

Paper 7 – Direct Taxation (DTX)

Paper 7 – Direct Taxation

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. Transport allowance is exempt upto ₹ _____ p.m
 - A. 1,000 p.m
 - B. 1,500 p.m
 - C. 2,000 p.m
 - D. 1,600 p.m
- ii. ICDS are applicable who follows the _____ system of accounting.
 - A. Cash Basis
 - B. Receipt basis
 - C. Mercantile basis
 - D. None of the above
- iii. Best judgment assessment is covered under section _____.
 - A. 145
 - B. 143(1)
 - C. 145
 - D. 144
- iv. Form _____ is used for filing return of income by assessee having business income.
 - A. Form 1
 - B. Form 4
 - C. Form 3
 - D. Form 5
- v. ICDS VII is in relation to
 - A. Revenue recognition
 - B. Construction Contract
 - C. Tangible Fixed Assets
 - D. Government grants
- vi. Income tax is a _____.
 - A. Wealth tax
 - B. Direct tax
 - C. Indirect tax
 - D. Luxury tax
- vii. Personal effect don't cover the followings
 - A. Drawing
 - B. Jewellery
 - C. Immovable property
 - D. All of the above
- viii. TDS rate on interest on securities.
 - A. 2%
 - B. 5%
 - C. 10%
 - D. 20%
- ix. TDS rate on payment to contractor as per section 194C in case of payment to other assessee than individual / or HUF.
 - A. 1%
 - B. 2%

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- C. 3%
D. None of the above
- x. Unabsorbed depreciation can be carried forward for
A. 4 years
B. 5 years
C. 8 years
D. Any number of year

(b) Match the following.

5 x 1 = 5

	Column A		Column B
i	Cost of Inflation Index for F.Y 17-18	A	30% of the net annual value
ii	Section 2(22)	B	Section 64(1A)
iii	Standard Deduction	C	₹ 200 p.m to ₹ 1,300.
iv	Clubbing of Income of minor child	D	Deemed Dividend
v	Amount of exemption for Disturbed area allowance	E	272

(c) State true or false with reasons:

5 x 1 = 5

- i. Accumulated business loss can be carried for unexpired period and the unabsorbed depreciation can be carried forward indefinitely.
- ii. Maximum deduction under section 80U in case of person with severe disability is ₹ 75,000.
- iii. Profit on transfer of agricultural land shall not be treated as agricultural income.
- iv. An assessee, who receives leave encashment during continuation of his service, can also claim relief u/s 89.
- v. Where the person does not possess the Aadhaar Number, the Enrolment ID of Aadhaar application form issued to him at the time of enrolment shall be quoted.

(d) Fill in the blanks

5 x 1 = 5

- i. Failure to apply for PAN or to quote PAN in prescribed documents attracts penalty of ₹ _____ u/s 272B.
- ii. Where the advance tax liability of the assessee is ₹ _____ or more, the assessee should pay such tax in the previous year itself within the due date.
- iii. Two schools of Hindu law one is Dayabhaga and _____ school of Hindu Law.
- iv. Any transaction of immovable property in which possession is allowed against part performance of the contract shall be treated as _____.
- v. Foreign company means a company which is not a _____ company

Answer:1.a.

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

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Answer:1.b.

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

Answer:1.c.

- i. True
- ii. False. Maximum deduction under section 80U in case of person with severe disability is ₹ 1,25,000.
- iii. True
- iv. True
- v. True

Answer:1.d.

- i. ₹ 10,000
- ii. ₹ 10,000
- iii. Mitakshara
- iv. Transfer
- v. domestic

Part-II

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

2(a) The following are the particulars of income of Mr Pankaj for the previous year 2017-18. 7 Marks

Particulars	Amount (₹)
Rent from property in Delhi received in USA	80,000
Income from business in USA controlled from USA	1,20,000
Income from business in Bangalore controlled from USA	1,80,000
Rent from a property in USA received there but subsequently remitted to India	60,000
Interest from deposit with an Indian Company received in USA	20,000
Gift received from his parents	45,000
Profit for the year 2016-17 of a business in USA remitted to India during the previous year 2017-18.(Not taxed earlier)	75,000

Compute his income for the assessment year 2018-19 if he is:

- i. Resident and ordinary resident in India,
- ii. Not Ordinarily resident in India
- iii. Non-resident in India

2(b) Pankaj holds a house property in Delhi which is let out for ₹ 10,000 p.m, the municipal value of which is ₹ 1,00,000 and municipal taxes were 25% of municipal valuation. Pankaj paid during the previous year municipal tax of 6 years which relate to past 5 years as well as for the current year. The other expenses of the property as under: 8 Marks

	₹
Repairs	5,000

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Insurance premium	2,000
Interest for purchase of house	11,000
Ground rent due	2,000

Compute income of Mr Pankaj from house property for the assessment year 2018-19.

