

Open Book Examination-2020
Thursday, 24-12-2020 (09:30 am)
Attempt any Four Questions, All Questions carry equal marks

B. Com. (H) CBCS Semester III

November/December 2020 Examination

Paper BCH 3.2: Income Tax Law and Practice

Paper Code: 22411302

Duration: 3 hours

Maximum Marks: 55

Instructions : Attempt any four questions. All questions carry equal marks

Q1. Mr. X is a citizen of India. He is working as marketing manager of ABC Ltd., an Indian Company since 1st June, 2015. He has been regularly going to UK for marketing promotion. During the financial years 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20, he spent 319 days, 169 days, 271 days, 315 days and 75 days in UK respectively.

He reports the following incomes for the previous year 2019-20:

	₹
1. Salary (after standard deduction) from ABC Ltd. received outside India	24,00,000
2. Income from house property in London (50% remitted to India)	8,00,000
3. Past untaxed profits brought to India during previous year	5,00,000
4. Dividend from an Indian Company received outside India	13,00,000
5. Gift in pounds received from a friend in UK	4,00,000
6. Interest on UK development bonds (Two-fifth received in India)	4,00,000
7. Capital gain on transfer of property in Pune but amount received in UK	12,00,000

Determine the residential status and the gross total income of Mr. X for the assessment year 2020-21 assuming that prior to 1st June 2015, he had never travelled abroad.

Q2. Mrs. Garima Sharma, an employee of Sunrise Pvt. Ltd. in Punjab and not covered by Payment of Gratuity Act, 1972, retires at the age of 65 years on 28.02.2020 after completing 39 years and 8 months of service. At the time of retirement, she is entitled to a monthly pension of Rs. 20,000. With effect from 01.03.2020, she gets 75% of pension commuted for 9,00,000. She also receives Rs. 15,00,000 as gratuity and Rs. 25,00,000 as Accumulated balance of Recognised Provident Fund. Determine the income chargeable to tax for Mrs. Garima for AY 2020-21 with the help of following information:

S. No.	Particulars	Amount (Rs.)
(i)	Basic Salary	60,000 p.m.
(ii)	Dearness Pay (60% forms part of all retirement benefits)	8,000 p.m.
(iii)	Commission	2,400 p.m.

(iv)	Medical allowance	24,500
(v)	House rent allowance (rent paid Rs. 25,000 p.m. up to 31.01.2020. With effect from 01.02.2020, she resides in her own house)	42,000 p.m.
(vi)	Gift of Phillips Air Purifier on her retirement from employer company	10,000
(vii)	Credit card provided to her only to be used for official purposes.	4,000 p.m.
(viii)	Loan at concessional rate of 2% taken from employer company Rs. 1,00,000 on 03.11.2019 and repaid on 28.11.2019. SBI lending rate is 14% p.a.	
(ix)	Purchases a house property from her close friend, Neha, for Rs. 2,00,000 (stamp duty value of the property is Rs. 12,00,000)	

Note: Salary and Pension become due on last day of each month

During the Previous Year 2019 – 20, she has made the following investments, deposits or payments:

- Life insurance premium (policy taken in 2018) on the life of her dependent brother (Sum assured: Rs. 5,00,000): Rs. 15,000
- Repayment of loan (towards principal amount) taken from IDBI for purchase of residential house property: Rs. 1,00,000
- Life insurance premium (policy taken in 2017) on her life (Sum assured: Rs. 7,40,000): Rs. 34,000
- Mediclaim insurance premium paid through account payee cheque for sister in law (senior citizen): Rs. 60,000
- Donation to political party in cash: Rs. 10,000
- Interest on loan for higher education of her son Rs. 20,000

Q3. Ms. Raani (age: 62 years), a retired government employee, is getting a monthly pension of Rs.90,000. She owns three houses, particulars of which are as follows:

Particulars	I ₹	II ₹	III ₹
Nature of Property	Self-Occupied for residence	Self-Occupied for residence	Self-Occupied for residence
Municipal valuation (MV)	25,000	3,40,000	500,000
Fair Rent (FR)	90,000	3,65,000	500,000
Standard Rent	60,000	3,75,000	4,50,000
Municipal Taxes	10%	12%	8%
Date of construction	August 31, 2018	March 31, 2018	April 1, 2014
Repairs	20,000	25,000	300,000
Ground Rent	5,000	5,000	5,000
Insurance	10,000	1,200	1,500
Interest on capital borrowed for repair of the house property during 2019-20	-	-	45,000
Capital borrowed for construction of House @ 12% per annum	30,00,000	25,00,000	-
Date of borrowing for both houses,	Entire Loan still	Entire Loan repaid	
June 1, 2015	outstanding	along with interest on 31 December, 2018	-

Determine taxable income and tax liability of Ms. Raani, suggesting the best option on the assumption that she contributes Rs.1,50,000 towards PPF and pays medical insurance premium on her health Rs.75,000.

