

# P7\_Practice Test Paper\_Syl12\_Dec13\_Set 3

## Paper 7 : Direct Taxation

Full Marks – 100

Time – 3 Hours

### Section A

(Question No. 1 is COMPULSORY and any FOUR from Question Nos. – 2 to 6)

1.

- Mr. Gill was retrenched from service of S Ltd. He received retrenchment compensation of ₹9,00,000 during the previous year 2012-13. The scheme of retrenchment is approved by the Central Government. Calculate the tax liability.
- R Ltd. incurred ₹5,00,000 for Agricultural Extension Project during the previous year 2012-13. State the allowability of that expenditure.
- Chitra received ₹4,00,000 on 11.05.2012 as scholarship for her PHD in Chemistry. She requested you to calculate her income tax liability for the assessment year 2013-14. She has no other income during the year.
- Mr. Aman took a loan of ₹3,00,000 from his employer on 5<sup>th</sup> October, 2012 for medical treatment (specified in Rule 3A) of his wife. Hospital bill was ₹3,00,000. He also received ₹1,00,000 from mediclaim. Calculate the amount chargeable to tax.
- Kakun, a sikkimese individual, has earned ₹2,15,000 during the previous year 2012-13. The source of her income is in Sikkim only. Determine her tax liability for the assessment year 2013-14.
- If a machine costing ₹1,00,000, on which depreciation of ₹80,000 was written off is sold for ₹15,000, calculate terminal depreciation.
- Sanjeev has an agricultural land in urban area. Do you consider this as a capital asset for the purpose of the capital gains computation? Justify your answer.
- Sandip, a salaried employee, received Tribal Area Allowance of ₹300 per month. Calculate the taxable amount of Tribal Area Allowance.
- What is the due date of filing the return of income of SD Ltd., if it is required to furnish a report in Form No. 3CEB u/s 92E for the assessment year 2013-14?
- Mention the time limit within which, any amount of tax (other than Advance Tax) specified as payable in a notice of demand u/s 156, be paid?
- What will be the amount of penalty, if Karan fails to maintain books of accounts as required u/s 44AA?
- Mr. Roy borrowed ₹5,00,000 on mortgage of his house property for his daughter's marriage. Is the interest on that amount paid deductible from the income of the house property?
- On 03.02.2013, an investment of ₹15,00,000 in the name of Mr. R is found which cannot be explained by him. In which previous year will it be included in the total income of R, if the date of investment is 01.01.2011?

[13×1]

2.

- Determine residential status for the assessment year 2013-14, of Vijay, an Indian Citizen who left India for employment in London on 1<sup>st</sup> November, 2012.
- Samir is a member of BOI. He borrows a sum of ₹2,00,000 from market with interest rate of 12% and advances it to the BOI. The BOI pays Interest @ 16% p. a. to Samir. Determine the amount to be disallowed.
- Raj, a resident individual, provides the following details for the previous year 2012-13:

Particulars	₹
Income from Business	4,00,000
Income from House Property	45,000
Income from Other Sources	55,000

Calculate tax liability of Raj for the assessment year 2013-14.

## P7\_Practice Test Paper\_Syl12\_Dec13\_Set 3

Show if there will be any difference in the tax liability for that year if he also has Agricultural income ₹2,00,000.

- (d) A & L Ltd. incurs expenses on scientific research related to its business during the financial year 2007-08 and onwards @ ₹50,000 per year. It has commenced the business during the financial year 2012-13. Discuss the allowability of expenses incurred on scientific research.

[3+2+6+2]

3.

- (a) Ciba Ltd., an existing Indian company, engages in developing and providing computer software services. It set up a new unit and incurred the following expenditure in connection with the setting up of new unit. The project was completed in March, 2013. Determine the amount of deduction admissible u/s 35D.

Particulars	₹
Preparation of project report	2,50,000
Market survey	5,00,000
Legal charges for issue of additional capital for the new unit	3,25,000
Engineering services by the company not approved by CBDT	5,00,000
Cost of the Project	70,00,000
Capital employed in the new unit	60,00,000

- (b) Amir, a resident individual, is physically handicapped (75%). During the previous year 2012-13, he earned a net income of ₹4,78,000 from a consultancy business run by him. Compute his total income for the A.Y. 2013-14. Also calculate his tax liability.
- (c) "Taxes can be classified on the basis of form, nature, aim and method of taxation"- Discuss.