Answer:2.a.

Particulars	Resident and ordinary resident	Not ordinary resident	Non resident
Income earned / deemed to accrue / arise in India			
Rent from property in Delhi	80,000	80,000	80,000
Income from business in Bangalore	1,80,000	1,80,000	1,80,000
Interest from Indian Company	20,000	20,000	20,000
Income earned and received outside India, from a business controlled from India			
Income from business in USA	1,20,000	1,20,000	1,20,000
Income earned and received outside India			
Rent from property in USA	60,000		
	4,60,000	4,00,000	2,80,000

Note:

- Profit of 2016-17 are not income of the previous year 2017-18 and hence cannot be included in the income for assessment year 2018-19.
- Gifts received from relatives are capital receipts and are not regarded as income.

Answer:2.b.

Particulars	Amount (₹)	Amount (₹)
Gross annual value higher of the following two: Expected Rent	1,00,000	
Actual Rent received or receivable	1,20,000	
Therefore Gross Annual value		1,20,000
Less: Municipal taxes paid		1,50,000
Net annual value		(-)30,000
Less: Deduction u/s 24		
(a) Statutory deduction @ 30%	Nil	
(b) Interest	11,000	(-)11,000
(c) Income from house property		(-)41,000

3(a) Sri Pankaj is a purchase officer in a company in Kolkata. He furnished the following particulars regarding his income for previous year 2017-18. 8 Marks

Particulars	Amount (₹)
Basic salary per month	17,000
Bonus	5,000
Dearness allowance per month	3,000

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Travelling allowance. He spends ₹ 30,000 for official purposes.	45,000
Reimbursement of medical bill (treatment was done in a Government hospital in India)	25,000
He lived in a bungalow belonging to the company. Its fair rent is ₹ 15,000 per month. The company has provided on this bungalow the facility and a cook each of whom is being paid salary of ₹ 250 per month. The company paid in respect of this bungalow ₹ 5,000 for electric bill and ₹ 3,000 for water bills.	
He has been provided with 1.5 ltr. Engine capacity car for official and personal use. The maintenance and running expenses of the car (including car) are borne by the company.	
The following amounts were deposited in his provident fund account	
Own contribution	24,000
Company contribution	30,000
Interest @ 12% p.a	12,600
Rent of house recovered from Shri Pankaj	21,600

3(b) List down the instances of non agricultural Income.

7 Marks

Answer:3.a.

Particulars	Amount (₹)	Amount (₹)
Basic Salary		2,04,000
Bonus		5,000
Dearness Allowance		36,000
Travelling Allowance (45,000 – 30,000)		15,000
Electricity bill paid by the employer		5,000
Water bill paid by the employer		3,000
Value of a accommodation at concessional rate (being 15% of salary i.e 2,24,000) (2,04,000 + 5,000 + 15,000)	33,600	
Less: Rent paid	21,600	12,000
Benefit of cook		3,000
Benefit of watchman		3,000
Benefit of car (1,800 +900)=2,700 x 12		32,400
Employer contribution to RPF in excess of 12% of salary (30,000 – 24,480)		5,520
Interest on PF @ 12%	12,600	
Less: Exempt @ 9.5%	<u>9,975</u>	2,625
Gross Salary		3,26,545
Less: Deduction u/s 16		Nil
Income from salary		3,26,545
Medical reimbursement is exempt in full as treatment was done in a Government Hospital.		

