

Paper 7- Direct Taxation

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Full Marks: 100

Time allowed: 3 hours

All questions relate to Income Tax Assessment Year 2019-20 and the provisions stated relate to the Income-tax Act,1961, unless otherwise stated in the question.

Answer Question No. 1, which is compulsory and any five from Question No.2 to 8.

1.(a) Choose the most appropriate alternative for the following : [1x10=10]

- (i) Pelf Finstock Ltd. Filed its return of income tax for A.Y. 2019-20 on 30th March, 2020. The notice for making scrutiny assessment under section 143(3) can be served on the assessee up to-
- (a) 31st December 2020
 - (b) 30th September 2020
 - (c) 31st March 2020
 - (d) 30th September 2021
- (ii) _____ can be carried forward even return of income has not been filed.
- (a) Unabsorbed depreciation
 - (b) Current year depreciation
 - (c) Brought forward business loss
 - (d) Both (a) & (c)
- (iii) Deduction u/s 80JJA is available if the assessee:
- (a) Is engaged in scientific research
 - (b) Sets up an industrial unit in a backward area
 - (c) Is engaged in agriculture business
 - (d) Is engaged in the business of collecting and processing biodegradable waste.
- (iv) Cost of acquisition of self-generated asset is nil, the exception is:
- (a) Goodwill
 - (b) Route permit
 - (c) Bonus Shares acquired before 01-04-2001
 - (d) Loom hours
- (v) The quantum of deduction u/s 24(a) is:
- (a) 30% of net annual value of the house property
 - (b) 30% of gross annual value of house property
 - (c) 30% of actual rent received
 - (d) None of the above
- (vi) The maximum amount of exemption allowed under children hostel allowance is:
- (a) ₹ 300 annually per child(to the maximum of two children)
 - (b) ₹ 600 per month per child
 - (c) ₹ 300 per month per child(to the maximum of two children)
 - (d) ₹ 500 per month per child (to the maximum of two children)

- (vii) Interest on delayed compensation or enhanced compensation is:
(a) Taxable on accrual basis
(b) Taxable on receipt basis
(c) Exempt from tax
(d) Taxable as per method of accounting of the assessee
- (viii) TDS is not required to be deducted u/s 194A if the amount of interest on loan does not exceed:
(a) ₹ 5,000
(b) ₹ 2,500
(c) ₹ 7,500
(d) ₹ 20,000
- (ix) The maximum amount of standard deduction allowed for family pension u/s 57(iiia) is:
(a) ₹ 15,000
(b) ₹ 50,000
(c) ₹ 25,000
(d) ₹ 75,000
- (x) Which of the following form number is to be used for filing the return of income by an individual having business income?
(a) Form no.1
(b) Form no.2
(c) Form no.5
(d) Form no.3

- (b) **Match the following : (sufficient to give the corresponding item in column 3 for column 1: reproducing columns 2 and 4 are not required):** **[5×1=5]**

1	2	3	4
(i)	Ground rent	A.	TDS @ 5%
(ii)	Section 80P	B.	Effects of changes in foreign exchange rates
(iii)	Sec.194H	C.	TDS @ 10%
(iv)	Sec.194EE	D.	Income from co-operative society
(v)	ICDS VI	E.	Not deductible while computing income from property

- (c) **Say True or False for the following question:** **[5×1=5]**

- (i) An assessee whose total income does not exceeds ₹ 5,00,000, fails to furnish return of income u/s 139 within the due date shall pay fee of ₹10,000.
- (ii) Cash gift of ₹ 2,00,000 from uncle's son is not taxable.
- (iii) Income from sale of trees and grasses grown spontaneously (without any human effort), is non-agro income.
- (iv) Income up to ₹ 2,500 is exempt in respect of each minor child whose income is clubbed u/s 64(1A).

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- (v) The depreciation in respect of an asset which is acquired by the assessee during the previous year and is put to use in the same previous year for less than 180 days is restricted to 50% of the normal depreciation.

(d) Fill in the blanks:

[5×1=5]

- (i) Discount on issue of Zero Coupon Bonds shall be allowed on _____ basis having regard to the period of life of such bond.
- (ii) An assessee, who fails to comply with the provision of sec.44AA, shall be liable to pay penalty u/s 271A of _____.
- (iii) Deduction u/s 80GG is available in respect of _____.
- (iv) An assessee who fails to pay advance tax or defers the payment of advance tax on specified date, shall be liable to pay _____ u/s 234B & 234C.
- (v) Permanent Account Number (PAN) is an _____ code given to a person by income tax department for the purpose of identification of the assessee.

- 2.(a)** XYZ Ltd. has an undertaking (unit X) in special economic zone (SEZ) and another undertaking (unit Y) in Free Trade Zone (FTZ) for manufacturing of computer software. It furnishes the following particulars of its 2nd year of operations ending March 31, 2019:

₹ (in lakh)

	Unit X	Unit Y
Total sales	280	220
Export sales (inclusive of ₹ 10 lakh onsite development of computer software outside India by Unit X)	100	20
Profit earned [after claim of bad debts under section 36(1)(vii) in unit X]	60	40

Plant and machinery used in the business has been depreciated at 15% on straight line Method basis and depreciation of ₹ 12 lakh was charged to P & L A/c in the proportion of sales during the previous year. ₹ 100 lakh were realized out of export sales in time and balance ₹ 20 lakh becomes irrecoverable due to bankruptcy of one of the foreign buyers in Unit X.

