Paper-7 – Applied Direct Taxation

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

All the questions relate to the assessment year 2015-16, 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 2014-15 is —

(A) 852;

(B) 711;

(C) 939;

(D) 1024.

(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) ₹ 2,50,000;

(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 2015-16.**

(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 _________________.

Answer to 1(a):

(i) D. 1,024
(ii) A. ₹ 10,000 or more
(iii) B. A non-resident, who is not a citizen of India.
(iv) C. It is derived from land situated in India, used for agricultural purposes.
(v) A. 5 years.
(vi) C. ₹ 800 per month.
(vii) A. ₹ 36,000
(viii) B. twice in a block of four years
(ix) A. ₹ 1 crore
(x) A. BA
(xi) A. ₹ 2,50,000
(xii) A. One year from the end of the relevant assessment year
(xiii) A. Tax Planning

Answer to 1(b):

(i) 2%
(ii) Income from House Property
(iii) fair market value, 01.04.81
(iv) ₹ 50,000
(v) Investment Company
(vi) Indian Company
(vii) ₹ 1,50,000
(viii) 15th June
(ix) speculation business
(x) one lakh
(xi) Other Income

Question No. 2

(a) 'U' was born in 1977 in India. His parents were also born in India in 1948. His grandparents were, however, born in England. 'U' was residing in India till 15.3.2012. Thereafter, he migrated to England and took the citizenship of that country on 15.3.2014. He visits India during 2014-15 for 90 days. Determine the residential status of 'U' for assessment year 2015-16. [7]

Solution:

In this case, U is neither a citizen of India nor a person of Indian origin, because neither he nor his parents nor his grandparents were born in undivided India.

Although in this case, he does not satisfy the first condition of category A but he satisfies the second condition as he was in India for more than 60 days during the relevant previous year and his stay in the four preceding previous years was as under:

	₹
2013 – 14	Nil
2012 – 13	Nil
2011 – 12	349 days
2010 - 11	365 days
	714 days

He is therefore, resident in India.

For determining whether he is "ordinarily resident in India", he has to satisfy both the conditions of category B. He is resident for more than one previous year in the preceding 10 years and the second condition is also satisfied as he is in India for 730 days or more in the 7 preceding previous years. Hence, he is resident and ordinarily resident in India.

(b) A sole proprietary concern, whose written down value of the block of assets as on 1.04.2014 carrying 15% rate of depreciation was ₹5,00,000, purchased another asset of the same block on 1.04.2014 for ₹2,00,000. The said concern was succeeded by the company on 1.09.2014. After the succession, the company purchased another asset of the same block on 1.1.2015 for ₹1,60,000. Compute the depreciation available to the proprietary concern and the company for the assessment year 2015-16. [8]

Solution:

As there is a succession of the proprietary concern during the previous year, it will be first assumed as if no succession had taken place and the depreciation will be calculated as under:

	₹
Written down value at the beginning of the year	5,00,000
Additions during the year for 180 days or more	2,00,000
W.D.V. for the purpose of charging depreciation	7,00,000
Depreciation on ₹7,00,000 @ 15%	1,05,000

Apportionment between the predecessor and successor

(1) Depreciation allowed to sole proprietary concern (predecessor) (Number of days assets used by the concern i.e. April 1 to 31st August = 153 days) 1,05,000 × $\frac{153}{365}$	44,014
(2) Depreciation allowable to company (Successor) (i) assets which were used by both the assessee: Number of days asset used by the company (01.09.14 to 31.03.15) 1,05,00 × $\frac{212}{365}$ (ii) asset which was used by company assessee only Depreciation on ₹1,60,000 @ 7.5% (50% of the normal rate as it is acquired and put to use for less than 180 days)	60,986 12,000
	72,986

Question No. 3

(a) ABC Ltd an Indian company has received the following dividend from its subsidiary companies:

1. **₹ 10,00,000 on 5.08.2014 from S Ltd. a subsidiary company in India.**
2. **₹20,00,000 on 09.07.2014 from T Ltd., a specified company in Germany in which ABC Ltd. holds 60% shares.**

ABC Ltd. wishes to declare dividend of ₹1 crore to its shareholders.

Determine the amount of dividend distribution tax payable by ABC Ltd.

Also determine the tax payable on dividend received from T Ltd. assuming the total income of ABC Ltd. including the above dividend is ₹80,00,000.

