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BCOC-136

(English Medium)

IMPORTANT QUESTION ANSWER

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20 Marks Questions - 500-700 words Each

Q. - (a) Distinguish between agricultural income and partly agricultural income with example.

ANS.- Agricultural income and partly agricultural income are terms used to differentiate between earnings derived primarily from agricultural activities and those that include a mix of agricultural and non-agricultural sources. Understanding the distinction is crucial for taxation purposes and for determining the eligibility for certain benefits and subsidies.

Agricultural Income:

Agricultural income refers to the revenue generated solely from agricultural activities. This includes income from cultivating land, growing crops, raising livestock, forestry, and allied activities. In many jurisdictions, agricultural income is exempt from income tax to encourage agricultural development and support farmers' livelihoods.

For example, if a farmer earns income by selling crops grown on their land, proceeds from selling livestock, or income from agricultural services such as irrigation or harvesting, it is considered agricultural income. Suppose a farmer cultivates rice on their farm and sells the harvested rice in the market. The money earned from the sale of rice constitutes agricultural income.

Partly Agricultural Income:

Partly agricultural income, on the other hand, involves revenue from a combination of agricultural and non-agricultural activities. This could include income from renting out a part of agricultural land for commercial or residential purposes, operating a farm stay or agritourism business, or income generated from selling produce processed into value-added products.

For instance, if a farmer rents out a portion of their land for setting up a solar panel array or leases a farmhouse for events and celebrations, the income derived from these activities alongside agricultural operations constitutes partly agricultural income. Similarly, if a farmer sells processed dairy products like cheese or yogurt made from milk produced on their farm, the revenue earned from such sales would also be classified as partly agricultural income.

In summary, while agricultural income solely stems from agricultural activities like farming and livestock rearing, partly agricultural income involves a blend of agricultural and non-agricultural sources, broadening the scope of income generation for individuals engaged in farming or allied activities.

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(b) Mr. Ashutosh retired from an Indian company after serving for 34 years 4 months on 31st December, 2021. The company paid him ` 8,00,000 as gratuity under the Payment of Gratuity Act, 1972. His monthly salary and D. A. at the time of retirement was ` 58,000 and ` 5,800 respectively. Compute the exempted gratuity U/S 10 (10) (ii) of Income Tax Act.

ANS.- Under the Income Tax Act of India, gratuity received by an employee is partially exempted from tax under Section 10(10)(ii). The exempted amount depends on the category of the employer and the number of years of service rendered by the employee. For employees covered under the Payment of Gratuity Act, 1972, the gratuity received is exempted as per the following formula:

$$\text{Exempted Gratuity} = \frac{\text{Last drawn salary (basic + DA)}}{26} \times \text{(Number of completed years of service)} \times \frac{15}{26}$$

Given the details of Mr. Ashutosh's employment, we can compute his exempted gratuity:

1. Last drawn salary (basic + DA) = 58,000 + 5,800 = ₹63,800
2. Number of completed years of service = 34 years
3. Gratuity received = ₹8,00,000

Using the formula:

$$\text{Exempted Gratuity} = \frac{63,800}{26} \times (34) \times \frac{15}{26}$$

$$= (2,453.846) \times (34) \times (0.576923)$$

$$\approx 49,635.38 \times 0.576923$$

$$\approx ₹28,646.03$$

Therefore, Mr. Ashutosh's exempted gratuity under Section 10(10)(ii) of the Income Tax Act amounts to approximately ₹28,646.03.

It's worth noting that the exempted gratuity calculated using this formula cannot exceed Rs20,00,000 for employees covered under the Payment of Gratuity Act, 1972, irrespective of the actual gratuity received. So, even if the calculated exempted gratuity exceeds Rs20,00,000, the maximum exempted amount would still be Rs20,00,000. However, in this case, the calculated exempted amount is below Rs20,00,000, so it stands as Rs28,646.03.

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Q. - (a) Discuss the provision regarding encashment of leave at the time of retirement/death.

