

## **Paper – 7: Direct Taxation**

## MTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 2

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL B</b>	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
	Construct	Build up or compile	
	Prioritise	Place in order of priority or sequence for action	
	Produce	Create or bring into existence	

**Paper-7 – Applied Direct Taxation**

**Time Allowed: 3 hours**

**Full Marks: 100**

All the questions relate to the assessment year 2015-16, unless stated otherwise.

Working notes should form part of the answers.

Answer all questions.

**1. Answer all questions:**

**(i)** Ascertain the previous year of the income in relation to assessment year 2015–16 in the following cases:

(a) Dr. Raju was appointed as Assistant Professor in Shri Ram College of Commerce for first time on 01.08.2014.

(b) Parash started a cloth business on 27.02.2015.

(c) Vijay Kumar purchased a let out house property of two rooms on 05.07.2014.

(d) Mr. T received a remuneration of ₹50,000 for acting in a T.V. Serial on 10.3.2015 for the first time. **[2]**

**(ii)** Total income of Ritesh, an individual who is less than 60 years of age and resident in India, for the previous year 2014-15 (Assessment year 2015-16) is ₹10,94,000. Compute the tax payable by Ritesh for the assessment year 2015-16. **[2]**

**(iii)** X joined a service on 01.08.2010 in the grade of ₹12,000 - 300 - 13,800 - 400 - 17,800 and his salary was fixed at ₹14,200 from the date of joining. Compute his basic salary for the assessment year 2015-16. **[2]**

**(iv)** What are the advantages in applying Profit Split Method while determine arm's length price under International Transactions? **[2]**

**(v)** What are the limitations while determining arm's length price under Resale Price method? **[1]**

**(vi)** Define Advance Pricing Agreement? **[2]**

**(vii)** Sumit is provided free meals in the office, during office hours, for 300 days during the previous year. The cost of meals to the employer is ₹65 per meal.

(a) Determine the value of perquisite in respect of meals.

(b) What shall be the value if the value per meal is ₹50. **[1]**

**(viii)** Rohit has a house property in Delhi whose Municipal Value is ₹1,00,000 and the Fair Rental Value is ₹1,20,000. It was self occupied by Rohit from 01.04.2014 to 31.07.2014. W.e.f. 01.08.2014 it was let out at ₹9,000 p.m. Compute the annual value of the house property for the assessment year 2015-16 if the municipal taxes paid during the year were ₹20,000. **[2]**

**(ix)** An electricity company which was charging depreciation on straight line method and whose actual cost of the asset was ₹5,00,000 and written down value ₹4,50,000 sold the said asset during 2014-15 after 2 years. What will be the tax treatment if the asset is sold for:

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(a) ₹3,50,000

(b) ₹4,80,000

(c) ₹6,00,000

[2]

(x) X purchased a piece of land on 04.01.1978 for ₹50,000. This land was sold by him on 02.09.2014 for ₹14,00,000. The market value of the land as on 01.04.1981 was ₹1,20,000. Expenses on transfer were 2% of the sale price. Compute the capital gain for the assessment year 2015-16.

[2]

(xi) What are the deductions not allowed where return is not filed within specified time limit?

[2]

### Question 2. Answer any four questions [4 × 15 = 60]

(a) (i) During the financial year 2014-15 Anil Rajak had the following income:

		₹
(A)	Salary income received in India for services rendered in Hong Kong	3,90,000
(B)	Income from profession in India, but received in Germany.	3,60,000
(C)	Property income in Uganda (out of which ₹2,40,000 was remitted to India).	5,00,000
(D)	Profits earned from business in Bangalore.	1,50,000
(E)	Agricultural income in Kenya.	1,60,000
(F)	Profits from a business carried on at Nepal but controlled from India.	2,20,000

Compute the income of Anil Rajak for the assessment year 2015-16 if he is (i) resident and ordinarily resident, (ii) Not ordinarily resident, and (iii) Non-resident in India.

[4]

(ii) Tushar is employed with ABC Ltd. on a monthly salary of ₹25,000 per month. The company provides him with the following benefits:

(A) A company owned accommodation is provided to him in Delhi.

