

Roots Institute of Financial Markets

RIFM



Practice Book

Tax Planning and Estate Planning

Assessment Year 2010-11



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Forward

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Chapter-4

Tax Calculations and special Rules

1. The maximum amount on which income-tax is not chargeable in case of H.U.F. for assessment year 2010-11 is:
 - A. Rs.110000
 - B. Rs. 1,60,000
 - C. Rs.1,80,000
 - D. None of above
2. The maximum amount on which income tax is not chargeable for the assessment year 2010-11 in case of a resident woman who is less than 65 years old is:
 - A. Rs. 1,60,000
 - B. Rs. 1,90,000
 - C. Rs. 2,400.00
 - D. Rs. 1,80,000
3. The maximum amount on which income-tax is not chargeable for-the assessment year 2010-11 in case of women who is not resident in India and who is less than 65years old is:
 - A. Rs. 1,90,000
 - B. Rs. 1,60,000
 - C. Rs. 2,40,000
 - D. Rs. 1,50,000
4. The maximum amount on which income tax is not chargeable for the assessment year 2010-11 in case of an individual other than a resident woman or a resident individual less than 65 years old is:
 - A. Rs. 1,90,000
 - B. Rs. 1,60,000
 - C. Rs. 2,40,000
 - D. Rs. 1,10,000
5. The maximum amount on which income-tax is not chargeable for the assessment year 2010-11 in case of a man/women who is of the age of 65 years or above but who is not resident of India is:



- A. Rs. 1,90,000
B. Rs. 2,40,000
C. Rs. 1,60,000
D. Rs. 1,50,000
6. The maximum amount on which income tax is not chargeable for the assessment year 20 10-11 in case of an individual who is resident in India and 65 years old is:
- A. Rs. 1,60,000
B. Rs. 1,90,000
C. Rs. 2,40,000
D. Rs.2,75,000
7. The maximum amount on which income-tax is not chargeable in case of firm is:
- A. Rs. 1,60,000
B. Rs. 1,50,000
C. Rs.1,10,000
D. Nil
50. Securities transaction tax paid by the purchaser of shares/units shall
- A. form part of the cost of such shares and units
B. not form part of the cost of such shares and units
52. Sumit purchased a house property for Rs. 26,000 on 10-5-1962. He gets the first floor of the house constructed in 1967-68 by spending Rs. 40,000. He died on 12-9-1978 property is transferred to Mrs. Sumit by his will. Mrs. Sumit spends Rs. 30,000 and Rs.26,700 during 1979-80 and 1985-86 respectively for renewals/reconstruction of the property .Mrs. Sumit sells the house property for Rs. 12,00,000 on 15-3-2010, brokerage paid by Mrs. R is Rs. 12,000. The fair market value of the house on 1-4-1981 was Rs. 1,60,000.
- Find out the amount of capital gain chargeable to tax for the assessment year 2010-11
- A. 1040000
B. 1013300
C. 61925
D. 49925

55. Sumit purchased a plot for Rs. 3,00,000 in 1987-88 and it was sold on 10-6-2009 for



Rs. 17,00,000. He paid Rs. 40,000 as brokerage charges. He invested Rs. 4,00,000 in Bonds of NHA (Notified u/s 54EC) on 28-8-2009.

Compute the taxable amount of capital gain if CII for 1987-88 is 150.

- A. 396000
- B. 1400000
- C. NIL
- D. (-)4000

56. Amit had purchased 1200 listed shares of Rs. 10 each of a company on 15-4-1991 for Rs. 54,600. Company declared a right issue in the ratio of 2:1 at a price of Rs. 3.0 per share in October, 2009. He sold the right for 300 shares against Rs. 20 per share and remaining 300 shares were purchased by him which was allotted on 5-11-2009. He sold all the shares @ Rs. 90 each on 15-3-2010 through a recognized stock exchange. He paid brokerage @ 2% and securities transaction tax at the applicable rate. Cost inflation index for 1991-92 is 199 and for 2009-10 is 632. Compute taxable capital gains.

- A. (-) 44103
- B. 23460
- C. 17460
- D. (-)67563

57. Namit purchased 500 listed equity shares of Rs. 10 each for Rs. 40 per share in 10 each for Rs. 40 per share in 1989-90 and incurs an expenditure of Rs. 400 on brokerage. In May 1993 he receives 100 bonus shares. In September, 2009 he gets 100 rights shares for Rs. 20 each. He sold 100 bonus shares in November, 2009 at Rs. 30 per share and 100 right shares @ 30 per share in December 2009. The bonus shares as well as right shares have been kept in a separate

depository. Both the sales were made through the stock exchange. Rs. 15 were paid as securities transaction tax. Find out the taxable capital gain for the assessment year 2010-11

- A. 4000
- B. 1000
- C. 3000
- D. NIL

58. On 1-8-1976, Mrs. Sumit purchased 400 shares of Atal Ltd., @ Rs. 100 per share. On 31-12-1980. Atal Ltd., issued bonus shares, Mrs. R was allotted 600 bonus shares. The



fair market value of the shares on 1-4-1981 was Rs. 150 per share. On 3-10-2009 Mrs. Sumit sold all the 1,000 share @ Rs. 1,100 per share and paid brokerage etc. @ 2% on sale consideration. Out of the sale consideration, she invested Rs. 3,00,000 in the construction of a residential house which was completed before 30-6-2010.

