

CA / CMA - INTER

MAY / JUNE & NOV / DEC 2024 EXAMS

AS AMENDED BY FINANCE ACT 2023

COMPILER

DIRECT TAX

**QUESTION
& ANSWERS**



CA BHANWAR BORANA

Contents

Chapter 1	Basic Concepts	1
Chapter 2	Residence and Scope of Total Income	12
Chapter 3	Income from Salary	29
Chapter 4	Income from House Property	62
Chapter 5	Profit & Gain from Business or Profession (PGBP)	84
Chapter 6	Capital Gain	118
Chapter 7	Income from Other Sources	136
Chapter 8	Income of Other Persons Included in Assessee's Total Income	143
Chapter 9	Aggregation of Income, Set-Off and Carry Forward of Losses	156
Chapter 10	Deductions from Gross Total Income	183
Chapter 11	Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source	208
Chapter 12	Provisions for Filing return of Income and Self Assessment	226
Chapter 13	Income Tax Liability Computation and Optimisation [Total Income & Tax liability]	232

Basic Concepts

Question 1

Mr. X has a total income of ₹ 12,00,000 for P.Y.2023-24, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2024-25 assuming his age is—

- (a) 45 years
(b) 63 years
(c) 82 years

Assume that Mr. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [Ignore 115BAC] [SM Q.]

Answer 1

(a) Computation of Tax liability of Mr. X (age 45 years)

Tax liability:

First ₹ 2,50,000	- Nil	
Next ₹ 2,50,001 – ₹ 5,00,000	- @5% of ₹ 2,50,000	= ₹ 12,500
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	= ₹ 1,00,000
Balance i.e., ₹ 12,00,000 minus ₹10,00,000	- @30% of ₹ 2,00,000	= ₹ 60,000
		= ₹ 1,72,500
Add: Health and Education cess@4%		= ₹ 6,900
		= ₹ 1,79,400

(b) Computation of Tax liability of Mr. X (age 63 years)

Tax liability:

First ₹ 3,00,000	- Nil	
Next ₹ 3,00,001 – ₹ 5,00,000	- @5% of ₹ 2,00,000	= ₹ 10,000
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	= ₹ 1,00,000
Balance i.e., ₹ 12,00,000 minus ₹10,00,000 - @30% of ₹ 2,00,000		= ₹ 60,000
		= ₹ 1,70,000
Add: Health and Education cess@4%		= ₹ 6,800
		= ₹ 1,76,800

(c) Computation of Tax liability of Mr. X (age 82 years)

Tax liability:

First ₹ 5,00,000	- Nil	
Next ₹ 5,00,001 – ₹ 10,00,000	- @ 20% of ₹ 5,00,000	= ₹ 1,00,000
Balance i.e., (₹12,00,000 - ₹10,00,000) - @ 30% of ₹ 2,00,000		= ₹ 60,000
		= ₹ 1,60,000
Add: Health and Education cess@4%		= ₹ 6,400
		= ₹ 1,66,400

Question 2

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 2

Computation of tax liability of Mr. A for the A.Y.2024-25

(A) Tax payable including surcharge on total income of		₹ 51,00,000
₹ 2,50,000 – ₹ 5,00,000 @5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 51,00,000 @30%	₹ <u>12,30,000</u>	
Total	₹ 13,42,500	
Add: Surcharge @ 10%	₹ <u>1,34,250</u>	₹ 14,76,750
 (B) Above amount is restricted to		
Tax on ₹ 50 lakhs + (NTI - 50 lakhs)		
₹ 13,12,500 + ₹ 1,00,000		₹ 14,12,500
(C) Tax payable: lower of (A) and (B)		₹ 14,12,500
Add: Health and education cess @4%		₹ <u>56,500</u>
Tax liability		₹ <u>14,69,000</u>
(D) Marginal Relief (A – B)		₹ 64,250

Question 3

Compute the tax liability of Mr. B (aged 51), having total income of ₹ 1,01,00,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. [SM Q.]

