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Answer Paper	
Direct Tax Laws	**Duration**: 75
Details: Test – 3	**Marks**: 40

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

ANS 1:

Compute the tax payable by the Hindustan Charitable Foundation(amounts in Rs.):

Particulars	**Amount in Rs.**
Fair Market Value (FMV) of Land and Building	1,20,00,000
FMV of Investment in Equity shares - Quoted [WN-3(a)]	30,00,000
FMV of Investment in Equity shares - Unquoted [WN-2 & 3(b)]	9,00,000
Bank Balance	50,000
Cash Balance	50,000
Total Assets	**1,60,00,000**
Less: Liabilities	19,00,000
	1,41,00,000
Less: Asset acquired out of agricultural income u/s 10(1) [WN-1]	1,20,00,000
	21,00,000
Add: Loan taken for purchase of Land and Building out of agricultural income [WN-1]	17,00,000
Loan taken for purchase of unquoted shares [WN-2]	2,00,000
Accreted Income	**40,00,000**
Less: Asset transferred within 12 months from the end of month in which dissolution took place	10,00,000

	30,00,000
Tax @ 30%	9,00,000
Surcharge @ 12%	1,08,000
	10,08,000
Add: HEC @ 4%	40,320
Total tax liability	**10,48,320**

Working Notes:

(1) As per proviso 1 to Section 115TD(2), any asset that was acquired out of agricultural income and corresponding liability incurred for acquiring such assets shall be excluded. Thus, FMV of Land & Building (on the date of dissolution) of Rs.120,00,000 and loan availed for acquiring such Land & Building is excluded.

(2) Investment in unquoted shares and loan availed for such investment purpose, prior to registration shall be excluded as per proviso 1 to Section 115TD(2).

(3) As per Rule 17CB, -

(a) FMV of quoted shares on the date of dissolution amount to Rs. 30,00,000;

(b) FMV computation for investment in unquoted shares of X Ltd (amounts in Rs.):

Particulars		**Amount in Rs.**
Book value of all asset (except bullion and jewelry)		1,00,00,000
Market value of Bullion and Jewelry		50,00,000
Total Assets	**[A]**	1,50,00,000

Total Liabilities	**[B]**	60,00,000
Net Assets	**[C = A - B]**	90,00,000
No. of shares in X Ltd.	**[D]**	2,00,000
FMV per share in X Ltd.	**[E = C/D]**	45/share
FMV of shares held in X Ltd. by Hindustan Charitable Foundation [40,000 shares × 50%× 45] (Only 50% of equity shares is considered for the purpose of FMV computation since remaining 50% of equity shares was acquired before registration of trust u/s 12AA)		9,00,000

ANS 2:-

Computation of MAT liability of Godavari Ltd. under section 115JB for A.Y. 2022-23 (amount in Rs.):

Book profit after adjustment of items under section 115JB(2) [except brought forward business loss and unabsorbed depreciation]		87,34,000
Less: Brought forward business loss [Rs.8,20,000 + Rs.7,30,000]	15,50,000	
Unabsorbed depreciation (Rs. 7,60,000 + Rs.9,50,000)	17,10,000	32,60,000
Since Godavari Ltd. is a company against which an application for corporate insolvency resolution process has been admitted by NCLT under section 7 of the Insolvency and Bankruptcy Code, 2016, the amount of total loss brought forward (including unabsorbed		

depreciation) is allowed to be reduced from the book profit for the purposes of levy of MAT under section 115JB].		
Book profit computed in accordance with Explanation 1 to section 115JB(2)		**54,74,000**
Add: Items credited to OCI that will not be reclassified to profit or loss:		
Deferred gains on cash flow hedges	6,70,000	
Share of Other Comprehensive Income of Other Associates	2,80,000	
Re-measurement of post-employment benefit obligations	5,20,000	
Revaluation surplus for assets Rs.8,20,000 [Book profit not to be increased by revaluation surplus for assets as per proviso to section 115JB(2A)]	Nil	14,70,000
		69,44,000
Less: Items debited to OCI that will not be reclassified to profit or loss:		
Deferred costs of hedging	3,80,000	
Changes in fair values of equity instruments Rs.8,00,000 [Book profit not to be decreased by changes in fair values of equity instruments as per proviso to section 115JB(2A)]	Nil	3,80,000
		65,64,000
Add: One-fifth of Transition amount [Credit Balance)		
Transition amount	48,00,000	

