

Paper 7 – Direct Taxation

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Time Allowed: 3 Hours

Full Marks: 100

Answer Question No. 1 which is compulsory and any FIVE from Question No 2 to 8.

Section-A

1.

(a) Choose the most appropriate alternative

10x1=10 Marks

- (i). TDS U/s 193 in respect of interest on securities if payee does not furnish PAN is:
 - (a) Rate in force
 - (b) Rate as per Act
 - (c) Nil
 - (d) None of above
- (ii). Income of public charitable trust registered u/s 12A is:
 - (a) Exempt
 - (b) Taxable at MMR
 - (c) Taxable at slab rates
 - (d) None of above
- (iii). The exemption limit for equalization levy is
 - (a) ₹ 5 lakhs
 - (b) ₹ 3 lakhs
 - (c) ₹ 1 lakhs
 - (d) None of above
- (iv). The number of Income computation and Disclose Standards issued so far are:
 - (a) 32
 - (b) 24
 - (c) 10
 - (d) None of above
- (v). Expenditure in respect of winnings from card games is:
 - (a) Deductible
 - (b) Not deductible
 - (c) Deductible if conditions are satisfied
 - (d) None of above
- (vi). Tax payable by a non-resident individual, if he has long term capital gain of ₹ 2,60,000 but has no other income is :
 - (a) ₹ 1000 plus cess
 - (b) ₹ 26,000 plus cess
 - (c) ₹ 52,000 plus cess
 - (d) None of above
- (vii). Stake money on owning and maintaining race horses is ₹ 70,000 and expenses incurred is ₹ 20,000. Its taxable income is:
 - (a) ₹70,000
 - (b) ₹ 50,000
 - (c) Nil
 - (d) None of above
- (viii). Rent after deducting municipal taxes is ₹ 2,00,000, the amount of taxable income from house property is:
 - (a) ₹ 2,00,000
 - (b) ₹ 1,40,000

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- (c) ₹ 2,60,000
(d) None of above
- (ix). Contribution to approved research (not scientific) institution in case of a business man is:
(a) 100% of such amount
(b) 125% of such amount
(c) 175% of such amount
(d) None of above
- (x). Unlisted equity shares are said to be short term capital asset if they are held for period upto:
(a) 12 months
(b) 24 months
(c) 36 months
(d) None of above

(b) Match the following

5x1= 5 Marks

- | | |
|--------------------------------------|-------------------------------|
| (i). Appeal | (a) Deduction u/s 36(i) (iii) |
| (ii). Non-resident shipping business | (b) Deduction u/s 80C |
| (iii). Interest on borrowed capital | (c) Twelve months |
| (iv). Repayment of housing loan | (d) Assessing officer |
| (v). Assessment year | (e) 7.5% of gross receipts |
| | (f) Tax tribunal |

(c) State true or false with reasons:

5x1= 5 Marks

- (i). Deduction u/s 80C is allowed from long term capital gain u/s 112.
(ii). Rebate u/s 87A is not available to a resident individual, aged 80.
(iii). If a karta is resident in India, his HUF will also become resident in India.
(iv). TDS for winning from lotteries is mandatory irrespective of the amount of winning.
(v). A firm not having business income can claim exemption from payment of advance tax u/s 207.

(d) Fill in the blanks:

5x1= 5 Marks

- (i). Surcharge is payable @ _____ by individuals, if the total income exceeds ₹ one crore.
(ii). Payment from National Pension System Trust on closure of account is exempt upto ____.
(iii). Capital expenditure for promoting family planning amongst employees is ____ (allowed/not allowed) deduction in case of corporate assessee.
(iv). Recovery of unrealized rent is taxable in the year of receipt after allowing ____.
(v). Belated return should be submitted before the ____ or before the completion of assessment, whichever is earlier.

Answer: 1.a

- i. d
ii. a
iii. c
iv. c
v. b
vi. c
vii. b
viii. b
ix. b
x. c

Answer: 1.b.

- i. f
- ii. e
- iii. a
- iv. b
- v. c

Answer: 1.c.

- i. False
- ii. True
- iii. False
- iv. False
- v. False

Answer: 1.d.

- i. 15%
- ii. 40%
- iii. allowed
- iv. deduction @30%
- v. end of assessment year

Section-B

(Answer any five questions out of seven questions)

2.

