

Paper-7 – Applied Direct Taxation

Time Allowed: 3 hours

Full Marks: 100

All the questions relate to the assessment year 2014-15, 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 1.

(a) Choose the most appropriate alternative:

- (i) An individual can avail the benefit of Leave Travel Assistance offered by his employer —
 - (A) twice in a block of two years
 - (B) twice in a block of four years
 - (C) once in a block of four years
 - (D) once in a block of two years

- (ii) How many installments of prior period interest of a house property will be allowed as deduction from the year in which the property was acquired or construction was completed?
 - (A) five
 - (B) ten
 - (C) six
 - (D) four

- (iii) As per section 80GG of the Income-tax Act, which one of the following is one of the criteria for claiming deduction in respect of rent paid—
 - (A) 50% of Adjusted Total Income
 - (B) 100% of Adjusted Total Income
 - (C) 10% of Adjusted Total Income
 - (D) 25% of Adjusted Total Income

- (iv) As per section 139A of the Income-tax Act, Permanent Account Number (PAN) comprises of —
 - (A) 10 alphanumeric characters
 - (B) 12 alphanumeric characters
 - (C) 10 numeric characters
 - (D) 12 numeric characters

- (v) As per section 71B of the Income-tax Act, the permissible limit to carry forward and set off Brought forward loss from House Property is —
 - (A) 4 Assessment Years immediately succeeding the Assessment Year for which such loss was computed
 - (B) Any number of year until it is fully set off.
 - (C) 8 Assessment Years immediately succeeding the Assessment Year for which such loss was computed.
 - (D) None of the above

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- (vi) The surcharge (as a percentage of income-tax) payable by a foreign company if the total income upto ₹ 1 crore for the assessment year 2014-15 is:
- (A) 5%
 - (B) 2%
 - (C) Nil
 - (D) 10%
- (vii) The registration of a charitable trust can be cancelled under section 12AA of the Income-tax Act by:
- (A) Assessing officer
 - (B) Commissioner of Income-tax
 - (C) Chief Commissioner of Income-tax
 - (D) Central Board of Direct Taxes.
- (viii) A farm house is asset if it is situated from the local limits of any municipality within:
- (A) 25 kilometres
 - (B) 30 kilometres
 - (C) 5 kilometres
 - (D) 10 kilometres
- (ix) Cash gifts received under section 56(2)(vi) of the Income-tax Act from non-relatives are not taxable upto:
- (A) ₹ 1,00,000
 - (B) ₹ 75,000
 - (C) ₹ 25,000
 - (D) ₹ 50,000
- (x) The return of net wealth is to be filed in form:
- (A) BA
 - (B) ITR-1
 - (C) ITR-2
 - (D) ITR-4
- (xi) The following is not “plant” under section 43(3) of the Income-tax Act, 1961:
- (A) Ships
 - (B) Vehicles
 - (C) Books
 - (D) Livestock
- (xii) An individual is said to be resident in India in a previous year if he is in India in that year for a period or periods amounting in all to:
- (A) 60 days or more
 - (B) 180 days or more
 - (C) 182 days or more
 - (D) 150 days or more

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(xiii) As per section 44AB of the Income-tax Act, a person carrying on business is required to get his accounts audited if his total sales turnover or gross receipts, as the case may be, in business exceeds:

- (A) ₹ 1 crore
- (B) ₹ 25 lakhs
- (C) ₹ 30 lakhs
- (D) ₹ 10 lakhs

[13 × 1]

(b) Fill up the blanks:

- (i) Recovery of unrealized rent is chargeable to tax under the head _____.
- (ii) Transfer or Maturity of Zero Coupon Bond will _____ (be taxable / not be taxable) as Capital Gains.
- (iii) Loss from owing and maintaining race horses can be set off against _____.
- (iv) _____ payable by a person (other than a company) shall be the amount of tax computed on Adjusted Total Income at a rate of eighteen and one-half per cent.
- (v) A penalty of _____ may be imposed under section 271F of the Income-tax Act if belated return is submitted after the end of Assessment Year.
- (vi) Sitting fees paid to directors for attending Board Meeting is not a salary but taxable as _____.
- (vii) Leave encashment received by a Government employee on continuation of service is _____ (fully taxable / not taxable).
- (viii) The maximum amount of deduction is allowed under section 80C of the Income-tax Act in a previous year is _____.
- (ix) The third installments of advance tax of a corporate assessee is payable on or before _____ in a relevant previous year.
- (x) A residential property which is let out for a minimum period of _____ days in the previous year is not treated as an "asset" under Wealth Tax Act.
- (xi) Payment made on preventive health check-up for self, spouse, dependent children or parents during the previous year by any mode of payment (including cash), to the maximum of _____.
- (xii) A motor car used by the assessee in the business of running them on hire _____ (is / is not) an asset as per Wealth Tax Act.

