

Paper 7- Direct Taxation

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Full Marks:100

Time allowed: 3 hours

Section A : Income Tax

I. Answer question No. 1 which is compulsory and any FOUR from Question No. 2 to 6

1. (a) Fill up the blanks: [5 × 1 = 5]

- (i) ₹ 2,00,000 is paid towards Life Insurance Premium, Public Provident Fund and NSC IX out of agricultural income of an individual. Deduction available u/s 80C of IT Act, 1961 is ₹ _____
- (ii) A foreign company will become resident in India if its _____ during the relevant previous year is in India.
- (iii) Income of a charitable trust by way of forfeiture of exemption is chargeable to tax at the rate of _____
- (iv) Employer's contribution to National Pension Scheme is deductible upto _____ u/s 36(1) (iva).
- (v) Obligation to furnish Annual Information Return by a banking company will arise if a person deposits ₹ _____ in cash in any savings bank account during the year.

(b) Choose the most appropriate alternative: [5 × 1 = 5]

- (i) Where the Karta is not present in India, the return of income of HUF can be signed by:
 - (a) Any coparcener of the family
 - (b) Any member of the family
 - (c) Any male member of the family
 - (d) Any adult member of the family
- (ii) Income of REIT being a business trust by way of renting or leasing of an asset is exempt if:
 - (a) Such asset is a land owned by it
 - (b) Such asset is any Real Estate Asset owned by it
 - (c) Such asset is a land hired by it
 - (d) Such asset is any Real Estate Asset hire by it
- (iii) Cash gifts received by HUF from his members to the extent of ₹ 75,000 will be treated as income of:
 - (a) The HUF
 - (b) The members
 - (c) None, as it is exempt
 - (d) Both the HUF and the members
- (iv) The following is taxable under the head "Salaries":
 - (a) Gifts received by employee from employer
 - (b) Salary received by partner from a firm
 - (c) Fees received by director from a company
 - (d) Commission received by agent from a principal
- (v) Maximum amount which is not chargeable to tax in case of a non-resident very senior citizen is
 - (a) ₹ 2,50,000

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- (b) ` 3,00,000
- (c) ` 5,00,000
- (d) None of above

(c) Answer the following questions with brief reasons/Workings [5 × 2 = 10]

- (a) A trading company earns taxable income of ` 30 lakhs and its book profit is ` 55 lakhs. Calculate tax liability of such company.
- (b) A company engaged in growing and manufacturing of tea in India earns a total profit of ` 60 lakhs. Calculate its tax liability.
- (c) A return of income cannot be revised. Is this statement correct?
- (d) Is a company liable to pay tax when its taxable income is "NIL"?
- (e) A Business trust distributed ` 2 lakhs to its unit holder. Discuss the tax implication on such distribution.

2. (a) ABC Ltd commenced commercial production of its unit located in SEZ from 1.4.2009. It furnishes the following information for the year ending 31.3.2015:

Total Sales ` 80 lakhs

Export sales ` 25 lakhs

Amount brought into India within due date ` 20 lakhs.

Profit of business ` 30 lakhs. Insurance charges included in domestic sales is ` 3 lakhs.

Compute the amount of exemption u/s 10AA and income chargeable to tax for the AY 2015-16. [8]

- b) Mr. A gives property to his nephew without rent and claims there is no rental income as his relative is staying without paying any rent. Fair rent of the property is ` 1,00,000 and there are no expenses incurred on such property. Is he correct? If not compute taxable income from house property [7]

3. (a) X Ltd. makes the following payments to different persons during the year 2014 - 15:

(i) Contract payments to Mr. P ` 30,000 each for three contracts

(ii) Rent of the premises to Mr. Q ` 18,000 pm.

