

## **Paper-7 Direct Taxation**

## PTP\_Intermediate\_Syllabus 2012\_Jun2015\_Set 1

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

	Learning objectives	Verbs used	Definition
<b>LEVEL B</b>	KNOWLEDGE  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
	COMPREHENSION  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
	APPLICATION  How you are expected to apply your knowledge	Illustrate	Use an example to describe or explain something
		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
	ANALYSIS  How you are expected to analyse the detail of what you have learned	Solve	Find an answer to
		Tabulate	Arrange in a table
		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 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.

### Section A

**[Answer all the Questions]**

**(1) Answer the following sub-divisions briefly in the light of the provisions of the Income-tax Act, 1961:**

**(i)** Mr. X, a person of Indian origin came to India on a visit in the previous year 2014-15. He stayed in India for 130 days. From financial years 2010-2011 to 2013-14 his total stay in India was for 400 days. Determine the residential status of Mr. X for the assessment year 2015-16.

**[2]**

**(ii)** A is a owner of land in Noida. Such land was being used for agricultural purpose from last 3 years. On 2.4.2003 his land was acquired by Central Government. The assessee had received compensation of `5 crore in respect of land on 1.7.2004. Whether A would be liable to pay tax or not on compensation or capital gain received by him?

**[2]**

**(iii)** X, resident, pays `60,000 on medical treatment of his mother who is 67 years old. He received `20,000 from insurance company, `10,000 from employer. Determine the amount of deduction available u/s 80DDB.

**[2]**

**(iv)** Where a trust incurs a debt for the purposes of the trust, whether the repayment of the debt would amount to an application of the income for the purposes of the trust?

**[2]**

**(v)** Compute the tax liability of an Individual for the assessment year 2015-16 from the following data:

	(`)
Net agricultural income	1,20,000
Total non-agricultural income	1,60,000

**[2]**

**(vi)** X & Co. is paying income-tax on an income of `2 crores. The company has declared a dividend @10% amounting to `50 lacs. The company also receives a dividend from a subsidiary company of `4 lacs. Calculate the additional income-tax.

**[2]**

**(vii)** How many years can a company carry forward unabsorbed depreciation loss?

**[1]**

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(viii) A house is let out for 7 month @`1,500 P.M. and for 3 months @`2,000 P.M. It remains vacant for the balance 2 months. Calculate the annual rent under wealth tax Act, 1957. **[2]**

(ix) Whether the provision of arm's length price is applicable in case if these result into reduction of income or increase of loss? **[2]**

(x) TM Ltd. has two units. One of these units is situated in Utrakhand for which TM Ltd. is claiming 100% deduction of profits under section 80-IC. TM Ltd. filed the return of income as under:

Business Income	( )
Profit from non-eligible business	54,00,000
Profit from business eligible for deduction u/s 80-IC	<u>32,00,000</u>
Gross total income	86,00,000
Less: Deduction u/s 80-IC	<u>32,00,000</u>
	<u>54,00,000</u>

Eligible unit has purchased goods worth `6 crores from non-eligible unit whose fair market value as determined by A.O. is `6.30 Crores.

Compute the total income of TM Ltd. **[2]**

(xi) When reference is made to Transfer Pricing Officer under section 92CA(1) of Income Tax Act, 1961. **[1]**

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

(a) (i) Calculation of Income Tax in the case of an employee below the age of sixty years having a handicapped dependent ( With valid PAN furnished to employer). For A.Y. 2015-2016

S. No.	Particulars	`
1	Gross Salary	3,70,000
2	Amount spent on treatment of a dependant, being person with disability (but not severe disability)	7000
3	Amount paid to LIC with regard to annuity for the maintenance of a dependant, being person with disability( but not severe disability)	50,000
4	GPF Contribution	25,000
5	LIP Paid	10,000

**[5]**

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(ii) Mr. A submits the following particulars of his income for the assessment year 2015-2016

	(₹)
Income (other than income from business & profession)	4,00,000
Dividend from Indian Company	1,000
Interest on Bank Deposit	2,000
Life Insurance Premium paid	6,000
Donation to Jawahar Lal Nehru Memorial Fund	15,000
Donation to Prime Minister's National Relief Fund	16,000
Donation to a Public Charitable Institution	24,000
Donation to a University for statistical research approved U/s 35(1)(iii)	5,000

Determine the net income and tax liability for the assessment year 2015-2016. **[8]**

(b)(i) Tax liability of M/s. ABC Ltd. for A.Y. 2015-2016 is estimated at ₹ 80,000. Determine the amount of instalment of advance-tax payable and date of payment. **[4]**