What shall be your answer if ABC Ltd. holds 36% shares in T Ltd. **[10]**

Solution:

	₹	₹
Total dividend proposed to be declared		1,00,00,000
Less: Dividend received from		
S Ltd.	10,00,000	
T Ltd.	20,00,000	30,00,000
Balance amount which DDT is payable		70,00,000
Amount of DDT payable		
Net dividend to be gross up (₹70,00,000/85 x 100)	82,35,294	
DDT payable on ₹82,35,294@16.995%	13,99,588	
Tax payable by ABC Ltd. on its total income		
- On ₹20,00,000 received from T Ltd. @ 15%	3,00,000	
- Balance total income 60,00,000 @ 30%	18,00,000	

	21,00,000	
Add: Education cess & SHEC @ 3%	63,000	
	21,63,000	

Second part -
Since ABC Ltd hold 36% shares in T Ltd., it is not subsiding company although T Ltd. is a specified company. Hence, dividend received from T Ltd. shall not be deductible while computing DDT payable by ABC Ltd.

	₹
Total dividend proposed to be declared	1,00,00,000
Less: Dividend received from S Ltd.	10,00,000
Balance	90,00,000
Amount of DDT payable	
Net dividend to be gross up (₹90,00,000/85 x 100)	1,05,88,235
DDT payable on ₹1,05,88,235@16.995%	17,99,471

(b) X is a 50% partner in XY and Co., a partnership firm, from which his wife Mrs. X is getting salary of ₹ 1,20,000 p.a. The Total Income of X (before clubbing) is ₹3,60,000 while the Total Income of Mrs. X (exclusive of such salary), is ₹4,50,000. Compute the total income of Mr & Mrs. X. [5]

Solution:

The clubbing provisions will be applicable and Total Income-of X and Mrs. X will be determined as under:

	₹	₹
Mr. X Other Income	3,60,000	
Income from salary (salary of Mrs. X)	1,20,000	4,80,000
Mr. X Total Income		4,50,000

It may be noted that clubbing in the above case is mandatory, even if such clubbing in some case results into benefit to the assesses and loss to revenue.

Question No. 4

Determine the Gross Total Income of X and his wife from the following particulars for the year ending 31.3.2015:

(i) X and his wife are partners in a firm carrying on cloth business, their respective shares of profit being ₹78,000 and ₹60,000.

(ii) Their 16 years old son has been admitted to the benefits of another firm, from which he

received ₹80,000 as his share of profit in the firm and ₹90,000 as interest on capital. The capital was invested out of the minor's own funds amounting to ₹9,00,000.

(iii) A house property in the name of X was transferred to his wife on 1.12.2014 for adequate consideration. The property has been let at a rent of ₹30,000 p.m

(iv) Debentures of a company of ₹1,40,000 and ₹1,12,000 purchased two years ago are in the names of X and his wife respectively, on which interest is receivable at 10% p.a. His wife had in the past transferred ₹70,000 out of her income to X for the purchase of the debentures in X's name.

(v) X had transferred ₹50,000 to his wife in the year 2010 without any consideration which was given as a loan by her to Y. She earned ₹20,000 as interest during the earlier previous years which was also given on loan to Y. During the financial year 2014-15, she received interest at 10% p.a. on ₹70,000.

(vi) X transferred ₹75,000 to a trust, the income accruing from its investment as interest amounted to ₹7,500, out of which ₹5,000 shall be utilised for the benefit of his son's wife and ₹2,500 for the benefit of his son's minor child. [15]

Solution: Computation of Gross Total Income of X for the assessment year 2015-16

		₹	₹
(1)	Income from House Property:		
	Rental value for 8 months (i.e., before transfer) (8 × 30,000)	2,40,000	
	Less: 30% as statutory deduction	72,000	1,68,000
(2)	Profit from Business:		
	(i) Share from firm (exempt)	Nil	
	(ii) Minor Son's share in another firm (Exempt)	Nil	
	(iii) Interest on minor's capital with firm (₹90,000 – Exemption u/s 10(32) ₹1,500)	88,500	88,500
(3)	Income from other Sources:		
	(i) Interest @ 10% on ₹70,000 Debentures (only one-half of ₹1,40,000 were bought by own funds)	7,000	
	(ii) Interest received by his wife @ 10% on ₹50,000 (being transferred without any consideration)	5,000	
	(iii) Interest on ₹50,000 from his trust (Interest income utilized for the benefit of son's wife)	5,000	17,000
	Gross Total Income		2,73,500