[6+4+3]

4.

- (a) Mr. Sinha purchased 200 equity shares of Tody Ltd. on 01.04.1988 @ ₹250 per share and incurred ₹400 on brokerage. On 01.08.1990, he got bonus shares in the ratio of 1:1. On 01.09.1995, he got 300 right shares @ ₹150 per share. On 27.12.2012, he sold all shares @ ₹600 per share and incurred expenditure of ₹2,000 on brokerage. Compute his taxable capital gain.
- (b) Do you think "Deemed Assessee" and "Assessee in Default" are same? Justify your answer.
- (c) B, a resident individual, resides in Mumbai. During the previous year 2012-13, he was in receipt of basic salary of ₹65,000, Dearness Allowance (considered for Retirement Benefit) of ₹35,000 and HRA of ₹25,000. He paid the actual rent of ₹15,000 per annum. Calculate the amount of HRA exempt u/s 10(13A).
- (d) M Ltd. incurred ₹1,00,000 (excluding ₹5,50,000 incurred for acquiring land) on skill development project during the previous year 2012-13. Determine the amount to be allowed as deduction u/s 35CCD.

[5+3+4+1]

5.

- (a) Bhim has a Gross Total Income of ₹9,00,000 for the A.Y. 2013-14. He took a life insurance policy of ₹3,00,000 and paid premium of ₹24,000. He also paid premium of ₹10,000 each for policies of his brother, who is dependent on him and his son, who is employed in a company. Bhim also paid ₹24,000 for Unrecognized Provident Fund, ₹12,000 towards Public Provident Fund and ₹20,000 in Unit Linked Insurance Plan. During the year he has repaid housing loan taken from SBI Bank for ₹80,000 and ₹20,000 towards outstanding interest. He paid ₹4,000, ₹5,000 and ₹6,000 respectively as school fees of his three children. Calculate the taxable income of Bhim.

## P7\_Practice Test Paper\_Syl12\_Dec13\_Set 3

(b) R & Co. is a partnership firm carrying on a business, in which R, S and T are partners sharing profits and losses equally. In respect of assessment year 2013-14, it furnishes the following particulars:

- (i) Net loss as per P&L A/c after debiting remuneration/interest to partners ₹2,40,000
- (ii) Remuneration paid to partner – R ₹75,000, S ₹50,000 & T ₹25,000
- (iii) Interest paid to partners @ 20% per annum on their capital of ₹1,00,000 each as of 01.04.2012

You are required to work out the income of the firm and the partners R, S and T assuming that partners have no other income.

**[6+7]**

6.

- (a) SW Ltd., an infrastructure capital company, issued 2,00,000 Zero Coupon Bonds (Face Value ₹100) on 21<sup>st</sup> October, 2012 at a price of ₹50. The redemption date of the bonds is 21<sup>st</sup> October, 2025. 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 SW Ltd.
- (b) "There exists no difference in the treatment of income claimed u/s 10 with those under Chapter VI-A of the Income Tax Act." – Do you agree with the statement? Justify your answer.
- (c) Shamim, a resident individual, sold a rural land situated in Pakistan for ₹5,00,000 on 31.12.2012. The land was purchased on 01.04.2011 at a cost of ₹3,00,000. Discuss the taxability of the sale.

**[8+3+2]**

### Section B (Answer ALL the Questions)

7.

- (a) Mr. Som owns only one house valued at ₹10,00,000. The house has been built on a land area of 490 sq. meters. Do you consider the house property as an asset for the calculation of net wealth under the Wealth Tax Act?
- (b) SL Ltd. gifted a house property of ₹20,00,000 to one of its director only by making an entry in its books on 01.03.2013. State under whose hand the house property is assessable for the calculation of wealth tax.

**[1+1]**

8.

