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CA SACHIN GUPTA

**Triple
Dhamaka
Session - 2**

SALARIES BUSINESS & PROFESSION

All India Rank Holder & Winner of Best Tax Faculty Award

ABOUT CA SACHIN GUPTA

1. He is a **Fellow Member of ICAI** having teaching experience of more 15 years.
2. He is also a **Rank Holder** in CA exams.
3. He is **Visiting faculty** of **Various Professional Institutes** like ICAI&ICSI
4. He has Taught over 30,000 students all across India.
5. He is Winner of **Best Tax Faculty Award**.
6. He is Engaged with various **Professional Institutes** for **content/study material generation**.
7. He had been engaged with **Income Tax Department** for Training of Income Tax personnel.
8. His Students have scored **All India Merit Ranks** & have been amongst **All India Toppers**.
9. He has **Contributed various Articles** for Professional Journals and **delivered lectures** at various forums.



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CHAPTER - 4

INCOME UNDER THE HEAD SALARIES

(1) Master-Servant Relationship:

For income to be taxable under this head, there should be relationship of Master & Servant between the payer and payee.

(2) Sec 15: Charging Section

- (a) Salary is chargeable to tax on **Due or Receipt basis**, *whichever is earlier*
- (b) **Advance salary** is taxable in the previous year of **Receipt**
- (c) **Arrears of salary** is taxable in the previous year of **Receipt**

(3) Computation of Taxable salary

Step 1 : Compute Gross Salary [After claiming Exemptions]

- (A) Basic Salary
- (B) Bonus
- (C) Commission
- (D) Allowances
- (E) Perquisites
- (F) Leave travel concession
- (G) Medical facilities
- (H) Retirement benefit
- (I) Profit in lieu of salary

Step 2 : Less : Deductions

Sec 16(ia) : Standard Deduction : Max 50,000

Sec 16(ii) : Entertainment Allowance

Central & State Govt employee

Minimum of following 3

- (a) Actual Entertainment Allowance
- (b) 5,000
- (c) 20% of **Basic Salary**

Sec 16(iii) : Tax on Employment

- Amount **Paid** during P/Y

Step 3 : TAXABLE SALARY (Step 1 – Step 2)

COMPONENTS OF GROSS SALARY

(A) Basic Salary : Monetary Amount received monthly or otherwise is called Basic Salary.

(B) Bonus : It is reward for good services and also is paid by employer on certain occasions like Diwali etc
: It is taxable in P/Y of Receipt

(C) Commission : Incentives given by employer so that employee works efficiently. It is

: Generally given as % of Sales, Net profit of employer etc.

: All types of commission are **Fully taxable**

(D) Allowances : Extra monetary amount given by employer

: For meeting (Personal or official) expenses of employee

: **Allowances less exemption** is included in Gross Salary

Types of Allowances

I	Entertainment allowance	Deduction u/s 16(ii) "Discussed Earlier"
II.	House Rent Allowance	Exemption u/s 10(13A) allowed to All Employees - Minimum of following (a) Actual HRA (b) Rent Paid – 10% of Salary (c) 50% Salary : [Accommodation in D/M/K/C] 40% Salary : [Accommodation other City] - Salary = Basic + DA(RB) + Commission fixed % of turnover - Due Basis for which Accommodation taken on Rent - Exemption calculated Period Wise
III.	Special allowance under Rule 2BB(1) for Official Purpose	Exemption u/s 10(14) Amount Spent for Official Purpose
1	Travelling Allowance	Cost of travel on tour or transfer
2	Daily Allowance	Daily expenses on tour or transfer
3	Conveyance allowance	Cost of travel for official duties
4	Helper Allowance	Cost of Helper for official duty
5	Academic Allowance	Cost of Research & training for employees
6	Uniform Allowance	Cost of purchasing & maintaining uniform for official duty

	Special allowance under Rule 2BB(2) for Personal Purpose	Exemption u/s 10(14) Actual Amount or specified limit, less
1	Children Education allowance (For cost of Education of children)	₹ 100 Pm / per child Subject to max of 2 child
2	Hostel Expenditure Allowance (For cost of Hostel expenses of children)	₹ 300 Pm / per child Subject to max of 2 children
3	Tribal Area allowance (Employee residing Tribal Area)	₹ 200 pm
4	Transport Allowance (Cost of travel between home & office)	₹3,200 Pm for Blind/Handicap/Deaf/Dumb only
5	Allowance for Transport employee (Employee working in transport undertaking)	70% of allowance or 10,000 pm , less
6	Underground allowance (Employee working in underground mines)	₹ 800 Pm
IV.	Other Allowances 1. Dearness Allowance 2. Lunch Allowance 3. City compensatory Allowance	Fully Taxable

	4. Servant Allowance 5. Medical Allowance etc.	
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(E) PERQUISITES : Facilities Provided by Employer to Employee

<u>Types of Perquisites (Sec 17(2))</u>	
❖	Rent free Accommodation provided by Employer
❖	Concessional accommodation provided by employer
❖	Sum paid by Employer for obligation of employee
❖	LIC policy /Annuity policy premium payable by employer
❖	Fringe benefits
❖	Value of ESOP/Sweat Equity
❖	Perquisites taxable for Specified Employees
❖	Employer contribution to ASF,RPF & NPS exceeding 7.5 lakh & Interest on such excess amount

1st Perquisite : Rent free accommodation (RFA)

<i>Central/State Govt. Employee</i>		
Unfurnished Accommodation	Furnished Accommodation	
(A)	Other than in a Hotel	In a Hotel
License fees determined by Central/State Govt.	Value as per (A) <u>Add</u> : 10% p.a of actual cost of furniture(<i>owned</i>) <i>or</i> Actual hire charges (<i>hired</i>)	24% RFA Salary <i>or</i> Actual charges of Hotel <i>Whichever is less.</i>

Other Employee				
Unfurnished Accommodation		Furnished Accommodation		
(B)		(C)		
If Owned by employer		Not owned (e.g <i>Rent or lease</i>)	Other than Hotel	In a Hotel
Population of city	RFA Salary	Rent Payable by employer <i>or</i> 15% RFA salary Whichever is less	Value (B) or (C) Add :	Same as for Govt employee
Upto 10 lakhs	7.5%		10% p.a of actual cost of furniture etc (<i>owned</i>)	
> 10 lakhs but upto 25 lakhs	10%		<i>or</i>	
> 25 lakhs	15%		Actual hire charges payable (<i>hired</i>)	

Specail points :

- (a) RFA Salary on **DUE BASIS** for period for accommodation provided
- (b) RFA Salary from **ALL EMPLOYERS** during above period
- (c) **RFA Salary = Basic + DA(RB) + Bonus + All Commission + All taxable allowances + Other monetary payment** (except perquisites)
- (d) Accommodation in a **HOTEL** upto **15 DAYS** on **TRANSFER** is exempt.
- (e) New accommodation provided on transfer while retaining old accommodation
1st 90 days : **Either** of accommodation taxable
After 90 days : **Both** accommodation taxable.
- (f) Accommodation in **REMOTE AREA** and provided on **MINING SITE, OIL EXPLORATION SITE, POWER GENERATION SITE, DAM SITE, PROJECT EXECUTION SITE** is **EXEMPT**

2nd Perquisite : Concessional Accommodation

Step 1 : Calculate value as if accommodation is **provided rent free**.

Step 2 : Deduct **Rent charged by employer**.

Step 3 : Remaining amount is **value of Concessional** accommodation.

3rd Perquisite : LIC Policy & Annuity Policy

- Taken by **Employer**
- Premium **PAYABLE** during previous year
- is taxable as perquisites in hand of employee.

4th Perquisite: Obligation of employee

- **PAID** by employer
- is taxable as perquisites in hands of employee

5th Perquisite : Fringe benefits

1) Interest free or concessional loans

The valuation of perquisite is done on **maximum outstanding monthly balance** at **rate of interest charged by SBI as on 1st day of P/Y**. Any **interest is charged** from employee, **reduce such rate** from SBI rate

Exemption : The following loans are not taxable perquisite

1. **Medical Loans** taken for treatment of diseases under **Rule 3A** .
2. Small loans i.e. Total amount of loan is **upto ₹ 20,000** in P/Y.

2) Use of Movable Assets

Laptop/Computers	Exempt as per Rule 3
Telephone including mobile	Exempt as per Rule 3
Motor Cars	Taxable under Perquisites for <i>Specified Employees</i>

Other Movable Assets	<p>If <u>owned</u> by employer : 10% p.a of original cost</p> <p><u>In other cases</u> : 100% of hire charges payable by employer for such assets</p>
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3) Transfer of Movable assets

Computer & Electronic Items	Motor Car	Other Assets
<p>Actual cost to Employer</p> <p>Less :</p> <p>50% on WDV for each completed year of use by employer</p> <p>Less : Amt recovered from employee.</p>	<p>Actual cost to Employer</p> <p>Less :</p> <p>20% on WDV for each completed year of use by employer</p> <p>Less : Amt. recovered from employee</p>	<p>Actual cost to Employer</p> <p>Less :</p> <p>10% on SLM for each completed year of use by employer</p> <p>Less : Amt. recovered from employee</p>

4) Travelling, Tour, Accommodation & Other Expenses

OFFICIAL TOUR		
Employee	Household Member	
	Facility maintained by employee & not available for all employees	Other Cases
Exempt	Value at which similar services provided by other agencies to public	Actual expenditure of employer

PRIVATE TOUR	
Employee/Household Member	
Facility maintained by employee & not available for all employees	Other Cases
Value at which similar services provided by other agencies to public	Actual expenditure of employer

5) Free Meals, Tea & Snacks

FREE MEALS/NON ALCHOLIC BEVERAGES			TEA AND SNACKS	
Office premises or At eating joints by voucher		Other Case		
Office Hours	Non Office Hours	Actual expenditure of employer	Office Hours	Non Office Hours
Nil, if value upto ₹ 50/- per meal (If value > 50 excess taxable)	Actual expenditure of employer		Nil	Actual expenditure of employer

6) **Gift, Vouchers or token.**

<i>In Kind</i>		<i>In Cash</i>
Aggregate value upto ₹5,000 during P/Y	Aggregate value > ₹ 5,000/- during P/Y	Any amount
Exempt	Perquisite Value = (Actual value – 5,000/-)	Fully Taxable

7)

Expenditure on credit card including membership & annual fees	
<i>Official purpose</i>	Other Purposes
Nil, Provided: a) Details of expenditure maintained by employer and b) Employer certifies that expenditure for official purpose	Expenditure of employer <i>Less:</i> Amount recovered from employee

8)

Club membership & club expenses (including annual or periodic fees)	
<i>official purpose</i>	Other Purposes
Nil, Provided : a) Details of expenditure maintained by employer & b) Employer certifies that expenditure for official purpose	Expenditure of employer <i>Less :</i> Amt. recovered from employee

6th Perquisite : Sweat equity shares/ESOP**Value of Perquisite :**

FMV of ESOP/Sweat Equity on date on which the **option is exercised** by assessee

Less : Amount recovered from the assessee in respect of such shares/security

7th Perquisites taxable for Specified Employee**Specified Employee**

- | |
|--|
| (a) Employee is director of his employer company or |
| (b) Employee holds at least 20% equity shares of his employer company or |
| (c) Employee Taxable salary exceeds 50,000 pa. (<i>Excluding non monetary payment</i>) |

1. Motor Car

1. Motor Car owned/ hired by employer & expenses met by Employer		
<i>Official purpose</i>	<i>Private purpose</i>	<i>Partly official & partly private</i>
Exempt <i>(Provided specified documents are maintained by employer)</i>	Sum total of : 10% of cost of car (if owned) or Hire charges (if hired) Actual running & maintenance expenses + Actual remuneration to chauffeur <i>Less: Amt recovered from employee</i>	<u>Car upto 1.6 Lit.</u> 1,800 p.m + 900 pm for chauffeur (If any) <u>Car > 1.6 Lit.</u> 2,400 p.m + 900 p.m for chauffeur (If any)

2. Motor Car owned/ hired by employer & Expenses met by Employee		
<i>Official purpose</i>	<i>Private purpose</i>	<i>Partly official & partly private</i>
Exempt	Sum total of Actual remuneration to chauffeur 10% of cost of car (if owned) or hire charges (if hired) <i>Less: Amt recovered from employee</i>	<u>Car upto 1.6 Lit.</u> 600p.m + 900 pm for chauffeur. (If any) <u>Car > 1.6 Lit.</u> 900 p.m + 900 pm for chauffeur (If any)

3. Motor Car owned by employee & expenses met by Employer		
<i>Official purpose</i>	<i>Private purpose</i>	<i>Partly official & partly private</i>
EXEMPT <i>(If specified documents are maintained by employer)</i>	Amount paid by employer	Actual Exp. of employer Less : 1,800 pm + 900 pm (car upto 1.6Lit) OR 2,400 pm + 900 pm (car > 1.6 Lit)

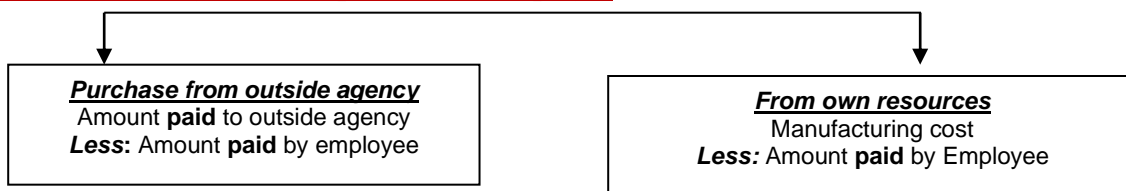
4. Other Conveyance owned by employee & expenses met by Employer		
<i>Official purpose</i>	<i>Private purpose</i>	<i>Partly official & partly private</i>
EXEMPT <i>If specified documents maintained by employer)</i>	Expenditure paid by employer	Actual Exp. of employer Less : 900 pm

Special Points :

- a) Where **more than one** motorcar is for both official & private purposes
 Value of One Car = Value as per **partly official & partly private**
 Value of Other Cars = Value as per **private purpose**
- b) **Specified Documents :**
 a) Employees should maintain details of date of journey, destination, mileage, expenditure incurred
 b) And employer gives certificate that expenses incurred wholly & exclusively for official purpose.
- c) Vehicle provided by employer to employee for journey from his residence to his office or other place of work & back shall not be regarded as perquisite.

2) Sweeper, Gardener, Watchman or Personal attendant

Value of perquisite : Actual cost to employer **Less** Amount paid by employee

3) Supply of Gas, Electricity or Water provided to Employee**4) Educational facilities to employee children & members of household**

A) Facility in Educational institutions maintained by employer or in other educational institutions due to employment

To whom	Cost of education in similar school in similar locality	Value of Perquisite
Employee child	upto ₹1,000 p.m per child	Fully exempt
	greater than 1,000 p.m per child	Cost of education in similar school in same locality less 1,000 pm
Household members	Limit of ₹1,000 irrelevant	Cost of education in similar school in same locality

B) Facility in any other educational institutions

To whom	Value of Perquisite
Employee child	Actual Cost to Employer
Household members	Actual Cost to Employer

Education facility **to employee** in any form like training, seminars, conference etc. is fully exempt.

5) Free or concessional tickets provided to employees of transport undertakings for private journeys

- Employees of airlines and railways: **Exempt** in hands of employees
- Employee of other transport undertaking : Value at which such benefit or amenity is provided by the employer to public

8th Perquisite :

Employer contribution to ASF, RPF & NPS exceeding 7.5 lakh & Interest on such excess amount

(F) LEAVE TRAVEL CONCESSION IN INDIA (LTC) :

Exemption u/s 10(5) read with rule 2B		
Journey by Air	Journey by Rail	Journey by other modes
<i>Minimum of following</i>	<i>Minimum of following</i>	<u>Connected by Rail</u> <i>Same as column 2</i>
i. Actual LTC	i. Actual LTC	<u>Not Connected by Rail</u> <i>Minimum of following</i>
i. Actual expenditure	ii. Actual expenditure	i) Actual LTC
ii. Air economy fare of Air India by shortest route	ii. AC 1st class RAIL FARE by shortest route	ii) Actual expenditure
		iii) Deluxe fare of Public transport by shortest route OR Similar AC 1st class rail fare by shortest route

Special Points :

1. Exemption available on **twice** from calendar year 2014 to 2017, 2018 to 2021 & so on
2. **ONLY ONE** exemption carried forward in 1st Calendar Year of succeeding block.
3. LTC available for a **TWO** children born on or after 01.10.1998. However, this restriction shall not apply in respect of children born before 1-10-1998 and also in case of multiple births after one child.
4. Family means : Spouse & Children
 - ❖ Parents, brother, sisters of employee who are **dependent** on employee.

(G) MEDICAL FACILITIES (Proviso to sec 17(2))

MEDICAL FACILITIES IN INDIA (to EMPLOYEE / Family Members)			
Hospital maintained by employer	In Govt Hospital or local authority hospital or Govt. approved hospital or Hospital approved by CCIT (For <i>prescribed disease</i> only)	Premium paid for Health Insurance under approved scheme	Other case
Fully Exempt	Fully Exempt	Fully Exempt	<u>Fully taxable</u>

MEDICAL FACILITIES OUTSIDE INDIA

On Medical Expenses for Patient	On stay abroad of Patient along with one attendant (total two persons)	On Travel of Patient along with one attendant (total two persons)
<i>Tax free to extent permitted by RBI</i>	<i>Tax free to extent permitted by RBI</i>	<i>Tax free if employee's GTI UPTO ₹2 lac (before including such travel expenses)</i>

(H) RETIREMENT BENEFITS

1)Gratuity 2)Pension 3)Leave salary 4)Retrenchment compensation 5)Voluntary Retirement 6) Provident fund

1. GRATUITY

Gratuity to be included under Salary = Amount of Gratuity less Exemption u/s. 10(10)

Employee	Central/ State/ Local Authority	Employee covered under payment of Gratuity Act, 1972	Other Employees
Exemption Amount	100% of Gratuity Exempt	Minimum of Following: i. Actual Gratuity received. ii. ₹20,00,000 iii. [15 X Completed yrs of service <i>Including part excess 6 mths</i>] X [last month salary / 26]	Minimum of Following: i. Actual Gratuity received. ii. ₹20,00,000 iii. [15 X Completed yrs of service <i>Excluding part</i>] X [Average monthly salary / 30]
Definition of Salary	N.A	Salary (as per Gratuity Act.) Basic Salary + 100% DA	Salary : Basic Salary + DA (RB) + Commission as fixed % of turnover

SOME SPECIAL POINTS:

- ❖ The limit of ₹ 10,00,000 shall be **reduced** by exemption claimed in earlier P/Y
- ❖ Gratuity received from **more than one employer in the same P/Y**, the limit of ₹ 20,00,000 would apply to the **aggregate of gratuity**
- ❖ Any gratuity paid to an employee, while he **continues to remain in service** with the same employer is taxable under the head “Salaries”

2. PENSION❖ **Uncommuted pension i.e. the periodical/monthly pension:**

It is **100% taxable** for All Employees

❖ **Commuted pension i.e. lumpsum pension:**

Though it is **taxable**, **exemption u/s 10(10A)** can be claimed

Exemption u/s 10(10A):

Treatment for employees of Government, local authorities & Statutory Corporations:

Commuted pension is **100% exempt**

Treatment in the case of Other Employees

Commuted pension is **exempt** to the following extent:

(a) **If receives Gratuity** : 1/3 of **Normal commuted** value

(b) **If he does not receive gratuity** : 1/2 of **Normal commuted** value

NCV = $\frac{\text{Actual Commuted pension} \times 100}{\% \text{ of commutation}}$

3. LEAVE SALARY**Exemption u/s 10(10AA)****I. Central Government/ State Govt. Employees**

It is fully **exempt** from tax.

II. Other Employees

(i.e. Private employees including employees of local authority and statutory corporation)

It is exempt to the extent of the minimum of the following four amounts:

- (a) Leave encashment actually received
- (b) ₹3,00,000
- (c) $10 \times \text{Average Monthly Salary}$
- (d) $\frac{\text{Unavailed Leave} \times \text{Average Monthly Salary}}{30}$

Unavailed leave =

Step 1 : [Total Leaves entitled by employer] or
[30 days leave per Completed Year of Service, Excluding part] *whichever is less*

Step 2 : Leaves **actually** taken

Step 3 : Step 1 – Step 2 is **unavailed leave**

Meaning of Salary: Basic + DA (RB) + Commission at fixed % of turnover

Average Monthly Salary: is average of salary of 10 months **immediately preceding** date of retirement.

SOME SPECIAL POINTS

- ❖ The limit of ₹ 3,00,000, shall be reduced by exemption claimed in **earlier P/Y**
- ❖ Leave encashment **from more than one employer** in the same previous year, the limit of ₹ 3,00,000 would apply to the aggregate of leave encashment
- ❖ Amount paid to the legal heirs of the deceased employee is not taxable

4. RETRENCHMENT COMPENSATION**Exemption u/s.10 (10B) :**

Minimum of following is exempt

- i) Actual Compensation received.
- ii) ₹5,00,000/-.
- iii) $15/26 \times \text{Average pay} \times \text{Completed yrs of service including part} > 6 \text{ months.}$

Average Pay : Average of last 3 calendar months preceding date of retrenchment

Pay includes all but does not include bonus

5. COMPENSATION ON VOLUNTARY RETIREMENT**Exemption u/s 10(10C)**

Conditions to be Satisfied	The scheme of Voluntary Retirement should be in accordance with rule 2BA.
Amount of Exemption Minimum	<ul style="list-style-type: none"> - Actual Compensation received/receivable - 5,00,000 - 3 months Total SALARY X Completed years of service (Part Ignored) - Current SALARY per month X Balance months of service left.

Special Points : [Rule 2BA]:

- ❖ completed **10 YRS OF SERVICE** or **40 YRS OF AGE**[not applicable for public sector company employee]
- ❖ Scheme applicable to **ALL EMPLOYEE** (except Directors)
- ❖ Scheme to result in **OVERALL REDUCTION** in existing strength of employees.
- ❖ **Vacancy** caused by voluntary retirement should **not be filled up**.
- ❖ Retiring employee shall **NOT BE EMPLOYED** in other concern of same management.

1. Meaning of Salary : Basic + DA(RB) + Commission fixed % of turnover

2. Exemption under 10(10C) can be claimed only **Once by the Assessee.**

6. TAX TREATMENT OF PROVIDENT FUNDS

Statutory Provident Fund (SPF)			
<i>Employees Contribution</i>	<i>Employer's Contribution</i>	<i>Interest on Provident Fund</i>	<i>Payment of Accumulated balance</i>
Deduction u/s 80C is available to employee	Exempt from Tax	Exempt from Tax	Exempt from Tax u/s 10(11)

Recognised Provident Fund (RPF)			
<i>Employees Contribution</i>	<i>Employer's Contribution</i>	<i>Interest on Provident Fund</i>	<i>Payment of Accumulated balance</i>
Deduction u/s 80C is available to employee	Exempt upto 12% of Salary <i>Excess</i> taxable under Salary u/s 17(1)	Exempt upto 9.5% p.a. <i>Excess</i> taxable under Salary u/s 17(1)	Exempt u/s 10(12) if : i. Service atleast 5 yrs or ii. Termination due to ILL health , iii. Closure of ER business , other reason beyond employee control or iv. Existing balance T/F to new employer RPF A/c. If none of above situations exist, then amount treated as URPF

Salary for the purpose of R.P.F : Basic + DA(RB) + Commission fixed % of turnover

Unrecognised Provident Fund(URPF)			
<i>Employees Contribution</i>	<i>Employer's Contribution</i>	<i>Interest on Provident Fund</i>	<i>Payment of accumulated balance</i>
No deduction u/s 80C	Exempt	Exempt	Employers contribution + interest taxable under salary u/s 17(3) in p/y of payment Interest on Employee contribution taxable as I/O/S

Public Provident Fund (PPF)			
<i>ASSESSEE Contribution</i>	<i>Employer's Contribution</i>	<i>Interest on Provident Fund</i>	<i>Payment of Accumulated balance</i>
Deduction u/s 80C is available to assessee	No employers contribution	Exempt from Tax	Fully exempt 10(11)

(I) Profits in lieu of salary [Section 17(3)]

Profit in lieu of salary				
Terminal /retrenchment Compensation	Keyman Insurance Policy	Amount during Pre & Post employment	Payment from URPF or from URSF	Other sums
Amount in connection with termination of employment	Amount includin Bonus)	Amount from ER before joining or after leaving	employer contribution and Interest	All other sums from employer

Other sections : Sec 10(6) : Remuneration to Foreign citizens from services in India is Exempt

1.	Purpose	Diplomatic Personnel or trade representative in India	Employee of a foreign Enterprise	Non-resident ship's crew	Trainee of foreign Government
2.	Condition	Not engaged in other business, profession or employment in India & Indian officials in that foreign country enjoys a similar exemption	Foreign enterprise is not engaged in any business in India	-----	Training in office of Government/Govt company/statutory corporation.
3.	Stay in India	Any no of days	Upto 90 days	Upto 90 days	Any no of days

Sec. 89(1) : Relief Where any portion of Salary is received in arrears or in advance

Step 1: Calculate the tax payable of the previous year in which the arrears/advance Salary is received

- On Total income inclusive of additional salary.
- On Total income exclusive of additional salary.

The difference between (a) and (b) is the tax on additional salary included in the total income.

Step 2: Calculate the tax payable of every previous year to which the additional salary relates

- On total income including additional salary of that particular previous year.
- On total income excluding additional salary.

Calculate difference between (a) & (b) for every P/Y to which additional salary relates & aggregates same.

Step 3: The excess between the tax on additional salary as calculated under step 1 and 2 shall be the relief admissible u/s 89(1). If there is no excess, no relief is admissible.

If the tax calculated in step 1 is less than tax calculated in step 2, the assessee need not apply for relief.

SUMMARY OF EXEMPTIONS & DEDUCTIONS UNDER EXISTING & NEW SYSTEM			
S. No.	Nature of Exemption/Deduction Relating to Head Salaries	New System of TAX u/s 115BAC	Existing System of TAX
RETIREMENT BENEFITS EXEMPTIONS			
1.	Leave Salary u/s 10(10AA)	Allowed	Allowed
2.	Gratuity u/s 10(10)	Allowed	Allowed
3.	Commutation of Pension u/s 10(10A)	Allowed	Allowed
4.	Retrenchment Compensation u/s 10(10B)	Allowed	Allowed
5.	VRS Compensation u/s 10(10C)	Allowed	Allowed
6.	Leave Travel Concession U/s 10(5)	Not Allowed	Allowed
ALLOWANCES			
7.	Exemption u/s 10(13A) and Rule 2A from House Rent Allowance	Not Allowed	Allowed
8.	Exemption u/s 10(14)(i) and Rule 2BB		
9.	Travelling Allowance	Allowed	Allowed
10.	Conveyance Allowance	Allowed	Allowed
11.	Daily Allowance	Allowed	Allowed
12.	Helper Allowance	Not Allowed	Allowed
13.	Any allowance granted for encouraging the academic, research and training pursuits in educational and research institutions	Not Allowed	Allowed
14.	Uniform Allowance	Not Allowed	Allowed
Exemption u/s 10(14)(ii) and Rule 2BB			
15.	Children Education Allowance	Not Allowed	Allowed
16.	Hostel Expenditure Allowance	Not allowed	Allowed
17.	Tribal Area Allowance	Not allowed	Allowed
18.	Transport Allowance to Handicapped/Deaf/Dumb/Blind employee	Allowed	Allowed
19.	Transport Allowance to other than above employees	Not allowed	Not Allowed
Perquisites			
20.	Free food and beverage through vouchers provided to the employee upto 50/meal/Tea & snacks	Not allowed	Allowed
21.	Other Exemptions from perquisites eg Use of Computers ,Laptops etc	Allowed	Allowed
22.	DEDUCTIONS u/s 16		
23.	Standard Deduction u/s 16(ia)	Not Allowed	Allowed
24.	Entertainment Allowance u/s 16(ii)	Not Allowed	Allowed
25.	Professional Tax u/s 16(iii)	Not Allowed	Allowed

CHAPTER – 5
INCOME UNDER THE HEAD PGBP

Sections covered in this chapter

Sec 28	Basis of Charge
Sec 29	Computation of Business Income
Sec 30	Building used for business
Sec 31	P&M, F&F used for business
Sec 32	Depreciation
Sec 33AB	Tea/coffee/rubber devp. account
Sec 33ABA	Site restoration fund
Sec 35	Scientific research
Sec 35(2AA)	Weighted deduction for cont. to national laboratory etc
Sec 35(2AB)	Company assessee , In house scientific research
Sec 35ABB	Telecommunication licence
Sec 35AD	Deduction of Capital Expenditure for specified Business
Sec 35CCA	Expenditure on Rural Devp. Programmes
Sec 35D	Amortisation of preliminary expenses
Sec 35DD	Amortisation in case of Amalgamation/demerger
Sec 35DDA	Amortisation of expenditure in case of VRS
Sec 35E	Expenditure on prospecting for minerals
Sec 36	Allowable deductions
Sec 37(1)	General deductions
Sec 37(2B)	Expenditure to political party
Sec 38(2)	Building, P&M,F&F not exclusively for business
Sec 40	Deductions not allowable
Sec 40A(2)	Expenditure to specified persons
Sec 40A(3)	Payment other than by account payee cheque
Sec 40A(7)	Disallowance for provision for gratuity
Sec 40A(9)	Disallowance of Employer contribution to funds not required by Law
Sec 41	Deemed profits chargeable to tax
Sec 43(1)	Actual cost
Sec 43(2)	Meaning of Paid
Sec 43(3)	Meaning of Plant
Sec 43(4)	Scientific research
Sec 43(6)	Written Down Value
Sec 43B	Certain deductions on Actual Payment Basis
Sec 44AA	Books of account
Sec 44AB	Audit of accounts
Sec 44AD/AF	Deemed business incomes
Sec 44B	Non resident shipping business
Sec 44BB	Non resident business of exploration of mineral oil
Sec 44BBA	Non resident aircraft business
Sec 44BBB	Foreign company in civil construction business

Section 28 : Following Incomes are chargeable under “P/G/B/P”

1. Profit of any B/P *carried by assessee at any time* during P/Y
2. Any remuneration by **Partner** from Firm.
3. **Compensation** on Termination/Modification of agreement for managing a Company, terms of Agency, Vesting in Govt, management of any business
4. **Non-compete** fees & **Exclusivity** rights
5. **Benefits/Perquisites** arising from carrying on business or profession
6. Sum received under **Keyman Insurance Policy** including bonus
7. **Export Incentive**
8. Income derived by trade, professional from **specific services** performed for its member.
9. *Any sum on received on transfer of Capital asset, if asset allowed deduction u/s 35AD*
10. Receipt of **compensation/other amount** in connection with termination/ modification of terms & conditions of any contracts relating to his business.
11. Fair market value of SIT as determined in prescribed manner on conversion of SIT into Capital Asset

Sec. 145 : Profits is calculated on basis of **Cash or Mercantile basis** regularly employed & in accordance with **AS-I & AS - II**

→ If **AO is not satisfied** about **correctness** of accounts , or if **method of accounting** & notified **accounting standards** not regularly followed than AO may make an **assessment to his best of judgement**

Income computation & Disclosure standards notified by Central Government

- ICDS I : Accounting Policies
- ICDS II : Valuation of Inventories
- ICDS III : Construction Contracts
- ICDS IV : Revenue Recognition
- ICDS V : Tangible Fixed Assets
- ICDS VI : Effects of Changes in Foreign Exchange Rates
- ICDS VII : Government Grants
- ICDS VIII : Securities
- ICDS IX : Borrowing Costs
- ICDS X : Provisions, Contingent Liabilities and Contingent Assets

Section 29 : Income referred in **sec 28** shall be computed according to **Section 30 to 43D**

Section 30 : Buildings used for B&P , Following deductions allowed

- ❖ **Rent** (If taken on rent) , **Revenue Repairs** , **Municipal Taxes** & **Insurance Premium**

Section 31 : Machinery, Plant & Furniture used for B&P , Following deductions allowed

- ❖ **Revenue Repairs** & **Insurance Premium**

Section 32 : DEPRECIATION

- ❖ **Building, Furniture , Plant & Machinery** or **Intangible assets** *owned Wholly or Partly*
- ❖ Used for **Business or Profession**
- ❖ **[Rate of Depreciation] X [WDV of Block Of Asset as on 31/3/2017]**

WRITTEN DOWN VALUE (WDV) [Section 43(6)]

WDV of block of assets at beginning of relevant P/Y	A
Add : Actual Cost of asset acquired	B
Less : Money receivable on transfer of Capital asset	C
WDV of block of asset as on last day relevant P/Y	A+B-C

TYPES OF ASSETS	Rate of Depreciation
Building :	
- Residential	5%
- Non Residential	10%
- Temporary Structure	40%
Furniture & Fittings including electrical fittings	10%
Plant & Machinery :	
- Books (annual publications) for Profession	40%
- Books for Library business	40%
- Air & Water Pollution control equipments	40%
- Energy saving device, renewal energy device	40%
- Books (other than annual publications) for Profession	40%
- COMPUTER including computer software	40%
- Aero planes	40%
- Motor car, buses, used for hire (WN1)	30%
- Ships	20%
- Motor car used for Business & Profession(WN2)	15%
- General rate of other machinery	15%
Intangible Assets :	25%

Depreciation restricted to 50% (Proviso to sec 32(1))Where assets **acquired** in P/Y & **put to use** < 180 days in **that** P/YThen depreciation on that asset **restricted to 50%** of normal rate for **that P/Y** only

(WN1) : Motor buses, motor lorries and motor taxis used in a business of running them on hire, acquired between period 23.8.2019 to 31.3.2020 & put to use upto 31.3.2020 : **Depreciation @ 45%**

(WN2) : Motor cars other than those used in business of running them on hire, [acquired between 23.8.2019 to 31.3.2020 and put to use on or before 31.3.2020 : **Depreciation @ 30%**

Additional Depreciation: Sec 32(1)(ia)

- a) New P&M acquired & installed (other than ships & aircraft)
 b) Business of **manufacture of any article**
 c) Conditions to be satisfied;
 - Should not be second hand
 - Not installed in **office premises** or in **residential accommodation**
 - Not **office appliance** or road transport vehicle.
 - 100% deduction not applicable

d) Additional Depr : 20% for the P/Y in which conditions are satisfied

(If acquired and put to use for less than 180 days then **10% & balance 10% next year**)

Special case :

*Manufacture of any article , wef 1/4/2015 in notified backward area
 In Andhra Pradesh or Bihar or Telangana or West Bengal,*

Acquires & installs any new machinery or plant (other than ships and aircraft) during 1/4/15 and 31/3/2020 in said backward area : 35% for P/Y in which conditions are satisfied

(If acquired & put to use for < 180 days then 17.5% & balance 17.5% next year)

Proportionate Depreciation (4th proviso to sec 32)

- Partnership firm into company u/s 47 or
- **Conversion of Private Company or Unlisted Public Company into LLP u/s 47**
- Proprietary concern into company u/s 47 or
- Amalgamation or de merger or
- succession otherwise on death
- Depreciation apportioned between the predecessor & successor
- On basis of **days the assets used** by them during that P/Y.

5. Section 50 : STCG on Sale of Depreciable Assets

CASE 1			CASE 2		
All assets of block are transferred			All assets not transferred		
<i>Block <u>ceases to exist</u> & no depreciation for that P/Y</i>			Sale proceeds > (Opening w.d.v & Actual cost) <i>Block exist at NIL value & no depreciation for that P/Y</i>		
Computation			Computation		
Net sale consideration	A		Net sale consideration	A	
Less : Opening W.D.V	B		Less : Opening W.D.V	B	
Less : Cost of assets acquired during P/Y	C		Less : Cost of assets acquired during P/Y	C	
<i>If, (A-B-C) is positive, then STCG If, (A-B-C) is negative, then STCL</i>			<i>(A-B-C) will always be positive & will result in STCG</i>		

6. Is it mandatory to claim depreciation:

Explanation to Sec. 32 : Depreciation provisions shall apply whether or not the assessee has claimed deduction for depreciation.

7. Carry forward and set off of unabsorbed depreciation

- ❖ Deduct depreciation from P/G/B/P.
- ❖ If P/G/B/P is insufficient deduct balance depreciation from other heads .
- ❖ If Incomes of other heads insufficient, *unabsorbed depreciation C/F* for **any number** of A/Y
- ❖ In next A/Y ,b/f depr added to depreciation & step 1 to step 4 will be followed

However, if **B/F losses** are also there in P/Y along with B/F depr, then priority of set off as follows

- 1st setoff current year depreciation
- Then setoff B/F losses
- Then setoff unabsorbed depreciation.

Special points :

1. B/P of which depreciation was computed need not be carried on in P/Y in which b/f depr is set off.
2. Depreciation can be c/f only by the same assessee.

Exceptions to 2nd point:

- a) Firm succeeded by a company u/s 47
- b) Proprietary concern succeeded by a company/s 47
- c) Amalgamation or Demerger

8. Asset not exclusively used for Business or Profession

- ❖ Where Building, P&M or Furniture **Not exclusively** used for B or P
- ❖ Then deduction **u/s. 30, 31, 32**
- ❖ Shall be restricted to such **fair proportion** as determined by AO

9. If payment or aggregate of payments in excess of ₹10,000 for acquisition of any asset is made to a person in a day, otherwise than by A/C payee cheque drawn on bank or A/C payee bank draft or use of ECS through bank account or by **other prescribed electronic method**, , such expenditure shall not be included in actual cost.

