

## **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 x 1=10**

- i. Jayant working in a college received ₹ 2,000 per month as research allowance for pursuing research. The taxable portion of allowance would be
  - A. ₹ 2,000 pm.
  - B. ₹ 'Nil'
  - C. ₹ 1,000 p.m.
  - D. ₹ 'Nil' fully exempt
  
- ii. Income of securitization trust from the activity of securitization is
  - A. Exempt
  - B. Taxable at 20%
  - C. Taxable at 5%
  - D. Taxable at the regular rates
  
- iii. Deduction upto assessment year 2017-18 for contribution to an approved research association, university etc is
  - A. 125% of actual cost
  - B. 200% of actual cost
  - C. 175% of actual cost
  - D. None of the above
  
- iv. 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
  
- v. Zero Coupon Bonds can be issued by any of the following entities
  - A. Scheduled bank
  - B. Public sector company
  - C. Both (a) and (b)
  - D. None of these
  
- vi. Cost of Inflation Index for 2016-17 is
  - A. 785
  - B. 1125
  - C. 852
  - D. 711
  
- vii. Interest on tax refunds u/s 214 is chargeable under which heads of Income-
  - A. Income under head Salary
  - B. Income under head Business and Profession
  - C. Income under head capital gain
  - D. Income under head other sources

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- viii. Dividends declared by a domestic company or any dividend or income declared by the Unit Trust of India are-
- Taxable
  - Partly taxable
  - Exempt
  - None of the above
- ix. Family pension received by the legal heirs of the deceased is taxable in the hands of the legal heirs as
- Income under head Salary
  - Income under head Business and Profession
  - Income under head capital gain
  - Income under head other sources
- x. As provided in section 153, assessment under section 147 shall be made within a period of \_\_\_\_\_year from the end of the financial year in which notice under section 148 is served on the assessee.
- 1 year
  - 2 year
  - 3 year
  - 4 year

**b) State whether the following statements is true or false**

**[5x1=5]**

- Where the expenses are incurred wholly and exclusively for official purposes, the value of the perquisite in respect of the credit card shall be nil.
- The term perquisite has been defined in the Oxford English Dictionary as any casual emolument, fee or profit, attached to an office or position in addition to salary or wages.
- When a person voluntarily foregoes a part of his salary, it will not be excluded from his income.
- Tax on non-monetary perquisite paid by employer is taxable.
- long-term capital gains are to be charged u/s 112 @20%.

**c) Fill in the blanks**

**[5x1=5]**

- Rounded off Income to the nearest multiple of \_\_\_\_\_ rupees.
- Tax rate in case of individual, where the total income does not exceed ₹ 2,50,000 \_\_\_\_.
- Maximum deduction one can claim u/s 80D is \_\_\_\_\_.
- Deduction in case of a person with severe disability [Section 80U] \_\_\_\_\_.
- Where the expenses are incurred wholly and exclusively for official purposes, the value of the perquisite in respect of the credit card shall be \_\_\_\_\_.

**d) Match the followings**

**[5x1=5]**

	Column A		Column B
1	Form No. A	A	Provisions, Contingent Liabilities and Contingent Assets.
2	Sections 15-17 of It Act	B	₹ 1 lakh
3	Borrowing Costs	C	Income under the head –Salaries
4	Threshold exemption limit for equalization Levy	D	Statement for Equalization Levy shall be furnished with the prescribed authority
5	AS 19	E	ICDS IX

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### Section-B (75 Marks)

Answer any five Questions from Question No. 2 and 8

2. a) Following is the details of income of Mr. S for the financial year 2016-17: [4]

Particulars	Amount (₹)
Income from property in Sri Lanka remitted by the tenant to the assessee in India through SBI	2,10,000
Profit from business in India	1,00,000
Loss from business in Sri Lanka (whose control and management of business wholly remained in India)	80,000
Dividend received from shares in foreign companies received outside India	60,000
Interest on deposits in Indian companies	1,20,000

2. b) Y, a foreign citizen (not being the person of Indian origin), comes to India, for the first time in the last thirty years on March 20, 2016. On September 1, 2016, he leaves India for Nepal on a business trip. He comes back on February 26, 2017. Determine his residential status under the Income-tax Act, 1961 for the assessment year 2017-18. [4]

2.c) Write a short note on Income as per section 2 (24) of the Income tax Act, 1961. [4]

2.d) Write down the conditions for availing the exemption u/s 11 of the Income Tax Act, 1961. [3]

3. a) S aged 45 years, gives the following particulars of his income received from LS Ltd. for the year ended 31st March, 2017:

- 1) Salary after deduction of income-tax at source and own contribution to recognized provident fund ₹ 9,00,000
- 2) Income-tax deducted at source ₹ 80,000
- 3) Own contribution to recognized provident fund ₹ 1,45,000
- 4) Employer's contribution to the provident fund ₹ 1,40,000
- 5) Interest credited to provident fund @11% per annum ₹ 2,89,000
- 6) House rent allowance (actual rent paid by S for the house in Delhi was ₹ 1,08,000) in addition to salary of ₹ 9,00,000 as given above ₹ 1,20,000

He is given free use of 1200 CC car by the employer for domestic as well as official purposes (with effect from 1st November, 2016) and all expenses including driver's salary being met by the employer.

He is also provided free services of a watchman (with effect from 1st May, 2016) and a sweeper (with effect from 1st December, 2016). Salary (₹ 2,675 per month per person) is paid by the employer.

