

INTERMEDIATE EXAMINATION

June 2018

P-7(DTX)
Syllabus 2016

Direct Taxation

Time Allowed: 3 Hours

Full Marks: 100

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

*All questions are compulsory. In **Question No. 1**,
all sub-questions are compulsory.*

*In Question Numbers 2 to 8, student may answer **any 5** questions.*

*Wherever necessary, you may make suitable assumptions
and state them clearly in your answer.*

Working notes should form part of the answer.

*All questions relate to the Income-tax Act, 1961 and
pertain to the AY-2018-19, unless stated otherwise.*

1. (a) Choose the most appropriate alternative: 1×10=10
- (i) Which of the following is not a case of deemed ownership of house property?
 - (A) Transfer to spouse for inadequate consideration
 - (B) Transfer to minor child for inadequate consideration
 - (C) Co-owner of a Property
 - (D) None of the above
 - (ii) Where assessment has not been completed, belated income tax return for the A.Y. 2018-19 can be filed up to:
 - (A) 31.03.2019
 - (B) 31.02.2019
 - (C) 31.03.2020
 - (D) Cannot be filed belatedly.
 - (iii) An individual estimates that he is required to pay ₹ 1,00,000 as advance tax. By 15th of December, how much amount must be paid by the individual?
 - (A) ₹ 30,000
 - (B) ₹ 75,000
 - (C) ₹ 1,00,000
 - (D) Nil

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- (iv) Section 80 RRB the Income-tax Act, 1961 deals with deduction from gross total income in respect of income by way of
(A) Interest on debentures of a government company
(B) Royalty income on authors
(C) Royalty on patents
(D) Royalty from text-books
- (v) Preliminary expenses that can be amortized under the Income-tax Act 1961 has to be restricted to _____ of the cost of the Project.
(A) 5%
(B) 15%
(C) 20%
(D) None of the above
- (vi) Maximum Marginal Rate for the A.Y. 2018-19 is _____.
(A) 34.5%
(B) 33.99%
(C) 35.535%
(D) None of the above
- (vii) Rebate u/s 87A can be claimed by
(A) Any resident
(B) Resident Individual
(C) Any person
(D) Any person other than non resident
- (viii) As per section 115BBDA dividend from Indian companies is taxable in the hands certain recipients at _____ when the aggregate dividend exceeds ₹ _____.
(A) 10%, 1 lakh
(B) 15%, 10 lakhs
(C) 10%, 10 lakhs
(D) 5%, 5 lakhs
- (ix) ICDS VIII deals with _____.
(A) Government Grants
(B) Securities
(C) Revenue recognition
(D) Construction Contract
- (x) Income escaping assessment is covered under section _____.
(A) 144
(B) 156
(C) 143(3)
(D) 147

(b) Match the following :

1×5=5

(i)	ALTERNATE MINIMUM TAX	(A)	SECTION 44AD
(ii)	RETURN BY WHOM TO BE VERIFIED	(B)	SECTION 263
(iii)	REVISION BY COMMISSIONER	(C)	SECTION 140
(iv)	PRESUMPTIVE TAX	(D)	SECTION 80EE
(v)	₹ 50,000	(E)	SECTION 115JC

(c) State whether True or False :

1×5=5

- All incomes that accrue to a minor child will be included in the total income of that parent whose total income is greater.
- Caution money forfeited by the assessee is taxable in the year of forfeiture under the head capital gains.
- Paintings are not considered as personal effects in the context of "capital asset" definition.
- In the hands of a manufacturer, factory building newly constructed is not eligible for additional depreciation.
- Income from assets acquired by spouse out of pin money or household savings is not subject to clubbing.

(d) Fill in the blanks :

1×5=5

- Deduction under section 80GGB in respect of house rent paid is applicable to _____.
- Unabsorbed depreciation shall be allowed to be carried forward for any number of years and such carried forward unabsorbed depreciation may be set off against any income, other than _____.
- Income referred to in sec. 68 to sec. 69D shall be taxable @ _____.
(Excluding SC and Cess)
- _____ received by an electoral trust shall be exempted.
- Income from sub-letting of a house property by a salaried employee is taxable under the head _____.

2. (a) (i) Compute the tax liability of Sri A. Harichandraprakash whose total income is 5

(A) ₹ 49,62,500

(B) ₹ 51,00,000

Note : (Source of income is Salary only)

(ii) Explain the following concepts 3

- Tax Planning
- Tax Avoidance
- Tax Evasion

- (b) Two brothers Rama and Shankar are co-owners of a house property with equal shares. The property was constructed during the Financial Year 1998-1999. The property consists of 8 identical units and is situated at Salem. During the Financial Year 2017-2018 each owner occupied 1 unit for residence and balance 6 units were let out at a rent of ₹ 14,000 per unit per month. The municipal value of property is ₹ 9,00,000 and municipal tax are 10% of municipal value, paid during the year. The other expenses are as follows:

(i) Repairs	₹	90,000
(ii) Insurance premium paid	₹	15,000
(iii) Interest payable on loan taken	₹	3,50,000

One of the let out remained vacant for 4 months during the year. Rama could not occupy his unit for 6 months as he was transferred to Bangalore. He does not own any other house. The other income of Rama and Shankar are ₹ 3,50,000 and ₹ 1,80,000 respectively for the Financial Year 2017-2018.

