

# MTP\_Intermediate\_Syllabus 2012\_Dec2013\_Set 2

## Paper 7 - Direct Taxation

Full Marks – 100

Time – 3 Hours

### Section A

(Question No. 1 is COMPULSORY and any FOUR from Question Nos. – 2 to 6)

1.

- (a) Rahul, resident individual having business income, is required to audit his books of accounts under the Income Tax Act. What is the due date by which Rahul is required to file his return?
- (b) Calculate the amount of tax payable by Mr. Ram, a resident individual, who has taxable Long Term Capital Gains of ₹55,000 and income from other sources ₹1,20,000 during the previous year 2012-13.
- (c) X Ltd. paid Excise Duty for the previous year 2012-13 on 07.10.2013. In which assessment year, will it be allowed?
- (d) The assessee claims the set-off of unabsorbed depreciation of ₹75,000 of a discontinued business against the profits of another business. Can he do so? Justify.
- (e) Can an LLP be understood as body corporate, independent of its partners?
- (f) Where the private trust is charged at the maximum marginal rate u/s 164(1), whether basic exemption is to be allowed?
- (g) Where a co-operative society is eligible for relief u/s 80-IA as well as u/s 80P, which relief will have precedence?
- (h) Can an Assessing Officer assess the income below the returned income or assess the loss higher than the returned loss?
- (i) What are the consequences if a person fails to comply with the provisions of Sec. 139A i.e. quoting of PAN?
- (j) Does tax planning have any effect on the rate of tax?
- (k) Could a road in a factory building, used exclusively for industrial purpose, be treated as a plant for purposes of depreciation?
- (l) How is income to be computed, if part of a property is let out and part is self-occupied?
- (m) Is commission paid to a property agent for acquiring property deductible from "Income from Other Sources"?

[13×1]

2.

- (a) Do you think notice issued u/s 142(1) and notice u/s 143(2) mean same? Justify your answer.
- (b) Z Ltd. (a foreign company), A (a resident individual) and B (a resident individual) are three members of an AOP sharing profit in the ratio of 5:2:3. Personal incomes of A and B are ₹20,000 and ₹10,000 respectively. However, Z Ltd. has no other personal income. Taxable income of the AOP for the assessment year 2013-14 is ₹2,00,000 which includes Long Term Capital Gains of ₹50,000. Calculate amount of tax payable by the AOP, if it applies maximum marginal rate.
- (c) What are the conditions for deduction of unrealised rent?

[5+5+3]

## MTP\_Intermediate\_Syllabus 2012\_Dec2013\_Set 2

---

3.

(a) Ms. Sania, a resident Indian, furnishes the details for the assessment year 2013-14 :

	Amount (₹)
Income from profession	1,94,000
Share of income from a partnership in country X ( tax paid in Country X for this income in equivalent Indian Rupees 8,000)	40,000
Commission income from a concern in country Y ( tax paid in country Y @ 20%)	30,000
Interest on scheduled banks [other than savings account]	20,000

Ms. Sania wishes to know whether she is eligible to any double taxation relief or not, and if she is eligible, its quantum. India does not have any Double Taxation Avoidance Agreement with countries X and Y.

(b) Ravi, a member in two AOPs namely RLT & Co. and Ravi & Rina, provides the following details of his income for the year ended on 31.03.2013 -

- (i) RLT & Co. assessed at normal rates of tax had credited in his account amount of ₹1,60,000 as interest on capital, ₹2,10,000 as salary and ₹50,000 as share of profit.
- (ii) A house property located at Chennai was purchased on 01.07.2008 with the borrowed capital in Ravi & Rina jointly shared equally and occupied by both of them for self residential purposes. Total interest paid for the year 2012-13 on the borrowed capital was ₹5,00,000.

Compute the Total Income of Ravi and the Tax Liability thereon for the A.Y. 2013-14 and support your answer with brief reasons.

**[6+7]**

4.

(a) What are the powers that are enjoyed by Joint Commissioner of Income Tax?

(b) State whether the following transactions can be considered as transfer:

- (i) A house transferred by way of will to stepson
- (ii) Bonus shares given by a company to its shareholders
- (iii) Giving the right to use the asset
- (iv) A piece of land transferred by a holding company to its subsidiary company in which the holding company holds 90% of the total shares of the subsidiary company
- (v) Giving away jewellery for a piece of land
- (vi) Getting money in lieu of shop in a shopping complex
- (vii) A building is transferred under a scheme of amalgamation

(c) A Ltd. is engaged in the business of growing and manufacturing tea in India. During the previous year 2011-12, it deposited ₹100 lakh (40% of the business profit) in the "special account" and claims the same as deduction u/s 33AB. During 2012-13, the company withdraws ₹45 lakh from the "special account" which utilized as follows:

- (i) ₹35 lakh for the purpose of the scheme framed by the Tea Board on 31<sup>st</sup> December, 2012;
- (ii) ₹4 lakh for other purpose on 17<sup>th</sup> January, 2013.

