

INTERMEDIATE EXAMINATION

June 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 questions 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 stated otherwise.

1. (a) Choose the most appropriate alternative: 1×13=13
- (i) The basic Exemption limit for a female below the age of 60 years for the assessment year 2013-14 is
(A) ₹ 1,80,000 (B) ₹ 1,90,000 (C) ₹ 2,00,000 (D) ₹ 2,50,000
- (ii) Under Rule 7A of the Income Tax Rules, the following %age of income from manufacture of Rubber shall be deemed to be business income and liable to tax
(A) 15% (B) 25% (C) 35% (D) 50%
- (iii) Interest is payable to assessee on Refund under the Income Tax Act 1961 at the rate of
(A) 5% (B) 6% (C) 9% (D) 12%
- (iv) The maximum penalty leviable for failure to keep or maintain books of account or document as required u/s. 44AA of the Income tax Act 1961 is
(A) ₹ 50,000 (B) ₹ 75,000 (C) ₹ 1,00,000 (D) ₹ 1,50,000
- (v) Tax on non-monetary benefit paid by the employer is
(A) Fully taxable (B) Taxable to the extent of 50% (C) Taxable to the extent of 60%
(D) Fully exempted from Tax.
- (vi) Mr. A gifted jewellery worth Rs. 5 lakhs to his wife Mrs. A on 12th April 2012. Mrs. A in turn gifted the said jewellery to Mrs. B, the wife of their son Mr. B on 25th May 2012. The value of the jewellery as on 31st March 2013 is includible in the net wealth of
(A) Mr. A (B) Mrs. A (C) Mrs. B (D) Mr. B
- (vii) The maximum amount of deduction from Gross Total Income available to an individual for interest on savings bank deposit is
(A) ₹ 5,000 (B) ₹ 7,500 (C) ₹ 10,000 (D) ₹ 12,000
- (viii) Loss from activity of outstanding and maintaining race horses can be carried forward for : (Assessment years)
(A) 4 (B) 6 (C) 8 (D) 5
- (ix) Annual value of house property if not let out is taken as _____.
- (x) No tax is deductible if the amount of rent credited or paid during the financial year does not exceed rupees _____ u/s. 194 I of the Income Tax Act 1961.
- (xi) When entire net consideration has been invested by an individual towards subscription of shares of an eligible company the exemption u/s. 54GB of the Income Tax Act 1961 would be
(A) NIL (B) 10% of capital gain (C) 50% of capital gain (D) 100% of capital gain

Please Turn Over

- (xii) Amount received towards share application money when not properly explained it is
(A) taxable u/s. 68 (B) exempt u/s. 10 (C) fully taxable but deduction at 50% u/s. 57 (iii) is allowable (D) None of the above
- (xiii) Book profit u/s. 115 JB of a domestic company was Rs. 50 lakhs. The tax liability of the company for the assessment year 2013-14 would be
(A) 18.54% including cess (B) 19.055% including cess
(C) 20% including cess surcharge at 5% (D) 19.431% including cess and surcharge at 2%

(b) Fill up the blanks:

1×12=12

- (i) Any sum paid to an approved university, college or other institutions u/s. 35 (1) (iii) of the Income Tax Act 1961 the allowable deduction is _____ (100%/125%)
- (ii) Interest payable to a partner by a firm shall not exceed _____ (18%/12%) per annum.
- (iii) An assessee _____ (can/cannot) spread over the arrears of rent over the past several years.
- (iv) Chapter VI-A deduction _____ (shall/shall not) be allowed in respect of income from short term capital gain.
- (v) Dividend received by an Indian Company on shares of a Foreign Company is _____ (taxable/exempted)
- (vi) Salary received by Mr. P a foreign national and a non resident out-side India for services rendered in India for 150 days is _____ (chargeable/not chargeable) to tax in India.
- (vii) Deduction for provision for bad and doubtful debts made by a public financial institution is allowed upto _____% of total income before allowing such deduction and deduction under chapter VIA.
- (viii) Z. Ltd. awarded three contracts for repair work of ₹ 22,000, ₹ 23,000 and ₹ 30,000 respectively to L. Ltd. in the year 2012-13. Z. Ltd. is _____ (required/not required) to deduct tax at source under section 194C of the Income Tax Act 1961.
- (ix) In case of slump sale of any undertaking indexation benefit is _____ (allowed/not allowed) for the purpose of computation of capital gain.
- (x) Annual value of any one palace in the occupation of a former ruler is _____.
- (xi) A charitable trust must apply atleast _____ percent of its income towards its objects.
- (xii) The time limit for issue of notice to assess the income in relation to assets located out side India for reassessment purposes is _____ years from the end of the relevant assessment year.
2. (a) Mr. Jeff, a citizen of USA came to India for 80 days, 90 days, 110 days and 130 days in the financial years 2009-10, 2010-11, 2011-12 and 2012-13 respectively. Determine his residential status for the Assessment Year 2013-14. 3
- (b) Compute the total income of Mr. Taylor, UK citizen and a non-resident for the Assessment Year 2013-14 from the following details furnished by him. 7

