

INTERMEDIATE EXAMINATION

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2016

Paper-7: DIRECT TAXATION

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Wherever required, the candidate may make suitable assumption(s)

and state the same clearly in the answer.

Working notes should form part of the relevant answer.

All the questions relate to Assessment Year 2016-17, unless otherwise stated.

Section A

Answer Question No.1 which is compulsory and any four from Question Nos.2 to 6

1. (a) Fill up the blanks: 1×5 = 5
- (i) Assessee's own contribution to the National Pension Scheme is eligible for a maximum deduction of ` _____.
 - (ii) Any payment received from an account opened under Sukanya Samriddhi Account Rules, 2014 is _____.
 - (iii) A charitable trust in order to be eligible for exemption under section 11 must not have more than _____ % of aggregate receipts from any activity in the nature of trade, commerce or business.
 - (iv) The amount of deduction towards health insurance premium paid by an individual (not being a senior citizen) is limited to ` _____.
 - (v) Fee under section 234E for delay in filing of quarterly TDS/TCS return is ` _____ per day.

Answer: 1(a)

- (i) `50,000.
- (ii) Exempt (Section 10(11A))
- (iii) 20
- (iv) 25,000
- (v) 200

- (b) Choose the most appropriate alternative: 1×5 = 5

- (i) A senior citizen having total income consisting of pension and let out property income aggregating to `6 lakhs must have paid advance tax during the financial year 2015-16 of

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- (A) NIL
(B) 90% of `28,840
(C) 90% of 44,290
(D) 90% of `39,140
- (ii) Mr. Ramji is employed in ABC Ltd. who maintained a hospital for treatment of employees. During the financial year 2015-16, the value of medical benefit availed by Ramji's family from the hospital was `2,10,000. The amount of medical perquisite chargeable to income tax would be
(A) ` 2,10,000
(B) ` 1,05,000
(C) ` 21,000
(D) Nil
- (iii) Mr. Laxman occupied his apartment till December 2015 and thereafter occupied the quarters provided by the employer. The apartment of Mr. Laxman was let out at `20,000 per month from 1st January, 2016. The annual value of the property would be
(A) `60,000
(B) `2,40,000
(C) `1,80,000
(D) NIL
- (iv) When a company paid `5 lakhs to Indian Institute of Technology to carry on research in a field unrelated to the activity of the company, the amount eligible for deduction paid by way of donation would be
(A) `5,00,000 (100%)
(B) `6,25,000 (125%)
(C) `10,50,000 (175%)
(D) `10,00,000 (200%)
- (v) Mr. A has loss from regular business of `8 lakhs and income from speculation business of `11 lakhs. His total income chargeable to tax would be
(A) `3,00,000
(B) `11,00,000
(C) `7,00,000
(D) `2,50,000

Answer: 1(b)

- (i) (A) NIL
(ii) (D) NIL
(iii) (A) `60,000
(iv) (D) `10,00,000 (200%)
(v) (A) `3,00,000

(c) State without indicating reason whether the following statements are true or false: 1×5 = 5

- (i) Share of a private limited company held for 15 months before its sale is a long-term capital asset.
(ii) A return of income filed without payment of self-assessment tax is a defective return.
(iii) Profit from growing and manufacturing tea in India is fully exempted from income tax under section 10 (1) of the Income-tax Act.
(iv) Tax is required to be deducted at source from salary at the time of payment and not at the time of crediting salary to the account of the employee.

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- (v) Capital gain arising from compulsory acquisition of a property under law is taxable in the year of receipt of compensation or part thereof.

Answer: 1(c)

- (i) False
- (ii) True
- (iii) False
- (iv) True
- (v) True

(d) Answer the following questions with brief reasons / working: 2+2+1= 5

- (i) Rajesh has earned an income of ₹45,000 from letting out his rural agricultural lands for a movie shooting. Will this income be regarded as agricultural income and hence exempt?
- (ii) A charitable trust registered under section 12AA has earned income of ₹15,000 as dividends from Indian companies (DDT paid), agricultural income of ₹50,000 from lands in India and other income of ₹4,85,000. To enjoy complete exemption under section 11, what is the minimum amount to be applied for charitable purposes?
- (iii) Every return of income filed by the assessee cannot be revised. Is the statement correct?