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Answer:3.b. Instances of Non Agricultural Income:

- i. Salary received by an employee from any business (having agricultural income) is non-agro income.
- ii. Dividend received from a company engaged in agricultural operation is non-agro income.
- iii. Income from salt produced by flooding the land with sea-water is non-agro income.
- iv. Income from fisheries, poultry farming, dairy farming, butter & cheese making, etc. is non-agro income.
- v. Breeding & rearing of livestock is non-agro income.
- vi. Interest received by a moneylender in the form of agricultural produce is non-agro income.
- vii. Profit on sale of standing crops after harvest, where such crops were acquired through purchase is non-agro income.
- viii. Royalty income from mines is non-agro income.
- ix. Remuneration to a Director or Managing Director from a company engaged in agricultural business is non-agro income. The provision holds good even when such remuneration is on the basis of certain percentage of net profit.
- x. Income earned by a cultivator from conversion of sugarcane (raised on own land) to jaggery is non-agro income to the extent to which income is related to such conversion only. This is because sugarcane itself is marketable.
- xi. Interest on arrears of rent receivable in respect of agricultural land is non-agro income.
- xii. Income from a land situated outside India is non-agro income
- xiii. Annuity received by a person in consideration of transfer of agricultural land, is non-agro income.
- xiv. Income on supply of water for agricultural operation is non-agro income. The provision holds good even when such income is received in the form of agro-produce.
- xv. Income from sale of trees and grasses grown spontaneously (without any human effort), is non-agro income.

4(a) A owns two residential house properties. Property X was purchased by him in 1978 for ₹ 50,000 and property Y was purchased in 2002-03 for ₹ 6,70,000. Market value of property X and Y on 01.04.2001 was ₹ 4,25,000 and ₹ 5,00,000 respectively. Both the house properties was sold b him on 06.07.2017 for ₹ 18,50,000 each. Brokerage of ₹ 20,000 for each of such properties was paid by A.

The sale proceeds was invested by him in the following manner:

1. Purchase of residential properties on 05.03.2018 for 9,00,000
2. Purchase of agricultural land for ₹ 3,00,000
3. Deposit in capital gain scheme for construction of additional floor on the residential house property purchased

Date of deposit	Amount Deposited
16.5.2018	2,50,000
25.06.2018	1,00,000
31.07.2019	2,00,000

Compute capital gain for the assessment year 2018-19.

8 Marks

4(b) Amit, a business man submits the following particulars for the previous year 2017-18.

7 Marks

Particulars	Amount (₹)	Amount (₹)
Income from house property (computed)		1,30,000
Business Income (Computed)		40,000
Capital Gains (Short term)		20,000

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Capital Gains (Long term)		80,000
Income from other sources		
Interest from fixed deposit with a bank (gross)	12,000	
Winning from races	3,500	15,500
Deposit in PPF		12,000
He pays ₹ 3,000 p.m as rent for his residential accommodation in Delhi. Neither he, nor his family, owns any residential accommodation. Compute his Total Income for the assessment year 2018-19.		

Answer:4.a.

Assessment year 2018-19

Particulars	₹		Property X	Property Y
			₹	₹
Full value of consideration			18,50,000	18,50,000
Less: Expenses of transfer	20,000	20,000		
Indexed cost of acquisition				
Property ₹ X ₹ (₹ 4,25,000 x 272/100)	11,56,000			
Property ₹ Y ₹ (₹ 6,70,000 x 272/105)		17,35,619	11,76,000	17,55,619
Long term capital gain			6,74,000	94,381
Total Long Term capital gain 6,74,000 + 94,381				7,68,387
Less: Capital Gain exempt u/s 54 (₹ 9,00,000 + 2,50,000 + 1,00,000) but limited to long term capital gain				7,68,387
Taxable long term capital gain				Nil

Answer:4.b.

Particulars	Amount (₹)	Amount (₹)
Income from house property		1,30,000
Business Income		40,000
Capital Gains-Short term	20,000	
-Long term	80,000	1,00,000
Income from other sources		
Interest from fixed deposit	12,000	
Winning from races	3,500	15,500
Gross Total Income		2,85,500
Less: Deduction u/s 80C to 80U		
U/s 80C	12,000	
U/s 80GG	16,650	28,650
Total Income		2,56,850

Note:

- Deduction u/s 80GG shall be minimum of the following three amounts:

Rent paid 10% of Adjusted total Income	36,000-16,650	19,350
25% of Adjusted Gross total Income		48,375
₹5,000 per month		60,000

- The Adjusted Gross total Income is the Gross Total Income – Long Term Capital Gain – Deduction u/s 80C to 80U except u/s 80GG 2,85,500 – 12,000 = ₹ 1,93,500

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5(a) Mr Rajat furnishes the following information relevant for the assessment year 2018-19. 10 Marks

