## 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:** **[1x13]**

**(i)** 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.

**(ii)** Advance tax is payable by any person for the assessment year immediately following the previous 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.

**(iii)** Remuneration received in respect of services rendered on a foreign ship is exempt in the case of:
(A) A resident;
(B) A non-resident, who is not a citizen of India;
(C) Resident, but not ordinarily resident;
(D) A citizen of India.

**(iv)** Rent or revenue derived from land, is treated as an agricultural income, if:
(A) It is derived from land;
(B) It is derived from land situated in India;
(C) It is derived from land situated in India, used for agricultural purposes;
(D) It is derived from land situated in India, used for agricultural and business purposes.

**(v)** Deduction under section 80C of the Income Tax Act, 1961 can be claimed for fixed deposit made in any scheduled bank, if the minimum period of deposit is:
(A) 5 years;
(B) 8 years;
(C) 10 years;
(D) 12 years.

**(vi)** The maximum exemption in respect of transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty shall be:
(A) ₹ 600 per month;
(B) ₹ 700 per month;
(C) ₹ 800 per month;
(D) ₹ 900 per month.

**(vii)** The gross annual value of a house property, whose Municipal Value is ₹ 30,000, Actual Rent is ₹ 32,000, Fair Rent is ₹ 36,000 and Standard Rent is ₹ 40,000, shall be:
(A) ₹ 36,000;
(B) ₹ 35,000;
(C) ₹ 30,000;
(D) ₹ 40,000.

**(viii)** 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.

**(ix)** 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.

**(x)** The return of net wealth is to be filed in form:
(A) BA;
(B) ITR-1;
(C) ITR-2;
(D) ITR-4.

**(xi)** Abhinav (aged 40 years), has to file a return of income, if gross total income is in excess of —
(A) ₹ 1,50,000;
(B) ₹ 2,00,000;
(C) ₹ 1,60,000;
(D) ₹ 1,80,000.

**(xii)** An assessee can file a revised return of income at any time before the completion of assessment or before expiry of the following period, whichever is earlier:
(A) One year from the end of the relevant assessment year;

(B) Two years from the end of the relevant assessment year;
(C) Three years from the end of the relevant assessment year;
(D) Six months from the end of the relevant assessment year.

**(xiii)** The exercise carried out by the tax payer to meet his tax obligations in a proper, systematic and orderly manner, availing all permissible exemptions, deductions and reliefs available under the relevant statutes as may be applicable to his case, is called:
(A) Tax Planning;
(B) Tax Avoidance;
(C) Tax Evasion;
(D) Tax Management.

**(b) Fill up the blanks:** **[1×12]**

**(i)** Surcharge at the rate of ________ is applicable in case total income of a foreign company exceeds ₹1 crore, but does not exceed ₹10 crore for the Assessment Year 2014-15.

**(ii)** Recovery of unrealized rent is chargeable to tax under the head ________________.

**(iii)** Where bonus shares are issued prior to 01.04.81, the cost of acquisition shall be the _______________ as on ___________.

**(iv)** 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.

**(v)** A company whose gross total income consists mainly of income which is chargeable under the heads 'Income from House Property', 'Capital Gains', and 'Income from other sources', is called _______________.

**(vi)** Section 80GGB of the Income Tax Act, 1961 provides for deduction in respect of contribution given by a/an ________________, to a political party, or an electoral trust.

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

**(viii)** 15% of Advance Tax should be paid by a corporate assessee on or before ___________.

**(ix)** Loss in a speculation business can be carried forward to the subsequent year and set off only against the profits of a _________________ carried on in that year.

**(x)** Employer's contribution towards an approved superannuation fund is chargeable to tax in the hands of employees to the extent such contribution exceeds ₹ _______ per assessment year.

