

[CA] CA-Intermediate

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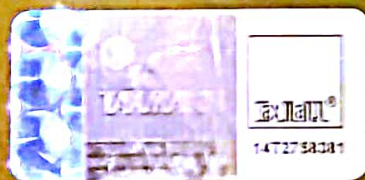
PREVIOUS EXAMS SOLVED PAPERS

# Taxation

With Application Based MCQs  
& Integrated Case Studies

### Key Highlights

- ▶ Strictly as per Latest Syllabus of ICAI
- ▶ Coverage of Past Exam Questions including Nov. 2023 Exam (Solved)
- ▶ Chapter-wise Marks Distribution & Trend Analysis of Past Exams
- ▶ Previous Exam Questions & Answers Modified as per A.Y. 2024-25 and Latest GST Laws



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7th Edition

AS PER  
NEW SCHEME OF ICAI  
APPLICABLE FOR  
MAY 2024  
ONWARD EXAMS  
Group-I Paper-3

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# 1

## CHAPTER

# BASIC CONCEPTS

### Q1. Define the word 'Person' in Income-tax Act, 1961.

**Ans.** As per section 2(31) of Income-tax Act, 1961, 'Person' means on whose income the tax is levied. It includes following:

1. Individual
2. Hindu Undivided Family
3. Company
4. Firm
5. Association of Persons/Body of Individuals, whether incorporated or not
6. Local Authority
7. Any other artificial juridical person, not falling within any of the above

### Q2. Define the term Assessee as per the Income-tax Act, 1961.

[May 2016, 4 Marks]

**Ans.**

Particulars	Relevant Provision
Section 2(7)	<p>An assessee means:</p> <ul style="list-style-type: none"><li>◆ A person who is liable to pay tax or</li><li>◆ Any other sum under Income-tax Act</li><li>◆ In respect of whom any proceeding under the act has been started for the assessment of his income or</li><li>◆ Who is Deemed to be assessee under the provision of this act or</li><li>◆ Who is Deemed to be assessee in default under any provision of this act.</li></ul>

Particulars	Relevant Provision
Meaning and Examples of Deemed Assessee	Deemed assessee means: <ul style="list-style-type: none"> <li>◆ Any person who is Deemed to be an assessee for any other person is called as <b>deemed assessee</b>.</li> <li>◆ If any person is representing any firm or minor or lunatic is known as deemed person.</li> <li>◆ If after the death of person the legal heirs will be treated as deemed assessee.</li> </ul>
Meaning and Examples of Assessee in Default	Assessee in default means: <ul style="list-style-type: none"> <li>◆ If any person who is responsible to do any work under this act and fails to do that work he is <b>assessee in default</b>.</li> <li>◆ If any person who is making any payment to another person is liable to deduct income tax at source and he does not deduct any income tax or after deducting does not deposit in government account then he will become assessee in default.</li> </ul>

**Q3. Differentiate between 'Previous Year' and 'Assessment Year'.**

**Ans.**

**Previous Year:**

As per section 3, Previous Year means a period during which income has been earned. All assessee are required to follow financial year (1st April to 31st March) as uniform previous year.

However for newly set up business/profession, first previous year shall be from date of commencement of business/profession to next 31st March. Thereafter uniform previous year.

**Assessment Year:**

As per section 2(a), assessment year is next of previous year. Income of previous year is assessed in assessment year.

**Q4. Briefly explain the purpose for which the words Proviso and Explanation are incorporated under the various sections of the Income-tax Act, 1961. [May 2018, 2+2 = 4 Marks]**

**Ans.**

Particulars	Relevant Provision
Proviso Meaning	An exception to the provision
Proviso Example	Provided that no tax shall be charged on the amount of gains on shares sold on a recognized stock exchange

Particulars	Relevant Provision
Explanation Meaning	Explanation further clarifies the section or provides a further details
Explanation Example	Health and Education Cess @4%

**Q5. State the Elements Sources of Income Tax Law.**

**Ans.** Elements/Components/Sources of Income Tax Law are:

- ◆ The Income-tax Act, 1961
- ◆ Finance Act
- ◆ The Income-tax Rules, 1962
- ◆ Circular and notifications from Central Board of Direct Taxes
- ◆ Supreme Court and High Court decisions only on question of law

