

INTERMEDIATE EXAMINATION

December 2017

P-7(DTX)

Syllabus 2016

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.

Workings Notes should form part of the relevant answer.

All questions relate to the Income Tax Act, 1961.

All the questions relate to Assessment Year 2017-18, unless otherwise stated.

Answer Question No.1, which is compulsory and any five from Question No.2 to Question No.8.

1. (a) Choose the most appropriate alternative: 1×10=10
- (i) When Mr. Balu paid royalty to Dr. Peter of Sweden for use of know-how in India, such payment is
- (A) exempt from tax.
- (B) accruing in India.
- (C) Accrues in Sweden.
- (D) received in India.
- (ii) In the case of foreign company with total income of more than ₹ 1 crore but less than ₹ 10 crores the surcharge liveable is at
- (A) 5%
- (B) 12%
- (C) 2%
- (D) 1%
- (iii) Mr. Hari resident in India received ₹ 11 lakhs by way of dividend from Indian companies. Such dividend is
- (A) exempt from tax.
- (B) taxable at regular rates.
- (C) taxable at maximum marginal rate.
- (D) taxable at 10%.

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- (iv) When an employee receives money on closure of national pension system trust it is
- (A) chargeable to tax.
 - (B) exempt from tax.
 - (C) 40% is exempt from tax.
 - (D) 60% is exempt from tax.
- (v) When employer contributes to approved superannuation fund it is chargeable to tax as perquisite when the contribution exceeds
- (A) ₹ 1,50,000
 - (B) ₹ 1,00,000
 - (C) ₹ 50,000
 - (D) ₹ 20,000
- (vi) When the shares are held in unlisted company, it is treated as long term capital asset when the holding period exceeds
- (A) 36 months.
 - (B) 24 months.
 - (C) 12 months.
 - (D) 6 months.
- (vii) Long term capital gain arising from transfer of unlisted securities in the hands of non-resident / foreign company is chargeable to tax at
- (A) 10%
 - (B) 20%
 - (C) 30%
 - (D) 40%
- (viii) Interest on housing loan taken by individual being his first residential house is eligible for deduction under section 80EE up to a maximum of
- (A) ₹ 30,000
 - (B) ₹ 50,000
 - (C) ₹ 1,50,000
 - (D) ₹ 2,00,000
- (ix) A start-up can claim deduction under section 80-IAC for _____ consecutive years beginning from the year in which the eligible start-up was incorporated.
- (A) 1
 - (B) 2
 - (C) 3
 - (D) 5

(x) When the return of income for the assessment year 2017-18 is filed under section 139(4), the assessee can revise the return on or before

- (A) 31.03.2018
- (B) 31.12.2018
- (C) 31.03.2019
- (D) 31.12.2019

(b) Match the following:

1×5=5

(i)	Additional depreciation for plant used for more than 180 days	(a)	60%
(ii)	Basic exemption limit of income for resident individual being senior citizen	(b)	₹ 3,500
(iii)	Rate of tax for LLP	(c)	₹ 3,00,000
(iv)	Deprecation for computers	(d)	30%
(v)	Exemption in respect of Post office SB interest	(e)	20%

(c) State whether the following are *True* or *False*:

1×5=5

- (i) Interest on deposit certificates issued under Gold Monetization Scheme, 2015 is exempt from tax.
- (ii) The monetary limit of ₹ 5 lakhs in respect of gratuity received by an employee covered by Payment of Gratuity Act, 1972 is exempt from tax.
- (iii) Medical insurance premium paid by son for parents who are senior citizens is deductible up to a maximum of ₹ 35,000.
- (iv) In order to avail carry forward loss from house property, the return of income must be filed before the due date specified in section 139(3).
- (v) 30% of the additional employee cost incurred by the employer is deductible under section 80JJAA.