Compute the taxable income from capital gains of Mrs. Sumit for the assessment year 2010-11 assuming that she does not own any other residential house and the above shares are not sold through recognized stock exchange.

- A. 130000
- B. 950000
- C. 93822
- D. NIL

59. Sumit is a resident of India. He furnishes the following information about his incomes during previous year 2009-10:

(i) Capital gain Rs. 10,500 from a house which he occupied for two years before the date of sale 31-7-2009

(ii) On 31-12-2009, he sold equity shares of Thapar Ltd., for Rs. 1,25,000 through the recognized stock exchange, which were purchased by him on 1-4-1986 for Rs. 21,000. Securities transaction tax paid Rs. 125.

(iii) He sold an agricultural land for Rs. 5,25,500 on 5-4-2009. The land was owned by him since 4-7-2000, and was purchased for Rs. 6,000. The land is situated in a village with population of 8,000.

(iv) On 1-3-2010, he sold a flat for Rs. 6,82,500 which was purchased by him on 1-1-1977 for Rs. 60,000. The fair market value of this flat was Rs. 90,000 on 1-4-1981.

Compute his taxable income from capital gain for assessment year 2010-11.

- A. 124200
- B. 124075
- C. 154400
- D. 154275

60. Namit is shareholder of G Ltd. He acquired 5,000 shares of the company of the face value of Rs. 10 per share in 1972. The fair market value of the shares as on 1-4-1981 was Rs. 90 per share. He made a further purchase of 2,000 shares at the rate of Rs. 200 in 1985-86, G Ltd., issued bonus shares in 1989-90 in the proportion of 2: 1, when the market value was Rs. 300 per share.

AB Ltd., Company, in a scheme of amalgamation in 2009-10 made proposal to acquire



the shares of G Ltd., as per offer given below:

Rs. 400 per share in cash plus 1 share in AB Ltd., for every 3 shares of G Ltd.

The market value of shares of AB Ltd., on the date of offer is Rs. 400 per share

Compute the Capital Gain, if any, arising to Namit if he accepts the offer.[C.I.I for 1981-82 is 100, for 1985-86 is 133 and for 1989-90 is 172.

- A. 855248
- B. 4750000
- C. NIL
- D. None of above

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Answers Chapter 4					
1	B	29	C	57	C
2	B	30	C	58	C
3	B	31	C	59	C
4	B	32	C	60	C
5	C	33	B	61	C
6	C	34	B	62	B
7	D	35	B	63	B
8	C	36	B	64	C
9	B	37	B	65	B
10	A	38	B	66	B
11	D	39	B	67	C
12	B	40	B	68	A
13	B	41	B	69	B
14	C	42	B		
15	C	43	C		
16	C	44	B		
17	B	45	D		
18	A	46	C		
19	B	47	B		
20	A	48	A		
21	B	49	B		
22	A	50	B		
23	A	51	A		
24	C	52	B		
25	B	53	C		
26	C	54	B		
27	C	55	B		
28	C	56.	B		



Solution 51

Section 64(1)(iv) of the Income-tax Act provides that when an asset is transferred by an individual to his spouse, otherwise than for adequate consideration, the income arising from that asset is included in the total income of the transferor. However, for applying this provision, the marital status must exist both at the time of transfer of asset and at the time of accrual of income. This view is also upheld by the Supreme Court. In the present problem, shares were transferred by Sumit to Vidya before marriage. Hence, clubbing provisions are not applicable and as such Sumit is not liable to capital gain tax. Tax in this case shall be chargeable in the hands of Vidya as under:

	Rs.
Consideration price 1,500 x 300	4,50,000
Less: Indexed cost $\frac{150000 \times 632}{259}$	<u>3,66,023</u>
Long-term capital gain	<u>83,977</u>

Note. -It has not been mentioned that the above shares are listed shares. If these shares had been listed shares and were sold through a recognized stock exchange, then long-term capital gain would have been exempt.

Solution 52

Taxable capital gain		
Sales consideration		12,00,000
Less: Indexed cost of acquisition $1,60,000 \times \frac{632}{100}$	10,11,200	
Indexed cost of improvement $26,700 \times \frac{632}{133}$	1,26,875	
Expenses on transfer	<u>12,000</u>	<u>11,50,075</u>
Long-term capital gain		<u>49,925</u>

Solution 53

	<i>Land</i> Rs.	<i>Gold</i> Rs.	<i>Debentures</i> Rs.
Sale proceeds	1,98,00,000	11,86,000	1,57,0000
Less: Cost of acquisition			75000
Indexed cost of acquisition $2800000 \times \frac{632}{100}$			
$241000 \times \frac{632}{100}$	<u>1,76,96,000</u>	<u>15,23,120</u>	
Long-term capital gain/(loss)	<u>21,04,000</u>	<u>(-) 3,37,120</u>	<u>82,000</u>

Long-term capital gain:	
Land	21,04,000
Gold	(-) 3,37,120
Debentures	<u>82,000</u>
	<u>18,48,880</u>



Computation of Total Income of Mr. Namit
(For assessment year 2010-11)

Income from business	1,46,000
Income from capital gain	<u>18,48,880</u>
	<u>19,94,830</u>

1. No indexation is allowed in case of bonds and debentures

2. As debentures are listed, the tax on long-term capital gain on such debentures is chargeable @ 10% instead of 20% as the capital gain has been calculated without indexation.

