

INTERMEDIATE EXAMINATION

June 2015

I-P7(ADT)

Syllabus 2008

Applied Direct Taxation

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Wherever required, the candidate may make suitable assumptions and state them clearly in the answers.

Working notes should form part of the relevant answers.

All questions relate to the assessment year 2015-16 unless stated otherwise.

Answer Question No. 1 which is compulsory and any five from the rest.

1. (a) Choose the most appropriate alternative:

1×12=12

- (i) In the case of very senior citizen resident in India, rebate under section 87A is
(A) ₹ 5,000
(B) ₹ 2,000
(C) ₹ 10,000
(D) Nil
- (ii) In the case of domestic companies where the total income exceeds Rs. 10 crores, the rate of surcharge applicable is
(A) 10%
(B) 5%
(C) 2%
(D) Nil
- (iii) Transfer of unlisted shares held as capital assets for 33 months after acquisition is taxable as
(A) Long-term capital gain
(B) Short-term capital gain
(C) Income from other sources
(D) Income from business
- (iv) Monetary limit for exemption in respect of gratuity received under the Payment of Gratuity Act, 1972 is
(A) ₹ 5 lakhs
(B) ₹ 10 lakhs
(C) ₹ 3.50 lakhs
(D) Entire amount without limit
- (v) Quantum of deduction by way of interest on moneys borrowed for construction of self-occupied house property is
(A) ₹ 1,50,000
(B) ₹ 30,000
(C) ₹ 2,00,000
(D) ₹ 1,00,000

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- (vi) Expenditure incurred for ready to use software is deductible at
- (A) 15% as depreciation
 - (B) 30% as depreciation
 - (C) 60% as depreciation
 - (D) 100% as revenue expenditure
- (vii) Expenditure incurred towards Corporate Social Responsibility in accordance with section 135 of the Companies Act, 2013 is
- (A) Expenditure deductible at 100%
 - (B) Expenditure deductible at 150%
 - (C) Inadmissible expenditure
 - (D) Expenditure deductible in five annual instalments
- (viii) Payment received by employee in respect of encashment of earned leave during service is
- (A) Taxable as salary
 - (B) Taxable as income from other sources
 - (C) 50% is exempt and balance taxable as salary
 - (D) Fully exempt under section 10
- (ix) When ‘‘book profit’’ of a partnership firm is ₹ 1,60,000, the maximum amount deductible by way of working partners’ salary is
- (A) ₹ 1,60,000
 - (B) ₹ 1,44,000
 - (C) ₹ 1,50,000
 - (D) Nil
- (x) When Mr. A receives arrear rent of a house property based on court decree and at the time of receipt he was not the owner of the property, it is
- (A) Exempt from tax
 - (B) Chargeable as income from other sources
 - (C) Chargeable as income from house property
 - (D) Not taxable
- (xi) Deduction under section 80U in the case of a person with severe disability is
- (A) ₹ 50,000
 - (B) ₹ 75,000
 - (C) ₹ 1,50,000
 - (D) ₹ 1,00,000
- (xii) The due date for filing return of income in the case of a domestic company is
- (A) 31st July
 - (B) 30th September
 - (C) 31st October
 - (D) 31st December

(b) Fill up the blanks:

1×13=13

- (i) Special provisions of section 44AD for computing profits and gains of business on presumptive basis shall not be applicable if the total turnover of such retail trade exceeds ₹ _____ .
- (ii) When income tax deducted at source by a person other than Government in the month of March 2014, the tax so deducted is required to be deposited by _____ .
- (iii) A residential property which is let out for a minimum period of _____ days in the previous year is not treated as asset u/s 2(ea) of the Wealth Tax Act.
- (iv) Depreciation will be allowed on an asset purchased and kept as standby during previous year, as it has _____ use by the assessee.
- (v) Rate of income tax deductible at source under section 194I of the Income-tax Act for use of any Machinery, Plant or Equipment is _____ .
- (vi) For concealment of particulars of income or furnishing of inaccurate particulars of income, maximum penalty of _____ % of the tax sought to be evaded is imposed under section 271(1)(c) of the Income-tax Act.
- (vii) _____ of the qualifying preliminary expenses is allowed as deduction under section 35D of the Income-tax Act in each of the successive years beginning with the year in which business commences while computing income from business.
- (viii) Notice under section 143(2) should be issued within a period of _____ from the end of the financial year in which the return is furnished.
- (ix) The amount of tax credit under section 115JAA shall be carried forward for maximum period of _____ for set off against income tax computed under normal provisions of the Income-tax Act.
- (x) Amount withdrawn by an employee from recognized provident fund at the time of leaving the service is exempt if he has rendered _____ years of continuous service with the same employer.
- (xi) When ₹ 16,000 is the reimbursement of medical expenditure, the amount liable to tax is ₹ _____ .
- (xii) Mr. A, an Indian Civil Servant was posted to Indian Embassy in UK, the value of perquisites received by him is _____ .
- (xiii) The maximum amount of deduction in respect of interest on loan borrowed for repair and reconstruction of self occupied property is ₹ _____ .
2. (a) Mr. Naveen joined N & Co Ltd on 01.10.2014 for a basic salary of ₹ 40,000 per month. He is also eligible for a HRA of ₹ 8,000 per month. He paid ₹ 10,000 every month towards rent at Delhi. Compute his salary income chargeable to tax. 5
- (b) State with reasons the eligible amount of deduction in the following cases under Chapter VI-A of the Income-tax Act, 1961. 6
- (i) Annual life insurance premium ₹ 60,000 on the life of son suffering from disease specified in 80DDB. Policy was taken on 05.04.2013 and the capital sum assured is ₹ 5 lakhs.
- (ii) Tuition fees paid to a son studying part-time MBA at Mumbai ₹ 1,20,000.
- (iii) Stamp duty paid ₹ 80,000 on purchase of a residential house property let out for a monthly rent of ₹ 20,000.
- (c) State the 'due date' for filing the return of income in the following cases: 4
- (i) An individual whose accounts are liable for audit under section 44AB.