(a) Mr. Sinha, Indian citizen, working as a crew member of a foreign going ship leaving India, submits the following information about his voyage during the year 2016-17:

- (i). Date entered into the continuous discharge certificate in respect of joining the ship is 31.7.2016.
- (ii). Date entered into the continuous discharge certificate in respect of signing off the ship is 31.1.2017.

Is he resident for the assessment year 2017-18?

6 Marks

(b) Mr. Virat commenced construction of house on 1.10.2013 and raised a loan of ₹ 15 lakhs @ 10.50% from a nationalized bank. He further raised ₹ 5 lakhs @ 12% from his friend on 1.10.2016 and completed the construction on 31.12.2016.

Compute the amount of interest allowable as deduction u/s 24(b) of the ITA, 1961 if:

- (A) The house is self occupied for residence.
- (B) The house is let out for business.

Is there any deduction available towards repayment of principal amount of loan under ITA, 1961?

9 Marks

Answer: 2.a

Determination of Residential Status:

In case of Indian citizen working in a foreign going vessel, stay for a period of 182 days or more is required in order to become resident u/s 6(1). However, the period of joining the ship and signing off the ship is excluded from the number of days of stay in India. Therefore, number of days of stay in India is equal to 180 Days (i.e 365 days – number of days between 31.07.2016 and 31.01.2017: 185 days).

As he does not satisfy the condition u/s 6(1), he is a non resident for the A.Y 2017-18.

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Answer: 2.b

Loan from bank:

Pre construction period: Date of loan to 31st March prior to date of completion of construction or date of repayment of loan whichever is earlier.

1.10.2013 to 31.3.2013= 30 months

In case pre construction, deduction is allowed in 5 equal instalments.

$15,00,000 \times 10.50\% \times 30/12 \times 1/5 = ₹ 78,750$

Current period= 1.4.2016 to 31.3.2017

$15,00,000 \times 10.50\% = ₹ 1,57,500$

Loan from friend:

Current period= 1.10.2016 to 31.3.2017

$= 5,00,000 \times 12\% \times 6/12$

$= ₹ 30,000$

Total amount of interest= ₹ 78,750 + 1,57,500 + 30,000

$= ₹ 2,66,250$

(a) In case of self occupied house: Maximum deduction is ₹ 2,00,000

(b) In case of let out property: Amount of deduction is ₹ 2,66,250

Note: Repayment of principal amount of loan to nationalised bank is eligible for deduction u/s 80C to the extent of maximisation of ₹ 1,50,000.

3.

(a) Mr. Tarun retires from Central Government services on 30th November 2016. His salary up to 30th Nov 2016 ₹ 20,000 pm. On his retirement. He received ₹ 3,00,000 as gratuity, ₹ 2,50,000 from provident fund and ₹ 2,00,000 towards encashment of leave. His monthly pension is fixed at ₹ 10,000.

He joined a private company in Mumbai on 1st February 2017 at a salary of ₹ 15,000 pm. He was provided with a rent-free accommodation and a motor car (800 cubic capacity) for which all expenses are borne by the company. During the year he paid life insurance premium of ₹ 5,000 in the name of his married daughter and he earned accrued interest on NSC XI ₹ 8,000. Compute his total income.

9 Marks

(b) Mrs. Kala, a resident submits the following information:

- (i). Cash gift from mother-in-law ₹ 55,000.
- (ii). Gift of jewellery at the time of marriage ₹ 52,000.
- (iii). Gift of land (Stamp Duty Value ₹ 50,000) from a friend.
- (iv). Gift of building (Stamp Duty Value ₹ 60,000) from husband's friend.
- (v). Gift of shares (FMV ₹ 50,000) from a neighbour.
- (vi). Gift of paintings (FMV ₹ 10,000) from a Stanger.
- (vii). Gift of wrist watch (FMV ₹ 12,000) from a tenant.
- (viii). Gift of jewellery from another friend who could not attend marriage due to personal reasons ₹ 20,000.

Compute her income from gifts chargeable to tax under Income Tax Act, 1961.

