Paper-7 – Applied Direct Taxation

Time Allowed: 3 hours **Full Marks: 100**

All the questions relate to the assessment year 2014-15, unless stated otherwise.

Working notes should form part of the answers.

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

Question 1.

(a) Choose the most appropriate alternative:

(i) An individual can avail the benefit of Leave Travel Assistance offered by his employer —
(A) twice in a block of two years
(B) twice in a block of four years
(C) once in a block of four years
(D) once in a block of two years

(ii) How many installments of prior period interest of a house property will be allowed as deduction from the year in which the property was acquired or construction was completed?
(A) five
(B) ten
(C) six
(D) four

(iii) As per section 80GG of the Income-tax Act, which one of the following is one of the criteria for claiming deduction in respect of rent paid—
(A) 50% of Adjusted Total Income
(B) 100% of Adjusted Total Income
(C) 10% of Adjusted Total Income
(D) 25% of Adjusted Total Income

(iv) As per section 139A of the Income-tax Act, Permanent Account Number (PAN) comprises of —
(A) 10 alphanumeric characters
(B) 12 alphanumeric characters
(C) 10 numeric characters
(D) 12 numeric characters

(v) As per section 71B of the Income-tax Act, the permissible limit to carry forward and set off Brought forward loss from House Property is —
(A) 4 Assessment Years immediately succeeding the Assessment Year for which such loss was computed
(B) Any number of year until it is fully set off.
(C) 8 Assessment Years immediately succeeding the Assessment Year for which such loss was computed.
(D) None of the above

(vi) The surcharge (as a percentage of income-tax) payable by a foreign company if the total income upto ₹ 1 crore for the assessment year 2014-15 is:

(A) 5%
(B) 2%
(C) Nil
(D) 10%

(vii) The registration of a charitable trust can be cancelled under section 12AA of the Income-tax Act by:

(A) Assessing officer
(B) Commissioner of Income-tax
(C) Chief Commissioner of Income-tax
(D) Central Board of Direct Taxes.

(viii) A farm house is asset if it is situated from the local limits of any municipality within:

(A) 25 kilometres
(B) 30 kilometres
(C) 5 kilometres
(D) 10 kilometres

(ix) Under Section 24(b) of the Income Tax Act, 1961, interest on borrowed capital accrued up to the end of the previous year, prior to the year of completion of construction of house property is allowed:

(a) As a deduction in the year of completion of construction.
(b) In 5 equal annual installments commencing from the year of completion of construction.
(c) In the respective year in which the interest accrues.
(d) In the year in which the capital was borrowed.

(x) Vinod Mehta, an Indian resident, is provided with furnished accommodation from February, 2014, by his employer. The value of furniture amounts to ₹95,000. The actual hire charges paid by his employer, for the furniture is ₹6,000 p.a. The value of furniture to be included along with value of unfurnished house for A.Y 2014-15 is:

(a) ₹6,000
(b) ₹9,500
(c) ₹19,000
(d) ₹1,000

(xi) Ace Enterprises Ltd. has unabsorbed depreciation of ₹4,50,000 for the Previous Year 2013-14. This can be carried forward:

(a) For a maximum period of 8 years and set-off against business income.
(b) Indefinitely and set-off against business income.
(c) Indefinitely and set-off against any head of income, except income under the head "Salaries".
(d) Indefinitely and set-off against any head of income.

(xii) Somlata, an Indian resident, received ₹1,00,000 in December 2013 towards recovery of unrealized rent, which was deducted from actual rent during previous year 2012-13. The amount taxable under Section 25AA of the Income Tax Act, 1961 would be:

(a) ₹1,00,000
(b) ₹70,000
(c) ₹60,000
(d) ₹90,000

(xiii) The W.D.V of a block (plant and machinery, rate of depreciation 15%) as on 01.04.2013 is ₹6,40,000. A machinery costing ₹1,00,000 was acquired on 10.08.2013, but put to use on 10.11.2013. During February 2014, part of this block was sold for ₹4,00,000. The depreciation for A.Y 2014-15 would be-

(a) ₹51,000
(b) ₹42,250
(c) ₹43,500
(d) ₹1,11,000

[13 × 1]

(b) Fill up the blanks:

(i) Sitting fees paid to directors for attending Board Meeting is not a salary but taxable as ________________.

(ii) Leave encashment received by a Government employee on continuation of service is ________________ (fully taxable / not taxable).

(iii) The maximum amount of deduction is allowed under section 80C of the Income-tax Act in a previous year is ______________.

(iv) The third installments of advance tax of a corporate assessee is payable on or before ________________ in a relevant previous year.

(v) A residential property which is let out for a minimum period of _____ days in the previous year is not treated as an "asset" under Wealth Tax Act.

(vi) Payment made on preventive health check-up for self, spouse, dependent children or parents during the previous year by any mode of payment (including cash), to the maximum of ____________.

(vii) A motor car used by the assessee in the business of running them on hire __________ (is / is not) an asset as per Wealth Tax Act.

