

1A *BASIC CONCEPTS, BASIS OF CHARGE AND CAPITAL & REVENUE RECEIPTS*

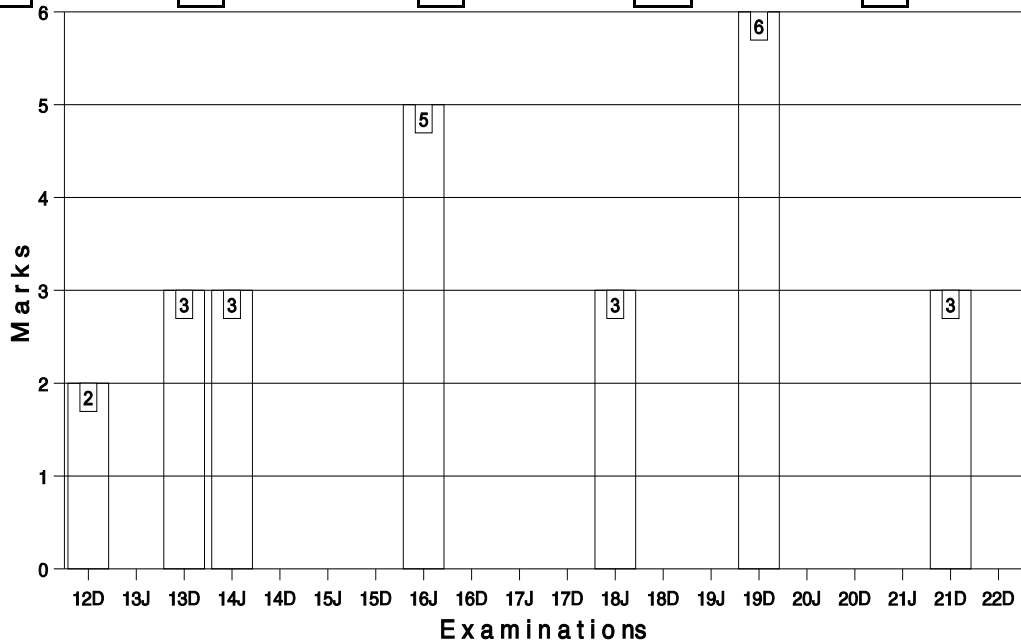
THIS CHAPTER INCLUDES

- Basic Concepts
- Important Definitions
- Rates of Income Tax
- Capital and Revenue Receipts and Expenditure

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective
 Short Notes
 Distinguish
 Descriptive
 Practical



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SHORT NOTES

2021 - Dec [3] Write short note on Explain the term “tax planning and tax evasion”
(3 marks) [Sec. C - Six LAQ]

Answer:

Tax planning: Tax planning is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. It is the scientific planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act.

Tax evasion: Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Tax evasion is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation.

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DISTINGUISH BETWEEN

2012 - Dec [2] (b) Explain the difference between ‘Total Income’ and ‘Gross Total Income’.
(2 marks)

Answer:

GTI	Total Income Sec. 5
1. Sum total of all 5 heads [Salary, House Property, Business Profession, Capital Gain, Other Sources]	1. GTI (-)deduction u/s chap. VI A
2. GTI is not rounded off	2. Rounded off u/s 288A
3. No tax is calculated on GTI	3. Tax is calculated on TI

DESCRIPTIVE QUESTION

2013 - Dec [2] (a) What are the circumstances in which previous year and assessment year will be the same? **(3 marks)**

Answer:

Previous year and the assessment year will be same in the following cases:

1. Shipping business of non-resident. **(Section 172)**
2. Persons leaving India. **(Section 174)**
3. AOP or BOI or Artificial juridical person formed for a particular event or purpose. **(Section 174A)**
4. Persons likely to transfer property to avoid tax. **(Section 175)**
5. Discontinued Business. **(Section 176)**

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2014 - June [5] (c) Explain the term “substantial interest” defined in Section 2(32) and its application in at least two situations. **(3 marks)**

Answer:

Substantial Interest

- (a) For company- If individual along with relatives hold not less than 20% equity shares beneficially.
- (b) For others- If individual along with relatives is entitled to atleast 20% of income.

Application

An individual is chargeable to tax in respect of any salary, commission, fees or any other remuneration received by the spouse from a concern in which the individual has substantial interest.

- (i) But that portion of salary etc., of spouse which is due to application of technical or professional knowledge or experience shall not be clubbed.
- (ii) If husband and wife both have substantial interest in the concern and
 - both are receiving remuneration because of interest in the concern
 - then the remuneration of both shall be clubbed in the hands of that spouse whose total income is greater, before clubbing such income.

2016 - June [2] (a) State the situations in which the income of the assessee can be assessed in the previous year itself, instead of in the assessment year. **(5 marks)**

Answer:

Incomes which are taxed in the assessment year itself

The income of an assessee for a previous year is charged to income-tax in the assessment year, following the previous year. However, in certain cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

- (i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
- (ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of departure from India is chargeable to tax in that assessment year.
- (iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that AOP/BOI is likely to be dissolved in the same year or, in the next year, he can made assessment of the income up to the date of dissolution as income of the relevant assessment year.
- (iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer

- commences proceedings, is chargeable to tax in that Assessment year.
- (v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year upto the date of such discontinuance may at the discretion of the Assessing Officer, be charged to tax in that assessment year.

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2018 - June [2] (a) (ii) Explain the following concepts

- Tax Planning
- Tax Avoidance
- Tax Evasion

(3 marks)

Answer:

Tax Planning: It means arranging the financial activities in such a way that maximum tax benefits are enjoyed by making use of all beneficial provisions in the tax laws which entitle the assessee to get certain rebates and reliefs. This is permitted and not frowned upon by law.

Tax Avoidance: The line of demarcation between tax planning and tax avoidance is very thin and blurred. There could be elements of *malafide* motive involved in tax avoidance also. Any planning which, though done strictly according to legal requirements defeats the basic intention of the Legislature behind the statute could be termed as instance of tax avoidance.

Tax Evasion: It refers to a situation where a person tries to reduce his tax liability by deliberately suppressing the income or by inflating the expenditure showing the income lower than the actual income and resorting to various types of deliberate manipulations. An assessee guilty of tax evasion is punishable under the relevant laws.

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PRACTICAL QUESTIONS

2019 - Dec [2] (b) With brief reasons, state whether the following constitute capital or revenue expenditure/ receipt:

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- (i) Compensation paid to customer for defect in goods supplied.
- (ii) Outright purchase of patent by paying ₹25 lakhs.
- (iii) Construction of building on land taken on lease basis.
- (iv) Arrear wages to employees for earlier years after entering into agreement with Labour Union.
- (v) Painting expenditure for company's registered office building.
- (vi) Liquidated damages received from supplier for delay in supply of machinery. **(6 marks)**

Answer:

- (i) Compensation paid to Customer for defect in goods supplied
It is a revenue expenditure because it is in the normal course of business.
- (ii) Outright purchase of patent by paying 25 lakhs.
Patent is a intangible assets for the company, it is capital expenditure
- (iii) Construction of building on land on lease basis
It is a Capital expenditure
- (iv) Arrears wages to employee for earlier years, after entering into agreement with Labour Union, it is a revenue expenditure, because arrear wages is also part of employee salary which is allowable expenditure.
- (v) Painting expenditure for Company's Registered office building, it is a revenue expenditure.
- (vi) Liquidated damages received from supplier for delay in supply of machinery, it is a capital receipt because if is related to fixed assets and it is not a recurring nature of transaction.

