Paper-7: Applied Direct Taxation

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

All the questions relate to the assessment year 2014-15, 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 No 1.

(a) Choose the most appropriate alternative:

(i) Under Section 24(b) of the Income Tax Act, 1961, interest on borrowed capital accrued up to the end of the previous year, prior to the year of completion of construction of house property is allowed:
(a) As a deduction in the year of completion of construction.
(b) In 5 equal annual installments commencing from the year of completion of construction.
(c) In the respective year in which the interest accrues.
(d) In the year in which the capital was borrowed.

(ii) Rajiv Sukla, an Indian resident, is provided with furnished accommodation from February, 2015, by his employer. The value of furniture amounts to ₹95,000. The actual hire charges paid by his employer, for the furniture is ₹6,000 p.a. The value of furniture to be included along with value of unfurnished house for A.Y 2015-16 is:
(a) ₹6,000
(b) ₹9,500
(c) ₹19,000
(d) ₹1,000

(iii) Ace Ltd. has unabsorbed depreciation of ₹4,50,000 for the Previous Year 2014-15. This can be carried forward:
(a) For a maximum period of 8 years and set-off against business income.
(b) Indefinitely and set-off against business income.
(c) Indefinitely and set-off against any head of income, except income under the head "Salaries".
(d) Indefinitely and set-off against any head of income.

(iv) Sriram, an Indian resident, received ₹1,00,000 in December 2014 towards recovery of unrealized rent, which was deducted from actual rent during previous year 2013-14. The amount taxable under Section 25AA of the Income Tax Act, 1961 would be:
(a) ₹1,00,000
(b) ₹70,000
(c) ₹60,000

(d) ₹90,000

(v) The W.D.V of a block (plant and machinery, rate of depreciation 15%) as on 01.04.2014 is ₹6,40,000. A machinery costing ₹1,00,000 was acquired on 10.08.2014, but put to use on 10.11.2014. During February 2015, part of this block was sold for ₹4,00,000. The depreciation for A.Y 2015-16 would be-
(a) ₹51,000
(b) ₹42,250
(c) ₹43,500
(d) ₹1,11,000

(vi) Mr. Abhishek Yadav (aged 66 years), an Indian resident, paid medical insurance premium of ₹ 19,000 by cheque and ₹1,000 by cash during June 2014 under a Medical Insurance Scheme of the General Insurance Corporation. The above sum was paid for insurance of his own health. He would be entitled to a deduction under Section 80D of a sum of-
(a) ₹20,000
(b) ₹19,000
(c) ₹15,000
(d) ₹22,000

(vii) Arun Lal (aged 40 years), has to file a return of income, if gross total income is in excess of-
(a) ₹ 1,50,000
(b) ₹ 2,50,000
(c) ₹ 1,60,000
(d) ₹1,80,000

(viii) Mr. Amit Dey, a resident individual, pays a rent of ₹6,000 per month. His adjusted total income is ₹3,00,000 (i.e Gross Total Income as reduced by deductions under Chapter VI-A of the Income Tax Act, 1961, except under Section 80GG). The assessee is not in receipt of House Rent Allowance. He would be eligible for deduction under Section 80GG of the Income tax Act, 1961, of an amount of:
(a) ₹ 42,000.
(b) ₹ 75,000
(c) ₹ 24,000
(d) ₹ 48,000

(ix) 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.

(x) Where a member of a HUF has converted or transferred his self-acquired property for inadequate consideration into joint family property, and such converted property is subsequently partitioned among the members of the family, the income derived from such converted property as is received by the spouse of the transferor will be taxable-

(a) As the income of the transferor-member.
(b) As the income of the spouse of the transferor.
(c) As the income of the HUF.
(d) As the income of both the HUF and the transferor-member.

(xi) Dany Industries Ltd. incurred capital expenditure of ₹1,50,000 on 01.04.2015 for acquisition of patents and copyrights. Such expenditure is:

(a) Eligible for deduction in 14 years from A.Y 2016-17.
(b) Eligible for deduction in 12 years from A.Y 2016-17.
(c) Subject to Depreciation under Section 32 of the Income Tax Act, 1961.
(d) Not deductible.

(xii) Section 11 of the Income Tax Act, 1961 provides that, the following percentage of the income derived from property held under trust (wholly for charitable or religious purpose) , should be applied for the approved purposes, for claiming exemption from tax under the said section:

(a) At least 75%.
(b) At least 85%.
(c) 100%.
(d) At least 60%.

(xiii) Section 16(ii) of the Income Tax Act, 1961 provides for deduction in respect of entertainment allowance received by a Government employee, to the least of the actual entertainment allowance received, or, 20% of the basic salary, or,:

(a) ₹4,000
(b) ₹5,000
(c) ₹6,000
(d) ₹10,000

[1x13]

(b) Fill up the blanks:

(i) Section176(3) of the Income Tax Act, 1961, provides that, in case of a business or profession discontinued in any assessment year, income of the business or profession from April 1 of the assessment year (in which the business/profession is discontinued), to the date of discontinuation, shall be taxable in the assessment year in which ___________________.

(ii) Section 72A of the Income tax Act, 1961 provides for carry forward and set-off of __________________, in the hands of the amalgamated company, provided the conditions specified under the said section, are fulfilled by the amalgamated company.

(iii) 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 2014-15.

(iv) 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 _______________.

(v) Where there is a failure to deduct tax at source, the person responsible for deducting tax at source, is liable to pay interest under Section 201 of the Income Tax Act, 1961, at the rate of ______ percent, for the period starting from ___________________.

(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) Proviso to Section 36(1)(iii) of the Income Tax Act, 1961 provides that interest on borrowed funds utilized for acquisition of an asset as part of the extension of business, for the period commencing from the date of borrowing till the date on which such asset was first put to use, ________________ be allowed as deduction under Section 36(1)(iii) of the Income Tax Act, 1961.

(viii) Under the provisions of Section 140 of the Income Tax Act, 1961, the return of income has to be signed by the __________________, and in his absence, by one of the _________________, in the case of a company.

