,300 p.m. (2,400 + 900) for 9 months of use			29,700
Transfer of motor car: Value = Actual cost		7,00,000	
Less: Depreciation for every completed year of use, i.e., 1 year, @ 20% on reducing balance method = 20% of 7,00,000		(1,40,000)	
Less: Amount paid by Suraj		(2,50,000)	
			3,10,000
Use of laptop: Exempt			-
Transfer of laptop: Value = Actual cost		40,000	
Less: Depreciation for every completed year of use, i.e., 0 year, @ 50% on reducing balance method		-	
Less: Amount paid by Suraj		-	
			40,000
Use of motor cycle by member of household = 10% p.a. of actual cost of 60,000 for 9 months		4,500	
Less: Amount paid by Suraj		-	
			4,500
Transfer of motor cycle: Value = Actual cost		60,000	
Less: Depreciation for every completed year of use, i.e., 2 years, @ 10% on SLM method		(12,000)	

<sup>1</sup> Alternatively, amount in excess of 1,000 p.m. can be taken to be the taxable value, i.e., @ 200 p.m.

Less: Amount paid by Suraj		(20,000)	
			28,000
Gifts:			
• Gift cheque		2,500	
• Gift voucher: Taxable as value $\geq 5,000^2$		6,000	
• Gift from friends: Not covered under the head 'Salaries' but under IFOS		-	
			8,500
Residential accommodation for 5 months:			
• Salary = Basic 2,50,000 + DA as per terms 75,000 + Bonus 50,000 + Commission 10,000 + taxable allowances 1,31,000 = 5,16,000			
• Value of rent free accommodation = 15% of salary as Bangalore has population > 25 lakh		77,400	
• Add: Value of furniture = 10% p.a. of 1,20,000 for 5 months		5,000	
• Less: Rent paid by Suraj @ 2,000 p.m.		(10,000)	
			72,400
<b>Gross salary</b>			<b>20,06,037</b>
Less: Deductions u/s 16			
• Standard deduction			(50,000)
• Profession tax paid			(2,500)
<b>Income chargeable under the head 'Salaries'</b>			<b>19,53,537</b>

**B45. MASTER QUESTION - Mr. Jaggi, an employee of Central Government, retired from services on .....**

*Computation of taxable salary income of Mr. Jaggi for AY 2022-23*

Particulars	Computation/Remarks	Rs.
Basic salary		4,50,000
Dearness allowance		2,70,000
Commission		50,000
Arrears of salary not taxed earlier		3,00,000
Gratuity	Exempt	-
Uncommuted pension	10,000 for 2 months and 4,000 for 1 month	24,000
Commuted pension	Exempt	-
Leave encashment	Exempt	-
Payment from statutory provident fund	Exempt	-
Voluntary retirement compensation	Exempt = Lower of: (a) Amount received Rs. 15 lakh (b) Statutory limit Rs. 5 lakh (c) 3 month salary $\times$ 20 years = 2,17,500 $\times$ 20 = 43,50,000 (d) Salary $\times$ 60 months = 72,500 $\times$ 60 = 43,50,000. Salary = Basic 50,000 + DA(T) 22,500 = 72,500 Taxable = 15,00,000 – 5,00,000	10,00,000
General conveyance allowance		27,000
Helper allowance	Taxable p.m. = 5,000 p.m. – 3,000 p.m. spend for official purpose	18,000
Entertainment allowance	Taxable	18,000
Free electricity	Taxable	50,000
Free holiday home facility	Taxable	10,000
Tea and snacks in office	Exempt	-
Lunch facility in office	Rs. 50 (100 expenditure – 50 exempt) $\times$ 175 meals	8,750
Telephone bills paid by employer	Exempt	-
Club fee		7,500
Fees for training program	Exempt	-
Personal loan	Value = 8% (10% - 2%) $\times$ aggregate outstanding balance on last day of each month = 8% $\times$ 2,00,000 / 12	1,333
	<b>Month</b>   <b>Outstanding balance on last day</b>	

<sup>2</sup> Alternatively, amount in excess of 5,000 can be taken to be the taxable value, i.e., 1,000

	April 21	80,000	
	May 21	60,000	
	June 21	40,000	
	July 21	20,000	
	<b>Total</b>	<b>2,00,000</b>	
<b>Gross salary</b>			<b>22,34,583</b>
<b>Less: Deductions u/s 16:</b>			
Standard deduction			(50,000)
Entertainment allowance	Lower of (a) 20% of basic salary, i.e, 90,000, (b) Rs. 5,000, (c) Rs. 18,000		(5,000)
<b>Taxable salary</b>			<b>21,79,583</b>

#### BASIC CONCEPTS

**M4. During the PY 2021-22, Harsh, employed w.e.f. 1.3.2020 in the scale of 50,000 – 10,000 – 80,000, .....**

Apr 21 to Mar 22: 7,30,000 (60,000 for 11 month + 70,000 for 1 month) + Arrears 30,000 + Advance of Apr 22: 70,000 – Apr 21 paid in earlier PY 60,000 + Jan 21 NIL since already taxed = 7,70,000

**M5. Rohit, a non resident, has the following particulars of income for the PY 2021-22: Salary from .....**

German company NIL as receipt/accrual outside India + PQR 15 lakh as accrual in India + partner NIL as falls under PGBP + donation not to be reduced + advance adjusted against salary NIL

**M6. Rajesh received the following emoluments during the PY 2021-22: Dearness allowance of Rs. 5,000 p.m.....**

DA 60,000 + Overtime 36,000 + Mine 2,400 (1,000 pm - 800 pm exempt); Tribal area allowance 9,600 (1,000 pm - 200 pm exempt) = 1,08,000

#### RETIREMENT BENEFITS

**M10. Raghav retired on 31.12.2021 after being employed for 10 years, 7 months and 10 days .....**

Gratuity exempt = Lower of (a) 5 lakh, (b) 15 lakh (20 – 5), (c)  $(15/26) \times 90,000$  (basic + DA)  $\times$  11 years, i.e., 5,71,154.

Gross salary = NIL gratuity + 4,50,000 basic + 3,60,000 DA + commission 45,000 + HRA 20,000 = 8,75,000

**M11. Raghav retired on 31.1.2022 after being employed for 10 years, 7 months and 10 days and .....**

Gratuity exempt = Lower of (a) 5 lakh, (b) 10 lakh (20 – 10), (c) 35,000 (half of avg of basic 50,000 + DA(T) 20,000 + C(TO) NIL of last 10 months)  $\times$  10 years, i.e., 3,50,000.

Gross salary = 1,50,000 gratuity + 5,00,000 basic + 4,00,000 DA + commission 50,000 + HRA 20,000 = 11,20,000

**M13. Rishabh, working with BCG Pvt. Ltd., retired from employment on 31.12.2021 and started receiving .....**

Gross salary = Regular salary 6,00,000 + Nil gratuity + Uncommuted pension 20,000 for Jan + 20,000 for Feb/Mar + commuted pension 5,00,000 – exempt u/s 10(10A)  $3,33,333 [1/3 \times 5,00,000/50 \times 100] = 8,06,667$

**M16. Juhi retired from URL Ltd. on 31.1.2022 after serving for 7 years, 5 months and 5 days. ....**

Leave salary exempt = (a) 3,00,000, (b) 3,00,000, (c) 10 month's avg salary 13,00,000 (basic 10,00,000 + DA(T) 2,80,000 + C(TO) 20,000), (d) 2 months (210 days – 120 days – 20 days – 10 days)  $\times$  1,30,000, i.e., 2,60,000 = 2,60,000.

Gross salary = basic 10,00,000 + DA 4,00,000 + fixed commission 40,000 + medical 30,000 + TO commission 20,000 + leave salary 40,000 + leave encashed while in service 50,000 = 15,80,000

**M18. On retirement, Zahir received his own contribution of Rs. 10 lakh and interest thereon of Rs. 1 lakh .....**

Employer contribution and interest

**M19. On termination of service after serving for 3 years, due to closure of employer's business, Zeeshan .....**

Accumulated balance exempt since service terminated before 5 years due to closure of employer's business. Interest on employee's contribution not taxable under the IFOS head as there is no contribution > 2.5 lakh on and from PY 2021-22.

**M20. Rajesh draws the following emoluments during the PY 2021-22: Basic salary of Rs. 60,000 p.m., .....**

Gross salary = Basic 7,20,000 + DA 4,80,000 + Commission 60,000 + perquisites 50,000 + overtime 24,000 + employer contribution to RPF 41,760 (1,80,000 – 12% of 11,52,000) + Interest in excess of 9.5% 9,000 = 13,84,760

**M21. During the PY 2021-22, employer of Raj contributed 10% of basic salary and DA to the .....**

Employer contribution = 10% of 36L = 3.6L Exempt as ≤ 7.5 lakh. Interest exempt.

**M22. Which of the following amounts will be included in salary income of Krishna for the PY 2021-22, .....**

Employer's contribution will be first included in salary and then deduction will be provided u/s 80CCD.

**M23. Employer of Gunjan contributes Rs. 2 lakh towards approved superannuation fund (@ 10% of salary), .....**

2L NPS is included in salary first and then deduction u/s 80CCD is given from GTI. RPF contribution exempt till 12%. Combined amount does not hit upper cap of 7.5L, hence, no addition on that account.

**M24. Rohan opted for retirement under the voluntary retirement scheme of PQR Ltd. which was framed .....**

VRS exempt = lower of (a) 25,00,000, (b) 5,00,000, (c)  $3 \times 90,000$  (basic 70,000 + DA(T) 20,000 + C(TO) nil)  $\times 10$ , i.e., 27,00,000, (d)  $30 \times 90,000$ , i.e., 27,00,000 = 5,00,000.

Gross salary = 4,20,000 basic + 3,00,000 DA + 1,00,000 bonus + 24,000 commission + 20,00,000 VRS = 28,44,000

## HEALTH & LIFE

**M29. Rakul received the following benefits from her employer during the PY 2021-22: Fixed medical .....**

Allowance 30,000 + insurance premium for independent brother 5,000 + son's treatment NIL + father's (not dependent) treatment 30,000 + private clinic 10,000 + approved nursing home NIL = 75,000

**M30. Suresh is employed with JK Pvt. Ltd. During the PY 2021-22, he had to get his daughter treated .....**

Taxable = treatment and stay 2 lakh (6 lakh – 4 lakh) + travel not exempt 3 lakh = 5 lakh

## HOUSING

**M33. Shyamal stays in New Delhi. His basic salary is Rs. 10,000 p.m., DA (60% forms part of pay).....**

Lower of (a) 60,000, (b)  $66,000 - 10\%$  of 1,75,200 (1,20,000 + 43,200 + 12,000), i.e., 48,480, (c) 50% of 1,75,200, i.e., 87,600 = 48,480.

**M34. Vasu is employed with BDM Pvt. Ltd. During the PY 2021-22, he was in receipt of basic salary of .....**

HRA exempt for Oct 21 to Mar 22 for 6 months = Lower of (a) 1,20,000 HRA, (b) 90,000 rent paid – 36,000 (10% of salary >> 2,40,000 basic + 1,20,000 DA(T) + Nil C(TO)), i.e., 54,000, (c) 40% of 3,60,000 i.e., 1,44,000 = 54,000.

Gross salary = Basic 4,80,000 + DA 2,40,000 + conveyance 60,000 + HRA 2,40,000 – Exempt 54,000 = 9,66,000

**M38. Ramesh is provided with furniture of value Rs. 70,000 along with house from February 2021. ....**

Hire charges

**M39. Ruhi, a State Government employee, stayed in a house provided by the employer in Chennai .....**

Gross salary = 10,80,000 basic + 6,00,000 DA + 3,60,000 HRA + perquisite 50,000 + RFA value 2,40,000 license fee + furniture 50,000 (10% of cost) = 23,80,000

**M40. Juhi, employed with Zen Ltd., is provided with a house owned by the employer in Faridabad .....**

Accommodation value = 10% of salary (basic 10,80,000 + DA(T) 3,00,000 + HRA 3,60,000 + commission 1,20,000, i.e., 18,60,000), i.e. 1,86,000 + furniture hire 60,000 – rent paid 1,20,000 = 1,26,000.

Gross salary = Basic 10,80,000 + DA 6,00,000 + HRA 3,60,000 + commission 1,20,000 + perquisites 50,000 + house 1,26,000 = 23,36,000

## TRAVEL & CONVEYANCE

**M45. Ram, working in a transport system, receives allowance of Rs. 12,000 p.m. granted to meet .....**

70% exempt up to max of 10,000 pm. 30% of 1.44L taxable

**M46. Rahul works with Shubh Pvt. Ltd. He draws the following emoluments during the PY 2021-22.....**

Gross salary = Basic 4,80,000 + conveyance allowance 40,000 (1,20,000 – 80,000) + transport allowance 60,000 + project allowance 20,000 + travelling allowance 10,000 (30,000 – 20,000) + daily allowance 5,000 (20,000 – 15,000) = 6,15,000

**M47. Yash, working in a transport system, received an allowance of Rs. 18,000 p.m. to meet his .....**

Exempt = 70% (12,600) up to max of 10,000 p.m., i.e., 10,000. Taxable = 8,000 p.m.

**M50. Ganesh is employed with BK Ltd. in Delhi. His emoluments for the PY 2021-22 comprised of .....**

LTC exempt = 10,000 for 4 persons (self, spouse, two children) = 40,000.

Gross salary = Basic 6,00,000 + LTC 60,000 = 6,60,000

**M52. What will be the value of perquisite per month, where Resham is provided a car throughout .....**

Annual = 60,000 (10% of 6L) + 30,000 R&M + 1,20,000 driver – 60,000 recovery. Per month value = 1,50,000 / 12 = 12,500

**M53. Rs. 2,700 p.m. will be the value of perquisite of motor car provided to Harsh by his employer where.....**

1,800 p.m. for car + 900 p.m. for driver

**M54. Jagat owns a car of 1500 cc which he uses for personal as well as official purposes. His .....**

10,000 – 80% = 2,000 p.m.

**M55. Bhanu owns a motor cycle which he uses for personal as well as official purposes. His employer incurs .....**

3,000 pm – 900 pm = 2,100 pm

**M56. Bhaskar has been provided with a motor car by his employer of engine cubic capacity 2,000, on 1.10.2021.....**

900 + 900 p.m. = 1,800 p.m. for 6 months

**M57. Chaman works in Air India. His children are offered free air tickets worth Rs. 10,000. Value of taxable .....**

Exempt in case of airline

## EDUCATION

**M59. Manav receives Rs. 1,000 p.m. per child for meeting education of his 3 children and .....**

Education: 36,000 – 2,400 exempt = 33,600. Hostel: 72,000 – 7,200 = 64,800.

**M61. Shyam has three children. During the PY 2021-22, he received the following benefits from .....**

Elder son = 6,000 + 7,200 = 13,200 (taxable as outside India). Younger son = 36,000 – 6,000 = 30,000\*. Daughter = 48,000. Training = Exempt. Total = 91,200

\*Alternatively, 24,000 – 6,000 can also be taken.

**M62. Suyash is employed as an engineer with BCD Pvt. Ltd. Following particulars are available for .....**

Seminar NIL + Son 25,000 + Daughter 54,000 (63,000 – 9,000) = 79,000

#### ASSETS

**M63. Bhanu is given a motor cycle owned by his employer which he uses for personal as well as .....**

10% p.a. of actual cost

**M65. Bhanu is sold a laptop for Rs. 10,000 which was purchased during the current PY itself by his employer .....**

Cost 50,000 – Nil Dep – 10,000 = 40,000

**M66. Bhanu is sold a motor cycle on 1.1.2022 for Rs. 10,000 which was purchased on 1.6.2020 by his .....**

Cost 50,000 – 10% dep on SLM for 1Y of 5,000 – 10,000 = 35,000

**M67. Raju was provided with a television set at his residence by his employer on 1.9.2021. It was .....**

Use = 10% p.a. of 40,000 for 6 months = 2,000 – 600 = 1,400.

Transfer = 40,000 – 10% dep for 3Y being 12,000 – 1,000 = 27,000

#### OFFICE SUPPORT

**M68. Bhanu is provided a helper allowance of Rs. 2,000 p.m. which he uses to pay salary to a helper .....**

Taxable as expenses are personal

**M69. Bhanu is provided uniform allowance of Rs. 10,000 out of which he spends Rs. 4,000 for purchasing .....**

Official expense is exempt

#### FINANCIAL INCENTIVES

**M73. Rakesh is given a personal loan of Rs. 1 lakh by his employer during the PY 2021-22 at 4% p.a. interest. ....**

6% of 1 lakh

**M74. Suman obtains a housing loan of Rs. 20 lakh from her employer @ 5% p.a. interest on 1.12.2021 .....**

O/s Dec 20L + Jan 19L + Feb 18L + Mar 17L = 74L. Taxable = 5% × 74L × 1/12 = 30,833

**M75. Rakesh is allotted 100 shares pursuant to a ESOP scheme of the employer for Rs. 10 per share. ....**

100 shares @ (50 - 10) per share

#### DEDUCTIONS U/S 16

**M83. Shambhu, employed with Central Government, on basic salary of Rs. 4,000 per month, is provided .....**

Lower of 20% of 48,000, i.e., 9,600 or 5,000 or 12,000 = 5,000

**M86. Roshni, employed with JK Pvt. Ltd., has the following particulars of salary income for PY 2021-22.....**

Gross salary = 3,00,000 + 1,00,000 + 12,000 + 2,500 = 4,14,500.

Taxable salary = 4,14,500 – SD 50,000 – Prof tax 2,500 = 3,62,000

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Income from House Property

#### Build Your Confidence (BYC)

#### BASIS OF CHARGE & COMPUTATION

**B1. GAV: LOP + UNREALIZED RENT** – Compute the GAV of each house from the information given below .....

Particulars	I	II	III	IV	V
Municipal value (MV)	3,00,000	3,20,000	3,20,000	3,20,000	3,20,000
Fair rent (FR)	3,20,000	3,00,000	3,00,000	3,00,000	3,00,000
Higher of FR or MV	3,20,000	3,20,000	3,20,000	3,20,000	3,20,000
Standard rent (SR)	-	3,50,000	2,80,000	3,10,000	2,80,000
Expected rent (ER) (restricted to SR)	3,20,000	3,20,000	2,80,000	3,10,000	2,80,000
Actual rent received or receivable – Unrealized rent (AR)	3,50,000	3,40,000	2,50,000	3,20,000	3,00,000
<b>GAV = Higher of ER or AR</b>	<b>3,50,000</b>	<b>3,40,000</b>	<b>2,80,000</b>	<b>3,20,000</b>	<b>3,00,000</b>

**B2 VACANCY** – Compute the gross annual value for AY 2022-23 of a let out house property owned by Jaydeep in the....

Computation	I	II	III	IV
Expected rent (higher of FR or MV, but restricted to SR) (ER)	2,10,000	2,10,000	2,10,000	2,00,000
Actual rent (Actual rent received/receivable for let out period – Unrealized rent) (AR)	2,20,000	2,00,000	1,80,000	2,30,000
Vacancy allowance: See Note	-	Yes	Yes	No
<b>Gross annual value</b>	<b>2,20,000</b>	<b>2,00,000</b>	<b>1,80,000</b>	<b>2,30,000</b>

**Note:**

Particulars	II	III	IV
AR without vacancy	2,40,000	2,20,000	2,80,000
AR with vacancy	2,00,000	1,80,000	2,30,000
AR < ER due to vacancy?	GAV = AR	GAV = AR	-
AR (with or without vacancy) ≥ ER	-	-	GAV = AR

**B3. MUNICIPAL TAXES** – Compute the NAV of each house owned by Ruchi, a ROR, for the PY 2021-22, from .....

Particulars	I	II	III	IV	
Expected rent (higher of FR or MV, but restricted to SR) (ER)	3,50,000	4,00,000	3,00,000	35,000 × 75	26,25,000
Actual rent received or receivable – Unrealized rent (AR)	3,30,000	6,00,000	2,30,000	36,000 × 75	27,00,000
GAV = Higher of ER or AR	3,50,000	6,00,000	3,00,000		27,00,000
Less: Municipal taxes paid by owner during PY 2021-22	(10,000)	(7,500)	-	700 × 75	(52,500)
<b>NAV</b>	<b>3,40,000</b>	<b>5,92,500</b>	<b>3,00,000</b>		<b>26,47,500</b>

**B4. INTEREST** – Compute the deduction allowable for PY 2021-22 in respect of interest on borrowed capital .....

Computation	I	II	III	IV
Conditions for 2 lakh deduction apply	No	Yes	Yes	No
Prior period interest deductible	No	Yes	Yes	No



Current year interest	3,10,000	4,00,000	4,00,000	90,000
Prior period interest	-	1,20,000	1,20,000	-
<b>Total deduction of interest u/s 24(b)</b>	<b>3,10,000</b>	<b>2,00,000</b>	<b>30,000</b>	<b>30,000</b>
Comment		Max 2 lakh	5 yr breach	Max 30K

**B5. PRIOR PERIOD INTEREST – CA2017(M) – Ganesh owns a commercial building whose construction got .....**

Particulars	Rs.
GAV: AR taken as GAV in absence of ER values in the question	4,80,000
Less: Municipal taxes paid during PY by Jagdeep	(18,000)
NAV	4,62,000
Less: Deduction u/s 24	
Standard deduction @ 30% of NAV	(1,38,600)
Interest on borrowed capital:	(2,55,000)
• Current year interest = 15% of 15 lakh (assuming entire loan is outstanding) = 2,25,000	
• Prior period interest from 1.8.2019 to 31.3.2020 for 8 months = 1,50,000, deductible in 5 equal installments from PY 2020-21 onwards of Rs.30,000 each.	
• Total interest = 2,55,000 (deductible in full since property let out)	
<b>Income from house property</b>	<b>68,400</b>

**B6. INTEREST – CA2017(N) – Jyoti purchased a house property costing Rs. 49 lakh on 1.5.2021. The .....**

Property is treated as SOP. It is acquired using capital borrowed on or after 1.4.1999 and acquisition is complete within 5 years from end of FY of borrowing. Current year interest of 14% of 35 lakh, i.e., 4,90,000 is deductible to the extent of 2,00,000, assuming she furnishes certificate from DHFL specifying the amount of interest.

**B7. INTEREST - Gaurav owns a house property in Chandigarh whose municipal valuation is Rs. 5,00,000 p.a. ....**

*Computation of income from house property for AY 2022-23*

Particulars	A	B	C
Expected rent (higher of FR or MV, but restricted to SR) (ER)	3,50,000	-	-
Actual rent received or receivable (AR)	4,80,000	-	-
Gross annual value = Higher of ER or AR	4,80,000	-	-
Less: Municipal taxes paid by owner during PY 2021-22	(7,500)	-	-
Net annual value	4,72,500	-	-
Less: Deductions u/s 24:			
• Standard deduction @ 30% of NAV	(1,41,750)	-	-
• Interest on borrowed capital (Note)	(5,65,000)	(2,00,000)	(30,000)
<b>Income from house property</b>	<b>(2,34,250)</b>	<b>(2,00,000)</b>	<b>(30,000)</b>

Note:

Particulars	A	B	C
Current year interest	3,50,000	3,50,000	3,50,000
Prior period interest from 1.10.2017 to 31.3.2020 = 10,75,000, deductible in 5 equal installments from PY 2020-21 onwards	2,15,000	2,15,000	2,15,000
<b>Total deduction: Full deduction for A; up to 2 lakh for B; up to 30,000 for C</b>	<b>5,65,000</b>	<b>2,00,000</b>	<b>30,000</b>

**SPECIAL SITUATIONS**

**B8. DLOP – CA2018(N) (modified) – Mr. Chakrobarty, a resident aged 35 years, works as a Deputy Manager in.....**

*Step 1: Computation assuming properties are self occupied*

Computation	House I	House II	House III
Net annual value	Nil	Nil	Nil
Less: Deductions u/s 24:			

Standard deduction @ 30% of NAV	-	-	-
Interest on borrowed capital			
<ul style="list-style-type: none"> <li>House II: Current year interest = 1,80,000 (10% p.a. on 18 lakh)</li> <li>Prior period interest from 1.4.2019 to 31.3.2021 = 3,60,000 (10% p.a. on 18 lakh for 2 years). 5 instalments = 72,000 each.</li> <li>Total interest = 2,52,000, deductible up to 2,00,000</li> </ul>	-	(2,00,000)	-
<ul style="list-style-type: none"> <li>House III: Current year interest = 10% p.a. of 5 lakh, deductible up to 30,000</li> </ul>	-	-	(30,000)
<b>Income from house property</b>	<b>Nil</b>	<b>(2,00,000)</b>	<b>(30,000)</b>

Step 2: Computation assuming properties are deemed to be let out

Computation	House I	House II	House III
Expected rent = Higher of FR or MV, but restricted to SR (ER)	8,40,000	7,66,849	9,00,000
Since House II exists from 25.5.2021, annual value is computed for 311 days (25.5.2021 to 31.3.2022) = 9,00,000 × (311/365)			
Actual rent	N/A	N/A	N/A
Gross annual value = ER	8,40,000	7,66,849	9,00,000
Less: Municipal taxes actually paid during the PY 2021-22 by Nisha	(64,000)	(90,000)	-
Net annual value	7,76,000	6,76,849	9,00,000
Less: Deductions u/s 24			
<ul style="list-style-type: none"> <li>Standard deduction @ 30% of NAV</li> </ul>	(2,32,800)	(2,03,055)	(2,70,000)
<ul style="list-style-type: none"> <li>Interest on borrowed capital</li> </ul>	-	(2,52,000)	(50,000)
<b>Income from house property</b>	<b>5,43,200</b>	<b>2,21,794</b>	<b>5,80,000</b>

Step 3: Find out impact for different combinations

Property	Option 1		Option 2		Option 3	
I	SOP	Nil	SOP	Nil	DLOP	5,43,200
II	SOP	(2,00,000)	DLOP	2,21,794	SOP	(2,00,000)
III	DLOP	5,80,000	SOP	(30,000)	SOP	-*
<b>Total</b>		<b>3,80,000</b>		<b>1,91,794</b>		<b>3,43,200</b>

\*Should ensure that total interest deduction of both SOP properties does not exceed 2 lakh.

Option 2 is most tax efficient. Houses I and III should be treated as SOP and House II should be treated as DLOP.

**B9. DLOP – CA2018(M) – Rohan, a resident individual, owns three houses in Chennai. One house is self occupied.....**

First two houses are SOP. Assuming that third house is unoccupied since Rohan has to reside at another place in a building not belonging to him, due to employment, business or profession, it will be treated as UOP. Of these 3 houses, Rohan can treat 2 houses as SOP at his option. The third house will be treated as DLOP.

Highlight the steps to select the houses as SOP and DLOP as given in para 81. Thereafter, highlight the computation steps for SOP and DLOP properties as given in para 80.

**B10. SOP/UOP + LOP (PERIOD) – CA2018(N) – Disha Khanna, a resident of India, owns a house property .....**

*Computation of income from house property for AY 2022-23*

Particulars	Rs.
Expected rent (higher of FR (6,30,000) or MV (7,50,000) but restricted to SR (7,20,000)) (ER)	7,20,000
Actual rent (Actual rent received/receivable for 9 months (6,75,000) – Unrealized rent (Nil since Rule 4 conditions not satisfied as tenant in occupation of another property of Disha)) (AR)	6,75,000
<b>Gross annual value = Higher of ER or AR</b>	<b>7,20,000</b>
Less: Municipal taxes actually paid during the PY by Disha (12% of 7.5 lakh)	(90,000)
<b>Net annual value</b>	<b>6,30,000</b>
Less: Deductions u/s 24:	
(a) Standard deduction @ 30% of NAV	(1,89,000)
(b) Interest on borrowed capital: Allowed in full as property treated as let out.	(35,000)
<b>Income from house property</b>	<b>4,06,000</b>

*Mistake by students – Students wrongly considered rent for whole year instead of let out period.*

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to End

#### Income from House Property

#### Build Your Confidence (BYC)

**B11. SOP/UOP + LOP (AREA) – Sarika owns a house at Delhi. During the PY 2021-22, 3/4<sup>th</sup> portion of the.....**

*Computation of Income from House Property in the hands of Sarika for AY 2022-23*

Computation	SOP portion (3/4 <sup>th</sup> )	LOP portion (1/4 <sup>th</sup> )
Expected rent for LOP portion = 1/4 <sup>th</sup> of higher of FR or MV = 1/4 <sup>th</sup> of 2,40,000	-	60,000
Actual rent received/receivable for LOP portion @ 7,000 p.m.	-	84,000
GAV = Higher of ER or AR	-	84,000
Less: Municipal taxes paid during the year by Sarika for LOP portion = ¼ of 60,000	-	(15,000)
NAV	-	69,000
Less: Deductions u/s 24:		
(a) Standard deduction @ 30% of NAV	-	(20,700)
(b) Interest on borrowed capital: Current year interest = 15% of 9,00,000 = 1,35,000 Prior period interest = 1.4.2016 to 31.3.2018, i.e., 15% of 9 lakh for 2 years = 2,70,000, deductible from PY 2018-19 to PY 2022-23 in 5 equal installments of Rs. 54,000 each. Total interest deductible = 1,89,000. 1/4 <sup>th</sup> deductible for LOP portion and 3/4 <sup>th</sup> for SOP portion	(1,41,750)	(47,250)
<b>Income from house property</b>	<b>(1,41,750)</b>	<b>1,050</b>
<b>Income from house property</b>	<b>(1,40,700)</b>	

**B11a. SOP + LOP (AREA) – CA2021(JULY) – Ramesh constructed a big house (construction completed in PY 2009-10) with....**

*Note: It is recommended to attempt the business income portion of this question after studying the Chapter on PGBP.*

Income from Unit 1 will be computed as let out property, income from Unit 3 will be computed as self-occupied property and income from Unit 2 will be computed under the head PGBP.

*Computation of taxable income of Ramesh for AY 2022-23*

Particulars	Rs.	Rs.
<b>Income from house property</b>		
<b>Unit 1 – 50% floor area – Let out</b>		
Expected rent = 50% of [Higher of FR (2,48,000) or MV (1,88,000), but restricted to SR (2,28,000)] (ER)	1,14,000	
Actual rent for 10 months @ 15,000 p.m. less unrealized rent of 3,000 since conditions of Rule 4 are satisfied (AR) <sup>1</sup>	1,47,000	
GAV = AR since it is > ER even after vacancy	1,47,000	
Less: Municipal taxes @ 50% of 20,000 (assuming these are paid by Ramesh during the PY)	(10,000)	
Net annual value	1,37,000	
Less: Deduction u/s 24:		
Standard deduction @ 30% of NAV	(41,100)	
Interest on borrowed capital = 50% of 60,000	(30,000)	65,900
<b>Unit 3 – 25% floor area – Self occupied</b>		

<sup>1</sup> Alternatively, unrealized rent can be deducted from GAV instead of annual rent and suitable note given in the answer. Refer footnote A of para 80.2.

Net annual value	Nil	
Less: Deduction u/s 24(b) for interest on borrowed capital = 25% of 60,000	(15,000)	(15,000)
		50,900
<b>Profits and gains of business or profession - Unit 2 – 25% floor area</b>		
Income from business (without debiting related expenditure)	1,40,000	
Less: Expenditure:		
Municipal taxes @ 25% of 20,000	(5,000)	
Repairs @ 25% of 5,000	(1,250)	
Interest on loan @ 25% of 60,000	(15,000)	
Ground rent @ 25% of 6,000	(1,500)	
Fire insurance premium @ 25% of 60,000	(15,000)	1,02,250
<b>Taxable income</b>		<b>1,53,150</b>

Mistake by students – Wrong computation of business income from Unit 2. Treatment of expenses in this respect wrongly done.

**B12. SOP/UOP + LOP (AREA) – CA2013(N), CA2008(N) – Krishna owns a residential house in Delhi. The house is .....**

*Computation of income from house property in the hands of Krishna for AY 2022-23*

Computation	LOP unit	SOP unit
Expected rent = 50% of [Higher of FR (2,35,000) or MV (2,44,000), but restricted to SR (2,20,000)] (ER)	1,10,000	-
Actual rent for 9 months (AR)	1,08,000	-
		-
GAV for LOP Unit = AR (due to vacancy allowance) since AR < ER owing to vacancy (without vacancy, AR of 1,44,000 > ER of 1,10,000)	1,08,000	-
Less: Municipal taxes (50% of 12% of 2,44,000)	(14,640)	-
Net annual value	93,360	-
Less: Deductions u/s 24:		
• Standard deduction @ 30% of NAV	(28,008)	-
• Interest on borrowed capital = 50% of (2,000 × 12)	(12,000)	(12,000)
<b>Income from house property</b>	<b>53,352</b>	<b>(12,000)</b>
<b>Total Income from house property</b>	<b>41,352</b>	

**B12a. SOP/UOP + LOP (AREA + PERIOD) – Mr. X and Mr. Y, brothers, own a house each with a ground and first floor of equal area.....**

*Computation of income from house property in the hands of Mr. X for AY 2022-23*

Computation	Rs.	Rs.
Annual value: Nil as house is self occupied		-
Less: Deductions u/s 24(b) for interest:		
• Current year interest = 10% p.a. of 20 lakh	2,00,000	
• Prior period interest = 4,00,000 (10% p.a. of 20 lakh from 1.4.2019 to 31.3.2021) / 5	80,000	
Deduction restricted to		(2,00,000)
<b>Income from house property</b>		<b>(2,00,000)</b>

*Computation of income from house property in the hands of Mr. Y for AY 2022-23*

Computation	Ground floor	First floor
Gross annual value:		
First floor: Self occupied and let out for part of year		
• Expected rent = Higher of fair rent (1,00,000) or municipal value (75,000); for 6 months (from 1.10.2021)		1,00,000
• Actual rent = 40,000 p.m. for 3 months		1,20,000

• Higher of ER or AR		1,20,000
Nil for ground floor as self occupied	-	
Less: Municipal taxes paid by Mr. Y during the year (50% for first floor)	-	(10,000)
Net annual value	-	1,10,000
Less: Deductions u/s 24:		
Standard deduction u/s 24(a) of 30%	-	(33,000)
Interest on borrowed capital u/s 24(b)		
• Current year interest = 10% p.a. of 12 lakh	(60,000)	(60,000)
• Prior period interest = 90,000 (10% p.a. of 12 lakh from 1.7.2020 to 31.3.2021) / 5 = 18,000	(9,000)	(9,000)
<b>Income from house property</b>	<b>(69,000)</b>	<b>8,000</b>
<b>Income from house property</b>		<b>(61,000)</b>

**B13. SOP + LOP – CA2017(N) - Aditya, a RNOR during AY 2022-23, owns two houses, one in Dubai and other .....**

*Computation of income from house property in the hands of Aditya for AY 2022-23*

Although income from Dubai house accrues/arises outside India and Aditya is a RNOR, it will be taxable in India on receipt basis. Income from Mumbai house accrues/arises and is received in India and, is thus, taxable in India.

Computation	Dubai (LOP)	Mumbai (SOP)
GAV (Dubai house) = 20,000 × 12 × 18 (AR taken as GAV in absence of ER values)	43,20,000	-
Less: Municipal taxes paid by Aditya during PY for Dubai house = (2,500 + 1,500) × 18. Municipal taxes are deemed to include service taxes like sewerage tax.	(72,000)	-
NAV	42,48,000	-
Less: Deductions u/s 24:		
Standard deduction @ 30% of NAV	(12,74,400)	-
Interest on borrowed capital for Mumbai house	-	(2,00,000)
• Current year interest = 12% of 25 lakh = 3,00,000		
• Prior period interest from 1.6.2018 to 31.3.2020 for 22 months = 5,50,000, deductible in 5 equal installments from PY 2020-21 to 2024-25 of Rs. 1,10,000 each		
• Total interest = 4,10,000, deductible up to 2,00,000		
<b>Income from house property</b>	<b>29,73,600</b>	<b>(2,00,000)</b>
<b>Total income from house property</b>		<b>27,73,600</b>

**B13a. SOP + LOP – Ronny is a citizen of Denmark and a resident but not ordinarily resident in India for PY 2021-22. He.....**

*Computation of Income from House Property in the hands of Ronny for AY 2022-23*

Since Ronny is a RNOR, income from houses situated in Denmark is not taxable in India as it is neither accrued nor received in India. Income from houses situated in India is taxable in India.

Particulars	Chandigarh	Coimbatore
Expected rent (higher of FR or MV, but restricted to SR) (ER)	-	4,00,000
Actual rent received or receivable (AR)	-	6,00,000
Gross annual value = Higher of ER or AR	-	6,00,000
Less: Municipal taxes paid by owner during PY 2021-22	-	-
Net annual value	-	6,00,000
Less: Deductions u/s 24		
• Standard deduction @ 30% of NAV	-	(1,80,000)
• Interest on borrowed capital (Note)	(2,00,000)	(3,00,000)
<b>Income from house property</b>	<b>(2,00,000)</b>	<b>1,20,000</b>
<b>Total</b>		<b>(80,000)</b>

**Note:**

Chandigarh:

- Current year interest = 10% p.a. of Rs. 25,00,000 = Rs. 2,50,000.
- Prior period interest = 10% p.a. of Rs. 25,00,000 for 3 months (1.1.2021 to 31.3.2021) = Rs. 62,500. 1/5<sup>th</sup> instalment = Rs. 12,500.
- Total interest for PY 2021-22 = Rs. 2,62,500. Allowed upto Rs. 2,00,000 u/s 24(b).

Coimbatore: Current year interest = 10% p.a. of Rs. 30,00,000 = Rs. 3,00,000. There is no prior period interest. Interest is deductible assuming conditions of section 25 of deduction of interest payable outside India have been satisfied.

**B14. CO-OWNER – CA2009(N) - Raman is a co-owner of a house property along with his brother.....**

*Computation of Income from House Property in the hands of Raman for AY 2022-23*

Particulars	Rs.	Rs.
Expected rent (higher of FR (1,50,000) or MV (1,60,000), but restricted to SR (1,70,000)) (ER)		1,60,000
Actual rent (AR)		1,80,000
Gross annual value = Higher of ER or AR		1,80,000
Less: Municipal taxes (not deductible since paid by tenant)		-
Net annual value		1,80,000
Less: Deductions u/s 24:		
Standard deduction @ 30% of NAV		(54,000)
Interest on borrowed capital		
• Interest on loan taken from bank	(25,000)	
• Interest on unpaid interest: Not deductible	-	
• Interest on fresh loan to repay old loan	(5,000)	(30,000)
<b>Income from house property</b>		<b>96,000</b>
<b>50% share taxable in the hands of Raman (assuming co-owners have equal share)</b>		<b>48,000</b>

**B15. CO-OWNER – Ram and Shyam own a self occupied residential house property in Jodhpur, having share .....**

*Computation of Income from House Property in the hands of Ram and Shyam for AY 2022-23*

Particulars	Ram	Shyam
Net annual value	Nil	Nil
Less: Interest on capital borrowed:		
• Jodhpur house: Interest = 10% of 45 lakh, i.e., 4.5 lakh. Ram = 2.7 lakh. Shyam = 1.8 lakh	(2,70,000)	(1,80,000)
• Meerut house: Interest = 10% of 5 lakh, i.e., 50,000 (deductible up to 30,000)		(30,000)
<b>Income from house property (overall interest deduction cannot exceed 2 lakh)</b>	<b>(2,00,000)</b>	<b>(2,00,000)</b>

**B16. CO-OWNER – Raghav and Madhav are friends and co-owners (having equal share) of a house property.....**

*Computation of Income from House Property in the hands of Raghav and Madhav for AY 2022-23*

Particulars	Raghav	Madhav
Self occupied floors (50% portion)		
• Net annual value	Nil	Nil
• Less : Interest on borrowed capital u/s 24(b) = 50% of 10% of 20 lakh = 1 lakh. Deduction limit is 30,000 as loan not taken for acquisition or construction.	(30,000)	(30,000)
• Income from house property (loss)	(30,000)	(30,000)
Let out floors (50% portion) (see Note)	1,75,750	1,75,750
<b>Income from house property</b>	<b>1,45,750</b>	<b>1,45,750</b>

Note:

Particulars for 50% portion let out	Rs.
Expected rent = 50% of [Higher of FR (6,00,000 @ 50,000 p.m.) or MV (5,00,000), but restricted to SR (5,40,000 @ 45,000 p.m.)] (ER)	5,40,000
Actual rent for 11 months @ 60,000 p.m. (AR)	6,60,000

GAV = AR since AR (with or without vacancy) > ER	6,60,000
Less: Municipal taxes = 60% of 50% of 5% of 10 lakh	(15,000)
Net annual value	6,45,000
Less: Deductions u/s 24:	
• Standard deduction @ 30% of NAV	(1,93,500)
• Interest on borrowed capital = 50% of 10% of 20 lakh	(1,00,000)
<b>Income from house property</b>	<b>3,51,500</b>
<b>Share of each co-owner @ 50%</b>	<b>1,75,750</b>

**B17. S. 25A – Compute income from house property for AY 2022-23 from the details given below.....**

Particulars	Rs.	Rs.
Expected rent	3,00,000	
Actual rent received/receivable for the year	2,40,000	
GAV = Higher of ER or AR	3,00,000	
Less: Municipal taxes paid during the year by tenant	-	
NAV	3,00,000	
Less: Deductions u/s 24:		
• Standard deduction @ 30%	(90,000)	
• Interest on loan	(50,000)	
		1,60,000
Unrealized rent recovered (not taxable since not deducted earlier)	-	
Arrears of rent received	20,000	
Less: Deduction @ 30%	(6,000)	14,000
<b>Income from house property</b>		<b>1,74,000</b>

**B18. SOP + LOP + 25A – CA2015(N) - Raphael constructed a shopping complex. He had taken a loan of Rs. 25 lakh.....**

Particulars	Shopping complex	Residential house
GAV (GAV taken as AR in absence of ER values)	3,60,000	-
Less: Municipal taxes paid by Raphael during PY	(8,000)	-
NAV	3,52,000	Nil
Less: Deduction u/s 24:		
• Standard deduction @ 30% of NAV	(1,05,600)	-
• Interest on borrowed capital (shopping complex):		
○ Current year interest = 10% of 25 lakh = 2,50,000	(2,83,333)	
○ Prior period interest from 1.8.2019 to 31.3.2020 for 8 months = 1,66,667, deductible in 5 equal installments from PY 2020-21 onwards of Rs. 33,333 each.		
○ Total interest = 2,83,333.		
Interest on borrowed capital (residential house) = 3 lakh, deductible up to 2 lakh, assuming all conditions for claim of higher ceiling are satisfied.		(2,00,000)
Add: Arrears of rent received (assuming not taxed in the year to which it pertains) less 30% standard deduction = 1,20,000 – 36,000	84,000	
<b>Income from house property</b>	<b>47,067</b>	<b>(2,00,000)</b>
<b>Total income from house property</b>	<b>(1,52,933)</b>	

**B19. SOP + 25A – Vikas is a citizen of Australia who has stayed in India during PY 2021-22 for a period of 240 days. ....**

Vikas is in India  $\geq$  182 days during PY 2021-22 and > 729 days during preceding 7 PYs. He is a ROR. Being a ROR, global income is taxable, i.e., income from all house properties. Vikas possesses two SOP properties for which he can take benefit of Nil annual value. Arrears of rent for Hyderabad property is taxable after giving standard deduction of 30%.

*Computation of income from house property for AY 2022-23*

Particulars	Sydney	Delhi
NAV	Nil	Nil



Less: Interest on borrowed capital u/s 24(b) for Delhi property:	Nil	(1,30,000)
• Current year interest = 10% of 10 lakh, i.e., 1,00,000		
• Prior period interest from 1.10.2019 to 31.3.2021 = 10% of 10 lakh for 1.5 years = 1,50,000, deductible from PY 2021-22 onwards in 5 equal installments of Rs. 30,000 each.		
• Total interest deductible = 1,00,000 + 30,000 = 1,30,000.		
<b>Income from house property</b>	<b>Nil</b>	<b>(1,30,000)</b>

<b>Computation of income from Hyderabad property</b>	<b>Rs.</b>
Arrears of rent received taxable u/s 25A even if Vikas is no more the owner of the property	75,000
Less: Standard deduction @ 30%	(22,500)
<b>Income from house property</b>	<b>52,500</b>

Total income from house property = 52,500 – 1,30,000 = Loss of 77,500.

### COMPREHENSIVE

**B21. CA2019(M) – Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of Rs. 30,000.....**

*Computation of taxable income of Mr. Madhvan for AY 2022-23*

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries</b>			
Basic salary		3,60,000	
Rent free accommodation hired by employer: Lower of (a) lease rental Rs. 65,000 or (b) 15% of salary Rs. 54,000 (15% of Rs. 3,60,000)		54,000	
Gross salary		4,14,000	
Less: Standard deduction u/s 16(ia)		(50,000)	3,64,000
<b>Income from house property:</b>	<b>House 1</b>	<b>House 2</b>	
Expected rent (higher of FR or MV) (ER)	75,000	1,95,000	
Actual rent (AR)	65,000	2,85,000	
Gross annual value = Higher of ER or AR	75,000	2,85,000	
Less: Municipal taxes paid during PY	(18,000)	(70,000)	
Net annual value	57,000	2,15,000	
Less: Deductions u/s 24:			
• Standard deduction @ 30% of NAV	(17,100)	(64,500)	
• Interest on borrowed capital	Nil	(17,000)	
Income from house property	39,900	1,33,500	1,73,400
<b>Taxable income</b>			<b>5,37,400</b>

*Mistake by students – Considered House 1 as self occupied property.*

**B22. MASTER QUESTION – Shyamal, a resident, aged 35 years, works as a manager in Chandigarh with Sur Ltd. ....**

**Delhi and Gurgaon Unit 2 houses:** Delhi house is let out for 2 months and self occupied for rest of the year – it will be treated as LOP. Income therefrom will be taxed in the hands of Shyamal as he is deemed owner u/s 27. Gurgaon Unit 2 is let out.

Particulars	Delhi (LOP)	Gurgaon – Unit 2 (50% portion) (LOP)
Expected rent (higher of FR or MV, but restricted to SR) (50% values for Gurgaon) (ER)	2,60,000	1,30,000
Actual rent of 2 months for Delhi; Actual rent of 8 months – Unrealized rent of 2 months for Gurgaon as Rule 4 conditions satisfied (AR)	60,000	90,000
Gross annual value for Delhi = Higher of ER or AR	2,60,000	-
Gross annual value for Gurgaon = AR (on account of vacancy allowance) since AR of 90,000 < ER of 1,30,000 owing to vacancy (AR without vacancy of 1,50,000 ≥ ER of 1,30,000)	-	90,000
Less: Municipal taxes paid by Shyamal during PY	(25,000)	(6,250)
<b>Net annual value</b>	<b>2,35,000</b>	<b>83,750</b>
Less: Deductions u/s 24:		

Standard deduction @ 30% of NAV	(70,500)	(25,125)
Interest on borrowed capital:		
• Delhi - 10% of 10 lakh (no limit for LOP)	(1,00,000)	
• Gurgaon Current year = 10% p.a. of 50 lakh for 6 months = 2,50,000 Prior period interest from 1.10.2019 to 31.3.2020 = 10% p.a. of 50 lakh for 6 mth = 2,50,000, deductible in 5 equal installments of 50,000 from PY 2020-21. Total interest = 3,00,000. 50% share for Unit 2 = 1,50,000 (deductible up to 2 lakh)		(1,50,000)
Arrears of rent (assuming not taxed in the year to which it pertains)		30,000
Less: Standard deduction @ 30% for arrears of rent		(9,000)
<b>Income from house property</b>	<b>64,500</b>	<b>(70,375)</b>

**Gurgaon Unit 1, Patna and Shimla houses:** Gurgaon Unit 1 and Patna houses are self occupied (SOP) while Shimla house is unoccupied (UOP) as Shyamal has to stay in Chandigarh in a building not belonging to him due to employment. He can choose any 2 houses as SOP/UOP. The third house will be treated as DLOP. Selection is done as given below:

*Step 1: Computation assuming properties are self occupied*

Computation	Gurgaon Unit 1 (50% portion)	Patna (co-owned)	Shimla
Net annual value	Nil	Nil	Nil
Less: Interest on borrowed capital:			
• Gurgaon - See computation above for Gurgaon Unit 2	(1,50,000)		
• Patna – 10% of 10 lakh is 1 lakh. 50% share is 50,000, deductible up to 30,000 for each co-owner. Assumed interest payable equally by co-owners.		(30,000)	
• Shimla – Current year interest is 10% of 30 lakh is 3 lakh. Only 30,000 deductible since construction completed after 5 year from end of FY of taking loan. Hence, enhanced limit of 2 lakh not available. Prior period interest not deductible in PY 2021-22 since 5 installments from PY 2016-17 are over.			(30,000)
<b>Income from house property</b>	<b>(1,50,000)</b>	<b>(30,000)</b>	<b>(30,000)</b>

*Step 2: Computation assuming properties are deemed to be let out*

Computation	Gurgaon Unit 1 (50% portion)	Patna (co-owned)	Shimla
Expected rent = Higher of FR or MV, but restricted to SR (ER)	1,30,000	2,60,000	2,60,000
Actual rent	N/A	N/A	N/A
Gross annual value = ER	1,30,000	2,60,000	2,60,000
Less: Municipal taxes actually paid during the PY by Shyamal	(6,250)	(25,000)	-
Net annual value	1,23,750	2,35,000	2,60,000
Less: Deductions u/s 24:			
Standard deduction @ 30% of NAV	(37,125)	(70,500)	(78,000)
Interest on borrowed capital			
• Gurgaon: See computation above	(1,50,000)		
• Patna: 10% of 10 lakh is 1 lakh		(1,00,000)	
• Shimla: Current year interest is 10% of 30 lakh is 3 lakh. Prior period interest not deductible in PY 2021-22 since 5 installments from PY 2016-17 are over.			(3,00,000)
		<b>64,500</b>	
<b>Income from house property (50% share for Patna house)</b>	<b>(63,375)</b>	<b>32,250</b>	<b>(1,18,000)</b>

*Step 3: Find out impact for different combinations*

Computation	Option 1		Option 2		Option 3	
Gurgaon Unit 1	SOP	(1,50,000)	SOP	(1,50,000)	DLOP	(63,375)
Patna	SOP	(30,000)	DLOP	32,250	SOP	(30,000)
Shimla	DLOP	(1,18,000)	SOP	(30,000)	SOP	(30,000)
<b>Total</b>		<b>(2,98,000)</b>		<b>(1,47,750)</b>		<b>(1,23,375)</b>

Should ensure that total interest deduction of both SOP properties does not exceed 2 lakh in either Option. Option 1 is most tax efficient.

**Computation of IHP based on selection**

<b>Computation</b>	<b>Rs.</b>
Delhi	64,500
Gurgaon Unit 1	(1,50,000)
Gurgaon Unit 2	(70,375)
Patna	(30,000)
Shimla	(1,18,000)
<b>Total income from house property</b>	<b>(3,03,875)</b>

#### BASIS OF CHARGE & COMPUTATION

**M4. Shane is a non-resident and national of Australia. Which of his following incomes from property owned .....**

Property is in India. Income accrues/arises in India and is taxable in India in case of NR.

**M5. Mr. Jain moved to Mumbai. He took a property on rent for his residential purpose. However, the .....**

Taxable as IFOS. Not taxable as PGBP since subletting is not the business of Mr. Jain.

**M8. Ravi carries on his profession in Chennai where he stays on rent. He owns a flat in Jodhpur in which .....**

Annual value for up to 2 SOP/UOP is Nil

**M9. Ruhi owns four houses which are self occupied during the year. However, one of the flats is let out on rent .....**

House let out for part of year is treated as LOP. Up to 2 SOP/UOP treated as SOP/UOP. 3<sup>rd</sup> treated as DLOP.

**M10. Fair rent of a let out flat is Rs. 2 lakh, municipal value is Rs. 1 lakh and Standard Rent is Rs. 1.5 lakh. ....**

Higher of FR or MV but not exceeding SR.

**M12. Rishi lets out his house @ 20,000 p.m. whose fair rent is Rs. 2 lakh p.a. and municipal value is .....**

GAV is higher of ER 2,00,000 or AR 1,80,000 (2,40,000 – 60,000). Rule 4 satisfied.

**M16. Gauri let out a shop for 10,000 p.m. whose fair rent was Rs. 1,00,000 p.a. and municipal value was .....**

AR 90K < ER 1L due to vacancy. Otherwise, AR 1.2L was ≥ ER 1L. GAV = AR.

**M18. Jay owns a building whose municipal value is Rs. 3,00,000 p.a. and gross annual value is Rs. 4,00,000. ....**

NAV = 4,00,000 – 5,000 = 3,95,000.

**M19. Mr. Hero owns a house whose gross annual value is Rs. 25,000 and municipal value is Rs. 3,00,000 p.a. ....**

IHP = 25,000 – 30,000 tax = (5,000). Standard deduction not allowable as NAV is negative.

**M24. Mr. Zero took a loan of Rs. 20 lakh from HDFC Bank on 1 June 2011 for constructing a house in which he .....**

Current year interest Nil. Prior period instalment = 1,00,000 (5,00,000/5). Construction complete after 5Y timeline, thus, deduction limit 30,000.

**M26. Mr. Buddu has taken loans @ 10% p.a. on 1.4.2021 of Rs. 5 lakh for repair of House I which is self .....**

H1 repair max 30,000 + H3 acquisition max 2L = Overall max 2L. H2 1L not deducted since house does not exist in PY 2021-22.

**M27. Jyoti purchased a house property costing Rs. 49 lakh on 1 May 2021. Property is used exclusively .....**

4.9L but up to max 2L

**M28. Ragini paid interest of Rs. 1,00,000 (includes pre-acquisition interest of Rs. 20,000) for a house used .....**

For SOP 1,00,000 + For SOP/LOP for part year 40,000 (treated LOP) + For repair of SOP 25,000 (prior period interest not allowed) = 1,65,000

**M30. Meera paid interest of Rs. 60,000 along with penal interest of Rs. 1,000 against interest liability of .....**

30,000 limit for reconstruction. Penal interest, brokerage, etc. not allowed.

### SPECIAL SITUATIONS

**M31. Raju owns a residential house, let out on a monthly rent of Rs. 15,000. Fair rental value for the let out .....**

LOP/SOP for part of year; treated as LOP. ER for whole year = 2,00,000. AR = 1,35,000. GAV/NAV = 2,00,000. IHP = 2,00,000 - SD 60,000 - Interest 40,000 = 1,00,000.

**M33. Sridevi owns three houses used for self occupation. For each house, expected rent is Rs. 1,00,000 p.a. ....**

H1/2 SOP: NAV Nil - 30,000 interest = 30,000 loss.

H3 DLOP: NAV 1,00,000 - 5,000 tax - 28,500 SD - 30,000 interest = 36,500.

IHP = 6,500

**M36. Mr. Z has a house property in Delhi whose municipal value is Rs. 1,00,000 and fair rental value is .....**

GAV = Higher of ER 1,08,000 or AR 80,000. NAV = 1,08,000 - 20,000 = 88,000.

**M39. Govind owns a residential house in Delhi. House is having two identical units. First unit is self occupied .....**

IHP of LOP = ER = 1,10,000. AR = 1,44,000 - 36,000 = 1,08,000. Vacancy allowance available. GAV = 1,08,000. NAV = 1,08,000 - 14,640 = 93,360. IHP = 93,360 - SD 28,008 - Interest 12,000 = 53,352.

IHP of SOP = Loss being interest of 12,000.

Total IHP = 53,352 - 12,000 = 41,352.

**M42. Sujal and his brother jointly own a bungalow. They had taken a housing loan to purchase the bungalow. ....**

IHP = Nil NAV - 2L interest = Loss of 2L

**M43. Jay and Viru are friends who co-own a shop having share in the income 60:40. The shop is let out on .....**

GAV is higher of 1,50,000 ER or 1,20,000 AR. NAV = 1,50,000 - 10,000 tax = 1,40,000. IHP = 1,40,000 - 42,000 SD - 40,000 interest = 58,000. Jay = 60%, i.e., 34,800

**M45. Reena received Rs. 30,000 as arrears of rent during PY 2021-22. Amount taxable u/s 25A would be.....**

21,000 less 30% deduction

**M46. Vijaya received Rs. 90,000 in May 2021 towards recovery of unrealized rent, which was deducted .....**

90,000 less 30%

**M47. Vijay sold his house on 1 March 2021 which was let out earlier to Jay who did not pay Rs. 50,000 rent .....**

50,000 less 30% taxable as IHP

**M49. Prem has rented his office space on Rs. 25,000 p.m. which includes Rs. 5,000 towards services of security.....**

Rent taxable under IHP. Service charges taxable under PGBP/IFOS. GAV = Higher of 2.4L or 2L. Taxes not deductible. IHP = 2.4L less 30% SD = 1,68,000.

**M50. Annual value of property held as stock-in-trade is taken as nil for a period of 2 years immediately .....**

Benefit also available for year of completion of construction.

**M51. Jagdamba Builders Ltd. has unsold stock of 10 flats lying vacant during the whole of PY 2021-22. ....**

Benefit of nil annual value for 4 flats till PY 2021-22 and for 6 flats till PY 2023-24. AV for all flats for PY 2021-22 is nil; no limit on interest.

**M52. In which of the following cases will income from house property be taxed in the hands of Raj.....**

Deemed owner u/s 27

**M53. Heera entered into an agreement in writing to buy a building from Beera on 1 March 2022. He paid .....**

Deemed owner u/s 27

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Profits and Gains of Business or Profession

#### Build Your Confidence (BYC)

#### BASIC CONCEPTS

**B1. BASIC CONCEPTS – Examine whether the following amounts would be taxable in the hands of Ravi under the head PGBP for PY 2021-22.**

#	Situation	Taxable under PGBP?	Remarks
1	Rent from a house situated in Delhi and owned by Ravi	No	Taxable under IHP
2	Income from share trading	Yes	-
3	Income of a practicing Chartered Accountant	Yes	-
4	Income from business owned by Ravi but managed by senior most employee	Yes	-
5	Income from business carried on only for 1 month during the PY 2021-22	Yes	-
6	Income from business carried on during PY 2020-21	No	Taxable for PY 2020-21
7	Income from business carried on in USA (Ravi is ROR)	Yes	Global income is taxable for ROR
8	Income from business carried on in UK and accruing/received there (Ravi is a NR)	No	Accrual/arisal/receipt not in India
9	Profits from sale of machinery used to manufacture products to be sold in the market	No	Sale of capital asset is taxable under Capital Gains
10	Gross turnover of Rs. 10 lakh during the PY	No	Profits are taxable, not turnover
11	Income which will arise if an ongoing legal dispute with a customer is settled	No	Contingent income is not taxable
12	Notional income on rise in market value of stock in trade	No	Real income is taxable; not notional
13	Royalty income received from profession of authoring books	Yes	-
14	Interest on amounts deposited in bank accounts	No	Not business; income taxable under IFOS
15	Profits on shares held as investment	No	Not business; income taxable under Capital Gains

#### INCOMES CHARGEABLE AS PGBP

**B2. INCOMES CHARGEABLE AS PGBP – Examine whether the following incomes would be taxable under the head PGBP for AY 2022-23.**

#	Situation	Taxable under PGBP?
1	Due to dispute between directors of Fight Ltd., Mr. Fighter's position of Managing Director was prematurely terminated, for which he received a compensation of Rs. 1 crore.	Yes, u/s 28(ii)
2	James Bond was appointed as the sole agent in India of Guns Ltd., a foreign company. Subsequently, the company terminated the agency agreement and paid him a compensation of Rs. 50 lakh.	Yes, u/s 28(ii)
3	The Federation of Hotel Association of India received advertisement charges from its members for	Yes, u/s 28(iii)

	publication of their advertisements in its monthly journal.	
4	Disputes Ltd. provided a rent free residential accommodation to Mr. Advocate, a lawyer, in view of excellent legal services rendered by him to the company.	Yes, u/s 28(iv)
5	Software Ltd. received Rs. 10 crore from Computer Ltd. for agreeing not to carry on software development business for the next 5 years.	Yes, u/s 28(va)
6	Cold Drink Ltd. uses a patented formula developed by Fluid Ltd. to manufacture cold drinks. On termination of agreement, it paid Rs. 1 crore to Fluid Ltd. not to share the formula with any person for the next 3 years.	Yes, u/s 28(va)
7	Risk-free Ltd. took a Keyman insurance policy on the life of its managing director. Upon his death, the company received Rs. 1 crore.	Yes, u/s 28(vi)

### DEDUCTIONS FOR ASSETS

**B3. S. 30, 31 – Ascertain whether the following expenses incurred by Raghav, engaged in a manufacturing business, would be allowable in computing business income for PY 2021-22?**

#	Situation	Deduction
1	Rs. 50,000 p.m. paid by Raghav for factory premises taken on rent	Yes, u/s 30
2	Premium of Rs. 10,000 paid for insuring machines purchased by him	Yes, u/s 31
3	Premium of Rs. 5,000 for insuring office premises taken on rent. Premium is paid by owner.	No as not paid by Raghav
4	Rs. 10 lakh spent by Raghav on major repairs and renovation of another office which he owns.	Depreciation u/s 32
5	Rs. 5,000 spent on routine repairs to office which he has taken on rent	Yes, u/s 30
6	Rs. 2,000 spent on repairs of furniture installed at his residence	No, not for business

**B4. S. 32 - CONDITIONS – Whether depreciation will be allowed in the following cases for the PY 2021-22?**

#	Situation	Depreciation
1	Plot of land is leased on which building is constructed at a cost of Rs. 1 crore	On building, even if land is not owned
2	Two Chartered Accountants purchase law books for use in their profession by contributing equal amount of money	50% each
3	Reliance Ltd. pays Rs. 20 lakh to acquire a patent right for use in a manufacturing process	Yes, it is specified intangible asset
4	Mr. Smart spends Rs. 5 lakh to construct an additional room in the office premises that he has taken on rent for his business.	On room; capital expenditure deemed to be building owned
5	JK Ltd. acquired a genset for Rs. 10 lakh on 1 April 2021 which is kept ready for use in case of power failure. There was no power failure during PY 2021-22.	Yes; use includes ready to use
6	PQR Ltd. has purchased machinery on 1 January 2022 which can only be used once installed. Installation takes place on 1 April 2022.	No; not put to use
7	Saurabh purchases a sofa set for Rs. 50,000 for his residence	No; not used for business
8	Suman purchases a building for Rs. 50 lakh and uses half of the building for his business	50% (extent used for business)
9	Mr. Jain takes possession of a building u/s 53A of Transfer of Property Act which he has agreed to purchase, though it is not yet registered in his name.	Yes; treated as owner; registered ownership not necessary
10	LeasePlan Ltd. purchases 10 vehicles for its leasing business. 7 vehicles are leased to different parties during the PY.	Yes; lessor entitled to depreciation
11	VerySmart Ltd. claims depreciation on stock-in-trade of computers worth Rs. 5 crore.	No; no depreciation on stock-in-trade

**B5. S. 32 – BLOCK – Determine the block of assets in respect of which Mr. Joseph, carrying on manufacturing .....**

Block	Rate	Class	Assets
1	5%	Building	Residential quarters
2	10%	Building	Factory building
3	10%	Furniture & fitting	Furniture
4	15%	Plant & machinery	Mobile phones



5	25%	Intangible assets	Know-how, patents and trademarks
6	40%	Building	Temporary wooden sheds
7	40%	Plant & machinery	Trucks, pollution control equipment, computers, laptops, printers, books

**B6. S. 32 – NORMAL DEP – Compute the amount of depreciation allowable to Shri Ltd. for the AY 2022-23 .....**

Computation	I	II	III	III
WDV of Block as on 31 March 2021	1,20,000	1,20,000	1,20,000	1,20,000
Less: Depreciation for PY 2020-21	(20,000)	(20,000)	(20,000)	(20,000)
WDV of Block as on 1 April 2021	1,00,000	1,00,000	1,00,000	1,00,000
Add: Actual cost of Asset 1	30,000	-	30,000	30,000
Less: Moneys payable for Asset 2	-	(20,000)	(20,000)	(1,50,000)
WDV of Block for depreciation	1,30,000	80,000	1,10,000	Nil
Less: Depreciation @ 40% allowed	(52,000)	(32,000)	(44,000)	Nil
<b>Closing WDV</b>	<b>78,000</b>	<b>48,000</b>	<b>66,000</b>	<b>Nil</b>

**B7. S. 32 – NORMAL DEP – Determine the quantum of depreciation allowable to Zigzag Ltd. for the AY 2022-23 and AY 2023-24 for the following plant and machinery:**

Asset	AY 2022-23	AY 2023-24
Acquired on 1 May 2021 and put to use on 15 September 2021	Full	Full
Acquired on 1 May 2021 and put to use on 31 March 2022	50%	Full
Acquired on 1 May 2021 and put to use on 1 April 2022	No	Full
Acquired on 1 May 2021 and put to use on 31 March 2023	No	Full
Acquired on 1 May 2021 and made ready for use on 31 March 2022	50%	Full

**B8. S. 32 – NORMAL DEP – Compute the amount of depreciation allowable to Shri Ltd. for the AY 2022-23 .....**

Computation	Block 1 Building 10%	Block 2 P&M 30%	Block 3 Intangible 25%	Block 4 Furniture 10%
WDV of Block as on 1 April 2021	90,00,000	10,00,000	5,00,000	10,000
Add: Actual cost of assets acquired during the PY				
• Asset 1 (put to use ≥ 180 days)	30,00,000	5,00,000	1,00,000	70,000
• Asset 2 (put to use < 180 days)	20,00,000	4,00,000	3,00,000	-
• Asset 3 (not put to use)	-	-	2,00,000	-
Less: Moneys payable for Asset 4 sold during the PY	(40,00,000)	(15,00,000)	(5,00,000)	(60,000)
WDV of Block (as on 31.3.2022) for depreciation	1,00,00,000	4,00,000	6,00,000	20,000
Less: Depreciation allowed				
• Block 1: 50% of 10% of 20 lakh + 10% of remaining 80 lakh	(9,00,000)			
• Block 2: 50% of 30% of 4 lakh		(60,000)		
• Block 3: No dep on 2 lakh (Asset 3 not put to use) + 50% of 25% of 3 lakh + 25% of remaining 1 lakh			(62,500)	
• Block 4: 10% of 20,000				(2,000)
<b>Closing WDV of Block</b>	<b>91,00,000</b>	<b>3,40,000</b>	<b>5,37,500</b>	<b>18,000</b>

**B9. S. 32 – NORMAL DEP – Sheena started her practice as a lawyer on 1.4.2021. Compute the amount of depreciation .....**

Computation	Block 1 – Furniture (10%)	Block 2 – P&M (40%)	Block 2 – P&M (15%)
<b>Actual cost of assets acquired during the PY</b>			
<b>Put to use ≥ 180 days</b>			
• Computer (along with computer software)		50,000	
• Law books		25,000	
• Office furniture	1,50,000		
• Electrical and other fittings	40,000		
<b>Put to use &lt; 180 days</b>			

• Computer printer, UPS and router		10,000	
• Car			4,00,000
	1,90,000	85,000	4,00,000
<b>Less: Depreciation:</b>			
Furniture = 10% of 1,90,000	(19,000)		
P&M put to use < 180 days = 50% of 40% of 10,000 and 60% of 50% of 15% of 4,00,000		(2,000)	(18,000)
P&M put to use ≥ 180 days = 40% of 75,000		(30,000)	
	<b>19,000</b>	<b>32,000</b>	<b>18,000</b>
<b>Total depreciation</b>		<b>69,000</b>	

**B10. S. 32 – ACTUAL COST – Zap Ltd. purchased a machine on 1.7.2021 which was put to use on 30.9.2021. It took.....**

*Computation of actual cost of machine*

<b>Particulars</b>	<b>Rs.</b>
Purchase price	5,00,000
GST (excluding GST on which ITC allowed)	15,000
Interest on loan till date asset is first put to use (1.4.2020 to 30.9.2021) = 10% p.a. of 1 lakh for 18 months	15,000
Freight and insurance	10,000
Transportation: Not part of actual cost as cash payment > 10,000	-
Installation charges: Not disallowed as payment by uncrossed cheque ≤ 10,000	5,000
Repair expenses paid on 1.3.2022 (not part of actual cost as incurred after asset put to use)	-
<b>Actual cost</b>	<b>5,45,000</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to B20

#### Profits and Gains of Business or Profession

#### Build Your Confidence (BYC)

**B11. S. 32 – ACTUAL COST – CA2018(N) - Mr. Rangamannar resides in Delhi. As per the new rule in the city.....**

Particulars	Rs.
Cost of car	12,00,000
Cost of car - ITC is not available on car used for his professional purpose and not covered by any exception u/s 17(5)(a) of CGST Act, 2017. Thus, GST will be included in actual cost.	3,36,000
Actual cost of car (used $\geq$ 180 days): Use on alternate days does not make put to use for < 180 days	15,36,000
<b>Less: Depreciation for AY 2022-23 = 75% of 15% of 15,36,000. 25% disallowed u/s 38 for personal use.</b>	<b>1,72,800</b>
WDV as on 1.4.2022	13,63,200
<b>Less: Depreciation for AY 2023-24 = 75% of 15% of 13,63,200. 25% disallowed u/s 38 for personal use</b>	<b>1,53,360</b>

**B12. S. 32 – ADDITIONAL DEP – CA2020(JAN) (modified) - Compute the quantum of depreciation available u/s 32 in respect of the.....**

*Computation of closing WDV for AY 2022-23*

Computation	Rs.
WDV of Block as on 1 April 2021	Nil
Add: Actual cost of assets acquired during the PY	
Put to use $\geq$ 180 days:	
• New machinery installed on 1.5.2021	84,00,00,000
Put to use < 180 days:	
• Lorries for transporting goods to sales depots	3,00,00,000
• Fork-lift-trucks, used inside factory	4,00,00,000
Not put to use	
• New imported machinery	12,00,00,000
	103,00,00,000
Less: Assets sold during the year	-
WDV of Block (as on 31.3.2022) for depreciation	1,03,00,00,000
Less: Normal depreciation u/s 32(1)(ii) (Note)	(13,12,50,000)
Less: Additional depreciation u/s 32(1)(ia) (Note)	(17,20,00,000)
<b>Closing WDV</b>	<b>72,67,50,000</b>

*Computation of depreciation for AY 2022-23*

Computation	Normal Dep	Addl. Dep
New machinery installed on 1.5.2021 of 84 crore: Normal depreciation @ 15% and additional depreciation @ 20%	12,60,00,000	16,80,00,000
Lorries for transporting goods to sales depots of 3 crore: : Normal depreciation @ 50% of 15%; no additional depreciation on road transport vehicle	22,50,000	-
Fork-lift-trucks, used inside factory of 4 crore: Normal depreciation @ 50% of 15% and additional depreciation @ 50% of 20%	30,00,000	40,00,000
New imported machinery: No normal or additional depreciation since not installed (put to use) during the year	-	-
	13,12,50,000	17,20,00,000

**B12A. S. 32 – ADDITIONAL DEP – CA2013(N) – Abhimanyu is engaged in the business of generation and distribution.....**

*Computation of depreciation for AY 2022-23*

Computation	P&M 15%	P&M 40%
WDV of Block as on 1 April 2021	42,00,000	-
Add: Actual cost of assets acquired during the PY		
• New machinery purchased on 12.10.2021 (put to use < 180 days)	10,00,000	-
• Imported machinery (put to use ≥ 180 days)	9,00,000	-
• New computer installed (put to use ≥ 180 days)	-	2,00,000
WDV of Block (as on 31.3.2022) for depreciation	61,00,000	2,00,000
Less: Depreciation		
• Normal depreciation		
o 50% of 15% of 10 lakh + 15% of remaining 51 lakh	(8,40,000)	
o 40% of 2 lakh		(80,000)
• Additional depreciation		
o 50% of 20% of 10 lakh (put to use < 180 days). Not allowed on second hand imported machinery.	(1,00,000)	
o 20% of 2 lakh. Allowed since computer not installed in office.		(40,000)
<b>Closing WDV of Block</b>	<b>51,60,000</b>	<b>80,000</b>

**B13. S. 32 – ADDITIONAL DEP – CA2018(N) - Mr. Sharad set up a manufacturing unit of detergent powder in .....**

*Computation of depreciation allowance u/s 32 for AY 2022-23*

Particulars	Rs.	Rs.
<b>Actual cost of assets acquired during the PY</b>		
• Machines A, B, C (used ≥ 180 days) (assuming payment made by a specified mode)		45,00,000
• Machine D (not included in actual cost as payment in cash > Rs. 10,000)		-
• Machine E (used < 180 days)		5,00,000
Actual cost		50,00,000
<b>Depreciation:</b>		
<b>Normal depreciation:</b>		
• Machines A, B, C = 15% of 45 lakh	6,75,000	
• Machine E = 50% of 15% of 5 lakh	37,500	
		7,12,500
<b>Additional depreciation:</b>		
• Machines A, B, C = 20% of 45 lakh		9,00,000
• Machine E – Not allowed on second hand machinery		-
<b>Total depreciation</b>		<b>16,12,500</b>

*Mistake by students – Cash payment included in actual cost. Additional depreciation allowed on second hand machinery.*

**B14. S. 32 – ADDITIONAL DEP - Jagat started his business of manufacturing rubber based products. After .....**

*Computation of depreciation for AY 2022-23*

Computation	Rs.	Rs.
Total cost of plant and machinery	50,00,000	
Less: Used for scientific research [No depreciation on asset on which deduction allowed u/s 35 [u/s 35(2)(iv)] (see para 100)]	(15,00,000)	
	35,00,000	
Normal depreciation : 15% on Rs. 35 lakh		5,25,000
Additional depreciation:		
• Total cost of plant and machinery	50,00,000	

• Less: Second hand plant and machinery (no addl dep on second hand P&M)	(10,00,000)	
• Less: Machinery for scientific research (no addl dep on P&M whose 100% actual cost allowed as deduction – S. 35(1)(iv) in this case (see para 100))	(15,00,000)	
Cost of plant and machinery eligible for additional depreciation	25,00,000	
Additional depreciation = 20% of 25 lakh		5,00,000
<b>Depreciation allowable for AY 2022-23</b>		<b>10,25,000</b>

**B15. S. 32 – ADDITIONAL DEP – CA2016(M) – Venus Ltd., engaged in manufacture of pesticides, furnishes the .....**

Computation	P&M 15%	P&M 40%
WDV of Block as on 1 April 2021	20,00,000	-
Add: Actual cost of assets acquired during the PY		
• New machinery (put to use $\geq$ 180 days)	10,00,000	-
• New car (assuming 15% rate of depreciation) (put to use < 180 days)	8,00,000	-
• Computer (put to use < 180 days)	-	4,00,000
Less: Moneys payable for assets sold during the PY	-	-
WDV of Block (as on 31.3.2022) for depreciation	38,00,000	4,00,000
Less: Depreciation allowed (see working below)	(8,10,000)	(80,000)
<b>Closing WDV of Block</b>	<b>29,90,000</b>	<b>3,20,000</b>

*Depreciation:*

P&M 15% Block	Particulars	Rs.
Normal depreciation	50% of 15% of 8 lakh (car used < 180 days) + 15% of remaining 30 lakh (machinery used $\geq$ 180 days)	5,10,000
Additional depreciation	20% of 10 lakh (machinery used $\geq$ 180 days) + 50% of 20% of 10 lakh (machinery purchased in PY 2020-21; used < 180 days, balance addl. dep now allowed in PY 2021-22). Not allowed on car, being road transport vehicle.	3,00,000
<b>Total</b>		<b>8,10,000</b>

P&M 40% Block	Particulars	Rs.
Normal depreciation	50% of 40% of 4 lakh (computer used < 180 days)	80,000
Additional depreciation	Not allowed on computer installed in office	-
<b>Total</b>		<b>80,000</b>

**B16. S. 32 – ADDITIONAL DEP – CA2014(M) - JK Ltd., a manufacturing company, purchased the following plant and.....**

AY 2022-23	Rs. Crore
WDV of Block as on 1 April 2021 (assumed Nil)	Nil
Add: Actual cost of assets acquired during the PY (put to use $\geq$ 180 days)	110.0
WDV of Block (as on 31.3.2022) for depreciation	110.0
Less: Depreciation	
• Normal depreciation = 15% of 110 cr. 15% general rate assumed.	(16.5)
• Additional depreciation = 20% of 110 cr	(22.0)
<b>Closing WDV of Block</b>	<b>71.5</b>

AY 2023-24	Rs. Crore
WDV of Block as on 1 April 2022 (see above Table)	71.500
Add: Actual cost of assets acquired during the PY (put to use $\geq$ 180 days)	120.000
WDV of Block (as on 31.3.2023) for depreciation	191.500
Less: Depreciation	
• Normal depreciation = 15% of 191.5	(28.725)
• Additional depreciation = 20% of 120	(24.000)
<b>Closing WDV of Block</b>	<b>138.775</b>

**B17. S. 32 – SLM FOR POWER UNDERTAKING – Tata Power, an electricity company, is claiming depreciation on .....**

AY 2021-22	Rs.
------------	-----

Opening WDV	-
Actual cost	5,00,000
Less: Depreciation @ 10%	(50,000)
	<b>4,50,000</b>

AY 2022-23	A	B	C
Opening WDV	4,50,000	4,50,000	4,50,000
Less: Moneys payable	(4,00,000)	(4,80,000)	(5,30,000)
	50,000	(30,000)	(80,000)
Terminal depreciation u/s 32(1)(iii)	50,000		
Balancing charge u/s 41(2)		30,000	50,000
Capital gain			30,000

**B18. S. 43A – Rakesh purchased a machinery from the USA for USD 1,20,000 on 1.10.2020 which was put to use on.....**

Particulars	Rs.
<b>Computation of depreciation for PY 2020-21</b>	
Actual cost of machinery = 1,20,000 × 75	90,00,000
Less: Depreciation at 50% of 15% of 90 lakh since machinery used < 180 days	(6,75,000)
Closing WDV	83,25,000
<b>Computation of depreciation for PY 2021-22</b>	
WDV as on 1 April 2021	83,25,000
Add: Adjustment u/s 43A: Forex loss on payment of USD 40,000 = 40,000 × (80 – 75)	2,00,000
WDV (as on 31.3.2022) for computing depreciation	85,25,000
Less: Depreciation @ 15%	(12,78,750)
Closing WDV	72,46,250
<b>Computation of depreciation for PY 2022-23</b>	
WDV as on 1 April 2022	72,46,250
Less: Adjustment u/s 43A: Forex gain on payment of USD 40,000 = 40,000 × (75 - 70)	(2,00,000)
WDV (as on 31.3.2023) for computing depreciation	70,46,250
Less: Depreciation @ 15%	(10,56,938)
Closing WDV	59,89,312

Forex gain/loss at the end of year in respect of the outstanding purchase price cannot be claimed as deduction or added to income. It is to be ignored.

**B19. S. 32 – WDV – COMPOSITE AGRICULTURAL INCOME – CA2010(M) - Mr. Tenzing is engaged in composite business.....**

*Computation of income from coffee business for AY 2022-23*

Particulars	Rs.	Rs.	Rs.
Rule 7B applies?	Yes		
Sale value of cured coffee			22,00,000
Less: Expenditure for growing coffee			
• Expenses incurred for growing coffee	(3,10,000)		
• Car running and maintenance (80% of 50,000)	(40,000)		
• Depreciation on car (80% of depreciation on car (80% of 15% of 3 lakh)	(36,000)		
Total cost of agricultural operations		(3,86,000)	
Less: Expenditure for curing coffee			
• Expenditure on curing coffee	(3,00,000)		
• Depreciation on machinery (15% of 15,00,000)	(2,25,000)		
Total cost of curing operations		(5,25,000)	
Total cost of composite operations			(9,11,000)
Total profits from composite activities			12,89,000
Business income (25% Taxable under Rule 7B)			3,22,250
Agricultural income (75% exempt under Rule 7B)			9,66,750



*Computation of WDV of depreciable assets as on 1.4.2022*

Particulars	Rs.	Rs.
<b>Car</b>		
Opening WDV on 1.4.2021		3,00,000
Depreciation @ 15%	45,000	
Less: Depreciation @ 20% for personal use	(9,000)	(36,000)
WDV as on 1.4.2022		2,64,000
<b>Machinery</b>		
Opening WDV on 1.4.2021		15,00,000
Less: Depreciation @ 15%		(2,25,000)
WDV as on 1.4.2022		12,75,000

For computing WDV, total depreciation is reduced in terms of section 43(6) (not just 25% actually allowed by virtue of Rule 7B).

**B20. S. 35AD – Sagar is engaged in the business of setting up and operating cold chain facility, production of .....**

Cold chain facility and production of fertilizers in India are specified business u/s 35AD whereas warehousing facility for consumer goods is not a specified business u/s 35AD.

