Suggested solutions to 3-mark and 4-mark problems contained in the Sample Paper - Exam 4: Tax Planning & Estate Planning

Section II
Question 6

Mrs. A whose date of birth is 30th March 1956 has a total salary income of Rs. 9,78,000 for the previous year 2017-18. She has income from other sources of Rs. 18,142 from her savings bank account. Her only investments are contributions to Recognised Provident Fund account which are 12% of her basic salary of 40,000 per month. Find her tax liability for AY-2018-19.

Solution:

Income from Salary	978,000	Rs.	
Interest from Savings bank account	18,142	Rs. p.a.	
Total income	996,142	Rs. p.a.	978000+18142
Basic salary	40,000	Rs. p.a.	
Deductions eligible:			
Interest up to Rs. 10,000 on savings bank (u/s 80TTA)	10,000	Rs.	
Recognised provident Fund contributions (cum. limit Rs. 1.5 lakh	57,600	Rs.	40000*12%*12
Total deductions eligible	67,600	Rs.	10000+57600
Taxable Salary	928,542	Rs.	996142-67600
Up to Rs. 3,00,000 : Nil (Senior citizen)	-		
Up to Rs. 5,00,000 : 5% in excess of Rs. 3 lakh	10,000	Rs.	(500000-300000)*5%
Up to Rs. 10,00,000 : 20% in excess of Rs. 5 lakh	85,708	Rs.	(928542-500000)*20%
Education Cess(es)	2,871	Rs.	(10000+85708)*3%
Total Tax	**98,580**	Rs.	10000+85708+2871

Section II
Question 7

Your client had inherited a property of market value of Rs. 50 lakh from his grandfather on 28th December 2009. His grandfather had acquired this property on 1st September 2001 for Rs. 12 lakh. He sold this property for Rs. 70 lakh in January 2018. Compute the capital gains/loss for AY 2018-19. Cost inflation index for FY 2001-2002: 100 , 2009-2010 : 148 , 2017-18: 272

Solution:

Acquisition price of the property : 1-Sep 2001	1,200,000	Rs.	
Market Value when inherited: 28-Dec-2009	5,000,000	Rs.	
Sales consideration : January-2018	7,000,000	Rs.	
CII: 2001-02	100		
CII: 2009-10	148		
CII: 2017-18	272		
Index cost of acquisition for Capital Gains	3,264,000	Rs.	1200000*272/100
Capital Gains	**3,736,000**	Rs.	7000000-3264000

Section II

Question 8

An individual has purchased a house worth Rs. 80 lakh for self-occupation in April 2017 by availing housing loan of Rs. 48 lakh at 9.25% p.a. rate of interest for 15 years. He is paying monthly EMIs on reducing balance basis. He intends to pay back the outstanding loan after completing 5 year tenure. He has Rs. 20 lakh worth of financial assets invested at 10.5% p.a. He expects to save annually Rs. 2 lakh beginning April 2018 for four years in the same investment. What shortfall is expected when he would repay the loan?

Solution:

Housing loan liability	4,800,000	Rs.	
Tenure	15	years	
Rate of interest	9.25%	p.a.	
Financial assets	2,000,000	Rs.	
Annual savings	200,000	Rs.	
Rate of investment growth in assets	10.5%	p.a.	
EMI on housing loan	49,401	Rs.	PMT(9.25%/12,15*12,-4800000,0,0)
<u>After 5 years:</u>			
Outstanding housing loan	3,858,485	Rs.	PV(9.25%/12,(15-5)*12,-49401,0,0)
Financial assets	3,294,894		FV(10.5%,5,0,-2000000,)
Annual Savings	1,033,232	Rs.	FV(10.5%, 4,-200000,0,1)
Shortfall in repaying outstanding loan after 5 years	**469,641**	Rs.	3294894+1033232-3858485