(ix) Under Section 2(ea)(iii) of the Wealth Tax Act, 1957, jewellery, bullion and utensils made of precious metals are treated as 'assets', provided these are not held as _______________, by the assessee.

(x) By virtue of Section 45 of the Wealth Tax Act, 1957, wealth tax ___________ chargeable on the net wealth of a Mutual Fund specified under Section 10(23D) of the Income Tax Act, 1961.

[1×12]

Solution:

1. (a)

(i) (b) In 5 equal annual installments commencing from the year of completion of construction.

(ii) (d) ₹1,000

(iii) (c) Indefinitely and set-off against any head of income, except income under the head "Salaries".

(iv) (a) ₹1,00,000

(v) (c) ₹43,500

(vi) (b)₹ 19,000

(vii)(b) ₹ 2,50,000

(viii) (c) ₹ 24,000

(ix) (a) One year from the end of the relevant assessment year.

(x) (a) As the income of the transferor-member.

(xi) (c) Subject to Depreciation under Section 32 of the Income Tax Act, 1961.

(xii) (b) At least 85%.

(xiii) (b) ₹5,000.

(b) (i) the business or profession is discontinued.

(ii) the accumulated business loss and the unabsorbed depreciation of the amalgamating company.

(iii) 2%.

(iv) Investment Company.

(v) One; the date on which such tax was deductible to the date on which the tax is actually deducted.

(vi) Indian Company.

(vii) Shall not.

(viii) Managing Director, Director.

(ix) Stock in trade.

(x) Is not.

Question No. 2

(a) Pride Enterprises Ltd. is running two industrial undertakings. Unit A is located in Special Economic Zone (SEZ) and Unit B is located in a Domestic Tariff Area [DTA]. The details pertaining to the previous year 2014-15, are as follows:

Particulars	₹ (in lacs)	
	Unit A	Unit B
Domestic Turnover	25	250
Export Turnover	300	Nil
Gross Profit	50	25
Less: Expenses and depreciation	17.50	12.50
Profits derived from the unit	32.50	12.50
The brought forward business loss pertaining to Unit B is ₹ 5 Lacs.		

Compute the business income of the assessee for the A.Y 2015-16, assuming that the financial year 2014-15 falls within the first 5 year period commencing from the year of production of articles by Unit A.

(b) Mr. Ramesh Kumar, an Indian resident individual, is employed in a PSU. He furnishes the following particulars for the previous year 2014-15:

Particulars	Amount (₹)
(i) Salary income for the year	17,25,000
(ii) Salary, pertaining to the financial year 2010-11, received during the previous year 2014-15	80,000
(iii) Assessed income for the financial year 2010-11	2,40,000

Compute the relief available to the assessee under Section 89 of the Income Tax Act, 1961 and the tax liability for the assessment year 2015-16.

The rates of income tax for the assessment year 2011-12 are:

	Tax Rate (%)
On first ₹1,60,000	Nil
On ₹1,60,000 - ₹3,00,000	10
On ₹3,00,000 - ₹5,00,000	20
Above ₹5,00,000	30
Education Cess	3

(c) Briefly discuss the tax treatment of Limited Liability Partnership under the Income Tax Act, 1961.

[5+7+3]

Solution:

(a) Computation of business income of Pride Enterprises Ltd. for the A.Y 2015-16

Particulars	₹ (in lacs)
Aggregate of profits earned from the two units	75
Less: Exemption under Section 10AA **[NOTE 1]**	30
	45
Less: Brought forward business loss	5

TOTAL BUSINESS INCOME	**40**

Working Note:

Computation of exemption under Section 10AA in respect of the Unit A located in SEZ

Particulars	₹ (in lacs)
Domestic Turnover of Unit A	25
Export Turnover of Unit A	300
Total Turnover of Unit A	325
Profit derived from Unit A	32.50
Exemption under Section 10AA $\text{Profit of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}}$ $= 32.50\ \text{Lacs} \times \frac{300\ \text{Lacs}}{325\ \text{Lacs}}$	**30**

(b) Computation of relief under Section 89 of Mr. Ramesh Kumar for the A.Y 2015-16

Particulars	₹	₹
Assessment Year 2015-16		
Salary Income for the year excluding arrears		17,25,000
Add: Arrears for the financial year 2010-11		80,000
Gross Salary (including arrears)		**18,05,000**
Computation of tax on ₹ 18,05,000		
On first ₹2,50,000- Nil	Nil	
On next ₹2,50,000- 10%	25,000	
On next ₹5,00,000- 20%	1,00,000	
On balance ₹8,05,000- 30%	2,41,500	**3,66,500**
Add: Education Cess @ 2%	7330	
Add: Senior and Higher Education Cess@1%	3665	**10,995**
(A) Tax on total income including arrears		**3,77,495**
Gross Salary excluding arrears	17,25,000	
Computation of tax on ₹ 17,25,000		
On first ₹2,50,000- Nil	Nil	
On next ₹2,50,000- 10%	25,000	
On next ₹5,00,000- 20%	1,00,000	
On balance ₹7,25,000- 30%	2,17,500	
	3,42,500	
Education Cess @2%	6,850	

SHEC@ 1%	3,425	
(B) Tax on total income excluding arrears		**3,52,775**
(C) Difference between (A) and (B)		**24,720**
Total Income assessed Add: Arrears relating to the financial year 2010-11	2,40,000 80,000 3,20,000	**3,20,000**
Computation of tax for A.Y 2011-12 **(D) Tax on Total Income (including arrears)** On first ₹1,60,000- Nil On next ₹1,40,000- 10% On balance ₹ 20,000- 20% Education Cess @ 3%	 Nil 14,000 4,000 18,000 540	**18,540**
(E) Tax on Total Income (excluding arrears) On first ₹1,60,000- Nil On balance ₹ 80,000- 10% Education Cess @ 3%	 8,000 240	**8,240**
(F) Difference between (D) and (E)		**10,300**
(G) Relief available under Section 89 **[Difference between (C) and (F)]**		**14,420**

(c) The tax treatment of the Limited Liability Partnerships (LLPs), as contained in the provisions of the Income Tax Act, 1961 are discussed in the following points:

(i) The taxation scheme of the LLPs, in the Income Tax Act, 1961, is on the same lines, as applicable for partnerships. Accordingly, tax liability would be attracted in the hands of the LLP and tax exemption would be available to the partners.

