Direct Taxation
Section A
(Question No. 1 is compulsory and any four from Question No. 2 to 6]

1.

(a) Answer each of the following questions:

(i) T Ltd. purchased a plant costing ₹10 lakhs. Before commencement of commercial production the company incurred ₹30,000 on trial run. The products generated by trial run were sold at ₹20,000. Compute the Actual Cost of the plant for the purpose of Section 43(1).

(ii) During the previous year 2012-13, Mr. Sinha paid ₹1,70,000 for interest on loan taken on 20.12.2009 for the construction of a house property. The construction was completed on 12.05.2012. Mr. Sinha uses this house property for his residential purpose. He has no other house property. What is the amount of interest deductible u/s 24(b)?

(iii) Calculate the amount of tax payable by Mr. Ram, a resident individual, who has taxable Long Term Capital Gains of ₹55,000 and income from other sources ₹1,20,000 during the previous year 2012-13.

(iv) Mr. Dutta received gold bars worth ₹75,000 from his father and a motor bike worth ₹85,000 from his friends as gift on the occasion of his birthday on 28.02.2013. Is it to be treated as income from other sources of Mr. Dutta?

(v) Rishi owns a Tea estate. During the previous year, he has earned ₹5,25,000 from the sale of tea grown and manufactured in his estate. Compute his business income?

(vi) Hari is an owner of a farm house. He earned ₹85,000 as rent from the film producer for shooting of a movie in the farm house. Is this an agricultural income?

(vii) Rabi has paid ₹55,000 for the previous year 2012-13 on 01.03.2013 towards interest on loan taken for his higher education. How much will he be allowed as deduction u/s 80E?

(viii) Rahul, resident individual having business income, is required to audit his books of accounts under the Income Tax Act. What is the due date by which Rahul is required to file his return?

[8×1]

(b) Choose the correct answer

(i) The profit arising on sale of a painting held for two generations is
- (A) Not Liable to tax as painting being personal effect is not a capital asset
- (B) Liable to tax as long term capital gain
- (C) Liable to tax as short term capital gain
- (D) Not liable to tax as it is held for five years before being sold

(ii) The following is not a venture capital undertaking for the purposes of Section 10(23F), if engaged in business of :
- (A) Generation of power
- (B) Telecommunications
- (C) Providing infrastructure facility
- (D) Dairy farming whose shares are not listed in a recognized stock exchange

(iii) Validity period of stay of recovery granted by ITAT is
- (A) One year
- (B) Three years
- (C) 180 days
- (D) Till final order is passed by Tribunal

(iv) The provisions of AMT shall apply to a non-corporate assessee who has claimed any deduction:
- (i) 80G
- (ii) 80E
- (iii) 80IA

(iv) 80C

(v) The following is exempt income:
   (A) Travel concession to employee
   (B) Remuneration received for valuation of answer scripts
   (C) Perquisites in India
   (D) Encashment of leave salary whilst in service

[5×1]

2.

(a) The Head Office of Achariya, a Hindu Undivided Family, is situated in Kenya. The family is managed by Avik Achariya, since 1980, who is resident in India in only 4 out of 10 years preceding the previous year 2012-13 and he is present in India for more than 729 days during the last 7 years. Determine the residential status of the family for the assessment year 2013-14, if the affairs of the family's business are (i) wholly controlled from Kenya or (ii) partly controlled from India.

(b) Abir functioned as the managing director of MSN Ltd. under an agreement, which was to be operative from February 1, 2008 for a term of five years. The agreement, inter alia, provided for payment of gratuity to the managing directors, as per the terms of the agreement, at the time of termination of appointment. During the accounting year 2012-13 after the expiry of the said agreement on February 1, 2013, Abir received ₹1,05,000 gratuity in accordance with the terms of the agreement. Thereafter, Abir is appointed as managing director under a fresh agreement which also contains a clause as to payment of gratuity. Abir claims that u/s 10(10) a part of the gratuity received is exempt from tax. The Assessing Officer is of the opinion that the assessee's services have not been terminated, with the result that no gratuity falls due and consequently, Section 10(10) is not applicable. Discuss whether Abir is entitled for exemption.

(c) Ratul once again wants to revise his return of income which is already revised. Can he do so? If so, under what circumstances.

[5+5+2]

3.

(a) The question whether a particular income is income from salary or is income from business depends upon whether the contract is a contract of service or is a contract for service. Illustrate.

(b) One of the exceptions to the rule that the income of the previous year shall be assessed in the subsequent assessment year is the shipping business of non-resident. List the other exceptions to the rule.

(c) From the details given below find out the taxable amount of recovery of unrealised rent as per the provision of Sec. 25AA.

