

Paper-7 Direct Taxation

Time Allowed: 3 hours

Full Marks: 100

All the questions relate to the assessment year 2014-15, unless stated otherwise.

Working notes should form part of the answers.

Section A

[Answer all the Questions]

- (1) Answer the following sub-divisions briefly in the light of the provisions of the Income-tax Act, 1961: (1×20)**
- (i)** State, whether an assessee can claim depreciation under section 32, on capital expenditure incurred on construction of any structure in a building, which is taken on lease, for the purposes of business or profession.
 - (ii)** State, whether an assessee can claim deduction of expenditure incurred on scientific research, carried on by him.
 - (iii)** State the circumstance, when interest is levied under Section 234A of the Income Tax Act, 1961. Also, state the rate at which interest is payable.
 - (iv)** The W.D.V of a block (plant and machinery, rate of depreciation 15%) as on 01.04.2013 is ₹6,40,000. A machinery costing ₹1,00,000 was acquired on 10.08.2013, but put to use on 10.11.2013. During February 2014, part of this block was sold for ₹4,00,000. Calculate the amount of depreciation.
 - (v)** Vinod Mehta, an Indian resident, is provided with furnished accommodation from February, 2014, by his employer. The value of furniture amounts to ₹95,000. The actual hire charges paid by his employer, for the furniture is ₹6,000 p.a. What would be the value of furniture to be included along with value of unfurnished house for A.Y 2014-15?
 - (vi)** Ace Enterprises Ltd. has unabsorbed depreciation of ₹4,50,000 for the Previous Year 2013-14. How many years this can be carried forward?
 - (vii)** Somlata, an Indian resident, received ₹1,00,000 in December 2013 towards recovery of unrealized rent, which was deducted from actual rent during previous year 2012-13. What would be the amount taxable under Section 25AA of the Income Tax Act, 1961?
 - (viii)** Mr. Deepak Sharma (aged 66 years), an Indian resident, paid medical insurance premium of ₹ 19,000 by cheque and ₹1,000 by cash during June 2013 under a Medical Insurance Scheme of the General Insurance Corporation. The above sum was paid for insurance of his own health. Calculate the amount of deduction available under Section 80D.
 - (ix)** Mr. Mukul Sharma, a resident individual, pays a rent of ₹6,000 per month. His adjusted total income is ₹3,00,000 (i.e Gross Total Income as reduced by deductions under Chapter VI-A of the Income Tax Act, 1961, except under Section 80GG). The assessee is not in receipt of House Rent Allowance. Compute the amount of deduction available under Section 80GG of the Income tax Act, 1961.
 - (x)** What is the period under which an assessee can file revised return?
 - (xi)** Where a member of a HUF has converted or transferred his self-acquired property for inadequate consideration into joint family property, and such converted property is subsequently partitioned among the members of the family. Whether the income derived from such converted property as is received by the spouse of the transferor will be taxable?

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- (xii) What is the percentage of income derived from property held under trust (wholly for charitable or religious purpose) , should be applied for the approved purposes, for claiming exemption under section 11 of the Income Tax Act, 1961.
- (xiii) What is the amount of deduction available u/s 16(ii) of the Income Tax Act, 1961 in respect of entertainment allowance received by a Government employee?
- (xiv) Whether a commercial house given on rent for 320 days during the Previous Year is cover under the definition of assets u/s 2(ea)(i) of Wealth Tax Act?
- (xv) Whether a residential flat allotted to its employee (having substantial interest) by a company where the salary of the employee is ₹ 9,99,000 p.a. is taxable assets under wealth tax act?
- (xvi) Explain the purpose of Advance Pricing Agreement.
- (xvii) Explain the validity of an agreement of advance pricing if the person obtain APA by means of fraud.
- (xviii) Who is the authorized person to furnish the report under section 92E of the Transfer Pricing Regulation Act in India?
- (xix) Whether advance pricing Agreement can be entered into for Specified Domestic Transactions?
- (xx) How many years a person should kept and maintained of information and documents under section 92D?

