

INTERMEDIATE EXAMINATION GROUP I (SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS JUNE 2014

Paper-7: APPLIED DIRECT TAXATION

Time Allowed : 3 Hours

Full Marks : 100

Wherever required, the candidate may make suitable assumptions and state them clearly in the answers.

Working notes should form part of the relevant answers.

All questions relate to the assessment year 2014-15 and the provisions stated relate to Income-tax Act, 1961, unless stated otherwise in the question.

[Answer Question No. 1 which is compulsory and any five from the rest.]

1. (a) Choose the most appropriate alternative: 1x13=13
- (i) The basic exemption limit for every individual being resident in India, who is of the age of 80 years or more for the Assessment year 2014-15 is ?
- (A) 2 lakhs
(B) 2.5 lakhs
(C) 3 lakhs
(D) 5 lakhs
- (ii) Commuted pension received by a State Government employee is exempt upto ₹
- (A) 3 lakhs
(B) 5 lakhs
(C) 10 lakhs
(D) Fully exempt
- (iii) Accommodation provided in a hotel will not be a taxable perquisite, if the period of such accommodation does not exceed
- (A) 7 days
(B) 10 days
(C) 15 days
(D) 30 days
- (iv) Computation of business income as per section 44 AF of the Income Tax Act, 1961 would be the following % of turnover:
- (A) 1
(B) 2
(C) 5
(D) 8

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- (v) Interest to a partner by a firm will not be disallowed, if the rate of interest is
- (A) 14%
 - (B) 12%
 - (C) 15%
 - (D) 18%
- (vi) The rate of minimum alternate tax is
- (A) 18.5%
 - (B) 15.5%
 - (C) 18%
 - (D) 12%
- (vii) Due date for filing the return of income of a company (not having any international transaction) is
- (A) 31.7.2014
 - (B) 31.8.2014
 - (C) 30.9.2014
 - (D) 31.10.2014
- (viii) If total income of a partnership firm exceeds ₹ one crore, the following surcharge on income tax is payable:
- (A) 1%
 - (B) 10%
 - (C) 5%
 - (D) 7%
- (ix) The investment made in the long term specified asset by an assessee to claim exemption u/s 54EC from capital gain tax cannot exceed ₹ in lakhs
- (A) 10
 - (B) 15
 - (C) 25
 - (D) 50
- (x) The maximum penalty leviable for failure to get accounts audited or to furnish report u/s 44AB is ₹
- (A) 75,000
 - (B) 1,00,000
 - (C) 1,50,000
 - (D) 3,00,000
- (xi) A house shall not be an asset for the purpose of wealth tax, if it is used for residential purpose and allotted by a company to a director who is in whole time employment having a gross amount salary of less than ₹
- (A) 10 lakhs
 - (B) 5 lakhs
 - (C) 7.5 lakhs
 - (D) 12 lakhs
- (xii) Income of minor child includible in the Income of his/her parent is exempt to the extent such income does not exceed the following amount for each minor child ₹
- (A) 500
 - (B) 1,000
 - (C) 1,500
 - (D) 2,000
- (xiii) A trust shall not be considered as charitable trust when the commercial activities in the previous year exceed ₹
- (A) 10 lakhs
 - (B) 25 lakhs

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- (C) 15 lakhs
(D) 30 lakhs

(b) Fill up the blanks:

1 x 12 = 12

- (i) No deduction shall be allowed in respect of contributions given by companies to political parties by way of
- (ii) No deduction of tax at source shall be made where the total amount of consideration for the transfer of an immovable property (other than agricultural land) is less than ₹
- (iii) Standard deduction of _____ net lettable value of a property shall be allowed to the assessee.
- (iv) Property income of Registered Trade Union _____ (is not/is) exempt from income-tax.
- (v) Rate of depreciation for block of intangible assets is _____
- (vi) Deduction in respect of medical treatment of a senior citizen u/s 80DD of the Income Tax Act, 1961 is ₹
- (vii) There are two schools of Hindu Law, one is Mitakshara and the other is _____
- (viii) Interest u/s 234B of the Income Tax Act, 1961 will not apply if an assessee pays more than _____ % of the assessed tax by way of advance tax.
- (ix) Where an assessee incurs any expenditure over ₹ _____ towards payment to goods transport agency otherwise than by account payee cheque drawn on a bank or account payee bank draft, 100% thereof will be disallowed in respect of such expenditure.
- (x) Time limit for carry forward and set off of losses from speculation business is _____ years.
- (xi) Where there is sale of coffee grown and cured by the seller, _____% will be taken as non-agricultural income as per Rule 7B of Income Tax Rules.
- (xii) Every person who grants a lease or a licence or enters into a contract for Toll Plaza will collect tax at source at the rate of _____ %.

Answer:

1. (a) (i) (D) ₹ 5 lakhs
(ii) (D) Fully exempt
(iii) (C) 15 Days
(iv) (C) 5%
(v) (B) 12%
(vi) (A) 18.5%
(vii) (C) 30.09.2014
(viii) (B) 10%
(ix) (D) 50 lakhs
(x) (C) 1,50,000
(xi) (A) 10,00,000
(xii) (C) 1,500
(xiii) (B) 25,00,000

- (b) (i) Cash
(ii) 50 lakhs
(iii) 30%
(iv) is
(v) 25%
(vi) ₹ 60,000
(vii) DAYABHAGA
(viii) 90%
(ix) ₹ 35,000

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- (x) FOUR
- (xi) 25%
- (xii) TWO

2. (a) Mr. Suresh, finance executive in a company received the following emoluments per month for the financial year 2013-14:

Particulars	₹
Basic pay	40,000
Dearness allowance	15,000
Commission	10,000
Entertainment allowance	5,000
Medical expenses reimbursed (total for the year)	20,000

Profession tax ₹ 5,000 of which ₹ 2,000 was paid by the employer. He contributed ₹ 5,000 per month towards recognized provident fund. Also, he contributed ₹ 30,000 in Post Office in National Saving Certificate IX issue.

Compute his total income on the assumption that he does not have income from any other head for the year. 9

(b) State the exceptions to the applicability of clubbing provisions even in the case of revocable transfers. 3

(c) Raman engaged in business, has total income of ₹ 3,10,000. He paid rent of ₹ 8,000 per month for the residential accommodation occupied by him at Cochin. Compute the amount eligible for deduction under section 80GG. 3

Answer:

2. (a)

Computation of total income of Mr. Suresh for the assessment year 2014-15

		₹
Basic pay		4,80,000
Dearness Allowance		1,80,000
Commission		1,20,000
Entertainment allowance		60,000
Medical expenses reimbursed (total for the year)	20,000	
Less: Exemption U/s. 10	<u>15,000</u>	5,000
Profession tax paid by employer		2,000
Gross Salary		8,47,000
Less:		
Entertainment allowance not deductible U/s. 16(ii) since he is not a govt. employee		Nil
Deduction U/s. 16(iii) in respect of profession tax paid		5,000
Gross Total Income		8,42,000
Less: Deduction U/s. 80C in respect of RPF contribution	60,000	
Subscription to NSC IX issue	<u>30,000</u>	90,000
Total Income		7,52,000

(b) Section 61 which provides for taxing the income in the hands of transferor in the case of revocable transfer, will not apply in situations given in section 62. The exceptions are given below:

- (i) Transfer of asset by way of trust which is not revocable during the life time of the beneficiary and in the case of any other transfer, which is not revocable during the life of the transferee.
- (ii) Any transfer of asset made before 01.04.1961, which is not revocable for a period of exceeding 6 years.

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In the above said two cases, even though the transferor has given revocable transfer of asset, income thereon will not be taxable in his hands by applying clubbing provisions.