(iii) Commission to Mr. R ` 5,000

State whether the provisions of TDS are attracted or not in respect of the above payments. Does it make any difference if PAN is not disclosed to X Ltd. [7]

b) Mr. X furnishes the following particulars: -

(i) Income from business ` 5,00,000

(ii) Income from bank deposits ` 1,00,000

(iii) Payment to PPF out of exempted income ` 50,000

(iv) Royalty income on transfer of patent right ` 3,00,000

(v) Payment to National Relief Fund out of taxable income ` 50,000

(vi) Income from unit established in SEZ during 2009-10 ` 4,00,000 eligible for exemption u/s 10AA

Calculate Alternative Minimum Tax payable by Mr. X for the AY 2015-16 [8]

4. (a) Mr. Ram sells a Commercial building at Jaipur for ` 25 lakhs on July 31, 2015. The building was acquired for ` 1,00,000 on April 1, 1981. He paid brokerage @ 2% at the time of sale. He invests ` 4 lakhs in purchase of a residential building and deposits ` 2 lakhs in bonds of NHAI (redeemable after 3 years) on Dec. 31, 2015. Compute the capital gain chargeable to tax for the AY 2016-17. Cost inflation Index FY. 2015-16: 1081; FY 1981-82: 100. [7]

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- (b) Mr. Bhim submits the following particulars:
- (i) Turnover of wholesale business ` 25 lakhs
 - (ii) Four light goods vehicles purchased at ` 6 lakhs each during the month of June 2015.
 - (iii) Total expenses amounting to ` 3 lakhs
 - (iv) Unabsorbed depreciation ` 2 lakhs
 - (v) Interest on borrowed capital for the purpose of construction of house property ` 4 lakhs. However the construction is not yet completed.

Compute his tax liability for the AY 2016-17.

[8]

5. (a) The balance sheet of X Ltd. as on 31.3.2016 is given:

Liabilities		(in Lakhs)	Assets		(in Lakhs)
Paid up share capital		750	Fixed Assets		
Reserves & Surplus		200	Unit A	110	
Current Liabilities			Unit B	180	
Unit A	65		Unit C	90	380
Unit B	90		Current Assets:		
Unit C	70	225	Unit A	420	
			Unit B	210	
			Unit C	165	795
		1175			1175

X Ltd transfers Unit C during the year 2015-16 without assigning individual values of assets.

Additional information:

- (i) Sale consideration ` 325 lakhs
- (ii) Fixed assets of unit C includes a land which is purchased during 2013 for ` 20 lakhs and revalued at ` 35 lakhs
- (iii) Other fixed assets are valued at written down value as per books. However, written down value as per income-tax Act, 1961 is ` 70 lakhs
- (iv) X Ltd. was established during the year 1998.

However Unit C is set-up during the year 2014. Compute Capital gain tax liability of X Ltd. for the A.Y. 2016-17

[8]

- (b) Mr. Dhawan submits you the following particulars for the year ended 31.3.2016:
- (i) He received a gift of land from kohli on 31.12.2015 which is purchased during the year 2008 for ` 20 lakhs by kohli However, its market value for stamp duty purpose is ` 40 lakhs
 - (ii) Dhawan gifted a diamond ring to his friend Jadeja on 1.1.2016 in the eve of newyear celebrations which is purchased by him during the year 2011 for ` 8 lakhs. However, its market value is ` 12 lakhs.
 - (iii) He received an amount (net) for winning horse races ` 14 akhs which he shared with another friend Dhoni
 - (iv) He was given an offer of ` 50 lakhs to fix a match but dhawan gently rejects it and brings to the notice of Team Manager. However the amount was found credited to his account without notice.

Compute "Income from other sources" chargeable to tax in the hands of Mr. Dhawan for the AY 2016-17

[7]

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6. (a) From the following particulars compute taxable income of Miss Prema for the year 2015-16
- (i) Basic salary ` 20,000 p.m.
 - (ii) Bonus of the year 2014-15 paid during 2015-16 ` 10,000
 - (iii) Commission of the year 2015-16 paid during 2016-17 ` 20,000
 - (iv) Reimbursement of medical expenses ` 25,000
 - (v) Transport allowance (actual expenditure ` 800 p.m.) ` 2,000 p.m.
 - (vi) Electricity bills of the year 2015-16 paid by her employer during 2016-17 ` 6,000.
 - (vii) Profit on sale of agricultural land in rural area ` 2 Lakhs.
 - (viii) Bonus received from LIC at the time of maturity of an endowment policy ` 50,000.
- 7 Marks

- (b) Mr. A, Mr. B and Mr. C are three members of an AOP sharing in the ratio of 1:2:3. Taxable income of AOP for the AY 2016-17 is ` 4,50,000 (out of which ` 1,50,000 is long term capital gain). Personal incomes of members is as follows:-