(B) The company has given him a housing loan of ₹5,00,000 on 01.04.2014 on which it charges interest @ 6% per annum. The entire loan is still outstanding. (Assume the interest charged by SBI is 10% p.a.)

(C) The company gave him a gift worth ₹15,900 on his 50th birthday on 21.10.2014.

(D) He is allowed to use the video camera belonging to the company. The company had purchased this camera for ₹60,000 on 01.05.2011. This camera was sold to him on 01.08.2014 for ₹30,000

(E) The company had purchased a car on 16.07.2011 for ₹2,50,000. This car is sold to Tushar on 14.07.2014 for ₹80,000. The car was not being used by Tushar.

(F) The company pays the telephone bills of ₹24,000 for the telephone installed at the residence of Tushar.

Compute the Gross income from salary of Tushar for the assessment year 2015-16.

[4]

(iii) The following incomes are received by Mr. Pawan during financial year 2014 – 15.

	₹
Director's fees	2,000
Income from agricultural land in Pakistan	5,000

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Ground rent for land in Pathankot	10,000
Interest on Postal Savings Bank A/c	100
Interest on deposits with Industrial Finance Corporation of India	500
Dividend from a foreign company	700
Rent from sub-letting a house	26,250
Rent payable by Mr. Pawan for the sub-let house	12,000
Other expenses on sub-let-house	1,000
Winnings from horse-race (Gross)	12,300
Interest on Securities (gross)	4,000

You are required to calculate income from other Sources of Mr. Pawan for the assessment year 2015-16. **[4]**

**(iv)** XY & Co. a partnership firm engaged in the manufacturing business has a total turnover of ₹59,00,000 from such business. The partnership deed provides for payment of salary of ₹10,000 p.m. to each of the partners i.e. X and Y. The firm uses machinery for the purpose of its business and the WDV of the machinery as on 01.04.2014 is ₹2,00,000. The machinery is eligible for depreciation @ 15%. Compute the profits from the business, if the firm opts for the scheme under section 44AD.

What will be profit from the business, if each partner is paid ₹20,000 p.m. as salary instead of ₹10,000 p.m. **[3]**

**(b) (i)** Mr. Shakti has a house property in Delhi whose particulars are as under:

	₹
Municipal value	3,00,000
Standard rent	3,12,000
Municipal taxes paid	50,000
Interest on money borrowed for acquiring the house after 01.04.2012	1,60,000
Period of occupation for own residence	2 months
Actual rent for 10 months	35,000 p. m.
Compute the income from house property for assessment year 2015-16.	

**[3]**

**(ii)** A Ltd. has an industrial plot which was purchased on 14.10.1986 for ₹2,00,000. It has since been used for its industrial purposes as an open stockyard. This plot was compulsorily acquired by the Government on 15.11.2010 and a sum of ₹11,90,000 was determined as compensation which was received by the company on 04.04.2013. The company, not being satisfied with the compensation appealed against the above award and the compensation was enhanced by ₹1,00,000 on 30.01.2014 but the enhanced compensation was received on 05.04.2014. Meanwhile, the assessee purchased another industrial plot on 15.09.2013 for ₹1,90,000. On receipt of the enhanced compensation, the company deposited the entire amount under the Capital Gains Accounts Scheme on 30.09.2015. Till the time the amount was deposited, the company used the said amount of ₹1,00,000 for its business purposes. Compute the capital gains for various assessment years arising on this transaction. **[5]**

**(iii)** From the following information submitted to you, compute the total income of A for the assessment year 2015-16 and calculate his tax liability assuming he is not allowed any deduction under sections 80C to 80U.

	₹
Income from salary	1,80,000

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Income from house property	40,000
Business loss	(-) 1,90,000
Loss from a specified business referred to in section 35AD	(-) 60,000
Short-term capital loss	(-) 60,000
Long-term capital gain	2,40,000

**[4]**

**(iv)** X owns the following commercial vehicles:

- (I) 2 light commercial vehicles — One for 9 months and two days and the other for 12 months.
  - (II) 2 heavy goods vehicle — one for 6 months and 25 days and the other for 11 months and 12 days
  - (III) 2 medium goods vehicles — One for 6 months and the other for 8 months and 15 days.
- (a) Compute the income from business if X opts for the scheme u/s 44AE. Also compute his tax liability for the assessment year 2015-16, if he deposits ₹20,000 in PPF Account during the previous year.
- (b) What will be the income if the trucks were not used for business for two months during the year due to strike? **[3]**