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1B

RESIDENTIAL STATUS AND SCOPE OF TOTAL INCOME

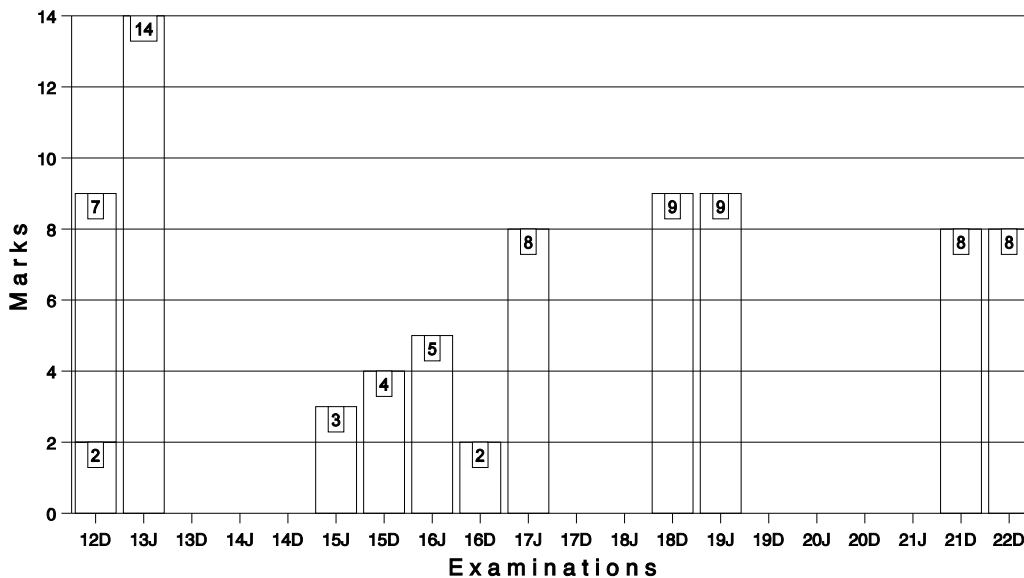
THIS CHAPTER INCLUDES

- | | |
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| <ul style="list-style-type: none">• Residential Status of: Individuals, HUF, Firm, AOP, Company, Others• Incidence of Tax [Sec. 5]• Income received in India | <ul style="list-style-type: none">• Income deemed to be received in India• Income deemed to accrue or arise in India [Sec. 9] |
|--|--|

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective Short Notes Distinguish Descriptive Practical



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DISTINGUISH BETWEEN

2012 - Dec [2] (a) State the difference between residential status of a company and that of others. **(2 marks)**

Answer:

Rules to determine residential status of Companies [Sec. 6(3)]

A person being a company shall be said to be resident in India in any previous year if:

1. It is an Indian Company, or
2. Its place of effective management at any time in that year, is in India.

Note:

1. A company cannot be “ordinarily” or “not ordinarily resident”.
2. Place of Effective management to mean the place where key management and commercial decisions that are necessary for the conduct of the entity’s business as a whole, are, in substance made.

Note: 1 For the purpose of this clause “Place of effective management” means a place where key management and commercial decisions that are necessary for the conduct of business of an entity as a whole are, in substance made.

Note: 2

1. The guidelines for determining POEM as given in circular issued by CBDT shall apply to a company having turnover or gross receipts exceeding ₹ 50 crores in the financial year.
2. A company is said to be engaged in “Active Business Outside India” and hence its POEM is outside India. If it satisfied all the following conditions.
 - Passive income is 50% or less of its Total Income, [Income to be computed as per tax laws of the country where such company is incorporated. Otherwise as per books of account if tax laws of that country does not require computation.]
 - Less than 50% of total assets situated in India.
The value of assets shall be:

- (a) *Depreciable assets. Average of its value for tax purposes at the beginning and end of Previous Year.*
- (b) *Value as per books of account.*
- *Less than 50% of total employees situated in India or are resident in India.*
[Number of Employees shall be average of number of employees at the beginning and end of the previous year. Employee shall include persons who are not directly employed but perform functions similar to employees e.g. contractual persons.]
 - *Payroll expenses of employees situated in India or resident in India is less than 50% of total payroll expenditure.*
["Payroll" includes cost of salaries, wages, bonus plus employee's compensation including pension and social costs borne by employer.]
 - *Majority meetings of Board of Directors are held outside India.*
3. *However, if it is established that Board of Directors are standing aside and not exercising their Powers of management and such powers of management are exercised by holding company or any other person resident in India, then POEM shall be considered in India.*

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DESCRIPTIVE QUESTION

2015 - June [4] (d) Mr. Bharat, an engineering graduate, born and brought up in India, got employment in USA in August, 2022. By what date he should leave India, in order to become a non-resident? By that, what tax advantage he will get? **(3 marks)**

Answer:

Planning for residential status:

A person who leaves India for employment if remains for less than 182 days during the financial year of leaving, he will be a non-resident.

Mr. Bharat must leave India before 29th September, 2022 to be non-resident for the financial year 2022-23.

When he plans his departure in such a way that he becomes non-resident, his income accruing or arising outside India will not be subjected to tax in India. His income accruing or arising in India alone will be liable to tax in India.

PRACTICAL QUESTIONS

2012 - Dec [2] (d) Mr. A furnishes the following particulars of his income during the previous year 2021-22:

- (i) Income from agriculture in Bangladesh, received thereof ₹ 2,00,000 and sub-sequently remitted to India.
- (ii) Gift of ₹ 52,000 received in foreign currency from a relative in India.
- (iii) Arrears of salary ₹ 70,000 received in India from a former employer in England.
- (iv) Income from property received abroad but later on remitted to India ₹ 3,20,000. (₹ 1 lakh used in Bahrain for educational expenses and ₹ 2 lakhs remitted in India later).
- (v) Profit from business outside India managed from India ₹ 90,000 and received outside India.

Find out the gross total income of Mr. A for the assessment year 2023-24 if A is (i) Resident and ordinarily resident (ii) Resident but not ordinarily resident and (iii) Non-resident. **(7 marks)**

Answer:

Particulars	Res. & ord. resident (ROR)	Res. but not ord. resident (NOR)	Non resident (NR)
Income from agriculture in Bangladesh, received there but later on remitted to India	2,00,000	-	-
Gift received from a relative in India	-	-	-

[exempt u/s 56(2)(VII)]			
Arrears of salary received in India from a former employer in England	70,000	70,000	70,000
Income from property received outside India but later on remitted to India	3,20,000	-	-
Profit from business outside India, managed from India.	90,000	90,000	-
Gross Total Income	6,80,000	1,60,000	70,000

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2013 - June [2] (a) Mr. Jeff, a citizen of USA came to India for 80 days, 90 days, 110 days and 130 days in the financial years 2019-20, 2020-21, 2021-22 and 2022-23 respectively. Determine his residential status for the Assessment Year 2023-24. **(3 marks)**

(b) Compute the total income of Mr. Taylor, UK citizen and a non-resident for the Assessment Year 2023-24 from the following details furnished by him.

	₹
(i) Income from business carried out in Mumbai (60% received in USA)	5,00,000
(ii) Capital gain from sale of shares of Zenith Private Limited, an Indian company. Sale proceeds were received in UK	3,50,000
(iii) Rent from a house property in New Jersey collected there, but later remitted to India through normal banking channel	12,00,000
(iv) Dividend received from MNO Limited, an Indian Company	2,50,000

- (v) Royalty received in UK from PQR Limited, an Indian company for use of trade mark for its business operation in India 6,00,000
- (vi) Interest on loan received in UK from S&T Limited, an Indian company. The loan was used by S&T Limited for its business carried on in Dubai. 3,00,000

(7 marks)**Answer:**

(a) As per **Section 6** an individual is a resident in India in any previous year, if he fulfils any of the following two conditions:

- (i) He is present in India in that previous year for 182 days or more.
(ii) He was present in India within 4 years preceding that previous year for 365 days or more and for 60 days or more in that previous year.