Solution 54

	Gold Rs.	Shares Rs.
Sale Consideration	19,00,000	6,00,000
Less: Indexed Cost of Acquisition (91,000 x $\frac{632}{244}$)	2,35,705	7,07,115
(2,73,000 x $\frac{632}{244}$)		
Long-term capital gain/loss	<u>16,64,295</u>	<u>(-) 1,07,115</u>
Net long-term capital gain	16,64,295	

Note. -long-term capital loss on sale of shares is not allowed to be set off as long term capital gain on such shares is exempt u/s 10(38).

Solution 55

Computation of taxable Capital Gain .

	Rs.	Rs.
Sale price of plot		17,00,000
Less: Indexed cost [3,00,000 x $\frac{632}{150}$]		
Expenses of transfer	12,64,000	
	<u>40,000</u>	<u>13,04,000</u>
		3,96,000
Less: Exemption u/s 54EC		
Amount invested in Bonds of NHAI Rs. 4,00,000 but limited to		<u>3,96,000</u>
Taxable long-term capital gain		<u>Nil</u>

Solution 56

Computation of capital gain

Capital gain on sale of right (300 shares)

Sale price	6,000
Less: Cost of acquisition	<u>Nil</u>
Short-term capital gain	<u>6,000</u>

Capital gain on sale of right share (300)

Sale price (300 x 90)		27,000
Less: Cost of acquisition (300 x 30)	9,000	
Expenses of transfer (2% of 27,000)	540	
Securities transaction tax	<u>Not allowed</u>	<u>9,540</u>
Short-term capital gain		<u>17,460</u>



Capital gain on sale of Original Share		1,08,000
Full value of consideration (1,200 x 90)		
. . . 54600 x 632		
Less: Indexed cost of acquisition ($\frac{54600 \times 632}{199}$)	1,73,403	
Expenses of transfer	2,160	
Securities transaction tax	<u>Not allowed*</u>	<u>1,75,563</u>
Long-term capital loss		<u>(-) 67,563</u>

Taxable capital gain

Short-term capital gain (6,000 + 17,460)

Note 1: Long-term capital loss Rs. 67,563, not allowed to be set off as long-term capital gain on such shares is exempt u/s 10(38).

Note 2: Short-term capital gain of Rs. 17,460 on account of listed shares transferred through recognized stock exchange shall be taxable @ 15%.

* Securities transaction tax paid is not allowed as deduction as per proviso 5 to section 48

Solution 57

Income from capital gain

Bonus share

Sales consideration (30 x 100)

3,000

Less: Cost of acquisition

Nil

Long-term capital gain (Exempt)

3,000

Right share:

Sales consideration (100 x 30)

3,000

Less: Cost acquisition (20 x 100)

2,000

Short-term capital gain

1,000

Note -1. Long-term capital gain on sale of listed shares is exempt u/s 10(38) and short-term capital gain shall be taxable @ 15% provided these shares are sold through recognized stock exchange.

2. Securities transaction tax is not allowed as deduction

Solution 58

Capital gain on sale a/shares

Sales consideration

Rs.
11,00,000

Less: Index cost of acquisition (1000 x 150 x $\frac{632}{100}$)

9,48,000

Expenses of transfer (commission)

22,000

9,70,000

Long-term capital gain

1,30,000

Less: Exempt u/s 54F (1,30,000 x $\frac{300000}{1078000}$)

1078000

36,178

Long-term capital gain

93,822

Solution 59



Income from capital gain of R	
1. Capital gain on sale of house	
Short-term capital gain	<u>10,500</u>
2. Capital gain from sale of equity shares of Thapar Ltd.	
Sale consideration	1,25,000
Less: Indexed cost 0 acquisition (21000×632)	140
	94,800
Securities transaction tax	<u>Not allowed</u>
Long-term capital gain [Exempt U/S 10(38)]	<u>30,200</u>
3. Capital gain on sale of flat	
Sale consideration	6,82,500
Less: Indexed cost of acquisition (90000×632)	100
	<u>5,68,800</u>
Long-term capital gain	<u>1,13,700</u>
Taxable income from capital gain	
Short-term capital gain 10,500	
Long-term capital gain <u>1,13,700</u>	
Total	<u>1,24,200</u>

Solution 60

Computation of capital gain

	Rs.
(i) Cash received (Rs. 400 x 10,500)	42,00,000
(ii) Value of shares in AB Ltd., [400 x 3,500 shares]	<u>14,00,000</u>
Total sale price	56,00,000
Less: Indexed cost of acquisition (See Note 2)	<u>47,44,752</u>
Long-term capital gain	<u>8,55,248</u>

1. In the present case capital gain shall be taxable as benefit of section 47(vii) cannot be given to Namit as it is an essential condition that for a transfer to be not regarded as transfer, the consideration for shares to be surrendered must be in shares and not in 'cash. It should not be in cash or in a composite consideration as in the present case.