Rule 6ABBA : CBDT has prescribed the following electronic modes

- (a) Credit Card
- (b) Debit Card
- (c) Net Banking
- (d) IMPS (Immediate Payment Service)
- (e) UPI (Unified Payment Interface)
- (f) RTGS (Real Time Gross Settlement)
- (g) NEFT (National Electronic Funds Transfer), and
- (h) BHIM (Bharat Interface for Money) Aadhar Pay.

Sec 32 AD : Investment allowance for New plant & machinery in backward area

Assessee, sets up undertaking for manufacture of any article ,

1. Assessee	<i>on or after 1.4.2015 in any backward area notified by Central Government , in Andhra Pradesh or Bihar or Telangana or West Bengal</i>
2. Investment	<i>Acquires and installs eligible P&M during 1/4/15 and 31/3/2020 in backward area</i>
3. Deduction	<i>15% of actual cost of Eligible P&M in p/y in which it is installed</i>
4. Eligible P&M	<i>New plant or machinery (other than ship or aircraft) Excluding : (i) 2nd hand used P&M (ii) installed in office or residential accommodation (iii) Office appliances including computers or computer software (iv) Any vehicle or (v) Plant or Machinery, 100% of actual cost allowed as deduction in computing income of Business/Profession of any p/y</i>
5. Eligible P&M sold	<i>New asset transferred except under amalgamation/demerger, within 5 years from date of installation, deduction allowed deemed as Business Income of P/Y of transfer in addition to taxability of capital gains New asset transferred in amalgamation or demerger within 5 years from date of its installation, the above provision shall apply to amalgamated company or resulting company as they would have applied to amalgamating company or demerged company</i>

SEC 33AB & SEC 33BBA

	Section	33AB : Tea/Coffee/Rubber Devp. A/c.	33ABA : Site Restoration Fund
1.	Assessee	Growing & Manufacturing Tea/ Coffee/ Rubber in India	Prospecting/Extraction/ production of Petroleum /Natural Gas or both in India
2	Conditions	Deposit with NABARD <i>or</i> Deposit a/c within 6 months from end of P/Y <i>or</i> before due date ROI <i>Whichever is earlier</i>	<i>Deposit before end of P/Y</i> in SBI <i>or</i> In site restoration a/c
3.	Deduction	Amount deposited under point 2 <i>or</i> 40% profits business before 33AB, <i>whichever is less</i>	Amount deposited under point 2 <i>or</i> 20% profits of business before 33ABA, <i>whichever is less</i>

Section 35 : Expenditure on Scientific Research

In-house Scientific research carried out by <u>ANY</u> assessee (Related to Assessee Business)			
Pre commencement (3 years prior to commencement of Business)		Post commencement (On or after date of commencement)	
Revenue expenditure	Capital Expenditure	Revenue Expenditure	Capital Expenditure
Salary of Research Staff & Purchase of Material for scientific	Any Capital expenditure except Land	All Revenue Expenditure	Any Capital expenditure except Land

Research			
Deduction in P/Y of commencement	Deduction in P/Y of commencement	Deduction in P/Y in which incurred	Deduction in P/Y in which incurred

Special Point : Applicable for Pre commencement revenue expenditure only

1. Salary **does not include perquisites**
2. Such revenue expenditure has to be certified by **prescribed authority**

Calculation of Deduction u/s 35

1. Revenue expenditure on scientific research is **100% allowed** as deduction irrespective of profits.
2. Capital expenditure on scientific research are allowed as deduction **subject to availability of profit**. Set off & Carry forward **same as unabsorbed depreciation**

Section 35 (2AB)

- ❖ Company (Manufacturing any article except *XIth schedule*)
- ❖ Expenditure (**except on Land & Building**) for approved in house scientific research.
- ❖ Deduction of **100%** of such expenditure will be allowed

Deduction for Contributions / Donations to Outsiders

<i>Research related / Unrelated</i>	<i>Research related / Unrelated</i>	<i>Research related / Unrelated</i>	<i>Research related / Unrelated</i>
Approved association <i>or</i> approved university, college for Scientific Research	Approved association <i>or</i> approved university, college for Social Sciences & Statistical Research	National Laboratory or University or IIT to be used for Approved Scientific Research Programme	Indian company having main object of Scientific research & devp. & also approved by prescribed authority
wef A/Y 21/22 : 100%	100% of amount paid allowed	wef A/Y 21/22 : 100%	100% of amount paid allowed

Special points :

Deduction u/s 35 **shall not be disallowed** if subsequent to payment ,approval of such association,institution, etc is withdrawn.

Section 35 ABB : Expenditure for obtaining Telecommunication License

Capital Expenditure ACTUALLY INCURRED to acquire Telecom license	
<i>Before commencement of business</i>	<i>After commencement of business</i>

<p><u>Period of Deduction</u> P/Y of commencement to P/Y of expiry</p> <p><u>Amount of deduction</u> = $\frac{\text{License fees actually paid}}{\text{No. of previous years in above period}}$</p>	<p><u>Period of Deduction</u> P/Y of Actual payment to P/Y of Expiry</p> <p><u>Amount of deduction</u> = $\frac{\text{License fees actually paid}}{\text{No. of previous years in above period}}$</p>
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Sec 35ABA : Expenditure for obtaining right to use spectrum for telecommunication services

1. Deduction : Capital expenditure, incurred for acquiring any right to use spectrum for telecommunication services

2. Applicability of Sec 35ABB : The provisions of section 35ABB, shall apply as if for the word “licence”, the word “spectrum” had been substituted.

Section 35 AC: Expenditure on Eligible projects or schemes

No deduction under this section shall be allowed w.e.f A/y 18/19

Sec 35AD : Deduction of Capital expenditure of Specified Business

Assessee	1) Cold chain facility 2) Agricultural Warehousing facilities 3) Laying of Cross-country natural gas/crude/petroleum pipeline 4) Building & operating a Hotel of two-star or above in India 5) Building & operating hospital of atleast 100 beds in India 6) Projects for Slum development & rehabilitation in India 7) Developing & building Affordable Housing project under notified scheme 8) Production of Fertilizer in India 9) Setting up & operating an inland container depot 10) Bee-keeping and production of honey and beeswax 11) Setting up and operating a sugar warehouse 12) Laying & operating a slurry pipeline for transportation of iron ore 13) Setting up & operating a semi-conductor wafer fabrication manufacturing unit and is notified by Board 14) Developing/operating /maintaining, any infrastructure facility
Deduction If he opts	<p>100% Capital expenditure for above business incurred in P/Y <i>Pre commencement Capital Expenditure allowed in P/Y of commencement</i></p> <p>If payment or aggregate of payments in excess of ₹10,000 for capital expenditure is made to a person in a day, otherwise than by A/C payee cheque drawn on bank or A/C payee bank draft or use of ECS through bank account or by other prescribed electronic method, , such expenditure shall not be allowed as deduction</p>
Exclusions	Does not include expenditure on land, goodwill or financial instrument
Conditions	1. It is not set up by splitting up or reconstruction of existing business 2. Atleast 80% P&M should not be previously used

Limitations	<p>No deduction shall be available for specified business under <i>Part C of Chapter VI-A i.e. Profit based deductions eg 80IA, 80IB etc</i></p> <p><i>Asset on which deduction allowed shall be used only for specified business, for 8 years beginning with P/Y in which such asset is acquired or constructed.</i></p> <p><i>Otherwise deduction allowed in one or more P/Y, as reduced depreciation allowable u/s 32, as if no deduction under this section was allowed, shall be deemed to be income chargeable under PGBP of P/Y in which the asset is so used.</i></p>
Sale of asset	Sum received/receivable on account of destruction/ demolition/ discard/ transfer of such Capital asset shall be deemed as P/G/B/P
Loss of business	<p>Loss of Specified Business can be set off against profits of other specified business only.</p> <p>Unabsorbed loss will be c/f & set off against profits of specified business of subsequent A/Y</p> <p>-C/F & set off for unlimited period</p>

Section 35 CCA : Payment to Associations for carrying out Rural Development Plans (RDP)

Rural Development Fund set up by Central Govt.	National Urban Poverty Eradication Fund Set up by Central Govt.
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Deduction u/s 35CCA **shall be allowed** if subsequent to payment, approval of institution is withdrawn

Section 35 D: Amortization of Preliminary expenses

1	Assessee	Indian Company or Resident Non Corporate Assessee
2	Expenditure when incurred	Before commencement or After commencement <i>for</i> Extension <i>or</i> Setting up of new unit
3	Specified Expenditure <i>Expenditure under point i to iii, can be incurred by assessee himself or approved concern</i>	(i) Feasibility/Project report (iii) Market/Other Surveys (iii) Engineering Services (iv) Legal Charges for drafting agreements For Company Assessee , expenditure on Memorandum & Articles, Legal Fees for registration, expenses on public issue
4	Qualifying amount of Specified Expenditure	<p><u>Non-Corporate Assessee</u> Max 5% of Cost of Project</p> <p><u>Indian Company</u> Max 5% of Cost of Project or 5% of Capital employed, <i>Higher</i></p>
5	Period of Deduction	Qualifying Amount in <u>5 Equal annual installments</u> starting from specified p/y
<p><u>Cost of project</u> : Cost of <u>FIXED ASSETS</u> as per books on last day of P/Y.</p> <p><u>Capital employed</u> : Issued share capital + Debentures + Long term borrowings on last day of P/Y</p>		

LT Borrowings :

- ❖ Loan from Govt. or IFCI or ICICI or Approved financial institution, repayable in not less than 5 years,
- ❖ Loan in foreign currency for purchase of P&M outside India, repayable after 7 years

Section 35 DD : Expenditure in case of Amalgamation or Demerger

- ❖ *Indian Company* incurs expenditure for amalgamation or demerger.
- ❖ Deduction in **5 equal annual installments** from P/Y of amalgamation or demerger.

Section 35 DDA : Expenses incurred under Voluntary Retirement Scheme

- ❖ *Any assessee* incurs expenditure for payment of sum under V.R.S.
- Deduction in **5 equal annual installments** starting from the P/Y in which amount paid

Sec 35CCC : Expenditure on Agricultural extension project

- (1) **150% of Expenditure on agricultural extension project** notified by Board.
- (2) If deduction allowed for any A/Y u/s 35CCC, deduction shall not be allowed of such expenditure under any other provisions of this Act
- (3) **W.E.F A/Y 21/22 : 100% deduction**

35CCD : Expenditure on Skill development project

- (1) **Company** allowed **150% expenditure (except land or building)** on **skill development project** notified by Board
- (2) If deduction allowed for any A/Y u/s 35CCD, deduction shall not be allowed of such expenditure under any other provisions of this Act
- (3) **W.E.F A/Y 21/22 : 100% deduction**

Section 36(1) : Other Expenses allowed from Business/Profession

1.	Premium for insurance of SIT used for B/P.
2	Health insurance premium paid by <i>employer</i> for his employees by any mode other than cash under an approved scheme
3	Bonus or Commission to employee provided not payable as profits. (<i>Subject to sec 43B</i>)
4	Interest on loan for B/P (<i>Subject to sec 43B</i>)
5	Prorata amount of discount on a Zero Coupon bond
6	Employer contribution towards RPF or ASF (<i>Subject to sec 43B</i>)
7	Employer contribution towards a NPS u/s 80CCD, on account of an employee upto 10% of salary (Meaning of Salary same as HRA)
8	Employer contribution towards Approved Gratuity Fund (<i>Subject to sec 43B</i>)
9	Employee Contribution of Provident fund etc received by <i>Employer</i> provided such amount credited by the employer on or before specified date Sec 2(24) : Employees Contribution to Provident fund etc deemed as income of employer.
10	Cost of Animals (less SP) used for B/P (not as S.I.T) & have died or become useless
11	Deduction of Bad Debt in Provided such amount credited in P&L earlier Special Points: Assessee money lending or is Bank <i>condition of credit not applicable</i> No deduction for provision made for bad and doubtful debt. Sec. 41(4) : Subsequent recovery of written off bad debt taxable u/s 41(4) a. Assessee claiming Bad Debt & who recovers the bad debt should be same b. It is not necessary business is in existence in P/Y of recovery

Section 35 E: Deduction for prospecting Minerals

- ❖ Indian Company or Resident non-corporate assessee in production of specified mineral.
- ❖ Incurs **Expenditure** during p/year of commercial production or 4 prior p/y
- ❖ Expenditure *does not include* the following expenditure:
 1. **Capital expenditure**
 2. Acquisition of the **site**
 3. Expenditure met directly or indirectly by any person or authority
- ❖ **Deduction:** Qualifying expenditure allowed for **10 years** starting from P/Y of commercial production
- ❖ **Maximum deduction allowed each year** subject to limit of profit
- ❖ **Unallowed qualifying expenditure** carried forward for next year & added to next year installment.

12.	<p>Provision for bad and doubtful debts made by—</p> <p>(a) Bank or a co-operative bank (other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank) :</p> <p>Upto 8.5% of GTI (computed before making this deduction) + upto 10% of aggregate average advances made by rural branches of such bank</p> <p>(b) Foreign Banks/ financial institution/NBFC : Upto 5% of GTI (computed before making this deduction)</p>
13	<p>Special reserve created and maintained by a specified entity,</p> <p>Deduction : Least of following</p> <p>a) 20% of profits of eligible business computed under "PGBP" (before making this deduction)</p> <p>b) Profit transferred to special reserve account:</p> <p>c) $2 \times \{[\text{Paid up share capital} + \text{General reserves as on last day of P/Y}] - [\text{Balance of special reserve A/c on 1}^{\text{st}} \text{ day of P/Y}]\}$</p> <p>Special Point :</p> <p>(a) "Specified entity" means ,</p> <p>(i) Financial corporation</p> <p>(ii) Banking company;</p> <p>(iii) Co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank;</p> <p>(iv) Housing finance company; and</p> <p>(b) "Eligible business" means ,</p> <p>(i) providing long-term finance for</p> <p>(A) industrial or agricultural development;</p> <p>(B) development of infrastructure facility in India; or</p> <p>(C) development of housing in India;</p> <p>(c) "long-term finance" means any loan where the terms under which moneys are loaned for repayment along with interest during a period of not less than five years;</p>
12	<p>Company incurred expenditure for Family Planning among Employees</p> <p>Revenue Expenditure : 100% allowed in P/Y in which incurred</p> <p>Capital Expenditure : Allowed 20% for 5 years</p> <p>Special Points: Set off & C/F of Capital Expenditure same as depreciation</p>
13	<p>Sum paid as STT on Business Income</p>
14	<p>Sum paid as CTT for Specified Commodities Transactions on business income</p> <p>Specified Commodities Transaction means a transaction of sale of commodity derivatives in respect of commodities, other than agricultural commodities, traded in recognised commodity exchange.</p>

Sec. 37(1) : GENERAL DEDUCTION

- ❖ If not covered under Sec. 30 to Sec. 36
- ❖ If incurred during P/Y wholly & exclusively for **B/P**
- ❖ If not of Capital Nature
- ❖ If not a personal expense of Assessee

Special Points:

- ❖ Expenditure for any offence or which is prohibited by law not allowed as deduction
- ❖ **Sec 37(2B)** : Advertisement in any souvenir, pamphlet etc. of a political party not allowed as deduction
- ❖ *Expenditure incurred on activities relating to corporate social responsibility u/s 135 of Companies Act, 2013 shall not be allowed as deduction u/s 37(1).*

Sec. 40(a) : Following expenses allowed as deduction subject to certain conditions

Payment to whom	Type of payment	Condition	Specified Time for Deposit of TDS
Non-Resident /Foreign company	If TDS not deducted or after deduction not deposited within specified time , then expenditure fully disallowed If TDS deposited after specified time, deduction in P/Y of actual deposit of TDS		<i>Due date of Return for A/Y</i>
Resident	If TDS not deducted or after deduction not deposited within specified time , then 30% of such expenditure is disallowed If TDS deposited after specified time, 30% expenditure allowed as deduction in P/Y of actual deposit of TDS		<i>Due date of Return for A/Y</i>
Govt	Income Tax, Tax on Non Monetary Perquisite not allowed as deduction		
Non resident	Consideration to non-resident for specified service on which equalisation levy is deductible & such levy has not been deducted or after deduction, has not been paid upto due date u/s 139(1) shall not be allowed as deduction If equalisation levy has been deducted in any subsequent year or has been deducted during P/Y but paid after due date u/s 139(1), such sum shall be allowed as deduction in computing income of P/Y in which such levy has been paid		

Sec. 40A(2) : Expn greater than market value

- ✓ Revenue expenditure for which payment
- ✓ to be made to **Specified Person**
- ✓ AO may **disallow** expenditure **exceeding FMV**

Special Points:

Assessee	Specified Persons
Individual	-Relative -Entity in which Individual or relative has SI
Other Assessee	- Director/ Partner/Member or their Relatives - ANY PERSON In whose business director/partner/Relative has SI -Individual having SI in Assessee & his relative -Any entity having SI in Assessee & their director/partner/member/relative -Any director/Partner/member having SI in Assessee & their entity/relative

Substantial Interest : **Atleast 20% Equity Share/profits at any time** during P/Y

Sec. 40A(3): Expenditure >10,000

- ❖ Payment of **Revenue expenditure** in *excess* of ₹ 10,000 *in a day*
- ❖ only by **A/C payee cheque** or **A/C payee bank draft** or **ECS through Bank Account** or other prescribed electronic method
- ❖ If not then **100% expenditure disallowed**

Special point :

Payment made for plying, hiring or leasing goods carriages limit per day is ₹35,000

Special points :

- ❖ Expenditure allowed during P/Y on due basis &
- ❖ In subsequent P/Y Section 40A(3) not followed
- ❖ Deemed as P/G/B/P of subsequent P/Y

Rule 6DD: Exceptions to Sec. 40A(3)

- a) Banks, LIC, Government.
- b) Payment by LC, bill of exchange, ECS, credit card or debit card
- c) Payment to producer of agriculture, forest, animal husbandry, dairy, poultry farming or fish products.
- d) Purchase of products manufactured by producer without aid of power in a cottage industry.
- e) Payment in village/town not served by bank on date of payment to person who resides/carrying on his business/profession/vocation in such village/town
- f) Payment of retirement benefits upto ₹ 50,000

Sec. 40A(7): Disallowance for Gratuity

No deduction of provision made for payment of Gratuity to employees unless provision made

- ❖ Towards **Approved** gratuity fund *or*
- ❖ For payment of gratuity **actually becoming payable** during P/Y

Sec 40A(9): Employer contribution towards funds required by law

No deduction shall be allowed of sum paid by employer towards the setting up/formation or as contribution to any fund not required to be kept under law

Sec. 43B: Certain deductions on Actual Payment Basis

- ✓ Assessee following **Mercantile basis**
- ✓ Following deductions allowed in P/Y if **PAYMENT** made **upto Due date of return**
- ✓ Otherwise allowed in **P/Y of actual payment**

Allowable taxes	Employer Contribution to RPF, ASF, AGF	Bonus or Comm. to employee	Interest on Loan from PFI, SFC or SIIC	Interest on any loan from schedule bank/ Coop Bank <i>other than a primary agricultural credit society or primary co-operative</i>	Payment of leave salary to employee	Sum payable to railways for use of railway asset	Interest payable on any loan or borrowing from deposit taking NBFC or systemically important non-deposit taking NBFC, as per
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				<i>agricultural and rural development bank</i>			terms & conditions of agreement governing such loan or borrowing

Deemed Profits Chargeable to tax

Sec. 41(1): Recovery of Loss/Deductions etc. allowed earlier

- ❖ Deduction allowed in any P/Y for loss/Expense or Trading liability
- ❖ Subsequently during any P/Y, *same assessee or his successor*
- ❖ Recover any amount or remits such liability
- ❖ Then such amount shall deemed to be P/G/B/P of P/Y in which received

Sec. 41(5) : Loss of P/Y in which business cease to exist can be **set off** from Deemed incomes u/s. 41(1), (3), (4). (*Exception to rule that business loss can be carried forward for 8 years only*)

Special Points : Sec 41 will apply even if business is not in existence in p/y of recovery

Sec. 44AA: Maintenance of accounts by Persons carrying on Profession or Business

SPECIFIED PROFESSION		OTHER PROFESSION / BUSINESS	
Gross Receipts > ₹ 1,50,000 for All 3 preceding P/Y	Other case	Gross Receipt > ₹10,00,000 (<i>For Individual/HUF ₹25,00,000</i>) Or Income from P/G/B/P > ₹1,20,000 (<i>For Individual/HUF ₹2,50,000</i>) in Any of 3 years preceding P/Y's	Other case
Specified books of accounts to be maintained for that P/Y	Such books of accounts to enable AO to compute his TI (<i>i.e. Cash Book, & Ledger</i>)		Not required to maintain any BOA

Special Points:

1. **Specified profession** : Legal, Medical, Engineering, Architectural, Accountancy, Technical Consultancy, Interior decoration or other notified profession
2. **Specified books of accounts** :
 - ❖ Journal (if accounts on mercantile basis).
 - ❖ Cash Book & Ledger.
 - ❖ Carbon copies of bill issued > ₹ 25
 - ❖ Original bills or receipts for exp. > ₹ 50
 - ❖ Payment vouchers for exp. incurred upto ₹ 50

These books are required to be kept and maintained for 6 years from end of relevant A/Y
3. A Doctor shall also maintain **daily case register & stock register**

Sec. 44AB: Compulsory Audit of Accounts**BUSINESS Case 1 :**

Aggregate of all amounts received including amount received for sales, turnover or gross receipts during the p/y, in cash, does not exceed 5% of the said amount; and

Aggregate of all payments made including amount incurred for expenditure, in cash, during the p/y does not exceed 5% of the said payment,

Compulsory audit of accounts for **that P/Y** in which Sales/Gross receipts exceed ₹5 crores

Business Case 2 : Not Covered under case 1

Compulsory audit of accounts for **that P/Y** in which Sales/Gross receipts exceed ₹1 crore

PROFESSION:

Compulsory audit of accounts for **that P/Y** in which Fees/Gross receipts exceeds ₹50 lakhs

Special Points:

Accounts have to be audited u/s. 44AB by a CA one month before due date u/s 139(1) and also the audit report is to be furnished on or before the said date.

COMPUTATION OF P/G/B/P ON PRESUMPTIVE BASIS

		SEC 44AD	SEC 44AE
1.	Overriding	Sec 28 to 43C	Sec 28 to 43C
2.	Assessee	<i>Resident Individual, Resident HUF or Resident Partnership Firm Excluding LLP</i>	Any Assessee (Resident/Non Resident)
3.	Business	<i>Any Business except business u/s 44AE</i>	Plying, Hiring or Leasing goods carriage
4.	Limitations	<i>Provided Gross receipts/turnover upto 2 crore</i>	<i>Owns upto 10 goods carriage at any time during P/Y</i>
5.	Sum deemed as P/G/B/P	<i>8 % of Gross Receipts/ Turnover in P/Y</i>	<u>For Heavy goods vehicle</u> <i>₹1,000 per ton pm or part owned in p/y or amount claimed to have been actually earned from such vehicle,</i>

		6% of Total turnover /Gross receipts received during p/y or before due date u/s 139(1) of that p/y by A/c payee cheque or A/c payee bank draft or byf ECS through bank A/c or by other prescribed electronic method	whichever is higher; <u>Other than heavy goods vehicle</u> ₹7,500 pm or part owned in p/y or amount claimed to have been actually earned from such vehicle, whichever is higher. <i>Heavy goods vehicle means goods vehicle having gross weight/Unladen weight is more than 12,000 kgs (more than 12 tonne)</i>
6.	PGBP Deductions	No deduction u/s Sec. 30 to 38 shall be allowed	No deduction u/s Sec. 30 to 38 shall be allowed
7.	B/F losses	Brought Forward losses shall be available	Brought Forward losse shall be available
8.	Benefits	Deemed income or higher ,then sec44AA & 44AB not applicable	Deemed income or higher , sec44AA & 44AB not applicable

Sec 40(b) : Tax Treatment in hands of Partner in Firm

Payment	Salary/Bonus/Commission		Interest on Capital
Partner	Working Partner		All Partner
Partnership deed	Authorized by Partnership Deed / Change should be prospective		Authorized by Partnership Deed/ Change should be prospective
Amount of deduction	Book Profits	Maximum Deduction	Upto 12 % P.a
	Upto 3,00,000 (Including Loss)	₹ 1,50,000 or 90% of BP (whichever is more)	
	Balance Book profit	60% of BP	

Computation of Book Profits

1. Compute Net profit as per P&L A/C of the firm Under Head P/G/B/P.
2. **Add:** Below items, **if already debited** to P&L A/C
 - i) Remuneration paid to ALL Partner
 - ii) Interest to ALL partners in excess of 12% P.a

Sec 44ADA : Profits and gains of profession on presumptive basis

1. **Assessee** : Resident in India, who is engaged in specified profession u/s 44AA & whose Gross receipts is upto 50 lakh in a P/Y.

2. **Sum Deemed as business profits** : 50% of Total Gross Receipts in P/Y or sum higher claimed to have been earned by the assessee

3. Deductions : Deduction u/s 30 to 38 shall be deemed to have been allowed and no further deduction under those sections shall be allowed.

4. WDV of block : WDV of asset used for purposes of profession shall be deemed to have been calculated as if assessee had claimed & had been actually allowed deduction of depreciation for each of relevant A/Y.

5. Lower Profits : Assessee who claims that professional income are lower than deemed profits & whose total income exceeds exemption limit shall be required to keep & maintain such books of account and other documents u/s 44AA and get them Audited u/s 44AB

Sec 43CA : Sale consideration in case of Real Estate Transactions

- Transfer of land/building/both (Not being a capital asset)
- Stamp duty valuation(SDV) > 110% of consideration on
- SDV deemed as consideration for computing Business Profits

Option available to Assessee

- Assessee can claim before AO that
- SDV > FMV of property
- AO may refer the valuation of Asset to Valuation Officer

Valuation of Valuation Officer

- Valuation of valuation officer < SDV,
- value of valuation officer = Full value of consideration

Special point :

- Where Date of agreement for transfer of asset and Date of registration of such transfer are different,
- SDV on date of Agreement shall be considered
- if consideration or part is received by account payee cheque or account payee bank draft or by use of ECS through bank account or by other prescribed electronic method
- on or before date of agreement for transfer of the asset.

MISSL

1. SEC 115BAC : IF assessee is covered u/s 115BAC then he is not allowed the following deductions'

- u/s 32(1)(iia) or
- u/s 32AD or
- u/s 33AB or
- u/s 33ABA or
- u/s 35(1)(ii) or u/s 35(1)(iia) or u/s 35(1)(iii) or u/s 35(2AA) or
- u/s 35AD or
- u/s 35CCC

MULTIPLE CHOICE QUESTIONS**CHARGEABILITY**

Q 1 to Q18 : Assume Assessee not covered u/s 115BAC

(1) Which is the charging section of Income under the head salaries?

- | | |
|----------------|----------------|
| (a) Section 10 | (b) Section 15 |
| (c) Section 5 | (d) Section 4 |

(2) Which of the following income is chargeable to income tax under the head salaries?

- | | |
|-----------------------|--------------------|
| (a) Salary due | (b) Advance Salary |
| (c) Arrears of Salary | (d) All of these. |

(3) Any salary due from an employer or a former employer to an assessee in the previous year whether paid or not is known as -

- | | |
|-----------------------|--------------------|
| (a) Salary due | (b) Advance Salary |
| (c) Arrears of Salary | (d) All of these. |

(4) Income is taxable under the head salaries only if there exists -----relationship between the payer and payee.

- | | |
|-------------------------|-----------------------|
| (a) Employer - Employee | (b) Principal -Agent |
| (c) Agent - Principal | (d) All of the above. |

TAX BY SG**MCQ SALARY**

- (5) A teacher receives remuneration for setting question paper for examination. What is the chargeability position of this remuneration? Choose the most appropriate answer.
- (a) It will be chargeable under the head salaries. (b) It will be chargeable under the head income from other sources.
- (c) It will not be charged to tax under any head. (d) It will be allowed as deduction.
- (6) Which section gives the definition of salary?
- (a) Section 15 (b) Section 17(1)
- (c) Section 10 (d) None of these.
- (7) Which amongst the following is not included under the inclusive definition of salary?
- (a) Wages (b) Any annuity or pension
- (c) Employer's contribution in RPF in excess of 12 % of salary (d) None of these.
- (8) Mr. X joins a job on 1-7-2020 at monthly salary of ₹25,000. His salary becomes due on last day of each month. His taxable salary for AY 2021-22 will be -
- (a) ₹2,25,000 (b) ₹1,85,000
- (c) ₹1,75,000 (d) ₹2,00,000
- (9) Mr. X joins a job on 1-7-2020 at monthly salary of ₹20,000. His salary becomes due on first day of next month. His taxable salary for AY 2021-22 will be-
- (a) ₹1,20,000 (b) ₹1,10,000
- (c) ₹1,60,000 (d) ₹2,40,000
- (10) Mr. X joins a job on 1-7-2019 at monthly salary of ₹20,000 in A Ltd. He got an increment of ₹1,000 in the month of July 2020. His salary becomes due on last day of each month. His taxable salary for AY 2021-22 will be-
- (a) ₹1,99,000 (b) ₹2,49,000
- (c) ₹2,09,000 (d) ₹2,52,000
- (11) Mr. X joins a job on 1-7-2019 at monthly salary of ₹20,000 in A Ltd. He got an increment of ₹ 1,000 in the month of July 2020. His salary becomes due on first day of next month. His taxable salary for AY 2021-22 will be-
- (a) ₹2,08,000 (b) ₹1,98,000
- (c) ₹2,48,000 (d) ₹2,52,000
- (12) Salary of X (₹40,000 per month) becomes due on the last day of the month but is paid on 7th of next month. Also, Salary of April, 2021 and May, 2021 is received in advance in March, 2021. What will be his gross total income for A.Y. 2021-22?
- (a) ₹5,10,000 (b) ₹4,80,000
- (c) ₹4,40,000 (d) ₹5,60,000
- (13) Mr. X joins a job in the grade of ₹20,000-500-25,000-1,000-40,000-1,500-60,000 on 1-7-2009 which becomes due on last day of each month. His taxable salary for AY 2021-22 will be -----
- (a) ₹2,59,000 (b) ₹2,97,000
- (c) ₹3,09,000 (d) ₹3,21,000
- (14) Mr. A joins a job in the grade of ₹ 20,000-500-25,000-1,000-40,000-1,500-60,000 on 1-7-2009 which becomes due on first day of next month. His taxable salary for AY 2021-22 will be-
- (a) ₹3,08,000 (b) ₹2,97,000
- (c) ₹2,58,000 (d) ₹3,21,000

- (15) Which of the following income is taxable under the head 'income from salary' - (Dec. 2011)
- (a) Salary received by a partner from firm (b) Salary received by a Member of Parliament
(c) Salary of a Government Officer (d) None of the above.
- (16) Mr. X joins a job in the grade of ₹ 20,000-500-25,000-1,000-40,000-1,500-60,000 on 1-7-2009 which becomes due on first day of next month. He is also dearness allowance of 100% of salary. His taxable salary for AY 2021-22 will be-
- (a) ₹ 6,16,000 (b) ₹ 5,94,000
(c) ₹ 5,66,000 (d) ₹ 6,42,000
- (17) Pankaj joins service on 1st April 2016 in the grade of 15,000 - (1,000) - 18,000 - (2,000) - 26,000. He shall be paying tax for the year ended on 31st March, 2021 on the total salary of - (Dec. 2015)
- (a) ₹ 2,40,000 (b) ₹ 1,90,000
(c) ₹ 2,28,000 (d) ₹ 1,80,000
- (18) Anjan joins a service in the grade of ₹ 25,600 - 39,100 plus grade pay of ₹ 15,000 on 01-08-2019. He also gets dearness allowance @ 107% of salary. His tax liability for assessment year 2021-22 will be - (Dec. 2014)
- (a) ₹ 38,450 (b) ₹ 36,970
(c) Nil (d) ₹ 38,540

ALLOWANCES

- (19) ----- is granted to an employee by his employer to meet expenditure actually incurred on payment of rent.
- (a) Dearness Allowance (b) House Rent Allowance
(c) City Compensatory Allowance (d) None of these.
- (20) Which amongst the following is a fully taxable allowance for assessee covered u/s 115BAC?
- (a) Conveyance allowance (b) Travelling allowance
(c) Daily Allowance (d) Research allowance
- (21) For an employee in receipt of hostel expenditure allowance for his three children, the maximum annual allowance exempt under Section 10(14) is-----Assuming not covered u/s 115BAC
- (a) ₹ 10,800 (b) ₹ 7,200
(c) ₹ 9,600 (d) ₹ 3,600
- (22) For an employee in receipt of education allowance for his three children, the maximum annual allowance exempt under Section 10(14) is ----- Assuming not covered u/s 115BAC
- (a) ₹ 1,200 (b) ₹ 2,400
(c) ₹ 4,800 (d) ₹ 1,600
- (23) Sheila is an employee in a private company. In the previous year she received salary ₹1,80,000 and house rent allowance of ₹ 60,000. She is residing with her parents. Her taxable house rent allowance will be -----Assuming not covered u/s 115BAC
- (a) Nil (b) ₹ 60,000
(c) ₹ 42,000 (d) ₹ 18,000
- (24) Pappu employed in Megha Ltd., Delhi. He is paid house rent allowance of ₹ 9,000 per month in financial year 2019-20. His salary for the purpose of computation of house rent allowance relief may be taken as ₹ 20,000 per month. Pappu pays actual rent of ₹ 10,000 per month. How much of the house rent allowance is tax-free ----- Assuming not covered u/s 115BAC
- (a) ₹ 108,000 (b) ₹ 1,20,000
(c) ₹ 96,000 (d) ₹ 60,000

- (25) Children education allowance received by an employee from his employer is ₹ 80 per month per child for 3 children. Taxable education allowance will be ----- Assuming covered u/s 115BAC
- (a) ₹ 960 (b) ₹ 840
(c) Nil (d) ₹ 1,200
- (26) Nandan, a handicapped employee receives ₹ 1,500 per month as transport allowance from his employer. His actual expenditure on transport is ₹ 1,000 per month. The amount of transport allowance taxable under the head income from salaries will be ----- Assuming covered u/s 115BAC
- (a) ₹ 18,000 (b) Nil
(c) ₹ 6,000 (d) ₹ 8,000.
- (27) Calculate the exempt HRA from the following details : X is entitled to a Basic salary of ₹ 50,000 p.m. and dearness allowance of ₹ 10,000 p.m., 40% of which forms part of retirement benefits. He is also entitled to HRA of ₹ 20,000 p.m. He actually lives with his parents in Mumbai and pays rent of ₹ 20,000 p.m. Assuming not covered u/s 115BAC
- (a) Nil (b) ₹ 1,75,200
(c) ₹ 64,800 (d) ₹ 2,40,000
- (28) Prakash purchased a residential house property in Ahmedabad on loan for which he paid an interest of ₹ 50,000 during the previous year. He is working in Delhi and getting an HRA of ₹ 4,000 per month. He can claim exemption/ deduction for ----- Assuming not covered u/s 115BAC
- (a) Only HRA (b) Only interest paid
(c) Either interest paid or HRA but not both (d) Both HRA and interest paid.
- (29) X received children education allowance of ₹ 500 pm for 1 of his children. Calculate taxable amount of children education allowance for the assessment year 2021-22 if entire ₹ 500 is spent by X. Assuming not covered u/s 115BAC
- (a) Nil (b) ₹ 4,800
(c) ₹ 6,000 (d) ₹ 3,600
- (30) Karan, a resident of Meerut, receives ₹ 38,000 per annum as basic salary. In addition, he gets ₹ 12,000 p.a. as dearness allowance, which does not form part of basic salary, 5% commission on turnover achieved by him (turnover achieved by him during the relevant previous year is ₹ 6,00,000) and ₹ 7,000 per annum as house rent allowance. He, however, pays ₹ 8,000 per annum as house rent. The quantum of house rent allowance exempt from tax is _____. Assuming covered u/s 115BAC
- (a) Nil (b) ₹ 8,000
(c) ₹ 7,000 (d) ₹ 1,200
- (31) Naresh a resident of Jaipur, receives ₹ 25,000 p.m. as basic salary. In addition, he gets ₹ 10,000 p.m. as dearness allowance, which form part of basic salary and ₹ 18,000 pm as house rent allowance. He, however, pays ₹ 20,000 p.m. as house rent. The quantum of house rent allowance taxable is _____. Assuming not covered u/s 115BAC
- (a) ₹ 48,000 (b) ₹ 6,000
(c) Nil (d) ₹ 24,000
- (32) The maximum exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty shall be _____
- (a) Nil (b) ₹ 1,400 per month
(c) ₹ 1,600 per month (d) ₹ 1,800 per month
- (33) The maximum exemption in respect of transport allowance granted to an blind employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty shall be _____
- (a) ₹ 1,600 per month (b) Nil
(c) ₹ 3,200 per month (d) ₹ 20,000 per month

- (34) Rajesh ,an employee of transport company receives ₹ 25,000 p.m. as basic salary. In addition, he gets ₹ 12,000 p.m. as transport allowance to meet his personal expenditure incurred in course of his official duty of running the transport from one place to another. He has expended ₹ 60,000 for the said purpose during the previous year. He is not in receipt of daily allowance. The quantum of transport allowance taxable is _____. Assuming not covered u/s 115BAC
- (a) ₹ 43,200 (b) ₹ 24,000
(c) ₹ 1,44,000 (d) ₹ 84,000
- (35) Raghav an employee of XYZ Ltd. receives ₹25,000 p.m. as basic salary. In addition, he gets ₹12,000 p.m. as dearness allowance and ₹15,000 pm as uniform allowance. He has expended ₹ 60,000 to meet expenditure incurred on purchase and maintenance of uniform during the previous year. His taxable salary is _____. Assuming covered u/s 115BAC
- (a) ₹ 3,00,000 (b) ₹ 4,44,000
(c) ₹ 6,24,000 (d) ₹ 5,64,000
- (36) Rishi an employee of XYZ Ltd. receives ₹ 25,000 p.m. as basic salary. In addition, he gets ₹ 15,000 p.m. as dearness allowance and ₹240 p.m as for three children as education allowance. His taxable salary is _____. Assuming covered u/s 115BAC
- (a) ₹ 4,80,000 (b) ₹ 4,82,880
(c) ₹ 4,38,640 (d) ₹ 4,88,640
- (37) Kailash an employee of XYZ Ltd. receives ₹ 30,000 p.m. as basic salary. In addition, he gets ₹ 10,000 p.m. as dearness allowance,not forming part of salary and ₹ 2,000 p.m as fixed medical allowance. His taxable salary is -----Assuming not covered u/s 115BAC
- (a) ₹ 4,54,000 (b) ₹ 5,04,000
(c) ₹ 4,80,000 (d) ₹ 3,84,000
- (38) Neha is an employee in a private company. In the previous year she received salary ₹ 1,80,000 and entertainment allowance ₹ 12,000. She spent ₹ 6,000 on entertainment. Under section 16(ii), she is entitled to deduction of _____. Assuming not covered u/s 115BAC
- (a) ₹ 12,000 (b) ₹ 6,000
(c) ₹ 5,000 (d) Nil.
- (39) Raghav receives ₹ 50,000 as basic salary from the government during the financial year 2020-21 and receives ₹ 9,000 by way of entertainment allowance which he spends in full for official purposes. The amount deductible under section 16(ii) in respect of the allowance will be _____. Assuming covered u/s 115BAC
- (a) ₹ 5,000 (b) ₹ 9,000
(c) ₹ 10,000 (d) Nil
- (40) Ravi is receiving ₹ 10,000 as medical allowance from his employer. Out of this, he spends ₹5,000 on his own medical treatment, ₹ 2,000 on the medical treatment of his dependent wife and another ₹3,000 for the medical treatment of his major son who is not a dependent on him. The amount of medical allowance taxable in his hand is _____. Assuming not covered u/s 115BAC
- (a) ₹ 10,000 (b) ₹ 5,000
(c) ₹ 3,000 (d) Nil

PERQUISITES

- (41) Any benefit or an amenity provided to the employee by the employer directly or indirectly whether in cash or in kind in addition to salary & wages is known as -----
- (a) Perquisite (b) Allowance
(c) Deduction (d) Exemption
- (42) Who amongst the following is considered to be a specified employee?
- (a) An director employee of the company. (b) An employee having the substantial interest in the company.
(c) An employee whose income chargeable under the head salary excluding value of all non-monetary benefits exceeds ₹ 50,000. (d) All of the above.

