

# INTERMEDIATE EXAMINATION

December 2014

P-7(DTX)

Syllabus-2012

## 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 assumptions and state them clearly in the answers.*

*Working notes should form part of the relevant answers.*

*All sub-divisions of a question should be answered continuously.*

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

### Section A

[Question No. 1 is compulsory and answer any four from Q. Nos. 2 to 6 in this section.]

1. (a) Fill up the blanks:

1×8=8

- (i) Deduction under section 80G for donation to National Children's Fund is \_\_\_\_\_ per cent.
- (ii) Life Insurance premium paid in excess of \_\_\_\_\_ per cent of the actual capital sum assured is not deductible under section 80C, in respect of policies issued on or after 01.04.2012.
- (iii) Commodities transaction tax is \_\_\_\_\_ even if it is incurred in the course of business.
- (iv) Buy back of unlisted shares by a company is \_\_\_\_\_ in the hands of the shareholder.
- (v) Rebate under section 87 is to be calculated \_\_\_\_\_ the levy of education cess.
- (vi) Rate of income-tax applicable for foreign institutional investors in respect of income from notified bonds and government securities is \_\_\_\_\_.
- (vii) The due date for furnishing Annual Information Return is \_\_\_\_\_.
- (viii) Sale of gold coin in excess of \_\_\_\_\_ is liable for tax collection at source.

(b) Choose the most appropriate alternative:

1×5=5

- (i) Deduction for investment in new plant or machinery under section 32AC is applicable for
  - (A) all assessees
  - (B) companies
  - (C) partnership firms
  - (D) individuals

- (ii) Income of securitization trust from the activity of securitization is
  - (A) exempt [section 10(23DA)]
  - (B) taxable at 20%
  - (C) taxable at 5%
  - (D) taxable at the regular rates
- (iii) Royalty paid by State Government undertaking to the State Government is
  - (A) deductible
  - (B) inadmissible
  - (C) 50% deductible
  - (D) 20% deductible
- (iv) Time limit for setting up undertaking for generation of power to avail deduction under section 80-IA is available upto
  - (A) 31.03.2017
  - (B) 31.03.2016
  - (C) 31.03.2013
  - (D) 31.03.2014
- (v) The maximum deduction under Rajiv Gandhi Equity Savings Scheme is
  - (A) ₹ 10,000
  - (B) ₹ 50,000
  - (C) ₹ 1,00,000
  - (D) ₹ 25,000

2. (a) What are “profits in lieu of salary” as per section 17(3) of the Income Tax Act, 1961? 3

(b) Mr. Mahim was retrenched from service of ABC Limited. He received retrenchment compensation amounting to ₹ 8,75,000. Amount of compensation determined under the Industrial Disputes Act, 1948 is ₹ 4,80,000. The scheme of retrenchment is not approved by the Central Government. Compute the taxable retrenchment compensation. 4

(c) Mr. Singhania constructed a residential house property in Kanpur. Construction was completed on 1st April, 2013. The house was vacant from 1st April, 2014 to 31st July, 2014. The house was let out at rent of ₹ 7,500 per month from 1st August, 2013. Mr. Singhania obtained loan for the purpose of construction. Interest paid on such loan during two years prior to completion of construction amounted to ₹ 30,000. Interest paid during the year 2013-14 is ₹ 16,000. Fire Insurance premium paid is ₹ 2,000. Municipal value of the property has been assessed at ₹ 40,000. Annual corporation tax paid ₹ 3,000.

Compute income under the head “Income from House Property” for Assessment year 2014-15. 6

3. (a) The Profit & Loss Account of M/s. Saxena & Chaturvedi, Cost Accountants, shows a net profit of ₹ 25,50,000 after debiting/crediting the following items:

- (i) Interest of ₹ 1,40,000 on capital of Mr. Saxena, partner calculated at 14% per annum.
- (ii) Remuneration ₹ 35,00,000 to Mr. Saxena and Mr. Chaturvedi, who are working partners.
- (iii) Salary of ₹ 40,000 to Mr. Chatterjee, Manager for February, 2014 was paid by bearer cheque on 1st March, 2014.
- (iv) Depreciation ₹ 1,20,000.
- (v) Professional fee of ₹ 45,000 was paid to a lawyer for obtaining a legal opinion. No tax was deducted at source.
- (vi) A sum of ₹ 30,000 was paid to a trainee as a special award for ranking first in Final Examination of the Institute of Cost Accountants of India.
- (vii) Refund of penalty ₹ 35,000 paid in the financial year 2011-12 relating to delayed payment of service tax, after decision of the appellate authority in favour of the assessee.
- (viii) Interest on fixed deposit ₹ 5,00,000.

