CS EXECUTIVE

TAX LAWS –DEC 2011 SOLUTION

Answer to Question No.1(a)(i)

(b) Income from agriculture in Lahore- As per section 2(1A) the Income should be derived from land situated in India and the land should be used for agricultural purpose. Hence, exemption under section 10 shall not be available from the income of land which is situated outside India.

Answer to Question No.1(a)(ii)

(c) Salary of a Government Officer- There is no difference between government and private employees for the purpose of calculating the income and levying of tax. However, salary received by a member of Parliament is not treated as employee of the Government but their income are taxable under income under the head other sources as per section 56s

Answer to Question No.1(a)(iii)

(c) 100% - Fully or Pure temporary wooden structure for the assessment year 2012-13 falls under the tangible assets i.e, Building

Answer to Question No.1(a)(iv)

(c) Rs.18500, As per section 64(1A), The income of a minor child should be included in the total income of that parent whose total income before such inclusion is higher. As per section 10(32) an exemption of Rs.1500 shall be available hence balance income of Rs.18500 (Rs.20000-Rs.1500) shall be taxable

Answer to Question No.1(a)(v)

(c) Rs.100000, The persons who are suffering with one disability can claim this deduction of income tax. The deduction amount is also vary to each like the person who is suffering from one disability can get the maximum deduction of 50000 whereas multiple disability persons can claim a deduction of 100000 of his/her gross income.

Before claiming the deduction of section 80U of income tax act, one needs to get the certificates from doctors about their disability. 40% disable person can get 50000 rupees deduction whereas 80% disable person can get the deduction of 100000. the doctor issue certificates for disability and one need not to enclose

these certificates to any income tax returns etc. but it is advisable and must(from the income tax point of view) to get the certificates before claiming any kind of deduction under the section 80U of income tax act.

Answer to Question No.1(b)

(i) Previous Year
(ii) Loss
(iii) Rs.300000

In case of lump sum consideration for (a) Assignment or grant of any interest in the copyright of any book or (b) Amount of Royalty or Copyright fees (being a lump sum consideration in lieu of all rights in the book) — Lower of 100% of such consideration or Rs. 3 lakhs.

In case of amount of Royalty or Copyright fees not being a lump sum consideration in lieu of all rights in the book — Lower of (a) Royalty or Copyright Fees (before allowing expenses attributable to such income) not exceeding 15% of gross value of books sold during the previous year or (b) Rs. 3 lakhs.

(iv) Income from other sources
(v) Central Government

Answer to Question No.1(c)

1) As per section 139(5), the revised return can be filed before the expiry of one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier. Thus return of A.Y 2012-13 can be revised till 31st March 2014 or before the completion of the assessment whichever is earlier.
2) Discovers any omission or any wrong statement in the return filed, he may furnished a revised return
3) If any person, having furnished a return under sub-section (1), or in pursuance of a notice issued under sub-section (1) of section 142, discovers any omission or any wrong statement therein, he may furnish a revised return at any time before the **expiry** of one year from the end of the relevant assessment year or before the completion of the assessment, whichever is earlier”

Answer to Question No.2(a)(i)

False: Prize given to Mr.Suresh is not an agricultural Income for him. Since, the price is not related to basic as well as subsequent operation on land. However, it will be included under the income from other sources

Answer to Question No.2(a)(ii)

False: the voluntary contribution received by the electoral trust is exempt only if the electoral trust distributes to any political party , registered under section 29A of the Representation of the People Act, 1951, during previous year 95% of the aggregate donations received by it during the said previous year along with the surplus, if any brought forward from any earlier previous year; and such electoral functions in accordance with the rules made in this regard by the Central Government.

Answer to Question No.2(a)(iii)

False: As the control and management of affairs of Sundeep Ltd. is wholly situated in India therefore Sandeep Ltd. is a resident company in India

Answer to Question No.2(a)(iv)

True: As per section 251, In an appeal against an order of assessment he may confirm, reduce, enhance or annul the assessment, or he may set aside the assessment and refer the case back to the Assessing Officer for making a fresh assessment in accordance with the directions given by the Commissioner (Appeals) and after making such further inquiry as may be necessary, and the Assessing Officer shall thereupon proceed to make such fresh assessment and determine, where necessary, the amount of tax payable on the basis of such fresh assessment.