In this case Jeff was physically present in India for less than 182 days in previous year 2022-23.

AY 2023 –24 – FY 2022-23 = 130 days

4 Previous Years

FY 2018 – 19	NIL
FY 2019 – 20	80
FY 2020 – 21	90
FY 2021 – 22	<u>110</u>
	<u>280</u> days

Hence, non-resident. He was present in India for 130 days (more than 60 days in the previous year and he was physically present in India for 280 days (80 + 90 + 110) i.e. less than 365 days in 4 previous years preceding the previous year 2022–23. Hence, he does not fulfill the second condition and Jeff is non-resident in India for the Assessment Year 2023–24.

Answer:

(b)

Particulars	₹
Income from business carried out in India is income from business connection in India and deemed to accrue or arise in India.	5,00,000
Capital gain is deemed to accrue or arise in India as shares of Indian company are capital assets situated in India. Place of receipt of consideration is immaterial.	
Rent from house property situated in New Jersey being an income from source outside India is not taxable. Subsequent remittance of rent to India does not alter the position.	3,50,000
Dividend from Indian company is Taxable (Note - 1).	
Royalty received from the Indian company is deemed to accrue or arise in India, as the patent was used by the Indian company for its business in India.	10,00,000
Interest on loan received from the Indian company is not deemed to accrue or arise in India as the amount of loan was used by the Indian company for its business carried out outside India	6,00,000
Total Income	24,50,000

Note - 1: There is a change in the dividend taxation regime with the abolishment of dividend distribution tax in case of dividend paid/distributed by domestic companies after 1 April 2020, hence, Section 10(34) which provided exemption from dividend received (after payment of Dividend Distribution Tax) is provided with a sunset clause i.e., the exemption would not be applicable on income received by way of dividend on or after 1 April 2020.

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2013 - June [3] (b) Mr. Rajput, aged 82 years gives you the following information for the previous year 2022-23:

	₹
(i) Interest on fixed deposits with banks	4,80,000
(ii) Long-term capital gain on sale of land	50,000
(iii) Short-term capital gain on sale of shares (securities transactions tax paid)	20,000

Compute tax payable by Mr. Rajput for the Assessment year 2023-24 in cases (i) he is resident; (ii) he is non-resident. **(4 marks)**

Answer:

As per the proviso to **Section 112(1)(a)** if the following conditions are satisfied :

- (i) The taxpayer is a resident individual or a resident HUF. He or it may be ordinarily resident or not ordinarily resident.
- (ii) Taxable income - Long-term Capital Gain is less than the amount of basic exemption limit

The following shall be deducted from long-term capital gain :

Exemption limit – (Net Income or taxable income including Long-term Capital Gain – Long-term Capital Gain)

- (i) As Mr. Rajput is a resident, the relief u/s 112 is available

	₹
Basic Exemption Limit	5,00,000
Taxable income including Long-term Capital Gain	5,30,000
Long-term Capital Gain	50,000
Relief u/s 112	20,000
Computation of tax payable :	₹
Tax on income other than capital gain ₹ 4,80,000	Nil
Tax on long-term capital gain on sale of land i.e., ₹ 50,000 – 20,000 i.e., ₹30,000 @ 20%.	6,000
Tax on short-term capital gain on sale of shares @ 15% as per Section 111A as STT is paid.	3,000
Tax	9,000
Health & education cess @ 4%	360
Total Tax	<u>9,360</u>

- (ii) As Mr. Rajput is a non-resident

Computation of tax payable :	₹
Tax on income other than capital gain ₹ 4,80,000	11,500
Tax on long-term capital gain on sale of land i.e., ₹ 50,000 @ 20%.	10,000
Tax on short-term capital gain on sale of shares @ 15% as per Section 111A as STT is paid.	<u>3,000</u>
Tax	24,500
Health & Education cess @ 4%	<u>980</u>
Total Tax	<u>25,480</u>

2015 - Dec [1] {C} Answer the following questions with brief reasons/workings:

- (c) Mr. David, a citizen of Spain came to India for the first time in previous year 2018-19 and stayed for 100 days in that year. During the previous years 2019-20, 2020-21, 2021-22 and 2022-23 he stayed in India for 120 days, 110 days, 80 days and 90 days respectively. What is the residential status of Mr. David for the assessment year 2023-24?

(2 marks)

- (f) X. Limited is an Indian company. However, it carries on business in USA. All the shareholders are residents of USA. The Board Meetings and Annual General Meetings are held outside India. What is the residential status of X. Limited?

(2 marks)

Answer:

- (c) As per **Section 6** an individual is a resident in India in any previous year if he fulfills any of the following two conditions:

- (i) He is present in India in that previous year for 182 days or more.
- (ii) He was present in India within 4 year preceding that previous year for 365 days or more and for 60 days or more in that previous year.
- (iii) In case of an Indian citizen or a person of Indian origin comes on a visit to India during the previous year; modified condition (ii) of sec. 6(1) is applicable:

Case	Modified condition (ii) of sec. 6(1)
<i>His total income, other than the income from foreign sources!, exceeds ₹ 15 lakhs during the previous year</i>	<i>He is in India for a period of 120 days or more (but less than 182 days) during the previous year and for 365 or more days during 4 previous years immediately preceding the relevant previous year</i>
<i>His total income, other than the income from foreign sources, does not exceed ₹ 15 lakhs during the previous year</i>	<i>He is in India for a period of 182 days or more during the previous year and for 365 or more days during 4 previous years immediately preceding the relevant previous year</i>

In case of Mr. David, he was physically present in India for less than 182 days in previous year 2022-23 but, he is physically present in India for 410 days in 4 year preceding that previous year and he also present for more than 60 days (i.e. 90 days) in previous year. Hence, Mr. David is resident in India in A.Y. 2023-24.

(f) As per Section 6(3)

A company is said to be a resident in India in any previous year if:

- (i) It is an Indian Company as defined under section 2(26) of the Act; or
- (ii) during the relevant previous year, its place of effective management, in that year, is in India.

X Limited is an Indian Company. Therefore, X Limited is a resident in India even if the business is carried on outside India and the meeting of the board and shareholders are held outside India.

Note: For the purpose of this clause "Place of effective management" means a place where key management and commercial decisions that are necessary for the conduct of business of an entity as a whole are, in substance made.

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2016 - June [4] (a) Following are the transactions related to Mr. Kiran Kumar, a resident but not ordinarily resident in India during the previous year 2022-23. Compute Gross Total Income of Mr. Kiran Kumar for the assessment year 2023-24.

Particulars	₹
Income from agriculture in Sri Lanka (received in Sri Lanka and subsequently remitted to India)	4,00,000
Arrears of salary received in India from a former employer in USA	2,50,000
Rent from house property located outside India and received outside India (₹ 2,00,000 is used in Bahrain for the educational expenses of his son studying there and the balance ₹ 30,00,000 subsequently remitted of India)	5,00,000
Income from business in Japan which is managed and controlled from India (₹ 90,000 received in India and balance ₹ 3,10,000 received outside India)	4,00,000

(5 marks)

Answer:

Computation of Gross Total Income of Mr. Kiran Kumar, a resident but not ordinarily resident for the assessment year 2023-24.

