

**Solutions**  
**CBCS B.Com (H)**  
**Income Tax Law and Practice**  
**AY 2020-21**

**Open Book Exam-2020**  
**Thursday, 24-12-2020**  
**Sols by Paper Setter**  
**Dr Renu Gupta, JMC**

Q1. Mr. X, an Indian citizen, is leaving India for the purpose of employment. The basic condition two of 60 days or more is not applicable to determine the residential status.

Mr. X is present in India for 291 days (366-75). He is fulfilling first condition of 182 days or more. He is resident in India.

For determining whether he is ROR or RNOR, he must fulfil the following two additional conditions:

1. He is resident in India for two out of ten years immediately preceding previous year.
2. He is in India for 730 days or more in seven years preceding previous year.

|                        |    |
|------------------------|----|
| 2012-13: 365           | R  |
| 2013-14: 365           | R  |
| 2014-15: 365           | R  |
| 2015-16: 47 (366-319)  | NR |
| 2016-17: 196 (365-169) | R  |
| 2017-18: 94 (365-271)  | R  |
| 2018-19: 50 (365-315)  | NR |
| 2019-20: 291 (366-75)  | R  |

**(6.75 marks)**

He is fulfilling both the conditions. He is Resident and Ordinarily Resident in India.

**Gross Total Income (7 marks):**

|   | ₹                       |
|---|-------------------------|
| 1. Salary (Income accruing or arising outside India)  | 24,00,000               |
| 2. Income from house property in London (Income accruing or arising outside India)  | 8,00,000                |
| 3. Past untaxed profits brought to India during previous year   | -                       |
| 4. Dividend from an Indian Company (exempt upto ₹10,00,000)   | 3,00,000                |
| 5. Gift from a friend in UK   | 4,00,000                |
| 6. Interest on UK Development Bonds<br>2/5 <sup>th</sup> received in India<br>3/5 <sup>th</sup> accruing or arising outside India | 4,00,000                |
| 7. Capital gains on transfer of property in Pune (Income deemed to accrue or arise in India)                                      | 12,00,000               |
| <b>Gross Total Income</b>   | <b><u>55,00,000</u></b> |

**Q. No. 2. Computation of total income of Mrs. Garima for AY 2020-21**

| S. No. | Particulars  | Amount (₹)  | Amount (₹)       |
|--------|--|---|------------------|
| (i)    | Basic Salary   | 60,000 X 11   | <b>6,60,000</b>  |
| (ii)   | Dearness Pay (60% forms part of all retirement benefits) <b>(1 mark)</b>   | 8,000 X 11  | <b>88,000</b>    |
| (iii)  | Commission   | 2,400 X 11  | <b>26,400</b>    |
| (iv)   | Medical allowance  | 24,500  | <b>24,500</b>    |
| (v)    | House rent allowance (rent paid ₹ 25,000 p.m. upto 31.01.2020. With effect from 01.02.2020, she resides in her own house)<br>Least of the following is exempt:<br>a) 40% of 64,800 = 25,920 p.m.<br>b) 42,000 p.m.<br>c) 25,000 – 10% of 64,800 = 18,520 p.m.<br>[salary = B/S + D/A = 60000+4800 = 64,800 p.m.]<br><b>(2 marks)</b> | 42,000 X 11 = 4,62,000<br><br>Less: Exempt 18,520 X 10 = (1,85,200) | <b>2,76,800</b>  |
| (vi)   | Gift of Phillips Air Purifier on her retirement from employer company <b>(1 mark)</b>  | 10,000 – 5,000  | <b>5,000</b>     |
| (vii)  | Credit card provided to her only to be used for official purposes. <b>(0.5 mark)</b>   | 4,000 p.m.  | <b>NIL</b>       |
| (viii) | Loan at concessional rate of 2% taken from employer company ₹ 1,00,000 on 03.11.2019 and repaid on 28.11.2019. SBI lending rate is 14% p.a. <b>(1 mark)</b>  |   | <b>NIL</b>       |
| (ix)   | Pension<br>Uncommuted: 25% of 20,000 X 1 month<br><b>(0.5 mark)</b>  |   | <b>5,000</b>     |
|        | Commuted: 9,00,000<br>Less: Exempt (1/3 of 12,00,000) = (4,00,000)<br><b>(1 mark)</b>  |   | <b>5,00,000</b>  |
| (x)    | Gratuity 15,00,000<br>Less: Least is exempt (12,63,600)<br>a) 20,00,000<br>b) 15,00,000<br>c) $\frac{1}{2} \times 64,800 \times 39 = 12,63,600$<br><b>(2 marks)</b>  |   | <b>2,36,400</b>  |
| (xi)   | Accumulated balance of Recognised provident fund<br><b>(0.5 mark)</b>  |   | <b>EXEMPT</b>    |
|        | <b>GROSS SALARY</b>  |   | <b>18,22,100</b> |

