INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTION

DECEMBER 2013

Paper – 7 : APPLIED DIRECT TAXATION

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.
Answer **Question No. 1** *which is compulsory and* **any five** *from the rest.*
Wherever necessary, you may make suitable assumptions and
state them clearly in your answer.
Working notes should form part of the answer.
All questions relate to the assessment year 2013-14, unless otherwise stated.

1. (a) Choose the most appropriate alternative: **1x13 =13**

(i) The tax rate for a local authority is
- (A) 20%
- (B) 25%
- (C) 30%
- (D) 35%

(ii) Children education allowance paid by an employer to an employee is exempted from tax under section 10(14) subject to a limit (per month) of
- (A) ₹ 50 per child
- (B) ₹ 75 per child up to a maximum of two children
- (C) ₹ 100 per child up to a maximum of three children
- (D) ₹ 100 per child up to a maximum of two children

(iii) Retrenchment compensation received by a workman in accordance with any scheme approved by the Central Government is
- (A) Fully exempted
- (B) Exempted up to maximum ₹2 lakhs
- (C) Exempted up to ₹3 lakhs
- (D) Exempted up to ₹5 lakhs

(iv) Maximum amount of exemption under section 16(ii) in respect of entertainment allowance received by a Government employee is
- (A) ₹ 2,500
- (B) ₹ 5,000
- (C) ₹ 7,500
- (D) ₹ 10,000

(v) Where a capital asset is sold by a company to its wholly-owned subsidiary company, which is an Indian company, actual cost for the purpose of depreciation to be allowed to the subsidiary company is
- (A) Actual price paid by the subsidiary company
- (B) Book WDV to the holding company
- (C) WDV as per section 43(6) to the holding company
- (D) Fair market value of the asset on the date of such sale

(vi) If a company incurs expenditure (other than expenditure on any land or building) of ₹ 1 lakh on any skill development programme notified by the Central Government, the

company is entitled to a deduction of
(A) ₹ 1 lakh
(B) ₹ 1.25 lakhs
(C) ₹ 1.50 lakhs
(D) ₹ 2 lakhs

(vii) In case of transfer of a capital asset by an assessee who acquired the same from his father by way of gift, the cost of acquisition of such asset for the purpose of computing capital gain is
(A) Nil
(B) Cost of acquisition of the asset to father
(C) Fair market Value of the asset on the date of gift
(D) Arm's length price of the asset on the date of gift

(viii) A short-term capital loss in the current year can be set-off only against-
(A) Any capital gain in the current year
(B) Any short-term capital gain only
(C) Any long-term capital gain only
(D) Any income under other heads of income

(ix) Deduction is allowed under section 57 from income in the nature of family pension to the extent of lower of
(A) ₹ 7,500 or 33.33% of such income
(B) ₹ 10,000 or 33.33% of such income
(C) ₹ 15,000 or 30% of such income
(D) ₹ 15,000 or 33.33% of such income

(x) Deduction is available under section 80 D for preventive health check-up subject to a limit of
(A) ₹ 2,500
(B) ₹ 3,000
(C) ₹ 5,000
(D) ₹ 7,500

(xi) In case of loss suffered by a partnership firm, amount of deduction admissible for remuneration of working partners is
(A) ₹ 50,000
(B) ₹ 75,000
(C) ₹ 1,00,000
(D) ₹ 1,50,000

(xii) A house is an asset not chargeable to wealth tax, if it is let out for a period of at least
(A) 300 days in the previous year
(B) 250 days in the previous year
(C) 200 days in the previous year
(D) 150 days in the previous year

(xiii) Minimum amount of penalty in case of concealment of particulars of income
(A) 100% of income sought to be evaded
(B) 50% of income sought to be evaded
(C) 75% of income sought to be evaded
(D) None of the above

(b) Fill up the blanks: 1 x 12=12

(i) In the case of employee not in receipt of gratuity ....% of the commuted pension is tax free.

(ii) Rental income from lease of factory after discontinuance of business with no intention to revive the business is taxable under the head…………………… .

