

Paper 7 – Direct Taxation

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Time Allowed: 3 Hours

Full Marks: 100

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

Part-I

1.

(a) Multiple Choice Questions:

10x 1 = 10

- i. The employer contribution to superannuation fund shall be tax free perquisite upto____.
 - A. 50,000
 - B. 1,00,000
 - C. 1,50,000
 - D. 2,50,000
- ii. Time limit for acquisition or construction of self occupied house property for claiming deduction of interest is _____.
 - A. 2 yrs
 - B. 3 yrs
 - C. 4 yrs
 - D. 5 yrs
- iii. Threshold limit for eligible business u/s 44AD is;
 - A. 50 Lakh
 - B. 1 crore
 - C. Two crore
 - D. 3 crore
- iv. Threshold limit for getting accounts audit for a person carrying on profession is
 - A. 25 Lakh
 - B. 35 Lakh
 - C. 50 Lakh
 - D. None of the above
- v. Quantum of deduction as specified u/s 80EE is _____.
 - A. 5,000
 - B. 15,000
 - C. 50,000
 - D. None of the above
- vi. Threshold limit for TDS on commission or brokerage as per section 194H is_____.
 - A. 5,000
 - B. 10,000
 - C. 15,000
 - D. None of the above
- vii. Income computation and Disclosure Scheme (ICDS) is effective from which assessment year.
 - A. 2014-15
 - B. 2015-16
 - C. 2016-17
 - D. 2017-18
- viii. Form _____ is furnished with the prescribed authority for Equalization levy.
 - A. Form 1
 - B. Form I
 - C. Form II
 - D. None of the above
- ix. _____ under section 156 is given for tax demand.
 - A. Notice
 - B. Opportunity of being heard

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

- C. Deferment of tax
- D. Nine of the above
- x. Underground allowance is exempt upto the ____ p.m.
 - A. ₹ 500
 - B. ₹ 600
 - C. ₹ 800
 - D. ₹ 1,000

(b) Match the following.

5 x 1 = 5

	Column A		Column B
i	Section 80	A	Zero coupon bonds
ii	ICDS VI	B	Deemed Income chargeable to tax
iii	Section 80P	C	Compulsory filling of Loss return
iv	Section 59	D	The effect of changes in foreign exchange rate.
v	Section 2(48)	E	In respect of income of Co operative Societies.

(c) State true or false with reasons:

5 x 1 = 5

- i. An eligible assessee referred to in section 44AD shall pay the advance tax, to the extent of the whole amount of such advance tax during each financial year on or before the 31st March.
- ii. Conveyance facility provided to the High court and Supreme Court is taxable.
- iii. The assessee shall not be eligible for relief u/s 89 in case he has claimed exemption u/s 10 (10C). On the other hand if he claims relief u/s 89, he cannot claim exemption u/s 10(10C).
- iv. Any amount paid for brokerage or commission for arrangement of the loan will be allowed as deduction.
- v. Securities transaction tax shall neither form part of the cost in case of purchase nor allowed as deduction as expenses of transfer in case of such equity shares and units.

(d) Fill in the blanks

5 x 1 = 5

- i. _____ depreciation is allowable on temporary wooden structure and tin shed as these are purely temporary erection.
- ii. Where the assessee fails to furnish statement within the time prescribed u/s 167(1) & (3), he shall be liable to pay a penalty of _____ each day during which the failure continues.
- iii. Provision of Equalization levy is levied by _____.
- iv. As per section 270A the rate of penalty for underreporting of income is _____.
- v. Income tax is a _____ on the total income of a person earned during a period of one previous year.

Answer: a.

- i. C
- ii. D
- iii. C
- iv. C
- v. C
- vi. C
- vii. C
- viii. A
- ix. A
- x. C

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

Answer: b.

- i. C
- ii. D
- iii. E
- iv. B
- v. A

Answer: c.