(c) Deduction Under section 80GG will be computed as under:

(i) Actual rent less 10% of total income (₹96,000 less ₹31,000)	65,000
(ii) 25% of total income	77,500
(iii) Monetary limit at ₹2,000 per month	24,000
Least of the above is eligible for deduction i.e. ₹ 24,000	

3. (a) In December, 2013, Mr. Dev received ₹ 24 lakhs by way of compensation and ₹ 12 lakhs by way of interest on compulsory acquisition of his agricultural land within city limits of Chennai by National Highway Authority, consequent to a court order. He incurred ₹ 2 lakh towards legal expenses. The acquisition of his agricultural land was in the year 2006 and it was used for cultivation for the past 5 years before acquisition by Mr. Dev. The compensation award was approved by the Central Government.
Determine the amount chargeable to tax. 4
- (b) Explain the incentive given to companies for expenditure incurred on skill development project. 3
- (c) Mr. Sanjay running a proprietary business by name "Kannan Departmental Store" wants to convert it into a company. State the conditions to be satisfied by Mr. Sanjay for availing exemption from capital gains tax by treating the transaction not being regarded as "transfer". 3
- (d) What is slump sale? Explain its taxability under the head "Capital gains". 5

Answer:

3. (a) An income chargeable under the head 'capital gains' shall not be chargeable in view of exemption under section 10(37), if the following conditions are satisfied:
- The asset transferred is an agricultural land which is located in an area within the limits specified in section 2(14) i.e. being a capital asset.
 - It was used for agricultural purposes for two years immediately preceding the date of transfer by the assessee or HUF or a parent of his.
 - The compulsory acquisition is under any law or a transfer, and the consideration for which is determined or approved by Central Government or RBI.
 - Such income arising from the compensation on transfer, was received on or after 01.04.2004.
- Since Mr. Dev satisfies all the four conditions given above, the compensation received is exempt from tax.
- The interest on compensation of ₹12 lakh is however liable to tax under the head 'other sources' in view of section 56(2)(viii).
- As per section 57(iv) 50% of such interest is deductible regardless of the actual expenditure if any, incurred by the assessee.
- Therefore ₹ 6,00,000 being 50% of interest amount received is chargeable to tax on receipt basis under the head 'other sources'.
- (b) Section 35CCD inserted by the Finance Act, 2012 w.e.f. 01.04.2013 i.e. assessment year 2013-14, deals with allowance of expenditure incurred by companies towards skill development project.

Where a company incurs any expenditure on any skill development project notified by the Board, it is eligible for deduction at 150% of such expenditure.

However, expenditure towards cost of any land or building shall not be eligible for such weighted

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deduction.

Where a deduction is claimed and allowed for any assessment year in respect of this expenditure, it shall not be allowed deduction in respect of such expenditure under any other provision of the Act for the same or any other assessment year.

- (c) Mr. Sanjay must satisfy the conditions contained in section 47(xiv) in order to be eligible for exemption in respect of conversion of proprietary concern into company.

The conditions are –

- (i) All the assets and liabilities of the sole proprietary concern relating to the business immediately before the succession must become the assets and liabilities of the successor company.
- (ii) The shareholding of the proprietor relating to the business must not be less than 50% of the total voting power and it should continue to remain so for a period of five years from the date of succession; and
- (iii) The sole proprietor (Sanjay in this case) must not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of allotment of shares in the company.

- (d) Section 50B deals with computation of capital gains in the case of slump sale.

Slump sale means transfer of one or more undertakings for a lump sum consideration without assigning values to individual assets and liabilities in such sales [section 2(42C)].

If the undertaking is owned and held by an assessee for more than 36 months preceding the date of transfer, the sale consideration less net worth of the undertaking shall be taxable as long-term capital gain.

If the undertaking is owned and held by an assessee for less than 36 months preceding the date of transfer, the gain shall be deemed as short-term capital gain.

Every assessee, in the case of slump sale, shall furnish a report in Form No. 3 CEA obtained from an accountant (as defined in Explanation below [section 288(2)] indicating the computation of the net worth of the undertaking or division.

