

TEST 8 IFOS

Illustration 1

X is a dealer in paintings. From the information given below, determine the income of X for the assessment year 2021 - 2022:

1. On April 30, 2020, he purchases 10 paintings of Raja Verma for Rs.9,00,000 (fair market value is, however, Rs.35,00,000). These paintings are purchased from an advocate (who is not a registered dealer under sales tax or VAT or GST). Up to March 31, 2021, these paintings are not sold. Apart from this transaction, his business of dealing in paintings has generated income of Rs.60,00,000 during the previous year ending March 31, 2021.
2. On June 30, 2020, he purchases jewellery from a person (other than registered dealer) for Rs.8,00,000 (fair market value is Rs.9,10,000). In December 2, 2020, the jewellery is transferred for Rs.9,50,00.
3. Minor son of X gets a gift of Rs.75,000 from his maternal uncle on his 9th birthday.
4. Minor daughter of X gets gift of Rs.60,000 from friends of X and Mrs. X on her 5th birthday.

Solution

Computation of income of X:

	Rs.
Business income	60,00,000
Short term capital gains (sale consideration for jewellery Rs.9,50,000 - Cost of acquisition Rs.9,10,000)	40,000
Income from other sources	
- Purchase of paintings for inadequate consideration (paintings are purchased as stock - in - trade, and not as capital asset, provisions of section 56(2)(x) not applicable)	Nil
- Purchase of jewellery for inadequate consideration (jewellery is purchased as capital asset, provisions of section 56(2)(x) are applicable) (Rs.9,10,000 - Rs.8,00,000)	1,10,000
- Gift received by minor son (since gift is received from a "relative", provisions of section 56(2)(x) not applicable)	Nil
- Gift received by minor daughter (it is income of minor daughter, but it will be clubbed in the hands of X after availing exemption of Rs.1,500 under section 10(32))	58,500
Net income	62,08,500

Note: It is assumed that income of Mrs. X is lower than Rs.61,50,000.

Illustration 2

X is an advocate by profession. From the information given below, determine the income of X for the assessment year 2021 - 2022:

1. On April 30, 2020, he purchases 10 paintings of Raja Ravi Verma for Rs.9,00,000 (fair market value is, however, Rs.35,00,000). These paintings are purchased from an advocate (who is not a registered dealer under sales tax or VAT or GST). Upto March 31, 2021, these paintings are not sold.
2. Income of X from legal profession is Rs.60,00,000 during the previous year ending March 31, 2021.
3. On June 30, 2020, he purchases jewellery from a person (other than registered dealer) for Rs.8,00,000 (fair market value is Rs.9,10,000). In December 2, 2020, the jewellery from a person (other than registered dealer) for Rs.8,00,000 (fair market value is Rs.9,10,000). In December 2, 2020, the jewellery is transferred for Rs.9,50,000.
4. Minor son of X gets a gift of Rs.75,000 from his maternal uncle on his 9th birthday.
5. Minor daughter of X gets gift of Rs.60,000 from friends of X and Mrs. X on her 5th birthday.
6. On December 10, 2020, X purchases a Tagore painting from Jain Art Gallery, Cochin. Jain Art Gallery is a registered dealer under VAT or GST. The painting is purchased under invoice number 485 issued by Jain Art Gallery and the invoice price / purchase price is Rs.5,00,000. However, the same painting will not be available for less than Rs.7,50,000 from any other gallery.
7. On December 15, 2020, X purchases jewellery from Tanishq (a registered dealer under VAT or GST). Invoice price / purchase price is Rs.3,70,000. However, the same jewellery will not be available for less than Rs.4,40,000 from any other jewellery shop.

Solution

Computation of income of X

	Rs.
Income from profession	6,00,000
Short term capital gains (sale consideration for jewellery Rs.9,50,000 - Cost of acquisition Rs.9,10,000)	40,000
Income from other sources	
- Purchase of paintings for inadequate consideration (paintings are purchased from a person other than registered dealer and the difference between fair market value and purchase price is taxable)	26,00,000
- Purchase of jewellery for inadequate consideration (jewellery is purchased as capital asset, provisions of section 56(2)(x) are applicable) (Rs.9,10,000 - Rs.8,00,000)	1,10,000
- Gift received by minor son (Since gift is received from a "relative", provisions of section 56(2)(x) not applicable)	Nil

- Gift received by minor daughter (it is income of minor daughter, but it will be clubbed in the hands of x after availing exemption of Rs.1,500 under section 10(32))	58,500
- Purchase of painting from a registered dealer (invoice price is taken as fair market value and since painting is purchased at the fair market value, nothing is taxable)	Nil
- Purchase of jewellery from a registered dealer (invoice price is taken as fair market value and since jewellery is purchase at the fair market value, nothing is taxable)	Nil
- Purchase of jewellery from a registered dealer (invoice price is taken as fair market value and since jewellery is purchased at the fair market value, nothing is taxable)	Nil
Net income	88,08,500

Note: It is assumed that income of Mrs. X is lower than Rs.87,50,000.

