

**Paper 7 – Direct Taxation**

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**Time Allowed: 3 Hours**

**Full Marks: 100**

**Answer Question No. 1 which is compulsory and any FOUR from Question No 2 to 7.**

**1.**

**(a) Fill in the blanks:**

**5 x 1 = 5**

- (i) When traders opts for presumptive income declaration u/s 44AD, advance tax is payable on before \_\_\_\_\_ of the previous year.
- (ii) Commute pension received by a state government is exempt upto \_\_\_\_\_.
- (iii) \_\_\_\_\_ number of ICD's issued as such.
- (iv) Unabsorbed depreciation can be carried forward for \_\_\_\_\_.
- (v) Non furnish of PAN, TDS on dividend shall be \_\_\_\_\_.

**(b) Choose the most appropriate alternative.**

**5 x 1 = 5**

- (i) ICDS IX stands for \_\_\_\_\_.
  - (a) Accounting Policies
  - (b) Inventories
  - (c) Borrowing Costs
  - (d) None of the above
- (ii) Condition of payment of advance tax when such amount exceeds by\_\_\_\_\_.
  - (a) ₹ 5,000
  - (b) ₹ 7,500
  - (c) ₹ 10,000
  - (d) None of the above
- (iii) Surcharge in case of a domestic company if the income exceeds ₹ 10 crore.
  - (a) 5%
  - (b) 10%
  - (c) 12%
  - (d) None of the above
- (iv) Form for application of PAN is \_\_\_\_\_.
  - (a) Form 49A
  - (b) Form 26AS
  - (c) Form 26AC
  - (d) None of the above
- (v) The provision of Best Judgement Assessment is covered under section.
  - (a) Section 139(1)
  - (b) Section 140
  - (c) Section 144
  - (d) None of the above

**(c) State true or false with reasons:**

**5 x 2 = 10**

- (i) Two number of cost formula is stated under ICDS on "Inventories".
- (ii) Time period for acquisition or construction of self occupied house property for claiming deduction of interest is 3 years.
- (iii) Quantum of deduction allowed under section 80EE i.e interest on loan taken for residential house property is ₹ 75,000.
- (iv) Taxability of salary paid by foreign government to its employee serving in India is taxable under the head salary.
- (v) Scheduled bank are authorised to issue Zero Coupon Bond.

**2. a.)** Mr Amit is an purchasing officer in a company in Jaipur. He has furnished the enumerated information for the previous year 2016-17. Compute his taxable income from salary for the A.Y 2017-18 assuming the population of Jaipur is 26 Lakh as per 2001 census.

- (i) Basic salary ₹ 17,000 p.m.
- (ii) Bonus ₹ 5,000.
- (iii) Dearness allowance ₹ 3,000 p.m
- (iv) Travelling allowance ₹ 45,000 p.m. He spends 30,000 for official purpose.
- (v) Reimbursement of medical bills ₹ 25,000(treatment was done in government hospital in India)
- (vi) He lived in an belonging to the company. Its fair rent is ₹ 15,000 per month. The company has provided on this bungalow the facility of a watchman and a cook each of whom is being paid a salary of ₹250 p.m. The company paid in respect of bungalow ₹ 5,000 for electric bills and ₹ 3,000 for water bills.
- (vii) He has been provided with 1.5 ltrs engine capacity car for official and personal use. The maintenance and running expenses of the car (including driver) are brone by the company.
- (viii) The following amounts are deposited in his provident fund account a. Own contribution ₹ 24,000, b. Company contribution ₹ 30,000, c. Interest @ 12% p.a ₹ 12,600.

**8 Marks**

**2. b.)** Mr. Pankaj furnishes the following particulars for the previous year relevant to the A.Y 2017-18.

**7 marks**

Profit & Loss A/c for the year ending 31.3.2017

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salary to staff	22,000	By Gross profit	2,50,000
To entertainment expenses	13,000		
To general expenses	11,000		
To Bad debt	4,500		
To reserve for bad debts	10,000		
To advertisement expenses	7,000		
To interest on Pankaj capital A/c	3,000		
To expenditure on acquisition of patents rights	28,000		
To telephone expenses	12,000		
To depreciation	10,000		
To provision on income tax	4,000		
To Net Profit	1,25,500		
	2,50,000		2,50,000

Other Information:

- (i) Salary paid to staff includes salary paid to a relative which is unreasonable to the extent of ₹ 3,100.

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- (ii) Provision for income tax is excessive to the extent of ₹ 3,000.
- (iii) Depreciation on tangible assets according to the income tax provisions comes to ₹ 9,500.
- (iv) Patent were acquired on 4<sup>th</sup> November 2016.
- (v) During the P.Y 2016-17 the following payments were made and the same have not been debited to profit and loss account of 2016-17.
  - (a) ₹ 3,000 paid on 10.09.2016 on account of outstanding custom duty of the previous year 2015-16, and
  - (b) ₹ 5,000 paid on 15.12.2016 on account of outstanding sales tax of the P.Y 2015-16.

Find out the taxable income of Mr Pankaj for the A.Y 17-18. Due date of filing return of income of assessment years 16-17 and 17-18 is 30<sup>th</sup> September of the relevant A.Y.