Any change in value of assets due to revaluation shall be ignored for the purpose of computing the net worth of the undertaking or division.

4. (a) **Smt. Lakshmi owns a house property at Salem. The Municipal rental value of the property is ₹ 6 lakhs, fair rent is ₹ 4,80,000 and Standard rent is ₹ 4,50,000. The property was let out for a rent of ₹ 50,000 per month upto December 2013. Thereafter the tenant vacated the property and was self-occupied by Smt. Lakshmi. Rent for the months of November and December 2013 could not be realized and all the conditions prescribed under Rule 4 are satisfied. She paid municipal tax at 10% during the year. She paid interest of ₹ 35,000 during the year for the amount borrowed for repair of the property.**

Compute her income from house property for the assessment year 2014-15.

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- (b) **Mr. Robert furnishes the following information pertaining to the financial year 2013-14:**

- (i) **Cash gift of ₹ 20,000 each from his two friends A and B on 05.11.2013 on the occasion of his birthday.**
- (ii) **Acquired shares of companies from his employer for ₹ 1 lakh. When the market value of the shares were ₹ 5 lakhs.**
- (iii) **Acquired a vacant site for ₹ 3 lakhs and the stamp duty valuation of the site being ₹ 7,50,000.**

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(iv) Gift of a new motor cycle by his friend and the cost of motor cycle was ₹ 61,000.

(v) Gift of bullion worth ₹ 2,00,000 on his wedding day from his children.

Compute income chargeable under the head 'other sources' for the assessment year 2014-15. 6

(c) State the conditions to be satisfied for writing off bad debts by an assessee.

3

Answer:

4. (a)

Computation of Income from House Property of Smt. Lakshmi for A.Y. 2014-15.

Step 1: Computation of Gross Annual Value (GAV)		₹	₹
(1)	Municipal Value	6,00,000	
(2)	Fair Rental Value	4,80,000	
(3)	Higher of Step(1) and (2)	6,00,000	
(4)	Standard Rent	4,50,000	
(5)	Reasonable Expected Rent (RER) – lower of Step (3) & (5)	4,50,000	
(6)	Annual Rent (50,000 x 12)	6,00,000	
(7)	Unrealised Rent as per rule 4 (50,000 x 2)	1,00,000	
(8)	Actual Rent [Annual Rent as per Step (6) – U/R as per Step (7)]	5,00,000	
(9)	Higher of RER [as per step (5)] & Actual Rent [as per Step (8)]		5,00,000
(10)	Vacancy Allowance = [(Annual Rent / 12) x Vacancy Period] (60,00,000 / 12) x 3 months		1,50,000
	Gross Annual Value (GAV)		3,50,000

Step 2: Computation of Income from House Property		₹	₹
	Gross Annual Value (as per Computation above)		3,50,000
	Less: Municipal Tax paid		60,000
	Net Annual Value		2,90,000
	Less: Standard deduction u/s 24(a) @ 30% of NAV		87,000
	Less: Interest on Loan taken for repairs of property u/s 24(b)		35,000
	Income From House Property		1,68,000

(b)

Computation of income chargeable under the head 'other sources'

Cash gifts from friends on the occasion of birthday is chargeable to tax. However, the aggregate amount is less than ₹ 50,000 hence, it is not chargeable.	Nil
Acquisition of shares from employer at a price less than market value is taxable under the head 'salary', hence, not taxable under the head 'other sources'.	Nil
Acquisition of vacant site for inadequate consideration is taxable under section 56(2)(vii) ₹ (7,50,000 - 3,00,000).	4,50,000
Gift of motor cycle by friend. It is not a 'property'. Hence, not taxable.	Nil
Gift of bullion worth ₹ 2 lakhs is covered by definition of the term 'property'. As it was received from children it is not taxable.	Nil
Income under the head 'other sources'.	4,50,000

(c) The conditions for deductibility of bad debts written off under the Income-tax Act, 1961 are -

- (i) There must be a debt which pre-supposes the existence of a debt and relationship of debtor and the assessee being creditor.
- (ii) The debt must be incidental to the business or profession of the assessee.

