



Paper 7- Direct Taxation

Paper-7: - Direct Taxation

Full Marks: 100

Time allowed:3 hours

All question relate to income –tax assessment Year 2018-19 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 question Question Nos.2 to 8.

1. (a) Choose the most Appropriate alternative for the following (Option to be given only in capital letters A,B,C or D ; entire answer need Not be reproduced); 1 X 10 =10

(i) Best Judgment assessment is covered u/s

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

(ii)W.e.f. 01-04-2016, 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

(iii)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

(iv)Gift of a capital asset is not considered as transfer, however exception is:

- (a) Shares acquired under Employees Stock Option Plan
- (b) Jewellery
- (c) Immovable property
- (d) Nil

(v) A person is deemed to have substantial interest in a company if he is

- (a) The owner of at least 20% of equity capital of the company
- (b) The owner of at least 25% of equity capital of the company
- (c) Entitled to 10% of profits of the concern
- (d) An employee director

MTP_Final_Syl2016_June,2019_Paper7_Set 1

(vi) While computing taxable interest on delayed compensation, a standard deduction is allowed @

- (a) 50 %
- (b) 30 %
- (c) 15%
- (d) Nil

(vii) A payment of ₹ 25,000 is made to the road transport-operator on 20-02-2019 in cash, consequently, amount disallowed u/s 40A(3) is

- (a) Nil
- (b) 25,000
- (c) 5,000
- (d) None of the above

(viii) 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 %

(ix) Income from sub-letting is:

- (a) Taxable under the head 'Income from House Property'
- (b) Taxable under the head 'Income from Other Sources'
- (c) Exempted
- (d) None of the above

(x) Statutory limit u/s.16(ii) for deduction of entertainment allowance in case of a non-Government employee is

- (a) 5,000
- (b) 12.5 % of employees' salary
- (c) 20% of employees' salary
- (d) NIL

(b) Match The following (Sufficient to give the corresponding item in column 3 for column 1; reproducing columns 2 and 4 are not required):

1 X5=5

1	2	3	4
(i)	Section 80	(A)	Effect of changes in foreign exchange rates
(ii)	ICDS VI	(B)	Compulsory filing of loss return
(ii)	Section 80P	(C)	Zero Coupon Bonds
(iv)	Section 59	(D)	Income of co-operative societies

MTP_Final_Syl2016_June,2019_Paper7_Set 1

(v)	Section 2(48)	(E)	Profit chargeable to tax
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(c) State whether the following statements are True or False : 1 X5=5

- (i) Share of a private limited company held for 15 months before its sale is a long-term capital asset.
- (ii) It is not possible to have negative income under the head 'income from house property'.
- (iii) Any income derived from land situated in India is agricultural income.
- (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) Leave encashment received while in service is taxable.

(d) Fill in the blanks: 1 X5=5

- (i) A foreign company is liable to surcharge at 5%, if the total income exceeds _____.
- (ii) Maximum amount of exemption under section 10(10C) of the Income-tax Act in respect of compensation received for voluntary retirement is _____.
- (iii) Interest payable to a partner by a firm shall not exceed _____ (18% /12%) per annum.
- (iv) Deposit in public provident fund in the name of minor child is _____ u/s 80C in the hands of contributing parent.
- (v) Interest on refund on Income-tax paid in excess is a _____ receipt.

2(a) Mr John, a foreign national, comes India every year for 90 days since 2003-04.

- i) Determine her residential status for the previous year 2018-19.
- ii) Will your answer differ, if he comes India for 100 days instead of 90 days every year. [6]

2(b) Mr. Ajnabi has a house property in Cochin. The house property has two equal dimension residential units. Unit 1 is self occupied throughout the year and unit 2 is let out for 9 months for ₹10,000 p.m. and for remaining 3 months it was self-occupied. Compute his taxable income from the following details:

Municipal value ₹2,00,000, Fair Rent ₹1,60,000, Standard rent ₹3,00,000, Municipal tax 10% (60% paid by assessee), Interest on loan ₹ 40,000, Expenditure on repairs ₹ 20,000 [9]

3(a) Sri Pabir 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 daughters]

MTP_Final_Syl2016_June,2019_Paper7_Set 1

Furniture details as under:

Furniture	Hired by the employer (Hire charge) (₹)	Owned by the employee (Original Cost) (₹)
T.V.	2,000 p.a.	-
Refrigerator	-	19,000
Washing Machine	-	6,000
Other furniture	1,000 p.m.	25,000