(ii) Assessment year 2015-16

	(₹)
- Salary per month (exclusive of benefits & perquisites)	30,000
- Dearness allowance (2/5 forming part of retirement benefits)	3,000
- Actual House rent allowance received from employer per month	3,000
- Actual rent paid by the employee per month in respect of residential Accommodation at Delhi	5,000
- Commission @1% of annual turnover of ₹ 40,00,000	40,000

Calculate the permissible House Rent allowance. **[4]**

(iii) Mr. X requires to compute total taxable income in the Assessment Year 2015-16. He had received various incomes which come under the head "Income from other sources". Calculate taxable income of Mr. X:-

- (i) Interest on NSC VII ₹ 2,000
- (ii) Family Pension ₹ 65,000 p.a.
- (iii) Rent received from machinery on hire ₹ 4,000 p.m., he spent ₹ 5,000 p.a for repairs and ₹ 2,000 p.a for insurance against risk of damage.
- (iv) Dividend received from Indian Company ₹ 3,000
- (v) Interest on Kisan Vikas Patra ₹ 1,500
- (vi) Winning from Lotteries ₹ 1,20,000. **[5]**

(c)(i) Mr. A, an employee retired from service on 30.9.2014 after completing 42 years of service. He received ₹ 3,10,000 as gratuity. His average monthly salary in the last 10 months was ₹ 13,000. He is not covered by the Payment of Gratuity Act, 1972. His present salary being ₹ 15,000 per

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month. Dearness allowance received is ₹3,000 per month. Calculate total Income of assessee for A.Y. 2015-2016. [4]

(ii) Mr. B retires from ABC Ltd. on 30th June, 2014. He gets pension of ₹800 per month upto 31st January, 2015. With effect from 1st February, 2015 he gets 80% of the pension commuted for ₹80,000. Calculate the taxable pension of Mr. Y. if-

(a) he does not receive gratuity

(b) he receives ₹3,000 as gratuity at the time of retirement. [5]

(iii) A partnership firm, having four partners has a business income of ₹5,00,000 before paying salary @ ₹6,000 p.m. to each of its partners. Calculate tax on firm for A.Y. 2015-2016. [4]

(d)(i) A Ltd., a domestic company and engaged in the business of trading in shares and has manufacturing plant of rubber in Gujarat. The assessee have following income for the assessment year 2015-2016.

a) Trading Business of shares	₹3,70,000
b) Manufacturing Business	₹8,50,000
c) Book profit after deducting securities transaction tax	₹1,00,20,000

[7]

(ii) Amit owns a residential house, who takes loan of ₹6,00,000 @ 12% p.a. for construction of his house on 1st Oct., 2007. Construction of the house was completed on 22nd Feb., 2014. If date of repayment of loan is (i) 26th May, 2011 and (ii) 3rd April, 2013.

(a) Actual rent received by the owner is ₹4,50,000;

(b) Municipal value ₹3,20,000;

(c) Fair rental value ₹4,00,000;

(d) Standard rent ₹3,80,000.

The owner paid municipal taxes of ₹40,000 for the previous year. Find out the Income from house property for the assessment year 2015-2016. [6]

(e)(i) Mr. X has sold his building for ₹32,00,000 on 15th Jan'2015. He had purchased the plot in 1980 at a total consideration of ₹2,00,000 and constructed the building in F.Y.1985-86, 1986-87 and 1992-93 and invested ₹2,00,000, ₹2,50,000 and ₹2,00,000 during the respective financial years. Fair market value of the plot as on 1-4-81 was ₹2,50,000. The brokerage @ 2% was paid by Mr. X for effecting the sale of building. Compute capital gain. [5]

(ii) Calculate the Gross Taxable income of Mr. Sushil Sharma for the A.Y. 2015-2016 after adjusting following Profits & Losses given under different heads of Income are as follows:-

	(₹)
(a) Income from Salary	4,20,000
(b) Income from house property-	

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House I	48,000
House II	(-)22,000
House III (Self occupied)	(-)50,000
(c) Profit and gains from Business & Profession-	
Manufacturing business	72,000
Trading Business	(-) 32,000
Business X (speculative)	95,000
Business Y (speculative)	(-)1,40,000
(d) Long-term Capital Gains from the transfer of house	1,20,000
Short term Capital Loss from the transfer of shares	(-) 65,000
(e) Income from other Sources-	
Winning from lotteries	37,500
Loss from Card Games	(-)30,000
Interest received	28,000

[8]

