

## Suggested solutions to Sample Paper - Exam 4: Tax Planning and Estate Planning

### Section - I

Answer 1) - c) They help their clients with their financial goals, and help them to stay on track with their financial strategies.

Answer 2) - a) On being signed by the President

Answer 3) - c) Resident but Not Ordinarily Resident

Answer 4) - d) Professional Responsibility

Answer 5) - b) Non-resident Indian

Answer 6) - b) Rs. 6,350

Solution:

10% of Rs. 63,500 = Rs. 6,350

*From the financial year 2019-20, effective 1-March-2019, TDS is to be deducted @10% by banks on fixed deposits and post office deposits only if such interest exceeds Rs. 40,000 per bank in the financial year.*

Answer 7) - d) The maximum liability of the practitioner against the client's claims and complaints.

### Section II

Answer 8) - d) Rs. 3,120

Solution:

*As the equity shares of M/s. ABC are held for more than a year (the sale transaction being on or after 1st April, 2018), the long term capital gains would apply.*

Number of shares	250	
Sale price	1,570	
Purchase price	1,050	
Long term capital gains	130,000	250*(1570-1050)
Exempt LTCG	100,000	
Taxable LTCG on equity shares	30,000	130000-100000
LTCG tax @10%	3,000	30000*10%
Cess @4% of tax	120	3000*4%
Total LTCG tax	3,120	3000+120

Answer 9) - a) Rs. 1,500 for each child or income included whichever is less, subject to maximum of two children.

**Answer 10) - c) Rs. 75,750**

**Solution:**

*The least of the following is exempt from tax:*

*Last salary (basic + DA)\* number of years of employment\* 15/26;*

*Rs. 20 lakhs*

*Gratuity Actually received*

Last salary drawn (basic+DA)	58,500	36000+22500
Number of years of employment (35 years and 2 months)	35	
Tax free amount of gratuity (as per Income-tax Act, 1961)	1,181,250	58500*35*15/26
Amount of gratuity actually received	1,257,000	
Taxable portion of gratuity	75,750	1257000-1181250

**Answer 11) - a) Liquid or money market fund**

**Answer 12) - b) A maximum of 8 assessment years following the assessment year in which such respective loss occurs.**

**Answer 13) - c) Rs. 26,25,641**

**Solution:**

Cost of acquisition in 2004-05	4,200,000	
Sales proceeds in 2019-20	17,500,000	
CII: 2005-06	117	
CII:2019-20	289	
Indexed cost of acquisition in the year of sale	10,374,359	4200000*289/117
Capital Gains prior to 54EC exemption	7,125,641	17500000-10374359
Investments in NHAI bonds approved u/s. 54EC		
Out of advance money prior to date of sale (eligible)	750,000	
Within 6 months of sale (eligible)	3,750,000	
After 6 months of sale, (not eligible)	1,150,000	
Total investments in REC Bonds	5,650,000	750000+3750000+1150000
Maximum total amount exempted u/s. 54EC	5,000,000	
Total eligible investments u/s. 54EC	4,500,000	750000+3750000
Taxable LTCG	2,625,641	7125641-4500000

*Advance money invested is eligible for deduction; Rs. 50 lakh limit is now to be utilized within 6 months of transfer date, regardless of change of FY.*

**Answer 14) - b) This is the rate at which RBI borrows money from commercial banks.**

**Answer 15) - d) Rs. 154.13 lakh**

**Solution:**

Fixed assets - house	15,600,000	a
Fixed assets - gold jewelry	1,500,000	b
Financial assets	1,860,000	c
Value of car	985,000	d
Bank fixed deposit	100,000	r
Emergency fund	800,000	f
Cash	120,000	g
Total assets	20,965,000	sum(a to g) = x
Liabilities:		
Mortgage loan	4,456,000	h
Credit card loan	96,167	i
Soft loan by employer	1,000,000	j
Total liabilities	5,552,167	sum(h to j) = y
Net worth	15,412,833	(x - y)

**Answer 16) - a) In the hands of Arhaan's mother.**

**Answer 17) - c) Rs. 66,920**

**Solution:**

Annual Income from pension	666,000	$55500 \times 12$
Interest from Government Securities	155,000	$2000000 \times 7.75\%$
<i>Dividends received from equities Rs. 20,875 (exempt)</i>		
Interest from deposits kept with banks/post office	75,780	
Short term capital gains on equity shares	84,258	
Long term capital gains on equity shares	123,527	
Total income from pension and other sources	896,780	$666000 + 155000 + 75780$
Standard Deduction	50,000	
Deduction under Section 80TTB (interest from deposits)	50,000	
Deduction under Section 80D	50,000	
Taxable income (normal sources)	746,780	$896780 - 50000 - 50000 - 50000$
Tax liability on income at normal rates	49,356	$(746780 - 500000) \times 20\%$
Tax liability on short term capital gains	12,639	$84258 \times 15\%$
Tax liability on long term capital gains	2,353	$(123527 - 100000) \times 10\%$
Total tax	64,347	$49356 + 12639 + 2353$
Cess @4%	2,574	$64348 \times 4\%$
Total tax liability for AY 2020-21	66,921	$64348 + 2574$