- (43) Rent free accommodation provided to employee by the employer is
- (a) Exempt from tax. (b) Taxable in case of specified employees *only*.
(c) Taxable in case of non specified employee. (d) Taxable whether the employee is a specified employee or non specified employee.
- (44) Any sum paid by the employer in respect of any obligation, for which such payment would have been payable by the employee is
- (a) Exempt from tax. (b) Taxable in case of specified employees only.
(c) Taxable in case of non specified employee. (d) Taxable whether the employee is a specified employee or non specified employee.
- (45) The amount of any contribution to an approved superannuation fund by the employer in respect of the employee is exempt from tax upto -
- (a) ₹1,00,000 (b) ₹1,50,000
(c) ₹2,00,000 (d) Nil
- (46) Credit card facility provided to employee by the employer is _
- (a) Exempt from tax. (b) Taxable in case of specified employees only.
(c) Taxable in case of non specified employees only. (d) Taxable whether the employee is a specified employee or non specified employee.
- (47) Shyam receives ₹50,000 p.m. as basic salary from the government during the financial year and has been provided rent free accommodation in Jaipur (population exceeds 25 lakhs). The license fee determined by the Government for such accommodation is ₹1,000 p.m. The market rent of such accommodation is ₹5,000 p.m. The taxable value of rent free accommodation will be _____
- (a) ₹12,000 (b) ₹60,000
(c) ₹ 90,000 (d) Nil
- (48) Kapil gets salary of ₹ 12,000 p.m. and is provided with rent-free unfurnished accommodation at Pune (population 20 lakh). House is owned by employer, fair rental value of which is ₹ 1,400 p.m. House was provided with effect from 1st July, 2020. Value of the perquisite of rent-free accommodation will be -
- (a) ₹ 21,600 (b) ₹ 10,800
(c) ₹ 16,200 (d) ₹ 12,600
- (49) Satish is employed as chief engineer in Gama Ltd., Chennai w.e.f. 1st April, 2020 for a consolidated salary of ₹ 60,000 per month. He is provided with rent-free unfurnished accommodation owned by the employer from 1st July, 2020 onwards. The value of taxable perquisite is _____
- (a) ₹ 1,08,000 (b) ₹ 81,000
(c) ₹ 72,000 (d) ₹ 54,000
- (50) Paresh receives ₹ 25,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹ 10,000 p.m. (not forming part of retirement benefit) and has been provided rent free accommodation in Jaipur (population exceeds 25 lakhs) which is owned by employer. The market rent of such accommodation is ₹5,000 p.m. The taxable value of rent free accommodation will be _____
- (a) ₹63,000 (b) ₹ 45,000
(c) ₹ 60,000 (d) ₹ 30,000
- (51) Rakesh receives ₹ 25,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹ 10,000 p.m. (forming part of retirement benefit) and has been provided rent free accommodation in Alwar (population is ₹ 15lakhs) which is owned by employer. The market rent of such accommodation is ₹ 5,000 p.m. The taxable value of rent free accommodation will be -
- (a) ₹42,000 (b) ₹31,500
(c) ₹ 60,000 (d) ₹ 63,000

- (52) Sunny receives ₹ 15,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹5,000 p.m. forming part of retirement benefit and has been provided rent free accommodation, which is owned by employer, in small city (population is 8 lakhs). The market rent of such accommodation is ₹ 1,000 p.m. The taxable value of rent free accommodation will be _____
- (a) ₹ 18,000 (b) ₹ 13,500
(c) ₹ 12,000 (d) ₹ 36,000
- (53) Ravi receives ₹ 25,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit and has been provided rent free accommodation, which is taken on rent, in a city (population is 8 lakhs). The employer has paid monthly rent of ₹ 4,000. The taxable value of rent free accommodation will be -
- (a) ₹ 36,000 (b) ₹ 48,000
(c) ₹ 72,000 (d) ₹ 45,000
- (54) Chhavi receives ₹ 25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit and has been provided rent free accommodation, which is taken on rent, in Delhi (population exceeds 25 lakhs). The employer has paid monthly rent of ₹ 10,000. The taxable value of rent free accommodation will be -
- (a) ₹ 36,000 (b) ₹ 48,000
(c) ₹72,000 (d) ₹ 1,20,000
- (55) Chavi receives ₹ 25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit and has been provided, accommodation owned by employer in Delhi (population exceeds 25 lakhs). The employer has charged rent of ₹ 4,000 p.m. from Chavi. The taxable value of concessional accommodation will be -
- (a) ₹ 24,000 (b) ₹ 48,000
(c) ₹ 72,000 (d) Nil
- (56) Kavita receives ₹ 25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided accommodation owned by employer with effect from 1st October 2020 in Delhi (population exceeds 25 Lakhs). The market rent of such accommodation is ₹2,000p.m. The taxable value of rent free accommodation for A/Y 2021-22 will be -
- (a) ₹36,000 (b) ₹12,000
(c) ₹72,000 (d) ₹ 48,000
- (57) Riya receives ₹ 25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided accommodation in hotel in Delhi (population exceeds 25 lakhs). The employer has paid monthly rent of ₹8,000 for such hotel accommodation. The taxable value of concessional accommodation for AY 2021-22 will be -
- (a) ₹ 1,15,200 (b) ₹ 96,000
(c) ₹ 72,000 (d) ₹ 48,000
- (58) Sarita receives ₹25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided accommodation in Delhi (population exceeds 25 lakhs) with effect from 01-04-2020. The accommodation is owned by employer. The employer has also provided furniture original cost ₹ 50,000 (WDV ₹ 40,500) with effect from 1-10-2020. The market rent of such accommodation is ₹12,000 p.m. The taxable value of concessional accommodation for AY 2021-22 will be -
- (a) ₹ 74,500 (b) ₹ 77,500
(c) ₹ 76,050 (d) ₹ 74,025
- (59) Remote area means an area that is located at least _____kilometers away from a town having a population not Exceeding_____based on latest published all-India census.
- (a) 20, 40,000 (b)40, 20,000
(c) 40, 40,000 (d) 20, 20,000

- (60) When the employee is provided accommodation in a hotel for a period not exceeding _____ days on account of his transfer from one place to another, then the value of such perquisite shall be Nil.
- (a) 10 (b) 15
(c) 90 (d) 60
- (61) Accommodation provided to employee working at mining site which, being of a temporary nature and having plinth area not exceeding -----sq. feet, is located not less than -----kms. away from the local limits of any municipality or a cantonment board shall not be taxable.
- (a) 800, 8 (b) 1000, 8
(c) 800,40 (d) 800 ,20
- (62) Where on account of transfer of employee from one place to another, he is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value for a period not exceeding days.
- (a) 60 (b) 90
(c) 30 (d) 120
- (63) Ramesh, an employee of Gauri & Co. of Delhi, received the following payments during the previous year ended 31st March, 2021 :
Basic salary : ₹ 2,40,000 and dearness allowance: 40% of basic salary (40% forming part of salary). Rent-free unfurnished accommodation provided by employer for which rent paid by employer being ₹ 50,000. The value of taxable perquisite in the hands of Ramesh will be -----
- (a) ₹ 41,760 (b) ₹50,000
(c) ₹ 36,000 (d) ₹ 52,500.
- (64) Employer provides a car (below 1.6 Ltr. capacity) along with a driver to X partly for official and partly for personal purpose. The expenses incurred by the company are: Running and maintenance expenses - ₹32,000 & Driver's salary : ₹36,000. The Taxable value of Car facility for assessment year 2021-22 will be-
- (a) ₹ 21,600 (b) ₹ 10,800
(c) ₹ 32,400 (d) ₹ 39,600
- (65) Garima receives ₹ 2,500 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹ 1,500 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6 lts) owned by employer for her personal use. Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹ 15,000. The taxable value of car facility for AY 2021-22 will be -----
- (a) ₹ 15,000 (b) ₹ 21,600
(c) ₹ 28,800 (d) Nil
- (66) Reshma receives ₹50,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹25,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6 Lts) owned by employer for her personal use. The original cost of car is ₹6,00,000 (WDV ₹5,10,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹ 75,000. The salary of driver paid by the employer - ₹96,000. The taxable value of car facility for AY 2021-22 will be _____. Assuming not covered u/s 115BAC
- (a) ₹ 2,31,000 (b) ₹39,600
(c) ₹ 2,22,000 (d) ₹1,71,000
- (67) Sushma receives ₹50,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹ 25,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6Lts) owned by employer for her personal use as well as official use. The original cost of car is ₹6,00,000 (WDV ₹ 5,10,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹75,000. The salary of driver paid by the employer – ₹ 96,000. The taxable value of car facility for A/Y 2021-22 will be _____
- (a) ₹2,31,000 (b) ₹39,600
(c) ₹2,22,000 (d) ₹1,71,000

- (68) Karishma receives ₹25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity does not exceed 1.6 Lts) owned by employer for her personal use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The taxable value of car facility will be -
- (a) ₹1,08,000 (b) ₹32,400
(c) ₹1,04,500 (d) ₹33,600
- (69) Shraddha receives ₹25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity does not exceed 1.6Lts) owned by employer for her personal as well as official use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The taxable value of car facility will be-
- (a) ₹1,08,000 (b) ₹32,400
(c) ₹1,04,500 (d) ₹33,600
- (70) Neerja receives ₹25,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity does not exceed 1.6Lts) owned by employer for her personal use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The employer recovers ₹2,000 p.m. from the employee. The taxable value of car facility will be-
- (a) ₹1,08,000 (b) ₹84,000
(c) ₹80,500 (d) ₹32,400
- (71) Sheela receives ₹30,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6 Lts) owned by employer for her official use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The taxable value of car facility will be -
- (a) Nil (b) ₹84,000
(c) ₹80,500 (d) ₹32,400
- (72) Katrina receives ₹30,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6lts) owned by employer for commuting between office and residence. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer - ₹48,000. The taxable value of car facility will be -
- (a) ₹32,400 (b) ₹84,000
(c) ₹80,500 (d) Nil
- (73) Priya receives ₹30,000 p.m. as basic salary from ABC Ltd. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. She has been provided motor car (engine capacity exceeds 1.6lts) owned by employer for her personal use. The car is self driven by her. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by the Priyanka on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The taxable value of car facility will be-
- (a) ₹31,500 (b) ₹10,800
(c) ₹35,000 (d) ₹21,600
- (74) Sunny receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided motor car (engine capacity exceeds 1.6lts) owned by employer for his personal as well as official use. The car is self driven by him. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by Sunil on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The taxable value of car facility will be -
- (a) ₹31,500 (b) ₹10,800
(c) ₹35,000 (d) ₹21,600

TAX BY SG**MCQ SALARY**

(75) Prashant receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided motor car (engine capacity does not exceed 1.6lts) owned by employer for his personal as well as official use. The original cost of car is ₹3,50,000 (WDV ₹3,15,000). Expenditure incurred by Prashant on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer amounted ₹48,000. The taxable value of car facility will be _____

- (a) ₹83,000 (b) ₹ 18,000
(c) ₹ 10,800 (d) ₹ 7,200

(76) Sahil receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He owns a motor car (engine capacity does not exceed 1.6 Its) which is used by him for personal purposes. The original cost of car is ₹3,50,000. Expenditure incurred by employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer amounted ₹48,000. The taxable value of car facility will be -

- (a) ₹73,000 (b) ₹ 55,000
(c) ₹ 40,600 (d) Nil

(77) Abdul receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He owns a motor car (engine capacity does not exceed 1.6 Lts) which is used by him for personal as well as official purposes. The original cost of car is ₹3,50,000. Expenditure incurred by employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer amounted ₹48,000. The taxable value of car facility will be _____

- (a) ₹33,400 (b) ₹73,000
(c) ₹40,600 (d) ₹32,400

(78) Kapil receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He owns a motor car (engine capacity exceeds 1.6 Lts) which is used by him for personal as well as official purposes. The original cost of car is ₹3,50,000. Expenditure incurred by employer on running and maintenance of the motor car during the relevant previous year amounted ₹25,000. The salary of driver paid by the employer amounted ₹48,000. The taxable value of car facility will be _____

- (a) ₹33,400 (b) ₹73,000
(c) ₹40,600 (d) ₹32,400

(79) Mr. A is provided with two cars, to be used for official and personal work by his employer ABC Ltd. The following information is available from the company records:

	Car 1 ₹	Car2 ₹
Engine Capacity	1.8Its	1.8Its
Cost of the Car	6,00,000	4,00,000
Running and maintenance (Borne by the company)	40,800	28,000
Salary of driver (Borne by the company)	24,000	24,000

The taxable monetary emoluments of Mr. A are ₹ 90,000. The taxable 'Perk' in respect of Cars on the assumption car 2, is exclusively used by "A" for personal purpose will be -

- (a) ₹1,31,600 (b) ₹1,57,200
(c) ₹72,000 (d) ₹2,16,800

(80) Mr. Ramesh is provided with two cars, to be used for official and personal work by his employer ABC Ltd. The following information is available from the company records:

	Car 1 ₹	Car2
Engine Capacity	1.8 Its	₹ 1.6 Its
Cost of the Car	12,00,000	8,00,000
Running and maintenance (Borne by the company)	40,800	28,000
Salary of driver (Borne by the company)	96,000	84,000

The taxable monetary emoluments of Mr. A are ₹9,00,000. The taxable 'Perk' in respect of Cars will be -

- (a) ₹2,31,600 (b) ₹2,89,200
(c) ₹4,48,800 (d) ₹72,000

(81) Jasmeet receives ₹ 30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided cook for which the actual cost to employer is ₹ 60,000. Jasmeet has paid ₹ 20,000 to the cook. The taxable value of cook perquisite will be -

- (a) ₹60,000 (b) ₹80,000
(c) ₹40,000 (d) Nil

(82) Manoj receives ₹30,000 p.m. as basic salary from ABC Ltd. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided free electricity facility for which the actual cost to employer is ₹58,000. The employer has recovered ₹8,000 from Manoj on account of such facility. The taxable value of electricity perquisite will be -

- (a) ₹58,000 (b) ₹66,000
(c) ₹50,000 (d) Nil

(83) Mahesh receives ₹ 30,000 p.m. as basic salary from Delhi Public School. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. His son is studying in the school for which the employer charges ₹ 200 p.m. The cost of such education in a similar institution in the locality is ₹ 3,500 p.m. The taxable value of education facility will be -

- (a) ₹ 39,600 (b) ₹27,600
(c) ₹ 42,000 (d) Nil

(84) Aadish is an employee of Moon Public School. His daughter, Zara, is studying in the said school at a concessional fees of ₹ 600 per month (Actual fee : ₹ 4,000 per month). The amount taxable in the hands of Aadish will be -

- (a) ₹ 48,000 (b) ₹ 7,200
(c) Nil (d) ₹ 40,800.

(85) Ashok took an interest-free loan of ₹ 15,000 from B Ltd. (the employer). Assuming that the market rate of interest on similar loan is 10%. the taxable value of the perquisite in the hands of Ashok will be -

- (a) ₹ 150 (b) ₹ 1,500
(c) Nil (d) None of the above.

(86) During the previous year, Varun received a watch worth ₹ 20,000 from his employer. The taxable value of the watch will be _

- (a) ₹ 15,000 (b) ₹ 20,000
(c) Nil (d) None of the above.

(87) Rajesh receives ₹ 30,000 p.m. as basic salary from Delhi Public School. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. His son is studying in the school for which the employer charges ₹ 200 p.m. The cost of such education in a similar institution in the locality is ₹ 1,200 p.m. The taxable value of education facility will be-

- (a) ₹14,400 (b) ₹12,000
(c) ₹16,800 (d) Nil

(88) Suresh is pilot of Jet airways. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided transport facility in the conveyance owned by the company. The amount charged to general public on account of such facility is ₹25,000. The employer has recovered ₹5,000 from Suresh. The cost to employer is ₹18,500. The taxable value of transport facility will be -

- (a) ₹ 25,000 (b) ₹ 20,000
(c) ₹ 18,500 (d) Nil

- (89) Kalu is employee of ABC Roadways Pvt. Ltd. engaged in transportation of passengers. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. He has been provided transport facility in the conveyance owned by the company. The amount charged to general public on account of such facility is ₹25,000. The employer has recovered ₹5,000 from Kalu. The cost to employer is ₹18,500. The taxable value of transport facility will be -
- (a) ₹25,000 (b) ₹20,000
(c) ₹18,500 (d) Nil
- (90) "Family" for the purpose of medical facility means –
- (a) spouse of that individual (b) Children of that individual
(c) Parents, brothers and sisters of the individual (d) All of the above or any of them wholly or mainly dependent on the individual.
- (91) Ms. Priya is provided with an interest free loan by her employer for the purchase of a house. The value of the perquisite shall be -
- (a) Simple interest computed at the rate charged by the Central Government to its employees on 1st April of the previous year (b) Simple interest computed at the rate charged by State Bank of India on 1st April of the previous year
(c) Simple interest computed at the rate charged by National Housing Bank on 1st April of the previous year (d) Simple interest computed at the rate determined by the employer on 1st April of previous year.
- (92) Kamlesh is employee of Apollo Hospitals Pvt. Ltd. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has incurred an expenditure of ₹25,000 on medical treatment of his minor child and ₹75,000 on medical treatment of his brother not dependent on Kamal in the hospital maintained by the employer. The taxable value of medical facility will be -
- (a) ₹25,000 (b) ₹75,000
(c) ₹85,000 (d) ₹60,000
- (93) Any sum paid by the employer in respect of an expenditure incurred by an employee on his medical treatment or treatment of any of his family member *in private hospital* is exempt upto -
- (a) ₹15,000 (b) Nil
(c) ₹30,000 (d) ₹60,000
- (94) Everest Ltd. reimburses the following expenditure on medical treatment of the son of an employee Karan. The treatment was done at UK :
- (i) Travelling expenses ₹1,15,000.
(ii) Stay expenses at UK permitted by RBI ₹45,000 (Actual expenses ₹70,000).
(iii) Medical expenses permitted by RBI ₹50,000 (Actual expenses ₹70,000).
The taxable perquisites in the hands of Karan, if his annual income from salary was ₹1,56,000 will be -
- (a) ₹2,55,000 (b) ₹45,000
(c) ₹1,60,000 (d) Nil
- (95) Mr. M was granted an option on 1-7-2019 by the company to purchase 500 equity shares at a price of ₹250 per share. The period during which the option can be exercised to purchase 500 shares at a pre-determined price of ₹ 250 per share commencing on 1-7-2019 and ending on 31-3-2021. Mr. M exercised the option on 15-3-2020 to purchase 500 shares. Fair market value on the said date was ₹ 500 on the Bombay Stock Exchange and ₹ 600 on the National Stock Exchange. The NSE has recorded the higher volume of trading in that share. The company has allotted him 500 shares on 24th April, 2020. The fair market value on the date of allotment was ₹800 per share on NSE and ₹850 on the BSE, that has recorded the higher volume of trading in that share. The taxable value of employees stock option plan will be -
- (a) ₹ 1,25,000 (b) ₹ 1,75,000
(c) ₹2,75,000 (d) ₹3,00,000

- (96) Ashish is employee of ABC Pvt. Ltd. He receives ₹ 30,000 p.m. as basic salary. He is also provided dearness allowance of ₹ 15,000pm. forming part of retirement benefit. The employer has provided interest free loan of ₹ 1,00,000 on 1-4-2020 for medical treatment of specified diseases. The rate of interest charged by SBI on such loan is 12% p.a. The entire loan is outstanding during the previous year. The taxable value of perquisite will be -
- (a) ₹12,000 (b) ₹1,00,000
(c) ₹1,12,000 (d) Nil
- (97) Interest-free loan to an employee, where the amount of loan does not exceed anyone of the following, shall be treated as the tax-free perquisite in all cases under section 17(2) -
- (a) ₹ 10,000 (b) ₹15,000
(c) ₹ 20,000 (d) ₹ 25,000
- (98) A Ltd. has advanced an interest free loan of ₹ 5,00,000 to B for purchase of car on 1-5-2020. B has been repaying the loan in instalments of ₹ 20,000 p.m. on the 1st of next month. Compute the value of perquisite on account of interest assuming the interest charged by SBI is 10% p.a.
- (a) ₹ 34,833 (b) ₹ 36,667
(c) ₹ 40,000 (d) ₹ 50,000
- (99) Prashant obtained interest-free loan of ₹ 20,000 from his employer company for purchasing a two-wheeler. The market rate of interest on such loan is 20% per annum. The lending rate of State Bank of India is 12.5% and that of the private sector banks is 16%. The taxable amount of this perquisite will be computed at the rate of -
- (a) 20% (b) 16%
(c) 12.5% (d) Nil rate.
- (100) Ankit obtained interest-free loan of ₹ 2,00,000 from his employer company for purchasing a four-wheeler on 1-10-2020. The market rate of interest on such loan is 20% per annum. The lending rate of State Bank of India is 12.5% and that of the private sector banks is 16%. The entire loan is outstanding as on 31-03-2021. The taxable amount of this perquisite for AY 2021-22 will be-
- (a) ₹ 12,500 (b) ₹25,000
(c) ₹ 20,000 (d) ₹ 16,000
- (101) Gift to an employee, where the amount of gift is below anyone of the following, shall be treated as the tax-free perquisite in all cases under section 17(2) -
- (a) ₹ 5,000 (b) ₹50,000
(c) ₹ 25,000 (d) ₹ 20,000
- (102) The value of free food and non-alcoholic beverages provided by the employer to an employee during working hours provided in a remote area shall be -
- (a) Exempt upto ₹ 50 per meal. (b) Fully taxable
(c) Fully exempt (d) Exempt upto ₹ 20,000
- (103) Ram Lal is employee of ABC Pvt. Ltd. He receives ₹ 30,000 p.m. as basic salary. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. The employer has provided free refreshment during working hours. The expenditure incurred by the employer is ₹ 25,000. The company works for 300 days during the year. The taxable value of perquisite will be -
- (a) ₹ 25,000 (b) ₹ 10,000
(c) ₹ 15,000 (d) Nil
- (104) Shyam lal is employee of ABC Pvt. Ltd. He receives ₹ 30,000 p.m. as basic salary. He is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. The employer has provided free lunch during office hours and cost per meal is ₹ 150. The company works for 300 days during the year. The taxable value of perquisite will be -
- (a) ₹45,000 (b) ₹ 30,000
(c) ₹15,000 (d) Nil

TAX BY SG**MCQ SALARY**

- (105) Suresh is employee of ABC Pvt. Ltd. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has provided health club facility for which expenditure incurred by the employer is ₹45,000 and ₹15,000 is recovered from the employee. The taxable value of perquisite will be -
- (a) ₹45,000 (b) ₹30,000
(c) ₹60,000 (d) Nil
- (106) Ganesh is employee of ABC Pvt. Ltd. He receives ₹30,000 p.m. as basic salary. He is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has paid credit card fees of ₹15,000 and also amount of ₹35,000 on account of credit card bills of purchases made by Ganesh for his personal purposes. ₹5,500 is recovered from Ganesh by the employer. The taxable value of perquisite will be -
- (a) ₹44,500 (b) ₹50,000
(c) ₹29,500 (d) Nil
- (107) Supriya is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has provided furniture original cost ₹1,25,000 (WDV ₹1,00,000) for her personal use with effect from 1st August 2019. The taxable value of perquisite for AY 2021-22 will be-
- (a) ₹12,500 (b) ₹10,000
(c) ₹8,333 (d) ₹6,667
- (108) Aarti is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has provided computer original cost ₹65,000 (WDV ₹26,000) for her personal use with effect from 1st July 2020. The taxable value of perquisite for AY 2021-22 will be-
- (a) ₹6,500 (b) ₹2,600
(c) ₹4,875 (d) Nil
- (109) Kavita is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has transferred motor car on 1st September 2020 for ₹25,000. The car was purchased by the employer on 1st October, 2018 for ₹3,00,000. The taxable value of perquisite for AY 2021-22 will be-
- (a) ₹2,15,000 (b) ₹1,71,000
(c) ₹2,45,000 (d) ₹2,45,250
- (110) Aysha is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has transferred furniture on 1st September 2020 for ₹5,000. The furniture was purchased by the employer on 1st October, 2017 for ₹2,00,000. The taxable value of perquisite for AY 2021-22 will be
- (a) ₹1,55,000 (b) ₹1,57,000
(c) ₹1,36,667 (d) ₹1,42,150
- (111) Joy Ltd. transfers a Honda city car to hits employee Mr. Happy after using it for 4 years and 10 months, for ₹2,10,000. Cost of the car is ₹10,00,000. The value of taxable perquisite in the hands of employee is -
- (a) ₹1,17,680 (b) ₹1,99,600
(c) Nil (d) ₹7,90,000
- (112) Priya is an employee of ABC Pvt. Ltd. She receives ₹50,000 p.m. as basic salary. She is also provided dearness allowance of ₹15,000 p.m. forming part of retirement benefit. The employer has transferred computer on 1st September 2020 for ₹5,000. The computer was purchased by the employer on 1st October, 2019 for ₹50,000. The taxable value of perquisite for AY 2021-22 will be-
- (a) ₹45,000 (b) ₹17,917
(c) ₹50,000 (d) Nil

PROFITS IN LIEU OF SALARY, GRATUITY, EARNED LEAVE SALARY, PENSION,
LEAVE TRAVEL CONCESSION AND VRS COMPENSATION

- (113) In which of the following case the gratuity received is not taxable?
- (a) Government employees (b) Employees covered by Payment of Gratuity Act, 1872
(c) Any other employee (d) None of these.
- (114) Under Section 10(10) of Income-tax Act, 1961, maximum amount of gratuity received which is not chargeable to tax for employee not covered under Gratuity Act shall be -
- (a) ₹ 3,50,000 (b) ₹ 20,00,000
(c) ₹ 2,50,000 (d) ₹ 10,00,000
- (115) What is the exemption limit in case of employees covered by the Payment of Gratuity Act, 1972?
- (a) ₹ 3,00,000 (b) ₹ 3,50,000
(c) ₹ 20,00,000 (d) ₹ 10,00,000
- (116) Suresh is an employee of XYZ Ltd. He retired on 17th Nov. 2020 after rendering service of 38 years, 6 month and 1 day. Calculate the number of completed years if Suresh is covered under the Payment of Gratuity Act.
- (a) 37 years (b) 39 years
(c) 38 years (d) 38 years 6 months 7 days.
- (117) Payal is an employee of ABC Pvt. Ltd. She receives ₹ 50,000 p.m. as basic salary. She is also provided dearness allowance of ₹ 15,000 p.m. forming part of retirement benefit. She received gratuity of ₹ 25,000 during the continuity of employment. The taxable portion of gratuity will be -
- (a) ₹ 25,000 (b) ₹ 15,000
(c) ₹ 12,500 (d) Nil
- (118) Mr. Sunil is a private sector employee. He received ₹ 12,00,000 as gratuity. He retired on 16th February 2021 after rendering 25 years and 7 months of service. His basic salary was ₹ 30,000 p.m. His dearness allowance was ₹ 15,000 p.m (40% forms part of retirement benefit). He is not covered under Payment of Gratuity Act, 1972. The amount of gratuity exempt will be -
- (a) ₹ 5,40,000 (b) ₹ 10,00,000
(c) ₹ 4,50,000 (d) ₹ 20,00,000
- (119) Mr. Raj Mohan is a government employee. He received ₹ 25,00,000 as gratuity. He retired on 16th February 2021 after rendering 25 years and 7 months of service. His basic salary w.e.f. 01-10-2020 was ₹ 30,000 per month (prior to that ₹ 25,000 p.m.). His dearness allowance was ₹ 15,400 p.m. The amount of gratuity taxable will be -
- (a) Nil (b) ₹ 18,19,000
(c) ₹ 20,85,000 (d) ₹ 25,00,000
- (120) Mr. Krishna is a private sector employee. He received ₹ 18,00,000 as gratuity. He retired on 16th February 2021 after rendering 25 years and 7 months of service. His basic salary was ₹ 30,000 p.m. His dearness allowance was ₹ 15,000 p.m. He is covered under Payment of Gratuity Act, 1972. The amount of gratuity exempt will be -
- (a) Nil (b) ₹ 20,00,000
(c) ₹ 18,00,000 (d) ₹ 6,75,000
- (121) Mr. Prakash is a private sector employee. He received ₹ 10,00,000 as gratuity. He retired on 10th January 2021 after rendering 22 years and 8 months of service. His basic salary was ₹ 40,000 p.m. His dearness allowance was ₹ 20,000 p.m. (Nothing forms part of retirement benefit). He is not covered under Payment of Gratuity Act, 1972. The amount of gratuity taxable will be -
- (a) ₹ 4,40,000 (b) ₹ 20,00,000
(c) ₹ 5,60,000 (d) NIL

- (122) The maximum exemption under section 10(10AA) in case of leave encashment is -
- (a) ₹ 3,50,000 (b) ₹3,00,000
(c) ₹ 10,00,000 (d) ₹5,00,000
- (123) For the purpose of calculation of average salary in case of exemption of leave encashment the average salary drawn during the period of 10 months immediately preceding theof retirement.
- (a) Month (b) Date
(c) Week (d) Year
- (124) What is the annual leave entitlement specified in the Income Tax Act?
- (a) 1.5 months (b) 40 days
(c) 30 days (d) None of these.
- (125) The amount of exemption for leave encashment in case of Government employee is -
- (a) Actual amount of leave encashment received. (b) Fully exempted from tax
(c) ₹ 3,00,000 (d) 10 months average salary preceding the month of retirement
- (126) Salary received in lieu of unavailed leave during service shall be -
- (a) Fully taxable (b) Fully exempted
(c) Partially taxable (d) None of the above.
- (127) Mr. Bansal was employed in M/ s. ABC & Associates. After completing 40 years and 7 months of service he retired on 31st October 2020. The particulars are as under-
- (i) Salary at the time of retirement - ₹ 10,000 p.m.,
(ii) Average monthly salary for 10 months ending on 31st October 2020 - ₹9,500 p.m.
(iii) Leave entitlement – 1.5 months for each completed year of service.
(iv) Leave encashment received for 25 months on basis of salary at the time of retirement - ₹2,50,000. The amount of Leave encashment exempt will be -----
- (a) ₹2,50,000 (b) ₹95,000
(c) ₹ 47,500 (d) ₹3,00,000
- (128) Mr. Kamal was employed in M/ s ABC & Associates. He received ₹1,00,000 as earned leave salary. He retired on 16th February 2021 after rendering 24 years and 7 months of service. His basic salary was ₹15,000 p.m. His dearness allowance was ₹10,000 p.m (forms part of retirement benefit). Leave entitlement 1.5 months for each completed year of service. The amount of taxable earned leave salary:
- (a) Nil (b) ₹1,00,000
(c) ₹25,000 (d) ₹50,000
- (129) Where the employee is not in receipt of gratuity what will be the exemption?
- (a) 1/3rd of the commuted value of the pension which he is entitled to receive (b) 1/2 of Commuted value of the pension which he is entitled to receive
(c) Wholly exempt (d) Wholly taxable
- (130) Bimal is employed in a factory at a salary of ₹2,400 per month. He also gets dearness allowance @ ₹ 600 per month and bonus @ ₹200 per month. He retired on 31st December, 2020 and received ₹75,000 as gratuity under the Payment of Gratuity Act, 1972 after serving 31 years and 4 months in that factory. The amount of gratuity exempt under the Income tax Act, 1961 will be –
- (a) ₹75,000 (b) ₹53,654
(c) ₹21,346 (d) ₹20,00,000.
- (131) X retired on 15-4-2020 from a company. He was entitled to a pension of ₹4,000 p.m. At the time of retirement, he got 75% of the pension commuted and received ₹1,20,000 as commuted pension. Compute the taxable portion of the commuted pension if he is entitled to gratuity.

