

Paper-7 Direct Taxation

PTP_Intermediate_Syllabus 2012_Jun2015_Set 2

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL B	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
Construct		Build up or compile	
Prioritise		Place in order of priority or sequence for action	
Produce		Create or bring into existence	

Paper-7 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.

Section A

[Answer all the Questions]

(1) Answer the following sub-divisions briefly in the light of the provisions of the Income-tax Act, 1961: (1×20)

- (i)** State the manner of determination of residential status of Hindu Undivided Family.
- (ii)** Explain the taxation of the Limited Liability Partnerships.
- (iii)** State the conditions to be fulfilled for availing exemption from tax, in respect of remuneration received by foreign individual.
- (iv)** State the provisions relating to the taxability of the leave salary at the time of retirement of the Central/State Government employees.
- (v)** State the head(s) of income, under which the income from sub-letting house property is charged to income tax, under the provisions of the Income Tax Act, 1961.
- (vi)** State the conditions to be fulfilled by the assessee for claiming depreciation on assets, while determining business income.
- (vii)** State the quantum of deduction available to an Indian company, in respect of expenditure incurred on amalgamation.
- (viii)** State the circumstances, in which an assessee is not required to pay advance tax.
- (ix)** State the manner of determination of residential status of a Company.
- (x)** State the taxability or otherwise, of interest received from the Central/State Government, in the hands of a non-resident.
- (xi)** State the provisions relating to exemption of income of mutual funds, as contained in Section 10(23D) of the Income tax Act, 1961.
- (xii)** State the taxability or otherwise, of salary, perquisite, allowance, received as gift by an employee from the employer.
- (xiii)** State the taxability or otherwise of income from house property, which is used by the assessee for the purposes of his own business.
- (xiv)** Whether a residential house given on rent for 300 days during the Previous Year is cover under the definition of assets u/s 2(ea)(i) of Wealth tax act?
- (xv)** Whether a land situated within the jurisdiction of a municipality or a cantonment board, which has a population of 9,900 as per the last census less than 10,000, is amount to assets u/s 2(ea)(v) of Wealth tax act.
- (xvi)** (xvi)How long records are required to be maintained by assessee who has entered into international transactions?
- (xvii)** In which forms a report from an accountant is required to be furnished under section 92E by every person who has entered into an international transaction?
- (xviii)** What are the basic two conditions for applicability of arm's length price in the international transaction?

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- (xix) When do the transfer pricing rules affect to a business?
 (xx) What is the standard search criteria for the uncontrolled comparables in the Public data bases?

2. Answer any four Questions [4 × 13 = 52]

(a) (i) Is e-filing of return mandatory? State the assessee's for whom e-filing of returns is mandatory? [6]

(ii) Susmita 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 Susmita for the assessment years 2015-16 and 2016-17. [7]

(b)(i) T Ltd. is engaged in the business of manufacture of computer hardware since 2007. During the previous year 2014-15, the following assets acquired put to use:

(₹ 000)

Particulars	Block 1 ₹	Block 2 ₹	Block 3 ₹
Rate of Depreciation	15%	30%	60%
No. of assets in the block	10	10	15
Depreciated value of the block on 1.4.14	2,800	3,500	1,500
Addition of plant (during P.Y. 2014-15)			
Plant P	5,700	—	—
Plant Q	—	400	—
Plant R	—	—	1,700
Sale of old plants	500	2,870	5,200

Plants P, Q and R are acquired during May 2014 and put to use during September 2014. However, plant Q is put to use in the last week of March 2015.

Find out the amount of depreciation, addition depreciation and capital Gain. [8]

(ii) Mr. Amit, an employee of a mercantile firm, retired on 1st July 2014 at a monthly salary of ₹14,000 after completing 28 years 9 months of service and received ₹1,06,000 as leave encashment. Leave availed by him during his service period was 14 months. His monthly average salary was ₹ 13,500.

Calculate the taxable amount of leave encashment of Mr. Amit if he is a

(a) a Government employee; (b) Non-Government employee. [5]

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(c)(i) Mr. Ankit is the owner of a building at Kolkata. The building was let out up to 1st Nov. 2014, then it was occupied by him for his own residence. A loan of ₹ 5,00,000 was taken for the construction of house. Interest on loan is 10%. The loan is still unpaid.

