

Paper 7- Direct Taxation

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Full Marks:100

Time allowed: 3 hours

**Section A : (80 Marks)
Income Tax**

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

1. (a) Fill up the blanks:

- (i) ₹ 1,50,000
- (ii) Place of effective Management
- (iii) Maximum Marginal Rate
- (iv) 10% of salary
- (v) ₹10 lakhs or more

(b) Choose the most appropriate alternative:

- (i) (d)
- (ii) (b)
- (iii) (b)
- (iv) (a)
- (v) (a)

(c) Answer the following questions with brief reasons/Workings

- (i) Taxable income = ₹30,00,000
Normal Tax @ 30.90% = 9,27,000
Book profit = ₹55,00,000
MAT u/s 115JB @ 19.055% = 10,48,025
Tax liability of company = 10,48,025

} which ever is higher

- (ii) Agricultural income @ 60% = ₹36,00,000
Exempt u/s 10(1)
Non- Agricultural income @ 40% = ₹24,00,000
Tax on non- agricultural income @ 30.90% = ₹7,41,600

- (iii) Statement is not correct. A return of Income filed within prescribed time limit can be revised. A revised return can be submitted within one year from end of relevant Assessment year or before completion, of Assessment whichever is earlier.
- (iv) A company is liable to pay minimum alternative tax u/s 115JB @ 18.50% plus S. C. plus less on its book profits though its taxable income is "NIL".
- (v) Income of a Business trust including income distributed to its unit holders is chargeable to tax at maximum marginal rate u/s 115UA

2. (a) Computation of AOE u/s 10AA/ taxable income for AY 2015 – 16

$$\text{AOE u/s 10AA} = \left[\frac{\text{POB} \times \text{ETO}}{\text{TTO}} \right] \times 50\%$$

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$$= \left[\frac{30,00,000 \times 20,00,000}{80,00,000} \right] \times 50\%$$

$$= ₹3,75,000$$

Taxable income = ₹30,00,000 – 3,75,000 = ₹26,25,000

Note:-

- (i) Export turnover is the amount brought into India within "due date"
- (ii) Insurance charges are deductible if included in export sales

(b) Computation of IHP (Income under House Property)

Reasonable Expected rent = ₹1,00,000

GAV =	₹1,00,000
(-) taxes	Nil
NAV	1,00,000
(-) S. D. @ 30%	30,000
Interest on loan	Nil
IHP	70,000

Note: Notional value is taxable, if there is no rental income

3. (a) Application of provisions of TDS

(i) If aggregate payments exceed ₹75,000 during the year, payer is required to deduct TDS @ 1% plus SC plus cess as per section 194C
TDS u/s 194C @ 1% = 90,000 × 1% = ₹900

(ii) If the amount of rent exceeds ₹1,80,000 pa, payer is under the obligation to deduct TDS @ 10% plus SC and cess u/s 194I
TDS u/s 194I @ 10% = 18,000 × 12 × 10% = ₹21,600

(iii) No TDS required if payment of commission does not exceed ₹5,000 p. a.

Note: - If PAN is not disclosed, rate of TDS will be higher of (a) rate as provision (b) rate in force (c) 20%

b) Calculation of AMT (Alternate Minimum tax) u/s 115JC for AY 2015 – 2016

	₹
Business income	5,00,000
Income from other sources on bank deposits	1,00,000
On patent rights	3,00,000
GTI	9,00,000
(-) Ded. u/s 80C (PPF)	50,000
Ded. u/s 80G (NRF)	50,000
Ded. u/s 80 RRB	3,00,000
NTI	5,00,000

$$ATI = 5,00,000 + AOE \text{ u/s } 10AA \text{ ₹}4,00,000 + AOD \text{ u/s } 80RRB$$

$$₹3,00,000 = 12,00,000$$

$$AMT \text{ u/s } 115 \text{ JC @ } 19.055\% = ₹2,28,660$$

4. (a) Computation of capital gain for AY 2016 – 17

	₹
Full sale consideration	25,00,000
(-) Transfer expenses @ 2%	50,000
NSC	24,50,000

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6. (a) Computation of taxable income

	₹
Basic pay $20,000 \times 12 =$	2,40,000
Bonus (Arrears) =	10,000
Commission (accrued) =	20,000
Medical facility ($25,000 - 15,000$) =	10,000
Transport Allowance ($2,000 - 1,600$) $\times 12 =$	4,800
Electricity bills (un paid)	-
Salary income	2,84,800
Sale of RAL (not a CA)	-
LIC u/s 10(10D)	-
Total income	2,84,800

(b) Calculation of tax liability of AOP

	₹
Business Income	3,00,000
LTCG	1,50,000
Total income	4,50,000

Tax liability at the rates applicable to an individual as none of the member's income exceeds basic exemption limit:

Tax on LTCG @ 20% =	30,000
Tax on balance @ 10% ($3,00,000 - 2,50,000$)	5,000
	35,000
(+) EC/SAHEC @ 3%	1050
Tax	36,050

Income of members

	A	B	C
Salary	1,50,000	-	2,50,000
IHP	1,50,000	3,00,000	-
PGBP (WN)	50,000	1,00,000	1,50,000
LTCG (WN)	25,000	50,000	75,000
IOS (Income From Other Sources)	-	-	50,000
GTI	3,75,000	4,50,000	5,25,000
(-) Ded. u/s 80C LIP	50,000	50,000	50,000
NTI	3,25,000	4,00,000	4,75,000

Total income of AOP = 4,50,000

Share of members (1 : 2 : 3) = 75,000 : 1,50,000 : 2,25,000

	A	B	C
PGBP	$\frac{75,000 \times 3,00,000}{4,50,000}$ = 50,000	$\frac{1,50,000 \times 3,00,000}{4,50,000}$ = 1,00,000	$\frac{2,25,000 \times 3,00,000}{4,50,000}$ = 1,50,000
LTCG	= 25,000	= 50,000	= 75,000

7. (a) Computation of taxable income

	₹
Full sale consideration	50,00,000

(-) Indexed cost of acquisition $2,50,000 \times \frac{1081}{852}$	3,17,195
(-) Indexed cost of improvement $60,000 \times \frac{1081}{351}$	1,84,786
LTCG	44,98,019

Note: -

- (i) Advance money forfeited by previous owner is not taxable upto 31.03.2014 and advance money forfeited by the assessee is deducted from COA/FMV/WDV as the case may be.
- (ii) Advance money forfeited is taxable under the head "Income from other sources" with effect from 01-04-2014. Therefore, ₹20,000 is taxable as income from other source
- (iii) Capital expenditure incurred up to 31-03-1981 in the form of improvement is not considered
- (iv) Repairs are considered as revenue expenditure.

(b) ICDS- IV – Revenue recognition (SALIENT FEATURES)

- (i) In sale of goods, the revenue shall be recognized when the seller has transferred to the buyer the property in goods for a price or significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred
- (ii) In rendering of services the revenue shall be recognized by the percentage completion method.
- (iii) In case of interest the revenue shall be recognized on the time basis determined by the amount outstanding and the rate applicable.
- (iv) In case of royalty the revenue shall be recognized in accordance with the terms of relevant agreement unless it is more appropriate to recognize revenue on some other systematic and rational basis having regarded to the substance of the transaction.
- (v) In case of dividend the revenue shall be recognized in accordance with the provisions of the Act.

SECTION-B (20 Marks)

INTERNATIONAL TAXATION AND TRANSFER PRICING

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

8. (A) Fill in the blanks:

- (a) 8 years from the end of relevant assessment year.
- (b) 2 years from the end of relevant financial year.
- (c) Can
- (d) Arithmetic mean

(B) Select the suitable answer:

- (a) (iii)
- (b) (iii)
- (c) (ii)

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(d) (iv)

9. (a) Chargeable profit of X Ltd.

(a) If income is covered u/s 10AA:

Chargeable profit = Reasonable profits – AOE u/s 10AA
= ₹18,00,000 – 10,00,000 = 8,00,000

(b) If income is not covered u/s 10AA:

Chargeable profit = Reasonable profits = ₹18,00,000

(b) Tax liability of Mr. X

	₹
Income from salary (GTI)	5,25,000 (gross total income)
(-) Deduction u/s 80C (RPF + PPF)	40,000
Net Income	4,85,000

Foreign income is included for tax rate purpose

Therefore, total income = 4,85,000 + 1,60,000

= ₹6,45,000

Tax on ₹6,45,000 = 2,50,000 × 0% + 2,50,000 × 10% + 1,45,000 × 20% = 54,000

(-) Rate u/s 87A 2,000

52,000

(+) Cess @ 3% 1,560

53,560

Rate of tax = $\frac{53,560 \times 100}{6,45,000} = 8.30$

Tax on Indian income @ 8.30% = ₹40,260

10. Computation of reasonable profits

(a) FOB value of imports (form AE) = ₹35,00,000 per machine

	₹
CIF value of imports (from unrelated) =	50,00,000
(-) Adjustments: Discount	4,00,000
Insurance/freight	6,00,000
FOB value	40,00,000

Note: - Since Associate enterprise transaction price is lower than unrelated enterprise transaction price, profits are reasonable

(b)

	₹
Re-sale price =	13,000
(-) margin of profit @ 25%	3,250
(-) Differential expenses	1,000
Arm's Length price	8,750
Recorded price	10,000
Whichever is lower	8,750

There, increase in profits = (10,000 – 8,750) × 2,000 = ₹25,00,000