- (a) ₹ 66,667 (b) ₹ 53,333
(c) ₹ 1,20,000 (d) ₹ 78,667
- (132) Anand is entitled to get a pension of ₹6,000 per month from a private company. He gets 60% of the pension commuted and receives ₹3,60,000. He also receives ₹2,00,000 as gratuity from the same employer. The taxable portion of commuted value of pension will be -
- (a) ₹ 1,60,000 (b) Nil
(c) ₹ 3,60,000 (d) ₹ 60,000
- (133) Suresh is entitled to get a pension of ₹600 per month from a private company. He gets three-fifth of the pension commuted and received ₹36,000. He did not receive gratuity. The taxable portion of commuted value of pension is
- (a) ₹ 16,000 (b) ₹ 6,000
(c) ₹ 18,000 (d) ₹ 12,000.
- (134) An employee of a company, who was entitled for a gratuity of ₹ 8,00,000, also received ₹12,00,000 by commuting 40% of his pension. The taxable amount of commuted pension is -
- (a) ₹ 2,00,000 (b) ₹ 4,00,000
(c) ₹ 12,00,000 (d) ₹ 22,00,000
- (135) Mr. Goyal retires from a Private service on 1st August 2020. At the time of his retirement after 28 years and 8 months of service, he was getting the salary of ₹34,000 per month. He gets pension of ₹10,000 per month upto 31st December 2020. With effect from 1st January 2021 he gets 4/5th of his pension commuted for ₹12,00,000. Determine his gross salary taxable for A/Y 2021-22 will be _____
- (a) ₹ 6,42,000 (b) ₹ 6,66,000
(c) ₹ 5,86,000 (d) ₹ 1,92,000
- (136) Rohit retires from private service on 30th April, 2020 and his pension has been fixed at ₹1,500 p.m. He gets 1/2 of his pension commuted during January, 2021 and receives ₹75,000. He also gets ₹60,000 as gratuity. The total pension taxable including commuted value will be -
- (a) ₹ 16,500 (b) ₹ 41,500
(c) ₹ 39,250 (d) ₹ 14,250
- (137) What is the specified limit in case of exemption for retrenchment compensation under section 10(10B).
- (a) ₹ 3,00,000 (b) ₹ 4,00,000
(c) ₹ 3,50,000 (d) ₹ 5,00,000
- (138) The exemption of Voluntary Retirement compensation is available to an employee who has completed -----years of service or completed.....years of age except in case of employees of public sector company.
- (a) 10,40 (b) 10,50
(c) 8,40 (d) 10,58
- (139) The maximum amount of compensation received at the time of voluntary retirement exempt from tax is -
- (a) ₹ 2,00,000 (b) ₹ 5,00,000
(c) ₹ 10,00,000 (d) The actual amount received as compensation.
- (140) Mr. Aman avails the benefit of LTC and went by air (economy class) on a holiday in India on 25-01-2021 along with his wife and three children consisting of son aged 2 years and twin daughters of 6 years age. Total cost of tickets reimbursed by his employer was ₹1,00,000 (₹ 55,000 for 2 adults and ₹ 45,000 for the three children). The amount taxable in hands of Amit will be -
- (a) ₹ 15,000 (b) ₹ 1,00,000
(c) ₹ 45,000 (d) ₹ 55,000

- (141) Which of the following is not correct about the approved superannuation fund _
- | | |
|---|---|
| (a) Employees' contribution qualifies for deduction under section 80C | (b) Any amount contributed by the employer is exempt from tax |
| (c) Interest on accumulated balance is exempt from income-tax | (d) Under some circumstances, payments from the fund are chargeable to income-tax |
- (142) Statutory provident fund is set up under the provisions of the Provident Funds Act, 1925 is applicable to -----
- | | |
|------------------------------|------------------------------------|
| (a) Government organizations | (b) Semi-Government organizations, |
| (c) Local authorities, | (d) All of the above |
- (143) Mr.Sharma retires from a Private service on 31st August 2020. At the time of his retirement after 28 years and 4 months of service, he was getting the salary of ₹34,000 per month. He gets ₹5,00,000 (including accumulated interest of ₹1,00,000) from recognised provident fund. The employer and Mr. Jain has made a matching contribution. Compute his Income from salary for Assessment Year 2021-22. Assuming not covered u/s 115BAC
- | | |
|---------------|---------------|
| (a) ₹1,36,000 | (b) ₹6,36,000 |
| (c) ₹3,86,000 | (d) ₹3,36,000 |
- (144) Mrs. Meetu retired from service with Earth Ltd. on 31st January, 2021. She received the following amounts from unrecognised provident fund: (i) Own contribution ₹ 1,50,000; (ii) Interest on own contribution ₹ 21,000; (iii) Employer's contribution ₹ 1,10,000; and (iv) interest on employer's contribution ₹ 15,000. How much of the receipt is chargeable to tax as income from salary .
- | | |
|---------------|---------------|
| (a) ₹21,000 | (b) ₹15,000 |
| (c) ₹1,25,000 | (d) ₹1,71,000 |
- (145) Mr. Bansal retires from a Private service on 1st August 2020. At the time of his retirement after 28 years and 4 months of service, he was getting the salary of ₹34,000 per month. He gets ₹5,00,000 (including accumulated interest of ₹ 1,00,000) from unrecognised provident fund. The employer and Mr. Bansal has made a matching contribution. Compute his Income from salary for Assessment Year 2021-22.Assuming not covered u/s 115BAC
- | | |
|----------------|----------------|
| (a) ₹ 1,36,000 | (b) ₹ 6,36,000 |
| (c) ₹ 3,86,000 | (d) ₹ 3,36,000 |
- (146) Deduction u/s 80C on employee's contribution is not available in case of :
- | | |
|---------------------------------|-------------------------------|
| (a) Statutory Provident Fund | (b) Recognised Provident Fund |
| (c) Unrecognised Provident Fund | (d) Public Provident Fund |
- (147) Employer's contribution to recognised provident fund is taxable in excess of _____ of salary:
- | | |
|---------|-----------|
| (a) 12% | (b) 9.50% |
| (c) 9 % | (d) 8.50% |
- (148) For the year ended 31st March, 2020, Prakash receives a salary of ₹2,80,000. His contribution to employee's recognised provident fund account is ₹59,000 and matching contribution has been made by employer. Taxable income of Prakash will be _____. Assuming not covered u/s 115BAC
- | | |
|----------------|-----------------|
| (a) ₹ 1,96,400 | (b) ₹2,46,400 |
| (c) ₹ 3,39,000 | (d) ₹ 2,80,000. |
- (149) Lump sum payment at the time of retirement or termination of service received from unrecognised provident fund to the extent it consists of interest on employees contribution is :
- | | |
|---------------------------|---|
| (a) Taxable as salary | (b) Taxable under Income from other sources |
| (c) Fully exempt from tax | (d) Taxable as business Income |
- (150) Mr. R (65 years) submits the following information for the Assessment year 2021-22 :
- Gross salary - ₹ 8,80,000
- Income from other sources - ₹ 60,000

Contribution to PPF - ₹ 70,000

Compute the tax liability of R. Assuming not covered u/s 115BAC

- | | |
|--------------|--------------|
| (a) ₹ 74,000 | (b) ₹ 97,000 |
| (c) ₹ 76,960 | (d) ₹ 99,970 |

(151) Government of India paid salary of ₹ 5lakh and allowances/perquisites valued at ₹ 2.20 lakh to a person who is citizen of India for the services rendered by him outside India for 5 months during the previous year. His total income chargeable to tax would be Assuming not covered u/s 115BAC

- | | |
|---------------|---------------|
| (a) ₹7,20,000 | (b) ₹5,00,000 |
| (c) ₹6,10,000 | (d) Nil |

(152) Rohit is employed in a company with annual salary of ₹ 8,60,000 (computed). The company paid income-tax of ₹ 37,000 on his non-monetary perquisites. He paid ₹1,20,000 to recognised provident fund during the year 2020-21 His total income would be

- | | |
|---------------|----------------|
| (a) ₹7,77,000 | (b) ₹ 7,40,000 |
| (c) ₹7,97,000 | (d) ₹ 7,60,000 |

(153) Anil is employed in a company with annual salary of ₹ 8,60,000 (computed). The company paid income-tax of ₹ 37,000 on his monetary perquisites. He paid ₹ 1,20,000 to recognised provident fund during the year 2020-21. His total income would be

- | | |
|---------------|---------------|
| (a) ₹7,77,000 | (b) ₹7,40,000 |
| (c) ₹7,97,000 | (d) ₹7,60,000 |

ANSWER KEY

1.B	2.D	3.A	4.A	5.B	6.B	7.D	8.C	9.B	10.A
11.B	12.A	13.A	14.C	15.C	16.C	17.B	18.A	19.B	20.D
21.B	22.B	23.B	24.C	25.B	26.B	27.B	28.D	29.B	30.A
31.A	32.A	33.C	34.A	35.C	36.B	37.A	38.D	39.D	40.A
41.A	42.D	43.D	44.D	45.B	46.D	47.A	48.B	49.B	50.B
51.A	52.A	53.B	54.C	55.A	56.A	57.B	58.A	59.B	60.B
61.A	62.B	63.A	64.C	65.D	66.A	67.B	68.A	69.B	70.B
71..A	72.D	73.C	74.B	75.B	76.A	77.C	78.A	79.A	80.A
81.A	82.C	83.A	84.D	85.C	86.B	87.D	88.D	89.B	90.D
91.B	92.B	93.B	94.C	95.B	96.D	97.C	98.B	99.D	100.A
101.A	102.C	103.D	104.B	105.D	106.A	107.C	108.D	109.A	110.A
111.B	112.A	113.A	114.B	115.C	116.B	117.A	118.C	119.A	120.D
121.C	122.B	123.B	124.C	125.B	126.A	127.C	128.B	129.B	130.B
131.A	132.A	133.B	134.A	135.A	136.C	137.D	138.A	139.B	140.A
141.B	142.D	143.A	144.C	145.C	146.C	147.A	148.A	149.B	150.C
151.B	152.B	153.A							

QUESTIONS FOR PRACTICE

Question 1 : Rajesh retires on 4-1-2021 after serving AB Company Ltd. for a period of 17 years and 11 months. At the time of retirement, his basis salary was ₹4,400 per month and he was also entitled to Dearness Allowance of ₹800 pm. On his retirement, he received ₹80,000 as gratuity.

Compute the amount of gratuity exempt from tax and the amount to be included in gross salary. He is covered under the payment of Gratuity Act.

Solution : The exemption shall be to the extent of the minimum of the following three amounts :

- (a) Amount of gratuity received ₹80,000.
- (b) 15 days' salary for every year of service i.e. $15/26 \times 5200 \times 18 = ₹54,000$
- (c) ₹20,00,000

Therefore ₹54,000 shall be exempt from tax and the balance ₹26,000 shall be included in the gross salary.

Question 2 : Mr. Kamal, a marketing specialist of Chennai, is working with two companies, viz, A co and B Co. He retires from A Co. on November 30, 2013 (salary at the time of retirement : ₹9,600) and receives ₹4,00,000 as gratuity out of which ₹3,00,000 is exempt under section 10(10). He also retires from B.Co. on December 10, 2020 after 38 years and 8 months of service and receives ₹3,90,000 as death cum retirement gratuity. His average basic salary drawn from B. Co. for the preceding 10 months ending on November 30, 2019 is ₹18,200 per month.

Besides, he received ₹1,000 per month as dearness allowance, 80 % of which forms part of salary for the purpose of computation of retirement benefits and 6 % commission on turnover achieved by him. Total turnover achieved by him during 10 months ending on November 30, 2020 is ₹2,00,000. Determine amount of gratuity exempt for the assessment year 2021-22.

Solution : Salary of the purpose of computation of exempt gratuity.

	₹
Basic salary of 10 months (₹18,200 X 10)	1,82,000
Dearness allowance of 10 months (80% of ₹ 1,000 X 10)	8,000
Commission @ 6% of turnover of preceding 10 months (i.e., 6% of ₹ 2,00,000)	<u>12,000</u>
Total	<u>2,02,000</u>

Average monthly salary (₹2,02,000 / 10) : 20,200

Amount of exempt gratuity is the least of the following :

- a. ₹ 17,00,000 (i.e., ₹ 20,00,000 – ₹ 3,00,000, being amount of exempt gratuity received from A Co.).
- b. ₹ 3,83,800 {being half month's salary for each completed year of service (i.e., ₹ 20,200 X ½ X 38)} and
- c. ₹ 3,90,000 (being amount of gratuity received from B. Co.).

₹ 3,83,800 being the least is exempt from tax. Therefore ₹6,200 is chargeable to tax as salary for the assessment year 2021-22.

Question 3 : Arun retired on 15-4-2020 from X Company Ltd. He was entitled to a pension of ₹20,000 p.m. At the time of retirement he got 75% of the pension commuted and received ₹4,50,000 as commuted pension. Compute the taxable portion of the commuted pension if

- (i) He is also entitled to gratuity.
- (ii) He is not entitled to gratuity

Solution :

1. 75% of commuted pension is equal to ₹4,50,000. Hence commuted value of 1/3 of the pension would amount to $₹4,50,000 \times 100 / 75 \times 1/3 = ₹2,00,000$; ₹2,00,000 would, therefore be exempt and balance ₹2,50,000 would be taxable.
2. 75% of commuted pension is equal to ₹4,50,000 Hence commuted value of 50% of pension amount to $4,50,000 \times 100 / 75 \times 1/2 = ₹3,00,000$ Therefore, ₹3,00,000 would be exempt and ₹1,50,000 would be taxable.

Question 4 : A retired from service w.e.f. 1-11-2020 after serving for 18 years and 9 months. At the time of retirement he was entitled to the following remuneration :

(a) Salary ₹5,000 per month.

(b) Dearness Allowance @ 20% of Salary (60% of which forms part of salary for retirement benefits).

On retirement, he received a sum of ₹1,50,000 as gratuity. He was entitled to a pension of ₹2,500 per month w.e.f 1-11-2020. From 1-1-2021 he got 60% of his pension commuted and received a sum of ₹1,50,000 as commuted pension. Compute his Gross Salary for the assessment year 2021-22.

Solution :

Computation of Gross Salary of A for the A/Y 2021-22

	₹	₹
Basic Salary (5,000 x 7)		35,000
Dearness Allowance @ 20%		7,000
Gratuity received	1,50,000	
Less: Exempt	<u>50,400</u>	99,600
Uncommuted Pension		
(2,500 x 2) (i.e. for November and December 2019)	5,000	
(1,000 x 3) (i.e. from January 2020 to March 2020)	<u>3,000</u>	8,000
Commuted Pension received	1,50,000	
Less: Exempt $(1,50,000 \times 100 / 60 \times 1/3)$	<u>83,333</u>	<u>66,667</u>
Gross Salary		<u>2,16,267</u>

Question 5 : Nitin was employed with PQR Ltd. He retired w.e.f. 1-2-2021 after completing a service of 24 years and 4 months. He submits the following information:

Basic Salary	₹5,000 per month (at the time of retirement)
Dearness Allowance	100% of basic Salary (40% of which forms part of Salary for retirement benefits).
Last increment	₹500 w.e.f. 1-7-2020

His pension was determined at ₹3,000 per month. He got 50% of the pension commuted w.e.f. 1-3-2021 and received a sum of ₹1,00,000 as commuted pension. In additions to this, he received a gratuity of ₹2,50,000 and leave encashment amounting to ₹56,000 on account of accumulated leave of 240 days. He was entitled to 40 days leave for every year of service.

Compute his Gross Salary for A/Y 2021-22 assuming that he is not covered under payment of Gratuity Act.

Solution : Computation of Gross Salary for the A/Y 2021-22

	₹	₹
Basic Salary (4,500 x 3 + 5,000 x 7)		48,500
Dearness Allowance (100%)		48,500
Uncommuted Pension (3,000 x 1 + 1,500 x 1)		4,500
Commuted Pension		
Amount Received	1,00,000	
Less: Exempt (1,00,000 x 100/50 x 1/3)	<u>66,667</u>	33,333
Gratuity :		
Amount received	2,50,000	
Less: Exempt (see WN 1)	<u>81,480</u>	1,68,520
Leave Encashment		
Amount received	56,000	
Less: Exempt (see WN 2)	<u>NIL</u>	56,000
Gross Salary		<u>3,59,353</u>

Working Note 1 :

Gratuity exempt is calculated as follows:

1. Actual amount received: 1,20,000
2. Half month salary for each completed year of service = $6,790/2 \times 24 = 81,480$
AMS = $(48,500 + 19,400) / 10 = 6,790$
3. Specified limit: 20,00,000

Working Note 2 :

Exempt leave encashment is as follows:

1. Actual amount received	:	56,000
2. 10 months average salary (10 x 6,790)	:	67,900
3. Cash for unavailed leave on 30 days basis	:	Nil
4. Amount specified	:	3,00,000

Unavailed leave as per Income tax act

Step 1: leaves entitled by employer (960 days) or Leaves on 30 days basis (720 days)

Whichever is less : 720 days

Step 2: Leaves availed : 720 days

Step 3: 720 days -720 days = Nil

Question 6 : Arvind is entitled to a basic salary of ₹5,000 p.m. and Dearness allowance of ₹1,000 p.m. months. 40% of which forms part of retirement benefits. He is also entitled to HRA of ₹2,000 p.m. He actually pays ₹2,000 p.m. as rent for a house in Mumbai. Compute the taxable HRA. Assume not covered u/s 115BAC

Solution : The minimum of the following three amounts shall be exempt u/s 10(13A).

(i) Actual HRA received (2,000 x 12)	24,000
(ii) Rent paid in excess of 10% of salary (24,000 – 6,480)	17,520
(iii) 50% of salary	32,400

Therefore ₹17,520 shall be exempt and the balance ₹6,480 shall be included in gross salary

Question 7 : Sanjay is employed by X ltd. up to November 30, 2020 on the following monthly salary (place of posting : Delhi)

	Upto May 31, 2020 ₹	From June 1, 2020 ₹
Basic salary	4,000	5,000
Dearness allowance @ 30 % of basic salary (60 % of dearness allowance is part of salary for computing retirement benefits)	1,200	1,500
Dearness pay (not part of salary for computing retirement benefits)	600	600
Commission	1,000	1,000
House Rent allowance	2,000	3,500

With effect from December 1, 2020, he joins Y Ltd. on monthly salary of ₹10,000 (place of posting : Ludhiana). Besides, he gets dearness allowance @ ₹4,000 per month (10 per cent of which is considered of provident fund contribution) and house rent allowance @ ₹6,000 per month.

Rent paid per month by Sanjay is as follows

	Delhi ₹	Ludhiana ₹
From January 1, 2020 to July 31, 2020	500	--
August 1, 2020 to December 31, 2020	2,900	--
January 2021	--	1,000
February 1, 2021 to June 30, 2021	--	6,000

Determine the amount of chargeable house rent allowance for the assessment year 2021-22. Assume not covered u/s 115BAC

Solution : House rent allowance chargeable to tax

	April 2020 and May 2020	June and July 2020	August to November 2020	December 2020	January 2021	February and March 2021
Basic salary	4,000 pm	5,000 pm	5,000 pm	10,000 pm	10,000 pm	10,000 pm
Dearness allowance (Retirement Benefit)	720	900	900	400	400	400
Salary	4,720	5,900	5,900	10,400	10,400	10,400
50% of salary	2,360	2,950	2,950	5,200	--	--
40% of salary	--	--	--	--	4,160	4,160
Actual HRA	2,000	3,500	3,500	6,000	6,000	6,000
Excess of rent paid over 10% of salary	28	Nil	2310	1860	Nil	4960
Amt. exempt from tax	28	Nil	2,310	1,860	Nil	4,160
Amount chargeable to tax	1,972 pm	3,500 pm	1,190 pm	4,140 pm	6,000 pm	1,840 pm

Amount chargeable for the assessment year 2021-22 comes to (49,000 – 19,476) : ₹ 29,524.

Question 8 : Raja, an employee of PQR (P)Ltd. Posted at Pune (population : 19 Lakh), draws ₹3,00,000 as basic salary, ₹10,000 as dearness allowance (forming part of salary) and ₹5,000 as commission besides, the company provides a rent free unfurnished accommodation at Pune. The house is owned by the company. Fair rent of the accommodation is ₹50,000 per annum. Determine the taxable value of the perquisite.

Solution : Value of the Perquisite in respect of rent free accommodation owned by the employer depends upon salary of an employee. Salary for the purpose of computation of the perquisite value works out to be ₹3,15,000 (i.e., ₹3,00,000 + ₹10,000 + ₹5,000). Fair rent value of accommodation is not taken into consideration.

As the accommodation is situated in a city having population exceeding 10 lakh but not exceeding 25 lakh, 10% of salary, ₹31,500 is taxable value for the perquisite.

Question 9 : Rakesh, a Regular employee of A Ltd. gets the following emoluments during p/y 2020/21 :

Basic salary : ₹6,000 per month (which has been increased to ₹7,000 per month from January 1, 2020) ; Dearness allowance ₹4,000 per month (72 % of which is part of salary for computing retirement benefits); education allowance : ₹550 per month per child for 4 children ; medical allowance : ₹400 per month ; transport allowance : ₹2,300 per month (out of which ₹100 per month is used for covering the journey between office and residence and ₹250 per month is used for the other used for other purpose).

Besides, he gets ₹4,500 per month as house rent allowance up to November 30, 2020 (rent paid at Ghaziabad : ₹5,500 per month) with effect from December 1, 2020, he has been provided a furnished flat by the employer at Delhi (rent paid by employer : ₹7,500 per month; rent of furniture provided : ₹500 ;rent recovered from Rakesh : 900 per month .

Find out salary chargeable to tax on the assumption that with effect from January 1, 2021, he joins part-time employment with B Ltd. (salary ₹2,000 per months) with the permission of A Ltd. (without leaving the job of A Ltd.) Assume not covered u/s 115BAC

Solution :	₹	₹
Basic salary (₹ 6,000 x 9 + ₹ 7,000 x 3)		75,000
Dearness allowance (₹ 4,000 x 12)		48,000
Education allowance (₹ 550 x 4 x 12)	26,400	
Less: Exemption (₹ 100 x 2 x 12)	<u>2,400</u>	24,000
Medical allowance (₹ 400 x 12)		4,800
Transport allowance (₹ 2,300 x 12)	27,600	
Less: exemption	<u>Nil</u>	27,600
House rent allowance (₹4,500 x 8)	36,000	
Less: Exempt [WN 1]	<u>28,416</u>	7,584
Furnished house [WN 2]		6,368

TAX BY SG**SALARIES**

Salary from B Ltd. (₹ 2,000 x 3)	<u>6,000</u>
Gross Salary	1,99,352
Less : Deduction u/s 16(ia)	<u>50,000</u>
Taxable Salary	<u>1,49,352</u>

Working Note 1 : House rent allowance exempt from tax –

Salary for this purpose is ₹8,880 per month(i.e basic salary:6,000 pm + DA:72% of 4,000 pm)

- a) ₹3,552 pm (40% of ₹8,880)
 - b) ₹4,500 pm (Actual HRA)
 - c) ₹4,612 pm (₹5,500 -10% of 8,880)
- Whichever is lower

Hence, amount exempt from tax is ₹3,552 pm from April 1,2020 to Nov 30,2020 i.e 28,416

Working Note 2 : Valuation of perquisite of furnished flat

Rakesh has been provided a furnished flat at Delhi with effect from December 1,2020.

Salary for this purpose from December 1,2020 to March 31,2021 is as follows

Basic Salary (₹ 6000 x1 + ₹ 7,000 x 3)	= 27,000
Dearness allowance (72% of ₹ 4,000 x 4)	= 11,520
Education allowance{ (₹550x4 – ₹100x2) x 4 }	= 8,000
Medical allowance(₹400 x 4)	= 1,600
Transport allowance{ ₹2,300 x 4 }	= 9,200
HRA not received during Dec,2019 to Mar, 2020	= Nil
Salary from B ltd.(₹2,000 x 3)	= <u>6,000</u>
Total salary	<u>63,320</u>

Lease rent of 4 months(₹7,500 x 4): ₹ 30,000.

The perquisite shall be calculated as follows:

Value of unfurnished flat(15% of ₹ 63,320 or ₹ 30,000,less)	9,498
Add: Rent of furniture	<u>500</u>
Value of rent free furnished flat	9,998
Less: Rent paid by Rakesh (900 x 4)	<u>3,600</u>
Value of perquisite	<u>6,368</u>

Question 10 : Rahul is employed with PQR Ltd. on a monthly salary of ₹20,000 per month. The company provides him with the following benefits:

- (a) A company owned accommodation is provided to him in Delhi.
- (b) The company has given him a housing loan of ₹5,00,000 on which it charged interest @ 6% per annum. The entire loan is still outstanding. (Assume the interest charged by SBI is 10% p.a.)
- (c) He is allowed to use video camera belonging to the company. The company had purchased this camera for ₹60,000 on 1-5-2017. This camera was sold to him on 1-8-2020 for ₹30,000.

- (d) The company had purchased a car on 16-7-2017 for ₹2,50,000. This car is sold to Rahul on 14-7-2020 for ₹30,000.

Compute income from salary of Rahul for the Assessment year 2021-22.

Solution :

		₹
Salary (20,000 X 12)		2,40,000
Value of accommodation (15% of salary)		36,000
Value for housing loan		20,000
Value for use of video camera for 4 month (60,000 X 10/100 X 4/12)		2,000
Benefit of sale of camera		
W.D.V on basis of straight line method (60,000 – 18,000		
Depreciation for 3 completed years)	42,000	
Less: Amount recovered	<u>30,000</u>	12,000
Benefit on sale of car	1,60,000	
W.D.V. (see note)	<u>30,000</u>	<u>1,30,000</u>
Gross Income from Salary		4,40,000
Less : Deduction u/s 16(ia)		<u>50,000</u>
Taxable Salary		<u>3,90,000</u>

Note- The car has been used from 16-7-2017 to 14-7-2020 and the completed years in this case are two. Therefore, the WDV shall be determined as under:

Original Cost	2,50,000
Less : Depreciation for first year @ 20%	<u>50,000</u>
W.D.V.	2,00,000
Less : Depreciation for second year	<u>40,000</u>
	<u>1,60,000</u>

Question 11 : Find out the taxable value of the perquisite for the A/Y 2021-22 in the following cases :-

1. A is an employee in the accounts Department of X Ltd. On November 27, 2020, he attends a seminar on "Tax" Seminar fee of ₹3,500 is paid by X Ltd.
2. B's son is a student of Eight class of DAV, Ghaziabad. ₹17,800 being tuition fees of B's son is paid / reimbursed by Y Ltd. where B is employed. There is no arrangement between Y Ltd. and DAV, Ghaziabad.
3. Bharti Public school, Pune is owned and maintained by Z Ltd. C is an employee of Z Ltd. The following family members of C are students in Bharti Public School

	Cost of education in a similar institution	Amount charged from C
A ,daughter of C	₹ 5,500 per month	₹ 800 per month
B, dependent brother of C	₹ 6,000 per month	₹ 1,600 per month

4. Suppose in (3) Bharti public school is not owned / maintained by Z Ltd. As per arrangement of Z Ltd. with the school, family members of employees of Z Ltd. can have educational facility in the school. 100 seats are reserved for this purpose for which the company annually pays ₹ 10 Lakh to the school (No separate billing by the school to the employees of Z Ltd. Family members of C are given in the table in (3) (supra).

Solution :

- Expenditure on training / education of an employee is not chargeable to tax ₹3,500 is, therefore, not chargeable to tax in the hands of A.
- ₹ 17,800, being tuition fees / paid reimbursed by Y Ltd., is taxable in the hands of B.
- School is maintained by the employer. Amount taxable in the hands of C will be as follows—

	₹
A (daughter of C) { 12 X (₹ 5,500 – ₹1000 - ₹800) }	44,400
B (brother of C) { 12 X (₹ 6,000 – ₹ 1,600) }	<u>52,800</u>
	<u>97,200</u>

- The taxable amount will be the same as is given in (3) (supra).

Question 12 : Find out the taxable value of the perquisite in respect of medical facility cases –

- A, gets a fixed medical allowance of ₹ 600 per month from his employer.
- B, a director in the employer company, gets medical treatment in dispensary maintained by his employer. The expenditure on medical treatment provided to B and his family members during the previous year 2020-21 is as follows :

	₹
B, Mrs. B and minor child of B	9,100
Major son of B (not dependent upon B)	2,700
Parents of B (dependent upon B)	3,000
Parents of Mrs. B (dependent upon B)	12,000
Brother of B (dependent upon B)	6,000
Sister of B (not dependent upon B)	17,000

Besides, he gets reimbursement of ordinary medical expenses paid to a private medical practitioner :

Treatment of B, Mrs. B and their children	2,000
Treatment of father of B	3,700
Treatment of father of Mrs. B	3,000

- C (Salary : ₹2,40,000) pays “medi claim” health insurance premium (which is later on reimbursed by his employer) as follows :

On C's life	800
On Mrs. C's life	600

On the life of C's father (not dependent upon C)	1,000
On the life of major son of C(dependent upon C)	2,700
On the life of brother of C (dependent upon C)	400
On the life of father of Mrs. C (dependent upon C)	500
On the life of grandfather of C (dependent upon C)	1,000

4.D, (Salary: ₹3,60,000) gets the following reimbursement from his employer during the previous year 2020-21

Reimbursement of expenses incurred for caesarean operation of Mrs. D in a hospital approved by the Chief Commissioner	28,600
---	--------

Reimbursement expenses of eye's treatment (including surgical operation) in a hospital approved by the Chief Commissioner	2,700
---	-------

Reimbursement of ordinary medical expenses paid to a private nursing home	16,200
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Solution :

- Fixed medical allowance of ₹600 per month (i.e., ₹7,200) is chargeable to tax. It is an allowance and not a perquisite. It is taxable irrespective of the fact whether A is a specified or non-specified employee.
- The perquisite will be chargeable to tax as under :

	Value of medical facility provided in a dispensary maintained by the employer		Reimbursement of expenses paid to a private medical practitioner
	Exempt From tax	Taxable	Taxable
B, Mrs. B and Minor child of B	9,100	----	2,000
Major son of B	2,700	----	----
Parents of B	3,000	----	3,700
Parents of Mrs.B	----	12,000	3,000
Brother of B	6,000	----	----
Sister of B	----	17,000	----
Total	20,800	29,000	8,700
Less: Exempt	20,800	NIL	NIL
Taxable	NIL	29,000	8,700

- Reimbursement of mediclaim insurance premium shall be taxable as under:

	Not taxable	Taxable
On C's life	800	----
On Mrs.C's life	600	----
On the life of C's father	----	1,000
On the life of C's major son	2,700	----

On the life of C's dependent brother	400	----
On the life of Mrs C's father	----	500
On the life of C's Grandfather	----	1,000
Total	4,500	2,500

4. Reimbursement of expenses will be taxable as under:

	Not taxable	Taxable
Operation of Mrs.D	28,600	----
Eyes treatment	2,700	----
Private nursing home bills	----	16,200
Total	31,300	16,200
Less : Not Taxable	31,300	NIL
Taxable	----	16,200

Question 13 : For the previous year 2020-21, Ganesh submits the following information. Basic Salary ; ₹1,20,000; dearness allowance: ₹40,000 (46 % of which is part of salary for retirement benefits); commission ₹6,000 (i.e. 1 % of ₹ 6,00,000, being turnover achieved by him) and children education allowance for his 2 children : ₹7,200.

The employer contributes ₹20,000 towards provident fund to which a matching contribution is made by him. interest credited in the provident fund account on March 15, 2021 @ 11% comes to ₹93,500. Income of Ganesh from other sources is ₹1,16,000. Assume not covered u/s 115BAC

Find out the net income of Ganesh for the assessment year 2021-22 if the provident fund is (a) statutory provident fund, (b) recognized provident fund, (c) unrecognized provident fund.

Solution :

	SPF ₹	RPF ₹	URPF ₹
Basic salary	1,20,000	1,20,000	1,20,000
Dearness allowance	40,000	40,000	40,000
Commission [1% of ₹ 6,00,000]	6,000	6,000	6,000
Education allowance [₹ 7,200 – ₹ 100 x 2 x 12]	4,800	4,800	4,800
Employer's contribution towards recognized provident fund in excess of 12% of salary (Salary for this purpose is ₹ 1,20,000 + 46% of ₹ 40,000 + ₹ 6,000)	-	2,672	--
Interest credited to recognized provident fund account in excess of 9.5% per annum (i.e. ₹ 93,500 X 1.5/11)	-	12,750	---
Gross Salary	1,70,800	1,86,222	1,70,800
Less: Deduction u/s 16(ia)	50,000	50,000	50,000
Income from salary	1,20,800	1,36,222	1,20,800
Income from other sources	<u>1,16,000</u>	<u>1,16,000</u>	<u>1,16,000</u>
Gross total income	2,36,800	2,52,222	2,36,800
Less: Deduction under section 80C	<u>20,000</u>	<u>20,000</u>	<u>Nil</u>
Net income (rounded off)	2,16,800	2,32,220	2,36,800

Note : Ganesh can claim deduction under section 80C in respect of his contribution towards statutory/recognized provided fund ,no deduction is however available in respect of his contribution towards unrecognized provident funds.

Question 14 : Mrs. Sharma was an employee in a company. The following particulars are available regarding her income for the year ending 31-3-2021.

- (i) Salary ₹3,000 per month.
- (ii) Dearness Allowance ₹300 per month.
- (iii) She retires from service on 1-1-2021 after 26 years of completed service and received a pension of ₹1,500 per month & gratuity of ₹52,000 (her average monthly pay for the last ten months was ₹3,000)
- (iv) She also received ₹52,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution ₹20,000, Employer's contribution ₹20,000, Interest on employee's contribution ₹6,000, Interest on employer's contribution ₹6,000)

Compute the taxable income under head the "Salaries" of Mrs. Sharma for the assessment year 2021-22 assuming that the salary and pension is due on the last day of the month. She is not covered under Payment of Gratuity Act. Assume covered u/s 115BAC

Solution :	₹
Salary (3,000 x 9)	27,000
D.A. (300 x 9)	2,700
Pension (1,500 x 3)	4,500
Gratuity (52,000-39,000)	13,000
Lumpsum received from unrecognized provident fund (only employer's Contribution and interest)	<u>26,000</u>
Gross Salary	73,200
Less: Deduction u/s 16(ia)	<u>NIL</u>
Income from Salaries	73,200

Income from other sources

Interest on Employee's contribution	<u>6,000</u>
Total Income	<u>79,200</u>

Question 15 : Mrs Jain is an employee of a private college in Delhi. She is in the grade of ₹14,500-400-16,500-600-19,500 since 1-1-2019. She gets ₹2,000 per month as dearness allowance and CCA is ₹100 p.m. She has been provided with a furnished accommodation by the college. The college is not the owner of this house. The rental value of the house is ₹2,500 p.m. and the furniture costing ₹4,000 has been provided by the college.

She has been provided with the facility of a gardener, a watchman and a servant who are paid by the college ₹150 per month each. She contributes 10% of her pay to the statutory provident fund to which the college also contributes 10%. She purchased books of her subject for ₹1,000 and paid employment tax of ₹500 during the financial year 2020-21.

Her salary becomes due on the first day of the next month. Determine her income under the head “Salaries” for the assessment year 2021-22. Assume not covered u/s 115BAC

Solution :

	₹
(i) Salary (14,900 x 10 + 15,300 x 2)	1,79,600
(ii) Dearness allowance	24,000
(iii) City compensatory allowance	1,200
(iv) Value of rent free furnished house (27,120 + 400)	27,520
(v) Perquisite value of car	Nil
(vi) Gardener	1,800
(vii) Watchman	1,800
(viii) Servant	1,800
Gross salary	2,37,720
Less : Standard Deduction u/s 16(ia)	50,000
Less: Employment tax u/s 16 (iii)	500
Income from salary	<u>1,87,220</u>

Question 16 : Kapil has been in service of AB (P) Ltd. since. January 1994, in Delhi. During the financial year ending 31-3-2021, Kapil received from the company salary @ ₹9,000 p.m., dearness allowance @ ₹1,500 p.m , city compensatory allowance @ ₹200 p.m. entertainment allowance @ ₹500 per month and house rent allowance @ ₹2,500 p.m. He resides in the house property owned by his HUF for which he pays a rent of ₹3,000 p.m. He has been in receipt of entertainment allowance of ₹500 p.m from company since January, 2010.

He contributes ₹1,000 p.m. to the recognized provident fund. The company is also contributing an equal amount. He retires from the service of the company on 31-12-2020 when he was allowed gratuity of ₹1,20,000 and pension of ₹4,000 pm.

On 1-2-2021, he got one half of the pension commuted and received ₹1,50,000 as commuted pension. He also received ₹2,00,000 as the accumulated balance of the recognized provident fund. Compute his income under the head salary for the assessment year 2021-22 .Assume not covered u/s 115BAC

Solution:

	₹
Salary (9,000 x 9)	81,000
Dearness allowance (1,500 x 9)	13,500
City compensatory allowance (200 x 9)	1,800
Entertainment allowance (500 x 9)	4,500
House rent allowance (<i>see I</i>)	3,600
Pension for 1 month	4,000
Pension for 2 month	4,000
Out of commuted pension (1,50,000 – 1,00,000)	50,000
Gross salary	1,62,400
Less : Deduction u/s 16(ia)	50,000
Income from salary	<u>1,12,400</u>

1.HRA will be exempt to the minimum of the following 3 amounts

- 50% of salary i.e 40,500
- Rent paid less 10% of salary i.e $3,000 - 900 = 2,100 \times 9 = 18,900$
- HRA received: $2,500 \times 9 = 22,500$

Exemption is ₹18,900, balance $22,500 - 18,900 = 3,600$ is taxable

2.Gratuity exemption is as follows:

Minimum of the following 3 amounts

- 1,20,000
- $9,000/2 \times 27 = 1,21,500$
- 20,00,000

i.e 1,20,000, Taxable $1,20,000 - 1,20,000 = \text{Nil}$

3. As Kapil is receiving gratuity, commuted pension upto 1/3 will be exempt and the balance taxable. 50% of the pension commuted is ₹1,50,000. Therefore, 100% would be ₹3,00,000 and 1/3 would be ₹1,00,000.

Question 17 : Mrs. Jain (age : 28 years) is offered an employment by ABC Ltd. at a basic salary of ₹24,000 per month. Other allowance according to rules of the company are : dearness allowance : 18 % of basic pay (not forming part of salary for calculating retirement benefits), bonus: 1 months basic pay ; project allowance : 6 % of basic pay.

The company gives Mrs. Jain an option either to take a rent-free unfurnished accommodation of Mumbai for which the company would directly bear the rent of ₹15,000 per month, or accept a house allowance of ₹15,000 per month and find out own accommodation.

If Mrs. Jain opts for house rent allowance she will have to pay ₹15,000 per month for an unfurnished house. Which one of the two option should be opted by Mrs. Jain in order to minimise her tax bill ? Her income from other source is ₹1,70,000

Solution : For determining which one is a better option, taxable income is calculated under two options.