Computation of Gross Total Income of Mrs. X for the assessment year 2015-16

Income from House Property:	₹	₹
Rental value for 4 months (i.e., after transfer) (30,000 × 4)	1,20,000	
Less: 30% as statutory deduction	36,000	84,000
Income from business:		
Share from firm (Exempt)	Nil	
Income from other Sources:		
(i) Interest on ₹ 1,12,000 10% Debentures	11,200	
(ii) Interest on ₹70,000 10% Debentures in husband's name but funds invested by her	7,000	

(iii) Interest on ₹20,000 @ 10% (This interest is on accrued income of ₹50,000, which have been transferred to her by the husband and interest on such accrued income is treated as the income of the transferee, although the income on the transferred amounts is treated as the income of the transferor as it was transferred without any consideration.)	2,000	20,200
Gross Total Income		1,04,200

Note:

1. Shares of profit from a firm, which is assessed as such, is fully exempt u/s 10(2A) in the hands of the partners; although husband and wife may be partners in the same firm. Even in a case where one spouse gifts some amount to the other spouse to be invested as capital in the firm, the clubbing provisions though applicable, it will not affect the Total Income since the share of the profit is itself exempt. However, if interest on capital contribution is received, it will be clubbed to the extent of the amount invested as capital contribution out of the transfer made without adequate consideration.
2. Similarly, the minor son's income though clubbed, but as the share of the profit from the firm is exempt, will not affect the Total Income. However, if interest on capital contribution is received, it will be clubbed to the extent of the amount invested as capital contribution out of the transfer made without adequate consideration.
3. Where the asset is transferred to a Trust for the benefit of son's wife, the income from such asset is taxable in the hands of the transferor. However, income utilised for the benefit of son's minor son shall be clubbed in the hands of that parent of the son's minor son, whose income is greater. It shall, therefore, not be clubbed in the hands of the transferor i.e. X.

Question No. 5

(a) Anu purchased 5,000 shares of S Ltd. @ ₹200 per share on 5.7.2014. S Ltd. declares a dividend of ₹10 per share. The record date is fixed as 4.9.2014. Anu received the dividend immediately after the record date. The above shares were sold by Anu on 5.11.2014 for:

(a) ₹175 per share

(b) ₹192 per share

(c) ₹205 per share

Compute the income/loss in each case. [10]

Solution:

As the shares have been acquired within 3 months prior to the record date and sold within 3 months after the record date, section 94(7) shall be applicable.

Situation I

Dividend of ₹50,000 shall be exempt in the hands of Anu.

Short term capital loss on shares

₹8,75,000 - ₹ 10,00,000 = (-) ₹ 1,25,000

Dividend received = ₹50,000

Loss to the extent of dividend claimed as exempt shall not be allowed to be carried forward

Therefore, capital loss of ₹75,000 (₹1,25,000 - ₹50,000) shall be allowed to be carried forward.

Situation II

Dividend of ₹50,000 shall be exempt in the hands of Anu.

Short term capital loss on shares

₹9,60,000 – ₹10,00,000 = (-) ₹40,000

Dividend received = ₹50,000

Therefore, capital loss of ₹40,000 on shares shall not be allowed to be carried forward.

Situation III

Dividend of ₹50,000 shall be exempt in the hands of Anu.

Short term capital gain on shares

₹10,25,000 – ₹10,00,000 = ₹25,000

As there is capital gain instead of capital loss, section 94(7) is not applicable and such capital gain shall be taxable.

(b) Q, a resident of India, aged 81 years, submits the following information for the previous year 2014-15:

		₹
(1)	**Income from salary**	**4,86,000**
(2)	**Interest on Fixed Deposits with Banks (gross)**	**49,000**
(3)	**Long-term capital gains**	**1,10,000**
(4)	**Short-term capital gains on the sale of equity shares on which securities**	**10,000**

He pays ₹5,000 as Life Insurance Premium on a policy of ₹40,000 and deposits ₹22,000 in Public Provident Fund account.