(d) Fill up the blanks:

1×5=5

- (i) When a director of a company received 30 lakhs by way of non-compete fee, it is taxable under the head_____.
- (ii) When unrealized rent is received based on court decree but at the time of receipt the property was not owned by the assessee, it is taxable under the head _____.
- (iii) When Mr. Ashwin received ₹ 20,000 as scholarship for meeting the cost of education it is _____.
- (iv) The Income Computation Disclosure Standards (ICDS) will apply only when the assessee adopts _____ method of accounting.
- (v) Speculation loss can be carried forward for a maximum period of _____ (number of) years after the year of such loss.

2. (a) Surbhi has two houses, both of which are self-occupied. You are required to compute Surbhi's income from house property for the Assessment Year 2017-18 and suggest which house should be opted by Surbhi to be assessed as self-occupied so that her tax liability is minimum. 6

The particulars of these are given below:

Particulars	(Value in ₹)	
	House-I	House-II
Municipal Valuation per annum	1,30,000	1,15,000
Fair Rent per annum	1,10,000	1,70,000
Standard rent per annum	1,00,000	1,65,000
Date of completion	31-03-1999	31-03-2001
Municipal taxes payable during the year (paid for House II only)	12%	8%
Interest on money borrowed for repair of property during current year	--	55,000

(b) State the implications of the following transactions carried out by Kalai & Co. a partnership firm (Whose turnover always exceeded ₹ 500 lakhs) with reference to the provisions applicable for the assessment year 2017-18:

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- (i) Audit fees of ₹ 35,000 paid by electronic transfer but no tax was deducted at source.
- (ii) Arrear salary of ₹ 60,000 paid in cash to an employee who was posted in a ship for 10 days continuously. Tax was deducted at source on the total salary paid to the employee during the year.
- (iii) Lorry freight paid by cash ₹ 30,000.
- (iv) ₹ 3 lakhs freight paid to Indian Railways without deduction of tax at source.
- (v) Salary paid to a son of a partner ₹ 20,000 per month. The market rate of such salary for similar qualification is found to be ₹ 15,000 per month.
- (vi) Income tax paid in cash ₹ 22,000.
- (vii) Interest on term loan paid to Canara Bank ₹ 18,000 without deduction of tax at source.
- (viii) Interest on capital paid to partners at 15% in accordance with the condition contained in the partnership deed.
- (ix) Keyman insurance policy premium paid ₹ 40,000.

3. (a) Mr. Rajiv, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. The following details are made available for the year ended 31.03.2017:

Sl. No.	Particulars	₹	₹
(i)	Interest on capital received from XYZ & Co., at 15%		1,50,000
(ii)	Interest form bank on fixed deposit (Net of TDS ₹ 1,500)		13,500
(iii)	Income-tax refund received relating to assessment year 2014-15 including interest of ₹ 2,300		34,500
(iv)	Net Profit from wholesale business		5,60,000
	Amounts debited include the following:		
	Depreciation as per books	34,000	
	Motor car expenses	40,000	
	Municipal taxes for the shop	7,000	
	(For two half years: payment for one half year made on 12.07.2017 and for the other on 31.12.2017)		
	Salary to manager by way of a single cash payment	21,000	
(v)	The WDV of the assets (as on 01.04.2016) used in above wholesale business is as under:		
	Computers	1,20,000	
	Motor Car (20% used for personal use)	3,20,000	
(vi)	LIP paid for independent son	60,000	
	PPF of his wife	70,000	

You are required to compute the total income of the Mr. Rajiv for the assessment year 2017-18 and the closing WDV of each block of assets.

- (b) Examine the applicability of TDS provisions for the financial year 2016-17 and amount of tax, if any, to be deducted in the following cases: 6

- (i) Payment of fee for technical services of ₹ 22,000 and royalty of ₹ 25,000 to Mr. Ram who is having PAN.
- (ii) Payment of ₹ 2,00,000 made to Mr. X for purchase of diaries made according to specifications of M/s ABC Ltd. However, no material was supplied for such diaries to Mr. X by M/s ABC Ltd.
- (iii) Rent paid for plant and machinery ₹ 1,50,000 by a partnership firm having sales turnover of ₹ 25,00,000 and net loss of ₹ 15,000.