2. Answer any four Questions [4 × 13 = 52]

(a)(i) From the following particulars compute the 'Income from House Property' of Mr. Mitra for the Assessment Year 2014 - 2015:

Mr. Mitra inherited a property on 1.4.2010 from which gross rental income is ₹ 30,000 per year. Municipal Tax of the property is ₹ 1,000 per quarter of which 50% is borne by the tenant Mr. Mitra took loan of ₹ 80,000 from a bank for heavy repairing of the property out of which he spent ₹ 40,000 for his sister's marriage and the balance spent for repairing of the property. He paid during the year 2013-2014 ₹ 6,000 as interest on bank loan and spent ₹100 per month for collection of rent. [6]

(ii) From the following information of Mr. A. S. Ghosh, compute the income from salary for the Assessment Year 2014-15.

(1) Net salary ₹ 1,20,000. (2) Amount deducted from salary at source ₹ 10,000 for employee's contribution to R.P.F. and for rent ₹ 500 p.m. (3) Bonus ₹ 10,000 (4) Dearness allowance ₹ 12,000. (5) Conveyance allowance ₹ 5,000. (6) Medical allowance ₹ 4,000. (7) Employer's contribution to R.P.F. @ 13% on basic plus D.A. (8) Interest on R.P.F. @ 14% is ₹ 5,600.

He has been provided a rent-free accommodation at Kolkata including furniture costing ₹50,000. [7]

(b)(i) Miss Titir started a business of manufacturing cosmetic goods. She incurred the following expenses before the commencement of her business:

S.N.		₹
(a)	Expenses for market survey	25,000
(b)	Legal charges for drafting an agreement with other for setting up her business	20,000
(c)	Expenses for preparation of feasibility report	15,000
(d)	Expenditure for raising loan for the business	4,000

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Her business was started on 1.7.08:
Book value of assets on 31.3.09 were:

S.N.		₹
(a)	Building	10,00,000
(b)	Machinery	10,00,000
(c)	Furniture	4,00,000
(d)	Stock	4,00,000
(e)	Patent	1,00,000

Calculate the allowable preliminary expenditure for the Assessment Year 2014-15. [7]

(ii) Discuss the provisions of the Income Tax Act relating to Capital Expenditure incurred by an Assessee, for the purpose of scientific research. Sri P. K. Nag a spare parts dealer, furnishes the following particulars of his income for the Previous Year ended 31.03.13.

Profit and Loss A/c
for the year ended 31.03.14

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Salaries	50,000	By Gross Profit b/d	2,50,000
„ Rent, Rates & Taxes	12,000	„ Dividend	5,000
„ Legal charges	4,000	„ Bank Interest	1,000
„ Interest on Capital	3,000		
„ Office Expenses	14,000		
„ Provision for Bad Debt	2,600		
„ Income Tax	22,000		
„ Depreciation	13,000		
„ Insurance Premium	6,000		
„ Net Profit	1,29,400		
	2,56,000		2,56,000

Other Information

- i. One-third of the premises is used by him for his own residence.
- ii. Legal charges include ₹ 1,000 in connection with Income Tax proceedings.
- iii. Office expenses include ₹ 1,000 as daily Puja Expenses in the shop.
- iv. Depreciation as per Income Tax Rules ₹ 15,000. Compute Shri Nag's Income from Business for the Assessment Year 2014-15. [6]

(c) (i) Mr. Dey sells a residential house property at a long-term capital gain of ₹ 75,000. He invests ₹ 80,000 within 3 years in construction of the first floor and barsati (to be used for residence) to another house owned by him since 1949. Is ₹ 75,000 exempt from tax under section 54? (Specify in details) [3]

(ii) Ravi purchases the following movable and immovable properties from persons who are not his relatives. State the tax liability in the hands of Ravi.