*Computation of profits and gains of business or profession for AY 2022-23*

Particulars	Cold chain business	Fertilizer business	Warehousing business
Profits of business (before deduction u/s 32 or 35AD)	10,00,000	15,00,000	20,00,000
Less: Deductions:			
• Depreciation on building = 10% of 14 lakh (10 lakh + 4 lakh) assuming building extension was put to use for > 180 days during PY 2021-22	-	-	(1,40,000)
• Deduction u/s 35AD = 100% of capital expenditure incurred prior to commencement of operations on 1.4.2021 and capitalized in books on this date (except land) + 100% of capital expenditure incurred during PY 2021-22	(20,00,000)	(24,00,000)	-
• Operational expenses: Already deducted while computing profits of business above	-	-	-
<b>Profits of business</b>	<b>(10,00,000)</b>	<b>(9,00,000)</b>	<b>18,60,000</b>
Income chargeable under PGBP (loss from business specified u/s 35AD can be set off only against profits from business specified u/s 35AD; hence, loss carried forward to AY 2023-24 u/s 73A <sup>1</sup> )		18,60,000	

<sup>1</sup> Covered in Chapter on Losses in detail

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B21 to B30

#### Profits and Gains of Business or Profession

#### Build Your Confidence (BYC)

**B21. S. 35AD – CA2012(M) – MNP Ltd., commenced operations of the business of a new 4-star hotel in .....**

*Computation of profits and gains of business or profession for AY 2022-23*

Particulars	Rs.
Profits from specified business of new hotel in Chennai (before deduction u/s 35D)	80,00,000
Less: Deduction u/s 35AD:	
• 100% of expenditure incurred prior to commencement of operations on 1.4.2021 and capitalized in books on this date	(40,00,000)
• 100% of capital expenditure incurred during PY 2021-22 (except land)	(1,50,00,000)
Loss from specified business of hotel in Chennai	(1,10,00,000)
Profits from existing business of hotel in Kanpur	1,30,00,000
<b>Income under the head PGBP after set off loss of one specified business against profits of another specified business in terms of section 73A<sup>1</sup></b>	<b>20,00,000</b>

**B21A. S. 35AD – Ragini carries on business of operating sugar warehouse and manufacture of steel products. ....**

*Tax implications arising from transfer of building from sugar business to steel business*

Particulars	Rs.
<b>Deemed business income u/s 35AD for PY 2021-22 since building used in specified business is transferred to a non-specified business within 8 years of its acquisition</b>	
Total deduction allowed u/s 35AD for building	20,00,000
Less: Depreciation allowable u/s 32 as if 35AD deduction was not allowed = 10% of Rs. 20 lakh	(2,00,000)
Deemed business income u/s 35AD	18,00,000
<b>Depreciation of the Block (Building) for PY 2021-22</b>	
Opening WDV on 1.4.2021	15,00,000
Add: Actual cost of building = Actual cost 20 lakh – Depreciation allowable since acquisition 2 lakh	18,00,000
WDV (as on 31.3.2022) for depreciation	33,00,000
Less: Depreciation @ 10%	(3,30,000)
Closing WDV	29,70,000

### AMORTIZATION

**B23. S. 35D – Rajat started the business of manufacturing clothes on 1.6.2021. Following expenditure was.....**

*Computation of deduction u/s 35D*

Particulars	Rs.	Rs.
-------------	-----	-----

<sup>1</sup> Covered in Chapter on Losses in detail



<b>Specified Expenditure</b>		
Preparation of project report by an approved concern: Eligible	1,00,000	
Market survey by self: Eligible	60,000	
Legal charges for drafting agreements by a law firm (not approved u/s 35D): Eligible	40,000	
Engineering services by BCD consultants: Not eligible as not approved	-	2,00,000
Cost of project = Cost of building, P&M, furniture	42,00,000	
Capital employed: Not relevant for non-company assessee	-	
5% of cost of project		2,10,000
<b>Eligible specified expenditure (cannot exceed 2,10,000)</b>		<b>2,00,000</b>
<b>Deduction u/s 35D for each PY from PY 2021-22 to 2025-26 = 2,00,000 / 5</b>		<b>40,000</b>

**B24. S. 35DDA – BKC Ltd. offered voluntary retirement to its employees under a VRS scheme rolled out on 15.6.2021. It....**

Year	Rs. lakh	Rs. lakh	Rs. lakh	Total deduction
PY 2021-22	8			8
PY 2022-23	8	8		16
PY 2023-24	8	8	8	24
PY 2024-25	8	8	8	24
PY 2025-26	8	8	8	24
PY 2026-27		8	8	16
PY 2027-28			8	8
				120

#### EXPENDITURE FOR SPECIAL PURPOSES

**B25. S. 35 – Mr. Pharma commenced business of manufacture of medicines on 1.6.2021. Compute the deduction....**

Particulars	1.4.18 to 31.5.18	1.6.18 to 31.5.21	1.6.21 to 31.3.22	Deduction	Note
Purchase of land and building for scientific research (30% towards land) (not certified)	-	30,00,000	-	21,00,000	Exclude land; certification not required
Purchase of equipments for scientific research (not certified)	1,00,000	-	-	-	Prior to 3 year period
Purchase of plant and machinery for manufacturing medicines (not certified)	-	-	2,50,000	-	Not for scientific research. Depreciation can be claimed.
Purchase of equipment for conducting scientific search (purchased on 1.1.2022 and put to use on 1.5.2022) (not certified)	-	-	1,25,000	1,25,000	Put to use not relevant; certification not required
Purchase of scientific research material	20,000	50,000 (90% certified)	30,000	75,000	3 year pre-commencement expenditure should be certified
Salary to employees engaged in scientific research	-	6,00,000 (4 lakh certified)	2,00,000	6,00,000	3 year pre-commencement expenditure should be certified
Expenditure on scientific research in relation to Food & Beverage sector	-	1,50,000	25,000	-	Not related to business of assessee
Other revenue expenses	40,000	1,80,000	1,00,000	1,00,000	Pre-commencement expenditure not deductible
<b>Total deduction u/s 35</b>				<b>30,00,000</b>	

**B26. S. 35 – Compute the deduction allowable u/s 35 for AY 2022-23 from the following particulars of expenditure .....**

Particulars	Section	Deduction	Note
<b>Payments for scientific research:</b>			
National Science Institute	35(1)(ii)	1,30,000	
IIT, Mumbai	35(2AA)	90,000	
Zeta Ltd.	35(1)(iia)	1,00,000	
Beta Inc	35(1)(iia)	-	Not a company registered in India
PQR college	35(1)(ii)	50,000	
DEF college	35(1)(ii)	-	Not approved and notified
National Laboratory	35(2AA)	75,000	Withdrawal of program subsequent to payment does not effect deduction
<b>Expenditure on in-house R&amp;D facility:</b>			
Revenue expenditure on scientific research	35(1)(i)	1,80,000	
Acquisition of land	35(1)(iv)	-	Expenditure on land not deductible
Acquisition of premises	35(1)(iv)	5,00,000	
<b>Deduction u/s 35</b>		<b>11,25,000</b>	

**B27. S. 35 – CA2011(M) – Praveen Kumar has furnished the following particulars relating to payments made .....**

Particulars	Section	% deduction	Deduction Rs. Lakhs
<b>Payment for scientific research</b>			
K Research Ltd.	35(1)(ii)	100	20
LMN college	35(1)(ii)	100	15
OPQ college (assuming it is not approved)	35(1)(ii)	-	-
National Laboratory	35(2AA)	100	8
<b>In-house research</b>			
Machinery purchased – capital expenditure	35(1)(iv)	100	25
Salaries to research staff	35(1)(i)	100	12
<b>Deduction allowable u/s 35</b>			<b>80</b>

### INTEREST

**B28. S. 36(1)(iii) – Mr. Shree purchased a machinery for Rs. 10 lakh on 1.8.2021 by utilizing loan of Rs. 8 lakh.....**

Particulars	Working	Rs.	Rs.
Interest for PY 2021-22	10% p.a. on 10 lakh for 9 months		75,000
Actual cost of machinery			
• Purchase price		10,00,000	
• Add: Interest	10% p.a. on 10 lakh for 6 months (1.7.2021 to 31.12.2021)	50,000	10,50,000
Interest deductible u/s 36(1)(iii)	10% p.a. on 10 lakh for 3 months (1.1.2022 to 31.3.2022)		25,000

**B29. S. 36(1)(iia) – Z Ltd., a public sector company, issued 10,000 notified zero coupon bonds on 10.10.2021.....**

Particulars	Working	Rs.
Discount	10,000 × (100 – 75)	25,000
Life of bond (calendar months)	October 2021 is considered as 1 month (since ≥ 15 days) while October 2024 is to be ignored (since < 15 days)	36
Pro-rata discount p.m.	25,000 / 36	694
Deduction for PY 2021-22	694 × 6 months (October 2021 to March 2022)	4,164

### EMPLOYEE WELFARE

**B30. CONTRIBUTION TO EMPLOYEE WELFARE FUNDS – Analyze the tax implications for Welfare Ltd. in the following cases for AY 2022-23.**

#	Case	Impact
1	Welfare Ltd. contributes Rs. 2 lakh to RPF during the PY (Rs. 1.5 lakh is 43B compliant)	1.5 lakh deductible u/s 36(1)(iv)
2	Welfare Ltd. receives Rs. 1 lakh from employees as their contribution towards RPF. Out of this Rs. 80,000 is credited to their account by the due date as per the rules of the Fund.	1 lakh first included in income then 80,000 deductible u/s 36(1)(va). Thus, 20,000 taxable.
3	Welfare Ltd. pays Rs. 1 lakh as gratuity to retiring employees. It does not maintain any gratuity fund.	1 lakh deductible u/s 37(1)
4	Welfare Ltd. contributes to an approved gratuity fund every year. During the PY 2021-22 it pays Rs. 6 lakh as gratuity from this fund.	Contribution to AGF is deductible u/s 36(1)(v). Payment from fund is not deductible again.
5	Welfare Ltd. contributes 20% of basic salary to the account of each employee under the NPS. DA is 40% of basic and it forms part of pay. Aggregate basic salary during the PY 2021-22 is Rs. 10 lakh.	Salary for purpose of 36(1)(iva) = 10 lakh + 4 lakh = 14 lakh. 10% thereof is 1.4 lakh. NPS contribution = 2 lakh. Deductible = 1.4 lakh. Disallowed = 60,000.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B31 to B40

## Profits and Gains of Business or Profession

## Build Your Confidence (BYC)

### SPECIAL DEDUCTIONS

**B31. BAD DEBT – Analyze the tax implications in the following cases for AY 2022-23.**

#	Case	Deduction u/s 36(1)(vii)	Remarks
1	Yug sells goods for Rs. 3 lakh on 1.1.2020 to Shubh who does not make any payment owing to a dispute. Yug claims the amount as deduction towards bad debt for PY 2021-22 while retaining the debt in the books of account.	No	Since not written off as irrecoverable in the books
2	Yug writes off Rs. 50,000 as irrecoverable on 1.5.2021, out of Rs. 3 lakh receivable from Jug towards sale of goods during PY 2019-20.	Yes	Debt taken into account in computing income and written off as irrecoverable in the books
3	Yug sold plant and machinery for Rs. 10 lakh on 1.6.2020 which he was using in manufacturing products for his business. He wrote off Rs. 1 lakh on 1.7.2021 as irrecoverable.	No	Debt not taken into account in computing income, being sale of capital asset
4	Yug, carrying on business of cloth retailer, extended loan of Rs. 5 lakh to another trader to help him start a new business. He wrote off the entire loan as irrecoverable on 1.4.2021.	No	Debt not taken in account in computing income and Yug is not in business of banking or money lending
5	Yug, carrying on money-lending business, extended loan of Rs. 5 lakh to Shubh. Shubh became insolvent. Yug wrote off entire loan of Rs. 5 lakh together with interest due of Rs. 50,000 on 1.3.2022.	Yes	Interest deductible as it is taken into account in computing income. Principle is also deductible as it is money lent in money lending business.

**B32. S. 40(b) – Compute the remuneration liable to be disallowed u/s 40(b) to Rohit & Mohit, a partnership firm.....**

Particulars	A	B	C
Remuneration eligible for deduction	7,50,000	2,00,000	1,00,000
<b>Computation of remuneration allowable u/s 40(b)</b>			
First 3 lakh of book profit (or loss) = Higher of 1.5 lakh or 90% of book profit	2,70,000	1,50,000	1,50,000
Balance of book profit = A: 60% of 7,00,000; B & C Nil	4,20,000	-	-
Maximum remuneration allowable u/s 40(b)	6,90,000	1,50,000	1,50,000
Remuneration eligible for deduction	7,50,000	2,00,000	1,00,000
Less: Remuneration allowed u/s 40(b)	(6,90,000)	(1,50,000)	(1,00,000)
<b>Remuneration disallowed u/s 40(b) in the hands of the firm</b>	<b>60,000</b>	<b>50,000</b>	<b>-</b>

**B33. S. 40(b) – CA2011(N) – Rao and Jain, a partnership firm consisting of two partners, reports a net profit.....**

*Computation of profits and gains of business or profession of the firm for AY 2022-23*

Particulars	Rs.	Rs.
<b>Computation of Book Profit of the firm u/s 40(b)</b>		
Net profit (before deduction of salary, depreciation and interest)		7,00,000

Less:		
• Depreciation u/s 32	(1,50,000)	
• Interest @ 12% p.a. [being the maximum allowable u/s 40(b)] = 12% of 5 lakh	(60,000)	(2,10,000)
<b>Book profit</b>		<b>4,90,000</b>
Less: Remuneration to working partners (4,80,000) subject to a maximum of amount allowable u/s 40(b) computed as follows:		
• First 3 lakh of book profit (or loss) = Higher of 1.5 lakh or 90% of book profit	2,70,000	
• Balance of book profit = 60% of 1,90,000	1,14,000	(3,84,000)
<b>Profit and gains of business or profession</b>		<b>1,06,000</b>

**B33A. S. 40(b) - CA2021(JAN) - M/s Bhandari & Batra, a partnership firm consisting of two partners, reports a net profit.....**

*Computation of book profits of the firm for AY 2022-23*

Particulars	Rs.	Rs.
Net profit (before deduction of salary, depreciation, interest)		7,00,000
Less: Depreciation	1,50,000	
Less: Interest deductible u/s 40(b) @ 12% of 5 lakh	60,000	(2,10,000)
<b>Book profit (salary to partners and c/fd loss is not to be adjusted)</b>		<b>4,90,000</b>

*Computation of salary that can be paid to working partners u/s 40(b)*

Particulars	Rs.
First 3 lakh of book profit (or loss) = Higher of 1.5 lakh or 90% of book profit	2,70,000
Balance of book profit = 60% of 1,90,000	1,14,000
Salary that will be allowed to the firm u/s 40(b)	3,84,000

### GENERAL DEDUCTION

**B34. S. 37 – Determine whether the following expenditure will be allowed as deduction for the AY 2022-23.**

#	Expenditure	Deductible?	Section
1	Loss due to embezzlement by employee	Yes	29 (as per general principles)
2	Rent of building hired for business	Yes	30
3	Municipal taxes for building	Yes	30 (subject to 43B)
4	Repair of furniture	Yes	31
5	Insurance premium for machinery	Yes	31
6	Insurance premium for stock in trade	Yes	36(1)(i)
7	Extension of a floor on the office building	No	32 – depreciation allowed
8	Purchase of books	No	32 – depreciation allowed
9	Cost of goods sold	Yes	37(1)
10	Sundry office expenses	Yes	37(1)
11	Electricity	Yes	37(1)
12	Freight and installation expenses for machinery incurred before it is put to use	No	32 (add to actual cost for depreciation)
13	Payment to approved and notified university for scientific research	Yes	35
14	Purchase of laboratory equipment for scientific research	Yes	35
15	Expenditure on notified skill development project	Yes	35CCD
16	Market survey and feasibility study before commencement of business	Yes	35D amortization
17	VRS compensation paid to employees	Yes	35DDA amortization
18	Building, plant, machinery and furniture purchased for new fertilizer production business	Yes	35AD, if opted for
19	Salary paid to employees	Yes	37(1)
20	Health insurance premium paid for employees	Yes	36(1)(ib)
21	Bonus and commission paid to employees	Yes	36(1)(ii) (subject to 43B)
22	Employer's contribution to RPF	Yes	36(1)(iv) (subject to 43B)

23	Employee's contribution to RPF received but not paid by the due date under EPF Act	No	36(1)(va)
24	Payment to approved gratuity fund even though no gratuity is payable during the PY	Yes	36(1)(v) (subject to 43B)
25	Amount payable by buyers of stock-in-trade written off as irrecoverable	Yes	36(1)(vii)
26	Interest on loan taken from SBI for purchase of office vehicles pertaining to period after these are put to use	Yes	36(1)(iii) (subject to 43B)
27	Brokerage, commission and bank charges paid for arranging the loan	Yes	37(1)
28	Interest on unpaid purchase price of raw material	Yes	37(1)
29	Interest on loan taken from a colleague to meet office expenses	Yes	36(1)(iii)
30	STT paid on dealing in shares held as investments	No	36(1)(xv). As not stock-in-trade
31	Premium paid on Keyman insurance policy taken on the life of CEO	Yes	37(1)
32	Payment to lawyer for defending tax appeal in the Supreme Court	Yes	37(1)
33	Payment to CA for compliance with various provisions of income tax and GST	Yes	37(1)
34	Damages paid to buyer for not supplying goods on time	Yes	37(1)
35	Advertisement and sales promotion expenses	Yes	37(1)
36	Celebration expenses in office on the occasion of Diwali and Holi	Yes	37(1)
37	Fee paid for employees attending a business conference	Yes	37(1)
38	Provision created to meet expenses on damages which may need to be paid if a legal dispute is lost in the court	No	37(1), it is contingent
39	Income tax paid for the current year	No	40(a)(ii)
40	CSR expenditure incurred under the Companies Act	No	37(1), Explan 2
41	Penalty paid under GST law for not passing ITC benefit to buyers	No	37(1), it is penal in nature
42	Penalty paid under GST law to compensate for delay in payment of tax	Yes	37(1), it is compensatory in nature
43	Bribe paid to income tax office to pass a favorable order	No	37(1), it is offence/prohibited
44	Advertisement in a brochure published by the JJP, a political party	No	37(2B)
45	Loss of stock in trade due to fire	Yes	29
46	Expenditure on business travel incurred during PY 2020-21	No	37(1), doesn't pertain to PY 2021-22
47	Dividend paid to shareholders	No	37(1), appropriation of profits
48	Postage, stationery, food and beverage expenses	Yes	37(1)
49	Purchase of computers and computer software	No	32 – depreciation allowed

#### EXPENSES NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES

#### B35. S. 40(a)(i)/(ia) – Determine the PY in which the expenditure on payment of fees for professional service Rs. ....

#	Payee	Tax deducted by payer	Tax paid by payer	Action by payee	Deduction	Remarks
1	NR	15.3.2022	15.12.2022	-	1,00,000 in PY 2022-23	Tax deducted in PY 2021-22 but paid after ROI due date of such PY. 100% allowed u/s 40(a)(i) in PY in which tax paid.
2	ROR	15.3.2022	30.11.2022	-	1,00,000 in PY 2021-22	Tax deducted in PY 2021-22 and paid by ROI due date of such PY. 100% allowed u/s 40(a)(ia) in PY in which expense incurred.
3	ROR	15.3.2022	1.12.2022	-	70,000 in PY 2021-22 30,000 in PY 2022-23	Tax deducted in PY 2021-22 but paid after ROI due date of such PY. 30% allowed u/s 40(a)(ia) in PY in which tax paid.
4	RNOR	Not deducted	Not paid	-	70,000 in PY 2021-22	Tax not deducted and paid. 30% disallowed u/s 40(a)(ia).
5	ROR	Not deducted	Not paid	ROI filed on 1.11.2022 after including Rs. 1,000 and paying tax due.	70,000 in PY 2021-22 30,000 in PY 2022-23	Tax not deducted by payer but payee filed ROI after including income in ROI and paid tax due. 30% allowed u/s 40(a)(ia) in PY in which ROI filed. Assumed that Radius Ltd.



has furnished certificate of accountant.

**B36. S. 40(a)(ia) - Compute the amount of income under the head PGBP in the hands of Roshan for the.....**

*Computation of income under the head PGBP for AY 2022-23*

Particulars	Rs.	Remarks
Gross receipts from profession	55,00,000	-
<i>Less: Expenses:</i>		
Salary to employees	9,40,000	TDS deductible u/s 192. Tax not deducted and paid. 30% of 2 lakh disallowed u/s 40(a)(ia).
Commission to agent	1,00,000	TDS deductible u/s 194H since gross receipts > 50 lakh from profession in preceding FY 2020-21 (see para 215). Tax deducted in PY 2021-22 and paid by ROI due date of such PY. No disallowance u/s 40(a)(ia).
Catering charges for business function	1,05,000	TDS deductible u/s 194C since gross receipts > 50 lakh from profession in preceding FY 2020-21 (see para 216). Tax deducted in PY 2021-22 but paid after ROI due date of such PY. 30% disallowed u/s 40(a)(ia); it will be allowed in PY in which tax paid, i.e., PY 2022-23.
Fees for professional services	25,000	TDS not deductible u/s 194J as sum ≤ limit of 30,000 specified under that section (see para 216). No disallowance u/s 40(a)(ia)
<b>PGBP income</b>	<b>43,30,000</b>	

**B37. S. 40A(2)– Identify whether the following expenditure can be disallowed u/s 40A(2) in the hands of Rohan, carrying on business of electronics, for AY 2022-23.**

#	Expenditure	Disallowance	Remarks
1	Purchase of raw material from his brother for Rs. 1 lakh. Market value is Rs. 60,000.	Rs. 40,000	Brother is related party
2	Rs. 2 lakh paid for consultancy service taken from PQR Pvt. Ltd. in which Rohan's sister holds 25% equity shares. Market value of such service is Rs. 50,000.	Rs. 1.5 lakh	Sister (relative) has SI in the company as equity holding ≥ 20%. Hence, PQR Pvt. Ltd. is related party.
3	Vehicles taken on hire for Rs. 6 lakh from Z Pvt. Ltd. in which Rohan holds 10% equity shares. Rs. 4 lakh is charged for similar arrangement in the market.	No	Rohan does not have SI in company as equity holding < 20%. Z Pvt. Ltd. is not related party.
4	Products sold to his father for Rs. 1 lakh where similar products are sold in the market for Rs. 75,000.	No	Sale value is not an expenditure. 40A(2) not applicable.
5	Repayment of loan taken from partnership firm in which Rohan is a partner with 30% share.	No	Firm is related party as profit share ≥ 20% but there is no expenditure. Hence, 40A(2) not applicable.

**B38. S. 40A(3)– Identify whether the following expenditure can be disallowed u/s 40A(3) in the hands of Roshan, following mercantile system of accounting, for AY 2022-23.**

#	Case	Disallowance u/s 40A(3)	Note
1	Payment to Jones of Rs. 40,000 for legal services – Four cash payments of Rs. 8,000 each on 1 June 2021.	Yes	Payments to a person in a day by non-specified mode > 10,000
2	Payment to Jones of Rs. 32,000 for goods supplied – Four cash payments of Rs. 8,000 each on 1 June, 2 June, 3 June and 4 June 2021.	No	Payments to a person in a day by non-specified mode ≤ 10,000
3	Payment to Jones and Jane of Rs. 8,000 each in cash on 1 June 2021 for consultancy services	No	Payments to a person in a day by non-specified mode ≤ 10,000
4	Payment to Shri Ltd. for raw material purchased on credit on 1 June 2020 for Rs. 20,000. Payment made by uncrossed cheque on 1 June 2021.	-	Payment will be deemed profits for PY 2021-22
5	Payment to brother in cash on 1 May 2021 for hiring machinery for Rs. 20,000. Hire charges in the market are Rs. 8,000.	12,000 u/s 40A(2)	Balance Rs. 8,000 is < 10,000. No disallowance u/s 40A(3).

6	Repayment of loan taken from ICICI Bank. Principal of Rs. 1,00,000 and interest of Rs. 20,000 is paid in cash on 1 May 2021.	No	Principal repayment is not expenditure. Interest paid to bank is covered as exception u/r 6DD
7	Jones sold goods for Rs. 1 lakh to Roshan on 1 May 2021. Roshan provided services to Jones for Rs. 60,000 on 1 June 2021. This was adjusted in the accounts by an entry made on 1 May 2021.	No	Book adjustment is covered as exception u/r 6DD
8	Cash payment of Rs. 50,000 is made to Railways on 1 May 2021 for transportation of goods.	No	Payment to Government is covered as exception u/r R 6DD

**B39. S. 43B – Determine the year in which the following expenses incurred by Bharat, for the purposes of his business during the PY 2021-22, will be allowed as deduction. Due date of filing return of income for Bharat is 31.10.2022.**

#	Expense	PY of deduction	Remarks
1	Commission on sales paid to employees on 15.4.2022	PY 2021-22	36(1)(ii) + 43B
2	Bharat's contribution to recognized PF of employees – Rs. 50,000 paid on 10.3.2022 and Rs. 30,000 paid on 1.12.2022. Due date as per PF law is 15 days from the close of every month.	50,000 for PY 2021-22; 30,000 for PY 2022-23	36(1)(iv) + 43B. Due date as per PF law is not relevant for employer's contribution.
3	GST and customs duty paid on 15.9.2022 – Rs. 1 lakh	PY 2021-22	37(1) + 43B
4	Municipal taxes on factory building not paid – Rs. 60,000	-	30 + 43B
5	Bharat's contribution to approved superannuation fund for employees paid on 31.10.2022 – Rs. 45,000	PY 2021-22	36(1)(iv) + 43B
6	Interest on loan taken from friend, paid on 1.3.2023 – Rs. 50,000	PY 2021-22	36(1)(iii). 43B not applicable.
7	Interest on loan taken from HDFC, paid on 1.3.2023 – Rs. 50,000	PY 2022-23	36(1)(iii) + 43B
8	Electricity bill of UPPCL paid on 15.11.2022 – Rs. 2 lakh	PY 2021-22	37(1). 43B not applicable.
9	Annual bonus to employees declared on Diwali, 2021 and paid on 1.10.2022 – Rs. 3 lakh	PY 2021-22	37(1) + 43B
10	Income-tax paid on 1.3.2023 – Rs. 1 lakh	Disallowed	40(a)(ii). 43B not relevant.

**B40. S. 43B – Gyani, engaged in manufacturing business, took loans of Rs. 10 crore each from Bank of India .....**

Interest converted into a loan is not deductible. Such converted interest is deductible only once it is actually paid. Interest deductible u/s 36(1)(iii) read with 43B for AY 2022-23 is computed below.

Bank	Interest outstanding	No. of instalments	Amount per instalment	Instalments paid	Interest allowable
Bank of India	50 lakh	48	1,04,167	9	9,37,503
Dena Bank	30 lakh	48	62,500	9	5,62,500
<b>Total amount eligible for deduction</b>					<b>15,00,003</b>



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B41 to B50

#### Profits and Gains of Business or Profession

#### Build Your Confidence (BYC)

#### SPECIAL PROVISIONS

**B41. S. 41(1) – Identify whether deemed profits would arise u/s 41(1) for AY 2022-23 in the following situations in the hands of Zen, carrying on manufacturing business.**

#	Situation	Deemed profits u/s 41(1)
1	Refund of excise duty of Rs. 20,000 on 1.10.2021 which was claimed as deduction for PY 2019-20.	20,000 in PY 2021-22
2	Deduction of Rs. 1 lakh on account of telephone expenses allowed for PY 2020-21. Out of this, Rs. 20,000 is refunded on 1.10.2021 as the earlier billing was erroneous.	20,000 in PY 2021-22
3	Refund of GST of Rs. 50,000 received by Zen's son on 1.10.2021 who has succeeded Zen in his business after his death. This amount was deducted while computing business income of Zen for PY 2018-19.	50,000 in hands of son in PY 2021-22
4	Zen purchased goods on credit from Yen on 1.10.2019 for Rs. 1 lakh and this was allowed as deduction in his hands for PY 2019-20. Owing to a dispute regarding defect in the goods, Yen agreed to accept Rs. 60,000 in full and final settlement. Zen made the payment on 1.10.2021 and squared off the account.	40,000 in PY 2021-22
5	Stock-in-trade worth Rs. 5 lakh was destroyed in fire on 1.10.2020 and this was deducted as a business loss for PY 2020-21. Zen received Rs. 2 lakh as compensation from the insurance company on 1.10.2021.	2 lakh in PY 2021-22
6	Zen obtained a loan of Rs. 5 lakh from another businessman on 1.10.2020. The loan was waived off by the lender on 1.10.2021.	No, since deduction not made on this count <sup>1</sup>

**B42. S 43CA – Sky Builders has sold a building, held as stock-in-trade, on 10.12.2021 whose cost of construction is .....**

#### *Computation of income from sale of building*

Particulars	I	II	III
Sale price u/s 43CA (Note)	24,00,000	20,00,000	25,00,000
Less: Cost	(10,00,000)	(10,00,000)	(10,00,000)
<b>Income on sale</b>	<b>14,00,000</b>	<b>10,00,000</b>	<b>15,00,000</b>

#### Note:

**I:** SDV on date of transfer taken as consideration as it is > 110% of actual consideration. SDV on date of agreement not considered as actual consideration (or part) not received on or before that date by specified mode.

**II:** Actual consideration taken, as SDV on date of agreement ≤ 110% of actual consideration. SDV on date of agreement considered as actual consideration (or part) is received on or before that date by specified mode.

<sup>1</sup> Waiver of loan taken for trading activities can be taxed under general principles of s. 28 [222 ITR 344 (SC)]. Waiver of loan taken for capital purposes can be taxed u/s 2(24)(xviii) in certain cases.

III: SDV on date of transfer taken as consideration as it is > 110% of actual consideration. SDV on date of agreement not considered as actual consideration (or part) not received on or before that date by specified mode.

**B42A. S. 43CA - JK Builders sold a residential unit to Mr. B on 1.6.2021. The sale was by way of first time allotment .....**

Actual consideration of Rs. 175 lakh will be taken, as SDV on date of agreement ≤ 120% of actual consideration. SDV on date of agreement will be considered as actual consideration (or part) is received on that date by specified mode. Safe harbor limit of 120% will apply as transfer of residential unit, by way of first time allotment, takes place during the period 12.11.2020 to 30.6.2021 and actual consideration ≤ 2 crore. Profit on sale will be Rs. 75 lakh (Rs. 175 lakh – Rs. 100 lakh).

If date of sale is 1.7.2021, safe harbor limit of 120% will not apply as date of sale is not during the period 12.11.2020 to 30.6.2021. SDV on date of agreement will be taken as it is > 110% of actual consideration. Profit on sale will be Rs. 100 lakh (Rs. 200 lakh – Rs. 100 lakh).

**B43. S. 43CA – DLF Ltd, a builder, sold a building, held as stock-in-trade, on 1.9.2021 for Rs. 75 lakh.....**

- (a) 90 lakh will be taken as SDV > 110% of consideration.  
 (b) Case (i): DVO value is 92 lakh: Full value of consideration will be taken as 90 lakh as DVO value > SDV. Case (ii): DVO value is 80 lakh: Full value of consideration will be taken as 80 lakh as DVO value ≤ SDV.

### COMPLIANCE

**B44. S. 44AA – Identify whether Suraj Sharma needs to maintain books of accounts under the Income Tax Act for the AY 2022-23 in the following situations.**

Business/ profession	Parameter	2021-22	2020-21	2019-20	2018-19	Requirement
Lawyer	Gross receipts Income from profession	1.5 lakh (50,000)	1.6 lakh (40,000)	1.8 lakh 20,000	1.9 lakh 70,000	It is specified profession. As per R 6F, as GR > 1.5L in all 3 preceding PYs
Film music director	Gross receipts Income from profession	12.5 lakh 10 lakh	10.5 lakh 8 lakh	5.5 lakh 4 lakh	1.5 lakh 1 lakh	It is specified profession. Sufficient books*, as GR is not > 1.5L in all 3 preceding PYs
Author	Gross receipts Income from profession	26 lakh 3 lakh	24 lakh 2 lakh	23 lakh 2.6 lakh	20 lakh 1 lakh	It is non-specified profession. Sufficient books*, as income from B/P > 2.5L in one of 3 preceding PYs
Bookseller	Turnover Income from business	27 lakh 3 lakh	20 lakh 2.5 lakh	24 lakh 1.5 lakh	25 lakh 1.8 lakh	It is business. No books as income from B/P is not > 2.5L and S/TO/GR is not > 25L in any of 3 preceding PYs

\*Sufficient books are such books of account and other documents as would enable the AO to compute total income.

**B45. S. 44AB – Identify whether Veena needs to get her books of accounts audited u/s 44AB of the Income Tax Act for AY 2022-23 in the following cases based on the following particulars given for PY 2021-22.**

Business/ profession	S/TO/GR in business or GR in profession	Total receipts	Receipts in cash mode*	Total payments	Payments in cash mode*	Tax audit?
Doctor	45 lakh	55 lakh	20 lakh	15 lakh	10 lakh	No, as GR is not > 50L
Retailer	1 crore	1.2 crore	10 lakh	40 lakh	Nil	No, as S/TO/GR is not > 1 cr
Retailer	11 crore	12 crore	Nil	6 crore	Nil	Yes, as S/TO/GR > 10 cr. 10 cr limit applies as receipts in cash mode ≤ 5% of total receipts and payments in cash mode ≤ 5% of total payments for the PY
Retailer	4 crore	4 crore	15 lakh	2 crore	15 lakh	Yes, as S/TO/GR > 1 cr. 1 cr limit applies as cash payments > 5% of total payments for the PY

Retailer	2 crore	2 crore	9 lakh	1 crore	4 lakh	No, as S/TO/GR is not > 10 cr. 10 cr limit applies as receipts in cash mode ≤ 5% of total receipts and payments in cash mode ≤ 5% of total payments for the PY
----------	---------	---------	--------	---------	--------	--

\*Cash or cheque/DD (which is not A/c payee)

### PRESUMPTIVE INCOME FOR SMALL ENTERPRISES

**B46. S. 44AD – CA2018(M) (modified) - Mr. Quereshi is a businessman. During the year ended 31.3.2022, he was .....**

Since total turnover for PY 2021-22 of Rs. 1.25 crore is up to Rs. 2 crore, he is eligible to opt for presumptive income scheme u/s 44AD.

*Computation of profits and gains of business or profession of Mr. Quereshi under presumptive income scheme u/s 44AD*

Particulars	Rs.
Hypermarket business (100% cash sales) = 8% of 75 lakh	6,00,000
Supermarket business (online sales) = 6% of 50 lakh	3,00,000
<b>Profits and gains of business or profession computed u/s 44AD</b>	<b>9,00,000</b>

No deduction is allowed in respect of any expenditure.

Since Mr. Quereshi maintains proper books of accounts, his income as per books can be computed and if such income is more than income computed u/s 44AD, the higher income can be declared u/s 44AD.

*Computation of profits and gains of business or profession of Mr. Quereshi as per books of account*

Particulars	Rs.	Rs.
Net profit (as given in question)		3,93,950
<i>Add:</i>		
Depreciation debited in the books (not as per Income Tax Act)	8,12,000	
Cash payment in excess of Rs. 10,000 to accountant in a day (disallowed u/s 40A(3))	75,000	
Building construction expenditure debited to P&L (not deductible)	1,00,000	9,87,000
<i>Less:</i>		
Depreciation under Income Tax Act	7,17,000	
Depreciation on building extension of a room @ 10% (assuming it is not included in the above figure of depreciation)	10,000	(7,27,000)
<b>Profits and gains of business or profession computed as per books of account</b>		<b>6,53,950</b>

PGBP computed as per books is less than that computed u/s 44AD. However, since Mr. Quereshi wants to declare presumptive income u/s 44AD, his PGBP income would be Rs. 9,00,000.

**B47. S. 44AD/44ADA – MASTER QUESTION - Compute income under the head PGBP in case of Rachna, a resident .....**

*Computation of profits and gains of business or profession of Rachna u/s 44AD or 44ADA*

Rachna is a resident. In case A, she is eligible to claim income computation u/s 44AD since turnover ≤ 2 crore and she does not claim deduction u/s 10AA or Ch. VIA-C (80C is covered u/c VIA-B and not u/c VIA-C). In case B, she is eligible to claim income computation u/s 44ADA as she is carrying on a specified profession and gross receipt ≤ 50 lakh.

Particulars	Case A	Case B
Income u/s 44AD:		
• 6% of turnover received by a/c payee cheque till due date of ROI = 6% of 30,00,000	1,80,000	
• 8% of remaining turnover = 8% of 15,00,000	1,20,000	
Income u/s 44ADA = 50% of 45,00,000		22,50,000
<b>Profits and gains of business or profession</b>	<b>3,00,000</b>	<b>22,50,000</b>

Deductions u/s 30 to 38 are deemed to have been allowed. Hence, no further deduction is allowed.

*Computation of profits and gains of business or profession of Rachna as per books*

Particulars	Rs.
Total turnover /gross receipts	45,00,000
Less:	
• Depreciation	(10,00,000)
• Other expenses (Rs. 1,00,000 paid in cash disallowed u/s 40A(3) as it is > 10,000)	(33,00,000)
<b>Profits and gains of business or profession</b>	<b>2,00,000</b>

**Case A:** Income computed as per presumptive provisions of section 44AD is more than income computed as per books. PY 2020-21 being the first year of opting for 44AD, she should continue to do so for PY 2021-22 to 2025-26. If she does not opt for 44AD in PY 2021-22, benefit of 44AD will cease for 5 PYs subsequent to PY 2021-22 and she will need to comply with 44AA and 44AB for PY 2021-22 to 2026-27 if her total income > basic exemption limit of Rs. 2,50,000.

**Case B:** Income computed as per presumptive provisions of section 44ADA is more than income computed as per books. She can claim the lower income as per books. In such case, she will need to comply with 44AA and 44AB for PY 2021-22 since her total income > basic exemption limit of Rs. 2,50,000.

**B47a. CA2021(JULY) – M/s MN & Co., a partnership firm, is engaged in the business of plying and hiring goods vehicles.....**

Since the firm is engaged in the business of plying and hiring goods vehicles and it does not own > 10 goods carriages at any time during the PY, it is eligible for section 44AE.

*Computation of presumptive income as per section 44AE*

Gross vehicle weight (kg)	No. of carriages	No. of months (or part) carriage owned during PY	Rate p.m. (per ton p.m. for HGV)	Ton	Presumptive income
	(1)	(2)	(3)	(4)	(1) × (2) × (3) × (4)
<b>Heavy goods vehicle (&gt; 12 ton)</b>					
15,000	2	12	1,000	15	3,60,000
15,000	1	10*	1,000	15	1,50,000
<b>Other than heavy goods vehicle</b>					
7,000	2	12	7,500	-	1,80,000
9,000	2	12	7,500	-	1,80,000
12,000	3	12	7,500	-	2,70,000
					<b>11,40,000</b>

\*Months vehicle is owned is to be considered and not months used.

*Computation of income of the firm for AY 2022-23 if it opts for section 44AE*

Particulars	Rs.
Income as computed u/s 44AE	11,40,000
Less: Partner's remuneration within the limits prescribed u/s 40(b)	(1,50,000)
	9,90,000

If the firm wants to claim its income as per books of accounts of 6,50,000 (which is lower than income of 9,90,000 computed based on section 44AE), it should maintain books of account u/s 44AA and get tax audit done u/s 44AB.

If the firm opts for section 44AE, it would not need to comply with section 44AB. Its due date to file ROI would be 31 July 2022. However, if it does not opt for section 44AE, it would need to comply with section 44AB and its due date to file ROI would be 31 October 2022 (para 232).

*Mistake by students – Lack of preparation while computing business income applying section 44AE.*

**B48. S. 44AE – MASTER QUESTION - Sunanda is engaged in the business of plying, hiring and leasing goods .....**

Sunanda can avail the presumptive taxation provision of section 44AE as she is engaged in the business of plying, hiring and leasing goods carriages and she does not own > 10 goods carriages at any time during the PY.

*Computation of presumptive income as per section 44AE*

Gross vehicle weight (kg)	No. of carriages	No. of months (or part) carriage owned during PY	Rate p.m. (per ton p.m. for HGV)	Ton	Presumptive income
	(1)	(2)	(3)	(4)	(1) × (2) × (3) × (4)
<b>Heavy goods vehicle (&gt; 12 ton)</b>					
15,000	1	1	1,000	15	15,000
15,000	4	12	1,000	15	7,20,000
<b>Other than heavy goods vehicle</b>					
12,000	1	3	7,500	-	22,500
12,000	4	12	7,500	-	3,60,000
10,000	2	4	7,500	-	60,000
					<b>11,77,500</b>

*Computation of income as per books*

Particulars	Rs.
Freight charges	15,00,000
Less: Operational expenses	(6,00,000)
Less: Depreciation	(2,50,000)
<b>Business income</b>	<b>6,50,000</b>

Since her income from such business computed as per books is lower than presumptive income, she can claim the lower income of Rs. 6,50,000 if she complies with sections 44AA and 44AB for the PY 2021-22.

**B49. S. 44AE – CA2019(N) - Prakash is in the business of operating goods vehicles. As on 1.4.2021, he had .....**

Benefit of section 44AE is available since Prakash does not own more than 10 goods carriages at any time during PY 2021-22.

*Computation of presumptive income as per section 44AE*

Type of carriage	No. of months (or part) vehicle is owned during PY	Rate p.m. (per ton p.m. for HGV)	Ton	Amount
(1)	(2)	(3)	(4)	(5) = (2) × (3) × (4)
<b>Heavy goods vehicle (&gt; 12 ton)</b>				
Vehicle B	12	1,000	13	1,56,000
Vehicle E	11	1,000	15	1,65,000
<b>Other than heavy goods vehicle</b>				
Vehicle A	12	7,500	-	90,000
Vehicle C	12	7,500	-	90,000
Vehicle D	12	7,500	-	90,000
<b>Total</b>				<b>5,91,000</b>

*Mistake by students – Date of owning is relevant and not the date of put to use.*

**COMPREHENSIVE**

**B50. COMPREHENSIVE - CA2015(N) - State with reasons, the allowability of the following expenses incurred by MN Ltd....**

#	Expense	Allowability
1	Construction of school building in compliance with CSR activities amounting to Rs. 5,60,000	CSR expenditure u/s 135 of Companies Act is not allowable as per Exln 2 to S. 37(1)
2	Purchase of building for setting up a warehousing facility for storage of food grains amounting to Rs. 4,50,000	Eligible for investment linked tax deduction u/s 35AD @ 100% of such amount if the relevant conditions of that section are satisfied
3	Interest on loan paid to Mr. X (a resident) of Rs. 50,000 on which tax	TDS is to be deducted u/s 194A (para 213). Rs. 15,000 (30% of Rs. 50,000) will be disallowed u/s 40(a)(ia) assuming that Mr. X has also not paid the tax, if any, on

	has not been deducted.	such interest. Balance will be allowed u/s 36(1)(iii) assuming that amount was borrowed for purposes of business.
4	Commodities transaction tax paid Rs. 20,000 on sale of bullion.	Allowable as deduction u/s 36(1)(xvi) assuming that income from commodity transactions is included in computing business income.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B51 to End

## Profits and Gains of Business or Profession

## Build Your Confidence (BYC)

**B51. COMPREHENSIVE - CA2011(N) – Ramji Ltd., engaged in manufacture of medicines, furnishes the following,....**

#	Item	Allowability
1	Municipal tax relating to office building Rs. 51,000 not paid till due date of filing ROI for AY 2022-23	Disallowed u/s 43B since tax paid after due date of filing ROI for PY
2	Patent acquired for Rs. 20 lakh on 1.9.2021 and used from the same month	Depreciation @ 25% u/s 32 since it is put to use $\geq$ 180 days during the PY
3	Capital expenditure on scientific research of Rs. 10 lakh which includes cost of land of Rs. 2 lakh	Rs. 8 lakh deducted u/s 35(1)(iv). No deduction for land.
4	Amount due from customer X outstanding for more than 3 years written off as bad debt in the books – Rs. 5 lakh	Deductible as bad debt u/s 36(1)(vii) since amount taken into account in computing income and now written as irrecoverable in the books of account.
5	Income tax paid Rs. 90,000 by the company in respect of non-monetary perquisites provided to its employees	Disallowed u/s 40(a)(v). It is, however, exempt in the hands of employees u/s 10(10CC).
6	PF contribution of employees of Rs. 5,50,000 remitted in July 2021.	Included in income u/s 2(24)(x). But disallowed u/s 36(1)(va), assuming that fund is EPF and contribution not remitted within 15 days from close of month.
7	Expenditure towards advertisement in souvenir of a political party – Rs. 1,50,000	Disallowed u/s 37(2B)
8	Refund of GST Rs. 75,000 received during the year which was claimed as expenditure in an earlier year.	Taxable u/s 41(1)

**B52. COMPREHENSIVE - Madhav is a sole proprietor of Hari Silks. He reports turnover of Rs. 240 lakh for .....**

*Computation of business income of Madhav for AY 2022-23*

Particulars	Rs.	Rs.
Net profit as per profit and loss account		8,10,000
Add: Expenses debited but not deductible:		
• Bonus paid after due date of filing return: Disallowed u/s 43B	60,000	
• Interest paid without TDS: TDS deductible u/s 194A as turnover for preceding year > 1 cr. 30% disallowed u/s 40(a)(ia) assuming payee is a resident and has not paid tax, if any, on such interest.	3,600	
• Municipal taxes for property: Considered while computing income from IHP	15,000	
• Salary to wife: Excess disallowed u/s 40A(2) @ 10,000 p.m.	1,20,000	
		1,98,600
Less: Incomes credited but not taxable under the head PGBP:		
• Dividend: Taxable under the head IFOS	21,000	
• PPF interest: Exempt u/s 10	27,000	
• Saving bank interest: Taxable under the head IFOS	13,500	
• Rent from property: Taxable under the head IHP	1,65,000	
		(2,26,500)
Less: Subsidy for generator: It is adjusted from actual cost for purpose of depreciation		(18,000)

Less: Depreciation on generator @ 50% of 15% of 72,000 (90,000 purchase price – 18,000 subsidy) as it is put to use < 180 days. Additional depreciation not eligible assuming Madhav is not engaged in manufacture or production.		(5,400)
<b>Income from business</b>		<b>7,58,700</b>

**B53. COMPREHENSIVE - Bhushan, engaged in manufacture of chemicals, furnishes his Manufacturing, .....**

*Computation of income chargeable under the head PGBP of Bhushan for AY 2022-23*

Particulars	Rs.	Rs.
Net profit as per Manufacturing, Trading and Profit and Loss account		8,90,000
Add: Expenses debited but not deductible:		
• Salary to daughter: Excess disallowed u/s 40A(2)	40,000	
• Factory rent to brother: Excess disallowed u/s 40A(2) = 1,20,000 – 96,000	24,000	
• Office rent paid without TDS: Since TO for preceding FY > 1 cr, Bhushan is liable to deduct TDS u/s 194-I, assuming payee is a resident. Hence, 30% of 2,10,000 is disallowed u/s 40(a)(ia), assuming payee has not paid the tax, if any, on such rent.	63,000	
• Cash payment to agriculturist for purchase of grains (raw material): Not disallowed u/s 40A(3) as covered by Rule 6DD exception.	-	
• Commission paid to purchase agent without TDS: Since TO for preceding FY > 1 cr, Bhushan is covered under TDS provisions of 194H on commission. However, no TDS is to be deducted u/s 194H since amount ≤ 15,000, being the threshold limit u/s 194H. Hence, no disallowance u/s 40(a)(ia).	-	
• Term loan interest not paid till due date of filing ROI: Disallowed u/s 43B	35,000	
• Demurrages to Indian Railways not paid till due date of filing ROI: Disallowed u/s 43B	30,000	
		1,92,000
Less: Incomes credited but not taxable under PGBP or taxable under other heads:		
• Agricultural income: Exempt u/s 10(1)	1,50,000	
• Dividend: Taxable under the head IFOS	75,000	
		(2,25,000)
Less: Depreciation :		
• For assets held on 1.4.2021 (assuming this is the block value as on 31.3.2022 as well)	45,000	
• Machinery purchased = Normal depreciation of 37,500 being 50% of 15% of 5,00,000 + Additional depreciation of 50,000 being 50% of 20% of 5,00,000. 50% depreciation as machinery is put to use < 180 days.	87,500	
		(1,32,500)
<b>Profits and gains of business or profession</b>		<b>7,24,500</b>

**B54. COMPREHENSIVE - Gopinath carries on business of retail trade in electronic items. Following is the Trading.....**

*Computation of income under the head PGBP for Gopinath for AY 2022-23*

Particulars	Rs.	Rs.
Net profit as per Trading and Profit & Loss account		39,80,000
Add: Expenses debited but not deductible:		
Deposit in PPF account: Personal expense; deduction can be claimed u/s 80C from gross total income	1,50,000	
Under valuation of closing stock	15,000	
Salary of 1,50,000 on which TDS deducted during PY but paid after due date to file ROI: 30% disallowed u/s 40(a)(ia) assuming employees are residents	45,000	
Gopinath's contribution to recognized provident fund: Not disallowed u/s 43B as paid on or before due date to file ROI	-	
Group health insurance premium: Not deductible u/s 36(1)(ib) as paid in cash	15,000	
Payment to BCD Pvt. Ltd.: Company is not related party as brother holds < 20% equity shares. No disallowance u/s 40A(2).	-	
Rent of office paid by crossed cheque: Disallowed u/s 40A(3) as sum > 10,000.	20,000	
Depreciation debited (deducted separately)	5,50,000	
Income-tax: Disallowed u/s 40(a)(ii)	50,000	
GST: Disallowed u/s 43B as paid after due date to file ROI	30,000	



STT: Not deductible u/s 36(1)(xv) as shares are not stock-in-trade	20,000	
Municipal taxes for house: Considered while computing IHP for let out property	10,000	
Penalty for contravention of GST law: Not deductible u/s 37(1) as it is not compensatory in nature but penal in nature	20,000	
Penalty for contravention of Income Tax law: Disallowed u/s 40(a)(ii)	10,000	
Interest on business loan taken from bank: Disallowed u/s 43B as paid after due date to file ROI	30,000	
Interest on business loan taken from friend: Allowed as 43B not applicable	-	
Interest on personal loan taken from neighbor: Not allowed as personal expenditure	5,000	
Mediclaime premium for self and spouse: Not allowed as personal expenditure; deduction can be claimed u/s 80D from gross total income	10,000	
Advertisement in pamphlet of political party: Disallowed u/s 37(2B)	5,000	
		9,85,000
<b>Less: Incomes credited but not taxable or taxable under other heads of income:</b>		
Dividend: Taxable under the head IFOS	40,000	
Interest on saving bank account: Taxable under the head IFOS	20,000	
Rent from house property: Taxable under the head IHP	2,40,000	
Under valuation of opening stock	20,000	
		(3,20,000)
<b>Less: Depreciation:</b>		
F&F Block = 10% of 3,00,000	30,000	
P&M Block 15% (machinery) = 15% of 15,00,000 (20,00,000 – 5,00,000)	2,25,000	
P&M Block 40% (computers) = 50% of 40% of 2,50,000 as put to use < 180 days	50,000	
Additional depreciation not allowed as Gopinath not engaged in manufacture or production or article or thing	-	
		(3,05,000)
<b>Profits and gains of business or profession</b>		<b>43,40,000</b>

**B55. COMPREHENSIVE - Pankaj, a resident, is engaged in the business of manufacturing food products in Delhi.....**

*Computation of income under the head PGBP for Pankaj for AY 2022-23*

Particulars	Rs.	Rs.
<b>Net profit as per Trading and Profit &amp; Loss account</b>		1,16,500
<b>Add: Expenses debited but not deductible:</b>		
Commission to employees @ 1% of 1.5 crore: Deductible u/s 36(1)(ii) but disallowed u/s 43B as paid after ROI due date	1,50,000	
Health insurance premium: Cash payment not allowed u/s 36(1)(ib)	15,000	
Keyman insurance premium: Allowed u/s 37(1)	-	
Municipal taxes of PY 2020-21: Allowed in PY 2021-22 in terms of section 43B since paid after ROI due date of PY 2020-21	-	
Municipal taxes of PY 2021-22: Disallowed u/s 43B as paid after ROI due date	15,000	
Depreciation: Computed separately	4,23,500	
Patent and know-how: Depreciation computed separately	4,50,000	
Interest on bank loan: Deductible u/s 36(1)(iii) for period after machinery first put to use but disallowed u/s 43B as paid after ROI due date	20,000	
Cash payment to transporter: Not disallowed u/s 40A(3) as ≤ 35,000	-	
Salary, material and equipment for scientific research related to business: Allowed in full u/s 35(1)(i) for revenue expenditure and u/s 35(1)(iv) for capital expenditure	-	
Donation to IIT for scientific research: Not allowed u/s 35(2AA) since program approved after payment	25,000	
Provision for payment to approved gratuity fund: Allowable u/s 40A(7) but disallowed u/s 43B to the extent paid after due date of ROI	1,40,000	
Provision for bad and doubtful debts: Not allowed u/s 36(1)(vii)	1,10,000	
		13,48,500
<b>Add: Incomes taxable but not credited:</b>		
Non compete fee: Taxable u/s 28(va)		3,00,000
<b>Less: Expenses not debited but deductible:</b>		
Wages not recorded for 4 months @ 5,000 p.m.		(20,000)

<b>Less: Incomes credited but not taxable or taxable under other heads of income:</b>		
Share of profit from firm: Exempt u/s 10(2A)	6,00,000	
Remuneration from firm: Not taxable to the extent disallowed for firm	80,000	
Winning from lottery: Taxable under the head IFOS	1,00,000	
Sale of machinery: Capital receipt; considered while computing depreciation	2,00,000	
Income-tax refund: Not taxable	60,000	
Insurance compensation for loss of raw material: Taxable u/s 41(1) assuming loss was deducted in PY 2020-21	-	
		(10,40,000)
<b>Less: Depreciation:</b>		
Land: Depreciation not allowed	-	
Machinery: WDV for depreciation = 10,00,000 WDV on 1.4.2021 – 2,00,000 sale of machinery = 8,00,000. Depreciation = 15% of 8,00,000. Assumed that machinery is entitled to 15% rate of depreciation and machinery sold forms part of this block. Interest on SBI loan is not added to actual cost since machinery already first put to use in PY 2020-21.	1,20,000	
Computers: WDV for depreciation = 4,50,000 WDV on 1.4.2021 + 30,000 purchased (20,000 cash payment not part of actual cost as > 10,000) – 10,000 sold = 4,70,000. Depreciation = 50% of 40% of 30,000 (as put to use < 180 days) + 40% of remaining 4,40,000	1,82,000	
Patent and know-how = 50% of 25% of 2,50,000 (as put to use < 180 days) + 25% of 2,00,000	81,250	
Additional depreciation: Not allowed on computers as installed in office; not allowed on patent and know-how	-	
		(3,83,250)
<b>Profits and gains of business or profession</b>		<b>3,21,750</b>

**B56. COMPREHENSIVE - CA2012(N) - Following is the profit and loss account of Mr. Q for the year ended 31.3.2022.....**

*Computation of income under the head PGBP of Mr. Q for the AY 2022-23*

Particulars	Rs.	Rs.
Net profit as per profit and loss account		93,950
<b>Add: Expenses not allowable</b>		
Expenses on laying a toilet roof – Capital expenditure – Not allowed u/s 37(1), depreciation allowed but it is ignored as per the question.	1,00,000	
Interest payable on which tax not deducted at source – Disallowed u/s 40(a)(ia) @ 30% assuming payment is made to a resident	15,000	
Penalty for contravention of GST Act – Not allowed u/s 37(1), since it is penal and not compensatory	24,000	1,39,000
<b>Less: Incomes not forming part of PGBP</b>		
Interest on company deposits – Taxable under the head IFOS <sup>1</sup>	6,400	
Income-tax refund (not income)	8,100	(14,500)
<b>Profits and gains of business and profession</b>		<b>2,18,450</b>

**B57. COMPREHENSIVE - MASTER QUESTION – Sunil, a resident, is a manufacturer of electronic equipments .....**

*Computation of income under the head PGBP of Sunil for the AY 2022-23*

Particulars	Rs.	Rs.
Net profit as per profit and loss account		10,00,000
<b>Add: Income taxable under the head PGBP but not credited:</b>		
Benefit of free car: Taxable u/s 28(iv) as benefit or perquisite arising from business	60,000	
Non-compete fee receipt from Z Pvt. Ltd.: Taxable u/s 28(va)	5,00,000	
Sum received under Keyman insurance policy: Taxable u/s 28(vi)	10,00,000	
Amount payable to Sure Ltd., deducted in PY 2019-20 but waived off in PY 2021-22: Taxable u/s	20,000	

<sup>1</sup> This may also be treated as business income on the assumption that interest is earned out of temporary surplus funds meant for business though not immediately required.

41(1)		
		15,80,000
<b>Add: Expenses debited but disallowed:</b>		
Rent of factory building: Allowed u/s 30		-
Loss of stock by fire: Allowed u/s 29 in view of general principles		-
Provision for contingent liability: Not allowed u/s 37(1) as expenditure not incurred	50,000	
Provision for gratuity (assuming it is not for payment to approved gratuity fund or for payment of gratuity payable during PY): Disallowed u/s 40A(7)	15,000	
Depreciation (considered separately)	2,00,000	
Transfer to reserve – Not allowed u/s 37(1)	1,00,000	
Insurance premium:		
• Office building – Allowed u/s 30		-
• Machinery and motor car – Allowed u/s 31		-
• Keyman insurance – Allowed u/s 37(1)		-
• Stock of goods – Allowed u/s 36(1)(i)		-
• Health insurance premium for employees – Not allowed u/s 36(1)(ib) since paid in cash	15,000	
Repairs:		
• Structural addition to building: Entitled to depreciation (considered separately) since Sunil deemed to be the owner of structure as per Explan 1 to S. 32(1).	1,00,000	
• Current repairs of furniture and fixtures: Not disallowed u/s 40A(3) since payment made to a person in a day in cash of Rs. 7,500 does not exceed limit of Rs. 10,000.		-
Employee cost:		
• Employee's contribution not credited to RPF by due date: Not allowed u/s 36(1)(va)	10,000	
• Employer's contribution to RPF paid beyond due date of filing ROI: Disallowed u/s 43B	5,000	
• Employer's contribution to NPS in excess of 10% of salary: Not allowed u/s 36(1)(iva) = 5% / 15% × 24,000. Assuming salary does not include anything other than basic salary, DA (if forming part of salary for computing retirement benefits) and commission based on fixed percentage of turnover.	8,000	
• Bonus: Disallowed u/s 43B since not paid till due date of filing ROI	1,00,000	
• Salary paid without TDS: 30% of 3 lakh disallowed u/s 40(a)(ia) since TDS not deducted in PY 2021-22 (assuming payees are residents). Disallowance will be reversed in PY 2022-23, i.e., PY in which tax is paid.	90,000	
Taxes:		
• Municipal taxes for factory: Not disallowed u/s 43B since paid by the ROI due date		-
• Local taxes for office: Disallowed u/s 43B since paid after ROI due date	5,000	
• Securities Transaction Tax: Not allowed u/s 36(1)(xv) since income from shares not taxable under PGBP as shares not held as stock-in-trade	5,000	
• Income tax: Tax as well as interest, disallowed u/s 40(a)(ii)	80,000	
• GST: Disallowed u/s 43B to the extent paid after ROI due date	10,000	
• GST penalty: Not allowed u/s 37(1) to the extent not compensatory	20,000	
• Tax on non-monetary perquisites: Disallowed u/s 40(a)(v)	10,000	
• Professional tax paid: Allowed u/s 37(1)		-
Scientific research expenditure:		
• Payment to JBL college for scientific research: Not allowed u/s 35(1)(ii) since not notified	30,000	
• Payment to National Laboratory: Allowed u/s 35(2AA) even if program withdrawn later		-
• In-house expenditure on equipment and salary: Allowed u/s 35(1) even if not certified. Certification is required only for pre-commencement revenue expenditure.		-
• Pre-commencement expenditure on scientific research: Expenditure incurred is eligible for deduction u/s 35, but in PY 2019-20 (year of commencement of business), not in the current PY. No impact since this is not debited to P&L		-
Interest:		
• Interest on loan from HDFC bank to purchase machinery: Interest of 8,000 till 31.10.2021 is added to actual cost (see <b>Note 1</b> ) and interest thereafter of 20,000 is deductible u/s 36(1)(iii) (assuming it is paid by the due date to file ROI in terms of section 43B).	8,000	
• Interest on loan from SBI: Payment on 15.11.2021 disallowed u/s 43B as made after due date of ROI	11,000	
• Interest on loan taken from friend: Not disallowed u/s 40A(2) (as friend is not relative) or u/s 40A(3) (as it does not exceed 10,000) or u/s 43B (as it is not covered by 43B)		-

• Interest on outstanding trade payables: Allowed u/s 37(1). S. 43B does not apply.	-	
<b>Bad debt:</b>		
• Trade recoverable written off: Deductible u/s 36(1)(vii) as bad debt assuming debt taken into account in computing income	-	
• Loan written off: Not deductible u/s 36(1)(vii) since debt not taken in computing income	10,000	
• Provision for bad debts: Not deductible u/s 36(1)(vii)	5,000	
<b>Legal expenses:</b>		
• To lawyer to defend civil suit against brother: Not allowed u/s 37(1) since not incurred for business of Sunil	40,000	
• To CA for appeal filing: Allowed u/s 37(1)	-	
<b>Sundry expenses:</b>		
• Damages for breach of contract due to supply of defective products: Allowed u/s 37(1)	-	
• Office celebration expenses: Allowed u/s 37(1)	-	
• Bribe paid: Not allowed u/s 37(1) since it is an offence/prohibited by law	5,000	
• Office expenses pertaining to PY 2020-21: Not allowed u/s 37(1) since does not pertain to current PY	15,000	
Advertisement expenses in brochure published by political party: Disallowed u/s 37(2B)	15,000	
Transport expenses paid to Swift Ltd.: Not disallowed u/s 40A(3) since limit for plying, hiring or leasing goods carriage is Rs. 35,000 u/s 40A(3)	-	
Fees for technical services paid to JKL Pvt. Ltd.: Disallowed u/s 40A(2) in excess of market rate (1,50,000 – 1,00,000) as Manav (relative) holds substantial interest ( $\geq 20\%$ equity shares) in the company. No disallowance u/s 40(a)(ia) for non-deduction of TDS since TDS not deductible u/s 194J as Sunil's turnover for FY 2020-21 $\leq 1$ crore (refer para 216).	50,000	
		10,12,000
<b>Less: Expenses allowed but not debited</b>		
Depreciation u/s 32 (Note 1)	3,65,344	
Amortization of preliminary expenses u/s 35D (Note 2)	25,000	
Amortization of VRS expenses u/s 35DDA (Note 3)	3,00,000	
		(6,90,344)
<b>Less: Income credited but not taxable or taxable under other heads of income</b>		
Compensation for termination of business contract: Taxable u/s 28(ii)	-	
Profit on sale of import license: Taxable u/s 28(iii)	-	
Dividend from companies: Taxable under the head IFOS	20,000	
Payments from Sunil & Sushil, partnership firm:		
• Salary and interest: Exempt to the extent disallowed in the hands of the firm (Note 4)	29,000	
• Share of profit: Exempt u/s 10(2A)	50,000	
<b>Sundry receipts:</b>		
• Amount recovered for bad debts deducted earlier: Taxable u/s 41(4) even if business does not exist = Excess of recovery of 20,000 over difference of Nil (i.e., Amount of debt 50,000 – deduction u/s 36(1)(vii) 50,000) = 20,000. Already credited to P&L.	-	
• Interest on Bank FD: Taxable under the head IFOS	20,000	
• Medical insurance claim: Not income	50,000	
• Refund of excise duty allowed as deduction earlier: Taxable u/s 41(1)	-	
• Receipt from sale debtors after discontinuance of business: Not taxable again u/s 176 assuming that the sum would have been included in the income in the relevant PY when it accrued since Sunil follows mercantile system of accounting	50,000	
		(2,19,000)
<b>Profits and gains of business or profession</b>		<b>26,82,656</b>

**Is Sunil required to keep and maintain books of account as prescribed by Rule 6F for PY 2021-22?**

No, since Rule 6F makes prescription for a specified profession and not for a business. However, since turnover of business of Sunil has exceeded Rs. 25 lakh in one or more of the 3 preceding PYs, he is required to maintain such books and documents as may enable the AO to compute his total income, as per provisions of section 44AA.

**Is Sunil required to get audit of his accounts done u/s 44AB for AY 2022-23?**

No, since turnover for PY 2021-22 does not exceed Rs. 1 crore.

**Notes:****1. Computation of depreciation**

Computation	Building (Block @ 10%)	P&M (Block @ 15%)	P&M (Block @ 40%)	Furniture (Block @ 10%)	License (Block @ 25%)
WDV as on 1.4.2021	20,00,000	3,00,000	-	2,00,000	-
Add: Actual cost of assets acquired during PY					
• Second hand motor car (put to use < 180 days): 2,00,000 - 20,000 ITC allowed assuming GST is included in cost.		1,80,000			
• New machine (put to use < 180 days). 2,92,000 + 8,000 interest on loan from HDFC bank to purchase machine for period till it is first put to use		3,00,000			
• Furniture (put to use ≥ 180 days): 30,000 - 15,000 paid in cash (as > 10,000) + 10,000 freight & installation paid in cash (not disallowed as ≤ 10,000).				25,000	
• License (put to use ≥ 180 days)					1,00,000
• Structure to building added (put to use ≥ 180 days): Sunil is deemed owner and entitled to depreciation	1,00,000				
• Computer gifted (put to use ≥ 180 days) (refer (d) below)			30,000		
• Machine purchased from USA – Adjustment u/s 43A (refer (e) below)		(3,375)			
Less: Moneys payable for assets sold during PY		(75,000)		(10,000)	
WDV (as on 31.3.2022) for depreciation	21,00,000	7,01,625	30,000	2,15,000	1,00,000
Less: Normal depreciation					
• Building @ 10% of 21,00,000	(2,10,000)				
• 15% P&M: [50% of 15% of 4,80,000] + [15% of remaining 2,21,625]		(69,244)			
• 40% P&M: 80% of 40% of 30,000. 20% disallowed for personal use.			(9,600)		
• 10% F&F: 10% of 2,15,000				(21,500)	
• 25% intangibles: 25% of 1,00,000					(25,000)
Less: Additional depreciation @ 50% of 20% of actual cost of new machinery of Rs. 3,00,000 (refer (f) below)		(30,000)			
<b>Total depreciation = Rs. 3,65,344</b>					

- Since rate of depreciation for plant and machinery is not specified in the question, 15% general rate of depreciation is assumed for plant and machinery (except computer which is entitled to 40% rate).
- Machine purchased on 1.3.2021: 50% depreciation limit for put to use < 180 days is only applicable in year of acquisition. Hence, full depreciation allowed for PY 2021-22.
- Plot of land: Depreciation not allowed.
- Computer gifted: Actual cost is actual cost to previous owner less depreciation allowable as if asset was the only asset in the block = 50,000 less 40% depreciation for PY 2020-21 = 30,000. Market value is not relevant.
- There is foreign exchange rate gain on payment of 75% of purchase price of machinery on 20.4.2021, that was purchased from USA, i.e.,  $(75 - 72) \times 1,125 \text{ USD} = \text{Rs. } 3,375$ . The machine was added to the block for PY 2020-21 and it is, thus, a part of the block for PY 2021-22. This gain will be reduced from actual cost u/s 43A.
- Addition depreciation is not allowed on building structure, motor car, computer, furniture and license. Also, not allowed on machine purchased on 1.3.2021 (on the basis of 50% remaining from PY 2020-21) since it was installed in office.

**2. Amortization of preliminary expenses u/s 35D**

- Cost of project = Actual cost of fixed assets (L&B, leaseholds, P&M, F&F and railway sidings) as per books on last day of First PY, i.e., as on 31.3.2020 = Rs. 25 lakh

- Specified expenditure = Rs. 1,00,000 (market survey by approved concern) + Nil (engineering services by unapproved concern not eligible) + 50,000 (project report preparation by self) = Rs. 1.5 lakh
- Eligible expenditure cannot exceed 5% of cost of project = Rs. 1,25,000
- Amortization in 5 equal instalments from PY 2019-20 to PY 2023-24 = Rs. 25,000

**3. Amortization of VRS expenses u/s 35DDA**

- Payment of Rs. 10 lakh on 1.9.2019: Rs. 2 lakh deductible from PY 2019-20 to 2023-24
- Payment of Rs. 5 lakh on 1.9.2020: Rs. 1 lakh deductible from PY 2020-21 to 2024-25
- Deduction for PY 2021-22 = Rs. 3 lakh

**4. Payments from Sunil & Sushil, partnership firm**

Payment	Deductible for firm	Not deductible for firm
Salary	First 3 lakh of book profit: Higher of 1,50,000 or 90% of book profit = 2,70,000 Balance 2 lakh of book profit: 60% of 2,00,000 = 1,20,000 Total deductible: 3,90,000	4,40,000 – 3,90,000 = 50,000 50% attributed to Sunil, i.e., 25,000
Interest	@ 12%, i.e, $12/15 \times 20,000 = 16,000$	20,000 – 16,000 = 4,000

# TAXBOOK<sup>+</sup>

## Hints to solutions

### Profits and Gains of Business or Profession

MCQ

#### INCOMES CHARGEABLE AS PGBP

**M3. Priya received compensation of Rs. 1 crore for premature termination of agency contract. She claims .....**

Taxable under PGBP u/s 28(ii)

**M4. Chelmsford Club has received Rs. 25 lakh as annual fee from its members during the PY 2021-22. The club.....**

Not taxable on principle of mutuality. 28(iii) not applicable as income not from specific services rendered to members.

**M5. A Chartered Accountant availed of a fully paid trip to Australia hosted by his client. The client provided .....**

U/s 28(iv) – Benefit or perquisite arising from B/P

**M6. Mr. Scientist developed a patented formula to manufacture packaged fruit juice. Rasna Ltd. paid .....**

Taxable as PGBP – non compete fee u/s 28(va)

**M7. Swiggy Ltd. took a Keyman insurance policy on the life of its COO. It paid premiums every year as per .....**

Premium deductible u/s 37(1); payment received taxable u/s 28(vi)

**M8. Shyam, a farmer, earned taxable business income of Rs. 1 lakh and exempt agricultural income of Rs. 2 lakh .....**

1L business income + 1L expenditure wrongly deducted

#### DEDUCTIONS FOR ASSETS

**M11. Radhey carries out manufacturing operations in a rented factory premises. During the PY 2021-22.....**

10,000 local taxes + 3,00,000 rent + 10,000 premium + 20,000 repairs + Nil construction - 50,000 rent = 2,90,000

**M12. Rohit carries out manufacturing operations using plant and machinery taken on hire for Rs. 1,20,000 for.....**

1,20,000 rent + 10,000 + insurance + 20,000 repairs = 1.5L - 25% deduction for asset not used in business of Rohit .

**M17. Which of the following is not entitled to 40% rate of depreciation?**

25% rate for know-how

**M18. On sale of asset, moneys payable is to be reduced from the WDV to the full extent even if the WDV.....**

WDV cannot become negative

**M22. Jagan started his business on 1.10.2021 by acquiring the following assets: Land for Rs. 30 lakh, building.....**

Land NO + Building 50L + License and know-how 20L + Machines on lease NO + Books 30,000 + Furniture on rent NO

**M23. Jagan purchased 10 equipments of Rs. 50,000 each on 14.6.2021 for his production business, entitled.....**

WDV for depreciation = 5 items 2,50,000 put to use  $\geq$  180D + 2 items NO as not put to use + 1 item NO as personal use + 1 item 50,000 put to use  $<$  180D + 1 item not unboxed NO as not put to use = 3,00,000. Dep = 50% of 15% of 50,000 + 15% of 2,50,000 = 41,250

**M24. BSL Ltd., a power undertaking, following SLM method of depreciation, purchased a machine for .....**

Full dep already allowed till PY 2020-21 @ 25% for 4 years.

**M25. Rahul commenced his business on 12.7.2021 by acquiring the following assets: Office building for .....**

Building @ 10% 3,00,000 + furniture @ 10% 1,00,000 + computer/software/books @ 40% 1,08,000 + intangible @ 25% 1,25,000 = 6,33,000

**M26. Raju acquired two machines for Rs. 60,000 each on 1.2.2021. The first machine was put to use .....**

Opening WDV = 1,15,500 (1,20,000 – 4,500 50% dep on 1 machine put to use < 180D). WDV for depreciation = 1,15,500 opening WDV – 40,000 sale = 75,500. Dep @ 15% on 75,500 = 11,325.

**M28. Which of the following expenses incurred in connection with acquisition of the asset does not form.....**

Limit of 35,000 for transporters u/s 40A(3) not applicable here

**M29. Mr. Z, a retailer, acquired furniture on 10.5.2021 for Rs. 10,000 in cash and on 15.5.2021 for.....**

Actual cost = 10,000 cash + NO bearer cheque (as > 10,000) + 20,000 a/c payee cheque = 30,000. 10% depreciation.

**M30. An assessee purchases a machine worth Rs. 80,000 on 5.9.2021 and makes the payment of.....**

45,000 a/c payee cheque + Cash NO + Bearer cheque NO

**M31. The WDV of a block (plant and machinery, rate of depreciation 15%) as on 1.4.2021 is Rs. 3,20,000.....**

WDV for dep = Opening WDV 3,20,000 + machinery 50,000 (put to use < 180D) – sale 2,00,000 = 1,70,000. Depreciation = 50% of 15% of 50,000 + 15% on 1,20,000 = 21,750

**M32. Sumit acquired life saving medical equipment of Rs. 10 lakh during the PY 2021-22. It was ordered.....**

Actual cost = 10,00,000 cost + 20,000 (interest till first put to use) + 10,000 (not disallowed as ≤ 10,000) + Installation NO (> 10,000) + GST with ITC allowed NO – 5,00,000 subsidy – 1,00,000 bearer cheque (as > 10,000) = 4,30,000. Dep = 50% of 40% of 4,30,000 as put to use < 180D = 86,000.

**M35. Mr. Shine, engaged in manufacture of computers, purchased machinery A, B and C on 5.9.2021 .....**

Normal dep = 15% of 3,00,000 = 45,000. Addl dep = 20% on 1,00,000 for machine C = 20,000.

**M36. Spark Ltd, a power company, following WDV method of depreciation, acquired Machine A on 5.3.2021.....**

Machine A (remaining 10% from PY 2020-21) 10,000 + Machine B 20% 20,000 + NO on furniture and patent = 30,000.

**M37. Madhav, a retail trader in electronic items, acquired and installed a machine costing Rs. 1 lakh in his.....**

Not engaged in manufacture or production

**M38. BSES Ltd., following SLM method of depreciation, purchases a machine on 15.3.2022 for use in the .....**

50% normal dep as put to use < 180D; no addl dep for power undertaking following SLM method

**M40. Rambo imported machinery on 1.8.2020 for USD 10,000 from the USA using loan of Rs. 5 lakh taken.....**

43A not applicable as entire payment made upon purchase. Dep for PY 2020-21 = 15% of 7,50,000 = 1,12,500. WDV on 1.4.2021 = 6,37,500. Dep for PY 2021-22 = 15% of 6,37,500 = 95,625.

**M41. Rambo imported machinery on 1.8.2020 for USD 10,000 from the USA by paying 25% of the price upfront.....**

Section 43A applies. PY 2020-21 dep = 15% of 7,50,000 = 1,12,500. WDV on 1.4.2021 = 6,37,500. Gain = 2 USD for 7,500 USD = 15,000. Adjusted WDV = 6,22,500. Dep for PY 2021-22 = 15% of 6,22,500 = 93,375.

**M42. Sumit acquired a building for Rs. 15 lakh in June 2019, in addition to the cost of Rs. 3 lakh in respect.....**

Actual cost = Actual cost – Dep allowable since acquisition (at current rate). Closing WDV of PY 2019-20 = 15,00,000 – 10% = 13,50,000; for 2020-21 = 13,50,000 – 10% = 12,15,000. Dep for PY 2021-22 = 10% of 12,15,000 = 1,21,500.

**M43. Jay gifted his personal laptop to Viru on 10.4.2021. This was purchased by Jay on 15.4.2019 for Rs. 30,000.....**



Actual cost = Actual cost to previous owner – Dep allowable if asset only asset in block. For 2019-20: 30,000 – 12,000 (40% dep) = 18,000. For 2020-21: 18,000 – 7,200 (40% dep) = 10,800. For 2021-22 40% of 10,800 = 4,320

**M44. Sunil purchased a laptop on 10.4.2019 for Rs. 30,000, sold it to Sahil on 10.4.2021 for Rs. 5,000 and.....**

AC is lower of (a) original cost – dep as if asset only asset in block, i.e., 2021-22 opening WDV of 10,800 or (b) 30,000 reacquired = 10,800. Dep @ 40% = 4,320.

**M45. Mr. King earned composite agricultural income from tea business. He purchased his first machinery.....**

PY 2020-21: 1,00,000 – 15,000 dep = 85,000 closing WDV. Dep for PY 2021-22 = 15% of 85,000 = 12,750.

**M49. Gupta ji commenced business of fertilizer production in India on 20.4.2021. He had acquired plot of .....**

35AD = Land NO + 40L factory + 2<sup>nd</sup> hand imported machine 5L + Furniture NO (cash payment > 10,000) = 45L

**M50. Sharma ji carries on the business of operating a one-star hotel in Delhi. During the year he incurred .....**

No 35AD as hotel is not 2 star or above. Dep = 50% of 10% of 5,00,000 (as put to use < 180D) = 25,000.

**M51. Jaguar Pvt. Ltd., engaged in warehousing business, sold a building for Rs. 50 lakh during the PY 2021-22.....**

Sum received/receivable taxable u/s 28(vii) if 35AD asset is transferred.

**M52. Jaguar Pvt. Ltd, engaged in warehousing business, transferred a building to its retail business on.....**

Taxable income for PY 2021-22 = 50L 35AD deduction – Dep allowable of 5L @ 10% for PY 2020-21 = 45L. Actual cost = 50L – 5L dep = 45L. Dep for PY 2021-22 = 10% of 45L = 4.5L.

**M53. Jaguar Pvt. Ltd, engaged in cold chain business, transferred a machinery to its retail business.....**

No taxable income since transfer from specified to non specified business after 8Y period. No dep as actual cost is Nil.

## AMORTIZATION

**M55. Mr. Rajput, a resident, set up a new manufacturing unit during PY 2021-22 for which he incurred.....**

Eligible expenditure = 5L + Feasibility report NO (as concern unapproved) = 5L. Limit = 5% of cost of project of 80 lakh = 4L. Deduction u/s 35D per year is 4L/5 = 80,000

**M57. Expenditure under voluntary retirement scheme is deductible in 5 equal instalments starting from.....**

From year of payment

**M58. Seva Ltd. launched a voluntary retirement scheme for its employees during PY 2016-17. Total .....**

NO for 2016-17 as 5 instalments over; 2L each (1/5<sup>th</sup>) for 2017-18 and 2018-19 = 4L.

## EXPENDITURE FOR SPECIAL PURPOSES

**M61. Rain Pvt. Ltd. made the following donations during the PY 2021-22: Rs. 20,000 to Gyan University.....**

20,000 Gyan university + NO Sudha college (not notified) + German company NO (not regd in India) + 15,000 IIT = 35,000.

**M62. M/s Science & Co. commenced its business of medicines on 1.4.2021. From 1.4.2019 to 31.3.2021,.....**

U/s 35 = 2L (40% of 5L) + 6L + Land NO + 10L equipment = 18L.

**M64. Mr. Y purchased a machine for Rs. 3 lakh on 10.4.2019 on which full deduction was allowed u/s 35.....**

Lower of 1L sale proceeds or 3L deduction u/s 35

## INTEREST

**M66. Raju paid interest on loan taken to purchase a machine which was put to use on 10.8.2021 (interest.....**

Interest till 10.8.2021 capitalized. Out of balance of 30,000, 4,000 not allowed u/s 43B.

**M67. Rajnish took a business loan from a firm, in which his wife held 50% profit share, @ 20% interest .....**

Wife's firm 45,000 (@15%; 5% disallowed u/s 40A(2); 43B not applicable) + Creditors 30,000 (43B not applicable) + Personal loan NO = 75,000.

**M68. Danny took loan of Rs. 1 crore from a NBFC for business purposes, in respect of which interest of .....**

Entire interest allowed. No disallowance u/s 43B as paid by ROI date.

**M69. Raj Dhan Bank, a scheduled bank, issued 20,000 notified zero coupon bonds on 10.10.2021 at issue .....**

Discount = 20,000 bonds @ 50 = 10,00,000; Life = 36 months (Oct 21 taken as 1 month; Oct 24 ignored); Discount p.m. = 10,00,000 / 36 = 27,778. Discount for PY 2021-22 for 6 month (Oct to Mar) = 1,66,668

## EMPLOYEE WELFARE

**M75. Zydus Ltd. incurred the following employee welfare cost during PY 2021-22: Group health insurance .....**

Health premium 1L + Commission NO as paid in guise of dividend + Zydus EPF contribution 2L + Employee EPF contribution NO as paid after fund due date = 3L.

## TAXES

**M78. For the PY 2021-22, Jacky, a dealer in commodities, paid CTT of Rs. 10,000. He further paid STT of .....**

CTT 10,000 + STT NO as shares not stock-in-trade + Income tax, interest, penalty NO + GST NO as disallowed u/s 43B + compensatory penalty 4,000, rest NO = 14,000.

**M80. Refund of income-tax and GST (allowed deduction when paid) is taxable as business income.**

GST refund taxable u/s 41(1)

## SPECIAL DEDUCTIONS

**M83. Rohit sold goods to Mohit in PY 2020-21 for Rs. 3 lakh out of which he wrote off Rs. 1 lakh during .....**

Mohit 1L bad debt u/s 36(1)(vii) + Shobhit 50K loss u/s 29 + Friend NO since not related to business = 1.5L

**M84. Gaurav, a money lender, advanced loan of Rs. 10 lakh to Saurav on 15.5.2019 to help him meet a.....**

Interest deductible as bad debt. Principal also deductible since Gaurav is money lender.

**M85. Gaurav, a manufacturer, advanced Rs. 1 lakh to Saurav on 15.3.2021 towards purchase of plant and machinery.....**

It is capital loss as it is not on revenue account. Not deductible.

**M86. Green Ltd. sold goods to Mr. Z for Rs. 1 lakh during PY 2019-20. It wrote off Rs. 30,000 during PY .....**

Debt 1,00,000 – Deduction u/s 36(1)(vii) 30,000 = 70,000. Deficiency (recovery 20,000 – 70,000 shortfall) is deductible.

**M87. Red Ltd. manufactured and sold medical equipment to Mr. K for Rs. 1 lakh during PY 2019-20. It .....**

Debt 1,00,000 – Deduction u/s 36(1)(vii) 30,000 = 70,000. Excess recovery of 20,000 (90,000 – 70,000) taxable even if business ceased to exist.

**M89. Sharma & Sons, paid Rs. 1 lakh to each of the 3 partners as remuneration for PY 2021-22 in terms.....**

Limit u/s 40(b): First 3L = 2.7L; next 2L = 1.2L = 3.9L. Thus, entire remuneration deductible.

**M90. M/s Thakur & Sons paid Rs. 11 lakh as remuneration to its partners. The same was in accordance.....**

Book profit = 37,00,000 – 1,30,000 interest = 35,70,000. Limit u/s 40(b) = First 3,00,000 is 2,70,000; next 32,70,000 is 19,62,000 = 22,32,000. Entire remuneration deductible.

**M91. M/s Ram & Shyam paid Rs. 1.5 lakh each to both its partners as remuneration. Further, it paid .....**

Book Profit = 1L + 3L remuneration = 4L. Limit u/s 40(b) = First 3L is 2.7L, next 1L is 60,000 = 3.3L. PGBP = 1L, since entire interest/remuneration is deductible.

**M92. M/s Krishan & Co. paid salary of Rs. 3 lakh each to its two partners, Krishna and Balaram. It also paid.....**

Salary allowed to firm u/s 40(b) on 5L book profit = 2.7L + 60% of 2L = 3.9L (1.95L each).

Interest allowed to firm @12% is 1.2L.

Krishna = Salary 1.95L + Profit share exempt = 1.95L.

Balaram = 1.95L salary + 1.2L interest + Profit share exempt = 3.15L

**M92a. JK & Co, a partnership firm, paid Rs. 1,50,000 each as remuneration to its working partners, A, B and C. It also.....**

Book Profit = Net loss (-) 80,000 + 4,50,000 remuneration = 3,70,000. Remuneration deduction u/s 40(b) = 3,12,000.  $\frac{1}{3}^{\text{rd}}$  for B = 1,04,000.

## GENERAL DEDUCTION

**M96. During the PY 2021-22, Roma availed loan of Rs. 20 lakh from SBI to purchase raw material and paid.....**

Interest on bank loan (post 43B disallowance of 1,00,000) 1,00,000 + 20,000 loan charges + advertisement NO as disallowed u/s 37(2B) + Depreciation 40,000 (@ 40% of 1L assuming these are the only assets in the block) = 1,60,000.

**M97. Shine Pvt. Ltd. incurred the following expenditure on its employees for the PY 2021-22: Salary of .....**

Salary 50,00,000 + Health premium 1,00,000 + Employee's EPF contribution 1,00,000 + Own EPF contribution NO (disallowed u/s 43B) + Gratuity NO (as paid out of AGF, contribution to which would already have been allowed as deduction) + Tax on salary is not a separate expenditure; already deducted as part of salary = 52,00,000

**M98. Play Pvt. Ltd. spent Rs. 1.5 lakh during the PY 2021-22 on CSR expenses required under the Company Law.....**

CSR NO (disallowed) + Embezzlement loss deductible u/s 29 1,00,000 + Donation for SR not allowed u/s 35 as program not approved NO + Interest 50,000 allowed u/s 37(1) = 1,50,000.

**M99. Mr. Roy, carrying on agency business, incurred expenditure of Rs. 20,000 during the PY 2021-22 towards.....**

Advertisement 20,000 + Celebrations 10,000 + Training 20,000 + Professional tax 2,500 + Income tax disallowed NO + Last year expenditure not allowed NO = 52,500.

## EXPENSES NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES

**M100. 30% of expenditure is disallowed in year of incurrence u/s 40(a)(ia) if:**

Disallowance in PY of incurrence of expenditure but disallowance reversed in PY in which payee files ROI

**M103. Gita pays rent of Rs. 1 lakh to Rohan, a resident, on 5.1.2022 (tax is deductible u/s 194-I) without.....**

30% disallowed for PY 21-22 u/s 40(a)(ia) but allowed in PY 22-23, i.e., PY in which paid.

**M104. Sita incurs expenditure of Rs. 1 lakh as fees for technical services and makes the payment to Mita (a resident).....**

TDS deducted in PY 21-22 but paid after ROI date. 30% disallowed in PY 21-22 but allowed in PY 22-23.

**M105. JP Ltd. credits a sum of Rs. 45,000 as commission to Z Ltd., an Indian company, on 25.6.2021 without.....**

30% allowed for AY 2023-24 in which ROI filed (PY 2022-23). For AY 2022-23, 70% allowed in view of 40(a)(ia).

**M106. Mr. Sweet credited interest of Rs. 1 lakh to the account of Ms. Sweety (a resident) on 15.3.2022 without.....**

No disallowance u/s 40(a)(ia) as tax not deductible

**M107. Salary payable in India to a non-resident is disallowed if tax has not been paid nor deducted therefrom.**

U/s 40(a)(iii)

**M108. Manas has paid interest of Rs. 30,000 on a business loan taken from Flight Ltd. in which his sister holds.....**

Excess disallowed u/s 40A(2)

**M109. Shubham pays office rent of Rs. 3 lakh to M/s Shekhar & Co., owner of the building. Shekhar.....**

Shekhar is relative but he does not hold substantial interest in firm (< 20% profit share). 40A(2) not applicable

**M110. Shyamal pays interest of Rs. 5 lakh for PY 2021-22 on business loan taken from a deposit-taking .....**

Wife is relative with substantial interest in NBFC. 3L disallowed u/s 40A(2). 2L deductible in PY of payment u/s 43B as it is paid to deposit taking NBFC after due date of ROI.

**M113. Mr. Garg made the following payments during the course of PY 2021-22, each on a particular day.....**

Railways 20,000 (payment to Govt covered by R. 6DD) + Farmer 15,000 (covered by R. 6DD) + Wheat trader NO (not covered by R. 6DD) + Gratuity 40,000 (terminal benefit ≤ 50,000 covered by R. 6DD) = 75,000.