Profit and loss Account for the year ending 31.03.2018

Particulars	Amount (₹)	Particulars	Amount (₹)
Office expenses	15,000	Gross profit	4,32,900
Sundry Expenses	10,000	Sundry receipts	10,000
Entertainment expenditure	6,000	Bad debt recovered (not allowed as deduction earlier)	5,000
Audit fees	1,000	Customs duties recovered from the Govt (allowed as deduction earlier)	10,000
Legal charges / expenses	4,000	Gift received from father	20,000
Depreciation on plant and machinery purchased during the year @15% p.a for 6 months	300	Dividend (Gross) from Unit Trust of India	4,000
Salary to staff:		Interest in FDR with Bank	2,000
Salary	58,000	Interest on Government Securities	3,000
Bonus	4,000		
Contribution towards: Employee's Recognised Provided Fund	5,000		
Unapproved Gratuity Fund	4,000		
Sales tax paid	8,000		
Provision for sales tax	15,000		
Payment to Calcutta University for carrying on scientific research 7,200			
Copy right purchased during the year	35,000		
Net Profit	3,14,400		
	4,86,900		4,86,900

Additional information:

1. As shown in the P & L A/c ₹ 7,200 is paid to Calcutta University for the purpose of carrying on approved scientific research in natural sciences, not related to business of Mr. Rajat.
2. Provision for sales tax represents an outstanding tax liability.
3. Copyrights were purchased on 06.07.2017.
- 4.

Compute the total Income of Mr Rajat for the Assessment year 2018-19 assuming that he deposited ₹ 10,000 in a PPF Account during the previous year 2017-18.

5(b) Compute the taxable income in the following two situations

5 Marks

Particulars	Situation-I	Situation-II
	Amount (₹)	Amount (₹)
Income / Loss from manufacturing Business	1,50,000	(-)3,60,000
Income / Loss from speculation business	(-)80,000	(+)3,50,000
Loss from specified business referred to in section 35AD	(-)40,000	(+)40,000
Short term capital gain/loss	(-)1,70,000	(-)1,70,000
Agricultural income / loss	(-)40,000	(+)60,000

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Answer:5.a.

Computation of Income of Mr Rajat for the Assessment year 2018-19

	₹	₹	₹	₹
Profit and gains from business and profession				
Net profit as per P& L A/c			3,14,400	
Add: Expenses not admissible				
Unapproved gratuity fund		4,000		
Provision for sales tax		15,000		
Payment for copyrights (subject to depreciation)		35,000		
Depreciation on machine for separate consideration		<u>300</u>	54300	
			3,68,700	
Less: Income not taxable under this head or not taxable				
Bad debt recovered		5,000		
Gifts		20,000		
Dividends		4,000		
Bank Interest		2,000		
Interest on securities		<u>3,000</u>	34,000	
			3,34,700	
Less: 50% Additional deduction for scientific research		3,600		
Depreciation @15% on Machine	600			
@25% on copyright as intangible assets	<u>8,750</u>	9,350	12,950	
Income from business				3,21,750
Income from other sources:				
Dividends from UTI		Exempt		
Bank Interest on FDR		2,000		
Interest on securities		<u>3,000</u>		5,000
Gross Total Income				3,26,750
Computation of Taxable Income:				
Gross Total Income				3,26,750
Less: Deductions				
U/s 80C				10,000
Taxable Income				3,16,750
Tax on Income				
On 1 st ₹2,50,000			Nil	
On Balance of ₹ 66,750 @ 5%			3,338	3,338
Less: Rebate u/s 87A (limited to ₹ 2,500 provided the total income does not exceed ₹ 3,50,000)				2,500
				838
Add: Education cess & SHEC @ 3%				25
Tax Rounded off				860

Note:

1. Sales tax is allowed as deduction only when this is actually paid or paid as per section 43B.

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2. Bad debt recovered is those which were not allowed as deduction earlier. Hence these are not taxable.
3. Additional depreciation on purchase of plant and machinery is not allowed as the question does not state that the plant and machinery was put to use by an industrial undertaking.

Answer:5.b.

