INTERMEDIATE EXAMINATION

December 2017

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

All the questions relate to Assessment Year 2017-2018, unless otherwise stated.

Section A

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

1. (a) Fill up the blanks: 1×10=10

(i) When an Indian citizen leaves India for the purpose of employment his residential status is resident and ordinarily resident if he had stayed in India during the year for ___________ days during that previous year.

(ii) Transport allowance for the purpose of commuting between the place of residence and place of duty is exempt up to ₹ ___________ in the case of an employee who is blind or deaf and dumb.

(iii) When tax is not deducted at source ___________ % of expenditure is liable for disallowance under section 40(a) (ia).

(iv) When a company pays commission of ₹ 30,000 to a person in March, 2017, it has to deduct tax at source at ___________%.

(v) An educational institution existing solely for education is exempt from tax when the aggregate annual receipt does not exceed ₹ ___________.

(vi) Royalty received for a patent is eligible for deduction under section 80RRB up to ₹ ___________.

(vii) When a professional has aggregate fee receipt of ₹ 30 lakhs his presumptive income under section 44ADA shall be ₹ ___________.

(viii) Electoral trust must distribute __________% of donation received by it during the year.

(ix) Expenditure on amalgamation or demerger is eligible for amortization in __________ annual instalments under section 35DD.

(x) The monetary limit for deduction in respect of family pension is ₹ __________.

(b) Choose the most appropriate alternative: 1×5=5

(i) When copyright is acquired for ₹ 50 lakhs on 10.11.2016 and used from 01.12.2016, the amount of depreciation under section 32 would be __________.

(A) Nil

(B) ₹ 12,50,000

(C) ₹ 6,25,000

(D) ₹ 15,00,000

(ii) Mr. Raj (age 62) is *Karta* of HUF which is engaged in textile trade. The total income of the HUF is ₹ 3,40,000. The tax liability of the HUF would be __________.

(A) ₹ 9,270

(B) ₹ 4,120

(C) Nil

(D) ₹ 1,05,060

(iii) Interest on Post Office SB joint account is exempt up to __________.

(A) ₹ 3,500

(B) ₹ 7,000

(C) ₹ 10,000

(D) ₹ 20,000

(iv) Mr. A retired from a public sector company under voluntary retirement scheme of the company. The monetary limit for exemption under section 10(10C) is __________.

(A) ₹ 10,00,000

(B) ₹ 7,00,000

(C) ₹ 5,00,000

(D) ₹ 3,50,000

(v) When cash is deposited into savings bank account, quoting of PAN is mandatory when the amount of deposit is __________ or more.

(A) ₹ 20,000

(B) ₹ 50,000

(C) ₹ 1,00,000

(D) ₹ 2,00,000

(c) Match the following: 1×5=5

(i) Rate of depreciation on goodwill	(a) ₹ 1,50,000
(ii) Tax rate applicable for LLP	(b) 75%
(iii) Monetary limit of deduction of entertainment allowance of Government employee	(c) 25%
(iv) % of advance tax payable before 15th December	(d) ₹ 5,000
(v) Maximum deduction under section 80C	(e) 30%

2. (a) Mr. Ram a resident of India during the previous year 2016-17 furnishes you the following details:

Sl. No.	Particulars	₹
1	Rental income from property at Madurai (computed)	2,10,000
2	Salary earned in United Kingdom for 6 months deputed by employer in Bangalore	6,00,000
3	Salary income in India (for balance 6 months)	4,50,000
4	Interest from public provident fund	40,000
5	Agricultural income from land held in Malaysia	2,00,000
6	Interest on fixed deposit with SBI	50,000

Find out the total income of Mr. Ram for the Assessment Year 2017-18. Also compute his total income if he was resident but not ordinarily resident or non-resident. 9

(b) State with brief reasons whether the following are chargeable to tax: 6

(i) Share income from HUF received by a female member ₹ 50,000.

(ii) Cash gift of ₹ 60,000 received by Mr. John on the occasion of 50th Birthday from his father in-law.

(iii) Amount received on maturity of LIC policy by Mr. Ranga ₹ 6 lakhs. The annual premium on the policy was ₹ 40,000 paid from the year 2004-05. The capital sum assured is ₹ 4 lakhs and the balance represents bonus.

(iv) Vacant site acquired by Mr. Robert from Mr. Rahim for ₹ 2,50,000 when the stamp duty valuation is ₹ 4 lakhs. Discuss the chargeability for Mr. Robert only.