2. Calculation of cost of shares of G Ltd.

Rs.	
Cost of original shares in 1972 (5,000 x 10)	
50,000	
Fair market value on 1-4-1981 (5,000 x 90)	
<u>4,50,000</u>	
Whichever is higher is taken as cost	
<u>4,50,000</u>	
Indexed cost of original shares ($4,50,000 \times 632$)	
	100
28,44,000	
Indexed cost of new shares acquired in 1985-86	



$$(2,000 \times 200 = 4,00,000 \times \frac{632}{133})$$

19,00,752

Cost of bonus shares (3;500)

Nil

Total indexed cost

47,44,752

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Chapter- 7

Heads of Income

1. R Ltd, pays a salary of Rs. 1,90,000 to his employee G and undertakes to pay the Income Tax amounting to Rs. 3,090 during the previous year 2009-10 on behalf of G. The gross Salary of G shall be:
 - A. Rs. 1,90,000
 - B. Rs. 1,93,090
 - C. Rs. 1,86,910

2. R, who is entitled to a Salary of Rs. 10,000 p.m., took an advance of Rs. 20,000 against the salary in the month of March 2010. The gross salary of R for assessment year 2010-11 shall be:
 - A. Rs. 1,40,000
 - B. Rs. 1,20,000
 - C. none of these two

5. Salary of R is Rs. 10,000 p.m. R had taken Salary in advance for the months of April 2009 to June 2009 in March 2009 itself. The gross salary of R for assessment year 2010-11 shall be:
 - A. Rs. 1,20,000
 - B. Rs. 90,000
 - C. none of these two

6. The Government of India announced increase in the D.A on 15-3-2009 with retrospective effect from 1-5-2005 and the same were paid on 6-4-2009. The arrears of D.A shall be taxable in the previous year:
 - A. 2008-09
 - B. 2009-10
 - C. in respective previous years to which these relate

7. R is employed with G Ltd., at a salary of Rs. 10,000 p/m. As G Ltd., was in financial crisis, it paid the salary of January 2010 to March 2010 to R only in July 2010. The gross salary of R for assessment year 2010-11
 - A. Rs. 1,20,000
 - B. Rs. 90,000
 - C. none of these two



8. R, who is entitled to Salary of Rs. 10,000 p.m. took advance salary from his employer for the months of April and May 2010 along with Salary of March 2010 on 31-3-2010. The gross salary of R for assessment year 2010-11 shall be:
- A. Rs. 1,20,000
 - B. Rs. 1,40,000
 - C. none of these two
9. R who was working with another company joined the present employer w.e.f. 1-5-2009 at a Salary of Rs. 10,000 p.m. His salary becomes due on first of next month. He was also entitled to a pension of Rs. 4,000 p.m. From his former employer as he retired on 31-3-2009. His gross salary for assessment year 2010-11 shall be:
- A. Rs.1,10,000
 - B. Rs. 1,58,000
 - C. Rs. 1,48,000
10. Salary of R becomes due on 1st of next month and it is paid on 7th of that month. For assessment year 2010-11, the salary of R shall be taken from:
- A. April 2009 to March 2010
 - B. March 2009 to February 2010
 - C. none of these
11. Encashment of leave salary at the time of retirement is fully exempt in the case of:
- A. Central Government employee
 - B. State Government employee
 - C. Both Central and State Government employees
 - D. Government employee and employee of local authority.
13. Salary for exemption of leave encashment shall be taken as:
- A. last drawn Salary
 - B. average Salary of 10 months immediately preceding the month of retirement
 - C. average Salary of 10 months immediately preceding the date of retirement.
14. The maximum exemption in case of leave encashment shall be:
- A. Rs. 2,40,000
 - B. Rs.3,50,000
 - C. Rs. 3,00,000
15. An employee availed the exemption of leave encashment of Rs. 1,00,000 in the



past. He received from the second employer a sum of Rs. 2,50,000 as encashment of leave. He will be entitled to exemption to the extent of:

- A. Nil
- B. Rs. 2,50,000
- C. Rs. 2,00,000
- D. Rs. 1,40,000

80 Employer's contribution to unrecognized provident fund is taxable as "profits in lieu of salary" in the year in which contribution is made by the employer.

- A. True
- B. False

81 Bonus received on Keyman insurance policy taken by the employer and assigned in favour of the employee is taxable under the head "Income from other sources".

- A. True
- B. False

82 "Overtime allowance" is taxable as "profits in lieu of salary".

- A. True
- B. False

84 Mr. Sunil was employed with XYZ Ltd. on a weekly basis .He was offered a retrenchment compensation of Rs.450000 as there was change in ownership of company .His total service period in this company was of 15 years and 4 months .His salary for the last four weeks is as below :

1-06-2009 to 07-06-2009	Rs.5000
08-06-2009 to 14-06-2009	Rs.4800
15-06-2009 to 21-06-2009	Rs.6200
22-06-2009 to 28-06-2009	Rs.5600

Calculate the amount of retrenchment compensation chargeable to tax?