(iii) A person say Mr. X has been non-resident in 9 out of 10 preceding previous years; his residential status is……………… .

(iv)Amount received under keyman insurance policy is ……………… .

(v) A charitable trust having business income can claim the benefit of tax exemption if the aggregate annual receipt does not exceed ₹ …………………lakhs.

(vi)When arrear salary is received, it is eligible for………………………under section 89.

(vii) Fixed medical allowance is fully…………………… .

(viii)When goodwill is acquired by paying a price it is eligible for………………, while computing the income from business.

(ix) Lottery winning is taxable at…………………………rate (inclusive of all cesses).

(x) Alternative minimum tax u/s. 115JC is applicable for assessees other than……………

(xi) The amount of deduction u/s. 80CCG cannot exceed ₹ ……………………. in respect of investment in equity saving scheme.

(xii) To be eligible for deduction u/s. 80C, the amount of annual premium on life insurance policy issued after 1st April, 2012 must not exceed ………………… percent of the actual sum assured.

(xiii) Provisions relating to specified domestic transaction will apply only when the aggregate of such transactions exceed ₹ ……………. .

Answer:

1(a)

(i) C. 30%
(ii) D. ₹ 100 per child up to a maximum of two children.
(iii) A. Fully exempted
(iv) B. ₹ 5000
(v) C. WDV as per section 43(6) to the holding company
(vi) C. ₹ 1.50 lakhs.
(vii) B. Cost of acquisition of asset to father.
(viii) A. Any capital gain in the current year.
(ix) D. ₹ 15,000 or 33.33% of such income.
(x) C. ₹ 5,000
(xi) D. ₹ 1,50,000
(xii) A. At least 300 days in the previous year.
(xiii) A. 100% of income sought to be evaded.

1 (b)

(i) 50%
(ii) Income from other sources
(iii) Resident but not ordinarily resident
(iv) Taxable
(v) ₹ 25 lakhs
(vi) Relief
(vii) Taxable.
(viii) Depreciation.
(ix) 30.9%
(x) Companies.
(xi) ₹ 25,000
(xii) 10%
(xiii) ₹ 5 crores

2. (a) Dev, an Indian citizen left India on 15th September, 2011 to take up an employment in a company in Sydney. He never left India before that date. He came to India on 5th May, 2012 and stayed for 150 days in India. What is the residential status of Dev for assessment Years 2012-13 and 2013-14? 4

(b) Stephen, a British Citizen and a non-resident has derived the following income, during the previous year 2012-13. State, with reasons, whether the incomes are liable to tax. Computation of income is not required. 8

(i) Capital gain of ₹ 5 lakhs on sale of shares of ABC Private Limited, an Indian company to another non-resident outside India and sale proceed was received outside India.

(ii) Salary of ₹ 8 lakhs received from his employer-company incorporated in London for services rendered in India for 120 days.
(iii) Dividend of ₹ 1 lakh received from XYZ Limited, a company registered in India.
(iv) Interest of ₹ 6 lakhs received from Mr. Manoharan on a loan. The amount of loan has been utilised by Mr. Manoharan for a business carried on by him in London.

(c) Mr. Pandit purchased certain shares of Reliance Communication Limited in 2010-11 (a listed Indian company) which was financed by a bank. During the previous year 2012-13, Mr. Pandit paid interest of ₹ 10,000 to the bank and received dividend of ₹ 2 lakhs from Reliance Communication Limited. State how Mr. Pandit should deal with these facts in computing his income. Your answer should also cover the deductibility of the interest paid to the bank. 3

Answer:

2.(a) Dev was in India for 168 days (30 + 31+30+31+31+15) during the previous year 2011-12. Therefore, he did not satisfy the first condition (i.e. physical stay in India for 182 days or more in the previous year). As regards the second condition, although he was in India in the 4 preceding previous years for more than 365 days, for the previous year 2011-12 he should have been in India for 182 days instead of 60 days, as he is a citizen of India and left India in 2011-12 for taking up employment outside India.