- i. **False:** An eligible assessee referred to in section 44AD shall pay the advance tax, to the extent of the whole amount of such advance tax during each financial year on or before the 15th March.
- ii. **False:** Conveyance facility provided to the High court and Supreme Court is not taxable.
- iii. **True:** The assessee shall not be eligible for relief u/s 89 in case he has claimed exemption u/s 10 (10C). On the other hand if he claims relief u/s 89, he cannot claim exemption u/s 10(10C).
- iv. **False:** Any amount paid for brokerage or commission for arrangement of the loan will be not allowed as deduction.
- v. **True:** Securities transaction tax shall neither form part of the cost in case of purchase nor allowed as deduction as expenses of transfer in case of such equity shares and units.

Answer: d.

- i. 100%
- ii. ₹ 100
- iii. Finance Act, 2016
- iv. 50%
- v. Composite Tax

Part-II

(Answer any Five Questions out of seven questions to be answered)

2(a) Distinguish between Capital Expenditure and Revenue expenditure.

7 Marks

(b) R has occupied two houses for his residential purposes, particulars of which are as follows:

Particulars	Amount (₹)	Amount (₹)
Municipal valuation	2,30,000	1,70,000
Fair rent	2,90,000	2,00,000
Standard rent under Rent Control Act	2,42,000	2,30,000
Municipal taxes paid	15%	15%
Fire insurance	2000	1000
Interest on capital borrowed for construction of house (₹ 20,00,000 is borrowed @ 12% p.a. on 15.4.2015, construction is completed on 28.3.2016 and loan is yet to be repaid)	2,40,000	Nil

Income of R from other sources is ₹ 5,40,000. Determine the taxable income for the assessment year 2017-18 on the assumption that he contributes ₹1,20,000 towards the public provident fund. **8 Marks**

Answer: a.

As with capital receipts and revenue receipts, the distinction between capital expenditure and revenue expenditure is of utmost importance, because the Income-tax Act normally allows revenue expenditure, while capital expenditures are by and large disallowed.

The general principles for distinction between capital expenditure and revenue expenditure are more or less the same as those discussed above. For example, lump sum and periodic payment or the magnitude of payment or treatment in the books' of account is not the material consideration for distinguishing between capital and revenue expenditures. Similarly, in distinguishing between

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

capital and revenue expenditures, it does not matter whether the amount is paid voluntarily or involuntarily. The few distinguishing tests for capital and revenue expenditures are discussed below:

- (a) **Acquiring asset or advantage of enduring nature:** When a expenditure is made for the purpose of bringing into an asset or an advantages of enduring nature, such expenditure is to be regarded as capital expenditure.
- (b) **Capital assets belonging to third parties:** Even though a expenditure results in the creation of a capital asset, if the capital asset belongs to a third party, such expenses will be treated as revenue expenditure.
- (c) **Expenditure which facilitates assessee's business:** If a expenditure facilitates the assessee's trading operations which helps the assessee to carry out business more efficiently, then irrespective of the consideration that the benefit may be of enduring nature, it will be treated as revenue expenditure.
- (d) **Expenditure related to fixed capital and circulating capital:** Any expenditure in relation to fixed capital or capital asset is capital expenditure. Expenditure related to stock-in-trade or circulating capital is revenue in character.
- (e) **Initial expenditure:** Expenditure connected with the basic framework of business, or incurred in connection with the extension of business or for substantial replacement of equipment are capital in nature.
- (f) **Expenditure for goodwill, route permits, etc.:** Expenditure incurred for acquiring goodwill is capital expenditure. Similarly, amount paid by a transport operator for route permit is also capital expenditure.
- (g) **Payment for know-how, patents and trademarks:** On several occasions, the Supreme Court has held that payments made for acquisition of know-how, trademarks and patents to be revenue expenditures.
- (h) **Buying off competition:** Any payment made to a competitor so as to prevent them to compete, is a benefit of enduring nature. It is, therefore, capital expenditure.
- (i) **Legal expenses for maintenance of asset:** Expenditure incurred by the assessee to maintain the asset in good conditions or legal expenses incurred to defend assessee's title to the assets is held to be revenue expenditure.

Answer: b.