### Section B

#### 3. Answer any one Question [1 × 8 = 8]

(a) Mr. A. completed construction of house property at Delhi in 1982, the aggregate area of the plot is 600 sq. mtrs., while the built-up area of the house is 200 sq. mtrs. The total cost of the house (including cost of land) is ₹11,00,000. The fair rental value of the house is ₹7,500 per month, but the house is let out at a rent of ₹8,000 per month and he has accepted security deposit of ₹1,00,000. Mr. A pays municipal taxes ₹10,000, ground rent ₹1,000, insurance premia for coverage of risk of damage to house ₹2,000 and collection charges ₹500 during the previous year ended on 31.3.2015. Expenses on repairs are borne by tenant. Compute the value of the house property as on 31.3.2015 being the valuation date of Mr. A for A.Y. 2015-2016 assuming the house is built on (a) freehold land, or (b) leasehold land (unexpired period of lease of the land being 55 years) or (c) lease hold land (unexpired period of lease of the land being 30 years). [8]

(b) Mrs. Radha, an individual, submits the following particulars of her assets and liabilities on 31st March, 2015.

	(₹)
Self occupied residential house	7,80,000
Motor car for personal use	3,10,000
Urban land (situated in area within the jurisdiction of municipality)	8,00,000
Equity shares in an Indian Joint stock company	2,50,000
Units in Unit Trust of India	1,50,000
Jewellery	1,30,000

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Deposits under National Deposit Scheme	60,000
Cash in hand	70,000
Deposits made in a finance company	2,00,000
Borrowing for the purchase of residential house	5,00,000
Loan taken to purchase equity shares	1,00,000

Note: One more house is transfer by Mrs. Radha to her spouse without any adequate consideration.

Determine her wealth tax liability for A.Y. 2015-16.

[8]

### Section C

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

**(a)(i)** ABC Ltd. is an Indian company. It has a manufacturing unit in Andhra Pradesh. It is a subsidiary company of X Ltd., a US company. X Ltd. gets royalty from ABC Ltd. on supply of technical information which is used by ABC Ltd. for manufacturing goods in its unit in Andhra Pradesh. For similar transfer of technical information to any unrelated entity X Ltd. charges \$8,000 per year. However, from ABC Ltd. it charges (a) \$11,000 or \$6,000 per year which is subject to tax deduction by ABC Ltd. Exchange rate is `59 per US dollar. Income of ABC Ltd. for the assessment year 2015-16 before deducting payment for technical information to ABC Ltd. is `76,00,000. Find out the income of X Ltd. and ABC Ltd.

[5]

**(ii)** INS Inc. is an American company situated in New Jersey. It has three subsidiary companies-X Ltd. (an Indian company), Y Ltd. (a South African company) and Z Ltd. (a Nigerian company). X Ltd. has a manufacturing plant in Andhra Pradesh. Raw material is imported from Y Ltd. and Z Ltd. Approximately 90 per cent of the manufactured goods are exported to INS Inc. Remaining goods are sold in domestic market. The profit and loss account of X Ltd. for the year ending March 31, 2015 is given below—

			(Rupees	in	crore)
Import of raw material from Y Ltd.	1 00	Export to INS Inc.-			280
Import of raw material from Z Ltd.	80	Domestic sale			60
Other expenses	90				
Net profit	<u>70</u>				
	340				340

Net profit is `70 crore over total cost of `340 crore (which comes to 20.59 per cent margin over cost). Since the assessment year 2013-14, the assessment of X Ltd. is completed by adopting the Transaction Net Margin Method (TNMM). Discuss the applicability of arm's length range (3 per cent variation) in this case.

[5]

**(b)** A Ltd., an Indian company, is a subsidiary company of B Inc., a company registered in the Netherlands. It purchased raw materials from B Inc. Purchase prices of raw material determined by the most appropriate method are `9,950 and `10,000 per unit. A Ltd., however, paid to B Inc. `10,400 (Situation 1), `10,500 (Situation 2), `10,600 (Situation 3), `9,400 (Situation 4), `9,500 (Situation



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5) and `9,600 (Situation 6). Determine the arm's length price in the six situations for the assessment year 2015-16. Tolerance range notified by the Government is 3 per cent. **[10]**

**(c)(i)** ABC Ltd., an Indian company, sells computer monitor to its 100 per cent subsidiary XYZ Ltd. in United States @ \$ 50 per piece. ABC Ltd. also sells its computer monitor to another company Y Ltd. in United States @ \$80 per piece. Total income of ABC Ltd. for the assessment year 2015-16 is `12,00,000 which includes sales made for 100 computer monitor @ \$50 to XYZ Ltd. Compute the arm's length price and taxable income of ABC Ltd. The rate of one dollar may be assumed to be equivalent to `59 for the sake of simplicity. **[5]**

**(ii)** What are the difficulties arises in applying the arm's length principle? **[5]**