**(xi)** Sitting fees paid to directors for attending Board Meeting is not a salary but taxable as _________________.

**Question 2.**

**(a)** Compute the total income of Mr. Mukul for the Assessment year (A.Y.) 2014-15 from the following information, relating to his income for the previous year 2013-14:

(i) He received salary of ₹ 30,000 per month including conveyance allowance @ ₹ 3,000 per month for official purposes.
(ii) He deposited ₹ 3,000 per month in his account under a pension scheme notified by the Central Government.
(iii) He paid a sum of ₹ 72,000 during the year as interest on loan taken in June, 2009 from bank for higher studies of his son.
(iv) He paid health insurance premium for himself and for his family members ₹ 10,200 in cash and ₹ 10,800 by credit card.
(v) He invested ₹ 48,000 in notified bonds issued by NABARD in January 2014.
(vi) Equity shares having fair market price of ₹ 1,20,000 (on the date of exercise of option) were allotted to him by the company at a concessional price of ₹ 24,000 on 04.06.2013, which were sold by him for ₹ 2,16,000 on 02.03.2014.

**(b)** Mr. Vighnesh received the following gifts during the Previous Year (P.Y.) 2013-14, from his friend Mr. Mukesh:

(i) Cash gift of ₹60,000 on his birthday, 31st August, 2013.
(ii) 50 shares of Theta Ltd., the fair market value of which was ₹1,20,000 on the date of transfer i.e. 01.11.2013. The gift was received on the occasion of Diwali. Mr. Mukesh had originally purchased the shares on 13.06.2013, at a cost of ₹70,000.

Further on 05.01.2014, Mr. Vighnesh purchased land from his brother's relative for ₹10,00,000. On 7th March, 2014, the assessee sold 50 shares of Theta ltd. for ₹1.5 Lakhs.

Compute the Gross Total Income of Mr. Vighnesh, comprising of incomes chargeable under the heads "Income from Other source" and "Capital Gains" for A.Y. 2014-15.

**[10+5]**

**Question 3.**

**(a)** State with reasons, based on the provisions of the Income-tax Act, as to chargeability of the following receipts to tax in the Assessment Year 2014-15:

1. Rent of ₹ 1 Lakh charged from the tenants occupying houses (constructed on the land situated in India and used for agricultural purposes). The houses were used for residential purposes.
2. In addition to salary, Minister of Minority Welfare received an amount of ₹ 2,000 per month as an entertainment allowance.
3. Rent of ₹ 55,000, due for the period 01.04.2010 to 31.08.2010, was received on 23.12.2013, because of a court order. The property was sold out by the owner on 08.04.2013.
4. Growth Ltd. follows mercantile system of accounting. During the previous year 2013-14, it has negotiated with its bankers and converted an interest amount of ₹ 5 Lakhs into term loan which includes ₹ 2 Lakhs pertaining to the previous year 2013-14. Can the interest of ₹ 2 Lakhs pertaining to the Assessment Year 2013-14, be allowed as business expenditure?

**(b)** State the provisions of the Wealth Tax Act, 1957 relating to the assets transferred under revocable transfers. Also, explain the term 'revocable transfers'.

**(c)** State the manner of determination of residential status of a Company.

**[8+(2+4)+1)**

**Question 4.**

**(a)** State the factors to be considered in determining whether a country is a tax haven or not.

**(b)** Sterling LLP reports the following details for the previous year 2013-14:
Net Profit as per Profit and Loss Account ₹ 54,00,000.

The following items are reflected in the Profit and Loss Account:

| Credits | ₹ In lakhs |
|---|---|
| Dividend from Indian companies | 1 |
| Net profit from an undertaking eligible for 100% deduction under section 80-IA | 20 |
| Profit on sale of vacant site | 7 |
| Debits:<br>Working partner's salary | 12 |
| Interest on capital to partners @ 12% | 15 |
| Provision for income tax | 14 |
| Commission<br>(tax was deducted in previous year 2012-13 and remitted before the due date for filing the return of income) | 5.20 |
| Depreciation | 12 |

Other information –

(i) Depreciation allowable under section 32 of the Income-tax Act, 1961 is ₹ 8 lacs.
(ii) Long-term capital gain on sale of vacant site (computed) ₹ 5 lacs.
(iii) Working partner's salary and interest on capital to partners are authorized payment but subject to limits of section 40(b).