**Q6. Briefly mention the broad principles which clarify the concept of income.**

**Ans.** Following points are considered for determination of taxable income :

1. Income must come from outside.
2. Regular and irregular, all incomes are taxable.
3. Income may come from many sources.
4. Income is taxable on receipt and accrual basis, both.
5. Illegal income is taxable.
6. Disputed income is taxable in the hands of present recipient.
7. Lump sum income is taxable.
8. Tax free income received is grossed up.
9. Only revenue receipt is income.
10. Income received without consideration (voluntary) is taxable.
11. Any prize, winning from horse race, lottery, gambling, game show and like are taxable.
12. Loss is treated as 'minus income'.

**Q7. Explain the term substantial interest defined in Section 2(32) and its application in at least two situations.**

**Ans.** Substantial interest means:

Particulars	Relevant Provision
For Non-Corporate Entity	Entity person holding 20% or more shares of the profit. In case of company the person who is holding 20% or more voting rights.



Particulars	Relevant Provision
Example	<ul style="list-style-type: none"> <li>◆ If husband and wife both are having substantial interest in a company or firm for concern and receiving any remuneration from that concern then it will be clubbed in the hands of spouse having higher total income before clubbing such income.</li> </ul>
	<ul style="list-style-type: none"> <li>◆ If any spouse is getting any remuneration by doing work of non-professional nature then the income from a such concern in which his spouse has substantial interest then such remuneration is taxable in the hands of person who has substantial interest.</li> </ul>

**Q8. Mr. X a resident, aged 56 years, till recently was a successful businessman filing his return of incomes regularly and promptly ever since he obtained PAN card. During the COVID- Pandemic period his business suffered severely and he incurred huge losses. He was not able to continue his business and finally on 01.01.2024 he decided to wind-up his business which he also promptly intimated to the Jurisdictional Assessing Officer about the closure of his business.**

**The Assessing Officer sent him a notice to tax the income of Assessment Year 2024-25 during the Assessment year 2023-24 itself. Does the Assessing Officer have the power to do so? Are there any exceptions to the general rule "Income of the Previous Year is assessed in the assessment year following the previous year"?**

**[Nov. 2022, 4 Marks]**

**Ans.** The general rule is that income of the previous year is assessed in the assessment year following the previous year. But there are five exceptions to this rule. In these five exceptions, mentioned below, the income of a previous year is taxed in previous year itself:

1. Income of non-resident from Shipping.
2. Income of persons leaving India either permanently or for a long period of time.
3. Income of bodies formed for short duration.
4. Income of a person trying to alienate his assets with a view to avoid payment of tax.
5. Income of a discontinued business.

**Case Answer:**

Yes, In view of abovementioned exception No. 5, the Assessing Officer has the power to send a notice to Mr. X for assessment of income/loss of previ-

ous year in previous year itself and accordingly to ask Mr. X to file return of income now i.e. previous year 2023-24.

**Q9. Explain the following concepts  
Tax Planning, Tax Avoidance, Tax Evasion.**

**Ans.**

Particulars	Relevant Provision
Tax planning	<ul style="list-style-type: none"> <li>◆ The analysis of a financial situation or plan from a tax perspective.</li> <li>◆ The purpose of tax planning is to ensure tax efficiency.</li> <li>◆ Reduction of tax liability and maximizing the ability to contribute to retirement plans are crucial for success.</li> <li>◆ With the help of tax planning, one can ensure that all elements of a financial plan can function together with maximum tax-efficiency.</li> <li>◆ Tax planning is a significant component of a financial plan.</li> </ul>
Tax avoidance	<ul style="list-style-type: none"> <li>◆ The use of legal methods to minimize the amount of income tax owed by an individual or a business.</li> <li>◆ This is generally accomplished by claiming as many deductions and credits as are allowable.</li> <li>◆ It may also be achieved by prioritizing investments that have tax advantages, such as buying municipal bonds.</li> <li>◆ Tax avoidance is not the same as tax evasion which relies on illegal methods such as underreporting income and falsifying deductions</li> </ul>
Tax evasion	<ul style="list-style-type: none"> <li>◆ An illegal activity in which a person or entity deliberately avoids paying a true tax liability.</li> <li>◆ Those caught evading taxes are generally subject to criminal charges and substantial penalties.</li> </ul>