The co-owners received during the year ₹ 1,40,000 as unrealized rent for 2014-2015 and ₹ 50,000 as arrears of rent.

Compute the income under the head "Income from House Property" and total income of the two brothers for the Assessment Year 2018-2019.

7

3. (a) Mr. Ashwin of Chennai sold a vacant site for ₹ 30 lakhs to Mr. Raina on 01.05.2017. The value of land for stamp duty purposes was ₹ 25 lakhs. The vacant site was acquired in April, 2000 for ₹ 3 lakhs. The fair market value of the vacant site on 01.04.2001 was ₹ 4 lakhs. The entire sale consideration plus a housing loan of ₹ 38 lakhs from a nationalized bank was availed for acquiring a residential building for ₹ 68 lakhs in Pune on 01.07.2017. The stamp duty paid for the purpose of acquisition was ₹ 2,90,000. The property was let out for a monthly rent of ₹ 10,000 from 01.07.2017. Interest on housing loan during the year till its closure, amounted to ₹ 2,80,000.

Mr. Ashwin sold yet another vacant site for ₹ 28 lakhs on 21.01.2018. This vacant site was acquired in October, 2015 for ₹ 20 lakhs. He utilized the entire sale proceeds realized in January 2018 for repaying the housing loan.

His other incomes are (i) Income from business (computed) ₹ 3,90,000 and (ii) Bank interest of ₹ 60,000 from term deposits and ₹ 15,000 from SB account.

Compute the total income of Mr Ashwin for the assessment year 2018-19.

Cost inflation index : F. Y. 2001-02 = 100; F.Y. 2015-16 = 254; F.Y. 2017-18 = 272.

7

(b) State whether the following transactions attract tax deduction at source (TDS) provisions and the rate of tax & the amount of tax deductible in applicable cases:

- (i) Interest on recurring deposit of ₹ 12,000 paid by a nationalized bank to Mr. Dhoni.
- (ii) Prize amount of ₹ 8,000 paid by Excellence Ltd. to Mr. Saha a winner of crossword puzzle contest conducted by the company.
- (iii) Commission of ₹ 21,000 paid to Kumble & Co. by Dravid Co. Ltd for purchase of raw materials.
- (iv) Chandra Ltd. paid ₹ 40,000 per month as generator rent from 1st August, 2017 and up to 31st March, 2018 to Mr. Shastri.

8

4. (a) Mr. Kamal employed in Rajini Mfg. Co. Ltd., Mumbai as General Manager furnishes the following information for the year ended 31.03.2018:

Particulars	Amount (₹)
Basic salary (per month)	50,000
Dearness Allowance (eligible for retirement benefits)	80% of basic salary
House Rent Allowance (per month)	10,000
Rent paid by him ₹ 15,000 per month for 6 months and ₹ 20,000 per month for balance 6 months (at Mumbai)	
City Compensatory Allowance (per month)	2,500
Medical reimbursements (annual)	13,000
Gymkhana club annual membership fee reimbursed by employer	20,000
Mobile phone bill reimbursed by the employer (Used for both official and personal use)	37,500
Motor car (cubic capacity of engine 2.2 litres) owned by the employee but the maintenance expenses fully met by the employer (Motor car was used both for personal and official use)	85,800
Cash gift paid by the employer in appreciation of performance on 01.01.2018	30,000
Contribution to recognized provident fund :	
Employee	1,20,000
Employer	90,000
Contribution to National Pension Trust:	
Employee	60,000
Employer	55,000
Medical insurance premium paid by means of uncrossed cheque	18,000

You are requested compute the total income of Mr. Kamal for the assessment year 2018-19. 10

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(b) State with brief reasons whether the following are agricultural income either in whole or in part: 1×5=5

- (i) Purchase of standing sugarcane crop by Mr. Amin for ₹ 2 lakhs and after cutting the canes, selling them for ₹ 2,50,000.
- (ii) Income from milk dairy run by Mr. Raj in his agricultural lands ₹ 50,000.
- (iii) Income from sale of plants ₹ 1,00,000 earned by Mr. Jain who maintains a nursery by name Soundarya Nursery.
- (iv) Income from sale of rubber ₹ 3,20,000 realised by Mr Ram Nair who owns rubber estate and cultivates rubber.
- (v) Income from grazing of cattles allowed in the land owned by Mr. Richard ₹ 60,000.