(viii) Proviso to Section 36(1)(iii) of the Income Tax Act, 1961 provides that interest on borrowed funds utilized for acquisition of an asset as part of the extension of business, for the period commencing from the date of borrowing till the date on which such asset was first put to use, ________________ be allowed as deduction under Section 36(1)(iii) of the Income Tax Act, 1961.

(ix) Under the provisions of Section 140 of the Income Tax Act, 1961, the return of income has to be signed by the __________________, and in his absence, by one of the _________________, in the case of a company.

(x) Under Section 2(ea)(iii) of the Wealth Tax Act, 1957, jewellery, bullion and utensils made of precious metals are treated as 'assets', provided these are not held as _______________, by the assessee.

(xi) By virtue of Section 45 of the Wealth Tax Act, 1957, wealth tax ____________ chargeable on the net wealth of a Mutual Fund specified under Section 10(23D) of the Income Tax Act, 1961. **[12×1= 12]**

Answer to Question 1(a):

(i) (B) twice in a block of four years
(ii) (A) five
(iii) (D) 25% of Adjusted Total Income
(iv) (A) 10 alphanumeric characters
(v) (C) 8 Assessment Years immediately succeeding the Assessment Year for which such loss was computed.
(vi) (C) Nil
(vii) (B) Commissioner of Income-tax
(viii) (A) 25 kilometres
(ix) (b) In 5 equal annual installments commencing from the year of completion of construction.
(x) (d) ₹1,000
(xi) (c) Indefinitely and set-off against any head of income, except income under the head "Salaries".
(xii) (a) ₹1,00,000
(xiii) (c) ₹43,500

Answer to Question 1(b):

(i) Other Income.
(ii) fully taxable
(iii) ₹ 1,00,000
(iv) 15th December
(v) 300
(vi) ₹ 5,000
(vii) is not
(viii) Shall not.
(ix) Managing Director, Director.
(x) Stock in trade.
(xi) Is not.

Question 2.

(a) Calculation of Income Tax in the case of an employee below the age of sixty years having a handicapped dependent (With valid PAN furnished to employer), for A.Y. 2014-2015:

S. No.	Particulars	₹
1	Gross Salary	3,20,000
2	Amount spent on treatment of a dependant, being person with disability (but not severe disability)	7000
3	Amount paid to LIC with regard to annuity for the maintenance of a dependant, being person with disability(but not severe disability)	50,000
4	GPF Contribution	25,000
5	LIP Paid	10,000

[5]

Solution:

Computation of Tax

S.No.	Particulars	₹
1	Gross Salary Less: Deduction U/s 80DD (Restricted to ₹50,000/- only)	3,20,000 50,000
2	Taxable income Less: Deduction U/s 80C (i) GPF ₹25,000/- (ii) LIP ₹ 10,000/- = ₹35,000/-	2,70,000 35,000
3	Total Income	2,35,000
4	Income Tax thereon/payable Add: (i) Education Cess @2% (ii) Secondary and Higher Education Cess @1%	3,500 70 35
5	Total Income Tax payable	3,605
6	Rounded off to	3,610

(b) Mr. Y submits the following particulars of his income for the assessment year 2014-2015

	(₹)
Income (other than income from business & profession)	**4,00,000**
Dividend from Indian Company	**1,000**
Interest on Bank Deposit	**2,000**
Life Insurance Premium paid	**6,000**
Donation to Jawahar Lal Nehru Memorial Fund	**15,000**
Donation to Prime Minister's National Relief Fund	**16,000**
Donation to a Public Charitable Institution	**24,000**
Donation to a University for statistical research approved U/s 35(1)(iii)	**5,000**

Determine the net income and tax liability for the assessment year 2014-2015. [8]

Solution:

Computation of Taxable Income:-

	₹
Income	4,00,000
Dividend from Indian Co.	1,000 (exempt)
Interest on Bank Deposit	2,000
Gross total Income	**4,02,000**
Less: Deductions under Chapter VI-A	
U/s 80C for Life Insurance Premium	6,000
U/s 80G (see Note 1)	35,500
U/s 80GGA for Donation to University (see note 3)	5,000
Net Income	**3,55,500**
Tax on ₹ 3,55,500 [(3,55,500 – 2,00,000)x 10%]	15,550
Add : Surcharge @ 10%	NIL
Add : Education Cess @ 2%	311
Add : Additional SHE Cess @ 1%	156
Net Tax payable	16,017

Note 1: Computation of deduction u/s 80G in respect of donations-

	₹
Qualifying amount:-	
Donation to Jawahar Lal Nehru Memorial Fund	15,000
Donation to Prime Minister's National Relief Fund	16,000
Donation to Public Charitable Institution	24,000
Gross qualifying amount	**55,000**
(i) Donation to Jawahar Lal Nehru Memorial Fund (without any maximum limit)	15,000
(ii) Donation to Prime Minister's National Relief Fund (without any maximum limit)	16,000
(iii) Donation to Public Charitable Institution [least of (a) ₹ 24,000 & (b) ₹ 39,100 being 10% of adjusted gross total income calculated in Note 2]	24,000
Net qualifying amount	**55,000**
Amount deductible:	
50% of Net Qualifying Amount of Item (i) & (iii) [i.e., 50% of (15,000 + 24,000)]	19,500
100% of Net Qualifying Amount of item(ii)	16,000
	35,500

Note 2: Adjusted gross total income –

		₹
Gross total income		4,02,000
Less: Amount of deduction under Chapter VI-A (except 80G)		
U/s 80 C	6,000	
U/s 80 GGA	5,000	11,000
Adjusted gross total income		3,91,000

Note-3 : Deduction u/s 80 GGA is allowed in the Case where gross total income does not include income from business profession.

