

Paper 7 – Direct Taxation

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Full Marks: 100

Time allowed: 3 hours

Section-A (25 Marks)

Answer question No. 1 a,b,c & d which is compulsory.

1. a) **Multiple Choice Questions:** **[10 x1=10]**

- i) Exempted tax slab rate for resident and very senior citizen of the age of 80 years or more is
 - a) 250000
 - b) 300000
 - c) 500000
 - d) None of the above

- ii) Time limit for completion of scrutiny assessment u/s 143(3) should be completed within
 - a) 12 months from the end of the relevant assessment year
 - b) 12 months from the end of the relevant previous year
 - c) 6 months from the end of the relevant assessment year
 - d) None of the above

- iii) A Hindu Undivided Family is said to be resident in India if
 - a) The family has a house in India where some of its members reside
 - b) The member of such HUF is in India during the previous year
 - c) Control and management of its affairs wholly or partly situated in India
 - d) The Karta has been resident in India in at list 9 out of 10 previous years preceding the relevant previous year

- iv) The maximum amount of leave salary not chargeable to tax as specified by the Government in case of a non-government employee
 - a) ₹ 75,600
 - b) ₹ 77,760
 - c) ₹ 2,40,000
 - d) ₹ 3,00,000

- v) Deduction available under section 24(a) is _____ of NAV.
 - a) 10%
 - b) 20%
 - c) 30%
 - d) 40%

- vi) The preliminary expenses that can be amortized under the Income Tax Act, 1961 has to be restricted to _____ of the cost of project.
 - a) 3 %
 - b) 5 %
 - c) 8 %
 - d) 20%

- vii) Marriage gift from a non-relative is _____.
 - a) Exempted from tax
 - b) Not exempted from tax
 - c) Taxable
 - d) None of these

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- viii) Deduction of tax at source for commission other than insurance commission is @.
- 5%
 - 20%
 - 30%
 - 40%
- ix) Advance tax is required to be paid by all assessee only if estimated advance tax liability is
- ₹ 5,000 or more
 - ₹ 10,000 or more
 - More than zero
 - ₹ 50,000 or more
- x) Income Computation and Disclosure Scheme (ICDS) comes into effect from the assessment year
- 2015-16
 - 2014-15
 - 2016-17
 - 2017-18

b) State whether the following statements is true or false: [5x1=5]

- Best judgment assessment is covered u/s 143(3)
- Winning from lottery is taxable at the rate of 22%.
- Gratuity received at the time of termination of service by government employee is fully exempted from tax u/s 10(10)(i).
- Zero-coupons bonds shall be treated as 'short-term capital asset' if held for more than 12 months but not more than 36 months.
- Deduction under chapter VI-A in relation to resident individual who is handicapped is covered under section 80U.

c) Fill in the blanks [5x1=5]

- In the case of slump sale of any undertaking indexation benefit is _____(allowed/not allowed)for the purpose of computation of capital gain.
- ICDS are required to be followed by all assessees (other than an individual or a HUF who is not required to get his accounts of the previous year audited u/s 44AB), following the _____ system of accounting.
- The maximum punishment for false statement in respect of Equalization Levy is _____.
- Loss from activity of owing and maintaining horse race can be carried forward for_____.
- Failure to apply for PAN or to quote PAN in prescribed document attracts penalty of _____u/s 272B

d) Match the followings: [5x1=5]

	Column-A		Column-B
1	Long term Capital Assets	A	Section 32
2	Limit of maximum deduction under section 80C.	B	Section 64(1A)
3	ITR 4	C	Section 54 EC

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4	Computation of Depreciation	D	₹150000
5	Income of a Minor child	E	Presumptive income from business & profession

Section-B (75 Marks)

Answer any five Questions from Question No. 2 and 8

2. a) Andy, a British national, comes to India for the first time during 2014-15. During the financial years 2014-15, 2015-16, 2016- 17, 2017-18 and 2018-19, he was in India for 55 days, 60 days, 80 days, 160 days and 70 days respectively. Determine his residential status for the assessment year 2019-20. [5]
2. b) The gross total income of a resident individual, aged about 45, for the financial year 2018-2019 is ₹ 5,00,000. Compute the amount of tax payable during the assessment year 2019-2020 he has also agricultural income of: (a) ₹ 5,000; (b) ₹ 1,50,000. [5]
2. c) S Charitable Trust registered under section 12AA of the Income Tax Act is engaged in providing medical assistance to the physically challenged persons. The trust has furnished the following details relating to previous year 2018-19; [5]