6 Marks

Answer: 3.a

Computation of total Income of Mr tarun

	Amount (₹)
Upto 30 th Nov,2016	
Basic Salary 20,000 x 8	1,60,000
Gratuity	Nil
Payment from SPF	Nil
Leave encashment	Nil

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Pension 10,000 x 4	40,000
From 1 st Feb 2017	
Basic Salary 15,000 x 2	30,000
Accommodation (WN-1)	7,500
Motor Car	3,600
Income from Salary	2,41,100
Income from other sources	
Interest on NSC IX	8,000
GTI	2,49,100
Less: Deduction u/s 80C	
Life Insurance Premium	5,000
NSC IX	8,000
NTI	2,36,100

WN-1: Calculation of Taxable value of accommodation

15% Salary = 15% [30,000 + 10,000 x 2] = ₹ 7,500

Salary = Basic Pay + Pension

WN-2: Calculation of taxable value of motor car:

Assuming as car is used for both official and personal purposes, ₹ 1,800 p.m is taxable.

Taxable amount: 1,800 x 2 = ₹ 3,600

Answer: 3.b

Computation of Taxable value of gifts:

	Amount (₹)
Cash gift from mother-in-law	-
Jewellery at the time of marriage	-
Land from a friend (SDV is ₹ 50,000)	-
Building from husband friend	60,000
Shares from neighbour	50,000
Paintings from strangers	10,000
Jewellery from another friend	20,000
Wrist watch from tenant	-
Taxable value of gifts	1,40,000

Note:

1. All immovable properties are considered separately whereas specified movable properties are considered in aggregate and taxable if its value exceeds ₹ 50,000.
2. Gifts from relatives at the time of marriage and property other than specified movable and immovable are not taxable.

4.

(a) Mrs. Rani, owns the following capital assets:

(i) a house at Chennai (FMV on 1.4.1981 is ₹ 80,000)

(ii) an urban agricultural land at Amaravathi.

House at Chennai is purchased for ₹ 60,000 in 1978. He spent ₹ 10,000 in 1980 towards alteration of the house. Agricultural land is purchased for ₹ 20,000 in 1990. During the year 2014-15 both the assets are acquired by the central government for which ₹ 7 lakhs and 5 lakhs was awarded as compensation respectively and received during 2015-16. An additional compensation of ₹ 2 lakhs was received on 1-10-2016 as a result of a suit and had to incur legal expense ₹ 10,000. No suit is filed in respect of agricultural land. Compute capital gain for different assessment years. CII 2014-15:1024,

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2015-16:1081, 2016-17:1125.

10 Marks

(b) R, who was born on 4.1.1957 submits the following information, Please compute the Total Income and tax liability of R for assessment year 2017-18.

Particulars	Amount (₹)
Rent from house (per month)	25,000
Municipal taxes paid during the previous year	20,000
Long-term capital gains on sale of gold	90,000
Interest on fixed deposits in bank (gross)	84,150
Term deposit in a schedule bank for six years	20,000

5 Marks

Answer: 4.a

Computation of capital gain of Mrs Rani for the A.Y 2016-17

	Amount (₹)
FSC	7,00,000
Less: Index cost of acquisition 80,000 x 1024/100	8,19,200
Long term loss	1,19,200
For A.Y 2017-18	
FSC (Enhanced Compensation)	2,00,000
Less: Legal Expenses	10,000
ICOA	Nil
LTCG	1,90,000

Note:

- Expenses towards alteration before 1.4.1981 shall not be considered.
- Compulsory acquisition of urban agricultural land is exempted u/ s 10(37) as it is used for agricultural purpose for two years or more.

Answer: 4.b

Computation of total income of Mr. R (Senior citizen)

	Amount (₹)
Income from house property	
GAV 25,000 x 12	3,00,000
Less: Municipal Taxes	20,000
NAV	2,80,000
Less: S.D @ 30%	84,000
Income from HP	1,96,000
LTCG u/s 112	90,000
Income from other sources	
Interest	84,150
GTI	3,70,150
Less: Deduction u/s 80C Term Deposit	20,000
NTI	3,50,150
Tax on 3,50,150	5,015
Less: Rebate u/ s 87A	5,000
	15
Add: Education cess @ 3%	.45
Tax payable (rounded off)	20

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5.

(a) Mr. Raja, a practicing Cost and Management Accountant reports gross receipts of ₹ 48 lakhs for the financial year 2016-17. His income from the said profession as per books of account is computed at ₹ 18 lakhs. He has no other income.