(c) State the manner of determination of residential status of Hindu Undivided Family. [2]

Answer:

Residential status of HUF

The residential status of HUF depends upon the control and management of the affairs of the HUF.

A HUF is said to be resident in India within the meaning of Section 6(2) of the Income Tax Act, 1961in any previous year, if during that year the control and management of its affairs is situated wholly or partly in India. If the control and management of its affairs is situated wholly outside India during the relevant previous year, it is considered non-resident.

A resident HUF is ordinarily resident in India, if the Karta or manager of the family (including successive Karta is resident and ordinarily resident in India.

Question 3.

(a)Explain the taxation of the Limited Liability Partnerships. **[2]**

Answer:

Taxation of Limited Liability Partnership (LLP)
As per Income Tax Act 1961, LLPs are treated like partnership firms for the purpose of computation of Income Tax. All the rules which are applicable to the partnership firm are also applicable to LLPs. The provisions relating to Alternate Minimum Tax are also applicable to the Limited Liability Partnerships.
The rates of taxation applicable to LLPs are stated as follows:

LLP is taxable @ 30%

Surcharge-Nil

Education cess @ 2% .

Secondary & Higher education cess (SHEC) @ 1%.

(b) Z Ltd. is engaged in the business of manufacture of computer hardware since 2006. During the previous year 2013-14, the following assets acquired put to use:

(₹ 000)

Particulars	**Block 1 ₹**	**Block 2 ₹**	**Block 3 ₹**
Rate Of Depreciation	**15%**	**30%**	**60%**
No. of assets in the block	**10**	**10**	**15**
Depreciated value of the block on 1.4.13	**2,800**	**3,500**	**1,500**
Addition of plant (during P.Y. 2013-14)			
Paint P	**5,700**	**—**	**—**
Plant Q	**—**	**400**	**—**
Plant R	**—**	**—**	**1,700**
Sale of old plants	**500**	**2,870**	**5,200**

Plants P, Q and R are aquared during May 2013 and put to use during September 2013. However, plant B is put to use in the last week of March 2014.
Find out the amount of depreciation, addition depreciation and capital Gain. **[8]**

Solution:

Calculation of Depreciation and Additional Depreciation for year 2014-15

Particulars	Block 1 15%	Block 2 30%	Block 3 60%
	₹	₹	₹
Opening W.D.V.	28,00,000	35,00,000	15,00,000
Add : Purchase	12,00,000	4,00,000	12,00,000
	85,00,000	39,00,000	32,00,000
Less : Sales value of old plant	50,000	28,70,000	52,00,000
	80,00,000	10,30,000	20,00,000

Calculation of Depreciation

	Block 1	Block 2	Block 3	Total
Depreciation for 6 months	Nil	1,54,500	—	1,54,500
Depreciation for full year	12,00,000	—	—	12,00,000
(80,00,000 x 15%)				13,54,500
Additional Depreciation				
Value od assets	57,00,000	4,00,000	17,00,000	
Use for	180days	Less then	180 days	
	or more	180 days	or more	
Rate of depreciation	20%	10%	20%	
Amount of Depreciation	11,40,000	40,000	3,40,000	15,20,000

Total amount of Depreciation (additional + normal) =15,20,000 + 13,54,500 = 28,74,500

Note : For Block 3 no depreciation is to be charged as closing W. D. V. is negative(—). ₹ 20,00,000 and is to be treated as short term capital gain.

(c) Mr. Jiban, an employee of a mercantile firm, retired on 1st July 2013 at a monthly salary of ₹14,000 after completing 28 years 9 months of service and received ₹1,06,000 as leave encashment. Leave availed by him during his service period was 14 months. His monthly average salary was ₹ 13,500.

Calculate the taxable amount of leave encashment of Mr. Jiban if he is a

(i) a Government employee; (ii) Non-Government employee. [5]

Solution:

(i) Computation of taxable income of Mr. Jiban for the Assessment year 2014-15—being a Government employee

Particulars	₹	₹
Encashment of leave salary Less: Exemption u/s 10(10AA)	1,06,000 1,06,000	 Nil
Taxable Amount		Nil

(ii) Being a Non-Government employee

Particulars	₹	₹
Encashment of leave salary		1,06,000
Less: Exemption u/s 10(10AA)		
Least of the following 4 alternatives :		
1. Actual amount received	1,06,000	
2. Maximum	3,00,000	
3. 30 days' average salary x (No. of completed service period - leave utilized) [13,500 x (28 - 14)]	1,89,000	
4. 10 months' average salary (13,500 x 10	1,35,000	1,06,000
Taxable Amount		Nil

Question 4.