	RFA ₹	HRA ₹
Basic salary (₹ 24,000 x 12)	2,88,000	2,88,000
Dearness allowance (18% of ₹2,88,000)	51,840	51,840
Bonus	24,000	24,000
Project allowance (6% of ₹2,88,000)	17,280	17,280
Rent free accommodation [see WN 1]	49,392	----
House rent allowance [see WN 2]	---	<u>36,000</u>
Gross salary	4,30,512	4,17,120
Less: Deduction u/s 16(ia)	<u>50,000</u>	<u>50,000</u>
Income from salary	3,80,512	3,67,120
Mrs. Jain should, therefore, opt for HRA		

Working Notes :

- Salary for the purpose of calculation of RFA is ₹3,29,280 ($2,88,000 + 24,000 + 17,280$) Lease rental of house is ₹1,80,000. As lease rental of the house exceeds 15% of salary, 15% of salary i.e 49,392 is taxable value of RFA

2. HRA exemption is calculated as follows:

a. Actual HRA: 1,80,000

b. Rent paid -10% of salary : 1,80,000-10% of 2,88,000 =1,51,200

c. 50% of salary:2,88,000 x 50% =1,44,000

Least is ₹1,15,200 ,is exempt from tax.

Taxable HRA is 1,80,000 -1,44,000=36,000

Question 18 : Mrs. Sharma (age : 60 years) is a part time lecturer in private college Delhi. During the year 2020-21, she gets basic salary of ₹12,300 up to June 30,2020 and ₹12,700 afterwards. She gets 30 % of basic salary as house rent allowance, ₹1,630 per months as dearness allowance (71 % of it forms part of salary for computation of retirement benefits) and ₹500 per month as conveyance allowance which is entirely used for personal purposes. On July 10, 2020, the employer transfers a music system to Mrs Sharma on her completing 10 years of service (cost of music system purchased on September 1, 2019 : ₹ 22,470) for ₹7,500.

She is member of the statutory provident fund to which both the employer and employee contribute @ 12 % of basic salary Apart from the minimum contribution she makes an additional contribution of ₹600 per month to the public provident fund. During the previous year 2020-21, ₹65,698 is paid to her for checking answer sheets of different universities.

Determine the taxable income of Mrs. Sharma for the assessment year 2021-22 on the assumption that she pays rent of ₹4,000 per month. Assume not covered u/s 115BAC

Solution :

Basic salary (i.e 12,300 x 3) + (12,700 x 9)		1,51,200
House rent allowance (i.e., 30% of ₹1,51,200) :	₹ 45,360	
Less: Exempt [see WN 1]	<u>₹ 31,488</u>	13,872
Dearness allowance (i.e., ₹1,630 x 12)		19,560
Conveyance allowance (i.e., ₹500 x12)		6,000
Employer's contribution to statutory provident fund		----
Sale of movable asset (₹22,470-₹7,500)		<u>14,970</u>
Gross salary		2,05,602
Less: Deduction u/s 16(ia)		<u>50,000</u>
Net salary		1,55,602
Income from other sources		<u>65,698</u>
Gross total income		2,21,300
Less: Deduction under section 80C		<u>25,344</u>
Net income (rounded off)		<u>1,95,960</u>

Working Note 1 : Exemption u/s 10(13A)

Salary for HRA (basic + 71% DA)	upto 30 June,20	from July,20
	13,457	13,857
a.HRA received	3,690	3,810
b.Rent paid-10% salary	2,654	2,614
c.50% of salary	<u>6,729</u>	<u>6,929</u>
Exempt	2,654	2,614

Question 19 : Ram Prasad (age 52 years) a sales manager of XYZ (P.) Ltd., which is engaged in manufacturing computers ,gives the following particulars of his income relevant for the A/Y 2021-22

	₹
Basic salary	12,000 pm
Bonus	12,000
Commission	7,000
Entertainment allowance	3,000

A rent-free unfurnished house has been provided in Madras lease rent of the house : ₹1,50,000 per annum. The employer pays a sum of ₹400 an account of professional tax on behalf of him. Employer's contribution towards recognized provident fund is ₹18,000 per annum. Contribution towards provident fund ₹39,000. Payment of insurance premium by Ram Prasad on his wife insurance policy ₹5,000, payment by Mrs. Ram Prasad on Ram Prasad's Insurance policy: ₹4,000. Interest received on company deposit : ₹2,03,400.

Determine the taxable income for the assessment year 2021-22 on the assumption that Ram Prasad is neither a director in the employer-company nor a shareholder. Assume covered u/s 115BAC

Solution:

	₹
Basic salary (₹ 12,000 x 12)	1,44,000
Bonus	12,000
Commission	7,000
Entertainment allowance	3,000
Rent-free House [see WN 1 below]	24,900
Employer's contribution towards recognized provident fund (i.e., ₹18,000 – 12% of ₹1,44,000)	720
Professional tax paid by employer	<u>400</u>
Gross salary	1,92,020
Less: Deduction u/s 16	
Standard Deduction	Nil
Entertainment allowance	Nil
Professional tax	<u>Nil</u>
Income from salary	1,92,020
Income from other source (interest on company deposit)	<u>2,03,400</u>
Gross total income	3,95,420
Less: Deduction under section 80C [see WN 3]	<u>44,000</u>
Net income (rounded off)	<u>3,51,420</u>

Working Notes:

- Salary for the purpose of calculation of RFA is ₹1,66,000(1,44,000 +12,000+7,000 +3,000) Lease rental of house is ₹1,50,000. As lease rental of the house exceeds 15% of salary, 15% of salary i.e 24,900 is taxable value of RFA
- Deduction u/s 80C
RPF : 39,000
Insurance on LIP of wife : 5,000 : Total = 44,000

Question 20 : Naresh, who was working with X Ltd (Delhi), died on 30-11-2020 in an accident while going back from office. His emoluments before death were as under:

Basic Salary ₹5,000 p.m. w.e.f. 1-1-2020, DA 100% of basic salary (20% of DA forming part of salary for retirement benefits). HRA ₹3,000 p.m. He paid ₹1,000 p.m. as rent , children's education allowance ₹130 p.m. per child for two children. He contributed 10% of his salary to PF to which his employer contributes equally. On his death, his account of salary and allowance was settled till 30-11-2020. Besides, his widow received the following amounts :

	₹
Gratuity for 12 years and 5 months service	42,000
Family pension w.e.f. 1-12-2020	2,000
Payments from recognized provident fund	1,20,000
Leave encashment of accumulated leave of 210 days	49,000

(He was entitled to 40 days leave for each completed year of service)

Compute his total income of Naresh. Also compute total income of Mrs. Naresh assuming she has no other income in the previous year. Assume not covered u/s 115BAC

Solution : Computation of total income of deceased Naresh for the A/Y 2021-22**Income from salary**

Basic salary 5,000 x 8			40,000
D.A. 100% of basic			40,000
House rent allowance			
Actual received	24,000		
Less: Exempt minimum of 3 limits			
(1) Actual	24,000		
(2) Rent paid – 10% of salary			
8,000 – 4,800	3,200		
(3) 50% of salary	24,000	3,200	20,800
Children Education allowance			
Actual received 130 x 2 x 8	2,080		
Less: Exempt 100 x 2 x 8	1,600		480
Gross salary			1,01,280
Less: Deduction u/s 16(ia)			50,000
Income from Salary / Gross total income			51,280
Less: Deduction u/s 80C – Contribution to PF			4,800
Total income			46,480

Computation of Income of Mrs.Naresh**Income from other sources**

Repayment from PF of husband			Fully exempt
Gratuity received	42,000		
Less: Exempt minimum of 3 limits			
(1) Actual	42,000		
(2) Formula: $6,000 \times 12/2$	36,000		
(3) Limit	<u>20,00,000</u>	<u>36,000</u>	6,000
Leave Encashment			<u>Exempt</u>
Family pension 200×4		8,000	
Less: Standard Deduction (1/3 or 15,000,less)		<u>2,667</u>	<u>5,333</u>
Total income			<u>11,333</u>

Question 21: Mr. X received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation.

Solution:

Voluntary retirement compensation received ₹ 7,00,000

Less: Exemption under section 10(10C) [Note 1] ₹(5,00,000)

Taxable voluntary retirement compensation ₹ 2,00,000

Note 1: Exemption is to the extent of least of the following:

- (i) Compensation actually received = ₹ 7,00,000
- (ii) Statutory limit = ₹ 5,00,000
- (iii) Last drawn salary $\times 3 \times$ completed years of service
 $= (20,000 + 5,000) \times 3 \times 30 \text{ years} = ₹ 22,50,000$
- (iv) Last drawn salary \times remaining months of service
 $= (20,000 + 5,000) \times 6 \times 12 \text{ months} = ₹ 18,00,000$

Question 22: Mr. X is employed in ABC Ltd. getting basic pay ₹30,000 p.m. and employer has paid him following allowances.

1. Servant allowance ₹500 p.m. but the employee has saved ₹100 p.m.
2. Lunch allowance ₹300 p.m.
3. Cash allowance ₹500 p.m.
4. Overtime allowance ₹400 p.m.
5. Outstation allowance ₹700 p.m.
6. Special allowance ₹1,700 p.m.
7. Conveyance allowance (personal use) ₹200 p.m.

Compute employee's Gross Salary and Tax Liability for the Assessment Year 2021-22. Assume not covered u/s 115BAC

Solution: ₹

Basic Salary $(30,000 \times 12)$: 3,60,000

Servant Allowance : (500×12) : 6,000

Lunch Allowance (300×12) : 3,600

Cash Allowance (500×12) : 6,000

Overtime Allowance (400×12) : 4,800

Outstation Allowance (700×12) : 8,400

Special Allowance $[1,700 \times 12]$: 20,400

Conveyance Allowance (200 x 12) : 2,400
 Gross Salary : 4,11,600
 Less: Standard Deduction u/s 16(ia) : (50,000)
 Income under the head salary : 3,61,600
 Gross Total Income : 3,61,600
 Less: Deduction u/s 80C to 80U : Nil
 Total Income : 3,61,600

Computation of Tax Liability : NIL

Question 23 : Mr. X receives the following emoluments during the previous year ending 31.03.2021.

Assume covered u/s 115BAC

Basic pay : ₹ 40,000

Dearness Allowance : ₹ 15,000

Commission : ₹ 10,000

Entertainment allowance : ₹ 4,000

Medical allowance : ₹ 10,000

Professional tax paid : ₹ 3,000 (₹ 2,000 was paid by his employer)

He has no other income.

Determine the income from salary for A.Y. 2021-22, if Mr. X is a State Government employee.

Solution:

Computation of Salary of Mr. X for the A.Y. 2021-22

Basic Salary : 40,000

Dearness Allowance : 15,000

Commission : 10,000

Entertainment Allowance received : 4,000

Medical allowance : 10,000

Professional tax paid by the employer : 2,000

Gross Salary : 81,000

Less :

Standard Deduction u/s 16(ia) : Nil

Entertainment allowance u/s 16(ii) : Nil

Professional tax paid under section u/s 16(iii) : Nil

Income from Salary : 81,000

Question 24 : Mr. X is employed in ABC Ltd. getting gross salary ₹9,00,000, but it is increased to ₹11,00,000 in previous year 2020-21 w.r.e.f. previous year 2018-19. Compute Tax Liability and relief under section 89. Assume not covered u/s 115BAC

Tax Rate of Previous Year 2018-19 for individual

If total income is upto ₹2,50,000 : NIL

On next ₹2,50,000 : 5%

On next ₹5,00,000 : 20%

On Balance amount : 30%

Solution:**Step 1. Previous Year 2020–21**

Salary : 11,00,000

Add: Arrears for previous year 2018-19 : 2,00,000

Gross Salary : 13,00,000

Less: Standard deduction u/s 16(ia): (50,000)

Income under the head Salary : 12,50,000

Tax before health & education cess : 1,87,500

Add: HEC @ 4% : 7,500

Tax Liability : 1,95,000

Step 2. Previous Year 2020–21

Salary : 11,00,000

Gross Salary : 11,00,000

Less: Standard deduction u/s 16(ia) : (50,000)

Income under the head Salary : 10,50,000

Tax before health & education cess : 1,27,500

Add: HEC @ 4% : 5,100

Tax Liability : 1,32,600

Step 3. Difference between Step 1 and Step 2 (1,95,000 – 1,32,600) : 62,400**Step 4. Previous Year 2018–19**

Salary : 9,00,000

Add: Arrears : 2,00,000

Gross Salary : 11,00,000

Less: Standard deduction u/s 16(ia) : (40,000)

Income under the head Salary : 10,60,000

Tax before health & education cess : 1,30,500

Add: HEC @ 4% : 5,220

Tax Liability : 1,35,720

Step 5. Previous Year 2018–19

Salary : 9,00,000

Gross Salary : 9,00,000

Less: Standard deduction u/s 16(ia) : (40,000)

Income under the head Salary : 8,60,000

Tax before health & education cess : 84,500

Add: HEC @ 4% : 3,380

Tax Liability : 87,880

Step 6. Difference between Step 4 and Step 5 (1,35,720 – 87,880) : 47,840**Step 7.** Relief under section 89 Step 3 – Step 6 (62,400 – 47,840) : 14,560

Tax after adjusting relief u/s 89 [1,98,120 – 14,560] : 1,83,560

Question 25: Mr. X, finance manager of KLM Ltd. Mumbai, furnishes the following particulars for the financial year 2020-21:

- (i) Salary : ₹46,000 per month
- (ii) Rent free accommodation owned by the company
- (iii) Housing loan of ₹6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) (Presume SBI Rate 10.5% p.a.)
- (iv) Gifts made by the company in kind on the occasion of wedding anniversary of Mr. X : ₹4,750
- (v) A wooden table and 4 chairs were provided to Mr. X at his residence. These were purchased on 01.05.2017 for ₹ 60,000 and put to use on 01.06.2017 and sold to Mr. X on 01.08.2020 for : ₹30,000
- (vi) Personal purchases through credit card provided by the company amounting to ₹10,000 was paid by the company. No part of the amount was recovered from Mr. X.
- (vii) An ambassador car which was purchased by the company on 16.07.2017 for ₹2,50,000 and put to use on the same date. It was sold to the assessee on 14.07.2020 for ₹80,000.

Compute the Total Income of Mr. X and the tax thereon for the Assessment Year 2021-22. Assume not covered u/s 115BAC

Solution:

Computation of Taxable Income of Mr. X for the Assessment Year 2021-22

Salary (46,000 x 12) : 5,52,000.00

Rent Free Accommodation : 84,800.00

Working Note:

15% of rent free accommodation salary

Rent Free Accommodation salary = ₹5,52,000

Value of unfurnished house : 82,800

Add: 10% of cost of furniture (60,000 x 10% x 4/12) : 2,000

Perquisite value of furnished house : 84,800

Perquisite of interest on loan : 3,000.00

Working Note:

10.5% is taxable which is to be reduced by actual rate of interest charged i.e.[10.5%-5% = 5.5%]

(6,00,000 x 5.5%) = ₹33,000

Gift given on the occasion of wedding anniversary : Nil

Sale of Table and Chairs : 12,000.00

Working Note:

Perquisite on sale of table and chairs

Cost : 60,000

Less: Dep. on straight line method @ 10% for 3 years : (18,000)

Written down value : 42,000

Less: Amount paid by the assessee : (30,000)

Perquisite value of Table and chairs : 12,000

Credit Card Facility : 10,000.00

Sale of Ambassador Car : 80,000.00

Working Note:

Original cost of Car : 2,50,000

Less: Dep. from 16.07.2016 to 15.07.2017 : (50,000)

Less: Dep. from 16.07.2017 to 15.07.2018 : (40,000)

Written down value : 1,60,000

Less: amount received from the assessee : (80,000)
 Perquisite value of Ambassador car : 80,000

Gross Salary : 7,71,800
 Less: Standard Deduction u/s 16(ia) : (50,000)
 Income under the head Salary : 7,21,800
 Gross Total Income : 7,21,800
 Less: Deduction u/s 80C to 80U : Nil
 Total Income : 7,21,800

Computation of tax liability

Tax on ₹7,21,800 at slab rate : 56,860.00
 Add: HEC @ 4% : 2,274.40
 Tax Liability : 59,134.40
 Rounded off u/s 288B : 59,130

Note: It is assumed that furniture (wooden table and 4 chairs) were provided to Mr. X at his residence on April 1st, 2020 or earlier.

Question 26: Mr. X is employed in ABC Ltd. getting basic pay ₹12,000 p.m. and dearness allowance ₹5,000 p.m. forming part of salary. He has contributed ₹3,000 p.m. to the recognised provident fund and employer has also contributed an equal amount. During the year interest of ₹25,000 was credited @ 8.5% p.a. Employer has provided rent free accommodation to the employee for which rent paid by the employer is ₹5,000 p.m. The employee has encashed one month leave and was allowed leave salary of ₹17,000. Compute his income under the head salary for the previous year 2019-20.

Solution:

Basic Pay (12,000 x 12) : 1,44,000
 Dearness Allowance (5,000 x 12) : 60,000
 Leave Salary : 17,000
 Rent free accommodation : 33,150

Working Note:

15% of rent free accommodation salary or rent paid whichever is less
 Rent free accommodation salary
 = Basic Pay + Dearness Allowance + Leave Salary
 = 1,44,000 + 60,000 + 17,000 = 2,21,000
 15% of rent free accommodation salary : 33,150
 Rent paid = 5,000 x 12 60,000
 Perquisite value of rent free accommodation : 33,150
 Employer's contribution to recognised provident fund in excess of
 12% of retirement benefit salary : 11,520
 (36,000 – 24,480)
 Gross Salary : 2,65,670
 Less: Standard Deduction u/s 16(ia) : (50,000)
 Income under the head Salary : 2,15,670

Question 27: Mr. X Aged is employed in Central Government getting basic pay ₹14,000 p.m., dearness allowance ₹5,000 p.m., House rent allowance ₹4,000 p.m. w.e.f. 01.07.2020. However, employee is residing in the house of his parents. Employer has paid cash allowance ₹300 p.m., medical allowance ₹250 p.m. and entertainment allowance ₹400 p.m. Employer has paid professional tax ₹75 p.m. on behalf of the employee. Employee has saved ₹35 p.m. out of entertainment allowance. Compute employee's income under the head Salary and Tax Liability for the Assessment Year 2021-22. Assume covered u/s 115BAC

Solution:

Basic Pay (14,000 x 12) : 1,68,000.00
 Dearness allowance (5,000 x 12) : 60,000.00
 House rent allowance : 36,000.00
 Cash Allowance (300 x 12) : 3,600.00
 Medical Allowance (250 x 12) : 3,000.00
 Entertainment Allowance (400 x 12) : 4,800.00
 Professional tax paid by employer (75 x 12) : 900.00

Gross Salary : 2,76,300.00

Less: 16(ii) Entertainment Allowance : Nil

Less: 16(iii) Professional Tax : Nil

Less: Standard Deduction u/s 16(ia) : Nil

Income under the head salary : 2,76,300.00

Gross Total Income : 2,76,300.00

Less: Deduction u/s 80C to 80U : Nil

Total Income : 2,76,300.00

Computation of Tax Liability

Tax on ₹2,76,300 at slab rate : 1,315
 Less : Rebate u/s 87A : 1,315
 Tax liability : Nil

Question 28: Mr. X joined ABC Ltd. on 01.07.2013 in the pay scale of 21,000 – 1,200 – 28,200 – 1,400 – 39,400 – 1,600 – 49,000. The employer has allowed him 3 increments in advance at the time of joining. The employee's salary is due on the 1st of next month. Employee was allowed dearness allowance @ ₹7,000 p.m., during the previous year 2019-20 and @ ₹9,000 p.m. in 2020-21. Compute Tax Liability for the Assessment Year 2021-22. Assume covered u/s 115BAC

Solution: ₹

Computation of income under the head Salary

Basic Pay [(32,400 x 4) + (33,800 x 8)] 4,00,000

Working Note: ₹

01.07.2013 – 30.06.2014 = 24,600 p.m.
 01.07.2014 – 30.06.2015 = 25,800 p.m.
 01.07.2015 – 30.06.2016 = 27,000 p.m.

01.07.2016 – 30.06.2017 = 28,200 p.m.
 01.07.2017 – 30.06.2018 = 29,600 p.m.
 01.07.2018 – 30.06.2019 = 31,000 p.m.
 01.07.2019 – 30.06.2020 = 32,400 p.m.
 01.07.2020 – 30.06.2021 = 33,800 p.m.

Dearness allowance $[(7,000 \times 1) + (9,000 \times 11)] : 1,06,000$

Gross Salary : 5,06,000
 Less: Standard Deduction u/s 16 (ia) : NIL
 Income under the head Salary : 5,06,000
 Gross Total Income : 5,06,000
 Less: Deduction u/s 80C to 80U : Nil
 Total Income : 5,06,000

Computation of Tax Liability

Tax on ₹5,06,000 at slab rate : 13,100
 ADD : 4% HEC : 524
 Tax liability : 13,620

Question 29 : Mr. X is employed in ABC Ltd. getting basic pay ₹22,000 p.m. and the employee has paid professional tax ₹200 p.m. and the employer has provided him motor car for official as well as personal use and its engine capacity is 1.2 litres and it is a chauffeur driven car and all expenses are met by the employer himself. Compute Tax Liability for the Assessment Year 2021-22. Assume not covered u/s 115BAC

]Solution: ₹

Basic Pay (22,000 x 12) : 2,64,000
 Motor Car {Sec 17(2)(iii) Rule 3(2)} [(1,800 + 900) x 12] : 32,400
 Gross Salary : 2,96,400
 Less: Standard Deduction u/s 16(ia) : (50,000)
 Less: 16(iii) Professional Tax : (2,400)
 Income under the head Salary : 2,44,000

Computation of Tax Liability : Nil

Question 30: Mr. X is employed in ABC Ltd. getting basic pay ₹12,000 p.m. dearness allowance ₹2,000 p.m. medical allowance ₹200 p.m. entertainment allowance ₹300 p.m. Employer has paid professional tax of ₹100 p.m. on behalf of the employee. Employer incurred ₹3,00,000 on his treatment outside India but RBI permitted ₹2,80,000. Amount incurred on stay is ₹1,00,000 but permitted by RBI is ₹90,000. Expenditure incurred on travelling is ₹1,10,000. He has income under the head house property ₹50,000 and deduction allowed under section 80C to 80U is ₹10,000. Compute the Total Income. Assume covered u/s 115BAC

Solution:

Basic Pay (12,000 x 12) : 1,44,000
 Dearness Allowance (2,000 x 12) : 24,000
 Medical Allowance (200 x 12) : 2,400
 Entertainment Allowance (300 x 12) : 3,600
 Professional Tax (100 x 12) : 1,200
 Treatment outside India (3,00,000 – 2,80,000) : 20,000

TAX BY SG**SALARIES**

Stay aboard (1,00,000 – 90,000) : 10,000
Gross Salary : 2,05,200
Less: Standard Deduction u/s 16(ia) : Nil
Less: Deduction u/s 16(ii) : Nil
Less: Deduction u/s 16(iii) : Nil
Income under the head Salary : 2,05,200

Income under the head house property : 50,000

Gross Total Income : 2,55,200

Since gross total income is exceeding ₹2,00,000 hence expenditure on travelling shall be taxable and shall be as given below:

Basic Pay (12,000 x 12) : 1,44,000
Dearness Allowance (2,000 x 12) : 24,000
Medical Allowance (200 x 12) : 2,400
Entertainment Allowance (300 x 12) : 3,600
Professional Tax (100 x 12) : 1,200
Treatment outside India (3,00,000 – 2,80,000) : 20,000
Stay aboard (1,00,000 – 90,000) : 10,000
Travelling : 1,10,000
Gross Salary : 3,15,200
Less: Standard Deduction u/s 16(ia) : Nil
Less: Deduction u/s 16(ii) : Nil
Less: Deduction u/s 16(iii) : Nil
Income under the head Salary : 3,15,200
Income under the head house property : 50,000

Gross Total Income : 3,65,200
Less: Deduction u/s 80C to 80U : (10,000)
Total Income : 3,55,200

Computation of Tax Liability

Tax on ₹3,55,200 at slab rate : 5,260
Less : Rebate u/s 87A : 5,260
Tax liability : Nil

MULTIPLE CHOICE QUESTIONS

BASIC CONCEPTS

- (1) Which is the charging section of income under the head profits and gains of business or profession?
- (a) Section 15 (b) Section 24
(c) Section 28 (d) Section 17
- (2) Export Incentives taxable under this head includes:
- (a) Cash Compensatory Support (b) Duty Drawback
(c) Profit on transfer of DEPB (d) All of the above
- (3) _____ includes any arrangement or understanding or action in concert whether or not it is formal or in writing or whether or not it is intended to be enforceable by legal proceedings:
- (a) Contract (b) Agreement
(c) Service (d) Profession
- (4) Which of the following conditions are to be fulfilled for charging an income under the head profits and gains of business or profession
- (a) There should be profits and gains. (b) Business or profession must be carried on by the assessee.
(c) Business or profession should be carried on at any time during previous year. (d) All of the above.
- (5) Which of the following are included in business according to section 2(13) :
- (a) Trade (b) Commerce
(c) Manufacture (d) All of the above
- (6) Assessee is having stock existing in the business. Valuation of stock will be at:
- (a) Cost price (b) Market price
(c) Cost or market price, whichever is less (d) Cost or market price, whichever is more
- (7) Method of accounting to be followed for computing income chargeable under the head PGBP shall be :
- (a) Cash system (b) Mercantile system
(c) Cash or mercantile system at the option of assessee (d) None of the above
- (8) Under the Income-tax Act, 1961, 'notional profit' from speculative business is -
- (a) Taxable under the head 'income from profits and gains of business and profession' (b) Taxable under the head 'income from other sources'
(c) Taxable either as income from other sources or income from profits and gains of business and profession (d) Not taxable. as
- (9) Transaction in which a contract for the purchase or sale of any commodity including stocks and shares is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips is known as :
- (a) Wagering transaction (b) Speculative transaction
(c) Deemed Speculation business (d) None of these
- (10) X, Manager of XYZ Ltd. since 2002 was terminated by the company on 1st August, 2020 by paying a compensation of 200 lakh. Such compensation is -----

- (a) Not Chargeable
(c) Chargeable under section 17(3)(i)
- (b) Not chargeable under the Income-tax
(d) Chargeable under section 28(ii)(a).
- (11) HSK, an LLP had taken keyman insurance policy on the life of its managing partner. The policy got matured on 13th September, 2020 and an amount of ₹75lakh was paid by the insurers to the managing partner. The amount so received on maturity of the policy by the managing partner is -
- (a) Fully exempt u/s 10(10D)
(c) ₹ 75lakh taxable
- (b) 50% of 75lakh exempt
(d) ₹ 25 lakh exempt and ₹ 50 lakh taxable
- (12) Raman & Co., a partnership firm, received ₹5,00,000 from an insurance company under keyman insurance policy consequent to demise of partner Pramod. The amount of premium ₹2,30,000 paid earlier was claimed as deduction under section 37(1) by the firm. The amount received from the insurance company is -
- (a) Tax-free under section 10(10D)
(c) ₹ 2,70,000 is taxable
- (b) Fully taxable as income
(d) ₹ 2,30,000 is taxable
- (13) Under the head 'profits and gains of business or profession', the method of accounting that should be followed by an assessee is -
- (a) Cash system only
(c) Hybrid system only
- (b) Mercantile system only
(d) Cash system or mercantile system only

**DEPRECIATION, WDV, ACTUAL COST ADDITIONAL DEPRECIATION,
UNABSORBED DEPRECIATION & INVESTMENT ALLOWANCE**

- (14) As per section 30, which expenditure incurred for a building used for the business or profession shall not be allowed as deduction?
- (a) Rent, rates and taxes
(c) Repairs of building
- (b) Insurance of building
(d) Capital expenditure
- (15) Group of assets falling within a class of assets comprising of tangible & intangible assets is known as :
- (a) Group of assets
(c) Set of assets
- (b) Block of assets
(d) None of these
- (16) Which of the following condition should be fulfilled for claiming depreciation u/s 32 ?
- (a) Asset must be owned wholly or partly by the assessee.
(c) Asset should be used during the relevant Assessment year.
- (b) Asset must be used for the purpose of business or profession of the assessee.
(d) All of the above.
- (17) Depreciation available, if asset is used for less than 180 days during the year of acquisition shall be ----- of eligible rate:
- (a) 50%
(c) 100%
- (b) 20%
(d) 15%
- (18) If the Plant & Machinery is used for less than 180 days in the year of its acquisition, then, at what rate the depreciation on that asset should be provided under section 32?
- (a) 7.5%
(c) 20
- (b) 15%
(d) 10%
- (19) If the Computer is purchased on 11th May, 2020 then at what rate depreciation will be provided on it?
- (a) 40%
(c) 30%
- (b) 20%
(d) 0%

- (20) If the machinery is purchased on 4th October, 2020 then at what rate depreciation will be provided on it?
- (a) 30% (b) 7.5%
(c) 15% (d) 10%
- (21) The transfer of one or more undertakings as a result of the sale for a lump sum consideration without values being assigned to the individual assets and liabilities in the sale is known as :
- (a) Lump sum sale (b) Slump sale
(c) Aggregate sale (d) Total sale
- (22) What is the rate of depreciation charged on computer software?
- (a) 10% (b) 15%
(c) 40% (d) 20%
- (23) Rate of depreciation chargeable on residential building for business for the assessment year 2020-21 is-
- (a) 10% (b) 10%
(c) 5% (d) None of the above.
- (24) Rate of depreciation chargeable on temporary wooden structure for the assessment year 2020-21 is -
- (a) 25% (b) 10%
(c) 40% (d) 50%.
- (25) Under the Income-tax Act, 1961, depreciation on machinery is charged on -----
- (a) Purchase price of the machinery (b) Market price of the machinery
(c) Written down value of the machinery (d) All of the above.
- (26) If a block of assets ceases to exist on last day of the previous year, depreciation admissible for block of assets will be ____
- (a) Nil (b) 50% of the value of the block of assets on the first day of the previous year
(c) The total value of the block of assets on the first day of the previous year (d) 50% of the value of the block of assets on the last day of the previous year.
- (27) Opening WDV of the block of assets was ₹15,00,000. During the year, asset was acquired under this block on 15th June 2020 amounting to ₹10,00,000. Rate of depreciation of the block is 15%. Calculate the amount of depreciation available during the previous year for the block.
- (a) ₹ 3,25,000 (b) ₹ 3,75,000
(c) ₹ 3,00,000 (d) ₹ 2,25,000
- (28) Opening WDV of the block of assets was ₹15,00,000. During the year, asset was acquired under this block on 1st June 2020 amounting to ₹ 10,00,000. One of the asset falling within the block was sold for ₹ 5,50,000 on 14-01-2020. Rate of depreciation of the block is 10%. Calculate the amount of depreciation available during the previous year for the block.
- (a) ₹ 1,95,000 (b) ₹ 2,50,000
(c) ₹ 1,45,000 (d) ₹ 2,22,500
- (29) Opening WDV of the block of assets was ₹ 15,00,000. During the year, asset was acquired under this block on 15th January 2021 amounting to ₹ 10,00,000. One of the asset falling within the block was sold for ₹5,50,000 on 14 January 2021. Rate of depreciation of the block is 10%. Calculate the amount of depreciation available during the previous year for the block.
- (a) ₹ 1,95,000 (b) ₹ 2,50,000
(c) ₹ 1,45,000 (d) ₹ 2,22,500
- (30) Opening WDV of the block of assets was ₹ 25,00,000. During the year, asset was acquired under this block on 11th October 2020 amounting to ₹ 15,00,000. Also, moneys payable in respect of asset falling within this block was ₹ 38,00,000. Rate of depreciation of the block is 10%.

Calculate the amount of depreciation available during the previous year for the block.

- | | |
|----------------|--------------|
| (a) ₹ 20,000 | (b) ₹ 10,000 |
| (c) ₹ 1,50,000 | (d) ₹ 15,000 |

(31) Adhu Ltd. owns machinery (rate of depreciation is 15%), the written down value of which as on 1st April, 2020 is ₹ 30,00,000. Due to fire, entire assets in the block were destroyed and insurer paid ₹ 25,00,000. The eligible depreciation in respect of this machinery is

- | | |
|----------------|--------------|
| (a) ₹ 4,50,000 | (b) ₹ 75,000 |
| (c) ₹ 5,00,000 | (d) Nil |

(32) Vaibhav, deriving business income, owns a car whose WDV as on 1st April, 2019 was ₹ 3,00,000. This is the only asset in the block of assets with rate of 15%. It is estimated that one-third of the total usage of the car is for personal use in both years. The WDV of the block of assets as on 1st April, 2021 would be -

- | | |
|----------------|------------------------|
| (a) ₹ 2,16,750 | (b) ₹ 2,43,000 |
| (c) ₹ 2,55,000 | (d) None of the above. |

(33) While computing the actual cost of any asset falling within a block, direct costs attributable to bring asset to its present location and working condition for its intended use (*i.e.* expenses incurred for acquiring the asset e.g. - freight, insurance, loading and handling etc. and expenses incurred in connection with the installation of the asset.) shall:

- | | |
|------------------------------------|---|
| (a) be added to the purchase price | (b) be subtracted from the purchase price |
| (c) be subtracted from WDV | (d) be claimed as revenue expenditure. |

(34) While computing the actual cost of any asset falling within a block, GST levied on it and included in its cost, in respect of which claim of credit has been made and allowed, shall be:

- | | |
|---------------------------------|--|
| (a) Added to the purchase price | (b) Subtracted from the purchase price |
| (c) Added to the WDV | (d) Claimed as revenue expenditure |

(35) While computing the actual cost of any asset falling within a block, portion of cost of asset which has been met directly by the Central Government or a State Government or any authority under any law or any other person, in the form of a subsidy or grant or reimbursement, shall be:

- | | |
|---------------------------------|--|
| (a) Added to the purchase price | (b) Subtracted from the purchase price |
| (c) Added to the WDV | (d) Claimed as revenue expenditure |

(36) In which of the following case no depreciation is allowable _

- | | |
|---|---|
| (a) Block exists but WDV ceases to exist. | (b) WDV exists but the block ceases to exist. |
| (c) WDV & Block both ceases to exist. | (d) All of the above. |

(37) Sunil acquired a building for ₹ 15 lakh in June, 2018 in addition to cost of land beneath the building of ₹ 3 lakh. It was used for personal purposes until he commenced business in June, 2020 and since then it was used for business purposes. The amount of depreciation eligible in his case for the assessment year 2021-22 would be -

- | | |
|----------------|----------------|
| (a) ₹ 1,50,000 | (b) ₹ 75,000 |
| (c) ₹ 37,500 | (d) ₹ 1,21,500 |

(38) Ramson Industries acquired a factory building for self use in November, 2020. The value of land underneath the building was ₹ 5 lakh and value of building was ₹ 10 lakh. The amount of eligible depreciation allowable for assessment year 2021-22 is -----

- | | |
|----------------|--------------|
| (a) ₹ 1,50,000 | (b) ₹ 25,000 |
| (c) ₹ 1,00,000 | (d) ₹ 50,000 |

(39) Q & Co., a sole proprietary concern, was converted into a Company on 1-9-2020. Before the conversion, the sole proprietary concern had a Block of Plant and Machinery (Rate of Depreciation 15%), whose WDV as on 1-4-2020 was ₹ 3,00,000. On 1st April, itself a new Plant of the same Block was purchased for ₹ 1,20,000. After the conversion, the Company has purchased the same type of Plant on 1-1-2021 for ₹ 1,60,000.

Compute the depreciation that would be allocated between the sole proprietary concern and the successor company.

- (a) ₹ 26,408 : ₹ 48,592 (b) ₹ 0 : ₹ 75,000
(c) ₹ 75,000 : ₹ 0 (d) No depreciation for this year
- (40) R, an assessee carries on business in respect of which it holds tenancy rights. It carries out improvements to the said building at a cost of ₹ 2lakhs and claims depreciation @ 10% thereon. Which is the correct answer?
(a) No depreciation available on the ground that the assessee is not the owner of the building. (b) Depreciation allowed of ₹ 20,000.
(c) Deduction of ₹ 2,00,000 available. (d) The amount of ₹ 2,20,000 will be capitalised.
- (41) XYZ Ltd is engaged in production of textile articles. Opening WDV of the block of assets was ₹ 15,00,000. During the year, plant was acquired under this block on 15th June 2020 amounting to ₹ 10,00,000. One of the asset falling within the block was sold for ₹ 5,50,000 on 14-01-2021. Rate of depreciation of the block is 15%. Calculate the total amount of depreciation including additional depreciation available during the previous year for the block.
(a) ₹ 2,92,500 (b) ₹ 4,92,500
(c) ₹ 3,92,500 (d) ₹ 3,52,500
- (42) XYZ Ltd is engaged in production of textile articles. Opening WDV of the block of assets was ₹ 15,00,000. During the year, plant was acquired under this block on 15th December 2020 amounting to ₹ 10,00,000. One of the asset falling within the block was sold for ₹ 5,50,000 on 14-01-2021. Rate of depreciation of the block is 15%. Calculate the total amount of depreciation including additional depreciation available during the previous year for the block.
(a) ₹ 2,92,500 (b) ₹ 3,17,500
(c) ₹ 4,92,000 (d) ₹ 3,52,500
- (43) Mohit purchased an asset for scientific research in the previous year 2012-13 for ₹ 30,00,000. During the previous year 2020-21 the said asset ceased to be used for scientific research. Profit from business before depreciation ₹ 10,00,000 and Written down value of block of assets @ 15% as on 1st April, 2020 ₹ 20,00,000. The scientific research asset if used for business shall be eligible for depreciation @ 15%. The cost inflation index for 2012-13 is 200 and for 2020-21 is 301. Compute the total income if the scientific research asset is sold for ₹ 65,00,000 during 2021-22, assuming that it is sold without using for business.
(a) ₹ 56,85,000 (b) ₹ 21,65,000
(c) ₹ 37,00,000 (d) ₹ 10,00,000
- (44) What shall be your total income in the above case, if the is sold after using for business.
(a) ₹ 50,00,000 (b) ₹ 55,00,000
(c) ₹ 65,00,000 (d) ₹ 10,00,000
- (45) Where an asset used for scientific research for more than three years is sold without having been used for other purposes, then the sale proceeds to the extent of the cost of the asset already allowed as deduction under section 35 in the past shall be treated as.....
(a) Business income (b) Long-term capital gain
(c) Short-term capital gain (d) Exempted income.
- (46) In the case of any new machinery or plant (other than ships and aircraft), acquired by an assessee engaged in the business of manufacture or production of any article or thing as well as assessee engaged in the business of generation or generation and distribution of power, how much additional depreciation of actual cost of such plant and machinery is available?
(a) 10% (b) 25%
(c) 5% (d) 20%
- (47) In the case of any new machinery or plant (other than ships and aircraft), acquired by an assessee on 01-04-19 engaged in the business of manufacture or production of any article or thing in the backward areas of the State of Andhra Pradesh, how much additional depreciation of actual cost of such plant and machinery is available in AY 2021-22?