The firm is entitled to depreciation of ₹ 1,45,000 under section 32.

Compute total income of the firm for the assessment year 2014-15.

9

(b) State the provisions of the Income Tax Act, 1961 relating to interest on compensation or enhanced compensation on compulsory acquisition of property.

4

4. (a) Mr. Ahuja purchased one plot of land in 1995-96 at a cost of ₹ 1,00,000 in Delhi. The land was held by him as capital asset. He converted the plot into his stock in trade on 1st April, 2012, on which date the fair market value of the plot was ₹ 15,50,000.

He started constructing a building consisting of eight flats of equal size and dimension on the plot on 1st April, 2012. Cost of construction of each flat is ₹ 6,00,000. Construction was completed in June 2013. He sold five flats at ₹ 12,00,000 per flat from June, 2013 to March, 2014. The remaining three flats were held as stock on 31st March, 2014.

Compute Capital Gain and Business Income arising from above transactions for Assessment year 2014-15.

9

(Cost Inflation Index:

1995-96: 281

2012-13: 852

2013-14: 939)

(b) Ajay purchased a house for ₹ 6 lacs from Anup Properties, a property dealer on 1st June, 2013, for his residential purpose. He paid stamp duty on value of ₹ 10 lacs assessed by Stamp Valuation Authority.

Examine the tax implications in the hands of Ajay and Anup Properties.

4

**Please Turn Over**



5. (a) India makes LLP reports a total income of ₹ 60,00,000 for the year ended 31.03.2014 after taking into account the following details/deductions:
- (i) Deduction of ₹ 9,00,000 under section 80JJA.
  - (ii) It manufactures toothpaste in a factory located in the State of Sikkim. Eligible deduction under section 80-IE is computed at ₹ 8,00,000.
  - (iii) Gave a donation of ₹ 5,00,000 to Prime Minister National Relief Fund towards Uttarakhand disaster, eligible for deduction under section 80G.
  - (iv) Debited ₹ 15,00,000 being the cost of water pollution control equipments to profit and loss account. These items are eligible for 100% depreciation.

Compute the Alternative Minimum Tax (AMT) applicable to the LLP for the assessment year 2014-15, as per the provisions of the Income Tax Act, 1961. 5

- (b) State, with brief reason, whether disallowance is attracted under any provision of the Income Tax Act, 1961 in the following cases, while computing income under the head 'Profits and gains of business or profession':

- (i) Salary of ₹ 3,00,000 to each working partner by a firm without deduction of tax at source.
- (ii) Interest to a nationalized bank on term loan ₹ 72,000 of which the amount actually paid during the year was ₹ 40,000 and ₹ 15,000 was paid before the 'due date' for filing the return of income.
- (iii) Demerger expenses of ₹ 7,00,000 wholly debited to profit and loss account.
- (iv) Expenditure incurred towards issue of bonus shares ₹ 2,00,000. 4

- (c) Mr. Vishal gifted a sum of ₹ 3 lacs to Miss Mrinal on 1.4.2013. Miss Mrinal got married to Mr. Vishal's son on 1.6.2013. Mrinal earned an interest of ₹ 22,000 from this gifted amount, for the year ended 31.3.2014. Can the interest income of ₹ 22,000 be clubbed in the hands of Mr. Vishal? 4

6. (a) From the following information, compute the income taxable under the head 'Capital gains' and 'Income from other sources' in the hands of Sachin:

- (i) Sehwaq gifted a vacant site to his friend Sachin on 23.05.2013 on the occasion of latter's birthday.
- (ii) Sehwaq had acquired the said vacant site in May, 2009 for ₹ 30,00,000.
- (iii) The fair market value of the site for stamp duty purposes on the date of gift i.e. on 23.05.2013 was ₹ 60,00,000.
- (iv) Sachin sold the vacant site on 15.03.2014 for a consideration of ₹ 70 lakhs when its stamp duty value on the date of sale was ₹ 90 lakhs.

For capital gains, state with reason, whether it is short-term or long-term.

Also compute the capital gains chargeable to tax in the hands of Sehwaq. 4

- (b) (i) Mr. A (non-resident) aged 66 has total income (computed) ₹ 2,10,000 comprising income from house property and income from other sources. Is he required to file his return of income for the assessment year 2014-15? Also compute the total amount of tax payable by him. 3
- (ii) X Co. Ltd. filed its return for the assessment year 2014-15 on 10.12.2014, declaring a business loss of ₹ 12,00,000 and unabsorbed depreciation of ₹ 6,00,000. How much of loss and/or depreciation is eligible for carry forward? 3
- (c) State the conditions to be satisfied by political party to avail income-tax exemption. 3

### Section B

*This section relates to Wealth Tax.*

[Answer all questions.]