(a) Mr. Y is the owner of a building at Kolkata. The building was let out up to 1st Nov. 2013, then it was occupied by him for his own residence. A loan of ^ 5,00,000 was taken for the construction of house. Interest on loan is 10%. The loan is still unpaid.

From the following further information calculate Income from House Property :

(i) Municipal Tax @ 10% ? 9,000

(ii) Standard rent ? 90,000

(iii) Rent per month ? 8,000

(iv) Repairing charges ? 6,000

(v) Unrealized rent [2011-2012] Rs. 16,000 >

(vi) Municipal Tax paid for [2011-2012] ? 4,000.

(vii) Cost of special amenities ? 4,000 provided to tenant upto 1st Nov 2012. **[5]**

Solution:

Computation of Income from House Property of Mr. Y, a resident individual, for the Assessment Year 2014-2015 relating to previous year 2013-2014

Particulars	Amount (₹)	Amount (₹)
Gross Annual value	90,000	
Less: Municipal Tax (9,000 + 4,000)	13,000	
Net Annual Value		77,000
Less: Deduction u/s 24	23,100	
(i) u/s 24(a): Standard deduction @ 30% of N.A.V.	50,000	
(ii) u/s 24(b): Interest on loan (*5,00,000* x ,10%)		
		73,100
Income from House Property		3,900

Working notes:

$$\text{Municipal Value} = 9{,}000 \times \frac{100}{10} \times \frac{10}{9} = 1{,}00{,}000$$

Rent received/receivable = 8,000 x 7 =	56,000
Less : Cost of special amenities	4,000
	52,000

(b) Discuss the admissibility or otherwise of the following items of computation of income under the head 'Profits and Gains from Business or Profession' for the Assessment Year 2014-15:

(i) ₹ 400 paid to an Income Tax Advisor for conducting an appeal before the Income Tax Appellate Tribunal.

(ii) ₹ 600 paid for raising loan of ₹ 20,000. The loan is repayable after five years.

(iii) ₹ 2,000 for shifting the factory from one place to another for easier supply of raw materials.

(iv) ₹ 3,000 paid to a trade association representing assessee's business for propaganda against the move for nationalisation of his trade.

(v) Legal expenses amounting to ₹ 1,000 paid for defending assessee's title on an asset.

(vi) Paid ₹10,000 being cost of machine purchased for scientific research relating to the business.

(vii) ₹ 600 paid for legal charges for drafting partnership deed.

(viii) ₹700 considered as bad debt. The debtors were declared insolvent having no asset. The amount was, however, not yet written off as irrecoverable in the accounts of the assessee.

[8]

Solution

(i) Amount paid for income tax proceeding to the income tax advisor is allowable as business expenses u/s 37(1).

(ii) It is assumed that the loan was taken for the interest of the business and expenses relating to raising such loan is also allowable as expenses u/s 37(1).

(iii) ₹ 2,000 paid for shifting of office from one place to another place will not be allowed as expenses for computing income from business as this is not revenue expenditure [Sitaypur Sugar Work Ltd. vs CIT (1963)].

(iv) ₹ 3,000 paid to a trade association for propaganda in favour of assessee's business against the move for nationalisation office trade is allowable as business expenses for computation of profit and gain of business [Ambala Bus Syndicate (P) Ltd. vs CIT (1974)].

(v) Legal Expenses amounting ₹1,000 paid for depending assessee's title on an asset is allowable as business expenses u/s 37(1) [Transport Co. (P) Ltd. vs CIT].

(vi) ₹10,000 paid for purchase of machine which has been used for scientific research relating to the business of the assessee is totally allowable as deduction u/s.35(1) for computation of profits and gains of business.

(vii) ₹600 paid to lawyer for drafting partnership deed should be treated as allowable expenses, if it has been paid during the constitution of business, whereas if such amount is incurred before the commencement of business, such expenses will be treated as preliminary expenses and allowable as deduction u/s 35D as per provision of such section.

(viii) The amount receivable from debtors is really bad and allowable but under Section 36 (1) (viii) the amount of bad debt should be written off in the books of accounts. In our problem, the bad debt has not yet been written off in the books of account— hence it is not allowable as deduction.

(c) Tarun Ltd. has two units. One of these units is situated in Uttrakhand for which Tarun Ltd. is claiming 100% deduction of profits under section 80-IC. Tarun Ltd. filed the return of income as under:

Business Income	**(₹)**
Profit from non-eligible business	**54,00,000**
Profit from business eligible for deduction u/s 80-IC	**32,00,000**
Gross total income	**86,00,000**
Less: Deduction u/s 80-IC	**32,00,000**
	54,00,000

Eligible unit has purchased goods worth ₹6 crores from non-eligible unit whose fair market value as determined by A.O. is ₹6.30 Crores.

