INTERMEDIATE EXAMINATION
GROUP - II
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2017

Paper - 7 : DIRECT TAXATION

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

The figures in the margin on the right side indicate full marks.
Wherever required, the candidate may make suitable assumption(s) and state the same clearly in the answer.
Working notes should form part of the relevant answer.
All questions relate to the Income-tax Act, 1961.
All the questions relate to Assessment Year 2017-2018, unless otherwise stated.
Answer Question No. 1, which is compulsory and any five from Question Nos. 2 to 8.

Section - A

1. (a) Find the most suitable alternative for the following: **1×10=10**

(i) The number of identities included in the definition of persons is
(A) five
(B) six
(C) seven
(D) eight

(ii) A trust shall not be considered as charitable trust for according the benefits of section II, when the commercial activities in the previous year exceed ` _______.
(A) 10 lakhs
(B) 25 lakhs
(C) 15 lakhs
(D) 30 lakhs

(iii) Deduction available under section 24(a) is________________________ of NAV.
(A) 30%
(B) 50%
(C) 15%
(D) 70%

(iv) Expenditure incurred by a businessman for ready to use software is entitled to benefit of
(A) 15% as depreciation
(B) 30% as depreciation
(C) 60% as depreciation
(D) 100% as revenue expenditure

(v) The basic exemption limit for a resident super senior citizen above the age of 80 is
(A) ` 2,00,000
(B) ` 2,50,000
(C) ` 5,00,000
(D) None of the above

(vi) The provisions relating to interest on delay in payment of refund are given in section

(A) 234A
(B) 234B
(C) 244A
(D) 244B

(vii) Which of the following can be corrected while processing the return of income under section 143(1)?
(A) Any arithmetical error in the return
(B) Any mistake in the return of income
(C) Any error of principle in the return of income
(D) Any claim by the taxpayer which is against law

(viii) Notice under section 156 is given for
(A) failure to submit return
(B) tax demand
(C) deferment of tax
(D) None of the above

(ix) As per section 271H, where a person fails to file the statement of tax deducted/ collected at source i.e. TDS/TCS return on or before the due dates prescribed in this regard, then he shall be liable to pay penalty under section 271H. Maximum penalty that can be levied is _______________.
(A) 1,00,000, but not exceeding the amount of TDS/TCS.
(B) 2,00,000
(C) 3,00,000
(D) 3,00,000

(x) The threshold exemption limit for Equalization levy is?
(A) ` 5 lakh
(B) ` 3 lakh
(C) ` 2 lakh
(D) ` 1 lakh

(b) Match the following: 1×5=5

(i)	Section 87A	(A)	` 5000
(ii)	Section 80GG	(B)	` 5000 (or) Actual Tax (w.e.l.)
(iii)	Sukanya Samrudhi Scheme	(C)	` 1500
(iv)	Minor child exemption	(D)	30% deduction
(v)	Arrears of rent	(E)	Section 80C

(c) State whether true or false: 1×5=5
(i) An Indian company is always resident in India.
(ii) Salary received by a member of Parliament is exempt.
(iii) Income of a self-occupied property cannot be negative.
(iv) Preliminary expenditure are allowed deduction in 10 equal instalments.
(v) Capital gain arises from the transfer of any capital asset.

(d) Fill in the blanks: 1×5=5
(i) In case of an Indian citizen who leaves India during the previous year for employment outside India, the period of 60 days shall be substituted by_____ days.
(ii) Scholarship received by a student was ` 2,000 p.m. He spends ` 16,000 for meeting the cost of education. The Balance ` 8,000 is _________ __________.

(iii) Generally, income is taxable under the head, house property only when the assesse is the ___________ of such house property.
(iv) Salary, bonus, commission or remuneration due to or received by a working partner from the firm is taxable under the head ______________ .
(v) Period for holding bonus shares or any other financial asset without any payment shall be reckoned from the date of ____________ .