(ii) The rate of income-tax applicable to the LLPs is 30% of the total income.

(iii) The provisions of Section 40(b) requiring payment of remuneration only to working partner, in accordance with the terms of the partnership deed for a period commencing on or after the date of the partnership deed, shall be applicable to LLPs as well.

(iv) Expenditure in relation to interest, in excess of 12% per annum and salary exceeding the prescribed percentage of book profit, shall stand disallowed.

(v) Presumptive Tax Scheme u/s 44AD is not applicable to LLP.

(vi) Unlike a company, LLP is not subject to Minimum Alternate Tax (MAT), Dividend Distribution Tax (DDT) and Wealth Tax.

Question No. 3

(a) Binay, an Indian resident (aged 45 years), owned a residential house in Indore. It was acquired by Binay, on 15.10.1986 for ₹7,00,000. It was sold for ₹ 70,00,000 on 09.11.2014. The State Stamp Valuation Authority fixed the value of property to be at ₹75,00,000. The assessee paid 2% of the sale consideration as brokerage for the sale of the said property.

Binay acquired a residential house in Mumbai on 15.12.2014 for ₹12,00,000 and deposited ₹4,00,000 on 10.04.2015 in the capital gain bond of Rural Electrification Corporation Ltd. (RECL). He deposited ₹5,55,000 on 10.07.2015 in the Capital Gain Deposit Scheme in a nationalized bank for construction of additional floor on the residential house property acquired in Mumbai.

Compute:

(i) the capital gain chargeable to tax in the hands of Mr. Binay for the assessment year 2015-16.

(ii) the income tax payable by Mr. Binay, assuming that there is no other source of income chargeable to tax.

Cost inflation Index: Financial year 1986-87= 140, Financial Year 2014-15= 1024

(b) Define the term 'substantial interest'. State the situations in which the term assumes importance.

(c) Compute the total income of Mr. Upendra, for the Assessment Year 2015-16, assuming that he is:

(i) Resident and ordinarily resident

(ii) Resident but not ordinarily resident

(iii) Non-resident

The following particulars pertain to the Previous Year 2014-15:

Particulars	₹
1. Short-term capital gain on sale of shares in Indian Company, received in United Kingdom	20,000
2. Dividend from a German company received in Germany	15,000
3. Rent from a property in Jordan, received in the Bank of Jordan, was remitted to India, through approved banking channels	80,000
4. Dividend from Pure Ltd., an Indian company	4,000
5. Agricultural income from land in Haryana	30,000

[5+5+5]

Solution:

(a) Computation of capital gains in the hands of Mr. Binay for the A.Y 2015-16

Particulars	₹	₹
Deemed Sale consideration (under Section 50C)		75,00,000
Less: Brokerage @ 2% of ₹70,00,000		1,40,000
Net Sale Consideration		**73,60,000**
Less: Indexed Cost of Acquisition (₹ 7,00,000 × 1024/140)		**51,20,000**
Long Term Capital Gain on sale of property situated in Indore		**22,40,000**
Less: **Exemption under Section 54 in respect of –**		
(i) Residential house acquired in Mumbai on 15.12.2014	12,00,000	
(ii) Amount deposited in Capital Gains Deposit Scheme on 10.07.2015 (before the due date of filing return)	5,55,000	
	20,55,000	
Less: **Deduction under Section 54EC** Amount deposited in RECL Bonds on 10.04.2015 (within six months from the date of transfer)	4,00,000	**21,55,000**
Long Term Capital Gain		**85,000**

Computation of tax liability of Mr. Binay for A.Y 2015-16

Particulars	Amount (₹)
Tax on Long term capital gain of ₹ 85 ,000 as reduced by basic exemption limit of ₹2,00,000)	Nil

(b) Section 2(32) of the Income Tax Act, 1961 defines the term substantial interest as follows:

"Person who has a substantial interest in the company,

(i) in relation to a company, means a person who is the beneficial owner of shares, not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits, carrying not less than twenty per cent of the voting power.

(ii) In the case of a non-corporate entity, a person can be said to have substantial interest if 20% or more share of profit is held."

In the following situations, the term 'substantial interest' assumes importance:

(i) Taxability of deemed dividend under Section 2(22)(e).

(ii) Disallowance of excessive or unreasonable expenditure under Section 40A(2) to an individual who has a substantial interest in the business or profession of the assessee, and

(iii) Clubbing of salary income of spouse, under Section 64(1)(ii) in respect of remuneration received by spouse from a concern in which the individual has a substantial interest.

(c) **Computation of Total Income**
Assesee : Mr. Upendra

Assessment Year: 2015-16 **Previous Year: 2014-15**

Particulars	**Resident and ordinarily resident**	**Resident but not ordinarily resident**	**Non-resident**
1. Short-term capital gain on sale of shares in Indian Company, received in United Kingdom	20,000	20,000	20,000
2. Dividend from a German company received in Germany	15,000	---	---
3. Rent from a property in Jordan, received in the Bank of Jordan, was remitted to India, through approved banking channels [NOTE 1]	56,000	---	---
4. Dividend from Pure Ltd., an Indian company [NOTE 2]	---	---	---
5. Agricultural income from land in Haryana [NOTE 3]	---	---	---
TOTAL INCOME	**91,000**	**20,000**	**20,000**

NOTE:

1. Assuming that the rent collected is the gross annual value of the property, a deduction of 30% under Section 24 of the Income Tax Act, is made.

