

INTERMEDIATE EXAMINATION

June 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 make suitable assumptions(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.

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) The maximum amount deductible under section 80GG in respect of house rent paid by a self-employed individual is ₹ _____ per month.
- (ii) The loss from activity of owning and maintaining race horses can be carried forward for _____ assessment years, immediately succeeding the assessment year for which loss was first computed.
- (iii) In order to qualify as long-term capital assets, shares of a private limited company should be held for more than _____ months immediately before transfer.
- (iv) In case of under-reporting of income, the assessee is liable to penalty under section 270A for an amount equal to _____ % of tax payable on under-reported income.
- (v) The amount of standard deduction available in respect family pension received by the legal heir of the deceased is 33 1/3% of such pension or ₹ _____, whichever is less.
- (vi) When a trader opts for presumptive income determination u/s 44AD, advance tax is payable on or before _____ of the previous year.
- (vii) Irrespective of the period of holding of asset, profit arising to a block of depreciable asset from transfer of such asset is always taxed as _____ capital gain.

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(viii) The due date for filing return of income for Assessment Year 2017-18 of a company, which is required to obtain a report under section 92E in respect of specified domestic transactions is _____.

(ix) Amount received by a member of a HUF as his share from the income of the HUF is _____ (included/not included) in his total income.

(x) Mr. X gifted ₹ 1 lakh to his wife, Mrs. X who invested such sum in a business. The business suffered a loss of ₹ 20,000. Such loss _____ (can/cannot) be set off against eligible income of Mr. X.

(b) Choose the most appropriate alternative:

1×5=5

(i) Rate of surcharge applicable to a foreign company having total income of ₹ 8 crore is:

- a. Nil
- b. 2%
- c. 5%
- d. 10%

(ii) Income Computation and Disclosure Standards are to be applied in computation of income under the head:

- a. Capital Gain only
- b. Profits and Gains of business or profession only
- c. Income from other sources only
- d. Both "Profits and Gains from business or profession" and "income from other sources"

(iii) New plant and machinery acquired and put to use by an assessee engaged in transmission of power is eligible for additional depreciation at _____ of actual cost.

- a. 10%
- b. 12.5%
- c. 15%
- d. 20%

- (iv) Maximum amount of exemption available in respect of amount received under voluntary retirement scheme is:
- ₹ 2,00,000
 - ₹ 3,00,000
 - ₹ 4,00,000
 - ₹ 5,00,000
- (v) An individual can claim deduction from his gross total income in respect of expenditure for the medical treatment of a dependent, being a person with disability up to maximum limit of
- ₹ 50,000
 - ₹ 1,00,000
 - ₹ 75,000
 - ₹ 1,25,000

(c) Match the following:

1×5=5

(i) Contribution of ₹ 8,000 in cash by a company to a political party	(a) Allowed as deduction in computing business income
(ii) Commodity Transaction Tax	(b) Income from other sources
(iii) Forfeiture of advance received for transfer of capital asset	(c) Not eligible for deduction under section 80 GGB
(iv) Interest from Sukanya Samridhi Account	(d) Allowed only on payment basis
(v) Amount payable to the Indian Railway for use of railways asset	(e) Not included in total income

2. (a) Mr. Rao had a house property in Hyderabad. The house was let out to Mr. Reddy from August 2011 to September 2012. Mr. Rao was unable to realize three months' rent amounting to ₹ 30,000 from Mr. Reddy. The said unrealised rent was reduced in computing income from house property for Assessment Year 2013-14.

Mr. Rao had let out the property to the State Government from October 2012 to December 2015. In October 2014, he increased the rent from ₹ 20,000 per month to ₹ 30,000 per month, but the State Government had disputed the increase in rent.

The house remained vacant for January 2016. He sold the house in February 2016.

Mr. Rao recovered unrealised rent to the extent of ₹ 20,000 from Mr. Reddy in December 2016. He also received arrear rent amounting to ₹ 1,50,000 from the State Government in January 2017 after settlement of dispute regarding increase in rent.

