

Paper 7 – Direct Taxation

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Full Marks: 100

Time allowed: 3 hours

Section-A (25 Marks)

Answer question No. 1 a,b,c & d which is compulsory.

1. a) Multiple Choice Questions: [10 x1=10]

- i) Exempted tax slab rate for resident and very senior citizen of the age of 80 years or more is
 - a) 250000
 - b) 300000
 - c) 500000
 - d) None of the above

- ii) The charging section of the Income-tax Act is :
 - a) Section 1
 - b) Section 2
 - c) Section 3
 - d) Section 4

- iii) Amount is received under the notified reverse mortgage scheme is
 - a) Taxable as Income from other sources
 - b) Exempt from tax
 - c) 50% taxable
 - d) Taxable as capital

- iv) Taxability of medical benefits to the employee or family member u/s 10(5) is exempt upto
 - a) 5000
 - b) 10000
 - c) 15000
 - d) 20000

- v) Deduction available under section 24(a) is _____ of NAV.
 - a) 10%
 - b) 20%
 - c) 30%
 - d) 40%

- vi) Basis of chargeability under head income from house property is covered under Section.
 - a) 21%
 - b) 22%
 - c) 23%
 - d) 24%

- vii) Marriage gift from a non-relative is _____.
 - a) Exempted from tax
 - b) Not exempted from tax
 - c) Taxable
 - d) None of these

- viii) Deduction of tax at source for insurance commission is @.

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- a) 10%
- b) 20%
- c) 30%
- d) 40%

- ix) As per section 207, _____ not having any income from business or profession is not liable to pay advance tax.
- a) A resident individual who is of the age of below 60 years
 - b) A resident HUF
 - c) A non-resident individual
 - d) A resident senior citizen (i.e., an individual of the age of 60 years or above)
- x) Income Computation and Disclosure Scheme (ICDS) comes into effect from the assessment year
- a) 2015-16
 - b) 2014-15
 - c) 2016-17
 - d) 2017-18

b) State whether the following statements is true or false: [5x1=5]

- i) Belated Return can be revised.
- ii) Winning from lottery is taxable at the rate of 22%.
- iii) Commutation of Pension for Government employees is fully taxable.
- iv) As per section 44AA maintainence of books of account for notified professional is ₹ 150000.
- v) Deduction under chapter VI-A in relation to resident individual who is handicapped is covered under section 80U.

c) Fill in the blanks [5x1=5]

- i) In the case of conflict between the provisions of the Income-tax Act, 1961 and ICDS, the provisions of _____ shall prevail to that extent.
- ii) ICDS are to be followed by all assessee, following the _____ system of accounting.
- iii) The maximum punishment for false statement in respect of Equalization Levy is _____.
- iv) Loss from activity of owing and maintaining horse race can be carried forward for _____.
- v) Taxation is a _____ part of the organized society.

d) Match the followings: [5x1=5]

	Column-A		Column-B
1	Long term Capital Assets	A	Section 32
2	Limit of maximum deduction under section 80C.	B	Section 64(1A)
3	Audit limit for Business Assessee	C	Section 54 EC
4	Computation of Depreciation	D	₹150000
5	Income of a Minor child	E	₹100 lakh of rupees

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Section-B (75 Marks)

Answer any five Questions from Question No. 2 and 8

2. a) Distinguish between Capital Expenditure and Revenue Expenditure. [5]

2. b) The gross total income of a resident individual, aged about 45, for the financial year 2016-2017 is ₹ 5,00,000. Compute the amount of tax payable during the assessment year 2017-2018 he has also agricultural income of: (a) ₹ 5,000; (b) ₹ 1,50,000. [5]

2. c) S Charitable Trust registered under section 12AA of the Income Tax Act is engaged in providing medical assistance to the physically challenged persons. The trust has furnished the following details relating to previous year 2016-17; [5]

Particulars	Amount (₹)
Net income from the properties held under trust	16,50,000
Voluntary Contribution (including donation ₹ 1,50,000 received with direction from the donor that it would form part of corpus)	5,00,000
Financial assistance to physically challenged persons	9,50,000
Purchase of Land for construction of office of the trust	4,00,000

3. a) P is a regular employee of a Delhi-based private sector company where he was appointed on 1.1.2015 in the scale of ₹ 20,000-1,500-30,000. Under the terms of employment, he is paid 10% of DA and also bonus equivalent to one month's pay as on the last month of the financial. His employer and he himself contributes 15% of basic and DA towards recognized provident fund. He is provided with free housing facility which has been taken on rent by the employer on rent for ₹10,000 p.m.