Thus he has not satisfied either the first condition or the second condition. Hence, he is a non-resident in assessment year 2012-13.

During the previous year 2012-13 Dev visited India for 150 days instead of 182 days.
The period of 60 days is substituted by 182 days. Hence continued to be non-resident for assessment year 2013-14 also.

2.(b) (i) As ABC Private Limited, whose shares are sold, is incorporated in India, the shares are capital assets situated in India. Capital gain on sale of such shares shall be deemed to accrue or arise in India under section 9(1). The place of payment of consideration is not relevant. Therefore capital gain is liable to tax.

(ii) As per section 9(1), income by way of salary shall be deemed to accrue or arise in India, if it is earned in India. Salary is regarded as earned in India, if the service is rendered in India. As Stephen rendered services to his employer in India for 120 days, his salary for the said period shall be deemed to accrue or arise in India irrespective of the place of payment. Hence, salary shall be taxed in India.

(iii) Dividend from Indian company shall be deemed to accrue or arise in India as per section 9(1). However, by virtue of section 10(34), such dividend is exempted from tax as the company paid dividend distribution tax.

(iv) As the amount of loan received from Stephen was utilised by Manoharan for a business carried on outside India, such interest shall not be deemed to accrue or arise in India under section 9(1). Hence, Stephen is not liable to tax for such interest, unless it is received in India.

2.(c) As per section 10(34), dividend received from an Indian company as referred to in section 115-O is exempted from income tax, as the company pays the dividend distribution tax.

Section 14A provides that no expenditure in relation to any income which does not form part of total income is to be allowed as deduction. As dividend income is not included in total income of Mr. Pandit, interest of ₹ 10,000 on loan taken from bank for acquiring shares of reliance Communication Ltd. cannot be claimed as deduction from income which is taxable.

3. (a) (i) What are the conditions for exemption in respect of voluntary contributions received by an electoral trust? 3

(ii) What is the treatment for contribution made by a company to an electoral trust? 2

(b) Deepak is employed with MB Limited. His salary is ₹ 50,000 per month. He owns a house in Kolkata. The house has been occupied by him for his residential purpose since inception. The particulars in respect of the house relating to the previous year 2012-13 are as follows:

	₹
Municipal Valuation	**3,00,000**
Corporation tax paid	**25,000**
Insurance premium paid	**4,500**

Deepak obtained a loan on 1st November, 2011 for the purpose of substantial repair of the house. Interest on such loan for the previous year 2012-13 is ₹ 80,000, out of which an amount of ₹ 45,000 was paid by Deepak during the year. His company transferred him in January, 2013 to Delhi. He allowed his friend to occupy the house without any rent in his absence.
Compute his total income for the assessment year 2013-14. 5

(c) Lucky Motors Private Limited has shown in the Balance Sheet as on 31st March, 2013, an amount of ₹ 10 lakhs as share application money received from five individuals during the previous year 2012-13. What will be the consequences if the Assessing Officer in course of assessment under section 143(3) calls for explanation from the five persons and the explanations offered by them are not found satisfactory? 5

Answer:

3. (a) (i) As per section 13B any voluntary contribution received by electoral trust shall be exempted from income tax on fulfillment of the following conditions:

(a) 95% of the aggregate donations received by the electoral trust during the previous year along with the surplus, if any brought forward from any earlier previous year is distributed to any political party, registered under section 29A of the Representation of People Act, 1951.

(b) Such electoral trust functions in accordance with the rules made by the Central Government.

(c) The electoral trust is approved by the Central Board of Direct Taxes in accordance with the scheme made by the Central Government.

(ii) As per section 80 GGB where an Indian company contributes any sum to an electoral trust, the whole of such sum shall be allowed as deduction from its gross total income.