[12 × 1]

Answer to Question 1(a):

- (i) (B) twice in a block of four years
- (ii) (A) five
- (iii) (D) 25% of Adjusted Total Income
- (iv) (A) 10 alphanumeric characters
- (v) (C) 8 Assessment Years immediately succeeding the Assessment Year for which such loss was computed.
- (vi) (C) Nil
- (vii) (B) Commissioner of Income-tax
- (viii) (A) 25 kilometres
- (ix) (D) ₹ 50,000

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- (x) (A) BA
- (xi) (D) Livestock
- (xii) (C) 182 days or more
- (xiii) (A) ₹ 1 crore

Answer to Question 1(b):

- (i) Income from House Property
- (ii) be taxable
- (iii) income from owning and maintaining race horses
- (iv) Alternate Minimum Tax
- (v) ₹ 5,000
- (vi) Other Income.
- (vii) fully taxable
- (viii) ₹ 1,50,000
- (ix) 15th December
- (x) 300
- (xi) ₹ 5,000
- (xii) is not

Question 2.

(a) P retires on 30th June, 2014. He submits the following information –

Basic salary (since January 2014): ₹ 20,000 per month, dearness allowance: ₹ 6,000 per month (1/3 of which is part of salary for retirement benefits), employer's contribution towards provident fund : ₹ 3,000 per month (P makes a matching contribution); interest credited at the rate of 15 per cent on April 30, 2014 : ₹ 7,500; pension after retirement : ₹ 10,000 per month, and payment of provident fund at the time of retirement : ₹ 7,60,000 (out of which employer's contribution: ₹ 3,30,000, interest thereon : ₹ 44,000, P's contributions : ₹ 3,50,000, interest thereon : ₹ 46,000). Salary and pension become due on the last day of each month. P has deposited the entire provident fund payment with a company (rate of interest: 9 per cent per annum).

Find out the income of P for the assessment year 2015-16 on the assumption that the provident fund is (i) statutory provident fund, (ii) recognized provident fund, or (iii) unrecognized provident fund.

(b) During his 195 days' stay in India in the previous year 2014-15, Nikhil, a citizen of U.K. is all the time moving from one place to another. He claims that he is non-resident in India for the assessment year 2016-16 on the following grounds:

1. He had never visited India before April 1, 2014.
2. During 2014-15, though he is in India for 195 days, he could not spend two consecutive nights at any one place.
3. For the assessment year 2015-16, he is resident in U.K. according to the English Income-tax Act. He insists that he cannot be resident of two countries for the same assessment year. Do you agree with him?

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(c) What is the difference between exemption and deduction?

[(3+3+3)+4+2]

Answer:

(a) Computation of Income of P

Particulars	Statutory provident fund ₹	Recognised provident fund ₹	Unrecognised provident fund ₹
Basic salary (₹ 20,000 x 3)	60,000	60,000	60,000
Dearness allowance	18,000	18,000	18,000
PF Contribution by the employer [₹ 3,000 x 3 – 12% of (₹ 60,000 + 1/3 of ₹ 18,000)]	---	1,080	---
Interest credited in PF account in excess of 9.5% [₹ 7,500 x 5.5/15]	---	2,750	---
Pension (₹ 10,000 x 9)	90,000	90,000	90,000
Payment for provident fund account			
- Employer's contribution	---	---	3,30,000
- Interest thereon	---	---	44,000
Gross salary	1,68,000	1,71,830	5,42,000
Less: Deductions	---	---	---
Income from salary	1,68,000	1,71,830	5,42,000
Income from other sources			
- Interest on P's contribution to provident fund	---	---	46,000
- Interest on company deposits (i.e., 9% per annum on ₹ 7,60,000 from July 1, 2014 to March 31, 2015)	51,300	51,300	51,300
Gross total income	2,19,300	2,23,130	6,39,300
Less: Deduction under section 80C	9,000	9,000	Nil
Net income	2,10,300	2,14,130	6,39,300

Note: In the case of recognized provident fund, it is assumed that P has retired after rendering service of 5 years.

