

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 No 1.

(a) Choose the most appropriate alternative:

- (i) The amount of exemption for leave encashment in case of Government employee on termination of service or after retirement is —**
 - (A) Actual amount of leave encashment received;**
 - (B) fully exempted from tax;**
 - (C) ₹ 3,00,000;**
 - (D) 10 months average salary preceding the month of retirement**

- (ii) The basis of chargeability under the head income from house property is —**
 - (A) Annual Value;**
 - (B) Municipal Value;**
 - (C) Standard Rent;**
 - (D) Fair Rent**

- (iii) The Cost Inflation Index as notified by the Central Government for the previous year 2013-14 is —**
 - (A) 852;**
 - (B) 711;**
 - (C) 939;**
 - (D) 100**

- (iv) Which one of the following is not considered for deduction u/s 80C of the Income-tax Act?**
 - (A) contribution by an employee to a recognised provident fund;**
 - (B) contribution by an employee to an approved superannuation fund;**
 - (C) medical insurance premium paid by any mode of payment other than cash;**
 - (D) subscription to any such security of the Central Government or any such deposit scheme as that Government may, by notification in the Official Gazette, specify in this behalf**

- (v) Advance tax is payable by any person for the assessment year immediately following the financial year when the tax payable is —**
 - (A) ₹ 10,000 or more;**
 - (B) Less than ₹ 10,000;**

- (C) ₹ 5,000 or more;
(D) Less than ₹ 5,000
- (vi) Residential status of a company can be determined by which of the following sections of Income-tax Act:
(A) Section 6(4);
(B) Section 6(1);
(C) Section 6(6);
(D) Section 6(3)
- (vii) Which of the following is not the condition for claiming exemption for House Rent Allowance:
(A) Assessee is in receipt of HRA;
(B) Pays Rent;
(C) Rent paid is more than 10% of salary;
(D) Location of the accommodation
- (viii) Capital assets include:
(A) House property;
(B) Stock in trade;
(C) Personal effects;
(D) Rural agricultural lands in India
- (ix) Wealth tax is payable on amount by which 'net wealth' exceeds —
(A) ₹ 15,00,000;
(B) ₹ 30,00,000;
(C) ₹ 1,00,000;
(D) ₹ 20,00,000
- (x) The return of net wealth is to be filed in form:
(A) BA
(B) ITR-1
(C) ITR-2
(D) ITR-4
- (xi) The following is not "plant" under section 43(3) of the Income-tax Act, 1961:
(A) Ships
(B) Vehicles
(C) Books
(D) Livestock
- (xii) An individual is said to be resident in India in a previous year if he is in India in that year for a period or periods amounting in all to:
(A) 60 days or more
(B) 180 days or more
(C) 182 days or more
(D) 150 days or more

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

(xiii) As per section 44AB of the Income-tax Act, a person carrying on business is required to get his accounts audited if his total sales turnover or gross receipts, as the case may be, in business exceeds:

- (A) ₹ 1 crore
- (B) ₹ 25 lakhs
- (C) ₹ 30 lakhs
- (D) ₹ 10 lakhs

[13 × 1]

(b). Fill up the blanks:

- (i) The rate of TDS for dividend paid by a company to any person u/s 194 will be @ ____% if PAN is provided.
- (ii) In case of an individual cash in hand on the last moment of the valuation date in excess of _____ is an 'asset' u/s 2(ea) of Wealth Tax Act.
- (iii) Standard deduction of ____ % of _____ shall be allowed to the assessee in computation of income from house property which is let out to tenants.
- (iv) Rate of additional depreciation is ____ % of the actual cost of Plant or Machinery.
- (v) Loss incurred by an assessee from a source, income from which is exempt _____ be set off against income from a taxable source.
- (vi) 15% of Advance Tax should be paid by a corporate assessee on or before _____.
- (vii) 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.
- (viii) 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.
- (ix) 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.
- (x) 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]

Answer:

- (a) (i) (B) fully exempted from tax
- (ii) (A) Annual Value
- (iii) (C) 939
- (iv) (C) medical insurance premium paid by any mode of payment other than cash
- (v) (A) ₹ 10,000 or more
- (vi) (D) Section 6(3)
- (vii) (D) Location of the accommodation
- (viii) (A) House property
- (ix) (B) ₹ 30,00,000
- (x) (A) BA
- (xi) (D) Livestock
- (xii) (C) 182 days or more
- (xiii) (A) ₹ 1 crore

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

- (b) (i) 10%
(ii) ₹ 50,000
(iii) 30%, net annual value
(iv) 20%
(v) cannot
(vi) June, 15
(vii) Shall not.
(viii) Managing Director, Director.
(ix) Stock in trade.
(x) Is not.

