

# INTERMEDIATE EXAMINATION

December 2015

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 assumption(s) and state the same clearly in the answer.*

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

*All the questions relate to the Assessment Year 2015-16, unless stated otherwise.*

### Section A

[Answer Question No. 1, which is compulsory and any four from Question Nos. 2 to 6]

1. Answer the following questions with brief reasons/workings: 2×10=20
- (a) Mr. Vishnu received ₹ 2,00,000 on 10th April, 2014 as advance from Mr. Ram in pursuance of an agreement to transfer a vacant land held as capital asset. The agreement was cancelled later. Mr. Vishnu retained 50% of the advance and refunded the balance to Mr. Ram. What is the tax implication in the hands of Mr. Vishnu?
  - (b) Are profits on transfer of shares and securities held by a Foreign Institutional Investor chargeable to tax under the head "profits and gains of business or profession" or "capital gains"?
  - (c) Mr. David, a citizen of Spain came to India for the first time in previous year 2010-11 and stayed for 100 days in that year. During the previous years 2011-12, 2012-13, 2013-14 and 2014-15 he stayed in India for 120 days, 110 days, 80 days and 90 days respectively. What is the residential status of Mr. David for the assessment year 2015-16?
  - (d) Mr. G gifted a house property to his son, Mr. H (age 20 years) on 5th June, 2014. The property was acquired by Mr. G on 10th October, 2011. Mr. H held the property as capital asset and transferred the property on 20th October, 2014 for ₹ 20 lakhs. Is the capital gain short-term or long-term?
  - (e) A foreign company cannot approach Dispute Resolution Panel in respect of its assessment. Is this statement correct?
  - (f) X. Limited is an Indian company. However, it carries on business in USA. All the shareholders are residents of USA. The Board meetings and Annual General Meetings are held outside India. What is the residential status of X. Limited?
  - (g) The Statement of Profit and Loss of KCL Limited is debited by an amount of ₹ 1,20,000 in respect of an advertisement of company's product in a newspaper owned by a political party. Is such expense allowable in computation of income from business?
  - (h) Interest of ₹ 15,000 on bank fixed deposits is received by the minor son of Ms. Santi. These fixed deposits were made by Ms. Santi out of her son's earnings from stage acting. What is the tax treatment of interest?

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- (i) The Statement of Profit and Loss of a company includes interest of ₹ 5,00,000 on a loan taken for financing its expansion scheme. The machineries purchased with the borrowed amount were in transit at the end of the year. Is such interest allowable as deduction in computation of the company's business income?
- (j) Is a company liable to pay advance tax when it is required to pay tax on "book profit" under section 115JB?
2. (a) MNO Ltd. commenced commercial production of its unit located in Special Economic Zone (SEZ) from 01.04.2006. It furnishes the following information for the year ended 31.03.2015:

Particulars	₹ in lakhs
Total sales	100
Export sales	50
Profit earned	30

Compute the deduction under section 10AA and income chargeable to tax for the assessment year 2015-16. Your computation must be supported by reasons.

- (b) Mr. Sridhar an employee of XY Ltd. received ₹ 8 lakhs as leave salary on his retirement on 28.02.2015. Average salary drawn during last 10 months ₹ 35,000. Last drawn salary is ₹ 40,000. He rendered service of 24 years and 7 months. Leave taken while in service 9 months. Leave entitlement as per employer's rules is 1½ months for each completed year of service. Calculate the taxable leave salary for the assessment year 2015-16.
- (c) ABC Private Limited allotted 10,000 shares of ₹ 10 each to Mr. A at ₹ 20 per share. The fair market value of the shares on the date of allotment was determined at ₹ 15 per share. Will such allotment have any tax implication in the hands of ABC (P) Ltd? What would be your answer in case the company is a listed company in Bombay Stock Exchange? If Mr. A is a non-resident, state the implication.
- (d) Explain the tax incidence in the case of a transfer of a let out property, which is not revocable during the life time of the transferee.
3. (a) Mr. Shiva (age 62) having 4 heavy goods vehicles and 3 non-heavy goods vehicles wants to show the income chargeable to tax on presumptive basis. During the year 2014-15, he received interest on enhanced compensation of ₹ 5 lakhs relating to compulsory acquisition of land (made in the year 1991). He borrowed ₹ 3 lakhs for renovation of a let out property from which he earned rental income of ₹ 10,000 per month. Interest on borrowal for house renovation for the year is ₹ 42,000. Compute his total income and income tax liability for the assessment year 2015-16.
- (b) Mr. Harbhajan employed in Gama Ltd. furnishes you the following information for the year ended 31.03.2015:
- Basic salary upto 31.12.2014 ₹ 60,000 per month.
  - Basic salary from 01.01.2015 ₹ 70,000 per month.  
Note: Salary is due and paid on the last day of every month.
  - Dearness Allowance @ 40% of basic salary.