(b) The claim of Nikhil is not tenable, as he is in India for 195 days during the previous year 2014-15. He satisfies one of the two basic conditions (namely, presence of 182 days or more during the previous year 2014-15) and none of the additional conditions. He is, therefore, resident but not ordinarily resident in India for the assessment year 2015-16. The fact that he could not spend two consecutive nights at any one place is immaterial. Moreover, a person who is resident in India may become resident of any other country according to the tax laws of that country for the same or a different assessment year.

(c) If an income is exempt from tax, it is not included in the computation of income. Exemption can never exceed the amount of income. Deduction is generally given from income chargeable to tax. Deduction can be less than or equal to or more than amount of income. If an amount deductible is more than the amount of income, the resulting amount will be taken as loss.

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Question 3.

- (a) The travelling allowance of ₹ 35,000 is given to Mr. A by his employer for official purpose during the previous year 2014-15. The amount actually spent by Mr. A for this purpose is ₹32,000. State the taxability of the said item.
- (b) Prachi owns a house property which is given on rent. For the previous year 2012-13, she claims a deduction of ₹ 78,000 on account of unrealised rent, out of which the Assessing Officer allows only ₹ 62,000 as deduction. What are the tax consequences if Prachi recovers on June 25, 2014 from the defaulting tenant (i) ₹ 10,000, (ii) ₹ 16,000 or (iii) ₹ 35,000 as full and final payment?
- (c) Q purchases a house property in 1995. It is compulsorily acquired by the Government on 20th April, 2013 (indexed cost of acquisition is ₹ 40,000). Compensation paid by the Government on 6th May, 2014: ₹ 6,00,000. The Delhi High Court increases the compensation from ₹ 6,00,000 to ₹ 9,30,000 on the appeal filed by Q (legal expenditure incurred by Q: ₹ 10,000). The Government on 10th June, 2015 pays the additional compensation of ₹ 3,30,000. Compute the capital gains.
- (d) Can an assessee follow different method of accounting for different businesses?

[2+5+6+2]

Answer:

- (a) In the given case, the amount chargeable to tax is ₹ 3,000 (₹ 35,000 - ₹ 32,000). The travelling allowance is exempt u/s 10(14) of the Income-tax Act to the extent the amount is utilised for the specified purpose for which the allowance is received.
- (b)

Amount recovered during 2014-15 (₹)	Amount of bad debt (i.e., ₹ 78,000 minus the amount of recovery (₹))	Deduction allowed in A.Y. 2013-14 (₹)	Balance
(i) 10,000	68,000	62,000	Loss of ₹ 6,000
(ii) 16,000	62,000	62,000	Nil
(iii) 35,000	43,000	62,000	Income of ₹ 19,000

In situation (iii), the excess recovery of ₹ 19,000 is chargeable to tax under the head "Income from house property" for the previous year 2014-15 (i.e., assessment year 2015-16).

It may be noted that:

- expenditure on recovery is not taken into consideration ; and
- the tax treatment will remain the same, even if the house property is not owned by Prachi during 2014-15.

(c) Computation of Capital Gains

	₹
Assessment year 2016-17	
Sale consideration (being the original compensation)	6,00,000
Less : Indexed cost of acquisition	40,000
Long-term capital gains	5,60,000

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Assessment year 2015-16	
Sale consideration (being the additional compensation awarded by Delhi High Court)	3,30,000
Less : Indexed cost of acquisition	Nil
Less : Expenses on transfer	10,000
Long-term capital gains	3,20,000

- (d) If an assessee is carrying on more than one business, he can follow cash system of accounting for one business and mercantile system (accrual system) of accounting for other business. Similarly, if he had more than one sources of income under the head Income from Other Sources, he can follow accrual system for one source of income under the head Income from Other Sources, and cash system for other sources of income.

Question 4.