Rent received (assumed as gross annual value)	₹ 80,000
Less: Deduction under Section 24 (30% of ₹ 80,000)	₹ 24,000
Income from house property	₹ 56,000

2. Dividend from Indian company is exempt under Section 10(34).

3. Agricultural income is exempt under Section 10(1).

Question No. 4

(a) Dr. Murli, a resident individual, (aged 55 years) is a medical practitioner. The details relating to the previous year 2014-15, as contained in the Receipts and Payments Account, has been furnished as follows:

Receipts and Payments Account

Dr. **Cr.**

Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/f	1,00,000	By commercial vehicle A/c [Commercial Vehicle purchased before 01-10-2014]	6,00,000
To sale of medicines A/c	5,00,000	By Drawings A/c	3,00,000
To Consultation Fees A/c	1,00,000	By Surgical equipments A/c [Surgical equipments purchased before 01-10-2014]	1,00,000
To Fees received on visit A/c	4,00,000	By Loan A/c [Installment paid including interest of ₹44,666]	2,42,000
To Honorarium A/c	50,000	By Medical Insurance Premium A/c	32,000
To Family Pension A/c	2,80,000	By Housing loan A/c [Installment paid including principal component of ₹96,000]	2,16,000
To Interest received on Savings Bank Account A/c	10,000	By Advance Tax A/c	40,000
To Lottery Winnings A/c (net after deduction of TDS @ 30%)	50,000	By purchase of medicines A/c	55,000
To Agricultural Income A/c	1,00,000	By payment for medical journal A/c	15,000
To Share of income from HUF A/c	1,50,000	By Vehicle expenses A/c	45,000
To Loan from bank A/c	3,00,000	By Bank Deposit A/c [Bank deposit done in bank for 5 years]	2,00,000
		By Balance c/f	1,95,000
	20,40,000		20,40,000

Other relevant information is as under:

1. **The self-occupied property of Mr. Murli was constructed in 1998, with a loan from LIC Housing of ₹10,00,000 out of which ₹6,00,000 was still due. The assessee made an arrangement of refinancing from SBI on 01-04-2014 at the rate of 10%. One-fourth of the portion of the house is used for purposes of running clinical establishment.**

2. **He invested in term deposit of ₹2,00,000 in Bank of Baroda on 01-07-2014 for a period of 5 years in the name of his minor daughter at 10% per annum.**

3. **The commercial vehicle was purchased on 01-07-2014 for ₹6,00,000, It was partly financed by a loan of ₹3,00,000. One-fourth use of the vehicle is estimated to be for personal purposes.**

4. **Medical Insurance Premium of ₹16,000 was paid by the assessee for himself and ₹16,000 was paid for the dependent mother, aged 74 years (who is an Indian resident).**

5. **The share from HUF's income amounted to ₹50,000.**

Compute the total income of Mr. Murli, ignoring depreciation on building, for the A.Y 2015-16.

(b) A firm consisted of two partners Dinesh & Ramesh, having 3:2 profit sharing ratio. Dinesh contributed ₹ 15,00,000 and Ramesh contributed ₹ 5,00,000 to the firm's capital. The assets of the firm are as under:

(i) Value of assets located outside India - ₹ 30 lakhs.
(ii) Value of assets located in India - ₹ 75 lakhs.
(iii) Debts incurred in relation to assets in India - ₹ 5 lakhs.

Determine the value of interest of the partners in the firm for the financial year 2014-15 under the Wealth Tax Act 1957.

[10+5]

Solution:

(a) Computation of total income
Assessee: Mr. Murli

Assessment Year: 2015-16 **Previous Year: 2014-15**

	₹	₹	₹	₹
Income from house property:				
Annual value of self-occupied house		Nil		
Less: Interest on loan [₹45,000, being 3/4th of ₹60,000] (Restricted to ₹30,000)		(30,000)	(30,000)	

Income from profession:				
Sale of medicine	5,00,000			
Consultation fees	1,00,000			
Visiting fee	4,00,000			
Total income		10,00,000		
Less: Expenses				
Medicine purchased	55,000			
Medical journal	15,000			
Vehicle expenses (3/4th)	33,750			
Interest on Loan (3/4th)	33,500			
Interest on housing loan (1/4th)	15,000			
Depreciation				
Surgical instrument (15% of ₹1,00,000)	15,000			
Vehicle (3/4th of 15% of ₹6,00,000)	67,500			
Total expenses		2,34,750		
			7,65,250	

Income from other sources				
Family Pension	2,80,000			
Less: Deduction under section 57(iia)				
$33\frac{1}{3}\%$ or ₹15,000, which is lower	15,000	2,65,000		
Honorarium		50,000		
Saving bank interest		10,000		
Interest on bank FD in the name of minor daughter [₹2,00,000 x 10% x 9/12]	15,000			
Less: Exempt under section 10(32)	1,500	13,500		
Winning from lottery		50,000		
			3,88, 500	
Gross total Income				11,23,750
Less: Deductions under Chapter VI – A				
Under section 80C				
Repayment of housing loan (96,000 x ¾)			72,000	
Under section 80D				
Medical Insurance Premium				
Own (allowed to the extent of ₹ 15,000)		15,000		
Mother (Senior Citizen, hence fully allowed since Premium is less than ₹20,000)		16,000		
		31,000	31,000	
Under section 80TTA				
Interest on deposit in a saving			10,000	

account of bank Total deduction				 113,000
Total income				**10,10,750**

Notes:

1. Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to ₹30,000.

2. Since ¼ th portion of house is used for business purposes, therefore, ¼ th share of interest paid is deductible while computing business income.

3. Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).

4. Term deposit of ₹2,00,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (3/4th) would qualify for deduction under section 80C. Therefore the deduction under section 80C would be ₹72,000 (i.e. 3/4th of ₹96,000).

5. Depreciation @ 15% has been provided on surgical instruments. It is also possible to assume that the surgical instruments mentioned in the question are life- saving medical equipment (for example, surgical laser) and therefore, eligible for depreciation @ 40%.

