

## Paper-7 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.

### Section A

[Question No.1 is compulsory and answer **any four** from Question No. 2 to 6]

Question 1.

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

- (i) The Head Office of a Hindu Undivided Family is in Burma. The family is managed by Mr. AP (since 1980) who is resident in India in only 4 out of 10 years preceding the Previous Year 2013-14 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 2014-15 if the affairs of the family's business are wholly controlled from Burma.
- (ii) What will be the cost of acquisition of bonus shares u/s 55(2)(iiia) if issued prior to 01.04.81.
- (iii) Ms. Rinita, an individual paid medical insurance premium of ₹ 7,000 in cash for the financial year 2013-14. What is the deduction allowable u/s 80D?
- (iv) If an employer provides conveyance facility to his employee to cover the journey between the office and his residence then what will be the tax liability on that perquisite?
- (v) The normal date of retirement of Mr. Basu was 31.05.2013 and the gratuity would become due on that date. In an accident, Mr. Basu died on 20.06.2013 but before that he received the gratuity on 11.06.2013. Whether the gratuity is taxable in hands of Mr. Basu?
- (vi) Brought forward unabsorbed speculation business loss can be set off against income of any head. — Discuss.
- (vii) What will be the rate of TDS for dividend paid by a company to any person u/s 194?
- (viii) Mr. X, a senior citizen has an income from house property. Whether he is liable to pay advance tax and why?

[8 × 1]

(b) Choose the most appropriate alternative:

- (i) The amount of exemption for leave encashment in case of Government employee is —
  - (A) Actual amount of leave encashment received.
  - (B) fully exempted from tax
  - (C) ₹ 3,00,000
  - (D) 10 months average salary preceding the month of retirement
- (ii) The basis of chargeability under the head income from house property is —
  - (A) Annual Value
  - (B) Municipal Value
  - (C) Standard Rent
  - (D) Fair Rent

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- (iii) The Cost Inflation Index as notified by the Central Government for the previous year 2013-14 is —
- (A) 852  
(B) 711  
(C) 939  
(D) 100
- (iv) Which one of the following is not considered for deduction u/s 80C?
- (A) contribution by an employee to a recognised provident fund  
(B) contribution by an employee to an approved superannuation fund  
(C) medical insurance premium paid by any mode of payment other than cash  
(D) subscription to any such security of the Central Government or any such deposit scheme as that Government may, by notification in the Official Gazette, specify in this behalf
- (v) Advance tax is payable by any person for the assessment year immediately following the financial year when the tax payable is —
- (A) ₹ 10,000 or more  
(B) Less than ₹ 10,000  
(C) ₹ 5,000 or more  
(D) Less than ₹ 5,000

[5 × 1]

### Question 2.

- (a) Mr. X and Mr. Y own the house property of H<sub>1</sub> and H<sub>2</sub> respectively. The details of which are as follows —

	H <sub>1</sub> ₹	H <sub>2</sub> ₹
Municipal value (MV)	1,20,000	1,20,000
Fair rent (FR)	1,30,000	1,30,000
Standard rent under the Rent Control Act (SR)	1,10,000	1,10,000
Actual rent if property is let out throughout the previous year	1,26,000	1,26,000
Unrealised rent of the previous year 2013-14 as per Rule 4	10,500	Nil
Period when the property remains vacant (in number of month)	1 month	Nil
Loss due to vacancy	10,500	Nil
Municipal taxes—		
Tax of the year 2013-14	18,000	18,000
- Paid by X and Y during 2013-14	16,000	9,000
- Paid by X and Y after March 31, 2014	2,000	1,000
- Paid by tenants during 2013-14	-	8,000

Find out the income from properties chargeable to tax for the assessment year 2014-15.

- (b) What are the basic conditions for determination of residential status of an individual [u/s 6(1)]? Also specify the exceptions of it.

[8 + (2+3)]

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Question 3.