- (a) An assessee filed a return of income on 31.8.2015 in respect of Assessment Year 2015-16 disclosing an income of ₹ 6 lakhs from business. It was not accompanied by proof of payment of tax due on self-assessment. Discuss the validity of such a return.
- (b) Name few of the property incomes which are exempted from tax.
- (c) Anand, an Indian citizen, was ordinarily residing in Canada. He comes to India every year during August for 3 weeks. He comes to India permanently on July 9, 2014. He owns the following assets:
1. A residential house (not being let out) at Bombay gifted by his father-in-law.
 2. A house at Bangalore purchased out of money remitted from Canada on August 3, 2013.
 3. Two kilograms gold brought at the time of transfer of residence on July 9, 2014.
 4. Out of money brought into India at the time of return and out of his Non-resident (External) Account, he acquires the following during July-September 2014: two cars, air-conditioners and shares in companies.
 5. On December 10, 2014, after selling one kilogram of gold, he purchases a boat.

Discuss the taxability of the above items under the purview of Wealth-tax Act.

- (d) What is the due date of filling of return of income in case of a non-working partner of a firm whose accounts are not liable to be audited?

[3+4+6+2]

Answer:

- (a) As per Explanation to sub-section (9) of section 139 of Income-tax Act a return is regarded as defective unless it is accompanied by proof of tax deducted at source, advance tax and tax on self-assessment, if any, claimed to have been paid. Therefore, the return is prima facie defective. It is not invalid at that stage. On receipt of the return, the Assessing Officer has to intimate the defect to the assessee and give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation or within such further period which, on application by the assessee, he may, in his discretion, allow. If the defect is not rectified

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within the said period, the return will be treated as an invalid return and the provisions of the Income-tax Act shall apply, as if the assessee has failed to furnish the return.

Also, it may be noted that section 140A(3) of Income-tax Act says that if an assessee fails to pay tax or interest on self assessment he shall be deemed to be an assessee in default in respect of the tax or interest or both remaining unpaid and all the provisions of the Act shall apply accordingly.

(b) Property income is exempt from tax in the following cases:

- (i) income from farm house [sec. 2(1A)(c) of the Income-tax Act with sec. 10(1) of the Income-tax Act] ;
- (ii) annual value of any one palace of an ex-ruler [sec. 10(19A) of the Income-tax Act];
- (iii) property income of a political party [sec. 13A of the Income-tax Act];
- (iv) property income of a local authority [sec. 10(20) of the Income-tax Act] ;
- (v) property income of a trade union [sec. 10(24) of the Income-tax Act]
- (vi) one self-occupied property [sec. 23(2) of the Income-tax Act].

(c)

1. House at Bombay is chargeable to tax.
2. As the house at Bangalore is purchased after July 9, 2013, it is not taxable for the assessment years 2015-16 to 2021-22 (exemption is not available for the assessment year 2014-15).
3. One kilogram gold (which he has not sold) is not chargeable to tax for the assessment years 2015-16 to 2021-22.
4. Air conditioners and shares are not "assets" and not chargeable to tax. Two cars purchased out of moneys brought into India are not taxable for the assessment years 2015-16 to 2021-22.
5. Boat purchased out of sale proceeds of gold is exempt under section 5(v). Exemption is available in respect of asset purchased out of money remitted into India or out of money standing to his credit in a Non-resident (External) Account.
Even if assessee has converted assets, which were brought by him from outside India, into money, and has used that money for acquisition of other assets, the asset which is acquired with sale consideration of original asset, is also eligible for exemption—CWT v. K.O. Mathews [2003] 133 Taxman 418 (Ker.).

(d) A working partner for the above purpose shall mean an individual who is actively engaged in conducting the affairs of the business or profession of the firm of which he is a partner and is drawing remuneration from the firm.

Due date of furnishing return of income in case of non-working partner shall be 31st July of the Assessment Year whether the accounts of the firm are required to be audited or not.

Question 5.

(a) Compute the 'arm length price' (ALP) in the following cases:

- i) **Shiv Instruments Ltd. is a 100% Indian subsidiary of a US company. The parent company sells one of its products to the Indian subsidiary at a price of US\$ 100 per unit. The same product is sold to unrelated buyers at a price of US\$ 130 per unit.**