From the following further information calculate Income from House Property :

- (i) Municipal Tax @ 10% ₹ 9,000
- (ii) Standard rent ₹ 90,000
- (iii) Rent per month ₹ 8,000
- (iv) Repairing charges ₹ 6,000
- (v) Unrealized rent [2012-2013] ₹ 16,000.
- (vi) Municipal Tax paid for [2012-2013] ₹ 4,000.
- (vii) Cost of special amenities ₹ 4,000 provided to tenant upto 1st Nov 2014. **[5]**

(ii) Discuss the admissibility or otherwise of the following items of computation of income under the head 'Profits and Gains from Business or Profession' for the Assessment Year 2015-16:

- (a) ₹ 400 paid to an Income Tax Advisor for conducting an appeal before the Income Tax Appellate Tribunal.
- (b) ₹ 600 paid for raising loan of ₹ 20,000. The loan is repayable after five years.
- (c) ₹ 2,000 for shifting the factory from one place to another for easier supply of raw materials.
- (d) ₹ 3,000 paid to a trade association representing assessee's business for propaganda against the move for nationalisation of his trade.
- (e) Legal expenses amounting to ₹ 1,000 paid for defending assessee's title on an asset.
- (f) Paid ₹10,000 being cost of machine purchased for scientific research relating to the business.
- (g) ₹ 600 paid for legal charges for drafting partnership deed.
- (h) ₹700 considered as bad debt. The debtors were declared insolvent having no asset. The amount was, however, not yet written off as irrecoverable in the accounts of the assessee. **[8]**

(d) (i) The Net Profit of ZX Ltd. for the year ended March 31, 2015 amounted to ₹ 7,50,000 after debiting/crediting the following items:

Particulars	₹
Provision for bonus (paid on November 15,2015)	30,000
Provision for commission to employees (paid on December 1,2014)	76,000
Payment of annual installment under an approved agreement to a foreign collaborator for technical knowhow	1,00,000
Legal expenses incurred for issue of capital	30,000
Interest paid on unpaid purchase price of business assets	15,000
Cost of goods purchased from Y Co. Ltd. which was paid by bearer cheque	50,000
Sales include sale of gold not being stock in trade (indexed cost of acquisition ₹ 1,70,000)	2,00,000
Rent received from Staff for the quarters allotted	75,000
Rent received for commercial property rented to a foreign bank	1,50,000

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Expenditure on scientific research include cost of land ₹ 30,000 and ₹ 20,000 paid to approved national laboratory. Land revenue in connection with worker's quarters and let-out commercial property (paid on June 15,2014)	12,000
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Calculate Taxable Income of the company for the Assessment Year 2015-16. The answer should clearly indicate the basis for treatment of each item. **[8]**

(ii) Shri Chand retired on 1st September 2014 after completing 32 years and 9 months of service. At the time of retirement he was drawing a basic salary of ₹ 7,500 p.m. (Annual increment of ₹ 150 falls due on 1st January every year) and dearness allowance ₹ 1,500 p.m. He received ₹ 1,50,000 as gratuity on retirement.

Compute the taxable gratuity of Shri Chand for the assessment year 2015-16. **[5]**

(e) (i) Dr. Mahesh, a resident individual, (aged 55 years) is a medical practitioner. The details relating to the previous year 2014-15, as contained in the Receipts and Payments Account, has been furnished as follows:

Receipts and Payments Account

Dr.			Cr.
Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/f	1,00,000	By commercial vehicle A/c [Commercial Vehicle purchased before 01-10-2014]	6,00,000
To sale of medicines A/c	5,00,000	By Drawings A/c	3,00,000
To Consultation Fees A/c	1,00,000	By Surgical equipments A/c [Surgical equipments purchased before 01-10-2014]	1,00,000
To Fees received on visit A/c	4,00,000	By Loan A/c [Installment paid including interest of ₹44,666]	2,42,000
To Honorarium A/c	50,000	By Medical Insurance Premium A/c	32,000
To Family Pension A/c	2,80,000	By Housing loan A/c [Installment paid including principal component of ₹96,000]	2,16,000
To Interest received on Savings Bank Account A/c	10,000	By Advance Tax A/c	40,000
To Lottery Winnings A/c (net after deduction of TDS @ 30%)	50,000	By purchase of medicines A/c	55,000
To Agricultural Income A/c	1,00,000	By payment for medical journal A/c	15,000
To Share of income from HUF A/c	1,50,000	By Vehicle expenses A/c	45,000
To Loan from bank A/c	3,00,000	By Bank Deposit A/c [Bank deposit done in bank	2,00,000

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		for 5 years]	
		By Balance c/f	1,95,000
	20,40,000		20,40,000

Other relevant information is as under:

1. The self-occupied property of Mr. Mahesh was constructed in 1998, with a loan from LIC Housing of ₹10,00,000 out of which ₹6,00,000 was still due. The assessee made an arrangement of refinancing from SBI on 01-04-2014 at the rate of 10%. One-fourth of the portion of the house is used for purposes of running clinical establishment.
2. He invested in term deposit of ₹2,00,000 in Bank of Baroda on 01-07-2014 for a period of 5 years in the name of his minor daughter at 10% per annum.
3. The commercial vehicle was purchased on 01-07-2014 for ₹6,00,000, It was partly financed by a loan of ₹3,00,000. One-fourth use of the vehicle is estimated to be for personal purposes.
4. Medical Insurance Premium of ₹16,000 was paid by the assessee for himself and ₹16,000 was paid for the dependent mother, aged 74 years (who is an Indian resident).
5. The share from HUF's income amounted to ₹50,000.

