

## **Paper-7 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.

### **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)** Amit, resident individual having business income, is required to audit his books of accounts under the Income Tax Act. What is the due date by which Amit is required to file his return?
- (ii)** Calculate the amount of tax payable by Mr. Samik, a resident individual, who has taxable Long Term Capital Gains of ₹55,000 and income from other sources ₹1,70,000 during the previous year 2014-15.
- (iii)** XYZ Ltd. paid Excise Duty for the previous year 2014-15 on 07.10.2015. In which assessment year, will it be allowed?
- (iv)** The assessee claims the set-off of unabsorbed depreciation of ₹75,000 of a discontinued business against the profits of another business. Can he do so? Justify.
- (v)** Can an LLP be understood as body corporate, independent of its partners?
- (vi)** Where the private trust is charged at the maximum marginal rate u/s 164(1), whether basic exemption is to be allowed?
- (vii)** Where a co-operative society is eligible for relief u/s 80-IA as well as u/s 80P, which relief will have precedence?
- (viii)** Can an Assessing Officer assess the income below the returned income or assess the loss higher than the returned loss?
- (ix)** What are the consequences if a person fails to comply with the provisions of Sec. 139A i.e. quoting of PAN?
- (x)** Does tax planning have any effect on the rate of tax?
- (xi)** Could a road in a factory building, used exclusively for industrial purpose, be treated as a plant for purposes of depreciation?
- (xii)** How is income to be computed, if part of a property is let out and part is self-occupied?
- (xiii)** Is commission paid to a property agent for acquiring property deductible from "Income from Other Sources"?
- (xiv)** Mr. More gifted a piece of land to his daughter in law after obtaining approval of the authorities constructed 5 shops as at and let out the same. The value of shops on valuation date 31.03.2015 is ₹50,00,000. In whose hand it is taxable?
- (xv)** Mohit, while computing net wealth, wants to claim deduction of outsourcing income tax and wealth tax liabilities of preceding years of ₹2,75,000. Can he do so?
- (xvi)** Can the transfer price ignore dumping, R&D expenses and start-up cost in judging the arm's length price?

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**(xvii)** Under Transfer Pricing Study, in the Annexure to which form is the statement of particulars to be furnished?

**(xviii)** What do you mean by Residual Profit Split?

**(xix)** Can the Board enter in Advance Pricing Agreement?

**(xx)** Who can enter into an APA?

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

**(a)(i)** 'U' was born in 1977 in India. His parents were also born in India in 1948. His grandparents were, however, born in England. 'U' was residing in India till 15.3.2012. Thereafter, he migrated to England and took the citizenship of that country on 15.3.2014. He visits India during 2014-15 for 90 days. Determine the residential status of 'U' for assessment year 2015-16. **[5]**

**(ii)** A sole proprietary concern, whose written down value of the block of assets as on 1.04.2014 carrying 15% rate of depreciation was ₹5,00,000, purchased another asset of the same block on 1.04.2014 for ₹2,00,000. The said concern was succeeded by the company on 1.09.2014. After the succession, the company purchased another asset of the same block on 1.1.2015 for ₹1,60,000. Compute the depreciation available to the proprietary concern and the company for the assessment year 2015-16. **[8]**

**(b)(i)** ABC Ltd an Indian company has received the following dividend from its subsidiary companies:

1. ₹ 10,00,000 on 5.08.2014 from S Ltd. a subsidiary company in India.
2. ₹20,00,000 on 09.07.2014 from T Ltd., a specified company in Germany in which ABC Ltd. holds 60% shares.

ABC Ltd. wishes to declare dividend of ₹1 crore to its shareholders.

Determine the amount of dividend distribution tax payable by ABC Ltd.

Also determine the tax payable on dividend received from T Ltd. assuming the total income of ABC Ltd. including the above dividend is ₹80,00,000.