- A. Rs.267429
- B. Rs.276249
- C. Rs.276429
- D. Rs.276029



- 85 Mr. Prem Kumar was employed with HKL Ltd. at a weekly wage of Rs.5000.His total tenure of service is 11 years and 4 months; his average salary for the last 4 weeks is Rs.4800.The company has offered him a retrenchment compensation of Rs.150000.He wants to know if he accepts the offer, then on what amount he will be liable to pay tax?
- A. Rs.150, 000
 - B. Rs.1, 13,142
 - C. Rs.36, 587
 - D. Rs.36, 857
- 86 Mr. Sohan is working with LT Ltd. At a monthly salary of Rs.19000 p.m. His total service period in the organization is 18 years and 7 months and his average salary for last 3 months is Rs.18000 p.m. He has been paid a retrenchment compensation of Rs.200000. Calculate the taxable and tax free retrenchment compensation.
- A. Rs.29, 000 and Rs.1, 71,000
 - B. Rs.1, 71,000 and Rs.29, 000
 - C. Rs.21, 000 and Rs.1, 71,000
 - D. Rs.200, 000 and Rs.0
- 87 Shri Shyam Mohan an employee completed 27 years and 8 months of service with Messrs Jaipur Iron and Steel Ltd. and at the time of retirement on 1-1-20 10, he received Rs. 3,30,000 as gratuity. His monthly salary on the date of retirement was Rs. 19,500. He was drawing Rs. 19,000 p.m. prior to July 2009. Find out the amount of taxable gratuity if Payment of Gratuity Act, 1972 applies.
- A. 15000
 - B. 330000
 - C. 350000
 - D. NIL



88 Mr. Suresh was employed since 1-1-1978 in a commercial establishment. His salary was fixed at Rs. 14,800 in the grade of Rs. 14,000 - 400 - 22,000 with effect from 1-7-2007. He got 15% of his salary as dearness allowance which is treated as salary for computation of retirement benefits. He retired from service on 1-2-2010. He received Rs. 3,40,000 as gratuity from his employer. Calculate his gross income under the head 'Salaries' for the assessment year 2010-11 if-

(I) Payment of Gratuity Act, 1972 applies,

(II) Payment of Gratuity Act, 1972 does not apply.

(I)

- A. 178020
- B. 8800
- C. 186820
- D. 233188

(II)

- A. 178020
- B. 8800
- C. 186820
- D. 233188

89 Rajesh retires on 8-1-2010 after serving XY company Ltd. for a period of 19 years and 6 months. At the time of retirement his basic salary was Rs. 14,400 per month and he was also entitled to Dearness Allowance of Rs. 8,000 per month (which is not counted for retirement purposes). On his retirement, he received Rs. 6,00,000 as gratuity. Compute the amount of gratuity exempt from tax. He is covered under the Payment of Gratuity Act.

- A. 350000
- B. 600000
- C. 245538
- D. 354462



90 Anil joined a service in the grade of Rs. 10,400 - 400 - 16,000 - 500 - 20,000 on 1-7-1993 and resigned from the service on 15-9-2009. He was also entitled to dearness allowance @ 50%, which forms part of salary for retirement benefits. On retirement, he received a gratuity of Rs. 2,40,000. He was entitled to a pension of Rs. 8,000 per month w.e.f 16-9-2009. He got 75% of his pension commuted w.e.f. 1-1-2010 and received a sum of Rs. 6,00,000 as commuted pension.

Compute his Gross Salary for assessment year 2010-11.

- A. 546133
- B. 812800
- C. 212800
- D. None of above



Answers Chapter 7

1	B	36	C	71	i)A,ii)C, iii)E	106	C
2	B	37	A,B,D,F,I	72	i)B,ii)F	107	C
3	C	38	C	73	C	108	B
4	C	39	C	74	i)C,ii)C,iii)C ,iv)E,v)E	109	C
5	B	40	A,C,D,E,F, G,H,Q	75	i)B,ii)B	110	C
6	B	41	I)B II)D	76	i)A,ii)A,	111	B
7	A	42	B	77	i)A,ii)A,iii)B	112	B
8	B	43	A	78	i)B,ii)B	113	D
9	C	44	C	79	B	114	B
10	B	45	C	80	B	115	C
11	C	46	C	81	B	116	C
12	B	47	A	82	A	117	B
13	C	48	C	83	B	118	C
14	C	49	B	84	C	119	C
15	C	50	B	85	D	120	C
16	B	51	B	86	A	121	A,C,E,F,G,H ,I,J
17	A	52	C	87	A	122	C
18	A,E,G	53	C	88	i)A,ii)D	123	C
19	C	54	C	89	C	124	A
20	B	55	A	90	A	125	B
21	i)A ii)A iii)B iv) A v) B vi)C	56	A	91	B	126	A
22	i)B ii)C iii)B iv) C	57	A	92	A	127	B
23	A	58	A	93	C	128	C
24	C	59	A	94	B	129	B
25	B	60	C	95	A	130	C
26	C	61	C	96	D	131	C
27	B	62	C	97	B	132	B
28	C	63	D	98	C	133	A,B,C,F,G,H ,I,K,M,P,Q,S ,U,W,Y,Z,AA ,BB,CC,DD
29	D	64	D	99	A	134	C
30	A	65	C	100	B	135	B,C,D,G,I,K, L.M
31	B	66	D	101	C	136	C
32	C	67	C	102	C	137	B
33	C	68	B	103	A	138	B
34	B	69	A	104	A	139	C
35	B	70	B	105	A	140	C