- (iv) Bonus equal to one month salary paid in February 2015 on basic salary and DA applicable for that month.
- (v) Employer's contribution to Provident Fund account of the employee at 15% of basic salary.
- (vi) Profession tax paid ₹ 5,000 of which ₹ 2,000 was paid by employer.
- (vii) Facility of laptop and computer was provided to Harbhajan both for official and personal use. Cost of laptop ₹ 35,000 and computer ₹ 25,000 acquired by the company on 01.01.2015.
- (viii) A motor car owned by the employer is provided to the employee meant for both official and personal use from 01.12.2014. Running expenses fully met by the employer which amounts to ₹ 35,000. The motor car (cubic capacity of engine exceeds 1.6 litres) was self driven by Mr. Harbhajan.

Compute the salary income chargeable to tax in the hands of Mr. Harbhajan for the assessment year 2015-16. 7

- (c) State the scope of and time limit for rectification of order passed by the Assessing Officer under the Income-tax Act. 3
- 4. (a) State the circumstances under which the Assessing Officer may refer the valuation of capital asset to the Valuation Officer. 4

- (b) The Statement of Profit and Loss of XYZ Limited for the previous year 2014-15 shows a net profit of ₹ 8,50,390 after debiting/crediting the following items:

- (i) Purchase of goods for ₹ 42,000 (market value ₹ 35,000) from one of the directors of the company.
- (ii) Interest of ₹ 1,00,000 paid on loan taken from Mr. Ron of USA without deducting tax at source.
- (iii) Advance of ₹ 90,000 paid in earlier year for purchase of machinery written off.
- (iv) Income tax on perquisites of employees paid by the company ₹ 20,000.
- (v) Recovery of bad debt of ₹ 30,000 which was disallowed in previous assessment of the company.

Compute income of XYZ Limited under the head "profits and gains of business or profession" for Assessment Year 2015-16 indicating reasons for treatment of each item. 6

- (c) Mr. Suresh Raina sold a residential building for ₹ 75,00,000 on 1st July, 2014. It was acquired for ₹ 22,04,000 on 1st June, 2007. The stamp duty valuation of the property at the time of acquisition was ₹ 25,00,000 and at the time of transfer was ₹ 85,00,000. He paid brokerage at 1% at the time of transfer. He deposited ₹ 40,00,000 in bonds of Rural Electrification Corporation Ltd. in March, 2015 and deployed the balance in a business commenced by him. He has business loss of ₹ 5,00,000 for the year ended 31st March, 2015. Compute total income of Mr. Suresh Raina and advise by what date he must file his return of income.

Cost inflation index- F.Y. 2007-08; F. Y. 2014-15: 1024

- 5. (a) Raja is the owner of a residential house property having two independent floors of equal size in Chennai. The ground floor of the property has been let out to a tenant at rent of ₹ 15,000 per month from 1st June, 2014. The first floor of the property is occupied by Raja for his residential purpose.

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Other particulars relating to the property are as follows:

Particulars	₹
Standard Rent	3,20,000 p.a.
Municipal valuation	3,80,000 p.a.
Fair rent	3,70,000 p.a.
Annual municipal tax (50% paid)	57,000
Interest on loan taken for construction of property for the year 2014-15	30,000
Annual insurance premium	5,000

Compute income from house property of Raja for the Assessment Year 2015-16.

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(b) Mumbai People Co-operative Society has derived the following income during the previous year 2014-15:

	₹
Income from processing, with the aid of power, of agricultural produce of its members	40,000
Income from collective disposal of labour of its members	65,000
Interest from another co-operative society	30,000
Income from House Property	80,000
Income from other business	61,000

Determine the total income of Mumbai People Co-operative Society for Assessment Year 2015-16.

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(c) Ms. Priya has kept a fixed deposit of ₹ 10 lakhs with State Bank of India on which she received interest of ₹ 80,000. Subsequently she borrowed ₹ 5 lakhs from the same bank on the security of the fixed deposit. Interest paid on such loan is ₹ 50,000. She offered interest income of ₹ 30,000 (after adjustment of interest paid ₹ 50,000). Is she correct?