(b) Computation of net wealth of the firm for the A.Y 2015-16

(₹ in lakhs)

Particulars	₹	₹
Value of assets located outside India		30
Value of assets located in India Less: Debts incurred in relation to assets in India	75 5	 70
Net Wealth of the firm		100

Value of partner's interest in the assets of the firm

(₹ in lakhs)

Particulars	**Dinesh (₹)**	**Ramesh (₹)**
Net assets of the firm to the extent of capital contribution by the partners. (Net assets to the extent of ₹ 20 Lakhs to be divided in the proportion of capital contribution of the partners)	15	05
Balance of the net wealth of the firm to be apportioned in the profit sharing ratio of the firm (₹ 80 Lakhs to be apportioned in the ratio of 3:2)	48	32
Value of interest of partners in the net wealth of the firm	63	37

NOTE- As per Section 4(1)(b) of the Wealth Tax Act 1957, in computing the net wealth of an assessee, who is a partner in a firm, the value of his interest in the assets of the firm determined in the manner laid down in Schedule III, shall be included.

As per rule 16 of Schedule III, the net wealth of the firm on the valuation date shall first be determined as if it were the assessee.

Thereafter, that portion of the net wealth of the firm as is equal to the amount of its capital shall be allocated amongst the partners in the proportion in which capital has been contributed by them.

The remaining portion of net wealth of the firm shall be allocated among the partners in accordance with the agreement of partnership or, in the absence of such agreement the ratio in which the partners are entitled to profits.

Question No. 5

(a) The book profits of TPR Ltd., for the previous year 2014-15 computed in accordance with Section 115JB is ₹ 37.50 Lakhs. If the total income computed for the same period as per the provisions of the Income Tax Act, 1961 is ₹ 7.50 Lakhs. Compute the tax payable by the company in the Assessment Year 2015-16. Is TPR Ltd. eligible for any tax credit? If so, for how many years, shall TPR Ltd. avail such tax credit?

(b) Explain the applicability of Section 22 of the Income Tax Act, 1961 for chargeability of income tax for:
(i) House Property situated in foreign country
(ii) House Property with disputed ownership

(c) Mr. Jay, (aged 68 years) is an Indian resident, who has a Gross Total Income of ₹5,36,480. This includes long term capital gain of ₹90,000 and short-term capital gain of ₹16,000. The Gross Total Income also includes interest income of ₹24,000 from savings bank deposits

with banks. The assessee has invested ₹1,20,000 in PPF and also paid a medical insurance premium of ₹15,000. ₹18,000 was contributed to Public Charitable Trust, eligible for deduction under Section 80G by way of an account payee cheque. Compute the total income and tax thereon, of Mr. Jay, for the Assessment Year 2015-16.

(d) Explain the chargeability of wealth tax.

[3+4+6+2]

Solution:

(a) Computation of tax payable in the Assessment Year 2015-16 by TPR Ltd.

Particulars	Amount (₹)
(A) Tax on total income computed in accordance with the provisions of the Income tax act, 1961 = ₹7.50 Lakhs × 30%	2,25,000
(B) Income tax @ 18.5% of the book profits = ₹37.50 Lakhs × 18.5%	6,93,750
Since, the tax payable on book profits exceed the tax payable on total income computed in accordance with the provisions of the Income Tax Act, 1961, therefore TPR Ltd. is liable to pay Minimum Alternate Tax.	
Tax payable on book profit Add: Surcharge Add: Education Cess @ 2% Add: Senior and higher Education Cess @ 1%	6,93750 Nil 13,875 6937.50
(C) TAX PAYABLE IN THE ASSESSMENT YEAR 2015-16	**7,14,562.50**
(D) TAX CREDIT AVAILABLE TO THE COMPANY [(A)- (B)] Tax credit shall be available to TPR Ltd. for ten succeeding assessment years for set-off against the tax payable on total income during such period. If the credit is not so set off, it shall lapse.	**4,68,750**

(b) Applicability of Section 22 of the Income Tax Act, 1961 for chargeability of income tax for:

1. **House property in a foreign country-** A resident assessee is taxable under section 22 in respect of annual value of a property situated in a foreign country. A resident but not

ordinarily resident or non-resident is taxable in respect of income of such property situated abroad, if income is received in India during the Previous Year.

If tax incidence is attracted under Section 22 in respect of a house property situated abroad, annual value will be computed as if the property is situated in India, as held in the decision of the Madras High Court in *CIT vs. R. Venugopala Reddiar* [1965] 58 ITR 439.

2. **Disputed ownership-** If title of ownership of a house property is under dispute in a court of law, the decision as to who is the owner rests with the Income-tax Department. The assessment cannot be held up for such dispute. Generally, a person who receives the income or who enjoys the possession of the house property as owner, though his claim is under dispute, is assessable to tax under section 22.

(c) **Computation of Total Income and Tax Liability**
Assessee: Mr. Jay

Assessment Year: 2015-16 **Previous Year: 2014-15**

Particulars	₹	₹
Gross Total Income including long term capital gain		5,36,480
Less: Long Term Capital gain		90,000
		4,46,480
Less: Deductions under Chapter VI-A		
Under Section 80C: PPF Deposit	1,20,000	
Under Section 80D: Medical Insurance premium (it is assumed that, the premium is paid by otherwise than by cash)	15,000	
Under Section 80G: [Note 1 & Note 2]	9,000	
Under Section 80TTA: [Note 3]	10,000	**1,54,000**
Total income (excluding long term capital gains)		**2,92,480**
Total income (including long term capital gains)		**3,82,480**
Tax on total income (including long term capital gains of ₹90,000)		
20% of ₹90,000	18,000	
Tax on balance ₹2,92,480		
Upto ₹2,50,000 - Nil		
Next ₹42,480 @ 10% - ₹4,248	4,248	**22,248**
Add: Education Cess @2%	85	
Add: Senior and Higher Education cess @1%	42	**127**
TAX PAYABLE ON TOTAL INCOME		**22,375**

NOTE:

1. **Computation of deduction under Section 80G**

Particulars	₹
Gross Total income (excluding long term capital gains)	4,46,480
Less: Deductions under Section 80C, 80D and 80TTA	1,45,000
	3,01,480
10% of the above	30,148
Contribution made	18,000
Lower of the two eligible for deduction under Section 80G	18,000
Deduction under Section 80G- 50% of ₹18,000	9,000

2. Deduction under Section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹10,000. Therefore the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.