Less: Amounts to be excluded from above		
Capital Reserve	6,00,000	
Translation difference in foreign operations	5,00,000	
	37,00,000	
One-fifth of Rs.37,00,000		7,40,000
Book Profit for levy of MAT		**73,04,000**
MAT on book profit under section 115JB = 15% of Rs.73,04,000		10,95,600
Add: Health and education cess @ 4%		43,824
MAT liability for A.Y. 2022-23 (rounded off)		**11,39,420**

Computation of tax credit to be carried forward (amount in Rs.) :

MAT liability for A.Y. 2022-23 (rounded off)	11,39,420
Income-tax computed as per the normal provisions of the Act for A.Y. 2022-23	10,20,000
Since the income tax liability computed as per the regular provisions of the Income-tax Act, 1961 is less than the MAT payable, the book profit would be deemed to be the total income and tax is leviable@ 15%: The total tax liability (rounded off) is Rs. 11,39,420/-	
Computation of tax credit to be carried forward	
Tax payable for A.Y. 2022-23 on deemed total income	11,39,420

Less: Income-tax payable as per the normal provisions of the Act	10,20,000
Tax credit in respect of tax paid on deemed income [Can be carried forward for 15 Assessment Years]	**1,19,420**

<u>ANS 3:-</u>

The answer is as follows -

(i) Any movable property received for inadequate consideration by any person is chargeable to tax u/s 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs.50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr. B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs. 2,00,000.

The indexed cost of acquisition (Rs.4,45,000) less the actual sale consideration (Rs.3,00,000) would result in a long term capital loss of Rs.1,45,000 in the hands of Mr. B, which is eligible for set off against any other long term capital gain.

(ii) Total Income of Chhaya = Rs.50,000+ LTCG (Rs. 6 lakhs, being stamp value u/s 50C – Rs. 4 lakhs) = Rs.2, 50,000.

Total Income of Dayama = Rs.2,05,000 + Rs.1,75,000 = Rs.3,80,000. [Difference between the stamp duty value of Rs. 6,00,000 and the actual consideration of Rs. 4,25,000 paid is taxable under section 56(2)(x) since the difference exceeds Rs.50,000 being, the higher of Rs.50,000 and 10% of consideration i.e. Rs.42,500.]

(iii) No, the cash gift so received by Mr. Cheqian shall not be taxable in his hands as any sum received without consideration i.e., as cash gift from a charitable trust registered u/s 12AA is specifically excluded u/s 56(2)(x).

(6 Marks)

ANS 4:-

Computation of Total income of Mr. Raghav for the Assessment Year 2022-23

Particulars	Rs.	Rs.
Salary: [Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M Pvt. Ltd. they are a substantial interest in the company. Since Mr. Raghav is working in TV without a professional qualifications commensurate with his salary, the salary of Rs. 3,75,000 received by him would be included in the hands of Mrs. Raghav.]		Nil
Income from house property		
House 1[self occupied]		
Net annual value	-	
Less: Interest on loans[upto Rs.2,00,000]	2,00,000	-2,00,000
House 2[Let out]		
Gross annual value [Rs.60,000 ×12][rent receivable has been taken as the gross annual value in the absence of other information]	7,20,000	
Less: Municipal taxes	-	
Net annual value	**7,20,000**	
Less: Deduction from Net Annual Value		

(a) 30% of Net Annual value	2,16,000	
(b) Interest on loan	5,00,000	4,000
House in Delhi[Since Mr. Raghav receives direct or indirect benefit from income arising to his sister's daughter ,Ms. Vamika , from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per prevision to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamika's]		
Gross Annual value	5,50,000	
Less Municipal taxes	-	
Net Annual Value	**5,50,000**	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual value	1,65,000	
(b) interest on loans	-	3,85,000
		1,89,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s10(2A)]	-	
Exempt income cannot be clubbed		
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Raghav as	13,00,000	

per section 60, since he transferred the income, i.e. dividends, without transferring the asset, i.e. preference shares]		
Interest on debentures	7,50,000	
Interest from saving bank account	2,00,000	
Cash gift[Taxable, since sum of money exceeding Rs.50,000 is received from his niece, who is not a relative as per section56(2)]	75,000	23,25,000
Gross Total Income		**25,14,000**
Less: Deduction under Chapter VI-A		
Deduction u/s 80C[Principal repayment of loan Rs.5 lakh, restricted to Rs.1,50,000]	1,50,000	
Deduction u/s 80TTA[interest from savings bank account]	10,000	1,60,000
Total Income		**23,54,000**

(8 Marks)

ANS 5:-

Deduction u/s 10AA is available in respect of units established in SEZ @ 100% of the profits and gains derived from export of such articles or things or from services for a period of 5 consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be. Therefore, in this case, the profits from Unit X, located in a SEZ, will be eligible for deduction of 100% of the profits and gains derived from export, since P.Y. 2021-22 is the second year of its operations. It is assumed that Unit X has fulfilled all the specified conditions for claim of deduction. Unit Y is, however, not eligible for deduction u/s 10AA in respect of the exports made by it since it is located in a Free Trade Zone