Date of purchase	Property	Purchase price ₹	Stamp duty value ₹	Fair market value ₹
April 22, 2013	House I	21 lakh	21.5 lakh	----
June 27, 2013	Plot of land	30 lakh	30.5 lakh	----
August 22, 2013	Gold ring	5 lakh	----	5.5 lakh
October 23, 2013	Shares	8 lakh	----	8.5 lakh

[7]

(iii) State whether assets having personal effects are also capital assets or not [as per section 2(14)(ii) of Income-tax Act]? [3]

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(d) (i) State the taxability of the following five incomes —

- A. Dividend
- B. Bonus
- C. Winning from lotteries etc.
- D. Fees and commission
- E. Gift

[10]

(ii) Write to whom Alternate Minimum Tax shall not be applicable as per Section 115JEE (2). [3]

(e) (i) Ms. Jennifer D' Souza, an individual resident Indian, aged 62 years, frequently visits a foreign university to deliver lectures and receives honorarium of ₹ 3,35,000 for the same. Tax of ₹ 33,500 was deducted in the foreign country. India did not have any double taxation avoidance agreement with that foreign country. The particulars of income earned in India are stated as follows:

- (i) In India, her total income amounted to ₹10,20,000.
- (ii) Contribution to the Public Provident fund - ₹ 1,40,000.
- (iii) Contribution to the approved Pension Fund of LIC- ₹ 64,000.
- (iv) Contribution to Central Government Health Scheme during the previous year- ₹36,000.
- (v) Payment of medical Insurance premium, for mother (who is not dependent on her) - ₹21,000.

Compute the tax liability of Ms. Jennifer D' Souza for the Assessment Year 2014-15. [7]

(ii) Mr. Satish submits the following details of his income for the assessment year 2014-15:

Particulars	₹
Income from salary	6,00,000
Loss from house property	(80,000)
Income from sugar business	1,00,000
Loss from iron ore business (b/f) (discontinued in 2007-08)	(2,40,000)
Short term capital loss	(1,20,000)
Long term capital gain	80,000
Dividend	10,000
Lottery Winnings	1,00,000
Winnings from card games	12,000
Agricultural Income	40,000
Long term capital Gain on sale of shares	20,000
Short term Capital Loss under Section 111A	20,000
Bank Interest	10,000

Calculate gross total income and losses to be carried forward for the A.Y 2014-15. [6]

Section B

3. Answer any two Questions [1 × 8 = 8]

(a) (i) Discuss in respect of the following items, the manner of treatment for Mrs. P's wealth-tax assessment for the assessment year 2014-15.

1. Mrs. P has two cars for her personal use each being of value of ₹ 95,000.
2. She has another house property at Nainital given to her as a gift by her father on January 1, 1971 on the occasion of her birthday. This house is also used by her as her own

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residence where she lives during summer vacations only. The value of the house on March 31, 2014 was ₹ 25,00,000.

3. Jewellery received from her father at the time of her marriage in 1956 was of the value of ₹ 1,20,000 on March 31, 2014. [3]

(ii) Compute the taxable net wealth and wealth tax payable by X Ltd. from the following particulars:

- Land in urban area (Construction is not permitted as per Municipal Laws in force) ₹50,00,000.
- Cash Balance (as per books) ₹ 2,75,000.
- Guest House (situated in a place which is 30 kms away from the local limits of the municipality) ₹ 35,00,000. [5]

(b) Mr. Rajendra Sinha, an individual, furnishes the following information, relating to the assets and liabilities as on 31.03.2014:

Sl. No.	Particulars	Amount (₹)
(i)	Plot of land at Mumbai, comprising an area of 1200 square meters, (on which building has been constructed without the approval of the appropriate authority).	50,00,000
(ii)	Building constructed on land at Mumbai, without the approval of the appropriate authority, and used for his business purposes.	20,00,000
(iii)	Two residential house properties, (one of the house properties is used for the purpose of business, by Mr. RajendraSinha)	10,00,000 (each)
(iv)	Urban Land was purchased in August 2011 located in Pune, in the name of his son who is suffering from a disability specified under Section 80U of the Income Tax Act, 1961. The age of his son on 31.03.2014 was 17 years.	5,00,000
(v)	House located in Ahmedabad, shown in his wealth-tax return for the A.Y 2013-14 at ₹50 Lakh was sold on 20.03.2014 for ₹60 Lakh, but the sale deed thereof was executed on 03.04.2014.	55,00,000
(vi)	Motor cars held as stock-in-trade.	75,00,000
(vii)	Gold jewellery brought into India from Singapore, where he was residing, on his return to India on 01.11.2009, for permanently residing in India.	12,00,000
(viii)	Jewellery made of platinum.	18,00,000
(ix)	Jewellery gifted to wife from time to time, were available with her on the valuation date. The jewellery was acquired for ₹10 Lakhs.	35,00,000 (Fair Market Value)
(x)	Interest in the coparcenary property of the Hindu Undivided Family, of which he is a member.	25,00,000
(xi)	Cash in hand, recorded in the books of account.	10,00,000
(xii)	Fixed Deposits in a co-operative bank.	20,00,000
Liabilities		
(xiii)	Loan borrowed for marriage of daughter	12,00,000
(xiv)	Loan borrowed for construction of building at Mumbai	10,00,000

