

## **Paper 7- Direct Taxation**

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**Full Marks : 100**

**Time allowed: 3 hours**

**Section-A (80 Marks)**

**Income Tax**

**I. Answer question No. 1 which is compulsory and any FOUR from Question No. 2 to 7**

**1. a) Fill up the blanks: [5x1=5]**

- i) Periodical pension received by a Government employee is \_\_\_\_\_.
- ii) Cost of acquisition of self generated capital asset, being route permit shall be \_\_\_\_\_.
- iii) Loss from house property cannot be adjusted from \_\_\_\_\_.
- iv) Belated return of income \_\_\_\_\_ (can/cannot) be revised.
- v) Interest on capital borrowed for repairs of let-out property is deductible on \_\_\_\_\_ (accrual/payment) basis.

**b) Choose the most appropriate alternative: [5]**

- i) AOP should consist of:
  - a) Individuals only
  - b) Persons other than individuals only
  - c) Individuals and HUF only
  - d) None of the above
- ii) An Indian Company, where place of effective management is outside India, shall be:
  - a) Resident in India
  - b) Non-resident in India
  - c) Not ordinarily resident in India
  - d) None of the above
- iii) Casual income received by the assessee
  - a) Exempt upto ₹ 50,000
  - b) Fully exempt
  - c) Fully taxable
  - d) None of the above
- iv) Free meal worth ₹ 120 per meal for 200 days provided by the employer during working hours in a remote area is:
  - a) Exempt upto ₹ 50 per meal
  - b) Taxable upto ₹ 50 per meal
  - c) Fully exempt
  - d) Fully taxable
- v) Unrealised rent of a property shall be excluded from:
  - a) Gross Annual Value
  - b) Net Annual Value
  - c) Income from property
  - d) All the three

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c) State true or false with reasons:

[5x2=10]

- i) Salary received by the partner from the firm in which he is a partner is taxable under the head salary.
- ii) Gross Annual Value of a property cannot exceed rent as per the Rent Control Act.
- iii) Depreciation is allowed as deduction u/s. 32 in case of registered owner only.
- iv) Loss can be set off only by the assessee who has incurred the loss.
- v) Benefit of indexation is not available in case of Capital Indexed Bonds for computation of long term capital gain.

2. a) Miss Jaya, a resident individual owns a property in Chennai, 50% of the area is letout at a monthly rent of ₹ 15,000 and the remaining is used for her residence. Standard rent and fair rent of the portion of property letout is ₹ 18,000 p.m and ₹ 20,000 p.m respectively. Municipal taxes of the property is ₹ 10,000. The property is constructed by taking a loan from a nationalised bank. She repaid the loan of ₹ 60,000 including interest of ₹ 20,000.

She also owns a property in UK and receives rent @ £ 1000 p.m. She paid municipal taxes of £ 1000. The value of one pound is to be taken as ₹ 90. Compute total income for the AY 2016-17. [8]

- b) Mr. Rao was employed in a public limited company. His salary was fixed at 15,000 p.m. in the grade of ₹ 14,500 – ₹ 500 – ₹ 21,500 with effect from 1-8-2012. Dearness Allowance is paid at 15% of salary. He retired from service on 1-1-2016 after 20 years of service and receives the following payments:

- (i) Recognised Provident Fund (yearly contribution is 10% of salary) ₹ 3,00,000.
- (ii) Periodical Pension ₹ 6,000 p.m.
- (iii) Gratuity ₹ 4,50,000.

Compute total income for the AY 2016-17. [7]

3. a) Mr. Roy was the owner of following assets.

	Year of Acquisition	Cost	FMV as on 1-4-1981
House Property	1974-75	20,000	40,000
Listed debentures	1992-93	80,000	--
Listed Equity Shares	1998-99	40,000	--

Mr. Roy died on 10-10-2001 and as per his will assets transferred to his son Mr. Sai. These assets are sold on 10-10-2015 for a total consideration of ₹ 40,00,000 (house property ₹ 25,00,000; listed debentures ₹ 14,00,000 and listed shares ₹ 1,00,000). Compute the amount of capital gain chargeable to tax for the AY 2016-17 assuming that shares were sold through a recognised stock exchange and securities transaction tax was paid on such sale. CII for the financial years 1981-82, 1992-93, 1998-99, 2001-02 and 2015-16 is 100, 223, 351, 426 and 1081 respectively. [8]

- b) Mr. Modi is the owner of a small manufacturing unit and submits the following particulars:-

(A) Net Profit, before charging the following items ₹ 1,40,000.