Section II

Question 9

A businessman sold Rs. 85 lakh value of unlisted securities on 20th December 2017. These shares were acquired in April 2012 for Rs. 20 lakh. He invested Rs. 40 lakh from these proceeds in February 2018 in his first residential house to avail benefit under Section 54F of the Income-tax Act, 1961. What approximate amount of bonds specified under Section 54EC should he purchase and by what date so as to make his capital gains liability almost 'Nil' towards these transactions? Cost inflation index for FY 2012-13: 200, 2017-18 : 272

Solution:

Cost of acquisition of unlisted shares : 2012-13	2,000,000	Rs.	
Sale proceeds : December 2017	8,500,000	Rs.	
Indexed cost of acquisition in the year of sale	2,720,000	Rs.	2000000*272/200
Long Term Capital Gains	5,780,000	Rs.	8500000-2720000
Cost of new asset: a residential house	4,000,000	Rs.	
Ratio of cost of new asset to net consideration	0.4706		4000000/8500000
Exemption eligible under Section 54F	2,720,000	Rs.	5780000*0.4706
Capital Gains chargeable to tax	3,060,000	Rs.	5780000-2720000
Approximate amount to be invested u/s 54EC bonds	**3,060,000**	Rs.	
Date by which Sec 54EC bonds to be invested	**19th June 2018**		Within 6 months from sale

Section III
Question 4

A salaried individual, aged 45 years, was awarded a car of market value Rs. 6,50,000 by his credit card company in a draw on 20th December 2017. There was no TDS by the company. He has total income from salary of Rs. 8,45,000 in the previous year 2017-18. He saved a total of Rs. 1,80,000 under different investment instruments eligible for exemption u/s 80C in the previous year 2017-18, and Rs. 32,000 was paid by him on 5th January, 2018 towards his health insurance policy. In addition to this, he also contributes Rs. 1,04,000 towards NPS.Find his tax liability for AY 2018-19.

Solution:

Income from salary	845,000	Rs.	
Market Value of Car received in a Lottery draw	650,000	Rs.	
Less: Deductions			
under Section 80CCD(1B)	50,000		
under Section 80CCD(1)	54,000		104000-50000
Total Savings u/s 80C	234,000	Rs.	180000+54000
eligible deductions u/s 80C	150,000	Rs.	
Savings u/s 80D	32,000	Rs.	
eligible deductions u/s 80D	25,000	Rs.	
Taxable income from normal sources (Salary)	620,000	Rs.	845000-150000-50000-25000
Tax on Normal Income	36,500	Rs.	(500000-250000)*5%+(620000-500000)*20%
Tax from Lottery at flat rate of 30% u/s 115BB	195,000	Rs.	650000*30%
Total tax	231,500	Rs.	36500+195000
Education and S&HE Cess	6,945	Rs.	231500*3%
Total tax liability	238,445	Rs.	231500+6945
Rounded-off	**238,450**		

Section III
Question 5

For a nominal interest rate of 10% per annum compounded monthly, quarterly, and semi-annually, the respective annual effective rates would be ______.

Solution:

Nominal rate of interest compounded monthly	10%	p.a.	
Annual effective rate of interest	**10.47%**	p.a.	(1+10%/12)^12-1
Nominal rate of interest compounded quarterly	10%	p.a.	
Annual effective rate of interest	**10.38%**	p.a.	(1+10%/4)^4-1
Nominal rate of interest compounded semi-annually	10%	p.a.	
Annual effective rate of interest	**10.25%**	p.a.	(1+10%/2)^2-1

Section III
Question 6

A private sector employee aged 58 has retired in March 2017 with a retirement corpus of Rs. 2.05 crore accumulated with the Company. His company is covered under the Payment of Gratuity Act,1972. He decides to commute one-third of his retirement fund, the rest being utilized by his employer to pay him a fixed immediate monthly annuity for 20 years through a pension product which gives an effective annual yield of 7.5%. If he saves maximum eligible suns under Sections 80C and 80D, what would be his tax liability for AY 2018-19?