Besides, he is provided with the following facilities:

- (a) Facility of laptop costing ₹ 40,000;
- (b) Company reimbursed the medical treatment bill of his brother for ₹ 25,000. The brother is dependent on him.
- (c) The monthly salary of ₹ 1,200 of a housekeeper is reimbursed by the company.
- (d) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
- (e) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement.
- (f) He is provided with a personal accident policy for which premium of ₹ 5,000 is paid by the company.
- (g) He is getting telephone allowance @₹ 500 p.m.
- (h) The company pays medical insurance premium of his family of ₹ 10,000.

Compute the assessee's taxable income from Salaries for the assessment year 2017-18. [7]

3. b) The profit and loss of M/s. X and Y, (a PFAS), a retail cloth merchant, for the year ending 31st March, 2017 is given as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,80,000	By Sales	20,00,000
„ Purchases	11,00,000	„ Rent from house property	40,000
„ General expenses	2,00,000	„ Dividend from Indian companies	10,000

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„ Remuneration to partners	2,00,000	„ Closing stock	2,00,000
„ Interest to partners	90,000		
„ Municipal tax paid	4,000		
„ Sundry expenses	26,000		
„ Net Profit:			
X 3,00,000			
Y 1,50,000	4,50,000		
	22,50,000		22,50,000

Other information:

- (i) General expenses include salary paid to the brother-in-law of X, which, in the opinion of the Assessing Officer, is excessive to the extent of ₹ 15,000.
- (ii) Sundry expenses include ₹ 5,000 being provision for bad and doubtful debts.
- (iii) Sales tax amounting to ₹ 75,000 was paid on 10th April, 2016 and not debited to the profit and loss account.
- (iv) Capital of X and Y was ₹ 4,00,000 and ₹ 2,00,000 respectively and they share profit and loss in the ratio of 2 : 1.
- (v) Interests and remunerations are paid to the partners in accordance with the provisions of the partnership deed.

From the above particulars, you are required to compute:

- (a) Book profit of the firm.
- (b) Interest on capital allowable as per Income tax law, and
- (c) Remuneration to partners as per Income tax law. X and Y are working partners in the firm.

[8]

4.a) A Ltd., an Indian company furnishes the following particulars of its income/assets/investments for the previous year 2016-2017: **[8]**

(a)	Business income before depreciation	₹1,00,000
(b)	Sale of shares (privately transferred) in September, 2016 (purchased in April, 2013 for ₹60,000)	₹61,350
(c)	Sale of land in December, 2016 (purchased in April, 2008 for ₹ 5,00,000)	₹13,00,361
(d)	Written down value of plant and machinery Used in business on 1.4.2016	₹ 20,00,000
	Machinery purchased in July, 2015	₹ 4,00,000
	Machinery sold in November, 2016	₹ 6,00,000
(e)	Out of the sale proceeds of land ₹4,00,000 was Invested in the special account under Capital Gains Deposit Scheme in March, 2017.	

4. b) X, a retail trader of Mumbai gives the following Trading and Profit and loss Account for the year ended 31st March, 2017.

Trading and Profit and Loss Account for the year ended 31.03.2017

Particulars	₹	Particulars	₹
To opening stock	86,000	By Sales	12,11,500
To Purchases	10,00,000	By Other business receipts	6,500
To Gross profits	3,06,000	By Income from UTI	2,400
		By Closing Stock	1,71,600
	13,92,000		13,92,000
To Salaries	60,000		
To Rent and rates	40,000	By Goss Profit b/d	3,06,000
To Interest on loan	10,000		
To Depreciation	1,02,000		
To Postage and Telegram	1,640		

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To Printing and Stationary	23,200		
To Loss on sale of shares (Short term)	8,100		
To General expenses	11,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

Some stocks were found to be not included in the opening and closing stock, the value of which

where: Opening Stock ₹12,000, Closing Stock ₹21,000.