3. Deduction of up to ₹10,000 under Section 80TTA is allowed, inter alia to an individual assessee, if the gross total income includes interest income from deposits in a saving account with bank.

(d) Section 3 of the Wealth Tax Act 1957 is the charging section in respect of Wealth Tax.

Wealth Tax is payable at the rate of one percent on the net wealth exceeding ₹ 30,00,000, on the valuation date. No surcharge or education cess is payable. It is payable by every individual, HUF and company.

According to Section 2(q), "valuation date" is 31st March immediately preceding the assessment year.

Question No. 6

(a) Ms. Malini, an individual resident Indian, aged 62 years, frequently visits a foreign university to deliver lectures and receives honorarium of ₹ 3,35,000 for the same. Tax of ₹ 33,500 was deducted in the foreign country. India did not have any double taxation avoidance agreement with that foreign country. The particulars of income earned in India are stated as follows:

(i) In India, her total income amounted to ₹10,20,000.
(ii) Contribution to the Public Provident fund - ₹ 1,40,000.
(iii) Contribution to the approved Pension Fund of LIC- ₹ 64,000.
(iv) Contribution to Central Government Health Scheme during the previous year- ₹36000.
(v) Payment of medical Insurance premium, for mother (who is not dependent on her) - ₹ 21,000.

Compute the tax liability of Ms. Malini for the Assessment Year 2015-16.

(b) Mr. Sushil submits the following details of his income for the assessment year 2015-16:

Particulars	₹
Income from salary	6,00,000
Loss from house property	(80,000)
Income from sugar business	1,00,000
Loss from iron ore business (b/f)(discontinued in 2008-09)	(2,40,000)
Short term capital loss	(1,20,000)
Long term capital gain	80,000
Dividend	10,000
Lottery Winnings	1,00,000
Winnings from card games	12,000
Agricultural Income	40,000
Long term capital Gain on sale of shares	20,000
Short term Capital Loss under Section 111A	20,000
Bank Interest	10,000

Calculate gross total income and losses to be carried forward for the A.Y 2015-16.

(c) Examine the taxability of the following assets held on valuation date in the context of provisions in the Wealth Tax Act, 1957.

(i) A house property owned by Mrs. Susmita was transferred without consideration to Miss Sila on 12-02-2015. Subsequently, Miss Sila got married to the son of Mrs. Susmita on 15-03-2015. The value of the house on 31-03-2015 is ₹ 75 Lakhs.

(ii) Petrochem Enterprises has a guest house situated at 40 kilometers from the local limits of Delhi Municipal Corporation.

[7+6+2]

Solution:

(a) Computation of tax liability of Ms. Malini for the Assessment Year 2015-16

Assessee: Ms. Malini

Assessment Year: 2015-16 | **Previous Year: 2014-15**

Particulars	₹	
Indian Income Foreign Income		10,20,000 3,35,000
Gross Total Income		**13,55,000**
Less: Deductions Deposit in PPF **[Section 80C]** Contribution to approved Pension Fund of LIC **[Section 80CCC]**	 1,40,000 64,000	
	2,04,000	
The aggregate deduction under Sections 80C, 80CCC and 80CCD(1) has to be restricted to ₹1,50,000 **[Section 80CCE]**		1,50,000

Contribution to Central Government Health Scheme. **[Section 80D]** (Under Section 80D, the maximum deduction allowed to a senior citizen is ₹20,000) Medical insurance premium paid for mother **[Section 80D]**		20,000 20,000
GROSS DEDUCTIONS		**1,90,000**
TOTAL INCOME		**11,65,000**
<u>TAX ON TOTAL INCOME</u> Income Tax payable Education Cess @ 2% Secondary and Higher Education Cess@ 1%	 1,74,500 3,490 1,745	 1,79,735
Average rate of tax in India [₹1,79,735/11,65,000 x 100] **Average rate of tax in foreign country** [₹33,500/3,35,000 x 100] Rebate under Section 91 shall be limited to the lower of average Indian tax rate or average foreign tax rate **Hence, rebate under Section 91 shall be = (₹335000 x 10%)**		15.43% 10% 33,500
Tax payable in India (₹1,79,735 - ₹ 33500)		1,46,235

(b) Computation of Gross Total Income of Mr. Sushil for the A.Y 2015-16

Particulars	₹	₹
Salaries: Income from salary	 6,00,000	
Income from house property Loss from house property	 (80,000)	5,20,000
Profits and Gains of Business of profession: Income from sugar business Less: Brought forward loss from iron ore business **Balance business loss of ₹1,40,000 carried forward to A.Y 2016-17**	 1,00,000 (2,40,000)	 ---
Capital Gains Long term capital gain Less: Short term capital loss **Capital Losses to be carried forward:** i. Short Term Capital Loss of ₹40,000 to be carried forward **ii.** Short term Capital Loss under Section 111A, of ₹20,000 to be carried forward	 80,000 (1,20,000)	 ---
Income from other sources: Lottery Winnings Winnings from card games Bank Interest	 1,00,000 12,000 10,000	 1,22,000

GROSS TOTAL INCOME		**6,42,000**
Losses to be carried forward to A.Y 2016-17 **i. Loss of ₹1,40,000 from iron-ore business** **ii.Short term Capital Loss of ₹40,000** **iii.Short term Capital Loss under Section 111A, of ₹20,000 to be carried forward**		

NOTES:

1. Dividend Income is exempt under Section 10(34), assuming that dividend is received from a domestic company.

2. Agricultural Income is exempt under Section 10(1).

3. Long term Capital gain, on which STT is paid is exempt under Section 10(38).

4. It is presumed that, loss from iron-ore business relates to the previous year 2007-08, the year in which the business is discontinued.

(c)

(i) Since, the asset owned by Mrs**.** Susmita was transferred to Miss Sila, before the marriage of Miss Sila to the son of Mrs. Susmita, Miss Sila could not be considered the daughter-in law of Mrs. Susmita, at the time of transfer of the said asset. Hence, the property transferred to Miss Sila cannot be clubbed with the net wealth of Mrs. Susmita, by invoking provisions of Section 4(1)(a). It shall be included in the net wealth of Miss Sila, who can opt to claim exemption under Section 5(vi) in respect of the same.