	Amount (₹)
Assume house I self occupied	
Income from House I	(2,00,000)
Income from House II (See working Notes)	1,22,150
Income from House Property	(77,850)
Assume house property 2 self occupied	
Income from house I (Deemed let out) (see working notes)	(-) 94,750
Income from House II (Self occupied)	Nil
Income from House property	(-)94,750
It will be better to opt house II as self occupied as income from house property shall be	(-)94,750
Income from other sources	5,40,000
Gross Total Income	4,45,250
Less: Deduction 80C	1,20,000
Total Income	3,25,250

Working Note:

Assume both the houses are deemed to be let out

	Amount (₹)	Amount (₹)
Gross annual value (Municipal value or Fair rent, whichever is higher but subject to maximum of standard rent)	2,42,000	2,00,000

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

Gross annual value Less: Municipal taxes (i.e., 15% of ₹ 2,30,000/1,70,000)		
	2,07,500	1,74,500
Less: Deductions under section 24 (Statutory deduction (30% of ₹ 2,07,500/ 1,74,500)	62,250	52,350
Interest	2,40,000	
Income from house property	(-) 94,750	1,22,150

3(a) X, a Director of ABC Pvt. Ltd. Pune is offered an employment with the following two alternative packages:

8 Marks

Particulars	Amount (₹)	Amount (₹)
Basic Pay per annum	1,38,000	1,38,000
Conveyance allowance for private use	9,000	—
Motor car facility for private use of X and his family members (valued)	—	9,000
Entertainment Allowance	18,000	—
Club facility (Valued)	—	18,000
Children Education Allowance (for 2 children)	9,700	—
Free Education Facility in an institution run by the employer for Children (Valued)		9,700
Rent Free unfurnished house with fair rental value	30,000	30,000

Which of the two packages should X opt for on the assumption that employer and employee will contribute 20% of the basic pay towards an unrecognized provident fund. Assume the population of Pune is more than 25 Lakhs as per 2001 census.

3(b) The income of Mr Pankaj is given below please compute the Income from other sources for the A.Y 2017-18.

7 Marks

Particulars	Amount (₹)
Director's Fees	2,000
Income from agricultural land in Pakistan	5,000
Ground rent for land in Pathankot	10,000
Interest on Postal Savings Bank A/c	100
Interest on deposits with Industrial Finance Corporation of India	500
Dividend from a foreign company	700
Rent from sub-letting a house	26,250
Rent payable by Mr. Mohan for the sub-let house	12,000
Other expenses on sub-let-house	1,000
Winnings from horse-race (Gross)	12,300
Interest on Securities (gross)	4,000

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

Answer: a.

The Taxable income of X under the two options will be as under:

	I	II
	₹	₹
Basic pay per annum	1,38,000	1,38,000
Conveyance allowance for private use	9,000	-
Motor car facility for private use of X and his family members	-	9,000
Entertainment allowance	18,000	-
Club facility	-	18,000
Children education allowance (₹ 9,700 - ₹ 2,400)	7,300	-
Free education facility for children	-	-
Rent free unfurnished house	25,845	20,700
	1,98,145	1,85,700
Less: Deduction	Nil	Nil
Income from Salary	1,98,145	1,85,700

As the taxable income under the second package is less therefore, X should opt for the second package.

Answer: b.

	₹	₹	₹
Director's Fees			2,000
Income from agricultural land in Pakistan			5,000
Ground rent for land in Pathankot			10,000
Interest on Deposits with IFCI			500
Dividend from a foreign company (not to be grossed up)			700
Rent-from sub-letting a house		26,250	
Less: Rent payable for the sub-let house	12,000		
Other expenses	1,000	13,000	13,250
Winnings from horse-race			12,300
Interest on Securities			4,000
Income from other sources			47,750

Note: Interest of Postal Saving Bank account is exempt under section 10 upto ₹ 3,500

4(a) A sold on 31.10.2016 an agricultural land, which he has been using for agricultural purposes for several years, for ₹ 28,00,000. He acquired that land in 1978 for ₹ 1,00,000. The market value of such land as on 1.4.1981 was ₹ 2,00,000. He purchased rural agricultural land for ₹ 3,50,000 on 25.2.2017 which was sold for ₹ 5,00,000 on 15.5.2017. Further, A sum of ₹ 5,50,000 was invested by him purchase of residential property on 25.5.2017. He owned only one house property before this date. Compute capital gain for assessment year 2017-18 and assessment year 2018-19. **8 Marks**

4(b) X who is a person with severe disability submits you the following Information. Compute: (a) the taxable income (b) the net tax payable by X for assessment year 2017-18: **7 Marks**

Particulars	Amount (₹)
Salary (per month)	3,000
Interest on Government securities	2,000
Interest on Saving Bank Deposits	69,000
Long-term capital gains	2,90,000

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

He deposited ₹ 10,000 in his Public Provident Fund during the previous year.	
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Answer: a.