State **with reason**, whether recovery of unrealised rent and arrear rent be taxable in Assessment Year 2017-18. If so, under what head of income and what is the amount chargeable to tax? 6

- (b) Avishek works in VKS Limited on a basic salary of ₹ 50,000 per month. He is also entitled to dearness allowance of 20% of basic salary. Dearness allowance is included in salary for retirement benefit. He is also entitled to house rent allowance of ₹ 20,000 per month.

The company enhanced his basic salary by ₹ 5,000 per month with effect from 1st January, 2017.

Avishek was staying with his friend without paying rent till 31st October, 2016. He has taken a flat on rent at ₹ 14,000 per month at Erode with effect from 1st November, 2016.

Compute taxable house rent allowance for the Assessment Year 2017-18. 4

- (c) State the maximum amount of exemption that can be claimed in respect of the following allowances/receipts: 1×5=5

(i) Transport allowance granted to an employee who is blind.

(ii) Hostel expenditure allowance for children of employee.

(iii) Gratuity received by an employee covered under the Payment of Gratuity Act, 1972.

(iv) Retrenchment compensation received by a workman.

(v) Amount received by an employee at the time of closure of account under National Pension Scheme.

3. (a) Following is the Profit and Loss Account of Mr. Ghosh for the year ended 31.03.2017:

	Particulars	₹	Particulars	₹
To	Interest	1,20,000	By Gross Profit	9,25,000
To	Salary & Bonus	2,70,000	By Dividend from Indian companies	30,000
To	Rent	60,000	By Agricultural income (From land in Malaysia)	45,000
To	Medical expenses:		By Public Provident Fund interest	50,000
	Self	15,000		
	Staff	10,000		
To	Administration expenses	70,000		
To	Depreciation	85,000		
To	Donation	20,000		
To	Net Profit	4,00,000		
		10,50,000		10,50,000

Additional information:

- Salary & Bonus includes, payment to son of ₹ 1,30,000. Excess payment under section 40A(2)(a) is ₹ 35,000.
- Depreciation allowable under Income-tax Rules, 1962 is ₹ 49,000.
- Donation includes (a) ₹ 12,000 paid to Prime Minister's Relief Fund, and (b) ₹ 8,000 to a charitable trust registered u/s.12AA and recognized under section 80G. Both were through account payee cheques.

You are required to compute the total income of Mr. Ghosh for the Assessment Year 2017-18. 10

(b) State with brief reason, whether the following are eligible for deduction while computing income under the head "Profits and gains of business or profession": 1×5=5

- Cash paid to agriculturist ₹ 30,000 for buying sugarcane by a sugar mill.
- Brokerage paid to Ramesh (a resident) ₹ 12,000 by a company without deduction of tax at source.

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- (iii) Interest on capital paid by a firm to its partners @15% per annum, in accordance with the partnership deed.
- (iv) Freight paid to carrier in cash ₹ 43,000.
- (v) Payment of ₹ 33,000 to supplier of raw material by use of credit card.

4. (a) Answer the following questions with brief reasons/working:

- (i) Mr. Rao having 30% shareholding in Jain(P) Ltd., received dividend of ₹ 12 lakhs in December, 2016. Mr. Raghu having 20% shareholding in the same company received ₹ 8 lakhs by way of dividend at the same time. How will the dividend income be treated in the hands of Mr. Rao and Mr. Raghu respectively? The company has paid DDT u/s 115/O.
- (ii) Mr. Raj took life insurance policy in the name of his wife for ₹ 5 lakhs with annual premium of ₹ 45,000 on 01.06.2016. On the same date, he also took another policy in the name of his son (age 15) with severe disability (as referred to in section 80U) for ₹ 2,00,000 with annual premium of ₹ 40,000. Determine the quantum of life insurance premiums eligible for deduction under section 80C. 3+2

(b) Ms. Padmaja furnishes you the following information for the year ended 31.03.2017:

- (i) Acquired a vacant site for ₹ 5,20,000 in June, 2016 and the valuation for stamp duty purpose was ₹ 5,60,000.
- (ii) Sold a let out residential building for ₹ 10,50,000 to John (non-relative) when stamp duty value was ₹ 13,60,000. Indexed cost of the asset (computed) ₹ 11,10,000.
- (iii) Won ₹ 35,000 in a crossword puzzle contest.
- (iv) Income from business (computed) ₹ 9,20,000.
- (v) Paid ₹ 90,000 towards tuition fee for part-time MBA course pursued by her.
- (vi) Paid by cheque ₹ 26,000 towards health insurance premium by her parents (who are senior citizen) and ₹ 7,500 by cash towards preventive health check-up for herself.
- (vii) Paid ₹ 40,000 in notified National Pensions Systemss Trust.