Answer to Question No.2(a)(v)

False: As per section 139(1), it is mandatory obligation on the firm to file return of income or loss

Answer to Question No.2(b)

Computation of Income from Capital Gains of Mr.Vinod for The Assessment Year 2012-13				
Particulars	Equity Shares	Jewellery	Plot of Land	Goodwill of the Business
Sales Consideration	600000	750000	2500000	2500000
Less: Indexed Cost	195031	223487	1078297	Nil

	40000*785/161	80000*785/281	250000*785/182	Nil
Less: Transfer Expense	4000	Nil	25000	Nil
Long Term Capital Gain	**404969**	**526513**	**1421703**	**2500000**

Income from long term capital Gain = 404969+526513+1421703+2500000

= 4853185

Note: No exemption is available in respect of purchase of a plot of land and jewellery On March 10, 2012

Answer to Question No.3(a)

Computation of Income from other sources of Mr.Adarsh for the Assessment Year 2012-13		
Salary as MP		460000
Daily Allowance		Exempt
Dividend from a domestic company		Exempt
Winning from Horse Race		40000
WInning from Sikkim state lotteries [70000*100/70]		100000
Agricultural Income from Sri Lanka		400000
Royalty from a book	100000	
Less: Expenses under section 57	12000	88000
Rent of Building long with PM&F	600000	
Less: Expenses under section 57[insurance,10000+repairs15000+depreciation,40000]	65000	535000
Interest on Post office Recurring Deposits		32000
Interest credited to P.O.CTD Accounts		Exempt
Income from other sources		1655000
Note Under section 194B rate of TDS on state lotteries is 30%		

Answer to Question No.3(b)

Calculation of Interest Payable under section 234C by Shree Narayan		
Amount to be payable as advance tax at the time of First instalment (15.09.2011)(113300*30%)	33990	
Less: Amount actually paid	29760	
Short Fall		**4230**
Interest Payable on short fall		126.9

(4230*1%*3months)		
Amount to be payable as advance tax at the time of Second Installment [15.12.2012] (113300*60%}	67980	
Less: Amount actually paid	66160	
Short Fall		**1820**
Interest Payable on short fall (1820*1%*3months)		54.6
Amount to be payable as advance tax at the time of third instalment [15.03.2012](113300*100%]	113300	
Less: Amount actually paid	113300	
Short Fall		**Nil**
Total Interest Payable under section 234C		**182**

Answer to Question No.3(c)

Under section 68 of the Act where any sum is found credited in the books of an assessee maintained for any accounting year and the assessee is not in a position to offer explanation about the nature and sources thereof or the explanation offered by him is not satisfactory in the opinion of the assessing officers, the sum so credited may be treated as the assessee in respect of the accounting year in which the cash credit are found to have made in the books. This section comes into operation only when the following conditions are satisfied:

1. The assessee maintains books of account
2. The assessee fails to explain the source and nature of the sum credited: and
3. The explanation offered by the assessee is not satisfactory and the assessing officer comes to the conclusion that it is the undisclosed income of the assessee.

Answer to Question No.4(a)(i)

S.No.	Gross Total Income	Total Income
1.	Gross total income means aggregate amount computed under five heads of income i.e. salary, house property, business and profession, capital gains and other sources	Total Income means the taxable income arrives after allowing deductions under section 80C to 80U from the gross total income
.	The Gross total income is more than or equal to total income	The tax is calculated on total income
3.	Rounding off provision does not apply to Gross total Income	Total income shall be rounded off to the nearest multiple of Rs.10

Answer to Question No.4(a)(ii)

S.No.	Allowance	Perquisites
1.	An allowance is a cash payment to employees on regular basis in addition to salary to meet certain expenses incurred by him in connection with duties of his office or to compensate him for any expenditure relating to performance of his duty in particular circumstances or at particular place or under a contract	Perquisites means any casual emolument, fee or profit attached to an office or position in addition to salary or wages.
2.	An allowance may be wholly taxable, partially taxable or wholly exempt	It is a personal advantage & benefit of the recipient. It may also be given voluntary or under a contract, in cash or in kind by way of goods, service benefit or amenities

Answer to Question No.4(a)(iii)

S.No.	Active user of assets	Passive user of asset
1.	Active user includes the actual use of the asset during the previous year. The expression "used" should have a wider meaning so as to include not only actual but also passive user	Passive user means as asset is kept for use for the purpose of the business although it was not worked during the year.