Assessment year 2017-18

	₹	₹
Value of consideration		28,00,000
Less: Index cost of acquisition ₹ 2,00,000 x 1125/100		22,50,000
		5,50,000
Less: Capital gain exempt u/s 54B	3,50,000	
u/s 54F (₹ 5,50,000 x 550000/ 2800000)	1,08,036	4,58,036
Long-term capital gain		91,964
Assessment year 2018-19		
Sale price of house property		6,50,000
Less: Cost of Acquisition		5,50,000
Short term capital gain		1,00,000

Note:

1. ₹ 1,08,036 exempt earlier u/s 54F shall also be taxable as long-term capital gain in the previous year 2017-18 i.e., the year of sale of new house property.
2. There will be no capital gain on the transfer of rural agricultural land although sold within 3 years from the date of its acquisition, as it is not a capital asset for capital gain purposes.

Answer: b.

	₹	₹	₹
Income from salary (₹ 3,000 x 12)			36,000
Income from capital gain Long-term capital gains			2,90,000
Income from other sources Interest on Saving Bank Deposits Interest on Government securities		69,000 2,000	71,000
			3,97,000
Less: Deduction 80C 80TTA 80U	10,000 10,000 1,25,000		
	1,45,000		
But the deduction cannot exceeds GTI exclusive of long term capital gain-Deduction allowed			1,07,000
Total Income			2,90,000
Tax on LTCG (₹ 2,90,000 – 2,50,000) (shifted)]=₹40,000 @ 20%			8,000
Tax on other Income Nil + 2,50,000 shifted from LTCG			Nil
Tax Payable			8,000
Less: Rebate u/s 87A			5,000
			3,000
Add: Education cess and SHEC @ 3%			90
			3,090

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

5(a) Satish is practicing as a Chartered Accountant in Delhi. He deposits all receipts in his bank account and pays expenses by cheque. Following is the analysis of his bank account for the year ending 31.3.2017:

8 Marks

Particulars	Amount (₹)	Particulars	Amount (₹)
Balance b/f	7,250	Salaries	10,14,000
Professional Receipts	31,40,000	Rent of Chamber	6,84,500
Dividend from UTI	8,000	Audit fee	23,000
Rent from residential HP	72,000	Telephone Expenses	51,000
Share of Income in HUF	6,750	Misc. Office Expenses	55,500
		Motor car Expense	8,000
		Advance Income Tax	40,000
		Personal Expenses	45,500
		Property expenditures	
		Repairs 1,500	
		Collection Chg 2,000	
		Insurance 1,500	
		Taxes <u>5,000</u>	10,000
		By Balance c/d	13,02,500
	32,34,000		32,34,000

Other Information:

1. He stays in his house the municipal value of which is ₹ 8,000. The expenses which have been included in the above account in respect of this house: Insurance premium and Municipal tax are ₹500 & ₹ 2,400.
2. Written down value of the car as on 1st April 2016 was 6 Lakh.

Compute the gross total income of Satish assuming that he does not opt for presumptive income under section 44ADA.

5(b) From the following details, compute the Gross Total Income of A for the assessment year 2017-18:

7 Marks

Particulars	Amount (₹)
Taxable income from salary	80,000
Income from house property House 'A' (let out)	(95,000)
House 'B' (self-occupied, interest on borrowed money)	(9,000)
Short-term capital gain	12,000
Loss from long-term assets	25,000
Interest on securities (Gross)	10,000

Answer: a.