Particulars	₹
Income from agriculture in Sri Lanka managed and controlled in Sri Lanka is not liable to tax in view of provision of Section 5(1) Subsequent remittance of income to India does not alter the position.	—
Arrear of salary received in India from a former employer in USA.	2,50,000
Income from house property located outside India is not an income accruing or arising in India or deemed to accrue or arise in India. Hence rent is not liable to tax in India.	—
Income from business in Japan which is managed and controlled from India is taxable in India in view of provision of Section 5(1) Place of receipt is not material	4,00,000

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Gross Total Income

6,50,000

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2016 - Dec [4] (a) Discuss, with brief reason, the taxability or otherwise of the following under the Income-tax Act:

- (ii) Mr. Ram kumar, a citizen of India employed by the Government of India, left India for the first time on 10.02.2021 to USA for foreign assignment. He did not visit India during previous year 2022-23. He has been paid ₹ 5,00,000 towards allowances in USA. **(2 marks)**

Answer:

Allowances and perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7). Accordingly, allowance of ₹ 5,00,000 paid outside for rendering services there would not be liable to tax.

2017 - June [2] (a) Mr. Ramesh, an Indian citizen, gives you the following information for the year ended 31.03.2023.

	₹
Business income in Mumbai	2,50,000
Rental income from property let out in London (Converted in Indian rupees)	5,40,000
Fixed deposit interest in India from LMN Bank	60,000
Fixed deposit interest from Bank of England (Converted in Indian rupees)	40,000
Business consultancy income from Essex Ltd. in Hampshire (England), being a company incorporated in Delhi having branch office in England. The business is managed from Delhi. (Converted in Indian rupees)	75,000
Agricultural income from land located in Malaysia (Converted in Indian rupees)	90,000
Income from nursery at Alwar, Rajasthan	1,40,000

Mr. Ramesh returned to India on 15.06.2022 after remaining in England for 10 years. During the last 4 years he was in India for 100 days only. Determine the residential status of Mr. Ramesh for the assessment year 2023-24 and compute his total income chargeable to tax in India by giving reason for treatment of each item.

Note: Ignore Double Taxation Avoidance Agreement (DTAA). (8 marks)

Answer:

**Computation of Total Income of Mr. Ramesh
for the A.Y. 2023-24**

Particulars	Amount ₹	
Rental Income from property let out in London	—	
Income from Business or profession		
Business Income in Mumbai	2,50,000	
Business consultancy income from Essex Ltd. in Hampshire (England)	75,000	3,25,000
Income from other Sources		
Fixed Deposit interest from Bank in India from LMN Bank	60,000	
Fixed Deposit interest from Bank of England	—	
Agricultural income from land located in Malaysia	—	60,000
Gross Total Income		3,85,000
Less: Deductions under chapter VI-A		NIL
Total Income		3,85,000
Add: Agricultural Income from land in India Income from Nursery at Alwar Rajasthan		1,40,000
Aggregate Income		5,25,000

Notes:

1. Residential status of Mr. Ramesh for Assessment Year 2023-24 the Residential Status of Mr. Ramesh will be not ordinary resident because he has not satisfied both the additional conditions of **Section 6(1)**.
2. In case of an Indian citizen or a person of Indian origin# comes on a visit to India during the previous year; modified condition (ii) of sec. 6(1) is applicable:

Case	Modified condition (ii) of sec. 6(1)
His total income, other than the income from foreign sources!, exceeds ₹ 15 lakhs during the previous year	He is in India for a period of 120 days or more (but less than 182 days) during the previous year and for 365 or more days during 4 previous years immediately preceding the relevant previous year
His total income, other than the income from foreign sources, does not exceed ₹ 15 lakhs during the previous year	He is in India for a period of 182 days or more during the previous year and for 365 or more days during 4 previous years immediately preceding the relevant previous year

3. Rental Income from property let out in London will not be taxable in India because his residential status is not ordinary resident in India.
4. Fixed deposit interest from Bank of England will not be taxable India because his residential status is not ordinary resident in India.
5. Business Consultancy Income from Essex Ltd. in Hampshire (England) is taxable in India because the business is managed from Delhi India.
6. Agricultural Income from land located in Malaysia is not taxable in India because his residential status is not ordinary resident in India.
7. Income from nursery at Alwar, Rajasthan will be treated as Agricultural Income on the assumption that the land is owned by Mr. Ramesh and Agricultural activities are carried out by himself. (which is exempt)

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2018 - Dec [2] (a) Mr. Barun furnishes you the following information for the year ended 31st March, 2023:

Sl. No.	Particulars	₹
(i)	Pension received in India from a former employer in United Kingdom (UK)	1,80,000
(ii)	Income from business in Singapore (Controlled from India)	1,00,000
(iii)	Interest on company deposit in Singapore (credited in bank account held there)	80,000
(iv)	Profit from business in Kolkata controlled from UK	2,00,000
(v)	Income from tea cultivation in Sri Lanka	3,00,000
(vi)	Income from property in Singapore but received in Malaysia	2,50,000

Compute the total income of Mr. Barun, where he is (i) an ordinarily resident in India; (ii) a resident but not ordinarily resident in India, and (iii) a non-resident. **(9 marks)**

Answer:

Computation of total Income of Mr. Barun, for the Asst. Year 2023-2024

	Ordinary Resident	A Resident but not ordinarily Resident	Non Resident
(1) Pension received in India, former employer in United Kingdom	1,80,000	1,80,000	1,80,000
(2) Income from business in Singapore	1,00,000	1,00,000	—
(3) Interest on company deposit in Singapore	80,000	—	—

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(4) Profit from business in Kolkata controlled from U.K	2,00,000	2,00,000	2,00,000
(5) Income from tea cultivation in Sri Lanka	3,00,000	—	—
(6) Income from property in Singapore but received in Malaysia	2,50,000	—	—
Total Income	11,10,000	4,80,000	3,80,000

— Space to write important points for revision —

2019 - June [2] (a) Mohit left India on 07.04.2022 to United Kingdom for employment. He returned to India on 07.11.2022, after resigning his job. He commenced a business on 01.12.2022 and his turnover was ₹ 32 lakhs up to 31.03.2023. All payments for the sales were received through crossed account payee cheques. He wants to declare income under section 44AD. His salary income in the United Kingdom was ₹ 6,56,000. When he remained outside India, he invested in equity shares of Vodafone UK Inc. He earned dividend from Vodafone UK Inc. (foreign company) ₹ 60,000 during the previous year 2022-23. He borrowed ₹ 2,00,000 from Mr. Narain of Chennai to invest in the shares of the foreign company and paid interest of ₹ 20,000 for the year ended 31.03.2023.

Determine his residential status for the assessment year 2023-24 and compute his total income. **(9 marks)**

Answer:

Determination of residential status:

An individual is said to be resident in India in any previous year if he is in India for a period or periods amounting in all to 182 days or more; or

Was in India for 60 days or more during the previous year and has remained in India in 4 previous years preceding the previous years in aggregate for 365 days or more.

Extended time in the case of citizens of India, who leaves India for the purpose of employment outside India, the time limit is 182 days instead of 60 days given above.

In case of an Indian citizen or a person of Indian origin# comes on a visit to India during the previous year; modified condition (ii) of sec. 6(1) is applicable:

Case	Modified condition (ii) of sec. 6(1)
His total income, other than the income from foreign sources, exceeds ₹ 15 lakhs during the previous year	He is in India for a period of 120 days or more (but less than 182 days) during the previous year and for 365 or more days during 4 previous years immediately preceding the relevant previous year
His total income, other than the income from foreign sources, does not exceed ₹ 15 lakhs during the previous year	He is in India for a period of 182 days or more during the previous year and for 365 or more days during 4 previous years immediately preceding the relevant previous year

When a person satisfies both the conditions, he is a resident. If he does not satisfy any of the conditions given above, he is non-resident.