- (a) A & Co. (a firm with partners A and B) is engaged in the business of manufacturing (turnover of 2013-14 being ₹ 87,80,000). It wants to claim the following deduction —

	₹
Salary and interest to partners [as permitted by section 40(b)]	60,000
Salary to employees	4,90,000
Depreciation	2,70,000
Cost of material used	75,90,000
Other expenses	3,45,000
<b>Total</b>	<b>87,55,000</b>
<b>Net profit (₹ 87,80,000 minus ₹ 87,55,000)</b>	<b>25,000</b>

Determine the total income of A & Co. for the assessment year 2014-15 assuming that long-term capital gain is ₹ 50,000 and the firm is eligible for a deduction of ₹ 5,000 under section 80G. The firm has a brought forward business loss of ₹ 2,40,000 (previous year 2010-11) of a trading business which has been discontinued.

- (b) Write to whom Alternate Minimum Tax shall not be applicable as per Section 115JEE (2).  
 (c) Delta Ltd., an infrastructure capital company, issued 1,00,000 Zero Coupon Bonds (Face Value ₹ 100) on 10th September, 2013 at a price of ₹ 75. The redemption date of the bonds is 22nd September, 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 Delta Ltd.

[6+2+5]

Question 4.

- (a) What do you mean by annexure less return? What is the manner of filing the return of income?  
 (b) Z Ltd., an Indian company, is engaged in the business of production of minerals since 1960. During the year ending March 31, 2013, it starts commercial exploitation of a new mine at Hazaribag. Compute the amount deductible under section 35E of Income-tax Act for the assessment years 2013-14 and 2014-15 from the given information —

	Previous year 2012-13 ₹	Previous year 2013-14 ₹
Income from mining (before section 35E deduction)		
- from old mining	22,000	4,00,000
- from new mining at Hazaribag	25,000	75,000
Other business income	4,00,000	3,90,000

Qualifying expenditure u/s 35E —

	₹
Expenses for the purpose of exploring and locating mineral incurred up to March 31, 2008	7,20,000

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Expenses for the purpose of exploring and locating mineral from April 1, 2008 to March 31, 2013 (out of which ₹ 6,000 is met by the State Government)	9,36,000
Acquisition of site on June 30, 2008	4,00,000
Purchase of plant, machinery and building on July 31, 2009	6,00,000

(c) State whether assets having personal effects are also capital assets or not [as per section 2(14)(ii) of Income-tax Act]?

[4+7+2]

Question 5.

(a) State the taxability of the following five incomes —

- (i) Dividend
- (ii) Bonus
- (iii) Winning from lotteries etc.
- (iv) Fees and commission
- (v) Gift

(b) Mr. Dey sells a residential house property at a long-term capital gain of ₹ 75,000. He invests ₹ 80,000 within 3 years in construction of the first floor and barsati (to be used for residence) to another house owned by him since 1949. Is ₹ 75,000 exempt from tax under section 54? (Specify in details)

[10+3]

Question 6.

(a) Ravi purchases the following movable and immovable properties from persons who are not his relatives. State the tax liability in the hands of Ravi.

Date of purchase	Property	Purchase price ₹	Stamp duty value ₹	Fair market value ₹
April 22, 2013	House I	21 lakh	21.5 lakh	----
June 27, 2013	Plot of land	30 lakh	30.5 lakh	----
August 22, 2013	Gold ring	5 lakh	----	5.5 lakh
October 23, 2013	Shares	8 lakh	----	8.5 lakh

(b) Write down the steps for calculation of tax in case of agricultural income.

[7+6]

### Section B

[Answer **all** the questions]

Question 7.

State whether the following statements are correct or not with brief reasons:

- (i) Wealth tax can be levied on any political party.
- (ii) Cash in hand in excess of ₹ 50,000 is an 'asset' in case of individual.
- (iii) Property held under a trust is chargeable under wealth tax.

