

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

Course: **Income Tax: Theory, Practice and Management**  
Semester-IV (Batch: 2017-22)

End Semester Examination: April-May 2019

Date: 10<sup>th</sup> May, 2019

Duration: 3 hours

Max. Marks: 50

**Instructions:**

- Read the questions properly and write the answer in the give answer book.
- The respective marks for each question are indicated in-line.
- Do not write anything on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is giving reasons, if any.
- Bare Act is not allowed.
- Use of calculator is permitted.

Q.1 From the following information, compute taxable Capital Gains of an Assessee for the AY 2019-20:

Marks  
(10)

| The following old assets were sold:                              |              |                   |                  |                         |
|--|--------------|-------------------|------------------|-------------------------|
| Asset  | Date of Sale | Sale Proceeds (₹) | Date of Purchase | Cost of Acquisition (₹) |
| Urban Non-Agricultural Land                                      | 21/08/2018   | 35,00,000         | 04/04/2007       | 10,00,000               |
| Urban Agricultural Land  | 19/06/2018   | 13,00,000         | 31/03/2000       | 3,00,000                |
| Personal Air Conditioner   | 15/11/2018   | 50,000            | 16/08/2002       | WDV-15,000              |
| Plant and Machinery  | 23/04/2018   | 5,00,000          | 14/07/2011       | WDV-4,00,000            |
| Debentures   | 04/10/2018   | 4,50,000          | 14/07/2001       | 2,00,000                |
| Personal Jewellery (Gold)  | 03/04/2018   | 6,00,000          | 23/02/2002       | 30,000                  |
| Land & Building in an urban area for shifting undertaking to SEZ | 09/10/2018   | 50,00,000         | 21/07/2004       | 10,00,000               |
| The following new assets were purchased:                         |              |                   |                  |                         |
| Residential House Property                                       |              |                   | 18/03/2019       | 15,00,000               |
| Commercial House Property  |              |                   | 13/03/2019       | 45,00,000               |
| NHAI Bonds   |              |                   | 16/01/2019       | 15,00,000               |
| Rural Agricultural Land  |              |                   | 15/09/2018       | 10,00,000               |
| The following new assets were sold:                              |              |                   | Date of Sale     | Amount (₹)              |
| Rural Agricultural Land  |              |                   | 31/01/2019       | 6,00,000                |
| NHAI bonds   |              |                   | 25/03/2019       | 5,00,000                |

- Q.2 (a) X owns a residential house property which was self occupied for 10 months and remained vacant for 2 months. Municipal Value of the property is ₹ 1,30,000, Standard Rent is ₹ 1,25,000 and Fair Rent is ₹ 1,40,000. Municipal Tax was imposed @ 12% which was paid by X. Other expenses for the previous year 2018-19 being: Repairs- ₹ 25,000, Insurance- ₹ 6,000, Electricity- ₹ 3,000. Interest on Capital (borrowed during 2016) for constructing the property is ₹ 2,10,000 for the PY 2018-19. Find the income of X under the head House Property for the AY 2019-20. (4+6=10)
- (b) Y owns a house which has a Municipal Valuation of ₹ 3,00,000 and the Fair Rent is ₹ 310,200 per annum. During the previous year, the house is let out for residential purposes w.e.f. 1<sup>st</sup> April, 2018 to 31<sup>st</sup> August 2018 at the rate of ₹ 40,000 per month and self-occupied for residential purposes for the remaining part of the year. He incurred the following expenses in respect of this house: municipal taxes of ₹60,000, property insurance premium of ₹ 50,000 and fire insurance premium ₹10,000 for the previous year. A loan of ₹ 50,00,000 was taken on 1<sup>st</sup> April, 2017 at the rate of 10% per annum for the construction of the house which was completed on 1st January, 2018. Outstanding amount of the loan as on 1<sup>st</sup> April 2018 was ₹ 47,50,000. The annual interest for 2018-19 was paid on time. Find the income of Y under the head House Property for the AY 2019-20.