Compute the deduction under section 10AA and taxable income of XYZ Ltd. for the assessment year 2019-20.

[8]

- 2.(b)** Parimal owns a residential property in Kolkata. It is let out to Zee Ltd. (rent being ₹ 50,000 per month). Municipal value of the property is ₹ 3,20,000, fair rent is ₹ 5,00,000. Zee Ltd. pays municipal tax. On April 10, 2018, rent is increased from ₹ 50,000 per month to ₹ 55,000 per month with retrospective effect from April 1, 2017. Parimal gets ₹ 60,000 (being arrears of rent for the financial year 2017-18) on May 10, 2018. Find out the net income of Parimal for the assessment year 2019-20 on the assumption that his Income from Other Sources is ₹ 4,00,000.

[7]

- 3.(a)** Rahim is employed as resident engineer in CAT Automobiles Ltd. on basic salary of ₹ 92,000 per month. Rahim had no shares in the company and he was not related to any directors. During the previous year 2018-19, he gets the following perquisites from CAT Automobiles Ltd. :

1. Company pays ₹ 1,000 per annum on an accident insurance policy for the benefit of Rahim
2. On April 1, 2018 Rahim takes a car loan of ₹ 6,50,000 from CAT Automobiles Ltd. The company recovers interest ₹ 4 per cent per annum from Rahim (SBI lending rate : 9.25 per cent)
3. Company has reimbursed his club fee of ₹ 500 per annum and club bills aggregating to ₹ 4,000.

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4. Rahim engages a domestic servant on monthly salary of ₹ 3,000. The entire salary (i.e., ₹ 36,000) is paid by CAT Automobiles Ltd to the domestic servant (or salary is paid by Rahim and the company reimburses the entire amount).
5. He purchased a furniture on August 3, 2018 at ₹ 4,000 (book value) from the company. The market value of the same is about ₹ 16,000. The furniture was purchased by the company on June 30, 2012 for ₹ 52,000.

Ascertain the taxability of the above mentioned items of Mr. Rahim for the assessment year 2019-20.

[10]

- 3.(b)** LMN Ltd. grows sugarcane to manufacture sugar. Details for the previous year 2018-19 are as follows:

Particulars	₹ in lacs.
Cost of cultivation of sugarcane (5,000 tons)	12
Sugarcane sold in market (1,000 tons)	4
Sugarcane used for sugar manufacturing (4,000 tons)	-
Cost of conversion	6
Sugar produced & sold in market	30

Compute income of LMN Ltd.

[5]

- 4.(a)** Virat kohli sells the following long term capital assets on January 11, 2019:

	Residential house property (₹)	Gold (₹)	Silver (₹)	Diamonds (₹)
Sales consideration	5,70,000	9,10,000	3,96,000	8,40,000
Indexed cost of acquisition	1,00,000	1,15,000	1,78,000	4,30,000
Expenses on transfer	20,000	40,000	16,000	42,000

The due date of filing return of income for the assessment year 2019-20 is July 31, 2019. for claiming exemption under section 54 and 54EC, Virat kohli purchases the following assets:

Assets	Date of acquisition	Amount (₹)
Land(for constructing a residential house)	April 2, 2019	1,00,000
Bank deposit(for constructing house)	August 5, 2019	50,000
Bonds of Rural Electrification Corporation (redeemable on July 5, 2025)	July 5, 2019	7,50,000
Bonds of Naitonal Highways Authority of India(redeemable on August 10, 2030)	July 10, 2019	3,05,000

Find out the amount of capital gain chargeable to tax for the assessment year 2019-20.

[9]

- 4.(b)** Mrs. Sarita (38 years) is a salaried employee. Her basic salary is ₹ 50,000 per month. She gets one month salary as bonus. She has been provided a rent free unfurnished house which is owned by the employer company at the place of her posting i.e., Mumbai. She gets bank fixed deposit interest of ₹ 25,000. She makes the following investments/ deposits every year:

	(₹)
Life insurance premium on his own life (sum assured: ₹ 1,00,000) (policy taken in July 2015)	12,000
Notified equity linked saving scheme of UTI	78,000
Repayment of loan taken on July 1, 2004 for purchasing a house property(which is self occupied by his family at Mumbai)	35,000
Payment of interest on the above loan	50,000
Tuition fees of two children (₹ 24,000 + ₹ 36,000)	60,000
Notified bonds of infrastructure company	4,000
Deposit in home loan account scheme of NHB	10,000

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Mediclaim insurance premium	30,000
Pension fund of LIC qualified for deduction under section 80CCC	15,000

Find out the net income and tax liability for the assessment year 2019-20

[6]