4. (a) Following is the Profit and Loss Account of Mr. Abdul for the year ended 31.03.2017:

Particulars	₹	Particulars	₹
To Staff Salary	4,85,000	By Gross Profit	14,48,800
To Shop rent	1,20,000	By Post office SB A/c interest	14,200
To Admin. Expenses	2,96,000	By Dividend from listed Indian Companies	43,000
To Drawings	96,000	By Bank SB interest	12,000
To Depreciation	2,22,000		
To Medical Expenses	37,000		
To Net Profit	2,62,000		
	15,18,000		15,18,000

Additional information:

- (i) Shop rent was paid to wife of Mr. Abdul and ₹ 60,000 is found to be excessive payment considering its size and location.
- (ii) Depreciation allowable under the income-tax rules works out to ₹ 1,81,000.
- (iii) Medical expenses include expenditure for family members of ₹ 16,000. Balance relate to staff medical expenses.
- (iv) Drawings denote personal expenses of the proprietor.
- (v) During the year he acquired a residential house for ₹ 20 lakhs which included stamp duty and registration fee of ₹ 1,60,000.

You are requested to compute the total income of Mr. Abdul for the assessment year 2017-18. 7

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- (b) Mr. Mohan is sales manager in Steel King (P) Ltd. at Chennai. During the financial year 2016-17, he gets the following emoluments from his employer:

Particulars	₹
Basic salary upto 30.09.2016	20,000 p.m.
From 01.10.2016	30,000 p.m.
Dearness allowance @ 50% basic salary [it is not eligible retirement benefits]	
Transport allowance	2,000 p.m.
Children education allowance (for 2 children)	1,000 p.m.
Tiffin allowance (actual expenses ₹ 9,000)	15,000
Tax paid on employment	3,000
Contribution to recognized provident fund by the employer @ 15% of basic salary.	
An unfurnished accommodation taken on lease by the employer was given to the employee for the whole year. Lease rent paid by the employer ₹ 1,80,000. Amount recovered from the employee ₹ 2,000 per month.	
Domestic servant salary reimbursed by the employer as per employment agreement.	5,000 p.m.

Compute the salary income of Mr. Mohan for the assessment year 2017-18.

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5. (a) State the taxability of the following transactions for the assessment year 2017-18: 2×6=12
- (i) Mr. Ashok acquired a vacant site from Mr. Brijesh (non relative) for ₹ 6 lakhs when the stamp duty valuation of the vacant site on the date of registration of document was ₹ 10 lakhs.
 - (ii) Rosy & Co. a partnership firm engaged in trading of vacant lands. It sold vacant land for ₹ 40 lakhs when the stamp duty valuation of the lands was ₹ 55 lakhs.
 - (iii) Ms. Janaki received family pension of ₹ 84,000.
 - (iv) Ms. Jency got gift of 500 listed equity shares of a company from her husband when the market value of the share was ₹ 150 per share. After a month, the company issued bonus shares in 1:1 ratio. The original shares were acquired by her husband 4 months before the date of gift for ₹ 50,000. All the 1000 shares were sold for ₹ 1,50,000 through off-market transaction. How much is taxable and in whose hands it is taxable as income?

- (v) Mr. Jayaram retired from a nationalized bank on 30.11.2016, sold his motor car for ₹ 5 lakhs. The Car was used by him for the last 5 years and was received as gift from his brother who acquired the car for ₹ 10 lakhs on 10.01.2010.
- (vi) Mr. Vasu acquired an agricultural land situated in a village (rural area) for ₹ 10 lakhs from Mr. Sundar (non relative) when the stamp duty valuation on the date of registration of document was ₹ 12 lakhs.
- (b) Mr. Vidyasagar received following gifts during the financial year 2016-17:
- Gift on the occasion of marriage from friends ₹ 70,000.
 - Gift on the occasion of birthday from friends ₹ 55,000.
 - Gift from maternal uncle on birthday ₹ 35,000.
 - Gift of motor car by grandfather's younger brother. Fair market value of the car on the date of gift ₹ 3,50,000.