- (a)
  - (i) "Wealth tax is not payable by an assessee in respect of any property held under a trust or other legal obligation for any public purpose of a charitable or religious nature in India." Do you agree with the statement? Justify your answer.
  - (ii) Compute the wealth tax liability of Ultra Ltd. (carrying on the business of running cars on hire and also dealing in jewellery) which furnishes the following particulars of its assets and liabilities as on 31.3.2013:

(₹ in Lakhs)

	Book value	Valued as per Schedule III
<b>Assets</b>		
(i) Fixed Assets:		
Plant & Machinery	12	10
Factory Building	20	25
Urban Land (460 sq. meters)	36	71
Motor Cars	16	10

## P7\_Practice Test Paper\_Syl12\_Dec13\_Set 3

(ii) Investments		
Jewellery	10	25
Plot of Land in Mumbai (490 sq. meters)	15	75
Equity shares in subsidiary companies	15	20
(iii) Current assets :		
Stock in Trade (Jewellery)	100	120
Sundry Debtors	15	15
Bank Balances	5	5
Cash	1	1
<b>Liability</b>		
(i) Current Liabilities	15	15
(ii) Loans secured on Fixed Assets (Urban Land)	20	20

**[2+6]**

or

(b)

- (i) An Association of Persons, comprising of two members A and B, owns an urban land valued at ₹70,00,000 on the valuation date 31.03.2013. Examine the tax implications under the Wealth Tax Act.
- (ii) Abasan Co-operative Society, formed for construction of residential flats for its members, acquired a large area of urban land at a cost of ₹5,00,00,000 on 31.01.2013. The Society had 10 members having equal shares. The Assessing Officer proposes to tax urban land in the hands of the Society.  
You are required to answer the following questions:
  - (A) What do you mean by "Urban Land"?
  - (B) Is the action of the Assessing Officer correct?
  - (C) Can the members of the Society be assessed on their share in the value of the urban land?

**[3+(2+1+2)]**

### Section C (Answer ALL the Questions)

9.

- (a) "Return on Asset Ratio is one of the profitability ratio" – Explain
- (b) What do you mean by Residual Profit Split?
- (c) How has OECD Guidelines defined Transactional Net Margin Method?
- (d) When is an arrangement termed as Impermissible Avoidance Arrangement?
- (e) In which form shall withdrawal of the application for advance pricing agreement be filed?

**[5×1]**

10.

(a)

- (i) Elaborate whether adjustment is required in the context of transfer pricing provisions where the transfer price adopted for an international transaction concluded is ₹36 Lakhs whilst the Arm's Length Price determined using most appropriate method are ₹32 Lakhs and ₹42 Lakhs.
- (ii) Briefly explain the deeming provisions in respect of cross border transaction.
- (iii) "One can apply Profit Split Method in every situation" – Justify.
- (iv) R Ltd. has borrowed through a fixed instrument of 10%. The swap quote from the bank is 9.70/9.90. After some time the swap market changed to 8.90/9 and R Ltd. again reversed the original swap by entering into second swap opposite to that of the first one.

You are required to answer the following questions:

## P7\_Practice Test Paper\_Syl12\_Dec13\_Set 3

---

- (A) What does the structure of the first swap achieve?
- (B) What is the structure of second swap and what does it do?
- (C) Find the cost of funds for the company after the second swap?

[4+7+4+(1+2+2)]

or

(b)

- (i) Tango Inc., British Company, holds 47% of the equity shares in the Indian company K Ltd. which is engaged in development of software and maintenance of software for customers across the globe. Its clientele includes Tango Inc. During the year, K Ltd. had spent 2,500 man hours for developing and maintaining software for Tango Inc. with each hour being billed at ₹1,200. Costs incurred by K Ltd. for executing work for Tango Inc. amount to ₹22,00,000.

K Ltd. had also undertaken developing software for Beta Ltd for which K Ltd. had billed at ₹1,500 per man hour. The persons working for Beta Ltd. and Tango Inc. were part of the same team and were of matching credentials and caliber. K Ltd. had made a gross profit of 60% on the Beta Ltd.

K Ltd.'s transactions with Tango Inc. are comparable to the transactions with Beta Ltd., subject to the following differences:

- (A) Tango Inc. gives technical know-how support to K Ltd. which can be valued at 5% of the normal gross profit. Beta Ltd. does not provide any such support.
- (B) Since the work for Tango Inc. involved huge number of man hours, a quantity discount of 15% of Normal Gross Profits was given.
- (C) K Ltd. had offered 90 days credit to Tango Inc., the cost of which is measured at 3% of the Normal Billing rate, no such discount was offered to Beta Ltd.

Compute ALP and the amount of increase or decrease in Total Income of K Ltd.

- (ii) "Indian Transfer Pricing Administration has witnessed several challenges in administration of Transfer Pricing Law" – What are they? Explain briefly.
- (iii) Can Forward Contracts also be termed as Future Contract? Justify your answer.

[7+10+3]