Unrealised rent recovered during the P.Y. 2012-2013 relating to P.Y. 2006-2007	(Actual rent receivable – Unrealised rent) of PY 2006-2007	GAV of P.Y. 2006-2007
30,000	1,80,000	1,80,000
20,000	1,50,000	1,60,000
50,000	1,20,000	1,40,000

(d) Som, 14 years old, has been admitted as partner to the benefit of a firm, SKK Co. on 01.04.2012. The firm paid ₹20,000 as interest on his capital @ 10% p.a. simple interest during the previous year 2012-13. State the tax implications.

[5+5+3+2]

4.

(a) During the previous year 2012-13, Avik, a resident individual, has made contribution of ₹7,000 to an approved research association for carrying out research in natural science and ₹8,000 to National Fund for Rural Development. Determine his taxable income if he is (i) a salaried employee, drawing ₹2,00,000 as taxable salary or (ii) a businessman whose income from business (without deducting the above mentioned contribution) is ₹2,00,000.

(b) The Assessing Officer issued a notice on 27th November, 2013 calling upon Mr. Sen to file the return for the assessment year 2012-13. Mr. Sen, in response to the notice, furnished a return of loss claiming the carry forward of business loss and depreciation. State whether he would be entitled to the benefit of carry forward as claimed in the return.

(c) Subodh gifted ₹40,00,000 to his fiancée, Rina on 15.09.2012 and she booked fixed deposit with that amount on the same date. They got married on 25th December, 2012. On 15.03.2013, she received ₹2,00,000 as interest on that amount. The Assessing Officer wants to club this income in the hands of Subodh – Justify.

(d) Sampat received ₹18,00,000 being maturity proceeds of LIC policy that he had taken out in the name of his wife. Assessing Officer contends that the amount, received by him alive, is taxable as income from other sources in the year of receipt – Justify

[5+3+3+2]

5.

(a) Ranbir purchased a house property on 2nd January, 1977 for ₹1,00,000. On 21st March, 1988, he entered into an agreement to sell the property to Samir for ₹4,00,000 after taking an advance of ₹50,000. On Samir's failure to pay the balance amount within the stipulated time, Ranbir forfeited the advance amount. Ranbir sold the house property on 1st May, 2012 for a consideration of ₹25,00,000. The fair market value of the house property as on the 1st April, 1981 was ₹90,000.

Calculate the taxable amount of Capital Gains.

What will be the taxable amount of Capital Gains, if the fair market value of the house property as on the 1st April, 1981 was ₹5,00,000.

(b) Dev, aged 48 years, resident in India, furnishes the following information for the previous year ended 31-3-2013 :

	₹
House property income (Net)	19,500
Business income	85,000
Capital gains (short-term)	25,000
Capital gains (long-term)	3,500
Income from horse race	16,000
Income from card games	17,000
Additional information are as follows :	
Brought forward business loss for AY 2005-06	12,000
Unabsorbed depreciation for AY 2010-11	6,000
Long-term capital loss for AY 2009-10	12,000
Loss from horse race suffered in AY 2009-10	8,000
Speculative loss for AY 2008-09	10,000

Dev has taken a life insurance policy for his son (aged 25 years) working in a software company for a salary of ₹5,00,000 per annum. He has paid premium of ₹20,000 in cash for a capital sum assured of ₹2,00,000.

He has paid PPF of ₹81,000 by raising a loan from his friend.

Calculate total income. State the items to be carried forward.

(c) "Depreciation is allowed only when it is claimed" – state the correctness of the statement. **[5+7+1]**

6.

(a) SD Ltd., an Indian company, submits the following information for the previous year 2012-13:

	₹
Business income	2,15,000
Long Term Capital Gains on sale of Gold bars on 30th September, 2012	1,25,000
Winning from lottery on 28th December, 2012 (after deducting tax at source of ₹18,000)	42,000

Calculate the minimum amount of advance tax payable by way of different installments to ensure that interest liability u/s 234C is not attracted.

(b) M/s. AB sold one of its undertaking consisting of Machinery A (Rate of deprecation 30%), Machinery B (Rate of deprecation 15%), Building X (Rate of deprecation 10%), for ₹1,50,00,000 on 9.9.2012

Machinery A originally acquired for ₹5,00,000 on 1.9.2009

Machinery B originally acquired for ₹10,00,000, on 30.10.2010.

Building X acquired on 18.4.2012 for ₹4,00,000

During the year a new Machinery C (15%) purchased for ₹5,00,000 on 6.6.2012

Compute deprecation

Machinery (Rate of depreciation 30%) block (WDV as on 1.4.2012 is ₹9,00,000)

Machinery (Rate of depreciation 15%) block (WDV as on 1.4.2012 is ₹8,00,000)

Building (Rate of depreciation 10%) block (WDV as on 1.4.2012 is ₹5,00,000)

(d) Is the income of a dealer in shares by way of dividend taxable under the head "Profits and Gains of Business or Profession"?

[6+5+2]

Section B
(Answer all the questions)

(7)

(i) Can an individual authorize another person to sign the return of wealth on his or her behalf?

