

Paper-7 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.

Section A

[Answer all the Questions]

- (1) Answer the following sub-divisions briefly in the light of the provisions of the Income-tax Act, 1961: [20 Marks]**
- (i)** Can the Authority giving approval under the Act withdraw even though no such power is specifically vested with him under the Act? **[1]**
- (ii)** A Plantation company, holding several acres of land, sold trees of spontaneous growth. The Assessing Officer is of the opinion that there arise capital gains. Discuss. **[1]**
- (iii)** What will be the residential status of A Ltd. an Indian company managed from Paris? **[1]**
- (iv)** K Ltd. incurred expenditure for acquiring know-how on 15th December, 2014. Is the deduction u/s 35AB available? Justify. **[1]**
- (v)** D Ltd., carrying on business of a five star hotel, claims that the building in which the business is carried on has been specifically designed and equipped and therefore must be treated as "Plant" for deduction of depreciation u/s 32. Will the claim be admissible? **[1]**
- (vi)** Chetan owns a plot of land acquired on 1.7.2009 for a consideration of ₹8 lakhs. He enters into an agreement to sell the property on 23.3.2015 for a consideration of ₹18 lakhs. In part performance of the contract, he handed over the possession of land on 26.3.2015 on which date, he received the full consideration. As on 31.3.2015, the sale was pending registration. Discuss liability of capital gains for the assessment year 2015-16 (no computation is required). **[1]**
- (vii)** Mr. Khan has incurred long term capital loss of ₹50,000 during the previous year 2014-15. During the same year shares held in trust for minor son of Mr. Khan sold earning a long term capital gain of ₹2,50,000 which is not exempt. Can Mr. Khan set off the loss incurred by him against the gain on minor's account? **[1]**
- (viii)** The Income-tax Act, 1961 provides for taxation of a certain income earned by Nandu. The Double Taxation Avoidance Agreement, which applies to Nandu, excludes the income earned by Nandu from the purview of tax. Is Nandu liable to pay tax on the income earned by him? Discuss. **[1]**

MTP_Intermediate_Syllabus 2012_Jun2015_Set 1

- (ix) State whether air conditioner, not used as stock in trade, is a capital asset. [1]
- (x) What will be the GAV, if the reasonable lettable value a house property is ₹72,000 but the actual rent of the property is ₹5,000 per month? [1]
- (xi) During the previous year 2014-15, Rathor earned ₹3,01,000 which includes ₹1,000 received by his son (aged 12 years) as an interest on 31.12.2014. Calculate the taxable income of Rathor. [1]
- (xii) X Ltd. incurred ₹5,00,000 for Agricultural Extension Project during the previous year 2014-15. State the allowability of that expenditure. [1]
- (xiii) Interest of ₹25,000 on Bank Fixed Deposits, received by minor son of Mrs. Ray. These Fixed Deposits were made by Mrs. Ray, out of his son's earnings from stage acting. Discuss the tax treatment in this case. [1]
- (xiv) Whether the following assets are "asset u/s 2(ea) of the Wealth Tax Act 1957?"
- a. In the cash book of an individual/HUF opening balance as on the valuation date is ₹1,85,000 out of which the assessee deposits ₹1,35,000 in his current account with the Citi Bank before the closure of banking hours on the same day (no other inflow and outflow of cash as on the same day).
 - b. Residential house owned by a company and allotted to a part time director whose salary is ₹1,00,000 p.a. [2]
- (xv) Discuss the manner of determination of arm's length price. [2]
- (xvi) What is the period of validity of advance pricing agreement? [1]
- (xvii) State the power of Transfer Pricing Officer for the purpose determining arm's length price? [2]

2. Answer any four Questions [4 × 13 = 52]

(a)(i) The following are the particulars of income of Mr. P for the previous year 2014-15:

Particulars	₹
(a) Rent from a property in Delhi received in USA	80,000
(b) Income from a business in USA controlled from Delhi	1,20,000
(c) Income from a business in Bangalore controlled from USA	1,80,000
(d) Rent from a property in USA received there but subsequently remitted to India	60,000
(e) Interest from deposits with an Indian company received in USA	20,000
(f) Profits for the year 2013-14 of a business in USA remitted to India during the previous year 2014-15 (Not taxed earlier)	75,000
(g) Gift received from his parents.	45,000

Compute his income for the assessment year 2015 –16 if he is:

- (i) Resident and ordinarily resident in India,
- (ii) Not ordinarily resident in India,
- (iii) Non-resident in India.