- 5.(a)** Mr. Sunil is a practicing Cost Accountant. He also runs a private coaching institute. His bank account for the year ended 31/3/2019 is given below:

Receipts	(₹)	Payments	(₹)
To Balance b/f	20,000	By Office expenses	18,000
To Audit Fees	2,00,000	By Municipal tax on property	800
To Income from other professional work	1,00,000	By Coaching expense	800
To Coaching fees	1,200	By Personal expenses	5,000
To Interest on investment	2,000	By Membership fees	500
To Examiner's fees	1,000	By Life insurance premium	13,000
To Rent from property	5,000	By Income tax	5,000
		By Motor car purchased	1,80,000
		By motor car expenses	10,200
		By Insurance of property	1,600
		By Balance c/d	94,300
	3,29,200		3,29,200

Additional Information :

- 20% of motor car expenses is in respect of profession.
- Depreciation allowance for motorcar is ₹ 27,000, if wholly used for profession.
- Outstanding fees on 31-3-2019 ₹ 2,000. Whereas ₹500 receivable from Mita is considered as bad.
- (d) Outstanding fees of P.Y. 2015-16 ₹10,000 received during the year, which is included in the audit fees.
- Office expenses include payment of ₹2,000 incurred during the previous year 2017
- 2018.

Compute his gross total income for the A.Y. 2019-20 assuming he maintains accounts on cash basis.

[10]

- 5.(b)** Ram and shyam are minor sons of Mr. Sekhar and Mrs. Sekhar. Business income of Mr. Sekhar is ₹ 4,50,000. Income from house property of Mrs. Sekhar is ₹ 2,50,000. Income of Ram and Shyam from stage acting is ₹ 50,000 and 75,000, respectively. Besides, interest on company deposits of Ram and Shyam (deposit was made out of income from acting) is ₹ 30,000 and ₹ 10,000 respectively. Ram and Shyam have received the following birthday gifts:

On May 20, 2018 gift received by Shyam from his grandfather : ₹ 60,000

On September 14, 2018 gift received by Ram from Sekhar's friend : ₹ 90,000

Gift from relative : ₹ 45,000

Find out the income of Mr.Sekhar , Mrs. Sekhar, Ram and Shyam for the assessment year 2019-20.

[5]

- 6.(a)** Mr. Ram, the karta of a Hindu Undivided Family (HUF) invested family funds of ₹ 5 lakhs in the shares of H Couriers Pvt. Ltd. He was appointed as the Managing Director of the company and was paid a remuneration of ₹ 3.6 lakhs for the year ended 31.3.2019. Discuss whether the said remuneration will be assessed in the individual hand of Mr. Ram or in the hands of the HUF, for the assessment year 2019-20.

[6]

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6.(b) Mr. A and Mrs. B, being members of an AOP with equal share, furnishes the following details, compute tax liability of AOP-

Profit and loss account for the year ended 31-3-2019

Particulars	Amount(₹)	Particulars	Amount(₹)
Bonus to employee	50,000	Gross Profit	6,96,000
Bonus to A	10,000	Interest on drawings	
Bonus to Mrs. B	5,000	A	16,000
Other Expenses	40,000	Mrs. B	8,000
Salary to -			
A	44,000		
Mrs. B	88,000		
Interest on Capital @ 15%			
A	15,000		
Mrs. B	20,000		
Depreciation	30,000		
Donation to National Relief Fund	10,000		
Net Profit	4,08,000		
	7,20,000		7,20,000

Additional information:

- a. Depreciation for the year u/s 32 ₹ 20,000.
- b. Other expenses include expenditure of ₹ 5,400, which is disallowed u/s 40A(2).
- c. Other personal income of A & Mrs. B

	A	Mrs. B
Dividend received	₹ 5,000	₹ 20,000
Interest on loan	₹ 45,000	₹ 22,000

[9]

7.(a) Compute taxable income under the head income from other sources of Mrs. X from the following data :

Particulars	(₹)
Private tuition fee received	10,000
Winning from lottery	2,000
Award from KBC (a TV show)[Gross]	3,20,000
Pension from employer of deceased husband	25,000
Interest on bank deposit	25,000
Directors fee (Gross)	5,000
Letting out of vacant land	25,000
Remuneration for checking the examination copy of employer's school	10,000
Remuneration for checking the examination copy of C.A	10,000
Income tax refund	5,000
Interest on income tax refund	100
Composite rent (related expenditure are ₹ 5,000)	10,000
Rent on sub-letting of house property (rent paid to original owner ₹ 12,000)	20,000
Income tax paid	2,000
Payment made to personal expenses	18,000
Payment made to LIC as premium	2,000

[9]

7.(b) Who is responsible to collect tax at source? When tax has to be collected at source?

[6]

8. Short note: (any three)

[5×3=15]

- (a) When a return of loss should be filed [Sec.139(3)]
- (b) Steps to calculate relief u/s 89 against receipt of taxable gratuity, where past services extend over a period of 15 years
- (c) ICDS VIII Securities
- (d) Self-Assessment u/s 140A