

Paper 7- DIRECT TAXATION

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Full Marks: 100

Time allowed: 3 hours

All questions relate to Income Tax Assessment Year 2023-24 and the provisions stated relate to the Income-tax Act, 1961, unless otherwise stated in the question.

Answer Question Number 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) Rate of Interest accruing to a particular employee by virtue of his employer's contribution to Recognized Provident Fund is 12.5% p. a. In such a case:
- (a) Total Interest accrued is taxable
 - (b) Total Interest accrued is exempt
 - (c) Only 10% Interest is taxable
 - (d) Only 3% of interest is taxable
- (ii) Net Annual Value of a self-occupied property treated as such is:
- (a) Fair Rent
 - (b) Nil
 - (c) Reasonable Expected Rent as reduced by municipal tax paid during the previous year.
 - (d) None of the Above
- (iii) Deduction u/s 24(a) is computed as:
- (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
- (iv) Deduction u/s 35AD is available in respect of expenditure on specified business provided such business commenced its operation on or after 01-04-2009 subject to an exception that:
- (a) Business of industrial undertaking may be commenced at any time on or after 01-04-2007
 - (b) Business of laying and operating a cross-country natural gas pipeline network may be commenced at any time on or after 01-04-2007
 - (c) Business of cold chain facility may be commenced at any time on or after 01-04-2007
 - (d) All of the above

- (v) An individual purchased a painting on 01-11-2022 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. 2022-23.
- (vi) 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
- (vii) 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
- (viii) Tax is deducted at source on winning from lottery, the rate for such deduction in case of resident individual deductee is:
- (a) 30.9%
 - (b) Maximum marginal rate of tax
 - (c) 30% if such winning exceeds ₹ 10,000
 - (d) 33.99%
- (ix) Short term capital gain on sale of equity share through stock exchange:
- (a) is exempt u/s 10(38)
 - (b) is exempt u/s 10(37)
 - (c) is covered u/s 111A, hence liable to tax @ 15%
 - (d) is taxable @ 20% and @ 10% if index benefit is not claimed.
- (x) The preliminary expenses that can be amortized under the Income Tax Act, 1961 has to be restricted to _____ of the cost of project.
- (a) 3%
 - (b) 5%
 - (c) 8%
 - (d) 20%

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- (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)	Section 80P	(a)	20%
(ii)	Contribution of Employer to Pension Fund of Central Government	(b)	Compulsory filing of loss return
(iii)	Section 80	(c)	Includible as Salary income of employee
(iv)	Sec. 194E	(d)	₹ 10,000
(v)	Deduction u/s 80TTA	(e)	Income of co-operative societies

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

- (i) Telephone provided to an employee at his residence is a tax-free perquisite.
- (ii) Expenses of purchasing lottery tickets are deducted out of winning from lottery under the head income from other sources.
- (iii) A firm resident in India having total income of ₹ 1,46,000/- is eligible to claim deduction u/s 80D.
- (iv) Zero-coupons bonds shall be treated as 'short-term capital asset' if held for more than 12 months but not more than 36 months.
- (v) Capital gain arising from compulsory acquisition of a property under law is taxable in the year of receipt of compensation or part thereof.

- (D) Fill in the blanks: [5×1=5]**

- (i) Mr. A holds 25% of the equity shares in LMN Ltd., a listed company. He has borrowed a sum of ₹ 10 lakhs from this company on 21.03.2023. As on this date, the accumulated profits and free reserves are ₹ 8 lakhs. The deemed dividend taxable u/s 2(22) (e) of the Income Tax Act, 1961 is ₹ _____ (8,00,000/ 10,00,000 / Nil).
- (ii) Exemption u/s. 10(32) in respect of income of minor child included in the hands of assesses under Section 64(1A) is restricted to ₹ _____ per child.
- (iii) A company incorporated outside India is said to be resident in India, if place of _____ is situated in India.
- (iv) Mr. A, a senior citizen, has total income of ₹ 8 lacs, earned by way of interest from secured debentures. The advance tax payable by him is ₹ _____.
- (v) The maximum amount of retrenchment compensation exempt u/s 10 (10B) in the hands of a person, when received from a private scheme not approved by the Board, is ₹ _____.