In this case, Mohit remained in India for 151 days (6+24+31+31+28+31)

He has not stayed in India for 182 days or more and hence does not satisfy both the basic conditions.

His status is non-resident.

Computation of Total Income of Mohit for the assessment year 2023-24:

	Reason	₹
Income from Salary Earned outside India	Does not accrue in India and hence not taxable since he is a non resident	Nil
Income from business		

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On ₹ 32 lakhs @ 6%	Accrued in India hence taxable	1,92,000
Income from Other Source		
Income from dividend	Accrued outside India and hence not taxable since he is a non-resident	Nil
Interest on moneys borrowed	Being not a taxable income in India, it is not deductible.	Nil
	Total Income	1,92,000

— Space to write important points for revision —

2021 - Dec [2] Rahman provides following details of income:

	Particulars	Amount
(i)	Salary received in India from a former employer of UK	2,30,000
(ii)	Interest on company deposit in Canada: Total amount of interest 66,000. 1/3 rd received in India and the balance were credited to his bank account held outside India.	
(iii)	Profit from a business in Mumbai controlled from Singapore	5,00,000
(iv)	Profit for the year 2020-21 from a business in Australia (income tax paid in Australia in that year itself) remitted to India	6,00,000
(v)	Income from a property in India but received in UK	80,000
(vi)	Income from a property in Malaysia but received in Delhi	3,60,000
(vii)	Income from a property in UK but received in Australia	7,60,000
(viii)	Income from a business in Nigeria but controlled from USA	96,000

Calculate the total income for the A.Y. 2023-24 assuming that:

(1) He is an ordinary resident;

(2) He is not any ordinary resident;

(3) He is a non-resident.

(8 marks) [Sec. C - Three LAQ]

Answer:

Computation of Total Income of Rahman for A.Y. 2023-24

1. When he is an ordinary Resident:

(i) Salary received in India from a former employer of UK	2,30,000
(ii) Interest on company deposit in Canada:	66,000
(iii) Profit from a business in Mumbai controlled in Singapore	5,00,000
(v) Income from a property in India but received in Australia	80,000
(vi) Income from a property in Malaysia but received in Delhi	3,60,000
(vii) Income from a property in UK but received in Australia	7,60,000
(viii) Income from a business in Nigeria but controlled in USA	96,000
	20,92,000

2. He is not an ordinary Resident:

(i) Salary received in India from a former employer of UK in India	2,30,000
(ii) Interest Received in India = $66,000 \times \frac{1}{3}$	22,000
(iii) Profit from a business in Mumbai controlled in Singapore	5,00,000
(v) Income from a property in India but received in UK	80,000
(vi) Income from a property in UK but received in Delhi	3,60,000
	11,92,000

3. He is a non Resident

Same as not an ordinary Resident = 11,92,000

— Space to write important points for revision —

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2022 - Dec [2] (a) Determine the residential status in the following independent cases:

- (i) Albert born and brought up in India left India on 05.11.2022 for the purpose of employment to Malaysia. He did not visit India up to 31.03.2023.
- (ii) Chander born and brought up in India was employed in Singapore since 01.04.2018. He stayed in India in every financial year for 70 to 80 days.
- (iii) Dilip a foreign citizen came to India for the purpose of employment in X Co. Ltd. and stayed in India from 05.06.2022 and remained in India up to 31.03.2023.

(2 + 2 + 4 = 8 marks)

1C

AGRICULTURAL INCOME

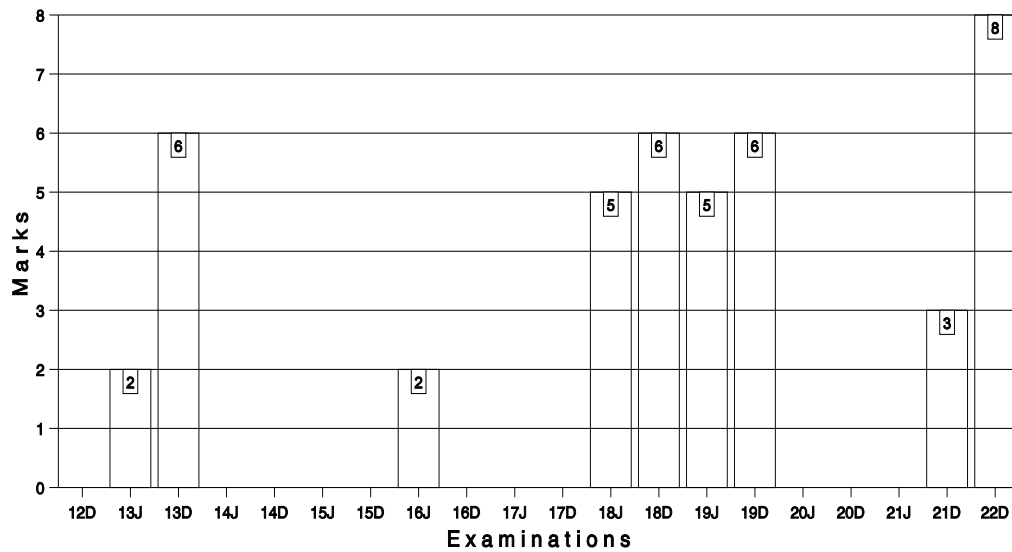
THIS CHAPTER INCLUDES

- Agricultural Income
- Instances of Agricultural (Agro) Income
- Instances of Non-agricultural (Non - agro) Income
- Treatment of Partly Agricultural & Partly Non-Agricultural Income [Rule 7]
- Impact of Agricultural Income on tax computation

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective
 Short Notes
 Distinguish
 Descriptive
 Practical



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DESCRIPTIVE QUESTION

2013 - June [7] (a) State whether the following are agricultural income or non-agricultural income:

- (i) Where owner himself performs slaughter tapping and then sells the rubber.
- (ii) Conversion of sugar cane into Gur. **(2 marks)**

Answer:

- (i) Where owner himself performs slaughter tapping and then sells the rubber, it is Agricultural income.
- (ii) Conversion of sugar cane into Gur - Non Agricultural income as it involves manufacturing activity which is of business nature.

— Space to write important points for revision —

PRACTICAL QUESTIONS

2013 - Dec [5] (b) Manmohan owns a tea estate in Assam. He also owns a nursery wherein he grows plants and sells them. He furnishes the following particulars:

(i) Profit from sale of green tea leaves	₹ 1,75,000
(ii) Profit from manufacturing of tea grown in the garden owned by him	7,00,000
(iii) Profit from sale of plants from nursery	1,00,000

Compute tax payable by Manmohan for the Assessment Year 2023-24.

(6 marks)

Answer:

In the case of nursery plant, question is silent about whether sapling or seedling process activity has been undertaken or not. So, it is required as per the question that answer should be in both alternatives. Because if sapling or seedling process has been undertaken then it is agricultural Income otherwise not.

