

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 all questions

1. Answer all questions [20 Marks]

- (i) 'G' was born in England in 1966. His father was born in America in 1936. 'G's' grandfather was born in Labore in 1916. Will 'G' be a Resident in India if he visits India for 180 days during the previous year 2014-15. **[2]**
- (ii) Mr. Pawan is an employee of ABC Ltd. getting a salary of ₹40,000 per month which is due on the 1st of next month and is paid on the 7th of the next month. Salary for which months will be taxable for assessment year 2015-16? **[2]**
- (iii) Mr. A is to receive Interest from a Notified Infrastructure Debt Fund eligible for exemption u/s 10(47) of ₹6,00,000. Mr. A is a Resident of Notified Jurisdictional Area u/s 94A. Explain the tax treatment in the hands of Mr. A. **[2]**
- (iv) What are the factors need to be considered for selection of Most Appropriate Method while calculating Arm's Length price under International Transaction? **[2]**
- (v) What do you mean by Wholesale Trading under International Transaction? **[1]**
- (vi) State the consequences if Firm fails to fulfill condition under section 184 of the Income Tax Act, 1961. **[2]**
- (vii) Ellumurate the steps in computation of total income of a Partnership Firm. **[2]**
- (viii) A Farmer, being Resident of Jaipur, sold his Rural Agricultural Land situated in Nepal and received Indian Rupees 2 Lakhs over the cost of acquisition of this land. Explain the taxability of the sale. **[2]**
- (ix) Gurudev Engineers Pvt. Ltd. is running an Industrial Undertaking whose profits are eligible for deduction u/s 80-IA of the Income Tax Act, 1961. During the year ended 31.03.2015, the Undertaking was engaged in Eligible Business referred to in Section 80-IA(4), which however, consisted solely of executing Works Contract awarded by the State Government. Is the Assessee eligible to claim deduction u/s 80-IA(4) in respect of Profits derived from this undertaking? **[2]**

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(x) What are the incomes exempted under the hand of Political Parties? [1]

(xi) State with reasons the tax implications of the following – Rent of ₹60,000 charged from Tenants occupying houses constructed on the land situated in India and used for agricultural purposes. [2]

2. Answer any four questions [4×15 = 60]

(a) (i) X came to India from America for the first time on 10.10.2014. He returns to his home country after staying in India upto 05.07.2015. Will he be a resident in India for the assessment year 2015-16? [3]

(ii) Mr. A is employed with ABC Ltd. on a basic salary of ₹ 30,000 per month. He is also entitled to a dearness allowance of 20% of basic salary. 70% of the dearness allowance is included in salary for retirement benefits. The company gives him HRA of ₹ 15,000 per month.

With effect from 01.01.2015 he receives an increment of ₹ 5,000 in his basic salary.

During the previous year 2014-15 he has received arrears of salary pertaining to earlier years amounting to ₹ 40,000.

'A' was staying with his parents till 31.10.2014. From 01.11.2014 he takes an accommodation on rent in Delhi and pays ₹ 12,500 per month as rent for the accommodation.

Compute his gross salary for the assessment year 2015-16. [5]

(iii) Business income of Q Ltd. before allowing expenditure on scientific research for the previous year 2014-15 is ₹2,50,000. The company has incurred the following expenditure on scientific research during the previous year 2014-15.

	₹
Revenue expenditure on Scientific Research	2,60,000
Capital Expenditure on Scientific Research	5,00,000

Compute the deduction available on account of Scientific Research assuming the company does not have any other income. [3]

(iv) WR Ltd. constructed a building and started operating a hotel of 3 star category w.e.f. 1.4.2014. The company incurred the following expenditure in this connection.

1. Capital expenditure (including cost of land ₹50 lakhs) incurred during December, 2013 to March 2014 which were capitalized in the books of accounts 31.3.2014.	₹1,10,00,000
2. Capital expenditure incurred during previous year 2014-15 (it includes ₹20 lakhs paid for Goodwill)	₹1,40,00,000

(i) Compute the deduction available under section 35AD in the assessment year 2015-16.

(ii) What will be your answer if such building was constructed for operating a hospital of 100 beds for patients. [4]

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(b) (i) R has 9 house properties situated at Delhi.

Property A is let out for business

Property B is let out for residential purposes

Property C has four identical units:

Unit P – Let out for residential purposes throughout the previous year

Unit Q – Used for own business

Unit R – Used for own residence

Unit S – Let out for residential purposes; but w.e.f. 01.01.2015 was also used for own residence.

The particulars of property A and B are as under:

	Property A (₹)	Property B (₹)
Municipal Value	50,000	60,000
Actual rent	5,000 P.M.	6,000 P.M.
Fair Rent	70,000	
Standard Rent	54,000	
Date of completion of construction	01.03.2007	01.03.1992
Municipal tax paid	10,000	20,000
Repairs	5,000	---
Collection charges	4,800	4,800
Insurance premium paid	2,000	2,000
Interest on money borrowed for construction	30,000	11,000

R had borrowed a sum of ₹ 3,00,000 @ 10% per annum on 01.01.2006 for construction of House – A. the entire loan is still outstanding through interest is being paid every year.

