

INTERMEDIATE EXAMINATION

December 2019

P-7(DTX)
Syllabus 2016

Direct Taxation

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Question No.1 is compulsory. Answer any five from the rest.

Wherever necessary, the candidate may make suitable assumptions and state them clearly in the answer.

Working notes should form part of the answer.

All questions relate to the Income-tax Act, 1961 and pertain to the AY-2019-20, unless stated otherwise in the question.

1. (a) Choose the most appropriate alternative for the following (**Option to be given in capital letter A, B, C or D; entire answer need NOT be reproduced**): $1 \times 10 = 10$
- (i) Mr. Atul (aged 63), a resident Indian, paid for himself through account payee cheque, health insurance premium of ₹ 2,10,000 for 5 years in one lump sum on 28.03.2019. The eligible amount of deduction under section 80-D for the assessment year 2019-20 would be ₹ _____.
- (A) 50,000
(B) 30,000
(C) Nil
(D) 42,000
- (ii) Ramesh Tea Ltd., acquired a motor car for ₹ 6,20,000 on 30.08.2018. The company is engaged in manufacture of tea in India. The amount of depreciation allowable on such motor car would be ₹ _____.
- (A) 93,000
(B) 37,200
(C) 46,500
(D) Nil
- (iii) When an individual non-resident has total income exceeding ₹ 50 lakhs, the amount of surcharge payable on income-tax would be _____.
- (A) 17%
(B) 15%
(C) 12%
(D) 10%

- (iv) When a charitable trust registered under section 12AA paid rent of ₹ 50,000 per month throughout the previous year 2018-19 and no tax was deducted at source, the amount of expenditure to be considered for computing the application of income by the trust would be ₹ _____.
- (A) 6,00,000
(B) Nil
(C) 3,00,000
(D) 4,20,000
- (v) Manoj, a resident, employed in ABC Ltd., an Indian company, has gross annual salary income of ₹ 20,60,000. The standard deduction available under section 16(1) would be ₹ _____.
- (A) Nil
(B) 30,000
(C) 40,000
(D) 50,000
- (vi) Shares in unlisted companies, in order to be treated as long-term capital asset, should be held for a minimum period of _____ immediately prior to the date of transfer.
- (A) 365 days
(B) 12 months
(C) 24 months
(D) None of the above
- (vii) Padmaja Power Co. (P) Ltd. is engaged in generation and distribution of electrical power. It avails deduction under section 80-IA. The gross receipts of the company is ₹ 89 lakhs. The last date for filing the return of income in order to be eligible to avail deduction under section 80-IA is _____.
- (Note: Assume there is no extension of time for filling the return of income)
- (A) 30.09.2019
(B) 31.07.2019
(C) 30.11.2019
(D) 31.03.2020

- (viii) Mr. Harivallabh incurred medical expenditure of ₹ 1,20,000 in respect of the disease specified in rule 11DD for his father (aged 66) who is wholly dependent on him. The amount eligible for deduction from his gross total income would be ₹ _____.
- (A) 40,000
(B) 60,000
(C) 80,000
(D) 1,00,000
- (ix) When Mr. Avinash earned long-term capital gain of ₹ 1,80,000 on sale of listed shares, his total income being ₹ 10 lakhs, the amount of income-tax (including cess) on the said long-term capital gain would be ₹ _____.
- (A) Nil
(B) 18,720
(C) 8,320
(D) 10,400
- (x) Mr. Seshan received a loan of ₹ 2 lakhs from Seshan Trading (P) Ltd. in which he has 35% equity shareholding (with voting power). The accumulated profits of the company on the date of loan was ₹ 10 lakhs. The amount of tax (ignore cess) payable on such loan would be
- (A) @ 10% by Mr. Seshan
(B) @ 20% by the company
(C) @ 30% by the company
(D) depended upon other income earned by Mr. Seshan.
- (b) Match the following (Sufficient to give the corresponding item in column 3 for column 1; reproducing columns 2 and 4 are **not** required): 1×5=5