3. (b) Computation of total income of Deepak for Assessment Year 2013- 2014

Particulars	**Amount (₹)**	**Amount (₹)**	**Amount (₹)**
Salary			6,00,000
Income from House Property			
Gross annual Value		3,00,000	
Less: Corporate Tax		(25,000)	
Net Annual Value		2,75,000	
Less: Deduction under Section 24			
(a) Statutory Deduction at 30% of net annual value	82,500		
(b) Interest on loan for repairs	80,000	(1,62,500)	
Income from House Property			1,12,500

Gross Income			7,12,500

3. (c) As per section 68 where any sum is found credited in the books of an assessee maintained for any previous year, and the assessee offers on explanation about the nature and source thereof or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, then the sum so credited may be charged to tax as income of the assessee of that previous year.

In the instant case the sum of ₹10 lacs shown as share application money stood recorded in the names of five individuals resident in India. If the explanations offered by those five persons do not satisfy the Assessing Officer as to the nature and source of ₹10 lakhs, the sum of ₹10 lakhs shall be added to the income of the assessee company, Lucky Motors Private Limited under the head "income from other sources" in the assessment year 2013-14.

4. (a) Jyoti is employed in a company. His basic salary as on 31st March, 2013 is ₹ 30,000 per month. He is entitled to dearness allowance (considered for retirement benefits) at 70% of basic salary. He is also entitled to house rent allowance of ₹ 15,000 per month. He was allowed an increment of ₹ 5,000 per month with effect from 1st January, 2013. He was staying with his brother till 31st October, 2012. From 1st November, 2012, he has been staying in a flat in Chennai for which he pays a rent of ₹ 12,500 per month.
Compute taxable house rent allowance for the assessment year 2013-14. 5

(b) Praveen retired on 1st October, 2012 after serving 30 years and 8 months in seasonal factory belonging to Namdang Limited covered by Payment of Gratuity Act. His basic salary was ₹ 16,000 per month and ₹ 15,000 per month in financial years 2012-13 and 2011-12 respectively. He was also entitled to dearness allowance at 40% of basic salary. Dearness allowance formed part of his basic salary. He received ₹ 3,50,000 as gratuity.
Compute taxable gratuity. 4

(c) City Tea Limited is engaged in the business of growing and manufacturing tea in India. Its Statement of Profit and Loss for the year ended 31st March, 2013 shows a net profit of ₹ 60 lakhs after charging depreciation of ₹ 5 lakhs. Depreciation admissible under the Income-tax Rules is ₹ 6.50 lakhs.
The company deposited ₹ 25 lakhs with National Bank for Rural and Agricultural Development (NABARD) during the year.
The company withdrew ₹ 22 lakhs during the year from NABARD for acquiring an asset as per a scheme approved by the Tea Board, but it could utilise ₹ 20 lakh only for the purpose.
The company's business loss brought forward from assessment year 2010-11 is ₹ 6 lakhs.
Compute the income of City Tea Limited under the head "Profits and gains from business or profession" for the assessment year 2013-14. 6

Answer:
4. (a)

Particulars	**₹**
Salary for the purpose of house rent allowance: Basic salary: (₹ 25,000 x 2) + (₹ 30,000 x 3) Dearness Allowance: 70% of ₹ 1,40,000	 1,40,000 98,000
	2,38,000

Computation of Taxable HRA: Amount of HRA received (₹ 15,000 x 12) Less: Exemption under section (10(13A) read with Rule 2A Lowest of the following: (a) Actual amount received as HRA (₹ 15,000 x 5) (b) 50% of salary (2,38,000 x 50%) (c) Excess of rent paid over 10% of salary [(₹ 12,500 x 5) 10% of 2,38,000] - Least of above is exempt	 75,000 1,19,000 38,700	1,80,000 38,700
Taxable HRA		**1,41,300**

4. (b) Computation of Taxable Gratuity

Particulars	**₹**	**₹**
Amount received as gratuity		3,50,000
Less: exemption under section 10(10), being least of the following: Actual amount received 7 days' salary in the case of employees of a seasonal establishment based on salary last drawn for each year of service [7/26 x 22,400 x 31] Maximum limit	 3,50,000 1,86,954 10,00,000	 1,86,954
Taxable Gratuity		**1,63,046**