5. (a) Ahuja Industries Ltd. engaged in manufacturing activity and generation of power, gives you the following information for the year ended 31st March, 2018:

Description	Op. WDV (01.04.2017)	Acquisition/ Date	New acquisition used from	Sold during the year
Plant	₹ 5,00,000	₹ 60,000 (01.05.2017)	01.11.2017	₹ 80,000 (01.01.2018)
Windmill	—	₹ 60,00,000 (01.06.2017)	01.09.2017	—
Computer	₹ 3,00,000	₹ 90,000 (01.10.2017)	01.11.2017 (Office use)	₹ 40,000 (01.03.2018)
Patent	—	₹ 4,00,000 (01.12.2017)	01.12.2017	—

Compute the depreciation and additional depreciation for the assessment year 2018-19. The computation must be such that the same is most beneficial to the assessee. 9

(b) State with one line reason, the due date for filing the return of income in the following cases:

- (i) Mr. Solkar, engaged in trade, has total turnover of ₹ 220 lakhs for the year ended 31.03.2018.
- (ii) Krish Srikanth, an advocate, has aggregate professional receipts of 12,40,000 opting to admit income under section 44ADA.
- (iii) Mr. Abid Ali, having 5 heavy goods transport vehicles which are run on hire, opting to admit income under section 44AE .
- (iv) M/s. Jayantilal & Mankad, a firm engaged in hotel business with annual turnover of ₹ 130 lakhs preferring to offer income based on applicable presumptive provisions.
- (v) Vaman Kumar Charitable Trust registered under section 12AA having total income of ₹ 12 lakhs.(before giving effect to the provisions of section 11 and 12, and before seeking accumulation of income for application in the future years.) 6

6. (a) The Profit & Loss Account of ABC & Associates, a partnership firm for the previous year 2017-18 is given below:

Particulars	₹	₹	Particulars	₹
Establishment and other expenses		96,00,000	Gross Profit	1,56,40,000
Interest to partners @ 15%			Profit on sale of equity shares (Sold after 2 years through recognized stock exchange)	2,80,000
A	1,80,000			
B	2,40,000			
C	1,20,000	5,40,000		
Salary to working partners			Rent from house property	1,20,000
A	4,80,000			
B	3,60,000	8,40,000		
			Interest on bank deposit	20,000
			Profit on sale of equity shares (after 10 months through recognized stock exchange)	2,40,000
Net Profit		53,20,000		
		1,63,00,000		1,63,00,000

Additional information:

- Establishment expenses include bonus ₹ 2,40,000 which was paid on 30-12-2018.
- The firm is eligible for deduction under section 80-IC.
- Establishment expenses also included securities transaction tax of ₹ 2,000.

Compute the tax liability of the firm for the assessment year 2018-19. Assume that no extension of time has been granted u/s 139(1) for filing the return of income.

10

- (b) Aswini's accounts are not required to be audited under section 44AB. He furnished his return of income for Assessment Year 2018-19 on 1st August, 2018. He has the following losses during the previous year 2017-18:

Loss from house property let out: ₹ 12,000

Loss from business: ₹ 60,000

Unabsorbed depreciation: ₹ 15,000

Short-term capital loss from sale of shares: ₹ 8,000

State, with reason, whether Aswini is entitled to carry forward above losses and unabsorbed depreciation. 5

7. (a) Discuss the taxability or otherwise in the hands of the recipients: 2×5=10

- (i) PQR Private Limited issued 15,000 shares at ₹ 150 per share (face value ₹ 100 per share). The fair market value of the share is ₹ 130 per share.
 - (ii) Mr. Sakshitha received a sum of ₹ 92,000 being proceeds at the time of maturity of a life insurance policy (taken 5 years back) and ₹ 1,10,000 being proceeds of maturity value of a Key-man insurance policy.
 - (iii) Nilay, a member of his father's HUF, gifted a house property to the HUF. The stamp duty value of the house is ₹ 8 lakhs.
 - (iv) Rashmi received a cell phone worth ₹ 60,000 as gift from her friend on the occasion of her birth day.
 - (v) On the occasion of her marriage Tripti received cash gifts of ₹ 1,30,000, which includes ₹ 60,000 from her friends.
- (b) ABC & Co., a partnership firm, consisted of 4 equal partners up to 31.03.2017. It had accumulated business losses of ₹ 8 lakhs and unabsorbed depreciation of ₹ 6 lakhs relating to assessment year 2016-17. On 01.04.2017 one partner retired. The firm, for the previous year ended 31st March, 2018, made a turnover of ₹ 150 lakhs. The firm wishes to opt for presumptive taxation.

The entire sale proceeds were realized through banking channel.

Compute the total income of the firm for the assessment year 2018-19. 5

8. Write short notes on *any three* of the following: 5×3=15

- (a) Fee for delay in furnishing the return of income;
- (b) Scrutiny assessment
- (c) ICDS : Accounting policies
- (d) Adjustments during the course of processing of return of income u/s139(1).