Particulars	Situation-I	Situation-II
	Amount (₹)	Amount (₹)
Income / Loss from manufacturing Business	1,50,000	(-)3,60,000
Income / Loss from speculation business	No set off	(+)3,50,000
Loss from specified business	No set off	(+)40,000
Total Income	1,50,000	30,000

Note:

1. Short term capital loss cannot be set off from any other head. No Loss can be set off from agricultural income.

6(a) Compute the total income of Mr X, a lecturer of a college affiliated to Calcutta University, for the Assessment year 2018-19 on the basis of the following particulars:

8 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
Winning from lotteries (Gross)	20,000
Expenses on lottery tickets	10,000
Interest on saving bank deposit	67,000
Deposit in recognised provided fund	1,22,000
Life Insurance premium paid	30,000

6(b) P Co-operative Society furnishes following details of income, compute taxable income for the purpose of A.Y. 2018-19:

7 Marks

Particulars	Amount (₹)
Income from collective disposal of labour	25,000
Income from marketing of the agricultural produce grown by its member	30,000
Income from marketing of the agricultural produce grown by outsider	3,000
Income from marketing of the agricultural produce grown by outsider	15,000
Dividend from X Ltd.	3,000
Income from processing of agricultural produce of its member with aid of power	50,000

Answer:6.a.

Computation of Income of Mr X for the Assessment Year 2018-19.

Particulars	Amount (₹)	Amount (₹)
Income from Salary		
Salary @ 50,000 p.m (50,000x 12)	6,00,000	

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Dearness Allowance	3,00,000	
Wardens allowance @ 1500 per month	18,000	9,18,000
Income from profession		
Royalty		2,73,000
Income from other sources		
Examinership Remuneration from University	25,400	
Interest from 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 (1,22,000 + 30,000)=1,52,000 but limited to 1,50,000	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
Tax on balance income of ₹ 8,50,400		82,580
Tax Payable		90,500
Add: Education cess & SHEC @ 3%		2,715
Net Tax Payable		93,220

Note:

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

Answer:6.b.

Computation of total income of P Co-operative Society for the A.Y. 2018-19

Particulars	Amount	Amount
Income from collective disposal of labour		25,000
Income from marketing of the agricultural produce grown by its member		30,000
Income from marketing of the agricultural produce grown by outsider		3,000
Dividend from another co-operative society		15,000
Dividend from X Ltd. [Exempt u/s 10(34)]		Nil
Income from processing of agricultural produce of its member with aid of power		50,000
Gross Total Income		1,23,000
Less: Deduction u/s 80P		
Income from collective disposal of labour	25,000	
Income from marketing of the agricultural produce grown by its member	30,000	
Dividend from another co-operative society	15,000	
Income from activity other than specified activity (co-operative society)	50,000	1,20,000
Total income		3,000

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

8

Marks

Particulars	Amount (₹)
10% Bond of Industrial Development Bank of India	3,20,000

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10% Debenture of ABC Ltd listed on Ahmadabad stock exchange purchased at ₹ 96 (Face Value ₹ 100)	1,34,400
Interest received from debenture issued by X Ltd. listed on Stock Exchange	29,700
Interest received from debenture issued by a Ltd. Company not listed on Stock Exchange	21,600
Dividend received from A Ltd. on 25.05.2017	2,400
Dividend declared by the company on 05.07.2017 on shares of B Ltd. @ 50% on 1,000 shares of ₹ 10 each, which were purchased at ₹ 60 per share.	
10% Dividend on preference shares of ₹ 10 each paid on 31.03.2018	2,25,000

7(b) Discuss the provision of TDS on "Rent".

7

Marks

Answer:7.a

Particulars	Gross Interest/Dividend	Rate of TDS	TDS Amount	Net Interest after TDS
10% Bond of Industrial Development Bank of India	32,000	10%	3,200	28,800
10% Debenture of ABC Ltd (Listed)	14,000	10%	1,400	12,600
Interest received on debenture of X Ltd (Listed) ₹ 29,700 x 100/90	33,000	10%	3,300	29,700
Interest received on debenture (not listed) ₹ 21,600 x 100/90	24,000	10%	2,400	21,600
Dividend received from A Ltd.	2,400	Nil		2,400
Dividend on shares of B Ltd	5,000	Nil		5,000
Preference shares dividend	22,500	Nil		22,500

Answer:7.b.

TDS on "Rent":

Who is responsible to deduct tax: Following persons are responsible to deduct tax at source on rent to a resident person -

- Any person, other than individual or HUF; &
- Individual or HUF, whose books of account are required to be audited u/s 44AB (due to turnover or gross receipt criteria) during the financial year immediately preceding the financial year in which such rent is credited or paid.

Note: Tax shall not be deducted if the aggregate amounts of rent credited or paid during the financial year to the payee does not exceed ₹ 1,80,000.

Taxpoint: Where the share of each co-owner is known, the limit of ₹1,80,000 is applicable to each co-owner separately.