4. (c) Computation of Total Income of City Tea Limited for Assessment Year 2013 - 2014

Particulars	**₹**	**₹**
Net profit as per Statement of Profit & Loss		60,00,000
Add: depreciation as per books		5,00,000
		65,00,000
Less: depreciation as per Income – Tax Rules		6,50,000
		58,50,000
Less: deduction under section 33AB for deposit in NABARD, being lower of the following: 40% of ₹ 58,50,000 Amount deposited with NABARD	 23,40,000 25,00,000	 23,40,000
Profit after deduction under section 33AB		35,10,000
As per Rule 8 of the Income – tax Rules, 60% of income from business is treated as agricultural income and the balance 40% is subject to income tax.		
Business Income (40% of ₹ 35,10,000)		14,04,000
Add: Adjustment due to non - utilization of the amount with drawn from NABARD: 40% of (₹ 22 lakhs – ₹ 20 lakhs)		80,000
Business Income		14,84,000
Less: Brought forward business loss of AY 2010 – 11		6,00,000
Business income		**8,84,000**

5. (a) Mr. Sridhar, proprietor of Ayush Pharma, furnishes the following Trading and Profit and Loss Account for the year ended 31.03.2013.

	₹		**₹**
To Opening stock	**4,50,000**	**By Sales**	**63,40,000**
To Purchases	**50,50,000**	**By Closing stock**	**5,20,000**
To Manufacturing expenses	**7,20,000**		
To Gross Profit	**6,40,000**		

	68,60,000		**68,60,000**
To Salary	**1,20,000**	**By Gross Profit**	**6,40,000**
To Administrative expenses	**2,10,000**	**By Agri income**	**30,000**
To Interest on bank term loan	**30,000**		
To Depreciation	**1,10,000**		
To Net Profit	**3,00,000**		
	6,70,000		**6,70,000**

Additional information:

(i) The closing stock omitted to include certain stocks with wholesalers, the value being ₹ 20,000.

(ii) Administrative expenses includes salary to wife ₹ 90,000 and it is excessive Unreasonable to the extent of ₹ 15,000.

(iii) Interest on bank term loan amounting to ₹ 12,000 was not paid till the date of filing the return of income.

(iv) The depreciation provided in the profit and loss account of ₹ 1,10,000 is based on the following information:

The written down value of plant and machinery (15% rate) as on 01.04.2012 ₹ 4,20,000.

A new plant falling in the same block was acquired on 01.11.2012 for ₹ 1,00,000.

Two old machines were sold on 01.07.2012 for ₹ 70,000.

Compute the income of Mr. Sridhar from business for the assessment year 2013-14 ignoring additional depreciation and the provisions of section 44AD. 8

(b) Write short notes on carry forward and set off of losses by closely held companies. 4

(c) Mr. Chaturvedi owned 5 heavy goods vehicle on 01.04.2012. He acquired 2 heavy vehicles goods 01.09.2012 and 3 light commercial vehicles (not being heavy goods vehicle) on 01.11.2012. He gifted 2 heavy goods vehicle to his major son on 01.12.2012. He maintained books of account which disclose business income (computed) of ₹ 1,20,000.

Determine his income chargeable to tax for the assessment year 2013-14. Should he get his accounts audited u/s 44AB? 3

Answer:

5. (a) As per the informations provided in the question, the net profit is ₹ 2,00,000 and the calculation for the income of Mr. Sridhar from business for the assessment year 2013-14 will be as follows:

Computation of Business Income of Mr. Sridhar for the assessment year 2013-14.