Answer: 1(d)

- (i) Rent earned from letting out the agricultural land is not rent or revenue derived from the agricultural land. **As per Section 2(1A)**, any income derived from any building owned and occupied by the receiver of the rent or revenue of any such land, or occupied by the cultivator or the receiver of rent-in-kind, of any land with respect to which, or the produce of which, any process mentioned in the section alone, is regarded as rent for the purpose of this section. Rent from letting out to a movie company will not fall in this category. The land was not used for agricultural purposes, but for movie shooting. The impugned income is not agricultural income and hence is not exempt.
- (ii) For considering income to be applied, agricultural income is not be considered. Rest of the income has to be considered in this case, which comes to ₹5 lacs. Minimum amount to be applied for enjoying complete exemption u/s 11 is 85% thereof, i.e. ₹4,25,000.
- (iii) The statement is **true**, as the return filed after the due date prescribed in section 139(1) (i.e. belated return) cannot be revised.

2. (a) State the situations in which the income of the assessee can be assessed in the previous year itself, instead of in the assessment year. 5

- (b) Ms. Sanvitha sold a residential house at Salem for a consideration of ₹9.5 crores on 10-01-2016. The buyer is an unrelated person. The stamp duty valuation of the house is ₹10.20 crores. Brokerage on sale paid at 2%.

In April, 2004 she had bought land for ₹1.20 crores. Registration and other expenses incurred were 10% of the same. The construction of the house was completed in March, 2006 for ₹1 crore.

She purchased the following two residential houses in March, 2016:

- (i) House at Chennai for ₹1.1 crores
- (ii) House at Mumbai for ₹3 crores

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She also purchased bonds of National Highway Authority of India on the following dates:

23-02-2016 ₹ 40 lakhs

12-04-2016 ₹ 50 lakhs

Compute income of Ms. Sanvitha under the head "capital gains" for Assessment Year 2016-17.

Cost inflation indices are:

FY 2004-05 480;
FY 2005-06 497;
FY 2015-16 1087

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(c) Nathan Gramin Bank, which does not have core banking facility, has paid the following amounts as interest to Mrs. Hemalatha, a resident individual on 31-03-2016:

Particulars	Branch 1 (₹)	Branch 2 (₹)
Interest on fixed deposit	6,000	7,000
Interest on recurring deposit	3,500	2,300
Total	9,500	9,300

What is the tax to be deducted at source?

Will the answer differ, if the bank has core banking facility?

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Answer: 2(a)

Incomes which are taxed in the assessment year itself

The income of an assessee for a previous year is charged to income-tax in the assessment year, following the previous year. However, in certain cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

- (i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
- (ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of departure from India is chargeable to tax in that assessment year.
- (iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that AOP/BOI is likely to be dissolved in the same year or, in the next year, he can made assessment of the income up to the date of dissolution as income of the relevant assessment year.
- (iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings, is chargeable to tax in that Assessment Year.
- (v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year upto the date of such discontinuance may at the discretion of the Assessing Officer, be charged to tax in that assessment

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year.

Answer: 2(b)

		(` In crores)
Full value of consideration	Note 1	10.2
Less: Brokerage 2% of actual sale consideration		<u>0.19</u>
Net sale consideration		10.01
Less: Cost of acquisition		
Land Portion: Original cost	1.32	
Indexed COA	2.98925	
House construction Indexed COA	<u>2.18712</u>	
		<u>5.17637</u>
LTCG from sale of residential house at Salem		4.83363
Less: Exemption u/s 54	Note 2 3	
Exemption u/s 54EC	Note 3 0.5	<u>3.5</u>
LTCG chargeable to tax		<u>1.33363</u>

Notes:

1. As per section 50C, where the stamp duty value is more than actual sale consideration, the former is to be adopted for computing capital gains.
2. U/s 54, exemption is available only in respect of only one residential house acquired within the eligible period. Here it will be beneficial to claim for the house property bought at Mumbai.
3. U/s 54EC, maximum permissible deduction is ` 50 lacs.

Answer : 2(c)

Interests on fixed deposit as well as recurring deposit are to be considered.

Where there is no core banking facility, then the TDS obligation has to be seen branch-wise.

