

Paper 7- Direct Taxation

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Full Marks: 100

Time allowed: 3 hours

All Questions relate to Income Tax Assessment Year 2021-22 and the provisions stated relate to the Income-tax Act, 1961, unless otherwise stated in the Question.

PART – I

Answer Question Number 1. All parts of this question are compulsory.

1. (a) Choose the most appropriate alternative for the following: [1×10=10]
- (i) The return of income tax of PF Ltd. has been filed on 30th December, 2022 for A.Y. 2022-23. As per section 143(3) the notice for scrutiny assessment can be served on the assessee up to-
 - (a) 31st December 2023
 - (b) 30th June 2023
 - (c) 31st March 2023
 - (d) 30th September 2024
 - (ii) Which of the following can be carried forward though the return of income has not been filed?
 - (a) Unabsorbed depreciation
 - (b) Current year depreciation
 - (c) Brought forward business loss
 - (d) All of the above.
 - (iii) In which of the following cases, deduction u/s 80JJA is available to the assessee?
 - (a) Assessee is engaged in scientific research
 - (b) Assessee sets up an industrial unit in a backward area
 - (c) Assessee is engaged in agriculture business
 - (d) Assessee is engaged in the business of collecting and processing biodegradable waste.
 - (iv) From the following, find out the exception of 'Cost of acquisition of self-generated asset is nil':
 - (a) Goodwill
 - (b) Route permit
 - (c) Bonus Shares acquired before 01-04-2001
 - (d) Loom hours
 - (v) How much deduction an assessee can claim u/s 24(a)?
 - (a) 30% of net annual value of the house property
 - (b) 30% of gross annual value of house property
 - (c) 30% of actual rent received
 - (d) None of the above
 - (vi) In case of children hostel allowance, what is the maximum amount of exemption allowed?
 - (a) ₹ 300 annually per child (to the maximum of two children)
 - (b) ₹ 600 per month per child
 - (c) ₹ 300 per month per child (to the maximum of two children)
 - (d) ₹ 500 per month per child (to the maximum of two children)

- (vii) What is the taxability of Interest on delayed compensation or enhanced compensation?
- Taxable on accrual basis
 - Taxable on receipt basis
 - Exempt from tax
 - Taxable as per method of accounting of the assessee
- (viii) If the amount of interest on loan does not exceed _____, TDS is not required to be deducted u/s 194A.
- ₹5,000
 - ₹2,500
 - ₹7,500
 - ₹20,000
- (ix) As per sec. 57(iia), what is the maximum amount of standard deduction allowed for family pension?
- ₹ 15,000
 - ₹ 50,000
 - ₹ 25,000
 - ₹ 75,000
- (x) Form No. _____ is to be used for filing the return of income by an individual having business income?
- 1
 - 2
 - 5
 - 3
- (b) Match the following (sufficient to give the corresponding item in column 3 for column 1: reproducing columns 2 and 4 are not required): [5×1=5]

1	2	3	4
(i)	ICDS VI	A.	TDS @ 10%
(ii)	Sec.194H	B.	Not deductible while computing income from property
(iii)	Section 80P	C.	Income from co-operative society
(iv)	Ground rent	D.	TDS @ 5%
(v)	Sec.194EE	E.	Effects of changes in foreign exchange rates

- (c) State True or False for the following question: [5×1=5]
- An example of non-agro income is income from sale of trees and grasses grown spontaneously (without any human effort).
 - An individual whose gross total income does not exceeds ₹ 2,50,000, fails to furnish return of income u/s 139 within the due date shall pay fee of ₹ 1,000.
 - In respect of each minor child whose income is clubbed u/s 64(1A), income up to ₹ 2,500 is exempt.
 - The depreciation in respect of an asset which is acquired by the assessee during the previous year and is put to use in the same previous year for less than 180 days is restricted to 50% of the normal depreciation.
 - Cash gift of ₹ 2,00,000 received from uncle's son is not taxable.

(d) Fill in the blanks:

[5×1=5]

- (i) As per sec. 234B & 234C, _____ shall be payable, if an assessee fails to pay advance tax or defers the payment of advance tax on specified date.
- (ii) Permanent Account Number (PAN) is an _____ code given to a person by income tax department for the purpose of identification of the assessee.
- (iii) On issue of Zero Coupon Bonds, discount shall be allowed on _____ basis having regard to the period of life of such bond.
- (iv) Failure to comply with the provision of sec.44AA, shall be liable to pay penalty u/s 271A of _____.
- (v) Deduction u/s 80GG is available in respect of _____.