Particulars	**₹**	**₹**
Net profit as per Profit & Loss account		2,00,000
Add:		
Undervaluation of closing stock		20,000
Depreciation debited to P&L		1,10,000
Salary to wife - to extent unreasonable u/s 40A(2)		15,000
Bank term loan interest disallowed - U/s. 43B		12,000
		3,57,000
Less: Agricultural income	30,000	
Depreciation [See Note below]	60,000	
		90,000
Income from Business		**2,67,000**

Depreciation statement

Particulars		₹
Opening WDV		4,20,000
Add: Addition on 01.11.2012		1,00,000
		5,20,000
Less: Deletion on 01.07.2012		70,000
		4,50,000
Less: Depreciation @ 15% on ₹ 3,50,000	₹ 52,500	
Depreciation @ 7.5% on ₹ 1,00,000	₹ 7,500	
Total Depreciation		60,000
Closing WDV		**3,90,000**

5. (b) As per section 79 in the case of a company in which public are not substantially interested (closely held company) the unabsorbed business loss can be carried forward and set off against the chargeable income of subsequent assessment year on the fulfillment of the following conditions.

On the last day of the previous year the shares of the company carrying not less than fifty-one per cent of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than fifty-one per cent of the voting power on the last day of the year or years in which the loss was incurred.

The above said condition is not applicable if the voting power changes due to death of a shareholder or transfer of shares by way of gift by a shareholder to his relative.

The restriction will not apply where there is a change in the shareholding of an Indian company which is a subsidiary of a foreign company as a result of amalgamation or demerger of a foreign company if the 51% of the shareholders of the amalgamating or demerged foreign company continue to be shareholders of the amalgamated or the resulting foreign company.

5. (c) Computation of Income of Mr. Chaturvedi for the Assessment Year 2013 - 2014

Particulars	₹
Heavy goods vehicle held on 01.04.2012	
5 vehicles × ₹ 5,000 × 8 (upto 30.11.2012)	2,00,000
3 vehicles × ₹ 5,000 × 4 (from 1.12 to 31.3)	60.000
Heavy goods vehicle acquired on 01.09.2012	
2 vehicles × ₹ 5,000 × 7 months	70,000
Light commercial vehicles acquired on 01.11.12	
3 vehicles × ₹ 4,500 × 5 months	67,500
Presumptive income under section 44AE	3,97,500

As the presumptive income is more than the income as per books of account, the assessee has to admit income under section 44AE or get the accounts audited under section 44AB for admitting the income as per the books of account maintained by him.

6. (a) Mr. Parikh furnishes his bank passbook which discloses the following credits with explanation:

Date	Particulars	₹
01.07.2012	**Gift from sister in Dubai**	**1,40,000**
10.08.2012	**Gift from friend on the occasion of 60th birthday**	**55,000**

11.10.2012	**Gift from grandfather's brother on the occasion of wedding day**	**15,000**
31.03.2013	**Dividend from Indian companies (listed)**	**30,000**
	Interest on term fixed deposits with banks	**45,000**
	Savings account interest	**7,000**

He received an apartment as gift from his ex-employer in appreciation of his services. The market value of apartment was ₹ 15,00,000 and the stamp valuation authority assessed the value at ₹ 13,00,000. He quit employment 5 years ago.

Compute the incomes, if any, chargeable to tax in the hands of Mr. Parikh for the assessment year 2013-14. **6**

(b) State whether following incomes are liable to tax under the Income-tax Act, 1961: **6**

(i) Sum received by individual as member of HUF out of the income of the family. However it is not an amount received out of partition.

(ii) Agricultural income from lands situated in Sri Lanka.

(iii) Salary received by ambassador of Russia who is posted in New Delhi.

(iv) Gratuity of ₹ 12,00,000 received by an employee of Maharashtra State Government.

(v) Amount received on closure of public provident fund account.

(vi) House rent allowance received by an employee who resides in his own house.

(c) Explain the taxation of unexplained cash credit with rate of tax. **3**

Answer:

6. (a) **Income chargeable to tax in the hands of Mr. Parikh**

Date	Particulars	₹
01.07.2012	Gift from sister in Dubai – not liable to tax	Nil
10.08.2012	Gift from friend on the occasion of 60th birthday – chargeable to tax	55,000
11.10.2012	Gift from grandfather's brother on the occasion of wedding day – not liable to tax as gift received on the occasion of wedding	Nil
31.03.2013	Dividend from Indian companies (listed) – Exempted u/s. 10(34)	Nil
	Interest on term fixed deposits with banks – chargeable to tax	45,000
	Saving account interest	7,000
	Property gifted by ex-employer chargeable to tax as income under the head "Other sources" (stamp duty valuation)	13,00,000
	Gross total income	**14,07,000**
Less:	Deduction u/s 80TTA – Saving Bank Interest	7,000
	Total Income	**14,00,000**

6. (b) (i) Exempt U/s. 10(2).

