

Paper 7 – Direct Taxation

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Time Allowed: 3 Hours

Full Marks: 100

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

1.

(a) Fill in the blanks:

5 x 1 = 5

- (i) Interest relating to pre construction period is allowable in _____.
- (ii) Transport allowance is exempt upto _____.
- (iii) ICDS are to be followed by all assessee following _____ basis of accounting.
- (iv) TDS on salaries is covered under section _____
- (v) Within 15th December _____ of amount is payable as Advance Tax.

(b) Choose the most appropriate alternative.

5 x 1 = 5

- (i) Number of identities included in the definition of persons.
 - (a) 5
 - (b) 7
 - (c) 9
 - (d) None of the above
- (ii) Threshold limit for eligible business u/s 44AD is _____.
 - (a) 1 Crore
 - (b) 2 Crore
 - (c) None of the above
- (iii) Quantum of deduction in respect of a person with severe disability is _____.
 - (a) 50,000
 - (b) 100,000
 - (c) 1,25,000
 - (d) None of the above
- (iv) PAN is a _____ digit unique alphanumeric.
 - (a) 8 digit
 - (b) 10 digit
 - (c) 15 digit
 - (d) None of the above
- (v) Maximum amount of standard deduction in case of family pension.
 - (a) 5,000
 - (b) 10,000
 - (c) 15,000
 - (d) None of the above

(c) State true or false with reasons:

5 x 2 = 10

- (i) Is certificate prepared by the Tax Recovery officer may be disputed by the assessee.
- (ii) In case of conflict between provision of Income tax act and ICDS, the provision of income tax will prevail.
- (iii) ICDS are to be applied in computation of income under head PGBP and capital Gain.
- (iv) Non residents are required to quote PAN.
- (v) Meaning of substantial interest will carry 51% percentage of voting power .

2. a.) On the basis of the following information compute the taxable income of Mr Pankaj under the head "Salaries" for the A.Y 2017-18.

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- (i) Basic salary ₹ 18,400 p.m.
- (ii) Dearness Allowance ₹ 4,200 p.m
- (iii) Entertainment allowance ₹ 750 p.m
- (iv) Tribal area allowance ₹ 350 p.m
- (v) His own contribution towards statutory provident fund ₹ 1,000 p.m
- (vi) Employer contribution ₹ 1,000 p.m
- (vii) Interest credited to SPF @ 10% ₹ 13,000
- (viii) House rent allowance ₹3,600 p.m

Mr Pankaj is an employee of the Government of UP. He is paying ₹ 4,400 p.m as house rent.

8 Marks

2. b.) Sri Rajat is the owner of a business. Following is his P & L A/c for the year ended on 31.3.2017. Compute the Gross Total Income for the AY 2017-18.

7 marks

Profit & Loss A/c for the year ending 31.3.2017

Particulars	Amount (₹)	Particulars	Amount (₹)
Establishment charges	5,110	Gross profit	50,870
Rent, rates and taxes	2,900	Interest on Govt. Securities (Gross)	5,350
Sundry expenses	7,050	Rent from property	5,400
Household expenses	1,880		
Provision for bad debts	1,200		
Loss on sale of motor car (used for private purpose)	1,800		
Insurance premium (including life insurance of ₹ 1790)	2,880		
Interest on bank loan	1,380		
Provision for Depreciation	6,400		
Net profit	31,020		
	61,620		61,620

Other Information are as below;

- (i) Bad debts written off during the year — ₹ 650
- (ii) Admissible depreciation as per Income-tax rules — ₹ 1,600
- (iii) The assessee is running his business in a rented property, half of which is used by him for his own residence. Rent of ₹ 2,400 in respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 are on account of municipal tax paid for property respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 are on account of municipal tax paid for property.

3. a.) Sagar owns a house property which is self-occupied by him till 30.11.2016 and thereafter let out for ₹ 10,000 p.m. The municipal value of house property is ₹ 1,00,000 and the fair rent is ₹ 1,20,000. Rajat paid ₹ 1,50,000 as municipal taxes during the previous year which relate to past

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years as well as for current year.

Determine the income from house property assuming the insurance premium and interest paid during the year were ₹ 3,000 & ₹ 25,000 respectively. **8 marks**

3. b.) From the following information, compute the tax payable by Shyam for the A.Y 2017-18.

