

Paper-7 – Applied Direct Taxation

Time Allowed: 3 hours

Full Marks: 100

All the questions relate to the assessment year 2015-16, unless stated otherwise.

Working notes should form part of the answers.

Answer **Question No. 1** which is compulsory and **any five** from the rest

Question No 1.

(a) Choose the most appropriate alternative:

- (i) The amount of exemption for leave encashment in case of Government employee on termination of service or after retirement is —
(A) Actual amount of leave encashment received;
(B) fully exempted from tax;
(C) ₹ 3,00,000;
(D) 10 months average salary preceding the month of retirement
- (ii) The basis of chargeability under the head income from house property is —
(A) Annual Value;
(B) Municipal Value;
(C) Standard Rent;
(D) Fair Rent
- (iii) The Cost Inflation Index as notified by the Central Government for the previous year 2014-15 is —
(A) 852;
(B) 1024;
(C) 939;
(D) 100.
- (iv) Which one of the following is not considered for deduction u/s 80C of the Income-tax Act?
(A) contribution by an employee to a recognised provident fund;
(B) contribution by an employee to an approved superannuation fund;
(C) medical insurance premium paid by any mode of payment other than cash;
(D) subscription to any such security of the Central Government or any such deposit scheme as that Government may, by notification in the Official Gazette, specify in this behalf
- (v) Advance tax is payable by any person for the assessment year immediately following the financial year when the tax payable is —
(A) ₹ 10,000 or more;
(B) Less than ₹ 10,000;
(C) ₹ 5,000 or more;
(D) Less than ₹ 5,000

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- (vi) Residential status of a company can be determined by which of the following sections of Income-tax Act:
- (A) Section 6(4);
 - (B) Section 6(1);
 - (C) Section 6(6);
 - (D) Section 6(3)
- (vii) Which of the following is not the condition for claiming exemption for House Rent Allowance:
- (A) Assessee is in receipt of HRA;
 - (B) Pays Rent;
 - (C) Rent paid is more than 10% of salary;
 - (D) Location of the accommodation
- (viii) Capital assets include:
- (A) House property;
 - (B) Stock in trade;
 - (C) Personal effects;
 - (D) Rural agricultural lands in India
- (ix) Wealth tax is payable on amount by which 'net wealth' exceeds —
- (A) ₹ 15,00,000;
 - (B) ₹ 30,00,000;
 - (C) ₹ 1,00,000;
 - (D) ₹ 20,00,000
- (x) Rate of tax deducted at source in case of professional income —
- (A) 7%;
 - (B) 10%;
 - (C) 2.5%;
 - (D) 5%
- (xi) Which one of the following is liable to pay wealth tax —
- (A) Club;
 - (B) HUF;
 - (C) Political party;
 - (D) Social club
- (xii) Maximum deduction available in respect of a medical treatment of handicapped dependent with severe disability of 80% or more is:
- (A) ₹ 50,000;
 - (B) ₹ 75,000;
 - (C) ₹ 1,00,000;
 - (D) ₹ 40,000
- (xiii) The amount of penalty which may be imposed under section 271F of Income-tax Act if belated return is submitted after the end of Assessment Year is —
- (A) ₹ 10,000;

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- (B) ₹ 5,000;
- (C) ₹ 50,000;
- (D) ₹ 1,000

[13 × 1]

(b) Fill up the blanks:

- (i) Section _____ specifies deduction in respect of certain donations for scientific research or rural development.
- (ii) _____ Tax includes services tax like Water Tax and Sewerage Tax levied by any Local Authority.
- (iii) The maximum limit of exemption u/s 10(10B) in case of retrenchment compensation is _____.
- (iv) Where bonus shares are issued prior to 1.4.81, the cost of acquisition shall be the _____ as on _____.
- (v) The rate of TDS for dividend paid by a company to any person u/s 194 will be @ _____% if PAN is provided.
- (vi) In case of an individual cash in hand on the last moment of the valuation date in excess of _____ is an 'asset' u/s 2(ea) of Wealth Tax Act.
- (vii) Standard deduction of _____ % of _____ shall be allowed to the assessee in computation of income from house property which is let out to tenants.
- (viii) Rate of additional depreciation is _____ % of the actual cost of Plant or Machinery.
- (ix) Loss incurred by an assessee from a source, income from which is exempt _____ be set off against income from a taxable source.
- (x) 15% of Advance Tax should be paid by a corporate assessee on or before _____.

[12 × 1]

Question 2.

(a) Discuss in respect of the following items, the manner of treatment for Mrs. P's wealth-tax assessment for the assessment year 2015-16.

1. Mrs. P has two cars for her personal use each being of value of ₹ 95,000.
2. She has another house property at Nainital given to her as a gift by her father on January 1, 1971 on the occasion of her birthday. This house is also used by her as her own residence where she lives during summer vacations only. The value of the house on March 31, 2015 was ₹ 25,00,000.
3. Jewellery received from her father at the time of her marriage in 1956 was of the value of ₹ 1,20,000 on March 31, 2015.

(b) What are the basic conditions for determination of residential status of an individual [u/s 6(1)]? Also specify the exceptions of it.

(c) State to whom Alternate Minimum Tax shall not be applicable as per Section 115JEE(2).

(d) What are the duties and powers of Inspectors of Income Tax?

[4+5+4+2]

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Question 3.