(ii) Taxable under the head 'income from other sources' in respect of resident assessees.

(iii) Exempt U/s. 10(6) since he would not be a citizen of India.

(iv) Fully exempt under section 10(10) without any monetary limit.

(v) Exempt U/s. 10(11).

(vi) Taxable and not exempt U/s. 10(13A).

6.(c) Where any sum is found credited in the books of an assessee maintained for any previous year, and the assessee offers no explanation about the nature and source thereof or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the sum so credited may be charged to income-tax as the income of the assessee of that previous year.

The onus of satisfactorily explained such credits remains on the person in whose books such sum is credited. If such person fails to offer an explanation or the explanation is not found to be satisfactory then the sum is added to the total income of the person.

Provided further that nothing contained in the first proviso shall apply if the person, in whose name the sum referred to therein is recorded, is a venture capital fund or a venture capital company as referred to in clause (23FB) of section 10.

Rate of tax is applicable as per the prevailing tax rates of the previous year/s.

7. (a) Explain 'Adjusted total income' for the purpose of getting tax credit for AMT u/s 115 JD of the Income-tax Act, 1961. 2

(b) What is the impact of availing deduction u/s 10AA of the Income-tax Act, 1961? 5

(c) JB Industries, a diversified group, discloses profit from the following sources for the year 2012-13:

Particulars	₹ in lakhs
(i) Profit from small scale unit started in 2006 – 07	12.00
(ii) Profit from industrial undertaking set up in 1998 – 99 in Vidisha, a B – class industrially backward district	20.00
(iii) Profit from multiplex theatre started in 2007-08 in	
(a) Delhi	8.00
(b) Allahabad	4.00
(iv) Profit from convention centre started in 2009-10	
(a) Delhi	10.00
(b) Allahabad	6.00
(v) Profit from Hill view, a hotel started in 2004 – 05 at Manali in Himachalpradesh – Hotel is approved by prescribed authority	20.00
(vi) Profits from undertakings engaged in refining of mineral oil since 1st Jan. 2008 in Utterpradesh not listed in backward state in Eighth Schedule	20.00

Compute the total income for the assessment year 2012 – 2013. 8

Answer:

7. (a) "Adjusted total income" shall be the total income of Limited Liability Partnership before giving effect to this Chapter as increased by—

(i) deductions claimed, if any, under any section included in Chapter VI-A under the heading "C. —Deductions in respect of certain incomes"; and

(ii) deduction claimed, if any, under section 10AA.

7. (b) Impact of availing deduction u/s 10 AA:

(i) Unabsorbed depreciation allowance or unabsorbed capital expenditure on Scientific research or unabsorbed family planning expenditure or unabsorbed Loss under the head capital gains are not allowed to be carried forward and set off against the income of Assessment years following the period of deduction. However, this restriction is not applicable to losses in respect of other business

(ii) Depreciation will be deemed to have been allowed and the WDV of the assets after exemption period will be computed accordingly.

(iii) Deduction u/s 80IA and 80IB shall not be allowed

(iv) Provisions of sec. 80IA (8) relating to inter unit transfer and provisions of sec. 80IA (10) relating to showing excess profit from such unit apply to this Undertaking.