	A (₹)	B (₹)	C (₹)
Salary income	1,50,000	-	2,50,000
Income from Property	1,50,000	3,00,000	-
Income from other sources	-	-	50,000
Payment of life insurance premium	50,000	50,000	50,000

Compute taxable income of members and calculate tax liability of AOP for the AY 2016-17. [8]

7. (a) Sarukh purchases a property on 1-4-1976 for ` 80,000. He enters into agreement for sale of the property to Amir on 31-3-2010 and received ` 10,000 as advance out of total consideration of ` 10,00,000. However Amir could not keep his promise and the advance money of ` 10,000 given by him is forfeited by Sarukh. Later on he gifts the property to Salman on 1-4-2012. Salman enters into an agreement to sell the property for ` 20,00,000 to Bachan on 1-4-2014 after receiving an advance of ` 20,000. Bachan could not pay the balance within the stipulated time and Salman forfeits the advance as per the agreement. Salman ultimately finds a buyer in Roshan to whom the property is transferred for ` 50,00,000 on 1-4-2015. Fair market value of the property on 1-4-1981 is ` 2,50,000. The following expenses are incurred on the property:
- (i) Renovation during 1979-80 ` 10,000.
 - (ii) Repairs during 1994-95 ` 30,000.
 - (iii) Reconstruction during 1998-99 ` 60,000.

Compute capital gain and other income, if any for different assessment years.

[CII 2015-16 : 1081; 2014-15 : 1024; 2012-13 : 852; 2009-10 : 632; 1981-82 : 100]

[10]

- (b) What are salient features of ICDS IV relating to revenue recognition? [5]

SECTION-B 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: [4 × 1 = 4]

(a) Person who has entered into an international transaction shall maintain specified books of account, information and documents for a period of ____

(b) The time limit for passing an order by TOP is within ____

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- (c) TPO ____ (can/cannot) amend any order passed by him to rectify any mistake which is apparent from the record.
- (d) If there is more than one price, ALP shall be taken as ____ of such prices.

(B) Select the suitable answer:

[4 × 1 = 4]

- (a) Advance pricing agreement shall be valid for a maximum period of
- (i) 8 years
 - (ii) 6 years
 - (iii) 5 years
 - (iv) none of these
- (b) APA shall be binding on: -
- (i) Tax Payer
 - (ii) tax authority
 - (iii) tax payer and tax authority
 - (iv) None of these
- (c) A modified return of income should be submitted: -
- (i) within 3 months from the date on which APA was entered
 - (ii) within 3 months from the end of month in which APA was entered
 - (iii) within 3 months from the end of the year in which APA was entered
 - (iv) None of these
- (d) The rate of TDS in respect of international transactions is: -
- (i) Rate in force
 - (ii) Rate specified under the Act
 - (iii) Higher of the two
 - (iv) None of these

9. (a) X Ltd., discloses its profits at `10 lakhs during the course of international transaction with an associated enterprise. However, reasonable profits as per TP study is determined at ` 18 lakhs. What is its chargeable profit if income of X Ltd., is:
- (i) Exempted u/s 10 (AA)
 - (ii) Not exempted u/s 10 (AA) [6]

- (b) X is resident in India. His income is ` 5,25,000 from an employment in India and ` 1,60,000 from securities outside India. He deposited ` 30,000 in his RPF out of Indian Income and ` 10,000 in his PPF out of foreign income. According to ADT agreement, foreign income is exempted in India (Foreign tax rate @ 12%). However, it can be included for tax rate purpose. Find out the tax liability. [6]

10. Compute reasonable profits: -

- (a) X Ltd., imports 10 machines at FOB value of ` 35 lakhs per machine from its associated enterprise. It also imports similar type of machine at CIF value of ` 50 lakhs from unrelated person. A discount of ` 4 lakhs is availed on each machine from associate enterprise and insurance/freight amounts to ` 6 lakhs. [6]
- (b) An Indian enterprise imports 2000 products from its foreign associated enterprise at `10,000 per product and sold to a customer at ` 13,000. It also imports similar product from another foreign enterprise and sold to another customer at a profit of 25%. Expenses incurred on each occasion amount to ` 1,500 and ` 500 respectively. [6]