### Section III

**Answer 18) - b) 10% of salary (basic + DA) is deductible u/s 80CCD(1) subject to Rs. 1.5 lakh overall limit u/s 80CCE in a financial year.**

**Answer 19) - d) It invests more than 65% of annual average of monthly averages of opening and closing figures of investible funds in equity shares of domestic companies.**

**Answer 20) - c) Systematic investment**

**Answer 21) - a) 1.49% p.a.**

**Solution:**

Investment value	250,000	
Maturity value of deposit	398,073	
Tax applicable on including maturity value in income	31.20%	
Tax liability to be discharged	46,199	$(398073-250000)*31.2\%$
Net of tax value of maturity of deposit	351,874	$398073-46199$
Net rate of return obtained (after discharging tax liability)	7.08%	$(351874/250000)^{(1/5)}-1$
Average inflation over the period	5.50%	
Real rate of return after discharging taxes	1.49%	$(1+7.08\%)/(1+5.5\%)-1$

**Answer 22) - d) Rs. 35,985**

**Solution:**

Number of shares of M/s. ABC	1,000	
Sale Price in January 2020	150	
Highest market price on 31st January 2018	140	
Cost price in November 2017	205	
As there are no capital Gains up to 31st January 2018 to be grandfathered, and actual sale price is lower than cost price, there is long term capital loss	(55,000)	$1000*(205-150)$
<u>Equity MF scheme</u>		
NAV at which units purchased in new fund offering (Rs.)	10.000	
Grandfathering NAV on 31st January 2018	42.254	
Total units allotted for purchase price of Rs. 10	10,000	$100000/10$
Grandfathered capital gains	322,540	$10000*(42.254-10)$
Sales proceeds of equity scheme received in March 2020	613,525	
Actual long term capital gains realised in December 2019	513,525	$613525-100000$
Long term capital gains	190,985	$513525-322540$
Net long term capital gains	135,985	$190985+(-55000)$
Taxable long term capital gains > Rs. 1 lakh	35,985	$135985-100000$

**IF Sale Price > Fair Market Value on 31st Jan 2018, there will be a Long term Capital GAIN.**

**IF Sale Price < Purchase Price, there will be a Long term Capital LOSS.**

**IF Cost Price < Sale Price < Fair Market Value on 31st Jan 2018, it will result in NO GAIN NO LOSS.**

**For all the long term capital gains accrued post 1st April 2018, taxpayers will have an exemption of Rs. 1 lakh. This exemption is only available to the individual taxpayers and not the corporate or partnership firms. Gains above Rs. 1 lakh are taxable at 10%.**

**Answer 23) - b) Rs. 4,97,300**

**Solution:**

Accumulated funds under retirement account	12,500,000	
Tax exempt commuted value	4,166,667	12500000/3
Commuted pension funds	6,250,000	12500000/2
Taxable amount of commuted penion	2,083,333	6250000-4166667
Annual effective yield from annuity product	6.25%	
Tenure of annuity payment in months	240	
PV of 20-year fixed immediate annuity	6,250,000	12500000-6250000
Gross value of annual stream receivable in FY2019-20	313,816	$PMT((1+6.25\%)^{(1/12)}-1,240,-6250000,0,1)*7$
Total income offered to tax	2,397,149	2083333+313816
Standard Deduction	50,000	
Proposed deduction u/s 80C	85,350	
Maximum Deduction u/s 80CD	34,560	
Taxable amount under Income from salary	2,227,239	2397149-50000-85350-34560
Tax on pension receivable	478,172	$(2227239-1000000)*30\%+(1000000-500000)*20\%$ $+(500000-300000)*5\%$
Total tax including cess@4%	497,299	478172*(1+4%)
Rounded off	497,300	

**Answer 24) - c) Net short term capital loss of Rs. 13,170 on equity allowed to be carried forward for set off in 8 succeeding assessment years.**

**Solution:**

Investment made in January 2008	1,000,000	
NAV of investment in new fund offering	10.0000	
Redemption in January 2020 at NAV of Rs. 29.1254	2,912,540	$(1000000/10)*29.1254$
Cost inflation index 2007-08	129	
Cost inflation index 2019-20	289	
Indexed cost of investment	2,240,310	$1000000*289/129$
Long term capital gains	672,230	2912540-2240310
Short term capital loss realized on equity shares	685,396	
Net short term capital loss after setting off against it, long term capital gains during FY2019-20	(13,166)	672230-685396