- (a) 17.5% (b) 20%
(c) Nil (d) 35%
- (48) In the case of any new machinery or plant amounting is acquired by an assessee engaged in the business of manufacture or production of any article or thing is put to use for less than 180 days, the additional depreciation admissible in FY 2019-20 and FY 2020-21 will be _____and_____respectively.
(a) 10%,10% (b) Nil,20%
(c) 20%, Nil (d) 15%, Nil
- (49) In the case of any new machinery or plant amounting ₹ 25,00,000 is acquired by an assessee on 10-12-2019 engaged in the business of manufacture or production of any article or thing, the additional depreciation admissible in FY 2019-20 and FY 2020-21 will be _____and _____respectively. .
(a) ₹ 5,00,000 , NIL (b) Nil, ₹5,00,000
(c) ₹ 2,50,000 , ₹2,50,000 (d) ₹3,75,000, Nil
- (50) Depreciation claimed by Mr.Jain while computing profit in profit and loss account: ₹50,000. Depreciation allowable as per Income Tax Rules: ₹58,000. Calculate the amount of depreciation allowable while computing gross total income.
(a) ₹ 50,000 (b) ₹ 58,000
(c) ₹ 1,08,000 (d) ₹ 8,000
- (51) An assessee was engaged in the business of manufacture of chemicals in Rajasthan. New machinery amounting to ₹ 5,50,000 was purchased by it on 1st June, 2020. Calculate the additional depreciation available for P/Y 20-21.
(a) ₹ 1,10,000 (b) ₹ 82,500
(c) ₹ 55,000 (d) Nil
- (52) H in the above case the new machinery was purchased on 4th October, 2020, calculate the additional depreciation available.
(a) ₹ 1,10,000 (b) ₹ 82,500
(c) ₹ 55,000 (d) Nil
- (53) Calculate the additional depreciation available in Q 52 for the financial year 2021-22.
(a) ₹ 1,10,000 (b) ₹ 82,500
(c) ₹ 55,000 (d) Nil
- (54) An assessee was engaged in trading of goods. New machinery amounting to ₹ 10,00,000 was purchased by it on 1st June, 2020. Calculate the additional depreciation available.
(a) ₹ 1,00,000 (b) ₹ 2,00,000
(c) Nil (d) ₹ 2,50,000
- (55) Unabsorbed depreciation can be carried forward for:
(a) 10 years (b) 8 years
(c) 0 years (d) Indefinite period
- (56) A fire extinguisher was installed in a cinema hall it was not used throughout the year. Depreciation
(a) Will not be allowed during P/y (b) ½ of the depreciation will be allowed
(c) Depreciation for full year will be allowed (d) None of the above
- (57) Rate of depreciation chargeable on temporary wooden structure for the AY 2021-22 is
(a) 25% (b) 40%
(c) 10% (d) 50%

(58) Who is eligible for claiming additional depreciation under the Income Act ?

- (a) Company (b) All persons engaged in manufacturing of any article
(c) HUF (d) Assessee whose gross turnover exceeds ₹ 100 lakhs

(59) Investment allowance u/s 32AD was available at rate of _____ actual cost of plant and machinery:

- (a) 10% (b) 15%
(c) 50% (d) 20%

(60) For claiming additional depreciation ,New plant and machinery shall not include investment made in:

- (a) any plant or machinery which before its installation was used either within or outside India by any other person.
(b) any plant or machinery installed in any office premises or any residential accommodation (including guest house);
(c) any office appliances including computers or computer software; any vehicle; or any plant or machinery, whose whole actual cost is allowed as deduction.
(d) All of the above.

(61) Which of the following companies shall be allowed investment allowance u/s 32AD in previous year 2020-21:

Company	P.Y.2020-21
A Ltd.	Notified backward Area of Uttar Pradesh
B Ltd.	Notified backward Area of Tamil Nadu
CLtd.	Notified backward Area of West Bengal

- (a) ALtd, BLtd, CLtd (b) ALtd, BLtd
(c) CLtd (d) Neither of the company

(62) C Ltd., engaged in manufacture, acquired machineries for ₹ 10 crore in July, 2020 and for ₹ 20 crore in December, 2020. All the machines were used within 45 days of acquisition. The additional depreciation for the assessment year 2021-22 will be

- (a) ₹ 4. crore (b) ₹ 1 crore
(c) ₹ 2 crore (d) ₹ 3 crore

(63) Compute the amount of additional depreciation available to industries located in notified backward areas in State of Andhra Pradesh or Bihar or Telangana or West Bengal if amount invested in new plant and machinery is ₹ 30 crore on 1st April 2020 :

- (a) ₹ 3 crore (b) ₹ 4.5 crore
(c) ₹ 6 crore (d) ₹ 2.25 crore

(64) What would be your answer if in the above case amount is invested on 17th October 2020 :

- (a) ₹ 3 crore (b) ₹ 4.5 crore
(c) ₹ 6 crore (d) ₹ 2.25 crore

(65) Under section 32AD if the new asset is sold/transferred within-----years then amount of deduction allowed in respect of such new asset shall be deemed to be the income of the assessee chargeable under the head "PGBP" of the previous year in which such new asset is sold or otherwise transferred, in addition to taxability of gains, arising on account of transfer of such new asset.

- (a) 3 (b) 5
(c) 1 (d) 10

(66) XYZ Pvt. Ltd. was engaged in the business of manufacturing fertilizers located in the backward area of State of West Bengal. Opening WDV of the block of plant and machinery was ₹ 80 crores. During the year, asset was acquired under this block on 11th July 2020 amounting to ₹ 150 crore. Rate of depreciation of the block is 15%. Calculate the amount of depreciation available u/s 32.

- (a) ₹ 49.5 crore (b) ₹ 64.5 crore
(c) ₹ 150 crore (d) ₹ 100 crore
- (67) If in the above case, the asset was acquired on 30th December, 2020 then the amount of depreciation available will be:
- (a) ₹ 38.25 crore (b) ₹ 49.5 crore
(c) ₹ 150 crore (d) ₹ 100 crore
- (68) Rate of depreciation chargeable on residential building used for Business for the AY 2021-22 is
- (a) 5 % (b) 10%
(c) 15% (d) 20%
- (69) Rate of depreciation chargeable on computer software used for Business for the AY 2021-22 is
- (a) 20% (b) 40%
(c) 30% (d) 15%
- (70) Rate of depreciation chargeable on Books used for Business for the AY 2021-22 is
- (a) 40% (b) 15%
(c) Nil (d) 20%

CERTAIN SPECIAL DEDUCTIONS : SECTION 33AB TO 35E

- (71) What is the amount of deduction in relation to Tea, Coffee and Rubber development A/C u/s 33AB?
- (a) 20% of profits of such business. (b) 40% of profits of such business.
(c) 60% of profits of such business. (d) 100% of profits of such business.
- (72) XYZ Ltd. has derived a profit of ₹ 100 lakhs from the business of growing and manufacturing tea in India. It has deposited a sum of ₹ 38 lakhs in Tea deposit account .What is the amount of deduction in relation to Tea, Coffee and Rubber development A/C u/s 33AB?
- (a) ₹ 20 lakhs (b) ₹ 38lakhs
(c) ₹ 40 lakhs (d) ₹ 60 lakhs
- (73) XYZ Ltd. has dervied a profit of ₹ 100 lakhs from the business of growing and manufacturing coffee in India. It has deposited a sum of ₹ 42 lakhs in development account .What is the amount of deduction in relation to Tea, Coffee and Rubber development A/C u/s 33AB?
- (a) ₹ 20 lakhs (b) 42lakhs
(c) ₹ 40 lakhs (d) ₹ 60 lakhs
- (74) If an asset acquired in accordance with the site restoration scheme is sold or otherwise transferred in any previous year before the expiry of -----years from year of its acquisition and such part of the cost of asset is relatable to the deduction already allowed under this section will be deemed to be the profits of business in the year of such sale or transfer:
- (a) 5 (b) 4
(c) 8 (d) 10

(75) The amount of deduction in relation to site restoration fund u/s 33ABA is :

- (a) Aggregate of amounts deposited in special A/c or Site restoration A/c. (b) 20% of profits of such business.
(c) Higher of (a) or (b). (d) Lower of (a) or (b).

(76) The amount of deduction available for revenue expenditure incurred during the previous year, on scientific research related to the business; and expenditure incurred on scientific research within the 3 years preceding the date in which the business commences by way of salary of employees/purchase of materials will be:

- (a) Amount of expenditure incurred (b) 2 x Expenditure incurred
(c) 1.5 x Expenditure incurred (d) None of these

(77) Mr. X has incurred revenue expenditure of ₹5,00,000 during the previous year, on scientific research related to the business. The amount of deduction admissible under Section 35 will be :

- (a) ₹5,00,000 (b) ₹ 10,00,000
(c) ₹7,50,000 (d) None of these

(78) Mr. X has incurred capital expenditure of ₹ 5,00,000 (which includes ₹ 1,00,000 on cost of land) during the previous year, on scientific research related to the business. The amount of deduction admissible under Section 35 will be :

- (a) ₹4,00,000 (b) ₹ 8,00,000
(c) ₹ 6,00,000 (d) ₹ 10,00,000

(79) The amount of deduction available for the sum paid to approved scientific research association, university, college or institution will be :

- (a) 200% (b) 100%
(c) 150% (d) None of these

(80) Where the assessee does not himself carry on scientific research but makes contributions to an approved university, college or institution, to be used for scientific research unrelated to the business of assessee, the amount of deduction from income of business shall be allowed on such contribution to the extent of -

- (a) 150% (b) 100%
(c) Nil (d) 200%

(81) Mr. Rajesh has incurred expenditure of ₹ 5,00,000 by way of payment of sum to Indian Company whose object is undertaking of scientific research. The amount of deduction admissible under Section 35 will be :

- (a) ₹ 8,75,000 (b) ₹ 5,00,000
(c) ₹ 7,50,000 (d) ₹ 10,00,000

(82) X Ltd. paid ₹ 10 lakh to an approved college to be used for scientific research unrelated to its business. The amount eligible for deduction under section 35(1)(ii) is -----

- (a) ₹ 5lakh (b) ₹ 15 lakh
(c) ₹ 10 lakh (d) Nil

(83) The amount of deduction available for the sum paid to a company having as its main object 'scientific research and development' to be used by it for scientific research; or Sum paid for social science or statistical research to a university, college, or institution will be :

- (a) 125% of sum paid (b) 200% of sum paid
(c) 150% of sum paid (d) 100% of sum paid

(84) According to section 35(1)(iv) the amount of deduction claimed on capital expenditure on scientific research is:

- (a) Amount of expenditure incurred (b) 1.25 x Sum paid
(c) 1.5 x Expenditure incurred (d) None of these

- (85) An assessee made a capital expenditure on purchase of land amounting to ₹150 lacs during the previous year on scientific research related to the business carried on by him. Amount of deduction available to assessee for this expenditure is:
- (a) 1 x Sum Paid (b) 1.25 x Sum paid
(c) 1.5 x Sum Paid (d) NIL
- (86) According to Section 35(2AA) amount of deduction claimed for sum paid to a National Laboratory for approved programme is
- (a) 1.5 x expenditure incurred (b) Amount of expenditure incurred
(c) 2 x expenditure incurred (d) None of these
- (87) According to Section 35(2AB) expenditure incurred for the manufacture or production of Chemical fertiliser:
- (a) 1.5 x Expenditure incurred (b) 1.25 x Sum paid
(c) Amount of expenditure incurred (d) None of these
- (88) Assessee company engaged in the business of bio-technology incurred an expenditure of ₹ 10,00,000 on scientific research which includes cost of land of ₹ 2,00,000. Compute the amount of deduction available.
- (a) ₹10,00,000 (b) ₹ 12,00,000
(c) ₹8,00,000 (d) ₹ 16,00,000
- (89) The amount of deduction available for the expenditure incurred (*other than cost of land or building*) on scientific research, in-house research and development facility, by a company engaged in the business of bio-technology or manufacture or production of article or thing (other than article or thing specified in XI Schedule) will be:
- (a) 150% (b) 125%
(c) 100% (d) None of these
- (90) Assessee company engaged in the business of manufacture incurred an expenditure of ₹ 10,00,000 on scientific research which includes cost of land of ₹ 2,00,000. The aforesaid company does not maintain books of accounts for research and development facility and thus has not audited its accounts. Compute the amount of deduction available.
- (a) ₹ 10,00,000 (b) Nil
(c) ₹ 16,00,000 (d) ₹ 20,00,000
- (91) XYZ Ltd. engaged in the business of providing telecommunication services has incurred a capital expenditure of ₹ 10,00,000 on telecommunication licence. The period of licence is 10 years. Compute the amount of deduction available under Section 35ABB during the year.
- (a) ₹ 10,00,000 (b) ₹ 1,00,000
(c) ₹ 2,00,000 (d) ₹ Nil
- (92) Deduction in respect of expenditure incurred for obtaining license to operate telecommunication services shall be available during the period of :
- (a) 5 years (b) 4 years
(c) 10 years (d) 8 years
- (93) The amount of deduction available under section 35AC for expenditure incurred on Eligible Projects or Schemes is:
- (a) Nil (b) 125%
(c) 200% (d) 100%
- (94) Specified business under section 35AD includes:
- (a) Cross-country crude or petroleum oil pipeline project.network. (b) Slum redevelopment housing
(c) Bee-keeping and production of honey and beeswax. (d) All of the above.

(95) The amount of deduction available under section 35AD for capital expenditure incurred in business of Cold chain facilities will be :

- | | |
|----------|-------------------|
| (a) 150% | (b) 125% |
| (c) 100% | (d) None of these |

(96) The amount of deduction available under section 35AD for capital expenditure incurred in business of Inland Container Depot or a Container Freight Station:

- | | |
|----------|-------------------|
| (a) 100% | (b) 125% |
| (c) 150% | (d) None of these |

(97) Assessee engaged in the business of Cross-country natural gas pipeline network incurred an expenditure on acquisition of goodwill. Deduction available under section 35AD:

- | | |
|----------|----------|
| (a) 100% | (b) 125% |
| (c) 150% | (d) Nil |

(98) Which of the following is not one of the Specified businesses under section 35AD includes:

- | | |
|----------------------|---|
| (a) Slurry pipe line | (b) Semi-conductor wafer fabrication manufacturing unit |
| (c) Hotel | (d) Sugar factory |

(99) Minimum holding period of capital asset acquired under section 35AD is :

- | | |
|-------------|--------------|
| (a) 8 years | (b) 10 years |
| (c) 5 years | (d) 15 years |

(100) Exception to the minimum holding period provision for capital asset under section 35AD is :

- | | |
|--|---|
| (a) Cement industry | (b) Infrastructure Enterprise u/s 80-IA |
| (c) Company carrying on scientific research and development u/s 80IB | (d) Sick industrial company u/s 17(1) of the Sick Industrial Companies (Special Provisions) Act, 1985 |

(101) Which of the following business commenced during August, 2020 will not be eligible for deduction under section 35AD –

- | | |
|--|--|
| (a) Setting-up and operating a cold chain facility | (b) A production unit of fertilizer in India |
| (c) Operating of a 1 star hotel in a village | (d) Building a hospital of 200 beds. |

(102) As per section 35CCA, deduction in respect of payment to association and institutions for carrying out rural development programme is:

- | | |
|-----------------------|------------------------|
| (a) 1 x Amount paid | (b) 1.25 x Amount paid |
| (c) 1.5 x Amount paid | (d) Nil |

(103) Amount of deduction available u/s 35CCC for expenditure incurred on notified Agricultural Extension Project :

- | | |
|----------|----------|
| (a) 150% | (b) 125% |
| (c) 100% | (d) Nil |

(104) Amount of deduction available under section 35CCD for expenditure (excluding expenditure incurred on cost of land or building) incurred by companies on notified Skill Development Project:

- | | |
|----------|----------|
| (a) 150% | (b) 125% |
| (c) 100% | (d) Nil |

(105) What is the qualifying expenditure for deduction in relation to preliminary expenses u/s 35D for non corporate assessee :

- | | |
|--|---------------------------|
| (a) Aggregate amount of eligible expenditure | (b) 5% of cost of project |
| (c) Higher of (a) or (b) | (d) Lower of (a) or (b) |

- (106) In year 2020-21 an assessee incurred ₹6 lacs as preliminary expenditure in respect of extension of the industrial undertaking. The cost of fixed assets acquired out of such extension was ₹ 100 lacs as on 31st March 2021. Calculate the amount of deduction to be allowed to him in computation of his income for the A.Y. 2021-22.
- (a) Nil
(b) ₹1,00,000
(c) ₹1,20,000
(d) ₹ 6,00,000
- (107) Proportion of expenditure allowed as deduction each year in regard to expenditure incurred on Amalgamation or Demerger or Voluntary retirement scheme:
- (a) $1/5^{\text{th}}$ for each 5 successive previous years
(b) $1/2$ for each 2 successive previous years
(c) $1/10^{\text{th}}$ for each 10 successive previous years
(d) Nil
- (108) One of the employees of an organisation took voluntary retirement on 15th January 2021 and he was paid ₹ 15 lacs as compensation. Calculate the amount of deduction to be allowed in computation of income for the A.Y. 2021-22.
- (a) Nil
(b) ₹ 15,00,000
(c) ₹ 3,00,000
(d) ₹ 1,50,000
- (109) An assessee engaged in business of prospecting, etc., for minerals incurred an expenditure of ₹ 35,00,000 on purchase of land. The amount of deduction available u/s 35E in the previous year 2020-21 for this expenditure incurred is :
- (a) Nil
(b) ₹ 35,00,000
(c) ₹ 3,50,000
(d) ₹ 1,50,000

OTHER SPECIFIED DEDUCTIONS & GENERAL DEDUCTIONS - SECTION 36 & 37

- (110) Expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 is :
- (a) An Allowable expenditure
(b) Illegal expenditure
(c) Deferred revenue expenditure
(d) Not an allowable expenditure
- (111) An assessee paid insurance premium against risk of damage or destruction of stocks or stores used for the purposes of his business or profession. Such expenditure shall be considered as :
- (a) Revenue expenditure
(b) Capital expenditure
(c) Deferred revenue expenditure
(d) Illegal expenditure
- (112) Insurance premium was paid by a Federal Milk Co-operative Society on the life of cattle owned by member of such co-operative society. Such society was engaged in supplying milk raised by its members to such federal milk co-operative society. Such expenditure shall be considered as:
- (a) Revenue expenditure
(b) Capital expenditure
(c) Deferred revenue expenditure
(d) None of the above
- (113) An assessee purchased a computer on which depreciation is admissible. Such expenditure shall be considered as :
- (a) Revenue expenditure
(b) Capital expenditure
(c) Deferred revenue expenditure
(d) None of the above
- (114) One of the employees of the organisation was terminated in the interest of business and was paid one time compensation of ₹ 75,000. For the organisation such expenditure shall be considered as:
- (a) Revenue expenditure
(b) Capital expenditure
(c) Deferred revenue expenditure
(d) None of the above
- (115) M/s. Kalyani and Company paid ₹ 84,000 as advertisement in the annual magazine of Bhartiya Janata Party. For the organisation such expenditure shall be:
- (a) Considered as revenue expenditure
(b) Considered as capital expenditure
(c) Considered as deferred revenue expenditure
(d) Disallowed u/s 37(2B)

- (116) M/S R & Company paid ₹ 75,000 as Custom Duty and ₹ 84,000 as income tax during the previous year. Calculate the amount of expenditure allowable:
- (a) ₹ 1,59,000 (b) ₹ 84,000
(c) ₹ 75,000 (d) Nil
- (117) An employer paid an amount of ₹ 30,000 as insurance premium on the health of his employees under a scheme framed in this behalf by GIC. Such payment was made by cash. The insurance amount was of ₹ 3,00,000. The amount of deduction available to employer:
- (a) ₹ 30,000 (b) ₹ 3,00,000
(c) ₹ 2,70,000 (d) Nil
- (118) An employer paid an amount of ₹ 10,000 as insurance premium on the health of his employees under a scheme framed by GIC. Such payment was made by cheque. The insurance amount was of ₹ 10,00,000. The amount of deduction available to employer:
- (a) ₹ 10,000 (b) ₹ 10,00,000
(c) ₹ 1,00,000 (d) Nil
- (119) XYZ Ltd. paid a sum of ₹ 25,000 to Mrs. Sushila as employee bonus for services rendered by her which was otherwise have been payable to her as profit or dividend. The amount allowable as per section 40A(2) was ₹ 20,000. Calculate the amount of deduction available.
- (a) ₹ 25,000 (b) ₹ 20,000
(c) ₹ 5,000 (d) Nil
- (120) XYZ Ltd. paid a sum of ₹ 25,000 to Mrs. Seema as employee bonus for services rendered by her. Such amount was actually paid to her on 15th June 2020. The amount allowable as per section 40A(2) was ₹ 20,000. Calculate the amount of deduction available.
- (a) ₹ 25,000 (b) ₹ 20,000
(c) ₹ 5,000 (d) NIL
- (121) XYZ Ltd. paid a sum of ₹ 25,000 to Mrs. Geetangli as employee bonus for services rendered by her during the Previous Year 2020-21. Such amount was actually paid to her on 15th October 2021. The amount allowable as per section 40A(2) was ₹ 20,000. Calculate the amount of deduction available to XYZ ltd in Previous Year 2020-21.
- (a) ₹ 25,000 (b) ₹ 20,000
(c) ₹ 5,000 (d) Nil
- (122) XYZ Ltd. paid a sum of ₹ 25,000 to Mrs. Geetagli as employee bonus for services rendered by her during the Previous Year 2020-21. Such amount was actually paid to her on 15th August 2021. The amount allowable as per section 40A(2) was ₹ 28,000. Calculate the amount of deduction available to XYZ ltd in Previous Year 2020-21.
- (a) ₹ 25,000 (b) ₹ 28,000
(c) ₹ 3,000 (d) Nil
- (123) Mr. A took a loan of ₹ 10,00,000 on 15th June 2020 for acquisition of an asset. Such asset was put to use on 1st April 2021. Interest paid for the period till the asset was put to use was of ₹ 60,000. The amount of revenue expenditure available to assessee in Previous Year 2020-21:
- (a) Nil (b) ₹ 60,000
(c) ₹ 6,000 (d) ₹ 10,00,000
- (124) Mr. A took a loan of ₹ 10,00,000 on 15th June 2020 for acquisition of an asset and immediately put the asset on use. Interest paid for the Previous Year 2020-21 on such loan amounted to ₹ 65,000. Payment of ₹ 55,000 against the interest amount was made on 11th May, 2021 and balance amount was paid on 11th October 2021. The amount of revenue expenditure available to assessee in Previous Year 2020-21:
- (a) Nil (b) ₹ 65,000
(c) ₹ 55,000 (d) ₹ 10,00,000

- (125) The employer made a contribution of ₹ 25,000 to recognised provident fund for the previous year 2020-21. Such payment was made on 12th March, 2021. Such expenditure shall be considered as:
- (a) Revenue expenditure (b) Capital expenditure
(c) Deferred revenue expenditure (d) None of the above
- (126) Mr. Ram made a contribution of ₹45,000 to a Pension Scheme referred under section 80CCD. The salary of the employee was of ₹ 4,00,000 in the previous year. Calculate the amount of deduction available to employer in Previous Year 2020-21.
- (a) Nil (b) ₹ 45,000
(c) ₹ 40,000 (d) ₹ 4,00,000
- (127) The assessee employer received a sum from his employee as contributions to Provident Fund or Employee State Insurance Fund or Superannuation fund or any other employee-welfare fund. Such sum is first treated as income of the employer and later claimed as expenditure. Such expenditure shall be considered as:
- (a) Revenue expenditure (b) Capital expenditure
(c) Deferred revenue expenditure (d) Illegal expenditure
- (128) An assessee was engaged in the business of cattle rearing. He incurred a loss in respect of animals which were used for the purposes of his business (otherwise than as stock-in trade) and which have died. Such expenditure shall be considered as:
- (a) Revenue expenditure (b) Capital expenditure
(c) Deferred revenue expenditure (d) Illegal expenditure
- (129) Ramesh was engaged in the business of trading of jewellery. During the previous year 2019-20 debt taken into account by him in computing the income amounted to ₹2,50,000. However, during the previous year 2020-21 it was acknowledged that ₹1,35,000 is to be considered as irrecoverable in the accounts of the assessee. Calculate the amount of bad-debts written off as irrecoverable to be allowed as a deduction in the previous year 2020-21:
- (a) ₹2,50,000 (b) ₹ 1,35,000
(c) ₹1,15,000 (d) No deduction available
- (130) Suresh was engaged in the business of trading of jewellery. During the previous year 2020-21 debt accrued to him amounted to ₹2,50,000 which was not taken into account by him while computing the income of the previous year. However, during the year itself it was acknowledged that ₹1,00,000 is to be considered as irrecoverable from this debtor. Calculate the amount of bad-debts acknowledged as irrecoverable to be allowed as a deduction in the previous year 2020-21 :
- (a) ₹ 2,50,000 (b) ₹ 1,00,000
(c) ₹ 1,50,000 (d) No deduction available
- (131) Provision for bad and doubtful debt is allowed as deduction in respect of the following :
- (a) Primary agricultural credit society (b) Primary cooperative agricultural and rural development bank
(c) Public Limited company (d) Non banking finance company
- (132) Jaipur Co-operative Bank made a provision for bad and doubtful debts account against the advances made by it. In regard to advances made by rural branches it made a provision amounting to ₹ 25,00,000 and in regard to advances made by urban branches it made a provision amounting to ₹ 35,00,000. The total credit balance provision for bad and doubtful debts account was of ₹ 60,00,000. The actual bad debts for the previous year against the urban advances only amounted to ₹ 68,00,000. Calculate the amount of bad-debts to be allowed as a deduction in the previous year 2020-21:
- (a) ₹ 33,00,000 (b) ₹ 68,00,000
(c) ₹ 8,00,000 (d) ₹ 43,00,000
- (133) A scheduled bank incorporated in India had Gross Total Income of A/Y 2021-22 [before deduction under section 36(1)(viii)] of ₹ 750 lakhs and aggregate average advances made by rural branches of the bank was of ₹ 150 lakhs. Calculate the amount of Provisions for doubtful debts to be made in the previous year.

- (a) ₹ 90 lakhs (b) ₹ 67.5 lakhs
(c) ₹ 150 lakhs (d) ₹ 78.75 lakhs
- (134) A scheduled bank incorporated in India had Gross Total Income of AY. 2021-22 [before deduction u/s 36(1)(viiia)] of ₹750 lakhs and aggregate average advances made by rural branches of the bank was of ₹150 lakhs. Provision for bad and doubtful debts under section 36(1)(viiia) upto AY.2020-21 was of ₹50 lakhs. Calculate the amount of Provisions for doubtful debts to be made in the previous year.
- (a) ₹ 90 lakhs (b) ₹ 67.5lakhs
(c) ₹ 150 lakhs (d) ₹ 78.75lakhs
- (135) A scheduled bank incorporated in India had Gross Total Income of AY. 2021-22 [before deduction under section 36(1)(viiia) of ₹750 lakhs and aggregate average advances made by rural branches of the bank was of ₹150 lakhs. Provision for bad and doubtful debts under section 36(1)(viiia) upto AY.2020-21 was of ₹ 50 lakhs. Bad debts written off (for the first time) in the books of account (in respect of urban advances only) during the previous year 2019-20 was of ₹150 lakhs. Compute the deduction allowable under section 36(1)(vii) for the AY.2021-22.
- (a) ₹ 21.25lakhs (b) ₹ 78.75lakhs
(c) ₹ 150 lakhs (d) ₹ 100 lakhs
- (136) A foreign bank had Gross Total Income of AY.2021-22 [before deduction under section 36(1)(viiia)] of ₹ 1,750 lakhs. Calculate the amount of Provisions for doubtful debts to be made in the previous year.
- (a) ₹ 175 lakhs (b) ₹ 87.5lakhs
(c) ₹ 1,750 lakhs (d) No provision to be made
- (137) X Housing Finance Co. Ltd. for the year ended on 31-3-2021 had Profits from the business computed as per Part D of Chapter IV of the Act but before claiming deduction u/ s 36(1)(viii) : ₹560 lacs, paid-up share Capital ₹ 500 lacs, General Reserve ₹ 100 lacs and balance in reserve created u/s 36(1)(viii) on 31-3-2021 ₹1,100 lacs. Profits transferred to Special Reserve a/c was of ₹ 150 lakhs. Compute the amount of deduction available under section 36(1)(viii) :
- (a) ₹ 112lakhs (b) ₹ 100 lakhs
(c) ₹ 150 lakhs (d) No deduction available
- (138) In the case of companies, capital expenditure incurred for the purpose of promoting family planning amongst the employees would be deductible to the extent _
- (a) Equal to 1/ 5th in each year for 5 years (b) Equal to 1/6th in each year for 6 years
(c) Equal to 1/4th in each year for 4 years (d) Equal to 1/10th in each year for 10 years.
- (139) Assessee company incurred revenue expenditure of ₹ 15,000 for promoting family planning amongst its employees. Calculate the amount of deduction available.
- (a) ₹ 3,000 (b) ₹ 15,000
(c) ₹ 18,000 (d) No deduction available
- (140) Assessee firm incurred revenue expenditure of ₹15,000 for promoting family planning amongst its employees. Calculate the amount of deduction available.
- (a) ₹ 3,000 (b) ₹ 15,000
(c) ₹ 18,000 (d) No deduction available
- (141) Assessee company incurred capital expenditure of ₹ 75,000 for promoting family planning amongst its employees. Calculate the amount of deduction available.
- (a) ₹ 75,000 (b) ₹ 15,000
(c) ₹ 60,000 (d) No deduction available
- (142) Assessee company incurred capital expenditure of ₹ 50,000 and revenue expenditure of ₹ 7,000 for promoting family planning amongst its employees. Calculate the amount of deduction available.

- (a) ₹ 50,000 (b) ₹ 7,000
(c) ₹ 17,000 (d) No deduction available

(143) Contribution was made by PFI towards Credit Guarantee Fund Trust. Such expenditure shall be considered as:

- (a) Revenue expenditure (b) Capital expenditure
(c) Deferred revenue expenditure (d) Illegal expenditure

(144) An assessee was engaged in the business of dealing in securities. He had paid Securities Transaction Tax of ₹ 25,000 on the securities. Income arising from taxable securities transactions computed under the head "Profits and Gains of Business or Profession" was of ₹ 2,50,000. Such expenditure of payment of Securities Transaction Tax shall be considered as:

- (a) Revenue expenditure (b) Capital expenditure
(c) Speculative transaction expenditure (d) Illegal expenditure

(145) An assessee was engaged in the business of dealing in commodities. He had paid Commodities transaction tax of ₹ 15,000 in respect of the taxable commodities transactions. Income arising of ₹ 3,00,000 from such taxable commodities transactions was included in the income computed under the head "Profits and gains of business or profession". Such expenditure of payment of Commodities transaction tax shall be considered as:

- (a) Revenue expenditure (b) Capital expenditure
(c) Speculative transaction expenditure (d) Illegal expenditure

(146) The assessee co-operative society was engaged in the business of manufacture of sugar, for purchase of sugarcane an amount of ₹ 50,000 was incurred by it. The price fixed or approved by the Government for such purpose is ₹ 95,000. The amount of deduction admissible will be

- (a) ₹ 1,00,000 (b) ₹ 50,000
(c) ₹ 95,000. (d) Nil

(147) To claim deduction of an expenditure u/s 37, the expenditure incurred must be:

- (a) In respect of the business or profession carried On by the assessee. (b) Not capital in nature.
(c) Not of nature described u/s 30 to 36. (d) All of the above.

(148) An assessee paid penalty of ₹ 42,000 paid for non-compliance of the provisions of Customs Act. Such expenditure shall be considered as:

- (a) Revenue expenditure (b) Capital expenditure
(c) Speculative transaction expenditure (d) Disallowed under Section 37(1)

(149) An assessee incurred expense of tax on non monetary perquisites of employees. Such expenditure shall be considered as:

- (a) Revenue expenditure (b) Capital expenditure
(c) Deferred revenue (d) Expressly disallowed

(150) An assessee made an expenditure on issue of shares. Such expenditure, including fees paid to Registrar of Companies, was incurred to increase the authorized share capital, resulting in expansion of the capital base. Such expenditure shall be considered as:

- (a) Revenue expenditure (b) Capital expenditure
(c) Deferred revenue expenditure (d) Expressly disallowed

(151) An assessee incurred an expenditure on stamp duty and registration fees for the issue of bonus shares. Such expenditure shall be considered as:

- (a) Revenue expenditure (b) Capital expenditure
(c) Deferred revenue expenditure (d) Expressly disallowed

(152) XYZ & Co. incurred a liability by giving discount on issue of debentures. Such expenditure shall be considered as:

- | | |
|----------------------------------|-------------------------|
| (a) Revenue expenditure | (b) Capital expenditure |
| (c) Deferred revenue expenditure | (d) Illegal expenditure |

(153) Assessee company redeemed its debentures on premium. Such expenditure of paying premium shall be considered as:

- | | |
|----------------------------------|-------------------------|
| (a) Revenue expenditure | (b) Capital expenditure |
| (c) Deferred revenue expenditure | (d) Illegal expenditure |

(154) Expenditure incurred by a hotelier on replacement of linen and carpets in his hotel. Such expenditure shall be considered as:

- | | |
|----------------------------------|-------------------------|
| (a) Revenue expenditure | (b) Capital expenditure |
| (c) Deferred revenue expenditure | (d) Illegal expenditure |

(155) An assessee made a payment of ₹ 25,000 as a secret commission, prohibited by law, for some offensive purpose. Such expenditure shall be considered as:

- | | |
|----------------------------------|--------------------------------|
| (a) Revenue expenditure | (b) Capital expenditure |
| (c) Deferred revenue expenditure | (d) Non deductible expenditure |

(156) An assessee incurred a sum of ₹ 35,000 for perfecting title or removing defects in title. Such expenditure shall be considered as:

- | | |
|----------------------------------|--------------------------------|
| (a) Revenue expenditure | (b) Capital expenditure |
| (c) Deferred revenue expenditure | (d) Non deductible expenditure |

(157) An assessee incurred a sum of ₹ 1,10,000 for alteration of the memorandum and articles of association. Such expenditure shall be considered as:

- | | |
|----------------------------------|--------------------------------|
| (a) Revenue expenditure | (b) Capital expenditure |
| (c) Deferred revenue expenditure | (d) Non deductible expenditure |

(158) An assessee incurred a loss of ₹ 50,000 on account of foreign exchange fluctuations on loans taken from foreign banks for revenue purposes or trading liabilities. Such loss/ expenditure shall be considered as:

- | | |
|----------------------------------|--------------------------------|
| (a) Revenue expenditure | (b) Capital expenditure |
| (c) Deferred revenue expenditure | (d) Non deductible expenditure |

(159) An assessee incurred an expenditure of ₹ 35,000 on shifting of its administrative office. Such loss/ expenditure shall be considered as:

- | | |
|----------------------------------|--------------------------------|
| (a) Revenue expenditure | (b) Capital expenditure |
| (c) Deferred revenue expenditure | (d) Non deductible expenditure |

(160) Under the Income-tax Act, 1961, which of the following outlays incurred by Sun Ltd. during the previous year ended 31st March, 2021 will not be admissible as deduction while computing its business income -

- | | |
|---|--|
| (a) Contribution to a political party in cash | (b) Interest on loan taken for payment of income-tax |
| (c) Capital expenditure on advertisement | (d) All of the above. |

SPECIFIC DISALLOWANCES - SECTION 40 & 40A

(161) Mr. Ram during the previous year 2020-21 made a payment outside India to a non-resident on which TDS was not paid upto time allowed u/s 200. However, such TDS was deducted and paid on 15th February 2021. When shall deduction of this expenditure be allowed to assessee?