Compute the total income of Tarun Ltd. **[2]**

Answer:

Computation of Total Income

	₹
Gross total income as computed above	86,00,000
Less: Deduction u/s 80-IC (32,00,000 – 30,00,000)	
(Lower value of purchase price due to which excess profit has been computed)	2,00,000
Total Income	84,00,000

Question 5.

(a) The Net Profit of X Ltd. for the year ended March 31, 2014 amounted to ₹ 7,50,000 after debiting/crediting the following items:

Particulars	₹
Provision for bonus (paid on November 15,2014)	**30,000**
Provision for commission to employees (paid on December 1,2013)	**76,000**
Payment of annual installment under an approved agreement to a foreign collaborator for technical knowhow	**1,00,000**
Legal expenses incurred for issue of capital	**30,000**
Interest paid on unpaid purchase price of business assets	**15,000**
Cost of goods purchased from Y Co. Ltd. which was paid by bearer cheque	**50,000**
Sales include sale of gold not being stock in trade (indexed cost of acquisition ₹ 1,70,000)	**2,00,000**
Rent received from Staff for the quarters allotted	**75,000**
Rent received for commercial property rented to a foreign bank	**1,50,000**
Expenditure on scientific research include cost of land ₹ 30,000 and ₹ 20,000 paid to approved national laboratory. Land revenue in connection with worker's quarters and let-out commercial property (paid on June 15,2013)	**12,000**

Calculate Taxable Income of the company for the Assessment Year 2014-15. The answer should clearly indicate the basis for treatment of each item. [10]

Solution:

Computation of Taxable Income of the company for the Assessment Year 2014-15, relating to the Previous Year 2013-14

	Particulars	₹	₹
	Net Profit as per Profit and Loss Account		7,50,000
Add:	Disallowed Expenses		
	Provision for bonus	30,000	
	Provision for commission	76,000	
	Legal expenses incurred for issue of capital [being capital expenditure]	30,000	

	Expenditure on scientific research	50,000	
	Land revenue for commercial property	8,000	
	Goods purchase by bearer cheque u/s 40A(3)	50,000	2,44,000
			9,94,000
Less:	Disallowed Income		
	Rent received from commercial property	1,50,000	
	Sale of gold (not being stock in trade)	2.00.000	3.50.000
			6,44,000
Less:	Allowable Expenses		
	Expenses on scientific research u/s 35 (1) (20,000 x 125%)		25,000
	Income from Business		6,19,000
	Income from House Property		
	Gross annual value	1,50,000	
Less.	Municipal Tax	Nil	
Less:	Standard deduction u/s 24(a) (30% of 1,50,000)	45,000	1,05,000
	Income from long-term capital gain		
	Sales value of gold	2,00,000	
Less:	Indexed cost of acquisition	1,70,000	30,000
	Gross Total Income		7,54,000

Note:

(1) Provision for Bonus and Provision for commission is allowable as deduction under cash basis u/s 43B.
(2) Interest paid on Unpaid purchase price of Business assets is allowable u/s 36(1) (iii).
(3) Scientific research expenditure through an approved national laboratory is allowable as deduction @ 125% on such payment whereas deduction u/s 35(1) is not allowable on the purchase of land.
(4) Rent received from staff-quarter is business income.
(5) Land revenue will be allowed as deduction for staff-quarter only, i.e. ₹$\left(12,000\text{x}\frac{1,50,000}{2,25,000}\right)$=₹8,000 .

(b) Shri Choudhury retired on 1st September 2013 after completing 32 years and 9 months of service. At the time of retirement he was drawing a basic salary of ₹ 7,500 p.m. (Annual increment of ₹ 150 falls due on 1st January every year) and dearness allowance ₹ 1,500 p.m. He received ₹ 1,50,000 as gratuity on retirement.

Compute the taxable gratuity of Shri Chudhury for the assessment year 2014-15. [5]

Solution:

Computation of taxable gratuity of Shri Choudhury, a resident individual, for the assessment year 2014-15 relating to the previous year 2013-14.

Particulars	₹	₹	₹
Gratuity received		1,50,000	
Less: Exemption u/s 10(10)(iii)			
(not covered by Gratuity Act)			
Least of the following three alternatives			
(i) Actual gratuity received	1,50,000		
(ii) Maximum limit	10,00,000		
(iii) Half month's average salary x no. of completed			
service years ($\frac{1}{2}$ x 8,970 x 32)	1,43,520	1,43,520	6,480
Taxable Gratuity			6,480

Workings note:

Last 10 months' salary

(7,500 x 8) + {(7,500 – 150)X 2} =	74,700
D.A. = 1,500 x 10 =	15,000
	89,700

Average salary = 89,700 X $\frac{1}{10}$ = ₹8,970

Question 6.

