Model Answer to theory PYQs on Income Tax
Agricultural Income

Q.1.What is agricultural income? How is the income treated for income-tax purposes? (1995) (15)

Q.2. Explain the provisions of the Income-tax act relating to taxation of agricultural income. (1996) (15)

Approach to answer with focus on key words:

- **Explain:** Clarify a topic by giving a detailed account as to how and why it occurs, or what is meant by the use of this term in a particular context. So in Q.2 along with basic provisions, how and why also need to be answered.
- **Discuss:** Here in Q.3 basic provision of agriculture need to be written. Student here must not interpret this discuss in literal sense and write pros and cons. Instead write various provisions on Income Tax Act in agriculture income in brief and concise manner.

Model Solution

As per section 2(1A) 'Agricultural income' means:

a) Rent or revenue derived from land which is situated in India and is used for agricultural purposes.
b) Income derived from such land by agriculture operations including processing of agricultural produce so as to render it fit for the market or sale of such produce.
c) Income attributable to a farm house subject to satisfaction of certain conditions specified in this regard.

Agricultural income is exempt under section 10(1). However, it has to be aggregated with non-agricultural income as per **'Concept of Partial Integration'** for determining the rate at which non-agricultural income would be subject to tax, in case of individuals, HUF, AOPs, BOIs and artificial juridical persons only where the –

• Agricultural income **exceeds 5,000 p.a.** and
• Non-agricultural income exceeds basic exemption limit.

Tax calculations in such cases as follows:-

Step 1: Tax on non-agricultural income plus agricultural income
Step 2: Tax on agricultural income plus basic exemption limit
Step 3: Tax payable by the assessee = Step 1 – Step 2
Step 4: Add Surcharge/Deduct Rebate u/s 87A, if applicable.
Step 5: Add Health and Education Cess@4%.

With majority Indian population depends on agriculture with meagre earning it needs to be exempted however practice of tax avoidance needs to be checked.

Extra information:

- **Agriculture is a state subject**; hence union government cannot impose tax on it.
- Intention behind concept of partial integration is to tax non agriculture income at higher slab rates.

Q.3 Discuss agricultural income. (2007) (10)

Approach to answer with focus on key words:

- **Discuss:** signifies write brief definition of agriculture income along with income tax provisions regarding it. Further briefly write discussion regarding its taxability.

As per section 2(1A) 'Agricultural income' means:

a) Revenue derived from land used for agriculture purposes which is situated in India.
b) Income derived from such land by agriculture operations to render it fit for the market.
c) Income attributable to a farm house.

Agriculture income is **exempt u/s 10(1)** of Income Tax Act, 1961. Further **concept of partial integration** allow to tax non agriculture income to be taxed at higher rates and provide process to calculate tax in case of specific assessee.

Despite that there is debate going on regarding taxing agriculture income for various reasons such as:

- Tax evasion by rich farmers.
- **K.N. Raj committee** recommended it.
- Promote **equity and justice** in tax responsibility.

However there are arguments against it such as:

- Considering **85% or more farmer**s are small and marginal
- Agriculture is **state subject** may lead to federal issues.
- **Higher tax collection costs** will require thorough cost-benefit analysis.

Hence all issues need to be thoroughly debated and meanwhile tax avoidance practices can be checked with appropriate steps by government such as wealth tax or specific Cess on rich farmers.

RESIDENTIAL STATUS

Q.1.What are the different categories of assesses with regard to residential status under Indian Income Tax Law? How is the residential status of an individual assessee determined under the Indian Income Tax Law? (1986) (15)

Q.2 State the basic conditions of Income-Tax Act to determine the residential status of an individual, a company and all other persons. (2014) (15)

Q.3. Discuss how the residential status of an assessee is determined for income tax purposes? (2019) (15).

Approach to answer with focus on key words:

- **State:** signifies to write the relevant provisions of determination of residential status of an assessee briefly. Avoid lengthy discussions along with it no need to write tax language.
- **Discuss:** signifies various provisions regarding determination of residential status of an assessee needs to be written. Student here must not interpret this discuss in literal sense and write pros and cons.
- Model solution given here is a detailed description of provisions hence students must trim this by writing in their own language keeping substantial provisions in mind

Model solution:

The incidence of tax of any assessee depends upon his residential status **under section 6 of** Income Tax Act.