Answer:

1. (a) (i) (C)
(ii) There is no option in respect of correct answer as it should be 20% of gross receipt.
(iii) (A)
(iv) (D)
(v) (C)
(vi) (C)
(vii) (A)
(viii) (B)
(ix) (A)
(x) (D)

(b)

(i)	Section 87A	(B)	` 5,000 (or) Actual Tax (w.e.l.)
(ii)	Section 80GG	(A)	` 5,000
(iii)	Sukanya Samrudhi Scheme	(E)	Section 80C
(iv)	Minor child exemption	(C)	` 1,500
(v)	Arrears of rent	(D)	30% deduction

(C) (i) True
(ii) False
(iii) False
(iv) False
(v) True

(d) (i) 182
(ii) Exempt
(iii) Owner
(iv) Profits and gains of business or profession
(v) Allotment

Section B

Answer any five questions from this section.

2. (a) Mr. Ramesh, an Indian citizen, gives you the following information for the year ended 31.03.2017.

	`
Business income in Mumbai	**2,50,000**
Rental income from property let out in London (Converted in Indian rupees)	**5,40,000**
Fixed deposit interest in India from LMN Bank	**60,000**
Fixed deposit interest from Bank of England (Converted in Indian rupees)	**40,000**
Business consultancy income from Essex Ltd. in Hampshire (England), being a company incorporated in Delhi having branch office in England. The business is managed from Delhi. (Converted in Indian rupees)	**75,000**
Agricultural income from land located in Malaysia (Converted in Indian rupees)	**90,000**

Income from nursery at Alwar, Rajasthan	**1,40,000**

Mr. Ramesh returned to India on 15.06.2016 after remaining in England for 10 years. During the last 4 years he was in India for 100 days only. Determine the residential status of Mr. Ramesh for the assessment year 2017-18 and compute his total income chargeable to tax in India by giving reason for treatment of each item.
Note: Ignore Double Taxation Avoidance Agreement (DTAA). **8**

(b) Mr. Raghu is employed with Yes Power Co Ltd. as General Manager (Finance) at Kolkata. He furnishes you the following information for the year ended 31.03.2017. `

Basic salary (per month)	**40,000**
Dearness allowance (per month) eligible for retirement benefits	**30,000**
Rent-free accommodation is provided.	
A car was provided to him from 01.06.2016 (engine cubic capacity more than 1.6 litres). It is used both for official and personal purposes. Running expenses are fully met by employer. Mr. Raghu drives the car himself.	
Provident fund contribution of both employer and employee 12% of basic pay and dearness allowance.	
Fixed tiffin allowance (per annum)	**20,000**
Fixed medical allowance (per annum)	**30,000**
Credit card annual fee paid by employer (used for personal purposes)	**7,000**
Only son of Mr. Raghu is given free education in the school run by the employer. Cost of education is ` 1,500 per month.	
Loan taken by Mr. Raghu from provident fund during the year	**50,000**

Compute the total income of Mr. Raghu for the assessment year 2017-18. **7**

Answer:

2. (a) Mr. Ramesh has remained in India for more than 182 days during the financial year 2016 - 17 and therefore, he satisfies one of the basic conditions.
He does not satisfy the other basic conditions viz. (i) stay of 365 days or more in 4 (preceding) years preceding the previous year.
As regards additional condition he has been non-resident in 9 out of 10 previous years. Also, his stay in India was less than 730 days during 7 years preceding the previous year 2016-17.

Therefore his status would be resident but not ordinarily resident.

