



# ITO'S EXAM 2017

## PAPER IV—INCOME TAX

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## Q1 - INCOME FROM SALARY - 2015

- I. Mr. Lal is employed in Bharat Textiles Ltd. Mumbai on a monthly Salary of Rs. 2,00,000. In addition to this fixed salary, he is entitled to a commission @ 5% on the sales made by him. During the PY 2014-15, he had received following allowances and amenities from his employer:
  1. DA @ Rs. 20,000 p.m. which is granted to him under the terms of employment and counted for retirement benefits.
  2. Bonus equal to two months salary.
  3. HRA @ Rs. 50,000 p.m.
  4. Entertainment allowance @ Rs. 2,500 p.m.

## Q1 - INCOME FROM SALARY - 2015

5. The company paid Rs. 10,000 as his Income Tax penalty.
6. In Sep'13 during leave he went a visit to Kashmir with his family. The expenditure amounting to Rs. 1,60,000 as a passage money were paid to him by employer as LTA (Assistance). Had he travelled by AC First Class compartment by train the expenditure in this regard would have been only Rs. 1,40,000/-. Before this he was allowed travel concession during 2000,2004 and 2009.
7. He had been provided with amenities of gas, electricity and water, the expenses of which amounting to Rs. 1,20,000/- p.a. were paid by the company.
8. Commission on sales of Rs. 1,00,00,000 @ 5%.

## Q1 - INCOME FROM SALARY - 2015

9. He was given free cloth worth Rs. 24,000/- by his employer.
  10. He and his employer each contributed 12.5% of his salary to recognized provident fund. The interest credited to his fund for the PY @ 13.5% rate of interest amount to Rs. 2,70,000/-.
- Compute the taxable income from salary of Mr. Lal for the AY 2015-16 keeping in mind that he spent Rs. 60,000/- p.m. as rent of the house hired by him. (20 Marks).

## A1 - INCOME FROM SALARY - 2015

- Computation of Salary Income of Mr. Lal for the PY 2014-15 (AY 2015-16).

Particulars	Amount	Amount
Basic Salary	200000 * 12	24,00,000
DA	20000*12	2,40,000
Commission on Sales	10000000*5%	5,00,000
Bonus	200000*2	4,00,000
<b>Exempted HRA :</b>	<b>Least of the foll</b>	
HRA Received	600000	
<i>Rent Paid – 10% of Sal</i>	<i>720000-314000</i>	
50% of Salary	3140000*50%	
<b>Taxable HRA</b>	<b>600000-406000</b>	<b>1,94,000</b>
Entert Allowance	2500*12	30,000

## A1 - INCOME FROM SALARY - 2015

- Computation of Salary Income of Mr. Lal for the PY 2014-15 (AY 2015-16).

Particulars	Amount	Amount
Income Tax Penalty		10,000
LTC	160000-140000	20,000
Gas, Electr & Water		1,20,000
Free Cloth		24,000
Cont. to RPF	3140000*0.5%	15,700
Interest on RPF	270000/13.5*4	80,000
<i>Total</i>		40,33,700
Less: Deductions	U/s. 16 (ii) & (iii)	0
<b><i>Salary Income</i></b>		<b>40,33,700</b>

## Q2 - INCOME FROM HP - 2015

- ii. X owns a residential house property. It has two equal residential units – Unit 1 and Unit 2. while Unit 1 is self occupied by X for his residential purpose, Unit 2 is let out (rent being Rs. 6,000 p.m. rent of 2 months could not be recovered). Municipal value of the property is Rs. 1,30,000. Standard rent is Rs. 1,25,000 and Fair Rent is Rs. 1,40,000. Municipal tax is imposed @ 12% which is paid by X. Other expenses for the PY 2014-15 being repairs Rs. 250, insurance Rs. 600, interest on capital (borrowed during 1997) for constructing the property Rs. 63,000. Find Total Income assuming Rs. 1,80,000 is from IFOS. (10 marks)

## A2 - INCOME FROM HP - 2015

- Computation of Total Income of Mr. X for the PY 2014-15 (AY 2015-16).