- (a) Mr. X and Mr. Y own the house property of H₁ and H₂ respectively. The details of which are as follows —

	H ₁ ₹	H ₂ ₹
Municipal value (MV)	1,20,000	1,20,000
Fair rent (FR)	1,30,000	1,30,000
Standard rent under the Rent Control Act (SR)	1,10,000	1,10,000
Actual rent if property is let out throughout the previous year	1,26,000	1,26,000
Unrealised rent of the previous year 2014-15 as per Rule 4	10,500	Nil
Period when the property remains vacant (in number of month)	1 month	Nil
Loss due to vacancy	10,500	Nil
Municipal taxes—		
Tax of the year 2014-15	18,000	18,000
- Paid by X and Y during 2014-15	16,000	9,000
- Paid by X and Y after March 31, 2015	2,000	1,000
- Paid by tenants during 2014-15	-	8,000

Find out the income from properties chargeable to tax for the assessment year 2015-16.

- (b) What do you mean by annexure less return? What is the manner of filling the return of income?
- (c) Mr. Dey sells a residential house property at a long-term capital gain of ₹ 75,000. He invests ₹ 80,000 within 3 years in construction of the first floor and barsati (to be used for residence) to another house owned by him since 1949. Is ₹ 75,000 exempt from tax under section 54? (Specify in details)

[8+4+3]

Question 4.

- (a) Ravi purchases the following movable and immovable properties from persons who are not his relatives. State the tax liability in the hands of Ravi.

Date of purchase	Property	Purchase price ₹	Stamp duty value ₹	Fair market value ₹
April 22, 2014	House I	21 lakh	21.5 lakh	----
June 27, 2014	Plot of land	30 lakh	30.5 lakh	----
August 22, 2014	Gold ring	5 lakh	----	5.5 lakh
October 23, 2014	Shares	8 lakh	----	8.5 lakh

- (b) A & Co. (a firm with partners A and B) is engaged in the business of manufacturing (turnover of 2014-15 being ₹ 87,80,000). It wants to claim the following deduction —

	₹
Salary and interest to partners [as permitted by section 40(b)]	60,000
Salary to employees	4,90,000
Depreciation	2,70,000
Cost of material used	75,90,000

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Other expenses	3,45,000
Total	87,55,000
Net profit (₹ 87,80,000 minus ₹ 87,55,000)	25,000

Determine the total income of A & Co. for the assessment year 2015-16 assuming that long-term capital gain is ₹ 50,000 and the firm is eligible for a deduction of ₹ 5,000 under section 80G. The firm has a brought forward business loss of ₹ 2,40,000 (previous year 2011-12) of a trading business which has been discontinued.

- (c) State whether assets having personal effects are also capital assets or not [as per section 2(14)(ii) of Income-tax Act]?

[7+6+2]

Question 5.

- (a) State the taxability of the following five incomes —

- (i) Dividend
- (ii) Bonus
- (iii) Winning from lotteries etc.
- (iv) Fees and commission
- (v) Gift

- (b) Compute the taxable net wealth and wealth tax payable by X Ltd. from the following particulars:

- (i) Land in urban area (Construction is not permitted as per Municipal Laws in force) ₹ 50,00,000.
- (ii) Cash Balance (as per books) ₹ 2,75,000.
- (iii) Guest House (situated in a place which is 30 kms away from the local limits of the municipality) ₹ 35,00,000.

[10+5]

Question 6.

- (a) X Ltd., an Indian company, is engaged in the business of production of minerals since 1960. During the year ending March 31, 2014, it starts commercial exploitation of a new mine at Dhanbad. Compute the amount deductible under section 35E of Income-tax Act for the assessment years 2014-15 and 2015-16 from the given information —

	Previous year 2013-14 ₹	Previous year 2014-15 ₹
Income from mining (before section 35E deduction)		
- from old mining	22,000	4,00,000
- from new mining at Hazaribag	25,000	75,000
Other business income	4,00,000	3,90,000

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Qualifying expenditure u/s 35E —

	₹
Expenses for the purpose of exploring and locating mineral incurred up to March 31, 2009	7,20,000
Expenses for the purpose of exploring and locating mineral from April 1, 2009 to March 31, 2014 (out of which ₹ 6,000 is met by the State Government)	9,36,000
Acquisition of site on June 30, 2009	4,00,000
Purchase of plant, machinery and building on July 31, 2010	6,00,000

(b) Write down the steps for calculation of tax in case of agricultural income.

(c) In what way capital can be restructured for maximum benefit?

[7+6+2]

Question 7.

(a) Delta Ltd., an infrastructure capital company, issued 1,00,000 Zero Coupon Bonds (Face Value ₹ 100) on 10th September, 2014 at a price of ₹ 75. The redemption date of the bonds is 22nd September, 2026. These bonds are notified by the Central Government as Zero Coupon Bond. You are required to compute the amount of discount allowable as deduction while computing business income of the Delta Ltd.

(b) What is the responsibility & liability of the Tax Collector?

(c) State the applicability, amount of deduction and conditions in respect of deduction of in royalty of authors [sec. 80QQB of Income-tax Act].

[5+5+5]

Question 8.

(a) Rohini acquired a plot of land on 1.6.75 for ₹ 4,00,000. He converts the plot into stock in trade of his real estate dealing business on 18.2.2008 when the fair market value of the plot was ₹35,00,000. The stock-in-trade is sold by him on 18.5.2014 for ₹ 40,00,000 (FMV as on 1.4.81 was ₹ 6,00,000 and FMV as on 1.4.76 ₹ 4,50,000). Compute her income.

(b) Discuss the correctness or otherwise of the following propositions with reasons therefore (reference of case laws may be given) :

(i) Where a person draws from his own stock-in-trade for personal use, there can be no taxable profit.

(ii) Even an outlay for acquiring an enduring advantage for business may be deductible as revenue expenditure.

(c) Write a brief note on Speculative Business.

[5+5+5]