1	2	3	4
(i)	Threshold limit for TDS deduction on commission/ brokerage under section 194H.	(A)	₹ 18,000
(ii)	Rate of tax on royalty from registered patent in India.	(B)	₹ 2,000
(iii)	Rate of tax deduction at source for participating in a Television channel game show in case of residents.	(C)	10%
(iv)	Cash donation exceeding this amount is not admissible under section 80G.	(D)	30%
(v)	Taxable amount where enhanced compensation of ₹ 36,000 has been received.	(E)	₹ 15,000

- (c) State whether the following statements are *True* or *False*: 1×5=5
- (i) Income from sale of seeds derived from a nursery adjacent to agricultural lands is an agricultural income.
 - (ii) Unabsorbed depreciation can be carried forward for a maximum period of eight assessment years.
 - (iii) Cash gift of ₹ 1,00,000 received from uncle's son by a resident individual is taxable as income from other sources.
 - (iv) A firm, resident in India, having total income of ₹ 1,46,000 is eligible to claim deduction u/s 80D.
 - (v) For adjusting brought forward business loss with current year business income, one of the conditions is that such business must be continued during the current year.
- (d) Fill in the blanks: 1×5=5
- (i) A resident Indian aged 62, who has received interest of ₹ 12,000 from savings bank account and ₹ 43,000 as interest on bank fixed deposits, is eligible to a deduction of ₹ _____ from his gross total income.
 - (ii) Daily allowance received by a member of parliament is _____.
 - (iii) An expenditure, for which cash payment is made for a sum exceeding ₹ _____ on a single day is disallowed u/s 40A(3).
 - (iv) If a return of income for the AY 2019-20 is not filed within the due date prescribed in section 139(1), such return can be filed on or before _____, provided assessment is not completed.
 - (v) Maximum amount of exemption under section 10(10C) in respect of compensation received for voluntary retirement is ₹ _____.

2. (a) Mr. Arun furnishes the following details relating to three house properties at Erode, Tamil Nadu, let out by him during the previous year 2018-19:

Particulars	House-1	House-2	House-3
Gross municipal value	2,10,000	3,30,000	2,40,000
Fair rent (₹)	2,40,000	3,60,000	3,00,000
Standard rent (₹)	2,20,000	--	--
Let out period (months)	9	12	11
Vacant during the year for (Months)	3	--	1
Actual rent received (₹)	1,60,000	2,40,000	3,30,000
Interest on moneys borrowed (₹)	1,05,000	--	2,10,000
Land lease rent (₹)	--	--	24,000
Municipal tax paid being 2 months municipal value			

Compute the chargeable income from house property for the assessment year 2019-20. 9

- (b) With brief reasons, state whether the following constitute capital or revenue expenditure/ receipt: 6

- (i) Compensation paid to customer for defect in goods supplied.
- (ii) Outright purchase of patent by paying ₹ 25 lakhs.
- (iii) Construction of building on land taken on lease basis.
- (iv) Arrear wages to employees for earlier years after entering into agreement with Labour Union.
- (v) Painting expenditure for company's registered office building.
- (vi) Liquidated damages received from supplier for delay in supply of machinery.

3. (a) Mr. Subramani is the Chief Finance Manager of M/S LHW Ltd. based at Chennai. He has given the following particulars relating to salary:

(i)	Basic Salary (₹ 60,000 × 12) = 7,20,000
(ii)	D.A. (₹ 25,000 × 12) = ₹ 3,00,000 (forms part of pay for retirement benefits)
(iii)	Bonus – 2 months of basic pay.
(iv)	Commission – 0.1% of the turnover of the company. The turnover of the company for previous year 2018-19 is ₹ 20 crores.
(v)	Contribution of the employer and employee to the recognized provident fund ₹ 3,50,000 each.
(vi)	Interest credited to Recognized Provident Fund Account at 9.5% ₹ 65,000.
(vii)	Rent-free unfurnished accommodation provided by the company for which the company has paid annual rent of ₹ 80,000.
(viii)	Entertainment Allowance ₹ 30,000.
(ix)	Hostel allowance for three children ₹ 5,000 each.