(ii) A guest house, regardless of distance, is always an 'asset', under the Wealth Tax Act, 1957. Hence, the guest house located within 40 Kms from the Delhi Municipal Corporation, shall be taxable as an asset, in the hands of Petrochem Enterprises, under the provisions of the Wealth tax Act, 1957.

Question No. 7

(a) **XYZ Ltd., an Indian company declared an income of ₹ 450 crores. However, this income was declared before taking into account the following adjustments:**

(i) **25,000 machines were sold to Dalil Ltd at a price, which is lower than the normal transaction price by $250 per car. Dalil Ltd. holds 35% shares in XYZ Ltd.**

(ii) **Wellstone Ltd. was paid a royalty of $ 2,40,00,000, for use of its technical know-how. However, another Indian company had paid $ 2,00,00,000 as royalty to Wellstone Ltd. for a similar transaction. XYZ Ltd. was completely dependent on the technical knowhow supplied by Wellstone Ltd., for the manufacture of the machineries.**

(iii) **Roy Finance Ltd. extended a loan of Euro 850 crores to XYZ Ltd., carrying an interest @10% p.a, which was outstanding in the books of XYZ Ltd. as on 31.03.2015. Roy Finance Ltd.**

had extended a loan of similar amount to another Indian company @ 9% p.a. Total interest paid for the year was Euro 85 crores. The total assets of XYZ Ltd., as on 31.03.2015 was ₹ 100,000 crores.

The value of 1$ and 1 Euro may be taken to be ₹62 and ₹82 respectively.

With reference to the provisions of the Act, analyse the nature of transactions and determine the income of the company chargeable to tax for the A.Y 2015-16.

(b) Discuss the tax incentives available to Foreign Institutional Investors (FIIs), under the provisions of Section 115AD of the Income Tax Act, 1961.

(c) The transfer price adopted for an international transaction of sale of goods by an Indian Company during the financial year 2014-15 is ₹ 35 lakhs, whilst the Arm's Length Price determined using the most appropriate method are ₹ 32 Lakhs and ₹ 42 lakhs. With reference to transfer pricing provisions, discuss whether any adjustment is required. The rate of permissible variation prescribed by the Central Government may be assumed to be, 2% of the transfer price for this class of international transaction.

[6+5+4]

Solution:

(a) The provisions of Chapter X of the Act relate to the determination of the Arm's Length Price , in case of any income arising from an international transaction involving two or more associated enterprises. The term 'Associated Enterprise' has been defined in Section 92A.

With reference to the provisions of Section 92A of the Income Tax Act 1961, the transactions of XYZ Ltd. has been analysed as follows:

Transaction of XYZ Ltd. with	**Whether transacting party an associated enterprise or not?**	**Supporting statutory provision**
Dalil Ltd.	Associated Enterprise	As per Section 92A(2)(a), a company holding shares carrying more than 26% of the voting power of another company, shall be deemed to be "Associated Enterprises".
Wellstone Ltd.	Associated Enterprise	Wellstone Ltd. and XYZ Ltd. have been considered as "Associated Enterprises", by virtue of Section 92A(2)(g).
Roy Finance Ltd.	Associated Enterprise	Roy Finance Ltd. and XYZ Ltd. have been considered as "Associated Enterprises", by virtue of Section 92A(2)(c), since this company has

		financed an amount which is more than 51% of the book value of the total assets of XYZ Ltd.

Determination of the total income of XYZ Ltd. after necessary adjustments

Particulars	Amount (₹ in crores)
Income of XYZ Ltd. prior to adjustments	450
Add: Difference arising out of adjustments in the value of international transactions	
(i) Difference in price of machinery supplied to Dalil Ltd. (25,000 cars x ₹62 x $ 250)	38.75
(ii) Difference in excess payment of royalty to Wellstone Ltd. ($ 40,00,000 x ₹62)	24.80
(iii) Difference in excess interest paid on loan from Roy Finance Ltd. (Euro 850 crores x 1/100 x ₹82)	697
TOTAL INCOME	1210.55

(b) Section 115AD specifies special rates of Income Tax to Foreign Institutional Investors (FIIs), in respect of the following incomes. The specified income and the applicable rate of tax has been specified in the following table:

INCOME	**APPLICABLE RATE OF TAX**
Income (other than dividend covered under Section 115-O) in respect of securities listed in a recognized stock exchange in India(other than units covered under section 115AB)	20%
Any short term capital gain arising on transfer of: (i) securities covered under Section 111A (ii) other securities	 15% 30%
Any long term capital gain arising on transfer of such securities	10%

The following exceptions are applicable to the FIIs, for whom special rates have been prescribed under Section 115AD of the Income Tax Act, 1961:

(i) Deductions under Section 28 to Section 44C and Section 57 are not available to this class of assessees.

(ii) The benefit of computing Capital Gain in foreign currency, as provided by the first proviso to Section 48 and the benefit of indexation, as provided by the second proviso to Section 48 are not applicable for this class of assessees, in respect of long term capital gain.

(iii) Deductions under Section 80C to Section 80U are not applicable.

(c) The proviso to Section 92C(2) provides that Arm's Length Price shall be taken to be the arithmetical mean of prices, where more than one price is determined by the most appropriate method.

However, if the arithmetical mean, so determined, is within such percentage of transfer price, as prescribed by the Central Government, then, the transfer price shall be deemed to be the arm's length price and no adjustment is required to be made.

In the given case, the arithmetical mean of prices is = ₹(32 Lakhs + 42 Lakhs)/2 = ₹37 Lakhs.

Variation permitted as percentage of transfer price = ₹35 Lakhs x 2% = ₹70,000

The Arithmetic Mean is ₹ 37 Lakhs and the permissible variation is ₹70,000 (2% of the transfer price). Thus, the Arithmetic Mean is not within the prescribed limit of the transfer price.

Hence, the Arm's Length Price shall be ₹ 37 Lakhs.