Compute the tax payable by Q for the assessment year 2015-16. [5]

Solution:

		₹
Step 1	Gross Total Income (without LTCG and STCG)	5,35,000
Step 2	Less: Deduction permissible u/s 80C	27,000
	Total income (without LTCG and STCG)	5,08,000
Step 3	Tax on ₹5,08,000 (20% on amount in excess of ₹5,00,000)	1,600
Step 4	Tax on long-term capital gain (20% of ₹ 1,10,000)	22,000

Step 5	Tax on short-term capital gain (15% of ₹ 10,000)	1,500
Step 6	Total tax payable	25,100
	Add: Education cess & SHEC - @ 3%	753
	Total tax payable	25,853
	Tax rounded off	25,850

Question No. 6

R, S, G are three members of an AOP sharing profit and losses in the ratio of 2:2:1. The profit and loss account of the AOP for year ending 31.3.2015 is as follows:

	₹		₹
Cost of good sold	**52,00,000**	**Sales**	**63,00,000**
Interest to members @ 24%		**Long-term capital gain**	**1,60,000**
R	**48,000**		
S	**72,000**		
G	**24,000**		
Salary to members			
R	**90,000**		
G	**40,000**		
Other expenses	**3,80,000**		
Net Profit	**6,06,000**		
	64,60,000		**64,60,000**

Other Information:

1. **The AOP gives a donation of ₹40,000 to a public charitable trust (not debited to P/L A/c) which is eligible u/s 80G.**
2. **Out of other expenses ₹20,000 are not deductible by virtue of section 43B.**

Other incomes and particulars of the members are given below.

	Amount ₹	Nature of Income	Deduction u/s 80D	PPF contribution ₹
R	**1,22,000**	**Saving bank Interest**	**₹3,000 medical**	**12,000**
S	**1,16,000**	**Saving bank Interest**		**4,000**
	10,000	**Dividend from U.T.I**		
G	**1,10,000**	**Interest on company Deposits**	**₹4,000 medical insurance premium**	**5,000**

Find out the liability of the AOP and members for the assessment year 2015 –16. [15]

Solution:

A. Computation of Total Income of AOP

1. Profits & gains	₹	₹	₹
Net Profit as per P and L A/c		6,06,000	

Add: Disallowed expenses			
Interest to members			
R	48,000		
S	72,000		
G	24,000		
Salary to members			
R	90,000		
G	40,000		
Other expenses not allowed u/s 43B	20,000	2,94,000	
		9,00,000	
Less: Income not taxable under this head			
Long-term capital gain		1,60,000	
Business Income		7,40,000	
2. Capital gains			
Long-term capital gain		1,60,000	
Gross Total Income		9,00,000	
Deduction u/s 80G			
Donation ₹40,000 @ 50%		20,000	
Total Income		8,80,000	

A. Computation of Tax of AOP

As no member of AOP has income exceeding the maximum exemption limit nor any member is taxable at a rate higher than the maximum marginal rate, the tax shall be charged on the total income of AOP at the rate applicable to individuals.

Tax on first ₹2,50,000	Nil
Next ₹2,50,000@10%	25,000
Next ₹2,20,000 @ 20%	44,000
Long-term capital gain ₹ 1,60,000 @ 20%	32,000
Total Tax	1,01,000
Add: Education cess & SHEC @ 3%	3,030
	1,04,030

B. Allocation of AOP's total income

	R	S	G
Interest on capital	48,000	72,000	24,000
Salary	90,000	-	40,000
Share [2:2:1] (8,80,000 - 1,60,000 (LTCG) - 2,74,000)	1,78,400	1,78,400	89,200
Business income	3,16,400	2,50,400	1,53,200
Long-term capital gain	64,000	64,000	32,000
Share of profit of each member	3,80,400	3,14,400	1,85,200

Member R

	₹	₹
Business income	3,16,400	
Long-term capital gain	64,000	
Share from AOP		3,80,400
Other Income: Bank Interest		1,22,000
Gross Total Income		5,02,400
Deductions		
(i) U/s 80C	12,000	
(ii) U/s 80D	3,000	
(iii) U/s 80TTA	10,000	25,000
Total Income		4,77,400
Tax on ₹2,50,000 of total income	Nil	
On next 1,63,400 of total income @ 10%	16,340	
Tax on Long-term capital gain ₹64,000 @ 20%	12,800	29,140
Less: Rebate u/s 86 [₹29,140 × 3,80,400/4,77,400]		23,219
Net tax		5,921
Less: Rebate u/s 87A		2,000
		3,921
Add: Education cess & SHEC @ 3%		118
Tax rounded off		4,040

