

# 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) Income by way of interest on fixed deposits in the name of a minor married daughter\_\_\_(will/will not) be clubbed in the hands of her parents.
- (ii) General public utility shall be deemed charitable purpose if income from the activity in the nature of trade or commerce does not exceeds \_\_\_ of total receipts of the trust during the previous year.
- (iii) `50,000 is paid towards medical insurance premium out of agricultural income of an individual. Deduction available u/s 80D of IT Act, 1961 is `\_\_\_
- (iv) Contribution by the employer towards approved superannuation fund is not taxable upto `\_\_\_ in the hands of employees.
- (v) Notice u/s 148 in respect of assessment relating to any asset located outside India can be issued within a period of \_\_\_ from the end of relevant assessment year.

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

- (i) A partnership firms will become resident in India if
  - (a) Its control and management is totally in India
  - (b) Its control and management is totally or partly in India
  - (c) Its place of effective management is in India
  - (d) Its partners become resident in India
- (ii) Transport allowance in case of a disabled employee is exempt upto:
  - (a) ` 800 p.m.
  - (b) ` 1,600 p.m.
  - (c) ` 3,200 p.m.
  - (d) No limit
- (iii) A religions trust received anonymous donations of `10 lakhs, the said sum is:
  - (a) Fully exempt
  - (b) Partly exempt
  - (c) Chargeable at MMR
  - (d) Not taxable at MMR
- (iv) Income from farm house outside India is:
  - (a) Agricultural income
  - (b) Agricultural income, if certain conditions are satisfied
  - (c) Non-agricultural income
  - (d) Partly agricultural and partly non-agricultural income
- (v) While calculating TDS, surcharge is also considered if the payee is:
  - (a) Non-Resident
  - (b) Foreign company
  - (c) Domestic company 10,000
  - (d) Any assessee

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

## MTP\_Intermediate\_Syllabus 2012\_June2016\_Set 2

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- (i) An insurance company earns income of ₹ 60 lakhs and its book profits is ₹ 100 lakhs. Calculate tax liability of such company.
- (ii) An AOP engaged in growing and manufacturing of tea in India earns a total profit of ₹ 10 lakhs. Calculate tax liability of such AOP.
- (iii) A foreign company is always a non-resident in India. Is this statement correct?
- (iv) Mr. Rao received ₹ 3 lakhs on 1.4.2014 as gift from a company in which he is having substantial interest. What is the tax treatment in the hands of Mr. Rao?
- (v) Mrs. Rao deposited ₹ 12 lakhs in cash in her savings bank account with Punjab National Bank. Discuss the obligations on part of the bank as per IT Act, 1961.
2. (a) Mr A submits the following information for the year ending 31.3.2015:  
Income from business ₹ 3,00,000  
Share from PFAS ₹ 60,000  
Interest from units of UTI ₹ 1,00,000  
Charges for realisation of above interest ₹ 10,000  
Average value of investments ₹ 10,00,000  
Average value of total assets ₹ 90,00,000  
Common expenditure relating to both taxable and exempted income ₹ 5,40,000  
Compute the amount of expenditure in relation to exempt income and also his total income. [8]
- (b) PQR Ltd let-out its own property under an agreement extending upto a period of 10 years. It received annual rent ₹ 1,20,000 and non-refundable deposit ₹ 5,00,000. It also received an amount of ₹ 20,000 as arrears of rent from the previous tenant after incurring ₹ 2,000 towards realisation charges. Compute income from house property for the relevant year. [7]
3. (a) Prem Textiles Ltd. submits the following information for the year ended 3.3.2015:  
(i) Net profit as per profit and loss account ₹ 18 lakhs  
(ii) Expenditure relating to exempted income u/s 10 (34) debited to P&L A/c ₹ 50,000  
(iii) Income tax penalty debited to P & L A/c ₹ 5,000  
(iv) Income relating to agricultural activities ₹ 6 lakhs  
(v) Dividend from a domestic company credited to P & A/c ₹ 3,50,000  
(vi) The company has unabsorbed depreciation of ₹ 2 lakhs and brought forward business loss of ₹ 3 lakhs for the tax purposes.  
  