Answer 3

Computation of tax liability of Mr. B for the A.Y. 2024-25 as per default taxation regime u/s 115BAC

(A) Tax payable including surcharge on total income of ₹ 1,01,00,000		
₹ 3,00,000 – ₹ 6,00,000@5%		₹ 15,000
₹ 6,00,001 – ₹ 9,00,000@10%		₹ 30,000
₹ 9,00,001 – ₹ 12,00,000@15%		₹ 45,000
₹ 12,00,001 – ₹ 15,00,000@20%		₹ 60,000
₹ 15,00,001 – ₹ 1,01,00,000@30%		₹ <u>25,80,000</u>
Total		₹ 27,30,000
Add: Surcharge@15%		₹ <u>4,09,500</u>
Tax liability without marginal relief		₹ <u>31,39,500</u>
(B) Above amount is restricted to		
Tax on 1 crore + (NTI - 1Cr)		
(27,00,000 + 10% surcharge) + 1,00,000		₹ 30,70,000
(C) Tax payable: lower of (A) & (B)		₹ 30,70,000
Add: Health and education cess @4%		₹ <u>1,22,800</u>
Tax liability		₹ <u>31,92,800</u>
(D) Marginal relief (A-B)		₹ 69,500

Question 4

Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 4,40,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2024-25. Assume assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [Ignore 115BAC] **[SM Q.]**

Answer 4**Computation of tax liability of Mr. Raghav for A.Y. 2024-25**

Particulars	₹
Tax on total income of ₹ 4,40,000	
Tax@5%of ₹ 1,90,000 (₹ 4,40,000 – ₹ 2,50,000)	9,500
Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500)	<u>9,500</u>
Tax Liability	<u>Nil</u>

Question 5

Mr. Dinesh aged 35 years and a resident in India, has a total income of ₹ 4,80,000, comprising of long-term capital gains taxable u/s 112. Compute his tax liability for A.Y.2024-25. Assume assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [Ignore 115BAC] **[SM Q.]**

Answer 5**Computation of tax liability of Mr. Dinesh for A.Y. 2024-25**

Particulars	₹
Tax on total income of ₹ 4,80,000	
Tax@20%of ₹ 2,30,000 (₹ 4,80,000 – ₹ 2,50,000, being unexhausted basic exemption limit)	46,000
Less: Rebate u/s 87A (Lower of ₹ 46,000 or ₹ 12,500)	<u>12,500</u>
	33,500
Add: Health and education cess @4%	<u>1,340</u>
Tax Liability	<u>34,840</u>

Question 6

Who is an "Assessee"?

[SM Q.]**Answer 6**

As per section 2(7), assessee means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961.

In addition, the term includes –

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
 - his income; or
 - the income of any other person in respect of which he is assessable; or
 - the loss sustained by him or by such other person; or
 - the amount of refund due to him or to such other person.
- Every person who is deemed to be an assessee under any provision of the Act;
- Every person who is deemed to be an assessee in default under any provision of the Act.

Question 7

What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law. [SM Q.]

Answer 7

The two schools of Hindu law are Dayabaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India. Under the Dayabaga school of Hindu Law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.

Under the Mitakshara school of Hindu Law, one acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.

Question 8

The Jain HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights? [SM Q.]

Answer 8

Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property.

Hence, Mr. Suresh Jain and his brother, Mr. Pritam Jain would be the coparceners of the Jain HUF and are eligible for coparcenary rights.

Question 9

What is the difference between an Association of Persons and Body of Individuals? [SM Q.]

Answer 9

In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly.

Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, coexecutors or co-trustees are assessable as a BOI as their title and interest are indivisible.

The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI.

In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

Question 10

State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year. [SM Q.]

Answer 10

The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few 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 his 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 the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make 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 under this section 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 up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

Question 11

Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable under section 112 of ₹ 55,00,000, short term capital gain taxable u/s 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for A.Y.2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes. [SM Q.]