Question No. 8

(a) Shivsundar doing textiles business furnishes you the following information:
Total turnover for the financial year:

	₹
2013 -2014	**1,10,00,000**
2014– 2015	**92,00,000**

State whether the provisions of tax deduction at source are attracted for the following expenses incurred during the previous year 2014 – 2015:

	₹
Interest on term loan paid to Indian bank	**95,000**
Advertisement expenses to Gita (two individual payments of ₹30,000 and ₹40,000	**70,000**
Factory rent paid to Deepak	**1,90,000**
Brokerage paid to Bkbar, a sub – broker	**8,000**

(b) State whether wealth tax is chargeable in respect of net wealth of the following persons under the Wealth Tax Act, 1957:

(i) Holder of an impartible estate
(ii) Association of Persons
(iii) Partnership firms.

(c) State the conditions to be fulfilled by an assessee for claiming relief in respect of the income arising in those countries with which India does not have any Double Taxation Avoidance Agreement?

(d) Mr. Ritesh Bagh is an area manager of M/s Beta Industries Ltd. During the financial year 2014-15, he obtains the following emoluments from his employer:

Basic Salary **Up to 31.8.2014** **From 1.9.2014**	 **₹30,000 p.m.** **₹ 37,500 p.m.**
Transport allowance	**₹ 3,000 p.m.**
Contribution to recognised provident fund	**15% of basic salary**
Children education allowance (Total)	**₹ 750 p.m. for two children**
City compensatory allowance	**₹ 450 p.m.**
Hostel expenses allowance (Total)	**₹ 570 p.m. for two children**
Tiffin allowance (actual expenses ₹ 5,550)	**₹ 7,500 p.a.**
Tax paid on employment	**₹3,750**

Compute taxable salary of Mr. Ritesh Bagh for the Assessment year 2015- 2016.

[3+3+4+5]

Solution:

(a) Since the turnover of Mr. Shivsundar for F.Y.2013-14, i.e., ₹110 lakhs, has exceeded the monetary limit of ₹100 lakhs prescribed under section 44AB, he has to comply with the tax deduction provisions during the financial year 2014-15, subject to, however, the exemptions provided for under the relevant sections for applicability of TDS provisions.

(i) <u>Interest paid on term loan to Indian Bank</u>
TDS under section 194A is not attracted in respect of interest paid to a banking company.

(ii) <u>Advertisement expenses to Gita (two individual payments of ₹30,000 and ₹40.000)</u>

Under section 194C, the provisions for tax deduction at source would not be attracted if the amount paid to a contractor does not exceed ₹30,000 in a single payment or ₹ 75,000 in the aggregate during the financial year. Therefore, provisions for deduction of tax at source under section 194C are not attracted in respect of payment of ₹30,000 to Gita.

However, payment of ₹40,000 to Gita would attract TDS@1% under section 194C, since it exceeds ₹30,000.

Note - The tax to be deducted would be ₹ 400, being 1% o ₹40,000.

(iii) <u>Factory rent of ₹ 1,90,000 paid to Deepak</u>

Tax has to be deducted under section 194-I as the rental payment exceeds ₹1,80,000.

Note- The tax to be deducted is ₹19,000, being 10% of ₹1,90,000.

(iv) <u>Brokerage of ₹8,000 paid to Akbar, a sub-broker</u>

Tax has to be deducted @10% under section 194-H as the brokerage exceeds ₹ 5,000 during the F.Y. 2014-15.

Note - The tax to be deducted is ₹800, being 10% of ₹ 8,000.

(b)

(i) Holder of an impartible estate: Holder of an impartible estate is chargeable to wealth tax. Section 4(6) of the Wealth Tax Act, 1957 provides that, the holder of an impartible estate is deemed to be the individual owner of all properties, comprised in the estate.

(ii) Association of Persons: Association of Persons is not chargeable to wealth tax. When the shares of the members are determinate or known, then members of an AOP are liable to wealth tax in respect of their share in the property of the AOP.

(iii) Partnership firms: Partnership firms are not chargeable to wealth tax. Wealth Tax is payable by individuals, HUF and companies only. All other persons are not chargeable to wealth tax.

(c) The following conditions are required to be fulfilled by an assessee, for claiming relief in respect of income earned in those countries, with which India does not have any Double Taxation Avoidance Agreement:

(i) The assessee is a resident in India during the relevant previous year.

(ii) The income accrues or arises to him outside India during that previous year.
(iii) Such income is not deemed to accrue or arise in India during the previous year.
(iv) The income in question has been subjected to income tax in the foreign country in the hands of the assessee.
(v) The assessee has paid such tax in the foreign country.
(vi) There is no agreement under Section 90 for the relief or avoidance of double taxation between India and the other country where the income has accrued or arisen.

(d) Computation of taxable salary of Mr. Ritesh Bagh for the Assessment Year 2015-16

Particulars	₹	₹
Basic Salary (₹30,000 x 5) +(₹ 37,500 x 7)		4,12,500
Transport allowance (₹3,000 x 12)	36,000	
Less: Exempt under section 10(14) (₹ 800 x 12)	9,600	26,400
Children education allowance (₹750 x 12)	9,000	
Less. Exempt under section 10(14) (₹ 100 x 2 x 12)	2,400	6,600
City Compensatory Allowance (₹ 450 x 12)		5,400
Hostel Expenses Allowance (₹ 570 x 12)	6,840	
Less: Exempt under section 10(14) (₹300 x 2 x 12 i.e. ₹ 7,200 but restricted to the actual allowance of ₹ 6,840)	6,840	Nil
Tiffin allowance (fully taxable)		7,500
Tax paid on employment [See Note Below]		3,750
Employer's contribution to recognized provident fund in excess of 12% of salary (i. e 3% of ₹ 4,12,500)		12,375
Gross Salary		**4,74,525**
Less: Tax on employment under section 16(iii)		**3,750**
Taxable salary		**4,70,775**

Note: Professional tax paid by employer should be included in the salary of Mr. Ritesh Bagh as a perquisite since it is discharge of monetary obligation of the employee by the employer. Thereafter, deduction of professional tax paid is allowed to the employee from his gross salary.