Paper 7 - Direct Taxation

Section A

(Question No. 1 is compulsory and any four from Question No. 2 to 6]

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

(i) State the difference between foregoing of salary and surrender of salary?

(ii) Explain the taxability of arrears of rent.

(iii) Myriad Enterprises Ltd. incurs ₹1,00,000 towards promoting family planning amongst its employees, in the previous year 2013-14. State the quantum of deduction allowable under Section 36(1)(ix) of the Income Tax Act, 1961, in the current year and the number of years, in which such deduction is allowable,

(iv) State the head of income, under which the salary payable to a Member of Parliament, is chargeable to tax under the provisions of the Income Tax Act, 1961?

(v) How is the period of holding calculated, in case of transfer of a security by a depository (i.e a demat account)?

(vi) State the taxability of advance salary and advance against salary?

(vii) An individual, who is an Indian resident, may hold two different citizenships simultaneously. Explain, whether the determination of residential status of an individual in India, is affected by citizenship of an individual.

(viii) Distinguish between Tax Deducted at Source and Tax Collected at source?

[1x8]

(b) Choose the correct alternative:

(i) Vinod Mehta, an Indian resident, is provided with furnished accommodation from February, 2014, by his employer. The value of furniture amounts to ₹95,000. The actual hire charges paid by his employer are ₹6,000 p.a. The value of furniture to be included along with value of unfurnished house for A.Y 2014-15 is:

(a) ₹6,000
(b) ₹9,500
(c) ₹19,000
(d) ₹1,000

(ii) Somlata, an Indian resident, received ₹1,00,000 in December 2013 towards recovery of unrealized rent, which was deducted from actual rent during previous year 2012-13. 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

(iii) The W.D.V of a block (plant and machinery, rate of depreciation 15%) as on 01.04.2013 is ₹6,40,000. A machinery costing ₹1,00,000 was acquired on 10.08.2013, but put to use on 10.11.2013. During February 2014, part of this block was sold for ₹4,00,000. The depreciation for A.Y 2014-15 would be-
(a) ₹51,000
(b) ₹42,250
(c) ₹43,500
(d) ₹1,11,000

(iv) Mr. Deepak Sharma (aged 66 years), an Indian resident, paid medical insurance premium of ₹ 19,000 by cheque and ₹1,000 by cash during June 2013 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

(v) Abhinav (aged 40 years), has to file a return of income, if gross total income is in excess of-
(a) ₹ 1,50,000
(b) ₹ 2,00,000
(c) ₹ 1,60,000
(d) ₹1,80,000

[1x5]

(2)
(a) Mr. Rakesh Kumar, an Indian resident individual, is employed in a PSU. He furnishes the following particulars for the previous year 2013-14:

Particulars	Amount (₹)
(i) Salary income for the year	17,25,000
(ii) Salary, pertaining to the financial year 2009-10, received during the previous year 2013-14	80,000
(iii) Assessed income for the financial year 2009-10	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 2014-15.

The rates of income tax for the assessment year 2010-11 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

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

(c) When is a deduction under Section 35D of the Income Tax Act, 1961 allowed?

[7+4+2]

(3)
(a) Fortune 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 2013-14, 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 2014-15, assuming that the financial year 2013-14 falls within the first 5 year period commencing from the year of production of articles by Unit A.

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

(c) The book profits of Star Heights Ltd., for the previous year 2013-14 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 2014-15. Is Star Heights Ltd. eligible for any tax credit? If so, for how many years, shall Star Heights Ltd. avail such tax credit?

[5+5+3]

(4)
(a) Sanjay, an Indian resident, (aged 45 years), owned a residential house in Indore. It was acquired by Sanjay, on 15.10.1986 for ₹7,00,000. It was sold for ₹ 70,00,000 on 09.11.2013. 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.

Sanjay acquired a residential house in Mumbai on 15.12.2013 for ₹15,00,000 and deposited ₹4,00,000 on 10.04.2014 in the capital gain bond of Rural Electrification Corporation Ltd. (RECL). He deposited ₹5,55,000 on 10.07.2014 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. Sanjay for the assessment year 2014-15.
ii. the income tax liability of Mr. Sanjay, assuming that there is no other source of income chargeable to tax.