₹6 lakh is not utilized up to 31<sup>st</sup> March, 2013.

Find out the amount chargeable to tax for the assessment year 2013-14.

**[4+7+2]**

## MTP\_Intermediate\_Syllabus 2012\_Dec2013\_Set 2

---

5.

- (a) Dey & Co. (a firm of Arup Dey and Binay Roy with unlimited liability) is engaged in the business of wholesale trading (turnover of 2012-13 being ₹87,00,000) It wants to claim the following deductions –

Particulars	Amount (₹)
Salary to partners [as permitted by section 40(b)]	50,000
Salary to employees	4,30,000
Depreciation	2,10,000
Purchases	74,55,000
Other expenses	2,95,000
Total	84,40,000

Determine the net income of Dey & Co. for the assessment year 2013-14 assuming that long term capital gain is ₹50,000 and the firm is eligible for deduction of ₹8,000 u/s 80G. The firm has a brought forward loss of ₹1,50,000 (previous year 2009-10) of a trading which has been discontinued. The books of account of the firm have not been audited.

- (b) Goutam, on retirement from two firms on 1<sup>st</sup> July, 2012 of which he was a partner, received a sum of ₹47,000 in excess of the amount due to him towards his capital and profits. The Assessing Officer wants to treat the sum of ₹47,000 as capital gains in the hands of Goutam. Is the Assessing Officer legally correct?

- (c) The shareholding of Mr. K and Mrs. K in S Ltd., is given as follows:

Shareholding of K	7%
Shareholding of Mrs. K	9%
Shareholding of M, brother of K	8%
Shareholding of F, father of Mrs. K	5%

Mr. K and Mrs. K are employed with S Ltd. None of them hold technical qualification. Mr. K gets salary @ ₹10,000 p.m. and Mrs. K gets @ ₹12,000 p.m.

Income from Other Sources:	₹
Mr. K	80,000
Mrs. K	1,00,000

Compute total income for the assessment year 2013-14

- (d) During his 197 days' stay in India in the previous year 2012-13, David, a citizen of U.K. is all the time moving from one place to another. He claims that he is non-resident in India for the assessment year 2013-14 on the following grounds:
- (i) He had never visited India before 1<sup>st</sup> April, 2012.
  - (ii) During 2012-13, though he is in India for 197 days, he could not spend two consecutive nights at any one place.
  - (iii) For the assessment year 2013-14, he is resident in U.K. according to English Income Tax Act. He insists that he cannot be resident of two countries for the same assessment year.
- Do you agree with him?

**[4+3+4+2]**

## MTP\_Intermediate\_Syllabus 2012\_Dec2013\_Set 2

---

6.

(a) Abhay is a resident individual. He suffers from a severe disability as certified by medical authority. He is mainly dependent upon his brother Abir (a resident individual) for support and maintenance. Abir annually incurs a sum of ₹15,000 on medical treatment of Abhay. Income of Abhay and Abir is ₹20,000 and ₹6,50,000 respectively. Find out the net income of Abhay and Abir for the assessment year 2013-14.

(b) Who is liable for prosecution for the offences made by HUF under Income Tax Act?

(c) During the Previous Year 2012-13, Mrs. X (aged 46 years) pays the following installments of advance tax :

	₹
On September 15, 2012	6,000
On December 15, 2012	14,000
On March 15, 2013	16,000
On March 16, 2013	18,000

Mrs. X files return of ₹7,01,000. Assessment is also completed on the basis of income returned by Mrs. X after making addition of ₹25,000 (date of assessment order: January 20, 2014). Mrs. X is entitled to tax credit of ₹12,510 on account of tax deducted at source. Compute interest under sections 234B and 234C.

**[3+3+7]**

### Section B (Answer ALL the Questions)

7.

(a) Mr. More gifted a piece of land to his daughter in law after obtaining approval of the authorities constructed 5 shops as at and let out the same. The value of shops on valuation date 31.03.2013 is ₹50,00,000. In whose hand it is taxable?

(b) Subir, while computing net wealth, wants to claim deduction of outsourcing income tax and wealth tax liabilities of preceding years of ₹2,75,000. Can he do so?

**[1+1]**

8.