Computation of Total Income of Mr. Ramesh for the Assessment Year 2017-18

Source of Income	Reason	`
Business income	Since the income accrues in India, it is chargeable to tax in India	2,50,000
Income property in London	It accrues outside India and it is not from a business controlled or profession set up in India. Hence not chargeable in India.	Nil
Fixed deposit interest from LMN Bank	Since the income accrues in India it is chargeable to tax in India	60,000
Fixed deposit interest from Bank of England	It accrues outside India and it is not from a business controlled or profession set up in India. Hence not chargeable.	Nil
Business consultancy income	It accrues or arises outside India and is from a business controlled from Delhi. Hence chargeable to tax.	75,000
Agri income from Malaysia	It is not chargeable to tax since it is not arising from a business controlled or set up in India.	Nil

Income from Nursery	Being agricultural income it is exempt under section 10(1)	Nil
	Total Income	3,85,000

(b) Computation of Total Income of Mr. Raghu for the Assessment Year 2017-18

Basic salary	4,80,000
Dearness allowance - eligible for retirement benefits	3,60,000
Rent-free accommodation provided @ 15% of salary	1,33,500
A car was provided to him from 01.06.2016 (engine cubic capacity more than 1.6 litres). Used both for official and personal purpose. Running expenses met by employee. (` 2400×10)	24,000
Provident fund contribution of employer up to 12% is not chargeable to tax as perquisite.	Nil
Fixed Tiffin allowance - always taxable	20,000
Fixed medical allowance – It is always taxable	30,000
Credit card annual fee paid by employer (used for personal purposes)-taxable	7,000
Only son of Mr. Raghu is given free education in the school run by the employer. Cost of education ` 1,500 per month. Since the cost of education exceeds `1,000 it is fully taxable	18,000
Loan taken by Mr. Raghu from provident fund during the year- not taxable	Nil
"Salaries" / Gross Salary Income	10,72,500
Less: Deduction U/s. 80 C	
In respect of PF contribution by the employee @ 12% of ` 8,40,000	1,00,800
Total Income	9,71,700

3. (a) Gopi Industries furnishes you the following details:

Particulars	**Machinery**	**Computers**	**Furnitures**
WDV as on 01.04.2016	**20,00,000**	**6,00,000**	**2,00,000**
Purchased during the year and used for more than 180 days	**4,00,000**	**1,00,000**	**40,000**
Purchased and used w.e.f. 01.01.2017	**1,00,000**	**2,00,000**	**20,000**
Sold a group of assets on 01.03.2017	**2,00,000**	**1,00,000**	**50,000**

Compute depreciation allowable for the assessment year 2017-18. Ignore additional depreciation. **6**

(b) Rao and Jain is a partnership firm, consisting of 5 partners, with turnover of ` 1,20,00,000 for the year ended 31.03.2017. The partnership deed provides for interest on capital at 14% per annum on the capital contribution of ` 5 lakhs each made by all the partners. All the partners are eligible for monthly working partner salary of ` 10,000 each. The firm provides you the following additional information:

Depreciation eligible under Income-tax Rules, 1962	**` 2,00,000**
Interest paid on unsecured loans for which no tax was deducted at source during the year or before the due date for filing return of income u/s 139(1)	**` 5,00,000**
Contract payments made during the year for which tax was deducted but remitted in financial year 2017-18 and before 'due date' for filing the return of income specified in section 139(1).	**` 4,00,000**

Rent paid to a partner Mr. Jain for premises occupied by the firm ` 1,20,000 on which no tax was deducted at source. The reasonable rent for similar premises was determined at ` 1,80,000

The Net Profit of the firm before charging interest on capital and working partner salary as per books was ` 8,40,000. Depreciation notionally computed and provided in the books amounts to ` 1,60,000.

The partners of the firm want you to compute income under section 44AD and also as per regular provisions, and suggest which option would be beneficial to them. 9

Answer:

3. (a)

Gopi Industries Computation of depreciation for the Assessment Year 2017-18

Particulars	Machinery	Computers	Furnitures
WDV as on 01.4.2016	20,00,000	6,00,000	2,00,000
Purchased during the year and used for more than 180 days	4,00,000	1,00,000	40,000
Purchased and used w.e.f 01.01.2017	1,00,000	2,00,000	20,000
	25,00,000	9,00,000	2,60,000
Less: Sold on 01.3.2017	2,00,000	1,00,000	50,000
WDV before depreciation	23,00,000	8,00,000	2,10,000
Depreciation			
For assets used for more than 180 days	3,30,000 (15% of ` 22 lakhs)	3,60,000 (60% on ` 6 lakhs)	19,000 (10% on ` 1.90 lakhs)
For assets used for less than 180 days	7,500 (7.5% of ` 1 lakh)	60,000 (30% on ` 2 lakhs)	1,000 (5% on ` 20,000)
Total Depreciation	3,37,500	4,20,000	20,000

