



SIDDHARTH EDUCATION SERVICES LTD.-

For CS, CA, ICWA [Foundation, Inter, Final]
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TEST PAPER 1 INCOME TAX ANSWERS

Q.1. Ans .

X is an Indian citizen. During the previous year he is employed by an Indian company in India. However, to work on an overseas project of the employee- company he leaves India on September 20,2009. This is his first foreign trip. During the previous year 2009-10,he is in India only if he is in India for 173 days. As he is in India for at least 182 days. Since he is India only for 173 day, he will be non-resident in India for the previous year 2009-10 (i.e., assessment year 2010-11)

In the previous year 2010-11, x finally comes back October 10,2011. It cannot to be said that he has come to India during the previous year 2010-11, on a “visit”. Consequentially, he can become resident in India for more than 60 days and during earlier 4 years, he is India for more than 365 days. He will, therefore, be resident in India. Moreover, he can satisfy 2 additional conditions, as prior to September 20,2009 he was never out of India He will be resident and ordinarily resident in India for the previous year 2010-11 (i.e. assessment year 2011 – 12)

Q.2. Ans.

In the case of non-resident exemption limits is Rs. 1,60,000. The exemption limit of Rs. 1,90,000 is applicable in the case of a resident woman who is below 65 years on the last day of the previous year .Tax liability will be calculated as follows –

INCOME	Rate of tax	Tax Rs.
First Rs. 1,60,000	Nil	Nil
Next Rs.1,40,000	10 %	14,000
Next Rs.2,00,000	20 %	40,000
Balance Rs.30,000	30 %	9,000
Income tax		63,000
Add : Education cess	2 %	1,260
Add : Secondary and higher education cess	1 %	630
Tax liability		64,890

Q.3. Ans

X is a foreign citizen. X, his parents and grandparents were not born in undivided India. He is not a person of India origin, even if he was Indian citizen between June 1946 and December 1948. He is in India for 70 days during the previous year 2009-10. And 365 days during the preceding 4 years. He is resident in India. However, he is unable to satisfy the 2 additional conditions given by section 6 (6) (a), as is evident from information given below –

Previous year	Presence in india	Residential status
2008-09	60 days	Non-resident
2007-08	40 days	Non – resident
2006-07	5 days	Non – resident
2005-06	260 days	Resident
2004 -05	46 days	Non-resident
2003-04	182 days	Non-resident
2002-03	55 days	Non-resident
2001-02	59 days	Non-resident
2000-01	25 days	Non-resident
1999-2000	24 days	Non –resident

Out of preceding 10 years, X is residence in India for 2 years. However, out preceding 7 years ,X is in India for 648 days. Consequently ,X is resident but not ordinarily resident in India for the assessment year 2010-11.

Q.4. Ans.

	Nature of income	Resident (Rs.)	Not ordinarily resident (Rs.)	Non – resident (Rs.)
Fees for technical services	Foreign income	97000	Nil	Nil
Profession set up in India	Indian income	1,24,000	1,24,000	1,24,000
House property in Kenya	Foreign income	80,000	Nil	Nil
Agricultural income from Bhutan	Foreign income	20,00,000	20,00,000	Nil
Agricultural income from kerala	Exempt income	Nil	Nil	Nil
Income of earlier year remitted to India	Not income of current year	Nil	Nil	Nil
Technical fees by Government of India	India income	90,000	90,000	90,000
Net income		5,91,000	4,14,000	2,14,000

Q. 5. Ans.

Basic salary (Rs. 50,000 x 12)	6,00,000
Dearness allowance (Rs.10,000 x 12)	1,20,000

Transport allowance [(Rs.1,000- Rs.800) x 12]	2,400
Travelling allowance (Rs.2000 x 12)	9000
Research allowance (Rs.2,000 x12)	24,000
Helper allowance (Rs.9000 x12)	1,08,000
House rent allowance (see note)	2,03,000
Salary and allowances	10,66,400
Interest – free loan (8% of Rs.55,00,000 x 9 ÷12 + 8 % of Rs.50,00,000 x 2÷ 12)	3,96,667
Public provident fund contribution by A Ltd.(taxable as profit in lieu of salary)	70,000
Salary	15,33,067
Income from house property	Nil
Gross total income	15,33,067
Less : Deduction under section 80C (amount deposits public provident fund by A Ltd, Rs. 70,000 + repayment of housing loan to A Ltd. : Rs.500,000, subject to a maximum of Rs. 1,00,000)	100,00,000
Net income (rounded of)	14,33,070
Tax on net income	
Income tax	3,33,921
Add : Education cess	6678
Add : Secondary and higher education cess	3339
Tax liability (rounded off) ,	3,43,940

Note : “Salary” for the purpose of calculation of exemption pertaining to house rent allowance is Rs.50,000 per month. Dearness allowances is not consider for calculating all retirement benefits (it is considered for pension but not for gratuity). Dearness allowances will not be consider for calculating exemption available from house rent allowances. Since rent is paid by X only for two months – April and May 2009, exemption will bistee available only for two months as follows.