(a) Dr. Mrityunjay Dwivedi, a resident individual, (aged 55 years) is a medical practitioner. The details relating to the previous year 2013-14, as contained in the Receipts and Payments Account, has been furnished as follows:

Receipts and Payments Account

Dr. **Cr.**

Receipts	**Amount (₹)**	**Payments**	**Amount (₹)**
To balance b/f	**1,00,000**	**By commercial vehicle A/c [Commercial Vehicle purchased before 01-10-2013]**	**6,00,000**
To sale of medicines A/c	**5,00,000**	**By Drawings A/c**	**3,00,000**
To Consultation Fees A/c	**1,00,000**	**By Surgical equipments A/c [Surgical equipments purchased before 01-10-**	**1,00,000**

		2013]	
To Fees received on visit A/c	4,00,000	By Loan A/c [Installment paid including interest of ₹44,666]	2,42,000
To Honorarium A/c	50,000	By Medical Insurance Premium A/c	32,000
To Family Pension A/c	2,80,000	By Housing loan A/c [Installment paid including principal component of ₹96,000]	2,16,000
To Interest received on Savings Bank Account A/c	10,000	By Advance Tax A/c	40,000
To Lottery Winnings A/c (net after deduction of TDS @ 30%)	50,000	By purchase of medicines A/c	55,000
To Agricultural Income A/c	1,00,000	By payment for medical journal A/c	15,000
To Share of income from HUF A/c	1,50,000	By Vehicle expenses A/c	45,000
To Loan from bank A/c	3,00,000	By Bank Deposit A/c [Bank deposit done in bank for 5 years]	2,00,000
		By Balance c/f	1,95,000
	20,40,000		20,40,000

Other relevant information is as under:

1. The self-occupied property of Mr. Dwivedi was constructed in 1998, with a loan from LIC Housing of ₹10,00,000 out of which ₹6,00,000 was still due. The assessee made an arrangement of refinancing from SBI on 01-04-2013 at the rate of 10%. One-fourth of the portion of the house is used for purposes of running clinical establishment.
2. She invested in term deposit of ₹2,00,000 in Bank of Baroda on 01-07-2013 for a period of 5 years in the name of his minor daughter at 10% per annum.
3. The commercial vehicle was purchased on 01-07-2013 for ₹6,00,000, It was partly financed by a loan of ₹3,00,000. One-fourth use of the vehicle is estimated to be for personal purposes.
4. Medical Insurance Premium of ₹16,000 was paid by the assessee for himself and ₹16,000 was paid for the dependent mother, aged 74 years (who is an Indian resident).
5. The share from HUF's income amounted to ₹50,000.

Compute the total income of Mr. Mritunjay Dwivedi, ignoring depreciation on building, for the A.Y 2014-15. [10]

Solution:

Computation of total income
Assessee: Mr. Mrityunjay Dwivedi

Assessment Year: 2014-15 **Previous Year: 2013-14**

	₹	₹	₹	₹
Income from house property:				
Annual value of self-occupied house		Nil		
Less: Interest on loan [₹45,000, being 3/4th of ₹60,000] (Restricted to ₹30,000)		(30,000)	(30,000)	
Income from profession:				
Sale of medicine	5,00,000			
Consultation fees	1,00,000			
Visiting fee	4,00,000			
Total income		10,00,000		
Less: Expenses				
Medicine purchased	55,000			
Medical journal	15,000			
Vehicle expenses (3/4th)	33,750			
Interest on Loan (3/4th)	33,500			
Interest on housing loan (1/4th)	15,000			
Depreciation				
Surgical instrument (15% of ₹1,00,000)	15,000			
Vehicle (3/4th of 15% of ₹6,00,000)	67,500			
Total expenses		2,34,750		
			7,65,250	
Income from other sources				
Family Pension	2,80,000			
Less: Deduction under section 57(iia)				
$33\frac{1}{3}\%$ or ₹15,000, which is lower	15,000	2,65,000		
Honorarium		50,000		
Saving bank interest		10,000		
Interest on bank FD in the name of minor daughter [₹2,00,000 x 10% x 9/12]	15,000			
Less: Exempt under section 10(32)	1,500	13,500		
Winning from lottery		50,000		
			3,88, 500	
Gross total Income				11,23,750
Less: Deductions under Chapter VI – A				
Under section 80C				
Repayment of housing loan (96,000 x ¾)			72,000	
Under section 80D				
Medical Insurance Premium Own (allowed to the extent of ₹ 15,000)		15,000		
Mother (Senior Citizen, hence fully allowed since Premium is less than ₹20,000)		16,000 31,000	31,000	
Under section 80TTA				
Interest on deposit in a saving account of			10,000	

bank Total deduction				113,000
Total income				**10,10,750**

Notes:

1. Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to ₹30,000.
2. Since ¼ th portion of house is used for business purposes, therefore, ¼ th share of interest paid is deductible while computing business income.
3. Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
4. Term deposit of ₹2,00,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (3/4th) would qualify for deduction under section 80C. Therefore the deduction under section 80C would be ₹72,000 (i.e. 3/4th of ₹96,000).
5. Depreciation @ 15% has been provided on surgical instruments. It is also possible to assume that the surgical instruments mentioned in the question are life- saving medical equipment (for example, surgical laser) and therefore, eligible for depreciation @ 40%.