Listed shares purchased on 31.8.1992 for ₹ 40,000 sold for ₹ 2,00,000 on 1.11.2016 through a recognized stock exchange. Gold ornaments purchased for ₹ 2,00,000 on 1.9.1993 sold for ₹ 8,80,000 on 1.12.2016. His gross salary for the previous year ending 31.3.2017 was ₹ 2,60,000.

7 marks

4. a.) Amit submits you the following particulars of his income for the assessment year 2017-18.

7 marks

Particulars	Amount (₹)
Income under the head Salary	6,00,000
Income under the head house property	3,00,000
Dividends from domestic company	14,00,000
Compute tax payable by him	

4. b.) Pankaj has the following income and brought forward losses for the year ended 31.3.2017.

8 marks

Particulars	Amount (₹)
STCG on sale of shares	2,60,000
LTCL of A.Y 2015-16	90,000
STCL of A.Y 2016-17	80,000
LTCG	78,000
Income from lotteries	3,10,000
Cost of lottery ticket purchased	2,000
Loss from betting	(1,20,000)
Income from card games	80,000

5. a.) The total income of Mrs P, a resident in India, computed for assessment year 2017-18 is ₹ 3,20,000 which includes long term capital gain of ₹ 30,000 and winning of lotteries ₹ 20,000 and short term capital gain covered under section 111A ₹ 10,000. Compute the tax payable assuming his agricultural income for the financial year was ₹ 2,50,000.

8 marks

5. b.) The estimated gross total income of Mr. Pankaj is ₹ 7,45,000 which includes ₹ 1,00,000 on account of LTCG earned on 16th September 2016. Compute the advance tax payable by Mr Pankaj, assuming ₹ 11,000 have been deducted at source during the financial year 2016-17. **7 Marks**

6. a.) List down the list of transaction which is not regarded as transfer.

7 Marks

6. b.) When a return is considered to be defective under section 139(9).

8 Marks

7. Write a short note on the followings:

5 x 3=15 Marks

- a) Partial Integration and Non Integration of Agricultural Income.
- b) Advance Tax.

- c) Relief under section 89.

Section-B (20 Marks)

International Taxation and Transfer Pricing

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

8. a) Fill in the blanks:

[4 x 1=4 Marks]

- a. Advance pricing agreement is valid for the period not exceeding ____ consecutive previous year as may be prescribed in the agreement
- b. If one enterprise holds at least 51% of book value of the total assets of another enterprise, they are said to be _____ enterprises.
- c. The determination of Arm's Length price u/s _____ shall be subject to safe harbour rules.
- d. _____ a transaction between enterprises other than associated enterprises, whether resident or non-resident.

8. b) Select the suitable answer:

[4 x 1=4 Marks]

- a. Penalty under section 271(1)© shall be levied at _____ of the taxes evaded.
 - A. 50 to 100%
 - B. 100 to 300%
 - C. 200 to 500%
 - D. None of the above
- b. Arm's length price is to be determined by applying_____.
 - A. Resale price method
 - B. Fair market value method
 - C. Stamp duty value method
 - D. Indexed cost of acquisition method
- c. _____ deals with the methods of computation of arm's length price.
 - A. 92
 - B. 92C
 - C. 80C
 - D. 90
- d. 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.
 - A. 92
 - B. 90
 - C. 90A
 - D. 92C

9. a. Discuss in brief Transaction Net Margin Method (TNMM)

6 Marks

9. b. What are the difficulties in applying the Arm's Length Principle?

6 Marks

10. a. Satyam Ltd is an Indian company engaged in the business of developing and manufacturing industrial components. Its subsidiary Max Inc supplies technical information and offers technical support to Satyam for manufacturing goods, for a consideration of Euro 1,00,000 per year. Income of Satyam Ltd is ₹ 90 lakh. Determine the taxable income of Satyam Ltd if Max charges Euro 1,30,000 per year to other entities in India. What will be the answer if Max charges Euro 60,000 per year to other entities. (Rate per Euro may be taken as ₹ 55).

6 Marks

10. b. List down the methods for determining Arm's Length Pricing.

6 Marks