**Taxation Direct and Indirect**

**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:(10 Marks)**

|  |  |
| --- | --- |
| **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** |

### **Ans 1.**

### **Introduction**

Capital gains taxation is an essential part of direct taxation in India. When an individual sells a capital asset, such as property, the profit earned is subject to taxation under the Income Tax Act, 1961. Capital gains are classified into short-term and long-term, depending on the holding period. For immovable property, if the holding period exceeds 24 months, the gain is considered long-term capital gain (LTCG). The cost inflation index (CII) plays a crucial role in adjusting the cost of acquisition and improvement, thereby reducing the tax liability by accounting for inflation over the years. This case study involves Mr. Narayan, who purchased a house property in 1978 and sold it in 2018. The capital gains computation requires

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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’ (10 Marks)**

**Ans 2.**

**Introduction**

Section 28 of the Income Tax Act, 1961, governs the taxation of income under the head "Profits and Gains of Business or Profession." This section ensures that all earnings derived from any business, profession, or vocation carried on by an assessee are taxed appropriately. The objective is to tax the real income earned from business operations, ensuring that all receipts related to business activities are accounted for. Business income includes not only revenue from the sale of goods or services but also various incidental earnings arising from business activities. These may include compensation, trade incentives, or other business-related receipts.

**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. (5 Marks)**

**Ans 3a.**

**Introduction**

Retrenchment compensation is the severance payment made to employees when an organization reduces its workforce due to redundancy, financial constraints, or business closure. The payment is made as per the Industrial Disputes Act, 1947. While such compensation provides financial security to the retrenched employees, its taxation is governed by the Income Tax Act, 1961. Section 10(10B) of the Act specifically deals with the exemption

**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. (5 Marks)**

**Ans 3b.**

**Introduction**

Tax Deducted at Source (TDS) is a system under which tax is collected at the point of origin of income. The Income Tax Act mandates the deduction of tax at prescribed rates before making certain types of payments. The rate of TDS varies depending on the nature of the payment and the category of the recipient, ensuring proper tax compliance and timely collection