Solution:

Accumulated funds under retirement account	20,500,000	Rs.	
Tax exempt commuted value	6,833,333	Rs.	20500000*(1/3)
Remaining funds to buy annuity	13,666,667	Rs.	20500000-6833333
Annual effective yield from annuity product	7.50%	p.a.	
Effective monthly yield	0.6045%	p.m.	(1+7.5%)^(1/12)-1
Tenure of annuity payment	240	months	
Gross value of monthly stream receivable	107,401	Rs.	PMT(0.6045%,240,-13666667,0,1)
Annual value of pension received : Income from Salary	1,288,814	Rs.	107401*12
Amount saved under Section 80C	150,000		
Amount saved under Section 80D	25,000		
Taxable amount	1,113,814		1288814-150000-25000
Tax on pension receivable	146,644	Rs.	(1113814-1000000)*30%+(1000000-500000)*20%+(500000-250000)*5%
Education Cess & S&HE Cess	4,399	Rs.	146644*3%
Total tax	151,043		146644+4399
Rounded-off	**151,040**	Rs.	

Section III
Question 7

An investor purchased 2,000 shares of a listed company at Rs. 125 per share on 28th December 2016. The Company declared a dividend of Rs. 8 per share, the record date was 25th March 2017. He sold 900 shares on 12th May, 2017 at a price of Rs. 113 per share and the balance on 27th January 2018 at a price of Rs. 135 per share. He had no other transactions during FY 2017-18. What is the taxability of his transactions for AY 2018-19?

Solution:

Shares bought : 28-Dec-2016	2,000	nos.	
Price at which bought	125	Rs.	
Dividend received: Record date 25-Mar-2017	8	Rs.	
Number of shares sold : 12-May-2017	900	nos.	
Sales consideration per share	113	Rs.	
Gain on sale: Short term	(10,800)	Rs.	900*(113-125)
Dividend received on 900 shares	7,200	Rs.	900*8
Loss reduced due to dividend stripping rule AY 17-18	(3,600)	Rs.	-10800+7200
Number of shares sold : 27-Jan-2018	1,100	nos.	
Sales consideration per share	135	Rs.	
Gain on sale: Long term	11,000	Rs.	1100*(135-125)
Taxable short term capital gains for AY 2018-19	**(3,600)**	Rs.	11000-3600

Section III
Question 8

Mr. A purchased a flat worth Rs. 50 lakh in January 2007 by availing a housing loan of Rs. 40 lakh for tenure 15 years at the rate of 8.25% p.a. The value of his flat as on 1-April-2018 has appreciated to Rs. 1.25 crore. What approximate value can be considered by a finance company towards "Loan against Property" if the norm is to consider 60% of the value of home less any encumbrances?

Solution:

Purchase cost of flat	5,000,000	Rs.	
Loan amount	4,000,000	Rs.	
Tenure	180	months	
Rate of interest	8.25%	p.a.	
EMI	38,806	Rs.	PMT(8.25%/12,180,-4000000,0,0)
Installments discharged till March 2018	134		11*12+2
Outstanding loan amount as on 1-Apr-2018	1,525,885	Rs.	PV(8.25%/12,180-134,-38806,0,0)
Value of the flat as on 1-Apr-2018	12,500,000	Rs.	
Unemcumbered value of the flat as on 1-Apr-2018	10,974,115	Rs.	12500000-1525885
Amount of "Loan against Property" @60%	**6,584,469**	Rs.	10974115*60%

Section III
Question 9

X & Co. is a partnership firm engaged in wholesale trading business with a turnover of Rs. 1.02 crore for FY 2017-18. During the year, it paid salary and interest to partners as permitted under Section 40(b) of Rs. 1,20,000 and salary to employees of Rs. 5.50 lakh. It also incurred other expenses of Rs. 1.25 lakh, depreciation charge of Rs. 1.90 lakh, and cost of materials of Rs. 44.70 lakh. It earned long term capital gain of Rs. 90,000 and paid out Rs. 10,000 eligible for deduction under Section 80G. Assuming the firm goes for presumptive taxation prospectively under Section 44AD, calculate its net income for AY 2018-19.