Note: It is also possible to taken the view that for computing depreciation, the position of the block, as at the year end is to be taken. Value of any asset sold can first be deducted from assets purchased during the year and used for less than 180 days and only if required, from the balance value in the block in such case, depreciation will be:

More than 180 days	(23,00,000 × 15%) = 3,45,000	(7,00,000 × 60%) = 4,20,000	(21,00,000 ×10%) = 2,10,000
Less than 180 days	Nil	30,000	Nil
Total depreciation	3,45,000	4,50,000	2,10,000

(b)

Computation of Income from Business for the Assessment Year 2017-18

Particulars	Section 44AD	Regular Provisions
Net Profit as per Profit and Loss Account		8,40,000
Net Profit as per presumptive provision @ 8%	9,60,000	
Add:		
Depreciation debited in the books	Not applicable	1,60,000
Premises rent paid to partner being a reasonable amount, not liable for any disallowance under section 40A(2)(b)	Not applicable	Nil

Interest on unsecured loan on which tax was not deducted, hence disallowed @ 30%	Not applicable	1,50,000
		11,50,000
Less: Depreciation under income-tax rules	Not applicable	2,00,000
		9,50,000
Less: Interest on capital to partners @ 12% of ` 25 lakhs	Not allowed	3,00,000
Book Profit		6,50,000
Working partner salary allowable		
On First ` 3 lakhs @ 90% = ` 2,70,000		
On balance ` 3,50,000 @ 60% = ` 2,10,000		
Or Actual salary (10,000 x 12 x 5)= ` 6,00,000 WEL	Not allowed	4,80,000
Net Income from Business	9,60,000	1,70,000
Contract payment: Since TDS is deducted before due date that is no impact	—	—
Suggestion: As the income chargeable to tax under regular provisions is less than the presumptive income, the firm is advised to opt for regular provisions for filing the return and not opt for section 44AD.		

4. (a) Xavier Ltd. gives you the following data for the assessment year 2017-18:

Net Profit as per Profit and Loss Account	**33,00,000**
Amounts debited to Profit and Loss Account:	
Depreciation (includes on revalued assets ` 5 lakhs)	**17,00,000**
Provision for bad and doubtful debts	**7,00,000**
Bank term loan interest (including unpaid amount of ` 1,00,000	**3,00,000**
Expenditure on amalgamation (carried out 4 years ago) amortised under section 35DD	**5,00,000**
Transfer to general reserve	**10,00,000**
Proposed dividend	**15,00,000**
Provision for taxation (including deferred tax liability)	**13,00,000**
Expenditures debited on which tax was not deducted at source, though deductible	**4,50,000**
Items credited to Profit and Loss Account:	
Dividend from Indian companies	**4,00,000**
Long-term capital gain on sale of listed shares	**8,00,000**
Agricultural income from lands in Karnataka	**3,50,000**

Additional Information:

(i) Brought forward depreciation as per books of account ` 6,50,000.

(ii) Brought forward business loss as per books of account ` 7,20,000.

You are requested to compute book profit of the company under section 115 JB of the Income-tax Act, 1961. 7

(b) Ms. Vidya residing in Chennai acquired a residential house for ` 15,25,000 on 28th May, 1996. It was sold for ` 100 lakhs in July 2016. The stamp duty valuation on the date of sale was ` 110 lakhs. She paid brokerage @2% of sale consideration and on which no tax was deducted at source.

She deposited ` 40 lakhs in REC Capital Gain Bonds in September, 2016 and ` 20 lakhs in NHAI Capital Gain bonds in February 2017. She acquired a residential property in Colombo

for ` 50 lakhs and left for Colombo in August 2016 and occupied the said property. She returned to India in September 2016 leaving the property vacant till the date of sale.