(ii) In case of valuation for wealth tax purposes of immovable property in Nagpur, What do you mean by Specified Area?

[1+1]

(8)

(A)

(a) Is it correct to state that every member of AOP is an "assessee" for the purpose of Wealth Tax?

(b) Avik Rao is a coparcener of a Hindu Undivided Family. There was a partition in the family in June, 2012 and under terms of the partition deed certain assets of the family were allotted to Avik's wife. The Assessing Office included these assets in Avik's individual assessment under the provisions of sub-clauses (i) and (ii) of section 4(1)(a) of the Wealth Tax Act. Is the Assessing Officer justified in his action?

(c) Discuss whether the following are "assets" u/s 2(ea)"

(i) A commercial multi-storied building given on rent.

(ii) A commercial house property used by a Hindu Undivided Family for the purpose of carrying on own business.

(iii) Mr. Kotoky owns a house property which is occupied by a firm in which he is a partner for its business purposes.
(iv) Rabi owns a residential house property. However, till 31st march, 2013, it is under construction (original cost of plot of land was ₹85,00,000, construction expenditure incurred upto 31st March, 2013 is ₹50,00,000).

[2+2+(1×4)]

or

(B)
(a) Jay owns a building at Delhi. He used the building for his business purposes upto 21.09.2012. Since then it is let out to a tenant who uses the building for residential purpose. Is it an asset u/s 2(ea) of the Wealth Tax Act for the assessment year 2013-14?
(b) Calculate the net wealth in each of the following cases:
  (i) Ms. Z owns utensils of gold, the value of which as on 31.03.2013 is ₹25 lakhs. He takes a loan of ₹10 lakhs by pledging these utensils.
  (ii) On 30.12.2012, by taking a bank overdraft of ₹30 lakhs, Mr. W purchased gold bullions. Fair value of the gold bullions as on 31.03.2013 is ₹33 lakhs.
(c) Jubin owns a plot of land in Mumbai whose total area is 900 sq. mts. He constructs a building on 1/3rd of the plot. Find the amount of premium to be added to the capitalized value.

[3+(1+1)+3]

Section C
(Answer all the questions)

(9)
(i) What do you mean by uncontrolled transaction under Transaction Net Margin Method?
(ii) Can the transfer price ignore dumping, R&D expenses and start-up cost in judging the arm's length price?
(iii) What do you mean by Unrelated Enterprise in the context of International Transaction?
(iv) Are related parties u/s 40A(2) same as for associated enterprises for application of Transfer Pricing Rules?
(v) Under Transfer Pricing Study, in the Annexure to which form is the statement of particulars to be furnished?

[1×5]

(10)
(A)
(a) Briefly describe your understanding on Cross-border Transactions.
(b) What is the binding nature of the arm's length price determined by the Transfer Pricing Officer upon a reference made to him by the Assessing Officer?
(c) Will transfer pricing rules be applicable, where income is computed on the basis of books profits?
(d) Will the transfer pricing rules apply for purposes of capital gains as in the case of transfer of shares of unlisted companies incorporated in India?
(e) What are the factors which have to be considered after arriving at the profit margin on the basis of comparables for arriving at arm's length price in a particular case?
(f) MS Ltd., an Indian company, is a subsidiary of RV Inc., a company registered in US. It purchased raw materials from RV Inc. Purchase prices of raw material determined by the most appropriate method are ₹9,950, ₹10,000 and ₹10,050 per unit. However, MS

Ltd. pays to RV Inc. ₹10,500 per unit. Determine the arm's length price. Assume that the tolerance range notified by the Government is 5 percent.
Determine the arm's length price if MS Ltd. pays ₹9,600 to RV Inc.

(g) MND Inc., a company incorporated in US, sells printer to its 100% Indian subsidiary SW Ltd. @ $100 per printer. MND Inc. also sells its printer to another company RD Ltd. in India @ $120 per printer. Total income of SW Ltd. for the assessment year 2013-14 is ₹14,00,000 after making payment for 50 printers @ $100(1$=₹50). SW Ltd. has deducted tax at source while making payment to MND Inc. Compute the arm's length price and taxable income of MND Inc. and SW Ltd. Assume the rate of one Dollar to be equivalent to ₹50 in all transaction.
What will be yours answer, if MND Inc. sells its printer to RD Ltd. @ $90 per printer.

[2+2+2+1+3+5+5]

or

(B)

(a) When will you deem two enterprises to be associated enterprises?
(b) Briefly explain the role of market forces in determining the Arm's Length Price?
(c) Briefly explain Profit Split Method in determining Arm's Length Price.
(d) "The Arm's Length Principle, although survives upon the international consensus, does not necessarily mean that it is perfect" – Discuss.
(e) Can the Transfer Pricing Officer accept use of multiyear data for determining of Arm's Length Price in an International Transaction?
(f) Shortly explain the procedure for computation of Arm's Length Price under various methods.

[5+2+5+4+2+2]