The particulars of Property –C are as under:

Date of completion of construction	01.03.1993
Date of purchase by R	01.05.1994
	₹
Municipal Value	1,60,000
Rent of Unit – P	3,000 p.m.
Rent of Unit – S	3,000 p.m.
Municipal tax paid	20,000
Other expense:	
Repair of Unit – P	5,000
Repair of Unit – Q	10,000
Collection charges of Unit - P	3,000
Collection charges of Unit – S	2,400
Insurance premium of house property	3,000
Interest on money borrowed for purchase of house	40,000
Lease rent of land of house property	5,000

Compute the income of R under the head 'Income from house property' for the assessment year 2015-16. **[10]**

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(ii) Mr. P filed a return of income for assessment year 2014-15 on 31.7.2014. He later files a revised return on 15.12.2014 declaring a loss of ₹1,00,000. Can the loss be allowed to be carried forward? [2]

(iii) The total income of Mr. Thakur for the assessment year 2015-16 is ₹1,01,20,000. Compute the tax payable by Mr. Thakur for the assessment year 2015-16. [3]

(c) (i) Compute the deduction allowed under section 80C and the net-tax payable by A from the following information submitted by him for the assessment year 2015-16:

		(₹)
1	Gross Salary	4,50,000
2	Royalty (Gross)	27,000
3	Expenses allowable from royalty	5,000
4	Interest on fixed deposits with bank (gross)	13,000
5	LIP on his own life (sum assured ₹ 20,000) policy issued on 01.04.2013	6,000
6	LIP on the life of his wife	2,000
7	LIP on the life of his major son (not dependent on A)	2,500
8	LIP on the life of dependent brother	2,000
9	Contribution to a Recognised Provident Fund	20,000
10	Amount deposited in PPF Account	65,000
11	Contribution to ULIP	3,000
12	Repayment of housing loan taken from LIC (principal amount ₹ 23,000 and interest ₹ 30,000)	53,000
13	Subscription to National Saving Certificate IXth issue	25,000
14	Amount incurred on the education of:	
	(a) Child X ₹ 14,000	
	(b) Child Y ₹ 7,000	
	(c) Child Z ₹ 5,000	
15	Term deposit for 5 years with a schedule bank	20,000
16	Five year time deposit in Post Office	15,000

He has taken the loan from LIC for construction of a residential house property which was completed in 2012 and which is being utilized by A from his own residence. [8]

(ii) X (42 years) gives the following information for the previous year 2014-15:

- (1) On 01.12.2014, he get gift of House A from his friend B (stamp duty value is determined at ₹6,00,000).
- (2) On 03.12.2014, he gets gift of House B from C (who is father-in-law of his elder brother) (stamp duty value is ₹40,000, however, current market value is ₹65,000).
- (3) On 07.12.2014, X purchases a second hand car for ₹ 70,000 from D (market value is however, ₹3,00,000).
- (4) On 14.12.2014, X purchases a work of art for ₹5,00,000 from E (fair market value is ₹5,30,000).

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- (5) On 20.12.2014, X purchases jewellery for ₹7,00,000 from F (fair market value is ₹7,25,000). F is not a registered dealer.
- (6) On 21.12.2014, X purchases a painting for ₹4,00,000 from G (who is brother of Mrs. X) (fair market value is ₹7,00,000).
- (7) On 24.12.2014, X purchase a commercial property for ₹75,00,000 from H (fair market value is ₹90,00,000).
- (8) On 25.12.2014, X gets a gift of 100 preference shares in A Ltd. from J (on 25-12-2014, stock exchanges are closed, the lowest quotation on the immediate preceding working day in National Stock Exchange is ₹45).
- (9) On 25.01.2015, X gets a gift cheque of ₹1,00,000 from his friend L on his birthday.
- (10) On 28.01.2015, minor son of X gets the gift of ₹55,000 from elder brother of X's grandfather).
- (11) X contributes ₹10,000 in the public provident fund account of his dependent mother.

Determine the amount of net income of X for the assessment year 2015-16.

[5]

- (iii)** An amount of ₹5 lakhs was paid on 17.03.2015 to the parents of Amit by the Government of Maharashtra as a compensation to the grieved family whose only son Amit lost his life in Mumbai local train serial bomb blasts. Is the amount of compensation received chargeable to tax?

[2]

- (d) (i)** An Assessing Officer makes a best judgment assessment for failure to comply with a notice u/s 143(2), without any further notice to the Assessee. What are the remedies available to him?

[4]

- (ii)** From the following particulars, calculate the taxable income for the assessment year 2015-16.