Particulars	Amount (₹)
Net income from the properties held under trust	16,50,000
Voluntary Contribution (including donation ₹ 1,50,000 received with direction from the donor that it would form part of corpus)	5,00,000
Financial assistance to physically challenged persons	9,50,000
Purchase of Land for construction of office of the trust	4,00,000

3. a) P is a regular employee of a Delhi-based private sector company where he was appointed on 1.1.2015 in the scale of ₹ 20,000-1,500-30,000. Under the terms of employment, he is paid 10% of DA and also bonus equivalent to one month's pay as on the last month of the financial. His employer and he himself contributes 15% of basic and DA towards recognized provident fund. He is provided with free housing facility which has been taken on rent by the employer on rent for ₹10,000 p.m.

Besides, he is provided with the following facilities:

- (a) Facility of laptop costing ₹ 40,000;
- (b) Company reimbursed the medical treatment bill of his brother for ₹ 25,000. The brother is dependent on him.
- (c) The monthly salary of ₹ 1,200 of a housekeeper is reimbursed by the company.
- (d) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
- (e) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement.
- (f) He is provided with a personal accident policy for which premium of ₹ 5,000 is paid by the company.
- (g) He is getting telephone allowance @₹ 500 p.m.
- (h) The company pays medical insurance premium of his family of ₹ 10,000.

Compute the assessee's taxable income from Salaries for the assessment year 2019-20. [7]

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3. b) Uttar and Dakshin, partners of PP Traders, furnishes the following details –

Profit and loss account for the year ended 31-3-2019

Particulars	Amount	Particulars	Amount
Bonus paid to employee	50,000	Gross Profit	10,00,000
Interest on loan taken from bank	45,000	Interest on drawings	
Other Expenses	40,000	Uttar	2,000
Salary to Partners		Dakshin	3,000
Uttar	2,44,000		
Dakshin	4,88,000		
Interest on capital @ 15%			
Uttar	4,500		
Dakshin	6,000		
Depreciation	40,000		
Net Profit	87,500		
	10,05,000		10,05,000

Additional information

1. Depreciation for the year allowed u/s 32 is ₹ 30,000.
2. During the last year, firm has incurred loss of ₹ 8,50,000 (which includes unabsorbed depreciation of ₹ 50,000).
3. Interest on loan taken from bank is yet to be paid. Compute total income of firm. **[8]**

4.a) X Ltd. is shifting its undertaking from Jaipur to Napasar (other than urban area). In this regard it sold its 4 machineries and 2 sets of furniture during the previous year 2018-19 as under

Machinery	Depreciation Rate	Book Value	Sold for	Furniture	Depreciation Rate	Book Value	Sold for
A	15%	2,00,000	3,00,000	X	10%	1,00,000	2,00,000
B	15%	3,00,000	8,00,000	Z	10%	60,000	90,000
C	15%	5,00,000	6,00,000				
D	30%	6,00,000	5,00,000				

WDV of the block of asset as under –

Name of the Block	Block consist of	WDV as on 1/04/2018
Machinery 15%	A, B & C	11,00,000
Machinery 30%	D	9,00,000
Furniture 10%	X & Z	1,50,000

X Ltd. is seeking whether the transaction shall be taxable as slump sale or not and compute capital gain. On 7/04/2019, assessee further purchased machineries worth ₹ 3,70,000 and land of ₹ 1,00,000 for the purpose of new industrial undertaking. Compute capital gain. **[7]**

4. b) From the following particulars of Shri Khote for the year ending 31st March, 2019, find out his taxable income from business for the assessment year 2019-20: **[8]**

Particulars	(₹)	Particulars	(₹)
To Opening stock	1,20,000	By sales	2,14,20,000
To Purchases	2,10,00,000	By Profit on sale of import licence	5,000
To Salaries	25,000	By Gift received	24,000
To Legal Expenses	10,000	By Closing Stock	2,00,000
To Bad debts	5,000		
To Rent	50,000		
To Interest on loan	2,500		
To Depreciation	15,000		

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To Income tax paid	2,000		
To Outstanding customs duty	25,000		
To Advertisement	2,000		
To Legal expenses	12,000		
To Contribution towards URPF	5,000		
To General expenses	17,500		
To Travelling expenses	1,00,000		
To Net Profit	2,58,000		
	2,16,49,000		2,16,49,000