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- ii) The US parent company sells the same product to an unrelated company in India @ US\$ 80 per unit.
- (b) On receipt of assessment order for the assessment year 2015-16 of DL Ltd., the chief accountant of that company finds that the following deductions claimed by it in the return of total income have not been allowed:
1. Expenditure of ₹ 17,000 incurred on accommodation maintained, at the place where the factory is located, for the directors and other employees of the company, who visit the factory for the purposes of the company's business.
 2. A sum of ₹ 17,500 incurred for lunch at a five-star hotel where seven representatives of a prominent raw material supplier were taken for lunch and the purchase manager of the assessee had accompanied them.
 3. Claim for deduction of a sum of ₹ 4,50,000 being the amount of liability for gratuity for the calendar year 1991 calculated on actuarial basis for which no provision was made in the books of account. The company does not maintain any gratuity fund. It maintains its accounts on mercantile basis. So far as gratuity liability is concerned, it has made provision for the same in the book of account for the previous year ended December 31, 1976. Thereafter, it stopped making provision for gratuity liability in the books of account. However, actual payments are debited to the Profit and Loss Account.
 4. Expenditure of ₹ 12,000 incurred for drilling a tube-well in the factory. The drilling operations were given up as the water was hard and not suitable for use. The expenditure thus became infructuous.
 5. Annual preference dividend liability of ₹ 1,00,000 on the company's 10 per cent cumulative redeemable preference shares which are not entitled to any further rights to participate in profits or surplus assets. These shares are redeemable on December 1, 2014 according to the terms of issue.
 6. The Assessing Officer has also added a sum of ₹ 8,000 pertaining to unclaimed wages for the year 1992 which was transferred to the Profit and Loss Account of the year 2014-15 since the claim has become time barred. The assessee had claimed that the same was not liable to be included in the total income.

The company seeks your advice on the correctness or otherwise of the disallowances.

(c) Which entities are outside the purview of wealth tax?

[4+7+4]

Answer:

(a)

- (i) Though the Arm Length Price (ALP) is US\$ 130 per unit; however, since the adoption of ALP will result in decrease in total income of Indian subsidiary (the cost of purchase being higher), therefore, the price of US\$ 100 per unit shall be admissible.
- (ii) However, in his case, the ALP = price to unrelated buyers = US\$ 80 per unit; and since its adoption increases taxable income in India, hence, the same shall be adopted.

(b)

1. Disallowance of expenses of ₹ 17,000 is not justified in view of the amendment made by the Finance Act, 1997. Now guest house maintenance expenses are deductible under section 37(1) of Income-tax Act.

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2. Expenditure of ₹ 17,500 on lunch for representatives of raw material supplier is deductible under section 37(1) of Income-tax Act.
3. In view of the provision of section 40A(7) of Income-tax Act, the opinion of the Assessing Officer is justified — People's Engg. & Motor Works Ltd. v. CIT [1981] 6 Taxman 53 (Cal.).
4. Since the expenditure of ₹ 12,000 for drilling a tube-well in the factory is incurred wholly and exclusively for the purpose of the business of the assessee, the same is allowable under section 37(1) of Income-tax Act.
5. Provision for dividend is not an expenditure.
6. The amount of unclaimed wages, transferred to the Profit and Loss Account is taxable under section 41(1) of Income-tax Act.

(c) The following entities are outside the purview of wealth tax:

- (i) any company registered under section 8 of the Companies Act, 2013;
- (ii) any co-operative society;
- (iii) any social club;
- (iv) any political party;
- (v) a Mutual fund specified under section 10(23D) of the Income-tax Act;
- (vi) the Reserve Bank of India.

Question 6.

(a) What is the basis of valuation of assets of business in the context of wealth tax?

(b) Write a short note on return of loss [section 139(3) of the Income-tax Act].

(c) P, a resident individual, submits the following information for the assessment year 2015-16:

	₹
Business A	
Loss of the year 2014-15	(-)48,000
Brought forward loss of the year 2013-14	(-)39,000
Business B	
Profit of year 2014-15	1,56,000
Business C (previous year ends on 31st March, business discontinued on 10th April, 2014)	
Profit of the period from 1 st April, 2014 to 10 th April, 2014	Nil
Brought forward loss of 2013-14	(-)39,700
Business D (previous year ends on 31st March, business discontinued on 31st March, 2013)	
Brought forward loss of 2014-14	(-)40,000
Income from other sources	
Loss from the activity of owning and maintaining camels for races	(-)9,000
Dividend on units of UTI held as investment	75,000
Interest on debentures held as investments	99,000
Long-term capital loss on sale of shares	(-) 14,900
Income from house property	57,600

Determine the net income of P for the assessment year 2015-16. Also calculate the amount of loss which can be carried forward for being set off in the next assessment year.

[2+6+7]

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Answer:

(a) If the assessee is carrying on a business for which accounts are maintained by him regularly, the net value of the assets of the business as a whole, having regard to the balance sheet of such business on the valuation date, is taken as value of such assets.