Salary include ₹18,000 paid to his brother, which is unreasonable to the extent of ₹2,000.

The whole amount of printing and stationary was paid in cash.

Depreciation as per Income Tax rules is ₹66,000.

Rent and Rates includes Sales Tax Liability of ₹5,000 paid on April 4, 2017.

Other Business Receipts include ₹3,000 received as refund of Sales Tax relating to the year, 2015-16.

General expenses include ₹1,500 paid as donation to a Public Charitable Trust.

You are required to advise X whether he can offer his Business Income under sec. 44 AD, i.e.

Presumptive Taxation.

[7]

5. a) D, aged 55, resident of India, furnishes the following information for the previous year ended 31.03.2017.

Particulars	Amount (₹)
House property income (net)	18,500
Business income	5,000
Capital gains(short term)	22,000
Capital gains(long term)	2,500
Income from horse race	15,000
Income from card games	16,000
Additional information are as follows:	
Brought forward business loss for A.Y.2008-09	12,000
Unabsorbed depreciation for A.Y.2014-15	6,000
Long term Capital Loss for A.Y. 2013-14	12,000
Loss from horse race suffered in AY 2013-14	8,000
Speculative loss for AY 2012-13	10,000

D has taken a life insurance policy for his major son working in a software company for a salary of ₹5 lakhs per annum. He has paid a premium of ₹ 60,000 in cash for a capital sum assured of ₹4,00,000/-

He has paid PPF of ₹ 70,000 by raising a hand loan from his friend. Calculate total income and tax liability. State the items to be carried forward.

[8]

5. b) The following are the details relating to S a resident Indian, aged 57, relating to year ended 31.3.2017:

Particulars	Amount (₹)
Income from salaries	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	3,0000
Loss from specified business covered by section 35AD	20,000

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Long term capital gains from sale of urban land	25,0000
Long term capital loss from sale of listed equity shares in recognized stock exchange (STT paid)	11,0000
Loss from card games	32,000
Income from betting	45,000
Life insurance premium paid	1,20,000

Compute the total income and show the items to eligible for carry forward. [7]

6. a) S constructed his house on a plot of land acquired by him in Kolkata. The house has two floors of equal size. He started construction of the house on 1st April, 2015 and completed construction on 30th June, 2016. He occupied the ground floor on 1st July, 2016 and let out the first floor at a rent of ₹20,000 per month on the same date. However, the tenant vacated the first floor on 31st January, 2017 and S occupied the entire house from 1st February, 2017 to 31st March, 2017.

Other information

Fair rent of each floor	₹ 1,20,000 per annum
Municipal value of each floor	₹ 80,000 per annum
Municipal tax paid	₹ 10,000
Repair expenses	₹ 5,000

S obtained a housing loan of ₹ 15 lacs at interest of 10% per annum on 1st July 2015. He did not repay any part of the loan till 31st March, 2017. [8]

6. b) S Charitable Trust registered under section 12AA of the Income Tax Act is engaged in providing medical assistance to the physically challenged persons. The trust has furnished the following details relating to previous year 2016-17.

Particulars	Amount (₹)
Net income from the properties held under trust	16,50,000
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Purchase of Land for construction of office of the trust	4,00,000

Compute tax payable, if any, by the trust for the Assessment Year 2017 – 2018. [7]

7.a) “Apart from various penal measures contained under the It Act, there are several measures leading to prosecution and imprisonment”. Critically comment. [10]

7.b) List down at least ten transactions where quoting of PAN is mandatory. [5]

8. a) Discuss in brief the extent of growth of digital economy across the world. [5]

8. b) Write a short notes on ICDS I relating to “Accounting Policies”. [5]

8. c) Discuss the provisions contained u/s 140. [5]