Compute the total income of Mr. Mahesh, ignoring depreciation on building, for the A.Y 2015-16.

[8]

(ii) The book profits of Sky Heights Ltd., for the previous year 2014-15 computed in accordance with Section 115JB is ₹ 37.50 Lakhs. If the total income computed for the same period as per the provisions of the Income Tax Act, 1961 is ₹ 7.50 Lakhs, compute the tax payable by the company in the Assessment Year 2015-16. Is Sky Heights Ltd. eligible for any tax credit? If so, for how many years, shall Sky Heights Ltd. avail such tax credit?

[5]

Section B

3. Answer any two Questions [1 × 8 = 8]

(a) (i) State whether wealth tax is chargeable in respect of net wealth of the following persons under the Wealth Tax Act, 1957:

- A. Holder of an impartible estate
- B. Association of Persons
- C. Partnership firms.

[5]

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(ii) An Association of Persons (AOP), comprising of two members Anil and Dilip, owns an urban land valued at ₹60 Lakhs, on the valuation date 31.03.2015. State the tax implications under the Wealth Tax Act, 1957. [3]

(b) (i) State the circumstances in which Rule 3 of Schedule III shall not apply for valuation of immovable property, under the provisions of the Wealth Tax Act, 1957. [2]

(ii) Mayur House Constructions Ltd. furnishes the following particulars of its wealth for the valuation date as on 31.03.2015:

	Particulars	₹ in lacs
(i)	Land in urban area (held as stock in trade since 1999)	70
(ii)	Motor cars (including one imported car worth ₹35 lacs used for hiring)	45
(iii)	125 acres of land acquired at Ghaziabad township on 15.5.2013 for construction of commercial complex	150
(iv)	Two Residential flats of 950 sq feet each provided to 2 employees (salary of one employee exceeds ₹10 lacs per annum)	30
(v)	Farm house of 8 acres at a remote village	7
(vi)	Cash in hand as per cash book	5
Liabilities:		
(i)	Loan for purchase of land at urban area	50
(ii)	Loan for purchase of land at Ghaziabad	100
(iii)	Wealth-tax liability for A.Y. 2015-16	10
(iv)	Loan for construction of residential flats	10

Compute the net wealth of the company for the A. Y. 2015 – 2016. [6]

Section C

4. Answer any two Questions [2 × 10 = 20]

(a)(i) The transfer price adopted for an international transaction of sale of goods by an Indian Company during the financial year 2014-15 is ₹ 35 lakhs, whilst the Arm's Length Price determined using the most appropriate method are ₹ 32 Lakhs and ₹ 42 lakhs. With reference to transfer pricing provisions, discuss whether any adjustment is required. The rate of permissible variation prescribed by the Central Government may be assumed to be, 2% of the transfer price for this class of international transaction. [5]

(ii) Discuss whether transfer pricing provisions under the Income Tax Act, 1961 are attracted in respect of the following transactions –

(a) Provision of marketing management services by PQR Inc. to its Indian subsidiary PQR

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- Ltd.
- (b) Lease of transportation vehicle by ABC Ltd. from X Inc. X Inc. guarantees 15% of the borrowings of ABC Ltd.
 - (c) Sale of industrial design by A Ltd. to LMN Inc., a Dutch company, which holds 29% of the shares of A Ltd.
 - (d) Mr. Yadav, a resident Indian, holds 25% equity share capital in Alka Ltd, a domestic company. Alka Ltd. hires trucks owned by Mr. Yadav 's son and pays rent of ₹ 2 lakh.
 - (e) ABC Ltd., a domestic company, has two units A & B. Unit A, which commenced business two years back, is engaged in the business of developing a toll road. Unit B is carrying on the business of trading in cement. Unit B transfers cement to the value of ₹ 5 lakh to Unit A for ₹3 lakh. **[5]**

(b)(i) A resident of India has paid tax in a foreign country in respect of his income which accrued in that country. India has no double taxation avoidance agreement with that country. Such income is also taxable in India. Explain whether any relief is available to him in respect of the tax paid by him. **[3]**

(ii) List out at least seven documents, which ought to be maintained by an associated enterprise which is subject to transfer pricing provisions. **[7]**

(c)(i) "Under the special provisions of the Income Tax Act, 1961, any income arising from an international transaction shall be computed having regard to the arm's length price."

In this context, explain the circumstances in which the provisions of arm's length price shall be applicable. Discuss the scope of such provisions governing the determination of the arm's length price. Also, state the circumstances in which such provisions shall not apply. **[4]**

(ii) Compute the 'Arm's Length Price' (ALP) in the following cases:

- (a) Kanchi Healthcare 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 in India at a price of US\$ 125 per unit.
- (b) The US parent company sells the same product to an unrelated company in India @ US\$ 80 per unit.
- (c) A sold a machine to B (Associated enterprise) and in turn B sold the same machinery to C (an independent party) at sale margin of 30% for ₹2,10,000, but without making any additional expenses and charge. **[6]**