Question 2.

(a) From the following particulars compute the 'Income from House Property' of Mr. Mitra for the Assessment Year 2014 - 2015 :

Mr. Mitra inherited a property on 1.4.2010 from which gross rental income is ₹ 30,000 per year. Municipal Tax of the property is ₹ 1,000 per quarter of which 50% is borne by the tenant Mr. Mitra took loan of ₹ 80,000 from a bank for heavy repairing of the property out of which he spent ₹ 40,000 for his sister's marriage and the balance spent for repairing of the property. He paid during the year 2013-2014 ₹ 6,000 as interest on bank loan and spent ₹100 per month for collection of rent. [6]

Solution

Computation of Income from House Property of Mr. Mitra for the A.Y. 2014-2015 relating to the previous year 2013-14

Particulars	₹	₹	₹
Income from House Property			
House (fully let-out)			
Gross Annual Value	30,000		
Less : Municipal Tax (1,000 x 4) x 50%	2,000		
Less: Deduction u/s 24(a)		28,000	
30% of Net Annual Value on Standard Deduction			
Deduction u/s 24(b)	8,400		
Interest on Loan $(6,000 \times \frac{40,000}{80,000})$	3,000		
		11,400	
Total Income from House Property			16,600

Notes : 1. Municipal tax paid by tenant is not allowable deduction.

2. Interest on loan will be allowed in proportion to the loan used for the Building.

(b) State, whether an assessee can claim depreciation under section 32, on capital expenditure incurred on construction of any structure in a building, which is taken on lease, for the purposes of business or profession. [2]

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

Answer:

Explanation 1 to section 32(1) of the Income Tax Act, 1961 provides that, if an assessee carries on business or profession in a building not owned by the assessee, but which has been taken on lease by him, he can claim depreciation under section 32, on capital expenditure incurred on construction of any structure in such building, by way of improvement, renovation or extension.

(c) From the following information of Mr. A. S. Ghosh, compute the income from salary for the Assessment Year 2014-15.

(1) Net salary ₹ 1,20,000. (2) Amount deducted from salary at source ₹ 10,000 for employee's contribution to R.P.F. and for rent ₹ 500 p.m. (3) Bonus ₹ 10,000 (4) Dearness allowance ₹ 12,000. (5) Conveyance allowance ₹ 5,000. (6) Medical allowance ₹ 4,000. (7) Employer's contribution to R.P.F. @ 13% on basic plus D.A. (8) Interest on R.P.F. @ 14% is ₹ 5,600.

He has been provided a rent-free accommodation at Kolkata including furniture costing ₹50,000. [7]

Solution:

Computation of Income from salary of Mr. A. S. Ghosh, a resident individual, for the Assessment Year 2014-15 relating to previous year 2013-14.

Particulars	₹	₹	₹
Net Salary	1,20,000		
Add: Amount deducted from salary -			
Employee's contribution to R.P.F.	10,000		
Rent	6,000		
Basic Salary		1,36,000	
Add: Dearness allowance		12,000	1,48,000
Add: Bonus			10,000
Add: Medical allowance			4,000
Add: Conveyance allowance		5,000	
Less: Exemption u/s 10(14)		5,000	Nil
Add: Employer's contribution to R.P.F. (1,48,000 x 13%)		19,240	
Less: 12% of salary (1,48,000 X 12%)		17,760	1,480
Add: Interest on R.P.F (excess of 9.5%)			1,800
Add: Rent-free furnished accommodation		24,300	
[u/s. 17(2)(ii)] (1,62,000 X 15%)			
Add: 10% of cost of furniture (50,000 X 10%)		5,000	
		29,300	
Less: Rent deducted		6,000	23,300
Income from Salary			1,88,580

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

Question 3.

(a) Miss Titir started a business of manufacturing cosmetic goods. She incurred the following expenses before the commencement of her business:

S.N.		₹
(a)	Expenses for market survey	25,000
(b)	Legal charges for drafting an agreement with other for setting up her business	20,000
(c)	Expenses for preparation of feasibility report	15,000
(d)	Expenditure for raising loan for the business	4,000

Her business was started on 1.7.08:

Book value of assets on 31.3.09 were:

S.N.		₹
(a)	Building	10,00,000
(b)	Machinery	10,00,000
(c)	Furniture	4,00,000
(d)	Stock	4,00,000
(e)	Patent	1,00,000

Calculate the allowable preliminary expenditure for the Assessment Year 2014-15. [7]

Solution:

Calculation of the cost the project:

	₹
Building	10,00,000
Machinery	10,00,000
Furniture	4,00,000
	24,00,000

Eligible Amount of preliminary expenses:

	₹
Expenses For Market Survey	25,000
Legal charges for drafting agreement	20,000
Expenses for Preparation of feasibility report	15,000
	60,000

Qualifying amount for deduction u/s 35D lower of the following two:

	₹
(a) 5% of the cost of the project i.e. ₹ 24,00,000 x 5%	1,20,000
(b) Actual amount of preliminary expenses	60,000
Deduction for A. Y. 2014-15 u/s 35D is $\frac{1}{5}$ th of ₹ 60,000	12,000

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

(b) Discuss the provisions of the Income Tax Act relating to Capital Expenditure incurred by an Assessee, for the purpose of scientific research. Sri P. K. Nag a spare parts dealer, furnishes the following particulars of his income for the Previous Year ended 31.03.13.

Profit and Loss A/c for the year ended 31.03.14

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Salaries	50,000	By Gross Profit b/d	2,50,000
„ Rent, Rates & Taxes	12,000	„ Dividend	5,000
„ Legal charges	4,000	„ Bank Interest	1,000
„ Interest on Capital	3,000		
„ Office Expenses	14,000		
„ Provision for Bad Debt	2,600		
„ Income Tax	22,000		
„ Depreciation	13,000		
„ Insurance Premium	6,000		
„ Net Profit	1,29,400		
	2,56,000		2,56,000

Other Information

- i. One-third of the premises is used by him for his own residence.
- ii. Legal charges include ₹ 1,000 in connection with Income Tax proceedings.
- iii. Office expenses include ₹ 1,000 as daily Puja Expenses in the shop.
- iv. Depreciation as per Income Tax Rules ₹ 15,000. Compute Shri Nag's Income from Business for the Assessment Year 2014-15. [5]

Solution:

Computation of Income from Business of P. K. Nag, resident individual, for the Assessment Year 2014-15, relating to the Previous Year 2013-14

Particulars	₹	₹
Net Profit as per Profit and Loss Account		1,29,400
Add: Disallowed Expenses		
Interest on Capital	3,000	
Provision for Bad Debt	2,600	
Income Tax 22,000	22,000	
Depreciation (T.S.)	13,000	
Rent, Rates and Taxes (12,000 x 1/3)	4,000	44,600
Less: Disallowed Income		
Dividend	5,000	
Bank Interest	1,000	6,000
		1,68,000
Less: Allowable Expenses		
Depreciation (allowed by I.T.O.)		15,000
Income from Business		1,53,000

Notes: Office expenses include daily puja expenses as allowable expenses.

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

(c) Mr. Dey sells a residential house property at a long-term capital gain of ₹ 75,000. He invests ₹ 80,000 within 3 years in construction of the first floor and barsati (to be used for residence) to another house owned by him since 1949. Is ₹ 75,000 exempt from tax under section 54? (Specify in details) [3]

Answer:

The words "house property" in section 54 does not mean an independent and completed house. They have the same meaning as the concept of house property in sections 22 to 27 and it includes an independent unit such as the first floor of house. In fact, there can be no doubt that the section takes into account all independent residential units, particularly in the days when multi-storied flats are becoming the order of the day. The amount of capital gain is invested by Mr. Dey in the construction of a house property within the meaning of section 54, which is completed within a period of 3 years after the date of the sale. Further, the house property so constructed is admittedly used for the purpose of residence. Hence, Mr. Dey is entitled to the exemption under section 54.

Question 4.

(a) Ravi purchases the following movable and immovable properties from persons who are not his relatives. State the tax liability in the hands of Ravi.

Date of purchase	Property	Purchase price ₹	Stamp duty value ₹	Fair market value ₹
April 22, 2013	House I	21 lakh	21.5 lakh	----
June 27, 2013	Plot of land	30 lakh	30.5 lakh	----
August 22, 2013	Gold ring	5 lakh	----	5.5 lakh
October 23, 2013	Shares	8 lakh	----	8.5 lakh

[7]

Solution:

Section 56(2)(vii)(b) of Income-tax Act has been amended with effect from assessment year 2014-15 to cover the case of receipt of receipt of immovable property with inadequate consideration. The amended provision is applicable only when an individual or HUF has received an immovable property for a consideration which less than the stamp duty value of the property by an amount exceeding ₹ 50,000.

House I - House I is purchased for less than stamp duty value. The difference is ₹ 50,000. The amended provision is applicable only if stamp duty value is more than purchase price and the difference is more than ₹ 50,000. Consequently, nothing is taxable in the hands of Ravi on purchase of House I. However, in the hands of the transferor, stamp duty value of ₹ 21.5 lakh will be taken as sale consideration under section 50C or 43CA.