Alternative - 1**Computation of Taxable Income for the Assessment Year 2023-24**

Nature of Business	Agl. Inc.	Non-Agl. Inc.
Profit from sale of green leaves grown in own garden being agricultural Income is exempted under Section 10(1)	1,75,000	-
Profit from growing and manufacturing of tea (60% agricultural income and 40% non-agricultural income)	4,20,000	2,80,000
Profit from sale of plants from nursery (agricultural income)	1,00,000	-
Total Income	6,95,000	2,80,000

Computation of Tax Liability:

	₹
(a) Total Income (Agricultural Income + Non-agricultural Income) [6,95,000 + 2,80,000]	9,75,000
(b) Tax on (a) above	1,07,500
(c) Total of (Agricultural Income + Basic Exemption Limit) [6,95,000 + 2,50,000]	9,45,000
(d) Tax on (c) above	1,01,500
(e) Tax Payable (b) - (d)	6,000
Add: Health and Education Cess @ 4%	240
Total Tax Liability	6,240

Note: It is assumed that sapling & seedling process has been undertaken for nursery plant.

Alternative - 2**Computation of Taxable Income for the Assessment Year 2023-24**

Nature of Business	Aggl. Inc.	Non-Agl. Inc.
Profit from sale of green leaves grown in own garden being agricultural Income is exempted under Section 10(i)	1,75,000	-
Profit from growing and manufacturing of tea (60 % agricultural income and 40% non-agricultural income)	4,20,000	2,80,000
Profit from sale of plants from nursery (non-agricultural income)	-	1,00,000
Total Income	5,95,000	3,80,000

Computation of Tax Liability:

	₹
(a) Total Income (Agricultural Income + Non-agricultural Income) [5,95,000 + 3,80,000]	9,75,000
(b) Tax on (a) above	1,07,500
(c) Total of (Agricultural Income + Basic Exemption Limit) [5,95,000 + 2,50,000]	8,45,000
(d) Tax on (c) above	81,500
(e) Tax Payable (b) - (d)	26,000
Add: Health and Education Cess @ 4%	1040
Total Tax Liability	27,040

Note - It is assumed that sapling & seedling process has not been undertaken for nursery plant.

— Space to write important points for revision —

2016 - June [1] {C} (d) Answer the following question with brief reasons/working:

- (i) Rajesh has earned an income of ₹ 45,000 from letting out his rural agricultural lands for a movie shooting. Will this income be regarded as agricultural income and hence exempt? **(2 marks)**

Answer:

Rent earned from letting out the agricultural land is not rent or revenue derived from the agricultural land. As per **Section 2(1A)**, any income derived from any building owned and occupied by the receiver of the rent or revenue of any such land, or occupied by the cultivator or the receiver of rent-in-kind, of any land with respect to which, or the produce of which, any process mentioned in the section alone, is regarded as rent for the purpose of this section. Rent from letting out to a movie company will not fall in this category. The land was not used for agricultural purposes, but for movie shooting. The impugned income is not agricultural income and hence is not exempt.

— Space to write important points for revision —

2018 - June [4] (b) State with brief reasons whether the following are agricultural income either in whole or in part:

- (i) Purchase of standing sugarcane crop by Mr. Amin for ₹ 2 lakhs and after cutting the canes, selling them for ₹ 2,50,000.
- (ii) Income from milk dairy run by Mr. Raj in his agricultural lands ₹ 50,000.
- (iii) Income from sale of plants ₹ 1,00,000 earned by Mr. Jain who maintains a nursery by name Soundarya Nursery.
- (iv) Income from sale of rubber ₹ 3,20,000 realised by Mr. Ram Nair who owns rubber estate and cultivates rubber.
- (v) Income from grazing of cattles allowed in the land owned by Mr. Richard ₹ 60,000. **(1 × 5 = 5 mark)**

Answer:

- (i) Purchase of standing sugarcane crop by Mr. Amin for ₹ 2 lakhs and after cutting the canes, selling them for ₹ 2,50,000 is not an Agricultural Income because he has not done the basic agricultural activities.

- (ii) Income from milk dairy run by Mr. Raj in his agricultural land ₹ 50,000 is not an agricultural Income, it is an Income from Business.
- (iii) Income from sale of plants ₹ 1,00,000 earned by Mr. Jain who Maintains nursery by name Soundarya Nursery is an Agricultural Income because it is derived by performing basic agricultural Activities.
- (iv) Income from sale of rubber ₹ 3,20,000 realized by Mr. Ram Nair who owns rubber Estate and Cultivates rubber is partly agricultural Income, 65% of such Income will be treated as agricultural income and 35% of such income shall be income liable to tax as business income.
- (v) Income from gracing of cattles allowed in the land owned by Mr. Richard ₹ 60,000 is not an agricultural Income.

— Space to write important points for revision —

2018 - Dec [3] (b) Mr. Manish, a resident in India, has the following incomes for the year ended 31st March, 2023:

Income from sale of tea grown and manufactured in India	₹ 4,00,000
Income from growing and manufacturing rubber in India	₹ 5,00,000
Income from agricultural operations in Sri Lanka (cultivated paddy)	₹ 1,00,000
Income derived from sale of coffee grown, cured, roasted and grinded in India	₹ 2,00,000

Determine the quantum of income which is regarded as agricultural income and non-agricultural income in the hands of Mr. Manish for the assessment year 2023-24. **(6 marks)**

Answer:

Computation of the quantum of income which is regarded as agricultural income and non agricultural income in the hand of Mr. Manish for the A.Y. 2023-24.

Particulars	Agricultural Income	Non-Agricultural Income
Income of sale of tea	(60%) 2,40,000	(40%) 1,60,000
Income from growing and manufacturing rubber in India	(65%) 3,25,000	(35%) 1,75,000

Income from agricultural operations in Sri Lanka	—	(100%) 1,00,000
Income derived from sale of coffee grown, cured, roasted and grinded in India	(60%) 1,20,000	(40%) 80,000
Aggregate Income	6,85,000	5,15,000

— Space to write important points for revision —

2019 - June [3] (b) Ashok, Surat furnishes you the following information for the previous year 2022-23:

	₹
(i) Income from coffee grown and cured in Coorg, Karnataka	3,00,000
(ii) Income from tea grown and manufactured in Jorhat, Assam	2,50,000
(iii) Income from Rubber estates in Kerala by sale of field latex obtained from rubber plants grown there.	4,00,000
(iv) Income from nursery by name 'Soundarya Nursery', Chennai	2,00,000
(v) Rent from a dwelling house in agricultural land in Coorg, Karnataka (It is occupied by the coffee estate labourers).	90,000

Compute the agricultural income of Ashok.

(5 marks)

Answer:

Computation of agricultural Income of Ashok for the Asst. Year 2023-24:

Particulars	Agricultural Income	Non-Agricultural Income
Coffee grown and cured in Coorg, Karnataka [75% agri income and 25% of non-agri income]	2,25,000	75,000
Income from tea grown and manufactured in Jorhat, Assam [60% agri income and 40% non-agri income]	1,50,000	1,00,000

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Income from Rubber estates in Kerala [65% agri income and 35% non agri income]	2,60,000	1,40,000
Income from nursery at Chennai is fully agricultural income	2,00,000	Nil
Rent from dwelling house in agricultural land in Coorg, Karnataka	90,000	Nil
Total	9,25,000	3,15,000

— Space to write important points for revision —

2019 - Dec [3] (b) Parikshit (aged 25 years) is engaged in growing and manufacturing tea in India. His profit for the previous year 2021-22 amount to ₹10,00,000 which includes profit of ₹2,00,000 from sale green leaves plucked in his own garden.

He has no other income during the year.

