

## **Paper 7- Direct Taxation**

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**Full Marks: 100**

**Time allowed: 3 hours**

**Section-A (25 Marks)**

**Answer question No. 1 a,b,c & d which is compulsory.**

**1. a) Multiple Choice Questions: [10 x 1=10]**

- i. Interest credited to recognized provident fund is exempt up to \_\_\_\_\_ of the accumulated balance.
  - A. 9.5%
  - B. 8.75%
  - C. 8.85%
  - D. 9.00%
  
- ii. An individual, being foreign national, came to India for first time during the previous year 2018-19 on 01-01-2019 for 200 days, his residential status for the previous year 2018-19 is.
  - A. Non-resident
  - B. Resident but not ordinarily resident in India
  - C. Resident and ordinarily resident in India
  - D. Resident in India
  
- iii. Which of the following is not taxable under head 'salaries'?
  - A. Remuneration paid to the lecturer of a college for setting a question paper by a university.
  - B. Salary received by a member of the parliament.
  - C. Commission received by an employee director of a company.
  - D. Both (a) and (b) above.
  
- iv. Caution money forfeited by the assessee is:
  - A. Taxable in the year of forfeiture under the head "Income from other sources"
  - B. Exempt fully
  - C. Taxable in the year of forfeiture under the head "capital gain"
  - D. Considered as casual income and liable to tax @30%
  
- v. The prescribed form of application for allotment of PAN for Indian Citizen/Indian Company/Entities incorporated in India/Unincorporated entities formed in India.
  - A. Form 49AA
  - B. Form 35
  - C. Form 36
  - D. Form 49A
  
- vi. An asset shall be termed as short-term capital asset if it is held for not more than 12 months before the date of transfer.
  - A. Units of UTI(whether quoted or not)
  - B. Equity or preference share in a company (listed in India)
  - C. Zero-coupon Bonds(whether quoted or not)
  - D. All of the above.
  
- vii. Following form number is to be used for filing the return of income by an individual having business income.
  - A. Form No.1
  - B. Form No.2
  - C. Form No.5

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D. Form No.3

- viii. Which of the following can be corrected while processing the return of income under section 143(1)?
- A. any arithmetical error in the return
  - B. any mistake in the return of income
  - C. any error in the return of income
  - D. any claim by the taxpayer which is against law
- ix. Income Computation and Disclosure Standard V relating to \_\_\_\_\_.
- A. tangible fixed assets
  - B. Intangible assets
  - C. Borrowing cost
  - D. None of the above
- x. Pelf Finstock Ltd. Filed its return of income tax for A.Y. 2019-20 on 30<sup>th</sup> March,2020. The notice for making scrutiny assessment under section 143(3) can be served on the assessee up to-
- A. 31<sup>st</sup> December 2020
  - B. 31<sup>st</sup> December 2020
  - C. 31<sup>st</sup> March 2020
  - D. 30<sup>th</sup> September 2021

**b) State whether the following statements is true or false: [5x1=5]**

- i. A return of income filed without payment of self-assessment tax is a defective return.
- ii. Loss in speculation as well as non-speculation business can be carried forward to a maximum of four consecutive assessment years immediately succeeding the assessment year for which loss was first computed.
- iii. Reasonable expected rent cannot exceed standard rent.
- iv. Notice under section 156 is given for deferment of tax.
- v. Under section 270A, the assessee will be held liable for penalty. The rate of penalty shall be fifty per cent of the tax payable on under-reported income.

