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Q2 (a)

Computation of total income and tax liability of Sneha for AY 2011-12

	Rs.	Rs.
Profit and Gains of Business or Profession :		
Net Profit as per Profit and Loss Account		3,62,250
Add : Expenses not allowed		
Proprietrix Salary	12,000	
Motor Car Expenses (1/3rd)	2,500	
Donation to Goa University	60,000	
Income Tax	8,000	
Life Insurance Premium	10,000	
Reserve for future loss	2,000	
Excess Depreciation	500	
Cost of small machine being capital nature	6,000	1,02,000
		4,09,250
Less : Items belonging to other heads / not taxable		
Profit on Sale of residential house	33,500	
Disallowed Bad Debts	62,000	
Interest on Securities	12,600	
Dividend	4,000	
Horse Race Income	16,000	(1,28,100)
Business Income		**3,35,150**
Long Term Capital Gains		**33,500**

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Income from Other Sources

Dividend from Indian Company Rs 4000 exempt		Nil	
Interest on Securities – 12600X100/90		14,000	
Horse Race Income		16,000	
Interest received from friends	4,000	**34,000**	

Gross Total Income		**4,02,650**	
Less : Deduction U/s Chapter VI A			
U/s 80C Life Insurance Premium		10,000	
U/s 80G – 50% qualifying amnt Rs 35915		17,958	**(27.958)**
Total Income			**3,74,692**
Rounded off			**3,74,690**

Computation of Total Income

LTCG (Taxable @ 20%) -	**33,500**
Normal Income	**3,41,190**
Total Income	**3,74,690**

Tax Liability

Tax on LTCG	**33500@20%**	**6,700**
Tax on Normal Income		
(Rs3,41,190 – Rs 1,90,000) 10%		**15,119**
Total Income		**21,819**
Add Cess @ 3%		**655**
Total Tax Payable		**22,474**
Rounded Off		**22,470**

Note – Qualifying amount for deduction u/s 80G is all income excluding LTCG and other deductions under Chapter VI A i.e Rs 4,02,650- Rs 33,500= Rs3,59,150. Maximum permissible deduction u/s 80G is 10% of Rs 3,59,150= Rs 35,915

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Answer to Question 2(b)

Calculation of Income from Capital of Scindia for AY 2011-12

			Rs.	
	Plot Sale consideration		35,00,000	
Less :	Brokerage at 1%		(35,000)	
	Net Sale Consideration		34,65,000	
Less :	Indexed Cost of Acquisition	420000X711/140	(21,33,000)	

	Long Term Caoital Gains		**13,32,000**	
Less :	Exemption U/s 54F 1332000X1800000/3465000		(6,91,948)	T
	Taxable Long Term Capital Gains		**6,40,052**	

If Scindia sells the new residential house on 1-1-2013, that is with in 3 years from the date of purchase, then Rs6,91,948 being the amount of capital gains exempted U/s 54F well be chargeable to tax for the year the house is sold i.e AY 2013-14 as Long Term Capital Gains.

If Scinida purchases any other residential house within two years from the date of transfer of the original asset, then Rs 6,91,948 will be taxable as Long Term capital gain for the year in which another house is purchased i.e here AY 2013-14.

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Answer Q. 3(a)

1. The amount of Gratuatiy received as a Government exmployee is fully excempt from tax as per Section 10(10)(i) of Income Tax Act, 1961.

2. As an employee of a seasonal factory, in a private sector, covered under the Payment of Gratuity Act 1972.

COMPUTATION OF GRATUITY TAXABLE

Amount Received as Gratuity		**Rs 10,70,000**
Less : Exemption U/s 10(10)(II)		
1 Actual Amount received	Rs 10,70,000	
2 7/26X30X1,25,000)	Rs 10,09,615	
3 Maximum Limit	Rs 10,00,000	
- Least of the above three is exempted		**Rs 10,00,000**

Taxable Gratuity		**Rs. 70,000**

Answer Q 3(b)

1. Special discount offered on the firm's production to employee is not taxable as perquisite.
2. Use of lap top is not treated as Perquisite
3. Reimbursement of travel expenses to wife an employee is taxable as perquisite
4. This will be treated as perquisite

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Answer Q 3(c)

Conditions under which the registered political pary gets tax exemption under Sec. 13A –

1. It should maintain such books of accounts and documents as would enable the AO to properly deduce its income
2. for each contribution above Rs 20000, Political PAry should keep and maintain proper records showing the details,name and address of the contribution.
3. Accounts of Political Party to be audited by Chartered Accountants.

Answer Q 3(d)

Inter Source Adjustment	**Inter Head adjustment**
1. Sec 70 of Income Tax Act , 1961	Sec 71 of Income Tax Act, 1961
2. Loss from a source is allowed to be Adjusted against income from another Source under the same head of income	Loss under one head of income is to be adjusted under income under another head of income.