If the total interest paid is below ` 10,000, then there will be no obligation to deduct tax at source. Hence in the first instance, there will be no obligation to deduct tax at source.

In case there is core banking facility, then the TDS obligation is to be considered for each deductee, for the bank as a whole.

Since the interest exceeds ` 10,000, tax has to be deducted at 10%.

- 3. (a) ABC & Co., a partnership firm informs you that its total income for the financial year 2015- 16 after deducting interest on capital and working partners' salary is `10,40,000. It has adjusted the following items while arriving at its total income under normal provisions:**
- (i) Aggregate cash payment in excess of `20,000 paid to suppliers of raw materials `3,30,000 (not recovered by Rule 6DD).**
 - (ii) Deduction under section 10AA for the unit established in Special Economic Zone `17,00,000.**
 - (iii) Interest on term loan to bank relating to the financial year 2014-15 paid during the financial year 2015-16 `1,20,000.**
 - (iv) Deduction under section 35AD in respect of a two star hotel operated in Shillong `14,50,000.**

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- (v) Salary paid to partner's son ₹3,60,000 of which ₹1,00,000 is found to be excessive to the market rate.

Compute the alternate minimum tax under section 115 JC for the assessment year 2016-17. 6

- (b) From the following particulars compute total income of Mr.Chatterjee for the assessment year 2016-17: 9

- (i) Basic salary ₹50,000 per month.
- (ii) Bonus for the year 2014-15 received in October 2015 ₹30,000.
- (iii) Commission for the year 2015-16 but not received till 31.03.2016 ₹70,000.
- (iv) Reimbursement of medical expenses on production of bills ₹20,000.
- (v) Education allowance for 2 children paid by the employer ₹24,000.
- (vi) Maid servant's salary reimbursed by the employer ₹30,000.
- (vii) Income from cultivation and manufacture of rubber in the rubber estate owned in Kerala ₹1,00,000.
- (viii) Tax on non-monetary perquisites paid by the employer ₹35,000.

Answer: 3(a)

Computation of alternative minimum tax of ABC & Co for the Asst. year 2016-17

Total income	10,40,000
Cash payments in violation of section 40A(3) already adjusted hence no adjustment is required	Nil
Deduction under section 10AA to be added back	17,00,000
Term loan interest of the earlier year paid during the year eligible for deduction under section 43B already adjusted hence no adjustment is required	Nil
Deduction under section 35AD to be added back	14,50,000
Salary paid to partner's son excessively ₹1,00,000 is already adjusted hence no adjustment is required	Nil
Adjusted total income	41,90,000
Tax thereon @18.5%	7,75,150
Add: EC and HEC @3%	23,225
Total Tax	7,98,405
Round off	7,98,410

Answer: 3(b)

Computation of total income of Mr.Chatterjee for the Asst. year 2016-17

Basic Salary	6,00,000
Bonus of year 2014-15 is taxable on due basis and hence it is not taxable on actual receipt. Note: It is also possible to take the view that the bonus for the year 2014-15 had not been ascertained then, hence had not been taxed in the said year and consequently is taxable in the current year of receipt.	Nil

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Commission due for the year – taxable on due basis		70,000
Medical reimbursement liable to tax when it exceeds `15,000 Note: It is also possible to take the view that exemption is available for `15,000 and only the balance amount will be taxable.		20,000
Educational allowance	24,000	
Less: Exempt U/s.10(14)@ `100 per child for two children	2,400	
		21,600
Maid's salary reimbursed – taxable		30,000
Tax on non-monetary perquisite paid by employer – exempt under section 10(10 CC)		Nil
Salary income		7,41,600
Income from business		
Income from rubber estate at 35%		35,000
Income from Rubber estate from manufacture of rubber is exempt at 65% as per rule 7A		
Total Income		7,76,600

4. (a) Following are the transactions related to Mr. Kiran Kumar, a resident but not ordinarily resident in India during the previous year 2015-16. Compute Gross Total Income of Mr. Kiran Kumar for the assessment year 2016-17. 5

Particulars	`
Income from agriculture in Sri Lanka (received in Sri Lanka and subsequently remitted to India)	4,00,000
Arrears of salary received in India from a former employer in USA	2,50,000
Rent from house property located outside India and received outside India (`2,00,000 is used in Bahrain for the educational expenses of his son studying there and the balance `3,00,000 subsequently remitted to India)	5,00,000
Income from business in Japan which is managed and controlled from India (`90,000 received in India and balance `3,10,000 received outside India)	4,00,000