**Q10. Mention income tax rates applicable to individual in Old Tax Regime and Alternate Tax Regime (Under section 115BAC) for previous year 2023-24 (Assessment Year 2024-25), including surcharge and health and education cess.**

**Ans.:**

**(a) Tax rates in old tax regime for Previous Year 2023-24  
(Assessment Year 2024-25)**

S. No.	Income	Below 60 Yrs. age	Senior Citizen aged 60 yrs. less than 80 yrs.	Super Senior Citizen aged 80 yrs. or more	Rate of Tax
(i)	First	2,50,000	3,00,000	5,00,000	Exempt
(ii)	Next	2,50,000	2,00,000	NIL	5%
(iii)	Next	5,00,000	5,00,000	5,00,000	20%
(iv)	Above	10,00,000	10,00,000	10,00,000	30%

**(b) Tax rates in alternate tax regime for Previous Year 2023-24 (Assessment Year 2024-25) under section 115BAC**

S. No.	Income	Rate of Tax
(i)	Up to 3,00,000	Exempt
(ii)	3,00,001 to 6,00,000	5%
(iii)	6,00,001 to 9,00,000	10%
(iv)	9,00,001 to 12,00,000	15%
(v)	12,00,001 to 15,00,000	20%
(vi)	Above 15,00,000	30%

**Note:** Rebate under section 87A is on ₹ 7,00,000 for assessee opting for the new tax regime u/s 115BAC.

**Add:** Surcharge in above mentioned both cases:

- (i) Total income exceeds 50 lacs to 1 crore 10% of above calculated tax.
- (ii) Total income exceeds 1 crore to 2 crore 15% of above calculated tax.
- (iii) Total income exceeds 2 crore to 5 crore 25% of above calculated tax.
- (iv) Total income exceeds 5 crore (now) 25% of above calculated tax.

**Add:** At the end health and education cess @ 4% of total (including surcharge).

The grand total shall show total tax due.

**Note:** Marginal tax relief is available in cases of Surcharge.

# 2

## CHAPTER

# RESIDENCE AND SCOPE OF TOTAL INCOME

**Q1. Devesh and Siddhant are brothers and they earned the following incomes during the financial year 2023-24. Devesh settled in America in the year 1988 and Siddhant settled in Mumbai. Devesh visits India for 20 days every year. Siddhant also visits America every year for a month.**

**Compute their total income for the Assessment year 2024-25 from the following information.**

Particulars	Devesh	Siddhant
Interest on America Development bonds, 50% of interest received in India.	46,000	18,000
Dividend from a Japanese Company received in America	10,000	15,000
Profit on sale of shares of an Indian company received in India	45,000	75,000
Profit from a business in Mumbai, but managed directly from America	10,000	
Income from a business in Mumbai	32,000	28,000
Fees for technical services rendered in America and received in America. The services were however utilized in India	1,50,000	
Interest on savings bank deposit in State Bank of India, Mumbai	4,500	12,000
Rent received in respect of house property at Mumbai	96,000	55,000
Life Insurance Premium paid		25,000

[May 2013, 8 Marks]

**Ans. Residential Status:**

1. Devesh: He visited India for 20 days every year hence he is Non-Resident.

2. Siddhant: He is staying in India every year for more than 182 days hence he is Ordinary Resident.

**Computation of Total Income of Devesh and Siddhant  
(Assessment Year 2024-25)**

Particulars	Devesh (NR)	Siddhant (Ordinary Resident)
Interest on America Development bonds, 50% of interest received in India.	23,000	18,000
Dividend from a Japanese Company received in America		15,000
Profit on sale of shares of an Indian company received in India	45,000	75,000
Profit from a business in Mumbai, but managed directly from America	10,000	
Income from a business in Mumbai	32,000	28,000
Fees for technical services rendered in America and received in America. The services were however utilized in India	1,50,000	
Interest on savings bank deposit in State Bank of India, Mumbai	4,500	12,000
Rent received in respect of house property at Mumbai (Note 1)	67,200	38,500
<b>Gross Total Income</b>	<b>3,31,700</b>	<b>1,86,500</b>
<b>Less: Deductions under Chapter VIA (Note 2)</b>	<b>(4,500)</b>	<b>(35,000)</b>
<b>Total Income</b>	<b>3,27,200</b>	<b>1,51,500</b>

