

Answers

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SECTION I

Before we commence learning the subject of income-tax law, we would like to introduce you to this interesting subject through a Scenario, in which Anisha, an 18 years old girl, is trying to understand the ABCs of income-tax law. Anisha has just joined B. Com in a popular college in Mumbai. She is elated as she has qualified the CA Foundation examination held in June, 2024 with flying colours. She has registered for CA Intermediate course and is eligible to appear for the examination in May, 2025. She has downloaded the BoS Mobile App and is able to access all learning material of Board of Studies (BoS) of ICAI and recorded lectures for different subjects at one place. She had viewed the BoS live virtual classes for the Foundation course online and found them very useful for understanding the concepts, problem solving and preparation for the examination. She is looking forward to viewing the BOS Live Virtual Classes which is to commence shortly for CA Intermediate course. She is especially keen on learning income-tax law, since income-tax aspects relating to different income earned by her family members crop up during dinner table conversations. Therefore, she wants to begin understanding the different concepts of income-tax by relating the same to the income earned by her immediate family and relatives.

Read the Scenario below and the "Points to Ponder" raised by Anisha. Most of you will be in the same age group as Anisha. Being in the same peer group as her, you can help her find answers by reading Chapters 1 and 2 and understanding the basic concepts of income-tax law and the provisions for determining residential status and scope of total income. Also, do solve the Crossword Puzzle given at the end.

SCENARIO

Anil, aged 50 years, is carrying on business of retail trade in Mumbai. Anil's parents aged 78 years and 82 years stay with him. Anil's wife, Asha, aged 47 years, is a popular baker in her locality in Mumbai. She receives orders from customers in the nearby localities in Santa Cruz, Mumbai and bakes cakes, pastries and cookies at home and delivers them. She also grows seedlings and


saplings in pots in her garden for sale. She sold some of her jewellery this year. Both Anil and Asha have fixed deposits with banks from which they earn interest. Anil has invested in shares of various Indian companies in his name and earned dividend therefrom. Anil and Asha have one son, Abhinav, aged 24 and one daughter, Anisha, aged 18 years, to whom you have already been introduced. All of them are citizens of India.

Abhinav has completed MBA in Marketing from a reputed University in India in May, 2024 and is working as a Marketing Executive in Beta Ltd. in Mumbai from 1st June, 2024 for a salary of ₹ 3 lakh per month. This being his first job, he gifted a smart phone to Anisha from his first salary which he received in June, 2024. He won ₹ 20,000 in Maharashtra State Lottery in August, 2024. Abhinav got a job offer in New York and resigned his job in Beta Ltd. on 20th September, 2024. He left for New York on 27th September, 2024 and joined his new job in Gamma Inc in New York from 1st October, 2024. He opened a bank account in New York and his salary from Gamma Inc is credited to that account.

Anil's brother Kishore, aged 48 years, moved to the USA in the year 2005. He is now a citizen of USA and is employed with a consultancy firm in the USA. He has house properties in India from which he derives rental income. He also derives income of ₹ 16 lakhs from a business controlled in Mumbai. He visits India during the month of December every year with his wife Reema, aged 45 years, and son Madhav, aged 19 years, and stays in India for the whole month. Anil and Kishore purchased adjacent houses in New York, USA in April, 2024 from which they earn rental income, which is credited to their bank account in the USA. Anil visited his brother in the USA from 15th June, 2024 to 3rd July, 2024 along with Asha. They have not made any other foreign trips during the year. Their foreign trips are of the duration of less than one month every year.

Anil's younger sister Nidhi, a citizen of India, got married and settled in UAE in the year 2010. She also derives income of ₹ 18 lakhs from a business controlled in Mumbai. She has fixed deposits in a bank in UAE from which she gets interest. Nidhi is not liable to pay tax in UAE. Like her brother, Kishore, she also visits India in the month of December every year and stays for the whole month.