Particulars	Amount	Amount
a. IFS		0
b. IFOS:		
<i>Source 1 – SO (W.N.1)</i>	-30000	
<i>Source 2 – LO (W.N.2)</i>	6790	-23,210
c. IFBP		0
d. CG		0
e. IFOS		1,80,000
<b><i>Total Income</i></b>		<b><i>1,56,790</i></b>



## A2 - INCOME FROM HP - 2015

- W.N.1 – In case of SO property, the only allowable loss is Interest on Borrowings. In the present case, as the loan is borrowed before 01.04.1998, the maximum interest that can be claimed as loss should be restricted to Rs. 30,000/.
- Hence, actual interest amount of Rs. 31,500 ( $63000 * 50\%$ ) should be restricted to Rs. 30,000.

## A2 - INCOME FROM HP - 2015

- W.N.2 – Computation of IFHP - LO

Particulars	Amount	Amount
a. RR = FR or MR WEH	(130000 or 140000)* 50%	62,500
b. Annual rent net of unrealized rent	6000*10 months	60,000
c. Higher of Step a or b	RR	62,500
d. Less: Vacancy Loss		0
e. Gross Annual Value	C-D	62,500
f. Less: MT Paid	130000*50%*12%	-7,800
<b>Net Annual Value</b>		<b>54,700</b>

## A2 - INCOME FROM HP - 2015

Particulars	Amount	Amount
<b><i>Net Annual Value</i></b>		<b>54,700</b>
Less: Std. Deduction @ 30%	$54700 * 30\%$	-16,410
Less: Interest	$63000 * 50\%$	-31,500
<b><i>IFHP - LO</i></b>		<b>6,790</b>

- Note 1 – Standard deduction is given for other expenses like repairs, insurance etc., Hence, no expenses will be allowed on actually incurred basis.
- Note 2 - Inter head adjustment is possible between IFHP & IFOS.

## Q3 (A) – RESIDENTIAL STATUS - 2015

- iii. X, a foreign national (not being a person of Indian origin), came to India for the first time from USA on July 11, 2008. He stayed here for a stretch of 3 years and left for Japan on July 11, 2011. He returned to India on April 10, 2012 and remained here till August 17, 2012, when he went back to USA. He again came back to India on January 30, 2015 at 11:59 p.m. and continued to stay in India thereafter. Determine his residential status for the AY 2015-16. (5marks)

## A3 (A) – RESIDENTIAL STATUS - 2015

### 1. Basic Condition:

- a) 61 days stay during the PY 2014-15. ( $\geq 60$  days)
- b) 597 days stay during the 4 preceding PYs 2013-14 (0 days), 2012-13 (130 days), 2011-12 (102 days) & 2010-11 (365 days). ( $\geq 365$  days).

### 2. Additional Condition:

- a) Resident in PY 2010-11 & 2009-10. (Resident in 2 out of 10 preceding PYs).
- b) 1226 days stay during the 7 preceding Pys. PYs 2013-14 (0 days), 2012-13 (130 days), 2011-12 (102 days), 2010-11 (365 days), 2009-10 (365 days), 2008-09 (264 days) & 2007-08 (0 days). ( $\geq 730$  days).

- Mr. X is resident and ordinary resident.

## Q3 (B) – TAX LIABILITY- 2015

- III. Income of a resident is Rs. 12,50,000 (inclusive of interest on Govt. Securities of Rs. 15,000). He invests Rs. 1 lac in schemes and deposits qualify for deduction U/s. 80c. He is eligible for deduction of Rs. 10,000 u/s. 80CCC. He pays Rs. 25,000 on account of mediclaim premium on his own life. Find out tax liability for the AY 2015-16 if tax payer is
1. A resident super senior citizen
  2. A resident senior citizen
  3. Any other individual. (5marks)

## A3 (B) – TAX LIABILITY- 2015

1. Super Senior Citizen:
  - a) Total Income – Rs. 11,15,000
  - b) Tax Liability – Rs. 5,00,000 @ 0%, Rs. 5,00,000 @ 20% and Rs. 1,15,000 @ 30%. Plus 3% EC.
2. Senior Citizen:
  - a) Total Income – Rs. 11,15,000
  - b) Tax Liability – Rs. 3,00,000 @ 0%, Rs. 2,00,000 @ 10%, Rs. 5,00,000 @ 20% and Rs. 1,15,000 @ 30%. Plus 3% EC.
3. Other Individual:
  - a) Total Income – Rs. 11,15,000
  - b) Tax Liability – Rs. 2,50,000 @ 0%, Rs. 2,50,000 @ 10%, Rs. 5,00,000 @ 20% and Rs. 1,15,000 @ 30%. Plus 3% EC.