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- (ii) A partnership firm with a sales turnover of ₹ 30 lakhs.
- (iii) An individual government pensioner.
- (iv) Working partner of a partnership firm whose turnover exceeded ₹ 100 lakhs during the previous year.

3. (a) Mr. Raghu has two houses both of which are self-occupied. The details are given below:

Particulars	House-I ₹	House-II ₹
Municipal value	4,50,000	5,40,000
Fair rent	3,00,000	6,00,000
Standard rent	3,60,000	4,80,000
Municipal tax	49,000	60,000
Municipal tax actually paid	45,000	54,000
Interest on moneys borrowed for construction	80,500	78,200

Compute income from house property for the assessment year 2015-16 and suggest which house should be opted as self-occupied in order to minimize his tax liability. 6

(b) Mr. Surya (age 62) derives income only from one heavy goods carriage and two other goods carriages which he owned throughout the financial year 2014-15. His income as per books of account is ₹ 2,30,000. He wants to know the amount of presumptive income under section 44AE.

Advise whether he should offer income under presumptive provision or as per books of account. 5

(c) State which of the following agricultural lands given below is a capital asset: 4

Particulars	Aerial distance from municipal limit	Population
Agricultural land – I	5 kms	60,000
Agricultural land – II	1 km	8,00,000
Agricultural land – III	7 kms	15,00,000
Agricultural land – IV	10 kms	50,00,000

4. (a) State whether the following expenses are allowed while computing income under the head 'profit and gains of business or profession'. 5

- (i) Provision for gratuity of ₹ 7 lakhs made in the books but no actual payment made.
- (ii) Salary of ₹ 9 lakhs paid to a non-resident employee permanently located outside India without deduction of tax at source.
- (iii) Sales tax deposited in cash ₹ 25,000 with State Bank of India.
- (iv) Cash paid to a transporter for carriage of goods ₹ 33,000.
- (v) Oil seeds purchased from a farmer on a banking day by paying cash of ₹ 45,000.

- (b) Mr. Balu acquired a house property in March, 1981 for ₹ 2 lakhs. The fair market value as on 01.04.1981 was ₹ 3,40,000. He gifted the property to his son Raju in December, 1999 when the fair market value was ₹ 10 lakhs. Raju entered into a sale agreement in January 2012 and received ₹ 1 lakh from Raghav which was subsequently forfeited as the buyer Raghav did not fulfill the commitment.

In June, 2014 an agreement was made for sale of property with Dinesh and a sum of ₹ 2 lakh was received as advance. This advance was also forfeited by Mr. Raju due to failure of Dinesh.

Finally Raju sold the property to Priya for ₹ 90 lakhs in January, 2015. He started construction of a residential house in August, 2014 and incurred ₹ 10 lakhs till March, 2015.

Mr. Raju subscribed to REC bonds for ₹ 30 lakhs in March, 2015 and wishes to invest the balance amount in construction of residential house in the financial year 2015-16 in such a way that his income from capital gain is reduced to 'nil'.

Compute his income under the head 'capital gains' for the assessment year 2015-16.

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Note:

Financial Year		Cost inflation index
1980-1981	=	100
1999-2000	=	389
2011-2012	=	785
2014-2015	=	1024

- (c) Do you agree with the proposition that an Indian company is always resident in India for the purpose of Income-tax? 3

5. (a) Ms. Premlatha drawing a salary of ₹ 15,000 per month received the following gifts during the previous year 2014-15.

- Gift of ₹ 70,000 on the occasion of her marriage from her office colleagues on 15.09.2014.
- Gift of listed equity shares from her brother's mother in law on 10.11.2014. The market value of shares on that date was ₹ 85,000.
- A vacant site was obtained by way of gift from her maternal grandfather's sister. Stamp duty value on the date of gift ₹ 40,000.
- Received a Rolex watch from a cousin who is in Dubai on the occasion of her birthday on 15.08.2014. The purchase price of watch was ₹ 10,000.
- Her friend paid life insurance premium due of ₹ 25,500 by way of cheque to express her love and affection.