Compute the income chargeable under the head “Salaries” in the hands of Mr. Subramani for the Assessment Year 2019-20. 9

- (b) Parikshit (aged 25 years) is engaged in growing and manufacturing tea in India. His profit for the previous year 2018-19 amounts to ₹ 10,00,000 which includes profit of ₹ 2,00,000 from sale of green leaves plucked in his own garden.

He has no other income during the year.

Compute the total income and total tax payable by Parikshit. 6

4. (a) Mr. Sarath commenced business of operating goods vehicles on 01.04.2018. He purchased the following vehicles during the P.Y. 2018-19.

	Gross Vehicle Weight (in kilograms)	Number of vehicles	Date of purchase
1	7500	2	10.04.2018
2	5500	1	15.03.2019
3	10500	3	16.07.2018
4	11500	1	02.01.2019
5	15000	2	29.08.2018
6	17000	1	23.02.2019

Compute his income under section 44AE.

Would your answer change, if the goods vehicles purchased in April, 2018 were put to use only in September, 2018? 7

(b) State *with brief reason*, the taxability or otherwise of the following in the hands of the recipients [except for (i), for which issue may be seen from the hands of the company], as per the provisions of the Income-tax Act, 1961:

- (i) Unicorn Capital Private Limited, a closely held company, issued 14,000 shares at ₹ 135 per share. (The face value of the share is ₹ 10 per share and the fair market value of the share is ₹ 120 per share).
- (ii) Mr. Srinivsan received an advance of ₹ 96,000 on 19.09.2018 against the sale of his house. However, due to non-payment of balance amount in time, the contract was cancelled and the amount of ₹ 96,000 was forfeited.
- (iii) Mr. Dhandapani, transferred a house property to his son Mr. Vignesh Karthik without consideration. The value of the house is ₹ 12 lakhs as per the stamp valuation authority.
- (iv) Mr. Shankar gifted a LED 4th Generation TV to his sister's daughter Manasa on 12.3.2019. The fair market value of the LED 4th generation TV on this date is ₹ 1,08,000. 8

5. (a) Madhav is a sole proprietor of Hari Silks. He reports turnover of ₹ 240 lakhs for the previous year 2018-19 and a net profit of ₹ 8,10,000 as per books of account. The following items are debited and credited to Profit and Loss Account. 9

- (i) Bonus to employees ₹ 60,000. Provision made on 31.03.2019 and was paid on 30.11.2019 after the due date for filing the return.
- (ii) Interest on private loan ₹ 12,000 was paid by account payee crossed cheque on 10.08.2018. No tax was deducted at source. Turnover of Raghav for the previous year 2017-18 also exceeded ₹ 200 lakhs.
- (iii) Dividend from Indian Companies (listed in recognized stock exchange) received during the year ₹ 21,000.

- (iv) PPF interest credited ₹ 27,000 and savings bank interest ₹ 13,500 from UCO Bank.
- (v) One Generator was purchased for ₹ 90,000 on 10.01.2019. Subsidy received from Government @ 20%. The subsidy is credited to P&L Account. No depreciation is charged in the books for generator.
- (vi) Rent received from let out property ₹ 1,65,000 credited to profit and loss account. Municipal tax to the said property ₹ 15,000 was paid on 10.03.2019 which is debited to profit and loss account.
- (vii) Salary paid to wife ₹ 30,000 per month during the year 2018-19. (Reasonable monthly salary considering her qualification and experience is ₹ 20,000 per month.)

You are requested to compute the income from business of Madhav taking note to the above adjustments. Brief reason is to be given for treatment of each item given above.

- (b) With brief reasons compute the quantum of eligible deduction in the following **independent** cases: 2×3=6

- (i) Ranjit made tax saver deposit in SBI of ₹ 80,000 in his wife's name and paid life insurance premium of ₹ 25,000 on a sum assured policy of ₹ 2,00,000 taken on 01.06.2016.
- (ii) Vikas having basic pay and DA (forming part of retirement benefits) of ₹ 4,50,000 contributed ₹ 50,000 to a pension scheme notified under section 80CCD and repaid education loan of SBI of ₹ 60,000 for son's education outside India. The education loan was taken in the financial year 2013-14.
- (iii) Ms. Madhuri engaged in manufacturing activity paid ₹ 30,000 to National Urban Poverty Eradication Fund on 31.12.2018. She also paid rent for residential premises @ ₹ 25,000 per month. She does not own any house property. Her gross total income (computer) is ₹ 6,50,000. She has not claimed any other deduction under Chapter VI-A.