**c) Fill in the blanks: [5x1=5]**

- i. Monetary limit for exemption in the case of encashment of earned leave on superannuation received by private sector employees is ₹\_\_\_\_\_
- ii. An assessee, who fails to comply with the provision of sec.44AA, shall be liable to pay penalty u/s 271A of \_\_\_\_\_
- iii. Deduction for provision for bad and doubtful debts made by a NBFC is allowed upto \_\_\_\_\_% of total income before allowing such deduction and deduction under chapter VI A.
- iv. Computation of capital gains in case of slump sale is covered u/s \_\_\_\_\_.
- v. Amount received towards permission for putting up hording at the top of the building is taxable under the head \_\_\_\_\_

**d) Match the followings: [5x1=5]**

	Column A		Column B
1	Non speculation business loss	A	Income of co-operative societies
2	Section 80P	B	Effects of changes in foreign exchange rates
3	ICDS VI	C	8 years

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4	Section 288B	D	Self assessment
5	Section 140A	E	Rounding off tax

### Section-B (75 Marks)

**Answer any five Questions from Question No. 2 and 8**

- 2. a)** Mr. Sid, a British national, joined XYZ Co. Ltd. as an engineer in India on 1<sup>st</sup> May, 2008. On 31<sup>st</sup> December, 2009, he went to Sri Lanka on deputation. On 1<sup>st</sup> April, 2014, he came back to India and left for Sri Lanka again on 31<sup>st</sup> May, 2014. He returned to India and joined his original post on 1<sup>st</sup> July, 2018. Determine his residential status for the A.Y.2019-20. **[4]**

- 2. b)** X Ltd. grows sugarcane to manufacture sugar. Details for the previous year 2018-19 are as follows:

Particulars	₹ in lacs.
Cost of cultivation of sugarcane (5,000 tons)	10
Sugarcane sold in market (1,000 tons)	3
Sugarcane used for sugar manufacturing (4,000 tons)	-
Cost of conversion	5
Sugar produced & sold in market	25

Compute income of X Ltd. **[4]**

- 2. c)** Mr. Das retired on 31/3/2019. At the time of retirement, 18 months leave was lying to the credit of his account. He received leave encashment equivalent to 18 months Basic salary ₹ 1,26,000. His employer allows him 1½ months leave for every completed year of service. During his tenure, he availed of 12 months leave. At the time of retirement, he also gets D.A. ₹ 3,000. His last increment of ₹ 1,000 in basic was on 1/4/2018. Find taxable leave encashment. **[4]**

- 2. d)** Distinguish between tax planning, tax avoidance and tax evasion. **[3]**

- 3. a)** Discuss whether tax will be deducted at source in the following cases: **[5]**

- (a) Dividend of ₹ 10,000 received by X from a domestic company on 15th June, 2018.
- (b) Interest on securities received by X on 15th August, 2018, from a company in which public has substantial interests, ₹ 15,000.
- (c) ₹ 20,000 received by X from the West Bengal Government as commission on sale of lottery tickets.
- (d) ₹ 1,30,000 paid by X to the West Bengal Government in respect of rent for Government premises occupied by X during the financial year 2018-2019.
- (e) ₹ 1,00,000 received as interest during the previous year 2018-2019 on a bank fixed deposit.

- 3. b)** Compute total income of Sri Bajaj of Delhi from the following **[5]**

Particulars	Amount
Profits & gains of business or profession	80,000
Income from house property (let-out and situated at Kolkata)	40,000
Income from other sources	10,000
Rent paid for office	8,000
Rent paid for residential house	40,000

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3. c) Write any five expenditures that are disallowed u/s 40(a) in computing the income chargeable under the head "profits & gains of business or profession. [5]
4. a) The profit and loss account of ABC & Co. (a firm of chartered accountants) for the year ended 31st March, 2019 is given below: [8]

Particulars	₹	Particulars	₹
Expenses	2,46,000	Receipts from clients and audit fees	5,10,000
Depreciation	60,000	Interest (gross) from companies	45,000
Remuneration to partners	1,80,000	Net loss	36,000
Interest to partners	1,05,000		
Total	5,91,000	Total	5,91,000

Other information:

- (a) Out of the expenses of ₹2,46,000, ₹52,200 is not deductible under Sections 36 and 37.
- (b) Depreciation as per IT Rules is ₹ 52,500.
- (c) Interest paid to partners is fully deductible u/s 40(b).
- Find out the total income of the firm and the tax liability of the firm for the assessment year 2019-2020.