- (i) Is he eligible to opt for presumptive determination of his income chargeable to tax for the assessment year 2017-18?
- (ii) If so, determine his income from profession as per applicable provision.
- (iii) In case he does not opt for presumptive taxation, what are his obligations under the Act?
- (iv) What is the due date for filing his return of income under both the options? **6 Marks**

(b) Mrs. jaya, a non-resident provides the following particulars of her income/loss for the year 2016-17:

- (i) Salary earned in India ₹ 50,000.
- (ii) Income from house property received in India ₹ 20,000.
- (iii) Loss from business in Newyork ₹ 40,000.
- (iv) Long term capital gain on sale of urban land in Paris ₹ 10,000
- (v) Short term capital loss on sale of shares in India ₹ 40,000.
- (vi) Short term capital gain on sale of rural land in India ₹ 30,000.
- (vii) Loss on maintenance of race horses in India ₹ 20,000.
- (viii) Winnings from horse races in India ₹ 10,000.

Compute her total income for the AY 2017-18 on the assumption she contributed ₹ 80,000 to public provident fund. **9 Marks**

Answer: 5.a

Computation of Professional Income of Mr. Raja

Sec 44ADA is applicable to the professionals (resident whose gross receipts does not exceeds ₹ 50 lakhs during the previous year.

- (i) In the given case, he is eligible to opt presumptive scheme.
- (ii) Presumptive income= 50% of gross receipts
=50% of ₹ 48 Lakhs = ₹ 24,00,000
- (iii) If he does not opt presumptive scheme, he has to maintain books of account and get them audited u/s 44AA and 44Ab respectively in order to claim lower income than the income determined under this scheme.
- (iv) Due date of filling of return of Income in case of opting presuming scheme is 31st July, 2017 and in case of not opting presumptive scheme i.e 30th September 2017.

Answer: 5.b

Computation of total income of Mrs Jaya (Non resident)

	Amount (₹)
Salary earned in India	50,000
IHP received in India	20,000
Business Loss in New York	-
LTCG in Paris	-
STCG 30,000	
Less: STCG 40,000	-
Winning from Horse race	10,000
GTI	80,000
Less: Deduction u/s 80c PPF	70,000
Net Taxable Income	10,000

Note:

1. Business loss and long term capital gain outside India are not considered as per section 5 in case of non resident.
2. Remaining loss in respect of sale of shares in India ₹ 10,000 (₹ 40,000 – 30,000) is carry forward for 8 AYS.
3. Loss on maintainenece of race horse is carry forward for 4 AYS.

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4. Deduction u/s Chapter VIA shall not be allowed from winning and hence maximum deduction u/s 80C is only ₹ 70,000.

6.

(a) Mr. Verma, engaged in shipping business, provides the following information for the year 2016-2017:

- (i) Gross receipts from shipping business ₹ 14 lakhs.
- (ii) Total payments relating to his business ₹ 6 lakhs.
- (iii) Personal expenses ₹ 0.5 lakhs.
- (iv) Brought forward loss ₹ 2 lakhs.
- (v) Contribution to public provident fund ₹ 1 lakhs

Calculate the tax liability if he is:

- (A) Resident (b) Non-resident

6 Marks

(b) The profit and loss account of ABC & Co. a partnership firm for the year ended 31.3.2017:

	₹		₹
Expenses	1,60,000		
Depreciation	54,000	Gross profit	5,60,000
Remuneration to partner	3,00,000	Interest on securities	26,000
Interest to partners	90,000	Net loss	24,000
Donations	<u>6,000</u>		
	<u>6,10,000</u>		<u>6,10,000</u>

Other information:

- (i) Out of the expenses, ₹ 52,000 is not deductible.
- (ii) Depreciation as per IT rules is ₹ 60,000.
- (iii) Interest paid to partners is at 16% equally.
- (iv) The firm has three partners A, B and C. Where B is a non-working partner.
- (v) Out of remuneration, 25% is paid to B and the balance is paid equally to other partners.

Find out total income and tax liability of the firm.

