

Paper 7- DIRECT TAXATION

Paper 7 - Direct Taxation

Full Marks: 100

Time allowed: 3 hours

All questions relate to Income Tax Assessment Year 2020-21 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 : [10x1=10]

- (i) In case of loss, a partnership firm may claim deduction in respect of remuneration to partner to the extent of:
- (a) ₹ 1,50,000/-
 - (b) ₹ 1,50,000/- or remuneration paid, whichever is lower
 - (c) ₹ 1,50,000/- or 90% of book profit, whichever is lower
 - (d) Nil
- (ii) Which of the following is taxable under the head 'salaries'?
- (a) Salary received by a Member of State Legislature.
 - (b) Commission received by an employee director of a company
 - (c) Family pension received
 - (d) Both (a) and (b) above
- (iii) A Zero Coupon Bond shall be treated as Long term capital asset if it is held by the transferor for _____:
- (a) more than 12 months
 - (b) more than 36 months
 - (c) 12 months
 - (d) 36 months
- (iv) Quoting 'Permanent Account Number' (PAN) is compulsory in the following transaction –
- (a) Payment to LIP exceeding ₹ 50,000 in a financial year
 - (b) Sale or purchase of any immovable property valued at ₹ 4,00,000
 - (c) Time deposit upto ₹ 35,000 with a bank
 - (d) None of the above
- (v) An individual purchased a painting on 01-11-2019 for ₹ 5,00,000 though fair market value of the asset is ₹5,25,000. Income taxable u/s 56(2)(x) is:
- (a) ₹ 25,000 i.e., difference between market value and actual consideration
 - (b) Nil as this is not gift
 - (c) Nil as difference between market value and actual consideration does not exceed ₹ 50,000
 - (d) The provision of sec. 56(2)(x) is not applicable for any transaction entered during P.Y. 2019-20.
- (vi) Interest relating to pre-construction period is allowable:

- (a) In 5 equal installments from the year in which it was incurred.
- (b) In the year in which it was incurred
- (c) In the year in which house property was constructed
- (d) None of the Above

(vii) The maximum amount of leave salary not chargeable to tax as specified by the Government in case of a non-Government employee is

- (a) ₹75,600
- (b) ₹77,760
- (c) ₹2,40,000
- (d) ₹3,00,000

(viii) On donation to whom of the following a 50% deduction is allowable u/s 80G of the Income Tax Act?

- (a) National Defence Fund
- (b) Prime Ministers National Relief Fund
- (c) Rajiv Gandhi Foundation
- (d) National foundation for Communal Harmony

(ix) Best Judgment assessment is covered u/s

- (a) 143(3)
- (b) 143(1)
- (c) 144
- (d) 147

(x) Unabsorbed business losses cannot be carried for more than

- (a) 7 assessment years
- (b) 8 assessment years
- (c) 10 assessment years
- (d) 12 assessment years

(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)	Scrutiny Assessment	a.	Rate of TDS @5%
(ii)	Sec. 194H	b.	Not Eligible for deduction u/s 80G
(iii)	Deduction u/s 80EEB	c.	Deductible as business expenditure
(iv)	Donation in Kind	d.	Sec. 143(3)
(v)	Securities Transaction Tax	e.	Purchase of Electric Vehicle

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

- (i)** No tax is required to be deducted from winning from race-horse, if such winning does not exceed ₹ 10,000
- (ii)** Allowances payable to Central Government employees for serving outside India is not exempted.

- (iii) Short-term capital gains arising from sale of listed shares through a recognized stock exchange, for which security transaction tax has been paid, will be charged to tax at a concessional rate of 15%.
- (iv) Income arising from the accretion of transferred property shall not be clubbed.
- (v) Loss in speculation as well as non-speculation business can be carried forward to a maximum of four consecutive assessment years immediately succeeding the assessment year for which loss was first computed.