During the year S pays professional tax ₹ 3,000

Compute total income and tax liability of S for the assessment year 2017-18. [8]

3. b) V commenced construction of house meant for residential purpose on 01.11.2014. She raised a loan of ₹ 10 lakhs @ 11% per annum from a bank. Finding that there was over run in the cost of construction, he raised a further loan of ₹ 5 lakhs from her friend at 15% rate of interest per annum on 1.10.2016. The construction was completed by February, 2017.

Compute the amount of interest allowable exemption under section 24 of the income-tax Act, 1961 in the following cases:

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- (i) The house was meant for self-occupation from 01.03.2017  
 (ii) The house was to be let out from 01.03.2017

Is there any deduction available u/s 80C towards principal repayment in respect of above loans? [7]

**4. a)** Following is the Profit and Loss Account of A, a resident of India, for the year ended 31.03.2017:

Particulars	₹	Particulars	₹
To Administrative Expenses	2,75,000	By Gross Profit	7,50,000
To Interest	55,000	By Agricultural income (net): from Lands in India	25,000
		from lands in Malaysia	20,000
To Life Insurance Premium: Self	25,000	By Interest (PPF)	31,200
—daughter in law	15,000		
		By Dividend from listed Indian companies	12,000
To Depreciation	1,50,000	By Savings Bank Interest	6,000
To Net Profit	3,24,200		
	8,44,200		8,44,200

**Other information:**

- (i) Depreciation allowable for the year under section 32 of the income-tax Act, 1961 amounts to ₹1,75,000.  
 (ii) Administrative expenses include salary taken by Mr. Ashwin at ₹10,000 per month for 8 months.  
 (iii) Interest includes payment of ₹24,000 to daughter @36% per annum when the market rate of interest is 15% per annum.

Compute the total income of A for the assessment year 2017-18. [8]

**4. b)** During the previous year 2016-2017 R sells the following capital assets:

Asset	Sale Proceeds	Cost of acquisition	Year of acquisition	Fair market Value as on 1.4.81
Land	1,80,00,000	12,00,000	1980	15,00,000
Gold	24,07,000	2,20,000	1980	2,00,000
Debentures	1,57,000	75,000	1976	40,000

Assuming that his business income is ₹1,46,000, determine his net income for the assessment year 2017- 2018. Cost Inflation Index – F.Y 2016-17: 1125. [7]

**5. a)** From the following particulars of P for the previous year ended 31<sup>st</sup> March, 2016 compute the Income under the head —"Income from other Source":

Particulars	₹
Directors Fee from a company	10,000
Interest on the bank deposits	3,000
Income from undisclosed source	12,000
Winnings from Lotteries (Net)	33,500
Royalty on a book written by him	9,000
Lectures in Seminars	5,000
Interest on loan given to a relative	7,000
Interest on Debentures of a Company (listed in a Recognized Stock Exchange)	3,588

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Net of Taxes	
Interest on Post Office Savings Bank Account	500
Interest on Government Securities	2,200
Interest on monthly Income Scheme of Post Office.	33,000

He paid ₹1,000 for typing the manuscript of book written by him. [8]

**5. b)** Mr. R commenced business with a capital of ₹ 2 lakhs in the financial year 2009-10. His capital as on 1.4.2015 was ₹ 5 lakhs. His wife gifted ₹ 1 lakh on 10.04.2015, which was also invested in the business.

His Net profit for the year 2015-16 = ₹ 2 lakhs.

His Net profit for the year 2016-17 = ₹ 4 lakhs.

Compute the income from business to be clubbed in the hands of Mrs. R and the income from business taxable in the hands of Mr. R for the assessment year 2017-18.

Mr. R did not withdraw any money from the business from 01.04.2016 to 31.03.2017. [7]

**6. a)** Furnishes the following particulars of his income during the previous year 2016-2017:

Particulars	Amount (₹)
Income under the head –Salaries	1,95,000
Loss from manufacturing business	80,000
Profits from construction business	60,000
Profits from speculation business in bullion	10,000
Loss from trading in shares (He never took delivery of shares)	25,000
Loss from self-occupied house	20,000
Dividend from Indian companies	5,000
Interest on fixed deposit in bank	10,000
Long-term capital gains	10,000
Short-term capital loss	15,000
Medical insurance premium paid	10,000

You are required to compute total income of J for the relevant assessment year. [7]

**6. b)** During the previous year 2016-2017, D furnishes the following particulars of his incomes and losses: [8]

	Particulars	₹
(a)	Salary from ABC Ltd.	1,80,000
(b)	Dividends from Indian company	40,000
(c)	Interest on Government securities	14,000
(d)	Profits from the grocery business	60,000
(e)	Profit from speculation in shares	16,000
(f)	Loss from speculation in bullion	18,000
(g)	Short-term capital loss	12,000
(h)	Long-term capital gains	10,000
(i)	1st Prize in the West Bengal State Lottery	2,00,000
(j)	Tickets of lottery bought	30,000
(k)	Gains from card games	20,000
(l)	Loss on betting	10,000
(m)	Stake money received in respect of horses	1,00,000
(n)	Expenses on maintaining horses	1,20,000

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(o)	Interest on borrowed capital in respect of self-occupied house	20,000
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7. a) Discuss the provision relating to defective return u/s 139(9). [7]

7. b) Write a note on ICDS-V relating to Fixed Assets. [8]

8. Write a short note on the followings — [5x3=15]

- a) ICDS VIII relating to securities.
- b) Define ecommerce. Discuss the challenges of digital economy.
- c) Discuss about revision of orders prejudicial to revenue section 263.