Compute the amount of gifts includible in the total income of Mr. Vidyasagar for the financial year 2016-17.

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6. (a) Mr. Rahman furnishes you the following information for the financial year 2016-17:

Particulars	₹
Loss from speculation business-A	80,000
Profit from speculation business-B	40,000
Loss from self occupied house property	1,80,000
Income from let out house property	4,00,000
Income from trading and manufacturing business @ 8%	2,00,000
Salary income	3,70,000
Interest on PPF deposit	65,000
Long term capital gain on sale of vacant site	1,10,000
Short term capital loss on sale of jewellery	50,000
Investment in tax saver deposit on 31.03.2017	60,000
Brought forward loss of business of assessment year 2011-12	1,00,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G	1,40,000
Enhancement compensation received from Government for compulsory acquisition of lands in the year 2004.	3,00,000

You are requested to compute the total income of Mr. Rahman for the financial year 2016-17 and any loss eligible for carry forward.

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- (b) Mr. Gangai Amaran (age 50) incurred following expenditures during the financial year: 2016-17:

Sl. No.	Particulars	₹
(i)	Medical expenditure on the treatment of his non-dependent father (age 82)	30,000
(ii)	Medical expenditure on treatment of his non-dependent mother (age 73)	25,000
(iii)	Medical expenditure for a surgery undergone by himself	50,000
(iv)	Medical insurance premium for non-dependent mother (age 73)	35,000
(v)	Medical insurance premium for self (paid by cheque)	27,000
(vi)	Preventive medical health check-up paid in cash for himself.	7,000

Compute the amount eligible for deduction under section 80-D for the financial year 2016-17. 7

7. (a) MSV Ltd. gives you the following information for the year ended 31.03.2017:

Particulars	₹
Net profit as per Statement of Profit and Loss	50,00,000
The following expenses are debited to statement of Profit and Loss:	
Capital expenditure incurred for promoting family planning among employees	2,00,000
Interest paid for delayed payment of consideration for purchase of machinery to the supplier being a unit under the MSMED Act, 2006. The machinery is eligible for depreciation @15%.	3,00,000
Donation to political parties (by cheque)	1,00,000
Expenditure incurred for issue of bonus shares	75,000
Cost of know-how acquired from Dr. Singhania on 01.06.2016	4,00,000
The following items are credited to Profit and Loss Account:	
Electricity subsidy refunded during the year	60,000
Bad debt written off and was allowed earlier, recovered now.	90,000
Dividend received from subsidiary company Vijay (P) Ltd.	50,000

You are requested to compute the income of the company for the Assessment Year 2017-18. 7

(b) You are requested to state whether the following will attract penalty provisions for the financial year 2016-17.
4×2=8

(i) Mr. Jayant whose turnover was ₹ 150 lakhs for the financial year 2016-17 admitted income as per books of account as ₹ 6,50,000. The return was filed without getting the books of account audited under section 44AB.

(ii) Mr. Maheswari received ₹ 5 lakhs by cash on 01.10.2016 for sale of an apartment at Thane to Mr. Mahesh. As the agreement between the parties got cancelled, Mr. Maheswari refunded the advance by account payee cheque on 01.02. 2017.

8. Write short notes on *any three* of the following:

3×5=15

(a) State the type of assesses to whom the Income Computation Disclosure Standards (ICDS) apply?

(b) Who must sign the return of income in the following cases:

(i) Hindu undivided family when *karta* is bedridden.

(ii) Local authority.

(iii) Political party.

(iv) Limited Liability Partnership.

(v) Association of persons

(c) Revised return.

(d) Advance tax for senior citizens being resident / non-resident.