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- (iii) The debt must have been taken into account in computing the assessable income. No debt shall be allowed as deduction upon write off unless it was taken into account in computing the income of the assessee of the previous year of its write off or in any earlier year or it represents money lent in the ordinary course of business of banking or money lending carried on by the assessee.
- (iv) The debt must have been written off as irrecoverable in the books of account of the assessee.
5. (a) **Mr. Moore, a British citizen visited India for the first time on 6th April, 2012. He stayed in India throughout the previous year 2013-14. What is his residential status for the assessment year 2014-15?** 4
- (b) **State with reasons whether the following transactions attract income tax liability in the hands of the recipients:** 8
- (i) **Royalty of ₹ 6 lakhs paid by X. Ltd., an Indian company to Fusion Ltd., a British company in respect of a secret process used in manufacturing of goods in India.**
- (ii) **Salary of ₹ 10 lakhs paid by the Government of India to an Indian citizen and resident in Japan for services rendered in Japan.**
- (iii) **Mr. Samuel, a non-resident and lawyer of USA received fee of ₹ 8 lakhs to argue a case in the Supreme Court of India.**
- (iv) **Fees for technical services amounting to ₹ 12 lakhs paid by Surya Ltd., an Indian company to a company located outside India in respect of business carried on in South Africa.**
- (c) **A charitable trust registered under section 12AA holds shares in a public sector company. Does it have any adverse effect from income-taxation point of view?** 3

Answer:

5. (a) Mr. Moore had resided for more than 182 days during the previous year 2013-14. Thus, he fulfills the first basic condition and accordingly, he is resident in India. In order to determine whether he is ordinarily resident or not, one has to examine whether he fulfills the additional conditions. In respect 10 preceding previous years he was resident in financial 2012-13 and for the remaining previous years he was nonresident. During the 7 preceding previous years he stayed in India for a period of 361 days. As he has satisfied both the additional conditions, the residential status of Mr. Moore for the Assessment Year 2014-15 is resident but not ordinarily resident.
- (b) (i) As X. Ltd, the Indian company used the secret process for its business in India, royalty paid to Fusion Ltd, a non-resident company is deemed to accrue or arise in India under section 9(1)(vi) and chargeable to tax in India.
- (ii) Although recipient of salary is a non-resident, he is citizen of India. As per section 9(1)(iii), income chargeable under the head "salaries" payable by the Government to a citizen of India for service rendered outside India is deemed to accrue or arise in India. Hence, salary of ₹ 10 lacs attracts tax liability in India.
- (iii) Income arising from or through any business connection is deemed to accrue or arise India as per section 9(1)(i). Existence of professional connection amounts to existence of business connection. Since Mr. Samuel argued the case in India, fees though received in USA is deemed to accrue or arise in India. Hence such fee attracts tax liability in India.
- (iv) As per section 9(1)(vii), fees for technical service is deemed to accrue or arise in India, if such technical service is used for business or profession carried on in India. As the India company used the technical service for the purpose of business in South Africa, such fee shall not be deemed to accrue or arise in India. Therefore, fee for technical service in this case does not attract tax liability in India.

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(c) As per section 13, the income of a charitable trust shall not be exempt in case it invests in any shares in a company.

However, investment in shares in a public sector is allowed to be made by a charitable trust. Therefore, holding shares in a public sector company does not affect claim for exemption under section 11.

6. (a) A partnership firm consisting of three partners P, Q and R is engaged in the business of selling fast foods in a mall.

The turnover of the business for the previous year 2013-14 amounts to ₹ 90 lakhs. Expenses include purchase of ₹ 30,000 for which payment was made in cash on a single day. As authorised by the partnership deed the partners are entitled to interest at 13% per annum on their capital accounts and the aggregate amount of such interest is ₹ 1.30 lakhs.