Calculate gross taxable salary of Sri Pabir for the A.Y. 2019-20. [9]

(b) XYZ 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)	20
Sugarcane sold in market (1,000 tons)	6
Sugarcane used for sugar manufacturing (4,000 tons)	-
Cost of conversion	10
Sugar produced & sold in market	50

Compute income of X Ltd. [6]

4(a) T Ltd. grants option to its employee Rajat on 1st April, 2014 to apply for 1000 shares of the company for making available right in the intellectual property to the employer-company at a pre-determined price of ₹ 300 per share with date of vesting of the option being 1st April, 2016 and exercise period being 1st April, 2016 to 31st March, 2019. Mr. Rajat exercises his option on 31st May, 2018 and shares are allotted/transferred to him on 13th June, 2018. Fair market value of such share on different dates are as under:

01-04-2014	01-04-2016	31-05-2018	13-06-2018
₹ 940	₹ 1,780	₹ 2,500	₹ 2,940

On 31-12-2018, Mr. Rajat gifted 25 shares to his brother and sold balance shares at market value of ₹ 4,360 per share. Compute taxable value of perquisite, if any, and capital gain in hands of Mr. Rajat for A.Y. 2019-20. [8]

(b) X completed his studies on 1-04-2018 and was immediately employed by the Government on the following terms –

Basic Salary	₹ 20,000 p.m.
DA	₹ 5,000 p.m. (forming a part of retirement benefit)

During the year, his employer contributed ₹ 33,000 to the pension scheme being notified u/s 80CCD of the Income Tax Act, 1961. X also contributed similar amount. His income from house property is ₹ 50,000. During the year he contributed ₹ 15,000 to pension plan of LIC, to PPF ₹ 1, 00,000 and paid LIC premium of ₹ 16,000 (Policy value ₹ 1, 20,000). Compute his total income. [7]

MTP_Final_Syl2016_June,2019_Paper7_Set 1

5(a) Mr. Sunil is a practicing Cost Accountant. He also runs a private coaching institute. His bank accounts 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 expenses	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

- (a) 20% of motor car expenses is in respect of profession.
 - (b) Depreciation allowance for motorcar is ₹ 27,000, if wholly used for profession.
 - (c) 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.
 - (e) Office expenses include payment of ₹ 2,000 incurred during the previous year 2017-18.
- Compute his gross total income for the A.Y. 2019-20 assuming he maintains accounts on cash basis. [10]

5(b) Mr. & Mrs. X working in A Ltd. without possessing any qualification. From the following details compute their income for the A.Y. 2019-20:

Particulars	Mr. X	Mrs. X
Share of holdings	15%	6%
Taxable salary from A Ltd.	₹ 1,20,000	₹ 60,000
Case 1) Other income	₹ 50,000	₹ 80,000
Case 2) Other income	₹ 90,000	₹ 65,000
Case 3) Other income	Nil	Nil

[5]

6(a) Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2018, he owns 10 trucks (out of which 6 are heavy good vehicles of (unladen weight of each is 20 ton). On 2/5/2018, he sold one of the heavy goods vehicles & purchased a light goods vehicle on 6th May, 2018. This new vehicle could however be put to use only on 15-6-2018.

Compute the total income of Mr. Sukhvinder for the A.Y. 2019-20 taking note of the following data:

MTP_Final_Syl2016_June,2019_Paper7_Set 1

Particulars	Amount(₹)	Amount(₹)
Freight Charges collected		8,70,000
Less: Operational expenses	6,25,000	
Depreciation as per Sec. 32	1,85,000	
Other Office expenses	15,000	8,25,000
Net Profit		45,000
Other business and non-business income		70,000

[9]

6(b) P Co-operative Society furnishes following details of income, compute taxable income for the purpose of A.Y. 2019-20:

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.	₹ 3,000
Income from processing of agricultural produce of its member with aid of power	₹ 50,000

[6]

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

Particulars	Amount(₹)
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 expenditures 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 for personal expenses	18,000
Payment made to LIC as premium	2,000

[10]

7(b) TDS on Payment from Employees Provident Fund [Sec. 192A]-Discuss

[5]

8. Write short notes on any three of the following:

5 X 3=15

- (a) When a return is termed defective (any five)
- (b) Forms – Return of income
- (c) Treatment of Government Grants-As per ICDS VII
- (d) Revocable Transfer u/s 61.