Computation of Gross Total Income of satish for the Assessment Year 2017-18

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

	₹	₹	₹
Income from house property			
Annual Value (Rent received)		72,000	
Less: Municipal taxes		2,600	
Net Annual Value		69,400	
Less: Standard deduction 30%		20,820	45,580
Profit and Gains from Business or Profession:			
Professional receipts		31,40,000	
Less: Expenses incurred			
Salary	10,14,000		
Rent of chamber	6,84,500		
Audit fee	23,000		
Telephone expenses	51,000		
Misc. Office exp.	55,500		
Motor car expenses	8,000		
Depreciation on car 15% of ₹ 6,00,000	<u>90,000</u>		
		19,26,000	12,14,000
Income from other sources:			
Dividend from U.T.I.		Exempt	--
Gross Total Income			12,62,580

Note:

1. Income from self-occupied house property shall be Nil.
2. W.D.V of the car as on 1-4-2017 ₹ 6,00,000 - 90,000 = ₹ 5,10,000

Answer: b.

		₹	₹
1.	Taxable income form Salary	80,000	
	Less: Loss under the head house property set off	80,000	Nil
2.	Income from house property A (Let out)	(-) 95,000	
	Less: House B Self occupied	(-) 9,000	
		(-) 1,04,000	
	Less: Set off from salary	80,000	
	Set off short term capital gain	12,000	
	Set off from income from other sources	10,000	1,02,000
	Balance loss carried forward	2,000	Nil
3.	Income from capital gain		
	Short term capital gain	12,000	
	Less: Loss under the head house property set off	12,000	Nil
	Long term capital loss to be carried forward	(-) 25,000	
4.	Income from other sources		
	Interest on securities	10,000	Nil
	Less: Loss under the head house property set off	10,000	
	Gross total Income		Nil

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

Note:

Loss from long-term capital assets cannot be set off against short-term capital gain or income under other heads of income. Such a loss of ₹ 25,000 which could not be adjusted in the assessment year 2016-17 will be carried forward to the subsequent assessment years. Loss from house property amounting to ₹ 2,000 shall be carried forward

6(a) Compute the total income of Mr. X, a lecturer of a college affiliated to Madras University, for the assessment year 2017-18 on the basis of the following particulars: **10 Marks**

Particulars	Amount (₹)
Salary @ ₹50,000 per month	6,00,000
Dearness allowance @ 50% of salary	3,00,000
Warden ship allowance @ ₹ 1,500 per month	18,000
Examiner ship remuneration from University	25,400
Royalty from books of artistic nature	2,73,000
Income from card games	6,400
Winnings from lottery (Gross)	20,000
Expenses on lottery tickets	10,000
Interest on saving bank deposit	67,000
Deposit in recognised provident fund	1,22,000
Life insurance premium paid	30,000

6(b) During the financial year 2016-17 a New Delhi-based charitable organisation sold a house property for ₹ 50 lakh and earned a long-term capital gain of ₹ 20 lakhs. In the same year it bought another house property for ₹ 40 lakh. Find out the taxable capital gain. **5 Marks**

Answer: a.

Computation of Total Income of Mr X for the Assessment Year 2017-18

1.	Income from salary		
	Salary @ ₹ 50,000 p.m. (₹ 50,000 x 12)	6,00,000	
	Dearness allowance	3,00,000	
	Warden ship allowance @ 1,500 per month	18,000	
	Income under the head salary		9,18,000
2.	Income from profession		
	Royalty		2,73,000
3.	Income from Other Sources		
	Examinership Remuneration from University	25,400	
	Interest on saving bank deposit	67,000	
	Income from card games	6,400	
	Amount received from lottery	20,000	1,18,800
	Gross total income		13,09,800
	Less: Deductions		
	U/s 80C (122000 + 30000 = 152000 but limited to ₹ 150000)	1,50,000	
	U/s 80QQB	2,73,000	
	U/s 80TTA	10,000	4,33,000
	Total Income		8,76,800
	Computation of Tax:		
	Tax on lottery and card games (₹ 26,400@30%)	7,920	

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

	Tax on balance income of ₹ 8,50,400	95,080	
	Tax Payable	1,03,000	
	Add: Education cess & SHEC @ 3%	3,090	
	Net tax payable	1,06,090	

Note:

No expenses, allowance, or any deduction is allowed from winning of lotteries, card games, races etc.

