

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. Interest credited to recognized provident fund is exempt up to _____ of the accumulated balance.
A. 9.5%
B. 8.75%
C. 8.85%
D. 9.00%
- ii. Gratuity is a retirement benefit given by the employer to the employee in consideration of past services. Gratuity received while in service is _____ taxable under the head –"Salary".
A. Exempt
B. Partly taxable
C. Fully Taxable
D. None of the above
- iii. Leave salary is the cash equivalent received by an employee for leave not availed of. While encashment of leave during continuation of service is _____.
A. Fully taxable,
B. Exempt
C. Partly taxable
D. None of the above
- iv. Maximum limit of exemption under retrenchment compensation given to a workman is
A. 2,00,000
B. 3,00,000
C. 5,00,000
D. 6,00,000
- v. Any loss under the head –Profits and gains of "business or profession" _____ be set off against income under the head –"Salaries".
A. Cannot
B. Can
C. None of above
- vi. The rate of dividend distribution tax for the assessment year 207-18 is____ (Plus surcharge and education cess and SHEC).
A. 15%
B. 18%
C. 22%
D. None of the above
- vii. Notice under section 148 can be issued within a period of _____ from the end of the relevant assessment year.
A. 4 years
B. 2.5 years
C. 3 years

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- D. 4.5 years
- viii. Which of the following can be corrected while processing the return of income under section 143(1)?
- A. any arithmetical error in the return
 - B. any mistake in the return of income
 - C. any error in the return of income
 - D. any claim by the taxpayer which is against law
- ix. Income Computation and Disclosure Standard V relating to _____.
- A. tangible fixed assets
 - B. Intangible assets
 - C. Borrowing cost
 - D. None of the above
- x. where the total income does not exceed ₹ 10,000 the rate of income tax would be —
- A. 10 per cent of the total income
 - B. 20 per cent of the total income
 - C. 30 per cent of the total income
 - D. 40 per cent of the total income

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

- i. "Foreign company" means a company which is not a domestic company.
- ii. MAT does not apply to any income accruing or arising to a company from life insurance business referred to in section 115B. [section 115JB(5A)].
- iii. Not less than 15% of advance tax payable on or before 25th June of the previous year.
- iv. Notice under section 156 is given for deferment of tax.
- v. Under section 270A, the assessee will be held liable for penalty. The rate of penalty shall be fifty per cent of the tax payable on under-reported income.

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

- i. The various types of taxes levied by the Governments are divided into two broad categories: _____ and _____ taxes.
- ii. _____ is responsible for the administration of Income tax in India.
- iii. The term person has been defined in Section _____ of Income tax Act, 1961.
- iv. Computation of capital gains in case of slump sale is covered u/s _____.
- v. Chapter _____ of the Income-tax Act allows certain deductions.

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

	Column A		Column B
1	Section 2(7)	A	Permanent Account Number
2	Section 169	B	Collection and recovery of levy
3	The number of ICDS issued so far	C	Ten
4	Section 166	D	Rectification of mistake
5	Section 139(A)	E	Assessee

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Section-B (75 Marks)

Answer any five Questions from Question No. 2 and 8

- 2. a)** Ms. B, a non-resident, residing in New York since 1992, came back to India on 19-2-2015 for living in India permanently. Explain the residential status of Ms B for the assessment year 2017-18. **[4]**
- 2. b)** Write short notes on residential status of a HUF. **[4]**
- 2. c)** Write down various instances of agricultural and non agricultural income. **[4]**
- 2. d)** Distinguish between tax planning, tax avoidance and tax evasion. **[3]**
- 3. a)** Discuss whether tax will be deducted at source in the following cases: **[5]**
- (a) Dividend of ₹ 10,000 received by X from a domestic company on 15th June, 2016.
 - (b) Interest on securities received by X on 15th August, 2016, from a company in which public has substantial interests, ₹ 15,000.
 - (c) ₹ 20,000 received by X from the West Bengal Government as commission on sale of lottery tickets.
 - (d) ₹ 1,30,000 paid by X to the West Bengal Government in respect of rent for Government premises occupied by X during the financial year 2016-2017.
 - (e) ₹ 1,00,000 received as interest during the previous year 2016-2017 on a bank fixed deposit.
- 3. b)** Raj Industries Ltd. furnishes you the following information for the year ended 31.03.2017: **[5]**
- (i) Net Profit as per Statement of Profit and Loss ₹ 16,00,000.
 - (ii) Provision for warranties to customers Statement of Profit and Loss ₹ 2,00,000.
 - (iii) Wealth tax paid debited to Statement of Profit and Loss ₹ 30,000.
 - (iv) Agricultural income credited to Statement of Profit and Loss ₹ 1,00,000.
 - (v) Deferred tax credited to Statement of Profit and Loss account ₹ 4,00,000.
 - (vi) The company has as per books: Brought forward depreciation of ₹ 2,50,000 and Business loss of ₹3,00,000. Compute — book profitll under section 115JB for the assessment year 2017-18.
- 3. c)** Discuss the tax treatment of income of trusts or Institutions from contributions. **[5]**
- 4. a)** The Hyderabad Co-operative Society has the following sources of income during the financial year 2016-17:

Particulars	₹
Income from processing with the aid of power	8,000
Income from collective disposal of labour of its members	15,000
Interest from another Co-operative Society	25,000
Chargeable income from House Property	60,000
Income from other business	55,000

Find its total income, showing the computation under proper heads of income, and the tax payable, as per the provisions of the Income Tax Act 1961. **[5]**

- 4. b)** The profit and loss account of ABC & Co. (a firm of chartered accountants) for the year ended 31st March, 2017 is given below:

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Particulars	₹	Particulars	₹
Expenses	2,46,000	Receipts from clients and audit fees	5,10,000
Depreciation	60,000	Interest (gross) from companies	45,000
Remuneration to partners	1,80,000	Net loss	36,000
Interest to partners	1,05,000		
Total	5,91,000	Total	5,91,000

Other information:

(a) Out of the expenses of ₹ 2,46,000, ₹ 52,200 is not deductible under Sections 36 and 37.

(b) Depreciation as per IT Rules is ₹ 52,500.

(c) Interest paid to partners is fully deductible u/s 40(b).

Find out the total income of the firm and the tax liability of the firm for the assessment year 2017-2018. **[8]**

4. c) The following details have been supplied by the Karta of a Hindu undivided family during the previous year 2016-2017:

The following details have been supplied by the Karta of a Hindu undivided family during the previous year 2016-2017: **[5]**

Particulars	Amount (₹)
Profits from business	4,80,000
Salary paid to the Karta by the family	80,000
Salary received by the Karta from his services elsewhere	80,000
Director's fees received by the Karta	20,000
Rental income from property belonging to the family	1,60,000
Dividends from Indian company	40,000
Long-term capital gains on transfer of building belonging to the family	24,000
Short-term capital gains on transfer of shares (family property)	32,000
Donation to Ramakrishna Mission	20,000
Share of profits from a partnership entered into by the Karta on behalf of the family	40,000

5. a) M gives you the following information for the year ended 31.03.2017: Owns 3 goods carriages throughout the financial year 2016-17. Retail trade turnover ₹ 36,00,000. Has eligible brought forward depreciation of the assessment year 2012-13 ₹ 60,000 relating to retail trade. Deposited ₹ 80,000 in PPF account and ₹ 90,000 in tax saver deposit. Assume that he wants to offer income by opting for sections 44AD and 44AE. Compute his total income for the assessment year 2017-18. **[5]**

5. b) Mr. Rajput, aged 82 years gives you the following information for the previous year 2016-17:

Interest on fixed deposits with banks	₹ 4,80,000
Long-term capital gain on sale of land	₹ 50,000
Short-term capital gain on sale of shares (securities transaction tax paid)	₹ 20,000

Compute tax payable by Mr. Rajput for the assessment Year 2017-18 in cases (i) he is a resident; (ii) he is non-resident. **[5]**

5. c) Mr. A started a proprietary business on 20.04.2015 with a capital of ₹5,50,000. His wife Smt. P gifted ₹2,00,000 on the occasion of his birthday on 28.07.2015, out of which he introduced ₹1,00,000 into his proprietary business.

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Details of his income from business are given below:

Financial year	(Loss)	Income
2015-16	₹(1,50,000)	-
2016-17	-	₹4,00,000

He did not withdraw any amount from the business for his personal use. Determine the amount chargeable to tax in the hands of A and the amount liable for clubbing in the hands of his wife Smt. P. [5]

6. a) Write a note on Clubbing of Income of minor child. [5]

6. b) A is the owner of a house, which he purchased for ₹ 50,000 in 1979. He spent ₹ 10,000 in 1980 towards addition and alteration of the house. During the previous year 2014-2015 the house was acquired by the Government in the Public interest and ₹ 7,40,750 was awarded to him as compensation by the Government. The fair market value of the house on 1.4.1981 was ₹ 70,000. On 16.4.2016, A died and his son B received ₹1,20,000 on 1st August, 2016 as additional compensation in consequence of a suit filed by A. B had to incur legal expenses amounting to ₹ 5,000 in connection with the suit. You are required to compute capital gains for the relevant assessment year/years. [5]

6. c) OPTIMA Ltd. is engaged in the business of plying goods carriages. On 1st April, 2016, the company owns 10 trucks (6 out of which are —heavy goods vehicles). On May 2, 2016 one of the heavy goods vehicles is sold by OPTIMA Ltd. To purchase a light goods vehicle on May 6, 2016, which is put to use only from June 15, 2016. Find out the total income of OPTIMA Ltd. For the assessment year 2017-18 taking into consideration the following data gathered from its books: [5]

Freight collected	8,90,000
Less: Operational expenses	(6,40,000)
Depreciation as per Section 32	(1,90,000)
Other office expenses	(15,000)
Net profit	45,000
Other non-business income	70,000

7. a) Discuss the consequences of non filing of return of income. [5]

7. b) Write a note on Best Judgement Assessment. [5]

7. c) Write a note on Assessment of search or requisition u/s 153A. [5]

8. Write short notes on the following: [5x3=15]

a) ICDS-X relating to provision, contingent liabilities and contingent assets.

b) Provision of equalisation levy as per the Finance Act 2016.

c) Tax demand u/s 156.