The following "Points to Ponder" are raised by Anisha. You have to help her find answers to them. Anil tells her that his total income computed as per the Income-tax Act, 1961 is likely to be around ₹ 75 lakhs and Asha's total income is likely to be around ₹ 20 lakhs for A.Y.2025-26.

 Points to Ponder	Write your response after reading the Chapter 1
<p>(1) Anisha is interested in knowing whether she and Abhinav would be assessee as per the Income-tax Act, 1961.</p> <p>Would Anisha and Abhinav be assessee under the Income-tax Act, 1961?</p>	<p>As per section 2(7), an assessee means a person by whom tax or any other sum of money is payable under the Act. Since Abhinav earns a salary of ₹ 3 lakh per month and also has lottery winnings of ₹ 20,000, both of which are subject to income-tax, he is an assessee. However, Anisha being a student who does not have any income (as per the facts given in the Scenario), she is not an assessee.</p>
<p>(2) She wants to know whether the previous year for her father and her brother for the assessment year 2025-26 would be the same. Would the previous year remain the same for both of them? If not, why?</p>	<p>No, as per the definition given in section 3, the previous year for her father is 1st April 2024 to 31st March 2025. However, for her brother, the source of income has newly come into existence only on 1st June, 2024. Accordingly, the previous year would be 1st June, 2024 to 31st March, 2025.</p>
<p>(3) She is curious to know whether the following would be income under the Income-tax Act, 1961 –</p> <p>(i) Profits from business of retail trade carried on by her father</p> <p>(ii) Profits earned by her mother from business of sale of</p>	<p>Yes, since all these would fall within the scope of the definition of income under section 2(24). Profits and gains, dividend and winnings from lotteries are specifically mentioned in the said definition. Therefore, items listed in (i), (ii), (iv) and (v) find a specific mention in the different</p>

	<p>cakes, biscuits and cookies</p> <p>(iii) Salary earned by Abhinav from Beta Ltd.</p> <p>(iv) Lottery winnings of Abhinav</p> <p>(v) Dividend received by her father from Indian companies.</p>	<p>sub-clauses of section 2(24). The definition of income being inclusive, salary earned by Abhinav is also included therein, even though the definition makes a specific mention of only certain components of salary like the value of perquisites and profit in lieu of salary.</p>
(4)	<p>She is keen to know whether surcharge would be levied on the total income of her mother and father. Would surcharge be leviable? If so, at what rate? Assume that their actual income is the same as the estimated income.</p>	<p>In case of her father, surcharge@10% would be leviable on income-tax computed on total income of ₹ 75 lakhs, since his total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore. In case of her mother, surcharge is not attracted, as her total income does not exceed ₹ 50 lakhs.</p>
(5)	<p>Anil's father's HUF consists of ancestral properties, the income from which is assessed as income of the HUF. Anisha finds the concept of HUF fascinating. She is curious to know whether the wife, daughter-in-law and grandchildren would be members of a HUF, and if so, would they be co-parceners also. She is also keen in knowing whether a married daughter would be a co-parcener of her father's HUF.</p> <p>(i) Who amongst the following are members of Anil's father's HUF?</p> <ol style="list-style-type: none"> 1. Anil's mother 2. Asha and Reema 3. Abhinav, Anisha and Madhav <p>(ii) Who amongst the following are co-parceners of Anil's father's HUF?</p>	<p>All of them.</p>

<ol style="list-style-type: none"> 1. Anil's mother 2. Asha and Reema 3. Nidhi 4. Abhinav, Anisha and Madhav 	<p>Nidhi, Abhinav, Anisha and Madhav</p>
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Anisha is also keen in knowing the residential status of her family members and relatives for A.Y.2025-26, i.e., whether they would be –

1. Resident and Ordinarily Resident (ROR)
2. Resident but not ordinarily resident (RNOR)
3. Non-resident
4. Deemed resident?