Her other incomes include (i) ` 1,50,000 by way of interest on capital @15% from a firm at Salem; and (ii) income from rubber estates and manufacture of rubber in Kerala amounting to ` 3 lakhs., where rubber is grown and processed by her.

She paid ` 35,000 towards health insurance of her parents who are senior citizens through credit card and paid in cash ` 8,000 towards master health checkup for herself.
Cost Inflation Index : F.Y. 1996-97 = 305; F.Y. 2016-17 = 1125
Compute the total income of Ms. Vidya for the Assessment Year 2017-18 under proper heads of income. Ignore DTAA provisions. 8

Answer:

4. (a)

Computation of Book profit under section 115 JB

Net Profit as per Profit and Loss Account		33,00,000
Add:		
Depreciation (includes on revalued assets ` 5 lakhs)		17,00,000
Provision for bad and doubtful debts		7,00,000
Bank term loan interest (including unpaid amount of ` 1,00,000) - no adjustment		Nil
Expenditure on amalgamation (carried out 4 years ago) amortised under section 35DD -no adjustment		Nil
Transfer to general reserve		10,00,000
Proposed dividend		15,00,000
Provision for taxation (including deferred tax liability)		13,00,000
Expenditures debited on which tax was not deducted at source - no adjustment		Nil
		95,00,000
Less: Depreciation excluding depreciation on revalued assets	12,00,000	
Dividend from Indian companies - section 10(34)	4,00,000	
Long-term capital gain on sale of listed shares - no adjustment	Nil	
Agricultural income from lands in Karnataka - section 10(1)	3,50,000	
		19,50,000
Less: Unabsorbed depreciation or business loss as per books of account, whichever is less, is deductible		6,50,000
Book Profit		69,00,000

(b)

Computation of Total Income of Ms. Vidya for the Assessment Year 2017-18

	`	`
Income from Business		
Interest on capital from firm @ 12%	1,20,000	
Income from rubber manufacture @ 35% (balance 65% is agricultural income). 35% of ` 3,00,000	1,05,000	
		2,25,000
Capital Gains		
Deemed sale consideration [Sec. 50c]	1,10,00,000	
Less: Brokerage @2% of `100 lakhs	2,00,000	

	1,08,00,000	
Less: Indexed cost of acquisition		
`15,25,000 × 1125/305	56,25,000	
	51,75,000	
Less: Exemption under section 54EC	40,00,000	
Long-term Capital Gain		11,75,000
Though the investment in capital gain bonds was ` 60 lakhs the deduction is limited to ` 40 lakhs for the reason that the investment in NHAI was made beyond 6 months after the date of sale of residential property.		
The investment in residential property at Colombo is not eligible for exemption under section 54.		
Gross Total Income		14,00,000
Less: Deduction under section 80D		
In respect of health insurance of parents limited to	30,000	
In respect of self preventive health checkup	5,000	
		35,000
Total Income		13,65,000

Note: The house at Colombo being Self – occupied, income charged to tax will be Nil.

5. (a) Mr. Chirag has given the following details relating to financial year 2016-17:

(i) Received ` 56,000 by way of gift from his friends on the occasion of his marriage.

(ii) Purchased a land at Kanpur for ` 12,50,000 for construction of a residential house from a friend. The stamp duty value of the land on the date of purchase was ` 15,00,000.

(iii) Interest amounting to ` 1,80,000 relating to earlier years, on enhanced compensation received during the year. Legal expenses incurred ` 25,000.

(iv) Received loan of ` 3,50,000 from CNK Private Limited in which Mr. Chirag holds 12% voting power. Accumulated profit in the hands of the company at the time receipt of loan was ` 2,90,000.

