**Taxation Direct and Indirect**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for April 2025 Examination**

**1. Mr. Narayan, a businessman, purchased a house property on 1.5.1978 for Rs. 1,12,000. He incurred the following expenses for making some additions and alterations to the house property:**

**Construction cost of first floor, incurred in 1984-85, for Rs. 2,95,000.**

**Construction cost of second floor, incurred in 2003-04, for Rs. 8,05,000. Renovation expenses of the building, incurred in 2013-14, for Rs. 5,11,000.**

**The fair market value of the property as on 1.4.2001 is Rs. 9,40,000. This house property was sold by Mr. Narayan on 11.8.2018 for Rs.77,00,000 after incurring expenses of Rs. 40,000 on the transfer.**

**The capital gains on such transfer are calculated as follows:**

|  |  |
| --- | --- |
| **Financial Year (FY)** | **Cost Inflation Index (CII)** |
| **2001-02** | **100** |
| **2003-04** | **105** |
| **2013-14** | **200** |
| **2018-19** | **280** |
| **2019-20** | **289** |
| **2020-21** | **301** |

**Answer:**

**Introduction:**

Mr. Narayan, a businessman, purchased a house property on 1st May 1978 for ₹1,12,000 and made subsequent additions and renovations over the years. The construction of the first floor was carried out in 1984-85 for ₹2,95,000, followed by the second floor in 2003-04 for ₹8,05,000, and renovation in 2013-14 for ₹5,11,000. The fair market value (FMV) as of 1st April 2001 was ₹9,40,000. Mr. Narayan sold the property on 11th August 2018 for ₹77,00,000, incurring ₹40,000 in transfer expenses. Using the Cost Inflation Index (CII), the indexed cost of acquisition and improvement will be calculated to determine the capital gains on the sale of the property.

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**2. Section 28 is the charging section of profits and gains of business or profession. You are required to list and explain those 10 items of income which are chargeable to tax under the head ‘Profits and Gains of Business or Profession’.**

**Answer:**

**Introduction:**

Section 28 of the Income Tax Act, 1961 is the charging section for profits and gains of business or profession, specifying the incomes taxable under this head. It covers earnings from trade, commerce, manufacturing, and professional activities, ensuring that all business-related revenues are properly accounted for. This includes profits from business operations, compensation, export incentives, and benefits in kind. The section helps determine taxable income while allowing deductions for legitimate business expenses. Understanding the 10 key items taxable under Section 28 is essential for accurate tax compliance and effective financial planning for businesses and professionals in India.

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**3.(a) When an organization decides to retrench certain workforce, the workmen are entitled to retrenchment compensation at the time of their retrenchment. You are required to explain the taxability of such Retrenchment Compensation.**

**Answer:**

**Introduction:**

Retrenchment compensation is a payment made to employees when an organization reduces its workforce due to business closures, downsizing, or restructuring. Under Section 10(10B) of the Income Tax Act, 1961, retrenchment compensation is exempt up to a specified limit, ensuring financial relief for affected employees. Any amount exceeding the exemption limit is taxable as income under the head "Salaries", subject to applicable tax slabs.

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**3.(b) Different rates of TDS are prescribed for different items depending on the type of payment. You are required to list down 5 of these types of payment along with the relevant section and the rate of TDS.**

**Answer:**

**Introduction:**

Tax Deducted at Source (TDS) is a mechanism under the Income Tax Act, 1961, where tax is deducted at prescribed rates before making specific payments. Different payments attract different TDS rates based on their nature. The payer deducts TDS and deposits it with the government to ensure timely tax collection. The applicable rates and sections vary for payments like salary, interest, rent, commission, and professional fees.

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