PART – II

Answer any five questions from question numbers 2 to 8. Each question carries 15 marks

(5×15=75)

2.(a)(i) How to determine the residential status of a company?

- (ii) Mr. A came to India first time during the P.Y. 2021-22. During the previous year, he stayed in India for (I) 50 days; (II) 183 days; & (III) 153 days. Determine his residential status for the A.Y. 2022-23.

[2+6=8]

2.(b) A residential property in Kolkata is owned by Mr. P and is let out to Zee Ltd., rent of which is being ₹ 50,000 per month. Municipal value of the property is ₹ 3,20,000, fair rent is ₹ 5,00,000. Zee Ltd. pays municipal tax. On April 10, 2021, rent is increased from ₹ 50,000 per month to ₹ 55,000 per month with retrospective effect from April 1, 2020. Mr. P gets ₹ 60,000 (being arrears of rent for the financial year 2020-21) on May 10, 2021. Find out the net income of Mr. P for the assessment year 2022-23 on the assumption that his income from other sources is ₹ 4,00,000.

[7]

3.(a) Mr. R is a resident engineer and he is employed in CAT Automobiles Ltd. His basic salary is ₹ 92,000 per month. Mr. R had no shares in the company and he was not related to any directors. Discuss the taxability of Mr. R on the following perquisites which he receives from CAT Automobiles Ltd. during the previous year 2021-22:

1. Company pays ₹1,000 per annum on an accident insurance policy for the benefit of Mr. R.
2. On April 1, 2021, Mr. R takes a car loan of ₹ 6,50,000 from CAT Automobiles Ltd. The company recovers interest ₹ 4 per cent per annum from R (SBI lending rate: 9.25 per cent)
3. Company has reimbursed his club fee of ₹ 500 per annum and club bills aggregating to ₹ 4,000.
4. R engages a domestic servant on monthly salary of ₹ 3,000. The entire salary (i.e., ₹ 36,000) is paid by CAT Automobiles Ltd to the domestic servant (or salary is paid by R and the company reimburses the entire amount).
5. He purchased a furniture on August 3, 2021 at ₹4,000 (book value) from the company. The market value of the same is about ₹16,000. The furniture was purchased by the company on June 30, 2015 for ₹ 52,000.

Ascertain the taxability of the above mentioned items of Mr. R for the assessment year 2022-23.

[10]

3.(b) LMN Ltd. is a sugar manufacturing company. It grows sugarcane to manufacture sugar. Compute the income of LMN Ltd. for the previous year 2021-22, from the following information:

	₹ in lacs
Cost of cultivation of sugarcane (5,000 tons)	12
Sugarcane sold in market (1,000 tons)	4
Sugarcane used for sugar manufacturing (1,000 tons)	—

Cost of conversion	6
Sugar produced & sold in the market	30

[5]

- 4.(a) During the previous year 2021-22, Mr. X has sold the following assets, the details of which are as follows:

Items	Cost of acquisition	Sale consideration	Year of acquisition
Land	₹ 10 lacs	₹ 150 lacs	1998-99
Jewellery	₹ 30 lacs	₹ 120 lacs	2008-09

On 31/03/2022, he has purchased a residential house of ₹30,00,000 for self-occupation as he had no other house till date. Compute capital gain. [9]

4. (b) Mrs. S is a 38 years old salaried employee. Her basic salary is ₹50,000 per month. She gets one month salary as bonus. A rent free unfurnished house which is owned by the employer company has been provided to her at the place of her posting i.e., Mumbai. She gets interest on fixed deposit of ₹ 25,000 in a Bank. She makes the following investments/ deposits every year:

	(₹)
Life insurance premium on his own life (sum assured: ₹1,00,000) (policy taken in July 2015)	12,000
Notified equity linked saving scheme of UTI	78,000
Repayment of loan taken on July 1, 2004 for purchasing a house property (which is self-occupied by his family at Mumbai)	35,000
Payment of interest on the above loan	40,000
Tuition fees of two children (₹24,000 + ₹36,000)	60,000
Notified bonds of infrastructure company	4,000
Deposit in home loan account scheme of NHB	10,000
Mediclaim insurance premium	30,000
Pension fund of LIC qualified for deduction under section 80CCC	15,000

Find out the net income and tax liability for the assessment year 2022-23 [6]

5. (a) Mr. K is a practicing Cost Accountant and he also runs a private coaching institute. The details of his bank account for the year ended 31/03/2022 is given below:

Receipts	(₹)	Payments	(₹)
To Balance b/f	20,000	By Office expenses	18,000
To Coaching fees	1,200	By Municipal tax on property	800
To Income from other professional work	1,00,000	By Coaching expense	800
To Audit Fees	2,00,000	By Membership fees	500
To Interest on investment	2,000	By Personal expenses	5,000
To Examiner's fees	1,000	By Life insurance premium	13,000
To Rent from property	5,000	By Income tax	5,000
		By Motor car purchased	1,80,000
		By motor car expenses	10,200
		By Insurance of property	1,600
		By Balance c/d	94,300
	3,29,200		3,29,200

Additional Information:

- 20% of motor car expenses is in respect of profession.
- Depreciation allowance for motorcar is ₹ 27,000, if wholly used for profession.
- Outstanding fees on 31-03-2022 ₹2,000. Whereas ₹500 receivable from M is considered as bad.
- Outstanding fees of P.Y. 2018-19 ₹ 10,000 received during the year, which is included in the audit fees.
- Office expenses include payment of ₹2,000 incurred during the previous year 2020-

2021.

Compute the gross total income of Mr. K for the A.Y. 2022-23. Assume that he maintains accounts on cash basis. [10]

- 5.(b) Mr. K and Mrs. K are resident Indians. R and S are their minor sons. Business income of Mr. K is ₹ 4,50,000. Income from house property of Mrs. K is ₹ 2,50,000. Income of R and S from stage acting is ₹ 50,000 and 75,000, respectively. Besides, interest on company deposits of R and S (deposit was made out of income from acting) is ₹ 30,000 and ₹ 10,000 respectively. The following birthday gifts have been received by R and S:

On May 20, 2021 gift received by S from his grandfather : ₹ 60,000

On September 14, 2021 gift received by R from K's friend : ₹ 90,000

Gift from relative : ₹ 45,000

Compute the income of Mr. K, Mrs. K, R and S for the assessment year 2022-23. [5]

- 6.(a) Mr. R is the karta of a Hindu Undivided Family (HUF). He was appointed as the Managing Director of the company and was paid a remuneration of ₹3.6 lakhs for the year ended 31.03.2022. He invested family funds of ₹5 lakhs in the shares of H Couriers Pvt. Ltd. You are required to discuss whether the said remuneration will be assessed in the individual hand of Mr. R or in the hands of the HUF, for the assessment year 2022-23. [6]

- 6.(b) Mr. A and Mrs. B are the members of an AOP. They have equal share. Compute tax liability of AOP, after considering the following details:

Profit and loss account for the year ended 31-03-2022

Particulars	Amount(₹)	Particulars	Amount(₹)
Bonus to employee	50,000	Gross Profit	6,96,000
Bonus to A	10,000	Interest on drawings	
Bonus to Mrs. B	5,000	A	16,000
Other Expenses	40,000	Mrs. B	8,000
Salary to -			
A	44,000		
Mrs. B	88,000		
Interest on Capital @ 15%			
A	15,000		
Mrs. B	20,000		
Depreciation	30,000		
Donation to National Relief	10,000		
Net Profit	4,08,000		
	7,20,000		7,20,000

Additional information:

- Depreciation for the year u/s 32 ₹20,000
- Other expenses include expenditure of ₹5,400, which is disallowed u/s 40A(2).
- Other personal income of A & Mrs. B

	A	Mrs. B	
Interest exempted u/s 10(15)	₹5,000	₹20,000	
Interest on loan	₹2,45,000	₹2,22,000	[9]

- 7.(a) The following information are available with respect to Mrs. X for the previous year 2021-22:

Particulars	(₹)
Private tuition fee received	10,000
Winning from lottery	2,000
Award from KBC (a TV show)[Gross]	3,20,000

Pension from employer of deceased husband	25,000
Interest received on bank deposit	25,000
Directors fee (Gross)	5,000
Letting out of vacant land	25,000
Remuneration for checking the examination copy of employee's	
Remuneration for checking the examination copy of C.A	10,000
Income tax refund	5,000
Interest on income tax refund	100
Composite rent (related expenditure are ₹5,000)	10,000
Rent on sub-letting of house property (rent paid to original owner ₹12,000)	20,000
Income tax paid	2,000
Payment made to personal expenses	18,000
Payment made to LIC as premium	2,000

Compute the taxable income under the head income from other sources of Mrs. X. [9]

7.(b) Write the significance of Tax Deduction and Collection Account Number as per sec. 203A. [6]

8. Short note: (any three) [5×3=15]

- (a) Return of Loss
- (b) Relief [Sec. 89]
- (c) ICDS VIII Securities
- (d) Self-Assessment u/s 140A.