6. (a) Ram Balaji is engaged in manufacture of electronic spares which are used in computers. His aggregate turnover for the year ended 31.03.2019 was ₹ 1,71,00,000. His profit as per profit and loss account extracted from the books is ₹ 12,45,000. His sale proceeds were realized as under:

	Up to the end of previous year	From 01.04.2019 and up to the 'due date' for filing return under section 139(1)
Sales realized in cash	40,00,000	73,00,000
Sale realized through banking channel	11,00,000	26,00,000

- (i) Current year depreciation under section 32 allowable ₹ 2,75,000.
- (ii) Cash payment made exceeding ₹ 10,000 per day and the aggregate payment for the year in such manner ₹ 4,11,000.
- (iii) Interest on term loan debited in profit and loss account of the assessee for the year ended 31.03.2019 ₹ 1,05,000. Amount actually up to 31.03.2019 ₹ 15,000 and amount paid from 01.04.2019 and up to the 'due date' for filing the return under section 139(1) ₹ 40,000.
- (iv) He has brought forward business loss of the assessment year 2015-16 of ₹ 1,40,000 and unabsorbed depreciation of ₹ 50,000 of the assessment year 2018-19.

Compute his income from business for the assessment year 2019-20 under section 44AD and as per regular provisions. 10

- (b) Mr. Bhat acquired a generator for ₹ 3 lakhs on 30.11.2018 by taking a bank loan of ₹ 2 lakhs. Interest on bank loan payable for the year ₹ 7,500 and it was not paid up to the 'due date' for filing the return specified in section 139(1). He paid salary to operator @ ₹ 12,000 per month in cash for 4 months. Hire charges received up to 31.03.2019 was ₹ 2,25,000. Compute income of Mr. Bhat from the generator for the year ended 31.03.2019. 5

7. (a) Mr. Jayabrata gifted ₹ 10,00,000 to his wife, Mrs. Sangeeta on 1st January, 2018. Out of the same, Sangeeta lent ₹ 4,00,000 for 6 months to her friend, Bedabati on 1st April, 2018 bearing interest @ 20% p.a.

Sangeeta received half-yearly interest of ₹ 40,000 on such loan on 1st October, 2018.

The aforesaid interest was immediately invested in debentures of a company. These debentures were sold by Sangeeta for ₹ 70,000 on 31st January, 2019.

The balance amount of gift received from Mr. Jayabrata was invested as her capital in a sole proprietary business, which resulted in a loss of ₹ 50,000 for the previous year 2018-19.

Mr. Jayabrata's own income (computed) consisted of salary of ₹ 30,00,000 and income from other sources of ₹ 80,000.

The return of income is being filed on 21.12.2019.

Compute the total income of Mr. Jayabrata under suitable heads of income, indicating brief reason for treatment of all the important items. 9

- (b) Examine the applicability of tax deduction at source provisions, rate of TDS and the amount of tax deduction (if any) in the following cases for the financial year 2018-19:

(i) Payment of ₹ 50,000 made to Mr. Peter, an England cricketer, by an Indian newspaper agency on 3rd August, 2018, for contribution of articles in relation to the sport of cricket.

(ii) Payment made on 1.02.2019 by a company to resident sub-contractor (individual) ₹ 4,00,000 with outstanding balance of ₹ 1,20,000 shown in the books of account, as on 31.03.2019.

(iii) Wining from horse race ₹ 1,00,000.

(iv) ₹ 2,00,000 paid to Mr. X, a resident individual on 20.02.2019 by the State of Karnataka on compulsory acquisition of his urban land (vacant site). 6

8. Write short notes on *any three* out of the following questions:

5×3=15

- (a) Difference between TDS and TCS
 - (b) Belated return under section 139(4)
 - (c) Quoting of Aadhar number under section 139AA
 - (d) Best Judgement Assessment under section 144
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