(D) Fill in the blanks:

[5×1=5]

- (i) Interest on loan taken for certain House Property gets deduction U/s _____.
- (ii) Assessee's own contribution to the National Pension Scheme is eligible for a maximum deduction of ₹_____.
- (iii) In the case of a payee not having PAN for whom tax is to be deducted at source u/s 194A, the rate applicable is _____.
- (iv) ICDS _____ deals with effects of changes in foreign exchange rates.
- (v) Receipts from TV serial shooting in farm house is _____ (agricultural/non agricultural) income.

2. (a) (i) What is Tax Evasion?

[2]

- (ii) Lasith Malinga, a Sri Lankan cricketer has been coming to India for 100 days every year since 2006-07:

1. Determine his residential status for the assessment year 2020-21.
2. Will your answer be different if he has been coming to India for 110 days instead of 100 days every year?

[4]

- (b) Girish owns 3 identical houses in Mumbai, all of which are self-occupied. From the particulars given below, suggest which two houses should be treated as self-occupied.

	House I	House II	House III
	₹	₹	₹
Standard Rent under Mumbai Rent Control Act	3,35,000	3,35,000	3,35,000
Municipal Valuation	3,00,000	3,00,000	3,00,000
Fair Rent	3,60,000	3,60,000	3,60,000
Municipal Taxes(Paid)	35,000	15,000	25,000
Insurance Premium (Paid)	20,000	Nil	10,000

- (i) ₹ 25,00,000 @9% p.a. for construction of House II (Date of borrowing 01.06.2015)
Date of repayment of loan 30.06.2019.
- (ii) ₹ 30,00,000 @9% p.a. for construction of House III (Date of borrowing 01.06.2015)
Date of payment of loan 30.06.2019.

[9]

3.(a) Mr. Vasudev is an officer in a company in Jaipur. He furnished the following particulars regarding his income for previous year 2019-20:

- (i) Basic salary ₹17,000 p.m.;
- (ii) Bonus ₹5,000;

- (iii) Dearness Allowance ₹3,000 p.m.;
- (iv) Travelling allowance ₹45,000. He spends ₹30,000 for official purpose;
- (v) Reimbursement of medical bills ₹15,000 (treatment was done in Government hospital in India);
- (vi) He lived in a bungalow belonging to the company. Its fair rent is ₹15,000 p.m. The company has provided on this bungalow the facility of a watchman and a cook each of whom is being paid a salary of ₹250 p.m. The company paid in respect of this bungalow ₹4,500 for electric bills and ₹3,500 for water bills.
- (vii) He has been provided 1.5 ltr. engine capacity for official and personal use. The maintenance and running expenses of the car (including driver) are borne by the company.
- (viii) The following amounts were deposited in his provident fund account;
 - (1) own contribution ₹24,000,
 - (2) company's contribution ₹30,000, and
 - (3) interest @12% p.a. ₹12,600
- (ix) Rent of house recovered from Vasudev ₹21,600.

Compute his taxable income from salary for the assessment year 2020-21. Assume the population of Jaipur is 26 lakhs as per 2001 census. **[9]**

(b) State with brief reasons whether the following are agricultural income either in whole or in part:

- (i) Purchase of standing sugar crop by Mr. Aman for ₹ 2 lakhs and after cutting canes, selling them for ₹ 2,40,000.
- (ii) Income from milk dairy runs by Mr. Rajesh in his agricultural lands ₹ 50,000.
- (iii) Income from sale of plants ₹ 1,000,000 earned by Mr. Jain who maintains a nursery by name Prakriti Nursery.
- (iv) Conversion of Sugarcane into Gur.
- (v) Income from sale of rubber ₹ 3,20,000 realised by Mr. Ram Nair who owns rubber estate and cultivates rubber.
- (vi) Income from grazing of cattles allowed in the land owned by Mr. Richard ₹ 70,000.