(v) Educational scholarship of ₹ 75,000 received by Mr. Arun from a charitable trust registered under section 12AA for meeting the cost of education of engineering study.

(vi) Subsidy of ₹ 2 lakhs received by Singh & Co. for purchase of generator from State Government. The cost of generator was ₹ 8 lakhs and the subsidy represents 25%.

3. (a) CMA Vani is employed as a Cost Controller in Steel India Ltd. at a consolidated salary of ₹ 50,000 per month. The company provides her the following facilities without any charge:

(i) A furnished accommodation owned by the employer in Chennai. Cost of furniture provided by the employer is ₹ 1,00,000.

(ii) A motor provided by the employer for commuting between home and office. Cost to the employer for this purpose is ₹ 10,000 per month.

(iii) Free supply of gas for ₹ 1,500 per month. The gas connection is in the name of the employee.

(iv) Service of a cook appointed by the company at ₹ 1,600 per month.

(v) Health insurance premium of ₹ 8,000 per annum paid by the company.

Compute income of CMA Vani under the head 'Salary' for Assessment Year 2017-18. 7

(b) State with brief reasons whether the following transactions attract liability to tax on account of capital gain: 2×4=8

(i) Sale of shares of unlisted companies held as stock-in-trade.

(ii) Sale of land held as capital asset by X Ltd. to its wholly owned subsidiary company, Y Ltd. which is incorporated in France.

(iii) Transfer of capital assets by A Ltd., an Indian company, amalgamating company to B Ltd., an amalgamated company, which is an Indian company.

(iv) Receipt of compensation from insurance company for destruction of a capital asset due to earthquake.

4. (a) In May, 2016, Mr. Aakarsh recovered rent of ₹ 17,000 from Ms. Gunjan, to whom he had let out his house from June 2010 to August 2012. He could not realise two months rent of ₹ 24,000 from her and to that extent his actual rent was reduced while computing income from house property for A.Y. 2013-14.

From September 2012 to November 2015, he had let out his property to Mr. Sahil. In October, 2014, he had increased the rent from ₹ 13,000 to ₹ 15,000 per month and the same was a subject matter of dispute. The house remained vacant for three months from December 2015 to February 2016. In April, 2016 the matter was finally settled and Mr. Aakarsh received ₹ 28,000 as arrears of rent for the period October, 2014 to November, 2015. However, in March 2016, Mr. Aakarsh had already sold this residential house property to Mr. Sagar.

Mr. Aakarsh contends that the amount recovered as unrealised rent and arrears of rent in the P.Y. 2016-17 would not be taxable in his hands in that year, since he had sold such house property in the previous year 2015-16 itself. Is the contention of Mr. Aakarsh correct? If not, under what head would such income be taxable and compute the income taxable under that head for A.Y. 2017-18? 5

(b) State, with reasons, the allowability of the following expenses under the Income-tax Act, 1961, as deduction, while computing income from business or profession for the Assessment Year 2017-18: 10

(i) XYZ Credit Corporation, a non-banking finance company, made provision for bad and doubtful debts in the books of account for the year ended 31.3.2017.

(ii) On 14.5.2017, ABC Ltd. paid ₹ 45,000 to the Indian Railways for the use of railway assets pertaining to previous year 2016-17.

(iii) MNO Ltd. paid ₹ 55,000 as tax on non-monetary perquisite provided to an employee.

(iv) ₹ 32,000 paid by S Ltd. in cash on 28.3.2017 to a transporter (owning 8 goods carriages throughout the previous year) for carriage of goods, without deduction of tax at source.

(v) P Ltd. paid ₹ 80,000 in cash for purchase of wheat from a farmer on a banking day.

5. (a) During the previous year 2016-17, Mr. Gagan received ₹ 5,32,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2011-12.

The above amount of interest include interest relating to the following financial years:

F.Y. 2013-14:	₹ 1,58,000
F.Y. 2014-15:	₹ 1,78,000
F.Y. 2015-16:	₹ 1,96,000

He incurred ₹ 75,000 by way of legal expenses in the F.Y. 2016-17 to receive the interest on such enhanced compensation.