- (b) Mr. Anjan, an individual, aged 40 years having gross total income of `5,00,000 (including long-term capital gain from sale of land amounting to `3,90,000) during previous year 2015-16. He is entitled to get deduction under Chapter VI-A for `1,79,000 consisting of deductions permissible under section 80C, 80D and 80DD for `95,000 `4,000 and `80,000 respectively. 5

Compute income tax payable by Mr. Anjan for assessment year 2016-17.

- (c) Mr. Anurag, an individual engaged in the business, having turnover of `1.50 crores and no international transaction or specified domestic transaction incurred loss from business during the previous year 2014-15. Such business loss could not be set off against any other income during the year. He filed return of loss for Assessment Year 2015-16 on 31st March, 2016.

- (i) Can Mr. Anurag carry forward such loss for set off against income from business of the assessment year 2016-17?
(ii) Is there any difference if Mr. Anurag has unabsorbed depreciation instead of loss from business in the previous year 2014-15 for carry forward to assessment year 2016-17 for set off? 5

Answer: 4(a)

Computation of Gross total Income of Mr. Kiran Kumar, a resident but not ordinarily resident

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for the Assessment year 2016-17

Particulars	₹
Income from agriculture in Sri Lanka managed and controlled in Sri Lanka is not liable to tax in view of provision of section 5(1) Subsequent remittance of income to India does not alter the position	-
Arrear of salary received in India from a former employer in USA	2,50,000
Income from house property located outside India is not an income accruing or arising in India or deemed to accrue or arise in India. Hence rent is not liable to tax in India	-
Income from business in Japan which is managed and controlled from India is taxable in India in view of provision of section 5(1) Place of receipt is not material	4,00,000
Gross Total Income	6,50,000

Answer: 4(b)

Computation of income tax payable by Mr. Anjan for assessment Year 2016-17

Particulars	₹
Gross Total Income	5,00,000
Less: Deduction under Chapter VI-A Eligible deduction ₹1,79,000 Deduction under chapter VI-A cannot be claimed from long-term capital gain. Hence deduction is restricted to other income i.e. ₹5,00,000 – ₹3,90,000 = ₹1,10,000	1,10,000
Total Income (representative long-term capital gain only)	3,90,000
Tax on other income	Nil
On long-term capital gain @20% of (₹3,90,000-₹2,50,000)	28,000
Less: Rebate under section 87A	2,000
	26,000
Add: EC and HEC @ 3%	780
Total Tax Liability	26,780

Answer: 4(c)

- (i) As per section 80 read with section 139(3), business loss cannot be carried forward unless such loss is determined in pursuance of return filed within the time allowed under section 139(1).

It is essential such return is filled within the due date laid down in section 139(1).

In other words, if the assessee fails to file his return of loss on or before the due date of furnishing of return as prescribed by section 139(1) i.e. 30th September, 2015, then the business loss of the assessment year 2015-16 cannot be carried forward for set off in the subsequent eligible assessment years.

- (ii) The answer will be different as regards unabsorbed depreciation.

The above provision is not applicable in case of carry forward of unabsorbed depreciation and set off in the next years. Carry forward of unabsorbed depreciation and set off in the next assessment year is governed by section 32(2). Section 80 does not restrict the carry forward of unabsorbed depreciation in case of delayed submission of return of income.

- 5. (a) Mr. Sivasankar carrying on trading business could not recover ₹1,00,000 due from a customer. He deems that the amount is not recoverable and hence has to be**

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written off as bad debt. State the conditions that are to be satisfied for allowance of bad debt claim. 3

- (b) Mr. Ghosh established an undertaking in a notified backward area in the State of West Bengal. He invested ₹150 lakhs in June, 2015 towards acquisition of plant and machinery and was engaged in manufacturing activity. The regular rate of depreciation on such machineries is 15%. Advise the maximum amount of deduction that Mr. Ghosh could avail by way of depreciation, additional depreciation and deduction under section 32AD of the Income-tax Act, 1961. State the closing WDV of the plant and machinery after such claim. 4