Answer 11

Computation of tax liability of Mr. Agarwal for the A.Y.2024-25 as per default tax regime u/s 115BAC

Particulars	₹
Tax on total income of ₹ 6,50,00,000	
Tax@20% on LTCG of ₹ 55,00,000	11,00,000
Tax@15% STCG 111A of ₹ 65,00,000	9,75,000
Tax on other income of ₹ 6,30,00,000	
₹ 3,00,000 – ₹ 6,00,000@5%	₹ 15,000
₹ 6,00,001 – ₹ 9,00,000@10%	₹ 30,000
₹ 9,00,001 – ₹ 12,00,000@15%	₹ 45,000
₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000
₹ 15,00,001 – ₹ 5,30,00,000 @30%	₹ 1,54,50,000
	1,56,00,000

Chapter 1: Basic Concepts

Particulars	₹
Add: Surcharge @15% on ₹ 20,75,000	3,11,250
@25% on ₹ 1,56,00,000	39,00,000
	42,11,250
Add: Health and education cess @4%	2,18,86,250
	8,75,450
Tax Liability	2,27,61,700

Computation of tax liability of Mr. Agarwal for the A.Y.2024-25 as per Normal Provisions

Particulars	₹
<u>Tax on total income of ₹ 6,50,00,000</u>	
Tax @20% on LTCG of ₹ 55,00,000	11,00,000
Tax @15% STCG 111A of ₹ 65,00,000	9,75,000
Tax on other income of ₹ 3,30,00,000	
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000
₹ 10,00,000 – ₹ 5,30,00,000 @30%	1,56,00,000
	1,77,87,500
Add: Surcharge @15% on ₹ 20,75,000	3,11,250
@37% on ₹ 1,57,12,500	58,13,625
	61,24,875
Add: Health and education cess @4%	2,39,12,375
	9,56,495
Tax Liability	2,48,68,870

Question 12

Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable u/s 112 of ₹ 52,00,000, short term capital gain taxable u/s 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2024-25. Assume he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [Ignore 115BAC] [SM Q.]

Answer 12

Computation of tax liability of Mr. Sharma for the A.Y.2024-25

Particulars	₹
<u>Tax on total income of ₹ 2,30,00,000</u>	
Tax @ 20% of ₹ 52,00,000	10,40,000
Tax @ 15% of ₹ 64,00,000	9,60,000
Tax on other income of ₹ 1,14,00,000	
₹ 3,00,000 – ₹ 5,00,000 @5%	10,000
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000
₹ 10,00,000 – ₹ 1,14,00,000 @30%	31,20,000
	32,30,000

Particulars	₹
	52,30,000
Add: Surcharge @15%	7,84,500
	60,14,500
Add: Health and education cess @4%	2,40,580
Tax Liability	62,55,080

Question 13

Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute B's business income and agricultural income. [SM Q.]

Answer 13**Computation of Business Income and Agriculture Income of Mr. B**

Particulars	Business Income	Agricultural Income	
	(₹)	(₹)	(₹)
<u>Sale of Sugar</u>			
<u>Business income</u>			
Sale Proceeds of sugar	25,00,000		
Less: Market value of sugarcane (70%)	22,00,000		
Less: Manufacturing exp.	<u>1,50,000</u>		
	<u>1,50,000</u>		
<u>Agricultural income</u>			
Market value of sugarcane (70%)		22,00,000	
Less: Cost of cultivation		<u>14,00,000</u>	
			8,00,000
<u>Sale of sugarcane</u>			
<u>Agricultural Income</u>			
Sale proceeds of sugarcane (30%)		10,00,000	
Less: Cost of cultivation		<u>5,00,000</u>	<u>5,00,000</u>
			<u>13,00,000</u>
Agriculture Income			<u>13,00,000</u>

Question 14

Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961:

- Rent received for letting out agricultural land for a movie shooting.
- Income from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee.

[SM Q.]

Chapter 1: Basic Concepts

Answer 14

(i) **Rent received for letting out agricultural land for a movie shooting:**

As per section 2(1A), "agricultural income" means, inter alia,

- any rent or revenue derived from land
- which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose and hence, it does not constitute agricultural income.

(ii) **Income from sale of seedlings in a nursery:**

As per Explanation 3 to section 2(1A), income derived from saplings or seedlings grown in a nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land.

Therefore, the amount received from sale of seedlings in a nursery adjacent to the agricultural lands owned by the assessee constitutes agricultural income.