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2. (a) (i) State How to determine the first previous year in case of a newly set-up business or profession or for a new source of income. [3]
- (ii) Mention the exceptions to the general rule that income of a Previous Year is taxed in its Assessment Year. [3]
- (iii) State the taxability of Income of Professional Institutions [Sec. 10(23A)] [3]
- (b) Mr. Rajesh owns two house properties both of which are let out. Compute his income from the following details:

Particulars	H1	H2
Situated at	Gaya	Mumbai
Gross Municipal value	1,00,000	2,00,000
Fair rent	95,000	2,10,000
Standard rent	90,000	2,00,000
Actual rent receivable	1,00,000	1,80,000
Unrealised rent of current year	8,000	2,000
Municipal tax	10%	1,000
Fire insurance	2,000	1,200
Repairs	Nil	2,000
Interest on loan for construction (@ 12%)	10,000	Nil

Other Information:

- 1) Loan taken for construction is still unpaid.
 - 2) Municipal tax of H1 is still unpaid, while, that of H2 is half paid by tenant. [6]
3. (a) Sri Ashutosh has been provided with a furnished accommodation in a city having population of 14,00,000 as per last census. Municipal Value of the house (owned by employer) is ₹ 80,000 whereas Fair rent of the house is ₹ 1,00,000. His salary details are as under:

Basic	25,000 p.m.
Allowance for increased cost of living	5,000 p.m.
Children Education allowance	3,000 p.m. [He has one son and two married daughters]

Furniture details as under:

Furniture	Hired by the employer (Hire charge)	Owned by the employer (Original Cost)
T.V.	2,000 p.a.	-
Refrigerator	-	10,000
Washing Machine	-	5,000
Other furniture	1,000 p.m.	20,000
Furniture	Hired by the employer (Hire charge)	Owned by the employer (Original Cost)
T.V.	2,000 p.a.	-
Refrigerator	-	10,000

Calculate gross taxable salary of Sri Ashutosh for the A.Y. 2023-24. [10]

- (b) Parikshit (aged 25 years) is engaged in growing and manufacturing tea in India. His profit for the previous year 2022-23 amounts to ₹10,00,000 which includes profit of ₹2,00,000 from sale of green leaves plucked in his own garden. He has no other income during the year. Compute the total income and total tax payable by Parikshit. **[5]**
4. (a) Mr. Shankar purchased 100 equity shares of M/s Goldi Co. Ltd. on 01-04-2006 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in the ratio of 1:1 on 01.12.2021. He has also received dividend of ₹ 10 per share on 01.05.2022. He has sold all the shares on 01.10.2022 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02% to celebrate his 70th birthday. Compute his total income and tax liability for Assessment Year 2023-24, assuming that he is having no income other than given above. Fair market value of shares of M/s Goldi Co. Ltd. on 31.1.2018 is ₹ 2,000. **[10]**
- (b) Mr. X, is suffering from low-vision (certified as severe disability). He has following incomes details -
- | | |
|-------------------------|------------|
| Net Salary | ₹ 45,000 |
| Short term capital gain | ₹ 45,000 |
| Long term capital gain | ₹ 1,50,000 |
- Mrs. X, suffering from leprosy (certified as 50% disable), is fully dependant on Mr. X. Compute his total income. **[5]**
5. (a) During the previous year 2022-23, Profit and Loss Account of Shri Raj, proprietor of Raj Enterprises engaged in the business of readymade garments, shows profits of ₹1,50,000. With the following information, compute his taxable income from business –
- 1) Interest on capital ₹ 5,000
 - 2) Purchases include goods of ₹12,000 from his younger brother in cash. However, market value of such goods is ₹ 9,000.
 - 3) Interest paid outside India ₹ 1,00,000 without deducting tax at source.
 - 4) Penalty paid to Government for non-filing of GST return ₹ 5,000
 - 5) Penalty paid to customer for non-fulfilling of order within time ₹ 10,000
 - 6) Bad debts ₹ 1,00,000. Money has been advanced for purchase of Building.
 - 7) Revenue expenditure on promoting family planning among employees ₹10,000.
 - 8) Premium paid on health of employees ₹ 6,000 in cash
 - 9) Premium paid on health of his relatives ₹ 6,000 in cheque
 - 10) Employer's contribution to RPF ₹ 12,000. One-half of the amount is paid after due date as per relevant Act but before 31-3-2023.
 - 11) Employees contribution to RPF ₹ 10,000. ½ of the amount is paid after due date as per relevant Act.
 - 12) Interest on late payment of professional tax ₹ 1,000 (yet to be paid)