Plot of land - Plot of land is purchased for ₹ 30 lakh. Stamp duty value is ₹ 30.5 lakh. The inadequacy of consideration is ₹ 50,000. Since it is not more than ₹ 50,000, the amended provision is not applicable. Consequently, nothing is taxable in the hands of Ravi under section 56. It may be noted that inadequacy of consideration of ₹ 50,000 of House I and inadequacy of consideration of plot of land of ₹ 50,000 cannot be clubbed (such clubbing is required in the

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

case of recipient of movable properties). In the hands of the transferor, ₹ 30.5 lakh is taken as full value of consideration by virtue of section 50C or 43CA.

Gold ring and shares - Gold ring is purchased for less than fair market value. Likewise, shares are purchased for less than fair market value. The two assets come within the definition of "movable property" under section 56. The aggregate inadequacy of consideration is more than ₹ 50,000 (i.e., ₹ 5.5 lakh - ₹ 5 lakh + ₹ 8.5 lakh - ₹ 8 lakh = ₹ 1 lakh). Consequently, ₹ 1 lakh is taxable under section 56(2). In the hands of the transferors of gold ring and shares, ₹ 5 lakh and ₹ 8 lakh, respectively, will be taken as sale consideration. Section 50C or section 43CA is not applicable on transfer of movable properties.

(b) State whether assets having personal effects are also capital assets or not [as per section 2(14)(ii) of Income-tax Act]? [3]

Answer:

Assets having personal effects are not capital assets under section 2(14)(ii) of Income-tax Act, if the following conditions are satisfied:

1. It should be movable property (including wearing apparel and furniture).
2. It should be held for personal use by the assessee or any member of his family dependent on him.
3. It should not be jewellery, archaeological collections, drawings, paintings, sculptures, or any work of art.

(c) State the circumstance, when interest is levied under Section 234A of the Income Tax Act, 1961. Also, state the rate at which interest is payable. [2]

Answer:

If a return of income is furnished after the due date, or is not furnished, the assessee is liable to pay interest under Section 234A of the Income Tax Act, 1961 at the rate of one percent per month or part of a month, for the period commencing from the date immediately following the due date of filing return of income and ending on the date of furnishing return of income, or the date of completion of assessment under Section 144 of the Income Tax Act, 1961.

(d) 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. Calculate the amount of depreciation. [3]

Answer:

Computation of depreciation to be charged for the A.Y 2014-15

Particulars	Amount (₹)
W.D.V of a block (plant and machinery), as on 01.04.2013	6,40,000
Less: Sale of part of block	4,00,000
	2,40,000
New machine acquired on 10.08.2013	1,00,000

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

Depreciation on block of assets: (i) On ₹ 2,40,000 @ 15% = ₹ 36,000 (ii) On ₹ 1,00,000 @ 15% × ½ = ₹ 7,500	43,500
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Question 5.

(a) State the taxability of the following five incomes —

- A. Dividend
- B. Bonus
- C. Winning from lotteries etc.
- D. Fees and commission
- E. Gift

[10]

Answer:

- A. Dividend is defined by section 2(22) of *Income-tax Act*. Dividend from an Indian company is not taxable in the hands of shareholders. However, deemed dividend under section 2(22)(e) from an Indian company or any dividend from a foreign company is taxable in the hands of shareholders under the head "Income from other sources".
- B. It is taxable in the year of receipt if it has not been taxed earlier on due basis. While contractual bonus is regarded as salary, gratuitous bonus is taxable as perquisite. If bonus is received in arrears, the assessee can claim relief in terms of section 89.
- C. It includes any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever. These receipts are chargeable to tax under the head "Income from other sources".
- D. Fees and commission are taxable as salary irrespective of the fact that they are paid in addition to or in lieu of salary. However, if fees and commission is paid to a person (other than an employee), it is not taxable as salary income. For instance, commission paid to a director (not being an employee) for his giving guarantee for repayment of loan, etc. is taxable under the head "Income from other sources".
- E. If any sum of money or property is received during a previous year without consideration by an individual or a Hindu undivided family from any person or persons exceeds ₹ 50,000, the whole of such amount is taxable in the hands of the recipient as income from other sources.

