

## **Paper-7 – Applied Direct Taxation**

## PTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 1

---

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL B</b>	<b>KNOWLEDGE</b> What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	<b>COMPREHENSION</b> What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	<b>APPLICATION</b> How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	<b>ANALYSIS</b> How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence

## Paper-7 – Applied 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.

Answer all questions.

### Question No 1.

- (i) Mr. G was born in Lahore in 1946. He has been staying in England since 1972. He came to visit India on 2.10.2014 and left India on 31.3.2015. Determine his residential status for assessment year 2015-16. **[2]**
- (ii) X is an employee of ABC Ltd. getting a salary of ₹ 40,000 per month which is 'due' on the last day of the month but is paid on the 7th of next month. Salary for which months will be taxable for assessment year 2015-16? **[2]**
- (iii) State the circumstances under which Profit Split Method is applicable for determination of arm's length price under International Transactions. **[2]**
- (iv) What are the limitations in implementation of Transactional Net Margin method while computing the arm's length price of an International Transactions? **[1]**
- (v) What are the steps involved under Cost plus method for determination of Arm's Length Price? **[2]**
- (vi) Mr. Jaydeb retires on 4.1.2015 after serving XY Ltd. for a period of 16 years and 11 months. At the time of retirement his basic salary was ₹ 44,000 per month and he was also entitled to Dearness Allowance of ₹ 18,000 per month (50% form part of retirement benefits). On his retirement, he received ₹ 6,00,000 as gratuity. Compute the amount of gratuity exempt from tax and the amount to be included in gross salary. He is not covered under the Payment of Gratuity Act. **[2]**
- (vii) The assessee took a loan of ₹ 16,00,000 on 1.4.2012 from a bank for construction of a house on a piece of land he owns in Delhi. The loan carries an interest @ 10% per annum. The construction is completed on 15.6.2014. The entire loan is still outstanding. Compute the interest allowable for the assessment year 2015-16. **[2]**
- (viii) Rakesh carries two businesses A and B. Business A is a manufacturing business while business B is a speculative business. State whether the loss can be set off in the following two situations:

	Situation I (₹)	Situation II (₹)
Manufacturing business	(+) 3,00,000	(-) 15,00,000
Speculation business	(-) 1,40,000	(+) 2,00,000

**[2]**

## PTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 1

---

(ix) XYZ Pvt. Ltd. has three shareholders i.e. X, Y and Z. All the three shareholders have equal shareholding of the company. During the previous year 2013-14 the company incurred a loss of ₹ 1,20,000. On 25.3.2015 X and Y transferred their shareholding to A. On 31.3.2015 the shareholders were.

Z - 1/3rd shareholding

A - 2/3rd shareholding.

Will the company be able to carry forward and set off the loss of ₹1,20,000 to the subsequent year? [1]

(x) The estimated taxable salary of the employee 'Pritam' for the financial year 2014-15 is ₹10,20,000. Determine the amount of tax to be deducted at source every month by the employer. [2]

(xi) On the occasion of Silver jubilee of A & Co. (a sole proprietary concern), Mr. X an employee, is given a gift of watch whose value is ₹4,500. Is this gift taxable? [2]

### Question 2. Answer any four questions [4 × 15 = 60]

(a) (i) X earns the following income during the financial year 2014-15:

	₹
(a) Interest from an Indian company received in London.	1,20,000
(b) Pension from former employer in India received in USA.	1,80,000
(c) Profits earned from a business in Paris which is controlled from India, half of the profits being received in India.	2,00,000
(d) Income from agriculture in Bhutan and remitted to India.	1,25,000
(e) Income from property in England received there.	4,00,000
(f) Past foreign income brought to India.	10,000

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]

(ii) Balram furnishes you the following information for the previous year 2014-15.