[6]

MTP_Intermediate_Syllabus 2012_Jun2015_Set 1

(ii) Tarun is employed with ABC Ltd. on a monthly salary of ₹25,000 per month. The company provides him with the following benefits:

- I. A company owned accommodation is provided to him in Delhi.
- II. The company has given him a housing loan of ₹5,00,000 on which it charges interest @6% per annum. The entire loan is still outstanding. (Assume the interest charged by SBI is 10% p.a.)
- III. The company gave him a gift worth ₹15,900 on his 50th birthday on 21.10.2014.
- IV. He is allowed to use the video camera belonging to the company. The company had purchased this camera for ₹60,000 on 1.5.2010. This camera was sold to him on 1.8.2014 for ₹30,000
- V. The company had purchased a car on 16.7.2011 for ₹2,50,000. This car is sold to Tarun on 14.7.2014 for ₹80,000. The car was not being used by Tarun.
- VI. The company pays the telephone bills of ₹24,000 for the telephone installed at the residence of Tarun.

Compute the Gross income from salary of Tarun for the assessment year 2015-16. [7]

(b)(i) Sourav owns a house property in Delhi. From the particulars given below compute the income from house property for the assessment year 2015-16.

	₹
Municipal value	2,00,000
Fair rent	2,52,000
Standard rent	2,40,000
Actual rent (per month)	23,000
Municipal taxes	20% of municipal value
Municipal taxes paid during the year	50% of tax levied
Expenses on repairs	20,000
Insurance premium	5,000

Sourav had borrowed a sum of ₹12,00,000 @10% p.a. on 1.7.2012 and the construction of the property was completed on 28.2.2014. [6]

(ii) A company makes a slump sale of one of its divisions on 1.8.2014 for ₹20,00,000. The W.D.V. of the block of assets being plant and machinery carrying 15% depreciation was ₹12,00,000. The company has acquired a new machinery X on 5.7.2014 for ₹3,00,000 and sold machinery Y on 30.12.2014 for ₹9,00,000. The plant and machinery which were transferred under the slump sales were acquired at actual cost of ₹14,00,000. The amount of depreciation allowed on such plant and machinery was as under:

Actual depreciation upto assessment year 1988- 89 ₹2,40,000.

Depreciation for assessment years 1989-90 to 2014-15 (assuming that these were the only machines in that block) ₹4,50,000.

Compute the W.D.V. for the purpose of charging current year depreciation. [7]

MTP_Intermediate_Syllabus 2012_Jun2015_Set 1

(c)(i) A holds 5,000 shares (10% of total share holding) in X Ltd. which he had purchased on 5.3.1994 for ₹2,00,000. The company went into liquidation on 16.7.2014 and paid a sum of ₹ 50 per share in cash and an asset whose market value as on the date of distribution i.e. 28.9.2014 was ₹6,40,000 to A. The accumulated profits of the company were ₹5,00,000.

(a) Compute the income of A for the assessment year 2015-16 assuming that he has no other income.

(b) Compute the capital gain chargeable to tax if the asset X is sold by A for ₹7,00,000 on 28.3.2015. **[8]**

(ii) X, a German national, came to India for the first time on 1.7.2008. During the period from 1.7.2008 to 31.3.2015, he stayed in India as follows—from 1.7.2008 to 31.10.2008; from 1.5.2009 to 31.10.2010; from 1.11.2010 to 31.12.2010 and from 1.7.2013 to 31.8.2014. During the previous year ended on 31.3.2015, X's income consisted of: (a) business in India: ₹40,000; (b) interest from an Indian company: ₹2,000; (c) dividends from non-Indian companies received in Germany but remitted to India: ₹5,000; (d) business in Germany (controlled from India): ₹25,000; (e) income from house property in Germany: ₹8,000. Determine, giving full reasons, the gross total income of X for the assessment year 2015-16 after ascertaining his 'residence' for the purpose of income-tax. **[5]**

(d)(i) The income of X, who is totally blind, for the previous year 2014-15, is as under:

		₹
(i)	Income from house property	1,82,000
(ii)	Income from interest on loan	27,000
(iii)	Income from interest on bank deposits under recurring	10,000
(iv)	Long-term capital gains	1,20,000

He is eligible for deduction of ₹10,000 u/s 80C on account of PPF and ₹50,000 under section 80U. Compute his tax liability. **[5]**

(ii) Ms. S who draws a salary of ₹20,000 p.m. received the following gifts during the previous year 2014-15:

- (i) Gift of ₹5,00,000 on 16.4.2014 from a friend.
- (ii) Gift of jewellery fair market value of which is ₹3,00,000 on 17.5.2014 from her fiancée.
- (iii) Gifts of ₹51,000 each received from her 4 friends on the occasion of her marriage on 21.10.2014.
- (iv) Gift of ₹1,00,000 on 22.11.2014 from her mother's sister.
- (v) Gift of ₹60,000 on 25.11.2014 from her father's brother.
- (vi) Gift of ₹50,000 from her husband's friend on 1.12.2014.
- (vii) Gift of ₹21,000 on 15.12.2014 from her mother's friend.
- (viii) Gift of ₹26,000 on 25.12.2014 from her brother's father in law.
- (ix) Gift of ₹1,21,000 from her husband's brother.