	₹
Salary per month	16,000
Dearness Allowance per month	6,000
Medical bill reimbursed (out of which ₹ 14,000 is treatment of specified ailment in a hospital approved by the Principal Chief Commissioner or Chief Commissioner)	42,000
Free telephone at residence	12,000
House Rent Allowance per month (Rent Paid ₹ 15,000 p.m. for a house in Delhi)	10,000

House property is let out on a monthly rent of ₹ 2,000. The annual value of the house property is ₹ 30,000. Municipal tax paid is ₹ 1,800 for whole year. Re-payment of house building loans taken from friends is ₹ 5,000 and from Life Insurance Corporation is ₹ 9,000 (which includes ₹ 6,000 on account of interest)

	₹
Interest on Savings Bank A/c	44,000
Interest on P.P.F. A/c.	2,000
Income from units of Unit Trust of India	800
Life Insurance Premium	6,000
Contribution to Public Provident Fund	6,000

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Deposit in account under national Savings Scheme, 1992	10,000
Interest accrued on (NSC VIII Issue)	34,000

The construction of the building was completed on 01.01.1992.

[8]

(iii) The Assessment was made u/s 143(1) for AY 2010-2011. The Assessee has received a notice u/s 148 on 06.04.2013 for re-opening of assessment. Can the Assessee challenge the legality of notice on the ground of change of opinion? [3]

(e) (i) R was working with X Ltd. on a salary of ₹ 60,000 p.m. He resigned on 31.07.2014 and joined Y Ltd. w.e.f. 01.08.2014 on a salary of ₹ 70,000 p.m. Compute the tax deductible by X Ltd. and Y Ltd. assuming he submitted the details of salary drawn and tax deducted at source by X Ltd. along with a company of Form 16 to Y Ltd. on 01.08.2014 itself. [6]

(ii) The Total Income of Mrs. A, resident in India, compute for assessment year 2015-16 is ₹ 3,20,000 which includes long-term capital gains of ₹ 30,000 and winning of lotteries ₹ 20,000 and short-term capital gain covered under section 111A ₹ 10,000. Compute the tax payable assuming his agricultural income for the previous year was ₹ 2,50,000. [4]

(iii) Ramamurthy Public Charitable Trust [Registered u/s 12A of the Income Tax Act, 1961] furnishes the following data for Previous Year ending 31.03.2015 -

Particulars	(₹ Lakhs)
1. Income from Engineering College affiliated to University [Gross Receipts ₹ 100 Lakhs]	10
2. Income from Properties held in Trust [out of this ₹ 2 Lakhs was not received during the year	
3. (i.e. received on 07.04.2015) and ₹ 3 Lakhs was received only on the last day of the year]	26
4. Net Income from Business held under Trust (incidental to the main objects) as per Books	2
5. Amount spent on free scholarship, free meals and free medical relief	9
6. Repayment of loan taken for construction of Health care Centre	3

You are required to:

- (i) Compute the taxable income of the Trust for the Assessment Year 2015-2016 [Assume that option is exercised under explanation to Sec. 11(1)]
- (ii) Advise how the taxability on the computed income could be minimized or reduced. [5]

3. Answer any two questions [2×10 = 20]

(a) What are the documents required to be maintained in respect of International Transactions?

[10]

(b) (i) Boulevard Inc. a French Company, holds 40% of Equity in the Indian Company Vista Technologies Ltd (VTL). VTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Boulevard Inc.

During the year, VTL had spent 2,000 Man Hours for developing and maintaining software for Boulevard Inc, with each hour being billed at ₹ 1,250. Costs incurred by VTL for executing work for Boulevard Inc. amount to ₹ 18,00,000.

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VTL had also undertaken developing software for Bal Industries Ltd for which VTL had billed at ₹ 2,700 per Man Hour. The persons working for Bal Industries Ltd and Boulevard were part of the same team and were of matching credentials and caliber. VTL had made a Gross Profit of 50% on the Bal Industries work.

VTL's transactions with Boulevard Inc. is comparable to transactions with Bal Industries, subject to following differences -

1. Boulevard gives technical knowhow support to VTL which can be valued at 8% of the Normal Gross Profit. Bal Industries does not provide any such support
2. Since the work for Boulevard involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.
3. VTL had offered 90 Days credit to Boulevard the cost of which is measured at 2% of the Normal Billing Rate. No such discount was offered to Bal Industries Ltd.

Compute ALP and the amount of increase in Total Income of Vista Technologies Ltd. **[5]**

(ii) Kio Japan and AB Ltd, an Indian Company are Associated Enterprises. AB Ltd manufactures Cellular Phones and sells them to Kio Japan and Geel, a Company based at Beijing. During the year AB Ltd supplied 2,50,000 Cellular Phones to Kio Japan at a price of ₹ 3,000 per unit and 35,000 units to Geel at a price of ₹ 4,800 per unit. The transactions of AB Ltd with Kio and Geel are comparable subject to the following considerations -

1. Sales to Kio is on FOB basis, sales to Geel are CIF basis. Freight and Insurance paid by Kio for each unit is ₹ 700.
2. Sales to Geel are under a free warranty for Two Years whereas sales to Kio are without any such warranty. The estimated cost of executing such warranty is ₹ 500.
3. Since Kio's order was huge in volume, quantity discount of ₹ 200 per unit was offered to it.

Compute Arm's Length Price and amount of increase in Total Income of AB Ltd, if any, due to such Arm's Length Price. **[5]**

(c) What are the consequences of Non-Compliance with Regulations under International Transaction? **[10]**