(b) The book profits of Star Heights Ltd., for the previous year 2013-14 computed in accordance with Section 115JB is ₹ 37.50 Lakhs. If the total income computed for the same period as per the provisions of the Income Tax Act, 1961 is ₹ 7.50 Lakhs, compute the tax payable by the company in the Assessment Year 2014-15. Is Star Heights Ltd. eligible for any tax credit? If so, for how many years, shall Star Heights Ltd. avail such tax credit? [5]

Solution:

Computation of tax payable in the Assessment Year 2014-15 by Star Heights Ltd.

Particulars	Amount (₹)
(A) Tax on total income computed in accordance with the provisions of the Income tax act, 1961 = ₹7.50 Lakhs × 30%	2,25,000
(B) Income tax @ 18.5% of the book profits = ₹37.50 Lakhs × 18.5%	6,93,750
Since, the tax payable on book profits exceed the tax payable on total income computed in accordance with the provisions of the Income Tax Act, 1961, therefore Star Heights Ltd. is liable to pay Minimum Alternate Tax.	
Tax payable on book profit Add: Surcharge Add: Education Cess @ 2% Add: Senior and higher Education Cess @ 1%	6,93750 Nil 13,875 6937.50
(C) TAX PAYABLE IN THE ASSESSMENT YEAR 2014-15	**7,14,562.50**
(D) TAX CREDIT AVAILABLE TO THE COMPANY [(A)- (B)] Tax credit shall be available to Star Heights Ltd. for ten succeeding	**4,68,750**

assessment years for set-off against the tax payable on total income during such period. If the credit is not so set off, it shall lapse.	

Question 7.

(a) State whether wealth tax is chargeable in respect of net wealth of the following persons under the Wealth Tax Act, 1957:

A. Holder of an impartible estate

B. Association of Persons

C. Partnership firms. [5]

Answer:

A. Holder of an impartible estate: Holder of an impartible estate is chargeable to wealth tax. Section 4(6) of the Wealth Tax Act, 1957 provides that, the holder of an impartible estate is deemed to be the individual owner of all properties, comprised in the estate.

B. Association of Persons: Association of Persons is not chargeable to wealth tax. When the shares of the members are determinate or known, then members of an AOP are liable to wealth tax in respect of their share in the property of the AOP.

C. Partnership firms: Partnership firms are not chargeable to wealth tax. Wealth Tax is payable by individuals, HUF and companies only. All other persons are not chargeable to wealth tax.

(b) An Association of Persons (AOP), comprising of two members Saroj and Pankaj, owns an urban land valued at ₹60 Lakhs, on the valuation date 31.03.2010. State the tax implications under the Wealth Tax Act, 1957. [3]

Solution:

The tax implications of an asset owned by an Association of Persons (AOP), under the Wealth Tax Act, 1957, are as follows:

- As per Section 3 of the Wealth Tax Act, 1957, only individuals, Hindu undivided Families (HUF) and Companies are liable to wealth tax. Therefore, an Association of Persons (AOP) is not chargeable to wealth tax.
- However, as per Section 4(1)(b) of the Wealth Tax Act, 1957, the value of interest of a member of an AOP in the assets of the AOP is to be included in his net wealth. Schedule III lays down the manner of determination of the value of such interest.
- Section 21AA deals with a situation where the shares of the members of an AOP are indeterminate or unknown. Where assets chargeable to wealth tax are held by an AOP and the individual shares of the members are indeterminate or unknown on the date of formation or at any time thereafter, wealth tax is to be levied in the like manner and to the same extent as applicable to an individual.

(c) State the circumstances in which Rule 3 of Schedule III shall not apply for valuation of immovable property, under the provisions of the Wealth Tax Act, 1957. [2]

Answer:

As per Rule 8 of Schedule III, the provision contained in Rule 8 of Schedule III shall not apply in the following circumstances:

1. Where the Assessing Officer is of opinion, having regard to the facts and circumstances of the case, that it is not practicable to apply the provisions of Rule 3 to such a case.
2. Where the difference between the unbuilt area and the specified area exceeds 20% of the aggregate area.
3. Where the property is constructed on a leasehold land and the lease expires within a period not exceeding 15 years from the relevant valuation date and the deed on lease does not give an option to the lessee for the renewal of the lease.

In all the above circumstances, the value of the property shall be determined in the manner laid down in Rule 20.

(d) Mr. Rakesh Kumar, an Indian resident individual, is employed in a PSU. He furnishes the following particulars for the previous year 2013-14:

Particulars	Amount (₹)
(i) Salary income for the year	**17,25,000**
(ii) Salary, pertaining to the financial year 2009-10, received during the previous year 2013-14	**80,000**
(iii) Assessed income for the financial year 2009-10	**2,40,000**

Compute the relief available to the assessee under Section 89 of the Income Tax Act, 1961 and the tax liability for the assessment year 2014-15.