What shall be your answer if ABC Ltd. holds 36% shares in T Ltd. **[10]**

**(ii)** X is a 50% partner in XY and Co., a partnership firm, from which his wife Mrs. X is getting salary of ₹ 1,20,000 p.a. The Total Income of X (before clubbing) is ₹3,60,000 while the Total Income of Mrs. X (exclusive of such salary), is ₹4,50,000. Compute the total income of Mr & Mrs. X. **[3]**

**(c)** Determine the Gross Total Income of X and his wife from the following particulars for the year ending 31.3.2015:

- (i) X and his wife are partners in a firm carrying on cloth business, their respective shares of profit being ₹78,000 and ₹60,000.
- (ii) Their 16 years old son has been admitted to the benefits of another firm, from which he received ₹80,000 as his share of profit in the firm and ₹90,000 as interest on capital. The capital was invested out of the minor's own funds amounting to ₹9,00,000.

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- (iii) A house property in the name of X was transferred to his wife on 1.12.2014 for adequate consideration. The property has been let at a rent of ₹30,000 p.m
- (iv) Debentures of a company of ₹1,40,000 and ₹1,12,000 purchased two years ago are in the names of X and his wife respectively, on which interest is receivable at 10% p.a. His wife had in the past transferred ₹70,000 out of her income to X for the purchase of the debentures in X's name.
- (v) X had transferred ₹50,000 to his wife in the year 2010 without any consideration which was given as a loan by her to Y. She earned ₹20,000 as interest during the earlier previous years which was also given on loan to Y. During the financial year 2014-15, she received interest at 10% p.a. on ₹70,000.
- (vi) X transferred ₹75,000 to a trust, the income accruing from its investment as interest amounted to ₹7,500, out of which ₹5,000 shall be utilised for the benefit of his son's wife and ₹2,500 for the benefit of his son's minor child. [13]

**(d)(i)** Anu purchased 5,000 shares of S Ltd. @ ₹200 per share on 5.7.2014. S Ltd. declares a dividend of ₹10 per share. The record date is fixed as 4.9.2014. Anu received the dividend immediately after the record date. The above shares were sold by Anu on 5.11.2014 for:

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

Compute the income/loss in each case. [9]

**(ii)** Q, a resident of India, aged 81 years, submits the following information for the previous year 2014-15:

		₹
(1)	Income from salary	4,86,000
(2)	Interest on Fixed Deposits with Banks (gross)	49,000
(3)	Long-term capital gains	1,10,000
(4)	Short-term capital gains on the sale of equity shares on which securities	10,000

He pays ₹5,000 as Life Insurance Premium on a policy of ₹40,000 and deposits ₹22,000 in Public Provident Fund account.

Compute the tax payable by Q for the assessment year 2015-16. [4]

**(e)** R, S, G are three members of an AOP sharing profit and losses in the ratio of 2:2:1. The profit and loss account of the AOP for year ending 31.3.2015 is as follows:

	₹		₹
Cost of good sold	52,00,000	Sales	63,00,000
Interest to members @ 24%		Long-term capital gain	1,60,000
R	48,000		
S	72,000		
G	24,000		
Salary to members			
R	90,000		
G	40,000		

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Other expenses	3,80,000		
Net Profit	6,06,000		
	64,60,000		64,60,000

Other Information:

- The AOP gives a donation of ₹40,000 to a public charitable trust (not debited to P/L A/c) which is eligible u/s 80G.
- Out of other expenses ₹20,000 are not deductible by virtue of section 43B.

Other incomes and particulars of the members are given below.

	Amount ₹	Nature of Income	Deduction u/s 80D	PPF contribution ₹
R	1,22,000	Saving bank Interest	₹3,000 medical	12,000
S	1,16,000	Saving bank Interest		4,000
	10,000	Dividend from U.T.I		
G	1,10,000	Interest on company Deposits	₹4,000 medical insurance premium	5,000

Find out the liability of the AOP and members for the assessment year 2015 –16.