Compute the total income and total tax payable by Parikshit. **(6 marks)**

Answer:

**Computation of total income & tax payable by Parikshit
for the A.Y. 2023-24**

Particulars	Amount
Profit from growing and Manufacturing Tea	10,00,000
Less: Sale of green leaves plucked	2,00,000
Income from growing and manufacturing Tea	8,00,000
Less: Agriculture income [60%]	4,80,000
Business income	3,20,000
Tax Liability	
Business income (A)	3,20,000
Agriculture income (B)	6,80,000
Total income (C)	10,00,000

Tax payable on (C) (D)	1,17,000
(E) Aggregation of B and Basic exemption	9,30,000
Tax payable on (E) (F)	1,02,440
Net tax payable (D – F)	
(1,17,000 – 1,02,440)	14,560

— Space to write important points for revision —

2021 - Dec [2] X Ltd. Grows sugarcane to manufacture sugar. Details for the previous year 2022-23 are as follows:

Particulars	₹ in lakhs
Cost of cultivation of sugarcane (8,000 tonnes)	140
Sugarcane sold in market (2,000 tones)	40
Sugarcane used to sugar manufacturing (6,000 tonnes)	-
Cost of conversion	100
Super produced & sold in market	400

Compute Income of X Ltd. for the Assessment Year 2023-24.

(3 marks) [Sec. C - Five LAQ]

Answer:

(a) Income from manufacturing operation	(Amount in Lakhs)
• Cost of Sugar Cane used = $\left(40 \times \frac{6,000}{2,000}\right)$	120
• Cost of Conversion	100
Total Cost	<u>220</u>
Income from manufacturing operation	= 400 - 220
	= ₹ 180

(b) Income from Manufacturing operation	(in lakhs)
Sugarcane sold in Market (2,000 tonnes)	40
Add: Sugarcane used in sugar manufacturing $\left(40 \times \frac{6,000}{2,000}\right)$	120
Total Income (A)	160
(-) Cost of Cultivation (B)	140
Income from Agricultural operation (C)	20

— Space to write important points for revision —

2022 - Dec [3] (b) State which of the following would be agricultural income or otherwise:

- (i) Salary of plantation worker from Duncan Co. Ltd. engaged in rubber plantation.
- (ii) Royalty income from Orissa Coal Mines Ltd.
- (iii) Interest on loan given to Ram Poultry Farming Ltd.
- (iv) Rent received for use of land for grazing of cattle by God Dairy Ltd.
- (v) Income from saplings and seedlings grown by Soundarya Nursery.
- (vi) Rent from farmhouse in the midst of agricultural land received by Banerjee.
- (vii) Compensation from insurance company for damage caused to standing crops due to cyclone received by Atul.
- (viii) Profit on sale of crops after harvest where the standing crops were purchased by Agro Farms (P) Ltd. **(8 marks)**

1D INCOME, WHICH DO NOT FORM PART OF TOTAL INCOME

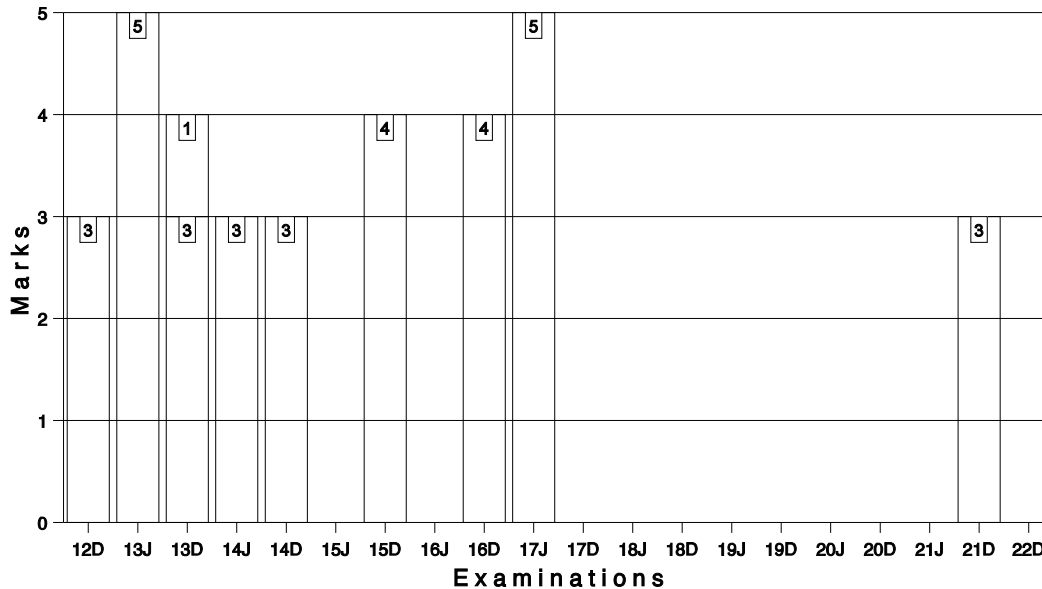
THIS CHAPTER INCLUDES

- Incomes Not Included in Total Income (Section 10)
- Income of Trusts or Institutions from Contribution
- Income of Political Parties

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend

Objective
 Short Notes
 Distinguish
 Descriptive
 Practical



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SHORT NOTES

2017 - June [8] Write a short note on the following:

(c) Provisions of Equalization levy as per the Finance Act, 2016.

(5 marks)

Answer:

Provisions of equalization levy as per the finance Act 2016:

In terms of the recommendations of the committee on taxation of e-commerce constituted by the CBDT on taxation of E-commerce, with effect from 01-06-2016, new chapter VIII has been inserted to provide for as under:

- 1. Charge of Equalization Levy:** On and from the date of commencement of this Chapter VIII, there shall be charged on equalization levy at the rate of 6% of the amount of consideration for and specified service received or receivable by a person, being a non resident from:
 - (i) a person resident in India and carrying on business or profession; or
 - (ii) a non-resident having a permanent establishment in India.
- 2. When equalization levy is not chargeable: Under section 165(2),** the equalization levy shall not be charged where:
 - (i) The non-resident providing the specified service has a permanent establishment in India and the specified service is effectively connected with such permanent establishment.
 - (ii) The aggregate amount of consideration for specified service received or receivable in a previous year by the non resident from a person resident in India and carrying on business or profession, or from a non-resident having a permanent establishment in India, does not exceed one lakh rupees; or
 - (iii) Where the payment for the specified, service by the person resident in India, or the permanent establishment in India is not for the purposes of carrying out business or profession.

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DISTINGUISH BETWEEN

2012 - Dec [5] (c) State the difference between Exemption u/s 10 and Deduction under Chapter VIA of the Income-tax Act, 1961.

(3 marks)**Answer:****Difference between Exemption u/s 10 and Deduction under Chapter VIA**

Exemption u/s 10	Deduction under Chapter VIA
(i) Exemption doesn't form part of total income	(i) Deduction form part of a total income.
(ii) Expenditure in relation to exempt income is not deductible.	(ii) Expenditure in relation to these incomes is deductible.
(iii) Income is normally exempts subject to certain conditions.	(iii) Deduction is normally allowed based on payment or fulfillment of specified conditions.

———— Space to write important points for revision ————

DESCRIPTIVE QUESTION

2013 - Dec [2] (b) What are the conditions for claiming exemption u/s 10(10C) of the Income-tax Act, 1961 relating to Voluntary Retirement Compensation? **(3 marks)**

Answer:

Condition for claiming exemption **under Section 10(10C)** are:

- (i) Compensation is received at the time of voluntary retirement or termination or voluntary separation;
- (ii) Compensation is received in accordance with the scheme of voluntary retirement/ separation which is framed in accordance with prescribed guidelines;

- (iii) Maximum amount of exemption is ₹ 5,00,000;
- (iv) An individual who has retired under the voluntary retirement scheme should not be employed in another Company of the same management;
- (v) He should not have received any other voluntary retirement compensation before from any other employer and claimed exemption;
- (vi) The person who has avail a relief **under Section 89** in respect of compensation for voluntary retirement or separation or termination of service, will not be able to claim any exemption **under Section 10(10C)** for the same assessment year or any other assessment year.