Illustration 3

X, a resident and ordinarily resident in India, gives the following particulars of his income and expenditure for the previous year ending March 31, 2021:

Rent of a house situated in Delhi Rs.4,00,000, rent from letting a building (in Bombay) along with plant and machinery (letting out of building cannot be separated from letting out of plant and machinery) Rs.9,00,000, depreciation of building in Bombay Rs.16,000, depreciation of building in Delhi Rs.9,000, repairs and insurance of building (in Bombay) and plant and machinery Rs.7,500. Dividends on preference shares from an Indian company declared on August 3, 2020 Rs.40,000.

Loan from another Indian company which is deemed as dividend under section 2(22)(e) is given on April 3, 2020 (amount received Rs.10,80,000, tax deducted at source: Nil).

Royalty income Rs.8,20,000.

Winnings from camel races on September 25, 2019 (net amount received Rs.74,000, tax deducted at source Nil)

Interest on 6.5 per cent (Tax free) National Relief Bond Rs.1,70,000

Gift received on January 20, 2021 in foreign currency from a school friend Rs.50,000. Gift from another friend on March 31, 2021:

Rs.6,000.

Determine the income chargeable under the head "Income from other sources" for the assessment year 2021 - 2022.

Solution

Computation of income under the head "Income from other sources"

	Rs.
Rent of property situated in Delhi (it is taxable under the head "Income from house property")	Nil
Rent from letting out of building in Bombay in letting out of plant and machinery (since the two lettings are not separable, income is taxable under the head "Income from house property")	9,00,000
Less: Depreciation of Bombay building	16,000
Less: Repair and insurance of Bombay building and plant and machinery	7,500
Income	8,76,500
Deemed dividend (exempt)	Nil
Royalty income	8,20,000
Winning from races	74,000
Gift (Rs.50,000 + Rs.6,000)	56,000
Income from other sources	10,26,500

Illustration 4

X, maintaining books of account on the basis of financial year, holds the following securities on April 1, 2020:

Rs.4,30,000 7% MP Government loan (date of payment of interest: July 15 every year)

Rs.3,80,000 11% debentures (non listed) of ABC Ltd. (date of payment of interest: June 30 every year)

Apart from the aforesaid securities, X invests in UP Government Loan, Central Government securities and (listed) debentures of PQR Ltd. and receives on December 1, 2020, Rs. 36,000, Rs.90,000 and Rs.1,08,000 (net of tax deducted - rate of tax 10%), respectively, as interest. His business income is Rs.24,32,000. He pays Rs.6,000 as commission to his bank for collecting interest on securities. Determine the taxable income of X for the A.Y. 21-22.

Solution

	Rs.
Interest on MP Government loan (7% of Rs.4,30,000)	30,100
Interest on debentures of ABC Ltd. (11% of 3,80,000)	41,800
Interest on UP Government loan	36,000
Interest on Central Government securities	90,000
Interest on debentures of PQR Ltd. (Rs.1,08,000 ÷ 0.90)	1,20,000
Gross interest	3,17,900
Less: Bank Commission	6,000

Income from other sources	3,11,900
Business income	24,32,000
Net income	27,43,900

Illustration 5

X holds the following securities on April 1, 2020:

Rs.8,00,000 8% non listed debentures of ABC Ltd.; and

Rs.6,00,000 15% securities of the Punjab Government

Interest on both the cases is payable on October 31 every year. On September 1, 2020, X borrows Rs.7,00,000 at 9 per cent per annum and invests in purchasing Rs.7,00,000, 9.25 per cent securities of the UP Government (due dates of interest January 15 and July 15 every year). Interest which becomes due on January 15, 2021 is actually received by March 31, 2020. However, interest on borrowing for the period ending March 31, 2021 is still unpaid. His business income is Rs.29,64,000. Determine the taxable income of X for the assessment year 2021 - 2022 on the assumption that (a) he maintains books of account on mercantile basis, or (b) books of account are maintained on cash basis.

Solution

	Mercantile system Rs.	Cash system Rs.
Interest on debentures of ABC Ltd. (8% of Rs.8,00,000)	64,000	64,000
Interest on Punjab Government Securities (15% of Rs.6,00,000)	90,000	90,000
Interest on securities of UP Government (9.25% of Rs.7,00,000 $\times \frac{1}{2}$)	32,375	32,375
Total	1,86,375	1,86,375
Less: Interest on debentures (Rs.7,00,000 $\times 0.09 \times 7 \div 12$)	36,750	Nil
Income from other sources	1,49,625	1,86,375
Business income	29,64,000	29,64,000
Net income (rounded off)	31,13,630	31,50,380