Calculate:

(i) Total income and regular income tax payable (as per normal provisions) for the Assessment Year 2014-15.
(ii) Adjusted total income and alternate minimum tax payable for the Assessment Year 2014-15.

**(c)** State the provisions relating to exemption of income of mutual funds, as contained in Section 10(23D) of the Income tax Act, 1961.

**[3+10+2]**

**Question 5.**

**(a)** Mr. Umesh did not file his return of income for the Assessment Year 2013-14 and a notice under section 142(1) of the Income Tax Act, 1961 was issued by the assessing Officer in November, 2013. The return of income was filed in December, 2013. He wants to file a revised return in January, 2014. Explain, whether it is possible to file a revised return?

**(b)** Vineet is an individual, who is resident and ordinarily resident in India. The values of his assets and liabilities as per Schedule III of the Wealth Tax Act, 1957, as on 31.03.2014, are as follows:

| Particulars | Amount(₹) |
|---|---|
| Guest House in Hong Kong | 10,00,000 |
| Jewellery gifted to his wife | 15,00,000 |
| Value of interest in the assets of a firm as a partner | 8,00,000 |
| Cash in hand | 3,00,000 |
| He took a loan for building the residential house in Mumbai | 75,000 |
| Commercial complex at Delhi having 20 offices which were let out for the whole of the previous year. | 30,00,000 |
| Residential house in Mumbai, which is let-out for 320 days in that previous year | 10,00,000 |

Compute the net wealth and the wealth tax liability of Mr. Vineet for the A.Y. 2014-15.

**(c)** Neeta Jain, engaged in various types of activities, gives the following types of particulars for her income for the previous year 2013-14:

(i) Profit of business of consumer and house hold products: ₹ 1,00,000.
(ii) Loss of business of readymade garments: ₹ 20,000.
(iii) Brought forward loss of catering business which was closed in A.Y. 2013-14: ₹ 30,000.
(iv) Short-term loss on sale of securities and shares: ₹ 30,000.
(v) Profit of speculative transactions entered into during the year: ₹ 25,000.
(vi) Loss of speculative transactions of A.Y. 2009-10, not set off till A.Y. 2013-14: ₹ 30,000.

Compute the total income of Ms. Neeta Jain for the A.Y. 2014-15.

**[3+7+5]**

**Question 6.**

**(a)** State whether the following assessees have to file return of income and if so, the due date of filing return for the Assessment Year 2014-15:

(i) A registered trade union having income from let out property of ₹ 1,90,000.

(ii) A public trust hospital having an aggregate annual receipt of ₹ 110 Lakhs and availing exemption under Section 10(23C)(via) with total income of ₹ 1,65,000, before giving effect to such exemption.

(iii) A charitable trust registered under Section 12AA of the Income tax Act, 1961, having total income of ₹ 2,10,000.

**(b)** State the provisions of the Wealth Tax Act, 1957 relating to conversion by an individual of his self-acquired property into joint family property.

**(c)** International Ltd. - a US Company has a subsidiary Native Ltd. in India. International Ltd. sells mobile phones to Native Ltd. for resale in India. International Ltd. also sells mobile phones to Country Ltd. - another mobile phone reseller in India. The sales quantity and price fixed by International Ltd. are as follows:

| Buyer | Sale Price (₹/ unit) | Sale Quantity (mobile phones) |
|---|---|---|
| Native Ltd. | 12,000 | 48,000 |
| Country Ltd. | 11,000 | |

The warranty in case of sale of mobile phones by Native Ltd. is handled by itself, whereas for sale of mobile phones by Country Ltd., International Ltd. is responsible for warranty for 6 months. Both International Ltd. and Native Ltd. extended warranty at a standard rate of ₹500 per annum.