(b) Write to whom Alternate Minimum Tax shall not be applicable as per Section 115JEE (2). [3]

Answer:

The provisions of Alternate Minimum Tax under Chapter XII-BA shall not apply to-

- (i) an Individual; or
- (ii) a Hindu Undivided Family; or
- (iii) an Association of Persons or a Body of Individuals (whether incorporated or not) or
- (iv) an Artificial Juridical Person referred to in section 2(31) (vii),

if the Adjusted Total Income of such person does not exceed ₹ 20,00,000.

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

(c) 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. What would be the value of furniture to be included along with value of unfurnished house for A.Y 2014-15? [2]

Answer:

While computing the value of perquisite of rent-free furnished accommodation, provided by the employer, the value of furniture shall be the actual hire charges payable (whether paid or payable), if furniture is hired by the employer.

Value of furniture, to be included in the value of rent-free furnished accommodation

$$= ₹6,000 \times 2/12 = ₹1,000$$

Question 6.

(a) Ms. Jennifer D' Souza, an individual resident Indian, aged 62 years, frequently visits a foreign university to deliver lectures and receives honorarium of ₹ 3,35,000 for the same. Tax of ₹ 33,500 was deducted in the foreign country. India did not have any double taxation avoidance agreement with that foreign country. The particulars of income earned in India are stated as follows:

- (i) In India, her total income amounted to ₹10,20,000.
- (ii) Contribution to the Public Provident fund - ₹ 1,40,000.
- (iii) Contribution to the approved Pension Fund of LIC- ₹ 64,000.
- (iv) Contribution to Central Government Health Scheme during the previous year- ₹36,000.
- (v) Payment of medical Insurance premium, for mother (who is not dependent on her) - ₹21,000.

Compute the tax liability of Ms. Jennifer D' Souza for the Assessment Year 2014-15. [8]

Solution:

Computation of tax liability of Ms. Jennifer D' Souza for the Assessment Year 2014-15

Assessee: Ms. Jennifer D' Souza

Assessment Year: 2014-15	Previous Year: 2013-14	
Particulars	₹	
Indian Income		10,20,000
Foreign Income		3,35,000
Gross Total Income		13,55,000
Less: Deductions		
Deposit in PPF [Section 80C]	1,40,000	
Contribution to approved Pension Fund of LIC [Section 80CCC]	64,000	
	2,04,000	
The aggregate deduction under Sections 80C, 80CCC and 80CCD(1) has to be restricted to ₹1,00,000 [Section 80CCE]	1,00,000	1,00,000
Contribution to Central Government Health Scheme.[Section 80D]	20,000	

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

(Under Section 80D, the maximum deduction allowed to a senior citizen is ₹20,000)		20,000
Medical insurance premium paid for mother [Section 80D]	20,000	20,000
GROSS DEDUCTIONS		1,40,000
TOTAL INCOME		12,15,000
TAX ON TOTAL INCOME		
Income Tax payable	1,89,500	
Education Cess @ 2%	3,790	
Secondary and Higher Education Cess@ 1%	1,895	1,95,185
Average rate of tax in India [₹1,95,185/12,15,000 x 100]		16.06%
Average rate of tax in foreign country [₹33,500/3,35,000 x 100]		10%
Rebate under Section 91 shall be limited to the lower of average Indian tax rate or average foreign tax rate		
Hence, rebate under Section 91 shall be = (₹335000 x 10%)		33,500
Tax payable in India (₹ 1,95,185 - ₹ 33500)		1,61,685

(b) Mr. Satish submits the following details of his income for the assessment year 2014-15:

Particulars	₹
Income from salary	6,00,000
Loss from house property	(80,000)
Income from sugar business	1,00,000
Loss from iron ore business (b/f)(discontinued in 2007-08)	(2,40,000)
Short term capital loss	(1,20,000)
Long term capital gain	80,000
Dividend	10,000
Lottery Winnings	1,00,000
Winnings from card games	12,000
Agricultural Income	40,000
Long term capital Gain on sale of shares	20,000
Short term Capital Loss under Section 111A	20,000
Bank Interest	10,000

Calculate gross total income and losses to be carried forward for the A.Y 2014-15.