In computing the income, the following facts are to be taken into consideration:

1. Interest on loan is paid to brother of Shri Khote for loan taken for payment of advance income tax.
2. During the previous year 2014-15, assessee had claimed ₹ 45,000 as bad debt out of which only ₹ 35,000 was allowed. During the previous year, he recovers ₹ 25,000.
3. Contribution towards unrecognised provident fund was paid within time.
4. Legal expenses include ₹ 2,000 paid for preparation of income tax return.
5. Stock is undervalued by 10%.
6. Gift received was given by a supplier for achieving target sale.
7. Outstanding customs duty has been paid on 31-12-2019.
8. During the previous year, he comes to know that his former employee had embezzled cash of ₹ 5,000 on 31-3-2018, which was not accounted for.
9. Traveling expenses include ₹ 50,000 being cost of trip to Singapore by an employee for 10 days. However, only 8 days of trip is useful to business and 2 days has been allowed as holiday to employee.
10. Rent includes expenditure on extension of shed on rented building ₹ 26,000. However, such extension was completed on 1-5-2019 with total cost of ₹ 50,000.
11. General expenses includes –
 - Salary of ₹ 1,200 paid to domestic servant.
 - Compensation of ₹ 2,000 paid for retrenchment of an employee.

Compute his business income for A.Y 2019-20

5. a) D, aged 55, resident of India, furnishes the following information for the previous year ended 31.03.2019.

Particulars	Amount (₹)
House property income (net)	18,500
Business income	5,000
Capital gains(short term)	22,000
Capital gains(long term)	2,500
Income from horse race	15,000
Income from card games	16,000
Additional information are as follows:	
Brought forward business loss for A.Y.2011-12	12,000
Unabsorbed depreciation for A.Y.2014-15	6,000
Long term Capital Loss for A.Y. 2016-17	12,000
Loss from horse race suffered in AY 2016-17	8,000
Speculative loss for AY 2016-17	10,000

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D has taken a life insurance policy for his major son working in a software company for a salary of ₹5 lakhs per annum. He has paid a premium of ₹ 60,000 in cash for a capital sum assured of ₹4,00,000/-

He has paid PPF of ₹ 70,000 by raising a hand loan from his friend. Calculate total income and tax liability. State the items to be carried forward. [8]

5. b) The following are the details relating to S a resident Indian, aged 57, relating to year ended 31.3.2019:

Particulars	Amount (₹)
Income from salaries	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	3,0000
Loss from specified business covered by section 35AD	20,000
Long term capital gains from sale of urban land	25,0000
Long term capital loss from sale of listed equity shares in recognized stock exchange (STT paid)	11,0000
Loss from card games	32,000
Income from betting	45,000
Life insurance premium paid	1,20,000

Compute the total income and show the items to eligible for carry forward. [7]

6. a) S constructed his house on a plot of land acquired by him in Kolkata. The house has two floors of equal size. He started construction of the house on 1st April, 2017 and completed construction on 30th June, 2018. He occupied the ground floor on 1st July, 2018 and let out the first floor at a rent of ₹20,000 per month on the same date. However, the tenant vacated the first floor on 31st January, 2019 and S occupied the entire house from 1st February, 2019 to 31st March, 2019.

Other information

Fair rent of each floor	₹ 1,20,000 per annum
Municipal value of each floor	₹ 80,000 per annum
Municipal tax paid	₹ 10,000
Repair expenses	₹ 5,000

S obtained a housing loan of ₹ 15 lacs at interest of 10% per annum on 1st July 2017. He did not repay any part of the loan till 31st March, 2019. [8]

6. b) P Co-operative Society furnishes following details of income, compute taxable income for the purpose of A.Y. 2019-20: [7]

Income from collective disposal of labour	₹ 25,000
Income from marketing of the agricultural produce grown by its member	₹ 30,000
Income from marketing of the agricultural produce grown by outsider	₹ 3,000
Dividend from another co-operative society	₹ 15,000
Dividend from X Ltd.	₹ 3,000
Income from processing of agricultural produce of its member with aid of power	₹ 50,000

7.a) write a short note on Scrutiny Assessment u/s 143(3) [10]

7.b) List down at least ten transactions where quoting of PAN is mandatory. [5]

8. a) write a short note on time limit for filing return of income. [5]

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8. b) Write a short notes on ICDS VII Government Grants [5]
8. c) Discuss the provisions contained u/s 140. [5]