

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) Interest on capital borrowed for repairs of self-occupied property is deductible upto a maximum of ₹ _____.
- (ii) Shares given to the employee free of cost under ESOP is taxable if he is _____ (specified/non-specified/either specified or non-specified).
- (iii) Cost of improvement of self-generated capital asset, being tenancy right shall be _____.
- (iv) Loss from owning and maintaining the race camels can be carry forward for a maximum of _____ assessment years.
- (v) The due date of filing the return of income of a charitable trust which is claiming exemption u/s. 12AA is _____.

b) Choose the most appropriate alternative: [5x1=5]

- i) Deduction under Section 32AD is allowed to:
 - a) Corporate assessee in notified area.
 - b) Non-corporate assessee in notified area.
 - c) Corporate and non-corporate assessee in notified area.
 - d) None of the above.
- ii) For the purpose of computation of capital gain, securities transaction tax is :
 - a) Allowed as deduction
 - b) Form part of cost
 - c) Neither allowed as deduction nor form part of cost
 - d) None of the above
- iii) Loss from trading in derivatives through a recognised stock exchange can be carried forward for:
 - a) 8 years
 - b) 4 years
 - c) Unlimited years.
 - d) None of the above
- iv) Deduction u/s. 80E in respect of interest on education loan is allowed for:
 - a) 10 years or till the interest is paid whichever is earlier.
 - b) 8 years or till the interest is paid whichever is earlier.
 - c) 10 years
 - d) 8 years
- v) Dividend received by a shareholder of an Indian Company engaged in growing and manufacturing of tea shall be treated as:
 - a) Agricultural income upto 60%

- b) Agricultural income upto 100%
- c) Non-agricultural income upto 60%
- d) Non-agricultural income upto 100%

c) State true or false with reasons:

[5x1=5]

- (i) There is no capital gain on the transfer of self generated asset being goodwill of a profession.
- (ii) Loss cannot be set off against clubbed income.
- (iii) Expenditure relating to corporate social responsibility shall be allowed as deduction u/s. 37(1).
- (iv) "Project Allowance" is taxable as "Profits in lieu of Salary".
- (v) Gross Annual Value of a Property can be negative.

2. a) Mr. Rohit is employed with R Ltd on a basic salary of ₹ 15,000 p.m. He is also entitled to DA of 25% of basic salary but only 75% of DA is included in salary for all service benefits. The company gives HRA of ₹ 5,000 p.m. His basic salary has been increased to ₹ 18,000 p.m with effect from 1-12-2015. He is staying with his parents till 31-10-2015. From 1-11-2015 he has taken an accommodation on rent and pays ₹ 4,000 p.m. During the year he received arrears of salary relating to earlier years amounting ₹ 12,000. Compute his gross salary for the AY 2016-17. **[8]**

b) A, B and C are the three equal co-owners of the property in Mumbai, which has 6 identical units. B and C have occupied one unit each for their residence and the remaining units are let out to a tenant for ₹ 20,000 p.m. The municipal value of property is ₹ 4,20,000. The other particulars of the property are:

- (i) Municipal tax paid ₹ 24,000.
- (ii) Collection charges of let-out units ₹ 6,000.
- (iii) Repairs of self occupied units ₹ 2,000.
- (iv) Interest on loan for construction of the property which has completed in 1994 ₹ 1,92,000.

Compute income of each co-owner for AY 2016-17. **[7]**

3. a) Mr. Sinha, a practicing CMA submits the following receipts and payments:

(A) Receipts:

- (i) Consultation fees ₹ 80,000
- (ii) Audit fees ₹ 30,000
- (iii) Miscellaneous receipts ₹ 10,000
- (iv) Gifts from clients ₹ 20,000
- (v) Rent from property ₹ 60,000
- (vi) Interest on Govt. Securities ₹ 4,000

(B) Payments:

- (i) Salary to staff and other establishment expenses ₹ 25,000.
- (ii) Travelling expenses ₹ 20,000.
- (iii) Subscription to CMA institute ₹ 2,000.
- (iv) Purchase of books (annual publications) for professional use ₹ 8,000.
- (v) Interest on bank loan ₹ 6,000.
- (vi) Donations to National Flood Relief Fund ₹ 4,000.

(C) Other information:

- (i) 25% of the books were purchased on 1-1-2016.
- (ii) Bank loan was taken for construction of second house which is not yet completed.
- (iii) 1/4th of travelling does not relate to profession.