(a)

(i) Rishi has the following assets on 31<sup>st</sup> March, 2013:

Asset	Market Value (₹)	Loan Outstanding (₹)
Gold	87,00,000	10,00,000
Residential House at Pune	45,00,000	2,00,000
Residential House at Andheri	90,00,000	27,00,000
Residential House at Mahape (Let out though out the year)	65,00,000	11,00,000
Commercial House at Thane used for his own business	1,15,00,000	50,00,000
Shares	25,00,000	5,00,000
Boat	1,50,000	2,50,000
Motor Car	9,00,000	3,00,000
Bank deposit	58,00,000	Nil
Commercial complex at Andheri having 25 offices	2,50,00,000	1,55,00,000

## **MTP\_Intermediate\_Syllabus 2012\_Dec2013\_Set 2**

---

Besides above mentioned loans, Rishi took a loan of ₹1,00,000 from his bank for his brother's marriage. Moreover, out of loan of ₹2,50,000 taken for boat, he utilized ₹50,000 for financing expenses on his foreign visit.

Determine his net wealth.

- (ii) Binay, Karta of HUF, out of HUF funds gifted to his nephew an amount of ₹3,00,000 on 01.01.2013. The coparceners of the HUF challenged the gifts and as a consequence gifts were held to be void. Discuss whether the amount of ₹3,00,000 is taxable as wealth of Binay HUF for the valuation dated 31.03.2013.

**[6+2]**

**or**

**(b)**

- (i) Ashoke owns a residential house property. It is given by him as rent free house to his general manager Shubodh who looks after the business of Ashoke. Annual salary of Shubodh is ₹4,80,000. Ashoke claims that since the house is used for business purposes, it comes in section 2(ea)(i) and it is not an asset. Is the claim tenable in law? Justify.

- (ii) Wasim owns three cars and silver furniture (value of cars being ₹25,00,000 and of silver furniture being ₹35,00,000 of 31.03.2013). He take loan of ₹4,70,000 by pledging there to invest in shares. You are requested by Wasim to calculate amount of wealth tax payable by him for the assessment year 2013-14.

- (iii) Mrs. Rishika Yadav received jewellery from her father at the time of her marriage in 1956 was of the value of ₹25,50,000 on 31<sup>st</sup> March, 2013. Is this included in the net wealth of Mrs. Rishika Yadav?

**[3+4+1]**

### **Section C (Answer ALL the Questions)**

**9.**

- (a) Can the transfer price ignore dumping, R&D expenses and start-up cost in judging the arm's length price?
- (b) Under Transfer Pricing Study, in the Annexure to which form is the statement of particulars to be furnished?
- (c) What do you mean by Residual Profit Split?
- (d) Can the Board enter in Advance Pricing Agreement?
- (e) Who can enter into an APA?

**[5×1]**

**10.**

**(a)**

- (i) An arrangement whose main purpose (or one of the main purposes) is to obtain a tax benefit (and which also satisfies at least one of the four tests), can be declared as an "impermissible avoidance arrangements" — what are these four tests?
- (ii) When can Profit Split Method (PSM) be used for determination of Arm's Length Price in an international transaction?

## **MTP\_Intermediate\_Syllabus 2012\_Dec2013\_Set 2**

---

(iii) Swinhoe LLP of France and Rani Ltd. of India are associated enterprises. Rani Ltd. imports 3,000 compressors for Air Conditioners from Swinhoe at ₹7,500 per unit and these are sold to Paharpur Cooling Solutions Ltd. at a price of ₹11,000 per unit. Rani Ltd. had also imported similar products from Cold Ltd and sold outside at a Gross Profit of 20% on Sales. Swinhoe offered a quantity discount of ₹1,500 per unit. Cold could offer only ₹500 per unit as Quantity Discount. The freight and customs duty paid for imports from France had cost Rani Ltd. ₹1,200 per piece. In respect of purchase from Cold Ltd, Rani Ltd. had to pay ₹200 only as freight charges.

Determine the Arm's Length Price and the amount of increase in Total Income of Rani Ltd.

(iv) Describe in short the procedure to deal with requests for bilateral or multilateral advance pricing agreements.

(v) How can you classify the methods for determining arm's length price in international transactions?

**[2+4+6+5+3]**

**or**

**(b)**

(i) Elaborate whether adjustment is required in the context of transfer pricing provisions where the transfer price adopted for an international transaction concluded is ₹36 Lakhs whilst the Arm's Length Price determined using most appropriate method are ₹32 Lakhs and ₹42 Lakhs.

(ii) Briefly explain Profit Split Method in determining Arm's Length Price.

(iii) "Every person who has entered into an international transaction shall keep and maintain certain information and documents" — what are these information and documents?

(iv) Briefly discuss the various factors that are to be considered while selecting Most Appropriate Method.

**[4+5+8+3]**