**M114. Mr. Dhiman booked expenditure of Rs. 30,000 towards purchase cost of raw material on 15.12.2020 and.....**

12,000 in cash is taxable as deemed profits u/s 40A(3).

**M115. Raju, following mercantile system of accounting, incurred an expenditure of Rs. 45,000 during .....**

Deemed profit u/s 40A(3)

**M118. Jagriti Pvt. Ltd. took a term loan from Bank of Baroda in respect of which the outstanding interest .....**

FITL deductible on payment in terms of section 43B.

**M119. GST payable by Rashmi for the month of March 2022 became payable under the GST law in April 2022.....**

Liability incurred in PY 21-22 though statutorily payable in PY 22-23. Deductible in PY 2021-22 as paid by ROI due date.

**M120. M/s Jagriti Group, a proprietorship firm following cash system of accounting, incurred the following.....**

Customs – Not an expense of PY 2021-22 as paid in PY 2022-23. Income tax not allowed u/s 40(a)(ii)..

## SPECIAL PROVISIONS

**M121. Any amount recovered against a deduction already made in an earlier PY is:.....**

U/s 41(1)

**M122. Mr. P received refund of GST on 20.12.2021 amounting to Rs. 20,000 in respect of payment of .....**

U/s 41(1)

**M123. Mr. J paid Rs. 10,000 on 15.4.2021 in full and final settlement of a disputed bill of Rs. 50,000 for.....**

40,000 will be taxable u/s 41(1)

**M124. Mr. R purchased raw material from Mr. S during PY 2019-20 for Rs. 1 lakh but did not make any payment.....**

Unilateral write off taxable u/s 41(1)

**M125. Rise Pvt. Ltd., carrying businesses in Units A and B, made payment of Rs. 1 lakh during PY 2019-20.....**

A – Taxable u/s 41(1) even if B/P for which deduction made does not exist.

B – Taxable u/s 41(1) in hands of successor.

C – Taxable u/s 176 in hands of recipient.

**M126. If any business or profession is discontinued in any year, any sum received after the discontinuance.....**

Taxable u/s 176

**M128. Housing Pvt. Ltd., a real estate developer, sold a building on 16.9.2021 for Rs. 50 lakh costing.....**

SDV of 60L taken as consideration u/s 43CA as it is > 110% of 50 lakh. SDV on date of agreement not taken as down payment not made by specified mode. Profit = 60L – 20L.

**M129. DLF builders sold a plot of land on 15.9.2021 for Rs. 50 lakh. AO substituted the value of consideration.....**

DVO value taken u/s 43CA as it is ≤ SDV

## COMPLIANCE

**M131. Who is required to maintain books prescribed by Rule 6F?.....**

Engineer, being specified profession, has GR > 1.5L in all 3 preceding PYs.

**M132. Who is not required to maintain any books of accounts u/s 44AA?.....**

Wholesale trader not having income from business > 2.5L or TO > 25 lakh in any one of 3 preceding PYs

**M133. Kamya, a lawyer, has started her practice on 10.12.2021 and she estimates that the gross receipts.....**

Since GR will not exceed 1.5L for PY 2021-22

**M134. M/s Rohan & Co, a partnership firm, carries on real estate business. It's income from business for.....**

TO is > 10L in any one of 3 preceding PY

**M138. Mr. Merchant, carrying on transport business, has clocked a turnover of Rs. 3 crore for PY 2021-22.....**

Cash payment > 5% of total payments. 1 Cr limit applies

**M139. Mr. Dude, carrying on profession of a sports coach, has clocked gross receipts of Rs. 55 lakh for PY 2021-22.....**

GR > 50 lakh. % of transactions in cash mode is not relevant.

## PRESUMPTIVE INCOME FOR SMALL ENTERPRISES

**M143. Raj is a resident and ordinarily resident for PY 2020-21 and resident but not ordinarily resident for .....**

8% of 10L + 6% of 90L = 6,20,000

**M144. M/s PQR, an eligible assessee, following mercantile system of accounting and carrying on eligible.....**

6% of 50L (received by a/c payee cheque/draft: 25L during PY + 25L before ROI date) + 8% of 80L = 9,40,000

**M146. Srishti, a Chartered Accountant, has gross receipts for the PY 2018-19 to 2021-22 of Rs. 60 lakh.....**

44ADA applies as GR ≤ 50L for PY 2021-22. Presumptive income = 50% of 40L.

**M150. Roxy & Co. is a transporter owning 8 goods carriages having gross vehicle weight of 10 ton each.....**

Carriages are non-HGV. 9 carriages for 12 months; 1 carriage for 3 months; 1 carriage for 9 months. All @ 7,500 p.m. per carriage = 8,10,000 + 22,500 + 67,500 = 9,00,000

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Capital Gains

#### Build Your Confidence (BYC)

#### CHARGEABILITY

**B1. CAPITAL ASSET – Examine whether the following are capital assets.**

#	Asset	Capital asset?	Remarks
1	Furniture and fixtures in office	Yes	Property of any kind
2	Raw material used to manufacture goods	No	Raw material
3	Building held as stock-in-trade by a real estate dealer	No	Stock-in-trade
4	House let out on rent by a lawyer	Yes	Not personal effect
5	Flat owned by a doctor but lying vacant	Yes	Not personal effect
6	Finished goods for sale	No	Stock-in-trade
7	Laptop for personal use	No	Personal effect
8	Precious work of art put up at residence	Yes	Not personal effect
9	Gold jewellery studded with precious stones	Yes	Not personal effect
10	Mobile phone used by assessee	No	Personal effect
11	Television, household appliances and furniture at home used by family	No	Personal effect
12	Copyright held by an author of books	Yes	Property of any kind
13	Barren land in rural area	Yes	Not agricultural land
14	Agricultural farm in a rural area of Nepal	Yes	Not in India

**B2. CAPITAL ASSET – AGRICULTURAL LAND – Rajesh carries out agricultural activities on a plot of land. Determine whether capital gains will arise on sale of land in the following cases.**

#	Distance (aerial) of land from local limits of municipality or cantonment board	Population of municipality or cantonment board as per last census	Capital asset?	Capital gain on sale?
1	0	8,000	No	No
2	2	9,000	No	No
3	1.5	12,000	Yes	Yes
4	2.5	20,000	No	No
5	0	80,000	Yes	Yes
6	5.5	1,25,000	Yes	Yes
7	10	9,00,000	No	No
8	7.5	15,00,000	Yes	Yes
9	8.5	25,00,000	No	No

**B3. TRANSFER – Gopi undertook the following transactions during the PY 2021-22. Whether he would be liable to capital gain on these transactions?**

#	Case	Transfer?	Comment
1	He sold a residential house to his colleague for Rs. 50 lakh	Yes	Sale
2	He transferred a machine in return for another machine	Yes	Exchange
3	He surrendered tenancy rights for Rs. 10 lakh	Yes	Relinquishment
4	He received Rs. 5 lakh on redemption of Zero Coupon Bonds of BCD Ltd.	Yes	Redemption of Zero Coupon Bond
5	His land was acquired by UP Government for construction of	Yes	Compulsory acquisition

	expressway		
6	He brought his personal jewellery into his jewellery retail business as stock-in-trade	Yes	Conversion of capital asset to stock-in-trade
7	He gave possession of a house to Mr. Z in terms of a written agreement to sell pursuant to which Mr. Z paid the sale consideration, although the transfer was pending registration in favor of Mr. Z.	Yes	Transfer allowing possession of immovable property in part performance of contract u/s 53A of TOP Act

**B4. TYPE OF CAPITAL ASSET – Determine whether capital gain arising in the following cases would be STCG or LTCG for AY 2022-23?**

#	Case	Holding period	Type
1	Z purchases a house property on 1.4.2020 and sells on 15.10.2021	Not more than 24 months	STCG
2	Z purchases equity shares of Reliance Ltd, listed on BSE, on 1.4.2020 and sells on 15.10.2021	More than 12 months	LTCG
3	Z purchases units of Axis Equity Fund, which invests 85% in equity shares, on 1.4.2019 and sells on 15.10.2021	More than 12 months	LTCG
4	Z purchases units of Reliance Equity Fund, which invests 25% in equity shares, on 1.4.2019 and sells on 15.10.2021	Not more than 36 months	STCG
5	Z purchases gold coins on 1.4.2018 and sells them on 15.10.2021	More than 36 months	LTCG
6	Z purchases shares of PQR Pvt. Ltd., an unlisted company, on 1.4.2019 and sells on 15.10.2021	More than 24 months	LTCG
7	Z purchases shares of Google, listed on NYSE in the USA, on 1.4.2020 and sells on 15.10.2021	Not more than 24 months	STCG
8	Z purchases debentures (not listed) of ABC Ltd on 1.4.2020 and sells on 15.10.2021	Not more than 36 months	STCG
9	Z purchases unquoted units of UTI on 1.4.2020 and sells on 15.10.2021	More than 12 months	LTCG
10	Z purchases Zero Coupon Bonds of an eligible corporation on 1.4.2020 which were redeemed after a period of 18 months.	More than 12 months	LTCG

**B5. COA, COI – Determine the cost of acquisition and cost of improvement that will be taken into account .....**

*Computation of COA and COI*

Particulars	COA	COI
Cost paid to seller on purchase	10,00,000	
Brokerage paid to agent @ 1%	10,000	
Registration charges @ 5%	50,000	
	10,60,000	
COA = Higher of 10,60,000 or 12,00,000 (FMV on 1.4.2001 which can't exceed SDV on this date)	12,00,000	
Construction of second floor on 1.3.2000: Not included as incurred before 1.4.2001		-
Construction of third floor on 15.8.2010		5,00,000
Routing repair and painting work on 15.9.2015 : Not included as not capital expenditure		-
		5,00,000

**B6. INDEXATION – Compute the capital gain arising in the hands of Samuel on sale of following capital assets .....**

*Computation of capital gain in the hands of Samuel*

Particulars	A	B	C
Type of capital gain	STCG	LTCG	LTCG
Full value of consideration	5,00,000	50,00,000	50,00,000
Less: Expenditure incurred wholly and exclusively in connection with transfer	(10,000)	(1,00,000)	(1,00,000)
Net consideration	4,90,000	49,00,000	49,00,000

Less: Cost of acquisition	(5,00,000)	-	-
Less: Cost of improvement	-	-	-
Less: Indexed cost of acquisition (Note 1)	-	(29,08,257)	(38,04,000)
Less: Indexed cost of improvement (Note 2)	-	(1,89,820)	(1,05,316)
<b>Capital gain (short-term)</b>	<b>(10,000)</b>	-	-
<b>Capital gain (long-term)</b>	-	<b>18,01,923</b>	<b>9,90,684</b>

**Note 1:**

Indexed cost of acquisition	B	C
Cost of acquisition	10,00,000	12,00,000 (Higher of 10 lakh or 12 lakh (FMV can't exceed SDV))
CII of year of transfer	317	317
CII of year of acquisition or 2001-02, whichever is later	109	100
Indexed cost of acquisition	$10,00,000 \times (317/109) = 29,08,257$	$12,00,000 \times (317/100) = 38,04,000$

**Note 2:**

Indexed cost of improvement	B	C
Cost of improvement before 1.4.2001	-	Ignore
Cost of improvement on 1.12.2010	1,00,000	-
Cost of improvement on 1.6.2020	-	1,00,000
• CII of year of transfer	317	317
• CII of year of improvement	167	301
• Indexed cost of improvement	$1,00,000 \times (317/167) = 1,89,820$	$1,00,000 \times (317/301) = 1,05,316$

**B7. 51 – Sunny owns a house property which he purchased on 15.10.2005 for Rs. 10 lakh. He entered into .....**

**AY 2011-12** - Sum of Rs. 3 lakh forfeited. No tax implications at the time of forfeiture in terms of section 51.

**AY 2016-17** - Sum of Rs. 4 lakh forfeited. Taxable as IFOS u/s 56(2)(ix) .

**AY 2022-23 – Computation of capital gain on sale of property**

Particulars	Rs.
Full value of consideration	50,00,000
Less: Expenditure in connection with transfer	(50,000)
Net consideration	49,50,000
Less: ICOA = COA × (CII of 2021-22/CII of 2005-06)	(18,96,581)
• COA = 10 lakh – Rs. 3 lakh forfeited during PY 2010-11	
• ICOA = 7 lakh × (317/117)	
Less: COI	Nil
<b>Long term capital gain</b>	<b>30,53,419</b>

**B7A. Section 51 – CA2016(M/N) – Suman received an advance of Rs. 3 lakh on 6.6.2021 to transfer his residential**

Yes, under the head IFOS u/s 56(2)(ix) for AY 2022-23 since amount is forfeited on or after 1.4.2014. It will not be reduced from COA u/s 51.

**B8. PREVIOUS OWNER – Compute the amount of capital gain arising in the following situations for AY 2022-23 in.....**

*Computation of capital gain for AY 2022-23 in the hands of Mrs. Q*

Particulars	A	B	C
Full value of consideration	10,00,000	10,00,000	10,00,000
Less: Expenditure in connection with transfer	Nil	Nil	Nil
Net consideration	10,00,000	10,00,000	10,00,000



<i>Less: COA:</i>			
• Case A: COA of Mr. J	(1,00,000)	-	-
• Case B: ICOA = COA × (CII of 2021-22/CII of 2001-02) = 1.5 lakh (higher of Cost or FMV) × (317/100)	-	(4,75,500)	-
• Case C: Same as Case B. Forfeiture by previous owner not reduced from COA u/s 51. Forfeiture by Mrs. Q taxable as IFOS u/s 56(2)(ix) for AY 2018-19 as it is on or after 1.4.2014.	-	-	(4,75,500)
<i>Less: COI:</i>			
Case A: Incurred by Mr. J and Mrs. Q	(60,000)	-	-
Case B & C :	-	(1,04,188)	(1,04,188)
• COI for Mr. J = Nil as incurred before 1.4.2001			
• ICOI for Mr. K = COI × (CII of 2021-22/CII of 2005-06) = 20,000 × (317/117) = 54,188			
• ICOI for Mr. Q = COI × (CII of 2021-22/CII of 2021-22) = 50,000 × (317/317) = 50,000			
<b>Short term capital gain</b>	<b>8,40,000</b>	-	-
<b>Long term capital gain</b>	-	<b>4,20,312</b>	<b>4,20,312</b>

### SPECIAL PROVISIONS FOR DEPRECIABLE ASSETS

**B9. Section 50 – Shobhit, carrying on a business, furnishes the following particulars in respect of machinery on which .....**

Particulars	I	II	III	IV
WDV of Block as on 1.4.2021	10,00,000	10,00,000	10,00,000	10,00,000
Add: Cost of assets acquired during the PY	6,00,000	6,00,000	4,00,000	4,00,000
Less: Sale of assets during the PY	(8,00,000)	(20,00,000)	(11,00,000)	(16,00,000)
WDV as on 31.3.2022 (cannot be negative)	8,00,000	Nil	3,00,000	Nil
<b>Depreciation:</b>				
50% of 15% on 4,00,000 (Machinery D put to use < 180D) + 15% on balance of 4,00,000	(90,000)	-	-	-
No depreciation since WDV is nil although Machinery B, C and D exist in the Block. Capital gain will arise.	-	Nil	-	-
No depreciation since block ceases to exist. Capital gain will arise.	-	-	Nil	Nil
<b>Closing WDV as on 31.3.2022</b>	<b>7,10,000</b>	-	-	-
<b>Capital gain:</b>				
Full value of consideration	-	20,00,000	11,00,000	16,00,000
Less: WDV as on 1.4.2021	-	(10,00,000)	(10,00,000)	(10,00,000)
Less: Assets acquired during the PY	-	(6,00,000)	(4,00,000)	(4,00,000)
<b>Short term capital gain (gain or loss)</b>	-	<b>4,00,000</b>	<b>(3,00,000)</b>	<b>2,00,000</b>

**B10. Section 50 – CA2019(M) – Keshav Enterprises, a sole proprietorship, owns four machines, put in use for .....**

*Q 1 and Q2 - Computation of depreciation and capital gain for AY 2022-23*

Particulars	Rs.
WDV of Block as on 1.4.2021	7,70,000
Add: Purchase of second hand machine during the PY (put to use < 180 days)	6,10,000
	13,80,000
Less: Sale of consideration of old machinery during the PY	(10,00,000)
WDV of Block for depreciation	3,80,000
Depreciation = 50% of 15% of 3,80,000	28,500
Capital gain does not arise since block continues to exist and WDV is positive	Nil

*Q 3 - Computation of capital gain and depreciation for AY 2022-23*

Particulars	Rs.
WDV of Block as on 1.4.2021	7,70,000

Add: Purchase of second hand machine during the PY (put to use < 180 days)	6,10,000
	13,80,000
Less: Sale of consideration of old machinery during the PY	(15,00,000)
WDV of Block for depreciation	Nil
<b>Depreciation:</b> No depreciation since WDV is nil although block continues to exist	Nil
<b>Computation of capital gain:</b>	
Full value of consideration	15,00,000
Less: WDV of Block as on 1.4.2021	(7,70,000)
Less: Purchase of second hand machine during the PY	(6,10,000)
Short term capital gain	1,20,000

*Mistake by students – Wrong computation of depreciation. Not aware that no capital gain will arise if block continues to exist and WDV is not nil.*

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to B20

#### Capital Gains

#### Build Your Confidence (BYC)

#### SPECIAL PROVISIONS WHERE CAPITAL GAIN IS CHARGED IN YEAR OTHER THAN YEAR OF TRANSFER

**B11. 45(1A) – Mr. Jain purchased a capital asset on 1.4.2015 for Rs. 10 lakh (not entitled to depreciation). .....**

*Capital gain for AY 2022-23 being the year of receipt of compensation*

Particulars	Rs.
Full value of consideration = Money + FMV of asset	8,00,000
Less: Expenditure on transfer	(10,000)
Net consideration	7,90,000
Less: Indexed cost of acquisition = COA × (CII of 2020-21/CII of 2015-16) = 10 lakh × (301/254)	(11,85,039)
Long term capital gain (loss)	(3,95,039)

**B12. 45(1A) – Zeeshan carries on retail business. In an earthquake on 10.12.2021, computers used by him in.....**

*Computation of depreciation and capital gain for AY 2022-23*

Depreciation for AY 2022-23	A	B	C	D
WDV of Block as on 1.4.2021	2,50,000	2,50,000	2,50,000	2,50,000
Add: Actual cost of assets acquired during the PY	40,000	40,000	40,000	40,000
Less: Moneys payable (insurance compensation)	(1,50,000)	(1,50,000)	(3,50,000)	(3,50,000)
WDV of Block for depreciation (cannot be negative)	1,40,000	1,40,000	Nil	Nil
Less: Depreciation: No depreciation since the block ceases to exist. Capital gain will arise u/s 50.	Nil	-	Nil	-
Less: Depreciation: Block exists with a positive WDV. Depreciation = 50% of 40% of 40,000 (as asset put to use < 180D) + 40% of remaining 1,00,000	-	48,000	-	-
Less: Depreciation: No depreciation since WDV is Nil although block continues to exist	-	-	-	Nil
Capital gain for AY 2022-23	A	B	C	D
Full value of consideration u/s 45(1A) = Money + FMV of asset	1,50,000	-	3,50,000	3,50,000
Less: WDV as on 1.4.2021	(2,50,000)	-	(2,50,000)	(2,50,000)
Less: Assets acquired during the PY	(40,000)	-	(40,000)	(40,000)
<b>Short term capital gain (loss) u/s 50 on depreciable asset</b>	<b>(1,40,000)</b>	<b>-</b>	<b>60,000</b>	<b>60,000</b>

**B13. 45(2) – Rupesh owned diamond jewellery which he purchased on 12.6.2016 for Rs. 5,00,000. He started .....**

*Tax treatment in the hands of Rupesh for AY 2022-23*

Particulars	Business commenced on	
	10.12.2018	10.12.2019
<b>Computation of capital gain for AY 2022-23 being the year of sale of 30% jewellery</b>		
Full value of consideration = FMV on date of conversion (30%)	2,40,000	2,40,000
Less: Cost of acquisition = 30% of 5,00,000. POH from 12.6.2016 to 10.12.2018 is not more than	(1,50,000)	

36 months. Short term capital gains arise.		
Less: Indexed cost of acquisition = COA × (CII of 2019-20, i.e., year of conversion / CII of 2016-17) = 1,50,000 × (289/264). POH from 12.6.2016 to 10.12.2019 is more than 36 months. Long term capital gains arise.		(1,64,205)
Short term capital gain	90,000	
Long term capital gain		75,795
<b>Computation of business income for AY 2022-23 being the year of sale of 30% jewellery</b>		
Sale consideration	3,00,000	3,00,000
Less: FMV on date of conversion	(2,40,000)	(2,40,000)
Business income	60,000	60,000

**B15. 45(5) – Jacob purchased a house property on 1.6.2010 for Rs. 10 lakh. It was acquired by the Central .....**

*Computation of capital gain in the hands of Jacob*

Particulars	Rs.	
<b>AY 2022-23 – First receipt of initial compensation in PY 2021-22</b>		
Full value of consideration = Whole of initial compensation		30,00,000
Less: Expenditure in connection with transfer		Nil
Net consideration		30,00,000
Less: ICOA = COA × (CII of 2020-21, i.e., year of acquisition / CII of 2010-11) = 10 lakh × (301/167)		(18,02,395)
Less: ICOI		Nil
Long term capital gain		11,97,605
<b>AY 2024-25 – Receipt of enhanced compensation in PY 2023-24</b>		
Full value of consideration		10,00,000
Less: Expenditure in connection with transfer		(50,000)
Net consideration		9,50,000
Less: ICOA/ICOI		Nil
Long term capital gain		9,50,000

### SPECIAL PROVISIONS TO PREVENT TAX AVOIDANCE

**B17. 50C – Mr. X has sold a building on 10.12.2021 which was acquired on 12.9.2020 for Rs. 10 lakh. Compute.....**

*Computation of capital gain in the hands of Mr. X for AY 2022-23*

Particulars	I	II	III
Full value of consideration u/s 50C (Note)	24,00,000	20,00,000	25,00,000
Less: Cost of acquisition	(10,00,000)	(10,00,000)	(10,00,000)
<b>Short term capital gain (as POH is not more than 24 months)</b>	<b>14,00,000</b>	<b>10,00,000</b>	<b>15,00,000</b>

**Note:**

**I:** SDV on date of transfer taken as consideration as it is > 110% of actual consideration. SDV on date of agreement not considered as actual consideration (or part) not received on or before that date by specified mode.

**II:** Actual consideration taken, as SDV on date of agreement ≤ 110% of actual consideration. SDV on date of agreement considered as actual consideration (or part) is received on or before that date by specified mode.

**III:** SDV on date of transfer taken as consideration as it is > 110% of actual consideration. SDV on date of agreement not considered as actual consideration (or part) not received on or before that date by specified mode.

**B18. 50C – Determine the value of consideration that will be taken in the following situations of transfer of land or building held as capital asset by Z, for AY 2022-23. All figures are given in Rs. lakhs. Assume that Z has not disputed the SDV.**

Date of	Actual	Applicable	FMV on	DVO	Can Z ask for	FVC	Remarks
---------	--------	------------	--------	-----	---------------	-----	---------

transfer	consideration	SDV	date of transfer	valuation	DVO valuation?	u/s 50C	
1.10.2021	100	120	130	-	No as SDV is not > FMV	120	SDV exceeds 110% of consideration
1.10.2021	100	105	100	-	No need	100	No need to refer to DVO
1.10.2021	100	150	125	120	Yes	120	DVO value ≤ SDV
1.10.2021	100	150	125	160	Yes	150	DVO value > SDV
1.10.2021	100	150	125	105	Yes	105	Even if DVO value is within 10%
1.10.2021	100	150	125	95	Yes	100	Even if DVO value is less than actual

**B19. 50C – Ramesh sold a vacant plot of land on 1.9.2021 for Rs. 75 lakh (SDV as on this date is Rs. 90 lakh).....**

- (a) 90 lakh will be taken u/s 50C as SDV > 110% of consideration.  
 (b) Case (i): DVO value is 92 lakh: Full value of consideration will be taken as 90 lakh as DVO value > SDV. Case (ii): DVO value is 80 lakh: Full value of consideration will be taken as 80 lakh as DVO value ≤ SDV.

**B20. 50C – Johar owns a building acquired by him on 15.8.1998 for Rs. 5 lakh. It's FMV on 1.4.2001 was .....**

*Computation of capital gain in the hands of Johar for AY 2022-23*

Particulars	A	B	C
Full value of consideration:	40,00,000	30,00,000	37,00,000
A – SDV of Rs. 40 lakh taken as it is > 110% of 30 lakh (SDV on date of agreement is not taken as payment made by bearer cheque on the date of agreement)			
B – Rs. 30 lakh taken, as SDV of Rs. 32 lakh is ≤ 110% of Rs. 30 lakh			
C – DVO value taken, as it is < SDV			
Less: Expenditure in connection with transfer	(30,000)	(30,000)	(30,000)
Net consideration	39,70,000	29,70,000	36,70,000
Less: ICOA = COA (Higher of COA or FMV on 1.4.2001 (can't exceed SDV)) × (CII of 2021-22/CII of 2001-02) = 8 lakh × (317/100)	(25,36,000)	(25,36,000)	(25,36,000)
Less: COI incurred before 1.4.2001 of Rs. 75,000 (ignore)	Nil	Nil	Nil
Less: ICOI for cost incurred on 15.6.2010 = COI × (CII of 2021-22/CII of 2010-11) = 2 lakh × (317/167)	(3,79,641)	(3,79,641)	(3,79,641)
<b>Long term capital gain</b>	<b>10,54,359</b>	<b>54,359</b>	<b>7,54,359</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B21 to B30

#### Capital Gains

#### Build Your Confidence (BYC)

**B21. 50C – Compute the capital gains chargeable in the hands of Shekhar from the following sequence of events.....**

*Computation of capital gain in the hands of Shekhar for AY 2022-23*

Particulars	Rs.
Full value of consideration = Actual consideration since SDV on date of agreement is $\leq$ 110% of 30 lakh. SDV on date of agreement is taken since part of consideration is paid on the date of agreement by a specified mode (a/c payee cheque).	30,00,000
Less: Expenses on transfer (brokerage @ 1% of 30,00,000)	(30,000)
Net consideration	29,70,000
Less: ICOA = COA $\times$ (CII of 2021-22 / CII of 2001-02) COA is higher of actual cost of 5,25,000 (5,00,000 + 5% stamp duty) or 6,00,000 (FMV on 1.4.2001 which can't exceed SDV on this date) = 6,00,000. This is to be reduced by advance forfeited before 1.4.2014 of 75,000 as per section 51. Thus COA = 6,00,000 – 75,000 = 5,25,000. Advance of 1,00,000 forfeited on 1.7.2017 (i.e., on or after 1.4.2014) is taxable as IFOS for AY 2018-19 u/s 56(2)(ix). ICOA = 5,25,000 $\times$ (317/100)	(16,64,250)
Less: ICOI:	
• For construction of floor on 1.5.1998: Ignored as incurred before 1.4.2001	-
• For construction of floor on 1.5.2005 = COI $\times$ (CII of 2021-22/CII of 2005-06) = 2,00,000 $\times$ (317/117)	(5,41,880)
<b>Long term capital gain</b>	<b>7,63,870</b>

**B22. 50C – Both land and building – Rashmi purchased a plot of land for Rs. 20 lakh on 1.3.2000 (FMV on 1.4.2001.....**

*Computation of capital gain chargeable in the hands of Rashmi for AY 2022-23*

Particulars	Land	Building
Full value of consideration:	40,00,000	90,00,000
Land = Actual FVC since SDV of 35 lakh is $\leq$ 110% of consideration (44 lakh) Building = SDV of 90 lakh, since it is $>$ 110% of consideration (88 lakh)		
Less: ICOA of plot of land = COA (Higher of COA or FMV on 1.4.2001 (can't exceed SDV)) $\times$ (CII of 2021-22/CII of 2001-02) = 25 lakh $\times$ (317/100)	(79,25,000)	-
Less: COA of building	-	(60,00,000)
Less: COI	-	(5,00,000)
<b>Long term capital gain (loss)</b>	<b>(39,25,000)</b>	<b>-</b>
<b>Short term capital gain (since POH is not more than 24 months)</b>		<b>25,00,000</b>

**B23. 50CA – Mr. Sharekhan transferred 1,000 unquoted shares of Khan Pvt. Ltd. to Mr. Bond on 10.9.2021 at .....**

*Computation of capital gain for AY 2022-23*

Particulars	Rs.
Full value of consideration u/s 50CA = 1,000 shares @ FMV of Rs. 5,000 per share since FVC < FMV	50,00,000
Less: ICOA = COA $\times$ (CII of 2021-22/CII of 2005-06) = 1,000 $\times$ 1,500 $\times$ (317/117)	(40,64,103)
Long term capital gain	9,35,897

**FINANCIAL ASSETS**

**B24. Bonus shares – Mr. Ghosh purchased 2,000 shares of JKG Ltd. on 20.10.1999 for Rs. 80 each. JKG Ltd. allotted.....**

*Computation of capital gain chargeable for AY 2022-23*

Particulars	Original shares - 2,000	Bonus shares - 1,000	Bonus shares – 600
Full value of consideration	20,00,000	10,00,000	6,00,000
Less: Expenditure on transfer @ 1%	(20,000)	(10,000)	(6,000)
Net consideration	19,80,000	9,90,000	5,94,000
Less: COA			
• Original shares: COA (Higher of COA (80.80, i.e., 80 + 1% brokerage) or FMV (90) on 1.4.2001) × (CII of 2021-22/CII of 2001-02) = (2,000 × 90) × (317/100)	(5,70,600)	-	-
• Bonus shares 1 <sup>st</sup> lot: COA (Higher of COA (nil) or FMV (90) on 1.4.2001) × (CII of 2021-22/CII of 2001-02) = (1,000 × 90) × (317/100)	-	(2,85,300)	-
• Bonus shares 2 <sup>nd</sup> lot: COA = Nil	-	-	Nil
<b>Long term capital gain</b>	<b>14,09,400</b>	<b>7,04,700</b>	-
<b>Short term capital gain</b>	-	-	<b>5,94,000</b>

**B25. Right shares – Jagjit purchased 1,000 shares of PQR Ltd. of face value Rs. 10 each on 22.5.2015 for Rs. 100.....**

*Computation of capital gain chargeable for AY 2022-23*

Particulars	Jagjit – Original shares	Jagjit – Right shares	Jagjit – Shares renounced	Rekha
Full value of consideration				
• Jagjit = 1,000 original shares and 100 right shares subscribed @ 250 per share	2,50,000	25,000	-	-
• Jagjit – 150 right entitlement renounced @ 25 per share	-	-	3,750	-
• Rekha – 150 shares @ 250 per share	-	-	-	37,500
Less: COA				
• Jagjit - Original shares: COA × (CII of 2021-22/CII of 2015-16) = (1,000 × 100) × (317/254)	(1,24,803)	-	-	-
• Jagjit – Right shares subscribed: 100 shares @ 90 per share	-	(9,000)	-	-
• Jagjit – Right entitlement renounced	-	-	Nil	-
• Rekha – 150 shares @ 115 (25 paid to Jagjit + 90 paid to PQR Ltd., per share)	-	-	-	(17,250)
<b>Long term capital gain</b>	<b>1,25,197</b>	-	-	-
<b>Short term capital gain</b>	-	<b>16,000</b>	<b>3,750</b>	<b>20,250</b>

**B26. ESOP – Shashi, employed by DEF Pvt. Ltd., was offered 1,000 shares in the company at a pre-determined price.....**

*Computation of perquisite taxable under the head 'Salaries' for AY 2022-23*

Particulars	Rs.
FMV on date of exercise of option @ 400 per share for 500 shares	2,00,000
Less: Amount paid @ 200 per share for 500 shares	(1,00,000)
Taxable perquisite	1,00,000

*Computation of capital gain for AY 2022-23*

Particulars	Rs.
Full value of consideration @ 600 per share for 200 shares	1,20,000

Less: COA @ 400 per share (FMV on date of exercise of option) for 200 shares	(80,000)
Short term capital gain (since shares held for not more than 12 months from allotment)	40,000

**B27. 47(x) – Mohan acquires 1,000 fully convertible debentures of Share Ltd. on 15.4.2015 of face value Rs. 100 each.....**

*Computation of capital gain for AY 2022-23*

Particulars	Rs.
<b>Capital gain on conversion of debentures to shares in PY 2019-20</b>	<b>Nil</b>
<b>Capital gain on sale of shares in PY 2021-22</b>	
Full value of consideration = 100 × 5,000 shares	5,00,000
Less: Expenditure on transfer = 1% of 5 lakh	(5,000)
Net consideration	4,95,000
Less: ICOA = COA of debentures × (CII of 2021-22/CII of 2015-16) = (1,000 × 200) × (317/254)	(2,49,606)
COA, POH and indexation is taken with reference to debentures	
<b>Long term capital gain</b>	<b>2,45,394</b>

### INTANGIBLE ASSETS

**B28. Intangible – Mr. Doc, a doctor, started his profession. With the passage of time, he acquired lot of reputation.....**

*Computation of capital gains arising to Mr. Doc for AY 2022-23 on transfer of goodwill*

Particulars	Rs.
Full value of consideration	2,00,000
Less: ICOA	Nil
Long term capital gain	2,00,000

**B29. Intangible – Mr. X started the business of manufacturing furniture on 10.8.1995. As on 1.4.2001, the fair .....**

*Computation of capital gains arising to Mr. X for AY 2022-23*

Particulars	Rs.
Full value of consideration	1,50,00,000
Less: Expenditure on transfer	(1,00,000)
Net consideration	1,49,00,000
Less: ICOA & ICOI	Nil
Long term capital gain	1,49,00,000

**B30. Intangible – Roshan purchased tenancy rights from Mohan on 1.1.1998 by paying Rs. 1 lakh. Fair market value.....**

*Computation of capital gains arising to Roshan for AY 2022-23*

Particulars	Rs.
Full value of consideration	5,00,000
Less: Expenditure on transfer	(10,000)
Net consideration	4,90,000
Less: ICOA = COA (FMV substitution not available) × (CII of 2021-22/CII of 2001-02) = 1 lakh × (317/100)	(3,17,000)
Long term capital gain	1,73,000



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B31 to B40

#### Capital Gains

#### Build Your Confidence (BYC)

### BUSINESS REORGANIZATION

**B31. 50B – CA2018(M)** – Star Enterprises has transferred its unit R to A Ltd. by way of slump sale on 23.1.2022. The.....

*Computation of capital gains arising from slump sale of Unit R for AY 2022-23*

Particulars	Rs.
Full value of consideration = FMV of Unit R on 23.1.2022	9,30,00,000
Less: Deemed COA & COI = Net worth (See <b>Note</b> ). Indexation benefit is not available.	(8,40,00,000)
Long term capital gain (since the unit is held for more than 36 months)	90,00,000

*Note – Net worth of Unit R*

Particulars	Rs.
Cost of land (revaluation not considered)	1,10,00,000
WDV of other depreciable fixed assets as per Income Tax Act	4,30,00,000
Other assets (book value)	4,40,00,000
	9,80,00,000
Less: Liabilities	(1,40,00,000)
Net worth	8,40,00,000

*Mistake made by students – Applying CII for indexation. Not excluding revaluation amount from value of asset.*

**B31a. 50B – CA2021(JULY)** – Mr. Patel is a proprietor of Star Stores since 20.5.2019. He has transferred his shop by way.....

*Computation of capital gains arising from slump sale of shop for AY 2022-23*

Particulars	Rs.
Full value of consideration = FMV of shop on date of transfer. Assumed that it is same as actual consideration.	40,00,000
Less: Expenditure on transfer	(80,000)
Less: Deemed COA & COI = Net worth (See <b>Note</b> ).	(10,42,500)
<b>Short term capital gain (since the shop is held for not more than 36 months)</b>	<b>28,77,500</b>

*Note – Net worth of shop*

Particulars	Rs.	Rs.
Building		5,00,000
Furniture	5,00,000	
Less: Depreciation @ 50% of 10% of 1,50,000 since used for < 180 days	(7,500)	
		4,92,500
Debtors		2,00,000
Other assets	8,00,000	
Less: Depreciation on trademarks @ 25% of 2,00,000	(50,000)	
		7,50,000
Value of total assets		19,42,500

Less: Value of liabilities:		
Bank loan	5,00,000	
Trade creditors	2,50,000	
Unsecured loan: 2,00,000 less 50,000 waived off	1,50,000	
		(9,00,000)
Net worth		10,42,500

#### CERTAIN OTHER TRANSFERS NOT LIABLE TO CAPITAL GAIN

**B32. 47(xvi) – CA2018(M) - Mrs. Mahalakshmi, an individual aged 68 years, mortgaged her residential property.....**

Mortgaging of residential property with bank – No capital gain u/s 47(xvi).

Monthly instalments – Exempt u/s 10(43)

Sale of property by bank to recover the loan – Taxable as capital gain for AY 2022-23, in view of Circular 1/2009, computed as under:

Particulars	Rs.
Full value of consideration	25,00,000
Less: ICOA = COA × (CII of 2021-22/CII of 2005-06) = 3,00,000 × (317/117)	(8,12,821)
Long term capital gain	16,87,179

#### EXEMPTIONS

**B33. 54 – Ramesh sold a residential house, owned by him in Jaipur, for Rs. 75 lakh on 10.7.2021 (brokerage paid.....)**

*Computation of capital gain in the hands of Ramesh*

Computation of capital gain for AY 2022-23 on sale of house in Jaipur	Case A	Case B
Full value of consideration u/s 50C = FVC, as SDV ≤ 110% of FVC	75,00,000	75,00,000
Less: Expenditure on transfer @ 1% of 75 lakh	(75,000)	(75,000)
Net consideration	74,25,000	74,25,000
Less: ICOA = COA (cost to previous owner u/s 49(1)) × (CII of 2021-22/CII of 2018-19) = 30 lakh × (317/280)	(33,96,429)	(33,96,429)
Long term capital gain	40,28,571	40,28,571
Less: Exemption u/s 54:		
• Case A: Lower of capital gain or Cost of New Asset (cost of Bhopal house purchased within 2 years from transfer of Jaipur house (50 lakh))	(40,28,571)	-
• Case B: Lower of capital gain or Cost of New Asset [amount utilized for new asset 30 lakh and deposit in CGAS 35 lakh, till ROI due date of 31.10.2022]	-	(40,28,571)
Taxable long term capital gain	Nil	Nil
Computation of capital gain for AY 2024-25 on sale of house in Bhopal within 3 years of its acquisition	Case A	Case B
Full value of consideration u/s 50C = SDV as it is > 110% of FVC	75,00,000	-
Less: COA = Cost 50,00,000 – CG exempted earlier 40,28,571	(9,71,429)	-
Short term capital gain (as POH of Bhopal house does not exceed 24 months)	65,28,571	-
Computation of capital gain for AY 2025-26 w.r.t. CGAS deposit not utilized within 3 years of sale of house in Jaipur	Case A	Case B
Amount of deposit in CGAS not utilized for construction of Bhopal house till 3 years from 10.7.2021, i.e., till 9.7.2024 = 35 lakh – 20 lakh	-	15,00,000
Long term capital gain (same as original capital gain)	-	15,00,000
Computation of capital gain for AY 2027-28 on sale of house in Bhopal after 3 years of its acquisition	Case A	Case B
Full value of consideration u/s 50C = FVC, as SDV ≤ 110% of FVC	-	65,00,000

ICOA = COA × (CII of 2026-27/CII of 2022-23) = 50 lakh × (400/330). Exemption u/s 54 allowed earlier is not forfeited as house is sold after lock-in period of 3 years.	-	(60,60,606)
Long term capital gain (as POH of Bhopal house exceeds 24 months)	-	4,39,394

**B34. 54 – CA2019(M) – Mr. Roy owned a residential house in Noida. It was acquired on 9.9.2011 for Rs. 30,00,000.....**

*Computation of capital gain chargeable to tax for AY 2019-20 and 2022-23*

<b>Computation of capital gain for AY 2019-20 on sale of Noida house</b>	<b>Rs.</b>
Full value of consideration	1,57,00,000
Less: ICOA = COA × (CII of 2018-19/CII of 2011-12) = 30 lakh × (280/184)	(45,65,217)
Long term capital gain	1,11,34,783
Less: Exemption u/s 54 in respect of purchase of new residential house within 2 years of transfer of Noida house = Lower of capital gain or cost of new house of Rs. 2.05 crores	(1,11,34,783)
Taxable long term capital gain	Nil
<b>Computation of capital gain for AY 2022-23 since Panchkula house sold within 3 years of its acquisition</b>	<b>Rs.</b>
Full value of consideration	3,25,00,000
ICOA = COA (Cost – CG exempted earlier) × (CII of 2021-22/CII of 2019-20) = (2,05,00,000 – 1,11,34,783) × (317/289).	(1,02,72,574)
Long term capital gain (since new house sold was held for more than 24 months)	2,22,27,426
Less: Exemption u/s 54 in respect of purchase of new residential house within 2 years of transfer of Panchkula house = Lower of capital gain or cost of new house of Rs. 2.57 crores	(2,22,27,426)
Taxable long term capital gain	Nil

*Mistake made by students – Non deduction of CG exempted earlier, to determine COA of Panchkula house. Non deduction of exemption u/s 54 to find capital gain on sale of Panchkula house.*

**B35. 50C, 54 – CA2019(M) (modified) - Deepak has a residential house property taxable u/s 22. Such property.....**

<b>Computation of capital gain for AY 2022-23</b>	<b>Rs.</b>
Full value of consideration: SDV is taken if > 110% of FVC. However, if on reference, DVO determines the value less than SDV, such value is taken as FVC u/s 50C.	25,00,000
Less: ICOA = COA × (CII of 2021-22/CII of 2005-06) = 2 lakh × (317/117)	(5,41,880)
Long term capital gain	19,58,120
Less: Exemption u/s 54: Lower of capital gain or cost of new house purchased within 2 years	(17,00,000)
Taxable long term capital gain	2,58,120
<b>Computation of capital gain for AY 2023-24 since new house sold within 3 years of acquisition</b>	<b>Rs.</b>
Full value of consideration	30,00,000
Less: COA = Cost – CG exempted earlier = 17 lakh – 17 lakh	Nil
Short term capital gain (since new house sold within 24 months)	30,00,000

**B36. 50C, 54 – CA2017(N) (modified) - Sunil entered into an agreement with Dhaval to sell his residential house.....**

*Computation of capital gain for AY 2022-23*

<b>Particulars</b>	<b>Rs.</b>
Full value of consideration = SDV of Rs. 90 lakh since it is > 110% of Rs. 80 lakh. Since part consideration is paid through A/c payee bank draft on the date of agreement, SDV on that date is considered u/s 50C.	90,00,000
Less: ICOA = COA × (CII of 2021-22/CII of 2001-02) = 20 lakh × (317/100)	(63,40,000)
Long term capital gain (since house held for more than 24 months)	26,60,000
Less: Exemption u/s 54: Lower of capital gain (26.60 lakh) or cost of two new houses purchased within 2 years (25 lakh). Since LTCG does not exceed Rs. 2 Cr, Sunil can opt to claim exemption in respect of 2 residential houses in India. It is assumed that he exercised this once in a lifetime option and that he had not exercised this option anytime before.	(25,00,000)
Taxable long term capital gain	1,60,000

**B37. 51, 54 – CA2009(N) – A house was purchased on 1.5.2005 for Rs. 4,50,000 and was used as a residence by.....**

*Computation of capital gain for AY 2022-23*

Particulars	Rs.
Full value of consideration	15,00,000
Less: ICOA = COA (COA – advance forfeited before 1.4.2014 in terms of section 51) × (CII of 2021-22/CII of 2005-06) = 3,80,000 (4,50,000 – 70,000) × (317/117)	(10,29,573)
Long term capital gain	4,70,427
Less: Exemption u/s 54: Lower of capital gain or cost of new house purchased within 2 years	(3,00,000)
Taxable long term capital gain	1,70,427

**B38. 54EC – CA2012(M) - Anshu transferred land and building on 2.1.2022 and furnished the following information.....**

*Computation of capital gain for AY 2022-23*

Particulars	Rs.
Full value of consideration u/s 50C = SDV is taken where it is > 110% of consideration. But where assessee claims that SDV > FMV and a reference is made to the DVO and where DVO valuation is more than SDV, then SDV will be taken as FVC.	23,00,000
Less: ICOA of land = COA (FMV on 1.4.2001 taken in absence of other information) × (CII of 2021-22/CII of 2001-02) = 1.10 lakh × (317/100).	(3,48,700)
Less: ICOA of residential building = COA × (CII of 2021-22/CII of 2005-06) = 3.20 lakh × (317/117)	(8,67,009)
Long term capital gain before exemption (since house property held for more than 24 months)	10,84,291
Less: Brought forward short-term loss (can be set off u/s 74 against any capital gain (LTCG or STCG) for 8 AYS succeeding the year in which first computed): For details, refer para 191.	(1,00,000)
Balance: Anshu should invest this amount in NHAI bonds within 6 months of transfer of original asset (i.e., on or before 1.7.2022) so as to reduce capital gain to Nil by claiming exemption u/s 54EC	9,84,291

**B39. 54, 54EC – Pooja acquired a residential building for Rs. 50 lakh on 23.4.2015 (registration and other expenses.....**

*Computation of capital gain for AY 2022-23*

Particulars	Rs.	Rs.
Full value of consideration = FVC, since SDV ≤ 110% of consideration. SDV on date of agreement is considered since advance is received by account payee cheque on or before this date.		1,20,00,000
Less: Expenditure on transfer = 1% of Rs. 120 lakh		(1,20,000)
Net consideration		1,18,80,000
Less: ICOA = COA × (CII of 2021-22/CII of 2016-17) = 55 lakh (50 lakh + 10%) × (317/264)		(66,04,167)
Long term capital gain before exemption (since house property held for more than 24 months)		52,75,833
Less: Exemption:		
<ul style="list-style-type: none"> <li>Exemption u/s 54 = Since capital gain ≤ 2 Cr, exemption can be claimed in respect of two residential house properties in India, at option of assessee, acquired 1Y before or 2Y after date of transfer of original asset. However, cost of residential house in Sydney is not eligible for exemption in this case since it is outside India.</li> </ul>		(20,00,000)
<ul style="list-style-type: none"> <li>Exemption u/s 54EC = Cost of investment in NHAI bonds made within 6 months of transfer of original asset (i.e., on or before 14.4.2022) subject to upper cap of Rs. 50 lakh</li> </ul>		(30,00,000)
<b>Taxable long term capital gain</b>		<b>2,75,833</b>

*Forfeiture of advance on 12.7.2018 – Taxable as IFOS for AY 2019-20 u/s 56(2)(ix) since it is forfeited on or after 1.4.2014.*

**B40. 45(2), 54EC - Yuvraj purchased a vacant plot of land for Rs. 5 lakh on 26.12.1990. He started a real estate.....**

*Computation of taxable income in the hands of Yuvraj*

In case of conversion of capital asset into stock-in-trade, while year of transfer of capital asset is the year of conversion into stock-in-trade, year of charge of capital gain is the year in which stock-in-trade is sold – Section 45(2).

<b>Particulars</b>	<b>Rs.</b>
<b>Capital gain for AY 2022-23 being the year of sale of 60% portion of land</b>	
Full value of consideration u/s 45(2) = FMV on date of conversion (even if SDV is higher)	1,00,00,000
Less: Indexed cost of acquisition = COA × (CII of 2015-16/CII of 2001-02)	(25,40,000)
<ul style="list-style-type: none"> <li>• COA = Higher of COA or FMV on 1.4.2001 (can't exceed SDV on this date) = 10 lakh</li> <li>• Indexed cost of acquisition = 10 lakh × (254/100)</li> </ul>	
Long term capital gain	74,60,000
Long term capital gain for AY 2022-23 = 60% portion	44,76,000
Less: Exemption u/s 54EC in respect of investment in bonds of NHAI and RECL (subject to cap of 50 lakh). Time limit of 6 month for making investment is from date of sale of stock-in-trade and not from date of conversion of capital asset into stock-in-trade (Circular 791 of 2000).	(30,00,000)
<b>Taxable long term capital gain</b>	<b>14,76,000</b>
<b>Business income for AY 2022-23 being the year of sale of 6 units and 60% portion of land</b>	
Sale consideration = 6 units × 50 lakh	3,00,00,000
Less: Cost of land = FMV of 60% portion of land on date of conversion	(60,00,000)
Less: Cost of 6 units @ 15 lakh	(90,00,000)
<b>Business income</b>	<b>1,50,00,000</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B41 to B50

#### Capital Gains

#### Build Your Confidence (BYC)

**B41. 54, 54EC – CA2015(N) (modified) - Martin sold his residential house property on 8.6.2021 for Rs. 7 crore.....**

*Computation of income under the head 'Capital Gains' for AY 2022-23*

Particulars	Rs.
Full value of consideration u/s 50C = SDV, since it is > 110% of consideration.	8,00,00,000
Less: Expenditure on transfer	(10,00,000)
Net consideration	7,90,00,000
Less: ICOA = COA × (CII of 2021-22/CII of 2006-07) = 2 crore × (317/122)	(5,19,67,213)
Long term capital gain before exemption (since house property held for more than 24 months)	2,70,32,787
Less: Exemption:	
• Exemption u/s 54 = Cost of New Asset, i.e., Purchase of new house property and deposit in CGAS account, before the due date of filing ROI u/s 139(1) (assumed to be 31.7.2022).	(2,50,00,000)
• Exemption u/s 54EC = Cost of investment in NHAI bonds made within 6 months of transfer of original asset (i.e., on or before 7.12.2021) subject to upper cap of Rs. 50 lakh	(50,00,000)
Taxable long term capital gain	Nil

*Note:* Since CG > 2 crore, exemption is available only for one new house. However, in this case, exemption will not be denied on amount spent on additional floor on the ground that since only one new house is entitled to exemption, the amount deposited in CGAS will not be construed as having been utilized to acquire new house. This is because different floors (units) of a house property can be construed as one house property.

**B42. 54, 54EC – CA2011(N) - Selvan acquired a residential houses in January 2006 for Rs. 10,00,000 and made some.....**

*Computation of capital gain taxable in the hands of Selvan*

Computation of capital gain for AY 2022-23	Rs.
Full value of consideration u/s 50C = SDV, since it is > 110% of consideration.	80,00,000
Less: ICOA = COA × (CII of 2021-22/CII of 2005-06) = 10 lakh × (317/117)	(27,09,402)
Less: ICOI = COI × (CII of 2021-22/CII of 2010-11) = 2 lakh × (317/167)	(3,79,641)
Long term capital gain before exemption (since house property held for more than 24 months)	49,10,957
Less: Exemption:	
• Exemption u/s 54 = Cost of new asset being purchase of new house property within 1Y before or 2Y from date of transfer of original asset	(25,00,000)
• Exemption u/s 54EC: Not available since NHAI bonds purchased after 6 months of transfer of original asset	Nil
Taxable long term capital gain	24,10,957

  

Computation of capital gain for AY 2023-24 since new house sold within 3 years of its acquisition	Rs.
Full value of consideration	40,00,000
Less: ICOA = COA (Cost – CG exempted earlier u/s 54) = 25 lakh – 25 lakh = Nil) × (CII of 2022-23/CII of 2020-21)	Nil
Long term capital gain (since new house sold after 24 months)	40,00,000

**B43. 54F - Jagjit owns certain jewellery which was acquired in two lots: On 1.5.2004 for Rs. 20 lakh and on 1.5.2020.....**

*Computation of capital gain in the hands of Jagjit*

<b>Computation of capital gain for AY 2022-23</b>	<b>LTCA</b>	<b>STCA</b>
Full value of consideration	80,00,000	60,00,000
Less: Expenditure on transfer	(80,000)	(60,000)
Net consideration	79,20,000	59,40,000
Less: COA		
• ICOA for 1 <sup>st</sup> lot = COA × (CII of 2021-22/CII of 2004-05) = 20 lakh × (317/113)	(56,10,619)	-
• COA for 2 <sup>nd</sup> lot	-	(30,00,000)
Capital gain (long term for first lot and short term for second lot based on POH threshold of 36 months)	23,09,381	29,40,000
Less: Exemption u/s 54F (only on LTCG) = Capital gain × (Cost of new asset / Net consideration) = 23,09,381 × (60,00,000 / 79,20,000). Cost of new asset = Amount utilized to acquire new asset and that deposited in CGAS by due date to file ROI.	(17,49,531)	-
Taxable capital gain	5,59,850	29,40,000
<b>Computation of capital gain for AY 2024-25 in which another house, other than the new asset, is purchased within 2Y from 1.5.2021</b>	<b>Rs.</b>	<b>Rs.</b>
Long term capital gain = Capital gain exempted earlier	17,49,531	-

**B44. 54F - Jagjit purchased a vacant plot of land on 1.8.2010 for Rs. 30 lakh which he sold on 1.8.2021 for.....**

*Computation of capital gain in the hands of Jagjit*

<b>Computation of capital gain for AY 2022-23</b>	<b>Rs.</b>
Full value of consideration u/s 50C = FVC, since SDV ≤ 110% of FVC	90,00,000
Less: Expenditure on transfer	(90,000)
Net consideration	89,10,000
Less: ICOA = COA × (CII of 2021-22/CII of 2010-11) = 30 lakh × (317/167)	(56,94,611)
Long term capital gain	32,15,389
Less: Exemption u/s 54F = Capital gain × (Cost of new asset / Net consideration) = 32,15,389 × (75,00,000 / 89,10,000).	(27,06,556)
<b>Taxable long term capital gain</b>	<b>5,08,833</b>
<b>Computation of capital gain for AY 2025-26 in which new house is sold within 3Y from 1.3.2022</b>	<b>Rs.</b>
Full value of consideration u/s 50C = SDV, since SDV > 110% of FVC	1,00,00,000
Less: Expenditure on transfer = 1% of 90 lakh	(90,000)
Net consideration	99,10,000
Less: ICOA = COA × (CII of 2024-25/CII of 2021-22) = 75 lakh × (350/317).	(82,80,757)
Long term capital gain on sale of house in Shimla (since held for more than 24 months)	16,29,243
Long term capital gain exempted earlier (now forfeited)	27,06,556
<b>Taxable long term capital gain</b>	<b>43,35,799</b>

#### TAX ON CAPITAL GAIN

**B45. Compute the tax liability of Charmis from the following particulars for the AY 2022-23. He has not opted for.....**

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

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
<b>Composition of total income</b>				
STCG u/s 111A: STCG on sale of units of equity oriented fund	2,00,000	1,00,000	1,00,000	1,00,000
LTCG u/s 112A: LTCG on sale of equity shares of Z Ltd.	3,00,000	2,00,000	1,20,000	1,20,000
LTCG u/s 112: LTCG on sale of diamond jewellery and unlisted shares	2,50,000	90,000	2,80,000	2,80,000
Other income (taxable at normal rates): Salary and STCG on sale of vacant plot of land	6,50,000	2,00,000	1,70,000	1,70,000
Gross total income	14,00,000	5,90,000	6,70,000	6,70,000
Less: Deduction u/c VIA from gross total income: Available only from other income.	(1,50,000)	(1,50,000)	(1,70,000)	(1,70,000)



Total income	12,50,000	4,40,000	5,00,000	5,00,000
<b>Incomes comprised in total income:</b>				
Income taxable at special rates	7,50,000	3,90,000	5,00,000	5,00,000
Income taxable at normal rates	5,00,000	50,000	Nil	Nil
Unexhausted basic exemption limit (UBEL) (first adjust u/s 112, then 111A, then 112A). Benefit not available to NR.	-	2,50,000	3,00,000	N/A
<b>Computation of tax liability:</b>				
Tax on LTCG u/s 112 @ 20% :				
• A: 20% of 2,50,000	50,000	-	-	-
• B: 20% of Nil (90,000 adjusted against UBEL)	-	Nil	-	-
• C: 20% of Nil (2,80,000 adjusted against UBEL)	-	-	Nil	-
• D: 20% of 2,80,000	-	-	-	56,000
Tax on STCG u/s 111A @ 15%:				
• A: 15% of 2,00,000	30,000	-	-	-
• B: 15% of Nil (1,00,000 adjusted against UBEL)	-	Nil	-	-
• C: 15% of 80,000 (20,000 adjusted against UBEL)	-	-	12,000	-
• D: 15% of 1,00,000	-	-	-	15,000
Tax on LTCG u/s 112A @ 10%:				
• A: 10% of 2,00,000 (3,00,000 – exemption of 1 lakh)	20,000	-	-	-
• B: 10% of 40,000 (1,40,000 (60,000 adjusted against UBEL) – exemption of 1 lakh)	-	4,000	-	-
• C & D : 10% of 20,000 (1,20,000 – exemption of 1 lakh)	-	-	2,000	2,000
Tax on other income at normal rates:				
• A: Tax on 5,00,000	12,500	-	-	-
• B: Tax on 50,000	-	Nil	-	-
• C & D: Tax on Nil	-	-	Nil	Nil
	1,12,500	4,000	14,000	73,000
Less: Rebate u/s 87A: Available to resident individual with TI ≤ 5 lakh. Not available on tax u/s 112A.	-	-	(12,000)	-
	1,12,500	4,000	2,000	73,000
Add: Surcharge: Not applicable for TI up to 50 lakh	-	-	-	-
	1,12,500	4,000	2,000	73,000
Add: HEC @ 4%	4,500	160	80	2,920
<b>Tax liability</b>	<b>1,17,000</b>	<b>4,160</b>	<b>2,080</b>	<b>75,920</b>

**B45a. CA2021(JULY) – Compute the tax liability for AY 2022-23 (in a manner most beneficial to the assessee) of Satya.....**

*Composition of total income of Satya for AY 2022-23*

Particulars	Rs.
Long term capital gain on sale of plot – Section 112	1,00,000
Short term capital gain on sale of listed equity shares (STT paid) – Section 111A	2,90,000
Other income	1,00,000
<b>Total income</b>	<b>4,90,000</b>

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

Particulars	Rs.
Tax on LTCG u/s 112 @ 20% of Nil (LTCG of 1,00,000 – Unexhausted basic exemption limit to the extent of 1,00,000)	-
Tax on STCG u/s 111A @ 15% of 2,40,000 (STCG of 2,90,000 – Balance unexhausted basic exemption limit of 50,000)	36,000
	36,000
Less: Rebate u/s 87A up to 12,500 since total income does not exceed 5 lakh	(12,500)
	23,500
Add: HEC @ 4%	940
<b>Tax liability</b>	<b>24,440</b>



*Mistake by students:*

- Failure to consider benefit of unexhausted basic exemption limit.
- Failure to provide rebate u/s 87A.

**B46. 112A – CA2019(M) - Himanshi (68 years) is a resident individual. During the AY 2022-23, she has income from.....**

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

Particulars	Rs.
<b>Incomes comprised in total income:</b>	
• Long term capital gain u/s 112A	1,80,000
• Other income	2,75,000
<b>Computation of tax liability:</b>	
• Tax on LTCG u/s 112A: Unexhausted BEL = 25,000 (3,00,000 – 2,75,000). Taxable LTCG = 1,80,000 – 25,000 = 1,55,000. Taxable LTCG u/s 112A = 1,55,000 – exemption of 1,00,000 = 55,000. Tax @ 10%.	5,500
• Tax on balance income of Rs. 2,75,000 at normal rates	Nil
<b>Tax on total income</b>	<b>5,500</b>
Less: Rebate u/s 87A: Not allowed on tax u/s 112A	-
	5,500
Add: Surcharge	-
	5,500
Add: HEC@ 4%	220
<b>Tax liability</b>	<b>5,720</b>

*Mistake by students – Failure to provide benefit of unexhausted BEL to LTCG.*

**B46A. CA2021(JAN) - One equity share of a company listed on recognized stock exchange is acquired on 1.1.2017 at.....**

*Computation of capital gain/loss u/s 112A*

Particulars	Rs.
Full value of consideration	150
Less: COA = Higher of COA (100) or lower of FMV on 31.1.2018 or FVC (i.e., 200 or 150) = 150. Benefit of indexation not available u/s 112A.	(150)
<b>Long term capital gain u/s 112A</b>	<b>Nil</b>

**B46B. 112A, 112 - CA2021(JULY) – Examine the taxability of capital gains in the following scenarios for AY 2022-23.....**

*Scenario 1 - Computation of capital gain u/s 112A as shares are transferred on which STT is paid on sale and purchase*

Particulars	Rs.
Full value of consideration = 10,000 shares @ 550 per share	55,00,000
Less: COA = Higher of COA (395) or lower of FMV on 31.1.2018 or FVC (i.e., 390 or 550) = 395. Benefit of indexation not available u/s 112A.	(39,50,000)
<b>Long term capital gain u/s 112A. This will be taxable at 10% on amount exceeding 1 lakh, i.e., on 14,50,000.</b>	<b>15,50,000</b>

*Mistake by students – Failure to correctly compute LTCG u/s 112A and specify the rate of tax thereon.*

*Scenario 2 - Computation of capital gain u/s 112 as gain is LTCG since period of holding of house is more than 24 months*

Particulars	Rs.
Full value of consideration u/s 50C is stamp duty value since it exceeds 110% of consideration	45,00,000
Less: ICOA = COA × (CII of 2021-22/CII of 2017-18) = 9 lakh × (317/272)	(10,48,897)
	34,51,103
Less: Exemption u/s 54EC for investment in NHAI bonds within 6 months from 4.9.2021. Not eligible since investment is made after the eligible period.	-
<b>Long term capital gain u/s 112 taxable @ 20%</b>	<b>34,51,103</b>

*Mistake by students – Wrongly allowed exemption u/s 54EC even when investment made beyond the time limit.*

**B47. 55, 112A – Calculate the tax liability of Chintan, a resident individual of age 45 years, for the AY 2022-23 on sale of.....**

*Computation of tax liability for AY 2022-23 in the hands of Chintan*

Particulars	Rs.
Capital gain on sale of equity shares u/s 112A:	
• Full value of consideration	9,00,000
• Less: Expenses on transfer being brokerage on sale (STT not allowed as deduction)	(9,000)
• Net consideration	8,91,000
• Less: COA = Higher of COA (1,50,000 based on higher of cost or FMV on 1.4.2001) or lower of FMV on 31.1.2018 or FVC (5,00,000 or 9,00,000)	(5,00,000)
Long-term capital gain u/s 112A	3,91,000
Business income	5,00,000
<b>Gross total income</b>	<b>8,91,000</b>
Less: Deduction u/s 80C for amount deposited in NSC certificates (not allowed on income u/s 112A)	(50,000)
<b>Total income</b>	<b>8,41,000</b>
<b>Incomes comprised in total income:</b>	
• Long term capital gain u/s 112A	3,91,000
• Other income	4,50,000
<b>Computation of tax liability:</b>	
• Tax on LTCG u/s 112A @ 10% on 2,91,000 (3,91,000 – exemption of 1,00,000)	29,100
• Tax on balance income of Rs. 4,50,000 at normal rates	10,000
<b>Tax on total income</b>	<b>39,100</b>
Less: Rebate u/s 87A: Not allowed as total income > 5 lakh	-
	39,100
Add: Surcharge	-
	39,100
Add: HEC@ 4%	1,564
<b>Tax liability</b>	<b>40,664</b>
<b>Tax liability (rounded off)</b>	<b>40,660</b>

**B48. 111A/112A – Gurmeet, 70 years of age, acquired 150 equity shares of JKL Ltd. on 15.5.2008 at Rs. 1,500 per.....**

*Computation of total income and tax liability of Gurmeet for AY 2022-23*

Particulars	Rs.	Rs.
<b>Long term capital gains on sale of original shares u/s 112A, i.e., equity shares on which STT is paid on acquisition and transfer</b>		
Full value of sale consideration = 150 × 5,500	8,25,000	
Less: Expenditure on transfer: Brokerage (50% of 10,000). STT not allowed as deduction.	(5,000)	
Net consideration	8,20,000	
Less COA = 150 × 3,500. COA of equity shares acquired before 1.2.2018 is higher of COA of Rs. 1,500 per share and lower of (a) FMV on 31.1.2018 of Rs. 3,500 per share or (b) FVC of Rs. 5,500 per share. Indexation not allowed u/s 112A.	(5,25,000)	
Long term capital gain u/s 112A	2,95,000	2,95,000
<b>Short term capital gains on sale of bonus shares u/s 111A, i.e, equity shares where sale is chargeable to STT</b>		
Full value of sale consideration = 150 × 5,500	8,25,000	
Less: Expenditure on transfer: Brokerage (50% of 10,000). STT not allowed as deduction.	(5,000)	
Net consideration	8,20,000	
Less: COA is Nil	Nil	
Short term capital gain u/s 111A	8,20,000	8,20,000
<b>Income from other sources</b>		
Dividend = 300 × Rs. 20 per share		6,000
<b>Total income</b>		<b>11,21,000</b>
<b>Tax liability</b>		
Tax on STCG u/s 111A: Unexhausted BEL = 2,94,000 (3,00,000 BEL – 6,000). Taxable STCG = 8,20,000 – 2,94,000 = 5,26,000. Tax is 15% of 5,26,000		78,900

Tax on LTCG u/s 112A @ 10% of 1,95,000 (2,95,000 – exemption of 1,00,000)		19,500
Tax on balance dividend income of 6,000		Nil
		98,400
Add: HEC @ 4%		3,936
Tax payable		1,02,336
<b>Tax payable (rounded off)</b>		<b>1,02,340</b>

**B49. 112, 112A – CA2019(N) (modified) – Rajan, a resident of age 30 years, provides you with the following details .....**

*Computation of capital gain and tax liability in the hands of Rajan for AY 2022-23*

Particulars	Rs.
<b>Sale of 10,000 shares of A Ltd. on 5.4.2021 @ Rs. 650 per share</b>	
Full value of consideration = 10,000 × 650	65,00,000
Less: COA = Higher of COA (100 per share) or lower of FMV on 31.1.2018 or FVC (i.e., 300 per share or 650 per share) = 10,000 × 300 per share. Benefit of indexation not available u/s 112A.	(30,00,000)
Long term capital gain u/s 112A: Since shares held for more than 12 months and STT is paid both on purchase and sale.	35,00,000
<b>Sale of 1,000 units of B Mutual Fund on 20.4.2021 @ Rs. 50 per unit</b>	
Full value of consideration = 1000 × 50	50,000
Less: COA = Higher of COA (10 per unit) or lower of FMV on 31.1.2018 or FVC (i.e., 55* per unit or 50 per share) = 1000 × 50 per unit. Benefit of indexation is not available u/s 112A. *NAV on 31.1.2018 taken assuming that units are not listed on this date.	(50,000)
Long term capital gain u/s 112A: Since units held for more than 12 months and STT is paid on sale.	Nil
<b>Sale of 100 shares of C Ltd. on 25.4.2021 @ Rs. 200 per share</b>	
Full value of consideration = 100 × 208	20,800
Less: ICOA = COA × (CII of 2021-22 / CII of 2001-02) = 5,000 (100 shares @ 50 per share) × (317 / 100) COA of bonus shares is Nil but FMV on 1.4.2001 can be substituted. Indexation is available u/s 112.	(15,850)
Long term capital gain u/s 112: Since shares are unlisted and held for more than 12 months	4,950
<b>Computation of tax for AY 2022-23</b>	
Tax u/s 112A @ 10% on Rs. 34,00,000 (35,00,000 – Exemption of 1,00,000)	3,40,000.00
Tax u/s 112 @ 20% on 4,950	990.00
Tax on other income of 4,00,000	7,500.00
Tax on total income	3,48,490.00
Less: Rebate u/s 87A (not available as total income > 5 lakh)	-
Add: Surcharge (not applicable as total income is up to 50 lakh)	-
Add: HEC @ 4%	13,939.60
Tax liability	3,62,429.60
<b>Tax liability (rounded off)</b>	<b>3,62,430</b>

*Mistake by students – Incorrect computation of COA of shares of A Ltd. Indexation provided u/s 112A.*

**B50. 45(2)/112/112A – CA2020(N) – Govind purchased 600 shares of Y Ltd. at Rs. 130 per share on 26.2.1979. Y Ltd.....**

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

Particulars	600 original shares	400 bonus shares	800 bonus shares
<b>Long term capital gains on conversion of 1,000 shares into stock in trade u/s 45(2) – Taxable in AY 2022-23 (year of sale)</b>			
Full value of consideration = FMV on date of conversion of 31.1.2020 @ Rs. 2,200 per share (Note)	13,20,000	8,80,000	-
Less: ICOA = COA × (CII of 2019-20 being year of conversion / CII of 2001-02) COA = Higher of actual COA or FMV on 1.4.2001 = Rs. 900 ICOA = Rs. 900 per share for 600/400 shares × (289/100) COA is not computed on basis of FMV on 31.1.2018 since conversion is not	(15,60,600)	(10,40,400)	-

covered u/s 112A but u/s 112 (as STT is not paid on conversion into stock-in-trade)			
Long term capital loss	(2,40,600)	(1,60,400)	-
<b>Business income on sale of 1,000 shares held as stock-in-trade – Taxable in AY 2022-23</b>			
Sale consideration @ 2,400 per share	14,40,000	9,60,000	-
Less: Cost = FMV on date of conversion	(13,20,000)	(8,80,000)	-
Business income <sup>1</sup>	1,20,000	80,000	-
<b>Long term capital gain on sale of 800 bonus shares – Taxable in AY 2022-23</b>			
Full value of consideration @ Rs. 2,400 per share	-	-	19,20,000
Less: COA (indexation not allowed since sale is covered u/s 112A) = Higher of (a) COA of Rs. 900 and (b) lower of FMV on 31.1.2018 of Rs. 2,000 or FVC of Rs. 2,400. COA = Rs. 2,000 per share	-	-	(16,00,000)
Long term capital gain u/s 112A	-	-	3,20,000
<b>Computation of total income for AY 2022-23</b>			
Business income = Rs. 1,20,000 + Rs. 80,000			2,00,000
Long term capital gain of Rs. 3,20,000 less set off of long term capital loss of Rs. 4,01,000 (Rs. 2,40,600 + Rs. 1,60,400) = Loss of Rs. 81,000 to be carried forward to next AY u/s 74 (see para 191)			-
<b>Total income</b>			<b>2,00,000</b>

**Note:** FMV on 31.1.2018 is not relevant in determining FMV on 31.1.2020. As per section 2(22B) (see para 130), fair market value, in relation to a capital asset, means the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date. Since the highest and closing prices are given in the question, FMV for the purpose of this solution has been taken to be the highest price. Alternatively, closing price can also be taken.

<sup>1</sup> STT @ 1% is deductible u/s 36(1)(xv) in computing business income since income is taxable as PGBP. However, it has not been deducted in the ICAI suggested answer.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B51

#### Capital Gains

#### Build Your Confidence (BYC)

#### COMPREHENSIVE

**B51. COMPREHENSIVE – Compute the tax liability of Swarn, a resident individual aged 45 years, staying in his self.....**

#### Computation of tax liability of Swarn for the assessment year 2022-23

Particulars	Rs.	Rs.	Rs.
<b>Computation of total income</b>			
<b>Short term capital gain chargeable u/s 111A</b>			
Sale of equity shares of Jayman Ltd. (Note 14)		5,00,000	5,00,000
<b>Other short term capital gain</b>			
Conversion of painting into stock-in-trade (Note 1)		20,000	
Sale and buy back of unlisted shares of BCD Pvt. Ltd. (Note 7)		4,00,000	
Sale of shares of Rich Bank (Note 8)		5,000	
Transfer of depreciable assets (Note 11)		30,000	4,55,000
<b>Long term capital gain chargeable u/s 112A</b>			
Sale of units of Reliance equity fund (Note 6)		50,000	
Sale of shares of Rich Bank (Note 8)		56,000	
Sale of shares of Jack and Jill Ltd. received under ESOP (Note 9)		3,00,000	4,06,000
<b>Long term capital gain chargeable u/s 112</b>			
Sale of wardrobe (no capital gain since the furniture is personal effect used by dependant family member)		-	
Sale of land in village outside Ranchi (Note 2)	16,29,946		
• Less: Exemption u/s 54EC (Note 15)	(16,29,946)	Nil	
Exchange of silver ornaments (Note 3)		13,44,777	
Compulsory acquisition of residential house (Note 4)	25,85,015		
• Less: Exemption u/s 54, 54EC (Note 15)	(21,70,054)	4,14,961	
Sale of listed bonds (Note 5)		50,000	
Transfer of gold jewellery to friend (Note 10)		3,66,000	
Sale of brand name and license (Note 12)		12,01,818	
Sale of independent division of business (Note 13)		15,00,000	48,77,556
<b>Income under the head 'Profits and gains of business or profession'</b>			
Business income on sale of painting = Rs. 50,000 (sale price) – Rs. 45,000 (FMV on date of conversion)		5,000	
Other business income		1,00,000	1,05,000
<b>Income under the head 'Income from other sources'</b>			
Interest on delayed compensation u/s 56(2)(viii) = 30,000 less 50% deduction			15,000
Gross total income			63,58,556
Less: Deduction u/s 80C for deposit in PPF (not allowed from income u/s 111A, 112A and 112)			(1,50,000)

<b>Total income</b>		<b>62,08,556</b>
<b>Computation of tax liability</b>		
On short term capital gain u/s 111A of 5,00,000 @ 15%		75,000
On long term capital gain u/s 112A of 3,06,000 @ 10% (4,06,000 - Exemption of 1,00,000)		30,600
On long term capital gain u/s 112 on sale of listed corporate bonds of Rs. 50,000 @ 10% (without indexation)		5,000
On long term capital gain u/s 112 (other than on sale of listed corporate bonds) of Rs. 48,27,556 @ 20%		9,65,511
On other income of 4,25,000 (total income – incomes taxable above at special rates)		8,750
<b>Tax on total income</b>		<b>10,84,861</b>
Less: Rebate u/s 87A (not available since total income > 5 lakh)		-
		10,84,861
Add: Surcharge @ 10% since total income exceeds 50 lakh and is up to 1 crore		1,08,486
		11,93,347
Add: HEC @ 4%		47,734
<b>Tax liability</b>		<b>12,41,081</b>
<b>Tax liability (rounded off)</b>		<b>12,41,080</b>

**Computation of capital gain for AY 2025-26 for defaults committed u/s 54**

Particulars	Rs.	Rs.
<b>Long term capital gain on unutilized CGAS deposited within 3 years from receipt of compensation (October 2021) = 8 lakh – 7 lakh.</b> Since capital gain on house is not more than Rs. 2 crore, Swarn can purchase 2 residential houses in India u/s 54 within two years from receipt of compensation. It is assumed that he exercised this once in a lifetime option.		1,00,000
<b>Sale of new asset u/s 54 (house in Hyderabad) within 3 years of its acquisition</b>		
Full value of consideration u/s 50C = Consideration, since SDV is not more than 110% of consideration	14,00,000	
Less: Cost of acquisition = Cost (10 lakh) – Capital gain exempted earlier (10 lakh)	Nil	
Long term capital gain (since house held for more than 24 months)	14,00,000	14,00,000
<b>Total long term capital gain for AY 2025-26</b>		<b>15,00,000</b>

*Note 1 – Capital gain on conversion of painting into stock-in-trade, taxable for AY 2022-23, i.e., the year in which stock-in-trade is sold*

Particulars	Rs.
Full value of consideration: FMV on date of conversion u/s 45(2)	45,000
Less: Cost of acquisition (indexation not available since asset held for not more than 36 months till date of conversion)	(25,000)
<b>Short term capital gain (since period of holding till date of conversion is not more than 36 months)</b>	<b>20,000</b>

*Note 2 – Capital gain on sale of urban agricultural land (since situated within 8 km aerial distance from local limit of Ranchi and used for rice farming)*

Particulars	Rs.
Full value of consideration u/s 50C = SDV of 35 lakh since it is > 110% of 30 lakh of consideration. SDV on date of agreement taken since part consideration received on this date by a specified mode. But since DVO value of 34 lakh is less than SDV, 34 lakh is taken as full value of consideration.	34,00,000
Less: Expenditure on transfer: Brokerage of 1% of 30 lakh	(30,000)
Net consideration	33,70,000
Less: Indexed cost of acquisition = COA × (CII of 2021-22 / CII of 2011-12) = 10.10 lakh × (317/184). Brokerage of 1% added to COA. Advance money forfeited on or after 1.4.2014 is taxable as IFOS in the year of forfeiture (AY 2019-20 in this case) and is not reduced from COA u/s 51.	(17,40,054)
<b>Long term capital gain (since period of holding is more than 24 months)</b>	<b>16,29,946</b>

*Note 3 – Capital gain on exchange of silver ornaments for gold jewellery*



Particulars	Rs.
Full value of consideration: FMV of gold jewellery on date of transfer since it is a case of exchange	20,00,000
Less: Indexed cost of acquisition = COA × (CII of 2021-22 / CII of 2016-17) = 5 lakh × (317/264). Cost of acquisition to the last previous owner taken who acquired it by a mode other than that referred u/s 49(1). Period of holding and indexation computed accordingly.	(6,00,379)
Less: Indexed cost of improvement: COI × (CII of 2021-22 / CII of 2019-20) = 50,000 × (317/289). Cost of improvement incurred by previous owner is considered.	(54,844)
<b>Long term capital gain (since period of holding by Swarn and previous owners is more than 36 months)</b>	<b>13,44,777</b>

*Note 4 – Capital gain on compulsory acquisition of residential house, taxable in AY 2022-23, i.e. year in which compensation received*

Particulars	Rs.
Full value of consideration: Initial compensation of 50 lakh + interim compensation of 10 lakh (included since final order passed in PY 2021-22). Final additional compensation of 5 lakh is taxable in AY 2023-24 in which it is received.	60,00,000
Less: Litigation expenses	(50,000)
Net consideration	59,50,000
Less: Indexed cost of acquisition = COA × (CII of 2020-21) / CII of 2001-02) = 10 lakh × (301/100). COA = Higher of cost (10 lakh + 3% stamp duty and brokerage) or FMV on 1.4.2001 (which can't exceed SDV on this date). This is Rs. 12 lakh. From this, reduce advance money forfeited before 1.4.2014 of Rs. 2 lakh u/s 51. COA = 10 lakh. Year of transfer for computing indexed COA and COI is the year of compulsory acquisition.	(30,10,000)
Less: Indexed cost of improvement:	
• Construction of floor before 1.4.2001: Not considered	-
• Addition of room on 1.6.2014: COI × (CII of 2020-21 / CII of 2014-15) = 2 lakh × (301/240)	(2,50,833)
• Significant alterations on 15.3.2020: COI × (CII of 2020-21 / CII of 2019-20) = 1 lakh × (301/289)	(1,04,152)
• Cost of painting and routine repair work: Not considered since not capital expenditure	-
<b>Long term capital gain (since house held for more than 24 months)</b>	<b>25,85,015</b>

*Note 5 – Capital gain on sale of listed bonds*

Particulars	Rs.
Full value of consideration	1,50,000
Less: Cost of acquisition (indexation is not available on bonds)	(1,00,000)
<b>Long term capital gain (since bonds are listed and held for more than 12 months)</b>	<b>50,000</b>

*Note 6 – Capital gain on sale of units of Reliance equity fund (being an equity oriented fund since at least 65% proceeds are invested in listed equity shares of domestic companies) – Covered u/s 112A since units are of EOF and STT paid on sale*

Particulars	Rs.
Full value of consideration for 1,000 units @ 150 per unit	1,50,000
Less: Expenditure on transfer (STT is not deductible)	-
Net consideration	1,50,000
Less: Cost of acquisition: Since units of EOF covered u/s 112A are acquired before 1.2.2018, COA is higher of (A) cost of 100 or (B) lower of FMV on 31.1.2018 of 90 or FVC of 150. Thus, COA is 100 per unit. Indexation not allowed u/s 112A	(1,00,000)
<b>Long term capital gain u/s 112A (since units of EOF held for more than 12 months)</b>	<b>50,000</b>

*Note 7 – Capital gain on sale and buy back of unlisted shares of BCD Pvt. Ltd.*

Particulars	Rs.
<b>Sale of shares on 1.4.2021</b>	
Full value of consideration = 5,000 shares @ Rs. 150 per share (i.e., FMV u/s 50CA since it is more than actual consideration) 1,000 preference shares were converted to 2,000 equity shares (no capital gain on conversion u/s 47(xb)). Sub-division of 2,000 equity shares into 10,000 equity shares (no capital gain on sub-division). Capital gain arise on sale of 50% holding, i.e., 5,000 shares	7,50,000
Less: Cost of acquisition: COA and period of holding is determined with reference to original preference shares. No indexation since gain is short-term as asset (unlisted shares) held for not more than 24 months. COA = 50%	(3,50,000)

of 7,50,000 (1,000 preference shares @ 750 per share)	
<b>Short term capital gain</b>	<b>4,00,000</b>
<b>Buy back of shares on 1.8.2021</b>	
Buy back of shares by a domestic company is exempt in the hands of shareholder u/s 10(34A). BCD Pvt. Ltd. will be liable to tax on distributed income u/s 115QA.	-

*Note 8 – Capital gain on sale of listed shares of Rich Bank Ltd.*

Particulars	Rs.	Rs.
<b>Shares acquired:</b>		
1. Original purchase - 100 shares		
2. Bonus shares - 50 shares		
3. Right shares – 25 shares (50% of 50 shares)		
Shares sold in the order they were first acquired, i.e., 100 original and 40 bonus shares		
<b>Long term capital gain on sale of 100 original shares (chargeable u/s 112A since STT paid on sale; STT not payable on purchase since acquisition before 1.10.2004, i.e., before STT law was enacted)</b>		
Full value of consideration @ 1,000 per share	1,00,000	
Less: Expenditure on transfer: STT paid not deductible	-	
Net consideration	1,00,000	
Less: Cost of acquisition (since equity shares referred u/s 112A acquired before 1.2.2018) = Higher of (a) cost (300, i.e., higher of 200 or FMV on 1.4.2001 of 300) or (b) lower of FMV on 31.1.2018 (600) or FVC (1,000) = 600 per share. Indexation not available u/s 112A.	(60,000)	
Long term capital gain u/s 112A	40,000	40,000
<b>Long term capital gain on sale of 40 bonus shares (chargeable u/s 112A since STT paid on sale; STT not payable on acquisition since issued by company)</b>		
Full value of consideration @ 1,000 per share	40,000	
Less: Expenditure on transfer: STT paid not deductible	-	
Net consideration	40,000	
Less: Cost of acquisition (since equity shares referred u/s 112A acquired before 1.2.2018) = Higher of (a) cost (nil) or (b) lower of FMV on 31.1.2018 (600) or FVC (1,000) = 600 per share. Indexation not available u/s 112A.	(24,000)	
Long term capital gain u/s 112A	16,000	16,000
<b>Total long term capital gain u/s 112A</b>		<b>56,000</b>
<b>Short term capital gain on renouncement of right entitlement</b>		
Full value of consideration: 25 shares @ 200 per share		5,000
Less: Cost of acquisition		Nil
<b>Short term capital gain</b>		<b>5,000</b>

*Note 9 – Capital gain on sale of shares of Jack and Jill Ltd. received under ESOP (chargeable u/s 112A since STT paid on sale (not payable on acquisition) and gain is long-term as shares held for more than 12 months)*

Particulars	Rs.
Full value of consideration = 1,000 shares @ 1,500 per share	15,00,000
Less: Expenditure on transfer: STT paid not deductible	-
Net consideration	15,00,000
Less: Cost of acquisition (since equity shares referred u/s 112A acquired before 1.2.2018) = Higher of (a) cost (500 being FMV on date of exercise of option) or (b) lower of FMV on 31.1.2018 (1,200 being highest quoted price on day immediately preceding 31.1.2018) or FVC (1,500) = 1,200 per share. Indexation not available u/s 112A.	(12,00,000)
<b>Long term capital gain u/s 112A</b>	<b>3,00,000</b>

*Note 10 – Capital gain on transfer of gold jewellery to friend*

Particulars	Rs.
Full value of consideration = FMV of asset transferred on date of transfer of Rs. 9 lakh (u/s 50D) since full value	10,00,000



of consideration is not ascertainable. However, AO can refer valuation to VO u/s 55A since he is of the opinion that FMV (9.5 lakh) exceeds value claimed by more than 15% or 25,000. Thus, FVC u/s 55A is value determined by VO.	
Less: Indexed cost of acquisition = COA (higher of cost or FMV on 1.4.2001) × (CII of 2021-22 / CII of 2001-02) = 2 lakh × (317/100).	(6,34,000)
<b>Long term capital gain</b>	<b>3,66,000</b>

*Note 11 – Capital gain on transfer of depreciable assets*

Particulars	Rs.
WDV of Block of machinery (15% depreciation) as on 1.4.2021	1,00,000
Add: Cost of Machine G acquired on 1.3.2022 and put to use on 15.3.2022	25,000
Less: Moneys payable for Machine D sold during the year (sale price)	(80,000)
Less: Moneys payable for Machine C destroyed during the year (insurance compensation)	(75,000)
WDV of Block for depreciation (cannot be negative)	Nil
<b>Depreciation: No depreciation since WDV is nil though block continues to exist. Capital gains arise.</b>	
<b>Computation of capital gain:</b>	
Full value of consideration	1,55,000
Less: Expenditure on transfer (insurance premium is not expenditure on transfer)	-
Net consideration	1,55,000
Less: WDV of Block as on 1.4.2021	(1,00,000)
Less: Cost of Machine G acquired during the year	(25,000)
<b>Short term capital gain</b>	<b>30,000</b>

*Note 12 – Capital gain on transfer of brand name and license*

Particulars	Rs.	Rs.
<b>Sale of self generated brand name of business</b>		
Full value of consideration	10,00,000	
Less: Expenditure on transfer	(10,000)	
Net consideration	9,90,000	
Less: Cost of acquisition	Nil	
Long term capital gain	9,90,000	9,90,000
<b>Sale of business license</b>		
Full value of consideration	5,00,000	
Less: Indexed cost of acquisition = COA × (CII of 2021-22 / CII of 2013-14) = 2 lakh × (317/220).	(2,88,182)	
Long term capital gain	2,11,818	2,11,818
<b>Total long term capital gain (since both assets held for more than 36 months)</b>		<b>12,01,818</b>

*Note 13 – Capital gain on slump sale of business division u/s 50B*

Particulars	Rs.
Full value of consideration: FMV of division as on 15.12.2021	50,00,000
Less: Cost of acquisition and improvement = Net worth of division = WDV of block of depreciable assets (10 lakh) + Book value of other assets (30 lakh, i.e., 35 lakh less revaluation of 5 lakh) – Value of liabilities as per books (5 lakh). Indexation not allowed u/s 50B	(35,00,000)
<b>Long term capital gain (since division held for more than 36 months)</b>	<b>15,00,000</b>

*Note 14 – Capital gain on sale of equity shares of Jayman Ltd. (transfer on amalgamation is exempt u/s 47(vii), subsequent sale is liable to capital gain, chargeable u/s 111A since shares are not held for more than 12 months (including period held in Cayman Ltd.) and STT is chargeable on sale)*

Particulars	Rs.
Full value of consideration: 2,000 shares @ 750 per share	15,00,000
Less: Expenditure on transfer (STT not deductible)	-
Net consideration	15,00,000
Less: Cost of acquisition (with reference to Cayman Ltd.) = 1,000 shares @ 1,000 per share	(10,00,000)
<b>Short term capital gain u/s 111A</b>	<b>5,00,000</b>

*Note 15 – Exemptions from capital gain*

Particulars	Land	House
Eligible exemptions:		
1. U/s 54EC – On long term capital gain on sale of land and house – Purchase of bonds of NHAJ and RECL		
2. U/s 54 – On long term capital gain on sale of house – Purchase of house		
3. U/s 54F – On long term capital gain on sale of any asset (other than house) – Purchase of house		
Long term capital gain	16,29,946	25,85,015
<i>Less exemption u/s 54F:</i> Not advisable since Swarn already owns a residential house in Delhi and would own an extra house in Surat, other than the house in Hyderabad. On purchase of house in Surat, exemption u/s 54F would be forfeited and would be taxable as LTCG.	-	-
<i>Less exemption u/s 54EC:</i> Since 54EC exemption can be applied both for sale of land and house but 54 exemption can be applied only for sale of house, it is advisable to exhaust 54EC exemption first.	(16,29,946)	(3,70,054)
<ul style="list-style-type: none"> <li>Exemption for RECL bonds: Not available for purchase of bonds on 15.8.2022 since not within 6 months from sale of land on 10.2.2022 and receipt of compensation for house on 25.10.2021 and 1.12.2021</li> <li>Exemption for NHAJ bonds = 20 lakh being purchase of bonds on 15.3.2022 (i.e., within 6 months from sale of land on 10.2.2022 and receipt of compensation for house on 25.10.2021 and 1.12.2021)</li> </ul>		
	Nil	22,14,961
<i>Less exemption u/s 54:</i> Cost of new asset = House in Hyderabad purchased within 2 years of receipt of compensation (10 lakh) + CGAS deposit (8 lakh), by the ROI due date	-	(18,00,000)
<b>Balance long term capital gain</b>	<b>Nil</b>	<b>4,14,961</b>

#### CHARGEABILITY

**M4. Romil owns four plots of land which he sold during the PY 2021-22. Sale of which of these will not be .....**

Situated beyond 8 kms from local limits of area with population > 10 lakh: Rural area

**M5. Shivam, aged 45 years, sold an agricultural land for Rs. 52 lakh on 4.10.2021 acquired at a cost of .....**

First land is rural agricultural land: No CG. Second land is urban agricultural land. STCG = 53 – 46.