The rates of income tax for the assessment year 2010-11 are:

	Tax Rate (%)
On first ₹1,60,000	**Nil**
On ₹1,60,000 - ₹3,00,000	**10**
On ₹3,00,000 - ₹5,00,000	**20**
Above ₹5,00,000	**30**
Education Cess	**3**

[5]

Solution:

Computation of relief under Section 89 of Mr. Richard Brown for the A.Y 2014-15

Particulars	₹	₹
Assessment Year 2014-15		
Salary Income for the year excluding arrears		17,25,000
Add: Arrears for the financial year 2009-10		80,000
Gross Salary (including arrears)		**18,05,000**
Computation of tax on ₹ 18,05,000		
On first ₹2,00,000- Nil	Nil	
On next ₹3,00,000- 10%	30,000	
On next ₹5,00,000- 20%	1,00,000	
On balance ₹8,05,000- 30%	2,41,500	**3,71,500**
Add: Education Cess @ 2%	7430	
Add: Senior and Higher Education Cess@1%	3715	**11,145**
(A) Tax on total income including arrears		**3,82,645**

Gross Salary excluding arrears	17,25,000	
Computation of tax on ₹ 17,25,000		
On first ₹2,00,000- Nil	Nil	
On next ₹3,00,000- 10%	30,000	
On next ₹5,00,000- 20%	1,00,000	
On balance ₹7,25,000- 30%	2,17,500	
	3,47,500	
Education Cess @2%	6,950	
SHEC@ 1%	3,475	
(B) Tax on total income excluding arrears		**3,57,925**
(C) Difference between (A) and (B)		**24,720**
Total Income assessed	2,40,000	
Add: Arrears relating to the financial year 2009-10	80,000	
	3,20,000	**3,20,000**
Computation of tax for A.Y 2010-11		
(D) Tax on Total Income (including arrears)		
On first ₹1,60,000- Nil	Nil	
On next ₹1,40,000- 10%	14,000	
On balance ₹ 20,000- 20%	4,000	
	18,000	
Education Cess @ 3%	540	**18,540**
(E) Tax on Total Income (excluding arrears)		
On first ₹1,60,000- Nil		
On balance ₹ 80,000- 10%	8,000	
Education Cess @ 3%	240	**8,240**
(F) Difference between (D) and (E)		**10,300**
(G) Relief available under Section 89 [Difference between (C) and (F)]		**14,420**

Question 8.

(a) Konkona submits the following particulars:

	Previous years	
	2013-14 ₹	**2014-15 ₹**
Business profits (before depreciation)	**(-) 50,000**	**45,000**
Current depreciation	**18,000**	**20,000**
Income from other sources	**20,000**	**72,000**

Determine the net income of Konkona for the assessment years 2014-15 and 2015-16. **[7]**

Answer:

Assessment year 2014-15 (previous year 2013-14):

	Amount ₹	Amount ₹
Income from other sources	20,000	

Less: Business loss	20,000	
Net Income		Nil

Amount to be carried forward:

- Business loss ₹ 30,000
- Unabsorbed depreciation ₹ 18,000

Assessment year 2015-16 (previous year 2014-15)

Profits and gains of business or profession:

Business profits Less: Current depreciation	45,000 20,000	
Profit after depreciation Less: Brought forward business loss of the previous year 2013-14	25,000 30,000	Nil
Business loss of previous year 2013-14 to be corrected forward to the next year	5,000	

Income from other sources:

Income	72,000	
Less: Unabsorbed depreciation of the previous year 2013-14	18,000	54,000
Net Income		54,000

Note: Brought forward business loss can be set off only against business profits and not against any other income.

(b) Which is meant by "bilateral agreement" in the context of Advance Pricing Agreement? [2]

Answer:

The term "bilateral agreement" means an agreement between the Board and the applicant, subsequent to, and based on, any agreement referred to in rule 44 GA of the Income-tax Rules between the competent authority in India with the competent authority in the other country regarding the most appropriate transfer pricing method or the arms' length price.

(c) Is e-filling of return mandatory? State the assessee's for whom e-filling of returns is mandatory? [6]

Answer:

CBDT has vide notification No. 34/2013 dated 01.05.2013 has made it mandatory for the following category of the Assesses to file their Income Tax Return Online from A.Y. 2013-14 :-

(i) It is mandatory for every person (not being a co. or a person filing return in ITR 7) to e-file the return of income if its total income exceeds ₹5,00,000

(ii) an individual or a Hindu Undivided Family, being a resident, having assets (including financial interest in any entity) located outside India or signing authority in any account located outside India and required to furnish the return in Form ITR-2 or ITR-3 or ITR-4, as the case may be.

(iii) Every person claiming tax relief under Section 90, 90A or 91 of the Income-tax Act shall file return in electronic mode.

(iv) Those who are required to get their Account audited under Section 44AB, 92E, 115JB of the Income-tax Act.

(v) A company required to furnish the return in Form ITR-6.

However, as per instruction of ITR 7 From assessment year 2013-14 onwards in case an assessee who is required to furnish a report of audit under section 10(23C)(iv), 10(23C)(v), 10(23C)(vi), 10(23C)(via), 10A, 12A(1)(b), 44AB, 80-IA, 80-IB, 80-IC, 80-ID, 80JJAA, 80LA, 92E or 115JB of the Income-tax Act he shall file the report electronically on or before the date of filing the return of income.