Basic salary	₹ 15,000p.m.
Dearness allowance	₹ 6,000 p.m. (60% of which is part of salary for retirement benefits)
Entertainment allowance	₹ 500 p.m.
House rent allowance	₹ 6,000 p.m.
Actual rent paid for a house in Delhi	₹ 7,000 p.m.

## PTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 1

Education allowance for 3 children	₹ 200 p.m. per child
Transport allowance for commuting from residence to office and back (He spent ₹ 14,000 during the year for such purpose)	₹ 1,200 p.m.
Medical allowance (He spent ₹ 5,000 during the year for his medical treatment)	₹ 1,000 p.m.
Lunch allowance (He spent ₹ 3,000 during the year for his lunch in the office)	₹ 200 p.m.

Compute taxable salary of Balram for the assessment year 2015-16.

**[7]**

**(iii)** For the assessment year 2014-15, Shivam could not file the return within the due date. The Assessing Officer passed the order under section 144 on 31.5.2015 which was received by the assessee on 5.6.2015. The assessee files the return on 2.6.2015. Is the return valid? **[2]**

**(b) (i)** Prabhu 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
Unrealised rent - conditions of rule 4 satisfied	12,000

Prabhu had borrowed a sum of ₹ 12,00,000 @ 10% p.a. on 1.7.2012 and the construction of the property was completed on 28.02.2014. **[7]**

**(ii)** Determine the value of education facility in the following cases:

**(1)** Three children of Rahman, an employee of XYZ Ltd., are studying in a school, run by XYZ Ltd. School fees is ₹ 3,200 p.m. and hostel fees is ₹ 2,500 p.m. But the employer recovers only ₹ 1,200 p.m. and ₹ 1,000 p.m. respectively. However, a similar school or a hostel around the locality charges ₹ 2,500 p.m. and ₹ 2,000 p.m. respectively. The employer has also reimbursed the school fees of ₹ 1,500 p.m. of his nephew, fully dependent on him after the death of his brother. **[3]**

**(2)** Mr. Raghav is the manager of TUR Ltd. His son is a student of Amity International School. School fees of ₹5,000 p.m. and hostel fees of ₹ 3,500 p.m., are directly paid by TUR Ltd. to the school but it recovers from Raghav only 30%. Raghav also joins an advanced course of Marketing Management for 4 months at IIM, Ahmedabad, fees of the course, ₹2,00,000 is paid by TUR Ltd. Determine the taxable value of perquisite related to educational facilities. **[3]**

## PTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 1

(iii) Business income of TRP Ltd. Before allowing expenditure of scientific research for the previous year 2014-15 is ₹5,20,000. The company has incurred the following expenditure on scientific research during the previous year 2014-15.

	₹
Revenue expenditure on Scientific Research	3,60,000
Capital expenditure on Scientific Research	4,00,000

Compute the deduction available on account of Scientific Research assuming the company does not have any other income. [2]

(c) (i) The W.D.V. of the block of assets as on 1.4.2014 was ₹10 crores. Rate of depreciation @15%. An asset of the same block was acquired on 11.5.14 for ₹5 crpres. There was a fire on 18.9.2014 and the assets were destroyed by fire and the assessee received a sum of ₹18 crores from the insurance company.

Compute the Capital Gain assuming:

(a) All the assets were destroyed by fire

(b) Part of the block was destroyed by fire

Would your answer differ if the assessee received ₹8,00,00,000 from insurance company assuming:

(a) All the assets were destroyed by fire

(b) Part of the block was destroyed by fire [7]

(ii) Ravi owns a residential house which was purchased by him in 1975 for ₹ 1,80,000. The FMV as on 1.4.81 was ₹ 6,00,000. This house is sold by him on 16.7.2014 for a consideration of ₹ 75,00,000. The brokerage and expenses on transfer was ₹75,000. Compute Capital Gains for the Assessment Year 2015-16.

If he invests ₹ 15,00,000 for purchase of a new house on 15.3.2015.