**(c) (i)** State with reasons whether the following expenses are admissible as deduction while computing income from business or profession:

- (I) An expenditure of ₹20,000 incurred towards cost of neon signs fixed on office premises for advertising the products of the assessee.
- (II) Stock-in-trade was lost in fire, amounting to ₹12,000 and was debited to Profit and Loss Account.
- (III) Amount spent on a successful suit filed against a person for infringing trade mark of the assessee—₹10,000
- (IV) Interest paid to bank ₹15,000 in connection with overdraft obtained for paying dividend.
- (V) Entertainment expenses of ₹28,000 incurred during the previous year.
- (VI) Capital expenditure of ₹1,00,000 has been incurred towards promotion of family planning amongst employees of ABC Ltd.
- (VII) ₹20,000 were spent in the previous year in connection with statutory income tax proceedings.
- (VIII) ₹3,000 spent in connection with installation of a new telephone connection.
- (IX) Travelling expenses of a Director of ABC Ltd. ₹20,000 incurred on a tour to U.S.A. in connection with the negotiation of purchase of a new machinery.
- (X) Compensation paid to the widow and children of deceased employee of the factory on the orders of Labour Court. **[5]**

**(ii)** Ramdhin purchased 5,000 shares of S Ltd. @ ₹200 per share on 05.07.2014. S Ltd. declares a dividend of ₹10 per share. The record date is fixed as 04.09.2014. Ramdhin received the dividend immediately after the record date. The above shares were sold by Ramdhin on 05.11.2014 for:

- (a) ₹175 per share
- (b) ₹192 per share
- (c) ₹205 per share

Compute the income/loss in each case. **[4]**

**(iii)** Mrs. Satya received the following amounts during financial year 2014 –15:

	₹
Gross salary	5,30,000

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Family Pension ₹10,000 × 12	1,20,000
Income of a minor child	49,000
Accumulated balance in PF of her husband after his death	1,00,000
Gratuity received after the death of husband	1,00,000

Calculate taxable income of Mrs. Satya and tax liability for the assessment year 2015-16.

[3]

(iv) An Assessing Officer made an order of Assessment on Ramnath determining the Total Income at ₹ 3,75,000 by an order dated 30.03.2015 in respect of Assessment Year 2012-2013. This was served on the Assessee on 02.04.2015. A tax of ₹1,87,500 was determined subsequently and a Demand Notice served on the Assessee on 20.07.2015. Discuss the validity of the proceedings in the above case.

[3]

(d) (i) Sudhir files a return of income declaring an income of ₹9,15,000 for assessment year 2015-16. A sum of ₹43,000 has already been deducted at source from the income of Sudhir during the financial year 2014-15. Sudhir has paid advance tax as under:

	₹
15-09-2014	15,000
14-12-2014	16,000
13-03-2015	22,000

Compute the interest payable by Sudhir under section 234C.

[3]

(ii) Robin borrows a sum of ₹25,00,000 from the State Bank of India @ 12% p.a. on 01.05.2013 and purchased a house Property for ₹38,00,000 on 04.05.2013. He does not own any residential house property on the date of taking the loan. He has been using the house property for his own residence since its acquisition. Compute the total income of Robin assuming he has salary income of ₹8,40,000 and he deposited ₹1,00,000 in PPF during the previous year 2013-14. What shall be the answer if the total interest on borrowed money is ₹2,30,000 instead of ₹2,75,000.

[3]

(iii) During the previous year 2014-15 a charitable trust earned an income of ₹5,00,000 out of which ₹4,00,000 was received during the previous year 2014-15 and the balance ₹1,00,000 was received during the previous year 2016-17. To claim full exemption of ₹5,00,000 in the previous year 2014-15, state:

- What is the maximum amount which can be accumulated to be utilized for charitable or religious purposes at a later date?
- How much amount should be actually spent during the previous year 2014-15?
- How much amount will be deemed to be utilized during the previous year 2014-15 and within what time should it be actually utilized?