— Space to write important points for revision —

2014 - June [2] (a) There exists no difference in the treatment of income claimed as exempt u/s 10 with those entitled to deduction under chapter VI-A of the Income Tax Act, 1961. Do you agree with the statement? Justify your answer. **(3 marks)**

Answer:

The statement is not correct. There are differences between the two.

The differences in the treatment of income claimed **u/s 10** with those Chapter VI-A of the **Income Tax Act, 1961** are as follows:

Exemption u/s 10	Deduction under Chapter VI-A
Income exempt does not form part of the total income	Income forms part of total income
Expenditure in relation to income exempt not deductible	Expenditure in relation to income deductible
It will not enter in the calculation of gross total income	It is a deduction from gross total income. Hence, the impugned income might enter the calculation upto gross total income.
Income exemption is normally subject to certain conditions	Deduction is normally allowed based on payment or fulfillment of

	certain conditions
--	--------------------

2014 - Dec [6] (c) State the conditions to be satisfied by political party to avail income-tax exemption. **(3 marks)**

Answer:

Section 13A deals with tax exemption for incomes of political parties.

Any income of a political party which is chargeable under the head “income from house property” or “Income from other sources” or “Capital gains” or any income by way of voluntary contributions received by a political party from any person shall not be included in the total income of the previous year of such political party.

- (a) such political party keeps and maintains such books of accounts and other documents as would enable the Assessing Officer to properly reduce its income therefrom;
- (b) in respect of each such voluntary contribution other than contribution by way of electoral bond in excess of ₹ 20,000, such political party keeps and maintains a record of such contribution and the name and address of the person who has made such contribution.
- (c) the accounts of such political party are audited by an accountant as defined in the Explanation below sub-section (2) of section 288; and
- (d) no donation exceeding two thousand rupees is received by such political party otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through electoral bond.

Provided also that such political party furnishes a return of income for the previous year in accordance with the provisions of sub-section (4B) of section 139 on or before the due date under that section.

— Space to write important points for revision —

PRACTICAL QUESTIONS

2013 - June [5] (b) Decide the exemption/taxability of following receipts/recipients:

- (i) Educational scholarship of ₹ 10,000 received from a charitable trust by a college student.
- (ii) Rental income earned by a registered trade union.
- (iii) Co-operatives formed for promoting the interest of schedule tribes.
- (iv) Dividend received from Indian companies by resident individuals and tax on such dividend paid by the company u/s. 115-O.
- (v) Amount received by a non-resident towards compulsory acquisition of urban agricultural land in India by Central Government. **(5 marks)**

Answer:

- (i) Educational scholarship is exempt in the hands of recipient regardless of the amount or source of scholarship **[Section 10(16)]**.
- (ii) Rental income of registered trade union is exempt from tax. **[Section 10(24)]**.
- (iii) Income of co-operative society meant for promoting the interests of members of schedule tribes is exempt **[Section 10(27)]**
- (iv) There is a change in the dividend taxation regime with the abolishment of dividend distribution tax in case of dividend paid/distributed by domestic companies after 1 April 2020, hence, Section 10(34) which provided exemption from dividend received (after payment of Dividend Distribution Tax) is provided with a sunset clause i.e., the exemption would not be applicable on income received by way of dividend on or after 1 April 2020.
- (v) Amount received towards compulsory acquisition of urban agricultural land is exempt **under Section 10(37)** if the acquisition if such compensation is received after March 31, 2004 and the agricultural land was used by the assessee (or by any of his parents) for agricultural purposes during 2 years immediately prior to transfer. The residential status of the recipient has no bearing on the benefit of exemption.

———— Space to write important points for revision —————

2013 - Dec [1] {C} (a) Answer the following sub-divisions briefly in the light of the provisions of the Income-tax Act, 1961:

- (vii) Giant Oil Inc. sold crude oil to HPCL, a company in India. The sale was made within India. Is the income arising from such sale liable to tax?

(1 mark)

Answer:

As per **Section 10(48)**, the income from sale of crude oil by foreign company to any person in India is exempt from tax provided income received in India in Indian currency by a foreign company on account of sale of crude oil to any person in India.

— Space to write important points for revision —

2015 - Dec [2] (a) MNO Ltd. commenced commercial production of its unit located in Special Economic Zone (SEZ) from 01.04.2012. It furnishes the following information for the year ended 31.03.2023:

Particulars	₹ in lakhs
Total sales	100
Export sales	50
Profit earned	30

Compute the deduction under section 10AA and income chargeable to tax for the assessment year 2023-24. Your computation must be supported by reasons.

(4 marks)

Answer:

U/s 10AA, 100% of the profit derived from export of articles or services is deductible for a period of 5 consecutive assessment years and 50% of profit are deductible for next 5 years and 50% of the profit are further deductible from 11th year to 15th year provided on equivalent amount is debited to profit and loss account of the previous year and credited to special economic zone reinvestment allowance reserve account.

As per **Section 10AA(7)**, the profit derived from export of things or services shall be the amount which bears to the profit of the business of the undertaking, being the unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the

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business carried on by the undertaking:

$$\begin{aligned}\text{Deduction u/s 10AA} &= \frac{\text{Profit of the unit} \times \text{export turnover}}{\text{Total turnover}} \times 50\% \\ &= \frac{30 \times 50}{100} \times 50\%\end{aligned}$$

Deduction u/s 10AA will be ₹ 7.5 lakhs.

2016 - Dec [4] (a) Discuss, with brief reasons, the taxability or otherwise of the following under the Income-tax Act:

- (i) Agricultural income of ₹ 1,50,000 earned from land situated in Bihar by Mrs. Bhagyashree, a non-resident.
- (iii) An amount of ₹ 4,00,000 withdrawn by Mr. Prakash, a resident individual from Public Provident Fund as per relevant rule.

(2 × 2 = 4 marks)

Answer:

- (i) Income from agricultural operation carried out on land situated in India is exempt under section 10(1) of the Income-tax Act both in case of residents and non-residents. In view of above, agricultural income of ₹ 1,50,000 from land situated in Bihar will not be liable to tax.
- (iii) Amount withdrawn from Public Provident Fund is exempt under section 10(11) of the Income-tax Act. Hence, withdrawal of ₹ 4,00,000 by Mr. Prakash from Public Provident Fund as per relevant rule would not be chargeable to tax in his hands.

— Space to write important points for revision —

2021 - Dec [4] State the income-tax consequence of the following transactions:

A charitable trust registered under section 12AA sold in August 2022 its vacant land for ₹ 25 lakhs. The land was acquired in the year 2000 for ₹ 5 lakhs. The entire sale proceeds were kept in 3 year fixed deposit with SBI for construction of community hall by the trust. **(3 marks) [Sec. C - Five LAQ]**

Answer:

Sale of capital asset by Trust [Section 11(1A)]:

- When a capital asset held by a trust is transferred and the whole of the sale consideration is utilized for acquiring another capital asset. The

entire capital gain would be exempt from tax.

- In this case, the charitable trust has capital gain on sale of land. The entire sale consideration has been kept in fixed deposit which is one of the specified investments under section 11(5) of the Act.

Therefore, the entire capital gain is not chargeable to tax as the sale consideration is kept in the form of approved investment.