## Q4 – CAPITAL GAINS - 2015

- IV. X Purchased a property on 01.04.1976 for Rs. 95,000. He enters into agreement for sale of the property to A on 01..1.1982 and receives Rs. 10,000 as advance. A could not, however, keep his promise and the advance of Rs. 10,000 given by him is forfeited by X. Later on he gifts the property to his friend Y on 15.05.1984. The following expenses were incurred by X and Y for renewals of the property.
1. Addition of 2 rooms by X during 1978-79 – Rs. 35,000.
  2. Addition of 1<sup>st</sup> floor by X during 1982-83 – Rs. 45,000.



## Q4 – CAPITAL GAINS - 2015

3. Addition of 2<sup>nd</sup> floor by Y during 1989-90 – Rs. 1,25,000.
- Y enters into an agreement to sell the property for Rs. 8,50,000 to B on 01.04.1994 after receiving an advance of Rs. 50,000. B could not pay the balance within the stipulated time of 2 months and Y forfeits the advance of Rs. 50,000 as per agreement with B. Y ultimately finds a buyer in C to whom property is transferred for Rs. 35,75,000 on 01.12.2014. Compute the capital gain chargeable to tax in the hands of Y for the AY 2015-16. (10 marks).

## A4 – CAPITAL GAINS - 2015

- Computation of CG of Mr. Y for the AY 2015-16.

Particulars	Amount	Amount
a. Sales Consideration		35,75,000
b. ICOA 01.04.81	$195000 * 1024/100$	-19,96,800
c. ICOI 82-83	$45000 * 1024/109$	-4,22,752
d. ICOI 89-90	$125000 * 1024/172$	-7,44,186
<b>Long Term CG</b>		<b>4,11,262</b>

13-06-2017

## A4 – CAPITAL GAINS - 2015

- W.e.f. 01.04.2015 Sec. 56 (2) (ix) any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if,—
  - a) such sum is forfeited; and
  - b) the negotiations do not result in transfer of such capital asset.
  
- Sec. 51. Where any capital asset was on any previous occasion the subject of negotiations for its transfer, any advance or other money<sup>64</sup> received and retained by the assessee in respect of such negotiations shall be deducted from the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition .

## Q5 – INCOME FROM SALARY - 2015

- v. S is lecturer in a college. Following are the details of his income for the PY 2013-14. Basic salary Rs. 74,200 p.m. DA Rs. 40,000 p.m. CCA Rs. 24,000. HRA Rs. 28,000 p.m. Remuneration as examiner Rs. 10,000
- o He is a member of SPF to which he contributes 10% of his salary, the college contributing equal amount. During the PY he spent Rs. 1,20,000 on books purchased for teaching purpose and used his car for personal as well as college work. He lives in his own house. He was sent by the college to attend re-orientation seminar.

## Q5 – INCOME FROM SALARY - 2015

- The college spent Rs. 52,000/- for the purpose including his first class fare to and fro, seminar fees etc., He also received medical reimbursement of Rs. 12,000/- for his nephew. Compute S's taxable salary for the AY 2015-16.

## A5 – INCOME FROM SALARY - 2015

- Computation of Salary Income of Mr. S for the PY 2014-15 (AY 2015-16).

Particulars	Amount	Amount
Basic Salary	$74200 \times 12$	8,90,400
DA	$40000 \times 12$	4,80,000
CCA		24,000
HRA	$28000 \times 12$	3,36,000
Seminar Fees	$52000 - (1800 \times 12)$	30,400
Med Reim (For Nephew)		12,000
<b><i>Taxable Salary</i></b>		<b>17,72,800</b>

## A5 – INCOME FROM SALARY - 2015

- a) Remuneration as examiner Rs. 10,000 will be taxed under IFOS.
- b) Money spent Rs. 1,20,000 on books purchased for teaching will not be deductible under the head salary.
- c) He lives in his own house, therefore, whole amount of HRA will be taxable.