7. (a) State with brief reasons, whether the following statements are true or false in the context of Wealth Tax Act, 1957: 1×5=5
- (i) All registered political parties are liable to pay wealth tax.
- (ii) One residential house owned by an individual, regardless of its value or period of let out, is exempt from wealth tax.
- (iii) A warehouse let out for 100 days after construction is an asset.
- (iv) Guest house beyond corporation limits is not liable for wealth tax.
- (v) Recorded cash in excess of ₹ 50,000 is an asset for HUF.
- (b) Mr. Sarath has a residential house property at Chennai which is let out from 01.10.2013 and prior to that it was self-occupied by him. The annual value of the property is fixed at ₹ 3,00,000 and the municipal tax levied by the local authority was ₹ 15,000. Excess of unbuilt area over specified area, computed on the aggregate area is 18%.

Assuming that this is an asset chargeable to tax and that exemption will not be claimed in respect of this asset, compute the value of house property as per Schedule III. 5

### Section C

[Question No. 11 is compulsory. Answer any two out of the three questions in this Section.]

3. (a) What is 'impermissible avoidance arrangement' and state the four tests applied for deciding the same. 5
- (b) Can multi-year data be used for determination of ALP? 2
- (c) State whether the following are associated enterprises, one of them being non-resident: 3
- (i) X Co. Ltd. holds 12% partnership right in X Traders (firm).
- (ii) A Finance (non-corporate) guarantees loan taken by A & Co.(P) Ltd. for a term loan of ₹ 10 crores taken from a bank. A & Co(P) Ltd. has a total borrowing of ₹ 20 crores.
- (iii) ABC Investments has advanced loan to DEF Ltd. which is more than 40% of book value of total assets of DEF Ltd.

9. (a) India has a Double Taxation Avoidance Agreement (DTAA) with USA. Mr. Murali, a resident Indian, has derived certain income in USA. Assume that as per the DTAA the said income is taxable at the rate of 10%, whereas as per the provisions of the Income Tax Act, 1961, the same is taxable at 15%. Can Mr. Murali opt to be governed by the provisions of the DTAA, even though the DTAA deviates from the normal tax provisions? 2  
Will your answer be different, if Mr. Murali were a non-resident? 1
- (b) What is cross border transaction service? State the statutes primarily regulating the cross border transactions. 2
- (c) MNO Ltd. and Roxy Inc. of USA are associated enterprises. MNO Ltd. imported 3000 motor bikes from Roxy Inc. at ₹ 50,000 per bike. These are sold in India at ₹ 55,000 per bike. Also, MNO Ltd. imported exactly similar motor bikes from Hold Inc. of Japan (unrelated party) and sold outside at a gross profit of 20% on sales.  
Roxy Ltd. offered a quantity discount of ₹ 1,500 per motor vehicle. Hold Inc., however, offered only ₹ 500 per bike as quantity discount. The freight and insurance from Roxy USA cost MNO Ltd. ₹ 1,500 per bike whereas in respect of purchase from Hold Inc. MNO Ltd. had to pay ₹ 500 as freight charges and there was no insurance cost on the assessee.  
Determine arm's length price and amount of increase in total income of MNO Ltd. 5
10. (a) State the difficulties in ALP determination of intangibles. 3  
(b) When is profit split method (PSM) applied in international transactions for determination of ALP? 2  
(c) Mr. Banerjee, a resident Indian, and 56 years old, has derived the following incomes during the previous year 2013-14:

Particulars	₹
Income from business in India	3,80,000
Commission (gross) from a company in Hong Kong (Tax paid in Hong Kong ₹ 40,000)	2,00,000
Dividend (gross) from a company in Hong Kong (Tax paid in Hong Kong ₹ 22,500)	1,50,000
Interest on fixed deposit with banks in India	1,80,000
India has no Double Taxation Avoidance Agreement (DTAA) with Hong Kong.	

Compute the income and tax payable by Mr. Banerjee for the assessment year 2014-15. 5

11. Answer the following: 1×5=5

- (a) What is international transaction?  
(b) Who can apply for Advance Pricing Agreement (APA)?  
(c) State the Form No. in which the accountant must certify the arm's length price after audit.  
(d) State any four filters applied in ALP determination.  
(e) What is the basic object of ALP determination?