- (c) Mr. Kamal Hasan has two independent residential flats in an apartment, both of them being of identical size. First flat is self-occupied and the second flat is occupied by his daughter, from whom he does not receive any rent. For each flat, the relevant annual rent details are as under:

Particulars	₹
Municipal Value	6,00,000
Fair Rent	5,70,000
Standard Rent	5,16,000
Municipal Tax (fully paid)	11% of municipal valuation
Pre-construction period interest (third year)	1,50,000
Interest on housing loan for current year (25% unpaid)	1,65,000
File Insurance Premium	2,500

Computing income of Mr. Kamal Hassan under the head "income from house property" for assessment year 2016-17. 8

Answer: 5(a)

Bad debt write-off is eligible for deduction in computing income under the head "Profits and gains of business or profession" if the stipulated conditions are satisfied:

- (i) The debt should be incidental to the business.
- (ii) The debt should have been taken into account in computing the income of the assessee or it should represent money lent in the ordinary course of banking or money lending business; and
- (iii) It should be written off in the books of account.

If the assessee is able to satisfy all the three conditions given above, he can claim the same as bad debt.

Answer: 5(b)

Depreciation, additional depreciation and WDV

(₹ in Lacs)

Particulars	₹
Normal depreciation u/s 32 at 15% of the actual cost of plant and machinery (15% of ₹150 Lakhs). (Assumed that the new machinery has been put to use for more than 180 days)	22.5
Additional depreciation under section 32 (iia) (20% of ₹150 Lakhs)	30.0
Closing WDV of the plant and machinery (150 – 52.5)	97.5

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Besides depreciation and additional depreciation, the assessee can claim 15% deduction under section 32AD for the investment in new plant and machinery in setting up an undertaking in notified backward area in the State of West Bengal. Thus he can claim 15% of the actual cost of plant and machinery being ₹22.50 lakhs. This is not deductible while computing the WDV.

However, this amount will not go to reduce the written down value of the assets.

Answer: 5(c)

Computation of Income from House Property of Mr. Kamal Hasan For the assessment year 2016-17

Where a house property is occupied by assessee's daughter, even though no rent is charged / received, income from house property has to be charged to tax.

Flat 1 Self-occupied		
Net Annual value		Nil
Less: Interest payable	30,000	
For pre-construction (1/5th)	1,65,000	
For current year	1,95,000	
Ceiling amount	1,95,000	
Income from this house: Loss (A)		1,95,000
Flat 2 Deemed let out		
Gross Annual value [Higher of Municipal value or Fair value, but restricted to standard rent]	5,16,000	
Less: Municipal taxes	66,000	
Net annual value		4,50,000
Less :Deduction u/s 24		
Standard deduction 30% of NAV	1,35,000	
For pre-construction (1/5th)	30,000	
For current year	1,65,000	
Total deductions		3,30,000
Income from this house property (B)		1,20,000
Income chargeable under the head "Income from house property"	(A+B)	-75,000

Note: No deduction is available for Fire insurance premium.

6. (a) Mr. Manoj gives you the following particulars of his income for the year ended 31st March, 2016:

Serial No.	Particulars	\
1.	Interest on loan given to a friend (non-relative)	80,000
2.	Interest on public provident fund	21,500
3.	Winning from crossword puzzle (net)	70,000
4.	Directors fee from a company	25,000
5.	Royalty on a book written by him	1,50,000
6.	Expenses for typing the manuscript of the book	15,000
7	Cash gift from father in law	2,00,000

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Compute the income of Mr. Manoj for the assessment year 2016-17.

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(b) State the procedure to be adopted by the Income-tax Authorities for rectification of mistakes under section 154 of the Income-tax Act and the time limit for such rectification.

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Answer: 6(a)

Computation of Total Income of Mr. Manoj for the Asst. year 2016-17

Income from Other sources:		
Interest on loan		80,000
Interest on public provident fund	21,500	
Less: Exemption U/s.10(15)	21,500	
		Nil
Winning from crossword puzzle `70,000 X 100/70		1,00,000
Directors fee from a company		25,000
Royalty on book	1,50,000	
Less: Expenses allowable U/s.57	15,000	
		1,35,000
Cash gift father-in-law-relative hence not taxable		Nil
Total Income		3,40,000

Answer: 6(b)

Procedure for rectification of mistake u/s 154

An amendment of the following nature can be made only after the concerned authority has given notice in this respect and also a reasonable opportunity of being heard to the assessee or deductor or the collector

- Amendment which enhances an assessment
- Amendment which reduces a refund
- Amendment which otherwise increase the liability of the assessee or deductor or the collector.