[3]

(iv) The gross total income of Upendra for the assessment year 2015-16 is ₹6,20,000 which includes long-term capital gain ₹80,000 short-term capital gain referred to in section 115A ₹70,000 and interest on saving bank deposit ₹12,000. Compute the tax payable by Upendra assuming he deposited ₹1,00,000 in PPF and paid premium for health insurance by cheque amounting to ₹15,000.

[3]

(v) Q filed a Return of Income for the Assessment Year 2014-2015, in due time disclosing a Total Income of ₹4 Lakhs. The taxes due on the income were covered by Taxes Deducted at Source, Advance Tax and Self-Assessment Tax.

The Return was taken for scrutiny by the Assessing Officer, who made large additions to the Income enclosed by Q. On appeal, the High Court set aside the order of assessment and

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directed for fresh assessment to be made after hearing the parties. The Court Order had become final since neither party had preferred an appeal against it.

The Assessing Officer did not make any fresh assessment with the result that the assessment became barred by time.

Q has filed a petition that since no assessment of his Income had been made by the Assessing Officer the entire taxes paid, including the pre-assessment payments, must be refunded to him.

Is he justified in making this claim? Discuss.

[3]

(e) (i) PQR Ltd is a manufacturer of Steel and allied products. Its Income for Ay 2015–2016 is as follows -

1. Profits and gains from Business computed under the provisions of Income Tax Act	19,50,000
2. Book Profit	1,00,40,000

Compute the Tax payable by the Company.

[5]

(ii) A, a Resident Indian aged 21 years, earned a sum of ₹10 Lakhs during the Previous Year 2014-2015 from playing Badminton Matches in a Country with which India does not have Double Taxation Avoidance Agreement. Tax of ₹2 Lakhs was levied on such income in the source country. In India, he earned ₹15 Lakhs during the Previous Year 2014-2015 from playing Badminton Matches. He has deposited ₹1 Lakh in Public Provident Fund during the year. Compute his Income Tax Liability for Assessment Year 2015-2016.

[4]

(iii) T has rented out his agricultural land to S who uses the same for agricultural purposes. As per the agreement, 'S' will pay the rent in the shape of agricultural produce from the land to T. T has received during the previous year agricultural produce valued at ₹60,000. He has consumed agricultural produce worth ₹40,000 for his own consumption and the balance has been sold by him for ₹20,000.

Compute the total income for the assessment year 2015-16 assuming he is getting a salary of ₹20,000 p.m. from Y Ltd. He has no other income. Also compute the tax payable by him.

[3]

(iv) Suvidha Hospitals Pvt. Ltd, the Assessee, has recently been accorded recognition by several Insurance Companies to admit and treat patients on cashless hospitalization basis. Payment to the Assessee Hospital will be made by Third Party Administrators (TPA) who will process the claims of the patients admitted and make the payments to the various hospitals including the Assessee. All TPAs are Corporate Entities. The Assessee wants to know whether the TPAs are bound to deduct tax at source u/s 1943 or u/s 194C.

[3]

### Question No 3. Answer any two questions [2 × 10 = 20]

(a) (i) REW Ltd., a company incorporated in US, sells laser printer cartridge to its 100 per cent Indian subsidiary AB Ltd. @ \$50 per cartridge. REW Ltd. also sells its laser printer cartridge to another company PQR Ltd. in India @ \$80 per piece. Total income of AB Ltd. for the assessment year 2014-15 is ₹12,00,000 after making payment for 100 cartridges @ \$50 (1\$ = ₹ 65). AB Ltd. has deducted tax at source while making payments to REW Ltd. In this case, sale to unrelated party PQR Ltd. is @ \$80. Compute the arm's length price and taxable income of REW Ltd. and AB Ltd. The rate of one dollar may be assumed to be equivalent to ₹ 65 in all transactions.

[6]

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**(ii)** What are the practical problems on existing ALP concept? **[4]**

**(b)(i)** VK International Ltd, the Assessee, has sold goods on 12.01.2015 to LK Ltd. located in a Notified Jurisdictional Area (NJA), for ₹ 10.50 Crores. The sale price of identical goods sold to an unfamiliar customer in New York during the year was ₹ 11.60 Crores. While the second sale was on CIF basis, the sale to LK Ltd was on F.O.B. basis. Ocean Freight and Insurance amount to ₹ 20 Lakhs.