- 50 % of salary (i.e., Rs.25000) or 40 % of salary (i.e.,Rs.20,000) depending upon the place where rent is paid ;
- House rent allowance of Rs. 17,000 per month ; or
- Rs. 500 per month (being the excess of rent paid of Rs. 5,500 per month over 10 % of salary of Rs. 50,000 per month)

Whichever lower is exempt. Rs 500 per month for two months (i.e., Rs. 1,000) is exempt and balance of Rs. 2,03,000 (i.e. Rs. 17,000 x 12 – Rs. 1,000) is chargeable to tax.

Q.6.Ans.

Basic salary (Rs.45000 x 12)	5,40,000
Bonus (Rs.10,000 x 12)	1,20,000
Dearness allowances (Rs. 1500 x 12)	18,000
Medical allowances (full taxable)	36,000
Employer’s contribution towards recognized provident fund [Rs.89,000-12% of (Rs.5,40,000 + 32 % of Rs.18,000)]	23,509
Perquisite in respect of interest – free loan (10 % of Rs. 2,00,000)	20,000
Salary	7,57,509
Interest on company deposits	99,000

Gross total income	8,56,509
Less ;Deduction under section 80 C	89,000
Net income (rounded off)	7,67,510
Tax on net income	
Income tax	1,34,253
Add : Education cess	2,685
Add : Secondary and higher education cess	1,343
Tax liability (rounded off)	1,38,280

Note –Fixed medical allowances is fully chargeable to tax. However, reimbursement of actual medical expenditure is not taxable up to Rs.15,000.

Q.7. Ans.

	House I (deemed to be let out) (Rs.)	House II (self – occupied) (Rs.)
Computation of gross annual value		
Step I –Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	24000	
Step II – Rent received /receivable after deducting unrealized Rent but before adjusting loss due to vacancy	Nil	
Step III – Amount computed in step I or II, whichever is higher	24000	
Step IV – Loss due to vancancy	Nil	
Step V – Gross annual value is step III minus Step IV	24000	Nil
Less : Municipal tax	4000	Nil
Net annual value	20,000	Nil
Less : Deductions under section 24 -		
Standard deductions @ 30 %	6000	Nil
Interest from borrowed capital	1000	4000
Income	13000	(-) 4,000

Computation of income of Mrs. X -

Salary (Rs. 24,000 x 12)	2,88,000
Income from house property (Rs.13000-Rs.4000)	9,000
Business income	5,00,000
Gross total income	7,97,000
Less : Deduction under section 80C	60,000
Net income	7,37,000
Income – tax	1,22,100
Add : Education cess	2,442
Add :Secondary and higher education cess	1,221
Tax liability (rounded off)	1,25,760

Q.8 Ans.

	House I (deemed to be let out) Rs.	House II (Self- occupied) Rs.	House III (deemed to be let out) Rs.
Computation of gross annual value			,
Step I – Reasonable expected rent of the property (MV or FR, whichever is higher ,but subject to maximum of SR)	63000		71000
Step II – Rent received /receivable after deducting unrealized rent but before adjusting loss due to vacancy	Nil		Nil
Step III – Amount computed in step I or Step II, whichever is higher	63000		71000
Step IV – Loss due to vacancy	Nil		Nil
Step V – Gross annual value is step III minus Step IV	63000	Nil	71000
Less : Municipal tax	40000	Nil	6000
Net annual value	59000	Nil	65000
Less : Deductions under section 24 – Standard deduction @ 30 %	17700	Nil	19500
Interest from borrowed capital	Nil	1911	Nil
Income	41,300	(-)1911	45500

Pre-construction period is June 1, 2006 to March 31,2008. Interest liability of this period on Rs.40,000 @ 9% comes to Rs.6598.36 [i.e.,Rs.40,000 x 0.09 x (1 year and 304 days)]. Annual installment of deductible interest pertaining to pre – construction period comes to Rs.1,319.67. Besides, interest of April 1, 2009 to May 31,2009 which comes to Rs.591.78 (i.e.,Rs.40,000 x 0.09 x 60÷ 365 days) is further deductible. The aggregate amount which is deduction for the current year is Rs.1,911,46 or Rs.1,911.

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