Compute the total income of Ms. Padmaja for the Assessment Year 2017-18. 5

- (c) Mr. Arvind entered into an agreement for sale of vacant land to Mr. Bimal on 01.07.2016 and received ₹ 1,00,000 by cash. The agreement got cancelled as Mr. Bimal could not mobilize money to buy the land. Mr. Arvind hence forfeited the advance money in January, 2017. Discuss the tax consequence of the transaction in the hands of Mr. Arvind as regards acceptance of advance in cash and its forfeiture subsequently. 5

5. (a) Balaji, engaged in manufacturing activity, furnishes you the following details:

	Furniture & Fittings ₹	Plant & Machinery ₹
Opening WDV (01.04.2016)	15,000	2,50,000
Acquired and used (01.07.2016)	25,000	3,10,000 (Includes excise duty eligible for CENVAT credit of ₹ 10,000)
Acquired and used (01.01.2017)	10,000	1,50,000
Sold on 20.09.2016	20,000	75,000
Sold on 12.03.2017	---	2,40,000

Compute eligible depreciation for the Assessment Year 2017-18 (ignore additional depreciation). 5

(b) State **with brief reason** the “due date” for filing return of income in the following cases: 5

- Dr. Anand Hair Clinic (P) Ltd. having aggregate annual receipt of ₹ 110 lakhs and income from business of ₹ 6,20,000 (compute).
- Timber Traders, a partnership firm, having business loss of ₹ 2,30,000 and total turnover of ₹ 56,27,000. It is not opting for the presumptive provisions of section 44AD of the Act.
- Mr. Sridhar doing proprietary business, with annual turnover exceeding ₹ 200 lakhs and income from business (computed) of ₹ 7,40,000.
- A Charitable trust registered under section 12AA, having total income of ₹ 2,40,000 before giving effect to the provisions of sections 11 and 12 of the Act.
- Mr. Malik doing trade in automobile spare parts, with turnover below ₹ 50 lakhs and having a windmill for generation of power, which is eligible for deduction under section 80-IA of the Act.

- (c) Ms. Sanvitha sold a residential building for ₹ 52 lakhs to Ms. Vivitha on 01.06.2016. The stamp duty valuation for the purpose of registration was ₹ 60 lakhs. Ms. Sanvitha paid brokerage @ 1% of the sale consideration.

The property was originally acquired for ₹ 4.97 lakhs in July, 2005. Further construction was made in the financial year 2012-13 for ₹ 8,52,000.

Ms. Sanvitha deposited ₹ 30 lakhs in capital gain bonds of Rural Electrification Company in October, 2016. She has non-speculation business loss of ₹ 3,48,000 (computed) for the financial year 2016-17.

You are requested compute her total income for the assessment year 2017-18.

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Cost inflation index:

Financial Year 2005-06 = 497

2012-13 = 852

2016-17 = 1125

6. (a) State **with reasons**, the amount of tax to be deducted at source under section 194C from the following amounts payable:

2×2=4

- (i) Amount payable to Samir against four different contract viz. contract 1 ₹ 30,000, contract 2 ₹ 25,000, contract 3 ₹ 26,000 and contract 4 ₹ 20,000.
- (ii) Amount ₹ 2,50,000 payable to Sriram, a contractor for plying goods carriage. Sriram submitted declaration that he owns eight goods carriages and he furnished his permanent account number to the payer.
- (b) Laxman Memorial Trust, which operates a hospital, is registered as a charitable trust under section 12AA. Following details have been furnished by the trust in respect of the previous year 2016-17:

Particulars		₹
(i)	Income from operation of hospital	16,50,000
(ii)	Voluntary non-corporate contribution (including anonymous contribution of ₹ 2,00,000)	5,00,000
(iii)	Amount applied for the purposes of the hospital	12,50,000

Compute the total income of the trust and the tax payable by it for the assessment year 2017-18.