**[13]**

### Section B

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

(a) (i) S. Kumar has the following assets on 31<sup>st</sup> March, 2015:

Asset	Market Value (₹)	Loan Outstanding (₹)
Gold	87,00,000	10,00,000
Residential House at Pune	45,00,000	2,00,000
Residential House at Andheri	90,00,000	27,00,000
Residential House at Mahape (Let out though out the year)	65,00,000	11,00,000
Commercial House at Thane used for his own business	1,15,00,000	50,00,000
Shares	25,00,000	5,00,000
Boat	1,50,000	2,50,000
Motor Car	9,00,000	3,00,000
Bank deposit	58,00,000	Nil
Commercial complex at Andheri having 25 offices	2,50,00,000	1,55,00,000

Besides above mentioned loans, S. Kumar took a loan of ₹1,00,000 from his bank for his brother's marriage. Moreover, out of loan of ₹2,50,000 taken for boat, he utilized ₹50,000 for financing expenses on his foreign visit.

Determine his Net Wealth.

**[6]**

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**(ii)** Manoj, Karta of HUF, out of HUF funds gifted to his nephew an amount of ₹3,00,000 on 01.01.2015. The coparceners of the HUF challenged the gifts and as a consequence gifts were held to be void. Discuss whether the amount of ₹3,00,000 is taxable as wealth of Manoj HUF for the valuation dated 31.03.2015. **[2]**

**(b)(i)** Alok owns a residential house property. It is given by him as rent free house to his general manager Jitendra who looks after the business of Alok. Annual salary of Jitendra is ₹4,80,000. Alok claims that since the house is used for business purposes, it comes in section 2(ea)(i) and it is not an asset. Is the claim tenable in law? Justify. **[3]**

**(ii)** Akhtar owns three cars and silver furniture (value of cars being ₹25,00,000 and of silver furniture being ₹35,00,000 of 31.03.2015). He take loan of ₹4,70,000 by pledging there to invest in shares. You are requested by Akhtar to calculate amount of wealth tax payable by him for the assessment year 2014-15. **[4]**

**(iii)** Mrs. Suman Yadav received jewellery from her father at the time of her marriage in 1956 was of the value of ₹25,50,000 on 31<sup>st</sup> March, 2015. Is this included in the net wealth of Mrs. Suman Yadav? **[1]**

### **Section C**

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

**(a)(i)** When can Profit Split Method (PSM) be used for determination of Arm's Length Price in an international transaction? **[4]**

**(ii)** Essol LLP of France and Sushma Ltd. of India are associated enterprises. Sushma Ltd. imports 3,000 compressors for Air Conditioners from Essol at ₹7,500 per unit and these are sold to Paharpur Cooling Solutions Ltd. at a price of ₹11,000 per unit. Sushma Ltd. had also imported similar products from Cold Ltd and sold outside at a Gross Profit of 20% on Sales. Essol offered a quantity discount of ₹1,500 per unit. Cold could offer only ₹500 per unit as Quantity Discount. The freight and customs duty paid for imports from France had cost Sushma Ltd. ₹1,200 per piece. In respect of purchase from Cold Ltd, Sushma Ltd. had to pay ₹200 only as freight charges. Determine the Arm's Length Price and the amount of increase in Total Income of Sushma Ltd. **[6]**

**(b)(i)** An arrangement whose main purpose (or one of the main purposes) is to obtain a tax benefit (and which also satisfies at least one of the four tests), can be declared as an "impermissible avoidance arrangements" — what are these four tests? **[2]**

**(ii)** Describe in short the procedure to deal with requests for bilateral or multilateral advance pricing agreements. **[5]**

**(iii)** How can you classify the methods for determining arm's length price in international transactions? **[3]**

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**(c)(i)** Elaborate whether adjustment is required in the context of transfer pricing provisions where the transfer price adopted for an international transaction concluded is ₹36 Lakhs whilst the Arm's Length Price determined using most appropriate method are ₹32 Lakhs and ₹42 Lakhs. **[4]**

**(ii)** Briefly explain Profit Split Method in determining Arm's Length Price. **[6]**