

INTERMEDIATE EXAMINATION

December 2013

I-P7(ADT)

Syllabus 2008

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:

1×13=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) Rs. 50 per child
- (B) Rs. 75 per child up to a maximum of two children
- (C) Rs. 100 per child up to a maximum of three children
- (D) Rs. 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 Rs.2 lakhs
- (C) Exempted up to Rs.3 lakhs
- (D) Exempted up to Rs.5 lakhs

(iv) Maximum amount of exemption under section 16(ii) in respect of entertainment allowance received by a Government employee is

- (A) Rs. 2,500
- (B) Rs. 5,000
- (C) Rs. 7,500
- (D) Rs. 10,000

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- (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 Rs. 1 lakh on any skill development programme notified by the Central Government, the company is entitled to a deduction of
- (A) Rs. 1 lakh
 - (B) Rs. 1.25 lakhs
 - (C) Rs. 1.50 lakhs
 - (D) Rs. 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) Rs. 7,500 or 33.33% of such income
 - (B) Rs. 10,000 or 33.33% of such income
 - (C) Rs. 15,000 or 30% of such income
 - (D) Rs. 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) Rs. 2,500
 (B) Rs. 3,000
 (C) Rs. 5,000
 (D) Rs. 7,500
- (xi) In case of loss suffered by a partnership firm, amount of deduction admissible for remuneration of working partners is
 (A) Rs. 50,000
 (B) Rs. 75,000
 (C) Rs. 1,00,000
 (D) Rs. 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: 1×12=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 Rs. _____ 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.

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- (ix) Lottery winning is taxable at _____ rate (inclusive of all cesses).
- (x) Alternative minimum tax u/s.115JC is applicable for assesseees other than _____ .
- (xi) The amount of deduction u/s.80CCG cannot exceed Rs. _____ 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 Rs. _____ .
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 Rs. 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 Rs. 8 lakhs received from his employer-company incorporated in London for services rendered in India for 120 days.
- (iii) Dividend of Rs. 1 lakh received from XYZ Limited, a company registered in India.
- (iv) Interest of Rs. 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 Rs. 10,000 to the bank and received dividend of Rs. 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
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 Rs. 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:

| | Rs. |
|------------------------|----------|
| 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 Rs. 80,000, out of which an amount of Rs. 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 Rs. 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

4. (a) Jyoti is employed in a company. His basic salary as on 31st March, 2013 is Rs. 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 Rs. 15,000 per month. He was allowed an increment of Rs. 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 Rs. 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 Rs. 16,000 per month and Rs. 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 Rs. 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 Rs. 60 lakhs after charging depreciation of Rs. 5 lakhs. Depreciation admissible under the Income-tax Rules is Rs. 6.50 lakhs.

The company deposited Rs. 25 lakhs with National Bank for Rural and Agricultural Development (NABARD) during the year.

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The company withdrew Rs. 22 lakhs during the year from NABARD for acquiring an asset as per a scheme approved by the Tea Board, but it could utilise Rs. 20 lakh only for the purpose.

The company's business loss brought forward from assessment year 2010-11 is Rs. 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

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

| | Rs. | | Rs. |
|-------------------------------|------------------|------------------|------------------|
| 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 | | |
| | <u>68,60,000</u> | | <u>68,60,000</u> |
| 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 | | |
| | <u>6,70,000</u> | | <u>6,70,000</u> |

Additional information:

- (i) The closing stock omitted to include certain stocks with wholesalers, the value being Rs. 20,000.
- (ii) Administrative expenses includes salary to wife Rs. 90,000 and it is excessive Unreasonable to the extent of Rs. 15,000.
- (iii) Interest on bank term loan amounting to Rs. 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 Rs. 1,10,000 is based on the following information:

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

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

Two old machines were sold on 01.07.2012 for Rs. 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 Rs. 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

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

| <i>Date</i> | <i>Particulars</i> | <i>Rs.</i> |
|-------------|--|------------|
| 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 Rs. 15,00,000 and the stamp valuation authority assessed the value at Rs. 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 Rs. 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

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

Please Turn Over

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

| | <i>Rs.in lakhs</i> |
|---|--------------------|
| (i) Profits 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 2012-13. | 8 |

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

| | <i>Rs.in lakhs</i> |
|---|--------------------|
| (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 Rs. 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 |