The firm did not opt for presumptive taxation under section 44AD for Assessment Year 2013-14. It had business loss of ₹ 70,000 and unabsorbed depreciation of ₹ 80,000 carried forward from Assessment Year 2013-14.

The firm opts for presumptive taxation under section 44AD for Assessment Year 2014-15.

(i) Compute business income of the firm for Assessment Year 2014-15.

(ii) Is the firm liable to advance tax in respect of Assessment Year 2014-15? 7

(b) Dev is engaged in the business of real estate. During the previous year 2013-14, he sold a flat forming part of his stock-in-trade to Jeet for ₹ 45 lakhs. The value assessed by the Stamp Valuation Authority for stamp duty purpose is ₹ 55 lakhs. Jeet holds the flat as capital asset.

State with reasons the implications of the above transaction on taxable income of Dev and Jeet for the Assessment Year 2014-15. 6

(c) An assessee has filed his return of income without paying self-assessment tax due under section 140A. How should the return be treated by the Assessing Officer? 2

Answer:

6. (a)

(i) Computation of business income of the firm for Assessment Year 2014-15

Particulars	₹
Presumptive income under section 44AD (8% of ₹ 90 Lakhs)	7,20,000
Less: Interest to partners (₹ 1.30 lakhs x 12/13)	1,20,000
	6,00,000
Less: Brought forward loss under section 72	70,000
Business Income	5,30,000

Notes:

1. In presumptive tax system all deductions under sections 30 to 38 shall be deemed to have been allowed in full. Therefore, no disallowance can be made under section 40A(3) for cash payment for amount exceeding ₹ 20,000
2. Since all deductions under sections 30 to 38 are deemed to have been allowed, no deduction is separately admissible for unabsorbed depreciation as it is governed by section 32.
3. The firm is allowed to claim interest to partners at 12% from the presumptive profit.
4. Business loss of Assessment Year 2013-14 can be set off by the firm as per the provision of section 72

(ii) As per Section 44AD(4), the provisions of advance tax shall not apply to the eligible assessee in

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so far as they relate to the eligible business. Therefore, the firm is not required to pay advance tax.

(b) **Implication in the hands of Dev:**

As the flat sold by Dev formed part of his stock-in-trade, the provision of section 43CA shall apply. As per section 43CA where consideration as a result of transfer by an assessee of any immovable asset (other than a capital asset) is less than the stamp duty value, then the stamp duty value shall be deemed to be the full value of the consideration for the purpose of computing business profit from transfer of such asset.

Therefore, the difference between the stamp duty value and the actual consideration i.e. ₹. 10 lacs (₹ 55 lacs - ₹ 45 lacs) shall be charged to tax under the head "profits and gains from business or profession"

Implication in the hands of Jeet

As per section 56(2)(vii) if any individual receives any immovable property (being capital asset) for a consideration which is less than its stamp duty value by more than ₹ 50,000, then the excess of stamp duty value over the actual consideration shall be taxed under the head :income from other sources"

Therefore, the amount of ₹ 10 lacs, being the excess of stamp duty value over the actual consideration shall be taxed in the hands of Jeet under the head "Income from other sources".

(c) If a person files a return of income without payment of self assessment tax under section 140A along with interest, if any, then the return of income shall be treated by the Assessing Officer as a defective return.

7. (a) **State the amount of penalty payable by the assessee in case of following defaults:** **6**
- (i) **Furnishing inaccurate particulars of income.**
 - (ii) **Failure to file tax audit report under section 44AB within the due date prescribed.**
 - (iii) **Failure to keep and maintain deduct tax at source as per Chapter XVII-B**

(b) **A company field a return for Assessment Year 2014-15 on 1st December, 2014. The company has not entered into any specified domestic transactions and it has no associated enterprise outside India. The return shows the following losses and allowances:**

Loss from house property;

Loss from transfer of short-term capital asset;

Business loss;

Unabsorbed depreciation.