[7]

Solution:

Computation of Gross Total Income of Mr. Satish for the A.Y 2014-15

Particulars	₹	₹
Salaries:		
Income from salary	6,00,000	
Income from house property		
Loss from house property	(80,000)	5,20,000
Profits and Gains of Business of profession:		
Income from sugar business	1,00,000	
Less: Brought forward loss from iron ore business	(2,40,000)	---
Balance business loss of ₹1,40,000 carried forward to A.Y 2015-16		

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

Capital Gains Long term capital gain Less: Short term capital loss Capital Losses to be carried forward: i. Short Term Capital Loss of ₹40,000 to be carried forward ii. Short term Capital Loss under Section 111A, of ₹20,000 to be carried forward	80,000 (1,20,000)	---
Income from other sources: Lottery Winnings Winnings from card games Bank Interest	1,00,000 12,000 10,000	 1,22,000
GROSS TOTAL INCOME		6,42,000
Losses to be carried forward to A.Y 2015-16 i. Loss of ₹1,40,000 from iron-ore business ii. Short term Capital Loss of ₹40,000 iii. Short term Capital Loss under Section 111A, of ₹20,000 to be carried forward		

NOTES:

- Dividend Income is exempt under Section 10(34), assuming that dividend is received from a domestic company.
- Agricultural Income is exempt under Section 10(1).
- Long term Capital gain, on which STT is paid is exempt under Section 10(38).
- It is presumed that, loss from iron-ore business relates to the previous year 2007-08, the year in which the business is discontinued.

Question 7.

(a) Discuss in respect of the following items, the manner of treatment for Mrs. P's wealth-tax assessment for the assessment year 2014-15.

- Mrs. P has two cars for her personal use each being of value of ₹ 95,000.
- She has another house property at Nainital given to her as a gift by her father on January 1, 1971 on the occasion of her birthday. This house is also used by her as her own residence where she lives during summer vacations only. The value of the house on March 31, 2014 was ₹ 25,00,000.
- Jewellery received from her father at the time of her marriage in 1956 was of the value of ₹ 1,20,000 on March 31, 2014.

[3]

Answer:

- ₹1,90,000 (₹ 95,000 × 2) is chargeable to wealth-tax.
- Value of the house is to be included in the net wealth of Mrs. P. She can, however, claim exemption under section 5(vi).
- Jewellery received in 1956 is outside the purview of section 4. Therefore, it will be included in the net wealth of Mrs. P.

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(b) Compute the taxable net wealth and wealth tax payable by X Ltd. from the following particulars:

- Land in urban area (Construction is not permitted as per Municipal Laws in force) ₹50,00,000.
- Cash Balance (as per books) ₹ 2,75,000.
- Guest House (situated in a place which is 30 kms away from the local limits of the municipality) ₹ 35,00,000.

[4]

Solution:

Assessee: X Ltd.

Valuation Date: 31.3.2014

Assessment Year: 2014-15

Computation of Taxable Net Wealth and Wealth Tax Payable

Nature of Assets	₹	Reasons
Land in Urban Area	Nil	Land in which construction is not permitted as per municipal law is not an asset u/s 2(ea) of Wealth-tax Act
Cash Balance	Nil	Cash as per books - Not an asset u/s 2(ea) of Wealth-tax Act
Guest House	35,00,000	Asset u/s 2(ea) of Wealth-tax Act
Net Wealth	35,00,000	
Less: Basic Exemption	30,00,000	
Taxable Net Wealth	5,00,000	
Tax Payable @1%	5,000	

(c) Mr. Rajendra Sinha, an individual, furnishes the following information, relating to the assets and liabilities as on 31.03.2014:

Sl. No	Particulars	Amount (₹)
(i)	Plot of land at Mumbai, comprising an area of 1200 square meters, (on which building has been constructed without the approval of the appropriate authority).	50,00,000
(ii)	Building constructed on land at Mumbai, without the approval of the appropriate authority, and used for his business purposes.	20,00,000
(iii)	Two residential house properties, (one of the house properties is used for the purpose of business, by Mr. RajendraSinha)	10,00,000 (each)
(iv)	Urban Land was purchased in August 2011 located in Pune, in the name of his son who is suffering from a disability specified under Section 80U of the Income Tax Act, 1961. The age of his son on 31.03.2014 was 17 years.	5,00,000
(v)	House located in Ahmedabad, shown in his wealth-tax return for the A.Y 2013-14 at ₹50 Lakh was sold on 20.03.2014 for ₹60 Lakh, but the sale deed thereof was executed on 03.04.2014.	55,00,000
(vi)	Motor cars held as stock-in-trade.	75,00,000
(vii)	Gold jewellery brought into India from Singapore, where he was	12,00,000

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

	residing, on his return to India on 01.11.2009, for permanently residing in India.	
(viii)	Jewellery made of platinum.	18,00,000
(ix)	Jewellery gifted to wife from time to time, were available with her on the valuation date. The jewellery was acquired for ₹10 Lakhs.	35,00,000 (Fair Market Value)
(x)	Interest in the coparcenary property of the Hindu Undivided Family, of which he is a member.	25,00,000
(xi)	Cash in hand, recorded in the books of account.	10,00,000
(xii)	Fixed Deposits in a co-operative bank.	20,00,000
Liabilities		
(xiii)	Loan borrowed for marriage of daughter	12,00,000
(xiv)	Loan borrowed for construction of building at Mumbai	10,00,000

The minor married daughter of Mr. RajendraSinha holds a plot of land at Bhopal, valued at ₹40 Lakhs. The amounts stated against the assets, except cash in hand, are the values determined as per Section 7 of the Wealth Tax Act, 1957 read with Schedule III thereto.