- Q.3 From the following Profit and Loss Account of Unique Ideas Ltd. a service providing company for the year ended 31.03.2019 and the additional information, compute income under the head 'profit and gains of business and profession' for the AY 2019-20. (10)

| Particulars                           | Amount<br>(₹)    | Particulars                                   | Amount<br>(₹)    |
|---------------------------------------|------------------|---|------------------|
| To Purchases                          | 20,00,000        | By Sales                                      | 40,00,000        |
| To Expenditure on Scientific Research | 6,00,000         | By Commission                                 | 1,00,000         |
| To Goods and Services Tax (GST)       | 3,00,000         | By Interest                                   | 2,00,000         |
| To Depreciation                       | 4,00,000         | By Unexplained Receipts                       | 3,00,000         |
| To Advertisement Expenses             | 40,000           | By GST Credit                                 | 2,00,000         |
| To Keyman Insurance Premium           | 60,000           | By Insurance Claim on Keyman Insurance Policy | 2,00,000         |
| To Income Tax                         | 1,60,000         |   |                  |
| To General Expenses                   | 6,40,000         |   |                  |
| To Net profit                         | 8,00,000         |   |                  |
| <b>Total</b>                          | <b>50,00,000</b> | <b>Total</b>                                  | <b>50,00,000</b> |

**Additional Information:**

- Purchases included these items: Goods of ₹ 40,000 (uninsured) were burnt by fire. A free sample of ₹ 10,000 received from a supplier was included in Purchases. Purchases also included gift of goods of ₹ 5,000 given to a relative. It did not include a compensation received for a defective consignment of goods from a customer for ₹ 10,000.
- Scientific Research expenses included Capital Expenditure on Research of ₹ 50,000. It also included a penalty of ₹ 10,000 for violating a code of conduct prescribed by the Govt. of India. A donation of ₹ 50,000 made to PM Relief Fund was shown under



scientific research. A contribution of ₹ 30,000 was made to a social science research institution.

- c. Goods and Service Tax of ₹ 1,00,000 was due but not paid.
- d. General Expenses include a lobbying expense of ₹30,000 with Govt. officials. It also includes the following:
- Gifts in cash of ₹ 30,000 to a relative.
  - An amount spent for holidays of promoter directors of ₹ 20,000.
  - An amount of USD 500 (Equivalent Indian Rupees ₹ 34,000) for advertising in a foreign electronic media.
  - Publicity campaign in a political party souvenir of ₹ 1,00,000.
- e. Depreciation is chargeable on the following assets only:

|                                    |  |
|------------------------------------|--|
| Plant and Machinery<br>(20% block) | WDV: ₹ 40,00,000   |
| Plant and Machinery<br>(40% block) | WDV: ₹ 20,00,000<br>₹ 1,00,000 of P & M was purchased on 31/12/2018 and used subsequently. |
| Buildings<br>(10% Block)           | WDV: ₹ 10,00,000<br>New building was purchased on 01/10/2018 and used subsequently.        |

- f. GST credit is accrued but not yet received.
- g. Insurance claim of ₹ 50,000 is admitted but yet to be received.
- h. The source of unexplained receipt is a customer but it is not yet clear as to why the customer has deposited the amount.

- Q.4 Ms. Swati Jain, aged 60 years, a private sector employee, covered under the Payment of Gratuity Act, 1972, was working in Mumbai. She retired on 31<sup>st</sup> March 2019 after serving 27 years and 7 months. At the time of retirement, her monthly emoluments were: Basic Salary- ₹50,000, Dearness Allowance- 20% of basic salary (100% for retirement benefits), fixed commission of ₹ 50,000 for the year and other allowances and perquisites as mentioned below: (10)