State whether above losses and unabsorbed depreciation shall be allowed to be carried forward.

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(c) **Rishi aged 12 years earned ₹ 10 lakhs during previous year 2013-14 for acting in feature films. The said sum was kept in fixed deposit in his name. Interest earned on fixed deposit amounted to ₹ 50,000.**

In whose hands shall the above two incomes be included? Give reasons for your answer. **4**

Answer:

7. (a) (i) As per section 271(l)(c), penalty for furnishing inaccurate particulars of income is minimum 100% of tax sought to be evaded and maximum 300% of tax sought to be evaded

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- (ii) As per section 271B penalty for failure to file tax audit report under section required under section 44AB is ½% of sales turnover or gross receipts or ₹ 1,50,000, whichever is lower.
- (iii) As per section 271C, penalty for failure to deduct tax at source as per Chapter XVII-B, penalty of a sum equal to the amount of tax that should have been deducted, is leviable.

- (b) Under section 80, business loss, speculation loss, loss under the head "capital gain" and loss from activity of owning and maintaining race horses shall not be allowed to be carried forward and set off unless such losses have been determined in pursuance of the return filed under section 139(3). In other words the above losses cannot be carried forward and set off if return showing such losses is not filed within the due date prescribed for filing such return.

As the return was not filed on or before due date of filing the return of income (i.e. 30th September, 2013), the company will not be allowed to carry forward business loss and loss from transfer of short-term capital asset.

However, section 80 does not make reference to loss from house property or unabsorbed depreciation. Therefore, even though the return was filed beyond the due date, the assessee can carry forward loss from house property and unabsorbed depreciation.

- (c) Section 64(1A) provides that income from minor child from manual work done by him or activity involving application of his skill, talent or specialized knowledge and experience shall not be clubbed with the income of the parents. Such income shall be included in the total income of the minor child. Therefore, income of ₹ 10 lacs arising from acting in feature film shall be included in total income of Rishi.

However, income by way of interest on fixed deposit made out of the amount of earning from acting in film has no connection with the activity of acting in film. Therefore, the interest on fixed deposit shall be included in the total income of that parent, whose income before such inclusion is higher.

However, the parent shall also be eligible to claim an exemption of ₹ 1,500 in respect of such income of ₹ 50,000 which is included/clubbed/aggregated with the total income.

Child's income – ₹ 10 lacs – taxable in the hands of the Child.

	₹
Parent's Income (Other than child's income from fixed deposits), say	Y
Add: Interest income of Child	50,000
Less: Exemption u/s 64(1A)	(1,500)

- 8. (a) State, with reasons, whether the following constitute assets chargeable to wealth tax on the valuation date 31.3.2014:**

- (i) A house property owned by Rama was transferred without consideration to Miss Mrinal on 10.7.2013. Subsequently, Miss Mrinal got married to Rama's son on 21.02.2014. The value of the house on 31.3.2014 is ₹ 89 lakhs. 2
- (ii) The cash in hand on 31.3.2014 with the cashier of Agni Pvt. Ltd. was ₹ 1,55,000. The balance as per cash book on that day was ₹ 1,25,000. 1
- (iii) Office building at Chennai purchased by a builder on 14.04.2010 for resale. 1
- (iv) A farm house situated at 28 kilometres from the local limits of Salem Municipal Corporation and also has a guest house at a distance of 30 kilometres from the local limits of Pune Municipal Corporation. 2
- (v) Lands owned by Narmada Textiles Pvt. Ltd., none of which have been classified as an "agricultural land" in the revenue records of the Government: 4

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Land	Aerial distance from the local limits of a municipality or cantonment board	Population according to the last preceding census of which the relevant figures were published before 01-04-2013
I	2 Kms	10,900
II	3 Kms	92,000
III	5 Kms	3,10,000
IV	9 Kms	12,10,00,000

- (b) During the course of assessment, the Assessing Officer found that the assessee had paid rent in respect of its business premises amounting to ₹ 90,000, which was not debited in the books of account for the year ending 31.03.2014. The assessee did not explain the source for the said payment of rent. The A.O. proposes to make an addition of ₹ 90,000 in the hands of the assessee for the AY 2014-15.