Compute total income of Mr. Sinha for AY 2016-17. **[8]**

- b)** Mrs. Diana purchased 1200 listed shares on 1-4-1995 for ₹ 60,000. Company has declared a right issue in the ratio of 2 : 1 at a price of ₹30 per share on 1-4-2015. She sold half of the right at ₹ 20 per share and subscribes the remaining. She sold all the shares at ₹ 90 per share on 31-3-2016 and paid brokerage @ 2%. She also paid STT at the applicable rate. Compute capital gain for AY 2016-17. CII 1995-96 is 281 and 2015-16 is 1081. **[7]**

- 4. a)** Mr. Vivek received the following incomes:

- (i) 9% Tax-free UP Govt. Loan (net) ₹ 10,000.
- (ii) 12% Debentures of X Ltd (net) ₹ 16,200.
- (iii) 8% National Plan Certificates ₹ 4,000.
- (iv) 7% Debentures of local authority ₹ 4,500.
- (v) Rent from sub-letting of property ₹ 15,000.
- (vi) Dividend from a Co-operative Society ₹ 3,000.

He incurred the following expenditure:

- (i) Bank commission @ 2% for collection of income in respect of interest.
- (ii) Rent of sub-let property ₹ 8,000.
- (iii) Lottery ticket purchased for ₹ 3,000.

Compute income from other sources. **[8]**

- b)** An individual grows sugarcane to manufacture sugar. He gives the following information:

- (i) Cost of cultivation of sugar cane ₹ 4,00,000
- (ii) Market value of sugarcane ₹ 6,00,000
- (iii) Other manufacturing cost ₹ 3,00,000
- (iv) Salary of Manager ₹1,00,000
- (v) Sales of Sugar ₹ 20,00,000

Calculate tax liability for the AY 2016-17. **[7]**

- 5. a)** Mr. Arjun submits the following;

- i) Income from house property ₹ 1,20,000
- ii) Business income ₹ 1,80,000
- iii) Short term capital gain ₹ 60,000
- iv) Long term capital gain on sale of equity shares through recognised stock exchange ₹ 40,000.
- v) Interest from saving bank deposit ₹ 18,000.
- vi) Winnings from horse races (net) ₹ 28,000.
- vii) He pays ₹ 3,000 p.m. as rent for his residential house. Neither he, nor his family owns any residential house.
- viii) Premium on Mediclaim policy ₹ 30,000.

MTP_ Intermediate _Syllabus 2012_Dec2016_Set 2

Compute his total income for AY 2016-17.

[7]

- b) R, S and G are equal partners of a firm. The firm has got loss of ₹ 80,000 for the year ended on 31-3-2015. S retired from the firm on 31-3-2015 and P joined on 1-4-2015 as an equal partner. The firm made a profit of ₹ 1,00,000 for the year ending 31-3-2016 but it wants to set-off brought forward loss of ₹ 80,000 of the previous year against this profit. Examine the possibility of the firms claim. Calculate income of the firm and allocate the shares of R, S and G for the AY 2016-17. [8]

6. a) A charitable trust gets the following income:

- (i) Voluntary contribution (without any specific direction) ₹ 24,00,000.
- (ii) Voluntary contribution (with specific direction that they form part of corpus) ₹ 14,00,000.
- (iii) Income from property held under the trust ₹ 8,00,000.

During the previous year 2015-16, the trust spends ₹ 12,00,000 for charitable purpose in India and gives donation of ₹ 2,00,000 to another Charitable Trust. It sets apart ₹ 10,00,000 for the purpose of completing construction of a charitable educational institution.

During the previous year 2010-11, the trust sets apart ₹ 8,00,000 for the purpose of completing construction of a charitable hospital but a deduction of ₹ 7,50,000 is allowed during 2010-11. The trust utilizes ₹ 5,00,000 upto 31-3-2016 for the construction of hospital and gives donation of ₹ 1,00,000 to another charitable trust out of the accumulated amount. Determine taxable income of the trust for AY 2016-17. [10]

- b) Mr. Don, a foreign national (not being a person of Indian origin), came to India for the first time on 1-5-2011. During the financial years 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16, he was in India for 132 days, 81 days, 12 days, 209 days and 84 days respectively. He left India permanently on 23-6-2015. Determine the residential status of Mr. Don for the AY 2016-17. What would be his status if he is an Indian Citizen? [5]