For all purposes of income tax, taxpayers are classified into three broad categories on the basis of their residential status.

i. Resident and ordinarily resident
ii. Resident but not ordinarily resident
iii. Non resident

Residential status of individual

- The residential status of an individual in determined on the basis of the period of his stays in India.
  Basic conditions:
  (i) Individual is in India for 182 days or more in previous year
  (ii) Individual is in India for 60 days or more during the previous year and 365 days or more during the 4 years immediately preceding the previous year,

(ii) condition, not applied when,

(a) Indian citizen left India during the previous year for the purpose of employment outside India or as a member of the crew of an Indian ship;
(b) Indian citizen or a PIO who, being outside India comes on a visit to India during the previous year [whose total income (Excluding income from foreign sources) does not exceed 15 lakhs].

Additional condition:

(1) Individual is resident in **at least 2 out of 10 previous years** preceding the relevant previous year;
(2) His stay in India in the last 7 years preceding the relevant previous year is 730 days or more.

ROR	RNOR	NR
Must satisfy at least one of the basic conditions and both the additional conditions	Must satisfy at least one of the basic conditions and one or none of the additional conditions	Must not satisfy either of the basic conditions.

- An Indian citizen or a PIO who, being outside India, comes on a visit to India during the previous year (having total income, other than the income from foreign sources), exceeding 15 lakhs during the previous year would be resident if his period of stay is
  - 182 days or more during the previous year or
  - 120 days or more during the previous year and 365 days or more during the 4 years immediately preceding the previous year.

  Such individual would, however be resident but not ordinarily resident if he satisfies only the second condition mentioned above but not the first condition.
- **Deemed resident in India**- An individual being **an Indian citizen** having total income other than the income from foreign sources exceeding 15 lakhs during the previous year would be deemed to be resident but not ordinarily resident in India in that previous year if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

Residential status of other assesses

- Company: Indian company is always Resident in India. However in other case Place of Effective Management (POEM) is determined if it is in India then a Resident company else Non-Resident.
- HUF, AOP etc.: Based on control and management of its affairs. If it is wholly and partly situated in India then they are Resident in India, else Non –Resident.

Solutions on Tax Numericals

Year Mains 1980-2022

As per AY 2023-24

Relevant for Mains 2023

Questions from 1980 to 2022

[Time information modified as per FY 2022-23 or AY 2023-24]

Year 2022: Q3. (a) X, an employee of a firm, furnished the following particulars of his income for the year ended March 31, 2023:

	Rs.
Basic Salary	2,88,000
Dearness Allowance	57,600
Own contribution to recognized Provident Fund	40,320
Employer's contribution to the above fund	40,320
Interest on balance in recognized Provident Fund	28,000
Bonus	24,000

Additional Information:

(I) X was provided with a small car for which the employer paid all the running and maintenance costs. The card was used for official as well as personal purposes.

(II) He was also provided with rent-free accommodation at Kolkata for which the employer paid a rent of Rs. 2,500 pm. He was allowed to use one refrigerator and an air-conditioner costing Rs. 16,000 and Rs. 24,000 respectively, while their written-down values as on 01.04.2022 were Rs. 9,000 and Rs. 14,000 respectively.

(III) Life insurance premium of Rs. 24,000 was paid by his employer on an Insurance Policy for Rs. 4,80,000 on the life of X.

Compute the taxable salary of X for the Assessment Year 2023-24. **20(Modified)**

Solution: Computation of taxable salary of X (for the Assessment Year 2023 – 24)

Particulars		**Amount (Rs.)**
Basic Salary		2,88,000
Dearness Allowance		57,600
Bonus		24,000
Employers' contribution to RPF	40,320	
(-) Exempt upto (12% of salary) [Note 1]	(34,560)	5,760
Perquisites		
Motor Car [1800 x 12]		21,600
Rent-free accommodation [Note 2]		
Un-furnished	30,000	
Furnished	4,000	34,000
Life insurance premium paid by employer [Note 3]		24,000
Gross Salary		4,54,960
Less: Standard deduction		(50,000)
Taxable value of Salary		4,04,960

Working Notes –

Note 1:- 12% of Salary = 12% x 2,88,000 = 34,560

Note 2:- Calculation of RFA Un-furnished: Non-Govt, Rented: Lower of

(1) 15% oF Salary i.e. 15% x (2,88,000 + 24,000) = 46,800
(2) Rent paid by employer i.e. (2500 x 12) = 30,000. Hence lower Taxable value = 30,000

Furnished: Owned by employer = 10% of actual cost:

Refrigerator = 1600 + AC 2400 = Rs. 4,000 Taxable Value

Note 3:- As per the provisions for prerequisites = Any sum paid by employer whether directly or through fund – on assurance on life of assessee will be taxable. Hence premium paid by employer Ps taxable.