**Answer 25) - a) Rs. 6,72,689**

**Solution:**

Amount of 6 months' rent received and deposited today	100,000	
Rate of interest compounded quarterly	6.50%	
Value of today's deposit at end of first year (with interest)	106,660	$100000*(1+6.5\%/4)^4$
Amount of rental to be taken as deposit after 6 months	100,000	
Value of second deposit at the end of first year	103,276	$100000*(1+6.5\%/4)^2$
Value of two deposits in a year at the end of year	209,937	106660+103276
Such deposits are processed over 3 years; the final maturity would tantamount to Rs. 2,09,937 invested in 'end' mode bearing interest @6.5% p.a. compounded quarterly, i.e.	6.6602%	$(1+6.5\%/4)^4-1$
Therefore, accumulated amount after 3 years	672,689	$FV(6.6601\%,3,-209937,0,0)$

**Answer 26) - c) Rs. 1,095 is the short term capital loss allowable to be carried forward for the next 8 assessment years.**

**Solution:**

Amount invested : 25 Nov 2018	100,000	
Price on which units allotted	14.625	
Units allotted	6,837.607	100000/14.625
Dividend declared: Record date 15 Dec 2018	3.15	
Dividend distributed & received	21,538	6837.607*3.15
Units sold: on 13 Aug 2019	5,000.000	
Selling price of units	11.256	
Sales proceeds	56,280	5000*11.256
Loss to the extent of selling 5,000 units	(16,845)	56280-(5000*14.625)
Tax free dividend received on 5,000 units	15,750	5000*3.15
Amount of capital loss (allowed to be carried forward)	<b>(1,095)</b>	15750-16845

**Under section 94(7), if a person buys units of a mutual fund within three months from the record date of tax free dividend, and transfers the units within a period of 9 months from such record date, the capital loss, if any, booked in the process is reduced by the extent of dividend received.**

**Answer 27) - a) A company offering 6% p.a. compounded monthly.**

### Section IV

**Answer 28) - d) To transfer real ownership of assets to corporations to protect it from predators/creditors.**

**Answer 29) - a) Take all reasonable steps to ensure the client understands the recommendations to allow the client to make informed decisions.**

**Answer 30) - b) Rs. 78,730**

**Solution:**

Net Annual Value of trust property in FY 2019-20 to be shared equally by Arpita's father and mother	580,000	
<u>Income of Arpita's father:</u>		
Pension (Inc. from Salary)	438,000	
Total income	728,000	
Standard deduction	50,000	
Assessable taxable income	678,000	
So, trust income above pension of Rs. 4,38,000 up to Rs. 5 lakh is to be taxed at 5%, and the remaining Rs. 1,78,000 to be assessed at 20%	38,700	6900
<u>Income of Arpita's mother:</u>		3000
Net Annual Value of the rented property	360,000	9900
Assessable taxable income	650,000	
So, trust income above Rs. 3.60 lakh up to Rs. 5 lakh is taxed at 5%, and the remaining Rs. 1.50 lakh at 20%	37,000	
Total tax assessable on trust income	75,700	85,600
Cess @4%	3,028	3,424
Tax payable by the trustee as representative assessee	78,728	89,024
Rounded off	<b>78,730</b>	

**Answer 31) - c) To manage conflicts and exercise impartiality in arriving at sound professional judgment.**

**Answer 32) - d) Rs. 9.69 crore**

**Solution:**

Assets and Receivables on Personal account

Value of house in his name	30,000,000	
Personal car: market value	900,000	
Demat account: Primary holding	16,000,000	
Life Insurance : Sum assured	20,000,000	
Total Value	66,900,000	$(300+9+160+200)*100000$

Assets and Receivables on Business account:

Current worth of firm	75,000,000	
Keyman's insurance	25,000,000	
Total value	100,000,000	$(750+250)*100000$
Stake of client to the extent of 30%	30,000,000	$100000000*30\%$
Estate of the client	96,900,000	$66900000+30000000$

**Answer 33) - c) Value of retirement fund and whether client wishes to gift or bequeath a part of that.**

**Answer 34) - b) In all engagements where the CFP professional is holding out as a financial planner, regardless of employment arrangement.**

## **Section V**

**Answer 35) - c) SEBI (Investment Advisers) Regulations, 2013**

**Answer 36) - d) Trust can be revoked when tax regime is found to be most beneficial.**

**Answer 37) - a) They are not liable for acts of a firm, done after the partner's death.**

**Answer 38) - c) The Trust is determinate and has income other than from business or profession.**

**Answer 39) - b) It is a kind of grantor trust where the author retains ultimate benefits.**

**Answer 40) - d) Executor is granted probate to deal with the intestate part according to the rule of law.**