|  |   |          |                   |
|--|---|----------|-------------------|
|  | Less: Standard Deduction <b>(0.5 mark)</b>  |          | <b>(50,000)</b>   |
|  | <b>Income under the head salary</b>   |          | <b>17,72,100</b>  |
|  | <b>Income from other sources:</b> Purchases a house property from her close friend, Neha, for ₹ 2,00,000 (stamp duty value of the property is ₹ 12,00,000) <b>(0.75 mark)</b>   |          | <b>10,00,000</b>  |
|  | <b>GROSS TOTAL INCOME</b>   |          | <b>27,72,100</b>  |
|  | Less: Deductions under chapter VI -A  |          |                   |
|  | <b>u/s 80C</b>  |          | <b>(1,34,000)</b> |
|  | <ul style="list-style-type: none"> <li>Life insurance premium (policy taken in 2018) on the life of her dependent brother (Sum assured: ₹ 5,00,000): ₹ 15,000</li> </ul>        | NIL      |                   |
|  | <ul style="list-style-type: none"> <li>Repayment of loan (towards principal amount) taken from IDBI for purchase of residential house property: ₹ 1,00,000</li> </ul>           | 1,00,000 |                   |
|  | <ul style="list-style-type: none"> <li>Life insurance premium (policy taken in 2017) on her life (Sum assured: ₹ 7,40,000): ₹ 34,000 <b>(1.5 marks)</b></li> </ul>              | 34,000   |                   |
|  | <b>u/s 80D</b>  |          | <b>NIL</b>        |
|  | <ul style="list-style-type: none"> <li>Mediclinim insurance premium paid through account payee cheque for sister in law (senior citizen): ₹ 60,000 <b>(0.5 mark)</b></li> </ul> |          |                   |
|  | <b>u/s 80E</b>  |          | <b>(20,000)</b>   |
|  | <ul style="list-style-type: none"> <li>Interest on loan for higher education of her son ₹ 20,000 <b>(0.5 mark)</b></li> </ul>   |          |                   |
|  | <b>u/s 80 GGC</b>   |          | <b>NIL</b>        |
|  | <ul style="list-style-type: none"> <li>Donation to political party in cash: ₹ 10,000 <b>(0.5 mark)</b></li> </ul>   |          |                   |
|  | <b>TOTAL INCOME</b>   |          | <b>26,18,100</b>  |

### Q No-3

Income from House Property

**If all three are self-occupied**

| Particulars                  | House I   | House II   | House III |
|------------------------------|-----------|------------|-----------|
| NAV                          | NIL       | NIL        | NIL       |
| Less Deductions U/S 24       |           |            |           |
| Interest on borrowed capital | (200,000) | (1,10,000) | (30,000)  |
| Income from H P              | (200,000) | (1,10,000) | (30,000)  |
|                              | W.N.1     | W.N.1      |           |

**W.N.1- Interest on borrowed capital (3 marks)****House No-1**

- Pre -Construction period: June 1,2015 to March 31,2018 : 34 months  
Interest =  $30,00,000 \times 12/100 \times 34/12 = 10,20,000$   
2,0,4000 can be claimed as deduction w.e.f. 2018-19 for five consecutive years.
- Interest for current year 2019-20:  $30,00,000 \times 12/100 = 3,60,000$
- Total interest ₹2,04000+ 3,60,000= ₹5,64,000 ( allowed maximum ₹200,000)

**House No-2**

- Pre- Construction period : June 1, 2015 to March 31,2017: 22 months  
Interest =  $25,00,000 \times 12/100 \times 22/12 = 5,50,000$  (₹1,10,000) can be claimed over five consecutive years starting from 2017-18.