If any amendment enhances the assessment or reduces a refund already made, a notice of demand is served on the assessee or deductor or the collector. Such notice is deemed to be a notice u/s 156.

If any amendment reduces the assessment, refund due to the assessee is made unless it is withheld u/s 241.

Time Limit for Rectification:

Period of limitation for making rectification as prescribed in sub-section (7) of section 154 is as follows:

No amendment under this section can be made after the **expiry of 4 years** from the **end of the financial year in which the order sought to be amended was passed**. It may be noted that an amendment is made when related order is passed.

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This period of limitation is not applicable in case the provision of section 155 are applicable.

However, if a valid application has been made by the assessee for rectification within the statutory time limit but is not disposed of by the concerned authority within the time specified, it may be disposed of even after the expiry of such time limit [Circular No. 73, dated 7th January, 1972]. This relief is, however, not admissible in case rectification proceedings are initiated by the department itself.

Section B

(International Taxation and Transfer pricing)

Answer Question No.7 which is compulsory and any one from Question Nos.8 and 9

7. Answer the following questions: 1×5 = 5

- (a) Where a foreign company receives royalty from an Indian company in pursuance of agreement dated 1st July, 2012, what is the rate of tax on such royalty?
- (b) When a resident-assessee has income from a foreign source, what is the time limit for reopening the assessment?
- (c) At what rate long-term capital gain arising to foreign institutional investors (FII) is chargeable to tax?
- (d) What is "uncontrolled transaction"?
- (e) What is the time limit available to the Dispute resolution Panel for issue of direction to the Assessing Officer to complete the assessment?

Answer: 7.

- (a) The rate of tax on such royalty is 10%
- (b) The time limit is 16 years
- (c) Long-term capital gain arising to FII is chargeable at 10%
- (d) Uncontrolled transaction is a transaction between enterprises other than associated enterprises, whether resident or non-resident.

Note: Above can also be written thus "Uncontrolled Transaction means a Transaction between unrelated enterprises (under uncontrolled conditions), whether resident or non-resident."

- (e) The limit available to DRP for issue of directions to the AO is 9 months from the end of the month in which the draft order is forwarded to the assessee.

8. (a) Hrikesh Patel, a resident India Aged 24, earned a sum of ₹5,00,000 for playing football match in a nation with which India does not have a double taxation avoidance agreement. In that nation, Income-tax at 15% was levied on such income.

In India, he has received match fees of ₹9,75,000 for playing football matches. He has paid life insurance premium of ₹1,60,000 and mediclaim insurance premium of ₹28,000.

Compute his income-tax liability for the assessment year 2016-17. 7

(b) Mike Hussey, a non-resident and cricket player of Australia came to India in January 2016 and earned following incomes in India till 31.03.2016:

- (i) Income from participation in matches ₹7,00,000.
- (ii) Appearance fee for advertisement for a tyre manufacturer ₹10,00,000.
- (iii) Income from newspaper for writing articles on T20 world cup ₹5,00,000.
- (iv) Income from horse race ₹2,00,000.

Compute his total income and tax liability for the assessment year 2016-17. 8

Answer: 8(a).

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Double Taxation relief u/s 91

It is assumed that the assessee is entitled to the relief under section 91 since all the necessary conditions have been fulfilled.