Answers Chapter 7					
141	B	176	B	211	B
142	B	177	B	212	C
143	B	178	C.D	213	C
144	C	179	B,C,D,E,F,G,H,I	214	B
145	D	180	B	215	B
146	C	181	B	216	A
147	B	182	D	217	B
148	C	183	B	218	a)B b)D
149	B	184	B	219	B
150	D	185	B	220	B
151	C	186	C.D	221	A
152	B	187	D	222	C
153	C	188	C	223	A
154	B	189	C	224	C
155	A	190	C	225	C
156	A	191	A	226	C
157	A	192	C	227	C
158	C	193	B		
159	C	194	C		
160	D	195	B		
161	C	196	B		
162	C	197	C		
163	C	198	A		
164	B	199	B		
165	B	200	B		
166	B	201	C		
167	C	202	C		
168	B	203	B		
169	B	204	C		
170	C	205	B		
171	B	206	C		
172	C	207	B		
173	C	208	B		
174	B	209	C		
175	C	210	C		



Solution: 83

Exempted amount is minimum of the following:

Actual amount received =Rs.400000

15 days average salary for 12 years = $(15000 \times 12 \times 15) / 30$ =Rs.90000

Amount specified= Rs.500000

So tax free amount is Rs.90000 and taxable amount is $(400000-90000)$ =Rs.310000

Solution:84

Four weeks average salary = $(5000+4800+6200+5600)/4$ =5400

Exempted amount is minimum of the following:

Actual amount received =Rs.450000

15 days average salary for completed years of service = $15 \times 5400 \times 15/7$ =Rs.1, 73,571

Amount specified= Rs.5, 00,000

So tax free amount is Rs.1, 73,571 and taxable amount is $(450000-173571)$ =Rs.2, 76,429

Solution: 85

Exempted amount is minimum of the following:

Actual amount received =Rs.1, 50,000

15 days average salary for 11 years = $(4800 \times 11 \times 15) / 7$ =Rs.1, 13,142

Amount specified= Rs.5, 00,000

So tax free amount is Rs.1, 13,142 and taxable amount is $(150000-113142)$ =Rs.36, 857

Solution: 86

Exempted amount is the minimum of the following:

Actual amount received = Rs.200000

15 days average salary for 19 years = $(18000 \times 19 \times 15) / 30$ =Rs.171000

Amount specified = Rs.500000

So tax free amount is Rs.171000 and taxable amount is $(200000-171000)$ = Rs29000

Solution 87

19500

(i) $\frac{19500}{26} \times 15 \times 28 = 3,15,000$

(ii) 3,50,000

(iii) 3,30,000

∴ 3, 15,000 is exempt and balance Rs. 15,000 is taxable.

Note.-If an employee is covered under Payment of Gratuity Act, 1972, salary last drawn is taken and not the salary of preceding 10 months

Solution 88



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	Rs.
Salary from April, 2009 to January, 2010	
April 2009 to June, 2009 15,200 x 3	45,600
July 2009 to January, 2010 15,600 x 7	1,09,200
	1,54,800
DA @ 15%	23,220
	1,78,020

(a) Gratuity Act Applies

(i) $\frac{15600 + 2340}{26} \times 15 \times 32 = 3,31,200$

(ii) Rs. 3,50,000

(iii) Rs. 3,40,000

Hence Taxable Amt. = 3,40,000 - 3,31,200 = 8,800

Gross Salary = 1,78,020 + 8,800 1,86,820

(b) Gratuity Act does not apply

$\frac{\text{Ams}}{2} \times 32 = \frac{17802 \times 32}{2}$

2,84,832

3,50,000

3,40,000

∴ Taxable Amt. = 3,40,000 - 2,84,832 = 55,168

Gross Salary 1,78,020 + 55,168 Rs. 2,33,188

* Average salary on the basis of preceding 10 months $\frac{178020}{10} = \text{Rs. } 17,802.$

Solution 89

The exemption shall be to the extent of the minimum of the following three amounts:

(a) Amount of gratuity received Rs. 6,00,000.

(b) 15 days' salary for every year of service i.e., $\frac{22400}{26} \times 15 \times 19 = \text{Rs. } 2,45,538$

(c) Rs. 3,50,000

Therefore Rs. 2,45,538 shall be exempt From tax .

Solution 90

Salary (16,500 x 3 + 17,000 x 2^{1/2})

Dearness Allowance @ 50%

Gratuity received

Less: Exempt

(i) Amount specified 3,50,000

(ii) Half month average salary for every year of service

$[\frac{24900}{16}]$ 1,99,200

Rs.