7. (c) Computation of total income

Assess: J. B. Industries P. Y. 2012 – 2013 A. Y. 2013 – 2014

	₹ in Lakhs	₹ in Lakhs

(i) Profit from SSI		12.00
(ii) Profits from undertaking located in industrially backward B – class District		20.00
(iii) Profits from multiplex theatre		12.00
(iv) Profits from convention centre		16.00
(v) Profits from Hill view Hotel		20.00
(vi) Profit from refining undertaking		20.00
Gross total income		100.00
Less: Deduction in respect of profits and gains from certain Industrial undertaking, other than infrastructure Undertakings (Sec.80 – IB)		
i) Profits from SSI (Sec.80 – IB (3) : No deduction is available	NIL	
ii) Profits from undertaking in B class industrially backward district (sec. 80 – IB (4) No deduction is available	NIL	
iii) Profit from multiplex theatre (sec. 80 – IB (7A) No deduction is available	NIL	
iv) Profit from convention centre (sec. 80 – IB (7B) No deduction is available	NIL	
v) Profit from Hill view hotel (sec. 80 – IB (7) No deduction is available	NIL	
vi) Profits from Refining undertaking (Sec.80 – IB(9) 100% of profit from 7 assessment years	20.00	20.00
Total income		80.00

8. (a) Briefly discuss the provisions of section 36(i) (iiia) of the Income-tax Act, 1961 relating to discount on Zero coupon bonds. **5**

(b) Jupiter Constructions Pvt. Ltd. is engaged in the construction of residential flats, furnishes the following data as on 31-03-2013 and requests you to compute the taxable wealth, and the tax payable thereon: **10**

	₹ in Lakhs
(i) Land in urban area (construction is not permitted as per Municipal laws in force)	**100**
(ii) Motor cars (in the use of Company)	**20**
(iii) Jewellery (held as investment)	**20**
(iv) Cash balance (as per books)	**6**
(v) Bank balance (as per books)	**12**
(vi) Guest house (situated in rural area)	**16**
(vii) Residential flat occupied by Managing Director (Annual remuneration of whom is ₹ 12.00 lakhs Excluding perquisites)	**20**
(viii) Residential house let out for 150 days in a financial year	**10**
(ix) Loan obtained for:	
(a) Purchase of motor car	**6**
(b) Purchase of jewellery	**4**

Answer:

8. (a) Discount on zero coupon bonds:

Applicability: Infrastructure capital company/Fund, Public sector Company, Scheduled bank issuing zero coupon bonds which are specified by the Central Govt. by notification in the official Gazette.

Conditions:

(a) Life of the Bond should be less than 10 years and not more than 20 years.
(b) The investor will not receive or due to receive any payment or benefit before the Maturity/redemption date.
(c) Discount is the difference between maturity/Redemption value and the issue price
(d) Discount can be written off on a prorata basis over the period of the bond
(e) No tax will be deducted at source under section 194A by the payer Company

8. (b) **Assessee : Jupiter Constructions Ltd.**

Valuation date: 31. 03. 2013 **Assessment year 2013 – 2014**

	Amount taxable ₹ in Lakhs
(i) Land in urban area	NIL
(ii) Motor cars	20
(iii) Jewellery	20
(iv) Cash balance	NIL
(v) Bank balance	NIL
(vi) Guest house	16
(vii) Residential flat occupied by MD	20
(viii) Let out Residential House Property (left out for less than 300 days)	10
Total Assets	86
Less: debts incurred in relation to Assets 1) Purchase of motor car 2) purchase of jewellery	 (6) (4)
NET WEALTH	76
Less: Basic exemption	30
Taxable net wealth	46
Tax payable @ 1%	46,000.00

Note: Reasons:
(i) Land in which construction is not permitted as per Municipal laws is not an Asset u/s 2(ea).
(ii) Motor car other than those used in the business of hire or held as stock in trade is an asset u/s 2 (ea)
(iii) Jewellery not held as stock-in-trade, hence asset u/s 2 (ea)
(iv) Cash as per books - not an asset u/s 2 (ea)
(v) Bank balance is not an asset u/s 2(ea)
(vi) Guest house is an asset u/s 2 (ea)
(vii) Residential flat is an asset u/s 2(ea) - since gross annual salary of Managing Director is greater than ₹10.00 lakhs
(viii) Asset u/s 2 (ea) - since not let out for a period exceeding 300 days

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