Relief under section 91 is as under:

Particulars		
Indian Income		9,75,000
Foreign Income		5,00,000
Gross Total Income		14,75,000
Less: Deduction under Chapter VI-A		
Section 80C LIP maximum	1,50,000	
80D Mediclaim premium	25,000	
		1,75,000
Total Income		13,00,000
Tax on above total income	2,15,000	
Add: Education cess & SAH cess at 3%	6,450	
Total Tax payable	2,21,450	
Average rate of tax in India = $2,21,450/13,00,000 \times 100$ i.e. 17.01%		
Average of tax in foreign nation =	15%	
Double taxation relief is at lower of the two i.e. 15%	15%	
Doubly taxed income		5,00,000
Double taxation relief u/s 91 to be given at 15% above		75,000
Gross tax payable	2,21,450	
Relief u/s 91	75,000	
Balance tax payable		1,46,450

Answer: .8(b)

Computation of total income of Mike Hussey for the A.Y. 2016-17

Particulars	Taxable at	
Participation in matches	20%	7,00,000
Advertisement appearance	20%	10,00,000
Articles in news paper	20%	5,00,000
Horse racing	30%	2,00,000
Total Income		24,00,000
Tax liability		
On all incomes except horse racing U/s.115BBA @20%		4,40,000
On income from horse racing U/s.115BB @30%		60,000
		5,00,000
Add: EC & SHEC @3%		15,000
Total tax liability		5,15,000

9. (a) State the requirements of section 92 relating to computation of income from international transactions, having regard to arm's length price.

5

(b) State any five items covered within the scope of the term "specified domestic transaction" as per section 92BA. 5

(c) The first step in comparable arm's length price study is selection of comparable companies. Once there is a selection of comparable companies. The next step is to

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filter these companies with the use of quantitative and qualitative filters. Name any ten filters which are commonly used.

5

Answer: 9(a)

Computation of income from international transaction having to arm's length price [Sec 92]

- (1) Any income arising from an international transaction shall be computed having regard to the arm's length price. The allowance for any expense or interest arising from an international transaction shall also be determined having regard to the arm's length price.
- (2) Where in an international transaction [or specified domestic transaction], two or more associated enterprises enter into a mutual agreement or arrangement for the allocation or apportionment of, or any contribution to, any cost or expense incurred or to be incurred in connection with a benefit, service or facility provided or to be provided to any one or more of such enterprises, the cost or expense allocated or apportioned to, or , as the case may be contributed by, any such enterprise shall be determined having regard to the arm's length price of such benefit, service or facility, as the case may be.
- (3) Any allowance for an expenditure or interest or allocation of any cost or expenses or any income in relation to the specified domestic transaction shall be computed having regard to the arm's length price.
- (4) The provisions of this section shall not apply in a case where the computation of income under sub-section (1) [or sub-section (2A)] or the determination of the allowance for any expense or interest under [sub-section (1) or sub-section (2A)]. Or the determination of any cost or expense allocated or apportioned, or, as the case may be, contributed under sub-section (2) [or sub section (2A)], has the effect of reducing the income chargeable to tax or increasing the loss, as the case may be, computed on the basis of entries made in the books of account in respect of the previous year in which the international transaction 78 [or specified domestic transaction] was entered into.

Answer: 9(b)

Meaning of specified domestic transaction [Sec 92 BA]

For the purposes of this section and section 92, 92C, 92D and 92E, "specified domestic transaction" in case of an assessee means any of the following transactions, not being and international transaction, namely:

- (i) any expenditure in respect of which payment has been made or is to be made to a person referred to in section 40A(2)(b);
- (ii) any transaction referred to in section 80A;
- (iii) any transfer of goods or services referred to in section 80-IA(8);
- (iv) any business transacted between the assessee and other person as referred to in section 80IA(10)
- (v) any transaction, referred to in any other section under Chapter VI-A or section 10AA, to which provisions of section 80-IA(5) are applicable; or
- (vi) any other transaction as may be prescribed, and where the aggregate of such transactions entered into by the assessee in the previous year exceeds a sum of `5 crore upto 31.3.2016 or `20 crore w.e.f. 1.4.2016 onwards.

Answer: 9(c)

Once there is a selection of comparable companies, the next step is to filter these companies with the use of quantitative and qualitative filters. The following filters are also

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used sometimes:

- (a) Companies whose data is not available for the relevant year
- (b) Companies for which sufficient financial data is not available to undertake analysis
- (c) Different financial year filter
- (d) Turnover filter
- (e) Service Income filter
- (f) Export filter
- (g) Diminishing Loss filter
- (h) Related party filter
- (i) Companies that had exceptional year/(s) of operation
- (j) Employee cost filter
- (k) Onsite and offsite filter
- (l) Fixed Asset filter
- (m) Research & Development Expenses filter
- (n) Income-tax filter