Answer: b.

	₹	₹
Cost of the new house	40,00,000	
Cost of the old asset (₹ 50 lakh - ₹ 20 lakh)	30,00,000	
Utilization of capital gains	10,00,000	
Taxable Capital gains (₹ 20,00,000 - 10,00,000)		10,00,000

7(a) Raj Industries Ltd. furnishes you the following information for the year ended 31.03.2017. **8 Marks**

Particulars	Amount (₹)
Net Profit as per Statement of Profit and Loss	16,00,000
Provision for warranties to customers Statement of PL A/c	2,00,000
Wealth tax paid debited to Statement of PL A/c	30,000
Agricultural income credited to Statement of PL A/c	1,00,000
Deferred tax credited to Statement of PL A/c	4,00,000
The company has as per books: Brought forward depreciation of ₹ 2,50,000 and Business loss of ₹ 3,00,000	

Compute "book profit" under section 115JB for the assessment year 2017-18.

7(b) State the due date of installments of advance tax payable by all assessee other than assessee covered u/s 44AD. **7 Marks**

Answer: a.

Computation of book profit of Raj Industries for the Assessment Year 2017-18

	₹	₹
Net profit as per Statement of Profit and Loss		16,00,000
Add: provision for warranties to customers is an ascertained liability. Hence, no addition is required		Nil
Wealth tax is not to be added back. Only income tax paid/payable/provided is added back		Nil
Total		16,00,000
Less: Agricultural income being exempt is to be excluded	1,00,000	
Deferred tax credit to be excluded	4,00,000	
Lower of brought forward loss or unabsorbed depreciation as per books is deductible	2,50,000	7,50,000
Book-profit u/s 115-JB		8,50,000

Answer: b.

Due date of Installment	Amount Payable
On or before the 15 th June of	Not less than fifteen per cent. of advance tax liability

Answer_MTP_Inter_Syllabus 2016_Dec 2017_Set 1

p.y	
On or before the 15 th September of p.y	Not less than forty-five per cent. of advance tax liability, as reduced by the amount, if any, paid in the earlier installment.
On or before the 15 th December of p.y	Not less than seventy-five per cent. of advance tax liability, as reduced by the amount, if any, paid in the earlier installment or installments.
On or before the 15 th March of p.y	The whole amount of advance tax liability as reduced by the amount or amounts, if any, paid in the earlier installment or installments.

8. Short Notes (Answer any three questions out of four)

(5 x 3=15 Marks)

- A. Verification of return
- B. Penalty u/s 271AAB
- C. ICDS IX on "Borrowing Cost"
- D. Penalty for failure to deduct or pay Equalization levy

Answer 8.A.

The return under section 139 shall be verified:

- (a) in the case of an individual — (i) by the individual himself; or (ii) where he is absent from India, by the individual himself or by some person duly authorised by him on his behalf; or (iii) where he is mentally incapacitated from attending to his affairs, by his guardian or any other person competent to act on his behalf and (iv) where, for any other reason it is not possible for the individual to verify the return, by any person duly authorised by him in this behalf.

In case of (ii) and (iv) above, the person verifying the return should hold a valid power of attorney from the individual to do so, which shall be attached to the return.

- (b) in the case of a Hindu Undivided Family — only by the Karta. However, in the following two cases it can be verified by any other adult member of the family:

- (i) where the Karta is absent from India; or
- (ii) where the Karta is mentally incapacitated from attending to his affairs.

- (c) in the case of a company — (i) by the managing director thereof, or (ii) where for any unavoidable reason such managing director is not able to verify the return, or where there is no managing director, by any director thereof or (iii) in the case of a company being wound up, by the liquidator or (iv) in case of a company whose management has been taken over by the Central Government or the State Government, by the Principal Officer thereof. However, if the company is non-resident in India, the return may be verified by a person who holds a valid power of attorney from such company to do so.