"Rent" means any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of (either separately or together) any, -

a) Land	b) Building (including factory building)	c) Land appurtenant to a building (including factory building)
d) Machinery	e) Plant	
f) Furniture	g) Fittings	h) Equipment

- whether or not any or all of the above are owned by the payee.

When tax shall be deducted: At the time of payment or crediting the account of payee, whichever is earlier.

Rate of TDS:

Nature of Assets	Rate
Machinery or plant or equipment	2%
Land or building (including factory building) or land appurtenant to a building (including factory building) or furniture or fittings	10%

When TDS cannot be made

- ❖ Where the payee is the Government, local authorities u/s 10(20) and statutory authorities u/s 10(20A), then TDS cannot be made - [Circular No. 699, dated 30-1-1995].
- ❖ Where rent is credited or paid to a business trust, being a real estate investment trust, in respect of any real estate asset, referred to in sec. 10(23FCA), owned directly by such business trust.

Exemption or relaxation from the provision

- ❖ When a declaration in Form 15G (in duplicate) is furnished by the assessee to the payer [Refer sec.197A]
- ❖ When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax. [Refer sec.197].

Other Points

- ❖ **Payment by an individual reimbursed by the company:** Where an employee or an individual representing a company (like a consultant, auditor, etc.) makes a payment for hotel accommodation directly to the hotel, the question of tax deduction at source would not normally arise (except where he is covered u/s 44AB). This is because, it is the employee or such individual who makes the payment and the company merely reimburses the expenditure. [Circular No. 5/2002, dated 30-7-2002]
- ❖ **Lump sum lease premium or one-time upfront lease charges:** which are not adjustable against periodic rent, paid or payable for acquisition of long-term leasehold rights over land or any other property are not payments in the nature of rent within the meaning of sec. 194-I. Therefore, such payments are not liable for TDS u/s 194-I [Circular 35/2016 dated 13-10-2016].

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

(5 x 3=15 Marks)

- Mode of furnishing Income Tax Return.
- Intimation by Income Tax Department.
- ICDS IV on "Revenue Recognition".
- Self Assessment.

Answer:

A. Modes of Furnishing Income Tax Return:

- Paper Return
- Electronic Return with Digital Signature
- Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V
- Transmitting the data electronically in the return under electronic verification code

Notes

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1. Compulsory E-Return:

Person	Condition	Mode
Company	-	Electronically with digital sign
Political Party	-	
Firm or LLP or Individual or HUF	Audit u/s 44AB required	
Individual or HUF	Where total income assessable during the previous year of a person: a. being an individual of the age of 80 years or more at any time during the previous year; or b. whose income does not exceed ₹ 5 lakh and no refund is claimed in the return of income, and who furnishes the return in Form No. ITR-1 or Form No. ITR-4	Any of the given mode
Any other person		Any mode other than paper mode

2. A resident Individual (other than not-ordinarily resident) or a resident HUF (other than not-ordinarily resident) must file the return of income electronically (with or without digital sign) if he/it has:
 - (a) assets (including financial interest in any entity) located outside India; or
 - (b) signing authority in any account located outside India.
3. Further, any person who has claimed any relief u/s 90 or 90A or 91, is required to file return electronically.
4. Form ITR 1 cannot be used by:
 - a) is an ordinarily resident and has,—
 - i. assets (including financial interest in any entity) located outside India; or
 - ii. signing authority in any account located outside India; or
 - iii. income from any source outside India
 - b) has claimed any relief of tax u/s 90 or 90A or deduction of tax u/s 91
 - c) has agricultural income, exceeding ₹ 5,000;
 - d) has total income, exceeding ₹ 50 lakh;
 - e) has income taxable u/s 115BBDA; or
 - f) has income of the nature referred to in sec. 115BBE.
5. Form ITR 4 cannot be used by
 - a) is an ordinarily resident and has,—
 - i. assets (including financial interest in any entity) located outside India; or
 - ii. signing authority in any account located outside India; or
 - iii. income from any source outside India
 - b) has claimed any relief of tax u/s 90 or 90A or deduction of tax u/s 91
 - c) has agricultural income, exceeding ₹ 5,000;
 - d) has income taxable u/s 115BBDA; or
 - e) has income of the nature referred to in sec. 115BBE.
6. Where an assessee is required to furnish a report of audit specified u/s 10(23C)(iv), (v), (vi) or (via), sec. 10A, sec. 12A(1)(b), sec. 44AB, sec. 80-IA, sec. 80-IB, sec. 80-IC, sec. 80-ID, sec. 80JJAA, sec. 80LA, sec. 92E or sec. 115JB, he shall furnish the same electronically. Apart from said report, the return shall paper less.