MTP_Intermediate_Syllabus 2012_Jun2015_Set 1

- (x) Gift of ₹26,000 from her employer.
- (xi) Scholarship of ₹1,20,000 from a charitable institution registered under section 12AA.
- (xii) He has purchased a immovable property from B who is not his relative from a sum of ₹24,50,000. The stamp duty value of the property is ₹26,00,000.
- (xiii) She purchased bullion for ₹4,40,000 whose fair market value is ₹4,85,000.
- (xiv) Gift of immovable property from her friend whose stamp duty value is ₹5,00,000.

Compute her total income for the assessment year 2015-16.

[8]

(e)(i) Mrs. Satya Yadav received the following amounts during financial year 2014 –15:

	₹
Gross Salary	5,30,000
Family Pension (₹10,000 × 12)	1,20,000
Income of a minor child	49,000
Accumulated balance in PF of her husband after his death	1,00,000
Gratuity received after the death of husband	1,00,000

Calculate taxable income of Mrs. Satya Yadav and tax liability for the assessment year 2015-16.

[6]

(ii) M, who was born on 4.01.1950 submits the following information:

Particulars	₹
1. Rent from house (per month)	25,000
2. Municipal taxes paid during the previous year	20,060
3. Long-term capital gains on sale of gold	1,00,000
4. Interest on bank deposits (gross)	44,150
5. Term deposit made during the year in a schedule bank for six years	20,000

Compute the Total Income and tax liability of M for assessment year 2015-16.

[7]

Section B

3. Answer any two Questions [1 × 8 = 8]

(a)(i) Dream Company Ltd. has let-out a premise with effect from 1.10.2014 for monthly rent of ₹1.5 lakh. The lease is valid for 10 years and the tenant has made a deposit equivalent to 3 months rent. The tenant has undertaken to pay the municipal taxes of the premises amounting to ₹ 2 lakh. What will be the value of the property under Schedule III of the Wealth Tax Act for assessment to wealth tax? **[4]**

(ii) 'X' received a vacant site under his father's will. The value of the site on 31.3.2015 is ₹15 Lakhs. As per terms of the 'Will' in the event 'X' wants to sell the site he should offer it to his brother for

MTP_Intermediate_Syllabus 2012_Jun2015_Set 1

sale at ₹10 Lakhs. 'X', therefore, claims that the value of the site should be taken at ₹10 Lakhs as at 31.3.2015. Is the claim correct? [4]

(b) Net wealth of firm consisting of three partners Bidyut, Kingshuk and Deepak in 2:2:1 and a capital contribution of ₹17 Lakhs, ₹13 Lakhs, and ₹12 Lakhs respectively is as under –

(a) Value of assets located outside India	₹ 30,00,000
(b) Value of assets located in India	₹ 80,00,000
(c) Debts incurred in relation to assets in India	₹ 40,00,000

Determine the value of interest of the partners in the firm under the Wealth Tax Act, 1957. [8]

Section C

4. Answer any two Questions [2 × 10 = 20]

(a) What are the steps to be followed for determining Arm's Length Price of an international transaction? [10]

(b)(i) M Ltd. an Indian company sells computer monitor to its 100% subsidiary N Ltd. in United States @ \$70 per piece. M Ltd. also sells its computer monitor to another Company P Ltd. in United States @ \$90 per piece. Total income of M Ltd. for the assessment year 2015-16 is ₹15,00,000 which includes sales made for 120 computer monitor @ \$70 to N Ltd. Compute the arm's length price and taxable income of M Ltd and N Ltd. The rate of one dollar may be assumed to be equivalent to ₹50 for the sake of simplicity. [4]

(ii) Khana Ltd. is an Indian Company engaged in the business of developing and manufacturing industrial components. Its Canadian Subsidiary ProTech Inc. supplies technical information and offers technical support to Khana Ltd. for manufacturing goods, for a consideration of €1,00,000 per year. Income of Khana Ltd. is ₹90 Lakhs. Determine the Taxable Income of Khana Ltd. if ProTech charges €1,30,000 per year to other entities in India. What will be the answer if ProTech charges €60,000 per year to other entities. (Rate per Euro may be taken at ₹50) [6]

(c)(i) When can enterprises be deemed to be "Associated Enterprises"? [6]

(c)(ii) "The Arm's Length Principle, although survives upon the international consensus, does not necessarily mean that it is perfect" – Discuss. [4]