Briefly narrate the tax consequences of the aforesaid items, sharing clearly the amount to be taxed in each case. 9

(b) The following details have been furnished by Parikshit relating to previous year 2016-17:

Particulars	`
(i) Income from business (non-speculation)	**6,00,000**
(ii) Interest on fixed deposit (net of TDS)	**63,000**
(iii) Long-term capital gain on sale of a residential house	**1,00,000**
(iv) Unabsorbed short-term capital loss carried forward from Assessment Year 2016-17	**1,10,000**
(v) Loss in non-speculative business carried on by his wife, Prerana. The business was started with the amount gifted by Parikshit during the year	**45,000**

You are required to compute the total income of Parikshit for Assessment Year 2017-18. 6

Answer:

5. (a)

Computation of income of Mr. Chirag under the head
"Income from other sources" for
Assessment Year 2017-18

	Particulars	`	`

(i)	Gift from friend on occasion of marriage is not liable to tax under section 56(2)(vii)		Nil
(ii)	Purchase of land from friend for inadequate consideration. As per section 56(2)(vii), if an individual purchases any capital asset for a consideration, which is less than fair market value (stamp duty value) on the date of purchase by an amount exceeding ` 50,000, the excess of fair market value over the actual consideration is taxable in the hands of the buyer		2,50,000
(iii)	Interest relating to earlier years on enhanced compensation	1,80,000	
	Less: 50% of interest towards litigation expenses	90,000	
	Annual chargeable to tax		90,000
	Irrespective of the method of accounting, such interest is taxed in the year of receipt		
(iv)	Deemed dividend under section 2(22)(e)		2,90,000
	As CNK Private Ltd is a closely held company and Mr. Chirag holds 10% or more voting power, the amount of loan to the extent of accumulated profit is deemed to be dividend in the hands of Chirag under section 2(22)(e)		

(b)

Computation of total income of Parikhshit for Assessment Year 2017-18

Particulars	`	`
Profits & gains from business or profession		
Income from own business	6,00,000	
Less: Loss suffered in business of Prerana, wife set off under section 72 read with section 64(1)(iv) (Note 1)	45,000	
Income chargeable under this head		5,55,000
Capital gains		
Long-term capital gain on sale of residential house	1,00,000	
Less: Short-term capital loss carried forward from AY 2016-17 and set off under section 74 to the extent possible	1,00,000	
Income Chargeable under this head		Nil
Income from other sources		
Interest on fixed deposit (` 63,000 × 100/90) Gross		70,000
Total Income		6,25,000

Notes:
1. For the purpose of clubbing under section 64, income includes "loss". Hence, loss from business of Prerana, wife has been set off
2. Unabsorbed short-term capital loss of `10,000 (`1,10,000 - ` 1,00,00) shall be carried forward under section 74.

6. (a) Mr. Sengupta (aged 65 years) is a retired person drawing a monthly pension of ` 6,000. His taxable long-term capital gain from sale of painting during the previous year 2016-17 is ` 2,75,000. He has no other income during the year.

Compute his tax liability for Assessment Year 2017-18 (i) if he is resident and (ii) if he is nonresident. 8

(b) (i) What is "charitable purpose" as envisaged by section 2(15)? 6

(ii) Is audit of accounts of charitable trust mandatory under the Income-tax Act, 1961? 1

Answer:

6. (a)

Tax liability if Mr. Sengupta is resident

	`	`
Total income (` 6,000 × 12 + 2,75,000)		3,47,000
Tax on income other than long-term capital gain		Nil
Tax on long-term capital gain:		
Excess of basic exemption limit on other income (`3,00,000 - ` 72,000)	2,28,000	
20% of (` 2,75,000 - ` 2,28,000)		9,400
Education cess & SHEC @ 3%		282
Tax liability		9,682

Tax liability if Mr. Sengupta is non-resident

	`
Tax on income other than long-term capital gain	Nil
Tax on long-term capital gain: 20% of ` 2,75,000 (Note)	55,000
Education cess & SHEC @ 3%	1,650
Tax liability	56,650

Note:

Where the individual assessee is non-resident, he is not entitled to deduct the excess of basic exemption limit over other income from long-term capital gain for computing tax liability (section 112).