Rs.

92,000

46,000

2,40,000



2			
(iii) Actual amount received	2,40,000	1,99,200	40800
Pension (4,000 + 8000 + 8000 + 8000 + 2000 x 3)			34,000
Computed pension received	6,00,000		
Less: Exempt [6,00,000 x 4/3 x 1/3]	2,66,667		3,33,333
Gross Salary			<u>5,46,133</u>

Note.-Average Salary = $16,500 \times 8 + 17,000 \times 2 = 1,66,000 + 50\% \text{ of } 1,66,000 = 2,49,000/10 = 24,900$

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Chapter- 8 Capital Gain Tax Rules

1. In case of compulsory acquisition, the period for investment in specified assets under section 54, 54B, 54D and 54F shall be reckoned from:
 - A. the date of transfer
 - B. the date when the part or full compensation is received
 - C. the date as and when any compensation is received

2. Deduction under section 80C to 80U is allowed from:
 - A. gross total income .
 - B. gross total income exclusive of long-term capital gain
 - C. gross total income exclusive of long-term capital gain as well as short-term capital gain.
 - D. gross total income exclusive of long-term capital gain from any asset and short-term capital from the transfer of shares and units through a recognized stock exchange

3. Total income for assessment year 2010-11 of an individual including long-term capital gain of Rs. 60,000 is Rs. 1,90,000. The tax on total income shall be:
 - A. Rs. 6,600
 - B. Rs. 6,180
 - C. Rs.6,798

4. Total income of an individual including long-term capital gain of Rs. 50,000 is Rs. 1,70,000, the tax on total income shall be:
 - A. Rs. 1,030
 - B. Rs. 2,060
 - C. Rs. 2,266

5. Long-term capital gain on sale of equity snares and units of an equal oriented fund shall be
 - A. taxable @ 10% without indexation
 - B. exempt



- C. exempt if sold on or after 1-10-2004
 - D. exempt if sold on or after 1-10-2004 through a recognized stock exchange in India and such transaction is chargeable to securities transaction tax
6. Long-term capital gain from the sale of units of equity oriented fund shall be:
- A. exempt if sold through a recognized stock exchange and securities transaction tax is paid
 - B. exempt if sold through a recognized stock exchange or to mutual fund and securities transaction tax is paid
7. Any short-term capital gain arising for the transfer of equity shares and units of equity oriented fund shall be taxable
- A. at the normal rate
 - B. at the rate of 20%
 - C. at the rate of 10% if transferred on or after 1-10-2004 through a recognized stock exchange and such transaction is chargeable to securities transaction tax
 - D. at the rate of 15% if transferred on or after 1-10-2004 through a recognized stock exchange and such transaction is chargeable to securities transaction tax
8. Period of holding of bonus shares or any other financial asset allotted without any payment shall be reckoned from:
- A. the date of holding of original shares/financial asset
 - B. the date of offer of bonus shares /financial asset
 - C. the date of allotment of such bonus shares/financial assets
9. Period of holding of right shares or any other security shall be reckoned from:
- A. the date of the right shares/any other securities are offered
 - B. the date of right shares/such securities are applied by the assessee
 - C. the date of allotment of right shares/such securities.
10. If physical shares are sold through brokers, the date of transfer shall be:
- A. the date on which shares are transferred by the company
 - B. the date of broker's note book
 - C. the date of broker's note book provided such transaction is followed by delivery of shares.
50. Securities transaction tax paid by the purchaser of shares/units shall
- C. form part of the cost of such shares and units
 - D. not form part of the cost of such shares and units



51. SUMIT proposed to marry Vidya. In consideration of Vidya having agreed to marry Sumit, he transferred 1,500 shares in a company valued at Rs. 100 per share to Vidya on 1-10-1994. The marriage took place on 27-1-1996. Vidya sold the shares on 1-3-2010 @ Rs. 300 per shares.

On the basis of the above facts, decide whether R is liable to tax on capital gain, if any arising from sale of shares.

- A. 83977
- B. 300000
- C. 450000
- D. (498000)

52. Sumit purchased a house property for Rs. 26,000 on 10-5-1962. He gets the first floor of the house constructed in 1967-68 by spending Rs. 40,000. He died on 12-9-1978 property is transferred to Mrs. Sumit by his will. Mrs. Sumit spends Rs. 30,000 and Rs.26,700 during 1979-80 and 1985-86 respectively for renewals/reconstruction of the property .Mrs. Sumit sells the house property for Rs. 12,00,000 on 15-3-2010, brokerage paid by Mrs. R is Rs. 12,000. The fair market value of the house on 1-4-1981 was Rs. 1,60,000.

Find out the amount of capital gain chargeable to tax for the assessment year 2010-11

- E. 1040000
- F. 1013300
- G. 61925
- H. 49925

54. AMIT was the owner of the following assets:

market value	Year of Purchase	Cost	Fair market value as on
		(Rs.)	
1-4-1981			
(Rs.)			
Gold	1976-77	70,000	
91,000			
Listed shares in A Ltd.	1972-73	2,73,000	



1,82,000

AMIT died on 16-8-1993 and as per his will these assets get transferred to his son B. B. now sells these assets on 10-10-2009 for a total consideration of Rs. 25,00,000 (gold Rs. 19,00,000 and shares Rs. 6,00,000). Find out the amount of capital gains chargeable to tax for the assessment year 2010-11 assuming that shares were sold through a recognized stock exchange and securities transaction tax was paid on such sale. CII for the financial years 1981-82, 1993-94 and 2009-10 is 100,244 and 632 respectively.