- i) Provision for doubtful debts ₹ 10,000.
- ii) Donation to PM National Relief Fund ₹ 5,000.
- iii) Contribution to National Laboratory for research not related to business ₹ 4,000.
- iv) Stationery bill paid in cash ₹ 25,000.
- v) Advertisement bill paid by way of account payee cheques ₹ 30,000.

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- vi) Expenses on income-tax assessment ₹ 2,000.
- vii) Purchase of patents on 1-11-2015 for ₹ 40,000.
- viii) Life Insurance Premium ₹ 3,000.

(B) Incomes not taken into accounts:

- (i) Bank interest ₹ 5,000.
- (ii) Interest on units of UTI ₹ 4,000.
- (iii) Export incentives ₹ 3,000.

(C) Opening Stock value was ₹ 27,500 which is valued at cost plus 10% basis, whereas value of closing stock was ₹ 27,000 which is valued at cost minus 10% basis.

Compute total income for the AY 2016-17.

[7]

4. a) Mr. Rahul submits the following information:-

- (i) Gross salary per annum ₹ 2,50,000
- (ii) Rent of property ₹ 5,000 p.m.
- (iii) Agricultural income ₹ 80,000
- (iv) Receipt from sale of spontaneously grown trees ₹ 40,000.
- (v) NSC IX purchased on 31-1-2016 ₹ 20,000.

Compute total income and calculate tax liability for the AY 2016-17.

[8]

b) From the following particulars submitted by Mr. Patel compute his income from other sources for the AY 2016-17:

- (i) Director's meeting fees ₹ 6,000.
- (ii) Agricultural income from Pakistan ₹ 4,000.
- (iii) Interest on bank deposits (net) ₹ 10,800.
- (iv) Interest on post office savings bank account ₹ 5,000.
- (v) Interest on NSC IX ₹ 1,000.
- (vi) Dividend from X Ltd ₹ 3,000.
- (vii) Lottery Prize received after TDS ₹ 35,000.
- (viii) Expenses on purchase of lottery ticket ₹ 2,000.

[8]

5. a) From the following particulars, compute total income of Mr. Varma for the AY 2016-17:

- (i) Loss from self-occupied property ₹ 50,000.
- (ii) Business Income ₹ 2,50,000.
- (iii) Speculation loss ₹ 20,000.
- (iv) Long term capital gain ₹ 1,20,000.
- (v) Short term capital loss ₹ 10,000.
- (vi) Loss under the head "income from other sources" ₹ 30,000.
- (vii) Contribution to Public Provident Fund ₹ 30,000.

[7]

b) Mr. Kapil, who is a lawyer in Mumbai, furnishes the following particulars:

- (i) Income from Profession ₹ 2,10,000.
- (ii) STCG on sale of equity shares through recognised stock exchange ₹ 30,000.
- (iii) LTCG on sale of land ₹ 50,000.
- (iv) Interest on Government Securities ₹ 40,000.
- (v) Payment of interest on loan taken from a bank for higher studies ₹ 20,000.
- (vi) Payment for mediclaim policy on his own health and health of spouse ₹ 10,000.
- (vii) Donation to National Children's Fund ₹ 30,000.

Determine his total income and tax payable for the AY 2016-17.

[8]

- 6. a)** Mr. Bhim, a not-ordinarily resident in India submits you the following:
- (i) Royalty from Government of India ₹ 10,000.
  - (ii) Business income earned outside India ₹ 30,000.
  - (iii) Interest received from a non-resident against a loan provided to him to purchase a property in India ₹ 20,000.
  - (iv) Fees for technical services provided to a non-resident to run a business in India ₹ 40,000.
  - (v) Income from business in India but controlled from outside India ₹ 50,000.
  - (vi) Dividend from an Indian Company ₹ 5,000.
- Determine his total income for the AY 2016-17. **[8]**
- b)** Compute taxable income and calculate tax liability of a co-operative society, not being a consumer co-operative society for the AY 2016-17;
- (i) Income from cottage industry ₹ 25,000.
  - (ii) Marketing of agricultural produce grown by members ₹ 35,000.
  - (iii) Income from purchase and sale of agricultural implements to members ₹ 5,000.
  - (iv) Profits and gains of business ₹ 90,000.
  - (v) Interest from other co-operative society ₹ 10,000.
  - (vi) Interest on units of notified Mutual Fund ₹ 20,000.
  - (vii) Donation to National Defence Fund ₹ 10,000.
- [7]**
- 7. a)** X Ltd has suffered a net loss of ₹ 10,00,000. The accounts revealed the following items debited to profit and loss account and certain additional information is gathered:
- (i) X Ltd has collected charity of ₹ 40,000 @ 0.5% of its turnover and spent ₹ 25,000. Both the items are taken into the accounts.
  - (ii) Interest on OD from a bank for payment of income tax ₹ 10,000.
  - (iii) Penalty ₹ 5,000 on account of non-fulfillment of an export order with a foreign customer.
  - (iv) The company has paid ₹ 1,00,000 towards acquisition of patent rights and a sum of ₹ 10,000 has been debited to Profit & Loss Account treating it as deferred revenue expenditure.
  - (v) A term loan has been waived by the Government ₹ 30,000 which has been credited to P & L A/c.
  - (vi) Payment of interest on loan from the bank for payment of dividends ₹ 8,000.
  - (vii) Salary and wages include outstanding bonus ₹ 2,000 which is payable as per Labour Tribunal Order.
- Compute business income of X Ltd for AY 2016-17. **[10]**
- b)** The total income of AOP is ₹ 3,00,000. It has three members i.e. X Ltd, a foreign company and two individuals P & Q. They share at 2 : 1 : 1, Calculate tax payable by AOP. Also calculate its tax liability if share is not known. **[5]**