ANS.- The provision regarding encashment of leave at the time of retirement or death is a significant aspect of employment benefits in many organizations and public sectors. It refers to the practice of compensating employees for their accrued but unused leave days when they retire or in the event of their death. This provision serves multiple purposes, including rewarding employees for their dedicated service, ensuring financial security during retirement, and providing support to the family of deceased employees.

Encashment of leave provides employees with a financial cushion upon retirement, allowing them to transition smoothly into the next phase of their lives. By converting accumulated leave days into monetary compensation, employees receive additional income, which can supplement their retirement savings or be used to cover immediate expenses. This can be especially beneficial for those who may not have significant retirement savings or pension plans.

Moreover, the provision of leave encashment acknowledges and appreciates the commitment and hard work of employees throughout their tenure. It serves as a form of recognition for their dedication and contributions to the organization. This recognition can boost morale among employees and foster a positive work culture where loyalty and commitment are valued and rewarded.

In the unfortunate event of an employee's death, leave encashment serves as a form of support for their family or dependents. The monetary compensation received from the encashment can help alleviate financial burdens during a difficult time and provide assistance with immediate expenses or ongoing financial needs. It reflects the organization's commitment to its employees' well-being, extending support beyond their active employment period.

However, it's essential to note that the provision of leave encashment may vary depending on organizational policies, labor laws, and collective bargaining agreements. Some organizations may have limitations on the maximum number of leave days that can be encashed or eligibility criteria based on length of service. Additionally, tax implications may apply to the encashed amount, depending on the jurisdiction and applicable tax laws.

Overall, the provision regarding encashment of leave at the time of retirement or death plays a crucial role in employee welfare and organizational relationships, offering financial security, recognition, and support when it's needed most.

(b) State the conditions which a Hindu Undivided Family and Indian company have to fulfil in order to be called as resident in India.

ANS.- Residency status in India for Hindu Undivided Families (HUFs) and Indian companies is determined by the provisions of the Income Tax Act, 1961. Both entities need to fulfill certain criteria to be considered residents for tax purposes:

1. **Hindu Undivided Family (HUF)**:
    - **Control and Management**: The control and management of HUF's affairs should be situated wholly or partly in India during the relevant financial year.

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- **Resident Status of Karta**: The Karta, the head of the family, should be a resident in India as per the Income Tax Act during the relevant financial year.
- **Income Source**: The income of the HUF should arise or be received in India during the financial year.

2. **Indian Company**:

- **Incorporation in India**: The company should be incorporated in India as per the Indian Companies Act, 2013.
- **Control and Management**: The control and management of the company's affairs should be situated wholly in India during the relevant financial year.
- **Residency under Indian Law**: The company should be considered a resident in India as per Section 6 of the Income Tax Act. According to this section, a company is a resident in India if it is an Indian company or if its place of effective management is in India during the financial year.

In addition to these primary conditions, there are certain nuances and exceptions, especially regarding the determination of the place of effective management for companies, which may involve factors such as board meetings, key decision-making processes, etc. It's essential for both HUFs and companies to carefully analyze their operations and structures to ensure compliance with the residency criteria outlined in the Income Tax Act.

Maintaining residency status in India for tax purposes is significant as it impacts the tax liability of the entity, including the applicability of various tax rates, deductions, and exemptions. Non-compliance with residency requirements may lead to tax implications and legal consequences. Therefore, both HUFs and Indian companies must adhere to the stipulated conditions to maintain their resident status in India.

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Q. - (a) Mr. Sanjay is employed in ABC Ltd. Company. He gives the following details for the previous year 2021-22. Compute gross and taxable salary for assessment year 2022-23 :

(i) Basic pay Rs. 48,000 p.m.

(ii) Dearness allowance Rs. 18,000 p.m. (20% is used for benefits of retirement)

(iii) House Rent Allowance (HRA) Rs. 15,000 p.m. He pays Rs. 18,000 p.m. as rent for his accommodation in Chennai.

ANS.- To compute Mr. Sanjay's gross and taxable salary for the assessment year 2022-23 based on the details provided for the previous year 2021-22, we need to consider various components of his salary, including basic pay, dearness allowance (DA), and house rent allowance (HRA).

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