Assumption – Interest on RPF is assumed to be within the rate of 9.5%

Year 2021

Question Q3. (a) [Salary+HP+CG+OS+Deductions]:

Mr. B (49 years), a resident individual, furnishes the following particulars pertaining to the year ending 31st March, 2023:

Analysis of his bank account in his ledger reveals the under mentioned data – **Rs.**

• Rent received for a vacant plot of land.	4,00,000
• Amount received from X (P) Ltd. For a house at Pune for which he had been in negotiation for rent enhancement since last 4 years (this has been taxed in any earlier year. However, this house is transferred during March, 2022).	3,00,000
• Gift received from Alekhyo, his best friend.	1,20,000
• Gift received from mother's father.	1,60,000
• Winning from a TV game show (net)?	1,40,000
• Amount forfeited (initially paid by a buyer of his vacant plot, since the buyer could not finalise the deal as per agreement).	6,20,000
• Amount received under Keyman Insurance Policy.	4,40,000
Other information:	
I. Donation given in cash to a charitable trust registered under Section 12AA.	24,000
II. Interest credited in the Public Provident Fund (PPF) account during the year.	
III. Public Provident Fund paid in the name of his minor daughter.	17,800
IV. He owns agricultural lands at Malaysia. He has derived agricultural income therefrom.	1,50,000
	3,60,000

Compute the taxable income of Mr. B for the assessment year 2023-24. **(20)**

Sol: Computation of taxable income of B for the assessment year 2023-24:

Particulars		Rs.
Income from House Property		Nil
Income from Other Sources:		
Rent received for vacant plot of land	4,00,000	
Gift received from best friend	1,20,000	
Gift received from mother's father	Nil	
Winning from TV game show (Gross)	2,00,000	
Amount forfeited for vacant plot of land	6,20,000	
Amount received under Keyman Insurance policy	4,40,000	
Interest in PPF account	Nil	17,80,000
Income from agricultural land in Malaysia		3,60,000
Gross Total Income		**21,40,000**
Less: Deductions		
Interest in PPF account (80C)	17,800	
PPF paid in name of minor daughter (80C)	1,50,000	1,50,000
Donation given in cash (80G)	Nil	Nil
Taxable Income		**19,90,000**

Notes

1. Amount received for a house in Pune is not taxable as it has been taxed already in earlier years.
2. Gift received for mother's father is not taxable as gift given by relative (grandfather) is not taxable
3. Interest in PPF account is not taxable. It is considered under 80C deduction o the assumption that it has been re-invested.
4. Donation given in cash up to Rs. 2,000 is allowed.

Year 2020

Question 3. [House Property]: **(a)** Y has two houses in Chennai. He has self-occupied both the houses. The particulars of the houses are as follows:

		Hose (I) Rs.	House (II) Rs.
Municipal value per year	-	1,20,000	1,15,000
Fair rent per annum	-	1,50,000	1,75,000
Standard rent per year	-	1,00,000	1,65,000
Date of completion of construction	-	31.3.2010	31.3.2010
Municipal taxes payable during the year	-	12%	8%
Interest on amount borrowed for repair of both the houses during the current year	-	Nil	55,000

Y has paid the municipal taxes for House II only. It is due for House I. compute the house property income of Y for the assessment year.

Advice:

(i) Which house should be opted by Y to be assessed as self-occupied? and
(ii) State the reasons for it. **(20)**

Sol : Computation of income from house property for the assessment year 2023-24:

	Particulars	**House I (Rs.)** Self-occupied	**House II (Rs.)** Self-occupied
	Gross Annual Value	**Nil**	**Nil**
Less:	Municipal Taxes	Nil	Nil
	Net Annual value	Nil	Nil
Less:	Standard deduction (30% of NAV)	Nil	Nil
Less:	Interest on borrowed capital	Nil	30,000
	Income from house property	Nil	(30,000)

Income from house property- Loss of Rs. 30,000

Note-

1. For Assessment year 2023-24, two self-occupied houses are exempt from tax. Hence, there is no relevance of this option now.
2. Maximum 30,000 can be claimed as deduction under 'interest on borrowed capital' in case of repair of the house.