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6. (a) Raj Industries Ltd. furnishes you the following information for the year ended 31.03.2015:

- Net Profit as per Statement of Profit and Loss ₹ 16,00,000.
- Provision for warranties to customers Statement of Profit and Loss ₹ 2,00,000.
- Wealth tax paid debited to Statement of Profit and Loss ₹ 30,000.
- Agricultural income credited to Statement of Profit and Loss ₹ 1,00,000.
- Deferred tax credited to Statement of Profit and Loss account ₹ 4,00,000.
- The company has as per books: Brought forward depreciation of ₹ 2,50,000 and Business loss of ₹ 3,00,000.

Compute "book profit" under section 115JB for the assessment year 2014-15.

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(b) Mr. Vignesh and his wife Smt. Buddhi furnish the following information for the year ended 31.03.2015:

Particulars	₹
(i) Salary income (computed) of Smt. Buddhi	5,50,000
(ii) Income of minor son Brijesh who suffers from disability specified in section 80U	1,50,000
(iii) Income of minor daughter Chitra from singing	85,000
(iv) Income from business (computed) of Mr. Vignesh	4,00,000
(v) Rental income from property earned by Smt. Buddhi during the year ₹ 4,80,000. The property was gifted by Vignesh 3 years ago out of love and affection.	
(vi) Income of minor daughter Chitra from company deposit	20,000

Compute the total income of Mr. Vignesh and Smt. Buddhi for the Assessment Year 2015-16.

(c) Mrs. Zeenat is running a proprietary business whose accounts are audited under section 44AB since her turnover always exceeded ₹ 100 lakhs. She pays a monthly rent of ₹ 13,000 for the office premises to Mr. Jack, the owner of the building, an individual. She also pays ₹ 10,000 per month to Mr. Jack for the use of furniture, fixtures and vacant land appurtenant to the building. Is she liable to deduct tax at source on these payments? If no tax is deducted at source, what would be the consequence?

### Section B

(International Taxation and Transfer Pricing)

Answer any two questions out of three questions.

7. (a) Explain 'associated enterprise' in the context of taxation of income. 3
- (b) State whether the following transactions are international transactions between associated enterprises: 3
- A Co. Ltd. of Delhi has guaranteed a bank term loan of ₹ 25 crores (converted in Indian rupee) availed by Mckinsey Inc. of Hong Kong. The loan guaranteed is 11% of the total borrowings of Mckinsey Inc.
  - Four partners of FA LLP of Mumbai are directors in Beta Co. Ltd. of UK. There are 9 directors in the governing board of Beta Co. Ltd. During the year FA LLP exported goods to Beta Co. Ltd. for ₹ 20 crores, which is 80% of its total turnover.
  - Ramesh & Co. a partnership firm located in Bangalore is 100% dependent on raw materials supplied by Abdul LLP of Singapore. There is no other investment or financial interest between these two entities.

Please Turn Over

- (c) Richard Shipping Co. of Australia is engaged in shipping business. It received ₹ 600 lakhs towards carriage of goods from the port of Kolkata to Sydney during the year 2014-15. The net tonnage of the ship exceeded 25,000 and the total quantum of goods carried was 60,000 tonnes. The assessee wants to offer income on presumptive basis. Compute the income and state the procedure for tax compliance. 4
- Note:* Presumptive income for a qualifying ship exceeding 25,000 net tonnage is ₹ 11,770 plus ₹ 29 for each 100 tonnes exceeding 25 tonnes.
8. (a) LV Ltd., an Indian company supplied textile articles to its holding company BB Ltd., Spain during the year 2014-15. LV Ltd. also supplied the same product to another Spain based company VX Ltd., an unrelated party. During the year, it supplied 10,000 units to BB Ltd. at Euro 100 per unit. It supplied 4000 units to VX Ltd. at Euro 110 per unit. It gave 3 months credit time to BB Ltd. and whereas to VX Ltd. it supplied against payment i.e. no credit time was given. The cost of capital may be taken as 12% per annum. Compute the arm's length price for the transaction with BB Ltd. 1 Euro = ₹ 80. 4
- (b) What are the specified domestic transactions which are liable for transfer price adjustments? 4
- (c) A branch office of a foreign company in India has loss of ₹ 20 lakhs after charging head office expenses of ₹ 50 lakhs. Explain with reasons the amount of income chargeable to tax in the hands of the branch for the assessment year 2015-16. 2
9. (a) When an advance pricing agreement may be declared void *ab initio*? What are the consequences in such situation? 3
- (b) Write short note on Tax Residency Certificate (TRC). 3
- (c) What are the objectives of a double taxation avoidance agreement? 4
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