Member S

Share from AOP	₹	₹
Business income	2,50,400	
Long-term capital gain	64,000	3 ,14,400
Other Income: Bank interest		1,16,000
Dividend from UTI		Exempt
Gross Total Income		4,30,400
Deduction u/s 80C	4,000	
Deduction u/s 80TTA	10,000	14,000
Total Income		4,16,400
Tax on ₹3,52,400	10,240	
Tax on long-term capital gain ₹64,000 @ 20%	12,800	23,040
Less: Rebate of tax u/s 86 [₹23,040 × 3,14,400/4,16,400]		17,396
		5,644
Less: Rebate u/s 87A		2,000
		3,644
Add: Education cess & SHEC @ 3%		109
Tax rounded off		3750

Member G

Share from AOP	₹	₹
Business income	1,53,200	
Long-term capital gain	32,000	1,85,200
Other income: Interest on deposits		1,10,000
Gross total income		2,95,200
Less: Deduction u/s 80C	5,000	
Deduction u/s 80D	4,000	9,000
Taxable Income		2,86,200
Tax on ₹4,200	420	
Tax on long-term capital gain ₹32,000 @ 20%	6,400	6,820
Less: Rebate u/s 86 [6,820 × 1,85,200/2,86,200]		4,413
Net Tax Payable		2,407
Less: Rebate u/s 87A		2,000
		407
Add: Education cess and SHEC @ 3%		12
Tax rounded off		420

Question No. 7

(a) A, B and C are three partners in a firm of lawyers having an equal share in profits. For the assessment year 2015-16 income of the firm from profession is ₹40,000 after paying salary of ₹72,000 to A and ₹48,000 to B. The interest income of the firm is ₹60,000. The personal incomes of A, B, and C are ₹ 1,98,000; ₹ 1,96,000 and ₹ 1,95,000 respectively. They have deposited a sum of ₹10,000 each in Public Provident Fund Account. Determine the taxable income of the firm and its partners. [8]

Solution:

	₹
Calculation of book profit	
Net profit	40,000
Add: Salary to A and B	1,20,000
Book profit	1,60,000
Remuneration allowable (i) Actual amount paid, or (ii) ₹1,44,000 (90% of book profits of ₹ 1,60,000) whichever is less	1,20,000
Profit and gains from B/P	
Income from Profession	
(Book profit - Remuneration allowable) (1,60,000-1,20,000)	40,000
Income from other sources	
Interest	60,000
Gross total income	1,00,000

Less: Deduction u/s 80C to 80U	Nil
Total income	1,00,000

Income of partners - Income from B/P

	A ₹	B ₹	C ₹
Remuneration from Firm	72,000	48,000	-
Other income	1,98,000	1,96,000	1,95,000
Gross total income	2,70,000	2,44,000	1,95,000
Less: Deduction u/s 80C	10,000	10,000	10,000
Taxable income	2,60,000	2,34,000	1,85,000

(b) S. Kumar has the following assets on 31st March, 2015:

Asset	**Market Value (₹)**	**Loan Outstanding (₹)**
Gold	**87,00,000**	**10,00,000**
Residential House at Pune	**45,00,000**	**2,00,000**
Residential House at Andheri	**90,00,000**	**27,00,000**
Residential House at Mahape (Let out though out the year)	**65,00,000**	**11,00,000**
Commercial House at Thane used for his own business	**1,15,00,000**	**50,00,000**
Shares	**25,00,000**	**5,00,000**
Boat	**1,50,000**	**2,50,000**
Motor Car	**9,00,000**	**3,00,000**
Bank deposit	**58,00,000**	**Nil**
Commercial complex at Andheri having 25 offices	**2,50,00,000**	**1,55,00,000**

Besides above mentioned loans, S. Kumar took a loan of ₹1,00,000 from his bank for his brother's marriage. Moreover, out of loan of ₹2,50,000 taken for boat, he utilized ₹50,000 for financing expenses on his foreign visit.

Determine his Net Wealth. **[7]**

Solution:

Net wealth of S. Kumar shall be determined as under:

Asset	**Market Value (₹)**	**Loan outstanding (₹)**
Gold	87,00,000	10,00,000
Residential House at Pune	45,00,000	2,00,000
Residential House at Andheri [exempt u/s 5(vi)]	—	—
Residential House at Mahape (Let out though out the year) [not an asset]	—	—
Commercial House at Thane used for his own business [not an asset]	—	—

Shares [not an asset]	—	—
Boat	1,50,000	2,00,000
Motor Car	9,00,000	3,00,000
Bank deposit [not an asset]	—	—
Commercial complex at Andheri having 25 offices [not an asset]	—	—
Total	**1,42,50,000**	**17,00,000**

Net Wealth = Market value of assets – Loan outstanding
= ₹(1,42,50,000 – 17,00,000) = ₹1,25,50,000

Note: Loan for brother's marriage and loan utilised for foreign visit are not deductible.