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Answer Q 4 (a)

Computation of amount of interest allowable as exemption under Section 24 of IT Act ,1961

	Amount (Rs.)	
Interest for Preconstruction up to 31-03-2010 (see working note)	1,55,833*	
Amount allowable yearly (Beginning from AY 2011-12 to next 5 years, so 155833/5)	31,167	1
Interest on own loan – Rs10,00,000*11%	1,10,000	2
Interest on loan taken from friend Rs 500000*15%*1/2	37,500	3

Interest Total (1+2+3)	**1,78.667**	

Note – Interest for Preconstruction up to 31-03-2010
Rs1000000x11%x17/12 = Rs 1,55,833
Interest commences from 01/11/2009 to 31/03/2011

1. If the house was meant for self occupation, then under Sec 24 maximum amount eligible for deduction is Rs 150000.

2 If the house is let out from 1.01.2003, the entire amount of interest i.e Rs1,78.667 is eligible for deduction.

Under 80C, there is an additional amount of Rs 20000 is eligible for deduction towards Principal repayment of loan provided that total deduction available u/s 80C is limited to Rs 100000.

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Answer Q 4 (d)

Tax Liability under Income from other Sources

Date of Gift	Details of Gift and donar	Taxable/ Not Taxable	Amount (Rs.)
01.07.2010	Gift from Raju, a friend, by Chq.	Taxable	50,000
01-09-2010	Cash Gift from sister in law (sister in law being a relative)	Not Taxable	Nil
01-12-2010	Gift of diamond ring on his birthday By his friend (gift from friend taxable)	Taxable	75,000
01-12-2010	Cash gift of Rs 31000 each made by Four friends on the occasion of his Son's marriage (Cash Gift is not made To assessee, it is for his son's marriage)	Taxable	1.24,000
15-12-2010	Gift of a rose wood cot made by friend On house opening ceremony – (According To wealth tax, Rose wood is not coming Under definition of property and hence Not taxable)	Not Taxable	Nil
			-----------
	Income from other Sources		**2,49,000**

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Answer Q 5 (a)

Computation of Business Income of Miss Vivitha under Regular Provision and Presumptive Provisions of the Act.

	Regular Rs.	**Presumptive Rs.**
Income (Rs52,50,000 @ 8%)		**4,20,000**
Net Profit	**4,35,000**	
LESS		
Depreciation on Machinery (Available only under Regular)		
Rs3,10,000x15%	(46,500)	Not Applicable
Rs50000x15%X1/2 (put to use for part of year)	(3,750)	Not Applicable
	----------	--------------
Business Income	**3,84,750**	**4,20,000**

The condition to be complied is that, since the income is falling below the presumptive limit of 8% of the turnover , then he can go for assessing the tax under income of Rs3,84,750 by getting his books of account audited under Sec 44 AB.

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Answer Q 5 (b)

Computation of total Income of Mrs. Arundhati and her Tax liability for AY 2011-12

Particulars		**Amount (Rs.)**	
Income from House Property			
Loss from House Property		(62,000)	1
Capital Gains			
Short term Capital Loss Eligible for set off against long term Or short capital gains for next 8 years	Rs (1,00,000)	NIL	
Income from Other Sources			
Family Pension	Rs 1,32,000		
Bank Deposit Interest	Rs 17,000	1,49,000	2
Loss from House Property can be Set off from inter head adjustment Sec 71			
Income after Setoff of house property loss (1 from 2 above)		**87,000**	
Income from Horse Race		**55,000**	
Agriculture income exempted		NIL	
Total Income		**1,42,000**	

Tax on Total Income NIL, Since Mrs Arundhati being a Sr. Citizen and her total taxable income is less that rs 2,40,000 (notified slab) no Tax on her Total income.

Where as, as per Sec 115BB TDS at rate of 30% +education cess+HSEC need to be deducted on Horse Racing Income of Rs 55,000.

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Answer to Q 6 (a)

Clubbing of Income of Mr Rajiv for AY 2011-12

Particulars	Amount (Rs.)	
Opening Capital (01.04.2009)	5,00,000	1
Investment as on 10-04-2009 out of Gift from his wife	1,00,000	2
Profit for the year 2009-10	2,00,000	3
Capital Employed (1+2+3)	8,00,000	
Profit 20010-11	4,00,000	

Note.

Capital contribution out of Gift from wife needs to be clubbed with Mr. Rajiv Income

Profit for 2010-11 Rs 400000 needs to be shared between Mr Rajiv and Mrs Rajiv in ratio of 7:1 that is capital employed.

So, Income assessable under the hands of Mr Rajiv will be Rs4,00,000*7/8 = Rs 3,50000 and in hands of Mrs Rajiv it will be Rs 400000*1/8 = Rs50000.