	₹
(i) Income from business carried out in Mumbai (60% received in USA)	5,00,000
(ii) Capital gain from sale of shares of Zenith Private Limited, an Indian company. Sale proceeds were received in UK	3,50,000
(iii) Rent from a house property in New Jersey collected there, but later remitted to India through normal banking channel	12,00,000
(iv) Dividend received from MNO Limited, an Indian Company	2,50,000
(v) Royalty received in UK from PQR Limited, an Indian company for use of trade mark for its business operation in India	6,00,000
(vi) Interest on loan received in UK from S&T Limited, an Indian company. The loan was used by S&T Limited for its business carried on in Dubai	3,00,000

- (c) Write a note on how interest received by an assessee on delayed compensation or enhanced compensation is taxed. 5

3. (a) Mr. Sridhar constructed his house on a plot of land acquired by him in Kolkata. The house has two floors of equal size. He started construction of the house on 1st April, 2011 and completed construction on 30th June, 2012. He occupied the ground floor on 1st July, 2012 and let out the first floor at a rent of Rs. 20,000 per month on the same date. However, the tenant vacated the first floor on 31st January, 2013 and Mr. Sridhar occupied the entire house from 1st February, 2013 to 31st March, 2013. 8

Other information

(i) Fair Rent of each floor	₹ 1,20,000 per annum
(ii) Municipal value of each floor	₹ 80,000 per annum
(iii) Municipal tax paid	₹ 10,000
(iv) Repair expenses	₹ 5,000

Mr Sridhar obtained a housing loan of Rs. 15 lacs at interest of 10% per annum on 1st July, 2011. He did not repay any part of the loan till 31st March, 2013.

Compute income from house property in the hands of Mr. Sridhar for the Assessment year 2013-14.

- (b) Mr. Rajput, aged 82 years gives you the following information for the previous year 2012-13: 4

	₹
(i) Interest on fixed deposits with banks	4,80,000
(ii) Long-term capital gain on sale of land	50,000
(iii) Short-term capital gain on sale of shares (securities transactions tax paid)	20,000

Compute tax payable by Mr. Rajput for the Assessment year 2013-14 in cases (i) he is resident; (ii) he is non-resident.

- (c) State briefly whether the following transaction require deduction of tax at source: 3

- (i) Payment of royalty of Rs. 5 lacs by P. Limited, an Indian Company to another Indian Company, Q. Limited
- (ii) Payment of interest of ₹ 7,500 by D. Limited, an Indian Company to M. Limited, an Indian Company for delayed payment of sale proceeds.
- (iii) Payment of ₹ 1,00,000 by a partnership firm, resident in India to Mr. L, resident contractor for manufacturing a product as per requirement of the firm. The contractor used materials which were purchased by him from a company.

4. (a) The details of assets and liabilities as on 31st March, 2013 of a partnership firm consisting of two partners, Palak and Nolak sharing profits and losses in the ratio of 3 : 1 is as follows: 5

(i) Value of assets located outside India	₹ 45 lakhs
(ii) Value of assets located in India	₹ 120 lakhs
(iii) Debts incurred in relation to assets located in India	₹ 75 lakhs

Capitals of Palak and Nolak as on 31st March, 2013 are ₹ 20 lakhs and ₹ 10 lakhs respectively.

Compute the value of interest of the partners as on 31st March, 2013 for the purpose of wealth tax.

- (b) State the time limit prescribed for passing the following orders under the Income Tax Act: 5
- An order of assessment by the Assessing Officer under section 143(3);
 - An order of assessment by the assessing Officer under section 143(3), where reference has been made to Transfer Pricing Officer for determination of arm's length price in international transactions;
 - An order of assessment by the Assessing Officer under section 147;
 - An order of revision by the Commissioner of Income Tax under section 263;
 - An order by the Commissioner of Income Tax for granting registration to a public charitable trust under section 12AA.

- (c) Srinivas Charitable Trust registered under section 12AA of the Income Tax Act is engaged in providing medical assistance to the physically challenged persons. The trust has furnished the following details relating to previous year 2012-13:

	₹	5
Net income from the properties held under trust	16,50,000	
Voluntary Contribution (including donation ₹ 1,50,000 received with direction from the donor that it would form part of corpus)	5,00,000	
Financial assistance to physically challenged persons	9,50,000	
Purchase of land for construction of office of the trust	4,00,000	

Compute tax payable, if any, by the trust for the Assessment Year 2013-14.