**House No-3**

Interest on capital borrowed for repairs allowed up to ₹30,000

**If all three are Deemed to be Let out (3 marks)**

| Particulars                      | House I       | House II        | House III       |
|----------------------------------|---------------|-----------------|-----------------|
| GAV                              | 60,000        | 3,65,000        | 4,50,000        |
| Less: Municipal Taxes            | 10% (2500)    | 12% (40,800)    | 8% (40,000)     |
| <b>NAV</b>                       | <b>57,500</b> | <b>3,24,200</b> | <b>4,10,000</b> |
| Less: Deductions u/s 24          |               |                 |                 |
| i. Std Deduction 30% of NAV      | (17,250)      | (97,260)        | (1,23,000)      |
| ii. interest on borrowed capital | (5,64,000)    | (1,10,000)      | (45,000)        |
| Income from HP                   | (5,23,750)    | 1,16,940        | 2,42,000        |

**Best option (4 marks)**

| Particulars  |        | INCOME     |                 |           |            |
|--|--------|------------|-----------------|-----------|------------|
| <b>OPTION I</b>  |        |            |                 |           |            |
| House I  | S.O.   | (2,00,000) | Maximum Allowed |           |            |
| House II   | S.O.   | (1,10,000) |                 | (200,000) |            |
| House III  | D.L.O. | 2,42,000   |                 | 2,42,000  |            |
| <b>Income from House Property</b>  |        |            |                 |           | 42,000     |
| <b>OPTION II</b>   |        |            |                 |           |            |
| House I  | S.O.   | (2,00,000) | Maximum Allowed |           |            |
| House III  | S.O.   | (30,000)   |                 | (200,000) |            |
| House II   | D.L.O. | 1,16,940   |                 | 1,16,940  |            |
| <b>Income from House Property</b>  |        |            |                 |           | (83060)    |
| <b>OPTION III</b>  |        |            |                 |           |            |
| House I  | D.L.O. | (5,23,750) |                 |           |            |
| House II   | S.O.   | (1,10,000) |                 |           |            |
| House III  | S.O.   | (30,000)   |                 |           |            |
| <b>Income from House Property</b>  |        |            |                 |           | (6,63,750) |
| OPTION III is best as it shows higher loss which can be adjusted against other incomes |        |            |                 |           |            |

**Computation of Income and Tax liability (3.75 marks)**

| Particulars   | ₹         | ₹             |
|---|-----------|---------------|
| <b>Salaries</b>   |           |               |
| Pension 90,000 * 12   | 10,80,000 |               |
| Less: Std Deduction u/s 16  | (50,000)  |               |
|   |           | 10,30,000     |
| House Property (allowed adjustment of only 200,000, remaining can be carried forward to be set off) | -6,63,750 | (200,000)     |
| Gross Total Income  |           | 8,30,000      |
| Less Deductions: u/s (i) 80C- Contribution to PPF   | 1,50,000  |               |
| (ii) 80D- Medical Insurance premium for self (sr.citizen)   | 50,000    | 200,000       |
| Taxable Income  |           | 6,30,000      |
| Tax on above  |           | 36,000        |
| Add: H.E.C. 4%  |           | 1,440         |
| Tax payable   |           | <b>37,440</b> |

**Q4. Business Income (3.75 marks):**

|  | ₹          | ₹                      |
|--|------------|------------------------|
| Net profits as per Profit and Loss A/c |            | 7,96,800               |
| <u>Add:</u> Unreasonable Salary        | 8,000      |                        |
| Excess depreciation                    | 18,000     |                        |
| Provision for Sales Tax                | 13,000     |                        |
| Remuneration to Partners               | 4,00,000   |                        |
| Interest on Capital                    |            |                        |
| 12% allowed ₹40,800                    |            |                        |
| 6% disallowed                          | 20,400     | 4,59,400               |
|  |            | <hr/> 12,56,200        |
| <u>Less:</u> Long Term Capital Gains   | (1,40,000) |                        |
| Refund of Sales Tax                    | (50,000)   | (1,90,000)             |
| <b>Book Profits</b>                    |            | <hr/> <b>10,66,200</b> |