In respect of the given transactions:

(i) Compute the Arm's Length Price for Native Ltd. for the given transactions.
(ii) Compute the additions required to be made in the total income of Native Ltd.
(iii) Also state whether the provisions of Section 10AA and Chapter- VIA, are applicable on the recomputed total income of Native Ltd.

**(d)** Distinguish between the nature of penalty leviable under Section 271AA and Section 271B of the Income Tax Act, 1961.

**[6+2+4+3]**

**Question 7.**

**(a)** Discuss the liability for tax deduction at source in the following cases for the A.Y. 2014-15:

(i) An Indian company pays gross salary including allowances and monetary perquisites amounting to ₹ 5,60,000 to its Finance Manager. Besides, the company provides non-monetary perquisites to him in the same period whose value is estimated at ₹ 2,40,000.

(ii) Indira, an individual whose total sales in business during the year ended 31.03.2014 was ₹ 80 Lakhs, paid ₹ 6.5 Lakhs by cheque on 12.02.2014 to a contractor (an individual), for construction of her business premises, in full and final settlement. No amount was credited earlier to the account of the contractor in the books of Indira.

(iii) A television company pays ₹ 1,50,000 to a cameraman for shooting of a documentary film.

(iv) M/s. Joy Ltd. paid to Mr. Juneja ₹ 1,80,000 for compulsory acquisition of his house as per law of the State Government.

**(b)** State the provisions relating to valuation of jewellery under the Wealth Tax Act, 1957.

**(c)** Explain whether it is mandatory for an assessee to claim depreciation under Section 32 of the Income Tax Act, 1961?

**(d)** 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.

**[8+3+2+2]**

**Question 8.**

**(a)** Flora Ltd. provides you with the following extracts from its Balance Sheet for the previous year ending on 31.03.2014:

| Particulars | Amount (₹) | |
|---|---|---|
| | Unit X | Unit Y |
| Fixed Assets | 75,00,000 | 1,70,00,000 |
| Debtors | 75,00,000 | 56,00,000 |
| Liabilities | 21,00,000 | 38,00,000 |
| Stock-in-trade | 37,50,000 | 19,00,000 |
| Reserves | | 1,11,00,000 |
| Share Premium | | 12,50,000 |

The paid up capital of Flora Ltd. amounted to ₹ 250 Lakhs.

The company acquired Unit Y on 01.04.2011. They made certain capital additions in the form of fixed assets for ₹ 19 Lakhs, during the year 2011-12. The members of the company have authorized the Board in their meeting held on 25.02.2013 to dispose off the Unit 'Y'. The company decides to sell the unit 'Y', by way of slump sale for ₹ 170 Lakhs as consideration.

The buyer agreed with the vendor-company to give time for putting through the sale, but not later than 31.07.2014, subject to a discount of 2% on agreed sale consideration. However, this discount is not applicable, if the sale is completed after 31.03.2014. The written down value of the fixed assets of Unit Y under section 43(6) is ₹ 112 Lakhs.

Discuss the impact of the date of sale on the taxation of capital gains in the hands of Flora Ltd.

**(b)** Mr. Maheshwar is aged 35 years. His father has settled a property in trust giving whole life interest therein to Maheshwar. The income from the property for the years 2010-11 to 2013-14 was ₹ 35,000, ₹ 40,500, ₹ 41,000 and ₹ 43,000 respectively. The expenses incurred each year were ₹ 1,500, ₹ 8,500, ₹ 250 and ₹ 9,000 respectively.

Calculate the value of life interest of Mr. Maheshwar in the property so settled on the valuation date March 31, 2014 on the assumption that the value of house as per Schedule III is ₹ 20 lakh. [Multiplier at the age of 35 is 10.804].

**(c)** State the taxability or otherwise, of salary, perquisite, allowance, received as gift by an employee from the employer.

**(d)** State, whether an assessee can claim depreciation under section 32 of the Income-tax Act, on capital expenditure incurred on construction of any structure in a building, which is taken on lease, for the purposes of business or profession.

**[8+4+2+1]**