**3. a.)** Sagar has a house property in Delhi whose particulars are as under:

Municipal Vale ₹ 3,00,000 , Standard rent ₹ 3,12,000, Municipal taxes paid ₹ 50,000, Interest on money borrowed for acquiring the house after 1.4.2014 ₹ 1,60,000, Period of occupation for own residence 2 months, and actual rent for 10 months ₹ 35,000.

Compute the income from house property for assessment year 2017-18.

**8 marks**

**3. b.)** Rajat acquired shares of G Ltd on 15.12.1998 which were sold on 15.5.2016 for ₹ 20,50,000. Expenses of transfer were ₹ 20,000. He invested ₹ 3,00,000 in the bonds of Rural Electrification Corporation Ltd. on 16.10.2016.

Compute:

- (a) Compute Capital Gain for the A.Y 2017-18.
- (b) State the period for which the bonds should be held by the assessee. What will be the consequences if such bonds are sold within the specified period.
- (c) What will be the consequences if Rajat takes a loan against the security of such bonds.

**7 marks**

**4. a.)** Prabir submits you the following particulars of his income for the assessment year 2017-18.

**7 marks**

Particulars	Amount (₹)
Income under the head Salary	7,00,000
Income under the head house property	4,00,000
Dividends from domestic company	15,00,000
Compute tax payable by him	

**4. b.)** Please compute the advance tax payable by Mr. Pankaj from the following estimated income for the financial year 2016-17:

**8 marks**

Particulars	Amount (₹)
Income from salary	5,00,000
Interest on Government securities	6,000
Interest on bank deposit	2,000
Rent from house for the year	1,00,000
Winning from horse race (gross)	20,000
Contribution towards PPF	10,000
Agricultural Income	2,00,000
TDS by the employer on salary	30,150

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5. a.) Gross Total Income of Mr P aged 30 yrs as computed under Income Tax Act for the A.Y 17-18 is ₹ 4,00,000. He used to deposit ₹ 50,000 in a PPF Account.

Compute tax liability of Mr P assuming that he has agricultural Income of

- A. Nil
- B. ₹ 4,000
- C. ₹ 3,50,000

8 marks

5. b.) Mrs. banerjee who is resident in India provides the following information. Compute her taxable income for the A.Y 17-18 and tax thereon.

7 Marks

Particulars	Amount (₹)
Gross salary	3,30,000
Rent of house property	1,20,000
Interest on fixed deposits with bank (gross)	14,000
Deposit in PPF	80,000
Tuition fee paid for 3 children @ 15,000 p.a. per child	45,000
LIP on her life taken on 1-5-2013 (sum assured ₹ 2,00,000)	25,000

6. a.) When an income is treated as deemed income in respect of undisclosed income / investment?

7 Marks

6. b.) List down the instances of other income which are chargeable to the Head of Income from Other Sources.

8 Marks

7. Write a short note on the followings:

5 x 3=15 Marks

- a) Deduction in respect of rent paid.
- b) Return of loss Section 139(3).
- c) Site Restoration Fund (Section 33ABA).

### Section-B (20 Marks)

#### International Taxation and Transfer Pricing

Answer question No. 8 which is compulsory and any one from Question No.9 and 10

8. a) Fill in the blanks:

[4 x 1=4 Marks]

- a. Any income arising from an international transaction shall be computed having regard to the \_\_\_\_\_.
- b. The provision of Section \_\_\_\_\_ will apply only if the aggregate value of specified domestic transactions entered into by the taxpayer during the year exceeds a sum of 20 crore.
- c. Uncontrolled transaction is a transaction between enterprises other \_\_\_\_\_.
- d. \_\_\_\_\_ transaction services means services related to transaction which involve two or more countries.

**8. b) Select the suitable answer:**

**[4 x 1=4 Marks]**

- a. An organisation is said to be associated enterprise when one guarantees at least \_\_\_ of the total borrowings of other enterprise or vice versa.
- A. 5%
  - B. 10%
  - C. 15%
  - D. None of the above
- b. The \_\_\_\_\_ is a useful indicator of comparative performance by showing the ability of a company to control its costs relative to its level of sales.
- A. Profit
  - B. Ratio
- c. Maintenance and keeping of information and document by person entering into an international transaction is covered under section \_\_\_\_\_.
- A. 92
  - B. 92C
  - C. 92D
  - D. 90
- d. Advance pricing agreement shall be valid for such period not exceeding \_\_\_\_\_ consecutive previous years.
- A. 3 yrs
  - B. 4 yrs
  - C. 5 yrs
  - D. None of the above

**9. a. Discuss in brief Resale Price Method (RPM)**

**6 Marks**

**9. b. State the meaning of Specified Domestic Transaction (Section 92 BA)?**

**6 Marks**

**10. a.** Swinhoe LLP of France and Rani Ltd. of India are associated enterprises. Rani Ltd. imports 3,000 compressor for Air conditioner from Swinhoe at ₹ 7,500 per unit and these are sold to Paharpur Cooling Solutions Ltd at a price of ₹ 11,000 per unit. Rani had also imported similar products from Cold Ltd and sold outside at a Gross Profit of 20% on Sales.

Swinhoe 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 Poland had cost Rani ₹ 1,200 a piece. In respect of purchase from Cold Ltd. Rani had to pay ₹ 200 only as freight charges. Determine the Arm's Length Price and the amount of increase in Total income of Rani Ltd.

**6 Marks**

**10. b.** State the provision in relation to maintenance and keeping of information and document by persons entering into an international transaction.

**6 Marks**