**M7. Ram undertook certain transactions during the PY 2021-22. He seeks your advise on which of the following.....**

CG is taxable in the year of transfer of capital asset

**M8. Which of the following capital assets, held by Raju for 15 months before sale, would give rise to long term.....**

Threshold POH for listed securities is 12 months

**M9. Which of the following capital assets, held by Raju for 30 months before sale, would give rise to short term.....**

Threshold POH for unlisted debentures is 36 months

**M15. If a building is held by the assessee for 36 months, cost of improvement incurred 14 months before transfer.....**

Since gain is LTCG

**M16. Indexation is available on which of the following transfers made by Rohit, a resident, during PY 2021-22.....**

Threshold POH for unlisted equity shares is 24 months

**M17. Heera, maintaining books of account on cash basis, sold his shop to Meera on 15.6.2021. Meera discharged .....**

FVC = 10 + 5 + 18 = 33L. Gain is STCG. COA = 12. CG = 33 – 12 = 21L.

**M18. Juhi, stuck in a criminal litigation, handed over some precious stones which she owned, to Jasbir, her lawyer.....**

Juhi STCG = 5L u/s 50D – 2L = 3L.

**M19. Sawan purchased a residential house from Sohan during the PY 2021-22 for Rs. 50 lakh. Sohan had.....**

STCG = 50,00,000 FVC – 30,30,000 COA (30,00,000 purchase price + 30,000 brokerage) – 1,00,000 Trf exp (50,000 brokerage + 50,000 legal charges) = 18,70,000

**M20. Yuvi acquired a residential flat in Chennai for Rs. 50 lakh on 1.1.2001. FMV of the flat on 1.4.2001 was .....**

FVC u/s 50C = 2 Cr. Exp on trf = 2,00,000.

COA = 55,50,000. ICOA = COA × (317/100) = 1,75,93,500.

LTCG = FVC – Exp – ICOA = 22,06,500. Painting/repair is not part of COI.

**M21. Shaivi acquired a building in Goa for Rs. 20 lakh on 1.1.2010. FMV and SDV on this date were Rs. 22 lakh.....**

FVC u/s 50C = 50 lakh.

COA = 20 lakh. ICOA = COA × (317/148) = 42,83,784.

COI = 5 lakh. ICOI = COI × (317/301) = 5,26,578.

LTCG = FVC – ICOA – ICOI = 1,89,638

**M22. Advance money received in connection with failed transfer of capital asset and forfeited on 1.5.2010 by.....**

Sum forfeited by previous owner not reduced from COA u/s 51

**M23. Rajan acquired a shop in a commercial complex in Mumbai for Rs. 10 lakh on 1.2.1995. FMV and SDV.....**

FVC u/s 50C = 80L.

COA = 15L – 1L forfeited from Somil – Nil forfeited by previous owner – Nil forfeited from Monu as taxable as IFOS = 14L.

ICOA = COA × (317/100) = 44,38,000.

COI = 3L. ICOI = COI × (317/105) = 9,05,714.

LTCG = FVC – ICOA – ICOI = 26,56,286

**M25. If cost of acquisition to previous owner cannot be ascertained, it means FMV on the date the capital asset .....**

FMV on date capital asset was acquired by previous owner

**M26. Y purchased a flat on 1.6.2010 and gifted it to Z on 1.8.2019. Z sold the flat on 1.6.2021. Indexation of cost .....**

Year of acquisition by previous owner

**M27. B constructed a building for Rs. 5 lakh on 1.5.1995 and incurred Rs. 1 lakh in constructing an additional room.....**

FVC u/s 50C = 50L.

COA = 10L cost to D (last previous owner). ICOA = COA × (317/100) = 31,70,000.

COI = 2 lakh incurred by G. ICOI = COI × (317/122) = 5,19,672.

LTCG = FVC – ICOA - ICOI = 13,10,328

**M28. Y Ltd. is a 100% holding company of Z Ltd. Y Ltd. transfers a capital asset (acquired in 2002 for Rs. 50,000) on.....**

Section 47(iv)

#### SPECIAL PROVISIONS FOR DEPRECIABLE ASSETS

**M31. Vandana started a business on 1.4.2021 and purchased a machine for Rs. 10 lakh entitled to 15% rate of.....**

No dep as block becomes empty. STCG = FVC 8L – actual cost 10L = (2L)

**M32. Vandana purchased Machine C on 1.1.2022 for Rs. 10 lakh (15% rate of depreciation). She sold Machine B.....**

Opening WDV = 8,00,000 – 60,000 (50% dep) = 7,40,000. Addition = 10 lakh. Money payable = 6 lakh. Closing WDV = 7,40,000 + 10,00,000 – 6,00,000 = 11,40,000.

Dep = 50% of 15% of 10 lakh and 15% on remaining 1.4 lakh = 96,000. No CG.

**M33. Opening WDV of the block of intangible assets, comprising know-how and patent, on 1.4.2021, is Rs. 20 lakh.....**

Closing WDV = opening WDV 20L + actual cost 5L – moneys payable 35L = Nil. No Dep.

STCG = FVC 35L – opening WDV 20L – actual cost 5L = 10L.

#### SPECIAL PROVISIONS WHERE CAPITAL GAIN IS CHARGED IN YEAR OTHER THAN YEAR OF TRANSFER

**M34. Insurance compensation received for destruction of machinery used in the manufacturing process, in a road .....**

Road accident not covered u/s 45(1A)

**M35. Sony, a businessman, had two machines in the block of assets (15% depreciation rate) with WDV of 1 lakh on.....**

Block ceases to exist. No Dep. STCG = FVC 95,000 – opening WDV 1,00,000 = (5,000).

**M36. Johnny, engaged in manufacturing of goods, owned a residential house which was destroyed in a cyclone that.....**

House: FVC = 10L. COA = 10L. ICOA = COA × (301 (2020-21) / 280 (2018-19)) = 10,75,000. LTCG = FVC – ICOA = (75,000).

Car: No CG as personal effect.

SIT: Taxed as PGBP, not as CG.

**M37. If Rashmi converted a capital asset, acquired in PY 2014-15, into stock-in-trade of her business in PY 2019-20.....**

U/s 45(2), year of transfer of capital asset is year of conversion but year of charge of CG and BI is year of transfer of SIT

**M38. Rashmi started a jewellery business on 1.2.2021 and brought her personal jewellery that she used to wear, into.....**

CG: FVC = 2,50,000 (50% of 5L). COA = 50,000 (50% of 1L). ICOA = 90,120 (CII of 2020-21 301/CII of 2010-11 167). LTCG = FVC – ICOA = 1,59,880.

BI = 4,00,000 – 2,50,000 = 1,50,000.

**M39. If Rashmi treats the stock-in-trade of her business (acquired on 17.8.2016) as a capital asset on 17.8.2020 and.....**

Section 28(va) and 49(9)

**M40. Government of Delhi acquired a plot of land owned by Gyan on 1.6.2020 for constructing Delhi Metro. It paid.....**

Initial compensation taxable in AY 2021-22; interim compensation taxable in AY 2023-24; pending amount taxable in AY 2023-24.

**M41. What is the tax treatment for AY 2022-23 of Rs. 30,000, being interest on compensation received on 30.9.2021.....**

Taxable on receipt basis as IFOS after 50% deduction

**M42. Government of Maharashtra acquired a house owned by Yaman on 10.12.2020, which he had acquired as gift.....**

FVC = 30L. COA = 20 lakh. ICOA = 22,80,303 (CII of 2020-21, 301/ CII of 2016-17, 264). LTCG = 7,19,697.

LTCG on 5L = 5,00,000 – 50,000 = 4,50,000.

Total LTCG = 11,69,697

**M43. Pursuant to a registered agreement, JKL Pvt. Ltd. handed over possession of land to Super Builders on 15.1.2021.....**

45(5A) is not applicable to company. CG taxable in AY 2021-22.

**M44. Pursuant to a joint development agreement, entered by Chunky with Junky Builders on 10.1.2020, to construct.....**

FVC = 30L SDV + 20L money = 50L.

COA = 25L. ICOA = 27,66,544 (CII of 2020-21, 301 / CII of 2017-18, 272).

LTCG = FVC – ICOA = 22,33,456

## SPECIAL PROVISIONS TO PREVENT TAX AVOIDANCE

**M52. Zulu sold his house to Zola on 15.12.2021 for Rs. 50 lakh. Zola paid Rs. 1 lakh by a bearer cheque as token .....**

STCG = FVC u/s 50C of 50L (as SDV of 55 lakh is not > 110% of 50 lakh) – COA of 30L = 20L

**M53. Rolu agreed to sell his house to Golu for Rs. 20 lakh. He received 10% of consideration on date of agreement.....**

FVC u/s 50C = 21L. COA = 15L. STCG = 6L

**M55. Zubin sold a vacant land to Rubin for Rs. 30 lakh on 14.8.2021 on which date its SDV was Rs. 50 lakh and FMV.....**

30L since SDV of 32L does not exceed 110% of 30L

**M57. Shekhar, a shareholder of 100 unlisted equity shares in Shikhar Pvt. Ltd., sold his entire shareholding on.....**

FVC @ 5,500 u/s 50CA. STCG based on 24 month POH. STCG = 5,500 – 3,000 per share.

**M58. Jagan sold gold jewellery during the PY 2021-22, which he acquired for Rs. 1 lakh in June 1997. For computing.....**

U/s 55A

**M59. Upon retirement of Rajat, a partner of RKS & Co, from the partnership firm on 1.6.2021, he was given a plot of.....**

U/s 55A; AO of the opinion that FMV exceeds value claimed by more than 25,000, if not by more than 15%.

## FINANCIAL ASSETS

**M62. The period of holding does not run from the date of allotment of shares in which of the following cases.....**

Runs from date of offer of right

**M63. Capital gain on renouncement of rights entitlement is always long term capital gain.....**

It is always STCG

**M64. Rana was offered 100 rights shares of PQR Ltd. @ Rs. 400 per share on 20.5.2020 which he renounced.....**

Rana: STCG = FVC 20,000 – COA Nil = 20,000.

Sana: STCG = FVC 1,00,000 – COA 60,000 (200 + 400 per share) = 40,000; POH from date of allotment.

**M65. Maya had bought 3,000 listed shares of a company on 25.2.2021 at Rs. 300 per share. The company announced.....**

Original shares: LTCG: FVC 12,00,000 – 9,47,841 (9,00,000 × (317/301)) = 2,52,159.

Bonus: STCG = 4,00,000 - Nil = 4,00,000.

**M66. Cee purchased 100 shares of Gems Ltd. @ Rs. 50 per share on 20.2.1998. FMV on 1.4.2001 was Rs. 100 per.....**

LTCG on original 100 shares: FVC = 1,00,000; COA = 10,000; ICOA = 31,700 (COA × (317/100)); LTCG = 68,300.

LTCG on 50 Right shares: FVC = 50,000; COA = 10,000; ICOA = 12,008 (COA × (317/264)); LTCG = 37,992.

STCG on 50 Bonus shares: FVC = 50,000; COA = Nil; STCG = 50,000.

**M68. Ruma purchased 1000 shares of D Ltd. on 1.7.2020 @ 200 per share, 2000 shares of C Ltd. on 1.12.2020 @.....**

STCG will arise. FVC = 6,00,000. COA @ 200 for 1,000 shares and @ 300 for 2000 shares = 2,60,000. STCG = 3,40,000

**M69. Zen subscribed to 1,000 convertible preference shares of Maruti Ltd. on 1.11.2008 @ Rs. 500 per share.....**

FVC = 2,000 shares @ 600 = 12,00,000.

COA = 5,00,000. ICOA = 11,56,934 (COA × (317/137)).

LTCG = FVC – ICOA = 43,066

**M71. Shine Ltd., an Indian company, purchased its 10,000 equity shares of face value of Rs. 10 for Rs. 50 from its.....**

Income exempt for Sheryl u/s 10(34A).

Distributed income for BBT on Shine Ltd. = 50 per share – 15 per share = 35 per share = 3.5 lakh

**M73. Roland Ltd. split its equity shares of face value of Rs. 10 each into five equity shares of Rs. 2 each, on 1.1.2021.....**

FVC = 50,000. COA = 200 shares @ 100 = 20,000. ICOA = 21,938 (COA × (317/289)). LTCG = 28,062

**M75. Quant Ltd. allotted 1,000 equity shares to Rashid on 1.3.2021 on payment of Rs. 200 per share under its.....**

STCG will arise. POH computed from 1.3.2021. FVC = 15L. COA @ 1000 = 10L. STCG = 5L

**M76. Zara acquired 100 debentures in Z Ltd. on 1.7.2015 for Rs. 500 each. 50% of the debentures were converted.....**

Debentures: LTCG will arise; no indexation; FVC 30,000; COA 25,000; LTCG 5,000.

Shares: LTCG will arise; FVC 60,000; COA 25,000; ICOA 31,201 (COA × (317/254)); LTCG 28,799

## INTANGIBLE ASSETS

**M81. Rishabh, selling products under the brand name 'Super Duper Foods' since 1.5.2000, transferred the brand.....**

LTCG = 50,00,000 – COA Nil – Exp 10,000 = 49,90,000

**M82. Mr. Bee purchased license to run his profession from Mr. Cee on 15.2.2018 for Rs. 10 lakh. He also created and.....**

STCG will arise. License = FVC 20L – COA 10L = 10L. Trademark of profession = FVC 10L – COA Nil = 10L

**M83. Gopal, a transporter, acquired stage carriage permit on 12.12.2017 for Rs. 1,00,000 from another transporter.....**

LTCG will arise. FVC = 2,00,000. COA = 1,00,000. ICOA = 1,16,544 (COA × (317/272)). LTCG = 83,456

## BUSINESS REORGANIZATION

**M85. Shaunak, a shareholder in Mart Ltd., received 5,000 shares in D-Mart Ltd. on 1.6.2021 pursuant to .....**

LTCG will arise; FVC 20,00,000 (5,000 shares @ 400); COA 10,00,000 (1,000 shares @ 1,000); ICOA 10,96,886 (COA × (317/289)). LTCG = 9,03,114

**M88. KLM Ltd. transferred its entire manufacturing unit to BCD Ltd. for a lump sum consideration of Rs. 30 crore.....**

FVC = FMV on date of transfer 30 Cr; Net Worth = Tax WDV 10 Cr + Land 5 Cr + Other assets 10 Cr – Liability 5 Cr = 20 Cr.

LTCG = 30 cr – 20 cr, u/s 50B.

## CERTAIN OTHER TRANSFERS NOT LIABLE TO CAPITAL GAIN

**M89. MF Hussain, a renowned painter, donated his famous paintings to the National Art Gallery on 20.2.2021. He.....**

Exempt u/s 47(ix)

**M91. Mr. Shankar, aged 70 years, purchased a residential house on 1.4.2019 for Rs. 50 lakh and mortgaged it to.....**

Loan received is exempt u/s 10(43)

## EXEMPTIONS

**M102. In which of the following situations, can exemption be claimed u/s 54, by Rohit?**

A: No as RH not sold. C: No as construction after 3 years. D: No as STCG

**M103. In which of the following situations, is exemption not available u/s 54, in the hands of Rashmi?**

RH not in India

**M105. Shubham sold a residential house on 1.12.2021, for the first time in his life, resulting in a long term capital...**

AY 2022-23: CNA = 25L purchase + 25L CGAS = 50L. LTCG = 50L – 50L exemption = Nil.

AY 2025-26: LTCG of 5L on CGAS not utilized within 3Y.

Exemption allowed under the once in a lifetime option for 2 houses as CG ≤ 2 crore.

**M106. Vaibhav sold his old residential house in April 2020 for Rs. 28,00,000. LTCG arising on transfer of old house.....**

AY 2021-22: LTCG = 8,40,000 – 5,00,000 exemption u/s 54 = 3,40,000.

AY 2022-23: STCG = 14,00,000 FVC – Nil COA (COA = cost of 5 lakh – CG exempted earlier 5 lakh) = 14,00,000

**M107. Dhoni sold a residential house, for the first time in his life, on 1.5.2021 on which long term capital gain was.....**

AY 2022-23: LTCG = 25L – Exemption u/s 54 of 20L (for 2 houses as per once in a lifetime option as CG ≤ 2 cr) = 5L.

AY 2024-25: STCG; 15L FVC u/s 50C – Nil (cost 10L – earlier exemption of 10L) = 15L.

**M108. In which of the following situations, can Jas reduce capital gain by claiming exemption u/s 54B.....**

No capital gain in Case A; Land not used for agriculture for 2Y preceding transfer in Case B; CG exempt u/s 10(37) in Case C.

**M109. Harini is a resident of India residing in Jaipur. During FY 2011-12, she purchased an agricultural land situated in.....**

Land is rural agri land – No CG.

**M110. Yash, sold agricultural land, situated 2 kms from the municipal limits of Pune (population 30 lakh), on 1.4.2021.....**

Old land: Urban agri land; COA 10,00,000; ICOA 12,00,758 (COA × 317/264); LTCG = 30,00,000 FVC – 12,00,758 ICOA – 15,00,000 exemption u/s 54B = 2,99,242.

New land: Rural agri land, no CG on sale.

**M111. In which of the following cases can exemption from capital gain be claimed u/s 54D?**

A: No as land not used in manufacturing unit for 2 preceding years; C: No as new asset nor land or building; D: No as not a compulsory acquisition

**M112. In which of the following cases can the assessee claim exemption u/s 54EC?**

A: No exemption for corporate bonds; B: No exemption on STCG; C: No as bonds purchased after 6 months

**M113. Raj sold his shop on 1.3.2022 resulting in long term capital gain of Rs. 65 lakh. From out of the capital gain, he.....**

AY 2022-23: LTCG 65L – 45L exempt u/s 54EC = 20L.

AY 2024-25: LTCG = 15L exempted earlier u/s 54EC for RECL.

**M114. Raja sold his house on 15.3.2022 resulting in long term capital gain of Rs. 60 lakh. He invested Rs. 30 lakh in.....**

AY 2022-23: LTCG = 60L – 50L exempt u/s 54EC = 10L.

AY 2025-06: LTCG = 20L exempted earlier.

**M115. Rosy sold a plot of land on 1.3.2022 attracting LTCG of Rs. 50 lakh. It was acquired four years back. She used.....**

AY 2022-23: LTCG = 50L – 30L exempt u/s 54EC = 20L.

AY 2023-24: STCG 2L (12L – 10L) on diamond + 5L (15L – 10L) for bonds (not exempt earlier u/s 54EC, hence, exemption not forfeited; STCG computed normally) = 7L.

**M116. DLF builders converted a commercial building, held as capital asset, into stock-in-trade on 1.1.2021 (FMV on.....**

AY 2022-23: COA 20L; ICOA 22,13,235 (COA × CII of 2020-21, 301/CII of 2017-18, 272); LTCG u/s 45(2) = 40,00,000 FMV – ICOA = 17,86,765 – 10L exempt u/s 54EC = 7,86,765. 6M time limit taken from date of sale, not conversion.

PGBP = 50L u/s 43CA – 40L FMV = 10L.

**M117. Swara sold a residential house acquired three years before, on 1.2.2022 resulting in long term capital gain of.....**

AY 2022-23: LTCG = 75L – 25L NHA exemption u/s 54EC – 25L CGAS exemption u/s 54 = 25L.

Purchase of Kathmandu house not eligible for 54. Purchase of Patna house not eligible for 54 since after 2Y.

AY 2025-26: CGAS not utilized; LTCG = 25L.

**M118. In which of the following situations, can Raje claim exemption u/s 54F?**

B: No as owning more than 1 RH on date of transfer; C: No as gain is STCG; D: No as house purchased outside India

**M119. In which of the following situations, can exemption granted u/s 54F to Raman on sale of diamond jewellery on.....**

Purchased extra house within 2 year period

**M120. Jaya sold a commercial building, acquired in 2011, on 1.9.2021 for Rs. 50 lakh (SDV on this date: Rs. 54 lakh).....**

AY 2022-23: Exemption u/s 54F = 35 lakh CG × (30 lakh cost of new asset / 50 lakh net consideration) = 21 lakh; LTCG = 35 lakh – 21 lakh = 14 lakh.

AY 2024-25: Extra house in Ranchi within 2Y; LTCG = 21 lakh exempted earlier.

## TAX ON CAPITAL GAIN

**M121. Capital gain on transfer of which of the following capital assets during PY 2021-22 is taxable at the highest rate.....**



A: 20%; B: STCG taxable at 30% normal rate; C: STCG at 15% u/s 111A; D: LTCG at 10% u/s 112A

**M122. Indexation is available on transfer of which of the following assets by Raj, a resident, during AY 2022-23.....**

A: No as STCG; B: No u/s 112A; C: Yes as LTCG u/s 112; D: No as STCG.

**M123. Unexhausted basic exemption limit, if any, of a non-resident for AY 2022-23 can be adjusted against.....**

UBEL benefit not available to NR

**M125. For AY 2022-23, Rohit can claim deduction from gross total income u/s 80D in respect of mediclaim premium.....**

A: No as u/s 111A; C: No CG as personal effect; D: No as u/s 112

**M126. Saurabh, a resident, will be allowed rebate u/s 87A, if his total income for AY 2022-23 comprises of.....**

Rebate allowed if  $TI \leq 5L$ . Not allowed on tax u/s 112A.

**M128. Exemption of Rs. 1 lakh is available only on long-term capital gain and short-term capital on sale of equity shares.....**

Only u/s 112A; not u/s 111A

**M130. Gain arising till 31.1.2018 can be grandfathered in computing capital gain on transfer of which of the.....**

Case C is covered u/s 112A, shares acquired before 1.2.2018. STT not applicable on acquisition as STT law not in existence then.

**M134. Bhaskar acquires 100 equity shares on 1.1.2017 at Rs. 200. FMV of shares on 31.1.2018 is Rs. 500. He sells.....**

COA = Higher of (A) COA 200 or (B) Lower of FMV 500 or FVC 400 = 400. LTCG u/s 112A = 400 FVC – 400 COA = Nil

**M135. Bony purchased 100 equity shares of Zydus Ltd. on 1.4.1999 @ Rs. 100 per share. FMV on 1.4.2001 was Rs.....**

COA = Higher of (a) COA 150 or (b) lower of FMV 800 or FVC 1000 = 800. CG per share = 10,00 FVC – 800 Cost = 200.

**M136. Vinay purchased 100 equity shares of Reliable Ltd on 1.4.2016 @ Rs. 500 per share (STT paid). He was allotted.....**

Original shares: LTCG will arise; COA = Higher of (a) cost 500 or (b) lower of FMV 450 or FVC 475 = 500; LTCG per share = 475 – 500 = (25) . LTCL = 2500

Bonus shares: STCG per share = 475 - COA nil = 475. STCG = 23,750

**M137. Jagan purchased 1000 units of Reliance equity oriented fund on 1.4.2017 @ Rs. 50 per unit. He sold all the units.....**

COA = Higher of (a) cost 50 or (b) lower of FMV 75 or FVC 100 = 75. LTCG per unit = 100 – 75 = 25.

**M138. Taxable income of Ramu, a resident aged 35 years, for the AY 2022-23 comprises the following: Business income.....**

TI = 4,80,000 – 30,000 80C deduction = 4,50,000.

Tax: U/s 111A (15% of 50,000) 7,500; U/s 112A (10% of 1,50,000 – 1,00,000 exemption) 5,000; At normal rates (on 2,50,000) Nil. Rebate u/s 87A on tax u/s 111A = 7,500.

Tax = 5,000 + 4% HEC = 5,200

**M139. Mr. Fancy, a non-resident aged 85 years, has the following taxable income for AY 2022-23: Pension.....**

TI = 5L – 1L 80C (on pension) = 4L. UBEL benefit N/A for NR.

Tax: U/s 111A (15% of 1L) 15,000, U/s 112A (10% of 1L i.e., 2L – 1L exemption) 10,000, U/s 112 (20% of 1L) 20,000 = 45,000.

Tax = 45,000 + 4% HEC = 46,800. No 87A for NR.

**M140. Mr. Raja, a resident but not ordinarily resident, turned 60 years of age on 31.3.2022. Taxable income for.....**

TI = 5,90,000 – 1,50,000 u/s 80C (allowed from pension and normal STCG on sale of gold) = 4,40,000 (comprising 111A 50,000, 112A 2,20,000, 112 1,20,000, normal rate income 50,000).

Unexhausted BEL = 3,00,000 – 50,000 = 2,50,000 (adjust 1,20,000 from 112, 50,000 from 111A, 80,000 from 112A). Balance 112A = 1,40,000.

Tax u/s 112A (10% of 1,40,000 – 1,00,000 exemption) = 4,000. No 87A from 112A. Tax = 4,000 + 4% HEC = 4,160.

**M141. During the PY 2021-22, Ranveer has STCG of Rs. 95 lakh taxable u/s 111A, LTCG of Rs. 110 lakh taxable u/s 112A.....**

TI = 2.95 Cr. Income, other than u/s 111A/112A is 2.05 Cr. SC will be levied at 15% on entire income.

**M142. Zee, resident of age 65 years, has the following taxable income during the AY 2022-23: business income.....**

TI comprises 111A of 30L, 112A of 40L, other income of 1.5 Cr.

Tax: 111A @ 15% of 4,50,000 + 112A @ 10% (of 39L) of 3,90,000 + tax on normal income of 43,10,000 = 51,50,000.

Tax + 15% SC on tax + 4% HEC (on tax and SC) = 61,59,400.

**M143. Zee, resident of age 40 years, has the following taxable income during the AY 2022-23: business income.....**

TI comprises 111A of 30L, other income of 2.4 cr.

Tax: 111A (@ 15%) 4,50,000 + 112 (@ 20%) 8,00,000 + tax on normal income (business income) 58,12,500 = 70,62,500

SC = 15% on 111A tax (67,500) + 25% of remaining tax of 66,12,500 (16,53,125) =17,20,625.

Tax + SC = 87,83,125. Tax & SC + 4% HEC = 91,34,450.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Income From Other Sources

#### Build Your Confidence (BYC)

**B1. Dividend u/s 2(22)(e) – Determine whether the following payments are to be treated as dividend for the AY 2022-23:**

#	Particulars	Dividend?	Remarks
1	Jayant holds 15% equity shares in BCD Pvt. Ltd. The company advanced Rs. 10 lakh to Jayant on 15.5.2021 at 12% p.a. rate of interest (market rate is 12% p.a.). Jayant repaid the loan on 1.3.2022. Accumulated profits of BCD Pvt. Ltd. are Rs. 15 lakh as on 15.5.2021.	10 lakh	Advance to specified shareholder
2	Jayant holds 10% equity shares in JKL Pvt. Ltd. The company advanced Rs. 20 lakh to the HUF of which Jayant is a member entitled to 25% income, on 15.5.2021. Accumulated profits of the company on 15.5.2021 were Rs. 15 lakh.	15 lakh	Advance to concern in which specified shareholder has SI
3	Jayant holds 25% equity shares in PQR Ltd., a company in which the public are not substantially interested. The company gave loan on 1.5.2021 of Rs. 15 lakh to Suyash who is not a shareholder in the company. Suyash gave loan of Rs. 15 lakh to Jayant on 15.5.2021. Accumulated profits of the company on 1.5.2021 were Rs. 75 lakh.	15 lakh	Payment on behalf or for individual benefit of specified shareholder
4	Jayant holds 15% equity shares in DEF Pvt. Ltd. The company is primarily engaged in the business of money lending. DEF Pvt. Ltd. advanced a loan of Rs. 30 lakh to Jayant in the ordinary course of its business at market rate of 15%.	No	Loan in ordinary course of money lending business
5	Jayant holds 20% equity shares in Z Pvt. Ltd. The company gave a loan of Rs. 1 lakh to Jayant on 1.1.2021 which is outstanding. The company paid normal dividend to its shareholders on 1.6.2021. Jayant was entitled to dividend of Rs. 1.5 lakh. The company paid Rs. 50,000 to Jayant after setting off the loan amount.	50,000	Dividend set-off against earlier 2(22)(e) payment, not again treated as dividend
6	JKL Pvt. Ltd., in which Jayant holds 12% equity shares, advanced Rs. 5 lakh to him in connection with a job work. This amount was adjusted against the bill raised by Jayant on completion of job work.	No	Trade advance not dividend
7	UVX Pvt. Ltd., in which Jayant holds 15% equity shares, awarded a works contract to him in connection with an export order that the company had won. To complete the work, he was required to purchase and install a machine. The company advanced him Rs. 10 lakh for this purpose.	No	Trade advance not dividend
8	JJ Pvt. Ltd., in which Jayant holds 5% equity shares, advanced a loan of Rs. 5 lakh to a partnership firm in which he was a partner entitled to 25% profit share.	No	Not a specified shareholder
9	Yam Jam Ltd., a listed company, granted a loan of Rs. 10 lakh to Sham Jam Ltd on 1.9.2021. Jayant held 20% equity shares in both the companies. The loan was outstanding till the end of the year. Yam Jam Ltd. had Rs. 8 lakh of accumulated profits as on 1.9.2021.	No	Payer is not a closely held company

**B1a. CA2021(JULY) – Mr. Mani, holding 20% of the equity share capital in XY Ltd, a manufacturing company in which.....**

Since XY Ltd. is a company in which the public are substantially interested, i.e., it is not a closely held company, section 2(22)(e) will not apply. Nothing will be taxable as deemed dividend in the hands of Mr. Mani.

*Mistake by students – Not aware of provisions.*

**B2. Dividend – CA2016(N) - Rakesh has 15% shareholding in RSL (P) Ltd. and also has 50% share in Rakesh & Sons.....**

Taxable as deemed dividend u/s 2(22)(e) in the hands of Rakesh to the extent of Rs. 20 lakh (accumulated profits; assuming this is the figure at the time of loan) as Rakesh beneficially holds  $\geq 10\%$  equity shares in the payer company, which is a closely held company, and loan is given to a concern in which Rakesh holds substantial interest, i.e., beneficially entitled to  $\geq 20\%$  income.

**B3. Dividend – CA2020(N) – Julie received following amount during PY 2021-22. Received loan of Rs. 5,00,000 from.....**

Taxable as deemed dividend u/s 2(22)(e) in the hands of Julie to the extent of Rs. 2,00,000 (accumulated profits on the date of loan) as loan is received from a closely held company in which she holds  $\geq 10\%$  equity shares.

**B4. Dividend – Compute the income taxable under the head IFOS in the hands of Mr. Swindle for the AY 2022-23.....**

*Computation of income taxable under the head IFOS in the hands of Mr. Swindle for the AY 2022-23*

Particulars	ROR	RNOR	NR
Dividend received in India from J Ltd., a domestic company, on 1.10.2021, after paying remuneration of Rs. 5,000 to the bank for realizing the dividend (gross amount taxable; remuneration to bank not deductible)	1,00,000	1,00,000	1,00,000
Dividend received outside India from B Ltd., an Indian company, on 15.5.2021 (deemed to accrue or arise in India u/s 9(1)(iv))	1,00,000	1,00,000	1,00,000
Dividend received in India from C Ltd., a foreign company, on 15.5.2021 (taxable as received in India)	1,20,000	1,20,000	1,20,000
Dividend received outside India from D Ltd., a foreign company, on 15.5.2021, and later remitted to India	80,000	-	-
Dividend received outside India from Z Ltd., a foreign company, on 15.6.2021.	50,000	-	-
<b>Income from other sources</b>	<b>4,50,000</b>	<b>3,20,000</b>	<b>3,20,000</b>

**Money or property received without or for inadequate consideration**

**B5. 56(2)(x) – Determine whether the following will be taxable in the hands of recipient u/s 56(2)(x).**

#	Particulars	Taxability	Amount taxable	Reason
1	Jay HUF received Rs. 1,35,000 as gift in cash from Meena. Meena is the younger daughter of the friend of Jay. Jay is the Karta of the HUF.	Taxable	1,35,000	Meena is not a member of HUF, hence, not relative.
2	Prakash HUF received a house property as gift from Rini, the daughter of Prakash. Rini is the member of Prakash HUF of which Prakash is the Karta. SDV of the house is Rs. 15 lakh.	Not taxable	Nil	Rini is member of HUF, hence, relative. However, income from house will be clubbed with her income u/s 64(2) (refer para 184 for details)
3	Shashwat received the following gifts on his 50 <sup>th</sup> birthday: 1,500 shares of Z Ltd. from his best friend (FMV Rs. 20 per share) and diamond jewellery from elder son of his brother (FMV Rs. 60,000).	Taxable	90,000	Friend and nephew are not relatives. Birthday is not an exempted event. Aggregate FMV of 90,000 exceeds 50,000.
4	Rajan HUF gifted a motor cycle (FMV 50,000) to Rajan's son, Raghu, for winning the college sports competition. Rajan is the Karta of HUF.	Not taxable	Nil	Motor cycle is not covered as movable property u/s 56(2)(x).
5	<b>CA2016(M)</b> - Mr. Kumar gifted a car to his sister's son, Sunil, for achieving good marks in CA Final exam. The FMV of the car is Rs. 5 lakh.	Not taxable	Nil	Car is not covered as movable property u/s 56(2)(x)
6	Rs. 60,000 was received by Rajesh from three of his colleagues on the occasion of marriage of his son. Each person gifted Rs. 20,000.	Taxable	60,000	Marriage is not of recipient. Aggregate > 50,000.
7	Sanjay received Rs. 51,000 as gift from his fiancée living in the US.	Taxable	51,000	Fiancée is not a relative. Aggregate > 50,000.
8	Sanjay, a director employee of a car manufacturing company, received a Honda City car as gift from a car distributor.	Not taxable	Nil	Car is not covered as movable property u/s 56(2)(x). Also, not received from employer (so as to be taxable as salary income) or as benefit from business (so as to be taxable as

**B6. 56(2)(x) – CA2018(M) – Discuss the taxability of the following receipts in the hands of Sanjay Kamboj for.....**

1. Sister is relative. Gift not taxable u/s 56(2)(x).
2. Car is not a movable property specified u/s 56(2)(x). Hence, not taxable.

*Mistake by students – Not aware that car does fall under the definition of ‘property’ u/s 56(2)(x).*

**B7. 56(2)(x) – CA2011(M) - The following details have been furnished by Hemali pertaining to the year ended 31.3.2022. Compute the income, if any, assessable as IFOS.**

#	Particulars	Taxability	Amount taxable	Reason
1	Cash gift of Rs. 51,000 received from her friend on the occasion of her ‘Shastiaptha Poorthi’, a wedding function celebrated on her husband completing 60 years of age. This was also her 25 <sup>th</sup> wedding anniversary.	Taxable	51,000	Occasion not marriage. Friend not relative.
2	On the above occasion, a diamond necklace worth Rs. 2 lakh was presented by her sister living in Dubai.	Not taxable	Nil	Sister is relative
3	When she celebrated her daughter’s wedding on 21.2.2022, her friend assigned in Hemali’s favour, a fixed deposit held by the said friend in a scheduled bank; the value of fixed deposit and the accrued interest on the said date was Rs. 51,000.	Taxable	51,000	Occasion not marriage of Hemali. Friend not relative. FD is sum of money.*
<b>Income from other sources</b>			<b>1,02,000</b>	

*\*‘Sum of money’ is not defined u/s 56(2)(x). Two views are possible – FD represents sum of money or FD does not fall within this meaning. The first view is adopted in the answer. Students can also take the alternative view. A note should be given in the answer in either case.*

**B8. 56(2)(x) – From the following transactions relating to Shikha, determine the amount chargeable to tax in her hands for AY 2022-23. Your answer should be supported by reasons.**

#	Particulars	Gift of money	Movable property for inadequate consideration	Immovable property for inadequate consideration	Reason
---	-------------	---------------	---	---	--------

Particulars	Rs.
Sum of money received without consideration: Aggregate of Rs. 40,000 does not exceed Rs. 50,000	Nil
Movable property received for inadequate consideration: Aggregate FMV – Consideration = 1,33,000 – 75,000 = 58,000. This exceeds Rs. 50,000. Excess is taxable.	58,000
Immovable property (land or building) received for inadequate consideration (per property)	68,000
<b>Income from other sources</b>	<b>1,26,000</b>

**B9. 56(2)(x) – CA2019(N) - Miss Bansuri, a Chinese national, got married to Mr. Keshav of India in Beijing on 3.2.2021.....**

*Computation of total income and tax payable for AY 2022-23*

Particulars	A: Returned on 20.2.2022	B: Returned on 20.1.2022
<b>Determination of residential status for AY 2022-23</b>		
Stay in India in PY 2021-22	1.4.21 to 11.8.21 (133) + 20.2.21 to 31.3.22 (40) = 173 days	1.4.21 to 11.8.21 (133) + 20.1.21 to 31.3.22 (71) = 204 days
Stay in India in preceding 4 PYs	PY 2017-18 to 2020-21 (14.2.21 to 31.3.21) = 46 days.	Not relevant
Case A: Stay in India in PY 2021-22 < 182 days. Further, stay in PY 2021-22 ≥ 60 day but < 365 days in preceding 4 PYs	Status is non-resident	-
Case B: Stay in India in PY 2021-22 ≥ 182 days. Hence, she is resident. But she is non-resident in 9 out of 10 preceding PYs and stay in India is ≤ 729 days in preceding 7 PYs.	-	Status is RNOR
<b>Computation of total income and tax liability for AY 2022-23</b>		
Income under the head IFOS	-	-
• Gift from parents of husband received in India: Not taxable u/s 56(2)(x) since lineal ascendant of spouse is a relative	-	-
• Gift from married sister of husband received in India: Not taxable u/s 56(2)(x) since sister of spouse is a relative	-	-
• Gift from close friends: Taxable u/s 56(2)(x) since friend of husband is not a relative. FMV > 50,000.	2,62,000	2,62,000
<b>Total income</b>	<b>2,62,000</b>	<b>2,62,000</b>
Tax on total income	600	600
Less: Rebate u/s 87A (not available to non-resident)	-	(600)
	600	Nil
Add: HEC @ 4%	24	Nil
<b>Tax liability</b>	<b>624</b>	<b>Nil</b>
<b>Tax liability (rounded off)</b>	<b>620</b>	<b>Nil</b>

**B9A. CA2021(JAN) - Prabhu Dayal Prem Narain HUF purchased a house property in the year 1946 for Rs. 30,000. On.....**

*In the hands of HUF* – No capital gain in the hands of HUF on distribution of capital asset on partition in view of section 47(i) [see para 136].

*In the hands of Prem Narain* – No income u/s 56(2)(x) since house property received on partition of HUF.

**B10. 56(2)(x) – Rocky is engaged in the business of trading in shares. Following particulars are furnished for PY 2021-22.....**

*Computation of IFOS in the hands of Rocky for AY 2022-23*

#	Particulars	Rs.
1	Cash gift is taxable u/s 56(2)(x) since it exceeds Rs. 50,000. Friend is not a relative.	1,25,000
2	Bullion, received without consideration, is taxable u/s 56(2)(x) since FMV exceeds Rs. 50,000	55,000
3	SDV of flat gifted by brother's father-in-law, received without consideration, is taxable u/s 56(2)(x), since SDV exceeds Rs. 50,000. Brother's father-in-law is not a relative.	4,50,000
4	Receipt of shares is not covered u/s 56(2)(x) as it is stock-in-trade for Rocky. Profit on subsequent sale of shares is taxable under the head PGBP for AY 2023-24.	-
5	House: Excess, i.e., difference between SDV of Rs. 15 lakh and Rs. 10 lakh, i.e., Rs. 5 lakh > 50,000 and SDV of	5,00,000

15 lakh > 110% of 10 lakh. Thus, excess is taxable u/s 56(2)(x). SDV on date of agreement is taken since part of consideration is received by specified mode on date of agreement.	
<b>Income from other source</b>	<b>11,30,000</b>

*Computation of capital gain in the hands of Rocky for AY 2022-23 on sale of flat*

<b>Particulars</b>	<b>Rs.</b>
Sale consideration u/s 50C = SDV, as it is > 110% of 10 lakh	12,00,000
Less: Cost of acquisition: Deemed to be the SDV taken into account u/s 56(2)(x), by virtue of section 49(4)	(4,50,000)
<b>Short term capital gain (period of holding of Rocky does not exceed 24 months)</b>	<b>7,50,000</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to B20

#### Income From Other Sources

#### Build Your Confidence (BYC)

**B11. 56(2)(x) - Yogi is a real estate dealer. On 15.10.2021, he sold a flat (being his stock-in-trade) to Jogi, his friend.....**

*Tax implications arising in the hands of Yogi and Jogi for AY 2022-23*

Business income in the hands of Yogi	Rs.
Full value of consideration u/s 43CA = SDV of 80 lakh, as it is > 110% of consideration. SDV on date of agreement not taken since part consideration is paid by bearer cheque on that date.	80,00,000
Less: Cost of flat	(40,00,000)
Profits and gains of business or profession	40,00,000
<b>IFOS in the hands of Jogi u/s 56(2)(x)</b>	<b>Rs.</b>
Excess (SDV 80 lakh – Consideration 50 lakh) > 50,000 and SDV > 110% of consideration. Income u/s 56(2)(x) = Excess. Flat is a capital asset in the hands of Jogi even if it is stock-in-trade in the hands of Yogi.	30,00,000
<b>Capital gain in the hands of Jogi</b>	<b>Rs.</b>
Full value of consideration u/s 50C = Actual consideration as SDV ≤ 110% of consideration. SDV on date of agreement taken since part consideration is paid by account payee cheque on that date.	1,00,00,000
Less: Cost of acquisition u/s 49(4) is value taken into account u/s 56(2)(x)	(80,00,000)
Short term capital gain (since POH does not exceed 24 months)	20,00,000

If Yogi is not a real estate dealer, the flat will be a capital asset in his hands and capital gain will arise on sale of flat to Jogi, instead of business income. Short term capital gain will arise as POH does not exceed 24 months in the hands of Yogi. Computation will remain the same as above and short term capital gain will be Rs. 40,00,000. There will no change in taxability in the hands of Jogi.

**B12. 56(2)(x) – CA2015(M) - Mohini transferred a house to her friend, Ragini, for Rs. 35,00,000 on 1.10.2021. The.....**

*Computation of total income of Mohini and Ragini for AY 2022-23*

Particulars	Rs.	Rs.
<b>Computation of total income of Mohini</b>		
Long term capital gain:		
Full value of consideration u/s 50C = SDV, since it exceeds 110% of consideration. DRO value taken as it is ≤ SDV.	41,00,000	
Less: ICOA = COA × (CII of 2021-22/CII of 2014-15) = 26.50 lakh × (317/240)	(35,00,208)	5,99,792
Other income		2,80,000
Total income		8,79,792
<b>Computation of total income of Ragini</b>		
Income from other sources: Excess (SDV 41 lakh – Consideration 35 lakh) being 6 lakh > 50,000 and SDV of 41 lakh exceeds 110% of 35 lakh. Thus, excess of 6 lakh is taxable u/s 56(2)(x).		6,00,000
Other income		3,45,000
Total income		9,45,000

**B13. 56(2)(x) – CA2010(M) – Raj Kumar sold a house to his friend Dhruv on 1.9.2021 for a consideration of Rs. 25,00,000.....**

*Computation of capital gain in the hands of Raj Kumar for AY 2022-23*



Particulars	Rs.	Rs.
Long term capital gain on sale of land (since POH exceeds 24 months):		
Full value of consideration u/s 50C = Value fixed by Revenue Divisional Officer	22,00,000	
Less: ICOA = COA × (CII of 2021-22/CII of 2015-16) = 5,19,000 × (317/254)	(6,47,728)	
		15,52,272
Short term capital gain on sale of building (since POH does not exceed 24 months)		
Full value of consideration u/s 50C = Value fixed by Revenue Divisional Officer	10,00,000	
Less: COA	(14,00,000)	
		(4,00,000)
Capital gains (long-term): Short term capital loss can be set off against long term capital gain u/s 70 (see para 189 for details)		11,52,272

*Income from Other Sources in the hands of Dhruv for AY 2022-23*

Income from other sources: Excess (SDV 32 lakh – Consideration 25 lakh) being 7 lakh > 50,000 and SDV of 32 lakh exceeds 110% of 25 lakh. Thus, excess of 7 lakh is taxable u/s 56(2)(x).

**B14. 56(2)(x) – CA2018(N) – Subramani sold a house plot to Vimala for Rs. 45 lakh on 12.5.2021. The valuation.....**

*In the hands of Subramani*

Capital gain will arise in the hands of Subramani. SDV of Rs. 53 lakh will be deemed to be the full value of consideration u/s 50C as SDV > 110% of consideration of Rs. 45 lakh.

*In the hands of Vimala*

Income from other sources upon receipt of house plot: Excess (SDV 53 lakh – Consideration 45 lakh) being 8 lakh > 50,000 and SDV of 53 lakh exceeds 110% of 45 lakh. Thus, excess of 8 lakh is taxable u/s 56(2)(x).

Short term capital gain on sale of house plot to Padmaja (since POH does not exceed 24 months):

Particulars		
Full value of consideration u/s 50C = Actual consideration since SDV ≤ 110% of actual consideration		55,00,000
Less: Cost of acquisition u/s 49(4) = Value of property taken into account u/s 56(2)(x)		(53,00,000)
Short term capital gain		2,00,000

**INTEREST**

**B15. Interest – Determine the income taxable under the head IFOS in the hands of Swamy, a resident and ordinarily.....**

*Computation of income taxable under the head IFOS for AY 2022-23*

Particulars	Rs.
Interest on tax-free 8% GOI bonds (exempt)	Nil
Interest on 9% debentures of XYZ Ltd (net of TDS @ 10%) = 18,000 × (100/90) = 20,000. Less commission of Rs. 4,000 (assuming it is reasonable)	16,000
Interest on Relief Bonds (exempt u/s 10(15))	Nil
Interest on 7% Capital Investment Bonds (exempt u/s 10(15))	Nil
Interest on loan given to a business colleague	6,000
Interest on fixed deposits with Kotak Mahindra Bank	15,000
Interest on PPF (exempt u/s 10(11))	Nil
Interest on Post Office Savings Bank Account (individual account) (exempt up to 3,500)	2,500
Interest on loan given to Mrs. Zed, a non-resident for her business carried on in India (deemed to accrue or arise in India u/s 9(1)(v) as interest payable by non-resident for loan used for business carried on in India; even otherwise taxable on global basis as Swamy is a ROR; also taxable on receipt basis assuming it is received in India)	10,000
<b>Income under the head IFOS</b>	<b>49,500</b>

**B16. Interest on compensation – CA2011(N) - On 10.10.2021, Govind (a bank employee) received Rs. 5,00,000 towards.....**

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii) in the year of receipt	5,00,000
Less: Deduction u/s 57(iv) of 50%	(2,50,000)
Taxable interest on enhanced compensation	2,50,000

**B17. Interest on compensation – CA2020(N) - Julie received following amount during PY 2021-22. Received interest.....**

Interest received of Rs. 5,00,000 less deduction of 50%, i.e., Rs. 2,50,000 will be taxable in the year of receipt, i.e, PY 2021-22. Any specific expenditure is not deductible.

### SHARE PREMIUM

**B18. Share premium – CA2019(N) - MLX Investments (P) Ltd. was incorporated during PY 2019-20 having a paid up.....**

1: Section 56(2)(viib) will not apply as issue price does not exceed face value.

2: Section 56(2)(viib) will apply as issue price exceeds face value. IFOS will be 20 lakh @ 20 per share (105 – 85).

3: Section 56(2)(viib) will apply as issue price exceeds face value. IFOS will be nil since issue price does not exceed FMV.

It is assumed that consideration is received from resident.

**B19. Share premium – CA2016(M) – ABC Pvt. Ltd., a closely held company, issued 10,000 shares at Rs. 130 per share.....**

Section 56(2)(viib) will apply as issue price exceeds face value. IFOS will be @ 10 per share (130 – 120), i.e., Rs. 1,00,000.

### COMPUTATION OF TAX LIABILITY

**B20. Tax liability – Compute the tax liability for AY 2022-23 in the following cases for Shikha. She has not opted for.....**

*Computation of tax liability for AY 2022-23*

Particulars	Case I	Case II	Case III
Income from other sources			
• Dividend	3,50,000	3,50,000	3,50,000
• Winning from gambling u/s 115BB	60,000	60,000	60,000
Capital gain			
• LTCG u/s 112	-	30,000	30,000
• LTCG u/s 112A	-	1,50,000	1,50,000
Gross total income	4,10,000	5,90,000	5,90,000
Less: Deduction u/s 80C (deposit in PPF) (not allowed from income taxable at special rates, i.e., winning u/s 115BB, 112, 112A)	(1,50,000)	(1,50,000)	(1,50,000)
Total income	2,60,000	4,40,000	4,40,000
<b>Incomes included in total income</b>			
Winning u/s 115BB	60,000	60,000	60,000
LTCG u/s 112	-	30,000	30,000
LTCG u/s 112A	-	1,50,000	1,50,000
Other income	2,00,000	2,00,000	2,00,000
<b>Computation of tax liability:</b>			
On winning u/s 115BB @ 30% (benefit of unexhausted BEL not available from winnings)	18,000	18,000	18,000
On LTCG u/s 112 @ 20%: Unexhausted BEL = 50,000 (2,50,000 – 2,00,000). 30,000 adjusted against LTCG u/s 112.	-	Nil	-
On LTCG u/s 112 @ 20%: Benefit of unexhausted BEL not available to non-resident	-	-	6,000
On LTCG u/s 112A @ 10% in excess of 1 lakh: Balance unexhausted BEL of 20,000 adjusted. Taxable LTCG = 1,50,000 – 20,000 UBEL – 1,00,000 exemption = 30,000. Tax @ 10%.	-	3,000	-

On LTCG u/s 112A @ 10% in excess of 1 lakh: Benefit of unexhausted BEL not available to non-resident.	-	-	5,000
On other income at normal rates	Nil	Nil	Nil
<b>Tax on total income</b>	<b>18,000</b>	<b>21,000</b>	<b>29,000</b>
Less: Rebate u/s 87A (not available from tax u/s 112A or to a non-resident)	(12,500)	(12,500)	-
	5,500	8,500	29,000
Add: Surcharge	-	-	-
	5,500	8,500	29,000
Add: HEC@ 4%	220	340	1,160
<b>Tax liability</b>	<b>5,720</b>	<b>8,840</b>	<b>30,160</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B21 to End

#### Income From Other Sources

#### Build Your Confidence (BYC)

#### COMPREHENSIVE

**B21. Comprehensive –** Examine under which head of income would the following incomes be taxable in the hands of Rakesh for AY 2022-23:

#	Income	Head
1	He is a builder. He let out certain flats held for sale for a period of 9 months and derived rental income of Rs. 10 lakh.	IHP
2	He is a Member of Parliament. He received salary of Rs. 10,000 per month in this capacity.	IFOS
3	He is a partner in R&S Co., partnership firm. He received interest on capital and salary from the firm. This was allowed as deduction in the hands of the firm.	PGBP
4	He let out plant and machinery belonging to him and derived rental income of Rs. 1,50,000. He is not in the business of letting out plant and machinery.	IFOS
5	He received gift of Rs. 60,000 from his friend on the occasion of his birthday.	IFOS
6	Upon retirement, he received Rs. 20 lakh as lump sum payment from unrecognized provident fund out of which Rs. 7 lakh was his own contribution and Rs. 2 lakh was interest thereon.	2 lakh as IFOS
7	He won a prize of Rs. 3 lakh from State Government lottery	IFOS
8	He was engaged in the business of giving motor cars on hire. Rental income for the year was Rs. 10 lakh.	PGBP
9	He earned Rs. 4,50,000 as interest from money lending business	PGBP
10	He is a dealer in shares. He earned dividend income of Rs. 50,000 on shares held by him as stock-in-trade.	IFOS
11	<b>CA2016(N)</b> - He received a sum of Rs. 5 lakh as compensation from 'Yatra Foundation' towards the loss of property on account of flood disaster at Chennai during December 2021	IFOS (since not exempt u/s 10(10BC) (para 30), as not received from Government or local authority)
12	<b>CA2016(M/N)</b> - He received an advance of Rs. 3 lakh on 6.6.2021 to transfer his residential house property. Since the transfer was not effected during the PY due to failure in negotiations, he deducted the advance money forfeited from the cost of acquisition of the property.	IFOS; not deductible from COA u/s 51
13	He received family pension of Rs. 5,000 p.m. from the employer of his late father.	IFOS 45,000 (60,000 – 15,000 exempt)
14	He was awarded Rs. 21,000 by the local municipal corporation for his outstanding social service	IFOS

**B22. Comprehensive – CA2009(N)** - From the following particulars of Pankaj for the PY 2021-22, compute the income .....

*Computation of income of Pankaj chargeable under the head IFOS for AY 2022-23*

Particulars	Rs.	Rs.
Director's fee from a company		10,000
Interest on bank deposits		3,000
Income from undisclosed source		12,000
Winnings from lotteries (net of TDS @ 30%). Grossed winning = $35,000 \times (100/70)$		50,000
Royalty on a book written by him (assuming it is not taxable as PGBP)	9,000	

Less: Expenses	(1,000)	8,000
Lectures in seminars		5,000
Interest on loan given to relative		7,000
Interest on debentures of a company (listed on RSE) net of TDS @ 10%. Gross interest = 4,500 × (100/90)		5,000
Interest on Post Office Savings Bank Account (exempt u/s 10(15) up to Rs. 3,500 in case of individual account and Rs. 7,000 in case of joint account)		Nil
Interest on Government securities		2,200
Interest on Monthly Income Scheme of Post Office		33,000
<b>Income under the head IFOS</b>		<b>1,35,200</b>

**B23. Comprehensive – MASTER QUESTION - Compute the tax liability of Badal, a resident aged 35 years and carrying.....**

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

Particulars	Rs.	Rs.
<b>Computation of total income</b>		
Income from other sources		
Income from Z Ltd.		
<ul style="list-style-type: none"> <li>Bonus shares to equity shareholder: Not treated as dividend u/s 2(22)(a)</li> <li>Distribution of debentures: Treated as dividend u/s 2(22)(b) to the extent of accumulated profits on the date of distribution = 2 lakh × (15 cr / 20 cr)</li> <li>Buy-back of shares: Buyback by a domestic company is exempt u/s 10(34A) and not treated as dividend u/s 2(22)(d) in the hands of shareholder</li> </ul>	- 1,50,000 -	  1,50,000
Income from BD Pvt. Ltd. in which Badal holds ≥ 10% equity shares		
<ul style="list-style-type: none"> <li>Advance against service contract: Trade advance in nature of commercial transaction is not dividend</li> <li>Loan to firm in which Badal is entitled to ≥ 20% income is dividend u/s 2(22)(e) to the extent of accumulated profits on the date of payment</li> <li>Loan to friend: It is dividend u/s 2(22)(e) but not taxable since there are no accumulated profits on 1.8.2020, remaining after loan to firm</li> <li>Dividend: Not taxable since set off against amount already treated dividend u/s 2(22)(e)</li> </ul>	- 4,00,000 - -	   4,00,000
Dividend from CNK Ltd.		10,000
Dividend from US company: Taxable = 30,000 – interest of 5,000. Interest expense, up to 20% of dividend income included in the total income before such deduction, is allowed as deduction. Payment to banker for realizing dividend is not deductible.		25,000
Loan from JBL Pvt Ltd: Not dividend u/s 2(22)(e) since loan made in ordinary course of business of money lending.		-
Receipt of money:		
<ul style="list-style-type: none"> <li>From friends on occasion of his marriage: Not taxable</li> <li>From fiancée on his birthday: Taxable</li> <li>From partnership firm in which he is a partner: Taxable</li> <li>Aggregate sum taxable u/s 56(2)(x) since it exceeds 50,000</li> </ul>	- 40,000 20,000 60,000	   60,000
Gift of movable property:		
<ul style="list-style-type: none"> <li>Jewellery inherited from parent: Not taxable</li> <li>Work of art received on partition of HUF: Not taxable</li> <li>Gold coins from unregistered trust: Taxable</li> <li>Aggregate sum does not exceed 50,000. Nothing taxable u/s 56(2)(x).</li> </ul>	- - 50,000 -	   -
Movable property received for inadequate consideration:		
<ul style="list-style-type: none"> <li>Unquoted shares from elder son of brother: Taxable</li> <li>Stock of television sets: Not taxable since not a capital asset</li> <li>Honda Civic car: Not taxable since not specified movable asset</li> <li>Excess (Aggregate FMV 1,50,000 – Consideration 50,000) taxable u/s 56(2)(x) since it exceeds 50,000</li> </ul>	1,00,000 - - 1,00,000	   1,00,000
Gift of immovable property: Plot of land gifted by grandfather's cousin sister: SDV taxable u/s 56(2)(x) since it exceeds 50,000		4,00,000
Immovable property received for inadequate consideration: Excess (SDV 12 lakh – Consideration 10		2,00,000

lakh) > 50,000 and SDV > 110% of consideration. Hence, excess taxable u/s 56(2)(x). SDV on date of agreement taken as part payment made by a specified mode on this date.		
Interest income:		
• On debentures of Jabra Ltd: Gross up for TDS: 54,000 × (100/90)	60,000	
• On GOI bonds	20,000	
• On loan to acquaintance: 90,000 – 9,000 expenses in cash for realizing interest (not disallowed u/s 40A(3) as amount in cash does not exceed 10,000)	81,000	
• On FD with bank: Gross up for TDS: 67,500 × (100/90)	75,000	
• On POSA: Exempt up to 3,500 u/s 10(15)	-	
• On PPF: Exempt u/s 10(11)	-	
• On Post Office MIS	8,000	
• On compensation: Taxable on receipt basis. 2 lakh - 50% deduction. No other deduction allowed.	1,00,000	
		3,44,000
Shares of closely held company issued for price more than face value. Issue price 500 – FMV 300, i.e., 200 per shares for 10,000 shares is taxable in hands of Benz Pvt. Ltd. u/s 56(2)(viib), not in hands of Badal.		-
Income from units of Mutual Fund: Taxable		30,000
Winning from KBC: Gross winning taxable. No deduction allowed.		3,20,000
Letting of shop with machine (both are separable; income from letting of machine taxable as IFOS and income from letting of shop taxable as IHP): Rent of machine taxable as IFOS = Rent 36,000 – Insurance premium 2,000 – Depreciation 5,000.		29,000
Advance forfeited: Taxable u/s 56(2)(ix) as it is forfeited on or after 1.4.2014		3,00,000
Royalty: Taxable as IFOS, since it is not business income	5,00,000	
• Less: Manuscript development expenses = 3,00,000 – 10,000 personal expenses disallowed – 1,50,000 excess payment to wife disallowed u/s 40A(2)	(1,40,000)	
• Less: Professional fee to Jack = 1,50,000 – 45,000 (30%) disallowed u/s 40(a)(ia) since tax deducted but paid after ROI due date	(1,05,000)	
		2,55,000
Family pension: 60,000 – 15,000 deduction (lower of 1/3 <sup>rd</sup> pension or 15,000)		45,000
Undisclosed income u/s 69B: Taxable		3,00,000
Award from Swachh foundation: Taxable		25,000
Director's fee: 80,000 – 20,000 expenses		60,000
<b>Income from other sources</b>		<b>30,53,000</b>
<b>Profits and gains of business or profession</b>		
Business income = Turnover 120 lakh – Deductible expenditure 115 lakh	5,00,000	
Receipt from Keyman insurance policy: Taxable u/s 28(vi)	2,00,000	
		7,00,000
<b>Capital gains</b>		
Short term capital gain on sale of shares of JKL Pvt. Ltd. ( <b>Note 1</b> )	1,00,000	
Short term capital gain on sale of house ( <b>Note 2</b> )	7,50,000	
		8,50,000
<b>Income from house property</b>		
Rent from shop ( <b>Note 3</b> )		76,440
<b>Gross total income</b>		<b>46,79,440</b>
Less: Deduction u/s 80C (investment in PPF)		(1,50,000)
<b>Total income</b>		<b>45,29,440</b>
<b>Computation of tax liability</b>		
<b>Composition of total income:</b>		
Income taxable u/s 115BB (winnings)		3,20,000
Income taxable u/s 115BBE (undisclosed income)		3,00,000
Other income		39,09,440
		45,29,440
Tax u/s 115BBE @ 60%	1,80,000	
Add: Surcharge @ 25%	45,000	2,25,000

Tax u/s 115BB @ 30%	96,000	
Tax on other income at normal rates	9,85,332	
Add: Surcharge	Nil	10,81,332
		13,06,332
Add: HEC @ 4%		52,253
<b>Tax liability</b>		<b>13,58,585</b>
<b>Tax liability (rounded off)</b>		<b>13,58,590</b>

**Note 1: Capital gain on sale of shares of JKL Pvt. Ltd.**

Particulars	Rs.
Full value of consideration u/s 50CA = FMV since FVC < FMV	2,50,000
Less: Cost of acquisition = Value taken into account u/s 56(2)(x)	(1,50,000)
Short term capital gain (since held for not more than 24 months)	1,00,000

**Note 2: Capital gain on sale of house**

Particulars	Rs.
Full value of consideration u/s 50C = FVC since SDV does not exceed 110% of FVC	20,00,000
Less: Expenditure on transfer	(50,000)
Net consideration	19,50,000
Less: Cost of acquisition = Value taken into account u/s 56(2)(x)	(12,00,000)
Short term capital gain (since held for not more than 24 months)	7,50,000

**Note 3: Income from house property – Rent from shop**

Particulars	Rs.
Gross annual value = Higher of expected rent 1,08,000 (@ 9,000 p.m.) or actual rent 1,20,000 (@ 10,000 p.m.)	1,20,000
Less: Municipal taxes paid during the PY by Badal @ 10% of 1,08,000	(10,800)
Net annual value	1,09,200
Less: Standard deduction of 30%	(32,760)
Income from house property	76,440



#### CHARGEABILITY

**M1. Income is taxable under the head IFOS if it is not exempt or It is not chargeable under any other head of income.....**

Both conditions should be satisfied

#### DIVIDEND

**M7. Charmis Pvt. Ltd., having reserves of Rs. 10 lakh and capitalized profits of Rs. 5 lakh (due to issue of bonus.....**

AP = 15L. Div to the extent of AP = 15L. Raju = 10% of 15L.

**M8. TexMax Ltd. distributed deposit certificates (without interest) to its equity and preference shareholders on.....**

Total value distributed = 100L. Div to the extent of AP = 50L. A = 10% of 50L

**M9. Shure Ltd., an Indian company, paid Rs. 500 per share on buy back of its shares on 1.9.2021 and paid buy back tax.....**

Exempt u/s 10(34A)

**M14. Zara Pvt. Ltd, extended a loan of Rs. 10 lakh on 12.12.2021 to B&C, a partnership firm, in which B has.....**

Covered u/s 2(22)(e) = 10L + Job work NO = 10L. Div to the extent of AP = 9L. Money lending exception not available as it is not substantial part of business of company.

**M16a. Mr. D, a lawyer aged 50 years, has the following particulars of income and expenses for PY 2021-22: Gross.....**

TI = PGBP 15,00,000 (50% of 30,00,000 u/s 44ADA; he does not want 44AB; hence lower income of 12,00,000 (receipts – expenses) cannot be claimed) + FD interest 30,000 + Dividend 1,00,000 – Deduction u/s 57 of 20,000 (interest upto 20% of dividend included in the TI before such deduction) = 16,10,000

**M18. Priyansh, a non-resident, received the following dividend during the PY 2021-22: Rs. 50,000 from Facebook Inc.....**

50,000 FB Yes as received in India + 30,000 Daisy Yes as received from ICo + Lazy No as received/accrued outside India = 80,000

**M20. Ranbir, a resident of age 36 years, has the following incomes for AY 2022-23: Dividend of Rs. 20 lakh, short.....**

Div & 112A income = 51,00,000, other income = 90,00,000

SC = 15%.

TAX: 112A 10% of 30L is 3,00,000; On balance 1.1 cr is 31,12,500 = 34,12,500.

Tax + 15% SC + 4% HEC (on tax and SC) = 40,81,350

**M21. Ranbir, a resident of age 66 years, has the following incomes for AY 2022-23: Dividend of Rs. 20 lakh, short.....**

Div & 112A is 51L, other income is 3 Cr. SC 15% on div/112A and 25% on other income.

**M23. Joy (P) Ltd goes into liquidation on 1.5.2021 on which date its accumulated profits are Rs. 10 lakh. It distributes.....**

Div (up to AP) = 20% of 10L = 2L

STCG: FVC (40L FMV of assets + 5L cash – 10L dividend) = 35L. 20% is 7L. STCG = 7L FVC – COA 5L = 2L.



**M26. If jewellery is acquired for inadequate consideration and excess of FMV over consideration is more than.....**

Excess is taxable

**M27. If a painting is gifted and its FMV exceeds Rs. 50,000, the amount in excess of Rs. 50,000 is taxable.....**

FMV is taxable

**M28. If Rs. 40,000 is gifted by a friend on two occasions during the PY, nothing is taxable.....**

80,000 is taxable

**M29. If gold jewellery is purchased for Rs. 10,000, on two occasions during the PY, when the market value on both.....**

Excess  $(80,000 - 20,000) > 50,000$ . Excess is taxable.

**M30. If a house is sold by a friend for Rs. 5,00,000 when the market value is Rs. 6,00,000 and stamp duty value.....**

2L is taxable

**M32. Raghav received the following during the PY 2021-22: Gift of Rs. 50,000 from neighbor, gift of watch of market.....**

Cash from neighbor NO as  $\leq 50K$  + Watch NO as not specified property + Jewellery NO as excess  $\leq 50K$

**M33. Ryan HUF, comprising Ryan, his wife and his son as members, received the following during the PY 2021-22.....**

Cash gift NO as received from relative + gold 60,000 + car NO as not specified property + land SDV 4,00,000 = 4,60,000

**M34. Samar received the following during the PY 2021-22: Gift on birthday of Rs. 20,000 from father, Rs. 20,000 from.....**

CASH: Father NO + elder brother NO + colleague 20,000 = NIL as  $\leq 50K$ .

GIFT OF MOVABLE PROPERTY: Furniture NO.

SALE OF MOVABLE PROPERTY: Diamond/painting 60,000  $(90,000 - 30,000)$  + Raw material NO = 60,000.

**M35. Mr. Kishore celebrated his 50<sup>th</sup> marriage anniversary. On this occasion, his wife received a diamond necklace.....**

All are relatives except for friends who gave cash gifts

**M36. Shaily received the following during the PY 2021-22: Plot of land from erstwhile business customer on occasion.....**

Plot 7,00,000 + house 20,00,000 + shop NO as on partition of HUF + flat NO as under will = 27,00,000

**M37. Vihaan sold 1,000 equity shares of J (P) Ltd to his friend, Suhaan on his marriage, for Rs. 100 each on 1.7.2021.....**

No income u/s 56(2)(x) on receipt as on marriage.

STCG per share = 600 (FVC u/s 50CA) – 100 actual cost = 500 per share = 5,00,000

**M38. Zeeshan purchased residential house from a private company in which he was a shareholder, for Rs. 10 lakh.....**

IFOS: Excess of 25L  $(35L - 10L) > 50K$  & SDV 35L  $> 110\%$  of 10L; IFOS = 25L.

STCG = 50L FVC – 35L value taken into account u/s 56(2)(x) = 15L.

**M39. Mr. B, a member of his father's HUF, transferred a house property to the HUF without consideration. The value.....**

Not taxable for HUF as received from relative.

**M40. Jeev received a plot of vacant land from his grandparent as gift on his birthday on 15.6.2021 when its FMV was .....**

IFOS NIL as received from relative

STCG = 65L – 30L = 35L

**M41. Divyansh acquired a house from his friend as gift on the occasion of Deepawali on 10.11.2021 when its SDV was.....**

IFOS = 60L. STCG = 70L – 60L = 10.

**M42. DLF (P) Ltd., a real estate dealer, sold a flat to D, its director, on 15.4.2021 for Rs. 10 lakh when its SDV was.....**

DLF: 30L FVC u/s 43CA – 20L = 10L PGBP.

D: IFOS = Excess 20L  $(30L SDV - 10L consideration)$ . STCG = 40L  $(FVC u/s 50C) - 30L$  (value taken u/s 56(2)(x)) = 10L

**M42a. Mr. B sold 1,000 shares of PQR Pvt. Ltd. to JKL Pvt. Ltd. for Rs. 2,00,000 on 15.12.2021 (FMV on this date.....**

Mr. B: LTCG = 3,00,000 FVC u/s 50CA – 1,00,000 ICOA = 2,00,000

JKL Pvt. Ltd.: IFOS = Excess being FMV of 3,00,000 – Consideration of 2,00,000 = 1,00,000 as it is > 50,000.

### INTEREST

**M44. Suyash, following mercantile system of accounting, received the following interest during the PY 2021-22.....**

PPF Exempt + GOI 25,000 + FD 30,000 + interest on comp 1,00,000 (2 lakh on receipt basis – 50% deduction) = 1,55,000

**M46. Darshit earned the following interest during the PY 2021-22: Interest on debentures Rs. 45,000 (net of TDS.....**

Debentures 50,000 + friend 9,000 (10,000 – 1,000 commission) + POSA 1,500 (5,000 – 3,500 exempt) + ICICI 5,000 + Gold Bond Bonds exempt = 65,500

**M47. Divya received interest on compensation of Rs. 3,00,000 on 1.7.2021 for compulsory acquisition of a plot of land.....**

3L – 50% deduction

### SHARE PREMIUM

**M50. Grand (P) Ltd issued 1,000 equity shares of face value Rs. 10 each to Darshit for Rs. 200 each on 12.1.2022.....**

@ 200 – 150 = 50 per share.

**M51. GC (P) Ltd issued 1,000 equity shares of face value Rs. 10 each to David for Rs. 200 each on 12.1.2022. FMV was.....**

Nil as issue price of 200 does not exceed FMV of 225

**M52. DM Ltd, not being a company in which the public are substantially interested, issued 1,000 equity shares of face.....**

Nil, as consideration received from NR

### OTHER INCOMES TAXABLE AS IFOS

**M60. Danish, a resident and ordinarily resident, earned the following during PY 2021-22: Dividend of Rs. 10,000 from.....**

Dividend 10,000 + MF 20,000 + gift taxable as SALARY + race 50,000 + Keyman taxable as SALARY = 80,000

**M61. Champion, a resident of age 29 years, earned the following during PY 2021-22: Salary (computed) Rs. 1,00,000.....**

Normal rate income = Salary 1,00,000 + Dividend 20,000 – PPF 1,20,000 u/s 80C = Nil. Winning = 1,00,000. Total Income = 1,00,000.

Tax = 30,000 (30% on winning) – 12,500 u/s 87A = 17,500. Tax + 4% HEC = 18,200.

**M63. Jayant, staying in a flat at a rent of Rs. 10,000 p.m., sub let the flat at Rs. 15,000 p.m. He owned a printing.....**

Flat = 1,80,000 – 1,20,000 = 60,000.

Machine 12,000 (6 months) – 5,000 repairs = 7,000.

Car 1,20,000 – 7,000 insurance – 51,000 depreciation (15% on WDV of 3,40,000 (4,00,000 – 60,000 depreciation for PY 2020-21)) = 62,000.

Total = 1,29,000

**M64. Mehul received compensation of Rs. 50 lakh on 12.3.2021 on account of compulsory acquisition of his house by.....**

Total income = Interest 1,00,000 (2,00,000 – 50% deduction) + Compensation on earthquake exempt u/s 10(10BC) (refer para 30) + Pension 45,000 (60,000 – 15,000 deduction) + 3,00,000 business income = 4,45,000

**M65. Raunak, a software engineer, earned salary income (computed) of Rs. 3,00,000 during the PY 2021-22. He .....**

Total Income = Salary 3,00,000 + Award 50,000 + Land 90,000 (1,20,000 – 30,000) + Director's fee 1,20,000 + Undisclosed income 10,00,000 – PPF 1,00,000 u/s 80C (not from undisclosed income) = 14,60,000

**M66. If, in the hands of Mrs. C, a resident aged 70 years, interest on securities for the PY 2021-22 is Rs. 45,000 (net of.....**

TI = 50,000 interest + 2,00,000 pension + 1,00,000 undisclosed income – 1,00,000 u/s 80C (not from undisclosed income) = 2,50,000 (comprising 1,00,000 undisclosed income and 1,50,000 other income).

Tax u/s 115BBE for undisclosed income @ 60% = 60,000 – 12,500 u/s 87A = 47,500. Tax on balance income = NIL. Tax + 25% SC + 4% HEC (on tax and SC) = 61,750.

#### SPECIAL PROVISIONS

**M67. Which of the following is fully allowed as deduction while computing income under the head IFOS.....**

Not disallowed u/s 40A(3) as made by specified mode

**M68. Which of the following is not fully allowed as deduction while computing income under the head IFOS.....**

Disallowed u/s 40A(3)

**M69. Raja, a Chartered Accountant, authored a book on taxation during the year and earned royalty of Rs. 15 lakh.....**

Expenses allowed = Bookseller NO u/s 40A(3) + Stationery 10,000 (15,000 – 5,000 disallowed as personal) + Salary 3,50,000 (5,00,000 – 30% disallowed u/s 40(a)(ia)) + Proof reading 1,00,000 (5,00,000 – 4,00,000 disallowed u/s 40A(2)) = 4,60,000.

Total Income = 15,00,000 – 4,60,000 expenses + 15,000 recovery u/s 59 = 10,55,000

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Clubbing of Income

#### Build Your Confidence (BYC)

#### INCOME OF MINOR CHILD

**B1. MINOR CHILD – CA2012(M) (modified) - Mr. Sharma has four children, consisting of two daughters and two sons.....**

*Computation of amount of income earned by minor children to be clubbed in the hands of Mr. Sharma*

Particulars	Rs.
First daughter = 9,000 less 1,500 exempt u/s 10(32)	7,500
Second daughter: Not clubbed since she suffers from disability u/s 80U	-
First son = 6,200 less 1,500 exempt u/s 10(32)	4,700
Second son = 4,300 less 1,500 exempt u/s 10(32)	2,800
<b>Total income to be clubbed u/s 64(1A)</b>	<b>15,000</b>

**B2. MINOR CHILD – Gauri has three minor children – Twin daughters A and B and a son, C. Income of children for....**

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

Particulars	Rs.
Own income	60,000
Income of A = 3,000 – 1,500 u/s 10(32)	1,500
Income of B = 2,000 – 1,500 u/s 10(32)	500
Income of C = 1,200 – 1,500 u/s 10(32)	Nil
<b>Total income of Gauri</b>	<b>62,000</b>

**B3. MINOR CHILD – CA2018(M) - Madhav made a gift of Rs. 2,50,000 to his handicapped son, Master Tapan, who was.....**

*Computation of GTI of Madhav for AY 2022-23*

Particulars	Rs.	Rs.	Rs.
Income from profession			3,50,000
Income of minor son Tapan:			
• Interest on fixed deposit: Not clubbed since Tapan is handicapped (assumed that he is suffering from disability u/s 80U)			-
Income of minor son Manan:			
<i>Long term capital gain</i>			
• Full value of consideration on sale of shares	5,00,000		
• Less: Indexed COA = COA of last previous owner × (CII 2021-22/CII 2007-08) = 80,000 × (317/129)	(1,96,589)	3,03,411	
<i>Income from other sources</i>			
• Dividend		5,000	
• Interest on company deposit: 3 lakh × 15% × (5/12) (assuming deposit was made on 1.11.2021)		18,750	
		3,27,161	
<i>Less: Exemption u/s 10(32)</i>		(1,500)	
			3,25,661

<b>Gross total income</b>		<b>6,75,661</b>
---------------------------	--	-----------------

Assumption: Total income of Madhav is greater than that of his wife (before clubbing income of minor children).

*Mistake by students – Clubbed income of Tapan, handicapped minor child.*

**B4. MINOR CHILD – CA2018(N) (modified) - Mr. and Mrs. Vinod Amin have three children – B, C and D aged 12, 16 and.....**

*Computation of income to be clubbed in the hands of Mr. Vinod for AY 2022-23*

Particulars	Rs.	Rs.
Income of minor child B:		
• Gift from friend's father: Taxable u/s 56(2)(x) since it exceeds Rs. 50,000	70,000	
• Prize money in quiz competition: Not clubbed since it is on account of skill and talent	-	
• Interest on debentures: Clubbed	19,000	
	89,000	
Less: Exemption u/s 10(32)	(1,500)	87,500
Income of minor child C:		
• Lottery prize: Grossed up = $1,05,000 \times (100/70)$ . Mr. Vinod can claim TDS credit of 45,000.	1,50,000	
• Less: Exemption u/s 10(32): Not allowed on lottery income <sup>1</sup>	-	1,50,000
Income of major child D: Not clubbed		-
<b>Income to be clubbed</b>		<b>2,37,500</b>

*Mistake by students – Did not gross up lottery income for TDS.*

**B5. MINOR CHILD – CA2019(N) - Mahadev, a noted bhajan singer of Rajasthan and his wife Dariya, furnish the following.....**

*Total income of parents before clubbing:* Mahadev Rs. 5.65 lakh and Dariya Rs. 3.8 lakh (loan not taxable as deemed dividend u/s 2(22)(e) in absence of accumulated profits of the company). Thus, income of minor children to be clubbed with income of Mahadev.

*Computation of GTI of Mahadev for AY 2022-23*

Particulars	Rs.	Rs.
Income from profession		5,65,000
Income of minor son, Golu		
• Income from winning singing reality show: Not clubbed since income from skill and talent	-	
• Cash gift from friend of Mahadev – Not taxable u/s 56(2)(x) since does not exceed Rs. 50,000	-	-
Income of minor married daughter, Gudia		
• Interest from deposit	40,000	
• Less: Exempt u/s 10(32)	(1,500)	38,500
<b>Taxable income</b>		<b>6,03,500</b>

**B6. MINOR CHILD – CA2014(N) – Mr. Mittal has four minor children consisting of three daughters and one son. The.....**

*Computation of income earned by minor children to be clubbed with income of Mr Mittal*

Particulars	Rs.	Rs.
First daughter:		
• Scholarship: Not clubbed assuming it is on account of skill, talent, specialized knowledge or experience. Also, assuming it is granted to meet cost of education, it is exempt u/s 10(16).	-	
• Other income	5,000	
• Less: Exempt u/s 10(32)	(1,500)	3,500
Second daughter:		

<sup>1</sup> Exemption can be provided based on the alternative view. A note should be given in the answer in respect of the view taken.

• Income	8,500	
• Less: Exempt u/s 10(32)	(1,500)	7,000
Third daughter: Income of minor child suffering from disability u/s 80U not clubbed		-
Son:		
• Income (income from business plus other income)	40,000	
• Less: Exempt u/s 10(32)	(1,500)	38,500
<b>Total income to be clubbed in the hands of Mr. Mittal</b>		<b>49,000</b>

**B7. MINOR CHILD – CA2012(N) - Mr. B is the Karta of a HUF, whose members derive income as given below.....**

Parent in whose hands income of minor children is to be clubbed: Income of Mrs. B, since it is greater. Assumed that income of Mr. B and Mrs. B is the total income, before clubbing.