(b) Return of Loss [Section 139(3) of the Income-tax Act]

- (1) This section requires the assessee to file a return of loss in the same manner as in the case of return of income within the time allowed under section 139(1) of the Income-tax Act.
- (2) Under section 80 of the Income-tax Act, an assessee cannot carry forward or set off his loss against income in the same or subsequent year unless he has filed a return of loss in accordance with the provisions of section 139(3) of the Income-tax Act.
- (3) A return of loss has to be filed by the assessee in his own interest and the non-receipt of a notice from the Assessing Officer requiring him to file the return cannot be a valid excuse under any circumstances for the non-filing of such return.
- (4) In particular, a return of loss must be filed by an assessee who has incurred a loss under the heads "Profits and Gains from Business or Profession", "Capital Gains", and income from the activity of owning and maintaining race horses taxable under the head "Income from Other Sources".
- (5) However, loss under the head "Income from House Property" under section 71B of the Income-tax Act and unabsorbed depreciation under section 32 of the Income-tax Act can be carried forward for set-off even though return of loss has not been filed before the due date.

(c) Computation of Net Income

	₹
Business income/loss for the assessment year 2015-16	
Loss of business A for the year 2014-15	(-)48,000
Profit of business B for the year 2014-15	1,56,000
Profit of business C for the period April 1, 2014 to April 10, 2014	Nil
Loss from the activity of owning and maintaining camels for races	(-) 9,000
Current business profit	99,000
Less : Brought forward loss of Business A, Business C and Business D [i.e., (₹ 39,000 + ₹ 39,700 + ₹ 40,000) subject to the maximum of ₹ 99,000]	99,000
Business income	Nil
Computation of net income for the assessment year 2015-16	
Income from house property	57,600
Profits and gains of business or profession	Nil
Income from other sources	99,000
Interest on debentures	Nil
Dividend on units of UTI	1,56,600
Gross total income	Nil
Less : Deduction	1,56,600
Net income	1,56,600

Notes:

1. Though business D was not in existence during the previous year 2014-15, yet the brought forward business loss of year 2013-14 can be set off against the income of the assessment year 2015-16.

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2. Loss under the head "Capital gains" can be carried forward to the next year for set off against long-term capital gain.
3. The unadjusted brought forward business loss (i.e., ₹ 19,700) can be carried forward.

Question 7.

- (a) Mona International Ltd. incurs an expenditure of ₹ 255 crores for acquiring the right to operate telecommunication services for Assam & Sikkim. The payment was made in November 2012 and the licence to operate the services was valid for 15 years. In December 2013, the company transfers part of the licence, in respect of Assam, to Bony International Ltd. for a sum of ₹ 56 crores and continue to operate the licence in Sikkim. What is the deduction allowable u/s 35ABB of the Income-tax Act to Mona International Ltd. for the Assessment Year 2015-16?
- (b) What is the amount of deduction in respect of royalty of authors allowed as per section 80QQB of the Income-tax Act?
- (c) What are the differences between Nationality and Citizenship in relation to residential status?
- (d) Give some examples of those assets which are not eligible for additional depreciation.

[4+2+5+4]

Answer:

- (a) Assessee: Mona International Ltd. Previous Year: 2014-15 Assessment Year: 2015-16

U/s 35ABB of the Income-tax Act, where part of the Telecom Licence is transferred and net consideration received on such transfer, is less than the expenditure remaining unallowed, the amount of deduction shall be computed as follows:

(i) Unallowed amount as on 01.04.2013	= Total Expenditure Less Deduction for Financial Year 2012-13 = ₹ 255 crores Less (₹ 255 crores/licence period of 15 years) = ₹ 255 crores less ₹ 17 crores = ₹ 238 crores.
(ii) Net Consideration received	= ₹ 56 crores
(iii) Remaining period of licence	= 14 years (including current Previous Year)
(iv) Deduction u/s 35ABB	= ₹ (238 crores less 56 crores)/14 years = ₹ 13 crores.

- (b) The amount of deduction in respect of royalty of authors is allowed as per section 80QQB of the Income-tax Act as under:
- 100% of the royalty income etc. subject to a maximum of ₹ 3,00,000.
 - In case of royalty or copyright fees, not in lump sum consideration, deduction shall be restricted to 15% of the value of books sold during the Previous Year.