[6]

4.(a) Y submits you the following particulars:

Particulars	Date of acquisition	Cost Amount (₹)	Market value as on 01.04.2001 (₹)	Date of sale	Sales Price (₹)
Urban Agricultural land	03.05.1978	50,000	4,25,000	16.07.2019	15,00,000
Rural agricultural land	05.04.1982	1,00,000	6,50,000	15.08.2019	12,00,000
Listed shares	05.07.2018	60,000	40,000	04.06.2019	80,000
Gold	05.08.2002	2,05,000	1,80,000	05.02.2020	7,00,000
Residential house property	08.07.1964	30,000	25,00,000	25.02.2020	70,00,000

He deposited a sum of ₹4,00,000 on 25.06.2020 in the capital gain scheme as he intends to buy an agricultural land later. Out of the sale proceeds of gold, he has invested ₹1,96,000 on the purchase of residential house property on 15.05.2020. The shares were sold through recognised stock exchange and therefore STT was paid. The FMV of these shares as on 31.01.2018 was ₹75,000.

MTP_Intermediate_Syllabus 2016_June2020_Set 1

Compute taxable capital gain for the assessment year 2020-21. CII for the previous year 2001-02, 2002-03 and 2019-20 was 100,105, 289 respectively. [9]

(b) Compute deduction u/s 80EEA in the following cases: (₹ in lakhs)

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Assessee	A	B	C	D	E	F
Date of Sanction of loan	01.10.19	01.10.19	01.10.19	01.10.19	01.10.18	01.10.19
Amount of loan	₹30	₹30	₹40	₹30	₹20	₹20
Stamp duty value of the property	₹40	₹55	₹45	₹35	₹35	₹35
Other residential property owned by the Assessee on the date of sanction	No	No	No	Yes	No	No
Interest for P.Y. 2019-20	₹2.20	₹1.20	₹1.20	₹1.20	₹1.00	₹1.20

[6]

5.(a) Find the gross total income of Mr. Inder Kumar Basu on the basis of the following particulars-

Dr. Extract of Profit and Loss Account for the year ended 31.03.2020 Cr.

Particulars	₹	Particulars	₹
Interest	1,800	Gross profit b/d	1,22,700
Repairs and Renewals	2,200	Interest on debenture of an	
Insurance	4,200	Institution (Gross)	10,000
Depreciation	5,600	Rent from House Property	36,000
Compensation	10,200		
Law charges	5,100		
Labour welfare charges	3,800		
Subscriptions	5,800		
Net Profit	1,30,000		
	1,68,700		1,68,700

- (1) i. Interest includes ₹200 on loan taken for purchasing debentures of a company and ₹300 on loan taken for reconstruction of house property let out.
 ii. The expenses relating to house property let out are 40% of the repairs and renewal expenses.
 iii. Depreciation includes ₹1,200 on house property let out.
 iv. Compensation was paid to an employee whose dismissal was in business interest.
 v. Insurance includes 30% for fire insurance of the house property let out, 30% for workers accident insurance and the balance for life insurance.
 vi. Law charges include ₹2,000 relating to a petition filed against breach of contract and the balance regarding sales tax appeal.
 vii. Subscriptions include ₹2,000 given for election purpose to political parties.

(2) The amount not debited to profit and loss account are as follows-

- i. Expenses incurred on the occasion of Festival ₹800
- ii. Theft of cash from locker ₹1,200.
- iii. Expenses for new telephone connection in the business ₹2,000.

[7]

(b) Determine the Gross Total Income of Y and his wife from the following particulars for the year ending 31.03.2020:

- (i) Y and his wife are partners in a firm carrying on textile business, their respective shares of profit being ₹78,000 and ₹60,000.
- (ii) Their 16 year old son has been admitted to the benefits of another firm, from which he received ₹70,000 as his share of profit in the firm and ₹90,000 as interest on capital. The capital was invested out of minor's own funds amounting to ₹9,00,000.
- (iii) A house property in the name of Y was transferred to his wife on 01.12.2019 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 Y 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 Y for the purchase of the debentures in Y's name.
- (v) Y had transferred ₹50,000 to his wife in the year 2013 without any consideration which was given as a loan by her to Z. She earned ₹20,000 as interest during the earlier previous years which was also given on loan to Z. During the financial year 2019-20, she received interest at 10% p.a. on ₹70,000.
- (vi) Y transferred ₹65,000 to a trust, the income accruing from its investment as interest amounted to ₹6,500, out of which ₹5,000 shall be utilized for the benefit of his son's wife and ₹1,500 for the benefit of his son's minor child.