Q4. X (50 years) and Y (45 years) are two partners in a firm sharing profits and losses equally. The profit and loss account of the firm for the year ending 31st March 2020 is as follows:

Particulars	₹	Particulars	₹
Cost of goods sold	32,00,000	Sales	50,00,000
Salary to staff	5,87,000	Long Term Capital Gains	1,40,000
Depreciation	1,80,000	Refund of Sales Tax (not allowed as Deduction in earlier PY)	50,000
Salary to Partners:		Other business receipts	1,60,000
X	2,60,000		
Y	1,40,000		
Interest on Capital @18%:			
X	36,000		
Y	25,200		
Sales Tax	1,00,000		
Provision for Sales Tax	25,000		
Net Profit	7,96,800		
Total	53,50,000	Total	53,50,000

Additional information:

1. The firm completed all legal formalities to get the status of the firm.
2. The firm donated ₹80,000 to notified public charitable trust, which is included in other expenses.
3. Depreciation as per Section 32 is ₹1,62,000.
4. Provision for sales tax, amounting to ₹12,000 paid on 10th July 2020 and ₹13,000 paid on 11th November 2020.
5. Salary to staff includes an amount of ₹60,000 paid to a relative which is unreasonable to the extent of ₹8,000.

Other incomes of the partners are given below:

	X (₹)	Y (₹)
Savings Bank Interest	12,000	15,000
Dividend from Indian Company	40,000	50,000

Find out the net income and tax liability of the firm and partners for the assessment year 2020-21. Date of filing of return is 31st July 2020.

Q5. Mr. Harsh is a manufacturer of plastic fittings used in construction of buildings.

- i. His stock and machinery were damaged and destroyed in a fire accident. The value of stock lost (total damage) was Rs.9,75,000. Some parts of the machinery could be salvaged, which were later taken over by the insurance company to settle the claim. The WDV of the block consisting of machinery as on 1-4-2019 was Rs.16,20,000. Mr. Harsh received Rs. 7,20,000 towards loss of stock and Rs.9,00,000 towards damage of machinery from the insurance company.
- ii. He had purchased a vacant land at a cost of Rs.60 lakhs in the financial year 2003-04. Registration and other expenses were 10%. He constructed residential building on the said land for Rs.75 Lakhs during financial year 2005-06. He entered into an agreement for sale of the said building with Mr. Vasu in August, 2019. The sale consideration was fixed at Rs. 400 lakhs and on the date of agreement, Mr. Harsh received Rs.15 lakhs as advance in cash. However, Mr. Vasu could not arrange the money on the due date, hence the advance paid by him was forfeited by Mr. Harsh. He further entered into an agreement with Mr. Raathi to sell the house for Rs.420 Lakhs. The sale deed was executed and registered on 15-02-2020 for the agreed consideration, but the stamp duty value of the property was fixed at Rs.450 lakhs. Mr. Harsh paid 1% brokerage on sale consideration received. Subsequent to sale, Mr. Harsh made the following investments:
 1. Acquired a residential house at Delhi for Rs. 60 lakhs
 2. Acquired a residential house at Dubai for Rs. 30 lakhs
 3. Subscribed to NHA bonds: Rs 45lakhs on 30-05-2020 and Rs. 15 lakhs on 07-07-2020.

Compute the income chargeable under the head "Capital Gains" for assessment year 2020-21. The choice of exemption must be in the manner most beneficial to the assessee indicating clearly the reasons for it. Also explain the tax treatment of advance money received and retained by Mr. Harsh.

(Cost inflation index: FY 2003-04:109; FY 2005-06: 117; 2019-20: 289)

Q6.

- a) Nirja is a minor daughter of Mr. Suket and Mrs. Reena. For Previous Year 2019-20, Nirja has an income of Rs. 1,65,000 from singing in concerts. Total Income of father and mother (before including minor child's income) is Rs. 6,50,000 and Rs. 7,00,000 respectively. Who is assessable in respect of Nirja's income for AY 2020-21? In light of this situation, explain the provisions relating to clubbing of income of a minor child under section 64(1A) of Income tax act, 1961.
- b) Human labour and skill are required both in the performance of the basic as well as the subsequent operations. Describe the facts of the Supreme court case CIT vs. Raja Benoy Kumar Sahas Roy (1957) and the income tax principle derived from it. Also, explain the scheme of partial integration of non-agricultural income with agricultural income ,giving suitable example.

Dr S B Rathore (Tax Doctor)
Former Associate Professor of Commerce
Shyam Lal College (University of Delhi)
www.taxclasses.in