**Section-B (20 Marks)**

**International Taxation and Transfer Pricing**

**II. Answer question No. 8 which is compulsory and any one from Question No. 9 and 10**

**8. a) Fill in the blanks:**

**[4x1=4]**

- a) Relief on foreign income if there is Avoidance of Double Tax Agreement is called bilateral relief under section \_\_\_\_\_.
- b) Unilateral relief u/s. 91 on foreign income is allowed to \_\_\_\_ (resident/non-resident) in India.
- c) Determination of reasonable profit in case of combined profit of the associated/deemed associated enterprise is on the basis of \_\_\_\_ method.
- d) Unexplained payment to the person situated in Notified Jurisdictional Area is considered as \_\_\_\_\_.

**b) Select the suitable answer:**

**[4x1=4]**

- a) Exempted foreign income is taken into consideration for:
  - i) Tax purpose
  - ii) Tax rate purpose
  - iii) Relief purpose
  - iv) None of the above
- b) Unilateral relief at the rate of least of average tax rate on foreign income or average tax rate on total income is given on:
  - i) Foreign income
  - ii) Total income
  - iii) Indian Income
  - iv) None of the above
- c) Advance pricing agreement will become void ab initio if
  - i) There is change in law
  - ii) Agreement obtained by fraud
  - iii) Voluntarily agreed
  - iv) None of the above
- d) Due date of filing of return of income in case of a person who is required to furnish report u/s. 92E is:
  - i) 31<sup>st</sup> July of RAY
  - ii) 30<sup>th</sup> September of RAY
  - iii) 30<sup>th</sup> November of RAY
  - iv) None of the above

**9. a)** Mr. X, resident in India, earns the following income. You are required to calculate the amount of relief available to him and net tax payable.

- (i) Salary from employment in India ₹ 4,00,000.
- (ii) Rent from property outside India ₹ 2,00,000.
- (iii) Short term capital gain on sale of capital asset in India ₹ 3,00,000.
- (iv) Interest from securities outside India ₹ 1,00,000.

He deposited ₹ 50,000 in his PPF out of foreign income. There is ADT agreement, according to which foreign income is exempted in India but it should be taken into consideration for tax rate purpose. Tax on foreign income outside India is @ 18%. **[6]**

- b) (i)** What is safe harbour in computation of arm's length price under Transfer Pricing Study?  
i) What are the methods of computation of arm's length price?  
ii) What do you mean by Cross Border Transactions?  
iii) What are the transactions covered under Specified Domestic Transactions?

**[6]**

- 10. a)** X Ltd, an Indian company, engaged in supply of heavy range machines. It entered into a contract with Y Ltd, a foreign company, in which X Ltd has 50% share in equity and Z Ltd, another foreign company in which X Ltd has 25% share in equity for supply of machines. The following information is available:

Particulars	Y Ltd (in USA)	Z Ltd (in UK)
No. Of machines supplied	10,000	9,800
CIF value	₹ 7,000 per machine	--
FOB value	--	₹ 7,500 per machine
Discount	₹ 250 per machine	Nil
Insurance	₹ 30 lakhs	Not available
Freight	₹ 25 lakhs	Not available

Calculate reasonable profits of X Ltd if profit as shown by X Ltd is ₹ 90 lakhs.

**[6]**

- b) (i)** Discuss the steps involved in the process of computing arm's length price under the study of Transfer Pricing.

**[3]**

- (ii)** Discuss the steps involved in granting of unilateral relief on foreign income which suffered double tax when there is no double tax avoidance agreement.

**[3]**