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The minor married daughter of Mr. Rajendra Sinha holds a plot of land at Bhopal, valued at ₹40 Lakhs. The amounts stated against the assets, except cash in hand, are the values determined as per Section 7 of the Wealth Tax Act, 1957 read with Schedule III thereto. Compute the net wealth of Mr. Rajendra Sinha, as on the valuation date 31.03.2014. State the reasons for inclusion, or exclusion of the various items. [8]

Section C

4. Answer any two Questions [2 × 10 = 20]

- (a) (i) Sterling Machine Works Ltd., an Indian company declared an income of ₹450 crores. However, this income was declared before taking into account the following adjustments:
- 25,000 machines were sold to Diamond Industries Ltd at a price, which is lower than the normal transaction price by \$250 per car. Diamond Industries Ltd. holds 35% shares in Sterling Machine Works Ltd.
 - Wellington Ltd. was paid a royalty of \$2,40,00,000, for use of its technical know-how. However, another Indian company had paid \$2,00,00,000 as royalty to Wellington Ltd. for a similar transaction. Sterling Machine Works Ltd. was completely dependent on the technical knowhow supplied by Wellington Ltd., for the manufacture of the machineries.
 - Beijing Finance Ltd. extended a loan of Euro 850 crores to Sterling Machine Works Ltd., carrying an interest @10% p.a., which was outstanding in the books of Sterling Machine Works Ltd. as on 31.03.2014. Beijing Finance Ltd. had extended a loan of similar amount to another Indian company @ 9% p.a. Total interest paid for the year was Euro 85 crores. The total assets of Sterling Machine Works Ltd., as on 31.03.2014 was ₹100,000 crores. The value of 1\$ and 1 Euro may be taken to be ₹62 and ₹82 respectively.

With reference to the provisions of the Act, analyse the nature of transactions, and determine the income of the company chargeable to tax for the A.Y 2014-15. [6]

- (ii) Explain the meaning of "specified domestic transactions" which are subject to transfer pricing provisions? [4]

(b) (i) Secure Ltd., an Indian company, is engaged in manufacturing electronic components. 74% of the shares of the company are held by Secure Inc., incorporated in USA. Secure Ltd. has borrowed funds from Secure Inc. at LIBOR plus 150 points. The LIBOR prevalent at the time of borrowing is 4% for US\$. The borrowings allowed under External Commercial Borrowings Guidelines issued under the Foreign Exchange Management Act are LIBOR plus 200 basis points. Discuss whether the borrowing made by Secure Ltd. is at arm's length ('LIBOR' means London Inter Bank Offer Rate). [6]

- (ii) What are the objectives of Profit Split Method (PSM)? [4]

(c) (i) Mcnil Inc. of France and Robot Ltd. of India are associated enterprises. Robot Ltd. imports 2,000 compressors for Air Conditioners from Mcnil Inc. at ₹ 7,500 per unit and these are sold to Happy Cooling Solutions Ltd at a price of ₹11,000 per unit. Robot Ltd. had also imported similar products from Thunder Inc. Poland and sold outside at a Gross Profit of 20% on Sales. Mcnil Inc. offered a quantity discount of ₹1,500 per unit. Thunder Inc. could offer only ₹500 per unit as Quantity Discount. The freight and customs duty paid for imports from Thunder Inc.

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Poland had cost Robot Ltd. ₹1,200 per piece. In respect of purchase from Thunder Inc., Robot Ltd. had to pay ₹200 only as freight charges.

Determine the Arm's Length Price and the amount of increase in Total Income of Robot Ltd. **[7]**

(ii) What is the object of introducing Transfer Pricing?

[3]