|  |              |
|--|--------------|
| 1. House Rent Allowance received is 20% of Basic Salary. Rent paid is ₹ 5,000 per month.   |              |
| 2. Transport Allowance   | ₹ 2,000 p.m. |
| 3. Leave Encashment while in service (received on 30/09/2019)  | ₹ 2,50,000   |
| 4. Leave Encashment at the time of retirement<br>Leave entitled- 40 days per year, leave availed- 210 days for the entire tenure]  | ₹ 5,00,000   |
| 5. Commuted pension (75% of the total pension was commuted)  | ₹ 15,00,000  |
| 6. Gratuity  | ₹ 12,00,000  |
| 7. Expenditure made by the employer on a Refresher Course  | ₹ 10,000     |
| 8. Conveyance Allowance- ₹ 12,000 p.a. only 60% is used for official purpose.  |              |
| 9. Motor Car: She used, a car (1.5 litres or 1500 cc) owned by the employer, for private purposes only. Maintenance cost and running expenses are borne by the employer. |              |
| 10. She availed an interest free loan of ₹ 5,00,000 on 1 <sup>st</sup> June 2018 for her daughter's marriage. SBI reference rate of interest for such loan is 10% p.a.   |              |

From the above information, calculate income under the head salaries of Ms. Jain, assuming salary as the only source of her income for the AY 2019-20.

Or

Q.4 Write short notes (with reasoning, if required) on **any five** of the following:

(5×2=10)

- Indexation under Capital Gains
- Taxability of ingenuine gifts from relatives
- Deductibility of incidental expenses in a foreign currency exceeding limits permitted by RBI
- Deductibility of losses from speculative investments
- Fair Rental Valuation of House Property
- Deductibility of Donation to political parties

Q.5 (a) In the previous year 2018-19, Jatin earned ₹ 50,000 from a lottery and ₹ 40,000 as interest from a chit fund. He also earned ₹ 1,00,000 from housing brokerage. He facilitated an educational loan and got ₹ 20,000 as facilitation fee. He received a cash award from a private company of ₹ 10,000 for exemplary public service. He lent money to people and earned ₹ 2,00,000 interest. During the year, he got a motor car of ₹ 1,00,000 as gift from a friend. He put this car on rent and earned ₹ 30,000. He had unexplained receipts of ₹ 2,00,000 in cash. He spent ₹ 30,000 for his personal expenses. He paid wealth tax of ₹ 5,000. He spent ₹ 10,000 for registration of the car. He spent operating expenses of ₹ 10,000 for lending money. He made advertising of his house broking services for ₹ 5,000. Find out the net income taxable under the head income from other sources for the AY 2019-20.

(5+5=10)

- (b) Discuss with instances section 37(1) which deals with deductions of business expenses not allowed or disallowed specifically under the head Profits and Gains from Business or Profession.

\*\*\*\*\*

**Note:**

**Cost Inflation Index (CII) Values:**

| Sl. No. | Financial Year | Cost Inflation Index |
|---------|----------------|----------------------|
| 1       | 2001-02        | 100                  |
| 2       | 2002-03        | 105                  |
| 3       | 2003-04        | 109                  |
| 4       | 2004-05        | 113                  |
| 5       | 2005-06        | 117                  |
| 6       | 2006-07        | 122                  |
| 7       | 2007-08        | 129                  |
| 8       | 2008-09        | 137                  |
| 9       | 2009-10        | 148                  |

| Sl. No. | Financial Year | Cost Inflation Index |
|---------|----------------|----------------------|
| 10      | 2010-11        | 167                  |
| 11      | 2011-12        | 184                  |
| 12      | 2012-13        | 200                  |
| 13      | 2013-14        | 220                  |
| 14      | 2014-15        | 240                  |
| 15      | 2015-16        | 254                  |
| 16      | 2016-17        | 264                  |
| 17      | 2017-18        | 272                  |
| 18      | 2018-19        | 280                  |

Source: <https://www.incometaxindia.gov.in/charts%20%20tables/cost-inflation-index.htm>