- (c) Nationality and Citizenship are two terms that are sometimes used interchangeably. But they differ in many aspects such as —

Nationality	Citizenship
1. Nationality can be applied to the country where an individual was born. Hence an individual is a national of a particular country by birth.	1. Citizenship is a legal status, which means that an individual has been registered with the Government in some country.
2. Nationality is got through inheritance	2. An individual becomes a citizen of a

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from his parents which is called a natural phenomenon.	country only when he is accepted into that country's political framework through legal terms.
3. No one will be able to change his nationality.	3. One can have different citizenship.
4. No country can confer honorary nationality on any one as his birthplace cannot be changed.	4. Some nations also confer honorary citizenship to individuals.
5. Nationality can be described as a term that refers to belonging to a group having same culture, traditions history, language and other general similarities.	5. Citizenship may not refer to people of the same group. For example, an Indian may be having a US citizenship but he will not be belonging to the same group as that of the American nationals.

(d) Examples of assets which are not eligible for additional depreciation:

- (i) Ships and aircrafts;
- (ii) Any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
- (iii) Any machinery or plant installed in any office premises or any residential accommodation, including accommodation in the nature of a guest house;
- (iv) Any office appliance or road transport vehicle;
- (v) Any machinery or plant, the whole of which is allowed as deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profits and Gains from Business or Profession" of any Previous Year.

Question 8.

(a) Konkona submits the following particulars:

	Previous years	
	2014-15 ₹	2015-16 ₹
Business profits (before depreciation)	(-) 50,000	45,000
Current depreciation	18,000	20,000
Income from other sources	20,000	72,000

Determine the net income of Konkona for the assessment years 2015-16 and 2016-17.

(b) Which is meant by "bilateral agreement" in the context of Advance Pricing Agreement?

(c) Is e-filing of return mandatory? State the assessee's for whom e-filing of returns is mandatory?

[7+2+6]

Answer:

(a) Assessment year 2015-16 (previous year 2014-15):

(b)

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	Amount ₹	Amount ₹
Income from other sources	20,000	
Less: Business loss	20,000	Nil
Net Income		Nil

Amount to be carried forward:

- Business loss ₹ 30,000
- Unabsorbed depreciation ₹ 18,000

Assessment year 2016-17 (previous year 2015-17)

Profits and gains of business or profession:

Business profits	45,000	
Less: Current depreciation	20,000	
Profit after depreciation	25,000	
Less: Brought forward business loss of the previous year 2014-15	30,000	Nil
Business loss of previous year 2014-15 to be corrected forward to the next year	5,000	

Income from other sources:

Income	72,000	
Less: Unabsorbed depreciation of the previous year 2014-15	18,000	54,000
Net Income		54,000

Note: Brought forward business loss can be set off only against business profits and not against any other income.

- (c)** The term "bilateral agreement" means an agreement between the Board and the applicant, subsequent to, and based on, any agreement referred to in rule 44GA of the Income-tax Rules between the competent authority in India with the competent authority in the other country regarding the most appropriate transfer pricing method or the arms' length price.
- (d)** CBDT has vide notification No. 34/2013 dated 01.05.2013 has made it mandatory for the following category of the Assesses to file their Income Tax Return Online from A.Y. 2014-15 :-
- (i) It is mandatory for every person (not being a co. or a person filing return in ITR 7) to e-file the return of income if its total income exceeds ₹5,00,000
 - (ii) an individual or a Hindu Undivided Family, being a resident, having assets (including financial interest in any entity) located outside India or signing authority in any account located outside India and required to furnish the return in Form ITR-2 or ITR-3 or ITR-4, as the case may be.
 - (iii) Every person claiming tax relief under Section 90, 90A or 91 of the Income-tax Act shall file return in electronic mode.

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- (iv) Those who are required to get their Account audited under Section 44AB, 92E, 115JB of the Income-tax Act.
- (v) A company required to furnish the return in Form ITR-6.

However, as per instruction of ITR 7 From assessment year 2013-14 onwards in case an assessee who is required to furnish a report of audit under section 10(23C)(iv), 10(23C)(v), 10(23C)(vi), 10(23C)(via), 10A, 12A(1)(b), 44AB, 80-IA, 80-IB, 80-IC, 80-ID, 80JJAA, 80LA, 92E or 115JB of the Income-tax Act he shall file the report electronically on or before the date of filing the return of income.