4. b) A and Mrs. B, being members of an AOP with equal share, furnishes the following details, compute tax liability of AOP- [7]

### Profit and loss account for the year ended 31-3-2019

Particulars	Amount(₹)	Particulars	Amount(₹)
Bonus to employee	50,000	Gross Profit	6,96,000
Bonus to A	10,000	Interest on drawings	
Bonus to Mrs. B	5,000	A	16,000
Other Expenses	40,000	Mrs. B	8,000
<u>Salary to -</u>			
A	44,000		
Mrs. B	88,000		
<u>Interest on Capital @ 15%</u>			
A	15,000		
Mrs. B	20,000		
Depreciation	30,000		
Donation to National Relief Fund	10,000		
Net Profit	4,08,000		
	<b>7,20,000</b>		<b>7,20,000</b>

#### Additional information

- Depreciation for the year u/s 32 ₹ 20,000.
- Other expenses include expenditure of ₹ 5,400, which is disallowed u/s 40A(2).
- Other personal income of A & Mrs. B

	A	Mrs. B
Dividend received	₹ 5,000	₹ 20,000
Interest on loan	₹ 45,000	₹ 22,000

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5. a) Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2018, he owns 10 trucks (out of which 6 are heavy good vehicles of (unladen weight of each is 20 ton). On 2/5/2018, he sold one of the heavy goods vehicles & purchased a light goods vehicle on 6th May, 2018. This new vehicle could however be put to use only on 15-6-2018. Compute the total income of Mr. Sukhvinder for the A.Y. 2019-20, taking note of the following data:

Particulars	Amount (₹)	Amount (₹)
Freight Charges collected		8,70,000
Less: Operational expenses	6,25,000	
Depreciation as per Sec.32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		45,000
Other business and non-business income		70,000

**[8]**

5. b) A proprietary business was started by Smt. Rani in the year 2016. As on 1.4.2017 her capital in business was ₹ 3,00,000. Her husband gifted ₹ 2,00,000, on 10.04.2017, which amount Smt. Rani invested in her business on the same date. Smt. Rani earned profits from her proprietary business for the financial years 2017-2018, ₹ 1,50,000 and financial year 2018-2019 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the assessment year 2019-2020 with reasons.

**[7]**

6. a) Write a short on Revocable Transfer u/s 61.

**[5]**

6. b) A is the owner of a house, which he purchased for ₹ 50,000 in 1979. He spent ₹ 10,000 in 1980 towards addition and alteration of the house. During the previous year 2016-2017 the house was acquired by the Government in the Public interest and ₹ 7,40,750 was awarded to him as compensation by the Government. The fair market value of the house on 1.4.1981 was ₹ 70,000. On 16.4.2018, A died and his son B received ₹ 1,20,000 on 1st August, 2018 as additional compensation in consequence of a suit filed by A. B had to incur legal expenses amounting to ₹ 5,000 in connection with the suit. You are required to compute capital gains for the relevant assessment year/years.

**[5]**

6. c) OPTIMA Ltd. is engaged in the business of plying goods carriages. On 1st April, 2018, the company owns 10 trucks (6 out of which are —heavy goods vehicles). On May 2, 2018 one of the heavy goods vehicles is sold by OPTIMA Ltd. to purchase a light goods vehicle on May 6, 2018, which is put to use only from June 15, 2018. Find out the total income of OPTIMA Ltd. For the assessment year 2019-20 taking into consideration the following data gathered from its books:

	₹
Freight collected	8,90,000
Less: Operational expenses	(6,40,000)
Depreciation as per Section 32	(1,90,000)
Other office expenses	(15,000)
Net profit	45,000
Other non-business income	70,000

**[5]**

7. a) Discuss the consequences of non filling of return of income.

**[5]**

7. b) Write a note on Best Judgement Assessment.

**[5]**

7. c) Write a note on Assessment of search or requisition u/s 153A.

**[5]**

**8. Write short notes on the following:**

**[5x3=15]**

- b) ICDS I :Accounting Policies**
- c) Fee For delay in furnishing the return of income**
- d) Scrutiny Assessment u/s 143(3)**