- A. 1557180
- B. 1664295
- C. 1771410
- D. None of Above

55. Sumit purchased a plot for Rs. 3,00,000 in 1987-88 and it was sold on 10-6-2009 for Rs. 17,00,000. He paid Rs. 40,000 as brokerage charges. He invested Rs. 4,00,000 in Bonds of NHAI (Notified u/s 54EC) on 28-8-2009.

Compute the taxable amount of capital gain if CII for 1987-88 is 150.

- E. 396000
- F. 1400000
- G. NIL
- H. (-)4000

Solution 51

Section 64(1)(iv) of the Income-tax Act provides that when an asset is transferred by an individual to his spouse, otherwise than for adequate consideration, the income arising from that asset is included in the total income of the transferor. However, for applying this provision, the marital status must exist both at the time of transfer of asset and at the time of accrual of income. This view is also upheld by the Supreme Court. In the present problem, shares were transferred by Sumit to Vidya before marriage.

Hence, clubbing provisions are not applicable and as such Sumit is not liable to capital gain tax. Tax in this case shall be chargeable in the hands of Vidya as under:

	Rs.
Consideration price 1,500 x 300	4,50,000
Less: Indexed cost $\frac{150000 \times 632}{259}$	<u>3,66,023</u>
Long-term capital gain	<u>83,977</u>

Note.-It has not been mentioned that the above shares are listed shares. If these shares had been listed shares and were sold through a recognized stock exchange, then long-term capital gain would have been exempt.



Solution 52

Taxable capital gain		
Sales consideration		12,00,000
Less: Indexed cost of acquisition		
1,60,000* <u>632</u>		
100	10,11,200	
Indexed cost of improvement		
26,700* <u>632</u>		
133	1,26,875	
Expenses on transfer	<u>12,000</u>	<u>11,50,075</u>
Long-term capital gain		<u>49,925</u>

Solution 53

	<i>Land</i>	<i>Gold</i>
	<i>Rs.</i>	<i>Rs.</i>
<i>Debentures</i>		
<i>Rs.</i>		
Sale proceeds	1,98,00,000	11,86,000
1,57,0000		
Less: Cost of acquisition		
75000		
Indexed cost of acquisition		
<u>2800000 x 632</u>		
100		
<u>241000 x 632</u>		
100	<u>1,76,96,000</u>	<u>15,23,120</u>
Long-term capital gain/(loss)	<u>21,04,000</u>	<u>(-) 3,37,120</u>
<u>82,000</u>		

Long-term capital gain:

Land	21,04,000
Gold	(-) 3,37,120
Debentures	<u>82,000</u>
	<u>18,48,880</u>

Computation of Total Income of Mr. Namit

(For assessment year 2010-11)

Income from business	1,46,000
Income from capital gain	<u>18,48,880</u>
	<u>19,94,830</u>

1. No indexation is allowed in. case of bonds and debentures

2. As debentures are listed, the tax on long-term capital gain on such debentures is chargeable @ 10% instead of 20% as the capital gain has been calculated without indexation.

Solution 54

Gold



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Shares

Rs.

Rs.

Sale Consideration 19,00,000

6,00,000

Less: Indexed Cost of Acquisition (91,000 x 632) 2,35,705

7,07,115

244

(2,73,000 x 632)

244

Long-term capital gain/loss 16,64,295 16,64,295 (-)

1,07,115

Net long-term capital gain 16,64,295

Note.-long-term capital loss on sale of shares is not allowed to be set off as long term capital gain on such shares is exempt u/s 10(38).

Solution 55

Computation of taxable Capital Gain .

Rs.

Rs.

Sale price of plot

17,00,000

Less: Indexed cost [3,00,000 x 632]

150

12,64,000

Expenses of transfer

13,04,000

40,000

3,96,000

Less: Exemption u/s 54EC

Amount invested in Bonds of NHAH Rs. 4,00,000 but limited to

3,96,000

Taxable long-term capital gain

Nil



Answer Sheet Chapter 8

1	C	36	B
2	D	37	B
3	B	38	B
4	B	39	B
5	D	40	C
6	B	41	B
7	D	42	B
8	C	43	B
9	C	44	A
10	C	45	A
11	B	46	C
12	D	47	A
13	B	48	C
14	B	49	B
15	C	50	B
16	B	51	A
17	C	52	D
18	B	53	A
19	B	54	B
20	C	55	C
21	A	56	B
22	A	57	B
23	(i)(c), (ii)(B)	58	C
24	C	59	A
25	(i)(B), (ii)©	60	A
26	A	61	B
27	C	62	B
28	B	63	A
29	C		
30	B		
31	A		
32	B		
33	C		
34	C		
35	C		



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