**Note 1:** Standard Deduction u/s 24 is allowed on rent @30%. Devesh will be taxable  $96,000 \times 70/100 = 67,200$  and Siddhant will be taxable  $55,000 \times 70/100 = 38,500$ .

**Note 2: Deductions under Chapter VIA will be:**

Name	Section	Particulars	Max	Entitlement	Deduction
Devesh	80TTA	Interest on saving bank account	10,000	4,500	4,500
Siddhant	80C	Life Insurance Premium	25,000	25,000	25,000
Siddhant	80TTA	Interest on saving bank account	10,000	10,000	10,000

**Q2.** Mrs. Geeta and Mrs. Leena are sisters and they earned the following income during the Financial Year 2023-24. Mrs. Geeta is settled in Malaysia since 1987 and visits India for a month every year. Mrs. Leena is settled in Indore since her marriage in 1995. Compute the total income of Mrs. Geeta and Mrs. Leena for the assessment year 2024-25.

Particulars	Geeta (NR)	Leena (Resident)
Income from Profession in Malaysia, (set-up in India) received there	15,000	
Profit from business in Delhi, but managed directly from Malaysia	40,000	
Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels	1,20,000	
Dividend from PQR Ltd. an Indian Company	5,000	9,000
Dividend from a Malaysian company received in Malaysia	15,000	8,000
Cash gift received from a friend on Mrs. Leena's 50th birthday		51,000
Agricultural income from land in Maharashtra	7,500	4,000
Past foreign untaxed income brought to India	5,000	
Fees for technical services rendered in India received in Malaysia	25,000	
Income from a business in Pune (Mrs. Geeta receives 50% of the income in India)	12,000	15,000
Interest on debentures in an Indian company (Mrs. Geeta received the same in Malaysia)	18,500	14,000
Short-term, capital gain on sale of shares of an Indian company	15,000	25,500
Interest on savings account with SBI	12,000	8,000
Life insurance premium paid to LIC		30,000

[Nov. 2014, 8 Marks]

Ans.:

**Computation of Total Income of Geeta and Leena  
(Assessment Year 2024-25)**

Particulars	Geeta (Non-Resi- dent)	Leena (Resi- dent)
Income from Profession in Malaysia, (set-up in India) re- ceived there		
Profit from business in Delhi, but managed directly from Malaysia	40,000	
Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels		
Dividend from PQR Ltd. an Indian Company	5,000	9,000
Dividend from a Malaysian company received in Malaysia		8,000
Cash gift received from a friend on Mrs. Leena's 50th birthday		51,000
Agricultural income from land in Maharashtra	Exempt	Exempt
Past foreign untaxed income brought to India		
Fees for technical services rendered in India received in Malaysia	25,000	
Income from a business in Pune (Mrs. Geeta receives 50% of the income in India)	12,000	15,000
Interest on debentures in an Indian company (Mrs. Geeta received the same in Malaysia)	18,500	14,000
Short-term, capital gain on sale of shares of an Indian company	15,000	25,500
Interest on savings account with SBI	12,000	8,000
Gross Total Income	1,27,500	1,30,500
Less: Deductions under Chapter VIA (Note 1)	10,000	38,000
Total Income	1,17,500	92,500

**Note 1: Deductions under Chapter VIA will be:**

Name	Section	Particulars	Max	Entitle- ment	Deduc- tion
Geeta	80TTA	Interest on saving bank account	10,000	10,000	10,000
Leena	80C	Life Insurance Premium	30,000	30,000	30,000
Leena	80TTA	Interest on saving bank account	8,000	8,000	8,000