*Computation of total income of Mrs. B for AY 2022-23*

Particulars	Rs.	Rs.
<b>Income from salary</b> (assumed it is computed)		76,000
<b>Income from other sources:</b>		
Income of minor son D:		
• Interest on FD	10,000	
• Lottery (gross)	1,95,000	
	2,05,000	
Less: Exempt u/s 10(32)	(1,500)	2,03,500
Income of minor daughter P from earning from sports: Not clubbed since it is on account of skill and talent		-
<b>Total income</b>		<b>2,79,500</b>

**B7a. MINOR CHILD - CA2021(JULY) – Dharmesh who is 45 years old and his wife Anandi who is 42 years old furnished.....**

*Computation of total income of Dharmesh and Anandi for AY 2022-23*

Particulars		Dharmesh	Anandi
Salary income (computed)			9,60,000
Income from garment trading business		17,50,000	
Total income before clubbing u/s 64(1A) (income of minor child to be clubbed with total income of Dharmesh since his total income before such clubbing is higher)		17,50,000	9,60,000
<b>Income of minor son 'A'</b>			
Not to be clubbed as he suffers from disability specified u/s 80U		-	
<b>Income of minor son 'B'</b>			
Scholarship received from his school: Exempt u/s 10(16)*		-	
Income from fixed deposit with Punjab National Bank: To be clubbed	5,000		
Less: Exempt u/s 10(32)	(1,500)		
		3,500	
<b>Income of minor daughter 'C'</b>			
Income from script writing for television serials: Not to be clubbed as it involves skill, talent or specialized knowledge or experience		-	
Gift from friend of Anandi: Nothing is taxable u/s 56(2)(x) as gift from non-relative does not exceed 50,000.		-	
<b>Total income</b>		<b>17,53,500</b>	<b>9,60,000</b>

\*Assuming it is granted to meet the cost of education. Alternatively, it can be assumed that it is granted by the school on account of skills, talent, specialized knowledge or experience of B and, hence, need not be clubbed u/s 64(1A).

**INCOME OF SPOUSE FROM CONCERN IN WHICH INDIVIDUAL HAS SUBSTANTIAL INTEREST**

**B8. REMUNERATION OF SPOUSE - Mr. Sumer holds 20% equity shares in PQR Ltd. Mrs. Sumer is working as a an.....**

*If Mrs. Sumer is not qualified for the job*

Computation of GTI of Mr. Sumer for AY 2022-23	Rs.	Rs.
Salary received by Mrs. Sumer: Clubbed u/s 64(1)(ii) since spouse receives salary from a concern in	4,80,000	

which he owns $\geq$ 20% equity shares and she is not qualified for the job		
Less: Standard deduction u/s 16(ia)	(50,000)	4,30,000
Other income		5,00,000
Gross total income		9,30,000
<b>Computation of GTI of Mrs. Sumer for AY 2022-23</b>	<b>Rs.</b>	<b>Rs.</b>
Salary : Clubbed with income of Mr. Sumer		-
Other income		3,00,000
Gross total income		3,00,000

*If Mrs. Sumer is qualified for the job*

<b>Computation of GTI of Mr. Sumer for AY 2022-23</b>	<b>Rs.</b>	<b>Rs.</b>
Salary received by Mrs. Sumer: Not clubbed u/s 64(1)(ii) since spouse receives salary from a concern in which he owns $\geq$ 20% equity shares but she is qualified for the job		-
Other income		5,00,000
Gross total income		5,00,000
<b>Computation of GTI of Mrs. Sumer for AY 2022-23</b>	<b>Rs.</b>	<b>Rs.</b>
Salary	4,80,000	
Less: Standard deduction u/s 16(ia)	(50,000)	4,30,000
Other income		3,00,000
Gross total income		7,30,000

#### **B9. REMUNERATION OF SPOUSE – CA2013(M) - Mr. A is an employee of Larsen Ltd. and has substantial interest in the....**

*Computation of income for AY 2022-23*

Particulars	Mr. A	Mrs. A
<b>Income from Salaries:</b>		
Own salary @ 25,000 p.m.	3,00,000	-
Less: Standard deduction u/s 16(ia)	(50,000)	
	2,50,000	
Salary of Mrs. A: Clubbed with Mr. A u/s 64(1)(ii) since she receives salary from a concern in which he has substantial interest and she is not qualified for the job = 1,20,000 – 50,000 standard deduction u/s 16(ia)	70,000	
<b>Income from house property:</b>		
• Gross annual value (12,000 $\times$ 12 months in absence of any other information)		1,44,000
• Less: Municipal taxes paid		-
• Net annual value		1,44,000
• Less: Standard deduction @ 30% of NAV		(43,200)
		1,00,800
<b>Income from other sources:</b> Income from securities	30,000	
Income before clubbing income of minor children (clubbed with Mr. A since his total income, before such clubbing, is greater; assumed that income of minor children is liable to be clubbed u/s 64(1A))	3,50,000	1,00,800
• Income of first daughter = 2,000 – 1,500 u/s 10(32). Income of each daughter taken as 2,000 p.a.	500	
• Income of second daughter = 2,000 – 1,500 u/s 10(32). Income of each daughter taken as 2,000 p.a.	500	
• Income of son = 1,200 – 1,500 u/s 10(32)	Nil	
<b>Income</b>	<b>3,51,000</b>	<b>1,00,800</b>

#### **INCOME FROM ASSETS TRANSFERRED TO SPOUSE OR SON'S WIFE**

#### **B10. ASSET TO SPOUSE OR SON'S WIFE – Determine in whose hands the income would be taxable in the following cases for AY 2022-23.**

#	Case	Clubbing of income u/s 64(1) in hands of transferor	Taxation of gift u/s 56(2)(x) in hands of transferee
---	------	---	--

1	Mr. Z gifts bonds of XYZ Ltd. to his wife out of natural love and affection. Interest on bonds received for PY 2021-22 is Rs. 20,000.	Rs. 20,000 clubbed in hands of Mr. Z u/s 64(1)(iv).	No, as Mr. Z is a relative
2	Mr. Z gifts bank deposits to his wife on 1.2.2021. They are later divorced on 30.9.2021. Interest on deposits for PY 2021-22 is Rs. 10,000.	Rs. 5,000 clubbed in hands of Mr. Z u/s 64(1)(iv) and Rs. 5,000 taxable in hands of divorcee (since no relation of spouse after divorce)	No, as Mr. Z is a relative at the time of gift
3	Mr. Z gifts shares to his son, aged 20 years. Dividend received by son during the PY is Rs. 10,000.	Rs. 10,000 taxable in hands of son. Son is major. No clubbing u/s 64(1A).	No, as Mr. Z is a relative
4	Mr. Z gifts a car to his son's wife who sells it, thereby earning capital gain of Rs. 10,000.	Rs. 10,000 clubbed in hands of Mr. Z u/s 64(1)(vi)	No, as Mr. Z is a relative and car is not a specified movable asset
5	Mr. Z gifts Rs. 1 lakh to his wife who purchases bonds from this money, on which she receives Rs. 10,000 interest during PY 2021-22.	Rs. 10,000 clubbed in hands of Mr. Z u/s 64(1)(iv). Asset merely changes identity and it is not a case of accretion.	No, as Mr. Z is a relative
6	Mr. Z gifts Rs. 12 lakh to his wife who earns Rs. 1 lakh by investing it in fixed deposits. She reinvests Rs. 1 lakh in shares and earns dividend of Rs. 5,000.	Rs. 1 lakh clubbed in hands of Mr. Z u/s 64(1)(iv). Rs. 5,000 taxable in hands of wife (no clubbing of second generation income)	No, as Mr. Z is a relative
7	Mr. Z transfers a house property to an AOP without consideration with the condition that 25% of income from the property will be utilized for the benefit of his son's wife.	25% income clubbed in hands of Mr. Z u/s 64(1)(viii)	Yes, as Mr. Z is not a relative
8	Mr. Z gifts a residential house, owned by him, to his wife on 1.4.2021. FMV and SDV on this date are Rs. 15 lakh and Rs. 12 lakh, respectively. Rental income is Rs. 20,000 p.m.	IHP of 1.68 lakh (2.4 lakh – SD @ 30%) taxable in hands of Mr. Z as he is deemed owner u/s 27(i).	No, as Mr. Z is a relative



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to B20

#### Clubbing of Income

#### Build Your Confidence (BYC)

##### **B11. ASSET TO SPOUSE – CA2017(N) – Kamal gifted Rs. 10 lakh to his wife, Sulochana, on her birthday, on 1.1.2021.....**

*Interest on loan* – Rs. 50,000 clubbed in hands of Kamal u/s 64(1)(iv), since loan is given by Sulochana to Krishna out of money gifted by her spouse.

*Capital gain on sale of shares of listed company* – STCG of Rs. 25,000 (75,000 – 50,000) will be taxable in the hands of Sulochana @ 15% u/s 111A since STT is paid on sale of shares. It will not be clubbed in the hands of Kamal since income is from investment of income from money gifted. Income from accretion of transferred asset is not clubbed.

*Loss from business* – Rs. 15,000 loss will be clubbed in the hands of Kamal u/s 64(1)(iv). It is assumed that capital was invested by Sulochana in business on or before 1.4.2021 and was entirely out of funds gifted by Kamal. As per Explan 2 to section 64, for clubbing provisions, income includes loss.

##### **B12. ASSET TO SPOUSE – Compute the amount to be included in the hands of Simran and Samar for AY 2021-22 and.....**

*Computation of amounts taxable in the hands of Simran and Samar*

Particulars	PY 2020-21	PY 2021-22
First day of PY	1.4.2020	1.4.2021
Total investment in business by Samar on first day of PY : A	7,00,000	8,00,000*
Value of assets transferred by Simran, without adequate consideration, invested by Samar in business, on first day of PY: B	-	6,00,000
Income from business: C	(5,00,000)	3,00,000
Business income clubbed in the hands of Simran u/s 64(1)(iv) = C × (B/A)	-	2,25,000
Business income taxable in hands of Samar (balance)	(5,00,000)	75,000

\*7 lakh – 5 lakh loss + 6 lakh gift

If Simran gave the amount to Samar as a loan, there would be no clubbing u/s 64(1)(iv) if the loan given by Simran is a bona fide loan.

Income will not arise u/s 56(2)(x) in the hands of Samar in respect of amount gifted as it is received from relative.

##### **B13. ASSET TO SPOUSE – Compute the amount to be included in the hands of Rashmi and her spouse for AY 2021-22.....**

*Computation of amounts taxable in the hands of Rashmi and her spouse*

Particulars	PY 2020-21	PY 2021-22
First day of PY	1.4.2020	1.4.2021
Total investment in business by Rashmi on first day of PY : A	4,00,000	9,00,000*
Value of assets transferred by spouse, without adequate consideration, invested by Rashmi in business, on first day of PY: B	-	3,00,000
Income from business: C	2,00,000	4,50,000
Business income taxable in hands of spouse = C × (B/A)	-	1,50,000
Business income taxable in hands of Rashmi (balance)	2,00,000	3,00,000

\*Opening 4 lakh + profit 2 lakh + gift 3 lakh

**B14. ASSET TO SPOUSE – CA2011(M) - On 21.3.2021, Janak gifted to his wife Thilagam, 200 listed shares, which were.....**

Capital gain on sale of 100 shares on 21.5.2021 – To be clubbed in the hands of Janak u/s 64(1)(iv), since income arises from assets transferred to spouse without adequate consideration – Section 112A applies as shares held for more than 12 months and STT paid (assumed on purchase and sale).

Particulars	Rs.
Full value of consideration	2,20,000
Less: Cost of acquisition to Janak @ 2,000 per share. Indexation not allowed u/s 112A.	(2,00,000)
Long term capital gain u/s 112A	20,000

Capital gain on sale of 200 bonus shares on 21.7.2021 – Not to be clubbed in the hands of Janak u/s 64(1)(iv), since income arises from accretion to assets transferred to spouse without adequate consideration – STCG arise as shares held for not more than 12 months – Taxable in the hands of Thilagam.

Particulars	Rs.
Full value of consideration	1,25,000
Less: Cost of acquisition	Nil
Short term capital gain	1,25,000

Capital gain on sale of 100 shares on 28.2.2022 – To be clubbed in the hands of Janak u/s 64(1)(iv), since income arises from assets transferred to spouse without adequate consideration – Section 112 applies as shares held for more than 12 months but STT not paid on sale.

Particulars	Rs.
Full value of consideration	1,70,000
Less: Indexed cost of acquisition = COA × (CII of 2021-22/CII of 2019-20) = 2 lakh × (317/289)	(2,19,377)
Long term capital loss u/s 112	(49,377)

Receipt of shares by friend, Hema on 28.2.2022 – Nothing taxable u/s 56(2)(x) in the hands of Hema since FMV of 2,10,000 does not exceed consideration of Rs. 1,70,000 by more than Rs. 50,000.

**B15. ASSET TO SON'S WIFE – CA2011(N) - Madan, aged 67 years, gifted a building owned by him to his son's wife Hema.....**

Computation of total income of Madan and Hema for AY 2022-23

Particulars	Madan	Hema
Income from house property (Note 1)	80,500	-
Business income	1,00,000	(75,000)
Long term capital gain	50,000	-
Short term capital gain	-	2,00,000
Income from other sources	1,50,000	50,000
Total income	3,80,500	1,75,000
Tax on long term capital gain u/s 112 @ 20% of 50,000	10,000	-
Tax on other income of 3,30,500 (assuming Madan is a resident)	1,525	-
Tax on 1,75,000	-	Nil
	11,525	Nil
Less: Rebate u/s 87A	(11,525)	
	Nil	
Add: HEC @ 4%	Nil	Nil
<b>Tax liability</b>	<b>Nil</b>	<b>Nil</b>

**Note 1 – Income from house property**

Particulars	Madan 1.4.2021 to 30.9.2021	Hema 1.10.2021 to 31.3.2022
Gross annual value = 10,000 for 6 months (for the period house property owned by	60,000	60,000

each). Rental value taken as GAV in absence of details of municipal value, fair value and standard rent)		
Less: Municipal tax paid by owner (paid in June for first half year only)	(5,000)	-
Net annual value	55,000	60,000
Less: Standard deduction @ 30% of NAV	(16,500)	(18,000)
Income from house property	38,500	42,000
Clubbed in hands of Madan u/s 64(1)(vi) since income arises from asset transferred to son's wife without adequate consideration. Section 27(i) does not apply in this case.	42,000	
<b>Income from house property</b>	<b>80,500</b>	

### CONVERSION OF SELF-ACQUIRED PROPERTY INTO PROPERTY OF HUF

**B16. HUF - Determine in whose hands the income would be taxable in the following cases for AY 2022-23 in case of transactions between Mr. Z and the HUF of which he, his spouse, his father and his minor son are members.**

#	Case	Taxability
1	Mr. Z gifts Rs. 10 lakh to the HUF. HUF deposits the money in the bank from which it earns interest of Rs. 1 lakh during the year.	1 lakh clubbed in the hands of Mr. Z u/s 64(2).
2	Mr. Z transfers gold jewellery to HUF for a consideration of Rs. 5 lakh (FMV is Rs. 5 lakh). HUF sells the gold jewellery and earns capital gain of Rs. 1 lakh.	1 lakh taxable in hands of HUF. No clubbing u/s 64(2) as transfer is for adequate consideration.
3	Mr. Z converts a property, purchased by him, as the property of HUF. On partition of HUF on 1.4.2021, the property is distributed equally amongst members. Income from property is Rs. 1 lakh for the year.	73,500 taxable in hands of Mr. Z (25,000 for self, 25,000 for spouse u/s 64(2), 23,500 for minor child u/s 64(1A) (25,000 – 1,500 exempt u/s 10(32)). 25,000 taxable in the hands of father.

**B16a. CA2021(JULY) – During the PY 2021-22, Mr. B's HUF comprising of Mr. B, Mrs. B, his minor son and his major.....**

It is assumed that Mr. B threw the shares in the common stock of the family otherwise than for adequate consideration and, hence, the provisions of section 64(2) will apply. Shares are sold after being equally divided among the members. Thus, income from property received by Mr. B and Mrs. B would be taxable in the hands of Mr. B u/s 64(2). Income from property received by minor son will be clubbed in the hands of Mr. B u/s 64(1A) after providing for exemption u/s 10(32), since total income of Mr. B, before such clubbing, is greater than Mrs. B (as he is the sole earning member). Income received by major daughter will not be clubbed.

*Computation of income to be included in the hands of Mr. B*

Particulars	Rs.
Income received by Mr. B	75,000
Income received by Mrs. B	75,000
Income received by minor son (75,000 – 1,500 exempt u/s 10(32))	73,500
	<b>2,23,500</b>

If shares are inherited by the HUF, section 64(2) will not apply. Consequently, income received by Mr. B (75,000) and his minor son (75,000 – 1,500 exempt u/s 10(32)) will be included in the income of Mr. B, i.e., 1,48,500.

**B17. HUF – CA2016(M) – Mr. N, a member of his father's HUF, transferred a house property to the HUF without .....**

No capital gain in the hands of Mr. N u/s 47(iii) as it is a gift. Gift from relative is not taxable in the hands of HUF u/s 56(2)(x). Income from house property will be clubbed in the hands of Mr. N u/s 64(2).

### CROSS TRANSFERS

**B18. CROSS TRANSFER – Mr. Y gifted Rs. 10 lakh to Mrs. X, the wife of his brother, on 16.9.2021. On 20.9.2021, Mr. X.....**

Transfers are in the nature of cross transfers. They are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, income from assets transferred will be clubbed in hands of deemed transferor.

Interest on Rs. 8 lakh arising to Mrs. X will be clubbed with income of Mr. X u/s 64(1)(iv). Interest on Rs. 8 lakh arising to Mrs. Y wife will be clubbed with income of Mr. Y u/s 64(1)(iv).

**B19. CROSS TRANSFER – CA2019(M) - Briefly explain with example, the meaning of cross transfer, the objective to make such transactions and implications thereof under the income tax law.**

*Mistake by students – Lack of conceptual knowledge of this topic. Failure to properly explain the concept with the help of an example.*

### COMPREHENSIVE

**B19a. CA2021(JAN) - Mr. Gupta and his wife Mrs. Gupta are partners in a partnership firm holding 25% share each.....**

*Computation of gross total income of Mr. Gupta and Mrs. Gupta for AY 2022-23*

Particulars	Mr. Gupta	Mrs. Gupta
Salary	12,50,000	
Less: Standard deduction u/s 16(ia)	(50,000)	
	12,00,000	
Interest on fixed deposit opened using 'Stridhan': Not clubbed u/s 64(1)(iv)		14,00,000
Remuneration from firm: Taxable, assuming that remuneration is fully deductible in the hands of the firm u/s 40(b). In absence of information in question, it is assumed that both are unqualified for the work. Since both have substantial interest in the firm (each, along with the other, is entitled to $\geq 20\%$ profits), income is clubbed in hands of spouse, whose total income (excluding such remuneration) is higher. Thus, remuneration included in income of Mrs. Gupta = Rs. 2,50,000 own remuneration + Rs. 2,50,000 remuneration clubbed u/s 64(1)(ii)		5,00,000
Total income (before including income of minor children)	12,00,000	19,00,000
Income of minor children clubbed with income of Mrs. Gupta u/s 64(1A) since her total income (before such clubbing) is greater. Assumed that income of minor children is not on account of manual work or skill/talent.		
• Neeta = 15,000 – 1,500 exemption u/s 10(32)		13,500
• Meeta = 10,000 – 1,500 exemption u/s 10(32)		8,500
• Seeta = 2,000 – 1,500 exemption u/s 10(32)		500
		22,500
<b>Gross total income</b>	<b>12,00,000</b>	<b>19,22,500</b>

**B19b. CA2021(JAN) - During the PY 2021-22, following transactions took place in respect of Mr. Raghav who is 56 years.....**

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

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Mrs. Raghav, along with her brother, hold $\geq 20\%$ equity shares in M Pvt. Ltd. Since Mr. Raghav does not possess commensurate qualification, salary will be clubbed with income of Mrs. Raghav.		-
<b>Income from house property</b>		
<b>House 1 – Self occupied</b>		
Gross annual value	Nil	
Less: Municipal taxes paid	Nil	
Net annual value	Nil	
Less: Interest on loan deductible u/s 24(b) upto Rs. 2 lakh	(2,00,000)	
		(2,00,000)
<b>House 2 – Let out</b>		
Gross annual value (rent taken in absence of other information)	7,20,000	

Less: Municipal taxes paid	Nil	
Net annual value	7,20,000	
Less: Standard deduction u/s 24(a) of 30% of NAV	(2,16,000)	
Less: Interest on loan deductible u/s 24(b)	(5,00,000)	
		4,000
<b>House in Delhi</b>		
Since Mr. Raghav derives direct/indirect benefit from income from house transferred without consideration, income therefrom will be clubbed in the hands of Mr. Raghav as per section 61 even if the transfer to Vamika is not revocable during her lifetime. Entire income will be clubbed; not just 10%.		
Gross annual value (rent taken in absence of other information)	5,50,000	
Less: Municipal taxes paid	-	
Net annual value	5,50,000	
Less: Standard deduction u/s 24(a) of 30% of NAV	(1,65,000)	
Less: Interest on loan deductible u/s 24(b)	-	
		3,85,000
		1,89,000
<b>Profits and gains of business or profession</b>		
Share of profit from partnership firm: Exempt u/s 10(2A), hence, cannot be clubbed		-
<b>Income from other sources</b>		
Dividend from preference shares: Clubbed u/s 60 since there is transfer of income to Geetanshi without transfer of assets being shares, even though transfer is irrevocable during the life time of Geetanshi.	3,00,000	
Interest on debentures	7,50,000	
Interest on savings bank account	2,00,000	
Cash gift from daughter of sister on birthday: Taxable u/s 56(2)(x) as > 50,000 and not received from relative	75,000	
		13,25,000
<b>Gross total income</b>		<b>15,14,000</b>
Less: Deductions u/c VIA:		
• U/s 80C: Principal repayment of loan from bank for purchase of residential house allowed upto Rs. 1.5 lakh	1,50,000	
• U/s 80TTA: Interest on savings bank account allowed upto Rs. 10,000	10,000	
		(1,60,000)
<b>Total income</b>		<b>13,54,000</b>

**B20. COMPREHENSIVE – CA2020(N) - Determine the gross total income of Shri Ram Kumar and Smt Ram Kumar for.....**

*Computation of gross total income of Shri Ram Kumar and Smt Ram Kumar for AY 2022-23*

Particulars	Shri Ram Kumar	Smt Ram Kumar		
<b>Income from salary</b>				
Salary	1,80,000		2,40,000	
Less: Standard deduction u/s 16(ia)	(50,000)		(50,000)	
		1,30,000		1,90,000
<b>Income from house property</b>				
Gross annual value for Shri Ram Kumar = 9,000 pm for 5 months. Rent taken in absence of further information.	45,000			
Gross annual value for Smt Ram Kumar = 9,000 pm for 7 months (income not clubbed with Shri Ram Kumar u/s 64(1)(iv) since transfer is for adequate consideration). Rent taken in absence of further information.			63,000	
Less: Standard deduction u/s 24(a) @ 30%	(13,500)		(18,900)	
		31,500		44,100
<b>Profits and gains of business or profession</b>				
Interest from firm. Taxable assuming it is fully deductible in the hands of the firm u/s 40(b). Not clubbed in absence of any information to identify coverage of section 64(1).	36,000		64,000	
Share of profit is exempt u/s 10(2A)	-		-	-
		36,000		64,000

<b>Income from other sources</b>			
Interest on debentures ( <b>Note 1</b> )	-		30,000
Income from investment ( <b>Note 2</b> )	3,545		35,455
		3,545	65,455
<b>Gross total income (it is also the total income before clubbing income of minor child)</b>		<b>2,01,045</b>	<b>3,63,555</b>
Income from property of Master Rohit clubbed in hands of Smt Ram Kumar u/s 64(1A) since her total income (before such clubbing) is greater ( <b>Note 3</b> )			15,000
Less: Exemption u/s 10(32)			(1,500)
			13,500
<b>Total income</b>		<b>2,01,045</b>	<b>3,77,055</b>

**Note 1:** Assumed that Smt. Ram Kumar transferred debentures to Shri Ram Kumar without adequate consideration; hence, interest clubbed u/s 64(1)(iv). Since date of transfer is not given in the question, assumed that interest was paid after transfer and received by Shri Ram Kumar. Hence, Rs. 30,000 (10% of Rs. 3,00,000) has been clubbed in the hands of Smt. Ram Kumar.

**Note 2:** Assumed that Shri Ram Kumar redeemed the debentures and reinvested Rs. 3,30,000 (Rs. 3,00,000 on redemption + Rs. 30,000 interest) in debentures, earning interest income of Rs. 39,000. Income relating to Rs. 3,00,000 will be clubbed u/s 64(1)(iv) since asset merely changed identity. However, income relating to accretion of transferred asset (Rs. 30,000) will not be clubbed. Income to be clubbed =  $39,000 \times (3,00,000 \div 3,30,000) = 35,455$ .

**Note 3:** In absence of information in the question, it is assumed that the property is not a house property. Consequently standard deduction of 30% u/s 24(a) has not been provided.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B21 to End

#### Clubbing of Income

#### Build Your Confidence (BYC)

**B21. COMPREHENSIVE – CA2012(M)** - During the PY 2021-22, the following transactions occurred in respect of Mr. A.....

*Computation of total income for AY 2022-23*

Particulars	Mr. A	Mrs. A	Minor Son
<b>Income under the head 'Salaries':</b>			
Salary income	1,20,000	2,40,000	
Less: Standard deduction u/s 16(ia)	(50,000)	(50,000)	
	70,000	1,90,000	
<b>Income from house property:</b>			
Mr. A is deemed owner u/s 27(i). Section 64(1)(iv) does not apply to Mr. A. Nothing is taxable u/s section 56(2)(x) in hands of Mrs. A since receipt is from a 'relative'.	52,000		
<b>Income from other sources:</b>			
Interest on FD with Bank of India: Clubbed with income of Mr. A u/s 60 since there is transfer of income without transfer of asset = 9% of 5 lakh	45,000		
Commission received by Mrs. A from a partnership firm in which Mr. A has substantial interest and Mrs. A is not qualified: Clubbed with income of Mr. A u/s 64(1)(ii)	25,000		
<b>Income before clubbing income of minor son u/s 64(1A) (clubbing u/s 64(1A) to be made with income of Mr. A since his income, before such clubbing, is greater and it is assumed that this is the first year in which clubbing provisions are attracted)</b>	1,92,000	1,90,000	
Income of minor son from investment made in business out of amount gifted by Mr. A: Clubbed u/s 64(1A) = 20,000 – 1,500 exempt u/s 10(32). Nothing is taxable u/s section 56(2)(x) in hands of minor son since receipt is from a 'relative'.	18,500		
Income of minor son through business activity involving skill and talent: Not clubbed			20,000
<b>Total income</b>	<b>2,10,500</b>	<b>1,90,000</b>	<b>20,000</b>

**B22. COMPREHENSIVE – MASTER QUESTION** - Compute the gross total income of Shalv, his spouse Shivi, his sons Shiva.....

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

Particulars	Shalv	Shivi	Shiva	Shlok	Shimoli
<b>Income under the head 'Salaries':</b>					
Salary from school		3,60,000			
Less: Standard deduction u/s 16(ia)		(50,000)			
		3,10,000			
<b>Income from house property:</b>					
From house gifted to Shimoli ( <b>Note 1</b> )					84,000
From flat gifted to Shivi ( <b>Note 2</b> )	2,10,000				
<b>Profits and gains of business or profession:</b>					
Income from software development business	6,00,000				
Income from part time business of Shivi ( <b>Note 4</b> )	50,000	1,00,000			
<b>Capital gains:</b>					
Short term capital gain on sale of shares of BCD Ltd. ( <b>Note 3</b> )		50,000			



<b>Income from other sources:</b>					
Prize from singing: Not clubbed u/s 64(1A) since Shlok suffers from 80U disability and also it is on account of skill and talent				50,000	
Dividend from Zed Ltd.: Not clubbed u/s 64(1A) since Shlok suffers from 80U disability (56(2)(x) also not applicable on gift of 2 lakh for AY 2021-22 since received from 'relative')				20,000	
Income from playing quiz master: Not clubbed u/s 64(1A) since income from skill and talent			1,50,000		
Fee from JKL Pvt. Ltd for tax consulting service: Clubbed with income of Shalv u/s 64(1)(ii) since he (+ Shivi) hold $\geq 20\%$ equity shares (at any time during PY) and Shivi is not qualified to work as tax consultant	60,000				
Dividend from BCD Ltd. (not clubbed with Shalv u/s 64(1)(iv) since it is second generation income)		15,000			
Income from property before partition of HUF (for 9 months): Taxable in hands of Shalv u/s 64(2)	75,000				
Income from property after partition of HUF (for 3 months) of 25,000 u/s 64(2):	10,000			5,000	5,000
<ul style="list-style-type: none"> <li>Taxable in hands of Shalv = His share 5,000 + Shivi's share 5,000 + Shiva's share 5,000 (considered below).</li> <li>Taxable in hands of Shimoli = Her share 5,000</li> <li>Taxable in hands of Shlok = His share 5,000 (not clubbed u/s 64(1A) due to 80U disability)</li> </ul>					
Interest on FD with SBI ( <b>Note 5</b> )	25,000	10,000			
Interest on FD with BOM: Taxable in hands of Shivi u/s 60 since income transferred without transfer of assets		15,000			
Royalty: Taxable in hands of Shivi u/s 63 since transfer provides for retransfer of income		2,00,000			
<i>Income before clubbing incomes of Shiva u/s 64(1A): Since income of Shalv is greater, income of Shiva is clubbed with his income, assuming this is the first year in which clubbing is attracted</i>	10,30,000	7,00,000			
Profit share of Shiva from business of uncle	25,000				
Interest on FD with PNB from money gifted by Shalv (56(2)(x) is not applicable on gift of 1 lakh since received from 'relative')	10,000				
Short term capital loss on sale of mobile phone 20,000 (30,000 – 50,000) (can only be adjusted against capital gain; hence carried forward u/s 74 – refer para 190) (also 56(2)(x) is not applicable on gift of phone since it is not a specified movable property; capital gain is not leviable on Shalv u/s 47(iii) since it is a gift)	-				
Lottery prize: Grossed up for TDS = $35,000 \times (100/30)$	50,000				
Income from property after partition of HUF (see working above)	5,000				
Less: Exemption u/s 10(32) <sup>1</sup>	(1,500)				
<b>Gross total income</b>	<b>11,18,500</b>	<b>7,00,000</b>	<b>1,50,000</b>	<b>75,000</b>	<b>89,000</b>

Note 1 – Income from house gifted to Shimoli – Section 27(i) does not apply to house gifted to major child. Income taxable in hands of Shimoli. Section 56(2)(x) not applicable to Shimoli since house received from 'relative'. No capital gain for Shalv since house gifted.

Particulars	Rs.
Gross annual value = Annual rent in absence of any other information	1,20,000
Less: Municipal taxes paid during the year	-
Net annual value	1,20,000
Standard deduction u/s 24 @ 30% of NAV	(36,000)
Income from house property	84,000

<sup>1</sup> Exemption has not been given from winning from lottery, as per one view. As per another view, exemption can be granted. Students can follow either view by giving a suitable note in the answer.



*Note 2 – Income from flat gifted to Shivi – Shalv is deemed owner u/s 27(i) and income from house property is taxable in his hands. No capital gain since it is a gift. Section 56(2)(x) is not applicable to Shivi since flat received from ‘relative’*

Particulars	Rs.
Gross annual value = Annual rent in absence of any other information	3,00,000
Less: Municipal taxes paid during the year	-
Net annual value	3,00,000
Standard deduction u/s 24 @ 30% of NAV	(90,000)
Income from house property	2,10,000

*Note 3 – Income from sale of shares of BCD Ltd. – Not clubbed with Shalv u/s 64(1)(iv) since it is income from accretion of assets acquired by investing income from asset gifted by Shalv*

Particulars	Rs.
Full value of consideration	50,000
Less: Cost of acquisition of bonus shares	Nil
Short term capital gain	50,000

*Note 4 – Income from part time business of Shivi*

Particulars	PY 2021-22
First day of PY	1.4.2021
Total investment in business by Shivi on first day of PY = 5 lakh + 3 lakh gifted by Shalv + 2 lakh profit for 2020-21 – 1 lakh drawings during 2020-21 = 9 lakh: <b>A</b>	9,00,000
Value of assets transferred by Shalv, without adequate consideration, invested by Shivi in business, on first day of PY: <b>B</b>	3,00,000
Income from business: <b>C</b>	1,50,000
Business income clubbed with income of Shalv u/s 64(1)(iv) = <b>C × (B/A)</b>	50,000
Business income taxable in hands of Shivi (balance)	1,00,000
<i>Note: Section 56(2)(x) not applicable to Shivi for AY 2021-22 on gift of 3 lakh by Shalv since received by ‘relative’</i>	

*Note 5 – Interest from FD with SBI*

- This is a case of cross transfers. They are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, income from assets transferred will be clubbed in hands of deemed transferor.
- *Interest on Rs. 5 lakh @ 10% p.a. for 6 months = 25,000.* Interest arising to Shivi of Rs. 25,000 clubbed with income of Shalv u/s 64(1)(iv). Interest arising to spouse of Shivam of Rs. 25,000 clubbed with income of Shivam u/s 64(1)(iv).
- *Interest on Rs. 2 lakh @ 10% p.a. for 6 months = 10,000.* Taxable in hands of Shivi. It is not a part of cross transfer.
- Section 56(2)(x) is not applicable in the hands of recipients since gifts received from ‘relative’.

#### INCOME OF MINOR CHILD

**M5. Ruhi, aged 17 years, was adopted by her parents and got married on 1.10.2021. During the PY 2021-22, she got.....**

64(1A) applies to married minor daughter and adopted child. Prize not clubbed as it is from skill/talent. Dividend clubbed = 1,400 – 1,500 exempt u/s 10(32) = Nil.

**M6. The minor son of Ramesh earned interest of Rs. 1,000 from bonds, dividend of Rs. 1,500 from shares of a company.....**

Exemption is provided on overall basis; not to each item of income.

**M7. Mr. Zero, directed his bank to transfer interest of Rs. 30,000 on fixed deposits held by him, to the account of his.....**

64(1A) not applicable as son is major. Clubbing u/s 60 as income transferred without transfer of asset.

**M8. Raja is the minor son of Rocky. During the PY 2021-22, he earned the following incomes: Interest of Rs. 10,000.....**

Clubbing = 10,000 POTD + gift from father's brother NO 56(2)(x) as relative + 15,000 dividend + 3,00,000 taxable u/s 56(2)(x) - 1,500 exempt u/s 10(32) = 3,23,500

**M9. Suman, aged 16 years, received scholarship of Rs. 50,000 during PY 2021-22 to meet cost of her education. Which.....**

Exempt u/s 10(16) (refer para 30)

**M10. On 20.10.2021, Sweety (minor child) gets a gift of Rs. 20 lakh from her father's friend. On the same day, the.....**

Clubbing u/s 64(1A) = 20,00,000 u/s 56(2)(x) + 13,000 – 1,500 u/s 10(32) = 20,11,500

**M11. Megha (16 years) received gift of Rs. 10 lakh from her grandfather on her birthday on 1.6.2020. She utilized.....**

Clubbing = STCG on sale of shares 1,00,000 (4L – 3L) + dividend 5,000 + interest on debentures 40,000 + interest on loan 5,000 + STCG on bonus shares 2,00,000 - 1,500 exempt u/s 10(32) = 3,48,500

**M12. Divyansh (14 years) won the first prize of Rs. 1 lakh in National Talent Search on 1.4.2021. He invested this money.....**

Divyansh = prize 1,00,000 as it is from skill/talent.

Clubbed u/s 64(1A) = business profit 50,000 + interest 3,000 = 53,000.

TOTAL INCOME BEFORE CLUBBING: Father = 2,00,000 + 1,50,000 clubbed u/s 64(1)(iv) = 3,50,000; Mother = 3,00,000.

Clubbed with father (as TI higher) = 53,000 – 1,500 u/s 10(32) = 51,500.

Father's income = 3,50,000 + 51,500 = 4,01,500.

#### INCOME OF SPOUSE FROM CONCERN IN WHICH INDIVIDUAL HAS SUBSTANTIAL INTEREST

**M15. During the PY 2021-22, the spouse of Charu received salary of Rs. 50,000 per month, as legal manager, from a.....**

Profit share = 10 self + 10 brother = 20% = SI. Clubbing u/s 64(1)(ii) = 6,00,000 – 50,000 SD u/s 16 = 5,50,000

**M16. Romil, a doctor, gifted Rs. 10 lakh to his spouse, Damini on 1.4.2021 from which she purchased 15% equity shares.....**

Damini: Gift from Romil NO as not taxable u/s 56(2)(x) since received from relative + 3L clubbed u/s 64(1)(xii) as Damini holds 25% shares in BCD Pvt. Ltd. alongwith Romil (= SI) and Romil is not qualified = 3L.

**M17. During the year 2021-22, Sweety (spouse of Veer) received commission of 1% on turnover achieved by CD Pvt. Ltd.....**

Sweety qualified and, hence, no clubbing u/s 64(1)(ii) even if Veer holds  $\geq 20\%$  equity at any time during PY.

**M18. Raja and Rani, spouses, were employed with BCD (P) Ltd on annual salary income of Rs. 2 lakh each (computed).....**

Both are unqualified for the job of tax manager. Equity holding during PY 2021-22 for both of them = Raja 5% + minor son 10% + Rani 5% = 20% = SI.

Clubbing u/s 64(1)(ii) in hands of Rani as TI of Rani (excluding salary) of 4L is higher.

Raja's income = 3L professional income. Rani's income = 2L salary + 2L clubbing + 4L professional income = 8L

**M19. Jiya has earned remuneration of Rs. 3 lakh during the PY 2021-22 from a partnership firm in which her brother is a.....**

No clubbing u/s 64(1)(ii) as spouse has no profit share

#### INCOME FROM ASSETS TRANSFERRED TO SPOUSE OR SON'S WIFE

**M20. For clubbing income u/s 64(1)(iv) or 64(1)(vi), the relation of spouse or son's wife should subsist only at the time.....**

At time of transfer of asset as well as arising of income

**M21. Yuvraj, gifted Rs. 50 lakh to his spouse on 1.4.2021. Out of this money, she invested Rs. 30 lakh in fixed deposits.....**

YUVRAJ = FD interest 3,00,000 + dividend 20,000 = 3,20,000.

SPOUSE = Gift from spouse NO u/s 56(2)(x) + 1,00,000 STCG not clubbed as accretion = 1,00,000

**M22. During the PY 2021-22, Sona acquired jewellery from her friend for Rs. 1 lakh (market value Rs. 5 lakh). Being a.....**

SONA = Jewellery 4,00,000 u/s 56(2)(x) + salary 5,50,000 (6,00,000 – 50,000 SD u/s 16) not clubbed with spouse u/s 64(1)(ii) as she is qualified + gift from spouse NO u/s 56(2)(x) = 9,50,000.

SPOUSE = IHP (-) 25,000 clubbed u/s 64(1)(iv).

**M23. Manjari gifted a property to her daughter-in-law (DIL) on 1.4.2021. Income from property for the year (accruing.....**

MANJARI = Income till divorce clubbed u/s 64(1)(vi) = 50,000.

Daughter in law = Gift of property (assuming it is specified) NO u/s 56(2)(x) as received from relative + income after divorce not clubbed u/s 64(1)(vi) 50,000 + capital gain after divorce not clubbed u/s 64(1)(vi) 30,000 = 80,000.

**M24. Rohit gifted Rs. 20 lakh to his brother on 1.5.2021 with instructions to deposit the money in bank fixed deposits.....**

Asset transferred to any person where income arises for benefit of son's wife; clubbed u/s 64(1)(viii)

**M25. Badal gifted a house property valued at Rs. 50 lakh to his wife, Rani, who in turn has gifted the same to her.....**

Badal is deemed owner u/s 27(i) and gift by Rani to daughter-in-law is covered u/s 64(1)(iv). Alternatively, Badal has transferred house indirectly to son's wife u/s 64(1)(iv). In any case, income clubbed with Badal = 3,00,000 annual value – 90,000 standard deduction = 2,10,000

**M27. Rhea received gift of Rs. 10 lakh from her spouse on 15.4.2021. She invested this money, along with her own.....**

SPOUSE =  $(1,20,000) \times (10L / 30L) = 40,000$  loss clubbed u/s 64(1)(iv).

RHEA = 3,00,000 royalty – 80,000 loss = 2,20,000

**M28. On 1.3.2021, Shobhit became a partner in R&S partnership firm, with 50% profit share, by bringing in Rs. 10 lakh.....**

Profit share is exempt u/s 10(2A).

Taxable income: SPOUSE = 1L interest clubbed u/s 64(1)(iv)  $(1L \times (10L / 10L)) = 1L$ . SHOBHIT: Nil.

**M29. Rajshri commenced her business on 1.9.2021 with Rs. 10 lakh (out of which Rs. 5 lakh was loan taken from bank).....**

Nothing clubbed u/s 64(1)(iv) as gift by spouse not invested in business on first day of PY being 1.9.2021.

**M29a. Mr. Z gifted Rs. 5 lakh each to Mrs. Z and Master Z, his son aged 25 years, on 1.4.2019. They invested this.....**

Interest accruing to son is not to be clubbed in hands of either parent as he is major. Interest on 5 lakh accruing to Mrs. Z is clubbed in hands of Mr. Z u/s 64(1)(iv). Interest on interest will not be clubbed and will be taxable in hands of Mrs. Z.

PY	Principal for which interest is taxable in hands of Mr. Z	Principal for which interest is taxable in hands of Mrs. Z	Interest taxable in hands of Mr. Z	Interest taxable in hands of Mrs. Z	Opening balance	Closing balance
2019-20	500000	0	50000	0		550000
2020-21	500000	50000	50000	5000	550000	605000
2021-22	500000	105000	50000	10500	605000	665500

### CONVERSION OF SELF-ACQUIRED PROPERTY INTO PROPERTY OF HUF

**M32. On 1.7.2021, Saira transferred gold jewellery of market value Rs. 10 lakh to the HUF for a consideration of Rs.....**

SAIRA = CG 1L.

HUF = STCG 5L + interest 1L = 6L. No clubbing u/s 64(2) as transfer is for adequate consideration.

**M33. On 1.4.2021, Shan (Karta of his HUF comprising of his spouse and minor daughter), gifted Rs. 15 lakh to the HUF.....**

TILL PARTITION: Shan = 60,000.

AFTER PARTITION: Shan = 20,000 self + 20,000 spouse + 18,500 minor (after 1,500 exempt u/s 10(32) = 58,500.

### CROSS TRANSFERS

**M35. On 1.4.2021, Mr. B gifted Rs. 1.5 lakh to Mrs. C (spouse of his brother, Mr. C). Mr. C, in turn, gifted Rs. 1 lakh to.....**

Mr. B = 10,000 – 1,500 u/s 10(32) = 8,500.

Mr. C = 10,000.

Mrs. C = 5,000 (10% of 50,000).

### GENERAL PROVISIONS OF CLUBBING

**M40. Sana's spouse (61 years, resident) gifted Rs. 60 lakh to Sana (59 years, resident) who earned interest of Rs.....**

Total Income: Sana = Nil. Spouse = 4,50,000 clubbed u/s 64(1)(iv) + pension 6,00,000 = 10,50,000. Tax = 1,25,000 + 4% HEC of 5,000 = 1,30,000

**M41. Income arising from transfer of asset will be included in the income of transferor in which of the following cases.....**

U/s 60

**M42. Ram owns 500, 15% debentures of Reliance Industries Ltd. of Rs. 500 each. Annual interest of Rs. 37,500 was.....**

Clubbing in hands of Ram u/s 60

**M43. Vanya gifted Rs. 25 lakh to her father with a declaration that the transfer is irrevocable during his lifetime. Her.....**

Transfer revoked on death.

**M44. Sehar transferred certain plant and machinery, owned by him, to his friend with a stipulation that he would.....**

Transfer is deemed to be revocable u/s 63.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Set-off & Carry-forward of Losses

#### Build Your Confidence (BYC)

### INTER SOURCE ADJUSTMENT

**B1. Inter source adjustment – Shri provides the following particulars of his income for AY 2022-23. Compute the ....**

*Computation of income under each head after inter source adjustment*

Particulars			Rs.
Income from house property in Delhi		1,00,000	
Less: Loss from house property in Kolkata set off u/s 70		(1,20,000)	
<b>Loss under the head 'Income from house property'</b>			<b>(20,000)</b>
Income from speculation business I	20,000		
Less: Loss from speculation business II set off	(10,000)		
		10,000	
Loss from a specified business referred u/s 35AD (can be set off only against income from specified business referred u/s 35AD)		-	
Income from the departmental store run by him	4,00,000		
Less: Loss from a real estate agency run by him set off u/s 70	(4,30,000)		
Set off against income from speculation business u/s 70		(30,000)	
<b>Loss under the head 'Profits and gains of business or profession'</b>			<b>(20,000)</b>
Long term capital gain		20,000	
Less: Long term capital loss set off u/s 70		(10,000)	
Less: Short term capital loss set off u/s 70		(5,000)	
<b>Income under the head 'Capital gains'</b>			<b>5,000</b>
Income from activity of owning and maintaining race horses		30,000	
Less: Excess of expenditure over income from sub-letting of a property: Set off u/s 70		(40,000)	
<b>Loss under the head 'Income from other sources'</b>			<b>(10,000)</b>
<b>Income from horse races (no loss can be set off against winning)</b>			<b>25,000</b>

### IINTER HEAD ADJUSTMENT

**B2. Inter head adjustment – Compute the total income of Jay for AY 2022-23 from the following particulars.....**

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

Particulars			Rs.
<b>Salary income (computed)</b>		<b>1,50,000</b>	
Less: Loss from house property set off u/s 71		(1,50,000)	
			Nil
<b>Profits and gains of business or profession:</b>			
Income from speculation business		10,000	

Less: Loss from wholesale business set off u/s 70	(30,000)	
	(20,000)	
Share of loss from partnership firm: No set off as it is exempt u/s 10(2A)	-	(20,000)
<b>Capital gains:</b>		
Long term loss from sale of gold coins: Cannot be set off against income of any other head u/s 71. Will be carried forward to next AY.		-
<b>Income from other sources:</b>		
Interest income of wife from money gifted to her: Clubbed u/s 64(1)(iv)	50,000	
Less: Loss from authoring a book set off u/s 70	(10,000)	
		40,000
Loss under head PGBP can be set off against IFOS u/s 71.		20,000
Less: Loss from house property set off u/s 71: Overall set off limited to 2 lakh u/s 71. Unabsorbed loss of 80,000 (2,50,000 – 1,50,000 – 20,000) will be carried forward to next AY.		(20,000)
<b>Gross total income</b>		<b>Nil</b>
Less: Deduction u/s 80C: Nil since gross total income is Nil		Nil
<b>Total income</b>		<b>Nil</b>

**B3. Inter head adjustment** – Compute the total income of Mr. Sharma, aged 35 years, for AY 2022-23 from the following.....

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

Particulars	Rs.	Rs.
Salary (computed)	5,00,000	
Less: Loss from house property set off u/s 71 (loss can be set off up to Rs. 2 lakh; since normal income in this case is taxable at 5% slab rate as against long term capital gain u/s 112 at 20%, it is more beneficial to set off loss from house property from long term capital gain first and balance from salary). Balance unabsorbed loss from house property of Rs. 50,000 will be carried forward to next year.	(1,50,000)	
		3,50,000
Long term capital gain from sale of house	2,50,000	
Less: Long term capital loss u/s 112A set off u/s 70	(2,00,000)	
	50,000	
Less: Loss from house property set off u/s 71	(50,000)	
		Nil
<b>Total income (comprising salary)</b>		<b>3,50,000</b>

**B4. Inter head adjustment – CA2012(N)** – Mr. Rahul, an assessee aged 61 years, gives the following information for the.....

*Computation of total income for AY 2022-23*

Particulars	Rs.	Rs.
<b>Income from house property</b>		
Loss from house property (15,000 + 30,000)		(45,000)
<b>Profits and gains of business or profession</b>		
Loss from profession	(1,05,000)	
Share of loss from firm: Not allowed since share of profit is exempt u/s 10(2A)	-	(1,05,000)
<b>Capital gains</b>		
Long term capital gain on sale of shares	2,05,000	
Less: Short term capital loss on sale of property: Set off u/s 70	(55,000)	
		1,50,000
Set off Loss from house property and loss from profession against long term capital gain u/s 71		Nil
<b>Income from other sources</b>		
Income from card games	55,000	
Winning from lotteries	1,00,000	
Loss from horse races: Cannot be set off or carried forward	-	
		1,55,000
<b>Gross total income</b>		<b>1,55,000</b>

Less: Deduction under Chapter VIA for investment in infrastructure bonds u/s 80C and medical insurance premium u/s 80D (not allowed from income from card games and winning from lotteries)		-
<b>Total income</b>		<b>1,55,000</b>

### CARRY FORWARD AND SET OFF & COMPREHENSIVE QUESTIONS

**B8. Return of loss – CA2017(N) (modified) – Prakash furnishes you the following details in respect of the FY 2021-22.....**

Since return of loss is furnished after the due date u/s 139(1), loss from business cannot be carried forward to AY 2023-24 u/s 72. However, this does not impact unabsorbed depreciation and loss from house property which can be carried forward u/s 32(2) and u/s 71B, respectively.

**B9. Carry forward – 32(2) – Compute the total income of Ghanshyam from the following particulars for AY 2022-23.....**

*Computation of total income for AY 2022-23 if income taken as per books*

Particulars	Rs.
Income from plying goods carriages as per books (Note 1)	7,50,000
Income from grocery retail business as per books (Note 2)	8,00,000
Less: Brought forward unabsorbed depreciation set off u/s 32(2)	(50,000)
<b>Total income</b>	<b>15,00,000</b>

*Computation of total income for AY 2022-23 if presumptive income taken*

Particulars	Rs.
Income from plying goods carriages u/s 44AE (Note 1)	9,00,000
Income from grocery retail business u/s 44AD (Note 2)	9,30,000
Less: Brought forward unabsorbed depreciation u/s 32(2): Set off not possible as deemed allowed	-
<b>Total income</b>	<b>18,30,000</b>

**Note 1** - If he opts for section 44AE, presumptive income = 7,500 × 12 months × 10 vehicles = Rs. 9 lakh. If he does not opt, he can take the income as per books of Rs. 7.5 lakh provided books of accounts are maintained u/s 44AA and tax audit is done u/s 44AB.

**Note 2** - If he opts for section 44AD, presumptive income = 6% of 1.35 cr (90% of turnover received by a/c payee cheque, RTGS and NEFT up to due date of ROI) + 8% of 0.15 cr received in cash = 8,10,000 + 1,20,000 = 9,30,000. If he does not opt, he can take the income as per books of Rs. 8 lakh (further reduced by unabsorbed depreciation of Rs. 50,000). In such case, benefit of 44AD will cease for the next 5 AYs. For current AY and next 5 AYs, he will need to maintain books u/s 44AA and get tax audit done u/s 44AB if total income exceeds the basic exemption limit.

**B10. Carry forward – CA2018(M) – Mr. Jaji is a Chartered Accountant and his income from profession for the year.....**

*Computation of total income for AY 2022-23*

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Income from profession		10,00,000
<b>Capital gains</b>		
Long term capital gain	4,00,000	
Long term capital gain from shares	10,00,000	
Less: Short term capital loss set off u/s 70	(6,00,000)	
Less: Short term capital loss u/s 111A set off u/s 70	(8,00,000)	-
<b>Income from other sources</b>		
Income of minor son Biju clubbed u/s 64(1A)	1,50,000	
Less: Exemption u/s 10(32)	(1,500)	1,48,500
Income of minor daughter Chitra:		
• Income as professional dancer: Not clubbed since arises on account of talent	-	
• Interest from SBI clubbed u/s 64(1A)	20,000	
• Gift received from friends of Mr. Jaji – Not taxable u/s 56(2)(x) since does not exceed	-	



Rs. 50,000		
• Less: Exemption u/s 10(32)	(1,500)	18,500
<b>Total income</b>		<b>11,67,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed short term capital loss u/s 111A carried forward u/s 74	2,00,000

**B10a. Comprehensive - CA2021(JULY) – Brajesh is a partner in a partnership firm named XYZ & Associates. He provides.....**

*Computation of total income for AY 2022-23*

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Salary from firm (taxable as business income to the full extent as it is allowed as deduction to the firm)	3,75,000	
Less: Business loss b/fd from AY 2021-22 set off u/s 72	(3,75,000)	
		-
<b>Capital gains</b>		
Long term capital gain on sale of house	2,50,000	
Less: Long term capital loss on sale of shares (u/s 112A) set off u/s 70	(1,50,000)	
		1,00,000
<b>Income from other sources</b>		
Dividend from domestic companies	27,500	
Gift from father's friend taxable u/s 56(2)(x) since it exceeds aggregate of 50,000	51,000	
		78,500
<b>Gross total income</b>		<b>1,78,500</b>
Less: Deduction u/s 80C for LIC premium: Restricted to IFOS of 78,500 since deduction u/c VIA are not permissible from long term capital gain (see para 192)		(78,500)
<b>Total income</b>		<b>1,00,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed business loss of AY 2021-22 (6,25,000 – 3,75,000) carried forward u/s 72	2,50,000
Unabsorbed speculative business loss of AY 2019-20 carried forward u/s 73 since it can be set off only against profit of speculative business	2,50,000

*Mistake by students – Showed salary from firm under the head 'Salaries' instead of PGBP.*

**B10b. Comprehensive - CA2021(JULY) – X, a resident individual, submits the following information, relevant to PY.....**

*Computation of total income for AY 2022-23*

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from salary (computed)	2,22,000	
Less: House property loss of 2,58,000 (see below) set off u/s 71 up to 2 lakh. Balance c/fd.	(2,00,000)	
		22,000
<b>Income from house property</b>		
Income from house in Delhi	22,000	
Less: Loss from house in Chennai set off u/s 70	(2,60,000)	
Less: Loss from house in Mumbai (self occupied) set off u/s 70	(20,000)	
	(2,58,000)	-
<b>Profits and gains of business or profession</b>		
Profits from speculative business – 2	46,000	
Less: Loss from speculative business – 1 set off in terms of section 73. Balance c/fd.	(46,000)	
		-
Profit from textile business	18,000	
Less: Loss from cosmetics business set off u/s 70	(18,000)	
		-

<b>Capital gains</b>		
Long term capital gain from sale of property	15,400	
Less: Short term capital loss from sale of property set off u/s 70. Balance c/fd.	(15,400)	
		-
<b>Income from other sources</b>		
Income from betting	34,000	
Income from card games	46,000	
Loss on maintenance of race horses: Can only be set off against income from such activity. Hence, c/fd.	-	
		80,000
<b>Gross total income</b>		<b>1,02,000</b>

*Statement of losses to be carried forward to AY 2023-24*

<b>Particulars</b>	<b>Rs.</b>
Unabsorbed house property loss carried forward u/s 71B	58,000
Unabsorbed loss from speculative business - 1 carried forward u/s 73	28,000
Unabsorbed short term capital loss carried forward u/s 74	600
Unabsorbed loss on maintenance of race horses carried forward u/s 74A	14,600

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to B20

#### Set-off & Carry-forward of Losses

#### Build Your Confidence (BYC)

**B11. Comprehensive - CA2021(JAN) - Mr. Tarun, a resident individual, furnishes the following particulars of his income.....**

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

Particulars	Rs.	Rs.
<b>Income from salary (computed)</b>	<b>25,00,000</b>	
Less: Loss from house property (on account of interest on loan for self occupied property) set off u/s 71 to the extent of 2,00,000 (i.e., whole extent since income from house property will be a loss of 2,00,000)	(2,00,000)	
		23,00,000
<b>Profits and gains of business or profession:</b>		
Income from specified business (not eligible for deduction u/s 35AD)	20,000	
Less: Loss from specified business (eligible for deduction u/s 35AD) set off u/s 73A. Loss can be set off against income of any specified business referred u/s 35AD whether or not eligible for deduction u/s 35AD.	(20,000)	
		Nil
<b>Income from other sources:</b>		
Interest from fixed deposit	12,14,000	
Less: Current year business loss (after current year depreciation) set off u/s 71	(2,00,000)	
Less: B/fd unabsorbed depreciation u/s 32(2): Can be set off against any income other than salary	(58,000)	
		9,56,000
<b>Total income</b>		<b>32,56,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed loss from specified business: C/fd u/s 73A	4,000

**B11A. Comprehensive – CA2020(N) – Pooja, a resident individual, provides the following information of her income.....**

*Computation of gross total income of Pooja for AY 2022-23*

Particulars	Rs.	Rs.
<b>Income from salary (computed)</b>	<b>2,20,000</b>	
Less: Loss from house property set off u/s 71 (see below)	(2,00,000)	
		20,000
<b>Income from house property</b>		
NAV	1,50,000	
Less: Standard deduction u/s 24(a) @ 30%	(45,000)	
Less: Interest u/s 24(b)	(3,16,000)	
	2,11,000	
Less: Set off against income from salary (see above)	(2,00,000)	
C/fd to AY 2023-24 u/s 71B	11,000	
		Nil
<b>Profits and gains of business or profession</b>		
Share of loss from firm (cannot be adjusted since income is exempt u/s 10(2A); cannot be c/fd)	-	

Loss from specified business covered u/s 35AD: Can only be set off against income from specified business covered u/s 35AD; carried forward to AY 2023-24 u/s 73A	-	
Income from textile business	3,00,000	
Less: Current year depreciation u/s 32	(60,000)	
Less: B/fd business loss of AY 2020-21 u/s 72	(90,000)	
Less: Unabsorbed depreciation u/s 32(2) to the extent of Rs. 1,50,000	(1,50,000)	
		Nil
<b>Capital gains</b>		
Long term capital gain on sale of debentures	75,000	
Long term capital gain on sale of equity shares u/s 112A	1,50,000	
	2,25,000	
Less: Long term capital loss on sale of equity shares (STT not paid) u/s 112, set off u/s 70	(1,00,000)	
	1,25,000	
Less: Unabsorbed depreciation set off (2,25,000 – 1,50,000 – 5,000) (better to set off against IFOS taxable at normal rates (see below) and then set off balance against LTCG taxable at concessional rate)	(70,000)	
		55,000
<b>Income from other sources</b>		
Dividend from units of UTI	5,000	
Less: Unabsorbed depreciation	(5,000)	
		Nil
<b>Gross total income</b>		<b>75,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Loss from house property c/fd u/s 71B	11,000
Loss from specified business covered u/s 35AD, c/fd u/s 73A	20,000

**B12. Comprehensive – CA2020(N) – The following information is furnished by Shankar for the FY 2021-22.....**

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

Particulars	Rs.	Rs.
<b>Income from house property</b>		
Income from let out house property (computed)	3,50,000	
Less: Loss from self occupied property set off u/s 70 (interest paid on housing loan represents loss from house property)	(2,00,000)	
		1,50,000
<b>Profits and gains of business or profession</b>		
Income from textile business	5,75,000	
Brought forward business loss of AY 2018-19 (cannot be c/fd from AY 2018-19 since return filed after due date; hence cannot be set off)	-	
		5,75,000
<b>Capital gains</b>		
Long term capital gain on sale of house	75,000	
Less: Short term capital loss set off u/s 70	(70,000)	
Less: Brought forward long term capital loss from AY 2020-21 set off u/s 74	(5,000)	
		Nil
<b>Income from other sources</b>		
Interest on enhanced compensation = Rs. 5 lakh less 50% deduction	2,50,000	
Dividend received from ABC Ltd., Andhra Pradesh	15,000	
Loss from owning and maintaining race horse of AY 2020-21: Can be set off only against income from such activity u/s 74A	-	
Loss from gambling: Cannot be set off or c/fd	-	
		2,65,000
<b>Gross total income</b>		<b>9,90,000</b>
Less: Deduction u/s 80C for deposit in PPF		(75,000)
<b>Total income</b>		<b>9,15,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
-------------	-----

Unabsorbed long term capital loss of AY 2020-21	85,000
Unabsorbed loss from owning and maintaining race horse of AY 2020-21	20,000

**B13. Comprehensive – CA2019(N) – Following are the details of incomes/losses of Mr. Rishi for FY 2021-22.....**

*Computation of gross total income of Rishi for AY 2022-23*

Particulars	Rs.	Rs.
Income from house property		
• Income from property X	1,20,000	
• Less: Loss from property Y (inter source set off u/s 70)	(3,40,000)	
	(2,20,000)	
• Less: Loss eligible for set off against salary income (inter head set off u/s 71: see below)	2,00,000	
• Loss to be carried forward to AY 2023-24 u/s 71B	(20,000)	-
Income from salary		
• Salary income (computed)	3,60,000	
• Less: Set off of loss from house property (inter head set off u/s 71)	(2,00,000)	
		1,60,000
Profits and gains of business or profession		
• Income from business P	2,30,000	
• Less: Loss from business Q (inter source set off u/s 70)	(12,000)	
		2,18,000
• Income from speculative business R	15,000	
• Less: Loss from speculative business T (can be set off only against income from speculative business u/s 73)	(25,000)	
• Unabsorbed loss carried forward to next year u/s 73	(10,000)	-
Income from other sources		
• Income from card games	16,000	
• Interest on securities	5,000	
• Loss from owning and maintaining race horses: Can be set off only against income from such activity; carried forward to AY 2023-24 u/s 74A	-	
		21,000
<b>Gross total income</b>		<b>3,99,000</b>

*Mistake by students – Setting off entire loss from house property against salary income instead of Rs. 2 lakh.*

**B14. Comprehensive – CA2018(N) – Rakesh Gupta has derived the following income/loss, as computed below, for the.....**

*Computation of total income of Rakesh Gupta for AY 2022-23*

Particulars	Rs.	Rs.
Profits and gains of business or profession:		
• Income from speculation business	12,45,000	
• Less: Loss from non speculation business (inter source set off u/s 70)	(3,20,000)	
	9,25,000	
• Less: Loss from let out property (inter head set off u/s 71 up to Rs. 2 lakh). Balance carried forward to AY 2023-24 u/s 71B.	(2,00,000)	
		7,25,000
Income from other sources:		
• Winning from lotteries	1,50,000	
• Winning from betting	90,000	
• Loss from card games (cannot be set off against any other income and cannot be carried forward)	-	
		2,40,000
Gross total income		9,65,000
Less: Deduction u/c VIA		-
<b>Total income</b>		<b>9,65,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Loss from specified business u/s 35AD: Can be set off only against income from such business u/s 73A. Carried forward to next year.	4,10,000
Loss from let out property in excess of Rs. 2 lakh, carried forward to next year u/s 71B.	50,000

*Mistake by students:*

1. Not aware that loss from card games cannot be set off and cannot be carried forward.
2. Did not specify items to be carried forward.

**B15. Comprehensive – CA2018(N) (modified) – Rajeev submits the following information for PY 2021-22.....**

*Computation of gross total income of Rajeev for AY 2022-23*

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Income from salary (assumed computed)	6,50,000	
Less: Loss from house property set off u/s 71 to the extent of 2 lakh	(2,00,000)	
		4,50,000
<b>Income from house property</b>		
Income from House I	55,000	
Less: Loss from House II set off u/s 70	(1,25,000)	
Less: Loss from House III set off u/s 70	(1,90,000)	
	(2,60,000)	-
<b>Profits and gains of business or profession</b>		
Profit from cloth business	1,70,000	
Less: Loss from leather business set off u/s 70	(68,000)	
	1,02,000	
Less: Loss of chemical business acquired by inheritance set off u/s 72 (assuming it is brought forward within the 8 year period): Successor cannot carry forward and set off loss of predecessor, except in case of inheritance, u/s 78(2).	(45,000)	
	57,000	
Less: B/fd loss of discontinued business of textile relating to FY 2016-17, set off u/s 72. It is not necessary that textile business should continue in year of set off.	(50,000)	
		7,000
<b>Capital gains</b>		
Long term capital gain on transfer of listed equity shares on which STT was paid	25,000	
Less: Short term capital loss in equity oriented funds on which STT was paid, set off u/s 70	(25,000)	
		-
<b>Income from other sources</b>		
Income from crossword puzzles	12,000	
Dividend from foreign company	8,500	
Loss on owning and maintenance of race horses: Can be set off only against income from such activity	-	
Income from owning and maintenance of race bulls	9,000	
		29,500
<b>Gross total income</b>		<b>4,86,500</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed loss from house property of AY 2022-23 carried forward u/s 71B (2,60,000 – 2,00,000)	60,000
Unabsorbed short term capital loss of AY 2022-23 carried forward u/s 74 (35,000 – 25,000)	10,000
Loss on owning and maintenance of race horses of AY 2022-23 carried forward u/s 74A	7,500

*Mistake by students – Did not restrict set off of house property loss to 2 lakh; wrongly set off loss on owning and maintenance of race horses against income from owning and maintenance of race bulls.*

**B16. Comprehensive – CA2016(M) – Mr. Aditya furnishes the following details for the year ended 31.3.2022.....**

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

Particulars	Rs.	Rs.
-------------	-----	-----

<b>Income from salary</b>		
Income from salary (assumed to be computed)	2,50,000	
Less: Loss from house property (inter head set off u/s 71)	(1,50,000)	
		1,00,000
<b>Profits and gains of business or profession:</b>		
Income from speculative business B	5,000	
Less: Loss from speculative business A (inter source set off u/s 70). Balance of Rs. 20,000 carried forward to next year u/s 73.	(5,000)	
		-
Income from trading business	45,000	
Less: B/fd loss from trading business relating to AY 2016-17 set off u/s 72	(5,000)	
		40,000
<b>Capital gains:</b>		
Long term capital gain from sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) (inter source set off u/s 70)	(75,000)	
Less: Long term capital loss on sale of listed shares in recognized stock exchange (STT paid) (inter source set off u/s 70)	(82,000)	
		43,000
<b>Income from other sources:</b>		
B/fd loss from owning and maintaining race horses pertaining to AY 2018-19: Can be set off only against such income; cannot be carried forward to next year u/s 74A since time limit of 4 years expires in AY 2022-23.		-
<b>Total income</b>		<b>1,83,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed loss from speculative business A carried forward to next year u/s 73.	20,000
Loss from specified business covered u/s 35AD: Can be set off only against such income u/s 73A. Carried forward to next year	20,000

**B17. Comprehensive – CA2013(M) – From the following information of Mohit for the FY 2021-22, you are required to.....**

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

Particulars	Rs.	Rs.
<b>Income from house property</b>		
Income from House No. 1	80,000	
Less: Loss from House No. 2 set off u/s 70 (assumed it is computed)	(38,000)	42,000
<b>Profits and gains of business or profession:</b>		
Profits of leather business	1,00,000	
Share of profit in firm – Exempt u/s 10(2A)	-	
Bad debts of chemical business recovered: Taxable u/s 41(4) even if chemical business is discontinued	35,000	
	1,35,000	
Less: Current year loss of textile business set off u/s 70	(40,000)	
	95,000	
Less: B/fd loss of textile business set off u/s 72	(95,000)	-
<b>Capital gains</b>		
Short term capital gain (long term capital loss cannot be set off against short term capital gain u/s 70)		60,000
<b>Gross total income</b>		<b>1,02,000</b>
Less: Deduction u/s 80C for LIC premium paid		(10,000)
<b>Total income</b>		<b>92,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed business loss of chemical business of AY 2018-19 carried forward u/s 72	50,000
Unabsorbed long term capital loss carried forward u/s 74	35,000



**B18. Comprehensive – CA2010(N) – Sohan submits the following details of his income for AY 2022-23.....**

*Computation of total income for AY 2022-23*

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Salary (assumed computed)	3,00,000	
Less: Loss from house property set off u/s 71	(40,000)	2,60,000
<b>Profits and gains of business or profession</b>		
Income from sugar business	50,000	
Less: B/fd loss from iron ore business set off u/s 72 (continuance of business is not necessary) (assumed loss pertains to AY 2017-18)	(50,000)	-
<b>Capital gain</b>		
Long term capital gain	40,000	
Less: Short term capital loss set off u/s 70	(40,000)	-
<b>Income from other sources</b>		
Dividend	5,000	
Income from lottery winning	50,000	
Winning in card games	6,000	
Bank interest	5,000	66,000
Agricultural income – Exempt		-
<b>Gross total income</b>		<b>3,26,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed loss from iron ore business (1,20,000 – 50,000) of AY 2017-18 carried forward u/s 72	70,000
Unabsorbed short term capital loss of AY 2022-23 carried forward u/s 74	20,000
Unabsorbed short term capital loss u/s 111A of AY 2022-23 carried forward u/s 74	10,000

**B19. Comprehensive – CA2009(M) – Geeta is a resident individual. She provides the following details of her income/loss.....**

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

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Salary from partnership firm (assumed it is deductible for firm u/s 40(b))	7,50,000	
Less: B/fd business loss of AY 2017-18 set off u/s 72 (carry forward allowed u/s 80 as return filed in time)	(7,50,000)	-
<b>Capital gain</b>		
Long term capital gain on sale of land	5,00,000	
Less: Long term capital loss on sale of shares set off u/s 70	(3,00,000)	2,00,000
<b>Income from other sources</b>		
Gift from friends taxable u/s 56(2)(x)	51,000	
Dividend	55,000	1,06,000
<b>Gross total income</b>		<b>3,06,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed business loss of AY 2017-18 carried forward u/s 72	5,00,000

**B20. Comprehensive – CA2008(N) – Mr. P, a resident individual, furnishes the following particulars of his income and.....**

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

Particulars	Rs.	Rs.
<b>Income from salaries (assumed computed)</b>		18,000
<b>Income from house property:</b>		
Net annual value	70,000	



Less: Standard deduction @ 30% of NAV	(21,000)	
	49,000	
Unrealized rent of earlier years (no tax treatment for current year)	-	49,000
<b>Profits and gains of business or profession</b>		
Income from business	80,000	
Less: Current year depreciation u/s 32	(8,000)	
Less: B/fd unabsorbed depreciation u/s 32(2)	(9,000)	
		63,000
Income from speculative business	12,000	
Less: B/fd loss from speculative business u/s 73	(12,000)	
		-
<b>Capital gains</b>		
Long term capital gain on sale of land	15,800	
Less: B/fd short term capital loss u/s 74	(7,800)	
		8,000
<b>Gross total income</b>		<b>1,38,000</b>

*Statement of losses to be carried forward to AY 2023-24*

<b>Particulars</b>	<b>Rs.</b>
Unabsorbed loss from speculative business carried forward u/s 73 (assuming it is within the 4 year period)	4,000
Loss on maintenance of race horses carried forward u/s 74A (assuming it is within the 4 year period)	9,000
Loss on gambling cannot be set off or carried forward	-

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B21 to End

#### Set-off & Carry-forward of Losses

#### Build Your Confidence (BYC)

**B21. Comprehensive - CA2019(M) – Mr. Rehman furnishes the following information for FY 2021-22.....**

*Computation of total income for AY 2022-23*

Particulars	Rs.	Rs.
<b>Income from salary (assumed computed)</b>		3,70,000
<b>Income from house property</b>		
Income from let out property	4,20,000	
Less: Loss from self occupied property set off u/s 70 (loss from self occupied property cannot exceed Rs. 2 lakh since this is the limit for interest deduction u/s 24(b))	(2,00,000)	
		2,20,000
<b>Profits and gains of business or profession</b>		
Profit from speculation business B	30,000	
Less: Loss from speculation business A set off u/s 73	(30,000)	
		-
Income from trading and manufacturing business	2,00,000	
Less: Brought forward business loss of AY 2016-17 set off u/s 72	(1,00,000)	
		1,00,000
<b>Capital gains</b>		
Enhanced compensation for compulsory acquisition of land in 2007: Capital gain u/s 45(5) taxable in year of receipt; full value of consideration is amount of compensation	3,00,000	
Long term capital gain on sale of vacant site	1,10,000	
Less: Short term capital loss on sale of jewellery set off u/s 70	(50,000)	
		3,60,000
<b>Income from other sources</b>		
Interest on PPF deposit (exempt u/s 10)		-
<b>Gross total income</b>		10,50,000
Less: Deduction u/s 80C for investment in tax saver deposit		(60,000)
<b>Total income</b>		<b>9,90,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed loss from speculation business A of AY 2022-23 carried forward u/s 73	40,000

**B22. Comprehensive – CA2011(M) – Following are the details relating to Mr. Srivatsan, a resident Indian, aged 57.....**

*Computation of total income for AY 2022-23*

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from salaries (assumed computed)	2,20,000	
Less: Loss from house property set off u/s 71	(1,90,000)	30,000
<b>Profits and gains of business or profession</b>		
Income from speculation business	30,000	
Less: Loss from cloth business set off u/s 70 to the extent of Rs. 30,000	(30,000)	-

<b>Capital gains</b>		
Long term capital gain from sale of urban land	2,50,000	
Less: Long term capital loss from sale of shares set off u/s 70	(1,10,000)	
	1,40,000	
Less: Loss from cloth business set off u/s 71 to the extent of Rs. 1,40,000	(1,40,000)	-
<b>Income from other sources</b>		
Income from betting		45,000
Loss from card games: Can neither be set off against any other income nor can be carried forward		-
<b>Gross total income</b>		<b>75,000</b>
Less: Deduction u/s 80C (not allowed from winnings)		(30,000)
<b>Total income</b>		<b>45,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed loss from cloth business of AY 2022-23 carried forward u/s 72 = 2,40,000 – 30,000 – 1,40,000. Cannot be set off against salary income or income from betting.	70,000
Loss from specified business u/s 35AD of AY 2022-23 can be set off only against income from specified business referred u/s 35AD; carried forward u/s 73A	20,000

**B23. Comprehensive - CA2017(M) – Shyam, a resident of Chandigarh, provides the following information for FY 2021-22.....**

*Computation of gross total income of Shyam for AY 2022-23*

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession:</b>		
Income from textile business	4,60,000	
Less: Current year depreciation	(5,000)	
Less: B/fd unabsorbed depreciation adjusted u/s 32(2)	(10,000)	4,45,000
Income from speculation business	25,000	
Less: B/fd speculation business loss of AY 2019-20 (set off u/s 73)	(30,000)	
Unabsorbed loss carried forward to AY 2023-24 year u/s 73	(5,000)	-
<b>Income from other sources:</b>		
Loss from gambling: Cannot be set off; cannot be carried forward		-
Loss on maintenance of race horses: Can be set off only against income from such activity; carried forward u/s 74A to AY 2023-24		-
<b>Gross total income</b>		<b>4,45,000</b>

**B24. Comprehensive – CA2014(M) – Mr. Garg, a resident individual, furnishes the following particulars of his income.....**

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

Particulars	Rs.	Rs.
Income from salary (assuming it is computed)		15,000
Income from business	66,000	
Less: Unabsorbed depreciation u/s 32(2)	(11,000)	55,000
Loss from speculative business: Can be set off only against income from speculative business u/s 73; carried forward u/s 73 assuming it is within the 4 year time limit (Rs. 22,000)		-
Long term capital gain on sale of land	10,800	
Less: B/fd short term capital loss set off u/s 74	(9,800)	1,000
Loss on maintaining race horses: Can be set off only against such income; carried forward u/s 74A (Rs. 15,000)		-
Loss from gambling: Can neither be set off not carried forward		-
<b>Gross total income</b>		<b>71,000</b>

**B25. Comprehensive – CA2019(N) – Ms. Netra, a resident individual, aged 32 years, furnishes you with the following.....**

*Computation of total income for AY 2022-23*

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Income from business of handloom trading	2,65,000	
Less: B/fd loss from handloom business of AY 2013-14: Cannot be set off since 8 year period u/s 72 expired in AY 2021-22.	-	2,65,000
<b>Capital gain</b>		
Long term capital gain on sale of jewellery	1,55,000	
Less: Long term capital loss on sale of shares set off u/s 70	(1,25,000)	30,000
<b>Total income</b>		<b>2,95,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Loss from house property can be set off only against income from house property; carried forward u/s 71B	2,20,000

**B26. Comprehensive – CA2015(N) – Mr. Venus provides the following details for the PY ending 31.3.2022.....**

*Computation of taxable income for AY 2022-23*

Particulars	Rs.	Rs.
<b>Income from salaries</b>		
Income from salary (computed)	6,00,000	
Less: Set off loss from house property u/s 71: Mr. Venus is deemed owner of house property u/s 27(i) and loss is assessable in his hands.	(90,000)	
		5,10,000
<b>Capital gains</b>		
Long term capital gain	75,000	
Less: Brought forward long term capital loss of AY 2021-22 set off u/s 74. Balance of Rs. 21,000 carried forward to AY 2023-24 u/s 74.	(75,000)	
		Nil
<b>Income from other sources</b>		
Interest on FD with SBI: Grossed up for TDS = Rs. 72,000 × (100/90). Assuming Mr. Venus is not a senior citizen, deduction u/s 80TTB (see para 203) will not be available from gross total income.	80,000	
Less: Set off business loss of wife's business u/s 71; clubbed with income of Mr. Venus u/s 64(1)(iv). Cannot be set off against salary income. Balance of Rs. 1,20,000 carried forward to AY 2023-24 u/s 72	(80,000)	Nil
<b>Taxable income</b>		<b>5,10,000</b>

**B27. Comprehensive – Master Question - Compute the gross total income of Farman for AY 2022-23 from the.....**

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

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Income from salaries (computed)	1,50,000	
Less: Loss from house property set off u/s 71 to the extent of Rs. 1,50,000	(1,50,000)	-
<b>Profits and gains of business or profession</b>		
Income from manufacturing business (before depreciation)	2,70,000	
Less: Current year depreciation u/s 32(1)	(50,000)	
Less: B/fd business loss of AY 2016-17 set off u/s 72	(90,000)	
Less: Unabsorbed depreciation of AY 2021-22 u/s 32(2)	(30,000)	
		1,00,000
Income from rubber business (35% of 2 lakh is business income under Rule 7A)	70,000	
		1,70,000
Less: Share of loss from partnership firm (exempt u/s 10(2A); cannot be set off)	-	
Less: Balance loss from house property (up to limit of Rs. 2 lakh) (2,00,000 – 1,50,000) set off u/s 71	(50,000)	1,20,000

Income from speculative business A	1,40,000	
Less: Loss from discontinued speculative business B of AY 2020-21 set off u/s 73; continuance of business, in which loss incurred, not necessary	(1,40,000)	-
<b>Capital gain</b>		
Short term capital gain on sale of shares of JBK Pvt Ltd. by wife (clubbed u/s 64(1)(iv))	1,00,000	
Less: Short term capital loss on sale of listed shares u/s 111A set off u/s 70	(1,50,000)	
	(50,000)	
Long term capital gain from sale of gold	80,000	
Less: Balance short term capital loss on sale of listed shares u/s 111A set off u/s 70	(50,000)	
Less: Brought forward long term capital loss from sale of listed shares u/s 112A brought forward from AY 2016-17 set off u/s 74	(30,000)	-
<b>Income from other sources</b>		
Income from owning and maintaining race horses	60,000	
Less: Brought forward loss from owning and maintaining race horses of AY 2018-19 set off u/s 74A	(60,000)	
	-	
Loss from card games: Cannot be set off and cannot be carried forward	-	
Winning from lottery (gross of TDS) = 70,000 × (100/70)	1,00,000	
Income from owning and maintaining race bulls	70,000	1,70,000
<b>Gross total income</b>		<b>2,90,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed loss from let out house property of AY 2022-23 carried forward u/s 71B (2,50,000 – 2,00,000)	50,000
Unabsorbed brought forward loss of self occupied house property of AY 2017-18 can be set off only against income from house property; carried forward u/s 71B; filing of return of loss in time is not required u/s 80	60,000
Unabsorbed brought forward loss of speculative business B of AY 2020-21; can be set off only against income from speculation business; carried forward u/s 73	1,00,000
Unabsorbed brought forward loss from hotel business specified u/s 35AD of AY 2021-22; can be set off only against income of business specified u/s 35AD; carried forward u/s 73A	70,000
Brought forward loss from cold chain business specified u/s 35AD of AY 2017-18 (return was filed after due date); cannot be carried forward from AY 2017-18 in view of section 80	-
Unabsorbed brought forward long term capital loss from sale of listed shares u/s 112A of AY 2016-17; can only be set off against long term capital gain; carried forward u/s 74 (1,30,000 – 30,000)	1,00,000
Unabsorbed brought forward loss from owning and maintaining race horses of AY 2018-19; can be carried forward u/s 74A only up to AY 2022-23; hence cannot be carried forward to AY 2023-24	-

### Set-off & Carry-forward of Losses

MCQ

#### INTER SOURCE ADJUSTMENT

**M2. An assessee can set off loss from a source of income under one head against a source of income of another head.....**

Inter-head set off is possible after inter-source set off.

**M3. Veeru has short term capital gain taxable at 15% u/s 111A of Rs. 5,00,000, short term capital loss u/s 111A of R.....**

STCL can be set off only against capital gain.

**M4. Veer has income from house A of Rs. 1,00,000, loss from house B of Rs. 1,00,000 and brought forward loss of house.....**

House A 1L – House B 1L = Nil. B/fd IHP loss not adjusted. STCG is balance income.

**M8. Roma has loss from speculation business of Rs. 50,000, income from speculation business of Rs. 25,000 and.....**

SB loss set off against SB income. Balance SB loss c/fd. PGBP = Garment business income.

**M9. Reema has loss from speculation business of Rs. 50,000, income from business specified u/s 35AD of Rs. 75,000.....**

Garment business loss set off against 35AD income. PGBP = Nil. SB loss c/fd.

**M10. Rohan has long term capital gain from sale of gold of Rs. 1,00,000, long term capital loss from sale of shares u/s.....**

STCG 1,00,000 – STCL 70,000 = STCG 30,000.

LTCG 1,00,000 – LTCL 1,20,000 = Loss of 20,000 c/fd. Cannot be set off against STCG.

**M11. Yogi has long term capital gain from sale of land Rs. 5,00,000, short term capital gain from sale of gold Rs.....**

STCG 1L – STCL 2L = STCL 1L.

LTCG 5L – STCL 1L – LTCL 2L = LTCG 2L

**M12. Sonu has loss from owning and maintaining race horses of Rs. 1 lakh, winning from lottery of Rs. 1 lakh and loss.....**

OMRH loss of 1L c/fd. Sub letting loss can't be set off against winning. IFOS = 1L winning.

**M13. Sona, the minor child of Sonu, earned interest of bank FD of Rs. 1 lakh. Sonu has loss from royalty on sale of his.....**

IFOS = 98,500 on account of Sonu's income clubbed (1,00,000 – 1,500 exempt u/s 10(32)) – 1,00,000 royalty = 1,500 loss.

#### INTER HEAD ADJUSTMENT

**M16. Sohail has loss from manufacturing business of Rs. 1 lakh, salary income of Rs. 1 lakh, loss from house property of.....**

Salary 1L – IHP 1L = Nil. PGBP and CG loss c/fd.

**M17. Loss under the head IHP can be set off against income of other heads up to Rs. 2 lakh per head.....**

2L limit is overall; not per head.

**M18. Salman has winning from card games of Rs. 50,000, undisclosed income of Rs. 40,000, loss from owning and.....**

Winning 50,000 + Undisclosed income 40,000 = 90,000. OMRH loss and STCL c/fd.

**M19. Suhail has long term capital loss of Rs. 1 lakh, short term capital loss of Rs. 1 lakh, salary income of Rs. 1 lakh.....**

LTCL and STCL c/fd.

TI = IHP 2L – PGBP 2L + 1L salary = 1L. PGBP loss 1L c/fd as cannot be set off against salary.

**M20. Suraj has loss from let out property of Rs. 2 lakh, loss from self occupied of Rs. 1 lakh, salary income of Rs.....**

Salary 1L + LTCG 1L – 2L IHP = Nil. IHP loss 1L c/fd. TI = Winning 2L.

**M21. Sana has loss from grocery business of Rs. 1 lakh, income from hospital business specified u/s 35AD of Rs. 3 lakh.....**

Speculative loss of 2L c/fd. Grocery loss 1L set off with 35AD income 3L = 2L.

IHP loss up to 2L (balance 0.5L c/fd) set off with PGBP income 2L = Nil.

LTCG 4L – STCL 3.5L = LTCG 0.5L.

Card games loss lapses. Winning = 1.5L.

TI = winning 1.5L+ LTCG 0.5L = 2L

### CARRY FORWARD AND SET OFF

**M33. Sunny incurred loss of Rs. 1,50,000 from house property in AY 2018-19. He filed the return of loss for that year.....**

IHP = IHP income 1,00,000 – B/fd IHP loss 1,50,000 = Nil (50,000 c/fd).

STCL 2,00,000 c/fd.

TI = Interest 1,50,000.

**M35. For AY 2022-23, Jasmine earned income from speculation business of Rs. 1,00,000. Speculation business loss.....**

Current PGBP = 1,00,000 SB income – 30,000 IHP loss = 70,000.

TI = 70,000 Current PGBP – 60,000 SB loss of AY 2020-21 – Nil SB loss of AY 2016-17 (4 years expired) = 10,000.

**M36. For AY 2022-23, Mohit had income from cold chain business u/s 35AD of Rs. 2,00,000, income from F&B.....**

35AD = 2,00,000 current income – 2,50,000 b/fd loss = Nil (50,000 c/fd).

F&B income = 3,00,000.

STCL cannot be c/fd u/s 80 as ROL filed late.