Determine how much of interest on enhanced compensation would be chargeable to tax for the assessment year 2017-18? Can he claim deduction in respect of legal expenses from the amount of interest on enhanced compensation chargeable to tax? 6

(b) Compute the gross total income of Mr. Abhinav and his wife Mrs. Suhaani from the following information: 9

	Particulars	₹
(a)	Salary income (computed) of Mrs. Suhaani.	3,25,000
(b)	Income from business of Mr. Abhinav.	4,15,000
(c)	Income of minor son Chetan from fixed deposit.	25,000
(d)	Income of minor daughter Shreya from music concerts given by her.	28,000

(e)	Interest from bank received by Shreya on deposit made out of income derived from music concerts.	7,000
(f)	Gift received by Shreya on 4.10.2016 from friend of Mrs. Suhaani.	5,500

6. (a) State the provisions relating to carry forward and set off of accumulated loss and unabsorbed depreciation allowance in case of amalgamation of an Indian company owning an industrial undertaking with another company, which is an Indian company.

(b) At what rate of tax is to be deducted at source from payee who fails to furnish his Permanent Account Number?

(c) Explain the provisions for filing revised return of income. 8+3+4=15

Section B

(International Taxation and Transfer Pricing)

Answer *Question No.* 7, which is compulsory, and *any one* from Question Nos. 8 and 9.

7. State whether ***true*** or ***false*** with reference to the following in the context of transfer pricing provisions: 1×5=5

(i) If transaction between two enterprises where such enterprises are resident in India, such transaction shall not be called as international transaction.

(ii) Arm's length price means a price at which the transaction would be carried out in uncontrolled conditions.

(iii) The tolerance band for arm's length price for wholesale trading notified by the Central Government is 5%.

(iv) When the transfer price declared by the assessee is accepted by Income-tax authorities in international transactions, it is called as safe harbour rule.

(v) Audit report in respect of specified domestic transactions in terms of section 92E must be given in Form No. 3CD.

8. (a) Mrs. Chhaya a resident (age 42) being a cine actress derived income of ₹ 15 lakhs from guest shows performed outside India. Tax at 25% was deducted at source in the country where she performed the guest shows. India does not have any agreement with that country for avoidance of double taxation. Her income from property let out at Mumbai for the financial year 2016-17 is ₹ 10 lakhs (computed). She deposited ₹ 1,50,000 in Public Provident Fund account on 20.03.2017. Compute the income-tax payable for the assessment year 2017-18. 5

(b) State the presumptive rate applicable for determination of income of non-residents in the following cases: 5

(i) Income from shipping business conducted in India.

(ii) Royalty income of non-resident from an Indian concern based on agreement executed after 31.03.2003.

(iii) Interest from Non-Resident (External) Account.

(iv) Foreign company carrying out civil construction contract approved by the Central Government.

(v) Income from the business of operation of aircraft in India.

(c) An Indian Citizen but non-resident made deposits in Indian companies and also subscribed for shares in listed Indian companies by remitting foreign exchange. For the year 2016-17, his investment income from deposits in Indian companies is ₹ 2 lakhs and long term capital gain on transfer of shares was ₹ 1 lakh. He has no other income in India. He wants to opt for Chapter XII-A of the Act. State the rate of tax applicable for the incomes referred above and whether he must file his return of income? In case the assessee becomes resident later, state whether he can opt for Chapter XII-A of the Act? 5

9. (a) State the applicability of TDS provisions in the following cases: 5

(i) Interest payable to a non-resident by infrastructure debt fund referred to in section 10(47).

(ii) Interest paid to foreign institutional investor (being a qualified foreign investor) on certain bonds and Government Securities.

(iii) Interest paid by a domestic company to a non-resident ₹ 50,000 (30%).

(iv) Rent paid by a public sector bank to a non-resident ₹ 1,20,000 @ 10,000 per month.

(v) Amount paid to non-resident sportsmen for participation in showroom inauguration ₹ 5 lakhs. (20%)

(b) ABC Ltd., India exported semi-finished garments to its parent company BSC Inc. USA. The exports are made at \$ 20 per piece besides freight and insurance of \$ 5 per piece incurred separately. The BSC Inc. completes the process by incurring \$ 10 per piece and markets the same at \$ 49 per piece. Compute the profit per piece chargeable to tax in the hands of ABC Ltd. by applying profit split method. 5

(c) State the quantum of penalty applicable for international transactions in the following cases: 5

(i) Penalty for under reported income.

(ii) Penalty for failure to keep and maintain information and documents in respect of international transaction of the value of ₹ 10 crores.

(iii) Failure to furnish audit report from a chartered accountant under section 92E.

(iv) Delay in furnishing a report in respect of international group by 22 days.

(v) Penalty for misreporting of income.