- | | |
|---------------------------|---------------------------|
| (a) Previous Year 2019-20 | (b) Previous Year 2020-21 |
| (c) Previous Year 2021-22 | (d) Not allowed deduction |

- (162) Mr. Kalpesh during the previous year 2020-21 made a payment outside India to a non-resident on which TDS was not paid upto time allowed u/s 200. However, such TDS was deducted and paid on 30th September 2021. When shall deduction of this expenditure be allowed to assessee?
- (a) Previous Year 2019-20 (b) Previous Year 2020-21
(c) Previous Year 2021-22 (d) Not allowed deduction
- (163) Payments to residents on which tax has not been deducted/ paid shall be disallowed to the extent of -----
- (a) 0% (b) 30%
(c) 100% (d) 50%
- (164) XYZ Ltd. has made a payment of ₹10,00,000 to Mr. C a contractor on which tax was not deducted at source during the previous year. The amount of expenditure to be disallowed under Section 40(a) will be-
- (a) ₹10,00,000 (b) ₹3,00,000
(c) ₹5,00,000 (d) Nil
- (165) Laxmi & Co. paid ₹6,10,000 as contract payments to Monu Ltd. during the financial year 2020-21. It did not deduct tax at source under section 194C. The amount liable for disallowance is -
- (a) ₹6,10,000 (b) ₹3,05,000
(c) ₹12,200 (d) ₹1,83,000
- (166) XYZ Ltd. has credited a sum of ₹10,00,000 to Mr. C a contractor on which tax was deducted at source during the previous year 2020-21. The payment of such TDS was made on 30-09-2021 being the due date of filing return of income. The amount of expenditure to be disallowed under Section 40(a) in previous year 2020-21 will be :
- (a) ₹10,00,000 (b) ₹3,00,000
(c) ₹5,00,000 (d) Nil
- (167) Mr. Ram paid the income tax due of the previous year 2020-21 on 15th May 2021. When shall deduction of this expenditure be allowed to him?
- (a) Previous Year 2019-20 (b) Previous Year 2020-21
(c) Previous Year 2021-22 (d) Not allowed deduction
- (168) Which of the following taxes are allowed as deduction while computing the business income
- (a) CDT (b) Income-tax
(c) CTT (d) None of the above.
- (169) Which of the following taxes are not allowed as deduction while computing the business income
- (a) GST (b) Property tax
(c) Professional tax (d) Equalization levy
- (170) Son of Mr. Ramesh was appointed as a manager in his firm. Ramesh made a payment of salary of ₹30,00,000 to his son whereas Assessing Officer is of opinion that such expenditure is excessive or unreasonable having regard to the FMV which comes to be of ₹24,00,000. Calculate the amount to be disallowed.
- (a) ₹24,00,000 (b) ₹30,00,000
(c) ₹6,00,000 (d) Nil
- (171) A person shall be deemed to have a substantial interest in a business or profession, if-
- (a) In a case where the business or profession is carried on by a company, such person, at any time during the previous year, is the beneficial owner of equity shares carrying not less than 20 % of the voting power. (b) In any other case, such person, at any time during the previous year, is beneficially entitled to not less than 20% of the profits of such business or profession.
(c) Both of the above. (d) None of the above.

- (172) Mr. Kailash claims the deduction (on accrual basis) of payment to Ramesh of ₹25,000. Next year he paid this amount through a crossed cheque. What are the consequences of this transaction?
- (a) This deduction is already claimed. (b) It will be disallowed and deemed to be the profit and gains of Business and Profession of the next year.
- (c) Deduction can be claimed in next year too. (d) None of these
- (173) Anish made a cash payment of ₹ 2,85,000 on 28th March, 2021 as the banks were on strike that day and the payment was to be made urgently. Calculate the amount of expenditure to be disallowed u/s 40A(3).
- (a) ₹ 2,85,000 (b) ₹2,65,000
- (c) Nil (d) ₹ 20,000
- (174) Under section 40A(3) which of the following payment for an expenditure incurred would not be admissible as deduction from business income _
- (a) ₹ 15,000 paid in cash to a transporter (b) ₹ 9,000 paid in cash to a dealer in the morning and ₹ 8,000 paid in cash to the same dealer in the evening
- (c) ₹ 40,000 sent through NEFT to the bank account of the dealer for goods purchased (d) ₹ 9,000 paid through bearer cheque to the dealer for goods purchased.
- (175) When a cash payment of ₹ 30,000 is made on 10th May, 2020 towards purchase of raw material effected in the earlier year, *i.e.*, on 5th June, 2019, the amount liable for disallowance under section 40A(3) would be -
- (a) Nil (b) 100% of payment
- (c) 20% of such payment (d) 30% of such payment
- (176) M Ltd. purchased goods on credit from S Ltd. on 6th May, 2020 for ₹ 86,000 which is paid as ₹ 10,000 in cash on 11th May, 2020; ₹ 35,000 by a bearer cheque on 3rd May, 2020; and ₹41,000 by an account payee cheque on 16th May, 2020. The amount of disallowance under section 40A(3) is -----
- (a) ₹ 15,000 (b) ₹35,000
- (c) ₹ 41,000 (d) ₹ 86,000
- (177) Where an assessee doing a business incurs any expenditure in respect of which payments made to a person in a day exceeds ₹ 10,000 should be paid through account payee cheque or demand draft to claim deduction for such expenditure. This restriction does not apply to -----
- (a) Payments made to RBI (b) Payments made to cultivators
- (c) Payment of terminal benefits to employees not exceeding ₹ 50,000 (d) All of the above
- (178) Ashutosh made two separate cash payments for plying, hiring or leasing goods amounting to ₹32,000 and ₹39,000. Discuss about the allowability of the two payments made.
- (a) Both the payments will be allowed. (b) Payment amounting to ₹ 32,000 will be allowed and the other one will be disallowed.
- (c) Payment amounting to ₹ 39,000 will be allowed (d) Both the payments will be disallowed.
- the other one will be disallowed.
- (179) Payment of ₹ 50,000 by using credit card for fire insurance. The amount of disallowance under section 40A(3) is _____
- (a) ₹ 50,000 (b) ₹ 30,000
- (c) Nil (d) ₹ 20,000
- (180) Payment of ₹ 50,000 made in cash towards purchases of medicines. The amount of disallowance under section 40A(3) is _____
- (a) ₹ 50,000 (b) ₹30,000
- (c) Nil (d) ₹20,000

- (181) An assessee made a provision of ₹5,00,000 for the payment of gratuity to his employees on their retirement. The gratuity fund was unapproved. Calculate amount of deduction allowable to assessee in respect of this provision.
- (a) ₹5,00,000 (b) ₹ 10,00,000
(c) ₹ 1,00,000 (d) NIL
- (182) Deemed profits chargeable to tax under section 41 includes:
- (a) Taxability of Balancing Charge in case of Power Generating Undertakings. (b) Sale of an asset used for scientific research without having been used for the purposes of business or profession.
(c) Recovery of bad debts. (d) All of the above.
- (183) X discontinued wholesale trade in medicines from 1st July, 2016. He recovered ₹1,50,000 in October, 2020 being a bad debt which was written-off and allowed in assessment year 2014-15. He has eligible brought forward business loss of wholesale trade in medicines of ₹ 1,70,000. The consequence of bad debt recovery is that -
- (a) It is chargeable to tax (b) It is eligible for set-off against brought forward business loss
(c) The brought forward business loss is taxable now (d) 50% of the amount recovered now is taxable
- (184) Sameer sold goods worth ₹ 50,000 at credit on 1st April, 2017. However, he has written off ₹ 10,000 of it as bad debts and claimed deduction for the same during the year 2019-20. On 4th April, 2020, the defaulting debtor made payment of ₹ 45,000. The taxable amount of bad debts recovered for the year 2020-21 would be -
- (a) ₹ 5,000 (b) ₹ 50,000
(c) ₹45,000 (d) ₹ 10,000
- (185) An assessee discontinued his textile business during the previous year 2017-18 and incurred a loss of ₹1,50,000. During the previous year 2020-21 assessee earned deemed profits in the discontinued business of ₹1,75,000. Calculate the amount taxable as business income.
- (a) ₹ 1,75,000 (b) ₹ 1,50,000
(c) ₹ 25,000 (d) Nil
- (186) Saraswati Ltd. made provision of ₹121akh for bonus payable for the year ended 31st March, 2021. It paid ₹71akh on 31st July, 2021; ₹ 3 lakh on 30th September, 2021; and ₹ 2 lakh on 15th December, 2021. The amount eligible for deduction under section 43B would be -
- (a) ₹ 10 lakh (b) ₹ 121akh
(c) ₹ 71akh (d) ₹ 31akh
- (187) As per section 43B, certain payments are to be allowed as deduction only on actual payment. Such sums include:
- (a) Any sum payable by the assessee to the Indian Railways for the use of railway assets. (b) Employer's contribution to provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees.
(c) Bonus or commission to employees for services rendered as referred u/s 36(1)(ii). (d) All of the above.
- (188) As per section 43B, certain payments are to be allowed as deduction only on actual payment. Such sums include:
- (a) Sum payable by assessee by way of tax, duty, cess or fee, by whatever name called, under any law for the time being in force. (b) Employer's contribution to provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees.
(c) Bonus or commission to employees for services rendered as referred u/s 36(1)(ii). (d) All of the above.
- (189) Assessee incurred an expenditure of municipal tax of ₹51,000 relating to office building for the Previous Year 2020-21 but did not pay the same till 30-09-2021. Such sum was paid on 15th March, 2022. In which assessment year deduction shall be allowed to assessee?

- (a) AY.2020-21 (b) AY.2021-22
(c) A.Y.2022-23 (d) Nil
- (190) XYZ Ltd. took a loan of ₹3,50,000 from a Public Financial Institution. It incurred an interest expense of ₹35,000 against this loan in the Previous Year 2020-21 but did not pay the interest amount to bank. The assessee paid this amount on 15th March 2022. In which assessment year deduction shall be allowed to assessee?
- (a) AY.2020-21 (b) AY.2021-22
(c) AY.2022-23 (d) Nil
- (191) If in the above question, assessee makes the payment of interest amount to bank on 15th September, 2021 then in which assessment year deduction shall be allowed to assessee?
- (a) AY.2020 -21 (b) AY. 2021-22
(c) AY. 2022-23 (d) Nil
- (192) A Ltd. contributed ₹8,70,000 towards provident fund account of its employees. It actually remitted ₹5,00,000 upto 3rd March and ₹ 2,50,000 upto the due date for filing the return specified in section 139(1). The amount liable to tax in its assessment would be _____
- (a) ₹ 3,70,000 (b) ₹1,20,000
(c) Nil (d) ₹ 8,70,000
- (193) XYZ Ltd. took a loan of ₹10,00,000 from a Public Financial Institution. It incurred an interest expense of ₹70,000 against this loan in the Previous Year 2018-19 but did not pay the interest amount to bank. It requested the bank to convert the amount of interest into loan on 15th September, 2019. Such converted loan is actually paid on 15th December, 2020. In which assessment year deduction shall be allowed to assessee?
- (a) AY. 2018-19 (b) AY.2019-20
(c) AY . 2020-21 (d) AY.2021-22
- (194) An assessee transferred his land (stock in trade) on 15th May 2020 for ₹75,00,000. However, the value adopted by State Government authority for the purpose of payment of stamp duty in respect of such transfer was ₹90,00,000. What shall be the full value of the consideration received or accruing as a result of such transfer for the purposes of computing profits and gains from transfer of such asset.
- (a) ₹75,00,000 (b) ₹ 90,00,000
(c) ₹ 15,00,000 (d) ₹ 1,65,00,000
- (195) Manish transferred his land (stock in trade) on 21st June 2020 for ₹80,00,000. However, the value adopted by State Government authority for the purpose of payment of stamp duty in respect of such transfer was ₹72,00,000. What shall be the full value of the consideration received or accruing as a result of such transfer for the purposes of computing profits and gains from transfer of such asset.
- (a) ₹ 72,00,000 (b) ₹ 80,00,000
(c) ₹ 8,00,000 (d) ₹ 1,52,00,000
- (196) Mohan transferred his land (stock in trade) on 1st June 2020 for ₹ 70,00,000. However, the value adopted by State Government authority for the purpose of payment of stamp duty in respect of such transfer on the date of agreement fixing the value of consideration for transfer of the asset was ₹ 85,00,000 and on the date of registration of such transfer of asset was ₹ 89,00,000. He received consideration of ₹25,00,000 by cheque before the date of agreement. What shall be the full value of the consideration for the purposes of computing profits and gains from transfer of such asset.
- (a) ₹70,00,000 (b) ₹85,00,000
(c) ₹83,00,000 (d) ₹ 25,00,000
- (197) Hari transferred his land on 1st September 2020 for ₹ 80,00,000. However, the value adopted by State Government authority for the purpose of payment of stamp duty in respect of such transfer on the date of agreement fixing the value of consideration for transfer of the asset was ₹75,00,000 and on the date of registration of such transfer of asset was ₹73,00,000. He received consideration of ₹25,00,000 by cheque before the date of agreement. What shall be the full value of the consideration for the purposes of computing profits and gains from transfer of such asset.

- (a) ₹ 80,00,000 (b) ₹ 75,00,000
(c) ₹ 73,00,000 (d) ₹ 25,00,000

(198) ABC Ltd. credited the interest on bad and doubtful debts of ₹ 35,000 on 18th March, 2020. However, the interest amount was received on 11th April, 2020. As per section 43D when such interest shall be chargeable to tax?

- (a) P.Y. 2019-20 (b) P.Y.2020-21
(c) P.Y. 2021-22 (d) Not taxable

(199) ABC Ltd. credited the interest on bad and doubtful debts of ₹ 75,000 on 18th July, 2019. However, the interest amount was received on 30th March, 2021. As per section 43D when such interest shall be chargeable to tax ?

- (a) P.Y. 2019-20 (b) P.Y.2020-21
(c) P.Y. 2021-22 (d) Not taxable

(200) The profits and gains of any business of insurance, including any such business carried on by a mutual insurance company or by co-operative society, shall be computed in accordance with rules contained in First Schedule to the Act. The profits and gains derived from life insurance business is taxable at what rate?

- (a) 11.5% (b) 12.5%
(c) 10% (d) Nil

(201) ABC & Association (trade association) furnishes profits of business before allowing deficiency was of ₹80,000. The deficiency amount was of ₹75,000 and the total income of assessee before allowing deficiency was of ₹1,40,000. What shall be the amount of deduction available to assessee for the deficiency?

- (a) ₹ 75,000 (b) ₹ 70,000
(c) ₹ 80,000 (d) Nil

(202) ABC & Association (trade association) furnishes profits of business before allowing deficiency was of ₹90,000. The deficiency amount was of ₹ 75,000 and the total income of assessee before allowing deficiency was of ₹2,00,000. What shall be the amount of deduction available to assessee for the deficiency?

You with the following information-

- (a) ₹ 75,000 (b) ₹ 1,00,000
(c) ₹ 90,000 (d) Nil

(203)ABC & Association (trade association) furnishes profits of business before allowing deficiency was of ₹90,000.The deficiency amount was of ₹75,000 and the total income of assessee before allowing deficiency was of ₹1,40,000. The amount of deduction available to assessee for the deficiency is of ₹ 70,000. For how many years the remaining balance of deficiency amounting to ₹ 5,000 shall be allowed to be carried forward?

- (a) 5 years (b) 1 year
(c) Infinite years (d) Not allowed to be carried forward

ACCOUNTS AND AUDIT - SECTION 44AA & 44AB

(204) Which amongst the following are specified books of account?

- (a) Cash Book (b) Carbon copies or counterfoils of bills
(c) Original bills issued (d) All of the above

(205) The books of accounts are to be kept and maintained for a period of how many years from the end of the relevant assessment year.

- (a) 6 years (b) 5 years
(c) 8 years (d) Unlimited period

- (206) A person carrying specified profession will have to maintain books of account prescribed by Rule 6F of the Income-tax Rule, 1962, if gross receipts are more than ₹1,50,000 for - (June, 2015)
- (a) All preceding 5 years (b) Any of the preceding 5 years
(c) All preceding 3 years (d) Any of the preceding 3 years.
- (207) In case of specified professions, what is the minimum amount the Gross receipts should exceed in all of the three immediately preceding previous years or, where the business is newly setup, the amount that gross receipts are likely to exceed during current previous year, so as to maintain the books of accounts.
- (a) ₹1,00,000 (b) ₹ 1,20,000
(c) ₹ 1,50,000 (d) ₹ 10,00,000
- (208) In which case newly set up business or profession other than specified profession is required to maintain accounts?
- (a) If total sales turnover is likely to exceed 10,00,000 during such previous year. (b) ₹ If turnover likely to exceed ₹1,12,000 during such previous year.
(c) If turnover is likely to exceed ₹ 1,00,000 during such previous year. (d) If turnover is likely to exceed ₹1,00,000 during such assessment year.
- (209) Accounts of a person carrying on business are required to be audited for previous year in which total sales, turnover or gross receipts exceeds _____
- (a) ₹ 60,00,000 (b) ₹ 1,00,00,000
(c) ₹ 15,00,000 (d) ₹ 50,00,000
- (210) A person carrying on profession is required to get his accounts compulsorily audited by a Chartered Accountant if his gross receipts from profession for the previous year exceed - (Dec. 2012)
- (a) ₹ 10,00,000 (b) ₹ 25,00,000
(c) ₹ 50,00,000 (d) ₹ 1,00,00,000
- (211) A person carrying on profession will also have to get his accounts audited before the specified date, if gross receipts from the profession for a previous year or years relevant to assessment year exceed - (Dec. 2014)
- (a) ₹ 25lakh (b) ₹ 10 lakh
(c) ₹1 crore (d) ₹ 50 lakh.
- (212) The penalty for failure to maintain accounts under section 44AA is -
- (a) ₹10,000 (b) ₹20,000
(c) ₹ 50,000 (d) ₹ 25,000.
- (213) The maximum penalty for failure to get accounts audited under section 44AB or furnish audit report along with return of income is - (June, 2009)
- (a) ₹10,000 (b) ₹ 20,000
(c) ₹ 50,000 (d) ₹ 1,50,000.
- (214) The maximum penalty leviable for failure to get accounts audited or to furnish report under section 44AB is - (Dec. 2015)
- (a) ₹ 75,000 (b) ₹ 1,00,000
(c) ₹ 1,50,000 (d) ₹ 3,00,000

DEEMED PROFITS IN CASE OF CERTAIN BUSINESSES - SECTION 44AD & 44AE

- (215) Accounts of a person carrying on business referred to u/ s 44AD are required to be audited for previous year if -
- (a) The assessee has claimed profits. (b) Profits from such business to be lower than the profits and gains deemed u/ s 44AD.
(c) The "total income" exceeds maximum amount, (d) All of the above.
which is not chargeable to tax in any PY.

- (216) For computation of profits of business on presumptive basis under section 44AD, the deemed profits shall be calculated at the rate of _____ of the total turnover or gross receipts of such business:
- (a) 8% (b) 10%
(c) 20% (d) 5%
- (217) The total turnover of the business of assessee was of ₹ 30,00,000. The assessee declared a profit of ₹ 2,80,000. What shall be the deemed profits of assessee under section 44AD?
- (a) ₹ 2,80,000 (b) ₹ 2,40,000
(c) ₹ 40,000 (d) ₹ 2,60,000
- (218) The provisions of section 44AD shall not apply to :
- (a) Person carrying on specified profession referred to Section 44AA.
(b) A person earning income in nature of commission or brokerage.
(c) Person carrying on any agency business.
(d) All of the above.
- (219) Provisions of section 44AD for computation of presumptive income are not applicable to -----
- (a) Limited liability partnership (b) Partnership firm
(c) Resident Hindu Undivided Family (d) Resident individual.
- (220) When a partnership firm has total sales of ₹ 90 lakh, the maximum amount deductible as salary of working partners on the basis of presumptive income determined under section 44AD is -
- (a) ₹ 4,92,000 (b) ₹ 3,60,000
(c) ₹ 3,30,000 (d) NIL
- (221) For computation of profits of profession on presumptive basis under section 44ADA, the deemed profits shall be calculated at the rate of _____ of the gross receipts of such profession:
- (a) 8% (b) 50%
(c) 20% (d) 5%
- (222) The provisions of Section 44ADA are applicable if gross receipts from profession does not exceed----- ₹
- (a) ₹ 50,00,000 (b) ₹ 2,00,00,000
(c) ₹ 1,00,00,000 (d) 15000000
- (223) When a person carries on the business of carrying goods for hire for the whole year with 5 self-owned and 3 leasehold heavy goods vehicles(14 tonne each), the presumptive income chargeable to tax under section 44AE would be -
- (a) ₹4,80,000 (b) ₹13,44,000
(c) ₹ 7,20,000 (d) ₹ 3,36,000
- (224) Mr. X is carrying of profession of company secretary. His gross receipts from profession is ₹ 45,00,000 in Previous year 2019-20. His deemed profits as per provisions of Section 44ADA are:
- (a) ₹3,60,000 (b) ₹ 22,50,000
(c) ₹ 4,50,000 (d) ₹ 9,00,000
- (225) Anupam owns 6 goods carriage vehicles. Out of these 2 are heavy goods vehicle (13 tonne) acquired by him on 15th January, 2021. His taxable income under section 44AE will be -
- (a) ₹ 4,38,000 (b) ₹ 3,24,000
(c) ₹ 4,05,000 (d) ₹ 3,60,000.
- (226) Assessee who owns not more than ----- goods carriages at any time during the previous year and engaged in the business of plying, hiring or leasing such goods carriages shall be eligible to compute profits under Section 44AE:

(a) 10

(b) 8

(c) 6

(d) 15

(227) For computing deemed profits under section 44AE in case of goods carriage being a goods vehicle other than heavy good vehicle the amount with which per vehicle per month has to be multiplied is:

(a) ₹ 10,000

(b) ₹ 7,500

(c) ₹ 50,000

(d) ₹ 1,50,000

(228) For computing deemed profits under section 44AE in case of goods carriage other than a heavy goods vehicle the amount with which per vehicle per month has to be multiplied is:

(a) ₹10,000

(b) ₹5,000

(c) ₹ 50,000

(d) ₹7,500

(229) An assessee was engaged in the business of plying, hiring or leasing of goods carriages. He held 4 heavy goods vehicle (15 tonne) for the entire year and three goods carriage other than heavy goods vehicle which were acquired on 15th July 2020.

Compute the deemed profits u/s 44AE.

(a) ₹9,22,500

(b) ₹ 5,00,000

(c) ₹4,20,000

(d) ₹ 3,78,000

(230) An assessee was engaged in the business of plying, hiring or leasing of goods carriages. He owned 6 light goods vehicle for the entire year. He claimed amount to have been actually earned from such vehicle(s) ₹3,80,000. Compute the deemed profits u/ s 44AE.

(a) ₹ 5,40,000

(b) ₹ 3,80,000

(c) ₹ 20,000

(d) ₹ 3,70,000

ANSWER KEY

1.C	2.D	3.B	4.D	5.D	6.C	7.C	8.D	9.B	10.D
11.C	12.B	13.D	14.D	15.B	16.D	17.A	18.A	19.A	20.B
21.B	22.C	23.C	24.C	25.C	26.A	27.B	28.A	29.C	30.B
31.D	32.B	33.A	34.B	35.B	36.D	37.D	38.D	39.A	40.B
41.B	42.B	43.A	44.B	45.A	46.D	47.C	48.A	49.C	50.B
51.A	52.C	53.C	54.C	55.D	56.C	57.B	58.B	59.B	60.D
61.D	62.A	63.C	64.A	65.B	66.B	67.A	68.A	69.B	70.B
71.B	72.B	73.C	74.C	75.D	76.A	77.A	78.A	79.B	80.B
81.B	82.C	83.D	84.A	85.D	86.B	87.C	88.C	89.C	90.B
91.B	92.C	93.A	94.D	95.C	96.A	97.D	98.D	99.A	100.D
101.C	102.A	103.C	104.C	105.D	106.B	107.A	108.C	109.A	110.D
111.A	112.A	113.B	114.A	115.D	116.C	117.D	118.A	119.D	120.B
121.D	122.A	123.A	124.C	125.A	126.C	127.A	128.A	129.B	130.D
131.D	132.C	133.D	134.D	135.A	136.B	137.B	138.A	139.B	140.D
141.B	142.C	143.A	144.A	145.A	146.B	147.D	148.D	149.D	150.C
151.C	152.C	153.C	154.A	155.D	156.B	157.A	158.A	159.A	160.D
161.B	162.B	163.B	164.B	165.D	166.D	167.D	168.C	169.D	170.C
171.C	172.B	173.A	174.B	175.B	176.B	177.D	178.B	179.C	180.A
181.D	182.D	183.B	184.A	185.C	186.A	187.D	188.D	189.C	190.C
191.B	192.B	193.D	194.B	195.B	196.B	197.A	198.A	199.A	200.B
201.B	202.A	203.D	204.D	205.A	206.C	207.C	208.A	209.B	210.C
211.D	212.D	213.D	214.C	215.D	216.A	217.A	218.D	219.A	220.D
221.B	222.A	223.B	224.B	225.A	226.A	227.B	228.D	229.A	230.A

SOLVED QUESTIONS FOR PRACTICE

Question 1: WDV of the block having two machines namely A & B as on 1-4-2020 is ₹6,00,000. Machine Z was acquired on 5-11-2020 for ₹3,00,000 and put to use on the same date. Machine Z is sold on 28-3-2021 for ₹4,00,000.

Solution :

	₹
W.D.V of the block as on 1-4-2019	6,00,000
Addition during the year of Machine Z for less than 180 days	<u>3,00,000</u>
	9,00,000
Less: Machine Z sold during the year	<u>4,00,000</u>
W.D.V as on 31-3-2021 for the purpose of charging depreciation	5,00,000
Depreciation on ₹5,00,000 @ 15%	<u>75,000</u>
W.D.V as on 1-4-2021	<u>4,25,000</u>

Question 2 : V owns the following machinery as on 1-4-2020:

Machinery	WDV as on 1-4-2020 ₹	Rate of Depreciation %
Machinery A	70,000	15
Machinery B	1,64,000	15
Machinery C	84,000	15

He acquires a new machinery i.e. machinery D for ₹60,000 on 2-11-2020.

Machinery B and Machinery C are sold on 15-3-2021 for consideration of ₹1,80,000 and ₹40,000 respectively. Compute the depreciation for the assessment year 2021-22 and also indicate if there is any Short-term capital gain/loss.

Solution : Block of Machinery (15%)

	₹
Written down value of the block as on 1-4-2020	3,18,000
Add: Additions during the year (put to use for less than 180 days)	<u>60,000</u>
	3,78,000
Less: Sale proceeds of Machinery B and Machinery C	<u>2,20,000</u>
WDV of the block as on 31-3-2021	1,58,000
Depreciation @ 15% on ₹98,000	14,700
@ 7.5% on ₹60,000	<u>4,500</u>
WDV value of the block as on 1-4-2021	<u>1,38,800</u>

In this case there will be no short term capital gain / loss.

Question 3 : An electricity company which was charging depreciation on straight line method and whose actual cost of the asset was ₹5,00,000 and written down value ₹4,50,000 sold said asset during 2020-21 after 2 years. What will be the tax treatment if the asset is sold for :

- ₹ 3,50,000
- ₹ 4,80,000
- ₹ 6,00,000

Solution :

- (i) $\text{₹}4,50,000 - \text{₹}3,50,000 = \text{₹}1,00,000$ will be allowed as terminal depreciation in the p/y 2020-21.
- (ii) $\text{₹}4,80,000 - \text{₹}4,50,000 = \text{₹}30,000$ shall be balancing charge and taxable as business income as per section 41(2) for P/Y 2020-21
- (iii) $\text{₹}5,00,000 - \text{₹}4,50,000 = \text{₹}50,000$ shall be balancing charge and hence taxable as business income
 $\text{₹}6,00,000 - \text{₹}5,00,000 = \text{₹}1,00,000$ shall be short term capital gain for P/Y 2020-21

Question 4 : Determine the amount of disallowance in the cases given below –

- Generally G pays salary to his employees by account payee cheques. Salary of December 2020 is however, paid to three employees A, B and C by bearer cheques (payment being ₹6,000, ₹20,000 and ₹20,500, respectively).
- G Ltd. Purchases goods on credit from H Ltd. On May 6, 2020 for ₹86,000 which is paid as follows
 - ₹5,000 in cash on May 11, 2020 ;
 - ₹30,000 by a bearer cheque on May 31, 2020 ;
 - ₹41,000 by an account payee cheque.
- J Ltd. Purchases goods on credit from A Ltd, on May 10, 2020 for ₹16,000 and on May 30, 2020 for ₹15,000. The total payment of ₹31,000 is made by a crossed cheque on June 1, 2020.
- A Ltd. Purchases goods on credit from a relative of a director on June 20 2020 for ₹50,000 (market value : ₹42,000). The amount is paid in cash on June 25, 2020.
- B Ltd. purchases raw material on credit from A who holds 20 % equity share capital in B Ltd. (The amount of bill being ₹36,000, market price being ₹19,000). It is paid in cash on July 26, 2020

Solution :

- ₹20,500 being 100% of salary paid by bearer cheque to C will be disallowed .
- Nothing will be disallowed out of payment of ₹5,000 in cash on May 11, 2020, as payment does not exceed ₹10,000. 100% of ₹30,000 will be disallowed. Nothing will be disallowed out of ₹41,000.
- The amount of payment exceeds ₹10,000 ,therefore entire amount shall be diallowed..
- Out of the payment of ₹50,000 ₹8,000 (being the exceed payment to a relative) shall be disallowable under section 40A(2). As the payment is made in cash and the remaining amount exceed ₹10,000, 100% of the balance (i.e., ₹42,000) shall be disallowable under section 40A(3).
- Out of the payment of ₹36,000, ₹17,000 (being the excess payment to a person holding a substantial interest) shall be disallowed under section 40A(2). The remaining amount (i.e., ₹19,000) exceeds ₹10,000. Therefore disallowed u/s 40A(3).

Question 5 : JK & Co. a partnership firm engaged in the business of civil construction has a Gross receipt of ₹32,00,000 from such business. The partnership deed provides for payment of salary ₹3,000 p.m. to each of the partners i.e. J and K. The firm uses machinery for the purpose of its business and the WDV of the machinery as on 1-4-2020 is ₹2,00,000. The machinery is eligible for depreciation @ 15%. Compute the profits from the business, if the firm opts for the scheme under section 44AD.

Solution : As per section 44AD the profits will be computed as under:
8% of gross receipts i.e. ₹32,00,000 = ₹2,56,000

Question 6 : Arjun Singh is the owner of a business. Following is his P & L A/c for year ended on 31-3-21:

	₹		₹
Establishment charges	5,110	Gross profit	50,870
Rent, rates and taxes	2,900	Interest on Govt. Securities (Gross)	5,350
Sundry expenses	7,050	Rent from property	5,400
House hold expenses	1,880		
Provision for bad debts	1,200		
Loss on sale of motor car (used for private purpose)	1,800		
Insurance premium (including life insurance of ₹1790 of Arjun Singh)	2,880		
Interest on bank loan	1,380		
Provision for Depreciation	6,400		
Net profit	31,020		
	<u>61,620</u>		<u>61,620</u>

Additional information :

- Bad debts written off during the year – ₹650
- Admissible depreciation as per Income tax rules – ₹1,600
- The assessee is running his business in a rented property, half of which is used by him for his own residence. Rent of ₹2,400 in respect of entire house is included in rent, rate and taxes. The balance of ₹500 is on municipal tax paid for property given on rent.
- Compute the Gross total Income of Sri Arjun Singh for the assessment year 2021-22. Not covered u/s 115BAC

Solution :

Income from house property

Rent received	₹	5,400
Less: Municipal taxes		<u>500</u>
		4,900
Less: Statutory deduction @ 30%		<u>1,470</u>
		<u>3,430</u>

Profit and gains from business or profession

Profit as per P & L Account		31,020
Add: Inadmissible expenses		
Rent	1,200	
Household expenses	1,880	
Provision for bad debts	1,200	
Loss on sale of car	1,800	

Life insurance premium	1,790	
Provision for depreciation	6,400	
M. Taxes for let out house property	<u>500</u>	<u>14,770</u>
		45,790
Less Expenses allowed but not debited to P & L A/c		
Bad debts	650	
Depreciation	<u>1,600</u>	<u>2,250</u>
		43,540
Less: Incomes not taxable under this head but Credited to P & L A/c.		
Interest on govt. securities	5,350	
Rent from property	<u>5,400</u>	<u>10,750</u>
Income from Business		<u>32,790</u>
<u>Income from other sources:</u>		
Interest on Govt. securities		<u>5,350</u>
Gross Total Income (3,430 + 32,790 + 5,350)		<u>41,570</u>

Question 7 : Mr. Avinash furnishes the following particulars of his income for the A/Y 2021-22.
Not covered u/s 115BAC

Profit and Loss Account for the year ending 31-3-2021

Particulars	Amount ₹	Particulars	Amount ₹
To Office expenses	12,400	By Gross Profit	2,98,000
To General expenses	12,000	By Sundry Receipts	19,000
To Legal Expenses	8,000	By Custom Duties	
To Depreciation on Machinery	11,000	recovered back from Govt.	
To staff Salary	21,000	(earlier not allowed as	
To bonus to staff	15,000	deduction)	15,300
To contribution to approved gratuity fund	16,000	By bad debts recovered (earlier	
To O/s liability for Custom Duties	18,000	allowed as deduction)	3,000
To Audit Fees	21,000	By Gift from son	40,000
To Net Profit	<u>2,40,900</u>		
	<u>3,75,300</u>		<u>3,75,300</u>

Other information :

1. Bonus to employees according to the Payment of Bonus Act 1965, comes to ₹4,200.
2. Depreciation on machinery shown in the profit and loss account is calculated according to the income tax provisions.
3. General expense includes payment of ₹9,000 to an approved educational institute for the purpose of carrying on scientific research in natural science. The research is, however now related to the business of the assessee.
4. During the previous year Mr. Avinash also made a capital expenditure of ₹5,000 for the purpose of carrying on a scientific research related to his business. This expenditure is however not recorded in the profit and loss account.

5. Outstanding liability in respect of custom duty amounting to ₹10,500 was paid on 10-4-2021, ₹1,000 on 10-5-2021, ₹2,000 on 30-6-2021, ₹1,000 on 10-7-2021 and ₹3,500 is still outstanding. The return is furnished on 31-7-2021
6. No tax has been deducted at source on the audit fees of ₹21,000

Determine the taxable income of Mr. Avinash for the assessment year 2021-22 assuming he, annually deposits ₹10,000 in a public provident fund account and his turnover for P/Y 2020-21 was ₹30,00,000.

Solution: Computation of Business Income of Mr. Avinash for the Assessment Year 2021-22

	₹	₹
Profit and Gains from business or profession		
Net profit as per P & L A/c		2,40,900
Add:		
Outstanding for custom duty	3,500	
Audit fees as tax has not been deducted at sources (30% of 21,000)	<u>6,300</u>	<u>9,800</u>
		2,50,700
Less:		
Custom duties recovered back	15,300	
Gift from son	40,000	
Capital expending on scientific research	5,000	<u>60,300</u>
Income from business		1,90,400
Less: Deduction u/s 80C		<u>10,000</u>
Taxable income		<u>1,80,400</u>

Question 8 : State with reason whether the following expenses are admissible a deduction while computing income from business or profession:

- (i) Stock in trade was lost in fire, amounting to ₹12,000 and was debited to profit and loss Account.
- (ii) Amount spent on successful suit filed against a person for infringing trade mark of assessee – ₹10,000
- (iii) Interest paid to bank ₹15,000 in connection with overdraft obtained for paying dividend
- (iv) Entertainment expenses of ₹28,000 incurred during the previous year.
- (v) Capital expenditure of ₹1,00,000 has been incurred towards promotion of family planning amongst employees of ABC Ltd.
- (vi) ₹20,000 were spent in the previous year in connection with statutory income tax proceedings.
- (vii) ₹3,000 spent in connection with installation of a new telephone connection.
- (viii) Traveling expenses of a Director of ABC Ltd. ₹20,000 incurred on a tour to U.S.A in connection with the negotiation of purchase of a new machinery.
- (ix) Compensation paid to the widow and children of deceased employees of the factory on the order of labour Court

Solution :

- (i) Loss of stock in trade by fire is deduction from profit and gains of business or profession
- (ii) Amount spent on a suit field for infringing the trade mark of ₹10,000 is fully admissible because it is a commercial expediency for security or registration of trade mark.
- (iii) Interest of ₹15,000 paid to bank for overdraft for payment of dividend is allowed

- (iv) Entertainment expenditure is covered under section 37(1) hence fully allowed.
- (v) Expenditure on promotion of family planning incurred by a company amongst its employees is allowed but if it is of capital nature then $\frac{1}{5}^{\text{th}}$ of the amount spent is allowed in the previous year in which it is incurred and balance in four equal installments in next four previous years. In this case ₹20,000 is allowed in the current previous year and balance in next four previous year (₹ 20,000 each year)
- (vi) Amount spent on income tax is allowed as legal charges. Hence ₹20,000 is deductibles.
- (vii) ₹3,000 is allowed as deduction which is incurred for installation of a new telephone connection.
- (viii) Traveling expenses of a director are fully allowed because the tour was for business purposes. It may also be treated as part of the cost of new machine, if the assessee so desires.
- (ix) Compensation paid to the widow & children of deceased employee as per order of court are fully allowed.