Calculate minimum alternative tax payable by the company for the AY 2015-16. [8]
- (b) Mr. Z, a citizen of USA came to India for the purpose of business for the first time in previous year 2009-10 and stayed for 100 days in that year. Since that he visits India for every year and stays for 100 days in each of the year. Determine his residential status for the AY 2015-16. [7]
4. (a) An undertaking is established in the state of Kerala on 1.4.2015. The statement of P & L A/c for the previous year 2015-16 shows a net profit of ₹ 9,25,000 after debiting / crediting the following items:  
(i) Payment of a bill for ₹ 60,000 in cash  
(ii) Payment of excise duty relating to earlier year ₹ 20,000  
(iii) Depreciation @ 15% in respect of new plant purchased during the month of December. Cost of plant is ₹ 4,00,000  
(iv) Tax on monetary perquisites of employees paid by employer ₹ 10,000

## MTP\_Intermediate\_Syllabus 2012\_June2016\_Set 2

(v) Export incentives received from the government ` 15,000

Compute income of the undertaking under profits and gains of business or profession” for the AY 2016-17 [7]

b) Mr. X is engaged in shipping business. He submits the following particulars:

- (i) Gross receipts from shipping business ` 16 lakhs
- (ii) Total expenses relating to business ` 4 lakhs
- (iii) Donation to registered political party ` 3 lakhs
- (iv) Brought forward business loss ` 2 lakhs

Calculate tax liability if he is a non-resident. [8]

5. (a) Mr. Khan employed in PK Ltd. furnishes the following particulars for the year ended 31.3.2016:

- (i) Basic salary ` 20,000 p.m. which is increased to ` 30,000 p.m. from 1.8.2015
- (ii) Dearness Pay ` 10,000 p.m.
- (iii) Contribution to provident fund account of employee at 15% of basic salary
- (iv) Commission on turnover ` 80,000
- (v) Use of car and its cost is ` 3 lakhs. However, the use is not authorised by the employer.
- (vi) Interest free loan for treatment of specified disease given in Rule 3A (2) for his daughter ` 3 lakhs. However, ` 2 lakhs was reimbursed from an insurance company. Rate of SBI is 18.5% per annum.

Compute the salary income chargeable to tax for the AY 2016-17. On the assumption that his salary falls due on first day of next month [7]

(b) Varma Ltd. informs that it has net profit of ` 30 lakhs for the year ended 31.3.2016. It submits the following information:

- (a) Waiver of cash credit not credited in P & L A/c ` 30,000
- (b) Bad debts not written off in P & L A/c ` 40,000
- (c) Collections from employees towards welfare fund neither considered in the books nor credited to relevant fund ` 80,000
- (d) Proposed dividend debited to appropriation account ` 3 lakhs
- (e) Provision for sales tax debited to P & L A/c ` 4 lakhs
- (f) Cost of machinery purchased for ` 6 lakhs on 1.8.2015 and not put to use till 31.3.2016. However, depreciation debited to P & L A/c is ` 45,000.

You are required to compute the income of the company under the head “profits and gains of business or profession” for the AY 2016-17. [8]

6. (a) Mr. Ganesh furnish the following information for the year ended 31.3.2016:

- (i) Salary of his spouse from G Ltd., in which Mr. Ganesh is holding 20% Voting rights ` 5 lakhs
- (ii) Income from property gifted to daughter-in-law ` 3 lakhs
- (iii) Income from profession of Mr. Ganesh ` 8 lakhs
- (iv) Long term capital gain on sale of equity shares on which securities transaction tax was paid @ 0.1% ` 4 lakhs
- (v) Income of minor son from convertible bonds ` 50,000
- (vi) Brought forward long term capital loss ` 1 lakh

## **MTP\_Intermediate\_Syllabus 2012\_June2016\_Set 2**

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- (vii) Medical insurance premium paid by cheque ` 18,500
- (viii) Donation to Prime Minister National Relief Fund ` 30,000

Compute total income and tax liability of Mr. Ganesh for the AY 2016-17. [8]

(b) A public charitable trust, registered u/s 12AA, furnishes the following particulars for the year ended 31.3.2016:

- (i) Income from property held by trust ` 10 lakhs
- (ii) Income from business (incidental to main objectives) ` 30 lakhs
- (iii) Voluntary contributions from public ` 5 lakhs
- (iv) Specific contributions from public ` 8 lakhs
- (v) Purchase of depreciable asset for carrying its objectives ` 2 lakhs
- (vi) Amount set apart for application in future ` 6,25,000
- (vii) Application of income for carrying its objectives ` 20 lakhs
- (viii) Interest free loans given to poor for their education ` 6 lakhs

Determine the taxable income, if any, of the trust for the AY. 2016-17 [7]

7. (a) Mr. A, engaged in medical practice submits the following particulars for the year ended 31-3-2016:

- (i) Consultancy fee 80,000 out of which 10,000 is not yet received.
- (ii) Gifts from patients 20,000.
- (iii) Rent from letting of operation theatre 30,000.
- (iv) Salary paid to staff 40,000.
- (v) Purchase of motor car for 2 lakhs on 31-12-2015 and 25% of its use for personal purposes.
- (vi) Expenses on motor car 6,000.
- (vii) Purchase of medical journals 2,000.
- (viii) Profit on sale of medicines 15,000.
- (ix) Interest on securities 5,000.
- (x) Contribution to Public Provident Fund 12,000.

Compute his professional income and total income which is chargeable to tax for the AY 2016-17. [10]

(b) What are the salient features of Income Computation and Disclosure Standards (ICDS) relating to valuation of Inventories? [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) Assessing officer \_\_\_\_ (can/cannot) make adjustments to arms length price
- (b) Specified domestic transactions are \_\_\_\_ (covered/not covered) under transfer pricing study
- (c) Transaction with a deemed associate enterprise in notified jurisdictional area is called \_\_\_\_
- (d) Any period not exceeding \_\_\_\_ proceeding the first previous year referred is also covered under advance pricing agreement.

## MTP\_Intermediate\_Syllabus 2012\_June2016\_Set 2

- (B) Select the suitable answer: [4 × 1 = 4]
- (a) Transfer pricing is applied if any of the enterprises entering into transaction are:
- (i) Resident in India
  - (ii) Non-resident in India
  - (iii) Domestic company
  - (iv) None of these
- (b) Methods of computation of ALP are:
- (i) Less than 5
  - (ii) 5
  - (iii) More than 5
  - (iv) None of these
- (c) Two enterprises are said to be deemed associated if raw material supplied by one of the enterprise out of total requirement of another enterprise is:
- (i) At least 51%
  - (ii) at least 90%
  - (iii) at least 75%
  - (iv) None of these
- (d) Double taxation relief in case of specified association in India subject to fulfillment of certain conditions is allowed under section:
- (i) 90
  - (ii) 90A
  - (iii) 91
  - (iv) None of these

9. (a) X Ltd., submits you the following information relating to sale of a product to a foreign associate enterprise: -
- (i) Direct cost ` 18,00,000
  - (ii) Indirect cost ` 12,00,000
  - (iii) Technical support received from the buyer ` 15,000
  - (iv) Total consideration received from the buyer ` 35 lakhs
  - (v) Reasonable profit @30% is ` 3,00,000

Compute taxable profits of X Ltd by applying Arm's Length Price. [6]

- (b) Y is resident and not ordinarily resident in India. He has the following incomes-

	Particulars	`
(i)	Income from house property in India but received outside India	1,20,000
(ii)	Income from house property outside India but received in India	60,000
(iii)	Income from business in India	1,80,000
(iv)	Income from business outside India (but controlled in India)	70,000
(v)	Tax levied outside India	14,025
(vi)	Purchase of NSC VIII	20,000

Find out tax liability on the assumption there is no ADTA. [6]

10. Verify whether the profits disclosed by following tax payers require any adjustment:
- (a) Indian company exports certain goods to foreign associate company at a profit of ` 40 lakhs. It also exports similar goods to two foreign unrelated companies at a profit of ` 42 lakhs and ` 48 lakhs respectively [6]
- (b) An enterprise in India exports a product to: -
- (i) Associate enterprise at a profit of ` 60 lakh
  - (ii) Deemed associate enterprise at a profit of ` 59 lakh
  - (iii) Unassociated enterprise at a profit of ` 58 lakh

(iv) Unrelated person at a profit of ₹64 lakh

[6]