Compute the income under the head 'other sources' of Ms. Premlatha for the assessment year 2015-16. 5

- (b) Mr. Amin whose total income is ₹ 4,50,000 paid house rent of ₹ 8,000 per month in respect of residential accommodation occupied by him. He has not received any house rent allowance nor owns a house property anywhere.

Compute the amount of deduction if any, that could be claimed in respect of rent paid. 3

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- (c) Akshaya Infra Ltd., New Delhi is a company engaged in the construction and sale of buildings. It has the following assets as on 31.03.2015. Compute the Net Wealth of the company as on the valuation date, 31-03-2015. 7

Assets	₹ in lacs
(i) Flats—residential ready for sale	200
(ii) Commercial properties ready for sale	500
(iii) Guest House situated 30 kms away from Delhi	25
(iv) Two residential Houses occupied by:	
An officer having an annual salary of ₹ 8 lakhs	10
An officer having an annual salary of ₹ 15 lakhs	15
(v) Cars used for company's business	20
(vi) Urban land held from 31.03.2001, on which no building could be built due to dispute of title	50
(vii) Cash in hand (recorded in the books of accounts)	5

6. (a) Discuss the taxability of unexplained expenditure incurred by the assessee under the provisions of the Income-tax Act. 3

- (b) Mr. Joseph, a Cost Accountant in practice had gross receipts from profession amounting to ₹ 40 lakhs during the previous year 2013-14, He filed his return of income on 1st December, 2014 disclosing a taxable income of ₹ 12 lakhs. On 25th March, 2015, he discovered that he did not claim certain expenses and filed a revised return showing taxable income of ₹ 11.80 lacs after adjustment of such expenses on 30th March, 2015.

Explain the validity of the revised return of income filed by Mr. Joseph on 30th March, 2015. 3

- (c) Mr. Avinash entered into the following transactions during the previous year 2014-15. Discuss the income tax implications of each transaction in the hands of Mr. Avinash and Mrs. Alka, wife of Mr. Avinash. 6

(i) Mr. Avinash holds 51% share in a partnership firm. Mrs. Alka received a remuneration of ₹ 75,000 from the firm for writing its books of account. Mrs. Alka, being a fashion designer, does not possess any qualification or training in the field of accountancy.

(ii) Mr. Avinash gifted a residential house to Mrs. Alka on 1st April, 2014. During the previous year 2014-15, she received rent of ₹ 10,000 per month from letting out of the said house.

- (d) Can an individual, who is not in India, sign the return of income from outside India? Is there any other option? 3

7. (a) A company incorporated outside India is not liable to wealth tax in India. Examine the correctness of the statement. 4

- (b) When shall a transaction be considered as "international transaction"? 4

- (c) Mr. Anuj, an individual, resident in India aged 49 years has received professional fees of ₹ 1,70,000 (net of tax ₹ 30,000) and ₹ 2,55,000 (net of tax ₹ 45,000) on 7th August, 2014 and 15th March, 2015 respectively for rendering services in Hong Kong. India does not have any double taxation avoidance agreement with Hong Kong. He incurred ₹ 1,60,000 as expenditure for earning such fees. His income from other sources in India is ₹ 2,60,000. He paid ₹ 90,000 towards public provident fund.

Compute tax liability of Mr. Anuj for Assessment Year 2015-16.

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8. (a) Following questions have been raised in the context of the provisions regarding deduction of tax at source. Answer the questions:

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- (i) X Ltd. has taken a flat on rent from Y Ltd. to set up its branch office. Rent payable to Y Ltd. for the flat in ₹ 90,000 per month plus applicable service tax. X Ltd. wishes to know whether tax is required to be deducted at source under section 194-I from gross amount of rent including service tax.
- (ii) An employee of Central Government is to receive arrears of salary for the earlier 3 years. He enquires whether tax will be deducted at source from the entire amount of arrear salary.
- (b) Mr. Atul (age 45) is a trader whose income from business for the year ended 31st March, 2015 amounts to ₹ 5 lakhs. He sold a vacant site resulting in a long-term capital gain of ₹ 3 lakhs. State the amount of advance tax payable by him during the financial year 2013-14 mentioning the dates.

Assuming he filed his return of income on 15th May, 2015 and has not paid any advance tax at all, compute interest payable under section 234B of the Income-tax Act.

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- (c) State the quantum of penalty in the following cases:

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- (i) Failure to comply with a direction for audit under section 142(2A).
- (ii) Failure to get the accounts audited under section 44AB.
- (iii) Cash loan received ₹ 50,000.
- (iv) Failure to file return of income by a charitable trust within due date.
- (v) Failure to file return of income by a salaried individual before end of the assessment year.