**M37. Shaan has income from consulting business of Rs. 10 lakh for AY 2022-23. Unabsorbed business loss of AY.....**

Since time to c/fd is limited to 8 years, it is better to first set off loss of earlier years.

**M38. For AY 2022-23, Gunjan has income from food business of Rs. 2,00,000 (before depreciation), current year.....**

PGBP = 2,00,000 – current depreciation 50,000 – B/fd business loss 1,00,000 – UD 50,000 = Nil.

LTCG = 20,000 – UD 20,000 = Nil.

UD cannot be set off against salary.

TI = salary 60,000. Balance UD of 10,000 c/fd.

**M39. For PY 2021-22, Faizal has income from jewellery business of Rs. 3,00,000 (before depreciation), current year.....**

PGBP = 3,00,000 – current depreciation 1,00,000 – B/fd business loss 2,00,000 = Nil (balance 2,00,000 c/fd).

IFOS 70,000 – UD 70,000 = Nil (balance UD 1,00,000 c/fd).

TI = Salary 50,000.

**M39a. Mr. Y has the following particulars for AY 2022-23: Loss from retail business Rs. 4 lakh; long term capital gain.....**

PGBP loss can't be c/fd u/s 80 but IHP loss can be c/fd. Best to set off PGBP loss against LTCG instead of IHP loss.

TI = Nil. IHP loss c/fd.

**M40. Johny has the following particulars of income for AY 2022-23: Income from transport business Rs. 1,00,000; loss.....**

Transport business income = 1,00,000.

Speculative loss 50,000 expired. Can't be b/fd to AY 2022-23.

LTCL 1,25,000 c/fd.

STCG = 1,75,000 – STCL on rural agricultural land NIL as it is exempt – STCL on shares 1,75,000 = Nil (unabsorbed STCL 50,000 expires; can't be c/fd).

TI = PGBP 1,00,000.

**M41. Roshni has the following particulars of income for AY 2022-23: income from salary Rs. 5,00,000; loss from self.....**

Salary = 5,00,000 – 2,00,000 IHP loss = 3,00,000. Balance IHP loss 1,00,000 c/fd.

35AD loss 3,00,000 c/fd.

LTCG 1,80,000 + interest 70,000 – Legal profession 1,50,000 = 1,00,000.

TI = 1,00,000 + 3,00,000 = 4,00,000.

**M42. For PY 2021-22, Sohan has the following particulars of income: Income from owning and maintaining race horses.....**

OMRH = 1,50,000 – 1,50,000 b/fd = Nil (unabsorbed loss of 1,00,000 expires; can't be c/fd).

Gambling 40,000 – Betting loss Nil (can't be set off or c/fd) + 70,000 unexplained investment u/s 69 + Gambling loss of last year Nil (cannot be b/fd) = 1,10,000.

**M43. For PY 2021-22, Mr. T has the following particulars of income and loss: Income from salary (computed) Rs.....**

Salary 3,50,000 – IHP loss upto 2,00,000 = 1,50,000. Balance IHP loss 3,50,000 (2,50,000 + 3,00,000 – 2,00,000) c/fd.

IFOS 50,000 – PGBP loss 50,000 = Nil. Balance PGBP loss of 1,90,000 c/fd.

TI = 1,50,000. C/fd loss = 3,50,000 + 1,90,000 = 5,40,000.



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B10

#### Deductions from GTI

#### Build Your Confidence (BYC)

#### DEDUCTION FOR INVESTMENTS

**B1. 80C - LIP – Reuben has paid the following premiums in respect of life insurance policy during the PY 2021-22.....**

*Computation of deduction u/s 80C*

Insured	Date of issue of policy	Actual sum assured	Premium paid	Premium limit u/s 80C	Deduction u/s 80C
Self	31.3.2003	1,50,000	12,500	20%	12,500
Spouse	1.4.2012	2,00,000	22,000	10%	20,000
Son (25 years) (premium paid on 1.4.2022): No deduction u/s 80C as not paid during PY 2021-22	31.3.2013	2,50,000	30,000	10%	-
Daughter (17 years; suffering from disease u/s 80DDB)	20.6.2019	3,00,000	40,000	15%	40,000
Mother: No deduction u/s 80C	1.4.2001	1,30,000	10,000	15%	-
					<b>72,500</b>

**B2. 80C – Compute the total income of Mr. Q for AY 2022-23 from the following particulars.....**

*Computation of total income for AY 2022-23*

Particulars	Rs.
Income from salary (computed)	2,50,000
Income from house property (computed)	1,00,000
Gross total income	3,50,000
Less: Deduction u/s 80C (Note)	(1,50,000)
<b>Total income</b>	<b>2,00,000</b>

*Note: Computation of deduction u/s 80C*

Particulars	Rs.
Life insurance premium paid on life of sister (policy issued on 14.5.2019 for sum assured of Rs. 5 lakh): Not eligible u/s 80C	-
Life insurance premium paid on life of son suffering from 80U disability (policy issued on 10.1.2018 for sum assured of Rs. 2 lakh): Premium deductible up to 15% of actual sum assured	25,000
Own contribution to recognized provident fund @ 12% of basic salary of Rs. 10,000 p.m. Employer made a matching contribution: Own contribution deductible u/s 80C; employer's contribution is considered while computing income from salary and is exempt up to 12% of salary.	14,400
Deposit in PPF account of brother: Not eligible u/s 80C	-
Deposit in Sukanya Samriddhi Account in the name of daughter (interest credited for the year was Rs. 30,000): Deposit eligible u/s 80C. Interest is exempt u/s 10(11A).	15,000
Purchase of NSC IX issue certificates: Eligible u/s 80C	15,000
Deposit in National Housing Bank (Tax Saving) Term Deposit Scheme, 2008: Eligible u/s 80C	8,000
Tuition fee to BCD college, Delhi, for part time education of son: Not eligible u/s 80C for part-time education	-
Tuition fee to JK School, Delhi, for full time education of daughter (includes development fee of Rs. 30,000): Development fee not eligible u/s 80C	18,000

Repayment of loan taken from Bank of India for purchase of house property on 15.6.2020 (includes interest of Rs. 1,20,000): Repayment of loan eligible u/s 80C; interest taken into account u/s 24(b) in computing IHP	30,000
Repayment of loan taken from SBI for repair of above said house property during the year (includes interest of Rs. 35,000): Repayment of loan for repair not eligible u/s 80C; interest taken into account u/s 24(b) in computing IHP	-
Fixed deposit with Canara Bank for 18 months: Not eligible u/s 80C as term less than 5 years	-
Notified bonds of NABARD: Eligible u/s 80C	20,000
Deposit in 5 year Post Office Time Deposit: Eligible u/s 80C	15,000
Deposit in Post Office Savings Account: Not eligible u/s 80C	-
<b>Eligible amount u/s 80C</b>	<b>1,60,400</b>
<b>Deduction u/s 80C limited to Rs. 1,50,000</b>	<b>1,50,000</b>

**B3. 80C – LIP/PF – Sajjan has made the following payments during the PY 2021-22. Compute the amount of deduction.....**

*Computation of deduction u/s 80C for AY 2022-23*

Particulars	Rs.
Deposit in own PPF Account	1,50,000
Deposit in PPF Account of his wife	20,000
Life insurance premium on policy on life of wife (deduction up to 10% of sum assured)	15,000
	1,85,000
<b>Deduction u/s 80C (up to Rs. 1,50,000)</b>	<b>1,50,000</b>

**B4. 80CCD, 80CCE – Compute the total income of Mr. Z for AY 2022-23 from the following particulars.....**

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

Particulars	A	B	C
Income from salary			
• Basic salary	2,40,000	2,40,000	-
• Dearness allowance	2,40,000	2,40,000	-
• Commission	60,000	60,000	-
• Employer's contribution to NPS	48,000	48,000	-
• Employer's contribution to RPF in excess of 12% of 4,20,000 (@ 20,000 basic + 15,000 DA forming part of salary), i.e., 50,400 = 57,600 – 50,400	7,200	7,200	-
• Gross salary income	5,95,200	5,95,200	-
• Less: Standard deduction u/s 16(ia)	(50,000)	(50,000)	-
Income under the head 'Salaries'	5,45,200	5,45,200	-
Income from house property (computed)	5,00,000	5,00,000	5,00,000
Gross total income	10,45,200	10,45,200	5,00,000
Less: Deduction under chapter VIA (Note)			
• Deduction u/s 80C, 80CCC and 80CCD(1) (up to Rs. 1,50,000 u/s 80CCE)	(1,44,600)	(1,50,000)	(1,50,000)
• Deduction u/s 80CCD(1B)	(50,000)	(50,000)	(50,000)
• Deduction u/s 80CCD(2)	(48,000)	(42,000)	-
<b>Total income</b>	<b>8,02,600</b>	<b>8,03,200</b>	<b>3,00,000</b>

*Note:*

Particulars	A	B	C
Salary for the purpose of section 80CCD = Basic + DA(T) + C(TO)			
• Basic salary	2,40,000	2,40,000	-
• Dearness allowance forming part of pay @ 75%	1,80,000	1,80,000	-
• Commission: Not taken as not based on fixed % of turnover	-	-	-
	4,20,000	4,20,000	-
Deduction u/s 80CCD:			
• Deduction u/s 80CCD(1B) for own contribution: Up to Rs. 50,000	50,000	50,000	50,000
• Deduction u/s 80CCD(1) for own contribution (excluding contribution considered u/s 80CCD(1B)):	42,000	35,000	1,00,000
○ A: 50,000 (1,00,000 – 50,000); up to 42,000 (10% of 80CCD-Salary)			
○ B: 35,000 (85,000 – 50,000); up to 42,000 (10% of 80CCD-Salary)			
○ C: 1,15,000 (1,65,000 – 50,000); up to 1,00,000 (20% of GTI)			
• Deduction u/s 80CCD(2) for employer's contribution: Up to 10% of 80CCD-Salary (14%	48,000	42,000	-

for Central Government employer) :: A: Up to 58,800; B: Up to 42,000			
Deduction u/s 80C: Up to Rs. 1,50,000. For own contribution to RPF	57,600	57,600	-
Deduction u/s 80CCC: Up to Rs. 1,50,000. For deposit in pension fund of LIC	45,000	60,000	1,50,000

**B5. 80CCE – Compute the amount of deduction available under Chapter VIA to Mr. J for AY 2022-23 from the following.....**

*Computation of deduction under Chapter VIA for AY 2022-23*

Particulars	Computation	Eligible	Overall
Deduction u/s 80C:	-	-	-
• Deposit in PPF Account of wife	1,00,000		
• Tuition fee paid to Modern School for education of daughter	50,000		
• Repayment of loan for purchase of house property taken from ICICI Bank	30,000		
• Deduction u/s 80C limited to Rs. 1,50,000	1,80,000	1,50,000	
Deduction u/s 80CCC:			
• Contribution to approved pension fund of LIC		1,00,000	
Deduction u/s 80CCD:			
• 80CCD(1B): up to Rs. 50,000			50,000
• 80CCD(1) (excluding contribution considered u/s 80CCD(1B)): up to Rs. 60,000 (10% of salary)		50,000	
• 80CCD(2): up to Rs. 60,000 (10% of salary)			60,000
Deduction u/s 80C, 80CCC and 80CCD(1)		3,00,000	
• Limited to Rs. 1,50,000 u/s 80CCE			1,50,000
<b>Total deduction under Chapter VIA</b>			<b>2,60,000</b>

**B6. 80CCD - CA2014(N) – Determine the eligibility and quantum of deduction under Chapter VIA in case of contribution.....**

Deduction u/s 80CCD(2) if employer is Central Government = Employer's contribution up to 42,000, i.e., 14% of salary (basic + DA if terms of employment provide) = Rs. 40,000.

Deduction u/s 80CCD(2) if employer is not Central Government = Employer's contribution up to 30,000, i.e., 10% of salary (basic + DA if terms of employment provide) = Rs. 30,000.

It is assumed that dearness allowance is provided for under the terms of employment.

Deduction u/s 80CCD(2) is not subject to limit of Rs. 1,50,000 u/s 80CCE.

**B7. 80CCD - CA2017(N) – Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to National.....**

U/s 10(12A), 60% is exempt (Rs. 1,20,000) and the balance is taxable (Rs. 80,000) under the head 'Income from other sources'. However, this amount will not be taxable if the assessee uses the amount to purchase an annuity plan in the PY 2021-22 itself.

## DEDUCTION FOR HEALTH & WELLNESS

**B8. 80D – Compute the deduction allowable u/s 80D to Sukesh, aged 35 years, for the AY 2022-23 from the following.....**

*Computation of deduction allowable u/s 80D to Sukesh for the AY 2022-23*

Particulars	Rs.	Rs.
<b>Payments made for self, spouse, dependent children:</b>		
Health insurance premium for self	10,000	
Health insurance premium for spouse (not dependent)	8,000	
Health insurance premium for minor son (dependent)	2,000	
Health insurance premium for major son (not dependent) – not covered as not dependent	-	
Health insurance premium for younger brother (dependent) – brother not covered	-	
Contribution to Central Government Health Scheme	4,000	

Preventive health check for self and spouse; paid by cash (up to Rs. 5,000)	5,000	
Deduction u/s 80D to the extent of Rs. 25,000	29,000	25,000
<b>Payments made for parents</b>		
Health insurance premium for mother, aged 58 years (not dependent)	30,000	
Health insurance premium for father, turned 60 years on 1.3.2022 (not dependent)	20,000	
Medical expenditure for grandfather, aged 90 years (dependent); he does not have any medical insurance policy – grandfather not covered	-	
Medical expenditure for father – not covered since health insurance premium paid for him	-	
	<b>50,000</b>	
Deduction to the extent of Rs. 25,000	25,000	
Additional deduction of Rs. 20,000 for father since he is a senior citizen	20,000	45,000
<b>Total deduction u/s 80D</b>		<b>70,000</b>

**B9. 80D – Compute the deduction allowable u/s 80D to Shailesh, aged 35 years, for the AY 2022-23 from the following....**

*Computation of deduction allowable u/s 80D to Shailesh for the AY 2022-23*

Particulars	Rs.	Rs.
<b>Payments made for self and spouse:</b>		
Medical insurance premium to insure the health of self and his spouse	20,000	
Contribution to CGHS	4,000	
Preventive health check up of self and spouse (paid in cash) (restrict to Rs. 1,000 since total deduction u/s 80D cannot exceed Rs. 25,000)	1,000	
Deduction u/s 80D to the extent of Rs. 25,000	25,000	25,000
<b>Payments made for father who is a senior citizen (assuming he is resident)</b>		
Medical insurance premium to insure the health of his father, aged 65 years, not dependent on him	48,500	
Preventive health check up of father (paid by cheque) (available up to 4,000 (5,000 overall limit – 1,000 applied for self/spouse) but restrict to Rs. 1,500 since total deduction u/s 80D cannot exceed Rs. 50,000)	1,500	
Deduction u/s 80D to the extent of Rs. 50,000	50,000	50,000
<b>Total deduction u/s 80D</b>		<b>75,000</b>

*Note: Overall deduction of Rs. 5,000 for preventive health check-up has been attributed to self/spouse and father in a manner so as to maximize the overall deduction u/s 80D.*

**B10. 80D – Compute the deduction allowable u/s 80D to Shailesh, aged 45 years, for the AY 2022-23 from the following....**

*Computation of deduction allowable u/s 80D to Shailesh for the AY 2022-23*

Particulars	Rs.	Rs.
<b>Payments made for self, spouse and dependent children:</b>		
Medical insurance premium to insure the health of self, spouse and dependent children	24,000	
Contribution to CGHS during the year	10,000	
Deduction u/s 80D to the extent of Rs. 25,000	34,000	25,000
<b>Payments made for parents, being senior citizens (assuming they are resident)</b>		
Medical insurance premium to insure the health of mother, age 70 years, not dependent on him	35,000	
Medical expenditure on father, aged 72 years and not dependent on him, not covered under health insurance policy	22,000	
Deduction u/s 80D to the extent of Rs. 50,000	57,000	50,000
<b>Total deduction u/s 80D</b>		<b>75,000</b>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B11 to B20

#### Deductions from GTI

#### Build Your Confidence (BYC)

**B11. 80DD – Compute the total income of Surendra, a resident individual, for the AY 2022-23 on basis of following.....**

*Computation of total income for AY 2022-23*

Particulars	A	B
Gross total income (Income from salary)	6,00,000	6,00,000
Less: Deductions under Chapter VIA:		
• U/s 80C in respect of life insurance premium: Up to 10% of sum assured.	(20,000)	(20,000)
• U/s 80CCC for deposit in pension fund of LIC	(50,000)	(50,000)
• U/s 80D for mediclaim premium for father who is senior citizen: Max Rs. 50,000	(30,000)	(30,000)
• U/s 80DD for deposit in scheme of LIC for handicapped grandfather – Grandfather not covered	-	-
• U/s 80DD for medical treatment and deposit in scheme of LIC for elder brother – It is a case of disability (65%)	(75,000)	-
<b>Total income</b>	<b>4,25,000</b>	<b>5,00,000</b>

**B12. 80U – Compute the total income of Shyam for the AY 2022-23 on basis of following particulars. He suffers from a.....**

*Computation of total income for AY 2022-23*

Particulars	Rs.
Dividend from companies	1,00,000
Long term capital gain on sale of shares	50,000
Gross total income	1,50,000
Less: Deductions under Chapter VIA: Deduction u/s 80U (for severe disability) of Rs. 1,25,000: Restricted to GTI excluding LTCG	(1,00,000)
<b>Total income</b>	<b>50,000</b>

**B13. 80DDB – Compute the deduction available to Shamli, a resident individual, u/s 80DDB for the AY 2022-23. She has.....**

*Computation of deduction u/s 80DDB for AY 2022-23*

Particulars	A	B
Deduction available u/s 80DDB = Expenditure incurred up to maximum of Rs. 40,000 (Rs. 1,00,000 if father is senior citizen)	40,000	75,000
Less: Insurance claim received	(20,000)	(50,000)
Less: Amount reimbursed by employer (Note: It will not be taxable as perquisite in hands of Shamli u/s 17(2), proviso, since treatment is in Government hospital (refer para 47))	(15,000)	(30,000)
Deduction u/s 80DDB	5,000	Nil

#### DEDUCTION FOR INTEREST ON LOAN

**B14. 80E – Compute the deduction allowable u/s 80E to Sonu for the AY 2022-23 from the following particulars.....**

*Computation of deduction u/s 80E for AY 2022-23*

Particulars	Rs.
-------------	-----

Loan I: Deduction allowed of interest paid	20,000
Loan II: 8 PYs starting from PY 2013-14, being the first year of payment of interest, expired with PY 2020-21. Hence, no deduction.	-
Loan III: Deduction not available on loan taken for both	-
<b>Deduction u/s 80E</b>	<b>20,000</b>

**B15. 80EEA – Gyan purchased a residential house property on 1.3.2021 for Rs. 49 lakh (fair market value Rs. 50 lakh) by....**

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

Particulars	A	B
Income from salary	5,00,000	5,00,000
Less: Loss from house property set off u/s 71: Interest deduction u/s 24(b) up to Rs. 2 lakh for self occupied property	(2,00,000)	(2,00,000)
Gross total income	3,00,000	3,00,000
Less: Deductions under Chapter VIA:		
• U/s 80C on account of repayment of housing loan up to limit of Rs. 1,50,000	(1,50,000)	(1,50,000)
• U/s 80EEA on account of interest on housing loan (3 lakh – 2 lakh claimed u/s 24(b)) up to limit of Rs. 1,50,000. Not allowed in case B since SDV > 45 lakh and loan is not taken from a bank or HFC.	(1,00,000)	-
<b>Total income</b>	<b>50,000</b>	<b>1,50,000</b>

**B16. 80EEB – Gyani purchased an electric vehicle for Rs. 20 lakh. Compute the deduction allowable u/s 80EEB for....**

Particulars	Deduction u/s 80EEB
Case A: Loan sanctioned before PY 2019-20. Deduction not available.	Nil
Case B: Loan sanctioned by bank during PY 2019-20. Interest for PY 2021-22 is Rs. 2 lakh. Deduction available up to Rs. 1,50,000	1,50,000

## DEDUCTION FOR DONATIONS

**B17. 80G – From the following particulars provided by Ram for the AY 2022-23, compute his total income.....**

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

Particulars	Rs.
Business income	6,00,000
Long term capital gain	1,00,000
Gross total income	7,00,000
Less: Deduction under Chapter VIA:	
• U/s 80C for deposit in PPF	(1,50,000)
• U/s 80G (Note)	(1,17,500)
<b>Total income</b>	<b>4,32,500</b>

Note:

Particulars	Rs.
<b>Donations eligible for deduction without qualifying limit</b>	
• PM National Relief Fund @ 100%	50,000
• Zila Saksharta Samiti @ 100% - Not eligible since it exceeds Rs. 2,000 and is paid in cash	-
• Rajiv Gandhi Foundation @ 50%	30,000
<b>(A)</b>	<b>80,000</b>
<b>Donations eligible for deduction subject to qualifying limit</b>	
Eligible donations:	
• Donation to Government for promoting family planning	30,000
• Indian Olympic Association (not eligible since assessee not a company)	-
• Charitable trust	30,000
• Rice bags to notified temple (donation in kind not eligible)	-



	60,000
Adjusted total income:	
• Gross total income	7,00,000
• Less: LTCG	(1,00,000)
• Less: Deductions under Chapter VIA (except section 80G): Deduction u/s 80C	(1,50,000)
	4,50,000
Qualifying limit = 10% of Adjusted Total Income	45,000
Lower of amount of eligible donations (60,000) or qualifying amount (45,000)	45,000
Deduction allowed:	
• Government for promoting family planning @ 100%	30,000
• Charitable trust @ 50% of Rs. 15,000 (45,000 – 30,000)	7,500
<b>(B)</b>	37,500
<b>Total deduction u/s 80G = A + B</b>	<b>1,17,500</b>

**B18. 80GGA/80GGC - From the following particulars, compute the total income for the AY 2022-23 of Mr. C if (A) his.....**

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

Particulars	A	B
Income from salary (computed)		6,00,000
Income from business	6,00,000	-
Less: Donation to JKL College u/s 35(1)(ii)	(15,000)	-
Less: Donation to Rural Development Fund u/s 35CCA	(10,000)	-
	5,75,000	-
Gross total income	5,75,000	6,00,000
Less: Deductions under Chapter VIA:		
• U/s 80G: 100% of donation to PM CARES Fund. Donation to Indira Gandhi Memorial Trust by cash exceeding 2,000 not eligible.	(50,000)	(50,000)
• U/s 80GGA: Donation to JKL College and Rural Development Fund	-	(25,000)
• U/s 80GGC: Donation to local political party and HJP. Donation in cash not eligible	(12,000)	(12,000)
<b>Total income</b>	<b>5,13,000</b>	<b>5,13,000</b>

#### DEDUCTION FOR RENT

**B19. 80GG – MASTER QUESTION - Compute the total income of Jogi for AY 2022-23 from the following particulars.....**

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

Particulars	A	B
Income from salary (computed) from XYZ Pvt. Ltd.	6,00,000	-
Income from profession (computed)	-	6,00,000
Short term capital gain from sale of gold	50,000	50,000
Short term capital gain from sale of equity shares (STT paid on purchase and sale)	40,000	40,000
Long term capital gain from sale of plot of land	1,00,000	1,00,000
Gross total income	7,90,000	7,90,000
Less: Deduction under Chapter VIA:		
• U/s 80C & 80CCC: Deposit in PPF account of child and LIC pension fund; allowed up to Rs. 1,50,000 u/s 80CCE.	(1,50,000)	(1,50,000)
• U/s 80D: Mediclaim premium for self; allowed up to Rs. 25,000	(25,000)	(25,000)
• U/s 80G: Donation to Swachh Bharat Kosh; allowed @ 100% without any qualifying limit	(30,000)	(3,00,000)
• U/s 80GG: <b>See note</b>	(60,000)	(43,750)
<b>Total income</b>	<b>5,25,000</b>	<b>2,71,250</b>

Note:

Particulars	A	B
Jogi is entitled to deduction u/s 80GG for rent paid for own residence in Kochi as he is not in receipt of HRA, he or his spouse do not own residential house in Kochi and he does not own any		

residential house at any other place which is assessed as self occupied property.		
Adjusted total income:		
• Gross total income	7,90,000	7,90,000
• Less: STCG from sale of equity shares (STT paid on purchase and sale) u/s 111A	(40,000)	(40,000)
• Less: LTCG from sale of plot of land u/s 112	(1,00,000)	(1,00,000)
• Less: Deductions under Chapter VIA (except section 80GG): Deduction u/s 80C, 80CCC, 80D, 80G	(2,05,000)	(4,75,000)
	4,45,000	1,75,000
Deduction u/s 80GG = Lower of:		
(a) Rs. 5,000 per month	60,000	60,000
(b) Rent paid – 10% of ATI = 1,95,500 for A (2,40,000 – 44,500) and 1,02,500 for B (1,20,000 – 17,500)	1,95,500	1,02,500
(c) 25% of ATI	1,11,250	43,750
<b>Deduction u/s 80GG</b>	<b>60,000</b>	<b>43,750</b>

### DEDUCTIONS FOR INTEREST INCOME

**B20. 80TTA, 80TTB – Compute the total income of Mr. Jain for AY 2022-23 from the following particulars. All figures are.....**

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

Particulars	A		B	
Income under the head 'Salary' (computed)		1,00,000		1,00,000
Income from house property		1,00,000		-
Income from other sources:				
• Interest on savings bank account (individual) with post office (less Rs. 3,500 exempt u/s 10)	15,000		15,000	
• Interest on Recurring Deposit with co-operative bank	10,000		10,000	
• Interest on fixed deposit with State Bank of India	30,000		30,000	
• Income from gambling	2,45,000	3,00,000	2,45,000	3,00,000
Gross total income		5,00,000		4,00,000
Less: Deduction under Chapter VIA:				
• U/s 80C: Deposit in PPF account and notified NABARD bonds (restricted to Rs. 1,50,000)	1,50,000		1,50,000	
• Deduction u/s 80TTA in case A: Eligible interest = POSB = Rs. 15,000 on POSB A/c. Deduction limited to Rs. 10,000.	10,000			
• Deduction u/s 80TTB in case B: Eligible interest = POSB + RD + FD = Rs. 55,000. Deduction limited to Rs. 50,000.			50,000	
Deduction u/c Chapter VIA restricted to GTI (excluding income from gambling)	1,60,000	(1,60,000)	2,00,000	(1,00,000)
<b>Total income</b>		<b>3,40,000</b>		<b>3,00,000</b>



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B21 to End

#### Deductions from GTI

#### Build Your Confidence (BYC)

#### DEDUCTIONS FOR CERTAIN INCOMES

#### B21. 80JJAA - CA2019(N) (modified) – MASTER QUESTION - M/s ABC and Co., a partnership firm, started its business.....

The firm is entitled to deduction u/s 80JJAA since it is liable to tax audit and has employed 350 employees during the year. Being the first year of its business, emoluments paid or payable to employees during the PY 2021-22 is eligible for deduction.

#### Computation of deduction u/s 80JJAA for AY 2022-23

Particulars	Beverage business	Leather business
Total number of employees employed during the PY	350	350
Less: Helpers who do not participate in RPF	(200)	(200)
Less: Technical staff whose emolument exceeds Rs. 25,000 p.m.	(25)	(25)
Less: Supervisors since they are employed for 212 days during the PY (less than 240 days for beverage business. However, if they continue to be employed for 240 days in next year, deduction can be claimed in the next year). Threshold is 150 days in case of leather business; hence not excluded.	(100)	-
<b>Number of additional employees</b>	<b>25</b>	<b>125</b>
Additional employee cost:		
Beverage business: 25 × 12 months × 22,000 pm (accounting and office staff)	66,00,000	
Leather business: (25 × 12 months × 22,000 pm for accounting and office staff) + (100 × 7 months × 25,000 pm for supervisors)		2,41,00,000
<b>Deduction u/s 80JJAA = 30% of additional employee cost</b>	<b>19,80,000</b>	<b>72,30,000</b>

#### B22. 80JJAA – Sadik carries on retail business in garments. During the PY 2021-22, the following movements happened.....

Sadik is entitled to deduction u/s 80JJAA since he is liable to tax audit as turnover is more than Rs. 1 crore (1 cr limit applies since cash receipts > 5%) and there is a net increase in number of employees over that on 31.3.2021.

#### Computation of deduction u/s 80JJAA for AY 2022-23

Particulars	Rs.
Number of employees employed as on 31.3.2021	50
Less: Number of employees resigned on 1.6.2021	(5)
Number of employees on 1.6.2021	45
Add: Number of junior managers employed on 1.7.2021	7
Add: General manager employed on 15.7.2021 (ineligible since emolument > 25,000 pm)	-
	52
<b>Number of additional employees</b>	<b>2</b>
Additional employee cost:	
2 × 9 months × 25,000 pm (junior managers)	4,50,000
<b>Deduction u/s 80JJAA = 30% of additional employee cost</b>	<b>1,35,000</b>

#### B23. 80QQB – Sarthak is a professional author of scientific books. Determine the deduction allowable to him for AY.....

#### Computation of deduction u/s 80QQB for AY 2022-23

Particulars	A	B	C
Gross royalty income	10,00,000	6,00,000	10,00,000
After ignoring gross income in excess of 15% of value of books sold (a)	7,50,000	6,00,000	-
After ignoring income not repatriated by 30.9.2022 (b)	-	4,80,000	-
Eligible income: Lower of (a) or (b); lump sum payment for Case C	7,50,000	4,80,000	10,00,000
<b>Deduction u/s 80QQB = Lower of eligible income or Rs. 3 lakh</b>	<b>3,00,000</b>	<b>3,00,000</b>	<b>3,00,000</b>

### COMPREHENSIVE

**B24. COMPREHENSIVE - CA2019(M) – Prakash is retired Government officer aged 65 years, resides in Cochin, and has.....**

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

Particulars	Rs.	Rs.	Rs.
Income under the head 'Salaries':			
• Pension		6,70,000	
• Less: Standard deduction u/s 16(ia)		(50,000)	6,20,000
Income from other sources:			
• Interest from bank on FD (gross)			55,000
Gross total income			6,75,000
Less: Deduction under Chapter VIA:			
• U/s 80C: On LIP; restricted to 10% of sum assured		20,000	
• U/s 80D:			
○ For self and wife: Premium paid by cheque for self and wife + preventive health check up for self (cash is eligible); allowed up to Rs. 50,000 assuming Prakash is resident and, thus, senior citizen	27,500		
○ For parents: Preventive health check (overall restricted to Rs. 5,000)	3,500	31,000	
• U/s 80E: Interest on loan from bank for MBA pursued by daughter		6,500	
• U/s 80G: Donation to approved institution: Cash payment > Rs. 2,000 ineligible		-	
• U/s 80TTB: Interest on Bank FD (assuming Prakash is resident and, thus, senior citizen); allowed up to Rs. 50,000		50,000	
			(1,07,500)
<b>Total income</b>			<b>5,67,500</b>

**B25. COMPREHENSIVE - CA2017(M) (modified) – Mr. Rohan, a resident individual has gross total income of Rs. 7,50,000.....**

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

Particulars	Rs.	Rs.
Gross total income		7,50,000
Less: Deduction under Chapter VIA:		
Section 80C:		
• Life insurance premium: Premium deductible up to 15% of sum assured in case of handicapped son since policy taken after 31.3.2013	60,000	
• Tax saver deposit in name of major son: Not deductible	-	
		(60,000)
Section 80D:		
• Health insurance premium for self and spouse: 1/3 <sup>rd</sup> since policy is in force for 3 years; restricted to 25,000.	25,000	
• Medical expenditure for mother, being senior citizen, since no health insurance premium has been paid for her: Restricted to 50,000.	50,000	
		(75,000)
Section 80G: Contribution to Clean Ganga Fund: Deductible @ 100%		(25,000)
Section 80TTA/80TTB: Not eligible since interest on fixed deposits is income of father; not Rohan		-
<b>Total income</b>		<b>5,90,000</b>

**B26. COMPREHENSIVE - CA2015(M) – Compute the eligible deduction under Chapter VIA for AY 2022-23 of Ms. Roma.....**

*Computation of deduction u/c VIA for Ms. Roma for AY 2022-23*

Particulars	Rs.	Rs.
<b>Deduction u/s 80C:</b>		
• Life insurance premium: Allowed up to 20% of sum assured since policy issued before 1.4.2012	40,000	
• PPF contribution	90,000	
• Repayment of housing loan	30,000	
	1,60,000	
Deduction u/s 80C limited to Rs. 1,50,000	1,50,000	
Deduction u/s 80CCC for payment to LIC pension fund	25,000	
	1,75,000	
Deduction u/s 80C and 80CCC restricted to Rs. 1,50,000 by virtue of 80CCE		1,50,000
<b>Deduction u/s 80D:</b>		
• Health insurance premium for self, wife and dependent children: allowed up to Rs. 25,000	25,000	
• Health insurance premium for parents (allowed up to Rs. 50,000 for senior citizen)	50,000	
	75,000	75,000
<b>Deduction under Chapter VIA</b>		<b>2,25,000</b>

**B27. COMPREHENSIVE – MASTER QUESTION - Rudra, a resident of age 32 years and residing in Jamnagar, has provided.....**

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

Particulars	Rs.	Rs.	Rs.
<b>Income from salary:</b>			
• Basic salary		10,00,000	
• Dearness allowance		5,00,000	
• Employer's contribution to NPS		1,50,000	
• Perquisites (taxable value)		1,00,000	
		17,50,000	
• Less: Standard deduction u/s 16(ia)		(50,000)	
		17,00,000	17,00,000
<b>Income from house property:</b>			
• Interest on loan for purchase of self occupied property in Jamnagar allowed up to Rs. 2 lakh u/s 24(b). Loss under this head can be set off against income under other heads u/s 71 (refer para 190).			(2,00,000)
<b>Profits and gains of business or profession:</b>			
• Part time profession of engineering consulting			15,00,000
<b>Capital gain:</b>			
• Long term capital gain on transfer of rural agricultural land in Jaipur (not taxable as it is not a capital asset)		-	
• Short term capital gain on sale of equity shares (STT paid on sale) (u/s 111A)		3,00,000	
		3,00,000	3,00,000
<b>Income from other sources</b>			
• Interest on 5 year term deposit with State Bank of India		50,000	
• Interest on 5 year Post Office Time Deposit Account		35,000	
• Interest on Post Office Savings Account (individual account) = 18,500 – Rs. 3,500 exempt u/s 10		15,000	
		1,00,000	1,00,000
<b>Gross total income</b>			<b>34,00,000</b>
<b>Less: Deduction under Chapter VIA:</b>			
U/s 80C (Note 1)	1,50,000		
U/s 80CCC: Deposit in LIC Pension Fund Rs. 40,000; allowed up to Rs. 1,50,000	40,000		
U/s 80CCD(1) (Note 2)	1,25,000		
	3,15,000		
Allowed up to Rs. 1,50,000 u/s 80CCE	1,50,000		
U/s 80CCD(1B) and 80CCD(2) (Note 2)	1,75,000		
	3,25,000	3,25,000	
U/s 80D (Note 3)		75,000	
U/s 80DD: Medical expenditure and deposit in approved scheme for dependent child		75,000	

suffering with 50% disability (assuming Swayam has not claimed deduction u/s 80U): Flat deduction of Rs. 75,000			
U/s 80DDB: Expenditure on medical treatment of specified disease for dependent child: Rs. 50,000, limited to Rs. 40,000 less Rs. 35,000 reimbursed by the insurance company		5,000	
U/s 80E: Interest paid to ICICI Bank for loan taken for MBA education of Meena in Germany. Last PY of deduction is 2020-21 (8 <sup>th</sup> PY from PY 2013-14). Repayment of principal is not eligible.		-	
U/s 80EEB: Interest paid to a deposit taking NBFC on loan taken to purchase electric vehicle for personal use: Loan sanctioned during PY 2020-21; allowed up to Rs. 1,50,000		1,50,000	
U/s 80EEA (Note 4)		75,000	
U/s 80GGA: Donation to college approved u/s 35, paid by cash (not allowed since Rudra has PGBP income and also since amount > Rs. 2,000 is paid in cash; not allowed even in computing PGBP u/s 40A(3) since amount > Rs.10,000 is paid in cash)		-	
U/s 80GGC: Donation to RLD in cash not allowed; donation to electoral trust by cheque allowed; advertisement in pamphlet of BJP not allowed (also disallowed u/s 37(2B) in computing PGBP)		5,000	
U/s 80GG: Rent not paid for self occupied house and also he resides in his own house in Jamnagar where he works; thus, deduction not allowed		-	
U/s 80TTA: Interest on PO Savings Account of Rs. 15,000 allowed up to Rs. 10,000; not allowed on time deposits		10,000	
U/s 80QQB (Note 5)		2,75,000	
U/s 80RRB: Royalty from patent allowed up to Rs. 3,00,000		3,00,000	
U/s 80G (Note 6)		1,75,250	
Deduction under Chapter VIA (restricted to GTI, excluding STCG u/s 111A, of Rs. 31,00,000)		14,70,250	(14,70,250)
<b>Total income</b>			<b>19,29,750</b>

**Note 1: Deduction u/s 80C**

Particulars	Rs.
Life insurance premium paid by cheque for self (policy issued on 20.3.2012 for sum assured of Rs. 3,00,000): Allowed up to 20% of sum assured	35,000
Life insurance premium paid for Swayam (suffering from disability certified u/s 80U to the extent of 50%) (policy issued on 20.3.2016 for sum assured of Rs. 2,00,000): Allowed up to 15% of sum assured	30,000
Life insurance premium paid for father (policy issued on 20.3.2011 for sum assured of Rs. 1,00,000): Not allowed for father	-
Rudra's contribution to recognized provident fund: Allowed for Rudra's contribution. Contribution by employer taken into account while computing salary income.	60,000
Deposit in PPF Account of younger brother: Not eligible	-
Deposit in Sukanya Samriddhi Account in the name of Saanvi	10,000
Purchase of NSC (VIII issue) certificates	30,000
Fee paid to school for Saanvi's education (tuition fee Rs. 50,000 and development fee Rs. 20,000): Only tuition fee allowed	50,000
Tuition fee paid to college in Germany for Meena for pursuing MBA: Not allowed for institution situated outside India	-
Deposit in 5 year term deposit with State Bank of India	15,000
Investment in notified bonds of NABARD	10,000
Deposit in 5 year Post Office Time Deposit Account	5,000
Repayment of housing loan, stamp duty and registration charges (see Note 4)	3,00,000
	5,45,000
Eligible deduction up to Rs. 1,50,000	1,50,000

**Note 2: Deduction u/s 80CCD**

Particulars	Rs.
Salary for the purpose of section 80CCD	
• Basic salary	10,00,000
• Dearness allowance forming part of pay @ 50%	2,50,000

	12,50,000
Deduction u/s 80CCD:	
• Deduction u/s 80CCD(1B) for own contribution: allowed up to Rs. 50,000	50,000
• Deduction u/s 80CCD(1) for own contribution (excluding contribution considered u/s 80CCD(1B)): 1,50,000 (2,00,000 – 50,000); allowed up to 1,25,000 (10% of 80CCD-Salary)	1,25,000
• Deduction u/s 80CCD(2) for employer's contribution: Rs. 1,50,000; allowed up to 10% of 80CCD-Salary	1,25,000

**Note 3: Deduction u/s 80D**

Particulars	Rs.	Rs.	Rs.
For self, spouse and dependent children:			
• Medclaim insurance premium for self and spouse, paid by bearer cheque		20,000	
• Health insurance premium for Meena, paid by crossed cheque		10,000	
• Health insurance premium for Saanvi, paid by cash: Cash payment not allowed		-	
• Medical insurance premium for Rohan, paid by NEFT: Not allowed since Rohan is not dependent		-	
• Medical insurance premium for younger brother, paid by cash: Not allowed for brother		-	
• Preventive health check up for self and spouse, paid by cash (balance of Rs. 5,000 limit after exhausting for mother)		1,000	
Allowed up to Rs. 25,000		31,000	25,000
For parents:			
• Preventive health check up of mother, paid by cheque	4,000		
• Medical insurance premium for mother, paid by account payee cheque	20,000		
Allowed up to Rs. 25,000	24,000	24,000	
• Medical expenditure on father, paid by cheque (he does not have a medclaim policy): Allowed up to Rs. 50,000	40,000		
• Medical expenditure on grandfather, paid by cheque (he does not have a medclaim policy): Not allowed for grandfather	-		
	40,000	40,000	
Allowed overall up to Rs. 50,000		64,000	50,000
<b>Total deduction u/s 80D</b>			<b>75,000</b>

**Note 4: Purchase of residential house in Jamnagar**

Particulars	Rs.	Rs.
Deduction u/s 80EEA: Interest on loan taken from Bank of India: Loan sanctioned during PY 2021-22, SDV ≤ Rs. 45 lakh, Rudra does not own any house on 1.4.2021. Interest remaining after deduction of Rs. 2,00,000 u/s 24(b) is Rs. 75,000. This is allowed (it is within limit of Rs. 1,50,000)		75,000
Deduction u/s 80C:		
• Repayment of principal amount to bank	2,50,000	
• Stamp duty and registration charges paid	50,000	
• Repairs carried out after house was occupied: Not allowed	-	
<b>Taken to Note 1 on 80C</b>	<b>3,00,000</b>	<b>3,00,000</b>

**Note 5: Deduction u/s 80QQB**

Particulars	Rs.
Royalty	5,00,000
After ignoring income in excess of 15% of value of books sold (a)	3,75,000
After ignoring income not repatriated by 30.9.2021 (b)	2,75,000
Eligible income (lower of a or b)	2,75,000
Deduction u/s 80QQB = Lower of eligible income or Rs. 3,00,000	2,75,000

**Note 6: Deduction u/s 80G**

Particulars	Rs.
<b>Donations eligible for deduction without qualifying limit</b>	
• Donation to Prime Minister's National Relief Fund, paid by cheque @ 100%	30,000
• Donation to Prime Minister's Drought Relief Fund, paid by cheque @ 50%	5,000

<b>(A)</b>	<b>35,000</b>
<b>Donations eligible for deduction subject to qualifying limit</b>	
Eligible donations:	
• Donation to Government to be utilized for promoting family planning, paid by NEFT	1,00,000
• Donation to a charitable trust approved u/s 80G, paid by cheque	1,25,000
• Donation for renovation of a temple notified u/s 80G, paid in cash (Amount > Rs. 2,000 paid in cash not eligible)	-
	<b>2,25,000</b>
Adjusted total income:	
• Gross total income	34,00,000
• Less: STCG u/s 111A	(3,00,000)
• Less: Deductions under Chapter VIA (except section 80G)	(12,95,000)
	<b>18,05,000</b>
Qualifying limit = 10% of Adjusted Total Income	1,80,500
Lower of amount of eligible donations (2,25,000) or qualifying amount (1,80,500)	1,80,500
Deduction allowed:	
• To Government for promoting family planning @ 100%	1,00,000
• To charitable trust @ 50% of Rs. 80,500 (1,80,500 – 1,00,000)	40,250
<b>(B)</b>	<b>1,40,250</b>
<b>Total deduction u/s 80G = A + B</b>	<b>1,75,250</b>



#### GENERAL PRINCIPLES

**M4. Chintan has the following particulars for AY 2022-23: Business income Rs. 50,000; short term capital gain from.....**

VIA not allowed from winning and LTCG. TI = 2,70,000 – 1,00,000 = 1,70,000

**M5. Chetan, aged 40 years, has the following particulars for AY 2022-23: Income from salary (computed) Rs. 1,00,000.....**

VIA not allowed from LTCG and STCG u/s 111A. LTCG exempt as it is personal effect.

TI = 3,30,000 – 1,30,000 (up to salary + interest) = 2,00,000.

#### DEDUCTION FOR INVESTMENTS (80C, 80CCC, 80CCD)

**M8. During the PY 2021-22, Yaksh made the following payments of life insurance premium: Rs. 15,000 for self (policy.....**

Self up to 20% 15,000 + spouse up to 10% 15,000 + child up to 15% 25,000 + daughter up to 10% 15,000 + father nil = 70,000

**M9. Sushmita, wife of Raju, received Rs. 10,00,000 as payment from insurance company consequent to death of Raju.....**

Payment on death is exempt u/s 10(10D)

**M10. During the PY 2021-22, Drishti contributed Rs. 60,000 to recognized provident fund (her employer made a.....**

60,000 RPF + 40,000 PPF for self and son + 10,000 Sukanya = 1,10,000

**M11. Srishti's income for PY 2021-22 comprised income from house property of Rs. 2,00,000. She invested Rs. 50,000.....**

TI = 2,20,000 – 70,000 80C = 1,50,000

**M12. During the PY 2021-22, Reena incurred the following expenses on education: School fee of Rs. 1 lakh paid for.....**

Tuition fee 75,000 + MBA NO as outside India + Course NO as part time = 75,000

**M14. Rajat took a bank loan on 1.4.2021 to purchase a residential house for self residence on 10.4.2021. He paid stamp.....**

IHP = loss of 2,00,000 due to deduction of interest u/s 24(b).

80C = Duty/fee 20,000 + principal 1,00,000 + repair NO = 1,20,000

**M15. Ramya made the following investments during the PY 2021-22: Her contribution to statutory provident fund.....**

SPF 20,000 + NHB 30,000 + 3Y FD NO as less than 5Y + 5Y FD 30,000 + NABARD 10,000 + POSB NO + 5Y POTD 20,000 + SCSS 10,000 + LIP NO as not paid during PY = 1,20,000

**M16. Private sector employer of Raman, who draws basic salary of Rs. 1,50,000 per month, contributed Rs. 30,000 per.....**

10% of 18 lakh

**M17. Rajesh is a businessman having gross total income of Rs. 6,00,000. During the PY 2021-22, he deposited Rs.....**

TI = 6,00,000 – 1,70,000 (50,000 u/s 80CCD(1B) + 1,20,000 u/s 80CCD(1)) = 4,30,000

**M18. During the PY 2021-22, Rashi, earning salary of Rs. 1,00,000 per month from JKL Pvt Ltd. (Rs. 60,000 basic salary.....**

80CCD salary = Basic 7,20,000 + DA forming part of pay 2,40,000 = 9,60,000.

VIA deduction = 80CCD(1B) 50,000 + 80CCD(2) 96,000 (10% of 9.6 lakh) + 80CCE 1,50,000 = 2,96,000

80CCE = 80CCD(1) 70,000 (i.e., 1,20,000 – 50,000 80CCD(1B); upto 96,000) + 80C 1,00,000 = 1,70,000, upto 1,50,000.

**M19. During the PY 2021-22, Jagan deposited Rs. 2,50,000 in his NPS account (his employer, MMT Ltd, making a.....**

GTI = Basic 6,00,000 + DA 3,60,000 + Medical 1,20,000 + NPS contribution of employer 2,50,000 – Standard Deduction 50,000 = 12,80,000.

80CCD salary = Basic 6,00,000 + DA 2,16,000 = 8,16,000.

VIA deduction = 80CCD(1B) 50,000 + 80CCD(1) 81,600 (2,50,000 – 50,000 80CCD(1B); up to 81,600) + 80CCD(2) 81,600 (up to 10% of 80CCD salary) = 2,13,200.

TI = 12,80,000 – 2,13,200 = 10,66,800.

**M20. Saina is a Central Government employee earning basic salary of Rs. 1,00,000 per month and dearness allowance.....**

80CCD salary = Basic 12,00,000 + DA 9,60,000 = 21,60,000.

80CCD = 80CCD(1B) 50,000 + 80CCD(1) 1,50,000 + 80CCD(2) 3,02,400 (14% of 80CCD salary) = 5,02,400.

80CCD(1) = 3,24,000 contribution – 50,000 80CCD(1B); up to 2,16,000 being 10% of 80CCD salary; but up to 80CCE limit of 1,50,000 = 1,50,000

**M23. Shiny, drawing basic salary of Rs. 1,00,000 per month, contributed Rs. 1,00,000 each to approved superannuation.....**

80CCD salary = 12,00,000.

VIA deduction = 80CCD(1B) 50,000 + 80CCD(2) 1,00,000 (up to 10% of 80CCD salary) + 80CCE 1,50,000 = 3,00,000

80CCE = 80C 1,00,000 ASF + 80CCC 1,00,000 pension fund + 80CCD(1) 50,000 (1,00,000 – 50,000 80CCD(1B); up to 10% of 80CCD salary)] = 2,50,000; up to 1,50,000.

**M24. Gopal, a businessman having gross total income of Rs. 5,00,000, contributed Rs. 1,00,000 each to notified bonds.....**

80CCD(1B) 50,000 + 80CCE 1,50,000 = 2,00,000

80CCE = 80C 1,00,000 NABARD + 80CCC 1,00,000 pension fund + 80CCD(1) 50,000 (1,00,000 – 50,000 80CCD(1B); up to 20% of GTI) = 2,50,000; up to 1,50,000.

#### DEDUCTION FOR HEALTH & WELLNESS (80D, 80DD, 80DDB, 80U)

**M27. Mr. A, a Central Government employee, made the following payments during the year (all by cheque).....**

CGHS 10,000 + Son 5,000 + Brother NO + Spouse health checkup up to 5,000 = 20,000

**M28. Mr. B, age 35 years, made the following payments during the year (all by cheque): Health insurance premium for.....**

FAMILY: Wife 23,000 + Checkup for daughter 4,000 = 27,000 allowed up to 25,000.

PARENTS: father 25,000 (not senior citizen) + mother mediclaim 18,000 + mother exp NO (as mediclaim premium paid) = 43,000.

Total = 68,000

**M29. Mr. C, age 33 years, made the following payments during the year: Mediclaim premium of minor son (dependent).....**

FAMILY: Son NO as in cash + checkup up to 5,000 = 5,000.

PARENTS: mother 20,000 + father (senior citizen) 40,000 = up to 50,000.

Total = 55,000

**M30. Mr. D, resident of age 40 years, made the following payments during the year (all by cheque): Mediclaim.....**

FAMILY: self 35,000 + spouse 10,000 = 25,000.

PARENTS (not senior citizen): father 40,000 + mother 40,000 = 25,000.

Total = 50,000.

**M32. Raghav, resident aged 40 years, incurred expenditure of Rs. 10,000 each for medical treatment of his younger.....**

Only sister entitled. Severe disability deduction of 1,25,000



**M33. Chetan, resident aged 55 years, incurred the following expenditure during the year: Health insurance premium.....**

80D = spouse upto 25,000 + father checkup upto 5,000 = 30,000.

80DD = NIL as father-in-law not eligible.

80DDB = 40,000 (not senior citizen) – 25,000 = 15,000.

Total = 45,000

#### DEDUCTION FOR INTEREST ON LOAN (80E, 80EE, 80EEA, 80EEB)

**M35. Rekha took a loan of Rs. 10,00,000 from a bank for meeting expenditure on education of her husband pursuing.....**

TI = 3,00,000 – 50,000 80E = 2,50,000. 8Y period starts from FY 2015-16.

**M36. Riya took an education loan from a notified financial institution for her spouse (not dependent on her) pursuing.....**

8Y period starts from FY 2014-15. TI = 6L - 80E 3L = 3L.

**M38. Rishabh acquired his first house in Jaipur for own residence. The house was purchased for 46 lakh (SDV Rs.....**

2L u/s 24(b) while computing IHP. No 80EEA as loan sanctioned before 1.4.2019.

**M39. Jacky purchased his first house for Rs. 50 lakh (FMV was Rs. 51 lakh and SDV was Rs. 44 lakh), using loan of Rs.....**

SDV ≤ 45L. Loan sanctioned in PY 2020-21.

GTI = 3,50,000 salary – 2,00,000 IHP (on account of interest u/s 24(b)) = 1,50,000.

TI = 1,50,000 – 1,50,000 80EEA (4,00,000 – 2,00,000 allowed u/s 24(b); up to 1,50,000) = Nil

**M41. Roshan, a resident but not ordinarily resident, took a loan from Dena Bank of Rs. 20 lakh to purchase an electric.....**

80EEB allowed up to 1,50,000.

TI = 1,75,000 – 1,25,000 80EEB (allowed to the extent of IHP; VIA deduction not allowed from winning) = 50,000.

#### DEDUCTION FOR DONATIONS (80G, 80GGA, 80GGB, 80GGGC)

**M46. Rohit donated Rs. 50,000 to National Cultural Fund and Rs. 60,000 to Jawaharlal Nehru Memorial Fund by.....**

NCF 50,000 + JNMF 30,000 + Trust NO as paid by cash = 80,000.

**M47. Kavya made the following donations during the PY 2021-22: Lieutenant Governor's Relief Fund Rs. 30,000 (paid.....**

Donations without qualifying limit: LGRF 30,000 + IGMT 25,000 = 55,000.

Donations with qualifying limit = Family planning 30,000 + IOA NIL (only company can claim) + Charitable institution 40,000 + Mosque NIL as paid in kind = 70,000.

ATI = GTI 7,00,000 – LTCG 1,00,000 – 80C 1,00,000 = 5,00,000. 10% of ATI = 50,000.

80G = 55,000 + 40,000 [Family planning @ 100% 30,000 + 10,000 (50% of 20,000, i.e., 50,000 – 30,000)] = 95,000.

TI = 7,00,000 – 80C 1,00,000 – 80G 95,000 = 5,05,000.

**M48. During the PY 2021-22, Ramit donated Rs. 50,000 to a research association (approved u/s 35) for carrying out.....**

Research Association NIL as in cash + college NIL as not approved + RDF 30,000 + NUPEF 60,000 + Rural Development association 2,000 (cash allowed as does not exceed 2,000) = 92,000.

**M49. During the PY 2021-22, Sarthak, a businessman, incurred Rs. 25,000 by cheque on placing an advertisement in.....**

Disallowed in computing PGBP u/s 37(2B); No deduction u/s 80GGC

**M50. During the PY 2021-22, Raunaq contributed the following amounts to political parties: Rs. 1,500 by cash, Rs.....**

8,000 by cheque allowed. Cash not allowed. Advertisement not allowed.

**M51. During the PY 2021-22, JCB Ltd., an Indian company, contributed Rs. 10,000 in cash to BJP, Rs. 20,000 by cheque.....**

80GGB = BJP NO as paid in cash + Cong 20,000 + Advertisement 30,000 = 50,000

#### DEDUCTION FOR RENT [80GG]

**M53. Shalu, carrying on a business, paid Rs. 10,000 p.m. as rent for furnished accommodation occupied by her in....**

Lower of (a) 60,000, (b) 1,20,000 rent paid – 50,000 (10% of 5,00,000 ATI) = 70,000, (c) 25% of 5,00,000 ATI, ie, 1,25,000 = 60,000.

**M55. Shruti, a salaried employee, pays rent of Rs. 10,000 per month to stay in a house in Delhi. Her employer does not....**

ATI = 12,00,000 GTI – 1,00,000 LTCG – 1,00,000 80CCC = 10,00,000.

80GG = Lower of (a) 60,000, (b) 20,000 (1,20,000 rent paid – 1,00,000 10% of ATI), (c) 25% of ATI 2,50,000 = 20,000.

TI = 12,00,000 – 1,00,000 80CCC – 20,000 80GG = 10,80,000

#### DEDUCTIONS FOR INTEREST INCOME [80TTA, 80TTB]

**M56. Deduction in respect of interest on deposits is allowed up to Rs. 50,000 to....**

U/s 80TTB

**M57. Soumil, aged 50 years, earned Rs. 20,000 as interest on Post Office Savings Bank Account (individual). He has....**

Income included in GTI = 20,000 – 3,500 exempt u/s 10 = 16,500. TI = 16,500 – 10,000 u/s 80TTA = 6,500

**M58. During the PY 2021-22, Raja, a non-resident aged 61 years, deposited Rs. 1,00,000 in 5 year Post Office Time....**

TI = 3,00,000 GTI – 80C for 5Y POTD 1,00,000 – 9,500 80TTA (not senior citizen) (POSA 3,500 (after exemption of 3,500) + SBI savings a/c 6,000 + FD Nil) = 1,90,500

**M59. During the PY 2021-22, Virat, a resident aged 62 years, earned the following incomes: Income from house....**

GTI = IHP 3,00,000 + FD interest 20,000 + coop bank interest 10,000 + PPF interest exempt + RD interest 25,000 + POSA interest 10,000 (13,500 – 3,500 exempt) = 3,65,000.

TI = 3,65,000 – 50,000 u/s 80TTB (FD 20,000 + coop SB A/c 10,000 + RD 25,000 + POSA 10,000; upto 50,000) = 3,15,000

**M59a. During the PY 2021-22, Mr. Z, a resident aged 65 years, has earned interest of Rs. 15,000 from savings bank....**

80TTB = 15,000 + 10,000 = 25,000. NBFC interest not eligible.

#### DEDUCTIONS FOR CERTAIN OTHER INCOMES [80JJAA, 80QQB, 80RRB]

**M62. Janak started a new transport business on 1.4.2021. Turnover of business for PY 2021-22 was Rs. 1.5 crore and....**

44AB limit is 1Cr. Tax Audit applies. 80JJAA available.

Additional employees = 5 – 1 (30k salary) – 1 (resigned; < 240D) – 1 (no RPF) = 2. AEC = 2 × 25,000 × 11 = 5,50,000.

80JJAA @ 30% = 1,65,000.

Cash payment is not a bar for first year of new business.

**M63. Josh carried on business of footwear manufacturing having 20 employees as on 31.3.2021. The business was liable....**

Net addition = 5 - 2 = 3. Appointment on 1.10.2021 not eligible as > 25,000 p.m.

AEC = 3 × 20,000 × 10 = 6,00,000. 80JJAA @ 30% = 1,80,000

**M65. Sarthak, a resident individual, is a professional author of artistic books. During the PY 2021-22, he earned royalty....**

Royalty = 4L. Royalty ignoring excess of 15% = 3L.

Repatriated by 30.9.2022 = 3.2L.

80QQB is lower of eligible amount of 3L or limit of 3L = 3L.

**M66. Rukmi, a resident of age 35 years, wrote a book on ancient art and received a lump sum payment of Rs. 4,00,000....**

80QCB is lower of 4,00,000 or 3,00,000 = 3,00,000.

**M67. Ramkumar, a resident of age 55 years and a scientist, received royalty of Rs. 1.5 lakh each from a foreign.....**

60% of 4,50,000 = 2,70,000. 80RRB = lower of 2,70,000 or 3,00,000.

# 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 $\geq$ 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 $\times$ (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 $\leq$ 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 citizen)	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>			
Income from firm:			
• 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	
Income from boutique business:			
• 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>
Less: Deductions under Chapter VIA			
• 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.*

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B10 to B17

#### Computation of Total Income & Tax Payable

#### Build Your Confidence (BYC)

**B10. CA2019(M)** – From the following particulars of Shri Jagdish (aged 59 years) for AY 2022-23, you are required to find.....

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

Particulars	Rs.	Rs.
<b>Income from salaries:</b>		
Basic salary = Rs. 51,000 × 12	6,12,000	
Dearness allowance = Rs. 10,000 × 12	1,20,000	
House rent allowance = Rs. 4,000 × 12	48,000	
Less: HRA exempt u/s 10(13A) = Lower of:		
(a) Actual HRA received = Rs. 48,000		
(b) Rent paid – 10% of salary of Rs. 7,32,000 (basic + DA) = Rs. 84,000 – Rs. 73,200 = Rs. 10,800		
(c) 50% of salary for Mumbai = Rs. 3,66,000	(10,800)	
Gross salary	7,69,200	
Less: Standard deduction u/s 16(ia)	(50,000)	
		7,19,200
<b>Income from house property:</b>		
In absence of information regarding expected rent, it is assumed that actual rent ≥ expected rent for the whole year but due to vacancy, actual rent < expected rent. Hence, vacancy allowance is available and gross annual value is actual rent = Rs. 46,000 × 9	4,14,000	
Less: Municipal taxes paid during PY 2021-22	(27,000)	
Net annual value	3,87,000	
Less: Standard deduction u/s 24(a) @ 30% of NAV	(1,16,100)	
		2,70,900
<b>Profits and gains of business or profession:</b>		
Profit from share business	1,70,000	
Less: STT deductible u/s 36(1)(xv)	(30,000)	
		1,40,000
<b>Capital gains:</b>		
Full value of consideration on sale of unlisted bonus shares	2,00,000	
Less: Cost of acquisition	Nil	
Long term capital gains (since bonus shares held for more than 24 months)		2,00,000
<b>Income from other sources:</b>		
Dividend (gross of TDS)	3,00,000	
Interest on saving bank account with bank	25,000	
Winning from lottery: Gross = Rs. 21,000 × (100/70)	30,000	
		3,55,000
<b>Gross total income</b>		<b>16,85,100</b>
<b>Less: Deduction under Chapter VIA</b>		
Section 80C: PPF deposit; deduction limited to Rs. 1,50,000	1,50,000	
Section 80D: Medical insurance premium for wife and dependent son; deduction limited to Rs. 25,000	25,000	
Section 80TTA: Interest on saving bank account upto Rs. 10,000	10,000	(1,85,000)
<b>Total income</b>		<b>15,00,100</b>

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

Particulars	Rs.
Total income as per regular provisions	15,00,100
Add: Allowance and deductions not allowed u/s 115BAC:	
• Exemption for HRA u/s 10(13A)	10,800
• Standard deduction u/s 16(ia)	50,000
• Deductions under Chapter VIA	1,85,000
<b>Total income u/s 115BAC</b>	<b>17,45,900</b>

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

Particulars	Regular rates	115BAC rates
Total income	15,00,100	17,45,900
Tax on total income		
• On long term capital gain u/s 112 @ 20% of Rs. 2,00,000	40,000	40,000
• On winning from lottery u/s 115BB @ 30% of Rs. 30,000	9,000	9,000
• On balance income of Rs. 12,70,100 at normal rates or Rs. 15,15,900 at 115BAC rates	1,93,530	1,92,270
	2,42,530	2,41,270
Less: Rebate u/s 87A (N/A as total income > 5 lakh)	-	-
	2,42,530	2,41,270
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	2,42,530	2,41,270
Add: HEC @ 4%	9,701	9,651
Tax liability	2,52,231	2,50,921
Less: TDS from lottery u/s 194B	(9,000)	(9,000)
Less: TDS from rental income: Assumed that TDS is not applicable u/s 194-I on rental income. Also, section 194-IB is not applicable since monthly rent does not exceed Rs. 50,000 pm.	-	-
Less: TDS from dividend u/s 194 @ 10%	(30,000)	(30,000)
Tax payable	2,13,231	2,11,921
<b>Tax liability (rounded off)</b>	<b>2,13,230</b>	<b>2,11,920</b>
Mr. Jagdish can 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 liability will be Rs. 2,11,920.		

*Mistake by students – Failure to apply special tax rate for capital gain and lottery income.*

**B11. CA2019(M) - Ms. Geeta, a resident individual, provides following details of her income/losses for the year ended.....**

*Computation of total income of Ms. Geeta for AY 2022-23*

Particulars	Rs.	Rs.	Rs.
Income from salaries (computed)			41,20,000
<b>Income from house property:</b>			
House property in Delhi (let out)			
• Net annual value: Rent received taken in absence of information regarding expected rent and municipal taxes	5,00,000		
• Less: Deduction u/s 24			
○ Standard deduction @ 30% of NAV	(1,50,000)		
○ Interest on loan for purchase of property	(7,50,000)		
○ Interest on loan for repair of property: 50% of Rs. 1,50,000	(75,000)		
• Loss from house property		(4,75,000)	
House property in Jaipur (let out)			
• Net annual value: Rent received taken in absence of information regarding expected rent and municipal taxes	3,20,000		
• Less: Deduction u/s 24			
○ Standard deduction @ 30% of NAV	(96,000)		
• Income from house property		2,24,000	
House property in Mumbai (self occupied)			
• Annual value	Nil		
• Less: Deduction u/s 24			
○ Interest on loan for purchase and repair of property: Restricted to Rs.	(30,000)		

30,000 for purchase also since original loan taken before 1.4.1999			
• Loss from house property		(30,000)	
Loss from house property after inter source set off u/s 70		(2,81,000)	
Loss from house property set off against income from salary u/s 71 to the extent of Rs. 2,00,000. Balance carried forward u/s 71B to next year.			(2,00,000)
			39,20,000
<b>Profits and gains of business or profession:</b>			
Speculation profit (assumed it is from a business)		2,30,000	
Salary from firm: Taxable since allowed to firm		50,000	
		2,80,000	
Loss of firm in which she is a partner: Cannot be set off since share of profit from firm is exempt u/s 10(2A)		-	
Loss from textile business set off u/s 70 (balance of Rs. 4,70,000 can be set off against capital gains or IFOS u/s 71)		(2,80,000)	Nil
<b>Capital gains:</b>			
Long term capital gains on sale of equity shares u/s 112A		8,95,000	
Less: B/fd short term capital loss on sale of gold set off u/s 74 (assuming period of 8 years has not expired)		(2,75,000)	
Less: B/fd loss on sale of equity shares u/s 111A set off u/s 74 (assuming period of 8 years has not expired)		(25,000)	
		5,95,000	
Less: Loss from textile business set off u/s 71 (Rs. 4,70,000 – Rs. 73,000 set off against IFOS). Better to first set off against IFOS taxable at normal rate and then set off against LTCG taxable at concessional rate.		(3,97,000)	1,98,000
<b>Income from other sources:</b>			
Interest on fixed deposits		73,000	
Less: Loss from textile business set off u/s 71		(73,000)	
		Nil	
Lottery income (assumed it is gross income)		75,000	75,000
<b>Gross total income</b>			<b>41,93,000</b>
Less: Deduction under Chapter VIA: u/s 80C:			
Life insurance premium: Deductible (assuming it is within the % limit of sum assured as specified u/s 80C)		15,000	
Repayment of housing loan:			
• House property in Delhi: Not allowed since loan taken from friend		-	
• House property in Mumbai: Allowed since taken from bank		50,000	
• For repair: Not allowed since taken for repair		-	
U/s 80EE/80EEA for interest on loan taken to acquire residential house property: Not allowed since it is taken that all conditions are not satisfied		-	(65,000)
<b>Total income</b>			<b>41,28,000</b>

*Statement of loss to be carried forward to AY 2023-24*

Particulars	Rs.
Loss from house property u/s 71B: Rs. 2,81,000 – Rs. 2,00,000	81,000

*Computation of tax liability for AY 2022-23 (assuming she is less than 60 years of age)*

Particulars	Rs.
Tax on total income	
• On long term capital gain u/s 112A of Rs. 1,98,000: @ 10% of Rs. 98,000 (Rs. 1,98,000 – Rs. 1,00,000)	9,800
• On lottery income: @ 30% u/s 115BB of Rs. 75,000	22,500
• On balance income of Rs. 38,55,000 at normal rates	9,69,000
	10,01,300
Less: Rebate u/s 87A (N/A as total income > 5 lakh)	-
	10,01,300
Add: Surcharge (Nil as total income is up to Rs. 50 lakh)	-
	10,01,300
Add: HEC @ 4%	40,052
Tax liability (subject to adjustment of TDS on lottery of Rs. 22,500, TDS on FD interest, if any, and advance tax, if any)	10,41,352

Tax liability (rounded off).

10,41,350

*Mistake by students: Failed to set off textile business loss against capital gains and IFOS. Allowed deduction u/s 80C for repayment of loan taken for repair.*

**B12. CA2019(M) – Mr. X is working in a private company since last 10 years. His salary details for FY 2021-22 are....**

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

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries:</b>			
Basic salary @ 1,50,000 pm for 6 months		9,00,000	
Dearness allowance @ 55,000 pm for 6 months		3,30,000	
Commission @ 35,000 pm for 6 months		2,10,000	
Transport allowance @ 5,000 pm for 6 months		30,000	
Medical reimbursement: Taxable (in absence of information in the question regarding treatment)		30,000	
Gratuity	20,00,000		
Less: Exemption u/s 10(10) (assuming he is not covered under Payment of Gratuity Act, 1972) = Lower of the following:			
(a) Amount actually received as gratuity = Rs. 20 lakh			
(b) Notified limit Rs. 20 lakh			
(c) Half month salary for each year of service:			
<ul style="list-style-type: none"> <li>Avg. salary of preceding 10 months = <math>[10 \times \text{Rs. } 1,50,000] \div 10 = \text{Rs. } 1,50,000</math>; assumed DA does not form part of pay for retirement benefits; commission not considered since not based on turnover</li> <li>Half month salary = Rs. 75,000</li> <li>Years of service (completed) = 10</li> </ul>			
<ul style="list-style-type: none"> <li>Half month salary for each year of service = Rs. 7,50,000</li> </ul>	(7,50,000)	12,50,000	
Unrecognized PF: Employer's contribution and interest thereon		16,20,000	
Gross salary		43,70,000	
Less: Standard deduction u/s 16(ia)		(50,000)	43,20,000
<b>Income from house property:</b>			
Net annual value (assumed house is self occupied)		Nil	
Less: Deduction u/s 24(b) in respect of interest on loan:			
<ul style="list-style-type: none"> <li>Current year interest</li> </ul>		(1,10,000)	
<ul style="list-style-type: none"> <li>Prior period interest of 1.5 lakh deductible in 5 annual instalments</li> </ul>		(30,000)	
Loss from house property: Set off against salary income u/s 71			(1,40,000)
			41,80,000
<b>Profits and gains of business or profession:</b>			
Income u/s 44AE:			
<ul style="list-style-type: none"> <li>Heavy goods vehicle = 3 vehicles <math>\times</math> Rs. 1,000 <math>\times</math> 15 MT <math>\times</math> 4 months</li> </ul>		1,80,000	
<ul style="list-style-type: none"> <li>Other vehicles = 3 vehicles <math>\times</math> Rs. 7,500 <math>\times</math> 5 months</li> </ul>		1,12,500	2,92,500
<b>Capital gains:</b>			
Income on buy back of equity shares in CMF Ltd.: It is exempt u/s 10(34A). It is also not treated as dividend u/s 2(22).			-
<b>Income from other sources:</b>			
Unrecognized PF – Interest on employee's contribution		3,60,000	
Unrecognized PF – Employee's contribution is not taxable		Nil	
Gift of money from friend exceeding Rs. 50,000: Taxable u/s 56(2)(x)		6,00,000	9,60,000
<b>Gross total income</b>			<b>54,32,500</b>
<b>Less: Deduction under Chapter VIA:</b>			



• U/s 80C: Life insurance premium deductible up to 20% of sum assured since policy taken before 1.4.2012	20,000	
• U/s 80C: Repayment of housing loan (income is taxable under IHP head since possession taken during PY 2021-22)	1,10,000	
• U/s 80CCC: LIC pension fund	25,000	
	1,55,000	
Restricted to Rs. 1,50,000 u/s 80CCE	1,50,000	
U/s 80D: Mediclaim for self and wife; restricted to Rs. 25,000	25,000	
U/s 80EE/80EEA for interest on loan for acquisition of property: Not available taking that conditions are not satisfied.	-	1,75,000
<b>Total income</b>		<b>52,57,500</b>

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

Particulars	Rs.
Total income as per regular provisions	52,57,500
Add: Allowance and deductions not allowed u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000
• Interest on borrowed capital u/s 24(b) for self occupied property	1,40,000
• Deductions under Chapter VIA	1,75,000
<b>Total income u/s 115BAC</b>	<b>56,22,500</b>

*Computation of tax payable by Mr. X for AY 2022-23 (assuming he is less than 60 years of age)*

Particulars	Regular rates	115BAC rates
Total income	52,57,500	56,22,500
Tax on total income	13,89,750	14,24,250
Less: Rebate u/s 87A (N/A as total income > 5 lakh)	-	-
	13,89,750	14,24,250
Add: Surcharge (10% as total income > 50 lakh and up to 1 crore)	1,38,975	1,42,425
	15,28,725	15,66,675
Add: HEC @ 4%	61,149	62,667
Tax liability	15,89,874	16,29,342
<b>Tax liability (rounded off)</b>	<b>15,89,870</b>	<b>16,29,340</b>
Mr. X 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. 15,89,870.		

*Mistake by students – Computed salary for the whole year instead of six months.*

**B13. CA2018(N) – Miss Sakshitha, a resident individual, aged 32 years, furnishes the following particulars relating to the....**

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

Particulars	Rs.	Rs.
<b>Income from house property:</b>		
Arrears of rent: Taxable u/s 25A even if she is no more the owner of house	1,50,000	
Less: Deduction @ 30%	(45,000)	
		1,05,000
<b>Profits and gains of business or profession:</b>		
Interest on capital from partnership firm: Assuming it is authorized by partnership deed and is allowed to firm up to 12% u/s 40(b), hence, taxable = Rs 3,00,000 × (12/15)	2,40,000	
Share of profit from partnership firm: Exempt u/s 10(2A)	-	
Amount received under Keyman insurance policy taxable u/s 28(vi)	2,20,000	
		4,60,000
<b>Income from other sources:</b>		
Gift received from non-relatives exceeding Rs. 50,000 in aggregate (taxable u/s 56(2)(x):		
• From mother's father: Taxable based on view that he is not lineal ascendant. Alternate view is also possible that maternal grandparents are lineal ascendants and, thus, 'relative'.	80,000	
• From close friend	60,000	
		1,40,000

Winning from TV game show: Gross = Rs. 70,000 × (100/70)	1,00,000	
Rent from vacant plot of land	2,00,000	
Amount forfeited from buyer of vacant plot taxable u/s 56(2)(ix)	3,10,000	
Agricultural income from lands in Colombo: Not exempt since land not in India; assumed to be rent or revenue from land, thus, taxable as IFOS	1,80,000	
Interest credited to PPF account: Exempt u/s 10(11)	-	
		9,30,000
<b>Gross total income</b>		<b>14,95,000</b>
<b>Less: Deduction under Chapter VIA</b>		
U/s 80C: PPF subscription for minor daughter	75,000	
U/s 80G: Donation to trust in cash: Not allowed since amount > Rs. 2,000 donated in cash	-	
		(75,000)
<b>Total income</b>		<b>14,20,000</b>

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

Particulars	Rs.
Total income as per regular provisions	14,20,000
Add: Allowance and deductions not allowed u/s 115BAC:	
• Deductions under Chapter VIA	75,000
<b>Total income u/s 115BAC</b>	<b>14,95,000</b>

*Computation of tax liability of Ms. Sakshitha for AY 2022-23*

Particulars	Regular rates	115BAC rates
Total income	14,20,000	14,95,000
Tax on total income		
• On winning from lottery u/s 115BB @ 30% of Rs. 1,00,000	30,000	30,000
• On balance income of Rs. 13,20,000 at normal rates or Rs. 13,95,000 at 115BAC rates	2,08,500	1,61,250
	2,38,500	1,91,250
Less: Rebate u/s 87A (N/A as total income > 5 lakh)	-	-
	2,38,500	1,91,250
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	2,38,500	1,91,250
Add: HEC @ 4%	9,540	7,650
Tax liability	2,48,040	1,98,900
Less: TDS from winning u/s 194B. In absence of adequate information in the question, TDS u/s 194DA from sum received under Keyman Insurance policy has been ignored.	(30,000)	(30,000)
<b>Tax payable</b>	<b>2,18,040</b>	<b>1,68,900</b>
Ms. Sakshitha can 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 payable will be Rs. 1,68,900.		

*Mistake by students – Allowed deduction u/s 80G for donation in cash.*

**B14. CA2018(N) – Mr. Murari, a resident individual, age 48 years provides consultancy services in the field of .....**

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

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession:</b>		
Net income as per Income & Expenditure account		1,52,500
Add: Expenses debited but not allowable:		
• Excess salary to brother-in-law: Not disallowed u/s 40A(2) since he is not a 'relative'	-	
• Motor car expenses attributable to personal use @ 40% of Rs. 58,000	23,200	
• Depreciation as per books of account	47,500	
• Medical expenses:		
○ Family planning expenditure: Not allowed u/s 37(1) as it is taken that it is not for business purpose; not allowed u/s 36(1)(ix) since available only to company	15,000	
○ Medical expenses of father: Not allowed u/s 37(1) since personal in nature	35,000	
○ Balance medical expenses (assumed to be incurred for staff; thus allowed u/s 37(1))	-	
• Purchase of computer (depreciation allowable)	80,000	



• Bonus: Allowed u/s 43B since it is paid before the due date to file ROI u/s 139(1) of 31.10.2022 <b>(Note 1)</b>	-	
• Commission to Mr. Sridhar without TDS (U/s 194H, Mr. Murari is liable to deduct tax if gross receipts for FY 2020-21 > Rs. 50 lakh. Assuming this is not the case, he is not liable to deduct tax. Hence, disallowance u/s 40(a)(ia) not attracted)	-	2,00,700
Less: Income credited but not taxable or not taxable under PGBP:		
• Share of profit from HUF: Exempt u/s 10(2)	25,000	
• Interest on saving bank deposit (covered under IFOS)	15,000	
• Interest on income tax refund (covered under IFOS)	8,000	
• Depreciation as per Income-tax Act <b>(Note 2)</b>	47,800	(95,800)
		2,57,400
<b>Income from other sources:</b>		
Interest on saving bank deposit: Not clubbed u/s 64(1)(iv) assuming that pocket money is in the nature of pin money.	-	
Income tax refund: Not taxable	-	
Interest on income tax refund	8,000	
Gold coins received from family friend: Taxable u/s 56(2)(x) as FMV > Rs. 50,000	55,000	63,000
Gross total income		3,20,400
Less: Deduction under Chapter VIA:		
• U/s 80D: Medical expenses on father aged 65 years (assuming he a resident (thus, a senior citizen) and no health insurance premium has been paid for him)		(35,000)
<b>Total income</b>		<b>2,85,400</b>

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

Particulars	Rs.
Total income	2,85,400
Tax on total income	1,770
Less: Rebate u/s 87A as total income does not exceed Rs. 5 lakh	(1,770)
	Nil
Add: HEC @ 4%	Nil
<b>Tax liability</b>	<b>Nil</b>

*Note 1:* Mr. Murari is eligible for section 44ADA under which his presumptive income would be 50% of gross receipts, i.e., Rs. 4 lakh and no deduction of any expenditure will be allowed. Since this is more than the business income computed as per regular provisions, he can opt out by maintaining books of account u/s 44AA and getting tax audit done u/s 44AB. In such case, due date of filing ROI u/s 139(1) would be 31.10.2022.

*Note 2: Computation of depreciation*

Particulars	Rs.
Motor car:	
• Rs. 2,00,000 × 15% (general rate taken) × 60% (business use)	18,000
Furniture and fittings:	
• Rs. 50,000 × 10%	5,000
Computer:	
• Actual cost = Rs. 80,000 – Rs. 18,000 paid in cash (> Rs. 10,000) disallowed from actual cost = Rs. 62,000. Depreciation @ 40%	24,800
	47,800

*Mistake by students: Not considering eligibility of section 44ADA, consequent due date of ROI being 31.10.2022 and allowability of bonus u/s 43B.*

**B15. CA2018(M) – Mrs. Babu, working as journalist with ABC Ltd., provides the following information for year ended.....**

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

Particulars	Rs.	Rs.
<b>Income from salaries:</b>		

Basic salary		3,00,000
Dearness allowance		1,50,000
Employer's contribution to RPF:		
• Actual contribution = 20% of Rs. 3,00,000	60,000	
• Less: Exempt @ 12% of Rs. 3,75,000 (Rs. 3,00,000 basic + Rs. 75,000 DA meant for retirement benefits)	(45,000)	15,000
Interest credited to RPF @ 15% p.a.	15,000	
• Less: Exempt up to 9.5%	(9,500)	5,500
Gross salary		4,70,500
Less: Standard deduction u/s 16(ia)		(50,000)
		4,20,500
<b>Income from house property</b>		
Arrears of rent: Taxable u/s 25A even if she is no longer the owner of property	69,000	
Less: Standard deduction u/s 25A @ 30%	(20,700)	48,300
<b>Capital gains:</b>		
On sale of guest house: Not taxable in AY 2022-23 since pertains to AY 2021-22	-	
On jewellery: Not taxable u/s 45(1A) since not covered under any event referred in that provision	-	-
<b>Income from other sources:</b>		
Interest received on savings bank account	10,000	
Interest received on debentures (grossed up for TDS @ 10% u/s 193 assuming it is received net of TDS) = $12,040 \times (100/90)$	13,378	23,378
<b>Gross total income</b>		<b>4,92,178</b>
Less: Deduction under Chapter VIA:		
U/s 80C:		
• Own contribution to RPF	30,000	
• Deposit in Sukanya Samridhi Account	60,000	(90,000)
U/s 80CCD(1): Own contribution to Atal Pension Yojana @ 1,196 p.m. allowed upto 10% of 80CCD-salary (Rs. 3,75,000 in this case)		(14,352)
U/s 80D: Mediclaim premium or major daughter (assuming she is dependent)		(12,500)
U/s 80TTA: Interest on savings bank account allowed up to Rs. 10,000		(10,000)
<b>Total income</b>		<b>3,65,326</b>
<b>Total income (rounded off)</b>		<b>3,65,330</b>

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

Particulars	Rs.
Total income as per regular provisions	3,65,326
Add: Allowance and deductions not allowed u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000
• Deductions under Chapter VIA	1,26,852
<b>Total income u/s 115BAC</b>	<b>5,42,178</b>
<b>Total income u/s 115BAC (rounded off)</b>	<b>5,42,180</b>

*Computation of tax liability of Mrs. Babu for AY 2022-23 (assuming she is less than 60 years of age)*

Particulars	Regular rates	115BAC rates
Total income	3,65,330	5,42,180
Tax on total income	5,767	16,718
Less: Rebate u/s 87A (where total income ≤ Rs. 5 lakh)	(5,767)	-
	Nil	16,718
Add: HEC @ 4%	Nil	669
Tax liability	Nil	17,387
<b>Tax liability (rounded off) (subject to adjustment of TDS u/s 193 of Rs. 1,338)</b>	<b>Nil</b>	<b>17,390</b>
Mrs. Babu should not opt for section 115BAC. Tax liability will be Nil. TDS will be refunded.		

*Mistake by students: Deduction for Sukanya Samridhi and Atal Pension Yojana claimed u/s 80G. Arrears of rent wrongly charged under IFOS.*

**B16. CA2018(M) – Mr. Hari, aged 55 years, a resident individual and practicing Chartered Accountant, furnishes you the.....**

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

Particulars	Rs.	Rs.	Rs.
<b>Income from house property:</b>			
Gross annual value: Rent receivable taken in absence of information on expected rent		4,80,000	
Less: Municipal taxes paid by Mr. Hari		(4,200)	
Net annual value		4,75,800	
Less: Deduction u/s 24			
• Standard deduction @ 30% of NAV		(1,42,740)	
• Interest on loan @ 10% of Rs. 10,00,000 (assuming entire loan is outstanding)		(1,00,000)	
			2,33,060
<b>Profits and gains of business or profession:</b>			
Fees from professional services		39,60,000	
Less: Expenses deductible			
• Staff salary, bonus and stipend (including incentive)	20,50,000		
• Other general and administrative expenses (foreign travel assumed to be towards official purposes)	12,00,000		
• Office rent	48,000		
• Domestic drawing: Not deductible as for personal purpose	-		
• Motor car maintenance: 3/4 <sup>th</sup> of Rs. 12,000	9,000		
• Interest on car loan after the car is first put to use: Not allowed u/s 43B (assumed it is not paid on or before the due date of ROI u/s 139(1))	-	(33,07,000)	
		6,53,000	
Less: Depreciation u/s 32			
• Motor car: 3/4 <sup>th</sup> of 50% of 15% of Rs. 4,00,000: Car is used < 180 days and 1/4 <sup>th</sup> is for personal use. Interest on loan not added to actual cost assuming interest was not payable till the date motor car was first put to use.	22,500		
• Books: 40% of Rs. 22,000 (assuming put to use ≥ 180 days)	8,800		
• Computer: 50% of 40% of Rs. 25,000 (put to use < 180 days); assumed payment by specified mode	5,000	(36,300)	
Since gross receipts is ≤ Rs. 50 lakh, Mr. Hari can claim income u/s 44ADA @ 50% of gross receipts, i.e, Rs. 19,80,000 which is more than business income computed as per normal provisions. He can claim lower amount as business income if he maintains books of account u/s 44AA and gets tax audit done u/s 44AB.		6,16,700	
Income from share speculation business	1,00,000		
Less: Loss in commodity speculation business set off. Balance of Rs. 50,000 carried forward u/s 73 to the next year.	(1,00,000)	Nil	
			6,16,700
<b>Income from other sources:</b>			
Cash gift of Rs. 60,000 from family friends: Taxable u/s 56(2)(x) as aggregate exceeds Rs. 50,000			60,000
<b>Gross total income</b>			<b>9,09,760</b>
<b>Less: Deduction under Chapter VIA</b>			
Section 80C			
• Life insurance premium (assuming premium is within the % limit of sum assured specified u/s 80C)	23,000		
• PPF subscription	1,40,000		
	1,63,000		
• Allowed up to Rs. 1,50,000		1,50,000	
Section 80EE/80EEA on interest on loan for acquisition of residential house property: Not available taking that all conditions are not satisfied; even otherwise entire interest is deducted in computing IHP		-	
Section 80G: Donation to PM Drought Relief Fund by bank draft: @ 50%		55,500	
Section 80GGC: Donation to political party by cheque		3,00,000	
			(5,05,500)
<b>Total income</b>			<b>4,04,260</b>

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

Particulars	Rs.
Total income as per regular provisions	4,04,260

Add: Allowance and deductions not allowed u/s 115BAC:	
• Deductions under Chapter VIA	5,05,500
<b>Total income u/s 115BAC</b>	<b>9,09,760</b>

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

Particulars	Regular rates	115BAC rates
Total income	4,04,260	9,09,760
Tax on total income	7,713	61,464
Less: Rebate u/s 87A (where total income ≤ Rs. 5 lakh)	(7,713)	-
	Nil	61,464
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	Nil	61,464
Add: HEC @ 4%	-	2,459
Tax liability	Nil	63,923
<b>Tax liability (rounded off)</b>	<b>Nil</b>	<b>63,920</b>
Mr. Hari 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 Nil.		