Compute the net wealth of Mr. RajendraSinha, as on the valuation date 31.03.2014.

State the reasons for inclusion, or exclusion of the various items.

[8]

Solution:

Assessee: Mr. RajendraSinha

Valuation Date: 31.03.2014

Assessment Year: 2014-15

Computation of net wealth

Sl. No.	Particulars	Note	Amount (₹)	Amount (₹)
ASSETS (as per the definition of "Assets", under Section 2(ea) of the Wealth Tax Act, 1957)				
(i)	Plot of land in Mumbai.	1		50,00,000
(ii)	Building constructed on land at Mumbai, without the approval of the appropriate authority.	2		NIL
(iii)	Residential house properties.	3		NIL
(iv)	Urban Land was purchased in Pune, in the name of his son who is suffering from a disability specified under Section 80U of the Income Tax Act, 1961.	4		NIL
(v)	House located in Ahmedabad, which has already been sold.	5		NIL
(vi)	Motor cars held as stock-in-trade.	6		NIL
(vii)	Gold jewellery brought into India from Singapore	7		NIL
(viii)	Jewellery made of platinum.	8		18,00,000
(ix)	Jewellery gifted to wife	9		35,00,000
(x)	Interest in the coparcenary property of the Hindu Undivided Family	10		NIL

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

(xi)	Cash in hand, in excess of ₹50,000	11		9,50,000
(xii)	Fixed Deposits in a co-operative bank	12		NIL
(A) TOTAL ASSETS				1,12,50,000
LESS:	Liabilities			
(xiii)	Loan borrowed for marriage of daughter	13		NIL
(xiv)	Loan borrowed for construction of building at Mumbai	14		NIL
(B) TOTAL LIABILITIES				NIL
(C) NET WEALTH [(A)- (B)]				1,12,50,000

NOTE:

1. Plot of land at Mumbai, comprising an area of 1200 square meters, (on which building has been constructed without the approval of the appropriate authority), is an asset under Section 2(ea) of the Wealth Tax Act, 1957, and is therefore, included in the computation of the net wealth of the assessee. Since, the plot of land comprises an area of more than 500 square meters, it is not eligible for exemption under Section 5(vi) of the Wealth Tax Act, 1957.
2. Building constructed on land at Mumbai, without the approval of the appropriate authority, is not an asset under Section 2(ea) of the Wealth Tax Act, 1957, since the building is being used for the purposes of business.
3. The assessee owns two residential house properties. One of the house property shall be exempt from the levy of wealth tax. This is so because, a house used exclusively for residential purpose is treated as an 'Asset' under Section 2(ea) of the Wealth Tax Act, 1957, but is exempt under Section 5(vi) of the Wealth Tax Act, 1957.
The other house property shall also be exempt from the levy of wealth tax, because, the residential property is used for the purposes of business.
4. Urban Land is an asset, by virtue of Section 2(ea)(v) of the Wealth Tax Act, 1957. However, since, the same is in the name of his minor son, who suffers from a disability specified under Section 80U of the Income Tax Act, 1961, the clubbing provisions are not applicable as per Section 4(1)(a)(ii) of the Wealth tax Act, 1957.
5. The house property, located in Ahmedabad, was sold during the year and is, therefore, not an asset of the assessee, but is an asset of the beneficial owner, since ownership of the property passes on sale of property and execution of sale deed only confirms the act of the parties.
6. Motor cars held as stock-in-trade do not fall within the Meenakshiew of the definition of an 'Asset', under Section 2(ea) of the Wealth Tax Act, 1957, and hence, is not chargeable to wealth tax.
7. Gold jewellery brought into India on 01.11.2009, from Singapore is exempt under Section 5(v) of the Wealth Tax Act, 1957, for seven successive assessment years, beginning with the Assessment Year 2010-11.
8. Jewellery made of platinum, is an asset under Section 2(ea) of the Wealth Tax Act, 1957, and is, therefore, included in the net wealth.