India has a Double Taxation Avoidance Agreement with the USA. The Assessee has a policy of providing After-Sales Support Services to the tune of ₹ 14 Lakhs to all customers except LK Ltd. The ALP worked out as per Cost Plus Method for identical goods is ₹ 12.10 Crores.

You are required to compute the ALP for the Sales made to LK Ltd, and the amount of consequent increase, if any, in profits of the Assessee-Company. **[5]**

**(ii)** Space Motors Ltd, an Indian Company, declared Income of ₹24 Crores computed in accordance with Chapter IV-D but before making any adjustments in respect of the following transactions for the year ended on 31.03.2015:

(A) Royalty of \$ 50,00,000 was paid to Fista Ltd for use of technical know—how in the manufacturing of van. However, Fista Ltd had provided the same know-how to another Indian Company for \$ 45,00,000. The manufacture of Van by Space Motors Ltd is wholly dependent on the use of technical know-how, in respect of which Fista Ltd has exclusive rights.

(B) Loan of Euro 5 Crores with interest @ 10% p.a. advanced by Hughes Ltd, a French Company, was outstanding on 31.03.2015. The Total Book Value of assets of Space Motors Ltd on the date was ₹ 500 Crores. Hughes Ltd had also advanced similar loan to another Indian Company @ 8% p.a. Total Interest paid for the year was EURO 0.5 Crore.

(C) 7,000 Vans sold to Hitech Ltd which holds 41% Shares in Space Motors Ltd at a price which is less by \$ 100 each van than the price charged from Bento Ltd.

Briefly explain the provisions of the Act affecting all these transactions and compute Taxable Income of Space Motors Ltd for A.Y.2015-2016 assuming that the value of 1\$ and of 1 EURO was ₹ 60 and ₹ 70, respectively, throughout the year. **[5]**

**(c) (i)** Boulevard Inc. a French Company, holds 40% of Equity in the Indian Company Vasak Technologies Ltd (VTL). VTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Boulevard Inc.

During the year, VTL had spent 2,000 Man Hours for developing and maintaining software for Boulevard Inc, with each hour being billed at ₹ 1,350. Costs incurred by VTL for executing work for Boulevard Inc. amount to ₹ 18,00,000.

VTL had also undertaken developing software for Bal Industries Ltd for which VTL had billed at ₹ 2,700 per Man Hour. The persons working for Bal Industries Ltd and Boulevard were part of the same team and were of matching credentials and caliber. VTL had made a Gross Profit of 50% on the Bal Industries work.

VTL's transactions with Boulevard Inc. is comparable to transactions with Bal Industries, subject to following differences -

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- (a) Boulevard gives technical knowhow support to VTL which can be valued at 8% of the Normal Gross Profit. Bal Industries does not provide any such support.
  - (b) Since the work for Boulevard involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.
  - (c) VTL had offered 90 Days credit to Boulevard the cost of which is measured at 2% of the Normal Billing Rate. No such discount was offered to Bal Industries Ltd.
- Compute ALP and the amount of increase in Total Income of Vasal Technologies Ltd.

**[5]**

- (ii) Kjo Japan and AB Ltd, an Indian Company are Associated Enterprises. AB Ltd manufactures Cellular Phones and sells them to Kjo Japan and Geel, a Company based at Beijing. During the year AB Ltd supplied 2,50,000 Cellular Phones to Kjo Japan at a price of ₹ 3,000 per unit and 35,000 units to Geel at a price of ₹ 5,000 per unit. The transactions of AB Ltd with Kjo and Geel are comparable subject to the following considerations -

- (a) Sales to Kjo is on FOB basis, sales to Geel are CIF basis. Freight and Insurance paid by Kjo for each unit is ₹ 700.
- (b) Sales to Geel are under a free warranty for Two Years whereas sales to Kjo are without any such warranty. The estimated cost of executing such warranty is ₹ 500.
- (c) Since Kjo's order was huge in volume, quantity discount of ₹ 200 per unit was offered to it.

Compute Arm's Length Price and amount of increase in Total Income of AB Ltd, if any, due to such Arm's Length Price.

**[5]**