Solution:

Income from wholesale business (8% of turnover)	816,000	Rs.	8%*10200000
Less:			
Salary and interest to partners	-	Rs.	
Salary to other employees	-	Rs.	
Depreciation	-	Rs.	
Other expenses	-	Rs.	
Income from business	816,000	Rs.	
Capital gains	90,000	Rs.	
Gross total income	906,000	Rs.	816000+90000
Less: Deductions under Chapter VI-A	10,000	Rs.	
Net income as per Section 44AD	**896,000**	Rs.	906000-10000

Note : From AY 2017-18, 8% rate is comprehensive. i.e no furhter deduction is allowed under any other section, even deduction of renumeration and interest to partners is not available)

Section IV
Question 6

A trust is created by a son, the Settlor, for the survival expenses of his retired parents each having equal beneficial interest. Both husband and wife have separate fixed pension of Rs. 35,000 per month and Rs. 30,000 per month, respectively. The trust property has generated a net annual value of Rs. 5.12 lakh in the previous year 2017-18. The trustee as well as the Settlor is in the 30% tax bracket. Find the tax payable by the trustee as representative assessee.

Solution:

Pension (Inc. from Salary) of the male beneficiary	420,000	Rs. p.a.	35000*12
Pension (Inc. from Salary) of the female beneficiary	360,000	Rs. p.a.	30000*12
Net Annual Value from trust property in FY 2016-17	512,000	Rs.	
Assessable taxable income of male beneficiary	676,000	Rs.	420000+512000/2
Assessable taxable income of female beneficiary	616,000	Rs.	360000+512000/2
Tax on the income from trust of male beneficiary	39,200	Rs.	(676000-500000)*20%+(500000-420000)*5%
Tax on the income from trust of female beneficiary	30,200	Rs.	(616000-500000)*20%+(500000-360000)*5%
Total tax assessable on trust income	69,400	Rs.	43200+37200
(Tax + Cess) payable by trustee as representative assessee	71,482	Rs.	80400*(1+3%)
	71,480	Rs.	ROUND(71482,-1)

Section IV
Question 7

Your client, a businessman has a house worth Rs. 2.1 crore and a farm house worth Rs. 85 lakh. His business is worth Rs. 10 crore as per last balance sheet. He has two other partners in the business having stakes of 24% each. He has two cars purchased at Rs. 40 lakh and Rs. 20 lakh, the latter being in personal account. The cars have depreciated/market value at Rs. 30 lakh and Rs. 8 lakh, respectively. He also has stocks worth Rs. 1.65 crore in a Demat account where he is the primary holder. The business has taken Keyman's insurance on his life of value Rs. 1.5 crore. He has himself insured his life for an assured sum of Rs. 1.5 crore. You evaluate your client's estate in case of any immediate exigency with his life as _____.

Solution:

<u>Assets and Receivables on Personal account</u>			
Value of house	21,000,000	Rs.	
Value of farm house	8,500,000	Rs.	
Personal car: market value	800,000	Rs.	
Demat account holding	16,500,000	Rs.	
Life Insurance : Sum assured	15,000,000	Rs.	
Total Value	61,800,000	Rs.	21000000+8500000+800000+16500000+15000000
<u>Assets and Receivables on Business account:</u>			
Current worth	100,000,000	Rs.	
Keyman's insurance	15,000,000	Rs.	
Total value	115,000,000	Rs.	100000000+15000000
Stake of client to the extent of 52%	59,800,000	Rs.	115000000*52%
Estate of the client	**121,600,000**	Rs.	61800000+59800000