Family member/Relative	Calculate the number of days of stay in India	Determine the Residential Status after reading Chapter 2 [ROR/RNOR/Non-resident/deemed resident]
A. Anil, her father	346 days in the P.Y.2024-25	Resident, since the number of days of their stay in India is 182 days or more in the P.Y.2024-25.
B. Asha, her mother	346 days in the P.Y.2024-25	Since the duration of the foreign trips every year is less than one month, they would be resident in India in all the ten immediately preceding previous years (on account of the number of days of their stay in India in each year being 182 days or more). Also, the number of days of their stay in India during the seven immediately preceding previous years would be 730 days or more. Accordingly, both Anil and Asha are ROR in India for A.Y.2025-26.

C.	Abhinav, her brother	180 days in the P.Y.2024-25	Abhinav is an Indian citizen leaving India for the purpose of employment in the P.Y.2024-25. Since the number of days of his stay in India in the P.Y.2024-25 is less than 182 days, he is a non-resident for A.Y.2025-26.
D.	Kishore, her uncle	31 days in the P.Y.2024-25	Non-resident
E.	Nidhi, her aunt	31 days in the P.Y.2024-25	Though she would be a non-resident as per section 6(1), however, as per section 6(1A), she would be a deemed resident , since she is an Indian citizen whose total income (other than income from foreign sources) exceeds ₹ 15 lakhs and she is not liable to pay tax in UAE. Deemed resident is by default a not-ordinarily resident.

Based on the residential status arrived at above, help her find out which of the incomes listed in column (2) below would be included in the hands of these persons while computing their total income.

(1)	(2)	(3)
Family member/ Relative	Particulars of profits/gains/receipts	Whether the profits/gains/receipts would be included in computing his/her total income? Write Yes/No against each item after reading Chapters 1 and 2
A. Anil, her father	1. Rental income from house in New York, USA	Yes, since global income is taxable in case of an ROR

B.	Asha, her mother	2.	Profits from business of retail trade	Yes	
		3.	Interest on bank fixed deposits	Yes	
		4.	Dividend from Indian companies	Yes	
		1.	Profits from sale of cakes, pastries and cookies	Yes	
C.	Abhinav, her brother	2.	Profits from sale of saplings and seedlings	No, since it is agricultural income which is exempt u/s 10(1)	
		3.	Interest on bank fixed deposits	Yes	
		4.	Gains from sale of jewellery	Yes	
		1.	Salary from Beta Ltd. in Mumbai	Yes	
D.	Kishore, her uncle	2.	Salary from Gamma Inc in New York	No, since it accrues and is received in USA. Hence, not taxable in case of a non-resident.	
		3.	Maharashtra State Lottery winnings	Yes	
		1.	Rental income from house in New York, USA	No	
		2.	Salary from consultancy firm in USA	No	
		3.	Income from a business controlled in Mumbai	No	
		4.	Rent from properties in India	Yes	

E. Nidhi, her aunt	1.	Income from business controlled in Mumbai	Yes, since income from business controlled in India would be taxable in case of a deemed resident.
	2.	Interest on bank fixed deposits in UAE	No



Point to Ponder - In case Kishore decides to resettle in India and returns permanently to India on 1st October, 2024, what would be his residential status for the A.Y.2025-26, if he decides to retain his US citizenship? Which items of income would be included in Kishore's total income in India from the items listed in column (2) above corresponding to Kishore? Write your response after reading Chapter 2.

He would be Resident in the P.Y.2024-25, since his stay in India in that year would be for 182 days. However, he would be RNOR in that year, since he is non-resident in all the ten years immediately preceding P.Y.2024-25 (on account of his stay in India being only for 31 days each year) and his stay in India in the seven years immediately preceding P.Y.2024-25 is only 217 days, which is less than 730 days. He has satisfied both conditions, though satisfaction of any one condition would suffice for RNOR.

If he is RNOR, income from business controlled in India and rental income from properties in India would be taxable in his hands in the P.Y.2024-25.