9 Marks

Answer: 6.a

Calculation of tax liability of Mr. Verma

	Section 172 Non Resident	Section 28 Resident
GR from shipping business	14,00,000	14,00,000
Less: Payment related to business	-	6,00,000
	14,00,000	8,00,000
Less: Brought forward Loss	-	2,00,000
	14,00,000	6,00,000
Less: Deduction u/s 80C contribution to PPF	-	1,00,000
Total Income (7.5% of GR in case of a non resident u/s 172)	1,05,000	5,00,000

Calculation of tax :

1. In case of non resident:
Tax @ 40% plus 3% cess = 1,05,000 x 41.20% = ₹ 43,260
2. In case of resident:
Tax as per slab rate
Nil + 10% of 2,50,000 = 25,000
Less: Rebate u/s 87A 5,000
Add: Cess @ 3% 600
Total 20,600

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Deferred Tax	4,00,000
B/f depreciation or business loss(Whichever is lower)	2,50,000
Book Profit u/s 115JB	10,50,000

Answer: 7.b

The computation of advance tax payable by an assessee in the financial year on his own accord on the estimated current income shall be computed as follows:

Steps	Methods
I	Estimate the current income of the financial year for which the advance tax is payable.
II	Compute tax on such estimated current income at the rate(s) of tax given under Part III of the First schedule of the relevant Finance Act.
III	On the net tax, if any, compute at Step III, add surcharge if applicable.
IV	Add Education cess + SHEC to the amount computed under Step IV
V	Allow, relief, if any, under section 89,90,90A & 91.
VI	Deduct credit, if allowable, under section 115JJAA(Mat Credit) of the tax paid in earlier
VII	Deduct the tax deductible or collectable at source during the financial year from any income (as computed before allowing deduction admissible under the Act) which has been taken into account in computing the current income. [Section 209(1)(d)]
VIII	The balance amount is the advance tax payable provided it is ₹ 10,000 or more. However, it will be payable in current instalments.

8. Answer any three questions

3x5=15 Marks

- Mention any five transactions where quoting of PAN is compulsory under the rule 114B.
- Who are the Appellate authorities under Income-tax Act, 1961?
- "ICDS is mandatory in case of all assesses", Comment.
- What are the advantages and dis-advantages of e-commerce transactions?

Answer: 8.a ICDS is mandatory in case of all assesses

Sl/No.	Particulars	Value of transaction
1.	Payment to a Mutual Fund for purchase of its unit	Amount exceeding ₹ 50,000
2.	Payment to a hotel at any one time	Payment in cash exceeding ₹ 50,000
3.	Payment to RBI	Amount exceeding ₹ 50,000
4.	Payment to a company for acquiring debenture bonds issued by it.	Amount exceeding ₹ 50,000
5.	Payment as Life Insurance premium to an insurer	Amount aggregating to more than ₹ 50,000 in a financial year.

Answer: 8.b

Within the Income Tax Department, there is an appellate authority known as the Commissioner of Income Tax (Appeals) or the CIT (Appeals). Any person who is aggrieved by an order of the assessing officer can file an appeal with the Commissioner of Income Tax (Appeals). The CIT (Appeals) examines the grounds of appeal, gives an opportunity of being heard to the appellant as well as the assessing officer, and thereafter decides the appeal after examining the facts and as per the provisions of law. If the Commissioner (Appeals) is of the view that the assessing officer had erred in his order, he allows the requisite relief to the appellant.

If the appellant is still not satisfied, he can file a second appeal to the Income Tax Appellate Tribunal. This second level of appeal is also available to the department. If the assessing officer feels that excessive relief has been allowed by the Commissioner (Appeals) in the first appeal, he can also file an appeal to the Income Tax Appellate Tribunal. Thus both the assessee and the department can be appellants before the Tribunal.

Both the department and the assessee can go in further appeal to the concerned High Court and then to the Supreme Court of India.

Answer: 8.c.

ICDS are to be followed by all assessee following the mercantile system of accounting. ICDS are applicable to the computation of income chargeable to income tax under the head "Profit and Gains of Business or Profession" or "Income from other sources". This standard is not applicable for maintenance of books of account. As ICDS are meant for computation income only, there is no need for maintenance of books of account for this purpose. In case of conflict between the provisions of the Income Tax, 1961 and ICDS the provisions of the Act shall prevail to that extent. Any non compliance of ICDS will lead to Best Judgement Assessment.

Answer: 8.d.

The advantages of E Commerce are as follows;

- (i) Increasing customer base.
- (ii) Rise in sales.
- (iii) 24/7, 365 days.
- (iv) Expand business reach.
- (v) Recurring payments made easy.
- (vi) Instant transactions.

The disadvantages of e commerce are as follows;

- (i) Security issues.
- (ii) Credit card issues.
- (iii) Extra expense and expertise for e-commerce infrastructure.
- (iv) Needs for expanded reverse logistics.
- (v) Sufficient internet service.
- (vi) Constant upkeep.