B. Intimation by Income Tax Department:

After submission of return or on non-submission of return by the assessee, assessment is made by the Income tax department. The Assessing Officer can assess the income of the assessee in any of the following manner:

1. Intimation u/s 143(1);
2. Scrutiny Assessment u/s 143(3);
3. Best Judgment Assessment u/s 144;
4. Income Escaping Assessment u/s 147

For making assessment, the Assessing Officer can make an inquiry. Provision relating to inquiry before assessment are as under:

Inquiry before Assessment:

1. Issue of notice to the assessee [Sec. 142(1)]
 - to submit a return [Sec. 142(1)(i)]
 - to produce accounts, documents etc. [Sec. 142(1)(ii) & (iii)]
2. Making inquiry [Sec. 142(2)]
3. Giving direction to get books of account audited [Sec. 142(2A) to (2D)]
4. Opportunity of being heard [Sec. 142(3)]
5. Estimate by Valuation Officer in certain cases [Sec. 142A]

Issue of notice to the assessee [Sec. 142(1)]

For the purpose of making assessment, the Assessing Officer may serve a notice on any person -

- who has submitted a return u/s 139; or
- in whose case the time allowed u/s 139(1) for furnishing the return has expired.

Such notice may relate to any of the following matter -

1. Notice to submit a return [Sec. 142(1)(i)]: If the assessee has not submitted a return of income within specified time, the Assessing Officer may require him to submit a return in the prescribed form on or before the date specified in the notice.

Taxpoint: In case assessee has not furnished the return of income, it is not mandatory for the Assessing Officer to issue notice u/s 142(1)(i) if he wishes to make best judgment assessment.

2. Notice to produce accounts, documents etc. [Sec. 142(1)(ii)]: The Assessing Officer may ask the assessee to produce such documents or accounts as he may require.

Exception: Assessing Officer shall not require the production of any accounts pertaining to a period more than 3 years prior to the previous year.

3. Notice to furnish information [Sec. 142(1)(iii)]: Assessing Officer may require the assessee to furnish in writing information in such form and on such points or matters as he may require (including a statement of all assets and liabilities of the assessee, whether included in the accounts or not). However, prior approval of the Joint Commissioner shall be obtained before requiring the assessee to furnish a statement of all assets and liabilities not included in the accounts.

Taxpoint: Notice u/s 142(1)(i) can be served only if return has not been submitted where as notice u/s 142(1)(ii) & (iii) can be served whether return has been furnished or not.

Making inquiry [Sec. 142(2)]

For the purpose of obtaining full information in respect of the income (or loss) of any person, the Assessing Officer may make such inquiry, as he considers necessary.

Taxpoint: U/s 142(1) Assessing Officer collects information from the assessee, however u/s 142(2) Assessing Officer has the power to collect information from any source.

Giving direction to get books of account audited [Sec. 142(2A) to (2D)]

The Assessing Officer (after giving reasonable opportunity to the assessee) may direct the assessee to get his accounts audited if he is of the opinion that it is necessary to do so having regard to the -

- nature and complexity of the accounts, volume of the accounts, doubts about the correctness of the accounts, multiplicity of transactions in the accounts or specialised nature of business activity of the assessee; and

- interest of revenue.

Such direction can be issued even if the accounts of the assessee have already been audited u/s 44AB or any other law for the time being in force

Opportunity of being heard [Sec. 142(3)]

The assessee must be given an opportunity of being heard in respect of any material gathered on the basis of any inquiry u/s 142(2) or any audit u/s 142(2A) and is proposed to be utilised for the purpose of the assessment.

Note: Sec. 142(3) shall not be applicable in case of assessment u/s 144.

Estimation by Valuation Officer in certain cases [Sec. 142A]

The Assessing Officer may, for the purposes of assessment or reassessment, make a reference to a Valuation Officer to estimate the value, including fair market value, of any asset, property or investment and submit a copy of report to him.

- "Valuation Officer" has the same meaning as in clause (r) of section 2 of the Wealth-tax Act, 1957

The Assessing Officer may make a reference to the Valuation Officer whether or not he is satisfied about the correctness or completeness of the accounts of the assessee.