Question 15

Mr. Raja, a resident Indian, earns income of ₹ 10 lakhs from sale of coffee grown and cured in India during the A.Y. 2024-25. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y. 2024-25. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam? [SM Q.]

Answer 15

In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.

Business income of Mr. Raja = 25% of ₹ 10 lakhs = ₹ 2.5 lakhs

Business income of Mr. Shyam = 40% of ₹ 20 lakhs = ₹ 8 lakhs

Question 16

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2023-24.

- (i) Income from salary (computed) - ₹ 4,80,000
- (ii) Income from house property (computed) - ₹ 2,50,000
- (iii) Agricultural income from a land in Jaipur - ₹ 4,80,000
- (iv) Expenses incurred for earning agricultural income - ₹ 1,70,000

Compute his tax liability for A.Y. 2024-25 assuming his age is -

- (a) 45 years
- (b) 70 years

Answer 16

(a) **Computation of tax liability (age 45 years)**

Computation of total income of Mr. X for the A.Y. 2024-25 under default tax regime under section 115BAC

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		4,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	=
Gross Total Income		7,30,000
Less: Deductions under Chapter VI-A		=
Total Income		<u>7,30,000</u>

Step 1 : ₹ 7,30,000 + ₹ 3,10,000 = ₹ 10,40,000

Tax on ₹ 10,40,000 = ₹ 66,000

(i.e., 5% of ₹ 3,00,000 plus 10% of ₹ 3,00,000 plus 15% of ₹ 1,40,000)

Step 2 : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000

Tax on ₹ 6,10,000 = ₹ 16,000

(i.e. 5% of ₹ 3,00,000 plus 10% of ₹ 10,000)

Step 3 : ₹ 66,000 – ₹ 16,000 = ₹ 50,000

Step 4 & 5 : Total tax payable = ₹ 50,000

= ₹ 50,000 + 4% of ₹ 50,000 = ₹ 52,000.

Computation of total income of Mr. X for the A.Y. 2024-25 under normal provisions of the Act

Step 1 : ₹ 7,30,000 + ₹ 3,10,000 = ₹ 10,40,000

Tax on ₹ 10,40,000 = ₹ 1,24,500

(i.e., 5% of ₹ 2,50,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 40,000)

Step 2 : ₹ 3,10,000 + ₹ 2,50,000 = ₹ 5,60,000

Tax on ₹ 5,60,000 = ₹ 24,500

(i.e. 5% of ₹ 2,50,000 plus 20% of ₹ 60,000)

Step 3 : ₹ 1,24,500 – ₹ 24,500 = ₹ 1,00,000

Step 4 & 5 : Total tax payable = ₹ 1,00,000

= ₹ 1,00,000 + 4% of ₹ 1,00,000 = ₹ 1,04,000.

(b) Computation of tax liability (age 70 years)

Computation of total income of Mr. X for the A.Y. 2024-25 under default tax regime under section 115BAC

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years of 70 years i.e., ₹ 52,000.

Computation of total income of Mr. X for the A.Y. 2024-25 under normal provisions of the Act

His tax liability is computed in the following manner:

Step 1 : ₹ 7,30,000 + ₹ 3,10,000 = ₹ 10,40,000

Tax on ₹ 10,40,000 = ₹ 1,22,000

(i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 40,000)

Step 2 : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000

Tax on ₹ 6,10,000 = ₹ 32,000

(i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)

Step 3 : ₹ 1,22,000 – ₹ 32,000 = ₹ 90,000

Step 4 & 5 : Total tax payable = ₹ 90,000

= ₹ 90,000 + 4% of ₹ 1,00,000 = ₹ 93,600.

Question 17

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2024:

S. No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2024-25. [SM Q.]

Answer 17

Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2024-25

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
- Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

Question 18

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion.

- (i) Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹ 10,000. He sub-lets the land to Mr. Manish for a monthly rent of ₹ 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.
- (ii) Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income-tax since paddy as grown on land is not fit for sale in its original form.

Answer 18

- (i) The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income under section 2(1A)(a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant. Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1). As per section 14A, no deduction is allowable in respect of exempt income.
- (ii) The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income under section 2(1A)(b)(ii). The process of making the rice ready from paddy for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market. Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.