Question No. 8

(a) Alok owns a residential house property. It is given by him as rent free house to his general manager Jitendra who looks after the business of Alok. Annual salary of Jitendra is ₹4,80,000. Alok claims that since the house is used for business purposes, it comes in section 2(ea)(i) and it is not an asset. Is the claim tenable in law? Justify. [5]

Solution:

The house owned by Alok is a residential house. A residential house is covered by section 2(ea)(i)(1) and since it is not owned by a company, the benefit of exemption is not available and it is an asset.

As the house is used for business purposes, one may argue that it is covered by the exception given u/s 2(ea)(i)(3) and it is not an asset.

In the case of a residential house, section 2(ea)(i)(1) is a special provision. According to judgment of the case Union of India vs. Indian Fisheries (P.) Ltd. [1965] 57 ITR 331 (SC), if there is an apparent conflict between two independent provisions of law, the special provision must prevail. The general provision, however, controls the cases where the special provision does not apply as the special provision is applicable to the extent of its scope. In other words, a special rule controls or cuts down the general provision.

Consequently, section 2(ea)(i)(1) covers a residential house and section 2(ea)(i)(3) covers a house used for carrying on a business or profession but other than a residential house.

In the given case, the house owned by Alok is an asset as the condition of section 2(ea)(i)(1) does not satisfied.

(b) Akhtar owns three cars and silver furniture (value of cars being ₹25,00,000 and of silver furniture being ₹35,00,000 of 31.03.2015). He take loan of ₹4,70,000 by pledging there to invest in shares. You are requested by Akhtar to calculate amount of wealth tax payable by him for the assessment year 2014-15. [5]

Solution:

Assessee: Akhtar **Valuation Date: 31.03.2015** **Assessment Year: 2015-16**

Calculation of Net Wealth

Particulars	**Amount (₹)**
Car	25,00,000
Silver Furniture	35,00,000
Shares (not an asset)	Nil
Gross Wealth	60,00,000
Less: Debt (loan of ₹4,70,000 is not deductible as it is taken to purchase shares which are not assets)	Nil
Net Wealth	**60,00,000**
Less: Basic Exemption	30,00,000
Net Taxable Wealth	**30,00,000**
Tax @ 1%	**30,000**

(c) Essol LLP of France and Sushma Ltd. of India are associated enterprises. Sushma Ltd. imports 3,000 compressors for Air Conditioners from Essol at ₹7,500 per unit and these are sold to Paharpur Cooling Solutions Ltd. at a price of ₹11,000 per unit. Sushma Ltd. had also imported similar products from Cold Ltd and sold outside at a Gross Profit of 20% on Sales. Essol offered a quantity discount of ₹1,500 per unit. Cold could offer only ₹500 per unit as Quantity Discount. The freight and customs duty paid for imports from France had cost Sushma Ltd. ₹1,200 per piece. In respect of purchase from Cold Ltd, Sushma Ltd. had to pay ₹200 only as freight charges.
Determine the Arm's Length Price and the amount of increase in Total Income of Sushma Ltd. [5]

Solution:

Computation of Arm's Length Price of Products bought from Essol, France by Sushma Ltd.

Particulars	**₹**	**₹**
Resale Price of Goods Purchased		11,000
Less: Adjustment for differences		
Normal gross profit margin @ 20% of sale price [20% × ₹11,000]	2,200	
Incremental Quantity Discount by Essol [₹1,500 – ₹500]	1,000	
Difference in Purchase related Expenses [₹1,200 – ₹200]	1,000	4,200
Arms Length Price		6,800

Computation of Increase in Total Income of Sushma Ltd.

Particulars	
Price at which actually bought from Essol LLP of France	₹7,500
Less : Arms Length Price per unit under Resale Price Method	₹ (6,800)
Decrease in Purchase Price per Unit	₹700
No. of Units purchased from Essol	3,000 units
Increase in Total Income of Sushma Ltd. [3,000 Units × ₹700]	₹21,00,000