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- 13) Interest on loan from State Bank of India ₹ 10,000 (₹ 5,000 is not paid till due date of filing of return)
- 14) Interest on late refund from income tax department ₹ 500
- 15) Sale includes sale to Raj ₹ 10,000. (Cost of such goods ₹ 8,000; Market value of such goods ₹ 12,000)
- 16) He received ₹ 80,000 from a debtor at a time in cash.
- 17) Recovery of bad debt ₹ 10,000 (out of which ₹ 8,000 was allowed as deduction during A.Y.2018-19)
- 18) Depreciation (being not debited in accounts) ₹ 20,000 allowed as deduction u/s 32

[8]

- (b) Mr. Samir submits the following details of his income for the assessment year 2023-24:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2017-18)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	7,000

Calculate gross total income and losses to be carried forward, assuming that he does not opt for the provisions of section 115BAC.

[7]

6. (a) Mr. X, a grower and manufacturer of tea, purchased machinery (15%) on 10-04-2021 for ₹ 10 lakh. He computed depreciation for A.Y. 2023-24 as given below; needs your comment on his working:

Particulars	Amount
Opening W.D.V. as on 1/4/2021	Nil
Add: Assets purchased during the year	10,00,000
	10,00,000
Less: Depreciation for the P.Y. 2021-22 [₹ 10,00,000 * 15% * 40%]	60,000
(As he is engaged in the business of growing and manufacturing tea; hence 60% is considered as part of agricultural income)	
Opening W.D.V. as on 1/4/2022	9,40,000
Less: Depreciation for the P.Y. 2022-23 [₹ 9,40,000 * 15% * 40%]	56,400
Opening W.D.V. as on 1/4/2023	8,83,600

Further, compute his business income for A.Y. 2023-24 assuming that his income before depreciation and without reducing element of agricultural income is ₹8,00,000/-

[4+3=7]

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

Profit and Loss Account for the year ended 31-3-2023

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:

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

	X	Y
Interest exempt u/s 10(15)	₹ 5,000	₹ 20,000
Interest on loan	₹ 25,000	₹ 2,49,000
Brought forward loss from house property	₹ 25,000	₹ 10,000

[4+4=8]

7. (a) Mr. Alok, a dealer in shares, received the following without consideration during the P.Y. 2022-23 from his friend Mr. Bikash, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2022.
- (2) Bullion, the fair market value of which was ₹60,000, on his birthday, 19th June, 2022.
- (3) A plot of land at Faridabad on 1st July, 2022, the stamp value of which is ₹ 5 lakh on that date. Mr. Bikash had purchased the land in April, 2009.

Mr. Alok purchased from his friend Mr. Kanu, who is also a dealer in shares, 1000 shares of Y Ltd. @ ₹ 400 each on 19th June, 2022, the fair market value of which was ₹ 600 each on that date. Mr. Alok sold these shares in the course of his business on 23rd June, 2022.

Further, on 1st November, 2022, Mr. Alok took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2022 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2023, he sold the plot of land at Faridabad for ₹ 8 lakh.

Compute the income of Mr. Alok chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2023-24. **[9]**

- (b) State the circumstances when TDS cannot be deducted on payment made to contractor as per Sec. 194C. **[6]**

8. Short Note: (any three)

[5x3=15]

- (a)** Verification of return of income in the case of an individual, HUF and political party
- (b)** Belated return under section 139(4)
- (c)** ICDS-I on "Accounting Policies"
- (d)** Scrutiny assessment