- (d) in the case of a firm — (i) by the managing partner thereof, or (ii) where for any unavoidable reason, such managing partner is not able to verify the return, or where there is no managing partner as such, by any partner thereof, not being a minor;

- (e) in the case of a limited liability partnership—by the designated partner thereof, or where for any unavoidable reason such designated partner is not able to verify the return, or where there is no designated partner as such, by any partner thereof;

- (f) in the case of a local authority — by the principal officer thereof;

- (g) in the case of a political party — by the chief executive officer of such party (whether such Chief Executive Officer is known as Secretary or by any other designation).
- (h) in the case of any other association — by any member of the association or the principal officer.
- (i) in case of any other person- (i) by that person or (ii) by some other person competent to act on his behalf.

Answer.8.B

Notwithstanding anything contained in any other provisions of this Act, in a case search has been initiated under section 132 on or after 1.7.2012, the Assessing officer may direct that the assessee shall pay by way of penalty, in addition to tax, if any payable by him, a sum as under:

- (a) 10% of the undisclosed income of the specified previous year, if such assessee satisfies the following conditions:
- (i) in the course of the search, in a statement under section 132(4), admits the undisclosed income and specifies the manner in which such income has been derived;
 - (ii) substantiates the manner in which the undisclosed income was derived; and
 - (iii) on or before the specified date—
 - (A) pays the tax, together with interest, if any, in respect of the undisclosed income; and
 - (B) furnishes the return of income for the specified previous year declaring such undisclosed income therein;
- (b) 20% of the undisclosed income for the specified previous year, if such assessee satisfies the following conditions:
- (i) in the course of the search, in a statement under section 132(4), does not admit the undisclosed income; and
 - (ii) on or before the specified date—
 - (A) declares such income in the return of income furnished for the specified previous year; and
 - (B) pays the tax, together with interest, if any, in respect of the undisclosed income;
- (c) 60%, w.e.f. A.Y. 2017-18 (Not be less than 30% but which shall not exceed 90% upto A.Y. 2016-17) of the undisclosed income of the specified previous year, if it is not covered by the provisions of clauses (a) and (b).

Answer.8.C.

Income Computation and Disclosure Standard IX relating to borrowing costs:

This Income Computation and Disclosure Standard deals with treatment of borrowing costs. This Standard does not deal with the actual or imputed cost of owners' equity and preference share capital.

Definitions: The following definitions have been used:

- (a) "Borrowing costs" has been defined as interest and other costs incurred by a person in connection with the borrowing of funds and include:
- (i) commitment charges on borrowings;
 - (ii) amortised amount of discounts or premiums relating to borrowings;
 - (iii) amortised amount of ancillary costs incurred in connection with the arrangement of borrowings;
 - (iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements.
- (b) "Qualifying asset" has been defined to mean:

- (i) land, building, machinery- plant or furniture, being tangible assets;
- (ii) know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature, being intangible assets;
- (iii) inventories that require a period of twelve months or more to bring them to a saleable condition.

Recognition:

(a) Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Income Computation and Disclosure Standard Other borrowing costs shall be recognised in accordance with the provisions of the Act.

- **Borrowing Costs Eligible for Capitalisation:** To the extent the funds are borrowed specifically for the purpose: acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised that asset shall be the actual borrowing costs incurred during the period on the funds so borrowed.
- **Disclosure:** The following disclosure shall be made in respect of borrowing costs:
 - (a) the accounting policy adopted for borrowing costs; and
 - (b) the amount of borrowing costs capitalised during the previous year.

Answer.8.D.

Any assessee who:

- (a) fails to deduct the whole or any part of the equalization levy as required under section 166; or
- (b) having deducted the equalization levy, fails to pay such levy to the credit of the Central Government accordance with the provisions of sub-section (2) of that section, shall be liable to pay:
 - (i) in the case referred to in clause (a), in addition to paying the levy in accordance with the provisions of section (3) of that section, or interest, if any, in accordance with the provisions of section 170, a per equal to the amount of equalization levy that he failed to deduct; and
 - (ii) in the case referred to in clause (b), in addition to paying the levy in accordance with the provisions of section (2) of that section and interest in accordance with the provisions of section 170, a penalty of thousand rupees for every day during which the failure continues, so, however, that the penalty under this clause shall not exceed the amount of equalization levy that he failed to pay.