5. (a) Abhishek & Co. a partnership firm incurred the following expenses: 5
- Salary paid to staff ₹ 12,00,000 of which two employees were paid salary in excess of ₹ 2,00,000 each. No tax was deducted at source on those salary payments.
 - Interest paid to bank on working capital limit ₹ 27,500. No tax was deducted at source.
 - Interest on capital paid to partners at 15% per annum of ₹ 1,50,000. No tax was deducted on such interest payment.
 - Payments made to contractors for job work process ₹ 6,87,000. Two parties to whom payments were ₹ 87,000 and ₹ 1,02,000 for which no tax was deducted at source. The parties however have agreed to admit the receipt in their income statement and pay tax thereon.
 - Rent paid for machinery ₹ 20,000 per month for 8 months. No tax was deducted at source on this amount

Determine the allowability or otherwise of the abovesaid expenses due to non-deduction of tax at source.

- (b) Decide the exemption/taxability of following receipts/recipients: 5
- Educational scholarship of ₹ 10,000 received from a charitable trust by a college student.
 - Rental income earned by a registered trade union.
 - Co-operatives formed for promoting the interest of schedule tribes.
 - Dividend received from Indian companies by resident individuals and tax on such dividend paid by the company u/s. 115-O.
 - Amount received by a non-resident towards compulsory acquisition of urban agricultural land in India by Central Government.
- (c) Mr. Basu is an actor deriving income from foreign contracts performed outside India ₹ 1,00,000. Tax of ₹ 20,000 was deducted at source in the country where the performances were given. India does not have any agreement with that country for avoidance of double taxation. Assuming that Indian Income of Mr. Basu is ₹ 3,00,000 what is the relief due to him under section 91 for the assessment year 2013-14? 5

6. (a) 'X' a resident of Bengaluru receives ₹ 20,00,000 as basic salary. In addition he gets ₹ 6 lakhs as dearness allowance (forming part of basic salary), 3.5% commission on sales made by him (sale made by X during the previous year is ₹ 80,00,000); ₹ 2,40,000 is paid to him as house rent allowance. He however pays ₹ 2,80,000 as house rent. determine the quantum of HRA exempt from tax. 4
- (b) Enumerate the conditions for exemptions of senior citizens from payment of advance tax u/s. 207. 4
- (c) A Company pays in Aug'2012, a remuneration of Rs. 50,000 to its Director, which is not in the nature of salary. State whether tax has to be deducted from the payment and if so the amount to be deducted. 3
- (d) (i) State who are the persons not eligible to avail any benefit u/s. 44 AD. (2+2)=4
(ii) An assessee owns a light commercial vehicle for 8 months and 3 days, a medium goods vehicle for 11 months and another medium goods vehicle for 12 months during the previous year.
Compute his profits from the three trucks in terms of sec. 44 AD.
7. (a) State whether the following are agricultural income or non-agricultural income: 2
(i) Where owner himself performs slaughter tapping and then sells the rubber.
(ii) Conversion of sugar cane into gur.
- (b) In the course of assessment proceedings, the Assessing Officer enhanced the value of closing stock and added the difference to the total income. In the assessment year subsequent to this, the assessee wants the A. O. to enhance, by the same amount, the value of the opening stock of the year. Discuss the validity of the claim. 3
- (c) Please advise regarding admissibility of the following items of expenditure:
(i) Payment of interest of ₹ 40,000 on monies borrowed from bank for payment of dividends to share holders.
(ii) ₹ 12,000 has expended for shifting of business from the original site to another place which is more advantageously located.
(iii) Lump sum paid to acquire a licence regarding technical information to reduce production cost.
(iv) Expenses for registration of trademarks.
(v) Theft of stock-in-trade assuming
(a) it is insured. (b) it was uninsured 10
8. (a) What are the consequences if a person fails to comply with the provisions of sec. 139A of the Income Tax Act, 1961? 2
- (b) What is the effect of contribution made by an individual to electoral trust on his taxable income? 2
- (c) A, a mentally retarded minor has a total income of ₹ 2,40,000 for the assessment year 2013-14. The total income of his father B and of his mother C for the relevant assessment year is ₹ 4,00,000 and ₹ 3,00,000 respectively. Discuss the treatment to be accorded to the total income of A for the relevant assessment year. 3
- (d) What are the conditions to be fulfilled by an employee to get his accommodation in a hotel that will not be a taxable perquisite? 2
- (e) State the deductibility of the following expenses while computing the business income: 6×1=6
(i) Anticipated hedging loss under a contract to purchase raw material;
(ii) Consultation fees paid to tax advisor;
(iii) Advertisement expenses incurred outside India in foreign currency. RBI permission has not been obtained;
(iv) 500 VIP briefcases costing ₹ 2,000 each presented to customers;
(v) Travelling expenses incurred to explore the feasibility of new line of business;
(vi) The assessee claims the setoff of unabsorbed depreciation of a discontinued business against the profits of another business.