**B17. CA2017(N) – Mr. Pandey, a resident individual, aged 45 years, is a Chartered Accountant in practice. He maintains.....**

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

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession:</b>			
Net profit as per Profit & Loss Account		19,13,500	
Add: Expenses debited but not deductible			
• Payment in cash to tax consultant > Rs. 10,000: Disallowed u/s 40A(3)	55,000		
• Payment of rent without TDS: 30% disallowed u/s 40(a)(ia) assuming tax was deductible at source u/s 194-I (194IB is not applicable since rent ≤ Rs. 50,000)	15,000		
• Depreciation as per books of account	55,000	1,25,000	
		20,38,500	
Less: Income credited but not taxable or taxable under other heads			
• Audit fee received in advance (taxable on receipt basis in cash system of accounting; no adjustment required as already credited)	-		
• Dividend from Indian companies	12,00,000		
• Interest on deposit certificates issued under Gold Monetization Scheme, 2015	15,000		
• Gift by client: Taxable u/s 28(iv) under PGBP being value of benefit or perquisite arising from profession. No adjustment required as already credited.	-	(12,15,000)	
		8,23,500	
Less: Depreciation under Income Tax Act		(1,25,000)	
			6,98,500
<b>Income from other sources:</b>			
Dividend from Indian companies (assuming it is gross of TDS)		12,00,000	
Interest on deposit certificates issued under Gold Monetization Scheme, 2015: Exempt u/s 10		-	
			12,00,000
<b>Gross total income</b>			<b>18,98,500</b>
<b>Less: Deduction under Chapter VIA</b>			
Section 80C: Repayment of housing loan: Not allowable since income not taxable under the head IHP for PY 2021-22.		-	
Section 80D			
• Medical insurance premium of parents (senior citizens and not dependent on him) by cheque: Allowed up to Rs. 50,000		27,000	
• Preventive health checkup, paid in cash, for self and spouse: Allowed up to Rs. 5,000		5,000	
Section 80EEA: Not deductible assuming that all conditions are not satisfied		-	
			(32,000)
<b>Total income</b>			<b>18,66,500</b>

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

Particulars	Rs.
Total income as per regular provisions	18,66,500
Add: Allowance and deductions not allowed u/s 115BAC:	
• Deductions under Chapter VIA	32,000
<b>Total income u/s 115BAC</b>	<b>18,98,500</b>

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

Particulars	Regular rates	115BAC rates
Total income	18,66,500	18,98,500
Tax on total income	3,72,450	3,07,050
Less: Rebate u/s 87A (N/A as total income exceeds Rs. 5 lakh)	-	-
	3,72,450	3,07,050
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	3,72,450	3,07,050
Add: HEC @ 4%	14,898	12,282
Tax liability	3,87,348	3,19,332
Less: TDS u/s 194 on dividend @ 10% (taking that TDS is applicable)	(1,20,000)	(1,20,000)
Tax payable	2,67,348	1,99,332
<b>Tax payable (rounded off)</b>	<b>2,67,350</b>	<b>1,99,330</b>

Mr. Pandey can 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. 1,99,330.

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B18 to B26

#### Computation of Total Income & Tax Payable

#### Build Your Confidence (BYC)

**B18. CA2017(M)** – Ms. Rekha, a resident individual aged 50, provides the following information for FY 2021-22.....

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

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Arrears of rent: Taxable u/s 25A even if she is no more the owner of property		90,000	
Less: Deduction @ 30%		(27,000)	
			63,000
<b>Profits and gains of business or profession</b>			
Share of profit from firm: Exempt u/s 10(2A)		-	
Interest on capital: Taxable up to 12% (assuming it is allowed to the firm to this extent) = Rs. 3 lakh × (12/15)		2,40,000	
Salary as working partner: Taxable since fully allowed to the firm		1,00,000	
<b>Profit from rice mill</b>			
Net profit		4,50,000	
Add: Amounts debited but not allowed			
• Advance income tax paid	1,00,000		
• Personal drawings	50,000	1,50,000	
Less: Amounts taxable under other heads			
• Interest on savings bank account with SBI	12,000		
• Interest on savings account with post office	5,000		
• Dividend from listed Indian company	80,000	(97,000)	
			8,43,000
<b>Income from other sources</b>			
Interest on savings bank account with SBI		12,000	
Interest on savings account with post office	5,000		
• Less: Exempt u/s 10: Assuming account is individual	(3,500)	1,500	
Dividend from listed Indian company (assuming it is gross of TDS)		80,000	
			93,500
<b>Gross total income</b>			<b>9,99,500</b>
<b>Less: Deduction under Chapter VIA</b>			
Section 80C: Life insurance premium for married daughter: Deductible up to 10% of sum assured		50,000	
Section 80D: Health insurance premium for mother aged 75 years (assumed she is resident and, thus, senior citizen): Allowed up to Rs. 50,000		35,000	
Section 80TTA: Interest on savings accounts of Rs. 13,500 deductible up to Rs. 10,000		10,000	
			(95,000)
<b>Total income</b>			<b>9,04,500</b>

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

Particulars	Rs.
Total income as per regular provisions	9,04,500
Add: Allowance and deductions not allowed u/s 115BAC:	
• Deductions under Chapter VIA	95,000



<b>Total income u/s 115BAC</b>	<b>9,99,500</b>
--------------------------------	-----------------

*Computation of tax liability of Ms. Rekha for AY 2022-23*

<b>Particulars</b>	<b>Regular rates</b>	<b>115BAC rates</b>
Total income	9,04,500	9,99,500
Tax on total income	93,400	74,925
Less: Rebate u/s 87A (N/A as total income exceeds Rs. 5 lakh)	-	-
	93,400	74,925
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	93,400	74,925
Add: HEC @ 4%	3,736	2,997
Tax liability	97,136	77,922
Less: TDS @ 10% u/s 194 on dividend from listed Indian company	(8,000)	(8,000)
Less: Advance tax paid	(1,00,000)	(1,00,000)
Tax refundable	(10,864)	(30,078)
<b>Tax refundable (rounded off)</b>	<b>(10,860)</b>	<b>(30,080)</b>
Ms. Rekha can 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. 30,080		

**B19. CA2016(N) – Mr. Raghuveer, a resident individual aged 35 years, furnished the following information from his.....**

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

<b>Particulars</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
<b>Profits and gains of business or profession</b>			
Net profit as per Profit & Loss account		6,50,000	
Less: Incomes credited but not taxable under this head			
• Interest on Government securities	25,000		
• Dividend from foreign company	18,000		
• Gift of gold coins	55,000	(98,000)	
		5,52,000	
Less: Adjustment for depreciation as per Income Tax Act (Rs. 96,000 – Rs. 85,000)		(11,000)	
		5,41,000	
Add: Expenses debited but not deductible			
• Interest till the asset is first put to use: Not allowed u/s 36(1)(iii) assuming it is debited	68,000		
• Expenditure > Rs. 10,000 paid by bearer cheque: Disallowed u/s 40A(3)	20,500		
• Compensation paid to employee: Allowed u/s 37(1). No adjustment since already debited.	-	88,500	
			6,29,500
<b>Income from other sources</b>			
Interest on Government securities: Assumed not notified u/s 10(15); hence, taxable		25,000	
Dividend from foreign company (assumed not liable to tax deduction at source)		18,000	
Gift of gold coins from father: Not taxable u/s 56(2)(x) since received from relative		-	
			43,000
<b>Gross total income</b>			<b>6,72,500</b>
<b>Less: Deduction under Chapter VIA</b> (assumed that the below amounts were not debited to Profit & Loss Account; hence no adjustment has been made in computing PGBP)			
Section 80C: Sukanya Samriddhi Scheme		45,000	
Section 80D: Self and wife: Rs. 30,500 allowed up to Rs. 25,000		25,000	
Section 80D: Medical expenditure of father (assumed he is resident and, thus, senior citizen); allowed up to Rs. 50,000		35,000	
Section 80G: Donation to Swachh Bharat Kosh @ 100%		20,000	
			(1,25,000)
<b>Total income</b>			<b>5,47,500</b>

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

<b>Particulars</b>	<b>Rs.</b>
Total income as per regular provisions	5,47,500
Add: Allowance and deductions not allowed u/s 115BAC:	

• Deductions under Chapter VIA	1,25,000
<b>Total income u/s 115BAC</b>	<b>6,72,500</b>

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

Particulars	Regular rates	115BAC rates
Total income	5,47,500	6,72,500
Tax on total income	22,000	29,750
Less: Rebate u/s 87A (N/A as total income exceeds Rs. 5 lakh)	-	-
	22,000	29,750
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	22,000	29,750
Add: HEC @ 4%	880	1,190
<b>Tax liability</b>	<b>22,880</b>	<b>30,940</b>
Mr. Raghuveer 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 liability will be Rs. 22,880		

**B20. CA2016(M) – Mr. Vinod Kumar, resident aged 62 years, furnishes the following information pertaining to the year.....**

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

Particulars	Rs.	Rs.	Rs.
<b>Income from salary</b>			
Pension received: Gross of TDS = Rs. 6,27,000 + Rs. 25,000		6,52,000	
Less: Standard deduction u/s 16(ia)		(50,000)	
			6,02,000
<b>Profits and gains of business or profession</b>			
Gross receipts		12,60,000	
Less: Expenses			
• Rent for premises: Deductible u/s 30	1,44,000		
• Salary of PA: Deductible u/s 37(1)	1,20,000		
• Stenographer's salary: Deductible u/s 37(1)	1,00,000		
• Business development expenditure: Deductible u/s 37(1)	91,000		
• Conveyance: Deductible u/s 37(1): 1/4 <sup>th</sup> personal use disallowed	2,25,000	(6,80,000)	
			5,80,000
<b>Capital gains</b>			
Short term capital gain from sale of listed shares (u/s 111A)		65,000	
Long term capital gain from sale of listed shares (assuming STT paid on purchase as well) (u/s 112A)		1,24,000	
			1,89,000
<b>Income from other sources</b>			
Interest on fixed deposit in bank		1,60,000	
Interest on Post Office Saving A/c	18,000		
Less: Exempt u/s 10(15) (assumed account is individual)	(3,500)	14,500	
			1,74,500
<b>Gross total income</b>			<b>15,45,500</b>
<b>Less: Deduction under Chapter VIA</b>			
<b>Section 80C</b>			
• Life insurance premium: Allowed up to 10% of sum assured	50,000		
• Contribution to PPF	1,10,000		
• Restricted to Rs. 1,50,000	1,60,000	1,50,000	
<b>Section 80D</b>			
• Medclaim insurance premium for self (paid otherwise than by cash)	27,000		
• Preventive health checkup for self (in cash): Allowed up to Rs. 5,000	5,000		
• Allowed up to Rs. 50,000 since Mr. Vinod is a senior citizen		32,000	
<b>Section 80G: Donation given in cash to a charitable trust: Donation &gt; Rs. 2,000 in cash not allowed</b>			-
<b>Section 80TTB: Interest of Rs. 1,74,500 allowed up to Rs. 50,000</b>		50,000	
			(2,32,000)



<b>Total income</b>			<b>13,13,500</b>
---------------------	--	--	------------------

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

<b>Particulars</b>	<b>Rs.</b>
Total income as per regular provisions	13,13,500
Add: Allowance and deductions not allowed u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000
• Deductions under Chapter VIA	2,32,000
<b>Total income u/s 115BAC</b>	<b>15,95,500</b>

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

<b>Particulars</b>	<b>Regular rates</b>	<b>115BAC rates</b>
Total income	13,13,500	15,95,500
Tax on total income		
• On long term capital gain u/s 112A @ 10% of Rs. 24,000 (Rs. 1,24,000 – Rs. 1,00,000)	2,400	2,400
• On short term capital gain u/s 111A @ 15% of Rs. 65,000	9,750	9,750
• On balance income of Rs. 11,24,500 at normal rates and Rs. 14,06,500 at 115BAC rates	1,47,350	1,64,125
	1,59,500	1,76,275
Less: Rebate u/s 87A (N/A as total income exceeds Rs. 5 lakh)	-	-
	1,59,500	1,76,275
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	1,59,500	1,76,275
Add: HEC @ 4%	6,380	7,051
Tax liability	1,65,880	1,83,326
Less: TDS from pension u/s 192. It is assumed that TDS was not deducted from interest on Bank FD u/s 194A.	(25,000)	(25,000)
Tax payable	1,40,880	1,58,326
<b>Tax payable (rounded off)</b>	<b>1,40,880</b>	<b>1,58,330</b>

Mr. Vinod 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. 1,40,880.

**B21. CA2015(M) - Dr. Shashank is a noted child specialist of Mumbai. His Income & Expenditure Account for FY ended.....**

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

<b>Particulars</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
<b>Profits and gains of business or profession</b>			
Net profit as per Income & Expenditure A/c		6,58,700	
Add: Expenses debited but disallowed			
• Depreciation in excess of Income Tax Act = Rs. 1,25,000 – Rs. 75,000	50,000		
• Medicines consumed for self and family: Not allowed u/s 37(1) as personal expenses	18,000		
• Medicines for poor patients who he did not charge: Allowed u/s 37(1) as incurred in course of profession	-		
• Salary in cash to computer specialist: Disallowed u/s 40A(3) as > 10,000	30,000		
• Donation to National Children's Fund	51,000	1,49,000	
		8,07,700	
Less: Income credited but not taxable or taxable under other heads			
• Maturity proceeds of LIC policy: Exempt u/s 10(10D) assuming premium was within the limit specified therein	1,15,000		
• Winning from TV game show: Taxable under IFOS	35,000		
• Honorarium for giving lectures at seminars: Taxable under IFOS	24,000	(1,74,000)	
Dr. Shashank can claim presumptive income of 50% of gross receipts u/s 44ADA, i.e., Rs. 8,38,000. He can also claim a lower amount if he maintains books u/s 44AA and gets tax audit done u/s 44AB.			6,33,700
<b>Income from other sources:</b>			

Winning from TV game show: Gross up for TDS = Rs. 35,000 × (100/70)		50,000	
Honorarium for giving lectures at seminars		24,000	
			74,000
<b>Gross total income</b>			<b>7,07,700</b>
<b>Less: Deduction under Chapter VIA</b>			
Section 80C			
• Life insurance premium: Allowed up to 10% of sum assured	20,000		
• Contribution to PPF	1,20,000	1,40,000	
Section 80E: Interest on loan taken for higher education of daughter		10,000	
Section 80G			
• Donation to National Children's Fund by A/c payee cheque @ 100%	51,000		
• Donation to registered charitable trust (assuming not in cash) @ 50% but subject to qualifying limit being 10% of adjusted total income (GTI Rs. 7,07,000 – Deduction u/c VIA except 80G of Rs. 1,50,000) = 50% of 10% of Rs. 5,57,700 = Rs. 27,885.	27,885	78,885	
			(2,28,885)
<b>Total income</b>			<b>4,78,815</b>
<b>Total income (rounded off)</b>			<b>4,78,820</b>

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

Particulars	Rs.
Total income as per regular provisions	4,78,815
Add: Allowance and deductions not allowed u/s 115BAC:	
• Deductions under Chapter VIA	2,28,885
<b>Total income u/s 115BAC</b>	<b>7,07,700</b>

*Computation of tax liability of Dr. Shashank for AY 2022-23 (assuming he is less than 60 years of age)*

Particulars	Regular rates	115BAC rates
Total income	4,78,820	7,07,700
Tax on total income		
• On winning from game show u/s 115BB @ 30% of Rs. 50,000	15,000	15,000
• On balance income of Rs. 4,28,820 at normal rates and Rs. 6,57,700 at 115BAC rates	8,941	28,270
	23,941	43,270
Less: Rebate u/s 87A (where total income ≤ 5 lakh)	(12,500)	-
	11,441	43,270
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	11,441	43,270
Add: HEC @ 4%	458	1,731
Tax liability	11,899	45,001
Less: TDS from winning	(15,000)	(15,000)
Tax refundable/payable	(3,101)	30,001
<b>Tax refundable/payable (rounded off)</b>	<b>(3,100)</b>	<b>30,000</b>

Dr. Shashank 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 refundable will be Rs. 3,100

**B22. CA2013(N) (modified) – Compute the total income and tax liability of Mr. Krishna for AY 2022-23 from the following...**

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

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Gross annual value		4,32,000	
Less: Municipal taxes paid		(32,000)	
Net annual value		4,00,000	
Less: Deduction u/s 24			
• Standard deduction @ 30% of NAV		(1,20,000)	
• Interest on borrowed capital		(97,000)	
			1,83,000
<b>Profits and gains of business or profession</b>			

Income from business		1,75,000	
Less: Set off			
• Current year depreciation u/s 32		(40,000)	
• Business loss brought forward from AY 2020-21 u/s 72		(70,000)	
• Unabsorbed depreciation of earlier year u/s 32(2) (balance of Rs. 90,000 set off against other incomes)		(65,000)	
			-
<b>Capital gains</b>			
Long term capital gain on sale of debentures	60,000		
Long term capital loss on sale of shares sold through recognized stock exchange (STT paid): Set off u/s 70; balance of Rs. 15,000 carried forward u/s 74 to AY 2023-24.	(60,000)	Nil	
Short term capital gain on sale of plot:			
• Full value of consideration (assuming it complies with section 50C)	6,40,000		
• Less: Cost of acquisition	(4,10,000)	2,30,000	
Less: Set off balance unabsorbed depreciation		(90,000)	
			1,40,000
<b>Income from other sources</b>			
Dividend on shares held as stock in trade (assuming it is paid by domestic company and is gross of TDS u/s 194)		22,000	
Dividend from a company carrying on agricultural business (assuming it is paid by domestic company and is gross of TDS u/s 194)		10,000	
			32,000
<b>Gross total income</b>			<b>3,55,000</b>
<b>Less: Deduction under Chapter VIA</b>			
Section 80C – Repayment of housing loan (assuming loan is for purchase or construction of residential house property)			(70,000)
<b>Total income</b>			<b>2,85,000</b>

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

Particulars	Rs.
Total income as per regular provisions	2,85,000
Add: Allowance and deductions not allowed u/s 115BAC:	
• Deductions under Chapter VIA	70,000
<b>Total income u/s 115BAC</b>	<b>3,55,000</b>

*It is assumed that brought forward loss or unabsorbed depreciation is not attributable to any of the deductions not allowed u/s 115BAC. Hence, these are not adjusted.*

*Computation of tax liability of Mr. Krishna for AY 2022-23 (assuming he is less than 60 years of age)*

Particulars	Regular rates	115BAC rates
Total income	2,85,000	3,55,000
Tax on total income	1,750	5,250
Less: Rebate u/s 87A	(1,750)	(5,250)
	Nil	Nil
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	Nil	Nil
Add: HEC @ 4%	-	-
<b>Tax liability</b>	<b>Nil</b>	<b>Nil</b>
Less: TDS u/s 194 @ 10% on dividend (assuming it is applicable)	(3,200)	(3,200)
<b>Tax liability</b>	<b>(3,200)</b>	<b>(3,200)</b>

Mr. Krishna should not opt for section 115BAC since there is no impact on tax liability (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax refundable will be Rs. 3,200.

**B23. CA2013(N) – The following is the Profit & Loss Account of Mr. Aditya, aged 58 years, a resident, for the year ended.....**

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

Particulars	Rs.	Rs.	Rs.
-------------	-----	-----	-----

<b>Income from house property</b>			
Gross annual value: Higher of actual rent Rs. 3,00,000 or annual letting value Rs. 2,50,000		3,00,000	
Less: Municipal taxes actually paid by owner		Nil	
Net annual value		3,00,000	
Less: Deduction u/s 24			
• Standard deduction @ 30% of NAV		(90,000)	
• Interest on capital borrowed		(20,000)	
			1,90,000
<b>Profits and gains of business or profession</b>			
Net profit		13,50,000	
Add: Expenses debited not disallowed			
• Arrears of rent paid in cash: Disallowed u/s 40A(3) as > Rs. 10,000 = Rs. 50,000 × 7 months	3,50,000		
• Repair of car: 1/4 <sup>th</sup> on account of personal use	7,500		
• Personal expenses	50,000		
• Medical expenses incurred for wife: Personal expenses	45,000		
• Salary of car driver: 1/4 <sup>th</sup> on account of personal use of car	45,000		
• Depreciation of car: Not allowed since car sold during the year and block of asset ceases to exist as on 31.3.2022	30,000		
• Advance income tax: Not allowed u/s 40(a)(ii)	15,000	5,42,500	
		18,92,500	
Less: Items credited but taxable under other heads			
• Gift from friend	2,50,000		
• Sale of car	1,70,000		
• Interest on income tax refund	30,000	(4,50,000)	
			14,42,500
<b>Capital gain</b>			
Full value of consideration on sale of car		1,70,000	
Less: Cost of acquisition		2,00,000	
Short term capital loss: Carried forward u/s 74		(30,000)	-
<b>Income from other sources</b>			
Interest on income tax refund		30,000	
Cash gift from friend: Taxable u/s 56(2)(x) since aggregate > Rs. 50,000		2,50,000	
Income from minor daughter from stage acting: Not clubbed u/s 64(1A) since it is from talent and skill		-	
Interest on deposits made out of income from stage acting: Clubbed u/s 64(1A)	10,000		
Less: Exemption u/s 10(32)	(1,500)	8,500	
			2,88,500
<b>Gross total income</b>			<b>19,21,000</b>
<b>Less: Deduction under Chapter VIA</b>			
80DD: Medical treatment of dependent son (assuming son has not claimed deduction u/s 80U) suffering from severe disability (80% or more)		1,25,000	
80E: Interest on loan for higher education of son (assumed loan taken from a bank or notified FI or approved charitable institution)		10,000	
			(1,35,000)
<b>Total income</b>			<b>17,86,000</b>

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

Particulars	Rs.
Total income as per regular provisions	17,86,000
Add: Allowance and deductions not allowed u/s 115BAC:	
• Exemption u/s 10(32)	1,500
• Deductions under Chapter VIA	1,35,000
<b>Total income u/s 115BAC</b>	<b>19,22,500</b>

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

Particulars	Regular rates	115BAC rates
Total income	17,86,000	19,22,500
Tax on total income	3,48,300	3,14,250
Less: Rebate u/s 87A (N/A since total income > Rs. 5 lakh)	-	-
	3,48,300	3,14,250
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	3,48,300	3,14,250
Add: HEC @ 4%	13,932	12,570
Tax liability	3,62,232	3,26,820
Less: Advance tax paid	(15,000)	(15,000)
Tax payable	3,47,232	3,11,820
<b>Tax payable (rounded off)</b>	<b>3,47,230</b>	<b>3,11,820</b>
Mr. Aditya can 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. 3,11,820		

**B24. CA2012(N) – Mr. Hari provides the following information for the year ending 31.3.2022.....**

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

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries</b>			
Arrears of salary received from ex employer (assuming it was not taxed earlier on due basis)		80,000	
Less: Standard deduction u/s 16(ia)		(50,000)	
			30,000
<b>Income from house property</b>			
Annual value (rent taken in absence of information regarding expected rent)		2,40,000	
Less: Standard deduction u/s 24(a) @ 30% of NAV		(72,000)	
			1,68,000
<b>Profits and gains of business or profession</b>			
Income from retail trade in grains: Books of account are not maintained and turnover is ≤ Rs. 2 crore. Income can be claimed u/s 44AD @ 6% of turnover assuming turnover is received by specified modes during the PY 2021-22 or up to ROI due date.		1,46,250	
Less: B/fd business loss u/s 72: Continuation of business in which loss incurred is not necessary. Balance loss carried forward u/s 72		(1,46,250)	
			-
<b>Capital gains</b>			
Full value of consideration of bonus shares		2,20,000	
Less: Cost of acquisition		Nil	
Long term capital gain u/s 112 (assumed shares are not listed)		2,20,000	
Less: Set off brought forward unabsorbed depreciation against income under other heads (except salary) u/s 32(2)		(1,50,000)	70,000
<ul style="list-style-type: none"> <li>While section 44AD deems depreciation to have been fully allowed, unabsorbed depreciation is not in respect of retail trade in grains, and, hence, it is not deemed to have been allowed and can be set off</li> <li>Since income (other than LTCG) is taxable at a lower rate than LTCG, it is most beneficial to set off unabsorbed depreciation against LTCG.</li> </ul>			
<b>Income from other sources</b>			
Rent from vacant site let on lease			1,12,000
<b>Gross total income</b>			<b>3,80,000</b>
Less: Deduction u/s 80G			
<ul style="list-style-type: none"> <li>Donation to PM National Relief Fund @ 100%</li> <li>Donation to charitable trust of Rs. 40,000: Deductible @ 50% but subject to qualifying limit being 10% of adjusted total income (GTI Rs. 3,80,000 – LTCG u/s 112 Rs. 70,000) = 50% of 10% of Rs. 3,10,000 .</li> </ul>		30,000	
		15,500	
			(45,500)
<b>Total income</b>			<b>3,34,500</b>

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

Particulars	Rs.
-------------	-----



Total income as per regular provisions	3,34,500
Add: Allowance and deductions not allowed u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000
• Deductions under Chapter VIA	45,500
<b>Total income u/s 115BAC</b>	<b>4,30,000</b>

It is assumed that brought forward loss or unabsorbed depreciation is not attributable to any of the deductions not allowed u/s 115BAC. Hence, these are not adjusted.

Computation of tax liability of Mr. Hari for AY 2022-23 (assuming he is less than 60 years of age)

Particulars	Regular rates	115BAC rates
Total income	3,34,500	4,30,000
Tax on total income		
• Tax on LTCG u/s 112 @ 20% of Rs. 70,000	14,000	14,000
• Tax on balance income of Rs. 2,64,500 at normal rates and Rs. 3,60,000 at 115BAC rates	725	5,500
	14,725	19,500
Less: Rebate u/s 87A (available since total income ≤ Rs. 5 lakh)	(12,500)	(12,500)
	2,225	7,000
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	2,225	7,000
Add: HEC @ 4%	89	280
Tax liability (relief u/s 89 w.r.t. arrears of salary has not been worked out in absence of details of break up given in the question)	2,314	7,280
<b>Tax liability (rounded off)</b>	<b>2,310</b>	<b>7,280</b>
Mr. Hari 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 liability will be Rs. 2,310.		

**B25. CA2012(M) – Mr. Y carries on his own business. An analysis of his Trading and Profit and Loss account for the year....**

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

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Net profit as per profit and loss account		11,20,000	
Add: Expenses debited but not allowed			
• Salary to brother disallowed u/s 40A(2)	2,500		
• Motor car expenses: Disallowed for personal use 1/4 <sup>th</sup>	19,500		
• Depreciation debited in books	55,000		
• Drawings: Personal expense	10,000		
• Investment in NSC	15,000		
• Contribution to University u/s 35 (allowed)	-		
• Advertisement expenses: Allowed u/s 37(1)	-		
• Cash payment to goods transport agency: Not disallowed u/s 40A(3) since within limit of Rs. 35,000	-	1,02,000	
Add: Understatement of closing stock		12,000	
Less: Understatement of opening stock		(8,000)	
Less: Depreciation as per IT Rules (assumed that it does not include depreciation for motor car attributable to personal use)		(50,000)	
Less: Items credited but taxable under other heads			
• Dividend from shares	22,000		
• Interest on debentures	17,500		
• Winning from races	15,000	(54,500)	
			11,21,500
<b>Income from other sources</b>			
Dividend from shares (assumed it is gross of TDS)		22,000	
Interest on debentures (assumed it is gross of TDS)		17,500	
Winning from races (assumed it is gross of TDS)		15,000	

		54,500
<b>Gross total income</b>		<b>11,76,000</b>
Less: Deduction u/s 80C for investment in NSC		(15,000)
<b>Total income</b>		<b>11,61,000</b>

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

Particulars	Rs.
Total income as per regular provisions	11,61,000
Add: Allowance and deductions not allowed u/s 115BAC:	
• Deduction u/s 35(1)(ii)	1,00,000
• Deductions under Chapter VIA	15,000
<b>Total income u/s 115BAC</b>	<b>12,76,000</b>

*Computation of tax liability of Mr. Y for AY 2022-23 (assuming he is less than 60 years of age)*

Particulars	Regular rates	115BAC rates
Total income	11,61,000	12,76,000
Tax on total income		
• Tax on winning from races u/s 115BB @ 30% of Rs. 15,000	4,500	4,500
• Tax on balance income of Rs. 11,46,000 at normal rates and Rs. 12,61,000 at 115BAC rates	1,56,300	1,27,750
	1,60,800	1,32,250
Less: Rebate u/s 87A (N/A since total income > Rs. 5 lakh)	-	-
	1,60,800	1,32,250
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	1,60,800	1,32,250
Add: HEC @ 4%	6,432	5,290
Tax liability	1,67,232	1,37,540
Less: TDS on dividend from shares @ 10% u/s 194 (assuming dividend is paid by a domestic company, Mr. Y is a resident and TDS is applicable)	(2,200)	(2,200)
Less: TDS on interest on debentures @ 10% u/s 193 (assuming Mr. Y is a resident and TDS is applicable)	(1,750)	(1,750)
Less: TDS on winnings from races @ 30% u/s 194BB (assuming winning is from horse race and TDS is applicable)	(4,500)	(4,500)
Tax payable	1,58,782	1,29,090
<b>Tax payable (rounded off)</b>	<b>1,58,780</b>	<b>1,29,090</b>
Mr. Y can 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. 1,29,090.		

**B26. CA2010(N) – Dr. Shuba is a medical practitioner. Her age is 64 as on 1.1.2022. The receipts and payments account.....**

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

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Annual value		Nil	
Less: Interest on capital borrowed u/s 24(b) of Rs. 60,000: Deductible up to Rs. 30,000 since original loan taken before 1.4.1999		(30,000)	
			(30,000)
<b>Profits and gains of business or profession</b>			
Sale of medicine	2,50,000		
Consultation fees	50,000		
Visiting fees	2,00,000	5,00,000	
Less: Expenses			
• Interest on vehicle loan: 3/4 <sup>th</sup> of 8% of Rs. 3 lakh for 9 months	13,500		
• Purchase of medicine	47,000		
• Payment for medical journal	5,000		
• Vehicle expenses: 3/4 <sup>th</sup> for official use	37,500	(1,03,000)	
Less: Depreciation			

• Commercial vehicle put to use $\geq$ 180 days: $\frac{3}{4}^{\text{th}}$ of (15% of Rs. 4,00,000)	45,000		
• Surgical instrument put to use $\geq$ 180 days: 15% of Rs. 50,000	7,500	(52,500)	
			3,44,500
<b>Income from other sources</b>			
Honorarium for lectures		5,000	
Family pension: Rs. 2,80,000 – Rs. 15,000 (lower of $\frac{1}{3}^{\text{rd}}$ or Rs. 15,000)		2,65,000	
Saving bank interest		1,000	
Share from HUF (exempt u/s 10(2))		-	
Winning from lottery: Grossed up for TDS = Rs. 35,000 $\times$ (100/70)		50,000	
Interest from debentures in name of minor daughter: Clubbed u/s 64(1A): 9% of Rs. 1.5 lakh for 9 months – Exemption of Rs. 1,500 u/s 10(32)		8,625	
			3,29,625
<b>Gross total income</b>			<b>6,44,125</b>
<b>Less: Deduction under Chapter VIA</b>			
Section 80C: Repayment of housing loan		48,000	
Section 80D: Mediclaim for self and mother		32,000	
Section 80TTB: Interest on saving bank account		1,000	
			(81,000)
<b>Total income</b>			<b>5,63,125</b>
<b>Total income (rounded off)</b>			<b>5,63,130</b>

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

Particulars	Rs.
Total income as per regular provisions	5,63,125
Add: Allowance and deductions not allowed u/s 115BAC:	
• Interest u/s 24(b)	30,000
• Exemption for family pension	15,000
• Exemption for minor child u/s 10(32)	1,500
• Deductions under Chapter VIA	81,000
<b>Total income u/s 115BAC</b>	<b>6,90,625</b>
<b>Total income u/s 115BAC (rounded off)</b>	<b>6,90,630</b>

*Computation of tax liability of Dr. Shuba for AY 2022-23*

Particulars	Regular rates	115BAC rates
Total income	5,63,130	6,90,630
Tax on total income		
• Tax on winning from lottery u/s 115BB @ 30% of Rs. 50,000	15,000	15,000
• Tax on balance income of Rs. 5,13,130 at normal rates and Rs. 6,40,630 at 115BAC rates	12,626	26,563
	27,626	41,563
Less: Rebate u/s 87A (N/A since total income > Rs. 5 lakh)	-	-
	27,626	41,563
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	27,626	41,563
Add: HEC @ 4%	1,105	1,663
Tax liability	28,731	43,226
Less: TDS on lottery	(15,000)	(15,000)
Less: TDS on interest on debentures u/s 193 (assuming TDS is not deductible)	-	-
Less: Advance tax paid	(20,000)	(20,000)
Tax payable/refundable	(6,269)	8,226
<b>Tax payable/refundable (rounded off)</b>	<b>(6,270)</b>	<b>8,230</b>

Dr. Shuba 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. 6,270.



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B27 to End

#### Computation of Total Income & Tax Payable

#### Build Your Confidence (BYC)

**B27. CA2010(M) (modified)** – Mr. Dinesh Karthik, a resident individual aged 45, furnishes the following information.....

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

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Arrears of rent u/s 25A taxable even if Mr. Dinesh is no more the owner of property		75,000	
Less: Deduction @ 30%		(22,500)	
			52,500
<b>Profits and gains of business or profession</b>			
<b>From Badrinath &amp; Co.:</b>			
Interest on capital: Taxable at 12% (assuming allowed to firm) = Rs. 3,06,250 × (12/15)	2,45,000		
Salary as working partner: Taxable assuming allowed to firm	90,000	3,35,000	
<b>From wheat flour business:</b>			
Net profit as per profit and loss account		4,32,000	
Add: Expenses debited but not allowed			
• Advance tax	70,000		
• Depreciation as per books	4,25,000		
• Bonus not paid: Disallowed u/s 43B, since not paid till due date to file ROI u/s 139(1) of 31.7.2022. He is partner in a firm whose sales is Rs. 90 lakh (his salary of Rs. 90,000 is 1% of sales). Since this is ≤ 1 crore, firm is not liable to tax audit u/s 44AB. Assuming he is also not liable to tax audit, due date of ROI for him is 31 July.	33,000		
• Car expenses for personal use: 1/5 <sup>th</sup>	10,000	5,38,000	
Less: Items credited but not taxable or not taxable as business income			
• Interest on Bank FD	45,000		
• Agricultural income: Exempt u/s 10(1)	60,000		
• Pension from LIC Jeevandhara	24,000	(1,29,000)	
Less: Depreciation ( <b>Note</b> )		(2,74,750)	
			9,01,250
<b>Income from other sources</b>			
Interest on Bank FD (gross of TDS of Rs. 5,000)		50,000	
Pension from LIC Jeevandhara		24,000	
			74,000
<b>Gross total income</b>			<b>10,27,750</b>
<b>Less: Deduction under Chapter VIA</b>			
Section 80C: Life insurance premium for major son: Allowed up to 20% of sum assured		30,000	
Section 80CCC: Contribution to LIC pension Fund		70,000	
Section 80D: Medical insurance premium for father		22,000	
			(1,22,000)
<b>Total income</b>			<b>9,05,750</b>

*Note: Computation of depreciation*

Particulars	Car	Machinery
Opening WDV	1,50,000	6,50,000
Add: Actual cost of assets acquired during the PY		

• Machinery purchased (put to use $\geq$ 180 days)		3,25,000
• Machinery purchased (put to use $<$ 180 days)		3,00,000
WDV of Block (as on 31.3.2022) for depreciation	1,50,000	12,75,000
Normal depreciation		
• Car @ 30% less $1/5^{\text{th}}$ for personal use	36,000	
• Machinery = 50% of 15% of Rs. 3,00,000 + 15% of remaining Rs. 9,75,000		1,68,750
Additional depreciation (since asset acquired and installed after 31.3.2005 and assessee engaged in business or manufacture or production):		
• 20% of Rs. 2,00,000 (put to use $\geq$ 180 days) + 10% of Rs. 3,00,000 (put to use $<$ 180 days). Not allowed on old machinery purchased.		70,000
Total depreciation Rs. 2,74,750	36,000	2,38,750

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

Particulars	Rs.
Agricultural income	60,000
Non-agricultural income (total income)	9,05,750
Is agricultural income $>$ Rs. 5,000 and total income $>$ Rs.2,50,000?	Yes
Tax on AI + TI, i.e., on Rs. 9,65,750	1,05,650
Less: Tax on AI + 2,50,000, i.e., Rs. 3,10,000	(3,000)
Tax on total income	1,02,650
HEC @ 4%	4,106
Tax liability	1,06,756
Less: TDS on bank interest	(5,000)
Less: Advance tax	(70,000)
<b>Tax payable</b>	<b>31,756</b>
Tax payable (rounded off)	31,760

**B24. CA2009(N) – From the following details, compute the total income of Siddhant of Delhi, aged 41 years, and tax....**

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

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries</b>			
Salary including dearness allowance		3,13,400	
Bonus		11,000	
Value of perquisites:			
• Salary of servant provided by employer		12,000	
• Free gas, electricity, water		11,000	
• Car (assuming it is up to 1,600 cc) @ Rs. 1,800 p.m.		21,600	
Gross salary		3,69,000	
Less: Standard deduction u/s 16(ia)		(50,000)	
			3,19,000
<b>Income from house property</b>			
Gross annual value: Rent taken in absence of information regarding expected rent = Rs. 3,500 $\times$ 12		42,000	
Less: Municipal taxes paid		(4,300)	
Net annual value		37,700	
Less: Deduction u/s 24			
• Standard deduction @ 30% of NAV		(11,310)	
• Interest on borrowed capital @ 15% of Rs. 1,60,000 (assuming entire loan is outstanding on 31.3.2022)		(24,000)	
			2,390
<b>Profits and gains of business or profession</b>			
Income from share speculation business		2,700	
Less: Loss from cotton speculation business set off u/s 73. Balance of Rs. 1,500 carried forward u/s 73.		(2,700)	
			-

<b>Income from other sources</b>		
Interest earned by wife out of amount gifted: Clubbed u/s 64(1)(iv) = 19% of Rs. 30,000		5,700
Interest earned by minor son out of amount gifted: Clubbed u/s 64(1A) = 19% of Rs. 20,000	3,800	
Less: Exemption u/s 10(32)	(1,500)	2,300
Gift of money from six friends: Taxable u/s 56(2)(x) since aggregate > Rs. 50,000		1,20,000
National award from Central Government: Assumed exempt u/s 10(17A)		-
		1,28,000
<b>Gross total income</b>		<b>4,49,390</b>
<b>Less: Deduction under Chapter VIA</b>		
Section 80C: Investment in PPF and notified bonds of NABARD		50,000
Section 80GG (assuming he satisfies all the conditions of that section)		9,611
Adjusted Total Income = GTI Rs. 4,49,390 – 80C Rs. 50,000 = Rs. 3,99,390		
Deduction = Lower of (a) Rs. 60,000, (b) Rs. 9,661 (Rent paid Rs. 49,600 – 10% of ATI Rs. 39,939), (c) Rs. 99,848 (25% of ATI)		
		(59,611)
<b>Total income</b>		<b>3,89,779</b>
<b>Total income (rounded off)</b>		<b>3,89,780</b>

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

Particulars	Rs.
Total income as per regular provisions	3,89,779
Add: Allowance and deductions not allowed u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000
• Exemption for minor child u/s 10(32)	1,500
• Deductions under Chapter VIA	59,611
<b>Total income u/s 115BAC</b>	<b>5,00,890</b>

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

Particulars	Regular rates	115BAC rates
Total income	3,89,780	5,00,890
Tax on total income	6,989	12,589
Less: Rebate u/s 87A (where total income ≤ 5 lakh)	(6,989)	-
	Nil	12,589
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	Nil	12,589
Add: HEC @ 4%	Nil	504
Tax liability	Nil	13,093
<b>Tax liability (rounded off)</b>	<b>Nil</b>	<b>13,090</b>
Siddhant 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 Nil		

**B29. From the following details, compute the total income and tax liability of Ram and Shyam, citizens of India, for AY.....**

*Computation of total income of Ram and Shyam for AY 2022-23 (under regular provisions)*

Particulars	Ram (resident)	Shyam (NR)
<b>Income from salaries</b>		
Pension	72,000	-
Less: Standard deduction u/s 16(ia)	(50,000)	-
	22,000	-
<b>Income from house property</b>		
Annual value: Rent taken in absence of information for expected rent	60,000	60,000
Less: Standard deduction u/s 24(a) @ 30%	(18,000)	(18,000)
	42,000	42,000
<b>Capital gains</b>		
Long term capital gain on sale of vacant land situated in Mumbai	1,00,000	1,00,000
Short term capital gain on sale of units of equity oriented fund (STT paid on sale)	1,50,000	1,50,000

		2,50,000		2,50,000
<b>Income from other sources</b>				
Interest on fixed deposits with ICICI Bank in India		2,00,000		60,000
<b>Gross total income</b>		<b>5,14,000</b>		<b>3,52,000</b>
<b>Less: Deduction under Chapter VIA</b>				
Section 80C: Deposit in PPF and life insurance premium	80,000		1,30,000	
Section 80G: Donation to Clean Ganga Kosh: Available only to resident	10,000		-	
Section 80TTB: Interest on fixed deposits: Available only to resident senior citizen: Upto 50,000.	50,000		-	
	1,40,000		1,30,000	
Allowed to the extent of gross total income (excluding short term capital gain u/s 111A and long term capital gain u/s 112)		1,40,000		1,02,000
<b>Total income</b>		<b>3,74,000</b>		<b>2,50,000</b>

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

Particulars	Ram (resident)	Shyam (non resident)
Total income as per regular provisions	3,74,000	2,50,000
Add: Allowance and deductions not allowed u/s 115BAC:		
• Standard deduction u/s 16(ia)	50,000	-
• Deductions under Chapter VIA	1,40,000	1,02,000
<b>Total income u/s 115BAC</b>	<b>5,64,000</b>	<b>3,52,000</b>

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

Particulars	Regular rates	115BAC rates
Total income	3,74,000	5,64,000
Tax on total income		
• Unexhausted basic exemption limit (UBEL) = Basic exemption limit (Rs. 3 lakh under normal provisions / Rs. 2.5 lakh u/s 115BAC) – normal income, i.e., excluding capital gain (Rs. 1,24,000 / Rs. 3,14,000)	1,76,000	-
• Tax on LTCG u/s 112 @ 20% on Nil (Rs. 1,00,000 – UBEL of Rs.1,00,000) / @ 20% on Rs. 1,00,000. Better to first exhaust UBEL against LTCG u/s 112 since it is taxable at rate higher than STCG u/s 111A.	-	20,000
• Tax on STCG u/s 111A @ 15% on Rs. 74,000 (Rs. 1,50,000 – Rs. 76,000 balance UBEL) / @ 15% on Rs. 1,50,000	11,100	22,500
• Tax on balance income, i.e., on Rs. 3,14,000 at 115BAC rates	-	3,200
	11,100	45,700
Less: Rebate u/s 87A (where total income ≤ 5 lakh)	(11,100)	-
	-	45,700
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	-	45,700
Add: HEC @ 4%	-	1,828
Tax liability	-	47,528
<b>Tax liability (rounded off)</b>	-	<b>47,530</b>
Ram should not opt for section 115BAC. Tax liability will be Nil		

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

Particulars	Regular rates	115BAC rates
Total income	2,50,000	3,52,000
Tax on total income		
• Tax on LTCG u/s 112 @ 20% on Rs. 1,00,000 (benefit of unexhausted BEL not available to non-resident)	20,000	20,000
• Tax on STCG u/s 111A @ 15% on Rs. 1,50,000 (benefit of unexhausted BEL not available to non-resident)	22,500	22,500
• Tax on balance income: On Nil income at normal rates and on Rs. 1,02,000 at 115BAC rates	-	-
	42,500	42,500

Less: Rebate u/s 87A (not available to non-resident)	-	-
	42,500	42,500
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	42,500	42,500
Add: HEC @ 4%	1,700	1,700
<b>Tax liability</b>	<b>44,200</b>	<b>44,200</b>
Tax liability will remain same with or without section 115BAC. Tax liability will be Rs. 44,200.		

# TAXBOOK<sup>+</sup>

## Hints to solutions

### Computation of Total Income & Tax Payable

MCQ

#### METHOD OF COMPUTATION

**M4. Raju, a resident of age 56 years, is having total income of Rs. 5,00,000 (comprising business income). Tax of Rs.....**

Tax 12,500 – rebate u/s 87A 12,500 = Nil. Net tax liability = Nil – 14,000 prepaid taxes = (14,000)

**M5. Suresh, a resident of age 65 years, has total income of Rs. 60,00,000 (including winning from lottery of Rs.....**

Tax = 15,80,000 on normal income + 30,000 on lottery = 16,10,000.

Tax + 1,61,000 SC = 17,71,000

Tax+SC + 70,840 HEC @ 4% = 18,41,840

Net tax liability = 18,41,840 – 30,000 TDS = 18,11,840

#### ALTERNATE MINIMUM TAX (AMT)

**M9. Mr. K, a resident individual aged 35 years, having gross total income of Rs. 30 lakh has claimed deduction u/s.....**

TI = 30,00,000 – 3,00,000 80QQB = 27,00,000.

Regular tax = 6,47,400.

ATI = 27,00,000 + 3,00,000 80QQB = 30,00,000.

AMT = 5,77,200. AMT N/A as regular tax is not less than AMT.

Regular Tax – AMT = 70,200.

Tax liability = 6,47,400 – 70,200 credit b/fd = 5,77,200. Balance credit c/fd 29,800.

**M10. Mr. J is a resident individual aged 65 years carrying on business. His business income (computed) is Rs. 10 lakh.....**

TI = 10,00,000. Regular tax = 1,14,400.

ATI = 10,00,000 + 25,00,000 35AD – 5,00,000 depreciation = 30,00,000.

AMT = 5,77,200.

AMT payable as regular tax < AMT. AMT credit (b/fd + current year) c/fd to next year.

**M11. Mr. Q is a resident individual aged 40 years having gross total income of Rs. 25 lakh. He has claimed deduction of.....**

TI = 25,00,000 – 8,00,000 VIA deduction = 17,00,000.

Regular tax = LTCG (20%) 40,000 + on balance 2,62,500 = 3,02,500. Tax + 12,100 HEC @ 4% = 3,14,600.

ATI = 17,00,000 TI + 8,00,000 80JJAA/80RRB = 25,00,000.

AMT = 4,81,000.

AMT payable as regular tax < AMT. Credit = 4,81,000 – 3,14,600 = 1,66,400

**M12. Mrs. Y, a resident individual aged 55 years, has earned business income of Rs. 45 lakh and income from other.....**

TI = 45,00,000 business income + 10,00,000 IFOS – 5,00,000 VIA deductions = 50,00,000.

Regular tax = Card game @ 30% + Balance at normal rates + SC NIL + HEC @ 4% (on Tax + SC) = 13,65,000.

ATI = 50,00,000 + 3,00,000 80RRB = 53,00,000.

AMT = 9,80,500 + 10% SC+ 4% HEC (on Tax + SC) = 11,21,692. AMT not payable as regular tax is not < AMT

### CONCESSIONAL RATE OF TAX FOR INDIVIDUAL AND HUF

**M21. While computing total income u/s 115BAC, normal depreciation on any block of assets cannot exceed the rate.....**

Cannot exceed 40%

**M25. Suyash, a resident aged 50 years, draws basic salary of Rs. 40,000 per month and has earned interest on.....**

GTI = 4,30,000 salary (after standard deduction) + interest 50,000 = 4,80,000. TI = GTI – 80TTA 10,000 = 4,70,000.

Regular tax = Nil.

115BAC TI = 4,70,000 + 50,000 standard deduction + 10,000 80TTA = 5,30,000.

115BAC tax = 16,120.

**M26. Rishabh, a resident aged 35 years, has business income (computed) of Rs. 20,00,000, loss from house property.....**

GTI = BI 20,00,000 – IHP 2,00,000 + LTCG 3,00,000 = 21,00,000. TI = GTI – 1,50,000 80C = 19,50,000.

Regular tax = 3,82,200.

115BAC TI = 19,50,000 + 1,50,000 80C + IHP loss 2,00,000 = 23,00,000.

115BAC tax = 4,13,400.

**M27. Gaurav, aged 32 years is employed with BCD Ltd. Income from salary (computed) is Rs. 40 lakh. He has also.....**

TI = 40,00,000 + 5,00,000 u/s 111A = 45,00,000.

Regular tax = 11,31,000.

115BAC TI = 45,00,000 + 50,000 standard deduction = 45,50,000.

115BAC tax = 10,68,600.

**M28. Sushi, resident of age 65 years, has the following incomes during the PY 2021-22: Basic salary received Rs.....**

Salary = Basic salary 12,00,000 + 50,000 HRA – 50,000 standard deduction = 12,00,000

GTI = 12,00,000 – IHP 3,00,000 + 45,000 pension (60,000 – 15,000 deduction) + 50,000 interest (51,500 – 1,500 exempt u/s 10(32)) = 9,95,000

TI = 9,95,000 – 80D 50,000 = 9,45,000.

115BAC TI = 9,45,000 + 2,50,000 HRA exemption + 50,000 standard deduction + 3,00,000 IHP (inter-head set off not allowed) + 15,000 family pension deduction + 1,500 exempt u/s 10(32) + 50,000 80D = 16,11,500.

Regular tax = 1,02,960. 115BAC tax = 2,29,788

**M29. Juhi, age 36 years, has earned income from salary of Rs. 9,00,000 (computed) for the PY 2021-22. She has claimed.....**

TI = 9,00,000 – 1,00,000 80CCD(2) – 50,000 80CCD(1B) – 1,50,000 80CCE (for 80CCD(1) and 80C) = 6,00,000.

115BAC TI = 6,00,000 + 50,000 80CCD(1B) + 1,50,000 80CCE (for 80CCD(1) and 80C) + 50,000 standard deduction u/s 16 = 8,50,000.

Regular tax = 33,800. 115BAC tax = 54,600.

**M30. Rana, resident age 40 years and carrying on a business, has computed business income for the PY 2021-22 of.....**

REGULAR TI = 30,00,000 – 5,00,000 u/c VIA = 25,00,000. Regular tax = 5,85,000.

AMT: ATI = 25,00,000 + 2,00,000 80JJAA = 27,00,000. AMT = 5,19,480.

115BAC TI = 25,00,000 + 3,00,000 80G = 28,00,000. 115BAC tax = 6,00,600.

AMT N/A as regular tax is not less than AMT. 115BAC not beneficial.

**M31. Srishti, resident age 46 years, has the following particulars of income for AY 2022-23: Business income Rs.....**

NORMAL: TI = 20,00,000 - 3,00,000 u/c VIA = 17,00,000. Regular tax = 3,35,400.

AMT: ATI = 17,00,000 + 2,00,000 8ORRB + 10,00,000 35AD - 1,00,000 depreciation = 28,00,000. AMT = 5,38,720.

115BAC TI = 17,00,000 + 3,00,000 u/c VIA + 10,00,000 35AD - 1,00,000 dep = 29,00,000. 115BAC tax = 6,31,800.

115BAC not beneficial. AMT to apply as regular tax < AMT.



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B1 to B6

#### TDS, TCS & Advance Tax

#### Build Your Confidence (BYC)

#### DEDUCTION OF TAX AT SOURCE (TDS)

##### B1. SALARY PAYMENTS - Discuss the liability for tax deduction in the following cases:

#	Section	Case	TDS
1	192	<b>CA2019(M)</b> - An employee of the Central Government received arrears of salary for the earlier 3 years. He enquires whether amount will be received after deduction of tax at source during the current year.	Arrears will be paid after TDS u/s 192. TDS will be computed after providing relief u/s 89(1) if necessary details are furnished by employee. <i>Mistake by students – Failure to refer to section 89(1)</i>
2	192	Assume in the above situation that he is an employee of Mr. X, a sole proprietor.	Arrears will be paid after TDS u/s 192. TDS will be computed without considering relief u/s 89(1).
3	192	Prem, employed with JKL Pvt. Ltd., received accumulated balance of his account in the recognized provident fund consequent to resigning from service after a period of four years. JKL Pvt. Ltd. was his first employer. Provident Fund is managed by JKL Pvt. Ltd. through the PF Trust and is recognized by the CIT under the Income Tax Act.	Payment not exempt as continuous service is for less than 5 years. Employer will deduct TDS u/s 192.
4	192A	<b>CA2019(N)</b> – Mr. Tandon, a resident, received a sum of Rs. 1,75,000 as pre mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill health. Examine and explain the TDS implications assuming he has a PAN which he has furnished to the deductor.	Payment exempt since service terminated due to ill health. No TDS u/s 192A. <i>Mistake by students - Failure to analyze exemption conditions for EPF withdrawal.</i>

##### B3. INTEREST, DIVIDEND & INVESTMENT INCOME - Discuss the liability for tax deduction in the following cases:

#	Section	Case	TDS
1	193	BD Pvt. Ltd, paid interest on debentures of Rs. 4,000, to JK HUF, a resident, by account payee cheque on 1.6.2021.	TDS will be deducted @ 10% of Rs. 4,000 (i.e., Rs. 400) u/s 193 as payer is not widely held company.
2	193	CD Ltd., paid interest of Rs. 20,000 on listed bonds to Mr. Y, a resident, on 15.5.2021. Bonds were held in demat account.	TDS will not be deducted u/s 193 since it is a listed security of company in demat form
3	193	Mr. Z, a resident, received Rs. 10,000 as interest on 7.75% Savings (Taxable) Bonds, 2018 for FY 2021-22 on 31.3.2022	TDS will not be deducted u/s 193 since amount for the FY ≤ Rs. 10,000.
4	193	Mrs. Y, a resident, received interest of Rs. 65,000 on 15.12.2021 on Rajasthan Government Bonds.	TDS will not be deducted u/s 193 on Government security
4A	193	<b>CA2021(JAN)</b> – Mr. Marwah, resident aged 80 years, holds 6½% Gold Bonds, 1977 of Rs. 2,00,000 and 7% Gold Bonds, 1980 of Rs. 3,00,000. He received yearly interest on these bonds on 28.2.2022.	TDS u/s 193 since total nominal value of bonds > 10,000. Interest = 13,000 (6½% of 2 lakh) + 21,000 (7% of 3 lakh) = 34,000. TDS @ 10% is 3,400.
5	194A	<b>CA2019(N)</b> – A sum of Rs. 42,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).	No TDS u/s 194A, since interest ≤ Rs. 50,000, assuming Mr. Hasan is a resident
6	194A	<b>CA2017(M)</b> – Pallavi Bank Ltd. has paid interest of Rs. 29,000 to Mr. A, a resident Indian aged 50 years, from its Chennai	No TDS u/s 194A if no CBS since interest is computed per branch and is ≤ Rs. 40,000.

		branch and Rs. 28,000 from Bangalore branch. If there is no core banking services in the bank, is tax required to be deducted at source from such interest payments made on 31.3.2021? Will your answer be different if there is core banking service present in the bank? Also, explain the provisions in this regard.	TDS will be deducted @ 10% of Rs. 57,000 in case of CBS, since interest payable by the bank exceeds Rs. 40,000.
7	194A	<b>CA2016(N)</b> – Is TDS applicable in respect of payment of Rs. 1,00,000 to Mr. Pandey, a resident, being interest on recurring deposit with SBI?	Yes, u/s 194A @ 10% of Rs. 1 lakh
8	194A	<b>CA2011(M)</b> – During the FY 2021-22, Mr. Yuvan Raja, a resident individual (whose turnover from business during the year ended 31.3.2021 was Rs. 99 lakh) paid interest of Rs. 12,000 to Rehman & Co, a resident partnership firm, without deduction of tax at source. Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia).	Since TO < 1 Cr for the preceding FY, TDS will not be deducted u/s 194A for FY 2021-22. Consequently, disallowance will not arise.
8A	194A	<b>CA2021(JAN)</b> – Mr. Raju (a resident individual aged 54 years) has maintained two fixed deposits in two different branches of BFG Bank of India (working on core banking solution). During the year 2021-22, the bank paid Rs. 32,000 and Rs. 17,000 as interest on these fixed deposits.	Aggregate interest for all branches, since bank has adopted CBS = Rs. 49,000. It exceeds threshold limit of Rs. 40,000. TDS u/s 194A @ 10% is Rs. 4,900.
8B	194A	<b>CA2021(JAN)</b> – On 1.5.2021, Mr. Brijesh, a resident, made three fixed deposits of nine months each of Rs. 3 lakh each, carrying interest @ 9% with Mumbai branch, Delhi branch and Chandigarh branch of CBZ Bank, a bank which had adopted CBS. These fixed deposits mature on 31.1.2022.	Aggregate interest for all branches, since bank has adopted CBS = Rs. 60,750 (assuming interest is p.a.). It exceeds threshold limit of Rs. 40,000/50,000. TDS u/s 194A @ 10% is Rs. 6,075.
8C	194A	<b>CA2021(JAN)</b> – M/s AG Pvt. Ltd. took a loan of Rs. 50,00,000 from Mr. Haridas, a resident. It credited interest of Rs. 79,000 payable to Mr. Haridas during the PY 2021-22. M/s AG Pvt. Ltd. is not liable for tax audit during PY 2020-21 and 2021-22.	TDS u/s 194A @ 10% of 79,000 since it is > 5,000 limit, whether or not payer company is liable to tax audit. TDS = 7,900.
9	194A	Jaiman, a resident, deposited Rs. 8,00,000 as fixed deposit with Sahkari Co-operative bank on 1.7.2021 at 9% p.a. maturing on 31.3.2022. Compute the amount of TDS deductible, if any.	Interest for 9 months = Rs. 54,000. TDS u/s 194A @ 10% is Rs. 5,400.
10	194A	Rashmi, a resident aged 35 years, deposited Rs. 5,00,000 as fixed deposit with ICICI Bank on 1.10.2021 at 8% p.a. maturing on 31.3.2022. Compute the amount of TDS deductible, if any.	Interest for 6 months = Rs. 20,000. TDS u/s 194A not deductible since interest does not exceed Rs. 40,000.
11	194A	Mr. J, a resident aged 65 years, made fixed deposits of Rs. 3 lakh each in five branches of JK Bank on 1.6.2021 @ 10% p.a. interest for a tenure of six months. Bank has adopted CBS.	Aggregate interest for all branches, since bank has adopted CBS = Rs. 75,000. It exceeds threshold limit of Rs. 50,000. TDS u/s 194A @ 10% is Rs. 7,500.
12	194A	Mr. K, a resident aged 55 years, made fixed deposits of Rs. 3 lakh each in five branches of a co-operative Bank on 1.6.2021 @ 10% p.a. interest for a tenure of six months. Bank has not adopted CBS.	Interest per branch (since bank has not adopted CBS) is Rs. 15,000 which does not exceed threshold limit of Rs. 40,000. No TDS u/s 194A.
13	194A	Mr. K, a resident aged 55 years, made fixed deposits of Rs. 5 lakh each in PNB, SBI and HDFC Banks on 1.6.2021 @ 10% p.a. interest for a tenure of six months.	Interest per payer bank is Rs. 25,000 which does not exceed threshold limit of Rs. 40,000. No TDS u/s 194A.
14	194A	Rs. 1,00,000 was credited to the savings bank account of Raghav with Bank of India as interest thereon for FY 2021-22.	TDS u/s 194A does not apply to interest on deposits in bank (other than time deposits)
15	194A	Rohit paid interest of Rs. 75,000 to Dena Bank during FY 2021-22 in respect of loan taken for business. Turnover of business for FY 2020-21 is Rs. 2 crore.	Rohit is covered u/s 194A since TO of preceding FY > 1 crore. But no TDS u/s 194A on interest paid to a bank.
16	194A	Mrs. Z received interest of Rs. 10,000 on 12.2.2022 in respect of deposits with CDE Ltd, a manufacturing concern. Mrs. Z has not furnished her PAN to the company.	TDS will be deducted u/s 194A read with 206AA @ 20% since amount > Rs. 5,000 and PAN is not furnished.
17	194A	Suresh, carrying on a business having turnover of Rs. 1.2 crore for FY 2020-21 and Rs. 95 lakh for FY 2021-22, paid interest to UCO bank of Rs. 45,000 on 15.12.2021.	Suresh is covered u/s 194A since turnover for preceding FY > Rs. 1 cr. But no TDS since interest paid to bank.
17A	194A	Bank of India gave a loan of Rs. 50 lakh to BCD Ltd. on	Service fee is included in definition of

		14.7.2021. BCD Ltd. paid 2% as service fee for processing the loan application.	'interest' u/s 2(28A). Hence, covered u/s 194A. But no TDS since it is paid to a bank.
18	194	Rahul, a resident, received regular dividend of Rs. 5,000 from Shine Ltd. on 1.9.2021. He also received Rs. 10,000 on 1.1.2022 as loan from Win Pvt. Ltd. in which he held 20% equity shares. Both companies are Indian companies and payments were made by NEFT mode. He furnished his PAN number to Win Pvt. Ltd. but not to Shine Ltd.	Shine Ltd. – No TDS u/s 194 since amount ≤ Rs. 5,000 for FY 2021-22. Win Pvt. Ltd. – Dividend u/s 2(22)(e). TDS u/s 194 @ 10% of Rs. 10,000.
19	194	Rajul, a resident, received dividend of Rs. 20,000 on preference shares held in Z Ltd, an Indian company, on 1.12.2021. Rajul did not furnish his PAN number to Z Ltd.	TDS u/s 194 @ 20% of Rs. 20,000 in terms of S. 206AA since PAN not furnished
20	194K	Harish, a resident, received income of Rs. 10,000 on 10.7.2021 from units held in Kotak Mutual Fund, Rs. 5,000 on 10.8.2021 from units held in HDFC Mutual Fund and earned capital gains (computed) of Rs. 20,000 from sale of units of Birla Sunlife Mutual Fund on 10.9.2021.	TDS u/s 194K @ 10% of Rs. 10,000. No TDS on Rs. 5,000 since it is ≤ Rs. 5,000 limit. No TDS on capital gain.
20A	194DA	<b>CA2021(JAN)</b> – Mr. Prabhakar, a resident, is due to receive Rs. 6 lakh on 31.3.2022 towards maturity proceeds of LIC policy taken on 1.4.2018, for which the sum assured is Rs. 5 lakh and the annual premium is Rs. 1,40,000.	Since annual premium > 10% of sum assured for policy issued after 31.3.2012, exemption u/s 10(10D) is not available. TDS will be levied u/s 194DA since maturity proceeds ≥ Rs. 1 lakh. TDS = 5% of Rs. 40,000 (6 lakh – 5.6 lakh premium paid) = Rs. 2,000.
21	194DA	<b>CA2019(M)</b> – Ms. Varsha received a sum of Rs. 95,000 on 31.3.2022 towards maturity proceeds of LIC policy taken on 1.10.2016 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.	Since annual premium > 10% of sum assured for policy issued after 31.3.2012, exemption u/s 10(10D) is not available. But TDS will not be levied u/s 194DA since maturity proceeds < Rs. 1,00,000. <i>Mistake by students – Not considering exemption limit of Rs. 1 lakh.</i>
22	194DA	Mr. Z, a resident, is due to receive Rs. 11,00,000 on 1.1.2022 on maturity of life insurance policy of sum assured Rs. 10,00,000 issued on 31.12.2016 for which he paid annual premium of Rs. 1,20,000.	Since annual premium > 10% of sum assured for policy issued after 31.3.2012, exemption u/s 10(10D) is not available. TDS will be levied u/s 194DA since maturity proceeds ≥ Rs. 1 lakh. TDS = 5% of Rs. 5 lakh (11 lakh – 6 lakh premium paid) = Rs. 25,000.
23	194DA	Ms C, a resident, was issued a life insurance policy on 1.3.2012 for a sum assured of Rs. 1,00,000 on an annual premium of Rs. 10,000. The policy matured on 1.3.2022 and the sum payable to him is Rs. 1,75,000.	Since annual premium ≤ 20% of sum assured for policy issued till 31.3.2012, exemption u/s 10(10D) is available. Hence, no TDS u/s 194DA.
24	194DA	Madhav, a resident, is supposed to receive maturity proceeds of Rs. 5,00,000 on the Keyman Insurance Policy taken by him on his employee.	Keyman insurance policy proceeds are not exempt u/s 10(10D). TDS will be levied u/s 194DA since payment ≥ Rs. 1 lakh.
25	194EE	<b>CA2020(N)</b> – Smt. Sarita paid Rs. 5,000 on 17.4.2021 to Smt. Deepa from the deposits in National Savings Scheme Account.	It is not clear as to how can Smt. Sarita make payment from NSS A/c. Assuming she is the person responsible for paying, TDS will be deducted u/s 194EE @ 10% of Rs. 5,000, i.e, Rs. 500, since amount is ≥ Rs. 2,500

**B4. CASUAL INCOME - Discuss the liability for tax deduction in the following cases:**

#	Section	Case	TDS
1	194B	<b>CA2021(JULY)</b> – A payment of Rs. 3,20,000 made to Vidyawati, an Indian resident, on 15.1.2022, by a TV channel for winning from a crossword puzzle.	TDS deductible u/s 194B @ 30% of Rs. 3,20,000 since winning > Rs. 10,000
1	194B	<b>CA2019(N)</b> – Ms. Kaul won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s Maximus Retail Ltd for its customers.	TDS deductible u/s 194B @ 30% of Rs. 21,000 since prize money > Rs. 10,000
2	194B	<b>CA2019(N)</b> – Y & Co, engaged in real estate business, conducted a lucky dip and gave a Maruti car worth Rs. 5 lakh to the prize winner.	Since winning is wholly in kind, Y & Co is required to ensure that TDS @ 30% (Rs. 1,50,000) is paid u/s 194B, before releasing the car to the winner.
3	194B	<b>CA2019(M)</b> – A TV channel pays Rs. 10 lakh as prize	TV channel is to deduct TDS u/s 194B @ 30% of Rs.

		money to the winner of a quiz programme.	10 lakh at the time of payment of prize money.
4	194BB	Mr. K won Rs. 1 lakh as prize from horse race. He has not furnished his PAN number to the payer.	TDS will be deducted @ 30% (Rs. 30,000). Even if PAN is not furnished, 30% is greater than 20% rate specified u/s 206AA.
5	194BB	Winning from horse race of Rs. 1 lakh was paid to Mr. G, a resident individual, on 20.12.2021.	Winning > Rs. 10,000. TDS u/s 194BB @ 30% of Rs. 1 lakh, i.e., Rs. 30,000.

**B5. COMMISSION - Discuss the liability for tax deduction in the following cases:**

#	Section	Case	TDS
1	194D	<b>CA2019(N)</b> – An insurance company paid Rs. 45,000 as insurance commission to its agent Mr. Abhijeet on 15.11.2021.	TDS will be deducted u/s 194D @ 5%, i.e., Rs. 2,250, since commission > Rs. 15,000.
2	194D	XYZ Insurance Co pays insurance commission of Rs. 10,000 each to 20 agents during the FY 2021-22, amount in all to Rs. 2,00,000.	No TDS u/s 194D since payment to any agent does not exceed Rs. 15,000.
3	194H	<b>CA2018(N)</b> – Mudra Ltd., an advertisement company, has retained a sum of Rs. 15 lakh, towards charges for procuring and canvassing advertisement, from payment of Rs. 1 crore due to Cloud TV, a television channel, and has remitted the balance amount of Rs. 85 lakh to the television channel. Would the provisions of TDS u/s 194H be attracted on the sum of Rs. 15 lakh retained by the advertisement company?	No TDS u/s 194H in view of CBDT Circular 5/2016 since relationship between the media company and advertising agency is that of principal-to-principal.
4	194H	<b>CA2016(M)</b> – Ashwin, a resident individual carrying on business (turnover for FY 2020-21 Rs. 2.2 crore; for FY 2021-22 Rs. 20 lakh), paid commission to Babloo – Rs. 8,500.	No TDS u/s 194 since amount ≤ Rs. 15,000, although Ashwin is covered since turnover from business in preceding FY > Rs. 1 crore.
5	194H	Bajaj Ltd. sells manufactured goods to its wholesalers at a discount of 50% on the MRP. Is Bajaj Ltd. liable to deduct TDS on discount?	Discount is in the nature of trade discount and is not commission. No TDS u/s 194H
6	194H	Mr. Z paid commission of Rs. 50,000 to his agent, a resident, on 15.12.2021 for effecting sale of goods manufactured by him. Turnover from business of Mr. Z for PY 2020-21 was Rs. 1.5 crore and that for PY 2021-22 was Rs. 75 lakh.	Mr. Z is covered since TO for preceding FY > 1 crore. Mr. Z will deduct TDS u/s 194H @ 5% of Rs. 50,000.
7	194H	KLM Ltd. paid commission of Rs. 15,000 each to its five agents, resident in India, during the PY 2021-22.	No TDS u/s 194 since threshold for any payee does not exceed Rs. 15,000.

**B6. WORK & SERVICES - Discuss the liability for tax deduction in the following cases:**

#	Section	Case	TDS
1	194C	<b>CA2019(N)</b> – Gupta & Co (firm), engaged in wholesale business, assigned a contract for construction of its godown building to Mr. Ravi. The firm paid an aggregate of Rs. 10 lakh to Mr. Ravi during the year.	TDS will be deducted u/s 194C @ 1% of Rs. 10 lakh since aggregate payment during the year > Rs. 1 lakh.
1A	194C	<b>CA2021(JULY)</b> – Payer: Rahul, a wholesale trader of spices whose turnover was Rs. 5 crore in FY 2020-21. Nature of payment: Contract payment for construction of office godown during January to March, 2022, to Akhilesh, a resident individual. Rs. 50,00,000.	Rahul is covered u/s 194C since TO for preceding FY > 1 crore. TDS will be deducted @ 1% of Rs. 50 lakh = 50,000.
2	194C	<b>CA2019(N)</b> – Mr. Bobby, a resident, whose turnover during the previous FY is Rs. 205 lakh and for the current FY 2021-22 is Rs. 80 lakh, made payment of Rs. 2,00,000 on 1.10.2021 to Mr. A for purchase of diaries as per specifications. However, no material was supplied for such diaries. He also made contract payment to Mr. Satheesan on 1.5.2021 for painting of Rs. 25,000 and another contract for interior furnishing on 22.3.2021 for Rs. 20,000.	Mr. Bobby is covered u/s 194C since TO for preceding FY > 1 crore. <ul style="list-style-type: none"> <li>Mr. A – No TDS u/s 194C since it is a contract for sale as material not supplied by Mr. Bobby.</li> <li>Mr. Satheesan – No TDS u/s 194C as individual payments ≤ Rs. 30,000 and aggregate payment during FY ≤ Rs.1 lakh</li> </ul>
3	194C	<b>CA2016(M)</b> – Ashwin, a resident individual carrying on business (turnover for FY 2020-21 Rs. 2.2 crore; for FY	No TDS u/s 194C since amount ≤ Rs. 30,000, although Ashwin is covered u/s 194C since

		2021-22 Rs. 20 lakh), made payment to Vijay for repair of office building – Rs. 23,000.	turnover from business in preceding FY > Rs. 1 crore.
4	194C	<b>CA2020(N)</b> – ABC Ltd. makes payment of Rs. 1,50,000 to Ramlal, an individual transporter, who owned 6 goods carriages throughout the PY. He does not furnish his PAN.	Though Ramlal is goods carriage operator owning ≤ 10 goods carriages, he does not furnish PAN. Hence, TDS to be deducted u/s 194C @ 20% (in terms of section 206AA) on Rs. 1.5 lakh = Rs. 30,000
5	194C	JK Pvt. Ltd. made payment to Ravi, a resident contractor, on 15.4.2021 (Rs. 25,000), on 15.9.2021 (Rs. 27,000) on 15.12.2021 (Rs. 29,000) and on 15.3.2022 (Rs. 26,000).	Even though single payment ≤ Rs. 30,000, TDS will be deducted u/s 194C since aggregate payments for FY 2021-22 > 1 lakh. TDS will be deducted on Rs. 1,07,000 at time of credit/payment of Rs. 26,000. TDS @ 1% = Rs. 1,070. Last payment = Rs. 26,000 – Rs. 1,070 = Rs. 24,930.
6	194C	JK Pvt. Ltd. made payment to Ravi, a resident contractor, on 15.4.2021 (Rs. 35,000), on 15.9.2021 (Rs. 27,000) and on 15.3.2022 (Rs. 31,000).	Aggregate payment during FY ≤ Rs. 1 lakh. TDS u/s 194C @ 1% on Rs. 35,000 and @ 1% on Rs. 31,000, being amounts in a single payment > Rs. 30,000.
7	194C	JK Pvt. Ltd. made payment to Ravi, a resident contractor, on 15.4.2021 (Rs. 25,000), on 15.9.2021 (Rs. 35,000) on 15.12.2021 (Rs. 30,000) and on 15.3.2022 (Rs. 20,000).	<ul style="list-style-type: none"> <li>• 15 April – No TDS since amount ≤ Rs. 30,000;</li> <li>• 15 Sep – TDS @ 1% of Rs. 35,000, i.e., Rs. 350;</li> <li>• 15 Dec - No TDS since amount ≤ Rs. 30,000;</li> <li>• 15 Mar – Since aggregate for FY &gt; Rs. 1 lakh, TDS @ 1% on Rs. 75,000 (Rs. 1,10,000 – Rs. 35,000 on which TDS deducted earlier), i.e., Rs. 750.</li> <li>• Total TDS = Rs. 1,100.</li> </ul>
8	194C	Z Ltd made payment of Rs. 1 lakh as rent for machinery hired from Mr. K, a resident.	No TDS u/s 194C as payment is not for work. Section 194-I is applicable.
9	194C	PQR Pvt. Ltd. made payment of Rs. 50,000 to Mr. J, a resident transporter, for transporting goods from the factory to its premises. Mr. J submitted declaration to PQR Pvt. Ltd. that he owns not more than 10 goods carriages, along with his PAN.	No TDS u/s 194C since Mr. J fulfills the conditions for TDS exemption for small transporters.
10	194C	KMC Ltd entered into a contract with Mr. Law, a noted lawyer and a resident, for providing legal services during PY 2021-22 and made payment of Rs. 10 lakh during the year.	No TDS u/s 194C. S. 194J will apply.
11	194C	Mr. B, carrying on business with turnover of Rs. 90 lakh for PY 2020-21 and Rs. 120 lakh for PY 2021-22, paid Rs. 90,000 to M/s CDE Pvt. Ltd., an Indian company, on 1.3.2022 for advertising services.	No TDS u/s 194C since turnover of Mr. B does not exceed Rs. 1 Cr in PY 2020-21. TDS liability to be examined u/s 194M.
12	194C	Shubh, a Chartered Accountant, received professional fee of Rs. 60 lakh during PY 2020-21. During the PY 2021-22, he made payment of Rs. 50,000 to Shailesh, a resident, for printing invitation cards for the marriage of his daughter as per his specifications. Raw material was procured by Shubh and provided to Shailesh. He also made payment of Rs. 75,000 to Saurabh, a resident, for catering services during the marriage ceremony.	Shubh is covered u/s 194C as GR for preceding FY > Rs. 50 lakh. Each payment > Rs. 30,000. Printing is 'work' since raw material is supplied by Shubh. Catering is also 'work'. But TDS will not be deducted since payments are for personal purpose of Shubh.
13	194C	Mr. Jinesh gave a contract to Mr. Vinesh, a resident, in respect of manufacture of machinery spare parts as per his specifications. Mr. Vinesh procured the raw material for such manufacture from Shah & Co, a partnership firm in which Mr. Jinesh held 25% share of profits. Mr. Jinesh paid Rs. 1,20,000 in three equal instalments on 15.4.2021, 15.6.2021 and 15.8.2021. Mr. Jinesh was liable to tax audit for FY 2020-21.	Mr. Jinesh is covered u/s 194C since his TS/GR/TO > Rs. 1 cr for preceding FY (as he was liable to tax audit). Shah & Co is an associate in term of section 40A(2). Manufacture as per specifications using material purchased from associate firm is 'work' u/s 194C. Each payment > Rs. 30,000. TDS applicable @ 1%.
14	194C	For transport of its cargo, M&N LLP of Delhi paid Rs. 30,000 to Mr. C, a resident, for carrying the cargo from	<ul style="list-style-type: none"> <li>• Payment to Mr. C – No TDS u/s 194C since amount ≤ Rs. 30,000.</li> </ul>

		its factory to the railway station and Rs. 75,000 to Indian Railways for transport of cargo to Chennai.	<ul style="list-style-type: none"> <li>Payment to Railways – Exempt from 194C.</li> </ul>
15	194C	Suresh, carrying on a business, having turnover of Rs. 1.2 crore for FY 2020-21 and Rs. 95 lakh for FY 2021-22, made contract payment to Harsh, a resident, of Rs. 24,000 on 15.12.2021 in respect of two contracts of Rs. 12,000 each.	Suresh is covered u/s 194C since turnover for preceding FY > Rs. 1 cr. But no TDS since single payment ≤ Rs. 30,000 and aggregate payment for FY ≤ Rs. 1 lakh.
16	194C	M/s Z Ltd. made payment of Rs. 2 lakh to Mr. J, a resident transporter. Mr. J owns 9 goods carriages throughout the PY. He has also furnished a declaration to this effect along with his PAN.	No TDS u/s 194C since Mr. J is a goods carriage operator owning ≤ 10 goods carriages at any time during the PY and has furnished declaration along with PAN.
17	194J	<b>CA2020(N)</b> – Payment of royalty of Rs. 22,000 and FTS of Rs. 28,000 to Mr. R, who is having PAN, were made during the PY 2021-22 by M/s Z Ltd.	No TDS u/s 194 since amount of royalty and FTS is ≤ Rs. 30,000 for each category of payment.
18	194J	<b>CA2020(N)</b> – Z Ltd. paid Rs. 18,000 to one of its directors as sitting fees on 2.2.2022	TDS u/s 194J @ 10% of Rs. 18,000 if it is not in the nature of salary – there is no threshold. TDS u/s 192 if in the nature of salary.
19	194J	<b>CA2019(M)</b> – XYZ Pvt. Ltd. pays the following amounts to Mr. Narayan during the PY 2021-22: (1) Rs. 22,000 towards fee for professional services, (2) Rs. 18,000 towards royalty.	No TDS u/s 194J since sum ≤ Rs. 30,000 limit for FPS as well as royalty.
20	194J	<b>CA2019(M)</b> – Talent Pvt. Ltd. pays Rs. 12,000 to Ms. Sudha, its director, on 1.12.2021 towards sitting fee which is not taxable u/s 192.	TDS u/s 194J @ 10% of Rs. 12,000. There is no TDS threshold for director fee.
21	194J	<b>CA2019(M)</b> – Radha Ltd is engaged only in the business of operation of call centre. On 18.3.2022, the total amount credited by Shyam Ltd in the ledger account of Radha Ltd is Rs. 70,000 regarding service charges of call centre. The amount is paid through cheque on 28.3.2022 by Shyam Ltd.	TDS u/s 194J @ 2% of Rs. 70,000 to be deducted on 18.3.2022, i.e., earlier of credit or payment. Rate is 2% since Radha Ltd. is engaged only in the business of operation of call centre.
22	194J	<b>CA2019(M)</b> – A television company pays Rs. 50,000 to a cameraman for shooting of a documentary film.	TDS u/s 194J @ 10% of Rs. 50,000, since sum > Rs. 30,000. This is FPS since cameraman is a film artist covered u/s 44AA.
23	194J	<b>CA2011(N)</b> – Fee paid to Dr. Srivatsan by Sundar (HUF) Rs. 35,000 for surgery performed to a member of the family.	HUF is liable to deduct TDS only if business turnover > Rs. 1 cr for preceding FY. Even then no TDS in this case since payment of FPS made exclusively for personal purposes of member of HUF.
24	194J	<b>CA2016(M)</b> – Ashwin, a resident individual carrying on business (turnover for FY 2020-21 Rs. 2.2 crore; for FY 2021-22 Rs. 20 lakh), made payment of fees for technical services to Vivek on 15.4.2021 – Rs. 35,000.	Ashwin is covered since turnover from business in preceding FY > Rs. 1 crore. Amount > Rs. 30,000. TDS u/s 194J @ 10% or 2% of Rs. 35,000 depending on whether FTS is being professional services or not.
25	194J	Soft Ltd., an Indian company, purchased business application software for which it made payment after deducting TDS u/s 194J. It sold the software, as it is, to B&C LLP. Soft Ltd. gave a declaration to B&C LLP that it had earlier deducted TDS u/s 194J and also furnished its PAN number.	Payment is in nature of royalty u/s 9(1)(vi). But B&C LLP will not deduct TDS u/s 194J in view of exemption under Notification 21/2012 since all its conditions are fulfilled.
26	194J	XYZ Ltd. made payment to Mr. C, a Chartered Accountant, of Rs. 50,000 on 1.6.2021 for professional services rendered.	TDS u/s 194J on FPS @ 10% of Rs. 50,000 since it is > Rs. 30,000.
27	194J	Gyan Publishers Pvt. Ltd. made a payment of Rs. 2 lakh to Mr. Writer, a resident, on 15.4.2021, as royalty on sale of books for which Mr. Writer holds the copyright.	TDS u/s 194J @ 10% of Rs. 2 lakh on royalty.
28	194J	Mr. K, having business turnover of Rs. 5 crore in PY 2020-21, made a payment of Rs. 40,000 on 15.1.2022 to JK Ltd. for use of certain design templates developed and owned by JK Ltd.	Mr. K is covered u/s 194J since TO for preceding FY > 1 crore, but is not required to deduct TDS on royalty payment.
29	194J	M/s Z Ltd. made payment of Rs. 25,000 as fees for technical services and royalty of Rs. 20,000 to Mr. K. Mr.	No TDS u/s 194J since payment ≤ Rs. 30,000 each for FTS and royalty, assuming there were

		K has furnished PAN to Z Ltd.	no other payments towards FTS or royalty during the PY to Mr. K.
29A	194M	<b>CA2021(JULY)</b> – Payer: Kale, receiving pension from Central Government. Nature of payment: Contractual payment made to a resident during April 2021 for reconstruction of his residential house in Arunachal Pradesh. Rs. 52,50,000.	Kale is a pensioner, hence, not covered u/s 194C. Payment for 'work' to resident > 50 lakh. TDS u/s 194M = 5% of Rs. 52,50,000 = Rs. 2,62,500.
29B	194M	<b>CA2021(JULY)</b> – Payer: Golu, an individual carrying on garment trading business with turnover of Rs. 95 lakh in FY 2020-21. Nature of payment: Payment of commission to Vinay, a resident, for securing a contract from a big business house in November 2021. Rs. 1,20,000.	Golu is a non-specified individual as TO of preceding FY ≤ 1 crore. Hence, not covered u/s 194H. No TDS u/s 194M as amount ≤ Rs. 50 lakh.
30	194M	<b>CA2020(N)</b> - Sanjay, a resident Indian individual, not deriving any income from business or profession, makes payments of Rs. 12 lakh in January 2022, Rs. 20 lakh in February 2022 and Rs. 20 lakh in March 2022 to Mohan, a contractor, for reconstruction of his residential house.	Sanjay is a non-specified individual, hence, not covered u/s 194C. TDS u/s 194M @ 5% of Rs. 52 lakh since it is > Rs. 50 lakh = Rs. 2,60,000.
30A	194M	<b>CA2021(JAN)</b> - Mr. Avinash, pays Rs. 55,00,000 during FY 2021-22 to Mr. Harsh for supply of labour for carrying out the construction work of his factory. During the PY 2020-21, Mr. Avinash was not liable for tax audit u/s 44AB.	If TO of Mr. Avinash for PY 2020-21 was > 1 crore (though not liable to tax audit due to 10 Cr limit applicable to him), he will deduct TDS u/s 194C @ 1% of Rs. 55 lakh. If TO of Mr. Avinash for PY 2020-21 was ≤ 1 crore, he will deduct TDS u/s 194M @ 5% of Rs. 55 lakh since the amount > Rs. 50 lakh.
31	194M	Suman carries on a business having turnover of Rs. 1.5 crore for FY 2020-21 and Rs. 90 lakh for FY 2021-22. She paid commission to Mr. G of Rs. 15,000 on 1.7.2021. She also paid Rs. 10 lakh to a contractor for renovation of her residential house.	Suman is a specified individual u/s 194H and 194C since turnover of preceding FY > Rs. 1 cr. But no TDS on commission u/s 194H since payment ≤ Rs. 15,000. No TDS u/s 194C since payment made for personal purpose. No TDS u/s 194M as payment to each payee ≤ Rs. 50 lakh.
32	194M	Yugal carries on a profession whose gross receipts for FY 2020-21 were Rs. 45 lakh. He got his residential house renewed for which he made payment to the contractor of Rs. 20 lakh on 1.10.2021, Rs. 25 lakh on 1.11.2021 and Rs. 10 lakh on 1.12.2021.	Yugal is not covered u/s 194C since gross receipts in preceding FY ≤ Rs. 50 lakh. TDS liability arises u/s 194M @ 5% since payment for FY > Rs. 50 lakh. Payment for personal purpose is not exempt from TDS u/s 194M.
33	194M	Jugal carries on a business whose turnover for FY 2020-21 was Rs. 30 lakh. He paid Rs. 60 lakh to a contractor for manufacture of office furniture as per his specifications. The contractor procured the raw material by himself from the open market.	Since turnover of preceding FY ≤ Rs. 1 cr, Jugal is not covered u/s 194C. Since contractor does not manufacture furniture using material purchased from Jugal or his associate, it is not 'work'. Thus, no TDS u/s 194M.
34	194M	Manav, a salaried person, paid Rs. 51 lakh to a lawyer on 5.4.2021 for defending criminal proceedings against him.	Since Manav is a salaried person, section 194J is not applicable. Payment to lawyer is FPS. Since payment > Rs. 50 lakh, TDS will be deducted u/s 194M @ 5% of Rs. 51 lakh.
35	194M	Dheeraj, a retired employee drawing pension, made payment of fee for technical services of Rs. 55 lakh to BCD Pvt Ltd on 15.2.2022.	Dheeraj is not covered u/s 194J. FTS is not covered u/s 194M. No TDS.
36	194M	Rashi is a professional having gross receipts of Rs. 60 lakh for FY 2020-21. She paid Rs. 25,000 as commission to BK & Co agents on 15.7.2021.	Rashi is covered u/s 194H since gross receipts of preceding FY > Rs. 50 lakh. TDS u/s 194H @ 5% of Rs. 25,000 since payment > Rs. 15,000. Thus, section 194M not applicable.