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- (iv) Gold Deposit Bonds are also assets as jewellery.  
(v) Yachts, boats and aircrafts used for non-commercial purposes are treated as 'assets'.

[5 × 1]

Question 8.

Either

(a) Discuss in respect of the following items, the manner of treatment for Mrs. P's wealth-tax assessment for the assessment year 2014-15.

1. Mrs. P has two cars for her personal use each being of value of ₹ 95,000.
2. She has another house property at Nainital given to her as a gift by her father on January 1, 1971 on the occasion of her birthday. This house is also used by her as her own residence where she lives during summer vacations only. The value of the house on March 31, 2014 was ₹ 25,00,000.
3. Jewellery received from her father at the time of her marriage in 1956 was of the value of ₹ 1,20,000 on March 31, 2014.

(b) What will be the consequence if an asset transferred to son's wife of an individual?

[4+1]

Or

Compute the taxable net wealth and wealth tax payable by X Ltd. from the following particulars:

- (i) Land in urban area (Construction is not permitted as per Municipal Laws in force) ₹ 50,00,000.
- (ii) Cash Balance (as per books) ₹ 2,75,000.
- (iii) Guest House (situated in a place which is 30 kms away from the local limits of the municipality) ₹ 35,00,000.

[5]

### Section C

(All questions in this section relate to the transfer pricing provisions under the Income-tax Act, 1961)

Question 9.

- (a) State the purpose of APA (Advance Pricing Agreement)?
- (b) What are the provisions to consider a transaction as deemed international transaction?
- (c) Define the term 'Permanent Establishment'.
- (d) What is meant by uncontrolled conditions in the context of arm's length price?
- (e) Write about role of market forces in determining the "Arm's Length Price" in case of independent enterprises.

[5 × 1]

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Question 10.

Either

- (a) State the types of issues which are dealt in transfer pricing in relation to the intangibles?
- (b) Apollo Ltd. is an Indian company which is a 100% subsidiary of Zorrelto Ltd., a foreign company. Zorrelto Ltd. sells its products to Apollo Ltd. at \$50 per unit. At the same time, it sells its products to another company Yatchilo Ltd. in India at \$70 per unit. Total income of Apollo Ltd. is ₹ 14,00,000 after making payment for 200 units @ \$50 (\$1 = ₹ 45). Apollo Ltd. has deducted tax at source while making payment to Zorrelto Ltd. Compute 'arm's length price' and 'taxable income' of Apollo Ltd. and Zorrelto Ltd. assuming that Yatchilo Ltd. has purchased 100 units @ \$70 (\$1 = ₹ 45).
- (c) Explain the concept and validity of 'Treaty shopping'.
- (d) What are the applications of Cost Plus method in computation of arm's length price?
- (e) What is the underlying idea behind Double Taxation Avoidance Agreement (DTAA)?

[4+6+5+4+1]

Or

- (a) What is the object of introducing Transfer Pricing?
- (b) Write a note on income by way of royalties, etc., in case of non-residents.
- (c) Mcnil Inc. of France and Robot Ltd. of India are associated enterprises. Robot Ltd. imports 2,000 compressors for Air Conditioners from Mcnil Inc. at ₹ 7,500 per unit and these are sold to Happy Cooling Solutions Ltd at a price of ₹11,000 per unit. Robot Ltd. had also imported similar products from Thunder Inc. Poland and sold outside at a Gross Profit of 20% on Sales.

Mcnil Inc. offered a quantity discount of ₹1,500 per unit. Thunder Inc. could offer only ₹500 per unit as Quantity Discount. The freight and customs duty paid for imports from Thunder Inc. Poland had cost Robot Ltd. ₹ 1,200 per piece. In respect of purchase from Thunder Inc., Robot Ltd. had to pay ₹200 only as freight charges.

Determine the Arm's Length Price and the amount of increase in Total Income of Robot Ltd.

- (d) What are the objectives of Profit Split Method (PSM)?

[2+7+6+5]