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Answer to Q 6 (b)

Computation of Perquisite value of Car 1 and Car 2

Particulars	**Car 1 (Rs.)**	**Car 2 (Rs.)**
Driver's Salary (Actual)		**33,000**
Running and maintenance expenses		**45,000**
Driver Salary @ Rs 900 per month	**10,800**	
Capacity above 1.6 ltr CC @ Rs2400 per month	**28,800**	
	---------	**---------**
Perquisite	**39,600**	**78,000**

Answer to Q 6 C)

Computation of Taxable Capital Gains

	Rs
Fair Market Value of the Asset on the date of conversion	35,00,000
Less :	
Indexed cost of acquisition Rs400000X711/100	28,44,000

Long term Capital Gains on conversion of asset to stock in trade	**6,56,000**

Note – Value recorded in books is not significant here as on the date of conversion of capital asset in to stock in trade, it becomes important that the market value as existing should be taken.

Loss of Rs 3,00,000 (Rs 35,00000 FMV less sold stock in trade Rs 3200000) is treated as business loss of the assessee.

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Answer 7 (a)

Computation of Taxable Wealth (Net Wealth) of Mr. Banerjee

Sl No,.		Particulars	Amount (Rs.)
1		**Building**	
		Net Maintainable Rent (Rs 60000*X12.5)	7,50,000
		Note Market Value is irrelavent	
	ADD	Adjustment for Unbuilt area	3,00,000

		Asset Value	10,50,000
2		**Jwellery**	
		Bought in april 09 out of money remitted to India from Australia is **exempted**	NIL
		Purchased in April 2010 out of Sale proceed Of motor car brought and sold from abroad	14,00,000
3		**Interest in Urban Land**	
		Value of interest in Urban Land is taxable	17,00,000
4		**Shares**	
		Shares are not Assets under wealth tax and Hence not taxable	NIL
5		**Vacant House Plot**	
		Vacant House plot not taxable under wealth tax	NIL
6		**Cash**	
		Cash in excess of Rs 50000 is taxable under Wealth tax (180000-50000)	1,30,000
7		**Urban Land**	
		Urban land purchased in year 2099 out of Withdrawl from NRE account is exempted	NIL

		NET WEALTH	**42,80,000**

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Answer Q 7(b)

- A Protective assessment is made when there are doubt about true ownership of the income.
- It is at the discretion of the AO, income will be added in the hands of one of the assessee in order to be on the safer side.
- So, when the true identity of the person is established, the extra assessment is cancelled.
- IT department cannot recover the tax from both the assessees in respect of the same income.
- Department also cannot impose penalty on protective assessment.

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Answer Q 8(b)

Computation of Total Income of Mr Ramachandran for the AY 2011-12

Particulars		Amount (Rs.)
Profit or Gains of Business or Profession		
Income on Capital		1,04,000
Income from Capital Gain		
Long Term Capital Gains		46,000
Income from Other Sources		
Interest on loan	Rs 20,000	
Interest from Bank FD	Rs.10,000	30,000

	Gross Total Income	**2,30,000**
	LESS : Chapter VI A Deducton U/s 80 C – PPF	(50,000)
	Total Income	**1,80,000**

Computation of Tax Liability

Tax on Long Term Capital Gain (Rs180,000-Rs46,000)		**Rs 1,34,000**
Less : Maximum exemption		**Rs 1,60,000**

		Rs 26,000
Tax @ 20% on LTCG (Rs46000-Rs26000)20%	**Rs 4000**	
Add: Education Cess	**Rs120**	

Total Tax liability	**Rs 4,120**	

APPLIED DIRECT TAXATION - JUNE 2011

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Answer Q 8 c)

Liability towards TDS in following cases

1. An Indian Company Pays dividend on Preference Shares to a share holders
   Dividend Paid by Indian company is subject to DDT (Dividend Distribution Tax) and hence covered under Sec 115-O and so there is no TDS shall be deducted on dividend paid and exempt in hands of share holders

2. Foreign enterprise enters in to a contract for fabrication and supply of components for machinery ……
   TDS is to be deducted in this case. As per Sec 194C if payment either for full or part of the work undertaken by any contractor tax is to be deducted by the assessee. If a deductee is an individual then 1% TDS is deducted and if it is a company then 2% is deducted.

3. A domestic company pay to a doctor a monthly retainer ship of Rs 2,500for attending outpatient clinic at its factory premises.
   Doctors come under professional service. As per section 194J any person who is indulged in professional services performs any professional duty or take up assignment of professional in nature then TDS at rate of 10% on total payment should be deducted. TDS is applicable only if the total of payment made to such professional service exceeds Rs 30000 in a year (not meaning single payment of Rs 30000, it also includes series of payment not exceeding Rs 30000). In this case since doctor is paid Rs2,500 and it is not clear is it one time payment for the whole year or not, we can assume and conclude that there is no TDS to be deducted.