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(c) The Principal Commissioner of Income-tax or Commissioner of income-tax has the power under section 263 to revise any order passed by the Assessing Officer, if such order is erroneous in so far as it is prejudicial to the interest of the Revenue. In this context, answer the following:

- (i) When is an order passed by the Assessing Officer deemed to be erroneous in so far as it is prejudicial to the interest of the Revenue?
- (ii) What is the time limit for passing such order of revision? 5

Section B (International Taxation and Transfer Pricing)

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

- 7. State, without indicating reasons, whether the following statement are true or false.** 1×5=5
- (a) In case there is no Double Taxation Avoidance Agreement, the relief on foreign income is known as unilateral relief.
 - (b) Monetary limit for specified domestic transaction is ₹ 25 crore.
 - (c) Where there is a Double Taxation Avoidance Agreement between India and foreign country, person resident in the foreign country is entitled to double taxation relief, provided tax residency certificate is obtained by that person.
 - (d) Rate of tax as per Income-tax Act on income by way of royalty received by a non-resident from an Indian company in pursuance of an agreement entered into on 1st April, 2010 is 15%.
 - (e) Salary received by an individual, who is a non-resident, from his overseas employer for services rendered in India is liable to tax in India.
- 8. (a) State the difficulties in applying the arm's length principle in the context of transfer pricing.** 5
- (b) State with brief reason, whether the following lead to emergence of 'associated enterprises' relationship:** 1×5=5
- (i) A Co. Ltd. (USA) having 29% equity shares in B Co. Ltd. of Mumbai and 26% equity shares in Mega Co. Inc. of Singapore.
 - (ii) Axe Co. Ltd. of Kolkata availed ₹ 3 crores loan based on the guarantee of Max Co. Ltd. of UK. The total borrowing of Axe Co. Ltd. was ₹ 40 crores, excluding this loan.

(iii) New Stream Ltd., UK, appointed one executive director in Wonder Ltd. of Cochin. New Stream Ltd. has 15% stake in Wonder Ltd.

(iv) White Garments Ltd of Mumbai used the secret formula of Bashir Inc. of Singapore for which it paid ₹ 5 crores. The secret formula is the basis for the manufacturing activities of White Garments Ltd.

(v) BB Ltd. purchased raw materials from Chennai Ltd. of Colombo for ₹ 60 crore, out of its total purchase of ₹ 80 crores.

(c) Soft Ltd. of Chennai supplied shoes to its holding company Rock Ltd. of US. It supplied ₹ 10000 pairs at ₹ 1,500 per pair. It sold the same quality shoes at ₹ 1,800 per pair to unrelated parties. It allowed credit period of 3 months to Rock Ltd., as against 1 month allowed to unrelated parties. The interest burden on Soft Ltd. was quantified @ ₹ 10 lakhs due to extra credit time allowed to Rock Ltd.

Rock Ltd. supplied leather to Soft Ltd. at concessional rate which resulted in lower cost of production by ₹ 50 per pair.

Compute the amount of income that would be impacted by the transactions between the parties, in the context of transfer pricing provisions. 5

9. (a) Government of India can enter into Double Taxation Avoidance Agreement with Government of any other country. What does such agreement normally provide for? 5

(b) Answer the following briefly: 1×5=5

(i) When will the requirement from maintenance of information and documents required under section 92D not apply in respect of international transaction or specified domestic transaction?

(ii) State the prescribed form in which the report of international transaction is to be obtained from a Chartered Accountant.

(iii) For how many years should the information and documents related to international transaction to be maintained?

(iv) State the quantum of penalty leviable for failure to furnish the report of international transactions as per section 92E.

(v) How is the expenditure incurred from any transaction with a person located in notified jurisdiction area (NJA) is dealt with under the Income-tax Act?

(c) Write short notes on:

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Advance Pricing Agreement