The assessee claims that even if the addition is made, the sum should be allowed as deduction while computing its business income, since it has been expended for purposes of its business. Is the claim of the assessee justified in law? 5

Answer:

8. (a) (i) The house property owned by Mr. Rama was transferred, without consideration, on 10.07.2013 to Ms. Mrinal, who subsequently got married to his son on 21.2.2014. The asset in question was transferred to Ms. Mrinal prior to her marriage with the son of the transferor and therefore, she cannot be treated as the son's wife on the date when it was transferred.

Therefore the property so transferred to her by Mr. Rama cannot be included in the net wealth of Mr. Rama by invoking provisions of section 4(l)(a). It shall be included in the net wealth of Ms. Mrinal, who can opt to claim exemption under section 5(vi) in respect of the same.

- (ii) The cash recorded in the books of account of a company on the valuation date does not constitute as asset under section 2(ea). However, cash held in excess of what has been recorded in the books shall be treated as an asset. Accordingly, the cash in hand of ₹ 30,000 ₹(1,55,000 - 1,25,000) shall be treated as an asset on the valuation date 31.3.2014.
- (iii) Though building or land appurtenant thereto is an asset under section 2(ea), any house for residential or commercial purpose which forms part of stock-in-trade is specifically excluded from the scope of "building". Hence, office building purchased for resale by a builder is not an "asset" under section 2(ea).
- (iv) A farm house situated within 25 kms from the local limits of a municipal corporation is chargeable to wealth-tax. In this case, the farm house is situated beyond 25 kms from the local limits of the Municipal Corporation and therefore, it is not chargeable to wealth-tax. A guest house, regardless of the distance, is always chargeable to wealth-tax. Hence, the guest house is liable to wealth-tax.
- (vi) The definition of urban land under section 2(ea) includes the following -

(a)	Land situated in any area which is comprised within the jurisdiction of a municipality or a cantonment board and which has a population of not less than 10,000.
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(b)	Land situated in any area, within the distance, measured aerially, in relation to the range of population according to the last preceding census as shown hereunder -
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	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.
(1)	≤ 2 kilometers	> 10,000 ≤ 1,00,000
(2)	≤ 6 kilometers	> 1,00,000 ≤ 10,00,000
(3)	≤ 8 kilometers	> 10,00,000

Accordingly, based on the above definition, the categorization of the lands given below as urban land had to be determined as under –

(I)	2 kms	10,900	Yes, it is an urban land since population > 10,000.
(II)	3 kms	92,000	No, it is not an urban land, since population is not > 1,00,000.
(III)	5 kms	3,10,000	Yes, it is an urban land, since population is > 1,00,000.
(IV)	9 kms	12,10,000	No, it is not an urban land, since distance > 8 kms.

Therefore, the lands, I, III fall within the definition of "urban land" under section 2(ea) and are hence, assets chargeable to wealth-tax.

(b) Unexplained expenditure (section 69C)

- (i) The assessee has incurred expenditure during the financial year.
- (ii) He offers no explanation about such expenditure or the explanation is not satisfactory.
- (iii) The amount of such expenditure shall be treated as income of the previous year in which it was incurred.
- (iv) Unexplained expenditure shall be chargeable to tax under the head "Income from Other Sources" at a presumptive rate of 30.9% [Section 115BBE].
- (v) No deduction in respect of any expenditure / allowance shall be allowed to the assessee under any provision of this act in computing the above income.

Here, the assessee has incurred the rent payment of ₹ 90,000 but had not explained the source for payment of rent. In view of the above provisions, the Assessee Officer is correct in making the addition in the hand of the firm. The assessee cannot claim the rent as deduction in its assessment. Thus, the claim of the assessee is not valid.