# TAXBOOK<sup>+</sup>

## Workin3g steps of solutions

### B7 to B14

#### TDS, TCS & Advance Tax

#### Build Your Confidence (BYC)

#### B7. RENT - Discuss the liability for tax deduction in the following cases:

#	Section	Case	TDS
1	194-I	<b>CA2018(M)</b> – Mr. Bobby, a resident, whose turnover during the previous FY is Rs. 205 lakh and for the current FY 2021-22 is Rs. 80 lakh, made payment of shop rent to Mr. Rajasekharan, a resident, of Rs. 21,000 per month.	Mr. Bobby is covered u/s 194-I since turnover in preceding FY > Rs. 1 crore. Rent for FY > Rs. 2.4 lakh. TDS to be deducted @ 10%. <i>Mistake by students – Not considering exemption limit of Rs. 2.4 lakh.</i>
2	194-I	<b>CA2017(N)</b> – Rent of Rs. 2,30,000 paid by a partnership firm for use of plant and machinery.	No TDS since payment ≤ Rs. 2.4 lakh.
3	194-I	<b>CA2011(N)</b> – Rent paid for hire of machinery by B Ltd. to Mr. Raman of Rs. 2,50,000 on 15.11.2021.	TDS u/s 194-I @ 2%, i.e., Rs. 5,000, since rent > Rs. 2.4 lakh
4	194-I	Mr. Gupta, carrying on a business (turnover for PY 2020-21 Rs. 110 lakh and for PY 2021-22 Rs. 90 lakh) paid warehousing charges of Rs. 1 lakh to QR Pvt. Ltd during the PY 2021-22.	Mr. Gupta is covered u/s 194-I since TO of preceding FY > 1 crore. Warehousing charges are rent. But no TDS since amount ≤ Rs. 2.4 lakh.
5	194-I	Rashi & Co, a firm, paid rent of Rs. 3 lakh during the PY 2021-22 to Mr. C, a resident, for office premises which included Rs. 50,000 arrears for FY 2020-21, Rs. 50,000 advance for FY 2022-23 and Rs. 25,000 towards municipal taxes borne by the firm. Arrears were not liable to TDS during FY 2020-21.	Municipal tax will be excluded. Balance of Rs. 2.75 lakh > Rs. 2.4 lakh. TDS will be deducted u/s 194-I.
6	194-I	Bluesky Ltd. made payment of Rs. 1,00,000 as hire charges for machinery, Rs. 50,000 as hire charges for furniture and Rs. 2,00,000 as rent for office premises. These payments were made to Mr. K on 10.10.2021.	Amounts paid to Mr. K for the FY > Rs. 2.4 lakh. TDS u/s 194-I will be deducted @ 2% on Rs. 1,00,000 and @ 10% on Rs. 2,50,000.
7	194-I	Suresh, carrying on a business having turnover of Rs. 1.2 crore for FY 2020-21 and Rs. 95 lakh for FY 2021-22, paid shop rent of Rs. 2,50,000 to Raj on 21.1.2022.	Suresh is covered u/s 194-I since turnover for preceding FY > Rs. 1 cr and rent paid during FY > Rs. 2.4 lakh. TDS @ 10% of Rs. 2.5 lakh.
8	194-IB	<b>CA2019(N)</b> – Mr. Ashok, working in a private company, is on deputation for 3 months (from December 2021 to February 2022) at Hyderabad where he pays a monthly house rent of Rs. 52,000 for those three months, totaling to Rs. 1,56,000. Rent is paid by him on the first day of the relevant month.	Mr. Ashok is liable to deduct TDS @ 5% u/s 194-IB on Rs. 1,56,000 from the rent of Rs. 52,000 payable on 1.2.2022, since monthly rent > Rs. 50,000. Rent paid for February = 52,000 – 7,800 = 44,200.
9	194-IB	<b>CA2018(N)</b> – Mr. X, a salaried individual, pays rent of Rs. 55,000 p.m. to Mr. Y (does not have PAN) from June 2021. Is he required to deduct TDS? If so, when is he required to deduct tax? Mr. X vacated the premises on 31.12.2021.	Mr. X is liable to deduct tax u/s 194-IB since he pays rent > Rs. 50,000 p.m. Rate will be 20% u/s 206AA since Mr. Y does not have PAN. Tax will be deducted from rent of last month of tenancy, i.e., December. TDS = 20% of Rs. 3.85 lakh (rent from June to December) = Rs. 77,000. However, in such case, TDS cannot exceed rent payable for last month of tenancy. Hence, TDS = Rs. 55,000. <i>Mistake by students – Lack of clarity of provisions.</i>



10	194-IB	<b>CA2018(M)</b> – Mr. Thrilok, an individual not assessed to tax, pays rent of Rs. 60,000 per month.	Rent > Rs. 50,000 p.m. Mr. Thrilok will deduct TDS u/s 194-IB @ 5% of Rs. 7.2 lakh from the rent payable for March 2022, i.e., Rs. 36,000. Assumed that rent is for land/building and is payable throughout the year.
11	194-IB	Mr. UV, a salaried individual on deputation to Hyderabad, pays rent of Rs. 45,000 per month to BCD Pvt. Ltd. for the period September to December 2021. Rent is payable on first day of each month.	No TDS u/s 194-IB since monthly rent ≤ Rs. 50,000. No TDS u/s 194-I since Mr. UV is not engaged in business or profession with TS/GR/TO exceeding specified limits.
12	194-I, 194-IB	Mr. B pays rent of Rs. 30,000 p.m. to Mr. C. Mr. B is a professional having gross receipts of Rs. 60 lakh for PY 2020-21 and Mr. C is a businessman having turnover of Rs. 75 lakh for PY 2020-21.	Payer has gross receipts in profession > Rs. 50 lakh. Thus, covered u/s 194-I. Rent of FY > Rs. 2.4 lakh. TDS u/s 194-I @ 10%. S. 194-IB not applicable.
13	194-IB	Mr. J pays house rent of Rs. 60,000 to Mr. K for staying in the house during the period 1.1.2022 to 20.1.2022. Both persons are resident in India.	Rent for part of month > Rs. 50,000. TDS u/s 194-IB = 5% of Rs. 60,000 to be deducted from this rent. Assumed that Mr. J is not covered u/s 194-I.

#### B8. IMMOVABLE PROPERTY - Discuss the liability for tax deduction in the following cases:

#	Section	Case	TDS
1	194-IA	<b>CA2019(M)</b> – Mr. Deepak transferred a residential house property to Mr. Karan for Rs. 45 lakh. The stamp duty value of such property is Rs. 55 lakh.	No TDS u/s 194-IA since consideration < Rs. 50 lakh even if SDV exceeds consideration and Rs. 50 lakh threshold. <i>Mistake by students – Not aware that 194-IA is not attracted where consideration &lt; Rs. 50 lakh even if SDV ≥ Rs. 50 lakh.</i>
2	194-IA	<b>CA2018(N)</b> – Mr. Dhanapal wishes to purchase a residential house costing Rs. 60 lakh from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area for Rs. 65 lakh. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyer as well as the sellers are residents in India. Advise Mr. Dhanapal suitably.	TDS will be deducted u/s 194-IA @ 1% of Rs. 60 lakh. TDS is not applicable on transfer of rural agricultural land in India.
3	194-IA	<b>CA2015(M)</b> – Mr. Madan sold his house property in Surat as well as his rural agricultural land for a consideration of Rs. 65 lakh and Rs. 20 lakh, respectively, to Mr. Raman on 1.10.2021. He had purchased the house property for Rs. 40 lakh and the land for Rs. 15 lakh in the year 2016. There was no difference in the stamp valuation. You are required to determine TDS implications, if any, assuming both persons are resident Indians.	TDS will be deducted u/s 194-IA on Rs. 65 lakh @ 1%. TDS is not applicable on transfer of rural agricultural land (assuming it is in India).
4	194-IA	<b>CA2014(M)</b> – Mr. X sold his house to Mr. Y on 1.2.2022 for Rs. 60 lakh	TDS will be deducted u/s 194-IA on Rs. 60 lakh @ 1%, i.e., Rs. 60,000, assuming Mr. X is a resident.
5	194-IA	Sushant owned a house property in Delhi and agricultural land situated 15 kms from municipal limits of Faridabad (population 14 lakh). He sold these properties to Jayesh for Rs. 75 lakh and Rs. 65 lakh, respectively (SDV on date of transfer of 1.11.2021 is Rs. 85 lakh and Rs. 75 lakh, respectively). He had purchased these in the PY 2020-21 for Rs. 60 lakh and Rs. 50 lakh, respectively. Examine the tax implications.	For Sushant: 1. STCG on house property = FVC Rs. 85 lakh (u/s 50C) – COA Rs. 60 lakh = Rs. 25 lakh. 2. STCG on agricultural land – No CG since land is rural. For Jayesh: 1. Amount taxable u/s 56(2)(x) for house property = SDV Rs. 85 lakh – FVC Rs. 75 lakh = Rs. 10 lakh, since excess of Rs. 10 lakh is > Rs. 50,000 and SDV > 110% of consideration. 2. Amount taxable u/s 56(2)(x) for rural agricultural land: Nil since it is not a capital asset.

			3. TDS u/s 194-IA: He will deduct TDS @ 1% of Rs. 75 lakh, i.e., Rs. 75,000. TDS will not be deducted in respect of land.
6	194-IA	Sushant sold his house property to Sohan for Rs. 48 lakh on 1.12.2021. He also transferred the club membership of the housing complex and car parking for Rs. 5 lakh. Both parties are residents in India. Sushant failed to furnish his PAN to Sohan.	Consideration for club and parking will be included. Consideration $\geq$ Rs. 50 lakh. PAN not furnished. TDS u/s 194-IA @ 20% (in terms of 206AA) of Rs. 53 lakh, i.e., Rs. 10.6 lakh.
7	194LA	<b>CA2020(N)</b> – Rs. 2,29,000 paid to Mr. S, a resident individual, on 26.12.2021 by State of Gujarat on compulsory acquisition of his urban land.	No TDS u/s 194LA since amount $\leq$ Rs. 2.5 lakh
8	194LA	<b>CA2014(N)</b> – Rs. 3,00,000 is paid to Mr. A, a resident individual, on 22.2.2022 by the State of Uttar Pradesh on compulsory acquisition of his urban land.	TDS u/s 194LA @ 10% of Rs. 3 lakh since amount $>$ Rs. 2.5 lakh, assuming land is not agricultural land.
9	194LA	Delhi Government acquired the vacant plot of land owned by Ragini and paid compensation of Rs. 1.5 lakh on 15.4.2021. It further paid enhanced compensation of Rs. 1 lakh on 16.8.2021. Ragini computed the capital gain arising from this transaction at Rs. 1.75 lakh.	No TDS u/s 194LA since aggregate amount for FY $\leq$ Rs. 2.5 lakh.

#### B9. SPECIAL CASES - Discuss the liability for tax deduction in the following cases:

#	Section	Case	TDS
1	194E	<b>CA2021(JULY)</b> – A payment of Rs. 1,00,000 made to Jack Smith, a New Zealand cricketer, a non resident in India, on 20.12.2021 by a sports magazine for contribution of a sports article.	TDS is to be deducted u/s 194E @ 20% + 4% HEC, i.e., Rs. 20,800. There is no threshold.
2	194E	<b>CA2020(N)</b> – Payment of Rs. 26,000 made to Mr. Y, a French footballer, non-resident in India, by an Indian newspaper on 1.7.2021 for contribution of articles in relation to the sport of football.	TDS is to be deducted u/s 194E @ 20% + 4% HEC, i.e., Rs. 5,408. There is no threshold.
3	194E	<b>CA2019(N)</b> – An advertisement company paid Rs. 5 lakh to a cricketer, Mr. Peter from England, for working in an advertisement film.	TDS is to be deducted u/s 194E @ 20% + 4% HEC, i.e., Rs. 1,04,000
4	194E	<b>CA2014(N)</b> – Payment of Rs. 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 2.7.2021 for contribution of articles in relation to the sport of cricket.	TDS is to be deducted u/s 194E @ 20% + 4% HEC, i.e., Rs. 5,616. There is no threshold.
4A	194N	<b>CA2021(JULY)</b> – Payer: XYZ Urban Co-operative Bank. Nature of payment: Payment by way of cash withdrawal, by ABC & Co, a resident partnership firm, amounting to Rs. 1.2 crore during FY 2021-22. ABC & Co, has filed tax returns for the last 3 financial years within time.	It is assumed that the firm has duly filed ROI for all of the 3 AYs relevant to the 3 PYs, for which the time limit to file ROI u/s 139(1) has expired, immediately preceding the PY in which cash payment is made to him. Hence, limit u/s 194N is Rs. 1 crore. Since payments during the PY $>$ Rs. 1 cr, bank will deduct TDS @2% of Rs. 1.2 crore.
5	194N	Mr. C withdrew cash of Rs. 50 lakh on 1.2.2022 from Account I and Rs. 60 lakh on 1.3.2022 from Account II held with Punjab National Bank. He has been duly filing his ROI since the last 7 years.	Mr. C has duly filed his ROI for all of the 3 AYs relevant to the 3 PYs, for which the time limit to file ROI u/s 139(1) has expired, immediately preceding the PY in which cash payment is made to him. Hence, limit u/s 194N is Rs. 1 crore. Since payments during the PY from both accounts held with PNB $>$ Rs. 1 cr, bank will deduct TDS @2% of Rs. 1.1 cr.
6	194N	Mr. D, running a transport agency, withdrew cash of Rs. 70 lakh from his account in SBI and Rs. 70 lakh from his account in HDFC Bank during the PY 2021-22. He has been duly filing his ROI since the last 10 years.	Mr. D has duly filed his ROI for all of the 3 AYs relevant to the 3 PYs, for which the time limit to file ROI u/s 139(1) has expired, immediately preceding the PY in which cash payment is made to him. Hence, limit u/s 194N is Rs. 1 crore. No TDS u/s 194N since payment by each bank during the PY $\leq$ Rs. 1 cr.
7	194N	Mr. G, a real estate broker, withdrew Rs. 1.5 crore from	Mr. G has not filed his ROI for all of the 3 AYs

		his account in Wealth Co-operative Bank on 15.1.2022. He has not been filing his return of income since the last 10 years.	relevant to the 3 PYs, for which the time limit to file ROI u/s 139(1) has expired, immediately preceding the PY in which cash payment is made to him. TDS u/s 194N will be @ 5% of Rs. 1.5 cr.
8	194N	Mr. G, a transporter, withdrew Rs. 25 lakh from his account in Post Office on 15.11.2021. He has not been filing his return of income since the last five years.	Mr. G has not filed his ROI for all of the 3 AYs relevant to the 3 PYs, for which the time limit to file ROI u/s 139(1) has expired, immediately preceding the PY in which cash payment is made to him. TDS u/s 194N will be @ 2% of Rs. 25 lakh, since payment during the PY > Rs. 20 lakh and up to Rs. 1 crore.
9	194-O	Mr. Z, a resident, starts selling musical instruments on an e-commerce website from 1.11.2021. Gross sales value credited/paid till 31.3.2022 is Rs. 10 lakh.	E-commerce operator will deduct TDS u/s 194-O @ 1% of Rs. 10 lakh.
10	194-O	Mr. Q, a resident and a doctor, provides consultancy services to patients on an online medical platform. The gross amount credited/paid in respect of services for the PY 2021-22 is Rs. 3 lakh. Mr. Q has furnished his Aadhar number to the online platform but has not furnished his PAN.	No TDS u/s 194-O since Mr. Q has furnished his Aadhar number to the online medical platform and gross amount ≤ Rs. 5 lakh.
11	194-O	Mr. C, a resident businessman having a turnover of Rs. 1.5 crore for PY 2020-21, gets a website designed from Zoopla, a do-it-yourself website designing platform resident in India, and pays Rs. 5 lakh in this respect on 12.3.2022.	S. 194-O not applicable since payee does not provide services facilitated by an e-commerce operator. Mr. C is covered u/s 194J since his turnover for preceding FY > Rs. 1 crore. Service falls u/s 194J. Amount > Rs. 30,000. TDS will be deducted u/s 194J.
12	194-O	Mr. Y, a resident, sells stationery products from his stationery shop as well as through Flipkart. His gross turnover from the business for the PY 2021-22 is Rs. 10 lakh out of which Rs. 4 lakh has been generated through Flipkart. Mr. Y has furnished his PAN number to Flipkart but has not furnished his Aadhar number.	Since gross amount of sales through Flipkart, the e-commerce operator ≤ Rs. 5 lakh, TDS will not be deducted u/s 194-O as Mr. Y has furnished his PAN number to Flipkart.
13	194-O	BK & Co, a resident partnership firm, sells mobile phones through the web platform provided by PQR Ltd. PQR Ltd. credited Rs. 3 lakh to the account of the firm for sale of mobile phone through its platform during February 2022 and paid Rs. 2.5 lakh out of this amount on 15.3.2022. X and Y purchased mobile phones through the web platform but made payment of Rs. 60,000 directly to the partnership firm.	TDS @ 1% of Rs. 3,60,000 to be deducted. TDS is deducted at the time of earlier of credit or payment. Direct payment by customers to ECP is included in the gross amount for deducting TDS.
14	194P	Mr. Z, a resident of age 75 years, is a pensioner receiving Rs. 55,000 p.m. as pension in Jaipur branch of National Bank. The Bank is specified u/s 194P. He also maintains fixed deposit in Delhi branch of National Bank. Interest on savings account with Jaipur branch and fixed deposit account with Delhi branch is Rs. 1,00,000 for the PY 2021-22. He has no other income. Mr. Z wants to know whether he is required to file ROI u/s 139(1) for the PY 2021-22 and whether he needs to pay any tax from his end. He has not opted for section 115BAC.	Conditions of section 194P are satisfied. If Mr. Z furnishes the prescribed declaration to National Bank, the bank will compute his total income for PY 2021-22 and deduct TDS u/s 194P at the rates in force (after considering any TDS deducted u/s 192 on pension). Mr. Z will not be required to file his ROI u/s 139(1) or pay any tax from his end for AY 2022-23.
15	194P	In #13, assume that while Mr. Z was a resident for PY 2020-21, he is a non-resident for PY 2021-22.	194P is not applicable to a non-resident. Mr. Z will be required to file his ROI u/s 139(1) for AY 2022-23. TDS u/s 192 will apply on pension and TDS u/s 194A will apply on fixed deposit interest (if it exceeds limit of Rs. 50,000). He will need to discharge his tax liability (remaining after TDS) at his own end.
16	194Q	Mr. Q, carrying on a manufacturing business, purchased machines for Rs. 1 crore from BCD Pvt. Ltd., an Indian company, during the FY 2021-22 for installation in his	No TDS u/s 194Q as turnover of business of Mr. Q is not > 10 crore in FY 2020-21.

		factory. He commenced his business on 1.4.2021. Machines, comprising 60% of the value, were purchased during April and May 2021. Turnover of BCD Pvt. Ltd. was Rs. 9.5 crore during FY 2020-21. Credit/payment was made in the months of purchase.	
17	194Q	In #16, assume that Mr. Q commenced business on 1.4.2020 and the turnover for FY 2020-21 was Rs. 12 crore.	Turnover of preceding FY > 10 crore. Sum credited/paid to seller during FY > 50 lakh. Seller is a resident. TDS u/s 194Q = 0.1% of 40 lakh (payment after 30.6.2021) = 4,000.

**B10a. 206AA/206AB - Discuss the liability for tax deduction in the following cases:**

#	Case	TDS
1	Mr. Z, a resident, received Rs. 10 lakh on 12.7.2021 as compensation for compulsory acquisition of his building from the local authority. He furnished his PAN to the authority. He had not been filing his ROI for the last 6 years. Due date to file ROI u/s 139(1) has been 31 July for all the years. The total amount of TDS deducted in his case during the last 5 years aggregated to Rs. 40,000. No TCS has been collected so far in his case.	TDS is applicable u/s 194LA. Normal rate is 10%. 206AA is not applicable as PAN is furnished. While Mr. Z did not file ROI for PY 2018-19 and 2019-20 (being 2 immediately preceding PYs for which time limit to file ROI u/s 139(1) has expired), total TDS and TCS deducted/collected in his case is not $\geq$ 50,000 in each of these years. Hence, 206AB is not applicable. TDS = 10% of 10 lakh = 1 lakh.
2	JK LLP paid rent of Rs. 1 lakh per month to Mr. C, a resident, in respect of certain plant and machinery taken on hire during the period October 2021 to March 2022. Mr. C is a regular filer of ROI ever since he started earning his income from the year 2010. Due date to file ROI u/s 139(1) has been 31 July for all the years. Total amount of TDS and TCS deducted/collected in his case has been $\geq$ Rs. 50,000 in all these years. He did not furnish his PAN to JK LLP.	TDS is applicable u/s 194-I. Normal rate is 2%. 206AA applies as PAN is not furnished. He has filed ROI for PY 2019-20 and 2020-21 (being 2 immediately preceding PYs for which time limit to file ROI u/s 139(1) has expired). Hence, 206AB is not applicable. TDS = 20% of 6 lakh = 1.2 lakh.
3	CK Ltd. paid Rs. 5 lakh to Mr. J, a resident, on 10.7.2021 towards a catering contract. Mr. J furnished his PAN to CK Ltd. He has been regular in filing his ROI since AY 2010-11. However, he did not file the ROI for AY 2019-20 and 2020-21. Due date to file ROI u/s 139(1) has been 31 July for all the years. Total amount of TDS and TCS deducted/collected for PY 2018-19 and 2019-20 in his case was Rs. 50,000 and Rs. 60,000, respectively.	TDS is applicable u/s 194C. Normal rate is 1%. 206AA is not applicable as PAN is furnished. He did not file ROI for PY 2018-19 and 2019-20 (being 2 immediately preceding PYs for which time limit to file ROI u/s 139(1) has expired) and total TDS and TCS deducted/collected in his case $\geq$ Rs. 50,000 in each of these years. Hence, 206AB is applicable and TDS rate will be 5%. TDS = 5% of 5 lakh = Rs. 25,000.

**B11. INTEREST U/S 201(1A) – Determine whether interest will be chargeable u/s 201(1A) in the hands of Mr. K in the following cases of TDS u/s 194H:**

#	Amount of TDS	Date of earlier of payment or credit	Date when TDS deducted	Date when TDS paid	Interest u/s 201(1A)
1	20,000	10.7.2021	15.7.2021	6.8.2021	TDS is deducted late by 5 days but paid on time (within 7 days from end of month in which TDS is deducted). Interest = 1% of Rs. 20,000 for 1 month (part of month is taken as 1 month) = Rs. 200.
2	30,000	18.9.2021	18.9.2021	10.1.2022	TDS is deducted on time but is paid late (beyond 7.10.2021). Interest = 1.5% of Rs. 30,000 for 4 months (part of month is taken as 1 month) = Rs. 1,800.
3	40,000	10.7.2021	10.7.2021	7.8.2021	TDS is deducted on time and also paid on time (within 7 days from end of month in which TDS is deducted). Hence, no interest.

**B12. INTEREST U/S 201(1A) - Mr. B paid fees for professional service of Rs. 40,000 to Mr. C on 1.7.2021 without.....**

Particulars	Rs.
Interest for late deduction of TDS = 1% of Rs. 4,000 (10% of Rs. 40,000) for 8 months (1.7.2021 to 28.2.2022)	320
Interest for late payment of TDS = 1.5% of Rs. 9,000 (10% of Rs. 90,000) for 4 months (1.3.2022 to 22.6.2022)	540

### COLLECTION OF TAX AT SOURCE (TCS)

#### B14. TCS - Discuss the liability for TCS (or TDS, if applicable) in the following cases:

#	Section	Case	TCS
1	206C(1)	Mr. Q operates a liquor shop which sells alcohol to buyers for personal consumption. Turnover of business was Rs. 105 lakh for FY 2020-21 and Rs. 95 lakh for FY 2021-22.	Mr. Q is covered u/s 206C(1) since TO for preceding FY > Rs. 1 crore. However, TCS will not be collected as buyers purchase goods in retail sale for personal consumption.
2	206C(1)	B Ltd. sold scrap to Mr. K, a resident and a scrap dealer, for Rs. 50,000. Mr. K would sell the scrap to another scrap dealer. He did not furnish his PAN to B Ltd.	B Ltd. will collect TCS u/s 206C(1) @ 5% (higher of 2% (twice of 1%) or 5% in terms of section 206CC) of Rs. 50,000.
3	206C(1)	CK LLP sold timber to Mr. T, a resident, for Rs. 5 lakh. Mr. T uses timber purchased to manufacture furniture. He furnished declaration to this effect to CK LLP.	No TCS since resident buyer furnishes declaration to seller that goods are to be utilized for manufacturing and not for trading purposes.
4	206C(1F)	Motor vehicle worth Rs. 20 lakh is sold for which payments are made in instalments, Rs. 5 lakh at the time of booking on 1.8.2021 and Rs. 15 lakh at the time of delivery on 1.9.2021.	TCS will be collected u/s 206C(1F) @ 1% on Rs. 5 lakh at time of booking and on Rs. 15 lakh at time of delivery.
5	206C(1F)	<b>CA2018(N)</b> – Rahil & Co, a partnership firm, is having a car dealership showroom. They have purchased cars for Rs. 2 crore from XYZ Ltd., car manufacturers, the cost of each car being more than Rs. 10 lakh. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations.	<ul style="list-style-type: none"> <li>• <i>Sale by manufacturer to firm</i> – No TCS u/s 206C(1F) as it applies to retail sale. TCS liability to be examined u/s 206C(1H).</li> <li>• <i>Sale by firm to individual buyers</i> – Firm will collect TCS u/s 206C(1F) @ 1% on receipt of consideration.</li> </ul>
6	206C(1F)	Mr. K HUF is a car dealer having turnover from business of Rs. 2 crore for PY 2020-21 and Rs. 75 lakh for PY 2021-22. It sold Car 1 to Mr. Q on 1.1.2022 for Rs. 15 lakh, Car 2 to State Government on 15.1.2022 for Rs. 12 lakh, Car 3 to PQR Pvt. Ltd. on 1.2.2022 for Rs. 10 lakh and Cars 4 and 5 to Mr. B for Rs. 6 lakh each on 1.3.2022 and 15.3.2022.	<ul style="list-style-type: none"> <li>• Since turnover for preceding FY &gt; 1 cr, HUF is covered u/s 206C(1F).</li> <li>• <i>Sale to Mr. Q</i> – HUF will collect TCS @ 1% of Rs. 15 lakh u/s 206C(1F).</li> <li>• <i>Sale to State Government</i> – Government is not covered as buyer u/s 206C(1F). No TCS.</li> <li>• <i>Sale to PQR Pvt. Ltd.</i> – No TCS u/s 206C(1F) since value ≤ Rs. 10 lakh.</li> <li>• <i>Sale to Mr. B</i> – No TCS u/s 206C(1F) since value of each sale ≤ Rs. 10 lakh.</li> </ul>
7	206C(1G)	An authorized dealer received the following amounts during the FY 2021-22 for remittance abroad under the Liberalized Remittance Scheme of RBI: Rs. 6 lakh from Mr. P for maintenance of his parents, Rs. 10 lakh from Mr. Q being loan taken from Indian Bank for higher education, Rs. 12 lakh from Mr. R for medical treatment of relative (Rs. 6 lakh each received on 15.11.2021 and Rs. 30.11.2021). All persons, except Mr. R, furnished their PAN.	<ul style="list-style-type: none"> <li>• Mr. P: No TCS u/s 206C(1G) as amount remitted during FY &lt; Rs. 7 lakh;</li> <li>• Mr. Q: TCS u/s 206C(1G) @ 0.5% of Rs. 3 lakh (amount exceeding Rs. 7 lakh);</li> <li>• Mr. R: TCS u/s 206C(1G) @ 10% (being higher of 10% (twice of 5%) or 5% in terms of section 206CC) on Rs. 5 lakh (amount exceeding Rs. 7 lakh) on 30.11.2021.</li> </ul>
8	206C(1G)	Ghumo World, a travel agency, received the following amounts during the FY 2021-22: Rs. 30,000 from Mr. G for local travel ticket booking in Malaysia, Rs. 2 lakh from Mr. J for an all-inclusive tour program package for travel to Singapore, Rs. 1.5 lakh from Mr. K for an all-inclusive tour program package to Kerala.	<ul style="list-style-type: none"> <li>• Mr. G: No TCS u/s 206C(1G) as receipt is not for program package.</li> <li>• Mr. J: TCS u/s 206C(1G) @ 5% of Rs. 2 lakh.</li> <li>• Mr. K: No TCS u/s 206C(1G) as tour is not overseas.</li> </ul>
9	206C(1H)	PQR Ltd., having turnover of Rs. 9 crore for FY 2020-21 and Rs. 15 crore for FY 2021-22 received Rs. 75 lakh from BK & Co, partnership firm, towards sale of computers. BK & Co, is a law firm, having gross receipts of 12 crore for FY 2020-21 and Rs. 10 crore for FY 2021-22.	No TDS u/s 194Q since buyer does not carry on a business whose turnover of preceding year > 10 crore. No TCS u/s 206C(1H) since turnover of seller of preceding year ≤ Rs. 10 crore.

10	206C(1H)	Cars Ltd., a car dealer having turnover of Rs. 25 crore for FY 2020-21, sold 6 cars to Mr. Rich during March 2022 (consideration received immediately), each for Rs. 9 lakh. Business turnover of Mr. Rich was Rs. 8 crore for FY 2020-21 and Rs. 11 crore for FY 2021-22.	<ul style="list-style-type: none"> <li>• TCS will not be collected u/s 206C(1F) since value of each car ≤ Rs. 10 lakh.</li> <li>• TDS u/s 194Q will not apply as turnover of buyer for preceding FY is ≤ 10 crore.</li> <li>• TCS will be collected u/s 206C(1H) @ 0.1% on Rs. 4 lakh (Rs. 54 lakh – Rs. 50 lakh) since turnover of seller for preceding FY &gt; 10 crore, sale consideration &gt; Rs. 50 lakh, goods are not covered u/s 206C(1F) and TDS is not deducted u/s 194Q.</li> </ul>
11	206C(1H)	Cars & Co., a partnership firm and dealer in cars, purchased 10 cars of Rs. 15 lakh each from Honda Cars Ltd., an Indian car manufacturer having turnover of Rs. 15 crore in FY 2020-21, during January 2022 and made payment in February 2022. Turnover of Cars & Co. was Rs. 12 crore for FY 2020-21 and Rs. 9 crore for FY 2021-22.	<ul style="list-style-type: none"> <li>• TCS u/s 206C(1F) covers only retail sale. Hence, it will not apply.</li> <li>• TDS will be deducted u/s 194Q as turnover of buyer for preceding FY &gt; 10 crore, sum &gt; 50 lakh, seller is a resident and TDS/TCS is not deductible / collectible under any provision (except 206C(1H)). TDS = 0.1% of 1 crore (150 lakh – 50 lakh) = Rs. 10,000.</li> <li>• TCS will not be collected u/s 206C(1H) since TDS is deducted u/s 194Q.</li> </ul>

# TAXBOOK<sup>+</sup>

## Working steps of solutions

### B16 to End

#### TDS, TCS & Advance Tax

#### Build Your Confidence (BYC)

#### ADVANCE TAX

**B16. ADVANCE TAX – CA2020(N) – Mr. K furnished the following information for the year ended 31.3.2022.....**

*Computation of total income and tax liability of Mr. K*

Particulars	Rs.
Income from salary (computed)	90,000
Loss from house property set off u/s 71	(20,000)
	70,000
Income from business	40,000
Lottery winnings (gross)	6,00,000
<b>Total income</b>	<b>7,10,000</b>
Tax on lottery income @ 30% of 6,00,000	1,80,000
Tax on balance income of Rs. 1,10,000 at normal rates	-
	1,80,000
Less: Rebate u/s 87A	-
	1,80,000
Add: Surcharge	-
	1,80,000
Add: HEC @ 4%	7,200
	1,87,200
Less: Tax deducted at source @ 30% on Rs. 6,00,000 u/s 194B since winning > Rs. 10,000 limit	(1,80,000)
<b>Balance</b>	<b>7,200</b>
<b>Advance tax payable?</b>	<b>No as &lt; 10,000</b>

**B16a. Compute the advance tax liability of Mr. X, aged 45 years, from the following particulars for FY 2021-22 along.....**

Advance tax liability = 3,25,000 – 25,000 = 3,00,000. TDS deductible but not deductible is not to be reduced.

Instalments of advance tax to be paid:

Due date of instalment	Amount payable	
15 June	Not less than 15% of AT	15% of Rs. 3,00,000 = Rs. 45,000
15 September	Not less than 45% of AT – Amount paid in earlier instalment	45% of Rs. 3,00,000 less Rs.45,000 = Rs. 90,000
15 December	Not less than 75% of AT – Amount paid in earlier instalments	75% of Rs. 3,00,000 less Rs. 1,35,000 = 90,000
15 March	100% of AT – Amount paid in earlier instalments	100% of Rs. 3,00,000 less Rs. 2,25,000 = Rs. 75,000

**B17. ADVANCE TAX - Mr. C has estimated the total tax payable for FY 2021-22 at Rs. 4,50,000. TDS, deductible but not.....**

Advance tax payable (assuming Mr. C is less than 60 years of age) = Rs. 4,50,000. TDS which is not deducted will not be reduced.

Instalments of advance tax to be paid:



Due date of instalment	Amount payable	
15 June	Not less than 15% of AT	15% of Rs. 4,50,000 = Rs. 67,500
15 September	Not less than 45% of AT – Amount paid in earlier instalment	45% of Rs. 4,50,000 less Rs. 67,500 = Rs. 1,35,000
15 December	Not less than 75% of AT – Amount paid in earlier instalments	75% of Rs. 4,50,000 less Rs. 2,02,500 = 1,35,000
15 March	100% of AT – Amount paid in earlier instalments	100% of Rs. 4,50,000 less Rs. 3,37,500 = Rs. 1,12,500

**B18. ADVANCE TAX - Mr. J, age 42 years, estimates on 1.4.2021, the total tax payable for FY 2021-22 at Rs. 1,00,000.....**

Due date of instalment	Amount payable	
15 June	Not less than 15% of AT	15% of Rs. 1,00,000 = Rs. 15,000
15 September	Not less than 45% of AT – Amount paid in earlier instalment	45% of Rs. 1,00,000 less Rs. 15,000 = Rs. 30,000
15 December	Not less than 75% of AT – Amount paid in earlier instalments	75% of Rs. 1,50,000 less Rs. 45,000 = 67,500
15 March	100% of AT – Amount paid in earlier instalments	100% of Rs. 1,15,000 less Rs. 1,12,500 = Rs. 2,500

**B19. ADVANCE TAX - CA2016(N) – Mr. Barun provides you the following information and requests you to determine.....**

Advance tax payable (assuming Mr. Barun is less than 60 years of age) = Rs. 65,000 – Rs. 5,000 (assuming TDS deducted) = Rs. 60,000.

Instalments of advance tax to be paid:

Due date of instalment	Amount payable	
15 June	Not less than 15% of AT	15% of Rs. 60,000 = Rs. 9,000
15 September	Not less than 45% of AT – Amount paid in earlier instalment	45% of Rs. 60,000 less Rs. 9,000 = 18,000
15 December	Not less than 75% of AT – Amount paid in earlier instalments	75% of Rs. 60,000 less Rs. 27,000 = 18,000
15 March	100% of AT – Amount paid in earlier instalments	100% of Rs. 60,000 less Rs. 45,000 = Rs. 15,000

**B20. ADVANCE TAX - CA2018(N), 2017(N) – Mr. Dheeraj, a resident individual, is a dealer in food grains. During the PY.....**

Mr. Dheeraj is eligible to opt for section 44AD since total turnover of PY 2021-22 is less than Rs. 2 crore.

*Computation of advance tax payable by Mr. Dheeraj*

Particulars	Rs.
Computation of profits and gains u/s 44AD:	
• 6% of turnover received by account payee cheque of Rs. 15 lakh	90,000
• 8% of turnover received in cash of Rs. 65 lakh	5,20,000
Total income	6,10,000
Tax on total income	34,500
Add: HEC @ 4%	1,380
<b>Advance tax payable</b>	<b>35,880</b>

Since Mr. Dheeraj is declaring income u/s 44AD, he will need to pay whole of advance tax by 15.3.2022.

*Mistake by students – Lack of understanding of provisions of section 44AD and related provisions for payment of advance tax and applicable due date.*

**B22. 234B - CA2017(M) – Mr. Sachal, a resident individual aged 54, furnishes income details as under.....**

*Computation of interest u/s 234B*



Particulars	Rs.
Mr. Sachal can opt for section 44AD. Assuming entire turnover is received in non-cash modes, income u/s 44AD would be 6% of Rs. 1.5 crore, i.e., Rs. 9 lakh. It is assumed that he has claimed the lower income of Rs. 8.1 lakh instead since he undertakes tax audit u/s 44AB.	8,10,000
Income from other sources	2,70,000
Total income	10,80,000
Tax on total income	1,36,500
Add: HEC @ 4%	5,460
	1,41,960
Less: Tax deducted at source	(25,000)
Assessed tax (same as tax due on returned income since assumed that total income is determined on date of processing of ROI on 11.12.2022, i.e., same date as filing of ROI)	1,16,960
Interest u/s 234 will be levied as advance tax paid of Rs. 1,03,000 < Rs. 1,05,264 (90% of assessed tax of Rs. 1,16,960).	
Simple interest = 1% × 9 months (1.4.2022 to 11.12.2022 being date of payment of self assessment tax as well as processing of ROI u/s 143(1); part of month taken as full month) × Rs. 13,900 (Rs. 1,16,960 assessed tax – Rs. 1,03,000 advance tax paid = Rs. 13,960. This is rounded off to Rs. 13,900 u/r 119A ignoring fraction)	1,251

**B24. 234C – Jacob has estimated his total income for PY 2021-22 to be Rs. 80,000 as of 1 April 2021. He wins a lottery.....**

Particulars	Rs.
Tax on total income	
• @ 30% on winning from lottery u/s 115BB	1,50,000
• @ normal rates on balance income of Rs. 80,000	Nil
	1,50,000
Less: Rebate u/s 87A: Nil since total income of Rs. 5.8 lakh > Rs. 5 lakh	-
	1,50,000
Add: HEC @ 4%	6,000
Total tax liability	1,56,000
Less: TDS deducted on lottery income u/s 194B @ 30%	(1,50,000)
	6,000
Advance tax not payable since amount < Rs. 10,000. Interest is not leviable.	

**B25. 234B, 234C – Total income of Muskan, resident aged 50 years, for PY 2021-22 is Rs. 9,00,000. Tax deducted.....**

Particulars	Rs.
Tax on total income of Rs. 9,00,000	92,500
Add: HEC @ 4%	3,700
	96,200
Less: Tax deducted at source	(5,000)
	91,200

*Computation of interest u/s 234B for default in payment of advance tax*

Advance tax paid of Rs. 86,000 is not less than 90% of assessed tax of Rs. 91,200. Interest u/s 234B is not payable.

*Computation of interest u/s 234C for deferment of advance tax*

Due date of AT instalment	Shortfall	Simple interest u/s 234C	Interest
15 June	15% of Rs. 91,200 – AT paid up to 15 June of Rs. 10,950 = Rs. 2,730	Nil since AT paid is ≥ 12% of Rs. 91,200	-
15 September	45% of Rs. 91,200 – AT paid up to 15 September of Rs. 10,950 = Rs. 30,090. Rounded off Rs. 30,000.	1% × 3 months × Rs. 30,000 (leviable since AT paid Rs. 10,950 is not ≥ 36% of Rs. 96,200)	900
15 December	75% of Rs. 91,200 – AT paid up to 15 December of Rs. 66,000 = Rs. 2,400.	1% × 3 months × Rs. 2,400	72
15 March	100% of Rs. 91,200 – AT paid up to 15 March of Rs. 86,000 = Rs. 5,200	1% × Rs. 5,200	52
			1,024

Total tax and interest to be paid before filing of return of income = Rs. 91,200 + Rs. 1,024 = Rs. 92,224.

**B26. 234B, 234C - CA2019(N) – Mr. Mani, a resident individual, sold a plot of land on 20.3.2022. Long term capital gain.....**

*Computation of advance tax payable by Mr. Mani*

<b>Particulars</b>	<b>Rs.</b>
Unexhausted BEL = Rs. 2,50,000 assuming Mr. Mani is less than 60 years of age	
Taxable LTCG u/s 112 = Rs. 5,00,000 – Rs. 2,50,000 = Rs. 2,50,000	
Tax on LTCG u/s 112 @ 20% of Rs. 2,50,000	50,000
Add: HEC @ 4%	2,000
Advance tax payable since it is $\geq$ Rs. 10,000	52,000

Since LTCG arises after the due date of last instalment of advance tax of 15.3.2022, he will need to pay whole of advance tax of Rs. 52,000 by 31.3.2022. Since advance tax so paid would not be less than 90% of assessed tax, interest u/s 234B will not apply. Also, interest u/s 234C will not apply since shortfall is due to failure to estimate amount of capital gains and whole of tax thereon is paid by 31 March.

*Mistake by students – Could not compute advance tax payable correctly. Could not explain the manner for payment of advance tax so that liability for payment does not arise.*

# TAXBOOK<sup>+</sup>

## Hints to solutions

### TDS, TCS & Advance Tax

### MCQ

#### TAX DEDUCTION AT SOURCE (TDS)

##### GENERAL PRINCIPLES

**M2. Ronit, age 41 years, is having total income of Rs. 10 lakh for the PY 2021-22 which includes Rs. 1 lakh fees for.....**

Tax on 10L = 1,17,000. Tax payable = 1,17,000 – 10,000.

##### SALARY PAYMENTS

**M4. Shubham, aged 55 years, is employed with Sunshine Ltd. since 1 March 2021 on a monthly salary of Rs. 1 lakh.....**

Tl = 12,00,000 – 50,000 SD u/s 16 – 1,50,000 80C = 10,00,000. Tax = 1,17,000. TDS = 1,17,000/12 = 9,750 pm.

**M5. Raghav, age 37 years, is employed with Bright Ltd on a monthly salary of Rs. 60,000 per month. He has furnished.....**

Tl = 7,20,000 – 50,000 SD u/s 16 – 2,00,000 IHP loss + 1,00,000 IFOS = 5,70,000. Tax = 27,560. TDS = 27,560/12 = 2,297 pm

**M7. Rohit resigned from BCD Pvt. Ltd. after three years of service and received taxable amount from his EPF Account.....**

Exempt since there is continuous service of 7 years. No TDS.

##### INTEREST, DIVIDEND & INVESTMENT INCOME

**M8. During the FY 2021-22, Mr. T, a resident, received interest on GOI bonds of Rs. 20,000 on 1.10.2021, interest on.....**

TDS u/s 193 = GOI bonds NO + Savings Bonds NO ( $\leq 10,000$ ) + Debenture of BCD Ltd. 750 @ 10% (since  $> 5,000$ ) + Demat listed bonds NO + Debentures of CDF Pvt. Ltd. 300 @ 10% = 1,050

**M9. Mr. Y, a resident, received interest on debentures from three widely held companies of Rs. 4,000 each on.....**

No TDS u/s 193 as each  $\leq 5,000$

**M10. During the FY 2021-22, Mr. C, a resident of age 60 years, received interest on fixed deposits from SBI, PNB and.....**

Amount liable for TDS u/s 194A = SBI NIL ( $\leq 50,000$ ) + PNB NIL ( $\leq 50,000$ ) + HDFC 55,000 + Seema Gramin NIL (per branch  $\leq 50,000$  as no CBS) + Corp deposit-I Nil ( $\leq 5,000$ ) + Corp deposit-II 8,000 = 63,000

**M11. Rakesh, a resident of age 50 years, carrying on business with turnover of Rs. 2 crore for FY 2020-21 and Rs.....**

He is specified individual. Liable to TDS u/s 194A = To firm – YES; To bank – NO. Deduction = 70,000 – 6,000 (40(a)(ia) disallowance of 30% of 20,000) = 64,000.

**M12. Rashmi, a resident and a partner in R & R partnership firm, received interest from the firm of Rs. 40,000 on.....**

TDS u/s 194A = From firm NIL + On IT refund NIL + On savings A/c NIL + On loan NIL as friend not specified individual = Nil

**M13. Mahesh, a resident, received bonus shares from CD Pvt. Ltd. (in which he was a preference shareholder) on.....**

TDS u/s 194 = Bonus shares and loan 11,250 (10% of 75,000 + 37,500) + ZZ NIL ( $\leq 5,000$ ) + QQ 1,200 (20% of 6,000 u/s 206AA) = 12,450

**M14. Reliance Pvt. Ltd. paid dividend to its shareholders on 15.8.2021 through account payee cheques. Five.....**

TDS u/s 194 = 5 shareholders NO ( $\leq 5,000$  each) + 3 shareholders 2,250 (@ 10%) + 2 shareholders 4,000 (@ 20%) = 6,250.

**M15. Bharat, a resident, received income from HDFC Mutual Fund of Rs. 2,250 each on 1.6.2021, 1.9.2021 and.....**

TDS u/s 194K = HDFC MF 675 (10% of 6,750) + JM MF NIL ( $\leq 5,000$ ) + NIL on STCG = 675.

**M16. Mrs. Sharma, a resident, received Rs. 10 lakh on 20.11.2021 upon death of her spouse. The policy was taken on.....**

TDS u/s 194DA: No TDS on death as proceeds exempt. Policy on her life: Taxable as premium  $> 10\%$  of SA. TDS =  $5\%$  of 8,75,000 (20,00,000 – premium paid 11,25,000) = 43,750

**M17. Mr. Jain, a resident, was issued a life insurance policy by Safe Insurance Company on 20.6.2016 for a sum assured.....**

Safe insurance company: Proceeds taxable as premium  $> 10\%$  of SA. TDS u/s 194DA @  $5\%$  on 37,500 (5,37,500 – 5,00,000 premium paid) = 1,875.

Suraksha: Exempt as premium  $\leq 20\%$  of SA.

#### CASUAL INCOME

**M18. During the PY 2021-22, Mr. Gamble earned the following incomes: Lottery prize of Rs. 30,000 (Rs. 7,500 received.....**

TDS u/s 194B/BB = Lottery 9,000 @  $30\%$  + card NIL ( $\leq 10,000$ ) + jackpot 2,25,000 @  $30\%$  + race 15,000 @  $30\%$  = 2,49,000.  
Receipt = 30,000 + 5,000 + 2,50,000 + 50,000 – 2,49,000 TDS = 86,000

#### COMMISSION

**M19. Rajesh, a resident, is an insurance agent of JKL General Insurance company and PQM Life Insurance company.....**

U/s 194D = JKL NIL ( $\leq 15,000$ ) + PQM @  $5\%$  of 22,500 = 1,125

**M20. Ramesh, a resident, has been appointed the stockist of Assam State Lottery. He is also the distributor of Goa....**

U/s 194G =  $5\%$  of 1,20,000 = 6,000. No TDS for Goa State Lottery as  $\leq 15,000$ .

**M21. Suresh, a resident, is a commission agent for Green Wind Pvt. Ltd. During the PY 2021-22 he received commission.....**

U/s 194H: @  $5\%$  of 75,000. No TDS on mobile discount as no element of agency.

**M22. Mukesh, a resident and a travel agent, received commission of Rs. 15,000, Rs. 20,000 and Rs. 17,500 from three....**

U/s 194H: First company Nil ( $\leq 15,000$ ). Second and third @  $5\%$  on 37,500 = 1,875.

#### WORK & SERVICES

**M23. BKG & Co, a partnership firm, paid Rs. 25,000 on five occasions to Mr. Suresh, a resident, for providing catering.....**

U/s 194C @  $1\%$  of 1,25,000.

**M24. Mr. Raja, carries on a business having turnover of Rs. 3 crore for FY 2020-21. During the FY 2021-22, he made.....**

U/s 194C = Shine @  $2\%$  of 37,500 + Railways Nil + Caterers NIL as personal + Dinesh NIL as personal + Rohit NIL (King Pvt. Ltd. not associate as  $< 20\%$  equity shares) = 750.

**M25. Raman HUF made payment of Rs. 90,000 to Shah & Co, resident partnership firm and a goods carriage.....**

Payer is specified HUF. Each payment  $> 30,000$ . TDS u/s 194C @  $2\%$  of 90,000. No goods carriage exemption as declaration not furnished.

**M26. Ramandeep Publishers Pvt. Ltd. made payment of Rs. 90,000 on 15.4.2021 to Mr. Rohit, a resident, carrying.....**

U/s 194C @  $1\%$  of 30,000 (90,000 – 60,000).

**M27. Jacob, a resident, received the following during the period June 2021 to March 2022: Rs. 37,500 for developing.....**

U/s 194J:  $10\%$  of 2,77,500 (37,500 Mantle + Rs. 15,000 director's remuneration + 75,000 royalty + 1,50,000 non-compete) = 27,750.

$2\%$  of 52,500 = 1,050.

Total = 28,800

**M28. Jolly, a Chartered Accountant, having gross receipts in profession of Rs. 65 lakh for FY 2020-21 and Rs. 45 lakh.....**

Jolly is specified individual. TDS u/s 194J = 10% of 45,000 lawyer + Not on royalty + Not for Ramola as FPS is personal + Not on software as per Notification 21/2012 = 4,500.

**M29. Johnny is a financial consultant, having gross receipts from profession of Rs. 45 lakh for FY 2020-21 and Rs. 55 lakh.....**

Johnny is not specified individual. TDS u/s 194M = 5% of 60L for house + commission NIL ( $\leq$  50 lakh) + lawyer FPS NIL ( $\leq$  50 lakh) = 3 lakh

**M30. Mr. Bonny, having business turnover of Rs. 5 crore for FY 2020-21 and Rs. 4 crore for FY 2021-22, made payment.....**

Bonny is specified individual u/s 194J but no TDS therein as FPS is personal. TDS u/s 194M @ 5% of 60L.

**M31. Ruhi, a professional having gross receipts of Rs. 40 lakh for FY 2019-20 and Rs. 60 lakh for FY 2020-21, paid.....**

Ruhi is specified individual. Commission u/s 194H NO as  $\leq$  15,000 ; Gift items u/s 194C NO as not 'work'; Doctor u/s 194J NO as personal. NO 194M as each payee within limit of 50 lakh.

#### HIRE OR TRANSFER OF PROPERTY

**M32. Keshav, engaged in manufacturing business and having turnover of Rs. 2 crore for FY 2020-21, made the.....**

Keshav is specified individual. TDS u/s 194-I = Bull NIL ( $\leq$  2.4 lakh) + Bear 5,000 (2% of 2,50,000) + Trade Smart NIL (2,00,000 being 3,00,000 – 1,00,000 is  $\leq$  2.4 lakh) + Leaseman 37,500 (10% of 3,75,000) = 42,500

**M33. B&C partnership firm, having turnover of Rs. 40 lakh from business for FY 2020-21, paid office rent of Rs. 4 lakh.....**

TDS u/s 194-I. Advance, arrears, non refundable deposit are included.

**M34. Jagson Pvt. Ltd. hired machinery during January and February 2022 @ Rs. 50,000 per month and a warehouse.....**

U/s 194-I. Total of 2,50,000 > 2,40,000 limit. TDS @ 2% of 1,00,000 and @ 10% of 1,50,000 = 17,000.

**M35. Mr. Q is a professional. He has paid Rs. 2,50,000 rent for use of building to Mr. J, a resident, for the month of....**

Mr. Q is specified individual. Rent > 2.4L.

**M36. Krishna, a salaried employee, visits Chennai on deputation for the period July 2021 to March 2022 where he stays.....**

U/s 194-IB; TDS @ 20% of 5,40,000 = 1,08,000 (can't exceed 60,000 rent for last month). Amount paid = 5,40,000 – 60,000 = 4,80,000.

**M37. Shirish, a freelance professional, having gross receipts of Rs. 30 lakh in FY 2020-21, stays in a house, owned by.....**

U/s 194-IB since he is not a specified individual covered u/s 194-I.

House @ 5% of 4,59,000 = 22,950. P&M not covered u/s 194-IB.

**M38. Mr. Shera, a resident, had purchased a house on 10.1.2021 for Rs. 40 lakh which he sold to Mr. Bera, a resident.....**

U/s 194-IA. Mr. Bera @ 1% of 55 lakh. Mr. Shah NIL as consideration < 50 lakh.

**M39. Raghu, a resident of age 20 years, purchased a flat in a housing society on 15.10.2021 from Bhrigu, a resident.....**

U/s 194-IA: TDS @ 1% of 60,00,000 = 60,000.

IFOS u/s 56(2)(x) = 10,00,000 (SDV – FVC). Tax on TI of 10,00,000 = 1,17,000.

Total tax to pay for self and on behalf of Bhrigu = 1,17,000 + 60,000.

**M40. The Maharashtra State Government compulsorily acquired a plot of urban agricultural land and a building.....**

U/s 194LA; Land NIL as agricultural; Building @ 10% of 11.25 lakh

#### SPECIAL CASES

**M41. Bill Jones, a French citizen, tennis player and a non-resident in India, came to India during the PY 2021-22 during.....**

U/s 194E = 20% of 7,10,000 (6,00,000 + 1,00,000 + 10,000) = 1,42,000. Plus 4% HEC = 1,47,680.

U/s 194B NIL since within 10,000 limit.

**M42. Mr. Mohan, a transporter, withdrew the following amounts in cash from his accounts during the PY 2021-22.....**

He is not a ROI defaulter. TDS u/s 194N = HDFC Nil ( $\leq 1$  cr) + ICICI 2,20,000 (@ 2% of 1.1 Cr) + PO Nil ( $\leq 1$  cr) = 2,20,000

**M43. Mr. Krishna withdrew Rs. 1.5 crore in cash in the aggregate from five accounts maintained in Bihar Co-operative.....**

He is a ROI defaulter. TDS u/s 194N = 5% of 1.5 Cr for Bihar Coop + 2% of 30 lakh for PO + Nil for BOI ( $\leq 20$  lakh) = 7,50,000 + 60,000 = 8,10,000

**M44. Mr. Sohan, a resident doctor, starts providing consultation services to his patients through a medical.....**

U/s 194-O for Med Net; @ 5% of 3 lakh as PAN not furnished. 5 lakh exemption not applicable as PAN/Aadhar not furnished.

U/s 194J NIL for own clinic

**M45. Mr. Rajkumar, a businessman, sells stationery items on Amazon and Flipkart. During the PY 2021-22, he has.....**

U/s 194-O; Amazon NIL ( $\leq 5$  lakh and Aadhar furnished); Flipkart @ 1% of 7.5 lakh (as  $> 5$  lakh)

**M45A. Mr. Rohan, 80 years of age and a resident, has earned pension of Rs. 25,000 p.m. during the PY 2021-22 which.....**

Conditions of 194P are satisfied. Bank will deduct TDS on total income.

GTI = 2,50,000 salary (3,00,000 – 50,000 standard deduction) + 5,20,000 interest = 7,70,000. TI = 7,70,000 – 1,00,000 80C – 50,000 80TTB = 6,20,000. Tax = 24,960

**M45B. QR Ltd., an Indian company, having turnover from business of Rs. 8 crore for FY 2020-21 and Rs. 10.2 crore for.....**

TO of Mr. C  $> 10$  cr in preceding FY. Sum  $> 50$  lakh. TDS u/s 194Q = 0.1% of 30 lakh = 3,000.

#### GENERAL POINTS & PROCEDURE

**M47. Which of the following is not correct in case payee does not furnish his PAN to payer?.....**

20% rate u/s 206AA is not required to be increased by SC and HEC

**M48. BCD Ltd. credits commission to the account of Sohan on 20.3.2022 of Rs. 50,000. The amount is paid on.....**

U/s 194H @ 5% to be deducted at the time of earlier of credit or payment.

**M49. Vivek & Co, Chartered Accountant firm, raised invoice of Rs. 1,18,000 (showing Rs. 1,00,000 plus 18% GST).....**

U/s 194J @ 10% of 1,00,000. No TDS on GST indicated separately.

**M51. Mr. Sharma, sole proprietor of a furniture workshop and a resident aged 62 years, has estimated his total income.....**

194C not covered u/s 197A. Covered u/s 197.

**M52. Suhana, a resident aged 56 years, has estimated her gross total income for PY 2021-22 of Rs. 4,00,000 and.....**

194DA not covered u/s 197; covered u/s 197A but she can't avail benefit since taxable proceeds of 3 lakh  $> 2.5$  lakh basic exemption limit.

**M53. Mr. K, a resident of age 70 years, is supposed to receive interest on bank fixed deposits of Rs. 2,00,000 and.....**

194 and 194A covered u/s 197 and 197A for Mr. K. He is senior citizen and tax will be nil. He should go with 197A.

**M54. Exemption of TDS from payments made for personal purposes applies only u/s 194C and 194H.....**

194C and 194J

**M58. Swan Pvt. Ltd. deducted TDS on fees for professional services u/s 194J on 15.7.2021. Which of the following is not.....**

TDS certificate should be issued within 15 days from due date of statement

**M59. Mr. Q deducted TDS on contract work charges u/s 194M on 15.3.2022. Which of the following is not correct.....**

Exempted from TAN requirement u/s 203A

**M60. Mr. C deducted TDS on rent u/s 194-I on 10.3.2022. Which of the following is not correct.....**

TDS statement should be furnished by 31.5.2022

**M61. Which of the following is not a consequence of not deducting or depositing TDS as required.....**

201(1A) provides for simple interest

**M62. Zoyo Pvt. Ltd. deducted TDS of Rs. 20,000 u/s 193 on 15.9.2021 along with payment of interest income which.....**

TDS to be deducted on 1 Sep, i.e., earlier of credit or payment: Delay of 15D. Deposited on time.

Interest for delay in deduction = 1% of 20,000 for 1 month

**M63. Mr. Z deducted TDS of Rs. 3 lakh u/s 194M on 1.3.2022 in respect of payment of fees for professional services.....**

TDS deduction on time (earlier of credit or payment). Deposit due date u/s 194M 30.4.2022. Delay in deposit.

Interest = 1.5% of 3 lakh for 3 months (1.3.2022 to 15.5.2022)

### COLLECTION OF TAX AT SOURCE (TCS)

**M65. Mr. C is a distributor for alcoholic liquor produced by JJ Liquor Ltd. Turnover from his business during PY 2020-21.....**

U/s 206C(1) @ 5% of 10 lakh

**M66. A mining lease was awarded to BCD Pvt. Ltd. for the period June 2021 to March 2022 for Rs. 37,500 per month.....**

U/s 206C(1C) @ 2% of 3.75 lakh

**M67. In which of the following cases, will Speed & Co, partnership firm and a car showroom owner having business.....**

D: U/s 206C(1F) as value > 10 lakh for each car

A: No as value of each car is not > 10 lakh; B: No as Government is not buyer; C: No as consideration not received

**M68. Forex & Co, authorized dealers, received Rs. 5 lakh from Mr. Y, each on 1.2.2022 and 1.3.2022, for remittance.....**

U/s 206C(1G) @ 5% on 3 lakh (10 lakh – 7 lakh)

**M69. Swan Tours Pvt. Ltd. received Rs. 10 lakh from Mr. P as payment for a package tour program to Europe. At what.....**

U/s 206C(1G) @ 5% of Rs. 10 lakh

**M70. Honda Cars Ltd., having turnover of Rs. 12 crore for FY 2020-21 and Rs. 9 crore for FY 2021-22, sold 10 cars of Rs. 8.....**

Government is not a buyer u/s 206C(1H).

**M71. Dash Cars Ltd., a car manufacturer, having a turnover of Rs. 15 crore for FY 2020-21, sold 5 cars of Rs. 15 each to a.....**

To transport company: U/s 206C(1F) @ 1% of 75 lakh = 75,000, as value of each car > 10 lakh. No TDS u/s 194Q as TCS collectible u/s 296C(1F).

To car distributor: U/s 206C(1H) @ 0.1% of 10 lakh (60 lakh – 50 lakh) = 1,000, as turnover of seller for preceding FY > 10 crore, sale consideration > 50 lakh. 206C(1F) not applicable as it is not retail sale and 194Q not applicable as turnover of buyer for preceding FY ≤ 10 crore.

### ADVANCE TAX

**M73. Mr. K, resident of age 45 years, has estimated his tax liability for PY 2021-22 at Rs. 20,000. How much advance tax.....**

9,000 (45% of 20,000) – 2,000

**M74. Mr. J has estimated his tax liability for PY 2021-22 at Rs. 50,000. How much advance tax will he need to pay for....**

75% of 50,000, i.e., 37,500 – 40,000

**M75. Mr. T is a businessman claiming presumptive income u/s 44AD. He has estimated his tax liability for PY 2021-22.....**

100% by 15 March

**M76. Mr. Q has estimated his total income for PY 2021-22 at Rs. 6 lakh but he has not paid advance tax. His total.....**

Higher of TI last assessed (8 lakh) or TI returned in a subsequent year (9 lakh)

**M77. Mr. B, a resident aged 39 years, has estimated particulars of his income for PY 2021-22 as under: Business income.....**

TI excluding LTCG = 6,00,000 BI – 2,00,000 IHP – 1,50,000 80C = 2,50,000; Tax is NIL.

LTCG @ 10% of 1,00,000 (2,00,000 – 1,00,000 threshold) = 10,000. No 87A on 112A tax. Tax = 10,000 + 400 HEC = 10,400.

AT = 10,400 – TDS 10,000 = 400. No AT payable as < 10,000.

**M77A. Mr. Z, a resident, celebrated his 60<sup>th</sup> birthday on 1.12.2021. He earned salary income of Rs. 6 lakh (computed)....**

Mr. Z is a senior citizen not having business income. No AT.

**M78. Mr. J, a resident aged 40 years, has estimated particulars of his income for PY 2021-22 as under: Salary of Rs. 10....**

Tax on 10,50,000 = 1,32,600 – TDS 1,00,000 = 32,600. 75% of 32,600 = 24,450

**M80. Mr. M, aged 40 years, computed his tax liability for PY 2021-22 at Rs. 98,780. He paid Rs. 65,430 as advance tax....**

Interest = 1% for 4 months (1.4.2022 to 25.7.2022) on 23,300 (98,780 – 10,000 TDS – 65,430 AT = 23,350) = 932

**M81. Mr. T, aged 55 years, computed his tax liability for PY 2021-22 at Rs. 86,500. He paid Rs. 78,000 as advance tax....**

AT paid of 78,000 is not less than 77,850 (90% of 86,500). 234 not applicable.

**M82. Mr. Z estimated his tax liability for FY 2021-22 at Rs. 50,000 but filed return of income on 20.7.2021 showing tax....**

15 June: 1% × 3 mth × 9,000 (15% of 60,000) = 270.

15 Sep: 1% × 3 mth × 27,000 (45% of 60,000) = 810.

15 Dec: 1% × 3 mth × 45,000 (75% of 60,000) = 1,350.

15 Mar: 1% × 60,000 (100% of 60,000) = 600

**M83. Mr. C, resident aged 50 years, won lottery prize of Rs. 8 lakh on 15.11.2021. He did not pay any advance tax. He....**

AT payable = 2,49,600 tax on total income of 8 lakh (30% + 4% HEC) – 2,40,000 TDS = 9,600. No AT as amount < 10,000. No interest.

**M84. Mr. J, a lawyer and a resident aged 42 years, has estimated gross receipts from profession for FY 2021-22 at Rs....**

TI = PGBP u/s 44ADA 25 lakh + IFOS 15 lakh = 40 lakh.

Tax on 40 lakh of 10,53,000 – TDS 2,50,000 – AT paid 5,00,000 = 3,03,000.

Interest u/s 234B = 1% for 4 months (1.4.2022 to 25.7.2022) on 3,03,000 = 12,120.

Interest u/s 234C = 1% of 3,03,000 (10,53,000 – 2,50,000 TDS – 5,00,000 AT paid) = 3,030.

Total interest = 15,150



# TAXBOOK<sup>+</sup>

## Working steps of solutions

### Select questions

#### Return of Income

#### Build Your Confidence (BYC)

**B1. 139(1) – Determine if return of income u/s 139(1) is required to be filed in the following cases for AY 2022-23 and.....**

#	Person	ROI to be filed	Due date
1	C Ltd., having turnover of Rs. 6 crore, has total income being a loss of Rs. 10 lakh.	Yes, as it is a company	31.10.2022
2	CD & Co, a partnership firm, having turnover of Rs. 10.5 crore, has Nil total income and Nil tax liability. Its gross total income is Rs. 2.5 lakh.	Yes, as it is a firm	31.10.2022 as tax audit applicable
3	Mr. X, a resident of age 80 years deriving income from pension, has a total income of Rs. 2 lakh (after claiming deductions u/s 80C and 80D of Rs. 2 lakh) and tax liability is Nil.	No as TI, before VIA, of 4L ≤ 5L BEL	-
4	In #3, assume that Mr. X is a non-resident.	Yes as TI, before VIA, of 4 > 2.5L BEL	31.7.2022
5	In #3, assume that Mr. X incurred expenditure on consumption of electricity of Rs. 1.5 lakh and on travel to France of Rs. 1.5 lakh.	Yes, as expenditure on electricity > 1 lakh, though TI, before VIA, of 4L ≤ 5L BEL	31.7.2022
6	Mr. J, a resident of age 45 years, computed his total income of Rs. 1 lakh after claiming deduction u/s 54EC of Rs. 1 lakh and u/s 80C of Rs. 20,000. He also claimed exemption for share of profit of Rs. 50,000 received from a partnership firm, in which he was a partner. The business turnover of the firm was Rs. 1.5 crore (10% of total payments made by the firm during the year were in cash).	No as TI, before 54EC and 80C, of 2.2L ≤ 2.5L BEL.	-
7	In #6, assume that total income is computed at Rs. 1.5 lakh.	Yes as TI, before 54EC and 80C, of 2.7L > 2.5L BEL.	31.10.2022 as firm is liable to tax audit (limit u/s 44AB is 1 crore)
8	Mr. D, a Chartered Accountant of age 55 years, having gross receipts from profession of Rs. 10 lakh, computed business income u/s 44ADA. His total income, after claiming set off of loss from house property of Rs. 2 lakh and loss under the head IFOS of Rs. 1 lakh, was Rs. 2 lakh. He did not claim any deduction u/c VIA. He stayed in India throughout the PY 2021-22 and purchased a house in Australia on 15.4.2021.	Yes, as he (being ROR) held asset outside India during the PY, though his TI of 2L ≤ 2.5L BEL	31.7.2022 as no tax audit required while computing income u/s 44ADA

**B1a. 139(1) – CA2021(JULY) – In the following cases relating to PY 2021-22, the total income of the assessee or the.....**

1. Since total income of Manish & Sons (HUF) without giving effect to section 54EC is Rs. 12 lakh, i.e., it exceeds basic exemption limit of Rs. 2,50,000, ROI needs to be filed.
2. Since Archana is a ROR and holds an asset located outside India, she would need to file ROI.<sup>1</sup>
3. Since expenditure on consumption of electricity during the PY exceeds Rs. 1 lakh in the aggregate, Sudhakar needs to file ROI.

*Mistake by students – Failure to substantiate answer with correct reasoning.*

**B2. 139(1) –CA2011(N) – Time limit for filing return u/s 139(1) in the case of Mr. A having total turnover of Rs. 45 lakh.....**

<sup>1</sup> As per an alternate view, personal car, being a personal effect, is not a capital asset and, hence, outside the scope of the ROI provision. As per this view, Archana need not file ROI. Refer Footnote A under para 232.

If Mr. A opts for section 44AD, tax audit u/s 44AB is not required and due date u/s 139(1) will be 31.7.2022. If benefit of section 44AD ceases to apply to Mr. A in terms of that section and his total income exceeds basic exemption limit, he will need to get tax audit done u/s 44AB and due date u/s 139(1) will be 31.10.2022.

**B2a. CA2021(JAN) - Mr. Hari, aged 57 years, is a resident of India. He provides you the following details of his incomes.....**

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

Particulars	Rs.
<b>Income from other sources</b>	
Interest on NR(E) Account with SBI: Exempt u/s 10(4)(ii) since maintained as per RBI stipulations	Nil
Interest on savings bank account with SBI	8,000
Interest on fixed deposits with PNB	40,000
<b>Gross total income</b>	<b>48,000</b>
Less: Deduction u/s 80TTA for interest on saving bank account	(8,000)
<b>Total income</b>	<b>40,000</b>

Since total income, before giving effect to section 80TTA is Rs. 48,000 being less than BEL of Rs. 2.5 lakh, he is not required to file ROI u/s 139(1) for AY 2022-23. However, if he incurs expenditure on foreign travel for himself or any other person which is > 2 lakh, he is required to file return of income u/s 139(1).

**B3. 139(1) –CA2012(M) – Paras is resident of India. During the FY 2021-22, interest of Rs. 1,88,000 was credited to his.....**

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

Particulars	Rs.
<b>Income from other sources</b>	
Interest on NR(E) Account with SBI: Exempt u/s 10(4)(ii) assuming specified conditions are satisfied	Nil
Interest on fixed deposit with SBI	30,000
Interest on saving bank account	3,000
<b>Gross total income</b>	<b>33,000</b>
Less: Deduction u/s 80TTA for interest on saving bank account (assuming Paras is < 60 years of age)	(3,000)
<b>Total income</b>	<b>30,000</b>

Since total income, before giving effect to 80TTA is Rs. 33,000 being less than BEL of Rs. 2.5 lakh, he is not required to file ROI for AY 2022-23.

**B7. 139(4) –Determine whether the return of income filed by Mr. X for AY 2022-23 is valid in the following cases:**

Due date to file return u/s 139(1)	Date of filing of return	Date of completion of assessment	Earlier of 3 months prior to the end of AY or completion of assessment	Return valid?
31.7.2022	15.11.2022	15.3.2023	31.12.2022	Yes
31.10.2022	10.1.2023	10.2.2023	31.12.2022	No
31.7.2022	31.12.2022	20.4.2023	31.12.2022	Yes

**B8. 139(4) –CA2018(N) – Mr. Subramaniam, due to inadvertent reasons, failed to file his income tax return for.....**

Belated return can be filed u/s 139(4) before earlier of 3 months prior to the end of relevant AY, i.e., 31.12.2022 or completion of assessment. Hence, he cannot file the return in the year 2023-24.

**B9. REVISED RETURN – CA2019(N) – Explain with brief reasons, whether the return of income can be revised u/s 139(5).....**

1. *Defective or incomplete return filed u/s 139(9)* – It needs to be revised within 15 days from date of intimation received from AO or such further extended period. Return, so rectified, would be a valid return and it can, thereafter, be revised u/s 139(5) if assessee discovers any omission or wrongful statement within the time allowed u/s 139(5). Defective or incomplete return, not rectified within the time allowed, is an invalid return and, hence, it cannot be revised.
2. *Return already revised once u/s 139(5)* – Yes, within the time allowed u/s 139(5).
3. *Return of loss filed u/s 139(3)* - Yes, within the time allowed u/s 139(5), since return of loss is treated as a regular return filed u/s 139(1).

*Mistake by students – Improper reasoning for the answers.*

**B10. REVISED RETURN – CA2017(N) – Mr. Sachin filed return on 30.9.2022 related to AY 2022-23. In the month of.....**

Belated return can be furnished u/s 139(4) before earlier of 3 months prior to end of AY 2022-23 (31.12.2022) or completion of assessment, whichever is earlier. Belated return filed on 30.9.2022 is valid. Mr. Sachin can revise the belated return before earlier of 3 months prior to the end of AY 2022-23 (31.12.2022) or completion of assessment, whichever is earlier, since he has noticed an omission in the return.

**B11. REVISED RETURN – Mr. Jain furnished his return of income for AY 2022-23 on 25.9.2022. His income comprises of.....**

Due date to file return u/s 139(1) is 31.7.2022. Hence, return filed on 25.9.2022 is a belated return u/s 139(4) which can be revised before 3 months prior to end of AY 2022-23 (31.12.2022) or completion of assessment, whichever is earlier, since Mr. Jain has discovered an omission in the return. However, he cannot furnish revised return on 15.1.2023, being beyond 31.12.2022.

**B12. REVISED RETURN – CA2020(N) - Mr. Mukesh, born on 1.4.1962, furnished his original return for AY 2022-23 on.....**

As Mukesh is born on 1.4.1962, he will be said to have completed 60 years of age on 31.3.2022 as per Circular 28/2016 (see para 13). Hence, he will be a senior citizen. Since he has claimed deduction u/s 80TTA and not u/s 80TTB, it is assumed that he computed his tax liability considering that he is not a senior citizen for PY 2021-22. Tax will be recomputed considering that he is a senior citizen.

Particulars	Income declared	Recomputed income
Income from salaries	7,30,000	7,30,000
Income from other sources:		
• Interest from savings bank	12,700	12,700
• Interest from fixed deposits	43,000	43,000
<b>Gross total income</b>	<b>7,85,700</b>	<b>7,85,700</b>
Deduction u/s VIA:		
U/s 80C	(1,50,000)	(1,50,000)
U/s 80D:	(25,000)	
• Self and spouse: Premium 38,000 + checkup 1,500 = Rs. 39,500, allowed up to Rs. 50,000 since Mukesh is a senior citizen (assuming he is a resident)		(39,500)
• Parents: Checkup 3,500 (total limit 5,000) + premium for mother 33,000 + medical expenditure for father 25,000 = Rs. 61,500, allowed up to Rs. 50,000		(50,000)
U/s 80TTA	(10,000)	-
U/s 80TTB	-	(50,000)
<b>Total income</b>	<b>6,00,700</b>	<b>4,96,200</b>
Tax on total income	32,640	9,810
Less: Rebate u/s 87A	-	(9,810)
	32,640	Nil
Add: HEC @ 4%	1,306	Nil
	33,946	Nil
Less: TDS deducted from salary	(33,950)	(33,950)
<b>Refund due (rounded off)</b>	<b>Nil</b>	<b>(33,950)</b>

Since omissions have been discovered in the original return, Mr. Mukesh can file revised return u/s 139(5) before earlier of 31.12.2022 or completion of assessment, and claim refund of Rs. 33,950.

**B14. VERIFICATION OF RETURN – CA2017(M) – By whom should the return of income be signed in the case of following.....**

(i) CEO; (ii) liquidator, (iii) any other adult member, (iv) any member or principal officer

**B20. PAN/AADHAAR – CA2018(M) – State whether quoting of PAN in the following transactions is mandatory or not.....**

1	No, since cash payment does not exceed Rs. 50,000.
2	Yes, since amount > Rs. 1 lakh for the transaction
3	Yes, since amount > Rs. 50,000

*Mistake by students – Not aware of monetary limits.*

**B21. PAN/AADHAAR – CA2018(M) – Pertaining to the following transactions, what is the minimum amount above which quoting of PAN is mandatory?**

<b>Transaction</b>	<b>Threshold</b>
1. Sale or purchase of car	No threshold
2. Payment to a hotel or restaurant against a bill or bills at any one time	Payment in cash > 50,000
3. Payment in connection with travel to any foreign country	Payment in cash > 50,000
4. Payment to RBI for acquiring bonds issued by it	Amount > 50,000
5. A time deposit with a Post Office	Amount > 50,000 OR aggregating > 5 lakh during a FY
6. Payment as life insurance premium to an insurer	Aggregate > 50,000 in a FY
7. Sale or purchase of shares of a company not listed in a recognized stock exchange	Amount > 1 lakh per transaction
8. Sale or purchase of any immovable property	Amount > 10 lakh OR SDV > 10 lakh

**M3. Raju, resident of age 60 years, computed his salary income for the PY 2021-22 of Rs. 2 lakh after claiming.....**

TI before 80C and 54 = 2L salary + 1L section 54 = 3L. Does not exceed BEL.

**M4. Saurabh, age 30 years, having income from business, computed his total income of Rs. 1.5 lakh after claiming.....**

TI before 80G, of 2.5L, does not exceed BEL of 2.5L. But electricity expenditure > 1L. Needs to file ROI.

**M5. Mrs. J, a resident aged 70 years, does not have a regular source of income. During the PY 2021-22, she sold her.....**

No CG for rural agricultural land; TI is Nil. Foreign travel ≤ 2L. No need to file ROI.

**M6. Rajesh, a resident aged 35 years, is a partner in a firm whose business turnover for the PY 2021-22 is Rs. 75 lakh.....**

Share of profit exempt; TI before 80C of 3L > BEL of 2.5L. Needs to file ROI. No tax audit for firm as TO ≤ 1 cr. Due date is 31 July.

**M8. Hiren, aged 30 years, is a Chartered Accountant in practice. Gross receipts for PY 2021-22 were Rs. 60 lakh.....**

Liable to tax audit as GR > 50 lakh; TI before 80C of 4L > BEL of 2.5L. Due date 31 Oct.

**M9. Suhani, a resident and ordinarily resident, is a shareholder in BCD Ltd. During the PY 2021-22, BCD Ltd. entered.....**

TI, before VIA, of 2L ≤ BEL. But she has signing authority abroad and is ROR. ROI to be filed. 31 July is due date. 92E not relevant for shareholder.

**M10. Rupesh, a resident aged 61 years, is a sleeping partner in a partnership firm having business turnover of Rs. 2.....**

Firm not liable to tax audit as limit u/s 44AB is 10 crore. TI of 2.5L ≤ BEL of 3L. Travel spend by son not relevant. ROI not required.

**M11. Sushil is the proprietor of a business whose annual turnover for PY 2021-22 is Rs. 3 crore. As per the records, a.....**

No tax audit as limit u/s 44AB is 10 crore. GTI = 2L (5L – 3L). TI, before 80C = 2L which is ≤ BEL. But deposit > 1Cr in current account. ROI to be filed. 31 July is due date.

**M12. Mr. Y, a resident, earned income from rent and interest on savings bank account. His gross total income for the.....**

TI of 2.15L ≤ BEL. Foreign travel expenditure does not exceed 2L. No need to file ROI.

**M14. Rakhi has brought forward short term capital loss of Rs. 1 lakh pertaining to AY 2021-22. For the AY 2022-23, she.....**

Inter-head set off can be done (business loss against IHP); STCL b/fd from earlier year can be c/fd; current year unabsorbed business loss of 1.5 lakh can't be c/fd.

**M17. Surabhi filed her return on 1.8.2022 as against the due date of 31.7.2022, declaring a total income of Rs. 5 lakh.....**

First revised return valid. Second return after 31.12.2022 invalid.

**M18. Shovik filed his return on 5.11.2022, as against the due date of 31.10.2022, declaring a total income of Rs. 10 lakh.....**

Original return is belated. Belated return can be revised. Inter head set off permitted in belated return.

**M19. Sonu filed his return on 25.7.2022 (due date 31.7.2022) declaring a total income of Rs. 6 lakh and long term.....**

Return filed on time. Revised return valid. Enhanced loss of 1.5 lakh can be c/fd. Processing is not assessment (date of assessment is 15.6.2023).

**M20. Mona filed her return on 31.7.2022 (due date 31.7.2022) declaring a total income of Rs. 3 lakh and current year.....**

Original return invalid since defect not rectified. Second return valid but belated (it is not a revised return since original return invalid). But c/fd of IHP possible even for belated return.

**M24. Rohit is a resident, being a professional having gross receipts of Rs. 60 lakh during PY 2021-22. He wants to.....**

TRP not allowed as he is liable to tax audit

**M25. Zeeshan is a resident and a sole proprietor of a business having turnover of Rs. 2.5 crore. All his transactions are.....**

Yes, since he is resident and not liable to tax audit as limit u/s 44AB is 10 crore.

**M26. Saumil, aged 20 years, started earning salary during PY 2021-22 and his total income for PY 2021-22 is Rs. 4 lakh.....**

Yes, as TI during FY of 4L > BEL of 2.5L. Apply by 31 May of relevant AY.

**M27. Monu started a business during PY 2020-21, turnover of which was Rs. 4 lakh for PY 2020-21 and is likely to be.....**

Yes, as TO of PY 2021-22 is estimated at > 5 lakh. Apply by end of FY.

**M28. Dev HUF has had total income of less than Rs. 1 lakh so far in every year. It does not have a PAN. It entered into a.....**

None, as HUF is NR (so condition of financial transaction > 2.5 lakh does not apply) and TI does not exceed BEL

**M32. Saloni, having a PAN number as well as Aadhaar number, intimated her Aadhaar number to the income tax.....**

PAN inoperative from 1.10.2021 to 19.10.2021. Considered as not having quoted PAN for car.

**M35. Mr. Q did not file his return for AY 2022-23 and tax on his total income was determined at Rs. 45,620 on best.....**

Interest u/s 234A = 1% for 9 months (1.8.2022 to 15.4.2023) on 20,900 (45,620 – 12,000 – 12,650 = 20,970) = 1,881

**M36. Gokul furnished his return for AY 2022-23 on 15.10.2022 as against the due date of 31.7.2022. He paid the entire.....**

Nil since entire tax paid before due date of return.

**M37. Yasmin, having total income of Rs. 6 lakh, furnished her return for AY 2022-23 on 31.12.2022. She will need to.....**

TI > 5 lakh. Fee u/s 234F = 5,000.

**M38. Yasmin computed her total income for PY 2021-22 of Rs. 4 lakh and filed her return of income on 15.3.2023 (due.....**

Fee u/s 234F cannot exceed 1,000 as TI ≤ 5 lakh

**M39. Mr. Z declared tax on his total income for AY 2022-23 of Rs. 54,600 and furnished a belated return. He had paid.....**

Self assessment tax = 54,600 – 12,000 – 7,500 – 1,400 + 2,500 + 5,000 = 41,200.

Rs. 30,000 paid first towards fee 5,000, then interest 2,500, then 22,500 tax. Balance tax = 33,700 – 22,500 = 11,200.