[8]

6.(a) Mrs. Priyanka Mehta is a Professor in the Department of Commerce, in Calcutta University. Following are the particulars of her income for the assessment year 2020-21:

- (i) Basic pay ₹60,000 per month;
- (ii) Dearness allowance 30% of salary
- (iii) House rent allowance 30% of basic salary
- (iv) Medical allowance ₹6000 p.a. (amount actually spent on treatment ₹2000);
- (v) Warden ship allowance ₹1000 p.m.
- (vi) Rent from house property ₹2000 p.m.
- (vii) Interest received from Government securities ₹5,000;
- (viii) Dividend received from an Indian company ₹1,500;
- (ix) Interest on Saving Bank deposits ₹62,000.
- (x) Contribution to Recognized Provident Fund 10% of basic salary;
- (xi) Premium paid by cheque on medical insurance policy on health of dependent mother ₹5,000, ₹2,000 for dependent mother in law and ₹1,000 for dependent brother;
- (xii) Donation to an approved charitable institution ₹1,00,000;
- (xiii) House rent paid ₹28,000 p.m.

Compute her total income for assessment year 2020-21.

[8]

MTP_Intermediate_Syllabus 2016_June2020_Set 1

- (b) X and Y, being members of an AOP with equal ratio, furnish the following details, compute tax liability of AOP and members:

Profit and loss account for the year ended 31-3-2020

Particulars	Amount	Particulars	Amount
Bonus to employee	5,000	Gross Profit	60,000
Other Expenses	14,000	Short term capital gain	6,000
Salary to	-		
X	5,000		
Y	5,000		
Interest on Capital @15%			
X	5,000		
Y	7,000		
Depreciation u/s 32	10,000		
Net Profit	15,000		
	66,000		66,000

Additional Information:

- Other expenses include expenditure of ₹ 4000, which is disallowed u/s 37.
- Other personal income of X & Y –

	X (₹)	Y (₹)
Dividend received	5,000	20,000
Interest on loan	25,000	2,49,000
Brought forward loss from house property	25,000	10,000

[7]

- 7.(a) Compute gross interest/dividend and net interest/dividend on securities and shares in the following cases:

- 10% Bonds of Industrial Development Bank of India of ₹3,20,000.
- 10% Debentures of PQR Ltd. listed on Kolkata Stock Exchange purchased at ₹96 (Face Value ₹100) ₹1,34,400.
- Interest received from debentures issued by Y Ltd. listed on Stock Exchange- ₹29,700.
- Interest received from debentures issued by a Ltd. Company not listed on Stock Exchange- ₹21,600
- Dividend received from A Ltd. on 19.05.2019- ₹2,400
- Dividend declared by the company on 05.06.2019 on shares of B Ltd. @50% on 1,000 shares of ₹10 each purchased at ₹60 per share.
- 10% Dividend on preference shares of ₹10 each amounting to ₹2,25,000 paid on 31.03.2020.

Also compute the income under the head other sources.

[8]

- (b) Discuss the following in relation to TDS Provision:

[3+4=7]

- Payment of certain sums by certain Individuals or Hindu Undivided Family [Sec. 194M]
- Payment of certain amount in cash [Sec. 194N].

8. Short Note: (any three)

[5x3=15]

- (a) Interchangeability of PAN and Aadhar [Sec. 139A(5E)]
- (b) Provision regarding furnishing of return in case of high volume transaction.
- (c) Scope and Disclosure requirement of ICDS III.
- (d) Issue of notice to the assessee U/s 142 (1).