Question 9 : Mr. Vinod carries on his own business. For the year ending 31-3-2021, his Trading/Profit & loss account was as follows:-

	₹		₹
Opening stock	20,000	Sales	2,89,000
Purchases	1,09,000	Closing stock	52,000
Salaries	6,000	Interest on Jay Co. Ltd	
Rent	11,000	Debentures	2,000
Bonus	3,000	Dividend from UTI	2,000
Printing & Postage and stationery	4,000	Discount received	12,000
Miscellaneous expenses	4,000	Race winning (Gross)	12,000
Advertisement expense	22,000		
Drawings	12,000		
LIC Premium	5,000		
Car expenses:			
Driver's Salary	6,000		
Petrol & repair	12,000		
Property tax	4,000		
Medical expense of son with Disability at Apollo hospital	3,000		
Cost of NSC (VIII series)	3,000		
Net Profit	<u>1,45,000</u>		
	<u>3,69,000</u>		<u>3,69,000</u>

Other information :

- (a) Advertisement expenses included cost of 20 gift packs of ₹1100 each presented to esteemed customers on occasion of Diwali.
- (b) Assume: Taxes deducted at source on dividends and debentures are 'Nil'
- (c) The car was used both for business and personal purposes. $\frac{2}{3}^{\text{rd}}$ is for business purposes.
- (d) The property tax of ₹ 4,000 was in respect of his self occupied house whose rental value is ₹18,000. Compute GTI and TI of Mr. Vinod for assessment year 2021-22 showing the incomes under various heads. Not covered u/s 115BAC

Solution : **Computation of Total Income of Mr. Vinod for the Assessment year 2021-22**

	₹	₹	₹
<u>Profit and gains from business or profession</u>			
Net profit as per P & L A/c.		1,45,000	
Add: expenses/ Payments not admissible			
Drawings.	12,000		
LIC premium	5,000		
<u>Car expenses</u>			
Driver salary (1/3)	2,000		
Petrol (1/3)	4,000		
Property tax	4,000		
Medical expenses	3,000		
Cost of NSC	<u>3,000</u>	<u>33,000</u>	
	1,78,000		
Less: Incomes which are not taxable under this head			
Interest on debentures	2,000		
Dividend from U.T.I	2,000		
Horse race income	<u>12,000</u>	<u>16,000</u>	
Income from business			1,62,000
<u>Income from other sources</u>			
Interest	2,000		
Dividend from U.T.I.	2,000		
Horse race income	12,000		<u>16,000</u>
Gross total income			1,78,000
Less: Deduction under Chapter VIA			
U/s 80C (LIC :₹5,000 + NSC :₹3,000)		8,000	
U/s 80DD		<u>75,000</u>	<u>83,000</u>
Taxable Income			<u>95,000</u>

Question 10 : X furnishes the following particulars for the previous year relevant to A/Y 2021-22.

Profit and Loss A/c for the year ending 31-3-2021

	₹		₹
To salary to staff	22,000	By gross profit	2,50,000
To entertainment expenses	13,000		
To general expenses	11,000		
To bad debts	4,500		
To reserve for bad debts	10,000		
To advertising expenses	7,000		
To interest on X capital A/c	3,000		
To acquisition of patent's rights	28,000		
To telephone expenses	12,000		
To depreciation	10,000		
To provision or Income Tax	4,000		
To Net Profit	<u>1,25,500</u>		
	<u>2,50,000</u>		<u>2,50,000</u>

Other information :

1. Salary to staff includes salary paid to a relative which is unreasonable to the extent of ₹3,100.
2. Provision for income tax is excessive to the extent of ₹3,000
3. Depreciation according to the income tax provision comes to ₹9,500
4. During the previous year 2020–21 the following payment were made and the same have not been debited to profit and loss account of 2020–21.
 - a. ₹3,000 paid on 10-6-2020 on account of outstanding customs duty of the previous year 19-20, and
 - b. ₹5,000 paid on 15-6-2021 on account of outstanding custom duty of the previous year 2020-21
5. Patents were acquired on 4-11-2020

Find out the taxable income of X for the A/Y 2021–22. Due date of filling return of income of assessment year 2020-21 and 2021-22 is 31st July of the relevant A/Y. Not covered u/s 115BAC

Solution : Computation of Taxable Income of X for the Assessment year 2021-22

	₹	₹
Profit and gains from business or profession		
Net profit as per P & L A/c		1,25,500
Add: Expenses / payments not admissible		
Salary to a relative	3,100	
Depreciation (in excess of Income – tax provision)	500	
Provision for Income – tax (full amount)	4,000	
Interest on X capital A/c	3,000	
Reserve for bad debts	10,000	
Expenditure on acquisition of patent rights	<u>28,000</u>	<u>48,600</u>
		1,74,100
Less: Custom duty for assessment year 2019-20	5,000	
Depreciation on patent rights 12 ½ % of ₹ 28,000	<u>3,500</u>	<u>8,500</u>
Income from business / Gross total income		<u>1,65,600</u>

Question 11 : Shri Mihir furnished the following information relevant for the assessment year 2021-22: Not covered u/s 115BAC

Profits & loss A/c for the year ending 31-3-2021

	₹		₹
Household expenses	11,200	Gross profit	2,69,000
Bad debts	600	Commission	5,000
Provision for bad debts	4,800	Sundry receipts	8,000
Fire Insurance	1,000	Bad debts recovered (earlier	
Salary to staff	8,000	allowed as deduction)	2,000
Salary to Mihir	3,000	Interest on Govt. securities	17,000
Contribution to URPF	32,000		
Interest on overdraft	6,000		
Interest on capital	13,000		
Interest on loan given by			
Mihir's brother	1,000		
Depreciation on building and			
furniture	13,600		

Advertisement		
Revenue expenses	3,800	
Capital expenses on Neon sign board	1,000	
General expenses	4,700	
Net profit	<u>1,97,300</u>	
	<u>3,01,000</u>	<u>3,01,000</u>

Other information :

- General expenses include personal expense of ₹1,700
- Income of ₹3,000, accrued during previous year ending 31-3-2021 is not recorded in the profit and loss A/c
- Mihir contributes ₹14,000 towards public provident fund
- Depreciation on building and furniture comes to ₹3,000 according to the tax provision. Determine the taxable income of Shri Mihir for the assessment year 2021-22.

Solution : Computation of Taxable Income of Shri Mihir for A/Y 2021-22

	₹	₹
Profit and gains from business or profession		
Net profit as per P & L A/c		1,97,300
Add: Expenses / payments not admissible		
General Expenses	1,700	
Depreciation (in excess of tax provision i.e. ₹13,600 – ₹3,000)	10,600	
House hold expenses	11,200	
Provision from bad debts	4,800	
Salary to Mihir	3,000	
Contribution towards URPF	32,000	
Capital expenditure on Neon sign board	1,000	
Interest on capital	<u>13,000</u>	<u>77,300</u>
		2,74,600
Add: Income not recorded in P & L A/c		<u>3,000</u>
		2,77,600
Less : Interest on government securities		17,000
Less : Depr on Neon sign board @ 10%		<u>100</u>
Business income		2,60,500
Income from other sources: interest on government Securities		<u>17,000</u>
Gross total income		2,77,500
Less: Deduction under section 80C (PPF)		<u>14,000</u>
Taxable Income		<u>2,63,500</u>

Question 12 : G (Age :68 years) a Resident individual, furnishes following particulars relevant for the A/Y 2021-22 : Not covered u/s 115BAC

PROFIT AND LOSS ACCOUNT
for the year ending 31st March, 2021

	₹		₹
Salary to staff	34,000	Gross profit	6,86,000
General expenses	48,000	Commission and discount	2,17,200
Bad debts written off	15,000	Sundry receipts	43,000
Reserve for losses	2,000	Short term profit on sale of investment	31,000
Fire insurance premium (office premises)	4,200		
advertisement	2,400		
add : outstanding	<u>1,600</u>		
interest on G's Capital	3,500		
Interest on Bank Loan	14,500		
Expenditure on acquisition of a Patent right acquire and put to use on June 30, 2020	17,000		
Lump sum Consideration for acquiring Know how on March 3, 2021	60,000		
Depreciation on plant and machinery	28,000		
Provision for outstanding Custom Duty	13,000		
Net profit	<u>7,34,000</u>		
	<u>9,77,200</u>		<u>9,77,200</u>

Other information :

- Advertisement expenditure includes ₹3,400 being cost of 2 diaries (cost of each being ₹1,700) presented to customers
- Depreciation on plant and machinery according to income tax provision comes to ₹29,700.
- Salary to staff includes payment of ₹ 8,000 to a relative which is unreasonable to the extent of ₹3,000.
- General expenses include (a) expenditure of ₹4,800 incurred by G on training of his employees (b) Commission of ₹10,000 for securing a business order, and (c) compensation of ₹6,000 paid to an employee while terminating his service in the business interest.
- Out of outstanding Custom duty, ₹3,000 is paid July 31, 2021 and ₹8,000 is paid on October 3, 2021. The balance is not paid as yet. Due date of filling return of income is July 31, 2021.
- Income of G from company deposit is ₹12,000, which is not shown in the profit and loss account.

Determine the taxable income and tax liability of G for the assessment year 2021-22, assuming that insurance premium paid by G on the life insurance policy of Mrs.G is ₹3,200.

Solution :

	₹	₹
Profit as per profit and loss account		7,34,000
Add : Inadmissible expenditure		
Salary to staff (salary paid to a relative to the extent is treated as excess or unreasonable)	3,000	
Reserve for losses	2,000	
Interest on capital	3,500	
Depreciation on Patent Right (amount deductible is 25% of ₹17,000, ie, ₹4,250; therefore mount inadmissible is ₹17,000 – ₹4,250)	12,750	
Depreciation on know-how (50% of 25% of ₹60,000 , as it is put to use for les than 180 days, is deductible which comes to ₹7,500 ; amount not deductible is ₹52,500)	52,500	
Outstanding custom duty {₹3,000 paid on or before July 31, 2021 is deductible. The balance is not deductible for the previous year ending March 31, 2021 }	10,000	
		<u>83,750</u>
		8,17,750
Less : Provisions for depreciation on plant and machinery (ie., ₹29,700 – ₹28,000)		<u>1,700</u>
		8,16,050
Less : Short term capital gain on sale of investment		<u>31,000</u>
Business income		<u>7,85,050</u>

Computation of Net Income :

Profits and Gains of Business and Profession	7,85,050
Capital gains	31,000
Income from other sources	<u>12,000</u>
Gross total income	8,28,050
Less : Deduction under section 80C(Payment of insurance premium)	<u>3,200</u>
Net income	<u>8,24,850</u>
Tax on Net Income	74,970.00
Add : HEC (4% of tax)	<u>2,998.80</u>
Tax liability (rounded off)	<u>77,970.00</u>

Question 13 : R (age:26 years), a resident individual furnishes the following :

Profit and Loss Account for the year ending March 31, 2021

	₹		₹
Office expenses	11,000	Gross profit	8,78,000
Telephone Deposit	8,000	Sundry receipts	8,000
Salary to staff	42,000		
Depreciation	28,000		
Traveling expenses	43,000		
Los of cash by an employee through embezzlement	5,000		
Amount transferred to Special reserve account	7,500		
Expenditure on Diwali	7,100		
Interest and legal expenses	44,000		
Sundry expenses	8,500		
Net profit	<u>6,81,900</u>		
	<u>8,86,000</u>		<u>8,86,000</u>

Other information :

- Salary to staff includes payment of ₹12,000 out of India on which tax has not been deducted at sources nor paid to the Government.
- Depreciation value of plant and machinery on April 1, 2020 is ₹1,10,000 (rate of depreciation :15%)
 - A plant whose WDV on April 1, 2020 is ₹17,440 is sold during previous year for ₹11,000.
 - A machinery (cost price ₹20,000) whose written down value on April 1, 2020 is ₹2,350 is sold during the previous year for ₹15,000.
 - During the year, R purchase a new plant for office ₹1,22,670 which is eligible for depreciation at the rate of 15%. The plant is installed and put to use on May 15, 2020
- Traveling expenses includes ₹10,000 being hotel expenditure of an employee in respect of an official visit to Mumbai for 5 days.
- Expenditure on the occasion of Diwali includes a gift of ₹2,000 to Mrs. R.
- Interest includes a payment of ₹3,000 out of India on Which tax has not been deducted
- Sundry expenses includes expenditure of ₹1,000 on maintenance of guest house in Delhi for the purpose of carrying on the business and ₹4,000 being employer's contribution towards EPF out of which ₹600 is paid after the due date of submission of return of income.
- Legal expenses includes the following payments :
 - Payments of ₹4,000 to B, an Employee of R, for filing income tax appeal.
 - Payment of ₹5,000 to C, not being an employee of R, for preparation of return of income.
 - Payment of ₹11,000 to D, an advance who is not an employee of R, for filing income tax appeals and giving tax advice.
 - Payment of ₹2,000 to E, a Chartered accountant who is not an employee of R for obtaining tax advice.

Determine the taxable income of R for A/Y 2021-22 assuming that sundry receipts includes ₹5,000, being amount of insurance policy received from the Life Insurance Corporation of India at the time of maturity of the policy (i.e., December 5, 2020) {Amount of Insurance premium last paid on June 5, 2020 : ₹400} Not covered u/s 115BAC

Solution:

	₹	₹
Net profit as per profit and loss account		6,81,900
Add: Inadmissible expenses		
Salary paid outside India {not deductible as tax has not been deducted at sources }	12,000	
Depreciation (taken separately)	28,000	
Traveling expenses { fully deductible under section 37(1) }	--	
Gift to Mrs. R on the occasion of Diwali	2,000	
Payment of interest out of India {not deductible as tax is not deducted at sources }	3,000	
Expenditure on maintenance of guest house {deductible under section {37(1) }	--	
Employer's contribution towards EPF which is paid after due date of submission of return income	600	
Legal expenses in respect of income tax matters {such expenses are fully deductible }	--	
Amount transferred to special reserve account	<u>7,500</u>	<u>53,100</u>
		7,35,000
Less: Depreciation		<u>31,000</u>
		7,04,000
Less: Amount credited but not taxable (amount of insurance policy)		<u>5,000</u>
Income under the head "Profits and gains of business or profession"		6,99,000
Income from other sources		<u>Nil</u>
Gross total income		6,99,000
Less: Deduction under section 80C {Payment of Insurance premium }		<u>400</u>
Net income		<u>6,98,600</u>
Tax on Net income		52,220.00
Add: HEC (4% of tax)		<u>2,088.80</u>
Tax liability (rounded off)		<u>54,310.00</u>

Question 14 : Z (age:39 years) furnishes the following particulars of his income relevant for A/Y 21/22:
Not covered u/s 115BAC

PROFIT AND LOSS ACCOUNT for the year ending March 31, 2021

	₹		₹
Staff to salary	2,31,000	Gross profit	10,86,000
Advertisement	8,000	Rent of house property	2,40,000
Repairs to house property	20,000	Dividends from a foreign Co.	12,500
Municipal tax of house property	30,000	Profit on sale of import License	63,800
Fire insurance			
-House property	16,000		
-Office and godown	20,000		
Office expenses	4,500		
Life insurance premium on own life policy	3,000		
Depreciation			
-House property	60,000		
-Business assets	13,400		
Income tax	6,000		
Patent rights { 1/2 of ₹70,000 Being cost of such right acquired on April 6, 2020 }	35,000		
Income tax penalty	1,000		
Interest on capital borrowed			
-for business	3,800		
-for reconstruction of house property	50,000		
-for investment in shares	2,000		
Rent paid to Z (for using 25 per cent portion for business purpose)	1,00,000		
Net Profit	7,98,600		
	<u>14,02,300</u>		<u>14,02,300</u>

Z owns a house property (outside the jurisdiction of any Rent Control Act), erection of which was completed in March 2000; there are three residential units in the house. Unit 1 (consisting of 50 per cent of the carpet area) is let out to a tenant of ₹ 20,000 per month. Unit 2 (25 per cent of the carpet area) is used by Z for own residential purpose. Unit 3 (25%) is utilized by him for his business purpose. Determine the taxable income and tax liability of Z for A/Y 2021-22. During the previous year 2020-21, Z has received a gift of ₹2,79,500 by cheque from his non resident friend.

Solution :**Business income**

Net profit as per profit and loss account		₹	₹
Add : Inadmissible expenses :			7,98,600
Repairs to house property (Inadmissible amount is $\frac{3}{4}$ of ₹ 20,000)	15,000		
Municipal taxes (inadmissible amount is $\frac{3}{4}$ of ₹ 30,000)	22,250		
Fire insurance of house property (Inadmissible amount is $\frac{3}{4}$ of ₹ 16,000)	12,000		
Life insurance premium (personal expenses not admissible)	3,000		
Depreciation on house property (inadmissible amount is $\frac{3}{4}$ of ₹ 60,000)	45,000		
Income tax and income tax penalty (₹ 6,000 + ₹ 1,000)	7,000		
Patent right {i.e., amount in excess of 25% of ₹ 70,000}	17,500		
Interest on capital borrowed for :			
House property ($\frac{3}{4}$ of ₹ 50,000)	37,500		
Investment in share	2,000		
Rent paid to Z	<u>1,00,000</u>		<u>2,61,500</u>
			10,60,100
Less : income not taxable as business income			
Rent of house property	2,40,000		
Dividend	<u>12,500</u>		<u>2,52,500</u>
Business profit			8,07,600

INCOME FROM OTHER SOURCES

Dividend (i.e. ₹ 12,500 – ₹ 2,000)	10,500		
	<u>2,79,500</u>		<u>2,90,000</u>

INCOME FROM HOUSE PROPERTY

Unit 1			
Fair rent (₹ 2,0000 X 12)			2,40,000
Less : Municipal taxes (50% of ₹ 30,000)			<u>15,000</u>
Annual value of unit 1			2,25,000
Less : deduction under section 24			
Standard deduction (30% of ₹ 2,25,000)			67,500
Interest (50% of ₹ 50,000)			<u>25,000</u>
Income of unit 1 (a)			<u>1,32,500</u>
Unit 2 (self occupied)			
Annual value			Nil

Less : municipal taxes	Nil
Net annual value	Nil
Less : deduction under section 24	
Standard deduction	Nil
Interest on borrowed capital (25% of ₹ 50,000)	<u>12,500</u>
Interest of unit 2 (b)	<u>- 12,500</u>
Total income from house property (a) + (b)	<u>1,20,000</u>

COMPUTATION OF NET INCOME

Income from house property	1,20,000
Profits and gains of business profession	8,07,600
Income from other sources	<u>2,90,000</u>
Gross total income	12,17,600
Less : Deduction under section 80C {payment of life insurance premium}	<u>3,000</u>
Net income	<u>12,14,600</u>

Tax on net income	1,76,880.00
Add : HEC (4% of tax)	<u>7,075.20</u>
Tax liability (rounded off)	<u>1,83,960.00</u>

Question 15 : Y (age :34years) is a businessman in Delhi. Determine his net income and tax liability on the basis of the following profit and loss account for the year ending 31, 2021. Not covered u/s 115BAC

	₹		₹
Opening stock	1,04,000	Sales	92,51,000
Purchases	80,08,750	Closing stock	2,10,000
Salaries and wages	1,75,000		
Rent and rates	1,31,000		
Commission	21,500		
Household expenses	20,000		
Income tax for 2017-18	36,100		
Advertisement	5,000		
Postage and telegram	4,000		
Interest on own capital	84,000		
Reserve for bad debts	3,400		
Depreciation on furniture	18,000		
Net profit	<u>8,50,250</u>		
	<u>94,61,000</u>		<u>4,61,000</u>

Other particulars :

1. Closing stock and opening stock has consistently been valued at 10 % below cost price.
2. Depreciation on furniture as per tax provisions is ₹17,200.

3. Amount of sales includes a sum of ₹41,250 representing the value of goods withdrawn for the use of Y's family members. These goods were purchased at cost of ₹27,850. Market value of these goods is ₹45,240.
4. Household expenses include a contribution of ₹1,000 towards public provident fund.
5. On September 20, 2020 Y has received a gift of ₹96,000 from a friend settled in UK.

Solution:

	₹	₹
Net profit as per profit and loss account		8,50,250
Add : Inadmissible expenses		
House hold expenses	20,000	
Income tax	36,100	
Interest on capital	84,000	
Reserve for bad debts	3,400	
Excessive depreciation on furniture i.e., (₹ 18,000- ₹ 17,200)	800	<u>1,44,300</u>
		9,94,550
Less : Notional profit on goods withdrawn by Y (i.e., ₹ 41,250 – ₹ 27,850)		<u>13,400</u>
		9,81,150
<u>Adjustment in respect of valuation of stock so as to bring them at cost</u>		
Add : 1/9 of ₹ 1,04,000		<u>23,333</u>
		10,04,483
Less : 1/9 of ₹ 1,04,000		<u>11,556</u>
Business income		9,92,927
Any other income {gift from a friend is income,}		<u>96,000</u>
Gross total income		10,88,927
Less : Deduction under section 80C		<u>1,000</u>
Net income (rounded off)		<u>10,87,930</u>
Tax on Net income		1,38,879.00
Add : HEC (4 %)		<u>5555.16</u>
Tax payable		<u>1,44,430</u>

Notes :

1. Goods withdrawn by the owner is not treated as sale. Profit on this national sale (i.e. ₹41,250 – ₹27,850) is therefore excluded while computing net income. This is because of the fact that one cannot make profit by selling goods to oneself.
2. Stock is valued by Y at 10% below cost. Therefore for computing taxable income, amount of closing and opening stock is worked out at cost (as shown under) and necessary adjustment is made accordingly.

Closing stock shown in books	₹
Closing stock at cost price (i.e. $2,10,000 \times 100 \div 90$)	2,10,000
Amount added to book profit	2,33,333
Opening stock shown in books	23,333
Opening stock at cost price (i.e. $1,04,000 \times 100 \div 90$)	1,04,000
Amount deducted from book profit	1,55,556
	11,556

Question 16 : From the profit and Loss Account of Y (age : 35 years) for the year ending March 31, 2021, ascertain his total income and tax liability for A/Y 2021-22 :

	₹		₹
General expenses	13,400	Gross profits	3,15,500
Bad debts	22,000	Commission	8,600
Advance tax	8,000	Brokerage	37,000
Insurance	600	Sundry receipt	2,500
Salary to staff	26,000	Bad debt recovered	
Salary to Y	45,000	(earlier allowed as deduction)	11,000
Interest on overdraft	4,000	Interest on debentures (i.e. net	
Interest on loan to Mrs. Y	42,000	amount ₹22,500 + tax deducted	
Interest on capital of Y	23,000	at source : ₹2,500)	25,000
Depreciation	48,000	Interest on deposit with a	
Advertisement expenditure	7,000	company (net interest	
Contribution to employee's		: ₹11,700 + tax deducted at source	
recognized provident fund	13,000	: ₹1,300)	13,000
Net Profit	1,60,600		
	4,12,600		4,12,600

Other Information :

1. The amount of depreciation allowable ₹37,300 as per the Income-tax Rule. It includes depreciation on permanent sign board.
2. Advertisement expenditure includes ₹3,000, being cost of permanent sign board fixed on office premises.
3. Income of ₹4,500, accrued during the p/y is not recorded in the Profit and Loss Account.
4. Y pays ₹6,000 as premium on own life insurance policy of ₹70,000

5. General expenses include (a) ₹500 given to Mrs. Y for arranging a party in honour of a friend who has recently come from Canada (b) ₹1,000 being contribution to a political party.
6. Loan was taken from Mrs. Y for payment of arrears of income-tax.
7. Interest on debentures is paid to Y on December 31, 2020

Solution :

	₹	₹
Net profit & Loss Account		1,60,600
Add: Inadmissible expenses:		
Expenses for arranging personal party	500	
Contribution to a political party	1,000	
Advance tax	8,000	
Salary to Y	45,000	
Interest on capital to Y	23,000	
Interest on loan taken for payment of income-tax	42,000	
Capital expenditure on advertisement	3,000	
Excess depreciation (i.e., ₹ 48,000 – ₹ 37,300)	<u>10,700</u>	<u>1,33,200</u>
		2,93,800
Add: Income not recorded in the Profit and Loss Account		<u>4,500</u>
		2,98,300
Less: Income credited to the Profit and Loss Account but not chargeable under the head "Profit and gains of business or profession."		
Interest on debentures	25,000	
Interest on company deposit	<u>13,000</u>	<u>38,000</u>
Business income		<u>2,60,300</u>
<u>COMPUTATION OF NET INCOME OF Y</u>		
Profit and gains of business or profession		2,60,300
Income from other source (interest on debentures and company Deposit)		<u>38,000</u>
Gross total income		2,98,300
Less: Deductions		
Under section 80C(payment of insurance premises)		6,000
Deduction under section 80GGC (being contribution to a political party)		<u>1,000</u>
Net income		<u>2,91,300</u>
Tax on net income		2,065
Less Rebate u/s 87A		<u>2,065</u>
		Nil
Less : Prepaid tax (i.e., advance tax + tax deducted at source)		<u>11,800</u>
Tax Refundable (rounded off)		<u>11,800</u>

Question 17 : Find out the Gross Total Income of Shri Sunder Kumar on the basis of following particulars -

PROFIT & LOSS ACCOUNT
for the year ended 31st March, 2021.

	₹		₹
Interest	1,800	Gross profit b/d	1,22,700
Repairs and Renewals	2,200	Interest on debenture of an	
Insurance	4,200	Institution (gross)	10,000
Depreciation	5,600	Rent from house property	36,000
Compensation	10,200		
Law charges	5,100		
Labour Welfare expenses	3,800		
Subscription	5,800		
Net profit	<u>1,30,000</u>		
	<u>1,68,700</u>		<u>1,68,700</u>

Interest includes ₹200 on loan for purchasing debentures of a company and ₹300 on loan taken for reconstruction of house property let out.

- (i) The expenses relating to house property let out are 40% of the repairs and renewal expenses.
- (ii) Depreciation includes ₹1,200 on house property let out.
- (iii) Compensation was paid to an employee whose dismissal was in business interest.
- (iv) Insurance includes 30% for fire insurance of the house property let out 30% for workers accident insurance and the balance for life insurance.
- (v) Law charges includes ₹2,000 relating to a petition filed against breach of contract and the balance regarding sales tax appeal.
- (vi) Subscription includes ₹2,000 given for election purpose to political parties.
- (vii) Not covered u/s 115BAC

The amount not debited to profit and loss account are as follows

- (viii) Expenses incurred on the occasion of Diwali ₹500
- (ix) Theft of cash from iron safe ₹1,500
- (x) Expense for new telephone connection in the business ₹2,000

Solution :

Income from house property

	₹	₹
Rent from house property		36,000
Less: Municipal taxes		<u>Nil</u>
		36,000
Less: (i) Statutory deduction @ 30%	10,800	
(ii) Interest	300	<u>11,100</u>
Income from house property		<u>24,900</u>

Profit and gains of Business of Profession

Net profit as per P & L A /c 1,30,000

Add: inadmissible expenses

- (i) Interest on loan for securities and house property (200 + 300) 500
- (ii) Repairs and renewals of property (40%) 880
- (iii) Depreciation on house property 1,200

(iv) Fire insurance premium on house property	1,260	
(v) Life Insurance premium	1,680	
(vi) Subscription to political parties	2,000	<u>7,520</u>
		1,37,520

Less: Income not taxable under this head

(i) Interest on Debentures	10,000	
(ii) Rent from house property	<u>36,000</u>	<u>46,000</u>
		91,520

Less: Expenses allowable but not debited to P & L A/c

(i) Diwali expenses	500	
(ii) New telephone expenses	2,000	
(iii) Loss of cash due to theft	<u>1,500</u>	<u>4,000</u>
Business income		87,520

Income from other sources

Interest on debentures (10,000 - 200)	9,800
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Computation of Gross Total Income

(i) Income from house property	₹24,900
(ii) Profits and gains of business or profession	87,520
(iii) Income from other sources	<u>9,800</u>
Gross total income	<u>1,22,220</u>

Question 18 : XYZ Ltd., an Indian company, furnishes following particulars for assessment year 2021-22:

Not covered u/s 115BAC

Profit and Loss account for the year ending March 31, 2021

	₹		₹
Salary to staff	2,40,000	Gross profit	15,58,000
Expenses on issue of shares for setting up an industrial undertaking (cost of project : ₹10 lakh)	18,000	Rent of flats given to officers	12,000
Expenditure on promotion of family planning among employees	3,000	Sundry receipts	5,000
Sales tax	2,000	Interest on bank deposits	17,000
Contribution to a National Laboratory for carrying out approved scientific research	1,06,000	Capital gains on sale of short-term investment	3,000
Gratuity fund	5,000		
Reserve for future losses	20,000		
Bad debts written off	3,000		
Reserve for payment of advance income-tax	13,000		
Car expenses	9,000		
Depreciation :			

➤ Machinery	18,000		
➤ Car	3,000		
➤ Furniture	5,000		
➤ Building	3,000		
Office expense	7,500		
Rent and repairs of building	3,000		
Municipal taxes and ground rent of flats given to officers	7,000		
Sundry expenses	11,000		
Stationery expenses	5,000		
Income-tax	500		
Dividend tax	11,200		
Net profit	11,01,800		
	15,95,000		15,95,000

Other information :

1. Expenditure on family planning includes capital expenditure of ₹2,500.
2. Car is utilized partly for private purpose by a director. In the past years, one-fourth of this expenditure was disallowed.
3. Sundry expenses include ₹9,000 being payment of printing bill to relative of the managing director ;payment is unreasonable to the extent of ₹4,700.
4. Salary includes payment of ₹21,000 in cash to an employee. It also includes “medicclaim” insurance premium for the benefit of employees of ₹15,000 out of which ₹6,000 is paid in cash.
5. Though amount of depreciation on building, car and furniture is calculated as per tax provisions, depreciation in respect of machinery is excessive to the extent of ₹2,000.
6. ₹1,06,000 being payment to National Laboratory is qualified for weighted deduction u/s 35(2AA).
7. The company has deposited ₹2,40,000 with Maruti Udyog Ltd. on March 1, 2021 for purchasing Maruti 800 car. The car is likely to be delivered by June 2021. The said amount is not debited to Profit and Loss Account.
8. During the previous year 2020-21, the company pays ₹15,00,000 as compensation to employees on voluntary retirement under the voluntary retirement scheme of the company. The amount is not debited to the P&L A/c.
9. The company deposits ₹10,000 in National Housing Bank.
10. On March 16, 2021 the company gets a refund of sales tax of ₹3,000 (it was allowed as deduction for the previous year 2016-17). The amount is not credited to the profit and loss account, as the commissioner’s appeal against the refund is still pending in the Delhi High Court.

Determine the taxable income of the assessee-company for the assessment year 2021-22.

Solution:

	₹	₹
Profit as per Profit and Loss Account		11,01,800
Add: Sales tax refund [it is taxable under section 41(1) even if the matter is still pending]		3,000
Add: Inadmissible expenditure:		
Expenses on issue of shares [1/5 of ₹18,000 is deductible under section 35D]	14,400	
Expenditure on family planning [amount deductible is revenue expenditure plus one-fifth of capital expenditure] Allowable = 500 + 1/5 of 2,500 = 1,000, Disallowed 3,000-1,000	2,000	
Reserve for future losses	20,000	
Reserve for advance tax	13,000	
Car expenses (i.e., 1/4 of ₹9,000)	2,250	
Depreciation on machinery	2,000	
Depreciation on car (1/4 of ₹3,000 as car is used partly for private purposes)	750	
Payment of printing bill to a relative of the director	4,700	
Payment of ₹21,000 in cash (100% of ₹21,000)	21,000	
Mediclaime insurance premium paid in cash [if it is paid by cheque, it is deductible]	6,000	
Income-tax (not deductible)	500	
Dividend tax (not deductible)	11,200	97,800
Balance		12,02,600
Less: Compensation paid under voluntary retirement scheme [1/5 of ₹15,00,000 is deductible in 5 years under section 35DDA]	3,00,000	
Weighted Deduction in respect of contribution to National Laboratory [amount deductible is ₹1,59,000 being 150% of ₹1,06,000; as the amount debited to P&L A/c is ₹1,06,000 the balance of ₹53,000 is deducted]	53,000	3,53,000
Balance		8,49,600
Less: Income taxable under other heads		
Capital gains	3,000	
Interest on bank deposits	17,000	20,000
Business income		8,29,600
COMPUTATION OF NET INCOME		
Profits and gains of business or profession		8,29,600
Capital gains		3,000
Income from other sources (interest on bank deposit)		17,000
Gross total income		8,49,600
Less: Deductions under sections 80C to 80U		Nil

Net income		8,49,600
Tax on ₹ 8,49,600 @ 30%		2,54,880
Add: HEC (4% of tax)		10,195.20
Tax liability		2,65,080.00

Notes:

1. The company cannot claim any deduction under section 80C.
2. It has been assumed that letting out of residential flats to employees is incidental to main business of the company. Therefore, rental income is not taxable under head "Income from house property".
3. Amount deposited with Maruti Udyog Ltd. is not deductible.

Question 19 : Mr. Inder Kumar Sharma furnishes the following manufacturing profit and loss account for the previous year ending 31-3-2021 Not covered u/s 115BAC

Particulars	Amount ₹	Particulars	Amount ₹
To Stock	11,000	By Sales	2,84,500
To Purchases	80,000	By Stocks	26,400
To manufacturing wages	65,900		
To Factory Rent Rates and Taxes	30,000		
To Depreciation	15,000		
To Gross profit	1,09,000		
	3,10,900		3,10,900

Profit and Loss Account

Particulars	Amount ₹	Particulars	Amount ₹
To Office Salaries	27,000	By Gross profit B/D	1,09,000
To Establishment Expenses	6,100	By Rent of staff quarters	19,000
To Interest on Capital	3,300	By Refund of income-tax penalty	2,000
To Fire Insurance	200	By sale of a machinery	25,000
To Bad debts	7,000	By Recovery of Bad debts, not allowed as deduction earlier	6,000
To Income tax	6,000	By Sundry Receipts	35,000
To Expense on Sales tax proceedings	2,000		
To Expenses of income-tax proceedings	13,000		
To Diwali Expenses	4,000		
To Legal Expenses	7,000		
To Medical Expenses of proprietor	3,000		
To Staff Welfare Expenses	2,000		
To Repair of Staff quarters	4,000		
To Security Deposit for			

telex connection	10,000		
To Bonus payable to Employees	20,000		
To Provision for Tax: Custom Duty	25,000		
To Municipal taxes for staff quarters	4,000		
To General Reserve	26,000		
To Entertainment expenses	16,000		
To Net profit	10,400		
	1,96,000		1,96,000

You are required to compute the taxable profits from business after taking the following into consideration:

- (i) Purchase include a petty purchase of ₹21,000. Its payment was made by a crossed cheque.
- (ii) Assessee has always valued the stock at cost price but since 2020-21 he has valued it at market price which was in excess of the cost price by 10%.
- (iii) Office salaries paid include ₹10,400 to the proprietor of the business
- (iv) Diwali expense include gifts of ₹1,000 made to the relatives.
- (v) The written down value (WDV) of the block consisting of machinery as on 1-4-2020 is ₹59,000. Machinery whose WDV as on 1-4-2020, was ₹5,000 was sold for ₹25,000 during the year.
- (vi) The written down value (WDV) of the block consisting of factory buildings as on 1-4-2020 is ₹90,000.
- (vii) Custom Duties amounting to only ₹20,000 were paid on or before 31-7-2021.

Solution : Computation of Income from Business of Mr. Inder Kumar Sharma for A/Y 2021-22

	₹	₹
Net profit as per P&L A/c		10,400
Add: Items to be added back		
Opening stock over valued	Nil	
Purchases not through an account payee cheque	21,000	
Depreciation shown in P & L A/c	15,000	
Salary paid to self	10,400	
Interest on capital	3,300	
Income-tax	6,000	
Diwali expenses (gift to relatives)	1,000	
Medical expenses of proprietor	3,000	
Bonus not paid to staff(allowed on paid basis)	20,000	
Provision for Custom Duty (not paid upto last date of filling of I.T. return)	5,000	

Transfer to General Reserve	26,000	1,10,700
		1,21,100
Less: Items to be deducted		
Closing to be deducted	2,400	
Refund of Income-tax penalty	2,000	
Sale of machinery	25,000	
Bad debts recovered	6,000	
Depreciation allowed on machinery (as per income tax)	5,100	
Depreciation on building	9,000	49,500
Income from business		71,600

- As the method of valuation of stock was changed only during 2020-21, it is assumed that opening stocks of this year are not over valued.
- Cash/crossed cheque or draft payment for any expenses (including those for purchases) in excess of ₹10,000 shall be disallowed in full.
- Depreciation @ 15% of (WDV ₹59,000 – sale price ₹25,000) i.e. ₹34,000 is ₹5,100.
- It is clear that the business is being run by Mr. Inder Kumar Sharma as a sole proprietor.