Computation of total income of XYZ Ltd. (amount in Rs):

Profits and gains of business or profession		
• Unit X [WN-1]	63,81,000	
• Less : Deduction u/s 10AA [WN-2]	35,45,000	
		28,36,000
Unit Y [WN-1]		36,54,000
Total Income		64,90,000

Working Notes:

(1) Computation of unit-wise profits of the business (amount in Rs):

Particulars	**Unit X**	**Unit Y**	**Total**
Profit earned (after claim of bad debts u/s 36(1)(vii) in Unit X]	63,00,000	36,00,000	99,00,000
Add: Depreciation calculated on SLM basis and charged in the proportion of sales (3:2)	5,40,000	3,60,000	9,00,000
	68,40,000	**39,60,000**	**1,08,00,000**
Less: Depreciation calculated @ 15% on WDV basis and charged in the proportion of sales (3 : 2) (Note)	4,59,000	3,06,000	7,65,000

Profit of the business	**63,81,000**	**36,54,000**	**1,00,35,000**

Note: Computation of depreciation as per the Income tax Rules, 1962 -

Particulars	**Unit X (Rs)**
Actual cost of plant and machinery Rs 9,00,000/15%)	60,00,000
Less: Depreciation @ 15% of P.Y. 2020-21 (being the first year of operations)	9,00,000
WDV as on 01-04-2021	51,00,000
Depreciation @ 15% on WDV for P.Y. 2021-22 (Rs 51,00,000 x 15%)	7,65,000

(2) (a) Export turnover, for the purpose of section 10AA, means the consideration received in respect of export by the unit in SEZ. Therefore, in this case, the amount of Rs 20,00,000 which has become irrecoverable due to bankruptcy of one of the foreign buyers in Unit X will not be included in its export turnover. Therefore, export turnover of Unit X (in SEZ) = Rs 1,20,00,000 - Rs 20,00,000 = Rs 1,00,00,000.

(b) Profits and gains from on site development of computer software outside India shall be deemed to be the profits and gains derived from export of computer software outside India. Since the same has already been included in the figure of export sales, no further adjustment is required.

(c) Deduction under section 10AA in respect of Unit X:

= Profits of the business of Unit in SEZ - Rs 63, 81,000 ×

$$\frac{\text{Export turnover of unit in SEZ (in respect of computer software) – Rs 1,00,00,000}}{\text{Total turnover of unit in SEZ – Rs 1,80,00,000}}$$

= 35,45,000/-

MCQ's

A 1:- D

A 2:- B

Explanation:

Computation of Gross total income-

Particulars	**Rs.**	**Rs.**
Capital Gains		
LTCG on sale of equity shares listed in recognised stock exchange on which STT has been paid	7,20,000	
Less: Short term capital loss	2,00,000	5,20,000
Profit and gains of business or profession:		
general business profits		5,00,000
Gross Total Income		**10,20,000**

A 3:- D

Explanation: Computation of income earned by minor children to be clubbed with the income of Mr. Ghose:

Particulars	Rs.
(i) Income of first daughter	7,500
Less: Income exempt u/s 10(32)	1,500
Total (A)	6,000
(ii) Income of first son	5,500
Less: Income exempt u/s 10(32)	1,500
Total (B)	4,000
(iii) Income of second daughter (it shall not be clubbed in the hands of Ghose since she is suffering from disability u/s 80U)	
(iv) Income of second son	1,250
Less: Income exempt u/s 10(32)	1,250
Total Income to be clubbed as per Sec 64(1A) (A +B+C)	**10,000**

A 4:- C

Explanation: No capital gain arises in hands of person giving gifts as it is not regarded as transfer.

	Particulars	Rs.
1	Gift of immovable property will be taxable as SDV exceeds Rs. 50,000	80,00,000
2	Gift of house property will not be taxable as SDV does not exceed Rs. 50,000	
3	Gift of house property in Delhi will be taxable as SDV exceeds Rs. 50,000	1,00,000
	Income from other sources in hands of P	**81,00,000**

A 5:- D

Explanation: In case of AOP whose members include a foreign company, whose income is taxable @ 50%, and their shares are determinate, the tax shall be charged - on that portion or portions of income of AOP which is relatable to the share of the member which is a foreign company - at the rate applicable to the foreign company i.e. 50% + surcharge @ 2%/ 5% if applicable + HEC 4% and on the balance income at the maximum marginal rate.