Cost inflation Index: Financial year 1986-87= 140, Financial Year 2013-14= 939

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

(c) Compute the total income of Mr. Virendra Pratap, for the Assessment Year 2014-15, 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 2013-14:

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+3+5]

(5)
(a) Dr. Mrityunjay Dwivedi, a resident individual, (aged 55 years) is a medical practitioner. The details relating to the previous year 2013-14, 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-	6,00,000

		2013]	
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 01-10-2013]	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. Dwivedi 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 01-04-2013 at the rate of 10%. One-fourth of the portion of the house is used for purposes of running clinical establishment.

2. She invested in term deposit of ₹2,00,000 in Bank of Baroda on 01-07-2013 for a period of 5 years in the name of his minor daughter at 10% per annum.

3. The commercial vehicle was purchased on 01-07-2013 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. Mritunjay Dwivedi, ignoring depreciation on building.

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

	₹
2012 -2013	1,10,00,000
2013 - 2014	92,00,000

State whether the provisions of tax deduction at source are attracted for the following expenses incurred during the previous year 2013 – 2014:

	₹
Interest paid to Indian bank on Term Loan	95,000
Advertisement expenses to Sita (two individual payments of ₹30,000 and ₹40,000	70,000
Factory rent paid to Alok	1,90,000
Brokerage paid to Balaram, a sub – broker	8,000

[10+3]

(6)
(a) Mr. John, aged 68 years, is a 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. John, for the Assessment Year 2014-15.

(b) Mr. Satish submits the following details of his income for the assessment year 2014-15:

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 2007-08)	(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 2014-15.

[6+7]

Section B
(Answer all the questions)

(7) (a) 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.

[3 x1]

(b) 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. Sumitra was transferred without consideration to Miss Sita on 12-02-2014. Subsequently, Miss Sita got married to the son of Mrs. Sumitra on 15-03-2014. The value of the house on 31-03-2014 is ₹ 75 Lakhs.

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

[2 x1]

EITHER

(8) (a) Briefly discuss the chargeability of wealth tax.
(b) Explain, how assessees liable to pay wealth tax can minimize their wealth tax liability?
[2 + 3]

OR

(8) A firm consisted of two partners Mukesh & Suresh, having 3:2 profit sharing ratio. Mukesh contributed ₹ 15,00,000 and Suresh 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 under the Wealth Tax Act 1957. [5]

Section C
(Answer all the questions)

(9) Answer the following questions:

(a) State the point of time, when the taxes paid outside India become eligible for claiming tax credit in India?
(b) Define the term 'tax haven'?
(c) Distinguish between 'international transaction' and 'cross border transaction'?
(d) State the event in which the Transfer Pricing Officer is referred to in an international transaction?
(e) When is a foreign company considered to be resident in India?

[1x5]

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

(b) Ms. Jennifer D' Souza, an Indian resident, 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. Jennifer D' Souza for the Assessment Year 2014-15.

(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) The transfer price adopted for an international transaction of sale of goods by an Indian Company during the financial year 2013-14 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.

[5+7+4+4]

OR

(10) (a) Sterling Machine Works 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 Diamond Industries Ltd at a price, which is lower than the normal transaction price by $250 per car. Diamond Industries Ltd. holds 35% shares in Sterling Machine Works Ltd.

(ii) Wellington 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 Wellington Ltd. for a similar transaction. Sterling Machine Works Ltd. was completely

dependent on the technical knowhow supplied by Wellington Ltd., for the manufacture of the machineries.

(iii) Beijing Finance Ltd. extended a loan of Euro 850 crores to Sterling Machine Works Ltd., carrying an interest @10% p.a, which was outstanding in the books of Sterling Machine Works Ltd. as on 31.03.2014. Beijing 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 Sterling Machine Works Ltd. as on 31.03.2014 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 2014-15.

(b) Explain, when shall a transaction entered into with a person other than an associated enterprise be deemed as a transaction between two associated enterprises?

(c) State the purposes for which the Central Government as per Section 90 of the Income Tax Act, 1961 can enter into an agreement with any foreign country.

(d) "Multiple year data can be used for determination of Arm's Length Price in an international transaction." Explain.

(e) Explain the factors to be considered in selection of the most appropriate method in respect of the transfer pricing provisions relating to international transactions.

[6+2+5+2+5]