Passive user entitles an assessee for the grant of depreciation in the cases of forced idleness of machinery, spare engines kept in store by a transport undertaking in case of need, etc. depreciation is admissible on the basis of passive user in respect of business; depreciation is also allowable on assets like fans, air conditioners, refrigerators, furniture etc. provided by employer at the quarters of his employees. The assessee is eligible for the grant of depreciation, when an asset becomes defective and non-functional after its bona fide installation.

Answer to Question No.4(a)(iv)

S.No.	Exemption under section 54G	Exemption under section 54GA
1.	This exemption is available onCapital Gain on Transfer of Capital assets in Case of Shifting of Industrial Undertaking from Urban Area	This exemption is available on Capital Gain on Transfer of Capital assets in Case of Shifting of Industrial Undertaking from Urban Area to any SEZ
2.	This exemption is available an individual, HUF, company or any other person who transfers the capital assets (being plant, machinery, land or building or any right in the land or building) being used for the purpose of industrial undertaking situated in an urban area to any area other than urban area	This exemption isavailable an individual, HUF, company or any other person who transfers the capital assets (being plant, machinery, land or building or any right in the land or building) being used for the purpose of industrial undertaking situated in an urban area to a special economic zone (SEZ).

Answer to Question No.4(a)(v)

S.No.	Statutory Provident Fund	Public Provident Fund
1.	Statutory Provident fund is set up under the Provident Fund Act, 1925 and is maintained by Government or Semi-Government offices or bodies, local authorities, railways, universities, colleges, corporations, banks and recognized educational institutions, etc.	While provident fund is governed by Public Provident Fund Act, 1968 to mobilize public savings
2.	Only salaried person can become members of Statutory Provident Fund	Any person can become the member of Public Provident Fund
3.	The contribution of members is deducted by the employers from the salary of their employees	Members of PPF have to open provident fund account at any branch of the SBI or its subsidiaries and specified branches of nationalized banks
4.	Amount of contribution to SPF is computed at a specified rate on account of salary of an employees	Member can deposit any amount subject to a minimum of Rs.500 and a maximum of Rs.70000 per year

Answer to Question No.4(b)

Computation of Wealth Tax Liability of Mrs.Suman for the Assessment Year 2012-13	
Particulars	**Amount**
Residential house exempt under section 5(vi)	Nil
Motor Car for Business use	1000000
Land in urban area	3500000
Cash in hand in excess of Rs.50000	75000
Cash at Bank not an assets	Nil
Land in rural assets within 5km from Delhi	500000
Jewellery	1480000
Farm house outside 30 Km from local limits of Municipality	Nil
Let out house rented for 330 days during the previous [not an assets as per section 2(ea)]	Nil
Gross Wealth	**6555000**
Less: Loan taken to purchase the urban land	500000
Net Wealth	6055000
Wealth Tax @1% on (6055000-3000000)	30550

Answer to Question No. 5(a)(i)

The deduction under section 80E is available to an individual if following conditions are satisfied:

1. Deduction available only to Individual not to HUF or other type of Assessee.
2. Deduction amount: – The amount of interest paid is eligible for deduction and moreover there is no cap on the amount to be deducted. You can deduct the entire interest amount from your taxable income. However there is no benefit available on the repayment of principal amount of the loan.
3. Deduction available if Interest is been paid during the previous year and was paid out of income chargeable to tax which means if repayment is made from income not chargeable to tax than deduction will not available.
4. Interest should have been paid on loan taken by him from any financial institution or any approved charitableinstitution for the purpose of pursuing his higher education. Interest on Loan taken from relatives or friends will not be eligible for deduction under section 80E.
5. Loan should have been taken for the purpose of pursuing higherstudies of Individual , Spouse, Children ofIndividual or of the student of whom individual is legal Guardian.

