Ist Internal Examination, 2019
B.Com 2nd Year (Pass/Hons.)
Income Tax
Solution Set - A

A. Multiple Choice Questions

1. (a) Ist April, 1962
2. (c) District Board
3. (a) Previous year
4. (d) All of the above.
5. (a) Employer – Employee
6. (a) Rs.1,60,000
7. (b) Income from Other Sources
8. (d) Rs. 28,000
9. (d) Rs. 1,55,000
10. (a) Rs.30,000

B. Long type Questions:

1. Write short notes on any two of the following -

(a) Previous Year:

As per S.2(34) of Income Tax Act, 1961, unless the context otherwise requires, the term "previous year" means the previous year as defined in section 3. In view of above, we need to visit Section 3 of Income Tax Act, 1961, which defines the term previous year as under:

'For the purposes of this Act, the term "previous year" means the financial year immediately preceding the assessment year. Provided that, in the case of a business or profession newly set up, or a source of income newly coming into existence, in the said financial year, the previous year shall be the period beginning with the date of setting up of the business or profession or, as the case may be, the date on which the source of income newly comes into existence and ending with the said financial year.'

Therefore, basically the Previous Year indicates the year/ period prior to another. Under Income Tax, the returns are filed by by assessees after end of the year/ period during which earnings are made and that period is called previous year/ financial year. However, when such earnings are subjected to assessment/ review by ITO in the subsequent period/ year, the same is called assessment year/ period.

For example, previous year corresponding to assessment year 2019-20 means the preceding financial year, i.e. 2018-19 (1 Apr. 2018 to 31 Mar. 2019), however the previous year will begin from a later date in the case of new business/ source of income. In case a new business is set-up on 1 Oct. 2018, then previous year will be 1 Oct. 2018 to 31 Mar. 2019, which is a part of financial year 2018-19.

(b) Assessee:

An assessee is any individual who is liable to pay taxes to the government against any kind of income earned or any losses incurred by him for a particular assessment year. Each and every person who has been taxed in the previous years for income earned by him is treated as an Assessee under the Income Tax Act, 1961.

An Assessee may be any individual liable to pay taxes for himself or to pay tax on behalf of somebody else. The Income Tax Act, 1961 has classified Assessee in different categories. An Assessee may either be a normal Assessee, a Representative Assessee, a Deemed Assessee or an Assessee in Default.

Let us understand what the various categories of Assesses as laid down in the Act are and who all belong to the respective categories of being an Assessee:

1. **Normal Assessee:**

A normal Assessee is an individual who is liable to pay taxes for the income earned by him for a particular financial year. Each and every Individual who has paid taxes in preceding years against the income earned or losses incurred by him is liable to make payments to the government in the form of tax. Any individual who is supposed to make payments to the government in the form of interest or penalty or anybody who is entitled to tax refund under the IT Act is an Assessee. All such individuals are grouped under the category of Normal Assessee.

2. **Representative Assessee:**

Many times, it so happens that an individual is liable to pay taxes for income or losses incurred not only by him, but also for income or losses incurred by a third party. Such an individual is known as Representative Assessee. Basically, he acts as a representative for people who themselves are not in a position to file and pay their taxes themselves. Generally, the people who need representatives are non-residents, minors or lunatics. And the people representing them are either their agents or guardians. Such people are deemed to be Representative Assesses

3. **Deemed Assessee:**

Deemed Assessee is an individual who is put in a position to pay taxes for some other person by the legal authorities. Generally, the individuals who are treated as Deemed Assesses are:

- The executors or the legal heir of the property of a deceased person, who in written has passed on his property to the executor, is treated as a Deemed Assessee.
- The eldest son or any other legal heir of a deceased individual (who has expired without writing his will) is treated as a Deemed Assessee.
- The guardian of a minor, a lunatic or an idiot is treated as a Deemed Assessee.
- The agent of a Non-Resident Indian (having Income Sources in India) is treated as a deemed Assessee.

(c) Partly Agricultural Income:

There are some businesses which include some activities as Agricultural and some as non-agricultural. However the problem arises in taxation as to how much portion is to be treated as Agriculture and how much as non-agriculture. Hence Income-tax Act, 1961 has given some percentage where some part is treated as agricultural business while rest shall be non-agricultural income. These businesses include manufacturing of tea, coffee or rubber in India.

The bifurcation of agricultural and non-agricultural part for each type of business is as follows:-

Growing and Manufacture of Tea	8	60%	40%
Rubber manufacturing business	7A	65%	35%
Coffee grown and cured by seller	7B(1)	75%	25%
Coffee grown, cured, roasted and grounded by the seller in India with or without mixing chicory or other flavouring ingredients	7B(1A)	60%	40%

(d) Income:
The definition of Income as per section 2 (24) is inclusive but not exhaustive of below mentioned items:

- Any illegal income arising to the assessee
- Any income that is received at irregular intervals
- Any Taxable income that have been received from asource outside India
- Any benefit that can be measured in money
- Any subsidy or relief or reimbursement
- Gift the value of which exceed INR 50,000 without any consideration by an individual or HUF.
- Any prize
- Causal incomes like winning from lotteries or horse race gambling etc.

2. Basic salary of Dr. Gupta for the assessment year 2019-20.

1 July 2014 to 30th June 2015 (43400 + 9000)	52400
3 % on 52400 = 1572	1580
1 July 2015 to 30th Jun 2016	53980
3 % of 53980 = 1619	1620
1st July 2016 to 30th June 2017	55600
3% of 55600 = 1668	1670
1st July 2017 to 30th June 2018	57270
3% of 57270 = 1718	1720
1st July 2018 to 30th June 2019	58990

Calculation of Basic Salary

1 March 2018 to 30th June 2018	(57270*4)	229080
1st July 2018 to 28th Feb 2019 (58990*8)		471920
Basic Salary		**7,01,000**

3.

Computation of Income from House Property for the A.Y. 2019 -2020

	House I	**House II**
Municipal Valuation	60,000	
Fair Rent	63,000	
Standard Rent	72,000	
Expected Rent	**63,000**	

Rent (annual)	66,000	
Unrealised rent	6000	
Rent Receivable	**60000**	
Gross Annual Value	63,000	
Municipal taxes paid	7,200	
Net Annual Value	55800	NIL
Less: Standard Deduction @ 30%	(16,740)	NIL
Interest on capital borrowed for purchase of house property	(8000)	20,000
Income from House Property	**31,060**	**(20,000)** ---