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

9. The fair market value of the Jewellery gifted to wife, will be included in the computation of the net wealth of Mr. RajendraSinha, as per the provisions of Section 4(1)(a)(i), read with Rule 18 of Schedule III of the Wealth Tax act, 1957.
10. Interest in the coparcenary property of the Hindu Undivided Family, of which Mr. Rajendra Sinha is a member, is exempt under Section 5(ii) of the Wealth Tax Act, 1957.
11. Cash in hand, in excess of ₹50,000, is includible in the net wealth of an individual, whether such cash is recorded in the books of account, or not.
12. Fixed Deposits in a co-operative bank do not constitute 'assets' within the meaning of Section 2(ea) of the Wealth Tax Act, 1957, and is hence, not included in the computation of the net wealth of the assessee.
13. Loan borrowed for marriage of daughter, is not deductible, since, only loans in relation to assets (under Section 2(ea) of the Wealth Tax Act, 1957) are deductible.
14. Since, building constructed in Mumbai, is used for business purposes, it is excluded from the computation of the net wealth of the assessee. Hence, the loan taken for construction of such property shall also not be admissible as a deduction.
15. Assets held by a minor married daughter are not includible in the computation of the net wealth of the any parent under Section 4(1)(a)(ii) of the Wealth Tax Act, 1957. Hence, the value of plot of land at Bhopal, held by the minor married daughter, does not form part of the net wealth of Mr. Rajendra Sinha.

Question 8.

- (a) Merry International Ltd. incurs an expenditure of ₹ 255 crores for acquiring the right to operate telecommunication services for Assam & Sikkim. The payment was made in November 2011 and the licence to operate the services was valid for 15 years. In December 2012, the company transfers part of the licence, in respect of Assam, to Banerjee International Ltd. for a sum of ₹ 56 crores and continue to operate the licence in Sikkim. What is the deduction allowable u/s 35ABB of the Income-tax Act to Merry International Ltd. for the Assessment Year 2014-15? [4]

Solution:

Assessee: Merry International Ltd.

Previous Year: 2013-14

Assessment Year: 2014-15

U/s 35ABB of the Income-tax Act, where part of the Telecom Licence is transferred and net consideration received on such transfer, is less than the expenditure remaining unallowed, the amount of deduction shall be computed as follows:

(i) Unallowed amount as on 01.04.2012	= Total Expenditure Less Deduction for Financial Year 2011-12 = ₹ 255 crores Less (₹ 255 crores/licence period of 15 years) = ₹ 255 crores less ₹ 17 crores = ₹ 238 crores.
(ii) Net Consideration received	= ₹ 56 crores
(iii) Remaining period of licence	= 14 years (including current Previous Year)
(iv) Deduction u/s 35ABB	= ₹ (238 crores less 56 crores)/14 years = ₹ 13 crores.

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

(b) What is the amount of deduction in respect of royalty of authors allowed as per section 80QCB of the Income-tax Act? [2]

Answer:

The amount of deduction in respect of royalty of authors is allowed as per section 80QCB of the Income-tax Act as under:

- 100% of the royalty income etc. subject to a maximum of ₹ 3,00,000.
- In case of royalty or copyright fees, not in lump sum consideration, deduction shall be restricted to 15% of the value of books sold during the Previous Year.

(c) What are the differences between Nationality and Citizenship in relation to residential status? [5]

Answer:

Nationality and Citizenship are two terms that are sometimes used interchangeably. But they differ in many aspects such as —

Nationality	Citizenship
1. Nationality can be applied to the country where an individual was born. Hence an individual is a national of a particular country by birth	1. Citizenship is a legal status, which means that an individual has been registered with the Government in some country
2. Nationality is got through inheritance from his parents which is called a natural phenomenon	2. An individual becomes a citizen of a country only when he is accepted into that country's political framework through legal terms
3. No one will be able to change his nationality	3. One can have different citizenship
2. No country can confer honorary nationality on any one as his birthplace cannot be changed	4. Some nations also confer honorary citizenship to individuals
5. Nationality can be described as a term that refers to belonging to a group having same culture, traditions history, language and other general similarities	5. Citizenship may not refer to people of the same group. For example, an Indian may be having a US citizenship but he will not be belonging to the same group as that of the American nationals

(d) Give some examples of those assets which are not eligible for additional depreciation. [4]

Answer:

Examples of assets which are not eligible for additional depreciation:

- (i) Ships and aircrafts;
- (ii) Any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person,
- (iii) Any machinery or plant installed in any office premises or any residential accommodation, including accommodation in the nature of a guest house,
- (iv) Any office appliance or road transport vehicle,

Answer to MTP_Intermediate_Syllabus 2012_Dec2014_Set 2

- (v) Any machinery or plant, the whole of which is allowed as deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profits and Gains from Business or Profession" of any Previous Year.