**Less: Remuneration to Partners (2 marks):**

|   |          |
|---|----------|
| 90% of first ₹3,00,000 or ₹1,50,000 whichever is more | 2,70,000 |
| On balance ₹7,66,200*60%                              | 4,59,720 |

or ₹4,00,000 whichever is less

( 4,00,000)

**Business Income**

**6,66,200**

**Total Income of the Firm (2 marks):**

Business Income 6,66,200

Long Term Capital Gains 1,40,000

**Gross Total Income 8,06,200**

Less: 80G (33,310)

(Note: Adjusted Gross Total Income ₹6,66,200

10% of Adjusted Gross Total Income ₹66,620

or ₹80,000 whichever is less

50% of ₹66,620 ₹33,310

**Net Income 7,72,890**

**Tax Liability (2 marks):**

₹

Long Term Capital Gains ₹1,40,000\*20% 28,000

Balance ₹6,32,890\*30% 1,89,867

**2,17,867**

Add: HEC @ 4% 8,715

**Tax Payable 2,26,582**

**Income of partners (4 marks):**

X (₹)

Y (₹)

Business Income: Share of Profit from firm

-

-

Remuneration received from firm

2,60,000

1,40,000

Interest on Capital

24,000

16,800

**2,84,000**

**1,56,800**

**Other sources:**

Savings Bank Interest

12,000

15,000

Dividend from Indian Company

-

-

**Gross Total Income**

**2,96,000**

**1,71,800**

|                      |                 |                 |
|----------------------|-----------------|-----------------|
| <u>Less: 80TTA</u>   | (10,000)        | (10,000)        |
|                      | <b>2,86,000</b> | <b>1,61,800</b> |
| <b>Tax</b>           | 1,800           | -               |
| Less: Rebate u/s 87A | (1,800)         | -               |
|                      | <b>Nil</b>      | <b>Nil</b>      |

**Note: Kindly ignore the words “which is included in other expenses” given in point no. (2). Benefit of doubt should be given to the student in case adjustment of office expenses has been made.**

### Q No. 5

| (i)   | ₹            | ₹                 |                   |
|---|--------------|-------------------|-------------------|
| a) Amount received from Insurance co. towards loss of stock                                     | 7,20,000     |                   |                   |
| Less: Value of stock lost   | (9,75,000)   |                   |                   |
| Loss from Business  |              | <b>(2,55,000)</b> | <b>2 Marks</b>    |
| b) Computation of Capital Gains   |              |                   |                   |
| WDV of the machinery at the beginning of year   | 16,20,000    |                   |                   |
| less: Claim Received  | (9,00,000)   |                   |                   |
| Short term capital loss   |              | <b>(7,20,000)</b> | <b>2 marks</b>    |
| <b>(ii) Computation of Long term capital gains</b>  |              |                   |                   |
| Full value of consideration ( stamp duty value being more than 105% of the sale consideration). |              | 450,00,000        | <b>1 mark</b>     |
| less: brokerage paid 1% of sale consideration   | (4,20,000)   |                   | <b>1 mark</b>     |
| indexed cost of acquisition<br>66,00,000 X 289/109  | (174,99,082) |                   | <b>2 marks</b>    |
| indexed cost of improvement<br>75,00,000 X 289/ 117   | (185,25,641) | (364,44,723)      | <b>2 marks</b>    |
| Long term Capital Gain  |              | 85,55,276         |                   |
| Less: exemption u/s 54 (purchase of residential house in Delhi)                                 | (60,00,000)  |                   | <b>1 mark</b>     |
| Less: exemption u/s 54 EC( remaining capital gain allowed as amount invested is ₹45,00,000)     | (25,55,276)  | (85,55,276)       | <b>1mark</b>      |
| <b>Long term capital gain</b>   |              | <b>NIL</b>        |                   |
| <b>Income under the head capital gain</b>   |              |                   |                   |
| Long term capital gain  |              | NIL               |                   |
| Short term capital loss (to be carried forward)   |              | (7,20,000)        |                   |
| <b>Income from other sources</b>  |              | 15,00,000         | <b>1.75 marks</b> |
|   |              |                   |                   |

|   |  |  |  |
|---|--|--|--|
| (Amount forfeited by Mr. Harsh will be taxable as Income from other source) |  |  |  |
|   |  |  |  |

**Q No. 6**

- a) Minor income **(7 marks)**
- b) Case law and Partial integration **(6.75 marks)**

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