6. The whole of the amount paid during previous year towards interest is allowed as deduction and deduction shall be allowed for 8 assessment years starting from the assessment year in which the assessee starts paying the interest on loan, or until the interest thereon is paid by the assessee in full, whichever is earlier.

Answer to Question No. 5(a)(ii)

There is no tax on agricultural income but if an assessee has non-agricultural income as well as agricultural income such agricultural income is included in his total income for the purpose of computation of income tax on non-agricultural income.

The reason for totally exempting agricultural income from the scope of central income tax is that under the Constitution, the Parliament has no power to levy a tax on agricultural income. Indirect way of taxing agricultural income -This concept is known as partial integration of taxes. It is applicable to individuals, HUF, unregistered firms, AOP, BOI and artificial persons.

Two conditions which need to satisfy for partial integration are:

1. The net agricultural income should exceed Rs.5,000 for the year and
2. Non-agricultural income should exceed the maximum amount not chargeable to tax. (e. g. Rs. 5,00,000 for individual resident who's age is 80years or more, Rs.250000 for individuals who's age is 60 years or more but less than 80 years, Rs.1,90,000 for women assessees below 60 years of age, Rs.1,80,000 for all other individuals and HUFs.)

Answer to Question No. 5(a)(iii)

The assessing officer shall after giving the assessee an opportunity of being heard, make the assessment to the best of his judgement in any of the following 3 cases:

1. The assessee has failed to make the voluntary return under section 139(1) and has not made a belated return under section 139(4) or revised return under section 139(5)
2. There has been a failure to comply all the terms of a notice under section 142(1), requiring the assessee to produce accounts or other documents or information specified there in or fails to get the accounts audited under section 142(2A)
3. The return has been made, but the assessing officer considers it to be incorrect or incomplete and serves a notice under section 143(3) upon the assessee requiring his appearance or the production by him of evidence in

support of his return, but the assessee does not comply with the terms of the notice.

Answer to Question No. 5(a)(iv)

Failure to deduct the whole or part of the Tax at source (non-deduction, short deduction or delay in deduction)

1. Failure to deposit whole or part of the TDS (non-deposit, short deposit or late deposit)
2. Failure to apply for TAN within the prescribed time limit or failure to quote TAN on allotment as required under section 203A.
3. Failure to furnish, in due time, TDS returns or TDS certificates or to deliver or cause to be delivered a copy of declaration in form no. 15H/15G/27C/copy of quarterly statement.
4. Failure to mention the PAN of the deductee in all quarterly statements as well as in all certificates furnished.

Default	**Under section**	**Nature of Demand**	**Quantum of Penalty/Demand**
Failure to deduct TDS	201(1)	Tax Demand	Equal to tax amount deductible but not deducted
	201(1A)	Interest	@1% p.m. of tax deductible
	271	Penalty	Equal to tax amount deductible but not deducted

Answer to Question No. 5(a)(v)

The following assets are exempt from wealth tax

1) *Property held under trust Sec. 5(i):*Any property held under trust or other legal obligations by the assessee for anypublic purpose of a charitable or religious nature in India is exempt.

2) *Interest in the coparcener property Sec. 5(ii):*if the assessee is a member of H.U.F., he is not liable to pay tax on his share in thejoint property, so long as the property remains joint and he continues as themember of that family.

3*) One building in the occupation of former Ruler Sec. 5(iii):*any one building which is in the occupation of a Ruler and which has beendeclared as his official residence by the Central Government is totally exempt from tax.However the exemption available only to the Ruler during his life time

4) *Jewellery in possession of a former Rule Sec. 5(iv):*Jewellery in possession of a former Ruler not being his personal property whichhas been recognized by the Central Govt. as his heirloom, before commencementof Wealth Tax Act or by the board after that shall be exempt. However thisexemption is subject to fullfillment of certain conditions like keeping of jewelleryin India, in its original

shape, allowing authorized person to examine the jewelleryas and when necessary

5) *Assets of Indian repatriate Sec. 5 (v):*Indian repatriate means a person of Indian origin or a citizen of India who wasresiding in a foreign country and on leaving such country assessee has returned toIndia with the intention of permanently residing therein. In this case his followingassets shall be exempt for 7 successive assessment years, commencing with theassessment year following the date of his return to India.