7. a) A, B and C are partners in a firm sharing profits and losses equally. The following particulars are available for the year:

- (i) Loss as per P & L A/c (after debiting partner's remuneration and interest on capital) ₹ 5,00,000.
- (ii) Remuneration to partners:

A (working Partner)	₹ 2,10,000
B (non-working partner)	₹ 1,40,000
C (working partner)	₹ 70,000
- (iii) Interest on capital

A's capital ₹ 1,00,000 and interest ₹ 12,000.
B's capital ₹ 1,25,000 and interest ₹ 17,500.
C's capital ₹ 1,50,000 and interest ₹ 24,000.

You are required to compute total income of firm and its partners for the AY 2016-17.

[8]

- b) Given below is the P & L A/c of ABC Ltd:

Particulars	₹	Particulars	₹
Purchases	3,00,000	Sales	5,50,000
Depreciation	40,000	Revaluation Reserve	15,000
Establishment	90,000	Long term capital gain	90,000
Income tax	10,000	Agricultural income	35,000
General Reserve	20,000		

MTP_ Intermediate _Syllabus 2012_Dec2016_Set 2

Provision for sales tax	30,000		
Dividend proposed	15,000		
Cultivation expenses	5,000		
Net Profit	1,80,000		
	6,90,000		6,90,000

The company has brought forward business loss and unabsorbed depreciation ₹ 20,000 and ₹ 30,000 respectively.

Calculate tax payable (consider MAT provisions).

[7]

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]

- Relief on foreign income if there is no Avoidance of Double Tax Agreement is called ____ relief.
- Relief in case of specified associations in India which enters into an agreement with any specified associations in a specified territory outside India is given under section _____.
- Income _____ (can/cannot) be decreased on applying the methods of Arm's Length Price.
- If one enterprise holds at least 26% of the voting rights of another enterprise, they are said to be _____ enterprises.

b) Select the suitable answer:

4 x 1=4

- Unilateral relief on foreign income is allowed at:
 - Average tax rate on foreign income.
 - Average tax rate on total income.
 - Average tax rate on foreign income or total income whichever is lower.
 - None of the above
- Foreign income is taxable in India on the basis of
 - Source of income
 - Residential status of person
 - Citizenship of person
 - None of the above
- Advance pricing agreement shall not binding if
 - Voluntarily agreed
 - There is change in law
 - Both
 - None of the above
- Transaction entered with a person located in Notified Jurisdictional Area shall be deemed to be
 - Domestic Transaction
 - International Transaction

MTP_ Intermediate _Syllabus 2012_Dec2016_Set 2

- iii) Invalid Transaction
- iv) None of the above

9. a) Mr. Y, a resident and not ordinarily resident in India submits the following:

- i) Income from property in India ₹ 3,00,000.
- ii) Income from business outside India but its control is from India ₹ 2,00,000.
- iii) Dividend from a domestic company is ₹ 50,000.
- iv) Interest on deposits outside India ₹ 80,000.

He deposited ₹ 20,000 in NSC IX Issue ₹ 20,000 out of Indian Income. There is no ADT agreement. You are required to calculate amount of relief on foreign income and calculate net payable by Mr. Y. Assume rate of tax outside India @ 6%. [6]

- b) (i) What are the circumstances under which two enterprises are said to be associated for Transfer Pricing Study?
- (ii) What are the transactions covered under Transfer Pricing Study?
- (iii) When a transaction is said to be deemed international transaction?
- (iv) What is Notified Jurisdictional Area? [6]

10. a) X Ltd is engaged in providing outsourcing services to two foreign companies i.e. Y Ltd, which is an associated enterprise in Australia and Z Ltd, which is not an associated enterprise in Germany. During the month of December X Ltd has provided services to both the companies and following information is available:

	Y Ltd	Z Ltd
No. Of hours of service	6 per day	7 per day
Direct cost of service	₹1200 per hour	₹ 1000 per hour
Indirect cost of service	₹ 3400 per hour	₹ 3600 per hour
Total consideration	₹ 12 lakhs	₹ 15 lakhs

Calculate equitable profits of X Ltd. [6]

- b) (i) "No income should be taxed twice". Given exceptions to the above concept. What is the relief allowed in case of double taxation? [3]
- (ii) Discuss the objectives of Advance Pricing Agreement in the case of study of transfer pricing. [3]