(b) (i) As per section 2(15), "charitable purpose includes the following:

(a) Relief of the poor
(b) Education
(c) Yoga
(d) Medical relief
(e) Preservation of environment (including water sheds, forests and wild life)
(f) Preservation of monuments or places or objects of artistic or historic interest
(g) Advancement of any other object of general public utility.

The advancement of any other object of general public utility shall not be treated charitable purpose, if it involves any activity in the nature of trade, commerce or business or any activity of rendering any service in relation to any trade, commerce or business, for any consideration, irrespective of the nature of use or application or retention of the income from such activity.

However, the above restriction is not applicable if such activity is undertaken in the course of carrying out of such advancement of any other object of general public utility and the aggregate receipts from such activity or activities during the previous year, do not exceed 20% of the total receipts of the charitable trust.

(ii) Audit of accounts of charitable trust is mandatory, if the total income without considering exemption under sections 11 and 12, exceeds the basic exemption limit.

7. (a) CKS Ltd., an Indian company, intends to distribute dividend of ` 100 lakhs to its shareholders. It also received the following dividends during the year ended 31-3-2017:

(i) ` 20 lakhs from MNO Ltd., Indian subsidiary company, which paid dividend distribution tax.

(ii) ` 4,50,000 received from KKR Ltd., a foreign company in which CKS Ltd. hold 30% share.

(iii) ` 3,00,000 received from IPL Ltd., a foreign company in which CKS Ltd. holds 25% share.

Compute the dividend distribution tax (DDT) payable by CKS Ltd. if such dividends are paid during the financial year 2016-17.

Also compute the tax payable by CKS Ltd., on its total income assuming business income (computed) is ` 1,85,00,000. 9

(b) Answer the following questions in the context of the provisions relating to advance tax: 6

(i) Who is not liable to pay advance tax, in case of individual assesses?

(ii) State the due dates of installment for payment of advance tax and the amount of installment for such assessees who are not covered under the provisions of section 44AD.

Answer:

7. (a)

Computation of dividend distribution tax payable

Particulars	`	`
Dividend to be distributed by CKS Ltd.		1,00,00,000
Less: Dividend received from MNQ Ltd, Indian subsidiary company on which DDT was paid	20,00,000	
Dividend received from KKR Ltd., a foreign company in which CKS Ltd. holds 30% shares	4,50,000	
		24,50,000
Net amount on which DDT is payable		75,50,000
Net dividend to be grossed up (` 75,50,000 × 100/85)		88,82,353
DDT payable: ` 88,82,353 × 17.304% (Note: 1)		15,37,002

Computation of tax payable on total income

	`	`
Income from business		1,85,00,000
Income from other sources		
Dividend from Indian subsidiary, MNO Ltd exempted from tax under section 10(34)	---	
Dividend from KKR Ltd and IPL Ltd.	7,50,000	7,50,000
Total income		1,92,50,000
Tax on dividend received from KKR Ltd at 15% as per section 115BBD (` 4,50,000 × 15%)		67,500 56,40,000
Tax on other income: 30% of (` 1,92,50,000 - ` 4,50,000)		
		57,07,500
Add: Surcharge at 7%		3,99,525
		61,07,025
Education cess @ 3%		1,83,211
Tax liability		62,90,236
Tax liability (rounded off) u/s 288B		6290,240

(Note: 1):

DDT payable:

7550000 x 15/85	= ` 1332353	
Add: S.C @ 12%	= ` 159882	
	1492235	
Add: Cess @ 3%	44,767	
	1,537,002	

(b) (i) As per section 207(2), an individual who is resident in India is not liable to pay advance tax, if-

(a) he does not have any income chargeable under the head "profits and gains from business or profession" and

(b) he is of the age of 60 years or more at anytime during the year.