If the HP so purchased in 15.3.2015 is again sold in 21.10.15 for ₹ 20 lacs, what will be the tax liability? [6]

(iii) Sandip borrowed a sum of ₹24,00,000 on 1.4.2012 @12% p.a. to construct the building for the purpose of his business. The construction of house property was completed on 30.6.2014 and put to use immediately. The loan is still outstanding. Cost of construction of building is ₹55 lakh. Calculate the actual cost of building which shall be eligible for depreciation. [2]

(d) (i) During the Previous Year 2014-15, Mrs. Rachita (aged 46 years) pays the following installments of advance tax :

	₹
On September 15, 2014	12,000
On December 15, 2014	28,000
On March 15, 2015	32,000
On March 16, 2015	16,000

Mrs. X files return of ₹ 14,02,000. Assessment is also completed on the basis of income returned by Mrs. X after making addition of ₹ 50,000 (date of assessment order : January 20, 2016). Mrs. X is entitled to tax credit of ₹ 60,600 on account of tax deducted at source. Compute interest under sections 234B and 234C. [6]

## PTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 1

(ii) Mr. Abdul, a resident assessee, runs a manufacturing business in Delhi. For the Previous Year 2014-2015, he disclosed his Taxable Income as below:

	₹
Business Profits	3,70,000
Long-term Capital Gains	30,000
Short-term Capital Gain	40,000

He has hired furnished accommodation for his own use and pays ₹ 10,000 p.m. He has paid donation amounting to ₹ 10,000 to National Defence Fund. He has deposited ₹ 70,000 under a scheme framed by the Life Insurance Corporation for maintenance of his dependant brother with a severe disability. The disability is certified by the medical authority. Compute his Total Income for the Assessment Year 2015-2016. [7]

(iii) Compute the taxable income in the following situations

	Situation I	Situation II
	₹	₹
Income/loss from manufacturing business	2,10,000	(-) 5,60,000
Income/loss from speculation business	(-) 1,80,000	5,50,000
Profit/Loss from a specified business referred to in section 35AD	(-) 1,40,000	1,80,000
Short-term capital gains/loss	(-) 1,70,000	(-) 1,70,000
Agricultural income/loss	(-) 40,000	60,000

[2]

(e)(i) Shri Rampur Charitable Trust (Regd.) submits the particulars of its income / outgoing for the Previous Year 2014-2015 as below :

- |   |           |
|---|-----------|
|   | ₹         |
| (i) Income from property held under trust for charitable purposes:<br>(₹ 3,20,000 out of ₹ 20,00,000 is received in PY 2015-2016) | 20,00,000 |
| (ii) Voluntary contributions (out of which ₹ 1,50,000 will form part of the corpus)   | 4,00,000  |

The trust spends ₹ 4,12,500 during the Previous Year 2014-2015 for charitable purposes. In respect of ₹ 3,20,000, it has exercised its option to spend it within the permissible time-limit in the year of receipt or in the year, immediately following the year of receipt.

The trust spends ₹ 5,00,000 during the Previous Year 2013-2014 and ₹ 2,00,000 during the Previous Year 2015-2016. Compute and discuss the chargeability of the income of the trust.

[5]

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

- (a) Gift of ₹ 5,00,000 on 16.4.2014 from a friend.
- (b) Gift of jewellery fair market value of which is ₹ 3,00,000 on 17.5.2014 from her fiancée.
- (c) Gifts of ₹ 51,000 each received from her 4 friends on the occasion of her marriage on 21.10.2014.
- (d) Gift of ₹ 1,00,000 on 22.11.2014 from her mother's sister.
- (e) Gift of ₹ 60,000 on 25.11.2014 from her father's brother.

## PTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 1

---

- (f) Gift of ₹ 50,000 from her husband's friend on 1.12.2014.  
(g) Gift of ₹ 21,000 on 15.12.2014 from her mother's friend.  
(h) Gift of ₹ 26,000 on 25.12.2014 from her brother's father in law.  
(i) Gift of ₹ 1,21,000 from her husband's brother.  
(j) Gift of ₹ 26,000 from her employer.  
(k) Scholarship of ₹ 1,20,000 from a charitable institution registered under section 12AA.  
(l) 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.  
(m) She purchased bullion for ₹ 4,40,000 whose fair market value is ₹ 4,85,000.  
(n) 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]**

(iii) Gross Total Income of Abhishek for previous year 2014-15 is ₹7,20,000. He had taken a loan of ₹10,00,000 in 2013-14 from a Bank for pursuing the MBA course by his son from IIM Bangalore. During the previous year 2014-15, he repaid the 1<sup>st</sup> installment of loan of ₹75,000 and interest of ₹90,000. Compute his Total Income for assessment year 2015-16. **[2]**

### Question No 3. Answer any two questions [2 × 10 = 20]

- (a) (i) XYZ Ltd., a company incorporated in US, sells laser printer cartridge to its 100 per cent Indian subsidiary AB Ltd. @ \$50 per cartridge. XYZ Ltd. also sells its laser printer cartridge to another company PQR Ltd. in India @ \$80 per piece. Total income of AB Ltd. for the assessment year 2014-15 is ₹12,00,000 after making payment for 100 cartridges @ \$50 (1\$ = ₹ 49). AB Ltd. has deducted tax at source while making payments to XYZ Ltd. In this case, sale to unrelated party PQR Ltd. is @ \$80. Compute the arm's length price and taxable income of XYZ Ltd. and AB Ltd. The rate of one dollar may be assumed to be equivalent to ₹ 49 in all transactions. **[6]**
- (ii) X Ltd, operating in India, is the dealer for the goods manufactured by ZOR Ltd of Japan. ZOR Ltd owns 55% of Shares of X Ltd, and out of 7 Directors of the Company, 4 were appointed by them. The Assessing Officer after verification of transactions of ₹ 350 Lakhs of X Ltd for the relevant year and by noticing that the Company had failed to maintain the requisite records and had also not obtained the Accountants' Report, adjusted its Income by making an addition of ₹ 35,00,000 to the declared income and also issued a Show Case Notice to levy various penalties. X Ltd seek your expert opinion. **[4]**
- (b) (i) HUM Medical Equipments Inc. (HUM) of Canada has received an order from a leading UK based Hospital for development of a hi-tech medical equipment which will integrate the best of software and latest medical examination tool to meet varied requirements. The order was for 2,50,000 Euros.  
To execute the order, HUM joined hands with its subsidiary CARE Components Inc. (CCI) of USA and Bioinformatics India Ltd (BIL), an Indian Company. CCI holds 40% of BIL.  
HUM paid to CCI and BIL Euro 70,000 and Euro 80,000 respectively and kept the balance for itself.  
In the entire transaction, a profit of Euro 80,000 is earned. Bioinformatics India Ltd incurred a Total Cost of Euro 75,000 in execution of its work in the above contract.



## PTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 1

---

The Relative Contribution of HUM, CCI and BIL may be taken at 35%, 25% and 40% respectively.

Compute the Arm's Length Price and the incremental Total Income of Bioinformatics India Ltd, if any due to adopting Arm's Length Price determined in this case. **[6]**

**(ii)** What are the practical problems on existing ALP concept? **[4]**

**(c)** RV Ltd, an Indian Company, exports grapes to SUV Inc for an amount of ₹ 30 Lakhs. SUV Inc is located in a Notified Jurisdictional Area (NJA).

RV Ltd charges ₹ 38 Lakhs and ₹ 40 Lakhs for sale of similar goods to DP Inc and RC Inc respectively which are not located in NJA and both of them are not Associated Enterprises of RV Ltd.

Assuming that permissible variation notified by Central Government for such class of International Transactions is 6% of the Transaction Price, state the tax implications u/s 94A in respect of the above transaction by RV Ltd to SUV Inc. **[10]**