The Valuation Officer, on a reference made, shall, for the purpose of estimating the value of the asset, property or investment, have all the powers that he has under section 38A of the Wealth-tax Act, 1957.

The Valuation Officer shall, estimate the value of the asset, property or investment after taking into account such evidence as the assessee may produce and any other evidence in his possession gathered, after giving an opportunity of being heard to the assessee.

The Valuation Officer may estimate the value of the asset, property or investment to the best of his judgment, if the assessee does not co-operate or comply with his directions.

The Valuation Officer shall send a copy of the report of the estimate made to the Assessing Officer and the assessee, within a period of 6 months from the end of the month in which a reference is made.

The Assessing Officer may, on receipt of the report from the Valuation Officer, and after giving the assessee an opportunity of being heard, take into account such report in making the assessment or reassessment.

C. ICDS IV on "Revenue Recognition":

Scope

The Standard deals with the bases for recognition of revenue arising in the course of the ordinary activities of a person from:

- a) the sale of goods;
 - b) the rendering of services;
 - c) the use by others of the person's resources yielding interest, royalties or dividends.
- ✓ Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from the sale of goods, from the rendering of services, or from the use by others of the person's resources yielding interest, royalties or dividends. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.
 - ✓ The Standard does not deal with the aspects of revenue recognition which are dealt with by other ICDS.

Sale of Goods

Revenue from sales transactions should be recognized when the following conditions are fulfilled -

- a) The seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer;
- b) The seller retains no effective control of the goods transferred to a degree usually associated with ownership;

- c) There is reasonable certainty of its ultimate collection.

Rendering of Services

- ❖ Revenue from service transactions shall be recognised by the percentage completion method.
- ❖ Under this method, revenue from service transactions is matched with the service transaction costs incurred in reaching the stage of completion, resulting in the determination of revenue, expenses and profit which can be attributed to the proportion of work completed.
- ❖ However, when services are provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on a straight line basis over the specific period.
- ❖ Revenue from service contracts with duration of not more than 90 days may be recognised when the rendering of services under that contract is completed or substantially completed.

Interest

- ❖ Interest shall accrue on the time basis determined by the amount outstanding and the rate applicable.
- ❖ Interest on refund of any tax, duty or cess shall be deemed to be the income of the previous year in which such interest is received.
- ❖ Discount or premium on debt securities held is treated as though it were accruing over the period to maturity.

Royalty

Royalties shall accrue in accordance with the terms of the relevant agreement and shall be recognised on that basis unless, having regard to the substance of the transaction, it is more appropriate to recognize revenue on some other systematic and rational basis.

Dividend

Dividends are recognised in accordance with the provisions of the Act

Disclosure

Following disclosures shall be made in respect of revenue recognition:

- a) in a transaction involving sale of goods, total amount not recognised as revenue during the previous year due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty;
- b) the amount of revenue from service transactions recognised as revenue during the previous year;
- c) the method used to determine the stage of completion of service transactions in progress; and
- d) for service transactions in progress at the end of previous year:
 - i. amount of costs incurred and recognised profits (less recognised losses) upto end of previous year;
 - ii. the amount of advances received; and
 - iii. the amount of retentions.

D. Self Assessment:

In self-assessment, assessee itself is responsible to determine its taxable income, tax liability and to pay tax accordingly. Provision of sec. 140A is as follows –

- a) Where any tax is payable (after deducting relief, rebate, advance payment of tax or tax deducted or collected at source or MAT or AMT credit, if any) on the basis of return furnished the assessee is required to pay such tax before filing the return.

Taxpoint: A return furnished without paying self-assessment tax & interest, if any, shall be treated as defective return.

- b) If any interest is payable for delayed filing of return (u/s 234A) or default in payment of advance tax (u/s 234B) or for deferment of advance tax (u/s 234C) or fee (u/s 234F) is payable for filing return after due date, then such interest or fee should be paid along with self-assessment tax.

Note: While calculating above interest for the purpose of self-assessment, tax on the total

income declared in the return shall be considered.

- c)** Where the amount paid by the assessee falls short of the aggregate of tax, interest and fee, the amount so paid shall first be adjusted towards fee and thereafter towards interest payable and the balance, if any, shall be adjusted towards tax payable.
- d)** After assessment, any amount paid under this section shall be deemed to have been paid towards such assessment.
- e)** If an assessee fails to pay whole or any part of such tax or interest or both in accordance with the provisions of sec. 140A, he shall be deemed to be an assessee in default.