(ii)

Due date of installment	Amount payable
On or before 15th June of the previous year	Not less than 15% of such advance tax
On or before 15th September of the previous year	Not less than 45% of such advance tax, as reduced by the amount paid in the earlier installment
On or before 15th December of the previous year	Not less than 75% of such advance tax, as reduced by the amount paid in the earlier installment
On or before 15th March of the previous year	The whole amount of such advance tax, as reduced the amount or amounts paid in the earlier installment or installments

8. Write short notes on any three of the following: 5×3=15

(a) Features of ICDS

(b) Adjustments required to be made while processing the return of income, u/s 143(1).

(c) Provisions of Equalization levy as per the Finance Act, 2016.

(d) Revised return of income: Meaning and interplay of section 139(5).

Answer:

(a) Features of ICDS

1. As per section 145(2) the central Government has power to notify from time to time income computation and disclosure standards to be followed by any class of assessee or in respect of any class of income.
2. ICDS are applicable to the assessees who are following mercantile system of accounting. The same shall not apply to the assessee following cash system of accounting.
3. If there is a conflict between the provision of the Act and the provisions of ICDS, the provisions of the Act shall prevail.
4. ICDS are relevant for computation of income under the heads "profits and gains from business or profession" and "income from other sources" and not for preparation of accounts of the assessee.
5. Where the income of the assessee under the above two heads of income has not been computed in accordance with ICDS, the Assessing Officer may make an assessment in the manner provided for best judgement assessment laid down in section 144.

(b) Adjustments required to be made in processing of return under section 143(1)

Following adjustments are to be made in course of processing of return under section 143(1):

(i) any arithmetical error in the return.

(ii) an incorrect claim, if such incorrect claim is apparent from any information in the return.
(iii) disallowance of loss claimed, if return of the previous year for which set off of loss is claimed was furnished after the due date specified in section 139(1).
(iv) disallowance of expenses indicated in the audit report, but not considered in computation of total income in the return.
(v) disallowance of deductions claimed under sections 10AA, 80-IA, 80-IAB, 80-IB, 80-IC,Section 80ID, Section 80IE, if the return is furnished beyond the due date specified thereunder.
(vi) Addition of income appearing in Form 16, 16A or 26AS, which has not been included whole computing the income in the said return.

(c) In terms of the recommendations of the aforesaid Committee on Taxation of E-Commerce, with effect from 1.6.2016, a new Chapter VIII has been inserted to provide for as under:

1. **Charge of Equalization levy:** On and from the date of commencement of this Chapter VIII, there shall be charged an equalisation levy at the rate of six percent of the amount of consideration for any specified service received or receivable by a person, being a non-resident from:
   (i) a person resident in India and carrying on business or profession; or
   (ii) a non-resident having a permanent establishment in India.

   Meaning of specified service: Under section 165(i) of the Finance Act 2016, "specified service" means online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement and includes any other service as may be notified by the Central Government in this behalf.

2. When equalisation levy is not chargeable: Under Section 165(2), the equalisation levy shall not be charged where:
   (a) the non-resident providing the specified service has a permanent establishment in India and the specified service is effectively connected with such permanent establishment;
   (b) the aggregate amount of consideration for specified service received or receivable in a previous year by the non-resident from a person resident in India and carrying on business or profession, or from a nonresident having a permanent establishment in India, does not exceed one. lakh rupees; or
   (c) where the payment for the specified service by the person resident in India, or the permanent establishment in India is not for the purposes of carrying out business or profession.

(d) **Revised return of income**

As per section 139(5), if any person having furnished his return under section 139(1) (i.e. original return filed within due date) or section 139(4) (i.e. belated return) discovers any omission or any wrong statement therein, he may furnish a revised return.

The time limit for filing revised return is before the expiry one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier.

If an intimation under section 143(1) is received by the assessee, he can still furnish a revised return within the time limit stated above, as such intimation is not treated as an assessment order.

A return filed in response to notice under section 142(1) cannot be revised under section 139(5) with effect from assessment year 2017-18.

A revised return can be further revised by the assessee if time limit mentioned in section 139(5) has not expired.

Once revised return is filed within the time limit, it substitutes the original return.