(i) Money brought by him in India.

(ii) Assets brought by him in India.

(iii) Any balance in Non-Resident External Accounts in India on the date of hisreturn

(iv) Assets acquired by him out of money in his Non-resident ExternalAccount or by sending money from foreign country within 1 yearimmediately preceding the date of his return to India.

(v) Any assets acquired by him out of money brought in by him in India orout of the balance in NRE account after his arrival in India.

6) *House [Sec 5 (vi)]:*One house or part of a house or a plot of land belonging to an individual or HUFis exempt provided size of plot is not bigger than 500 square meters.

Answer to Question No. 5(b)

Computation of Income from House Property of Mr.Anurag for the Assessment Year 2012-13			
Particulars	**Amount (Rs)** House A	**Amount (Rs)** House B	**Amount (Rs)** House C
Gross Annual Value	96000	120000	110000
Less:Municipal Taxes	8000	-	-
Net annual value	88000	120000	110000
Less: Standard Deduction @30% of NAV	26400	36000	33000
Less: Interest on Loan	40000	-	-
Income from House Property	21600	84000	69000
Total income from House property (21600+84000+69000)			174600

Notes:

1. No deduction is available in respect of rent collection charges and repairs expenses
2. Interest on loan obtained for the marriage of son is not deductible
3. It is assumed that the interest is for the current year

Answer to Question No. 6(a)

Computation of Taxable Income & Tax Liability of Mr.Mahendra's HUF for the Assessment Year 2012-13	
Particulars	**Amount**

Gross Annual Value	96000		
Less: Municipal Taxes	12000		
Annual Value		84000	
Less: Standard deduction @30% of NAV		25200	
		58800	
Loss on self-occupied house		22000	
Income from House Property			36800
Income from Business			
Net income from family business		400000	
Profit from speculation in Silver	18000		
Loss: on Speculation in Gold	6000	12000	
Income from Business			412000
Income from Other Sources			
Loss from Horse Race (Not allowed to be set off)		-4000	
winning from lotteries		20000	
interest on NSC VIII Issue		12500	
dividend received from an Indian Company		exempt	
Income from Other Sources			32500
Gross Total Income			481300
Less: Deduction			
(i) U/S 80C Life Insurance Premium		12000	
(ii) U/S 80G[10000 on NDF+23465(50%of 46930)]		33465	45465
Total Income			435835
Total Income(Rounded off)			435840
Amount of Tax			
Up to Rs.180000 Nil			
From 180001 to 415840@10% i.e 10% on Rs.235839			23584
winning from lotteries **30%**			6000
Tax Payable			29584
Add: EC& SHEC @3%			887.52
Total Tax Payable			30471.5
Total Tax Payable[Rounded Off]			30470

Answer to Question No. 6(b)

<u>Assessment Procedure</u>

Ascertaining total income is one major task of the procedure involved in levying tax on an assessee. The task of assessing the income returned and determination of tax liability is called ‘assessment’. The term ’assessment’ has been used in the Income-tax Act meaning differently contexts. In certain situations, it refers to computation of income, sometimes to the determination of tax payable and in some cases to the whole procedure laid down in the Act of imposing tax liability on assessee.

Stages in Assessment:

The following are the usual stages in the process of assessment.

1. Filing a Return
2. Computation of taxable income
3. Determination of Tax payable and issue of notice of Demand.
4. The first stage in the process of assessment consists of (i) either the assessee on his own filing a return of his total income
5. The second stage is concerned with computation of taxable income of the assessee.
6. The third stage consists of determination of the sum payable by the assessee on the basis of such computation and finally making the assessment order and issue of notice of demand specifying the same, if any, payable by the assessee or grant of refund to him.

Stages in Assessment Procedure:

1. Self-Assessment [Sec. 140A
2. Summary Assessment [Sec. 143(1)]
3. Scrutiny Assessment [Sec.143 (3)]
4. Best Judgement Assessment [Sec.144 and 145(2)]